TAIWAN FINANCIAL HOLDING CO., LTD.
AND ITS SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008
(With Independent Auditors' Report Thereon)

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, 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2008, was $26,359,199 thousand, constituting 0.70% percent of the related consolidated total, and its equity in earnings of those investee companies was $2,652,306 thousand, constituting 37.91% percent of the related consolidated total, for the year ended December 31, 2008. 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.

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

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for the year then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and accounting principles generally accepted in the Republic of China.

As described in note 1(1), the Company was incorporated on January 1, 2008, in accordance with the Act of Taiwan Financial Holding Co., Ltd.

March 26, 2009

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2008
(expressed in thousands of New Taiwan Dollars)

Assets		**Liabilities and Stockholders' Equity**	
Cash and cash equivalents (notes 4 and 33)	$ 80,104,961	Due to Central Bank and other banks (notes 17 and 33)	$ 181,489,738
Due from Central Bank and call loans to banks (notes 5, 33 and 34)	996,241,280	Financial liabilities at fair value through profit or loss (notes 18, 31 and 33)	5,804,419
Financial assets at fair value through profit or loss (notes 6, 31 and 33)	78,655,609	Bills and bonds sold under repurchase agreements (note 7)	20,251,220
Bills and bonds purchased under resell agreements (note 7)	12,321,566	Payables (note 19)	97,379,549
Receivables, net (notes 8, 9, 25 and 33)	105,651,162	Deposits (notes 20 and 33)	2,932,562,905
Loans, net (notes 9, 31 and 33)	1,997,536,704	Reserves for operation and liabilities (notes 3 and 21)	279,848,256
Available-for-sale financial assets, net (notes 10, 29, 32 and 34)	175,527,297	Other financial liabilities (notes 22 and 31)	6,429,020
Held-to-maturity financial assets, net (notes 11, 29, 31 and 34)	117,196,368	Other liabilities (notes 15, 23 and 24)	25,416,064
Equity investments using the equity method (note 12)	31,125,625	**Total liabilities**	3,549,181,171
Other financial assets, net (notes 9, 13, 29 and 31)	77,978,931	**Stockholders' equity (notes 15, 25 and 26):**	
Real estate investments, net (notes 14 and 15)	2,003,965	Common stock	90,000,000
Fixed assets, net (notes 15, 24, 29 and 33)	81,040,624	Additional paid-in capital	111,495,264
Intangible assets	1,451,116	Retained earnings:	
Other assets, net (notes 16, 25 and 29)	18,313,928	Unappropriated retained earnings	7,123,945
		Equity adjustments:	
		Unrealized increments on revaluation	16,930,538
		Cumulative foreign currency translation adjustments	(155,274)
		Unrealized gain (loss) on financial instruments	573,492
			17,348,756
		Total stockholders' equity	225,967,965
		Commitments and contingencies (note 37)	
Total Assets	**$ 3,775,149,136**	**Total Liabilities and Stockholders' Equity**	**$ 3,775,149,136**

See accompanying notes to consolidated financial statements.

Interest income	$ 91,627,406
Less: interest expenses (notes 8 and 33)	63,669,076
Net interest income	27,958,330
Net non-interest income	
Net income on service charges and commissions	3,448,857
Net insurance business income (note 28)	32,980,859
Gains (losses) on financial assets and liabilities at fair value through profit or loss (note 33)	(16,583,003)
Realized gains (losses) on available-for-sale financial assets	1,621,691
Gains on equity investments recognized using the equity method	902,005
Gains (losses) on real estate investments	(28,210)
Foreign exchange gains (losses)	2,832,927
Asset impairment losses (gains on reversal of impairment) (note 29)	(4,718,429)
Other net non-interest income (losses)	
Service fees	49,341,607
Government grant income	16,132,445
Gains on disposal of properties, plant, and equipment (note 29)	2,738,530
Other miscellaneous income	3,023,687
Service charges	(48,954,392)
Excess interest expenses (note 8)	(7,730,890)
Other miscellaneous expenses (notes 3 and 30)	(2,054,898)
Net income	60,911,116
Credit provisions (note 9)	1,598,254
Provisions for insurance policy reserves (notes 3 and 30)	33,710,941
Operating expenses:	
Personnel expenses (note 24)	11,976,296
Depreciation and amortization expenses	1,385,284
Other business and administrative expenses	5,243,555
Total operating expenses	18,605,135
Income before income taxes	6,996,786
Income tax benefits (note 25)	(127,159)
Consolidated total income	**$ 7,123,945**
Attributable to:	
Parent company shareholders	$ 7,123,945
Minority interest	-
	$ 7,123,945

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Stockholders' Equity

For the year ended December 31, 2008
(expressed in thousands of New Taiwan Dollars)

	Common stock	Additional paid-in capital	Unappropriated retained earnings	Unrealized increments on revaluation	Cumulative fore	Unrealized gain (loss) on financial instruments	Total
Balance as of January 1, 2008	90,000,000	215,854,060	-	23,603,085	494,451	29,690,022	359,641,618
Adjustments for change in subsidiaries' special reserve	-	(320,552)	-	-	-	-	(320,552)
Capital surplus transferred to capital stock	109,467,296	(109,467,296)	-	-	-	-	-
Non-cash share capital reduction (note 26)	(109,467,296)	5,429,052	-	(6,723,557)	(698,138)	(4,387,274)	(115,847,213)
Change in unrealized increments on revaluation	-	-	-	51,010	-	-	51,010
Change in cumulative foreign currency translation adjustments	-	-	-	-	48,413	-	48,413
Change in unrealized losses (gains) on financial instruments	-	-	-	-	-	(24,729,256)	(24,729,256)
Consolidated total income for the year ended December 31, 2008	-	-	7,123,945	-	-	-	7,123,945
Balance as of December 31, 2008	$ 90,000,000	111,495,264	7,123,945	16,930,538	(155,274)	573,492	225,967,965

See accompanying notes to consolidated financial statements.

Adjustments for valuation of available-for-sale assets	2,606,912
Provisions for reserves	(5,130,930)
Asset impairment loss	1,823,346
Discount on long-term bond investment	(1,257,483)
Unpaid recognized pension expense	317,403
Loss on disposal of financial assets	43,559
Gain on disposal of fixed assets and non-operating assets	(2,720,854)
Cash dividends received in excess of gains on equity investments recognized using the equity method	368,402
Reclassification of accumulated depreciation	(2,249)
Loss on write-off of other assets	1,119
Increase in financial assets at fair value through profit or loss	(13,842,075)
Decrease in bills and bonds purchased under resell agreements	940,479
Decrease in receivables	3,836,347
Deferred income tax	(937,492)
Decrease in other financial assets	6,734,916
Decrease in other assets	327,808
Increase in bills and bonds sold under repurchase agreements	3,580,928
Increase in financial liabilities at fair value through profit or loss	4,215,428
Increase in payables	2,104,434
Increase in other financial liabilities	136,891
Increase in other liabilities	38,318,191
Net cash provided by operating activities	51,575,262
Cash flows from investing activities:	
Increase in due from Central Bank	(370,276,268)
Decrease in available-for-sale financial assets	633,235
Decrease in debt investments without quoted prices in active markets	915,211
Increase in held-to-maturity financial assets	(10,870,399)
Increase in loans	(73,953,730)
Increase in real estate investment	(93,912)
Proceeds from sale of fixed assets and non-operating assets	4,366,335
Purchase of fixed assets and non-operating assets	(1,033,962)
Increase in intangible assets	(510,995)
Increase in other financial assets	(2,849,787)
Increase in other assets	(7,741,641)
Net cash used in investing activities	(461,415,913)
Cash flows from financing activities:	
Decrease in due to Central Bank and other banks	(63,925,017)
Increase in deposits	466,383,659
Increase in other financial liabilities	(234,074)
Increase in other liabilities	778,409
Cash dividends	(4,447,566)
Net cash provided by financing activities	398,555,411
Exchange effect	2,096
Net decrease in cash and cash equivalents	(11,283,144)
Cash and cash equivalents at beginning of year	91,388,105

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008

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

(1) Organization and Business

1) Taiwan Finance Holding Co., Ltd.

On January 1, 2008, Taiwan Financial Holding Co., Ltd. (the Company) was incorporated in accordance with the Act of Taiwan Financial Holding Co., Ltd.

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

As of December 31, 2008, there were 8,675 employees in the Company and its subsidiaries.

2) The consolidated subsidiaries

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. Its main businesses include securities business and auxiliary futures trading services.

(2) Summary of Significant Accounting Policies

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company prepared the accompanying financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies 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, 2008
The Company	BOT	Banking	100.00%
The Company	BTLI	Life Insurance	100.00%
The Company	BTS	Securities	100.00%

2) General accounting policies

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

3) Use of estimates

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

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4) Foreign currency transactions

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

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

5) Asset impairment

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

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

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

6) Significant commitments and contingencies

If loss from commitments and contingencies is considered highly likely and the amount can be reasonably estimated, then the loss is recognized currently. Otherwise, commitments and contingencies are only disclosed in the notes to the financial statements.

7) Share swap

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

If a company changes into a holding company through share swap and the nature of the change can be categorized as reorganization, the equity of the holding company should equal the original company's book value of net assets. The holding company recognizes paid-in capital including par value as capital stock, the amounts of the stockholders' equity accounts relating to assets and liabilities (such as cumulative foreign currency translation adjustments and unrealized increments on revaluation) in the original accounts, and the others as additional paid-in capital.

8) Financial instruments

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

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

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

1. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

   (a) Bought and held principally for the purpose of selling them in the near term. Derivatives held by the Consolidated Companies, other than hedging securities, are classified in this category.

   (b) Financial assets or liabilities may be designated as financial instruments measured at fair value through profit or loss to eliminate measurement mismatches for items that naturally offset each other.

2. Available-for-sale financial assets are recorded at fair value, and any change in market value is adjusted against shareholders' equity. Impairment loss is recognized when there is objective evidence of impairment. If there is objective evidence that the impairment loss recognized has decreased in a subsequent period, the decline in impairment loss is adjusted against shareholders' equity.

3. Held-to-maturity financial assets are recorded at amortized cost. Impairment loss is recognized when there is objective evidence of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

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4. Financial assets are carried at cost if their fair values are not available. Impairment loss is recognized if there is objective evidence of impairment, and this recognized amount is non-reversible.

5. Debt investments without quoted price in active markets are recorded at amortized cost. Impairment loss is recognized when there is objective evidence of impairment. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

9) Hedge accounting

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

10) Financial derivatives

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

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

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

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

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

12) Pecuniary and securities financing and refinancing

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

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

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

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

13) Loans

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

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

1. Collection of payment of principal or interest accrued is considered highly unlikely; or,

2. Payment of principal or interest accrued is over 6 months past due.

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

14) Allowance for doubtful accounts

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

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

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

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

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

15) Investment under equity method

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

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

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

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

16) Fixed assets

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

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

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

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

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

The estimated useful lives of fixed assets are as follows:

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

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

17) Intangible assets

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

Amortization is computed using the straight-line method. The Consolidated Companies should revaluate 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 Consolidated Companies evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

18) Other assets－statutory deposits

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

19) Other assets－non-operating assets

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

20) Other assets－collateral assumed

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

21) Due to other banks, deposits and remittances

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

22) Reserve for operations

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

23) Separate accounts－insurance instruments

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

(Continued)

24) Pension

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

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

Since 1997, the defined benefit pension plan has used the balance sheet date as the measurement date to complete an actuarial valuation of accumulated payment obligation is excess of pension fund assets at fair value. At the balance sheet date, the Consolidated Companies recognize minimum pension liabilities and, based on the pension plan's actuarial liabilities, record net pension cost, including current service cost and transitional net assets, prior service cost, and pension profit or loss, amortized over the average remaining length of service of employees by the straight-line method.

25) Income tax

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

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

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

(Continued)

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

26) Revenue recognition

1. Interest income from the Company's banking loans is accrued on the unpaid principal balance in accordance with the terms of the loans. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until the interest is collected. Interest income from bailout and loan extension in 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.

2. For BTLI, revenue is recognized in accordance with the requirements of ROC Statement of Financial Accounting Standards (ROC SFAS) No. 32 "Accounting for Revenue Recognition" except for "insurance income". The direct written premiums are recognized when the policy becomes effective, and policy-related expenses, such as commission expenses and agency expenses, are recognized on a cash basis. At the end of each balance sheet date, adjustments are made on an accrual basis. The direct written premium for unearned premium reserves for life insurance liabilities, special reserves, and loss provisions are recognized in order to meet the matching principle.

3. For the subsidiary BTS, brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expenses of margin loans, securities financing and refinancing, bonds purchased under agreement to resell and sold under agreement to repurchase, and brokerage commission for introducing futures contracts are recognized during the transaction periods on an accrual basis. Underwriting commissions are recognized when collected, and underwriting transaction fees are recognized when the contract becomes effective.

