Union Bank of Taiwan

Financial Statements for the
Years Ended December 31, 2008 and 2007 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan (the "Bank") as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements as of and for the years ended December 31, 2008 and 2007 of some equity-method investees: Union Bills Finance Corporation, Union Finance International (H.K.) Limited, and Union Real-Estate Management Corporation. The carrying amounts of these equity-method investments were 0.36% (NT$1,300,876 thousand) and 0.44% (NT$1,582,353 thousand) of the Bank's total assets as of December 31, 2008 and 2007, respectively. From these equity-method investments, there were a loss that was 8.33% (NT$149,119 thousand) and an income that was 1.16% (NT$74,734 thousand) of the pretax losses in 2008 and 2007, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts pertaining to these investees and to these investees' information mentioned in Note 34, is based solely on the reports of the other auditors.

We conducted our audits in accordance with Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules 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 audits and the reports of the other auditors provide a reasonable basis for our opinion.

As stated in Notes 15 and 26 to the financial statements, the Bank sold a part of its nonperforming loans to an asset management company in 2006, and the Bank deferred related losses, amortizable over 60 months, as required by the Financial Institution Consolidation Law. Had these losses not been deferred, there would have been decreases of NT$1,587,356 thousand and NT$1,587,348 thousand in pretax losses in 2008 and 2007, respectively. Also, the balances of the other assets and unappropriated earnings as of December 31, 2008 and 2007 would have decreased by NT$4,140,302 thousand and NT$5,727,630 thousand, respectively.

In our opinion, based on our audits and the reports of the other auditors, except for the deferred losses on nonperforming loans described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Union Bank of Taiwan as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, the Accounting Research and Development Foundation issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2008, the Bank adopted the newly released Statement of Financial Accounting Standards ("Standards" or SFAS) No. 34 - "Financial Instruments: Recognition and Measurement" and related revisions of previously released Standards, which were amended to harmonize with SFAS No. 34.

We have also audited the consolidated financial statements of Union Bank of Taiwan and subsidiaries as of and for the years ended December 31, 2008 and 2007, on which we have issued a qualified opinion in our report dated March 24, 2009.

March 24, 2009

<u>*Notice to Readers*</u>

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

UNION BANK OF TAIWAN

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008 Amount	2007 Amount	% Increase (Decrease)
CASH AND CASH EQUIVALENTS (Note 4)	$ 6,345,996	$ 5,501,501	15
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 26)	42,780,997	22,551,422	90
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6, 26 and 30)	7,675,019	7,746,462	(1)
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2, 26 and 28)	6,555,286	5,863,732	12
RECEIVABLES, NET (Notes 2, 7 and 26)	23,513,603	28,967,953	(19)
DISCOUNTS AND LOANS, NET (Notes 2, 8 and 26)	179,918,155	205,523,586	(12)
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 9, 26 and 30)	6,279,718	3,439,568	83
HELD-TO-MATURITY INVESTMENTS (Notes 2 and 10)	36,318,287	48,559,541	(25)
EQUITY INVESTMENTS - EQUITY METHOD (Notes 2 and 11)	2,479,374	2,946,398	(16)
OTHER FINANCIAL ASSETS, NET (Notes 2, 12, 13, 26 and 30)			
Unquoted equity instruments	1,283,956	1,092,720	18
No active market debt instruments	20,522,414	166,636	12,216
Others (Note 27)	2,825,795	3,498,355	(19)
Other financial assets, net	24,632,165	4,757,711	418
PROPERTY AND EQUIPMENT (Notes 2, 14, 26 and 28)			
Cost			
Land	3,619,738	3,491,778	4
Buildings and improvements	4,852,345	4,829,515	-
Machinery and equipment	1,452,436	1,487,162	(2)
Transportation equipment	257,446	260,784	(1)
Leasehold improvements	274,114	276,280	(1)
	10,456,079	10,345,519	1
Accumulated depreciation	2,002,185	1,727,461	16
	8,453,894	8,618,058	(2)
Prepayments for land and buildings	57,333	-	-
Net property and equipment	8,511,227	8,618,058	(1)
GOODWILL (Notes 2 and 16)	2,507,395	2,574,217	(3)
OTHER ASSETS (Notes 2, 15 and 24)	10,173,727	11,478,015	(11)
TOTAL	$ 357,690,949	$ 358,528,164	-

LIABILITIES AND STOCKHOLDERS' EQUITY	2007 Amount	2006 Amount	% Increase (Decrease)
LIABILITIES			
Call loans and due to banks (Notes 17 and 26)	$ 20,074,203	$ 27,086,819	(26)
Financial liabilities at fair value through profit or loss (Notes 2 and 6)	212,904	61,326	247
Securities sold under repurchase agreements (Notes 2, 26 and 28)	27,843,332	32,865,259	(15)
Payables (Notes 18 and 26)	4,981,318	4,776,100	4
Deposits and remittances (Notes 19 and 26)	277,751,334	263,954,435	5
Bank debentures (Notes 2, 20 and 26)	9,044,300	10,526,400	(14)
Other financial liabilities (Note 26)	220,896	254,580	(13)
Liability component of preferred stocks (Note 21)	-	327,200	(100)
Other liabilities (Notes 2 and 22)	473,441	578,133	(18)
Total liabilities	340,601,728	340,430,252	
STOCKHOLDERS' EQUITY			
Capital stock			
Common stock - NT$10.00 par value; authorized - 2,488,926 thousand shares; issued and outstanding - 1,918,824 thousand common shares	19,188,244	19,188,244	-
Preferred stock	4,000,000	3,672,800	9
Total capital stock	23,188,244	22,861,044	1
Capital surplus			
Donated capital	1,398	1,398	-
Treasury stock transactions	32,413	32,413	
Total capital surplus	33,811	33,811	
Retained earnings (accumulated deficit)			
Legal reserve	107,812	107,812	-
Special reserve	240,655	240,655	-
Accumulated deficit	(6,256,003)	(5,046,039)	
Total accumulated deficit	(5,907,536)	(4,697,572)	
Other equity			
Unrealized loss on financial assets	(244,849)	(124,678)	96
Net loss not recognized as pension cost	(30,292)	(13,936)	117
Cumulative translation adjustments	49,843	39,243	27
Total other equity	(225,298)	(99,371)	127
Total stockholders' equity	17,089,221	18,097,912	(6)
CONTINGENCIES AND COMMITMENTS (Notes 2 and 28)			-
TOTAL	$ 357,690,949	$ 358,528,164	

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 24, 2009)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2008 Amount	2007 Amount	%
INTEREST REVENUE (Notes 2 and 26)	$ 14,796,137	$ 14,672,037	1
INTEREST EXPENSE (Note 26)	7,502,445	7,415,733	1
NET INTEREST	7,293,692	7,256,304	1
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 26)	1,887,649	2,300,371	(18)
Commissions and fee expenses (Note 2)	559,079	642,801	(13)
Net commissions and fees	1,328,570	1,657,570	(20)
Gain (loss) on financial assets and liabilities at fair value through profit or loss (Note 6)	(190,886)	587,887	(132)
Realized loss on available-for-sale financial assets (Note 30)	(362,590)	(14,982)	2,320
Income (loss) from equity-method investments, net (Notes 2 and 11)	(269,209)	169,241	(259)
Foreign exchange gain (loss), net (Note 2)	129,059	(216,879)	160
Impairment losses, net (Notes 2, 6, 12 and 16)	(1,084,101)	(183,283)	491
Amortization and recognition of loss on disposal of nonperforming loans (Note 15)	(1,587,356)	(1,809,289)	(12)
Gain on unquoted equity investments (Note 2)	28,529	79,991	(64)
Securities brokerage fee revenues, net (Note 26)	98,126	153,653	(36)
Gain on disposal of collaterals assumed	71,382	78,646	(9)
The incomes of credit organization feedbacks (Note 12)	722,568	-	-
Other non-interest net revenues (Note 26)	87,478	179,958	(51)
Total net revenues	6,265,262	7,938,817	(21)
PROVISION (Note 8)	2,692,090	8,404,095	(68)
OPERATING EXPENSES			
Personnel expenses (Notes 2 and 23)	2,226,992	2,573,336	(13)
Depreciation and amortization (Note 23)	489,110	477,853	2
Others (Note 26)	2,646,713	2,942,273	(10)
Total operating expenses	5,362,815	5,993,462	(11)
LOSS BEFORE INCOME TAX	(1,789,643)	(6,458,740)	(72)
INCOME TAX BENEFIT (Notes 2 and 24)	579,679	1,516,382	(62)
NET LOSS	$ (1,209,964)	$ (4,942,358)	(76)