27) Earnings per share

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

(Continued)

(3) Reasons for and Effects of Accounting Changes

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

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

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

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

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

(Continued)

The subsidiary BTLI used to be the insurance department of BOT and now is a wholly owned subsidiary of the Company. Therefore, BTLI is also a government-owned enterprise. Its accounting practice mainly follows the Budget Law, the Account Settlement Law, the Audit Act, and the regulations of related laws. The retained earnings become final only after an audit by the Ministry of Audit. BTLI recognized this accounting change as other miscellaneous income of $1,023,303 in the accompanying statement of income.

(4) Cash and Cash Equivalents

	December 31, 2008
Cash on hand and petty cash	$ 9,984,247
Foreign currency on hand	4,966,174
Bank deposits	25,684,230
Notes and checks for clearing	8,921,826
Placement with banks	30,548,484
	$ 80,104,961

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

	December 31, 2008
Call loans to banks	$ 101,498,807
New-Taiwan-Dollar-denominated deposit reserve－checking account, reserves for deposits－foreign-currency-denominated deposits, etc.	31,407,581
New-Taiwan-Dollar-denominated required deposit reserve	51,025,150
Deposits in Central Bank	812,309,742
	$ 996,241,280

1) The required deposit reserves are determined monthly at prescribed rates based on the average balances of customers' New-Taiwan-Dollar-denominated deposits. The required deposit reserve is subject to withdrawal restrictions, but reserve － checking account and foreign-currency-denominated deposit reserves may be withdrawn anytime and are non-interest-earning.

2) As of December 31, 2008, 60% of the deposits collected on behalf of government institutions from government organizations amounting to $9,984,742 were placed with the Central Bank and not used, according to the regulations.

3) BOT, in accordance with the Central Bank's System for Accounting and Allocation of Bank Funds, adopted the RTGS (Real-Time Gross Settlement) clearing system. The purchased CDs (certificates of deposit) serve as the security for overdrafts. As of December 31, 2008, $20,000,000 in negotiable time certificates were provided as the security for overdrafts. 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)

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

	December 31, 2008
Trading financial assets	
Commercial paper	$ 2,574,117
Government bonds	1,966,770
Listed stocks, beneficiary certificates and monetary instruments	34,027,889
Treasury bonds	8,901,154
Convertible bonds	4,033,869
Corporate and financial bonds	5,702
Foreign government bonds	6,574,952
Trading securities	1,863,267
Beneficiary securities	1,313,221
	61,260,941
Derivative financial instruments	6,857,320
Financial assets designated as at fair value through profit or loss:	
Foreign government and financial bonds	10,537,348
Total	$ 78,655,609

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 31, "Information on Financial Instruments".

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

As of December 31, 2008, the details of bonds and bills purchased / sold under agreements to resell (repurchase) were as follows:

	December 31, 2008
Bills and bonds purchased under resell agreements:	
Government bonds	$ 300,000
Negotiable certificates of deposit	700,410
Treasury bills	591,527
Commercial paper	10,729,629
	$ 12,321,566

(Continued)

Bills and bonds sold under repurchase agreements:	
Government bonds	$ 19,128,355
Treasury bills	754,219
Commercial paper	368,646
	$ 20,251,220

(8) Receivables, Net

	December 31, 2008
Accounts receivable	$ 1,031,595
Long-term receivable	43,647,047
Accrued revenue	379,472
Interest receivable	18,841,215
Insurance receivable	273,909
Due from other insurers	4,921
Refundable income tax	1,390,045
Notes receivable and acceptance notes receivable	2,788,871
Factoring receivable—without recourse	1,298,819
Margin loans receivable	612,571
Other receivables	35,675,811
Subtotal	105,944,276
Less: allowance for doubtful accounts	293,114
Total	$ 105,651,162

For the year ended December 31, 2008, BOT paid a premium savings account interest rate in excess of the regular rate of 1.7815%, and the resulting interest expense (recorded as other non-interest income) was $7,730,890, due to executing the government premium savings policy.

As of December 31, 2008, BOT, instead of the government, had paid premium savings interest expenses amounting to $43,647,047 (booked in long-term receivable).

(9) Loans－Net

	December 31, 2008
Discounts and import-export negotiations	$ 3,145,217
Short-term loans and overdrafts	428,121,859
Short-term secured loans and secured overdrafts	84,195,546
Insurance loans	5,774,269
Medium-term loans	560,281,674
Medium-term secured loans	232,219,586
Long-term loans	194,621,930
Long-term secured loans	482,982,969
Nonperforming loans	17,994,258
Subtotal	2,009,337,308
Less: allowance for doubtful accounts	11,800,604
Total	$ 1,997,536,704

Movements of allowance for doubtful accounts for the year ended December 31, 2008, were as follows:

	2008			
	Risk of specific uncollectible debts	Country risk	Potential risk of total debts	Total
Beginning balance	$ 12,467,455	897,899	1,065,320	14,430,674
Provision for doubtful accounts	907,557	1,482,943	(792,246)	1,598,254
Write-off	(4,667,927)	(1,088,268)	-	(5,756,195)
Collected from write-off of debts	1,887,042	23,210	-	1,910,252
Foreign exchange translation adjustment	-	42,289	-	42,289
Ending balance	$ 10,594,127	1,358,073	273,074	12,225,274

Details of allowance for doubtful accounts were as follows:

	December 31, 2008
Receivables	$ 293,114
Discounts and loans	11,800,604
Other financial assets	131,556
Total	$ 12,225,274

(Continued)

Details of bad debt expense were as follows:

	December 31, 2008
Provision for bad debt	$ 1,598,254

As of December 31, 2008, the amount of loans with non-accumulating interest revenue of the Consolidated Companies was $18,125,749, which was booked as other assets－nonperforming loans. As of December 31, 2008, the estimation of non-accumulating interest revenue was $1,898,177.

For the year ended December 31, 2008, the Consolidated Companies did not write off any loan without legal proceedings being initiated.

Please see note 31, "Information on Financial Instruments", for the valuation of loans granted by the Consolidated Companies.

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

	December 31, 2008
Domestic:	
Negotiable certificates of deposit	$ 29,426,373
Government bonds	50,647,713
Corporate bonds	8,564,243
Financial bonds	2,157,287
Real estate securitization	1,683,334
Financial asset securitization	996,744
Listed stocks and beneficiary certificates	39,060,313
Preferred stocks	1,023,285
	133,559,292
Foreign:	
Foreign bonds	44,016,736
Beneficiary certificates	441,235
Real estate securitization	360,605
Less: accumulated impairment	(2,850,571)
	41,968,005
Total	$ 175,527,297

1) Please see note 31, "Information on Financial Instruments", for valuation of available-for-sale financial assets.

(Continued)

2) CSBC Corporation, Taiwan (CSBC) completed its privatization by means of an IPO (Initial Public Offer) on December 18, 2008, and the initial price was $13.4 (dollars) per share. The Consolidated Companies hold 1,612,980 shares of CSBC, the book value of which was $14,750. After revaluating at fair value, the Consolidated Companies transferred the shares from "financial assets stated at cost－non-current" to "available-for-sale financial assets－non-current" with book value of $21,614.

3) BOT held the following financial instruments: the foreign financial bonds of Kaupthing Bank, Glitnir Bank and Washington Mutual Bank, the foreign corporate bonds of Lehman Brothers Holdings Inc., and the financial asset securitization of E. Sun Bank 2007-1 Collateralized Bond obligations Special Purpose Trust Class B1 Beneficiary Certificates, whose book value amounted to $2,949,052. As these financial instruments had been impaired, BOT then recognized impairment losses amounting to $2,850,571.

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

	December 31, 2008
Domestic:	
Financial bonds	$ 16,016,154
Corporate bonds	25,868,376
Commercial paper	8,704,625
Government bonds	17,862,325
Real estate securitization	38,385
Financial asset securitization	25,167
Preferred stocks	291,090
Structured savings	2,500,000
Less: accumulated impairment	(504,016)
	70,802,106
Foreign:	
Foreign bonds	46,394,262
	$ 117,196,368

1) Please see note 31, "Information on Financial Instruments", for valuation of held-to-maturity investment.

2) The Consolidated Companies held Collateralized Debt Obligations (CDOs) and recognized impairment losses amounting to $504,016.

(Continued)

(12) Investments under Equity Method, Net

	December 31, 2008	
	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	29.36	$ 26,349,622
Taiwan Life Insurance Co., Ltd.	28.46	1,035,485
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,640,474
Tang Eng Iron Works Co., Ltd.	21.38	1,090,467
Tai Yi Real-Estate Management Co., Ltd.	30.00	9,577
Total		$ 31,125,625

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

Name of Investee	December 31, 2008
Hua Nan Financial Holdings Co., Ltd.	$ 8,105,279
Taiwan Life Insurance Co., Ltd.	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,462
Tai Yi Real Estate Management Co., Ltd.	3,793
	$ 11,750,731

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

Name of Investee	2008
Hua Nan Financial Holdings Co., Ltd.	$ 2,655,397
Taiwan Life Insurance Co., Ltd.	(1,229,172)
Kaohsiung Ammonium Sulfate Co., Ltd.	(14,163)
Tang-Eng Iron Works Co., Ltd.	(506,966)
Tai Yi Real-Estate Management Co., Ltd.	(3,091)
	$ 902,005

1. The financial statements of some of the Consolidated Companies' investee companies under the equity method were audited by other auditors, and related gains recognized on such investments were $2,652,306 for the year ended December 31, 2008.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. The investment loss recognized on Kaohsiung Ammonium Sulfate Co., Ltd. amounting to $14,163 was based on its unaudited financial statements.

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 Consolidated Companies have no control power over such investee.

3) Details of the Consolidated Companies' recognition of unrealized increments on revaluation and cumulative translation adjustments under stockholders' equity in 2008 were as follows:

Name of investee	Unrealized increments on revaluation 2008	Cumulative translation adjustments 2008
Hua Nan Financial Holdings Co., Ltd.	$ 220,699	(8,332)
Taiwan Life Insurance Co., Ltd.	50,332	10,041
Tang Eng Iron Works Co., Ltd.	1,238	-
	$ 272,269	1,709

4) Details of the Consolidated Companies' recognition of capital surplus and unrealized losses or gains on financial instruments under stockholders' equity in 2008 were as follows:

Name of investee	Capital surplus 2008	Unrealized losses and gains of financial instruments 2008
Hua Nan Financial Holdings Co., Ltd.	$ -	(1,770,056)
Taiwan Life Insurance Co., Ltd.	-	(658,230)
Tang Eng Iron Works Co., Ltd.	-	(7,639)
	$ -	(2,435,925)

(Continued)

5) Details of the Consolidated Companies' cash dividends received from long-term equity investments under the equity method in 2008 were as follows:

Name of investee	2008
Hua Nan Financial Holdings Co., Ltd.	$ 1,753,060
Taiwan Life Insurance Co., Ltd.	219,207
	$ 1,972,267

(13) Other Financial Assets, Net

	December 31, 2008
Temporary advances	$ 45,183,149
Financial assets carried at cost	11,092,326
Debt investments without quoted price in active markets	18,131,561
Less: accumulated impairment－debt investment without quoted price in active markets	(1,318,312)
Nonperforming loans	131,490
Less: allowance for doubtful accounts－nonperforming loans	(131,490)
Hedging derivative financial assets	57,273
Separate account－insurance assets	4,810,896
Bills purchased	22,104
Less: allowance for doubtful accounts－bills purchased	(66)
Total	$ 77,978,931

1) Please see note 31, "Information on Financial Instruments", for valuation of hedging derivative financial assets and debt investments without quoted price in active markets.

2) On December 23, 2008, Mega International Investment Trust Co., Ltd. underwent a capital reduction, and therefore decreased book value of "financial assets stated at cost" by $544.

3) The Consolidated Companies held foreign Collateralized Debt Obligations (CDOs), which were recorded as debt investments without quoted price in active markets, and recognized impairment losses amounting to $1,318,312.

(Continued)

(14) Real Estate Investments, Net

	December 31, 2008
Real estate investment	$ 2,210,995
Less: accumulated depreciation	207,030
Total	$ 2,003,965

(15) Fixed Assets, Net

	December 31, 2008
Cost:	
Land (including revaluation increments)	$ 68,412,775
Land improvements	19,345
Buildings (including revaluation increments)	14,141,305
Machinery and equipment	5,464,267
Transportation equipment	1,125,195
Miscellaneous equipment	1,159,066
Leasehold improvements	565,605
Construction in progress and prepayments for equipment	813,127
Subtotal	91,700,685
Accumulated depreciation:	
Land improvement	15,981
Buildings	4,662,184
Machinery and equipment	3,648,307
Transportation equipment	810,181
Miscellaneous equipment	861,388
Leasehold improvements	494,590
Subtotal	10,492,631
Accumulated impairment	167,430
Net	$ 81,040,624

The subsidiary BOT had impairment of $44,705 on June 30, 2008, in accordance with the government-published land value, $7,687 of which was reflected as a decrease in unrealized increments on revaluation, and the other $37,018 was reflected in the accompanying statement of income.

The subsidiary BOT has revaluated its buildings and land several times over the years. As of December 31, 2008, land had increased by $63,556,509, and the estimated tax payable on land increment was $15,599,296 (recorded in other liabilities).

(Continued)

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

To comply with government policy, the Consolidated Companies sold land, buildings and equipment and recognized gains on disposal of property, plant and equipment of $2,738,530 in 2008.

As of December 31, 2008, the Consolidated Companies' fixed assets were not pledged.

As of December 31, 2008, the part of the buildings and land of the Consolidated Companies were leased out. The book value (including revaluation increments) of the rental land was $32,619,506. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period	Amount
2009	$ 211,499
2010	136,435
2011	68,866
2012	21,130
2013	4,330
	$ 442,260

(16) Other Assets－Net

	December 31, 2008
Advance payment	$ 5,541,986
Refundable deposits	1,012,608
Operating deposits and settlement and clearing funds	329,954
Customer advance and accounts awaiting clearance	320,095
Deferred tax assets, net	1,762,994
Non-operating assets (including revaluation increments)	8,214,018
Brokering transaction debit balance, net	2,561
Collateral assumed, net	1,076,959
Others	52,753
Total	$ 18,313,928

(Continued)

1) Advance payment

	December 31, 2008
Prepaid expense	$ 716,943
Prepaid tax	215,696
Prepaid dividends (for government)	3,590,127
Other prepayment	1,019,220
	$ 5,541,986

2) Non-operating assets, net

	December 31, 2008
Land	$ 8,281,839
Buildings	53,185
Miscellaneous equipment	92
Less: accumulated depreciation－buildings	19,461
accumulated impairment	101,637
	$ 8,214,018

The subsidiary BOT recognized reversal gains of impairment losses of $36,000 on June 30, 2008, in accordance with the government-published land value.

3) Collateral assumed, net

	December 31, 2008
Collateral assumed	$ 1,097,616
Less: allowance for impairment	20,657
	$ 1,076,959

(17) Due to Central Bank and Other Banks

	December 31, 2008
Call loans from bank	$ 106,418,360
Postal deposits transferred	38,973,586
Deposits from Central Bank	12,453,417
Deposits from other banks	23,533,652
Bank overdrafts	110,723
	$ 181,489,738

(Continued)

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

	December 31, 2008
Held-for-trading financial liabilities	
Foreign exchange options	$ 4,410
Cross currency swaps	4,098,268
Interest rate swaps	1,003,272
Foreign exchange swaps	698,469
	$ 5,804,419

For valuation of financial liabilities at fair value through profit or loss, please refer to note 31.

(19) Payables

	December 31, 2008
Accounts payable	$ 9,358,808
Advance receipts	1,469,701
Accrued expense	3,100,694
Interest payable	19,807,329
Banker's acceptances payable	2,633,560
Due from representative organization	33,863,716
Other payables	27,145,741
	$ 97,379,549

(20) Deposits

	December 31, 2008
Checking account deposits	$ 27,300,859
Government deposits	247,717,840
Demand deposits	176,509,848
Time deposits	602,953,837
Savings account deposits	1,877,499,880
Remittances	580,641
	$ 2,932,562,905

(Continued)

(21) Reserves for Operation and Liabilities

	December 31, 2008
Reserves for unearned premium	$ 369,147
Reserves for life insurance liability	151,422,202
Special reserves for life insurance	478,885
Reserves for claim outstanding	75,568
Reserves for operating loss	131,712
Reserves for default losses	98,851
Reserves for trading losses	1,457
Reserves for guarantees	299,465
Reserves for labor insurance liability	126,108,139
Reserves for insurance premium	862,830
Total	$ 279,848,256

(22) Other Financial Liabilities

	December 31, 2008
Appropriated loan funds	$ 1,428,143
Separate account－insurance liabilities	4,810,896
Hedging derivative financial liabilities	189,981
	$ 6,429,020

For details of hedging derivative financial liabilities on December 31, 2008, please refer to note 31.

(23) Other Liabilities

	December 31, 2008
Advance collections	$ 916,538
Guarantee deposits received	3,687,374
Estimated tax payable on land increments	15,599,296
Temporary receipt awaiting transfer	1,234,024
Accrued pension liability	2,639,678
Others	1,339,154
	$ 25,416,064

(Continued)

(24) Pension

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

	December 31, 2008 Regular Employees	December 31, 2008 Regular Labor
Benefit obligation:		
Vested benefit obligation	$ (4,439,766)	(325,619)
Non-vested benefit obligation	(2,923,928)	(430,072)
Accumulated benefit obligation	(7,363,694)	(755,691)
Additional benefits based on future salaries	(2,070,022)	(259,665)
Projected benefit obligation (PBO)	(9,433,716)	(1,015,356)
Fair value of plan assets	4,964,905	854,094
Funding status	(4,468,811)	(161,262)
Unrecognized net transition obligation (assets)	641,123	329,478
Unrecognized prior year service cost	215,032	(23,715)
Unrecognized loss (gain)	1,292,519	(248,243)
Additional minimum pension liability recognized	(97,481)	(118,318)
Accrued pension liabilities	$ (2,417,618)	(222,060)
Vested benefit	$ (5,622,914)	(404,901)

The components of net pension cost for the year 2008 were as follows:

	2008 Regular Employees	2008 Regular Labor
Service cost	$ 796,664	61,828
Interest cost	222,574	28,896
Projected return on plan assets	(126,813)	(21,871)
Net pension cost	132,645	30,413
Amortization and deferred cost	$ 1,025,070	99,266

(Continued)

Actuarial assumptions:

	2008
Discount rate	2.50%
Rate of increase in future compensation	2.00%
Rate of projected return on plan assets	2.50%

(25) Income Tax

The income tax expenses for the year ended December 31, 2008, are summarized below:

	2008
Current income tax	$ 653,817
Deferred tax benefit	(780,976)
Income tax expense	$ (127,159)

The Consolidated Companies are subject to ROC income tax at a maximum rate of 25%. For the year ended December 31, 2008, 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:

	2008
Expected income tax expenses	$ 1,749,197
Tax effect of interest income from short-term notes separately taxed	(87,757)
Gain on securities trading	(208,644)
Tax-free earnings from OBU	266,234
Investment gains recognized under equity method	(225,501)
Gain on disposal of land	(680,566)
Impairment loss on financial assets	249,916
Tax-free dividends	(519,046)
Allowance for deferred tax assets	(447,797)
Income tax expenses of overseas branches	(502,894)
Adjustments of outright purchase and sale of bills	277,702
Others	1,997
Income tax benefit	$ (127,159)

(Continued)

For the year ended December 31, 2008, the major components of deferred income tax benefit were as follows:

	2008
Pension costs disallowed per tax regulation	$ (79,320)
Decrease in reserve for default losses	23,230
Unrealized gains on foreign exchange	395,398
Impairment loss on financial assets	(455,582)
Income tax expenses of overseas branches	(555,005)
Others	(109,697)
Deferred income tax benefit	$ (780,976)

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

	December 31, 2008	
	Amount	Income tax effect
Deferred income tax assets:		
Pension costs disallowed per tax regulation	$ 2,423,880	605,970
Loss carryforward	5,014,336	1,253,584
Impairment losses on financial assets－overseas	3,403,672	850,918
Losses on valuation of financial assets－overseas	-	340,118
Foreign deferred income tax assets－loss carryforward and exchange effect	-	984,262
Others	164,780	41,195
Subtotal		4,076,047
Allowance for deferred income tax assets		(1,918,147)
		$ 2,157,900
Deferred income tax liabilities:		
Unrealized gains on foreign exchange	1,575,788	393,947
Others	3,836	959
		$ 394,906
Deferred income tax assets－net		$ 1,762,994

(Continued)

BOT's income tax returns for all years through 2006 have been examined by the tax authorities.

Beginning 2008, the Company and its subsidiary BOT adopted a cobined income tax declaration to report their tax. As of December 31, 2008, the details of receivables and payables resulting from income tax were as follows:

	2008			
	Tax receivables from affiliated parties (recorded as miscellaneous account receivables)	Tax payables to affiliated parties (recorded as miscellaneous account payables)	Income tax receivables from National Tax Administration (recorded as miscellaneous account receivables)	Income tax payables to National Tax Administration (recorded as miscellaneous account payables)
2008	$ -	535,654	535,663	-

According to "Income Basic Tax Act", losses can be used as a tax credit for taxable income in the future ten years. Details of the existing tax credit of the Consolidated Companies as of December 31, 2008, were as follows:

Year loss incurred	December 31, 2008	Last effective year of tax credit
Estimated losses incurred in 2006	$ 4,709,565	2016
Estimated losses incurred in 2008	304,771	2018
	$ 5,014,336	

For the year ended December 31, 2008, 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:

	2008			
	Curre income tax expense	Deferre income tax gain	Deferred inco	Current incor
Amount computed under SFAS No. 22	$ 653,817	(780,976)	1,762,994	1,390,045
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax return	$ 653,817	(780,976)	1,762,994	1,390,045

(Continued)

As of December 31, 2008, unappropriated retained earnings were as follows:

	December 31, 2008
1998 and after	$ 7,123,945

(26) Stockholders' Equity

1) Common stock

On January 1, 2008, the Company was incorporated through a share swap and issued 9,000,000 shares of common stock with a par value of $10. As of December 31, 2008, capital stock amounted to $90,000,000.

2) Additional paid-in capital

The Company reorganized the group members in accordance with the amendment of the Act of Taiwan Financial Holding Co. Ltd. approved by the Legislative Yuan on November 7, 2008. On December 20, 2008, the Company underwent a share capital reduction and increased share capital from capitalization of additional paid-in capital of $109,467,296 at the same time. The share capital of the Company remained $90,000,000 after the capital reduction and increase. The change in additional paid-in capital in 2008 was as follows:

	Total
Established on January 1, 2008	$ 215,854,060
Adjustment for the change in the subsidiaries' special reserve	(320,552)
Used to increase share capital	(109,467,296)
Adjustment for non-cash share capital reduction	5,429,052
Ending balance on December 31, 2008	$ 111,495,264

3) Legal reserve

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

1. to pay income tax;
2. to offset prior years' deficit;
3. to appropriate 10% as legal reserve;
4. to appropriate 40~60% as special reserve;
5. to appropriate dividends.

The remaining balance is retained or appropriated upon approval of the board of directors.

According to the Company's articles of incorporation, cash dividend distributions cannot exceed 15% of total capital before the legal reserve balance reaches the total amount of capital.

(Continued)

(27) Earnings per Share

	2008 Pretax	2008 After tax
Net income (for common stockholders)	$ 6,996,786	7,123,945
Denominator (shares in thousands)	9,000,000	9,000,000
Basic earnings per share (NT Dollars)	$ 0.78	0.79

(28) Net Insurance Business Income

	2008
Gross written premiums	$ 63,414,889
Reinsurance claims recovery	56,419
Investment-type insurance policy revenue	4,756,856
Insurance business income	68,228,164
Re-insurance expense	77,780
Direst business expense	342,373
Benefits and claims	30,023,342
Stability fund	46,954
Investment-type insurance policy expense	4,756,856
Insurance business expense	35,247,305
Net revenue	$ 32,980,859

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

	2008
Available-for-sale financial assets	$ 2,895,083
Held-to-maturity financial assets	504,016
Other financial assets	1,318,312
Fixed assets	37,018
Other assets	(36,000)
	$ 4,718,429

(Continued)

(30) Provisions (Release) for Insurance Policy Reserves

	2008
Provision for policyholders' reserve	$ 33,694,368
Special claim reserve release	(89,769)
Provision for claim reserve	(19,490)
Provision for insufficient premium reserve	125,832
	$ 33,710,941

(31) Information on Financial Instruments

1) Information on fair value of financial instruments

	December 31, 2008 Book Value	December 31, 2008 Fair Value
Financial Assets:		
Financial assets at fair value through profit or loss	$ 78,655,609	78,655,609
Loans	1,997,536,704	1,997,536,704
Available-for-sale financial assets	175,527,297	175,527,297
Held-to-maturity financial assets	117,196,368	117,196,368
Other financial assets	77,978,931	77,978,931
Financial Liabilities:		
Financial liabilities at fair value through profit or loss	5,804,419	5,804,419
Other financial liabilities	6,429,020	6,429,020

2) Methods and assumptions used by the Consolidated Companies for fair value evaluation of financial instruments were as follows:

1. Since these instruments have short-term maturities, the book value is a reasonable basis to estimate the fair value. This method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, other financial assets, due to Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and other liabilities.

2. When the financial assets have a public quotation from an active market, the market price is considered the fair value. If a quoted market price is unavailable, then the fair value is determined based on a valuation model. The estimates and assumptions of the valuation model adopted by the Consolidated Companies are identical to those adopted by other market participants.

3. The interest on 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.

3) The fair values of the financial instruments of the Consolidated Companies which were based on the quoted market price or a valuation model were as follows:

	December 31, 2008	
	Quoted market price	**Valuation model**
Financial assets:		
Financial assets at fair value through profit or loss	$ 71,798,289	6,857,320
Loans	-	1,997,536,704
Available-for-sale financial assets	172,574,675	2,952,622
Held-to-maturity investments	-	117,196,368
Other financial assets	-	77,978,931
Financial liabilities:		
Financial liabilities at fair value through profit or loss	-	5,804,419
Other financial liabilities	-	6,429,020

For the year ended December 31, 2008, the Consolidated Companies recognized a loss of $243,796 based on a valuation model.