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UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
LOSS PER SHARE (Note 25)				
Basic	$ (0.93)	$ (0.63)	$ (3.46)	$ (2.65)

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 24, 2009) (Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding Common Stock		Issued and Outstanding Preferred Stock (Notes 2 and 21)		Capital Surplus (Notes 2 and 21)				Retained Earnings (Accumulated Deficit) (Notes 2 and 21)				Other Equity				
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount	Issue of Shares in Excess of Par	Donated Capital	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Total	Unrealized Loss on Financial Assets (Notes 2, 3 and 30)	Cumulative Translation Adjustment (Note 2)	Net Loss not Recognized as Pension Cost (Note 2)	Total	Total Stockholders' Equity
BALANCE, JANUARY 1, 2007	1,827,798	$18,277,979	-	$ -	$26,485	$1,398	$32,413	$60,296	$ 16,067	$ 26,584	$ 305,814	$ 348,465	$ (39,132)	$43,820	$ (8,005)	$ (3,317)	$18,683,423
Appropriation of the 2006 earnings																	
Legal reserve	-	-	-	-	-	-	-	-	91,745	-	(91,745)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	214,071	(214,071)	-	-	-	-	-	-
Net loss in 2007	-	-	-	-	-	-	-	-	-	-	(4,942,358)	(4,942,358)	-	-	-	-	(4,942,358)
Convertible bank debentures converted to common stock	91,026	910,265	-	-	(26,485)	-	-	(26,485)	-	-	(103,679)	(103,679)	-	-	-	-	780,101
Issuance of preferred stock for cash	-	-	400,000	3,672,800	-	-	-	-	-	-	-	-	-	-	-	-	3,672,800
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(50,305)	-	-	(50,305)	(50,305)
Recognition of unrealized loss on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	(35,241)	-	-	(35,241)	(35,241)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,931)	(5,931)	(5,931)
Cumulative translation adjustment on equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,577)	-	(4,577)	(4,577)
BALANCE, DECEMBER 31, 2007	1,918,824	19,188,244	400,000	3,672,800	-	1,398	32,413	33,811	107,812	240,655	(5,046,039)	(4,697,572)	(124,678)	39,243	(13,936)	(99,371)	18,097,912
Net loss in 2008	-	-	-	-	-	-	-	-	-	-	(1,209,964)	(1,209,964)	-	-	-	-	(1,209,964)
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(56,629)	-	-	(56,629)	(56,629)
Recognition of unrealized loss on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	(63,542)	-	-	(63,542)	(63,542)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(16,356)	(16,356)	(16,356)
Reclassification of preferred stock	-	-	-	327,200	-	-	-	-	-	-	-	-	-	-	-	-	327,200
Cumulative translation adjustment on equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	-	10,600	-	10,600	10,600
BALANCE, DECEMBER 31, 2008	1,918,824	$19,188,244	400,000	$4,000,000	$ -	$1,398	$32,413	$33,811	$107,812	$240,655	$ (6,256,003)	$ (5,907,536)	$ (244,849)	$49,843	$ (30,292)	$ (225,298)	$17,089,221

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 24, 2009)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,209,964)	$ (4,942,358)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	489,110	477,853
Provision for credit and other losses	2,694,587	8,408,436
Amortization of discount on available-for-sale financial assets	44,393	-
Amortization of premium on held-to-maturity investments	(1,745)	-
Amortization of premium on no-active market debt instruments	(8,303)	-
Loss (gain) on financial assets and liabilities at fair value through profit or loss	(344,306)	334,967
Realized loss on sale of available-for-sale financial assets	362,590	14,982
(Income) loss from equity-method investments, net	269,209	(169,241)
Cash dividends received on equity-method investments	144,873	74,234
Liquidation loss on Union Securities Investment Consulting Company	-	1,966
Impairment losses on assets, net	1,084,101	183,283
Amortization and recognition of loss from disposal of nonperforming loans	1,587,356	1,809,289
Gain on disposal of collaterals assumed	(71,382)	(78,646)
Loss (gain) on disposal of property and equipment, net	739	(6,198)
Loss from the obsolescence of property and equipment	2,507	6,462
Deferred income taxes	(597,326)	(1,533,866)
Increase (decrease) in accrued pension cost	(16)	13,996
Decrease in held-for-trading financial assets	(3,955,289)	(3,417,566)
Decrease (increase) in held for trading financial liabilities	(433)	26,869
Decrease in receivables	4,188,334	2,530,598
Increase (decrease) in payables	205,218	(2,335,354)
Net cash provided by operating activities	4,884,253	1,399,706
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from the Central Bank and other banks	(20,229,575)	9,996,180
Decrease (increase) in financial assets designated at fair value through profit or loss	(129,806)	209,724
Increase in securities purchased under resell agreements	(691,554)	(2,043,106)
Decrease (increase) in discounts and loans	24,034,156	(3,416,183)
Proceeds of the disposal of available-for-sale financial assets	4,609,606	3,036,781
Received principal on available-for-sale financial assets	240,000	-
Increase in available-for-sale financial assets	(5,759,150)	(543,704)
Received principal on held-to-maturity investments	12,695,210	5,798,249
Increase in held-to-maturity investments	(106,811)	(25,008,397)
Increase in equity investments - equity method	-	(87,500)
Proceeds of the capital reduction and liquidation of investee	9,342	31,683
Acquisition of unquoted equity instruments	(332,088)	-

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Received principal on no-active market debt instruments	$ 2,639,711	$ -
Acquisition of no-active market debt instruments	(21,766,641)	-
Decrease in other financial assets	402,863	2,163,012
Proceeds of the disposal of nonperforming loans	-	90,360
Acquisition of property and equipment	(306,019)	(417,740)
Proceeds of the disposal of property and equipment	41,786	64,804
Proceeds of the disposal of collaterals assumed	493,603	569,795
Decrease (increase) in other assets	(7,434)	1,415,374
Net cash used in investing activities	(4,162,801)	(8,140,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in call loans and due to banks	(7,012,616)	(4,730,191)
Increase (decrease) in securities sold under repurchase agreements	(5,021,927)	20,960,768
Increase (decrease) in deposits and remittances	13,796,899	(11,793,474)
Decrease in other financial liabilities	(33,684)	(64,017)
Increase (decrease) in other liabilities	(123,529)	65,994
Decrease in bank debentures	(1,482,100)	(3,777,200)
Issuance of preferred stock for cash	-	4,000,000
Net cash provided by financing activities	123,043	4,661,880
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	844,495	(2,079,082)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,501,501	7,580,583
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,345,996	$ 5,501,501
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 7,530,016	$ 6,921,760
Income tax paid	$ 87,829	$ 81,331
NONCASH INVESTING AND FINANCING ACTIVITIES		
Convertible bank debentures converted to common stock	$ -	$ 780,000

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 24, 2009) (Concluded)

1. ORGANIZATION AND OPERATIONS

Union Bank of Taiwan (the "Bank") obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law: Deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bill transactions, investments, foreign exchange transactions, savings, trust, etc.

The Bank took over all assets, liabilities and operating units of Chung Shing Bank on March 19, 2005.

As of December 31, 2008, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance and International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 81 domestic branches.

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of non-discretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange (the "TSE").

As of December 31, 2008 and 2007, the Bank had 3,081 and 3,388 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines, law and principles, certain estimates and assumptions have been used for the amounts of the fair value of certain financial assets, allowance for credit losses, property and equipment depreciation, pension cost, losses on pending lawsuits, assets impairment, income tax, provision for losses on guarantees, bonuses to employees, director and supervisors, etc. Actual results may differ from these estimates.

Since the operating cycle cannot be reasonably identified in the banking industry, accounts included in the Bank's financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized according to the nature of each account, and sequenced by their liquidity. Please refer to Note 30 for maturity analysis of assets and liabilities.

The Bank's significant accounting policies are summarized as follows:

Basis of Financial Statement Preparation

The accompanying financial statements include the accounts of the Head Office, OBU, all branches and the representative offices. All interoffice transactions and balances have been eliminated.

Basis of Fair Value Determination

Fair value are determined as follows: (a) listed stocks and GreTai Securities Market (the "GTSM") stocks - closing prices as of the balance sheet date; (b) beneficiary certificates (open-end fund) - net asset values as of the balance sheet dates; (c) bonds - period-end reference prices published by the GTSM or Bloomberg; and (d) for the financial instruments without active markets, fair value is determined using valuation techniques.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Bank recognizes a financial asset or a financial liability on its balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Bank has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to issue of initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis, except for bond trading.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Financial asset and financial liabilities that give rise to offsetting changes in fair values may be designated as financial instruments at fair value through profit or loss to eliminate inconsistencies in measuring these instruments. Some derivative instruments are not accounted by hedge accounting. If the hedging items were not to be designated as financial instruments at fair value through profit or loss, the accounting inconsistency will arise while the profits or losses resulting from the hedged items are not recognized during the same period with those generating from the hedging items. To avoid this kind of inconsistency, the Bank designated the debt investments as the financial instruments at fair value through profit or loss.

Securities Purchased or Sold Under Resell or Repurchase Agreements

Securities purchased under resell agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resell agreements and interest incurred on repurchase agreement is recognized as interest income or interest expense over the life of each agreement.

Available-for-sale Financial Assets

Available-for-sale financial assets are carried at fair value. Unrealized gains or losses on available-for-sale financial assets are reported in equity attribute to the Bank's stockholders. On disposal of an available-for-sale financial asset, the accumulated, unrealized gain or loss in equity attributable to the Bank's stockholders is transferred to net profit and loss for the period. The Bank uses trade date accounting when recording available-for-sale portfolio transactions except for debt investments recorded by settlement date accounting.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Nonperforming Loans

Pursuant to “Regulations Governing the Procedures for Banking Institutions to Evaluation Assets and Deal with Nonperforming/Nonaccrual Loans” (the “Regulations”) issued by the Ministry of Finance (MOF), the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is overdue and shall be authorized by a resolution passed by the board of directors. Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, are classified as other financial assets.

Allowance for Credit Losses and Provision for Losses on Guarantees

In determining the allowance for credit losses and provision for losses on guarantees, the Bank assesses the collectibility on the balances of discounts and loans, receivables, and nonperforming loans, and other financial assets as well as guarantees and acceptances for the specific risks or general risks as of the balance sheet dates.

Pursuant to the regulations issued by Ministry of Finance (MOF), the Bank evaluates credit losses on the basis of the estimated collectibility.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectibility and loss incurring; the minimum allowances for credit losses and provision for losses on guarantees for the non-normal loans should be 2%, 10%, 50% and 100% of outstanding credits, respectively.

Write-offs of loans falling under the MOF guidelines, upon approval by the board of directors, are offset against the recorded allowance for credit losses.

Held-to-maturity Investments

Held-to-maturity investments are carried at amortized cost, which are valued by interest method, otherwise use the straight line method if there is no significant difference. At initial recognition, the costs of the financial assets are valued at fair value of the financial assets together with acquire costs. The net profit and loss of the held-to-maturity investments for the period are reported in to income statement when on disposal, impairment or amortization. The Bank uses settlement date accounting when recording transaction.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Equity Investments - Equity Method

Equity investments are accounted for by the equity method if the Bank has significant influence on the investees. Under this method, investments are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of investees. Cash dividends received are considered as a deduction of the investments. The impairment review on equity investment is made on balance sheet date, and the collectibility of the assets or cash-generating units are assessed, if the equity investment deemed impaired. Any difference between the acquisition cost and the equity in the investee is amortized over 15 years. Since January 1, 2006, goodwill is not amortized but test annually for impairment, or more frequently if events or changes in circumstance indicates goodwill impairment.

Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Bank's percentage of ownership in the investee.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; repairs and maintenance are expensed as incurred.

Upon sale or disposal of property and equipment, their cost and related accumulated depreciation are removed from the respective accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method based on service lives estimated as follows: buildings and improvements, 50 to 55 years; machinery and equipment, 3 to 5 years; transportation equipment, 3 to 5 years; and leasehold improvements, 5 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated over newly estimated useful lives.

Other Financial Assets

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measure, are measured at cost. If there is objective evidence that a financial asset is impaired, an impairment loss is recognized and reversal of impairment loss is prohibited.

Non-active market debt instruments are those which do not have a quoted market price in an active market, and whose cash flows are fixed or determinable. Non-active market debt instruments are carried at amortized cost. The accounting treatment for such bond investments is similar to that for held-to-maturity financial assets, except for the absence of restriction on the timing of their disposal.

Goodwill

Goodwill arising on acquisition of other company was previously amortized by the straight-line method over 5 years. Effective January 1, 2006, based on a newly released SFAS No. 37, goodwill is no longer amortized and instead is tested for impairment annually.

Other Assets

Deferred charges, which include costs of computer system software and telephone installation, are amortized on the straight-line basis over five years.

The loss on sale of nonperforming loans should be recognized in the year of disposal to comply with accounting principles generally accepted in the Republic of China. However, the difference between the carry amount and sales price of the nonperforming loans which were disposed in 2006 was amortized over 60 months in accordance with Rule No. 15 of the Financial Institution Consolidation Law (Note 15).

Collaterals Assumed

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of balance sheet dates.

Nonfinancial Asset Impairment

Statement of Financial Accounting Standards No. 35 - "Impairment of Assets" requires the impairment review on property and equipment, goodwill, and collaterals assumed (included in other assets) to be made on each balance sheet date. If assets or cash-generating units (CGUs) are deemed impaired, then the Bank must calculate their recoverable amounts. However, goodwill is tested annually for impairment, or more frequently if events or changes in circumstance indicate goodwill impairment, except for the first year of consolidation at which the goodwill cannot be allocated to the CGUs until the next year. An impairment loss should be recognized on the balance sheet date if the recoverable amount of the assets or the CGU is below the carrying amount, and this impairment loss either is charged to accumulated impairment or is used to reduce the carrying amount of the assets or CGUs directly. After the recognition of an impairment loss, the depreciation (amortization) should be adjusted in future periods by the revised asset/CGUs carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

In impairment testing of CGUs acquired through a combination, goodwill is allocated to each of the Bank's CGUs expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce first the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. The reversal of any recognized impairment loss on goodwill is disallowed.