4) Financial risk information

1. Market risk－BOT

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

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

(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.

2. Credit risk－BOT

(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 BOT may cause a loss when the contractual debt obligations are not met. Therefore, BOT 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)

	December 31, 2008		
Item	**Secured amount**	**Total amount**	**Percentage of total amount**
Loan (note 1)	$ 876,621	1,999,743	43.84
Acceptances	133	2,623	5.07
Guarantees on loans	7,976	60,186	13.25

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

Collateral which BOT requires may include a deposit receipt, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, BOT 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.

(Continued)

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

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

(In millions)

Item	December 31, 2008 Book value (note 1)	December 31, 2008 Greatest credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	$ 72,202	70,235
Available-for-sale financial assets	155,492	79,773
Held-to-maturity financial assets	31,818	22,677
Loans and advances (note 1)	2,026,969	1,847,245
Hedging derivatives	7,558	28
Debt investments without quoted price in active markets	10,972	10,972
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; loan receivables; import bill advances/export bill purchases; overdue receivables; acceptance receivables; guarantee payment receivables; and short-term loans.

Note 2: In the amounts of greatest credit exposure, held-for-trading financial assets exclude government bonds amounting to $1,967 million; available-for-sale financial assets exclude government bonds amounting to $46,293 million and negotiable certificates of deposit amounting to $29,426 million; held-to-maturity financial assets exclude government bonds amounting to $9,141 million; loans and advances exclude Central Government loans amounting to $176,559 million and Central Government short-term advance amounting to $3,165 million.

Note 3: The amount of greatest credit exposure is the fair value at the balance sheet date; the book value of a hedging derivative is the principal of the hedging instrument (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.

(Continued)

(c) Disclosure of obvious concentration of credit risk

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

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

(In millions)

	December 31, 2008		
Industry type	**Book value (note 1)**	**Percentage of total loans (%)**	**Greatest credit exposure (note 2)**
Individuals	$ 601,047	30.33	601,047
Government agencies	412,429	20.81	235,870
Manufacturing	451,921	17.76	351,921
Shipping, warehousing and communications	97,649	4.93	97,649
Utilities	100,246	5.06	100,246
Others	418,494	21.11	418,494
Total	$ 2,081,786	100.00	1,805,227

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; loan receivables; and import bill advances/export bill purchases.

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

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

(In millions)

	December 31, 2008		
Areas type	**Book value (note 1)**	**Percentage of total loans (%)**	**Greatest credit exposure (note 2)**
Domestic	$ 1,859,606	93.83	1,683,047
Foreign	122,180	6.17	122,180
Total	$ 1,981,786	100.00	1,805,227

(Continued)

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; loan receivables; and import bill advances/export bill purchases.

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

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

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

3. Liquidity risk

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The analysis of maturity of the subsidiary BOT as of December 31, 2008, is as follows:

	December 31, 2008				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	$ 23,869,742	-	-	-	23,869,742
Due from Central Bank and call loans to banks	384,662,149	344,064,815	236,423,404	49,398,761	1,014,549,129
Financial assets at fair value through profit or loss, net	4,233,728	2,880,038	10,187,697	15,876,796	33,178,259
Bonds and bills purchased under resell agreements	298,262	-	-	-	298,262
Available-for-sale financial assets, net	20,949,001	27,568,168	28,876,837	78,412,592	155,806,598
Held-to-maturity financial assets, net	18,999	-	28,467	1,388,695	1,436,161
Hedging derivative assets	57,273	-	-	-	57,273
Financial assets carried at cost	-	-	-	11,092,326	11,092,326
Debt investments without quoted price in active markets	-	-	-	10,971,588	10,971,588
Investments under equity method, net	-	-	-	31,125,625	31,125,625
Receivables, net	18,560,139	1,007,553	604,434	23,011,865	43,183,991
Loans and discounts, net	163,240,333	222,569,908	385,494,873	1,207,335,288	1,978,640,402
Non-performing loans	-	-	-	18,088,711	18,088,711
Total assets	$ 615,889,626	598,090,482	661,615,712	1,446,702,247	3,322,298,067
Liabilities					
Due to Central Bank and other banks	$ 70,434,033	56,734,488	15,347,631	-	142,516,152
Payables	16,887,991	606,795	245,849	44,532,761	62,273,396
Financial liabilities at fair value through profit or loss	695,196	-	-	5,291,489	5,986,685
Bonds and bills sold under repurchase agreements	14,617,440	4,595,808	4,592	-	19,217,840
Hedging derivative liabilities	8,292	5,677	40,389	135,622	189,980
Other financial liabilities	-	-	-	1,428,143	1,428,143
Deposits and remittances	374,398,348	337,140,065	1,099,384,598	1,175,960,263	2,986,883,274
Total liabilities	$ 477,041,300	399,082,833	1,115,023,059	1,227,348,278	3,218,495,470
Gaps	$ 138,848,326	199,007,649	(453,407,347)	219,353,969	103,802,597

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

(In millions of NTD)

BOT

	December 31, 2008				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Current financial assets:					
Financial assets measured at fair value through profit or loss－current	$ 4,234	2,880	10,187	15,877	33,178
Bonds and bills purchased under resell agreements	298	-	-	-	298
Available-for-sale financial assets－current	20,949	27,568	28,877	13,644	91,038
Held-to-maturity financial assets－current	19	-	29	-	48
Hedging derivative assets－current	57	-	-	-	57
	25,557	30,448	39,093	29,521	124,619
Due from and call loans to banks	384,662	344,065	236,423	49,399	1,014,549
Loans and discounts	163,240	222,570	385,495	1,207,335	1,978,640
Long-term investments					
Investment under equity method	-	-	-	26,960	26,960
Available-for-sale financial assets－noncurrent	-	-	-	64,769	64,769
Held-to-maturity financial assets－noncurrent	-	-	-	1,389	1,389
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market－noncurrent	-	-	-	10,971	10,971
	-	-	-	115,181	115,181
Other assets	81,901	28,600	12,513	136,719	259,733
Total assets	**$ 655,360**	**625,683**	**673,524**	**1,538,155**	**3,492,722**

(Continued)

Notes to Consolidated Financial Statements

	December 31, 2008				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Liabilities					
Current financial liabilities					
Financial liabilities measured at fair value through profit or loss－current	$ 695	-	-	5,291	5,986
Bonds and bills sold under repurchase agreements	14,617	4,596	5	-	19,218
Hedging derivative liabilities －current	8	6	40	136	190
Other financial liabilities－current－appropriation for loans	-	-	-	37	37
	15,320	4,602	45	5,464	25,431
Deposits	373,818	337,140	1,099,385	1,175,960	2,986,303
Remittances	38,037	66,005	2,487	-	106,529
Long-term liabilities	-	-	-	19,172	19,172
Noncurrent liabilities	-	-	-	1,391	1,391
Other liabilities	68,286	30,209	35,361	-	133,856
Total liabilities	$ 495,461	437,956	1,137,278	1,201,987	3,272,682
Stockholders' equity	$ 159,899	187,727	(463,754)	336,168	220,040

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

(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 Consolidated Companies as of December 31, 2008, were as follows:

Subsidiary－BOT

	December 31, 2008	
Item	NTD	USD
Available-for-sale financial assets:		
Government bonds	1.7067%～6.9611%	9.1250%～10.3750%
Financial bonds	2.1100%～2.3000%	1.2750%～6.5000%
Corporate bonds	1.9600%～3.0500%	1.0000%～8.8750%
Negotiable certificates of deposit of Central Bank	1.0200%～2.3100%	-
Taipei City Government bonds	4.6190%	-
Beneficiary certificates－financial assets securitization	2.4600%	-
Beneficiary certificates－real estate investment trust	2.6800%	5.5000%～5.7500%
Foreign organization bonds	-	2.7313%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	December 31, 2008 NTD	USD
Held-to-maturity financial assets:		
Government bonds	1.5716%～6.0701%	-
Corporate bonds	1.8911%～1.9493%	-
Beneficiary certificates－financial assets securitization	2.0699%	-
Beneficiary certificates－real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Financial bonds	- %	5.4700%～6.2600%
Beneficiary certificates－real state investment trust	- %	0.8113%～2.2450%
Loans and discounts:		
Short-term loans	1.2500%～18.0000%	3.1131%～8.5620%
Medium-term loans	1.0050%～18.0000%	0.6000%～7.5000%
Long-term loans	1.0220%～10.4960%	1.0000%～7.7500%
Liabilities:		
Short-term loans	- %	0.1000%～5.2600%
Hedging derivative liabilities:		
IRS	-	2.0150%～14.3938%

5. Fair-value hedge and cash flow hedge

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

a) Description of hedging:

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

a. When the interest rate trends up, the Consolidated Companies adopt fair value hedging to avoid effects on income by swapping a fixed rate for a floating rate on fixed-rate bonds.

b. When the interest rate trends down, the Consolidated Companies adopt cash flow hedging to avoid effects on income by swapping a floating rate for a fixed rate on floating-rate notes.

(Continued)

b) Description and balance sheet fair value of financial commodities designated as hedging instruments:

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

c) Nature of hedged risk:

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

(32) 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.

(Continued)

2) BOT

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

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

   (a) Carrying out stratified authorization

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

   (b) Management of large exposure and excessive concentration

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

   b) BOT's Treasury Department, OBU, and foreign branches set up policies based on external credit evaluation for loan quota management in money market, foreign exchange, and negotiable security trading.

   c) Each year, to spread the risk from different countries, a national risk quota, in accordance with the ranking in Euromoney Magazine, is allocated to the Finance Department, OBU, and foreign branches. The business recorded by BOT includes loan assets, transaction assets, and off-balance-sheet positions.

   (c) Re-assessment evaluates the quality of loan assets. BOT has a re-assessment policy for credit review. After loans are extended, they are reviewed during the loan period in accordance with their review ratings. For important loans, follow-up evaluation is carried out, and reserves against bad loans are allocated for loan assets at the end of every month in order to reinforce BOT's operating system.

2. Market risk management

   (a) Daily evaluation

   To control risk, each trading unit carries out a daily assessment of foreign trading against trading objectives in accordance with market prices. The major source for evaluation is the public appraisal of negotiable securities in external information systems such as Bloomberg and Reuters.

(Continued)

(b) Limit management

a) For the trades involving all securities, foreign-exchange positions, and derivatives, BOT regulates the authorized trading amount, kinds of sales/purchases, invested objects, and gain or loss limits to control risk effectively.

b) In the management of New Taiwan Dollar funds, interest rate risk is controlled by predictions of long-term interest rate trends, by setting short dealing interest rates prior to the beginning of business each day, and by establishing add-or-subtract authorization for personnel at different levels. In the management of foreign currency funds, trading position quotas are set for different currencies and for bank-wide foreign exchange positions, and stop loss limits are set for positions held for trading purposes and for non-hedging unleveled net positions for derivative products.

3. Interest rate and liquidity risk management

(a) BOT has set up an Assets and Liabilities Management Committee to strengthen the structure of assets and liabilities. Under the leadership of the president, the Committee is divided into Management, Finance, and Capital subcommittees; and this Committee is responsible for setting guidelines for assets and liabilities management, liquidity position management, management of interest rate risk, and the review of the deposit and loan structure.

(b) Setting up management policy for liquidity and interest rate risk; setting up guidelines for liquidity risk management.

a) Management of interest-rate sensitivity gap: The ratio of New Taiwan Dollar interest-rate-sensitive assets to liabilities shall fall between 80% and 140%. The ratio of New Taiwan Dollar capital gap to owner's equity shall be maintained between positive/negative 100%. The different positions in the foreign currencies resulting from changes in the interest rate shall not exceed total assets in each currency by 35%.

b) Management of liquidity risk

a. Maintaining liquidity ratio: According to the Central Bank's "Liquidity Guidelines for Financial Institutions," Bank of Taiwan shall maintain a liquidity ratio for all deposits of over 10%.

b. Short-term gap analysis: 1~10-day and 11~30-day gaps are calculated; the period gap is greater than zero.

c. Foreign currency gap management: The ratio of accumulated capital liquidity gap for one month and for one year to total assets of the four major foreign currencies of Bank of Taiwan (U.S. Dollar, HK Dollar, JP Yen and Euro) should not exceed 50% and 40%, respectively.

d. Capital management: Full use is made of the Assets and Liabilities Management Information System on a regular basis to analyze maturity gaps of assets and liabilities and changes in maturity structure. The appropriate allocation and utilization of funds, and the adjustment of the capital structure are carried out in accordance with the capital situation. In the management of New Taiwan Dollar funds, in addition to maintaining an appropriate level of cash on hand and of securities that can be converted quickly into cash, the Bank has set policies for the reporting of New Taiwan Dollar funds to provide for the timely reporting of receipts or disbursements of large amounts of funds. The Bank also carries out gap analysis of the maturity amount of purchased bills, bonds, and call loans so as to lower liquidity risk. In the management of foreign currencies, the Bank uses the maturity method to carry out funds gap analysis of the actual funds to be received or paid out within the next year.

4. The policy of reduction of credit risk in terms of pledges and guarantees

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

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.

(Continued)

4) BTS

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

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

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

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

(33) Related-Party Transactions

1) Name of related party and relationship

Name of related-party	Relationship with the Company
Land Bank of Taiwan Co., Ltd.	Affiliate (which was no longer a related party as of December 20, 2008)
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Tai Yi Real-Estate Management Co., Ltd.	Investee company of BOT under the equity method
Directors, supervisors, managers, and vice-managers	The Company's main management
Other related parties	The relatives of main management

2) Significant related-party transactions

1. Placement with banks

	December 31, 2008		
		Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$	6,666	0.02

2. Deposits of banks

	December 31, 2008		
		Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$	127,896	0.54

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

(Continued)

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

	2008			
	Highest balance	Ending balance	Annual interest rate (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 9,378,606	3,769,010	0.10~5.50	87,323

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

4. Deposits

	December 31, 2008	
	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$ 51,992	-
Kaohsiung Ammonium Sulfate Co., Ltd.	1,405,318	0.05
Total	$ 1,457,310	0.05

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

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

Mortgage loans for real estate for the Consolidated Companies' directors, supervisors, and staff and their spouses and close relatives for the year ended December 31, 2008:

	December 31, 2008
Mortgage loans for real estate	$ 25,237
Interest receivable	$ 247

The interest range was 2.10% to 6.55% for the year ended December 31, 2008.

6. Interest revenue

	2008	
	Amount	Percentage of account balance
Land Bank of Taiwan Co., Ltd.	$ 146,085	15.94

(Continued)

7. Loans

Subsidiary－BOT

December 31, 2008							
				Status of performance			
Category	Amount or name of related party	Highest balance in current period	Ending balance	Performing loans	Non-performing loans	Type of collateral	Differences in transaction terms between related and non-related parties
Consumer loans	53	38,322	27,473	27,473	-	None	None
House mortgages	89	368,421	308,317	308,276	41	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
〃	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	〃	None
〃	Tang-Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	〃	None
〃	Tang-Eng Iron Works Co., Ltd.	122,105	122,105	122,105	-	〃	None
〃	BankTaiwan Securities Co., Ltd.	3,890,236	-	-	-	〃	None
〃	BankTaiwan Securities Co., Ltd.	5,878,982	-	-	-	〃	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	14,215,452	10,000	10,000	-	None	None

8. Derivative instruments:

December 31, 2008						
					Balance sheet item	
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~ 2009.02.05	153,719	(516)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－forward	(516)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~ 2009.02.05	152,074	(511)	〃	(511)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~ 2009.02.06	159,485	(2,471)	〃	(2,471)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008						
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.	BHSW510056 swap	2005.12.08~ 2009.02.10	328,190	(649)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610016 swap	2006.01.25~ 2009.02.10	656,380	(1,299)	〃	(1,299)
Taiwan Life Insurance Co., Ltd.	BHSW610017 swap	2006.01.26~ 2009.02.10	328,190	(649)	〃	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~ 2009.01.08	361,980	31,296	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	31,296
Taiwan Life Insurance Co., Ltd.	BHSW710031 swap	2007.04.25~ 2009.01.23	1,119,125	27,681	〃	27,681
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~ 2009.02.05	328,700	(1,104)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(1,104)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008						
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.	BHSW810010 swap	2008.01.21~ 2009.01.23	955,890	27,085	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	27,085
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~ 2009.02.06	985,110	(2,338)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(2,338)
Taiwan Life Insurance Co., Ltd.	BHSW810190 swap	2008.09.18~ 2009.02.23	631,360	23,362	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	23,362
Taiwan Life Insurance Co., Ltd.	BHSW810193 swap	2008.09.19~ 2009.02.06	656,740	(1,559)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(1,559)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008						
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.	BHSW810194 swap	2008.09.19~ 2009.09.23	1,553,250	65,533	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	65,533
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~ 2009.02.09	164,095	(318)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(318)
Taiwan Life Insurance Co., Ltd.	BHSW810259 swap	2008.12.04~ 2009.01.08	67,050	(1,503)	〃	(1,503)
Taiwan Life Insurance Co., Ltd.	BHSW820003 swap	2008.09.19~ 2009.09.23	1,560,750	(58,095)	〃	(58,095)
Chen Vi Hong	0812220020 foreign exchange option	2008.12.23~ 2009.01.06	59	-	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－foreign exchange option	-

(Continued)

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

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 2008 is as follows:

	2008
Salaries	$ 2,757
Bonus and special allowances	750
Professional fee	3,932

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

1. BOT

(a) Name of related-party and relationship

Name of related party	Relationship with Bank of Taiwan
Land Bank of Taiwan Co., Ltd. (LBOT)	An affiliate (which was no longer a related party as of December 20, 2008)
BankTaiwan Life Insurance Co., Ltd. (BTLI)	Subsidiary held completely by the Company
BankTaiwan Securities Co., Ltd. (BTS)	Subsidiary held completely by the Company
Hua Nan Financial Holdings Co., Ltd	Investee company of Bank of Taiwan under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of Bank of Taiwan under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of Bank of Taiwan under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of Bank of Taiwan under the equity method
Tai Yi Real-Estate Management Co., Ltd.	Investee company of Bank of Taiwan under the equity method
Others	Directors, supervisors, managers, and their relatives

(b) Significant related-party transactions

a) Placement with banks

	December 31, 2008
Hua Nan Financial Holdings Co., Ltd.	$ 6,666

b) Accounts receivable

	December 31, 2008
BTLI	$ 102,804
BTS	53,173
	$ 155,977

(Continued)

c) Deposits of banks

	December 31, 2008
Hua Nan Financial Holdings Co., Ltd.	$ 127,896

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

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

	2008			
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	$ 9,378,606	3,769,010	0.10~5.50	87,323

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

e) Deposits

	December 31, 2008
Hua Nan financial Holdings Co., Ltd.	$ 51,992
Kaohsiung Ammonium Sulfate Co., Ltd.	1,405,318
Total	$ 1,457,310

Apart from 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 revenue

	December 31, 2008
LBOT	$ 146,085

g) Fee revenue

	December 31, 2008
BTLI	$ 929,393

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

h) Loans

Subsidiary－BOT

December 31, 2008							
				Status of performance			
Category	Amount or name of related party	Highest balance in current period	Ending balance	Performing loans	Non-performing loans	Type of collateral	Differences in transaction terms between related and nonrelated parties
Consumer loans	53	38,322	27,473	27,473	-	None	None
House mortgages	89	368,421	308,317	308,276	41	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
〃	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	〃	None
〃	Tang-Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	〃	None
〃	Tang-Eng Iron Works Co., Ltd.	122,105	122,105	122,105	-	〃	None
〃	BankTaiwan Securities Co., Ltd.	3,890,236	-	-	-	〃	None
〃	BankTaiwan Securities Co., Ltd.	5,878,982	-	-	-	〃	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	14,215,452	10,000	10,000	-	None	None

i) Derivative instruments

December 31, 2008						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~ 2009.02.05	153,719	(516)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－forward	(516)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~ 2009.02.05	152,074	(511)	〃	(511)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~ 2009.02.06	159,485	(2,471)	〃	(2,471)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008						
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.	BHSW510056 swap	2005.12.08~ 2009.02.10	328,190	(649)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading－swap	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610016 swap	2006.01.25~ 2009.02.10	656,380	(1,299)	〃	(1,299)
Taiwan Life Insurance Co., Ltd.	BHSW610017 swap	2006.01.26~ 2009.02.10	328,190	(649)	〃	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~ 2009.01.08	361,980	31,296	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	31,296
Taiwan Life Insurance Co., Ltd.	BHSW710031 swap	2007.04.25~ 2009.01.23	1,119,125	27,681	〃	27,681
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~ 2009.02.05	328,700	(1,104)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading － swap	(1,104)
Taiwan Life Insurance Co., Ltd.	BHSW810010 swap	2008.01.21~ 2009.01.23	955,890	27,085	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	27,085
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~ 2009.02.06	985,110	(2,338)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading － swap	(2,338)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008						
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.	BHSW810190 swap	2008.09.18~ 2009.02.23	631,360	23,362	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	23,362
Taiwan Life Insurance Co., Ltd.	BHSW810193 swap	2008.09.19~ 2009.02.06	656,740	(1,559)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading － swap	(1,559)
Taiwan Life Insurance Co., Ltd.	BHSW810194 swap	2008.09.19~ 2009.09.23	1,553,250	65,533	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－swap	65,533
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~ 2009.02.09	164,095	(318)	Valuation adjustment of financial liabilities at fair value through profit or loss－current－held for trading － swap	(318)
Taiwan Life Insurance Co., Ltd.	BHSW810259 swap	2008.12.04~ 2009.01.08	67,050	(1,503)	〃	(1,503)
Taiwan Life Insurance Co., Ltd.	BHSW820003 swap	2008.09.19~ 2009.09.23	1,560,750	(58,095)	〃	(58,095)
Chen Yi Hong	0812220020 foreign exchange option	2008.12.23~ 2009.01.06	59	-	Valuation adjustment of financial assets at fair value through profit or loss－current－held for trading－foreign exchange option	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(Continued)

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

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

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

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

(c) Main management's remuneration

The related information about the salaries and rewards for BOT's main management in 2008 is as follows:

		2008
Salaries	$	23,162
Bonus and special allowances		9,070
Professional fee		1,187

(Continued)

2. BTLI

(a) Name of related party and relationship

Name of related-party	Relationship with BTLI
Bank of Taiwan Co., Ltd.	100%-owned subsidiary of the Company under the equity method
BankTaiwan Securities Co. Ltd	100%-owned subsidiary of the Company under the equity method
Directors, supervisors, managers, and vice managers	The main management of Bank of Taiwan
Other related parties	The relatives of main management

(b) Significant related-party transactions

a) Split-off information

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

		Amount
Cash and cash equivalents	$	30,381,161
Financial assets measured at fair value through profit or loss－current		610,198
Available-for-sale financial assets－current		18,999,886
Held-to-maturity financial assets－current		4,935,069
Bond investments with non-active market－current		655,003
Notes receivable, net		269,187
Other receivables		2,611,471
Prepaid expense and other prepayment		42,110
Bonds and bills purchased under resell agreements		13,387,011
Loans		7,460,787
Available-for-sale financial assets－non-current		1,360,232
Held-to-maturity financial assets－non-current		58,812,846
Bond investments with non-active market－non-current		7,276,634

(Continued)

	Amount
Investments under equity method, net	$ 4,517,603
Real estate investments, net	1,796,793
Fixed assets, net	776,945
Goodwill and intangible assets	4,886
Other assets	3,309,149
Financial liabilities measured at fair value through profit or loss－current	(40,248)
Commission payable	(63,902)
Due from representative organization	(33,575,145)
Other payables	(796,354)
Advance collections	(25,886)
Reserve for operations and other liabilities	(114,653,736)
Other liabilities	(3,032,124)
The amounts of fixed assets, available-for-sale financial assets, and investments under equity method under stockholders' equity:	
Additional paid-in capital	(360,065)
Unrealized increments on revaluation	(170,455)
Cumulative foreign currency translation adjustments	3,348
Unrealized gain on financial instruments	507,596
Issue of new shares	$ 5,000,000

Part of the information systems and equipment are shared with Bank of Taiwan. But BTLI need not pay any expense to BOT.

b) Placement with banks

December 31, 2008
$ 17,137,408

(Continued)

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

Mortgage loans for real estate for the Consolidated Companies' directors, supervisors, and staff and their spouses and close relatives for 2008:

	December 31, 2008
Mortgage loans for real estate	$ 25,237
Interest receivable	$ 247

The interest range was 2.10% to 6.55% for 2008.

d) Interest revenues

	2008
BOT	$ 399,723

e) Foreign exchange gain

	2008
BOT	$ 1,947,822

(c) Main management's remuneration

The related information about the salaries and rewards for BTLI's main management in 2008 is as follows:

	2008
Salaries	$ 7,385
Bonus and special allowances	120
Professional fee	760

3. BTS

(a) Name of related party and relationship

Name of related party	Relationship with TBS
Bank of Taiwan Co., Ltd.	100%-owned subsidiary of the Company under the equity method
BankTaiwan Life Insurance Co., Ltd.	100%-owned subsidiary of the Company under the equity method
Directors, supervisors, managers, and vice managers	The main management of BTS

(Continued)

(b) Significant related-party transactions

a) Split-off information

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

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

(Continued)

b) Placement with banks

	December 31, 2008
BOT	$ 569,376

c) Bonds and bills purchased under resell agreements

	2008	
	Dealing amount	Ending balance
BOT	$ 4,331,506	900,023

(c) Main management's remuneration

The related information about the salaries and rewards for BTS's main management in 2008 is as follows:

	2008
Salaries	$ 5,765
Professional fee	400

5) Main managerment's remuneration

The related information about the salaries and rewards for the Consolidated Companies' main management in 2008 is as follows:

	2008
Salaries	$ 39,069
Bonus and special allowances	9,940
Professional fee	6,279

(Continued)