Convertible Bank Debentures

The entire proceeds from convertible bonds issued on or before December 31, 2005 were accounted for as a liability. The difference between the agreed redemption price and the face value of the bonds is accrued using the effective interest method over the year from the issue date of the bonds to the date the put option becomes exercisable. The conversion of bonds into common shares is accounted for using the book value method, whereby the difference between the book value of the bonds (net of any unamortized premiums or discounts, accrued interest, and unamortized transaction costs) and the par value of the common shares issued is recorded as capital surplus.

Compound Instruments

The components of compound instruments are treated separately as liabilities and equity instrument in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar noncompound instrument (including any embedded non-equity derivatives). This fair value is recorded as a liability on an amortized cost basis until the liability is extinguished on instrument conversion or maturity. The carrying value of the equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This carrying value is recognized and included in equity and is not subsequently remeasured.

Based on the newly released Statement of Financial Accounting Standards No. 36 - "Disclosure and Presentation of Financial Instruments", transaction costs of bonds issued on or after January 1, 2006 are allocated in proportion to the liability and equity components of the bonds.

Accounting Treatment of Foreign-currency Translation

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Equity investments - equity method in foreign currencies are recorded at the rate of exchange on the date of investment, and the proportionate share in the net income or loss are recorded at the average rate in the year. At the balance sheet date, equity investments - equity method in foreign currencies are translated into New Taiwan dollars equivalents using the closing exchange rate, and the adjusting amount is recognized as cumulative translation adjustment, which is the adjusting item of stockholders' equity.

Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection.

Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue (included in other liabilities) and recognized as revenue upon collection.

Service fees are recorded as revenue upon receipt and substantial completion of activities involved in the earnings process.

Income Tax

Inter-period income tax allocation is applied, by which tax effects of deductible temporary differences, unused investment tax credits, loss carryforwards and those charged against to the stockholders' equity are recognized as deferred income tax assets. The tax effects of taxable temporary differences and these charged directly to the stockholders' equity are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Adjustments of prior years' tax liabilities are included in the current year's tax expense.

Tax credits for certain research and development and personnel trainings expenditure are recognized as reduction of current income tax.

Separate taxes on interest revenue from short-term bills or beneficiary certificates of specific trust are included in the current year's tax expense.

Income tax (10%) on unappropriated earnings after January 1, 1998 is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

Pension

Pension expense under defined benefit pension plan is determined on the basis of actuarial calculations. Pension under defined contribution pension plan is expensed during the period when the employees rendered their services.

Contingencies

A loss is recognized if it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the impairment loss or liability incurrence is possible and the related amount cannot be reasonably estimated, a footnote disclosure of the circumstances that might give rise to the possible loss or liability should be made.

Reclassifications

Certain accounts of the 2007 financial statements have been reclassified to conform to the presentation of the 2008 financial statements.

3. ACCOUNTING CHANGES

In March 2007, the ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. Due to the deficit of retained earnings, the adoption of this interpretation did not affect the net loss for the year ended December 31, 2008.

On July 1, 2008, the Bank adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 30 for relevant information regarding reclassifications of financial instruments.

On January 1, 2007, the Bank adopted the newly released SFAS No. 37, "Accounting for Intangible Assets" and reassessed the useful lives of and the amortization method for its recognized intangible assets as of the same date. This accounting change had no significant effect on the 2007 financial statements.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash on hand	$ 3,781,165	$ 3,502,810
Checks for clearing	1,700,052	1,024,239
Due from banks	864,779	974,452
	$ 6,345,996	$ 5,501,501

5. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31 2008	December 31 2007
Due from the Central Bank		
Deposit reserve - checking account	$ 5,993,454	$ 1,882,910
Required deposit reserve	6,839,887	6,620,234
Deposits reserve - foreign-currency deposits	32,774	958,278
Deposit account in Central Bank	29,800,000	13,090,000
	42,666,115	22,551,422
Call loans to banks and bank's overdrafts	114,882	-
	$ 42,780,997	$ 22,551,422

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserves may be withdrawn momentarily and are noninterest earning.

6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2008	December 31 2007
Held for trading financial assets		
Commercial paper	$ 4,568,779	$ 945,889
Government bonds	2,183,886	689,886
Corporate bonds	52,672	147,376
Beneficiary certificates	-	2,593,386
Asset-backed commercial paper	-	2,516,942
Listed and GTSM stock	-	489,927
Forward exchange contracts	539,949	152,661
Interest exchange contracts	44,539	10,128
Currency swap contracts	5,610	48,947
Option contracts	352	1,894
	7,395,787	7,597,036
Financial assets designated at fair value through profit or loss		
Corporate bonds	279,232	149,426
	$ 7,675,019	$ 7,746,462
Held for trading financial liabilities		
Forward exchange contracts	$ 93,132	$ 50,008
Interest exchange contracts	87,683	8,412
Currency swap contracts	31,737	1,010
Option contracts	352	1,896
	$ 212,904	$ 61,326

In 2008, the world's financial markets deteriorated, resulting in the drop in demand for asset-backed commercial paper, which amounted to $2,246,258 thousand. Thus, the Bank reclassified this financial asset from held for trading to a no-active market debt instrument and recognized a related impairment loss of $962,389 thousand based on the estimated recoverable cash flows.

Because the Bank no longer intended to sell these instruments within the short term as a result of the economic instability and deterioration of the world's financial markets in 2008, the listed and GTSM stock and beneficiary certificates, originally recorded as financial assets held for trading, was reclassified to available-for-sale financial assets To effect this reclassification, the Bank retroactively applied on July 1, 2008 the newly amended Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement."

The Bank engages in derivative transactions mainly for accommodating customers' needs and managing its exposure positions. The Bank's strategy is to hedge most of the market risk exposures using hedging instruments with market value changes that have a highly negative correlation with the changes in the market of the exposures being hedged.

The contract amounts (notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions were as follows:

	December 31	
	2008	**2007**
Currency swap contracts	$ 7,534,354	$ 9,914,372
Forward exchange contracts	11,864,111	4,687,031
Interest exchange contracts	4,900,000	1,900,000
Options contracts		
Buy	397,462	279,362
Sell	397,462	279,362

The gains or loss on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2008 and 2007 were as follows:

	2008	**2007**
Net gain on financial assets at fair value through profit or loss	$ 3,024	$ 583,166
Net gain (loss) on financial liabilities at fair value through profit or loss	(193,910)	4,721
Gain (loss), net	$ (190,886)	$ 587,887
Realized gain (loss)	$ (535,192)	$ 922,854
Unrealized gain (loss)	344,306	(334,967)
Gain (loss), net	$ (190,886)	$ 587,887

As of December 31, 2008 and 2007, the Bank's financial instruments at fair value through profit or loss amounting to $1,232,260 thousand and $369,483 thousand, respectively, had been sold under repurchase agreements.

7. RECEIVABLES, NET

	December 31	
	2008	2007
Accounts receivable	$ 21,313,595	$ 27,171,938
Interest receivable	1,086,825	1,324,407
Receivable on disposal of property and equipment	644,029	1,399,597
Inter-bank clearing fund receivable	306,947	300,131
Acceptances receivable	217,285	311,543
Tax refundable	213,072	194,960
Accrued revenue	5,843	7,740
Other	313,092	425,945
	24,100,688	31,136,261
Less: Allowance for credit losses	587,085	2,168,308
	$ 23,513,603	$ 28,967,953

8. DISCOUNTS AND LOANS, NET

		December 31	
		2008	2007
Discounts and overdraft		$ 530,559	$ 1,189,022
Accounts receivable - financing		337,953	291,817
Loans			
Short-term	- unsecured	9,026,721	12,565,751
	- secured	22,673,668	22,914,269
Medium-term	- unsecured	15,913,664	20,204,821
	- secured	12,320,730	16,625,830
Long-term	- unsecured	12,354,824	15,145,327
	- secured	105,016,847	114,271,693
Import and export negotiations		78,925	114,832
Overdue loans		4,530,159	4,373,509
		182,784,050	207,696,871
Less: Allowance for credit losses		2,865,895	2,173,285
		$ 179,918,155	$ 205,523,586

As of December 31, 2008 and 2007, the balances of nonaccrual loans were $4,530,159 thousand and $4,373,509 thousand, respectively. The unrecognized interest revenues on nonperforming loans amounted to $191,782 thousand in 2008 and $201,020 thousand in 2007, respectively.

In 2008 and 2007, all credits written off had been subjected to legal proceedings before being written off.

The changes in the allowance for credit losses of discounts and loans, receivables are summarized as follows:

	2008		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 3,157,535	$ 1,184,058	$ 4,341,593
Provision	2,692,090	(1,107,093)	2,692,090
Write-off	(4,145,290)	-	(4,252,383)
Recovery of written-off credits	671,056	-	671,056
Classification	1,000,000	(1,000,000)	-
Result from change of foreign exchange rate	624	-	624
Balance, end of year	$ 3,376,015	$ 76,965	$ 3,452,980

	2007		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 2,630,891	$ 121,939	$ 2,752,830
Provision	7,341,976	1,062,119	8,404,095
Write-off	(7,356,240)	-	(7,356,240)
Recovery of written-off credits	538,271	-	538,271
Result from change of foreign exchange rate	2,637	-	2,637
Balance, end of year	$ 3,157,535	$ 1,184,058	$ 4,341,593

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Debt investments - government bonds	$ 3,610,746	$ 2,606,978
Debt investments - corporate bonds	1,257,844	330,012
Mutual funds	891,028	-
Debt investments - bank debentures	401,523	489,971
Domestic quoted stock	71,277	-
Beneficiary certificates of securitization	47,300	12,607
	$ 6,279,718	$ 3,439,568

The available-for-sale financial assets amounting to $2,293,065 thousand and $3,118,760 thousand as of December 31, 2008 and 2007, respectively, had been sold under repurchase agreements.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Asset based securities	$ 35,226,109	$ 47,898,804
Government bonds	1,092,178	650,699
Bank debentures	-	10,038
	$ 36,318,287	$ 48,559,541

The held-to-maturity investments amounting to $21,049,127 thousand and $41,220,855 thousand as of December 31, 2008 and 2007, respectively, had been sold under repurchase agreements.

11. EQUITY INVESTMENTS - EQUITY METHOD

	December 31			
	2008		2007	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Bills Finance Corporation	$ 1,152,724	42.76	$ 1,317,722	42.76
Union Finance and Leasing International Corporation	1,035,276	100.00	1,047,928	100.00
Union Finance International (H.K.) Limited	81,992	99.99	132,396	99.99
Union Information Technology Corporation	72,412	99.99	103,019	99.99
Union Real-Estate Management Corporation	66,160	40.00	132,235	40.00
Union Security Investment Trust Corporation	40,698	35.00	109,686	35.00
Union Insurance Broker Company	30,112	100.00	28,634	100.00
Morgan Stanley Union Bank Asset Management Corporation	-	49.00	74,778	49.00
	$ 2,479,374		$ 2,946,398	

Income (losses) from equity investments were summarized as follows:

	Years Ended December 31	
	2008	2007
Union Bills Finance Corporation	$ (159,869)	$ (37,129)
Union Finance and Leasing International Corporation	13,272	28,398
Union Finance International (H.K.) Limited	(4,056)	21,087
Union Information Technology Corporation	(515)	33,428
Union Real-Estate Management Corporation	14,806	90,776
Union Security Investment Trust Corporation	(68,988)	(13,406)
Union Insurance Broker Company	10,919	8,897
Morgan Stanley Union Bank Asset Management Corporation	(74,778)	36,902
Union Securities Investment Consulting Company	-	288
	$ (269,209)	$ 169,241

Except for net income of 2007 of Union Securities Investment Consulting Company was based on the investees' unaudited financial statements, income from equity-method investments were based on the investees' audited financial statements for 2008 and 2007, respectively. The Bank believes that had the financial statements of the abovementioned company been audited, any adjustments arising would have no material effect on the Bank's financial statements.

Union Securities Investment Consulting Company had ceased operation and liquidated on May 30, 2007.

As of December 31, 2008 and 2007, the unrealized loss on financial assets (included in stockholders' equity) amounting to $63,542 thousand and $35,241 thousand resulted from evaluating the available-for-sale financial assets which were held by the subsidiaries of the Bank.

To use capital more effectively and enhance their organization structure, Union Information Technology Corporation (UITC), Union Finance and Leasing International Corporation (UFLIC) and Union Insurance Broker Company (UIBC) reduced their capital from February to March in 2009. As a result, the Bank expected to receive capital refunds of $39,997 thousand from UITC; $300,000 thousand from UFLIC; and $15,360 thousand, from UIBC.

12. UNQUOTED EQUITY INSTRUMENTS

	December 31	
	2008	**2007**
Unlisted stocks		
Entie Securities Finance Company	$ 492,298	$ 622,188
VISA Inc.	331,342	-
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	100,000	100,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	120,284	130,500
	$ 1,283,956	$ 1,092,720

Investments in equity instruments with no quoted market prices in an active market and the investment in Entie Securities Finance Company with a fair value that cannot be reliably measured are measured at cost. As of December 31, 2008, the Bank recognized an impairment loss of $129,890 thousand on these investments.

As a member of Visa Inc. and MasterCard Worldwide, the Bank was paid and recognized in 2008 the income of $722,568 thousand on 234,842 shares of Visa Inc. and 754 shares of MasterCard Worldwide and $390,480 thousand in cash. The shares were held in the name of National Credit Card Center of R.O.C., which is a major member of Visa Inc. and MasterCard Worldwide.

13. NO-ACTIVE MARKET DEBT INSTRUMENTS

	December 31	
	2008	**2007**
Asset-backed securities	$ 19,186,815	$ -
Asset-backed commercial paper	2,246,258	-
Securitized beneficiary certificates of securitization	51,730	90,705
Overseas corporate bonds	-	75,931
	21,484,803	166,636
Accumulated impairment	962,389	-
	$ 20,522,414	$ 166,636

As of December 31, 2008, the no-active market debt instruments amounting to $15,463,147 thousand had been sold under repurchase agreements.

14. PROPERTY AND EQUIPMENT

	December 31	
	2008	2007
Cost	$ 10,456,079	$ 10,345,519
Accumulated depreciation		
Buildings and improvements	543,549	436,987
Office equipment	1,130,384	1,030,648
Transportation equipment	172,246	148,541
Leasehold improvements	156,006	111,285
	2,002,185	1,727,461
Prepayments for land and buildings	57,333	-
Net property and equipment	$ 8,511,227	$ 8,618,058

15. OTHER ASSETS

	December 31	
	2008	2007
Deferred loss from disposal of nonperforming loans	$ 4,140,302	$ 5,727,630
Deferred tax assets, net	3,970,407	3,373,081
Collaterals assumed, net	1,581,344	1,781,746
Deferred charges	313,820	377,642
Prepayments	166,952	216,074
Other	902	1,842
	$ 10,173,727	$ 11,478,015

In 2006, the Bank sold to Morgan Stanley Union Bank Asset Management Corporation ("MSUB") nonperforming loans with a carrying value of $9,557,282 thousand at the contract price of $1,610,025 thousand and recognized a loss of $7,947,257 thousand. The Bank deferred and amortized the losses over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets. Had the losses not been deferred, the net loss in 2008 would have decreased by $1,587,356 thousand; the net loss in 2007 would have decreased by $1,587,348 thousand; and the balances of the other assets and unappropriated earnings as of December 31, 2008 and 2007 would have decreased by $4,140,302 thousand and $5,727,630 thousand, respectively.