(34) Pledged Assets

Pledged assets	Purpose of pledge	Book value December 31, 2008
Available-for-sale financial assets－bonds	Guarantee deposit for provisional attachments or taxation appeals	$ 704,900
Available-for-sale financial assets－bonds	Operating deposit for securities trading	110,000
Available-for-sale financial assets－bonds	Guarantee deposit for trust business compensation reserve	50,000
Due to Central Bank －deposits in	Negotiable certificates of deposit (accounted for as cash)	20,000,000
Held-to-maturity financial assets－bond	Operating deposit for trust business	25,000
Held-to-maturity financial assets－bonds	Guarantee deposit for provisional attachments or taxation appeals	11,800
Fixed assets－land and building	Bank loans	351,487
Leased assets－land and building	Bank loans	33,243
Total		$ 21,286,430

(Continued)

(35) Commitments and Contingencies

1) As of December 31, 2008, the significant commitments of the Consolidated Companies were as follows:

	December 31, 2008
Trust liabilities	$ 326,853,165
Securities held in custody payable	721,394
Guarantee payable	3,311,690
Guarantee received	5,006
Guarantee note payable	612,200
Traveler's checks held on consignment	1,002,150
Collections for customers	76,508,546
Loans under custody on consignment	435,814,005
Book entry for government bonds under management	328,458,300
Depository for short-term marketable securities under management	161,692,509
Consigned sales of goods	2,134,836
Insurance for issuance of New Taiwan Dollars	1,056,400,700
Guarantee receivables	60,185,649
L/C receivables	40,915,854
Contract deposit on behalf of counter-parties	9,793,378
Marketable securities held as custodian	1,712,240,362
Total	$ 4,216,649,744

2) Construction in progress and significant purchase agreements:

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

Name of contract	December 31, 2008 Contract amount	Amount not paid
Construction of Nan Zih Branch	$ 256,684	5,185
Construction of An Nan Branch	150,405	4,469
Construction of Yi Lan Branch	288,600	285,724
Construction of Dong Gang Branch	110,300	110,300
Total	$ 805,989	405,678

(Continued)

3) Operating leases

All subsidiaries have entered into operating leases for their branches. As of December 31, 2008, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2009.1.1~2009.12.31	$ 417,816
2010.1.1~2010.12.31	286,012
2011.1.1~2011.12.31	204,192
2012.1.1~2012.12.31	152,536
2013.1.1~2013.12.31	44,927
	$ 1,105,483

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

5) Balance sheet and details of asset management:

Trust assets	December 31, 2008
Short-term investment	
Investment in funds	$ 104,949,846
Investment in bonds	166,124,289
Common stock investment	13,516,434
Deposits	
Deposits in the Bank of Taiwan	21,522,395
Deposits in other banks	6,205
Receivables	
Interest receivable	3,148,851
Cash dividend receivable	969
Receivables from trading securities	256,145
Prepaid expense	503
Real estate	
Land	933,396
Buildings	16,888
Construction in progress	1,271,795
Marketable securities held as custodian	15,105,449
Total	$ 326,853,165

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust liabilities	December 31, 2008
Short-term loans	
Long-term secured loans	$ 35,679
Long-term loans	1,089,734
Payables	
Payables from trading securities	225,661
Other payables	15
Payables from management fee	1,605
Payables from supervision fee	229
Tax payable	597
Pledge securities	15,105,449
Trust capital	
Money trust	260,695,393
Marketable securities trust	2,553,204
Real estate investment trust	1,204,226
Other reserve and accumulated income	
Accumulated loss	28,099,557
Foreign currency translation	13,307,961
Deferred unrealized income	(5,156,413)
Current income	9,690,268
Total	**$ 326,853,165**

Property list	December 31, 2008
Short-term investment	
Investment in funds	$ 104,949,846
Investment in bonds	166,124,289
Common stock investment	13,516,434
Deposits	
Deposits in the Bank of Taiwan	21,522,395
Deposits in other banks	6,205
Real estate	
Land	933,396
Buildings	16,888
Construction in progress	1,271,795
Pledge securities	15,105,449
Trust capital	**$ 323,446,697**

(Continued)

Trust income statement	2008
Trust revenue:	
Interest revenue	$ 9,427,798
Cash dividend revenue	1,666,480
Income from beneficiary certificates	1,356
	11,095,634
Trust expense:	
Capital management fee	39,175
Tax expense	6,659
Other expense	115,809
Supervisor fee	216
Storage fee	34,023
Interest expense	9,575
Commission fee	36
Realized capital loss	1,194,491
Unrealized capital loss	3,751
Income tax expense	337
Real estate tax	1,294
	1,405,366
Net income	$ 9,690,268

(36) Subsequent Events: None.

(37) Others

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

Function / Nature	2008		
	Cost of goods sold	**Operating expenses**	**Total**
Personnel costs			
Salaries	211,916	10,049,171	10,261,087
Labor and health insurance	13,561	492,795	506,356
Pension	13,520	1,114,398	1,127,918
Other employment	22,923	1,111,050	1,133,973
Depreciation	22,467	956,566	979,033
Depletion	-	-	-
Amortization	-	408,949	408,949

2) Cross-selling with subsidiaries

1. Cross-selling:

Please see Note 34.

2. Cross-utilization of information and mutual locations or business equipment

BOT shared part of the information system and office equipment with the Company, but the Company did not pay any related expense to BOT.

3) Capital adequacy ratios

Unit: Thousand NTD, %

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

4) Eligible capital

Unit: Thousand NTD

December 31, 2008	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,495,264
Legal reserve	-
Special reserve	-
Accumulated profit	7,123,945
Equity adjustments	17,348,756
Less: goodwill	-
Less: deferred assets	8,214
Less: treasury stock	-
Consolidated eligible capital	225,959,751

(Continued)

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, 2008		
Name	**Total amount of credit extensions, endorsements, or other transactions**	**% of net asset value**
The same individual		
Ministry of Finance, R.O.C.	189,627	83.92
Taiwan Power Company	100,901	44.65
Bureau of Labor Insurance	40,848	18.08
Central Bank of the Republic of China (Taiwan)	29,400	13.01
Related to high speed railway construction funds	29,197	12.92
Taipei County Government	28,641	12.67
Taichung County Government	26,641	11.79
Bureau of National Health Insurance	24,500	10.84
Chi Mei Optoelectronics Corporation	22,316	9.88
CPC Corporation, Taiwan	21,653	9.58
Central Deposit Insurance Corp.	21,450	9.49
Taiwan Railway Administration	19,293	8.54
Tainan County Government	16,335	7.23
Yilan County Government	16,250	7.19
Taiwan Water Corp.	15,075	6.67
AU Optronics Corp.	14,052	6.22
Daragon Steel Corporation	13,496	5.97
Nan Ya Plastics Corporation	13,365	5.91
Yunlin County Government	12,215	5.41
Central Taiwan Science Park Administration	12,040	5.33
Taoyuan County Government	11,337	5.02
Tainan City Government	10,922	4.83
EVA Airways Corporation	10,710	4.74
Hsinchu County Government	10,686	4.73
Hsinchu City Government	10,496	4.64

(Continued)

December 31, 2008		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chiayi County Government	10,413	4.61
Science Park Administration	10,347	4.58
China Airlines Ltd.	9,858	4.36
Promos Technologies Inc.	9,564	4.23
Formosa Petrochemical Corporation	9,235	4.09
Wintek Corporation	9,169	4.06
Chi Mei Optoelectronics Corporation	9,149	4.05
Formosa Chemicals & Fibre Corp.	8,859	3.92
Southern Taiwan Science Park Administration	8,840	3.91
R.S.E.A. Engineering Corporation	8,116	3.59
Miaoli County Government	8,103	3.59
Nantou County Government	7,477	3.31
China Steel Corporation	7,032	3.11
Kaohsiung County Government	6,800	3.01
Construction and Planning Agency, Ministry of the Interior	6,400	2.83
Prince Housing and Development Corp.	6,288	2.78
Taipei City Government Department of Transportation	6,074	2.69
Yang Ming Marine Transport Corp.	6,009	2.66
Pingtung County Government	5,389	2.38
Kaohsiung Rapid Transit Corp.	5,370	2.38
Powerchip Semiconductor Corp.	5,190	2.30
S.A.C. Pei Taiwan Holdings	4,725	2.09
China Shipbuilding Corporation	4,679	2.07
Taiwan Asset Management Corporation	4,625	2.05
Fubon Financial Holding Co., Ltd.	4,240	1.88
Chunghwa Picture Tubes, Ltd.	4,083	1.81
Far Eastern Textile Ltd.	3,953	1.75
Qisda Corporation	3,892	1.72
Rich Development Construction Co., Ltd.	3,894	1.72
Chailease Finance Co., Ltd.	3,620	1.60

(Continued)

December 31, 2008		
Name	**Total amount of credit extensions, endorsements, or other transactions**	**% of net asset value**
Formosa Plastics Corporation	3,591	1.59
Hualien County Government	3,600	1.59
Ho Ping Power Company	3,450	1.53
Taitung County Government	3,424	1.52
Chung Hung Steel Corporation	3,352	1.48
Evergreen Marine Corporation	3,084	1.36
Young Ching Corp.	3,000	1.33
Huang Hsiang Construction Corporation	3,003	1.33
The same related individual		
Mr./Ms. Wu and related individual	7,090	3.14
Mr./Ms. Liao and related individual	6,340	2.81
Mr./Ms. Wang and related individual	4,836	2.14
Mr./Ms. Lee and related individual	4,489	1.99
Mr./Ms. Shiao and related individual	3,773	1.67
Mr./Ms. Lin and related individual	3,202	1.42
Mr./Ms. Zeng and related individual	3,202	1.42
Mr./Ms. Shyue and related individual	3,067	1.36
The same affiliated enterprises		
Taiwan Power Co., Ltd. and its affiliates	100,901	44.65
Ya Suo Development Corp. and its affiliates	36,155	16.00
Chi Lin Technology Co., Ltd. and its affiliates	33,212	14.70
GIO Optoelectronics Corp. and its affiliates	31,505	13.94
CPC Corporation, Taiwan and its affiliates	31,299	13.85
Chi Mei Optoelectronics Corporation and its affiliates	24,537	10.86
CPC Corporation, Taiwan and its affiliates	23,955	10.60
Chi Mei Energy Corp. and its affiliates	22,645	10.02
Chi Mei Lighting Technology Corporation and its affiliates	22,597	10.00
Chi Hsin Electronics Corp. and its affiliates	22,516	9.96
Contrel Technology Co., Ltd. and its affiliates	22,416	9.92
Chi Mei Electronics Corporation and its affiliates	22,316	9.88

(Continued)

December 31, 2008		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Himax Technologies Limited and its affiliates	22,316	9.88
Infochamp Systems Corp. and its affiliates	20,529	9.08
Dragon Steel Corporation and its affiliates	20,529	9.08
EVA Airways Corporation and its affiliates	19,473	8.62
Evergreen Marine Corporation and its affiliates	19,362	8.57
Taiwan Railways Administration and its affiliates	19,293	8.54
Qisda Corporation and its affiliates	18,239	8.07
Darfon Electronics Corp. and its affiliates	18,239	8.07
AU Optronics Corp. and its affiliates	18,239	8.07
Formosa Tafeeta Co., Ltd. and its affiliates	17,278	7.65
Nan Ya Plastics Corporation and its affiliates	16,767	7.42
Taipei Port Container Terminal and its affiliates	16,591	7.34
Taiwan Water Corp. and its affiliates	15,075	6.67
Lextar Electronics Corporation and its affiliates	14,052	6.22
Nan Ya Plastics (Hong Kong) Corporation and its affiliates	13,365	5.91
Formosa Petrochemical Corporation and its affiliates	12,625	5.59
Evergreen Aviation Technologies Corporation and its affiliates	12,615	5.58
Kaohsiung Rapid Transit Corp. and its affiliates	12,403	5.49
Promos Technologies Inc. and its affiliates	12,189	5.39
Evergreen Sky Catering Corp. and its affiliates	11,360	5.03
Hsin Tao Power Corporation and its affiliates	11,013	4.87
Golden Win Steel Industrial Corp. and its affiliates	10,750	4.76
Uni President Development Co., Ltd. and its affiliates	10,583	4.68
Ye Long Enterprises Corp. and its affiliates	10,384	4.60
Chi Mei Materials Technology Corporation and its affiliates	9,973	4.41
Chi Mei Corporation and its affiliates	9,973	4.41
China Airlines Ltd. and its affiliates	9,922	4.39
China Pacific Laundry Services Ltd. and its affiliates	9,922	4.39