As of December 31, 2008 and 2007, the remaining payments of $644,025 thousand and $966,030 thousand, respectively, on the above remainder transaction amount had not been received from MSUB.

16. GOODWILL

The Bank acquired Chung Shing Bank ("Chung Shing") on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. Goodwill was supposed to be amortized over five years, and the amortization expense in 2005 was $551,500 thousand. However, under the newly revised Statement of Financial Accounting Standards No. 35 - "Impairment of Assets", effective January 1, 2006, goodwill is no longer amortized but should be tested for impairment annually or whenever there are indications of impairment.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill, which resulted from assuming the assets and liabilities of Chung Shing, was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the forecast cash flows for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As a result of the Bank's impairment test in 2007 and 2008, a goodwill impairment amounting to $66,822 thousand and $183,283 thousand as of the end of 2008 and 2007 was recognized by the Bank, respectively.

17. CALL LOANS AND DUE TO BANKS

	December 31	
	2008	2007
Due to Chunghwa Post Co., Ltd.	$ 19,841,503	$ 22,859,340
Call loans	196,644	3,810,448
Due to the Central Bank and other banks	35,466	417,031
Overdraft	590	-
	$ 20,074,203	$ 27,086,819

18. PAYABLES

	December 31	
	2008	2007
Interest payable	$ 1,919,145	$ 1,946,751
Notes and checks in clearing	1,700,141	1,024,294
Accrued expenses	319,488	451,307
Bank acceptances payable	216,684	312,668
Accounts payable on wire transfers received	153,213	204,218
Collection payable	151,503	162,994
Tax payable	83,995	111,699
Other	437,149	562,169
	$ 4,981,318	$ 4,776,100

19. DEPOSITS AND REMITTANCES

	December 31	
	2008	2007
Checking	$ 2,963,714	$ 2,956,438
Demand	25,673,552	27,591,881
Savings	183,277,224	167,319,262
Time	63,871,136	64,128,039
Negotiable certificates of deposit	1,949,600	1,913,400
Inward and outward remittances	16,108	45,415
	$ 277,751,334	$ 263,954,435

20. BANK DEBENTURES

	December 31 2008	December 31 2007	Term
First unsecured, convertible bank debentures issued in 2004	$ 44,300	$ 1,526,400	Zero coupon; maturity: September 2009; the bondholders may convert the debentures into common shares of the Bank during the period between one month after the issuance date and 10 days prior to maturity.
First subordinated bank debentures issued in 2004	1,500,000	1,500,000	Average one year time savings deposit rate of First Bank, Hua Nan Bank, Chang Hwa Bank, Land Bank, Taiwan Cooperative Bank and Bank of Taiwan plus 1%; maturity: June 2010.
Second subordinated bank debentures issued in 2004	3,500,000	3,500,000	Fixed interest rate of 3.55%; maturity: June 2010.
First subordinated bank debentures issued in 2005	2,000,000	2,000,000	Fixed interest rate of 2.60%; maturity: June 2011.
First subordinated bank debentures issued in 2006 - class A	1,200,000	1,200,000	Fixed interest rate of 2.60%; maturity: May 2012.
First subordinated bank debentures issued in 2006 - class B	800,000	800,000	One year time savings deposit rate of First Bank plus 0.3%; maturity: November 2013.
	$ 9,044,300	$ 10,526,400	

The Bank issued $3,000,000 thousand of zero coupon par valued convertible bank debentures (the "Debentures") in the denomination of $100 thousand each on September 13, 2004. Other issue terms were as follows:

a. Redemption terms

Unless redeemed, purchased or converted before maturity, the Debentures will be redeemed on maturity at the par value.

1) Early redemption at the option of the Bank: The Debentures may be wholly or partly redeemed at their par amount, at the Bank's option under any of these conditions:

a) After one year from the issue date and before 40 days prior to maturity, the balance of unconverted debentures is lower than $300,000 thousand.

b) After one year from the issue date and before 40 days prior to maturity, the closing prices of the Bank's common shares on the Taiwan Stock Exchange for 30 consecutive trading days have exceeded 50% of the conversion price.

2) Redemption at the option of the bondholders: In the second, third and fourth year of the issue date is the "put date." The Bank will redeem all or any portion of the Debentures at par value; yield rate of 0%.

As of December 31, 2008 the Bank redeemed $1,760,400 thousand of the Debentures.

b. Pledged: None

c. Conversion period and conversion right

Except during the closed period or suspension period, the bondholders may convert the Debentures into common shares of the Bank at any time between one month after issuance date and 10 days before the conversion date.

d. Conversion price

The initial conversion price was set at NT$10.85.

The conversion price is subject to adjustment based on certain terms of the related indenture. As of December 31, 2008, the conversion price was NT$8.57.

The bondholders had converted the Debentures amounting to $1,195,300 thousand into 129,898 thousand common shares as of December 31, 2008.

21. STOCKHOLDERS' EQUITY

a. In the stockholders' meeting on June 15, 2007, the stockholders resolved to raise publicly or privately the Bank's cash capital by $8,000,000 thousand through a one-time or a serial share issuance depending on the market situation. On September 26, 2007, the Bank privately issued 400,000 thousand preferred shares at NT$10 par value and 6% dividend rate.

Under the Bank's Articles of Incorporation, after the Bank appropriates the legal and special reserves from its net income (less any deficit), the Bank should use part of the remainder as dividends to the preferred stockholders. The preferred stockholders can participate in the distribution of the remaining earnings at the ratio of one preferred share for one common share after earnings distribution to the common stockholders but cannot participate in the distribution of capital surplus transferred to common stock. A preferred share can be converted into one common share for the next year of the issuance date. The Bank, upon getting approval from the Banking Bureau, can call back some or all of the outstanding preferred shares after six years from the issuance date at the price of the issuance amount plus unpaid accumulated dividends. In 2007, the Bank bifurcated the conversion rights embedded in the preferred stock and the liability component, which amounted to $3,672,800 thousand and $327,200 thousand, respectively.

In their meeting on June 13, 2008, the Bank's stockholders passed a resolution to amend the Articles of Incorporation. Based on this amendment, the issuance of preferred dividends will no longer be whenever the Bank makes profits and instead will be made only under common stockholders' resolutions approving this issuance. As a result of this amendment, the preferred shares ceased to have their financial-liability feature and the Bank thus reclassified these shares to capital.

b. Capital surplus

Under related regulations, capital surplus may only be used to offset a deficit. However, capital surplus arising from the issuance of shares in excess of par value (including issuance in excess of common stock par value, issuance of shares for combinations and treasury stock transactions) and donations may be transferred to common stock on the basis of the percentage of shares held by the stockholders. Any capital surplus transferred to common stock should be within a certain percentage prescribed by law, which however is limited to a certain percentage of the Bank's paid-in capital and once a year.

Capital surplus from equity-method investments may not be distributed for any purpose.

c. Retained earnings

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Dividends;

4) The remainder:

    a) Employees' bonus of at least 10%;

    b) Retained earnings, as deemed proper;

    c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as remuneration to directors and supervisors.

These appropriations should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The board of directors (BOD) decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In view of the Bank's need for capital to expand its operations and meeting of capital adequacy ratios, primarily cash dividends will be declared in the next three years, with the related proposal to be submitted in the stockholders' meeting for approval.

The bonus to employees and the bonus to directors and supervisors, which represent not less than 10% of net income (net of legal reserve, special reserve and dividends), and 5% of unappropriated earnings (net income abovementioned and net of the bonus to employees and plus accumulated unappropriated earnings from prior years), respectively, was recognized for the year ended December 31, 2008. The amounts were estimated based on past experiences. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. Due to the accumulated deficit as of December 31, 2008, the Bank did not assess the bonus to employees and the bonus to directors and supervisors.

A special reserve should be appropriated from retained earnings at an amount equal to the debit balance of an account in stockholders' equity excluding treasury stock. The balance of the special reserve is adjusted to reflect any changes in the debit balances of the related account. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Under an SFB directive, if a financial institution's nonperforming loans are sold to an asset management corporation, and the loss on this sale is amortized over five years, a special reserve should be appropriated from retained earnings at an amount equal to the difference of the loss on sale of nonperforming loans and the amortized amount, as required by the Financial Institution Consolidation Law, and the special reserve appropriated from retained earnings is subject to earning appropriation.

In the stockholders' ordinary meeting on June 15, 2007, the stockholders approved the appropriation of a legal reserve of $91,745 thousand and a special reserve of $214,071 thousand from the 2006 earnings.

The related information regarding the proposed and resolved earnings appropriation is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Under the Company Law, the appropriation for legal reserve is made until the reserve equals the aggregate par value of the outstanding capital stock of the Bank. This reserve is only used to offset a deficit, or, when its balance reaches 50% of aggregate par value of the outstanding capital stock of the Bank, up to 50% thereof can be distributed as stock dividends. In addition, the Banking Law provides that, before the balance of the reserve reaches the aggregate par value of the outstanding capital stock, annual cash dividends should not exceed 15% of aggregate par value of the outstanding capital stock of the Bank.

Any appropriations of earnings are recorded in the year of stockholders' approval. Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

22. PENSION

Based on the Labor Pension Act, the Bank has made monthly contributions to the employees' individual pension accounts at 6% of employee salaries. These contributions amounted to $84,105 thousand and $89,805 thousand in 2008 and 2007, respectively.

Under the Labor Standards Law, the Bank has a defined benefit pension plan covering all regular employees. The Bank makes monthly contributions at 2% of salaries to a pension fund, which is deposited to the Labor Pension Fund (managed by the employees' pension fund administrative committee) deposited in the Bank of Taiwan and to an employee pension account (established in Taipei branch of the Bank), respectively. As of December 31, 2008 and 2007, the accounts amounted to $491,087 thousand and $452,416 thousand, respectively.

Other information on the defined benefit plan is as follows:

a. Pension fund changes are summarized below:

	2008	2007
Balance, January 1	$ 452,416	$ 429,400
Contributions	38,705	39,954
Interest revenue	13,050	10,231
Benefits paid	(13,112)	(26,716)
Unrealized gain (loss) on financial assets	28	(453)
Balance, December 31	$ 491,087	$ 452,416

b. Net pension costs in 2008 and 2007 are summarized below:

	2008	2007
Service cost	$ 25,329	$ 27,982
Interest cost	19,988	18,466
Expected return on plan assets	(11,110)	(10,250)
Net amortization and deferral	(519)	(519)
Net amortization of loss of pension	5,001	4,258
Net pension cost	$ 38,689	$ 39,937

c. The reconciliation of the funded status of the plan and accrued pension cost as of December 31, 2008 and 2007 is as follows:

	December 31	
	2008	2007
Benefit obligation		
Vested benefit obligation	$ 104,871	$ 104,068
Non-vested benefit obligation	425,973	363,854
Accumulated benefit obligation	530,844	467,922
Additional benefits based on future salaries	173,458	118,208
Projected benefit obligation	704,302	586,130
Fair value of plan assets	(493,080)	(446,498)
Funded status	211,222	139,632
Unrecognized prior service cost	5,961	6,480
Unrecognized pension loss	(209,711)	(138,624)
Additional accrued pension liabilities	30,292	13,936
Accrued pension cost (included in other liability)	$ 37,764	$ 21,424

d. Vested benefits obligation	$ 118,693	$ 114,352

e. Actuarial assumptions

Discount rate used in determining present values	2.5%	3.5%
Future salary increase rate	2.0%	0%-2.0%
Expected rate of return on plan assets	2.5%	2.5%

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2008	2007
Personnel expenses		
Salaries and wages	$ 1,620,559	$ 1,736,986
Bonus and rewards	311,597	517,086
Labor insurance and national health insurance	151,498	163,243
Pension	123,600	134,368
Other	19,738	21,653
	$ 2,226,992	$ 2,573,336
Depreciation	$ 367,818	$ 380,177
Amortization	$ 121,292	$ 97,676

24. INCOME TAX BENEFIT

a. The components of income tax benefit were as follows:

	2008	2007
Income tax on loss before income tax at 25% statutory rate	$ (447,421)	$ (1,614,695)
Permanent difference	(312,918)	(279,990)
Temporary difference	(119,627)	(233,960)
Loss carryforward unused	879,966	2,128,645
Current tax payable	-	-
Change in deferred income tax	(597,326)	(1,533,866)
Separate tax on interest income on short-term bills	9,980	18,998
Tax expense of previous bond holders	6,367	-
Prior year's income tax adjustment	1,300	(1,514)
Income tax benefit	$ (579,679)	$ (1,516,382)

On January 6, 2009, the Legislative Yuan of the Republic of China passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Bank recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

b. As of December 31, 2008 and 2007, deferred income tax assets (liabilities) consisted of the tax effects of the following:

	December 31	
	2008	2007
Loss carryforwards	$ 4,357,930	$ 3,555,559
Amortization of goodwill	(433,824)	(285,079)
Loss on disposal of nonperforming loans	-	89,937
Investment tax credit	20,376	27,746
Reserve for default	11,867	11,456
Unrealized loss on collaterals assumed	62,271	86,858
Impairment loss of financial assets	273,070	-
Investment income under the equity method	(6,418)	(7,432)
Allowance for credit losses	320,051	464,067
Unrealized valuation gain on derivative instruments	(12,879)	(23,475)
Others	(4,000)	1,452
	4,588,444	3,921,089
Less: Allowance for valuation of deferred income tax assets	618,037	548,008
Net deferred income tax assets (included in other assets)	$ 3,970,407	$ 3,373,081

c. As of December 31, 2008, investment tax credits comprised:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Personnel training expenditures	$ 4,292	$ 4,292	2009
		1,571	1,571	2010
		6,481	6,481	2011
		4,164	4,164	2012
		3,868	3,868	2013
		$ 20,376	$ 20,376	

Loss carryforwards as of December 31, 2008 comprised:

Unused Amount	Expiry Year
$ 1,042,328	2013
1,683,060	2015
3,091,769	2016
8,293,639	2017
3,320,924	2018
$ 17,431,720	

d. The related information under the Integrated Income Tax System is as follows:

	December 31 2008	2007
Balances of the imputation credit account	$ 290,625	$ 257,791

As of December 31, 2008, the Bank had no earnings available for distribution; thus, a creditable tax ratio was not estimated.

The Bank's income tax returns through 2005 had been examined and cleared by the tax authorities.