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2008		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chi Mei- Asahi Corp. and its affiliates	9,349	4.14
Wintek Corporation and its affiliates	9,169	4.06
Mactech Corporation and its affiliates	9,169	4.06
United Win (H.K.) Technology Limited and its affiliates	9,169	4.06
Masstop Asia Pacific Limited and its affiliates	9,169	4.06
Formosa Chemicals & Fibre Corp. and its affiliates	8,866	3.92
R.S.E.A. Engineering Corporation and its affiliates	8,116	3.59
China Steel Machinery Corporation and its affiliates	7,532	3.33
Tatung Co. and its affiliates	7,503	3.32
My-Funding Corp. and its affiliates	7,474	3.31
Ta Chen Construction & Engineering Corp. and its affiliates	7,462	3.30
Forward Electronics Co., Ltd. and its affiliates	7,403	3.28
Thintech Materials Technology Co., Ltd. and its affiliates	7,396	3.27
Grand Pacific Credit Company Ltd. and its affiliates	7,349	3.25
Uni-President Enterprises Corp. and its affiliates	7,245	3.21
Far Eastern Dept. Store, Ltd. and its affiliates	7,234	3.20
China Steel Chemical Corporation and its affiliates	7,032	3.11
China Ecotek Corporation and its affiliates	7,032	3.11
China Steel Express Corporation and its affiliates	7,032	3.11
CSE Transport Corp. and its affiliates	7,032	3.11
Taiwan Cement Co., Ltd. and its affiliates	6,985	3.09
Hoping Industrial Port Corporation and its affiliates	6,407	2.84
Prince Housing and Development Corp. and its affiliates	6,288	2.78
Far Eastern General Construction Inc. and its affiliates	6,156	2.72
Yang Ming Marine Transport Corp. and its affiliates	6,009	2.66
Taiwan Prosperity Chemical Corporation and its affiliates	5,945	2.63
Yuen Foong Yu Paper Mfg. Co., Ltd. and its affiliates	5,839	2.58
KGI Securities Finance Co., Ltd. and its affiliates	5,706	2.53
Fubon Securites Co., Ltd. and its affiliates	5,343	2.36
Powerchip Semiconductor Corp. and its affiliates	5,290	2.34

(Continued)

December 31, 2008		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Yuanta Securities Finance Corp. and its affiliates	4,854	2.15
Daxon Technology Inc. and its affiliates	4,778	2.11
BES Engineering Corporation and its affiliates	4,744	2.10
China Shipbuilding Corporation and its affiliates	4,679	2.07
Far Eastern Textile Ltd. and its affiliates	4,652	2.06
Taiwan Asset Management Corporation and its affiliates	4,625	2.05
Li Sing Asset Management Corp. and its affiliates	4,625	2.05
Fubon Financial Holding Co., Ltd. and its affiliates	4,240	1.88
Fubon Asset Management Co., Ltd and its affiliates	4,240	1.88
Green Forest Development Enterprise Co., Ltd. and its affiliates	4,187	1.85
Rich Development Construction Co., Ltd. and its affiliates	4,187	1.85
Chailease Finance Co., Ltd. and its affiliates	4,050	1.79
Kai Yuan International Investment Co., Ltd. and its affiliates	3,953	1.75
An Ho Garment Co., Ltd. and its affiliates	3,953	1.75
Yuan Tong Investment Corp. and its affiliates	3,953	1.75
Shin Sheng Corp. and its affiliates	3,750	1.66
Chailease Consumer Finance Co., Ltd. and its affiliates	3,720	1.65
China Man-made Fiber Corp. and its affiliates	3,714	1.64
Taiwan Cogeneration Corporation and its affiliates	3,649	1.61
Young Ching Corp. and its affiliates	3,614	1.60
Formosa Plastics Corporation and its affiliates	3,596	1.59
President Fair Development Corp. and its affiliates	3,583	1.59
China Petrochemical Development Corporation and its affiliates	3,566	1.58
TCEC Corporation and its affiliates	3,550	1.57
Tang Eng Iron Works Co., Ltd. and its affiliates	3,433	1.52
President Tokyo Corporation and its affiliates	3,369	1.49
Hong Li Steel Corporation and its affiliates	3,352	1.48
Yun Hong Investment Corp. and its affiliates	3,352	1.48
Chunghwa Picture Tubes, Ltd. and its affiliates	3,250	1.44

(Continued)

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

Note 1: Taiwan High Speed Rail Corporation is included.

2. This form discloses total amounts which reach the lower of 5% of net worth or $3 billion with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises.

3. Credit extensions mean loans, discounts, overdrafts, acceptances, guarantees, and other business items designated by the central competent authority-in-charge.

4. Endorsements mean endorsements and guarantees of bills corporations.

5. Other transactions mean the following transactions with the same individual, the same related individual, or the same affiliated enterprises:

(1) Invest or purchase securities whose issuers are these related parties.

(2) Purchase these related parties' real estate or other assets.

(3) Sell securities, real estate, or other assets to these related parties.

(4) Sign contracts to give money or supply labor.

(5) Act as an agent or broker of the financial holding company or its subsidiaries, or supply services on a commission or expenses basis.

(Continued)

(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, 2008				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		5,993,948	391,147,404	1.53 %	2,620,426	43.72 %
	Non-secured		4,912,250	1,042,827,253	0.47 %	4,488,539	91.37 %
Consumer finance	House mortgage		6,386,009	361,339,108	1.77 %	2,378,736	37.25 %
	Cash card		-	-	-	-	-
	Micro credit		436,734	17,820,177	2.45 %	396,861	90.87 %
	Others	Secured	1,052,522	58,142,221	1.81 %	424,656	40.35 %
		Non-secured	2,476,296	128,466,677	1.93 %	1,363,376	55.06 %
Total			21,257,759	1,999,742,840	1.06 %	11,672,594	54.91 %
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			8,693	1,158,361	0.75 %	14,606	168.02 %
Factoring receivables－non-recourse			-	1,298,819	-	3,896	-

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the MOF. 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.

(Continued)

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.

(b) Concentration of credit extensions

Unit: Million, %

December 31, 2008			
Rank	**Group Name**	**Credit extensions balance**	**% of net asset value**
1	Formosa Plastics	45,311	20.03%
2	Chimei	36,995	16.36%
3	China Steel	31,672	14.00%
4	Evergreen	21,687	9.59%
5	BenQ	19,683	8.70%
6	Uni-President	15,518	6.86%
7	Promos Technologies	12,189	5.39%
8	Tainan Spinning	11,058	4.89%
9	Yuanta Financial Holdings	11,069	4.73%
10	China Airlines	9,922	4.39%

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

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 32.

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

Subsidiary－BOT

	December 31, 2008	
	Average	Average interest rate (%)
Interest-earnings assets:		
Call loans and placement with banks	$ 158,137,960	2.28
Placement with Central Bank	640,658,855	2.02
Financial assets	187,821,011	3.25
Negotiation, discounts and total loans	1,974,798,106	3.12
Interest-bearing liabilities:		
Deposit of Central Bank	12,984,027	-
Deposits and call loans from banks	217,817,458	2.07
Demand deposit	179,240,450	0.54
Demand savings	378,091,857	1.36
Time savings	1,338,061,939	3.13
Time deposits	536,787,854	2.98
Government deposits	230,896,009	0.81

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

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

Balance sheet interest rate sensitivity－for NTD

December 31, 2008

Unit: Thousand NTD, %

Subsidiary－BOT

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

(Continued)

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

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

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

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

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

Balance sheet interest rate sensitivity－for USD

December 31, 2008

Unit: Thousand USD, %

Subsidiary－BOT

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

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

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

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

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

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

(Continued)

5. Profitability

Unit: %

Item		December 31, 2008
Return on total assets	Before income tax	0.19
	After income tax	0.19
Return on net worth	Before income tax	3.10
	After income tax	3.15
Profit margin		11.70

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

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

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

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

6. Major foreign currency position, net

Subsidiary－BOT

Currency	December 31, 2008 Amount in functional currency	Amount in New Taiwan Dollars
JPY	3,041,756	1,102,637
USD	27,363	896,795
GBP	18,676	883,732
CNY	112,184	538,023
SGD	14,718	335,141

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

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

(Continued)

7. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

December 31, 2008

Unit: Thousand NTD

Subsidiary－BOT

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

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

Term Structure Analysis of USD-denominated Assets and Liabilities

December 31, 2008

Unit: Thousand USD

Subsidiary－BOT

	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	$ 12,374,295	4,817,199	3,640,140	1,491,537	1,327,151	1,098,268
Main capital outflow on maturity	12,342,139	5,845,428	3,288,559	1,369,376	1,540,068	298,708
Interval gap	32,156	(1,028,229)	351,581	122,161	(212,917)	799,560

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.

(Continued)

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

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

   (b) Significant transactions with related party:

      a) Loans: Please see note 34(2)(9)

      b) Guarantee payment: none.

      c) Transactions involving derivative financial instruments: none.

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

7) Financial information classified by business type

The year ended December 31, 2008

Unit: thousand NTD

Items / Businesses	Banking business	Insurance business	Securities business	Other business	Total
Net interest income	24,065,869	3,806,916	85,530	15	27,958,330
Net non-interest income	(1,607,923)	34,364,344	192,843	3,522	32,952,786
Net revenues	22,457,946	38,171,260	278,373	3,537	60,911,116
Bad debt expense	1,545,337	56,207	(3,290)	-	1,598,254
Provision for insurance reserves	(4,978,928)	38,689,869	-	-	33,710,941
Operating expense	17,898,785	338,184	348,128	20,038	18,605,135
Net income before cumulative effect of changes in accounting principle and income tax	7,992,752	(913,000)	(66,465)	(16,501)	6,996,786
Income tax expense	350,308	(466,053)	(3,200)	(8,214)	(127,159)
Cumulative effect of changes in accounting principle	-	-	-	-	-
Net income	7,642,444	(446,947)	(63,265)	(8,287)	7,123,945

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

8) Supplementary information for pro forma comparative financial statements

1. If the Company had been established in the year ended December 31, 2007, the pro forma information on the consolidated operating results would be as follows:

	December 31, 2007
Net interest income	$ 27,673,836
Net income	12,576,700
EPS (NTD) calculated by the term-end weighted-average number of shares	2.37

Information about earnings of each individual company:

2007	BOT	BTLI	BTS
Net interest income	27,673,836	-	-
Net income	12,576,700	-	-

(Continued)

2. Condensed pro forma consolidated balance sheets and income statements

(a) Condensed pro forma consolidated balance sheets

	December 31, 2007 (audited by MoA)
Cash and cash equivalents	$ 91,388,105
Due from Central Bank and call loans to banks	625,965,012
Financial assets measured at fair value through profit or loss	64,566,565
Bonds and bills purchased under resell agreements	14,162,067
Receivable, net	107,082,342
Loans, net	1,920,097,700
Available-for-sale financial assets, net	201,069,905
Held-to-maturity financial assets, net	105,802,005
Investments under equity method, net	34,357,836
Other financial assets, net	79,502,931
Fixed assets, net	83,460,268
Goodwill and intangible assets, net	1,082,609
Other assets, net	19,237,023
Total assets	**$ 3,347,774,368**
Due to Central Bank and other banks	$ 245,414,754
Financial liabilities measured at fair value through profit or loss	1,478,166
Bonds and bills sold under repurchase agreements	17,570,315
Payables	95,269,833
Deposits	2,466,179,246
Accrued pension payable	2,106,598
Other financial liabilities	1,715,307
Other liabilities	268,900,646
Total liabilities	3,098,634,865
Total stockholders' equity	249,139,503
Total liabilities and stockholders' equity	**$ 3,347,774,368**

(Continued)

(b) Condensed pro forma consolidated income statement

	2007 (audited by MoA)
Net interest income	$ 27,673,836
Net revenue	85,015,211
Bad debt expense	868,389
Provisions for insurance reserves	51,767,094
Operating expense	18,949,456
Income before tax	13,430,272
Income tax	853,573
Income after tax	12,576,699
EPS－before tax (in NT dollars)	2.53
EPS－after tax (in NT dollars)	2.37

(Continued)

(c) Condensed pro forma consolidated income statements:

	2007 (audited by MoA)
Interest income	$ 82,920,559
Less: interest expense	(55,246,723)
Net interest income	27,673,836
Non-interest income, net	
Net income on service charges and commissions	3,655,799
Net insurance business income	11,331,059
Gain (loss) on financial assets or liabilities measured at fair value though profit or loss	9,660,663
Realized gain (loss) on available-for-sale financial assets	3,702,417
Realized gain (loss) on held-to-maturity financial assets	(23,185)
Income (loss) from equity investments under equity method	2,479,225
Foreign exchange gain (loss)	879,111
Gain on reversal of or loss on asset impairment	(99,430)
Other non-interest income	15,615,005
Net revenues	74,874,500
Credit provisions	868,389
Provisions for insurance reserves	41,626,383
Operating expense	18,949,456
Income (loss) from continuing operations before tax	13,430,272
Income tax	853,573
Net income	$ 12,576,699

(Continued)

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

TAIWAN FINANCIAL HOLDING CO., LTD.

Balance Sheet

December 31, 2008

(expressed in thousands of New Taiwan Dollars)

Assets		
Cash and cash equivalents	$	348,555
Receivables, net		535,787
Investments under equity method, net		225,992,607
Fixed assets, net		5,274
Intangible assets		14
Other assets, net		3,598,341
Total Assets	**$**	**230,480,578**
Liabilities and Stockholders' Equity		
Payables	$	538,561
Other liabilities		3,973,930
Accrued pension payable		122
Total liabilities		4,512,613
Stockholders' equity		
Common stock		90,000,000
Additional paid-in capital		111,495,264
Retained earnings:		
Unappropriated earnings		7,123,945
Equity adjustments:		
Unrealized increments on revaluation		16,930,538
Cumulative foreign currency translation adjustment		(155,274)
Unrealized gain on financial instruments		573,492
		17,348,756
Total stockholders' equity		225,967,965
Total Liabilities and Stockholders' Equity	**$**	**230,480,578**

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Income

For the year ended December 31, 2008
(expressed in thousands of New Taiwan Dollars)

Revenues:	
Interest income	$ 90
Income from equity investments under equity method	7,148,588
Other gains	3,522
	7,152,200
Expenses:	
Operating expenses	36,394
Other expenses and losses	75
	36,469
Income before income tax	7,115,731
Income tax benefits	(8,214)
Net income	**$ 7,123,945**

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Changes in Stockholders' Equity

For the year ended December 31, 2008
(expressed in thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Unappropriated retained earnings	Unrealized increments on revaluation	Cumulative foreign currency translation adjustments	Unrealized gain (loss) on financial instruments	Total
Balance as of January 1, 2008 (the date of establishment by share swap)	90,000,000	215,854,060	-	23,603,085	494,451	29,690,022	359,641,618
Adjustments for change in subsidiaries' special reserve	-	(320,552)	-	-	-	-	(320,552)
Capital surplus transferred to capital stock (note 26)	109,467,296	(109,467,296)	-	-	-	-	-
Non-cash share capital reduction (note 26)	(109,467,296)	5,429,052	-	(6,723,557)	(698,138)	(4,387,274)	(115,847,213)
Change in unrealized increments on revaluation	-	-	-	51,010	-	-	51,010
Change in cumulative foreign currency translation adjustments	-	-	-	-	48,413	-	48,413
Change in unrealized gain (loss) on financial instruments	-	-	-	-	-	(24,729,256)	(24,729,256)
Net income for the year ended December 31, 2008	-	-	7,123,945	-	-	-	7,123,945
Balance as of December 31, 2008	**$ 90,000,000**	**111,495,264**	**7,123,945**	**16,930,538**	**(155,274)**	**573,492**	**225,967,965**

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the year ended December 31, 2008
(expressed in thousands of New Taiwan Dollars)

Cash flows from operating activities:		
Net income	$	7,123,945
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization		999
Cash dividends received in excess of gains on equity investments recognized using the equity method		(7,148,588)
Increase in receivables		(535,787)
Increase in other assets		(8,214)
Increase in payables		538,561
Increase in accrued pension liabilities		122
Net cash uesd in operating activities		(28,962)
Cash flows from investing activities:		
Increase in fixed assets		(6,269)
Increase in intangible assets		(18)
Net cash used in investing activities		(6,287)
Prepaid dividends (for government)		383,706
Guarantee deposits received		98
Net cash provided by financing activities		383,804
Net increase in cash and cash equivalents		348,555
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year	**$**	**348,555**

(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, 2008	**December 31, 2007 (audited by MoA)**
Cash and cash equivalents	$ 54,420,521	91,388,105
Due from Central Bank and call loans to banks	996,241,280	625,965,012
Financial assets at fair value through profit or loss	72,201,513	64,566,565
Bonds and bills purchased under resell agreements	298,262	14,162,067
Receivables, net	103,431,970	107,082,342
Discounts and loans, net	1,988,070,246	1,920,097,700
Available-for-sale financial assets, net	155,491,586	201,069,905
Held-to-maturity financial assets, net	31,818,435	105,802,005
Investments under equity method, net	26,959,682	34,357,836
Other financial assets, net	67,326,090	79,502,931
Fixed assets	79,953,507	83,460,268
Intangible assets	1,226,158	1,082,609
Other assets, net	16,735,326	19,237,023
Total assets	**$ 3,594,174,576**	**3,347,774,368**
Due to Central Bank and other banks	$ 181,489,738	245,414,754
Financial liabilities at fair value through profit or loss	6,002,275	1,478,166
Bonds and bills sold under repurchase agreements	19,217,840	17,570,315
Payables	63,901,807	95,269,833
Deposits and remittances	2,947,909,688	2,466,179,246
Accrued pension liability	2,396,018	2,106,598
Other financial liabilities	1,618,124	1,715,307
Other liabilities	148,010,097	268,900,646
Total liabilities	3,370,545,587	3,098,634,865
Common stock	45,000,000	53,000,000
Additional paid-in capital	110,063,016	110,423,081
Retained earnings	46,224,385	43,737,833
Others	22,341,588	41,978,589
Total stockholders' equity	223,628,989	249,139,503
Total Liabilities and Stockholders' Equity	**$ 3,594,174,576**	**3,347,774,368**

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI December 31, 2008
Current assets	$ 79,973,514
Loans	9,438,540
Funds and investments	95,810,913
Fixed assets	850,696
Intangible assets	219,513
Other assets, net	6,281,271
Total assets	**$ 192,574,447**
Current liabilities	$ 33,774,345
Long-term liabilities	242,384
Reserve for operations and other liabilities	153,340,344
Other liabilities	5,880,134
Total liabilities	193,237,207
Common stock	5,000,000
Capital surplus	360,065
Accumulated deficit	(940,348)
Other stockholders' equity	(5,082,477)
Total stockholders' equity	(662,760)
Total Liabilities and Stockholders' Equity	**$ 192,574,447**

(Continued)

	BTS December 31, 2008
Current assets	$ 4,526,587
Fixed assets	231,147
Intangible assets	5,431
Other assets, net	499,618
Net brokering accounts－debit	2,561
Total assets	**$ 5,265,344**
Current liabilities	$ 2,052,878
Other liabilities	186,087
Total liabilities	2,238,965
Common stock	3,000,000
Non-appropriated surplus	(63,265)
Unrealized incremental value from revaluation	89,070
Unrealized gain on financial instrument	574
Total stockholders' equity	3,026,379
Total Liabilities and Stockholders' Equity	**$ 5,265,344**

2. Condensed income statements

	BOT 2008	BOT 2007 (audited by MoA)
Net interest income	$ 23,666,146	27,673,836
Non-interest income, net	4,316,754	5,574,281
Net revenue	27,982,900	33,248,117
Credit provisions	1,545,337	868,389
Operating expenses	17,935,054	18,949,456
Income before tax	8,502,509	13,430,272
Income after tax	8,152,201	12,576,699
EPS－before tax (dollars)	1.89	2.53
EPS－after tax (dollars)	1.81	2.37

(Continued)

	BTLI 2008
Operating revenues	$ 67,368,032
Operating costs	67,626,265
Operating expenses	394,391
Operating losses	(652,624)
Non-operating revenue	1,073,568
Non-operating expenses	1,827,345
Loss before tax	(1,406,401)
Loss after tax	(940,348)
EPS－before tax (dollars)	(2.81)
EPS－after tax (dollars)	(1.88)

	BTS 2008
Operating revenue	$ 377,107
Operating expenses	443,572
Income before tax	(66,465)
Income after tax	(63,265)
EPS－before tax (dollars)	(0.22)
EPS－after tax (dollars)	(0.21)

(38) Notes to Disclosure Items

1) Information on significant transactions:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Approved securitization instrument types and related information according to "asset-backed securitization" or "mortgage-backed securitization": none.

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

2) Information on long term investments:

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

Name	Location	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information				Remarks
						Number of shares	Pro-forma shares	Total		
								Number of shares	Percentage of shares	
Bank of Taiwan Co., Ltd.	No.120, Section 1, Chongching South Road, Taipei City	Operation of banks	100.00 %	223,628,989	8,152,201	45,000,000,000	-	45,000,000,000	100.00 %	-
BankTaiwan Life Insurance Co. Ltd.	6th floor, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00 %	(662,760)	(940,348	5,000,000,000	-	5,000,000,000	100.00 %	-
BankTaiwan Securities Co. Ltd.	No.58, Section 1, Chongching South Road, Taipei City	Securities	100.00 %	3,026,379	(63,265	3,000,000,000	-	3,000,000,000	100.00 %	-
Hua Nan Financial Holding Co. Ltd.	No. 38, Sec.1, Chongching S. Rd. Taipei City	Investment according to Financial Holding Company Act	29.36 %	26,349,622	2,655,397	1,788,121,032	-	1,788,421,032	29.36 %	-
Taiwan Life Insurance Co. Ltd.	No.17, Syuchang St., Taipei City	Life insurance	28.46 %	1,035,486	(1,229,172	153,445,472	-	153,445,472	28.46 %	-
Kaohsiung Ammonium Sulfate Co., Ltd.	4F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86 %	2,640,474	(14,163	303,131,576	-	303,131,576	91.86 %	-
Tang Eng Iron Works Co., Ltd.	No. 4, Yanhai 2nd Rd., Siaogang Distr., Kaohsiung City	Iron industry	21.38 %	1,090,467	(506,966	74,822,414	-	74,822,414	21.38 %	-
Tai Yi Real-Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	Real-estate appraisal	30.00 %	9,577	(3,091	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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of December 31, 2008: none.
5. Information regarding securities for which the purchase or sale amount for the period exceeded $300 million or 10% of the Consolidated Companies' paid-in capital: none.
6. Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Consolidated Companies' paid-in capital: none.
7. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Consolidated Companies' paid-in capital:

Disposing Company	Property Title	Transaction Date	Original Date Acquired	Book value	Transaction Amount	Conditions of Payment	Disposal Gain/Loss	Transaction party	Relationship	Purpose of Disposal	Reference for Price	Other
Bank of Taiwan	No. 47-2, 47-3, 51-1, 51-3, 53-4, 54, 54-1, 55, 59, 60-3 Sec. 5 Nanhai Rd., Zhong Zheng District, Taipei City, Taiwan Land	2008.10.14	1951.06.04	642,651	1,988,889	Bidder prepays 10% of the floor price as deposit at the time of bidding; after bid-opening, the bidder makes the payment in full within 40 days after receiving the Notice of Payment.	1,346,238	Ruentex Development Co., Ltd.	None	To reach budget goal	Referring to appraiser's appraisal and examined by the Bank's real estate committee; after notifying the audit division of the board of directors, the floor price is verified by the general manager and published for bidding. (The floor price for bidding is 1,793,000 thousand dollars.)	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Disposing Company	Property Title	Transaction Date	Original Date Acquired	Book value	Transaction Amount	Conditions of Payment	Disposal Gain/Loss	Transaction party	Relationship	Purpose of Disposal	Reference for Price	Other
Bank of Taiwan	No. 88, 90 Sec. 1 Zhongzheng Rd, Zhong Zheng District, Taipei City, Taiwan Land	2008.10.29	2007.07.01	118,800	409,880	Bidder prepays 10% of the floor price as deposit at the time of bidding; after bid-opening, the bidder makes the payment in full within 40 days after receiving the Notice of Payment.	291,080	Wu Jian Sen	None	To reach budget goal	Referring to appraiser's appraisal and examined by the Bank's real estate committee; after notifying the audit division of the board of directors, the floor price is verified by the general manager and published for bidding. (The floor price for bidding is 356,000 thousand dollars.)	None
Bank of Taiwan, Land Bank of Taiwan Co. Ltd., Hua Nan Financial Holding Co. Ltd., The Chang Hwa Bank, The First Commercial Bank, The Taiwan Cooperative Bank	No. 78, 78-1, Sec.3, Changjhong Rd, Zhong Zheng District, Taipei City, Taiwan Land and building at No. 180 Chongching S. Rd.	2008.12.30	1959.07.17	287,950 (Holding by the six banks)	806,000 (Holding by the six banks)	Bidder prepays 10% of the floor price as deposit at the time of bidding; after bid-opening, the bidder makes the payment in full within 40 days after receiving the Notice of Payment.	518,050 (Holding by the six banks)	Hung Ching Construction Co., Ltd.	None	To reach budget goal	Referring to appraiser's appraisal and examined by the Bank's real estate committee; after notifying the audit division of the board of directors, the floor price is verified by the general manager and published for bidding. (The floor price for bidding is 769,000 thousand dollars.)	None
Bank of Taiwan	No. 638, 639 Guotianzih Rd, Ling Ya District, Kaohsiung City, Taiwan Land	2008.12.30	1961.10.12	185,944	416,600	Bidder prepays 10% of the floor price as deposit at the time of bidding; after bid-opening, the bidder makes the payment in full within 40 days after receiving the Notice of Payment.	230,656	Wong Guo Jhen	None	To reach budget goal	Referring to appraiser's appraisal and examined by the Bank's real estate committee; after notifying the audit division of the board of directors, the floor price is verified by the general manager and published for bidding. (The floor price for bidding is 411,000 thousand dollars.)	None

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8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: none.

9. Information on regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Consolidated Companies' paid-in capital: none.

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

11. Information regarding selling non-performing loans for which the amount exceeded $5 billion:

(a) The details of selling non-performing loans

Subsidiary－BOT

Transaction date	Transaction party	Details of non-performing loan	Book value	Selling price	Disposal gain/loss	Other	Relationship
2007.07.19 (Note)	A	(1) Working capital loan (2) Capital expenditure loan	14,335	282,263	267,928	none	none

Note: This transaction was completed on January 8, 2008.

(b) Detailed information on selling non-performing loans for which the amount exceeded $1 billion under one transaction (excluding sales to related party): none.

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

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

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

(39) Segment Information: Please see note 36.

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