25. LOSS PER SHARE

The Bank issued convertible bonds, which could be transferred to common stocks of the Bank; thus, the capital structure of the Bank is complicated, and the calculation of basic and diluted earnings per share (EPS) is required. However, since the bottom line of the Bank in 2008 showed a net loss, convertible bonds will have an anti-dilutive effect in calculating loss per share; thus, the potential common shares were not included in the calculation of diluted loss per share. The numerators and denominators used in computing EPS are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Loss Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2008					
Basic loss per share	$ (1,789,643)	$ (1,209,964)	1,918,824	$ (0.93)	$ (0.63)

(Continued)

	Numerator (Amounts) Pretax	After Tax	Denominator (Shares in Thousands)	Loss Per Share (NT$) Pretax	After Tax
2007					
Basic loss per share	$ (6,458,740)	$ (4,942,358)	1,868,474	$ (3.46)	$ (2.65)

(Concluded)

26. RELATED-PARTY TRANSACTIONS

In addition to disclosure in other footnotes, significant transactions between the Bank and related parties were summarized as follows:

a. Related parties

Related Party	Relationship with the Bank
Yu-Pang Co., Ltd. (“Yu-Pang”)	Director
Yong-Xuan Co., Ltd. (“Yong-Xuan”)	Its chairman is Bank’s director
Zhong Li Venture Corporation	Director
Union Recreation Enterprise Corporation	Director
Lin Ci Yong	Director
Liu Jin Fu	Director
Yu Quan Kai Fa Co., Ltd.	Supervisor
Bao Xing Investment Corporation	Supervisor
He Ming Xing	Supervisor
Union Enterprise Construction Co., Ltd. (UECC)	Its chairman is Bank’s director
Union Ran Zheng Co., Ltd.	Its chairman and director are the Bank’s director
Hung-Kou Construction Inc., Ltd. (“Hung-Kou”)	Its chairman is a second-degree relative of the Bank’s director
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Capital (Cayman) Corp.	Equity-method investee
New Asian Ventures Ltd.	Equity-method investee
Union Bills Finance Corporation (UBF)	Equity-method investee
Union Securities Investment Trust Corporation (USITC)	Equity-method investee
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Equity-method investee
Union Real-Estate Management Corporation	Equity-method investee
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Securities Investment Consulting Company (USI) (liquidated on May 31, 2007)	Subsidiary
Long Shan Lin Corporation	UBF is its director
Entie Securities Finance Co.	The Bank holds more than 3% of its stock
Li Chang Yao Ye Co.	Liu Jin Fu is its director
T-Movies Theater Co.	Lee Yu Quan’s wife is its chairman
Hong Bang Construction Co., Ltd.	Main stockholder of the Bank
The Liberty Times Co., Ltd.	Its director and supervisor are the Bank’s director
Others	Directors, supervisors, managers, their relatives and affiliates.

b. Significant transactions with related parties:

1) Loans

December 31, 2008

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2008	Ending Balance	Loans Classification Normal Loans	Loans Classification Nonperforming Loans	Unrelated Collateral	Differences in Terms of Transaction Compared with Those for Unrelated Parties
Consumer loans	11	$ 5,985	$ 2,283	$ 2,283	$ -	-	None
Self-used housing mortgage loans	43	281,602	177,090	177,090	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,590,000	1,460,000	1,460,000	-	Land, building and time deposit	None
Other loans	EnTie Securities Finance Co.	1,000,000	310,000	310,000	-	Time deposits	None
Other loans	Long Shan Lin Corporation	1,540,000	1,540,000	1,540,000	-	Land and buildings	None
Other loans	Union Real-Estate Management Corporation	64,000	55,000	55,000	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	89,000	62,186	62,186	-	Land and factory	None
Other loans	T-Movies Theater Co.	4,639	4,246	4,246	-	Land and buildings	None

December 31, 2007

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2007	Ending Balance	Loans Classification Normal Loans	Loans Classification Nonperforming Loans	Collateral	Differences in Terms of Transaction Compared with Those for Unrelated Parties
Consumer loans	51	$ 5,229	$ 4,528	$ 4,528	$ -	-	None
Self-used housing mortgage loans	68	373,686	281,602	281,602	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,600,000	1,590,000	1,590,000	-	Land, building and time deposit	None
Other loans	EnTie Securities Finance Co.	1,130,000	980,000	980,000	-	Time deposits	None
Other loans	Long Shan Lin Corporation	1,540,000	1,540,000	1,540,000	-	Land and buildings	None
Other loans	Union Real-Estate Management Corporation	564,000	64,000	64,000	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	145,000	89,000	89,000	-	Land and factory	None
Other loans	T-Movies Theater Co.	19,561	4,639	4,639	-	Land and buildings	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2008	$ 3,610,805	2.01	1.98%-19.02%	$ 107,234	0.72
2007	4,553,769	2.22	0.001%-19.02%	94,225	0.64

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2008	$ 4,688,545	1.69	0%-8.45%	$ 74,499	0.99
2007	4,867,380	1.84	0%-7.45%	70,755	0.95

3) Guarantees and letters of credit

December 31, 2008

Name	Highest Balance in the Year Ended December 31, 2008	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 102,099	$ 100,858	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	92,582	25,373	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits
Union Ran Zheng Co., Ltd.	2,985	-	-	0.5%	Time deposits

December 31, 2007

Name	Highest Balance in the Year Ended December 31, 2007	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 102,099	$ 102,099	$ -	0.3%-0.5%	Time deposits
Hong Bang Construction Co., Ltd.	70,000	-	-	0.5%	Time deposits
The Liberty Times Co., Ltd.	92,582	79,475	-	0.05%	Land and buildings
Union Ran Zheng Co., Ltd.	568	567	-	0.5%	Time deposits

Note: Reserve for guarantee loss is provided based on the estimated unrecoverable amount.

4) Due from banks (included in due from the Central Bank and banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Revenue
2008	$ 2,130,000	$ -	0.60%-2.07%	$ 11,576
2007	2,508,000	-	1.688%-3.95%	4,549

5) Call loans (included in call loans and due to banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Expense
2008	$ 200,000	$ -	1.95%-2.01%	$ 127
2007	4,165,000	-	1.69%-3.80%	6,644

6) Securities purchased under resell agreements

	Year of 2008					
			Securities Sold under Repurchase Agreements		Securities Purchased under Resell Agreements	
	Purchase of Securities (Note)	Sell of Securities (Note)	Balance of December 31	Rate	Balance of December 31	Rate
UBF	$ 42,541,990	$ 31,364,195	$ -	-	$ 2,048,322	0.5%-0.77%
USITC	497,779	-	-	-	-	-

	Year of 2007					
			Securities Sold under Repurchase Agreements		Securities Purchased under Resell Agreements	
	Purchase of Securities (Note)	Sell of Securities (Note)	Balance of December 31	Rate	Balance of December 31	Rate
UBF	$ 89,014,091	$ 70,722,162	$ 590,000	1.95%-2.15%	$ -	-

Note: Including the amount of purchase, sale and transactions under agreements.

7) Securities brokerage fees

	Years Ended December 31	
	Amount	%
2008	$ 6,051	6.17
2007	13,844	9.01

8) Consulting and advisory contract

In August 2001, the Bank and UFLIC entered into a three year consulting and renew contract in August of 2004 and December of 2006. UFLIC's services include consultation on management, marketing, and promotional activities of auto loans, as well as on loan management and collection of overdue loans, etc. (exclude approval of loan application). The consulting fees and related expenses paid in 2008 and 2007 were $96,247 thousand and $168,431 thousand (included in other operating expense), respectively, and the accrued expenses as of December 31, 2008 and 2007 were $2,222 thousand and $14,954 thousand, respectively.

9) Leases

a) The Bank as lessee

Under operating lease agreements with terms varying from one year to seven years, the Bank rents from related parties office spaces as the Head Office, Trust, International Banking Dept., Wealth Management, Consumer Banking Dept., Security Finance Dept., Credit Card Dept., Northern Collaterals Assumed Appraise Center, and six branches. Rentals are payable quarterly, with some contracts allowing placement with the lessor of lease deposits in lieu of rental payments. Rental expenses were as follows:

	Lease Deposit (Included in Other Financial Assets)		Rental Expense	
	Amount	**%**	**Amount**	**%**
2008				
Yu-Pang	$ 454,826	30.84%	$ 21,800	3.86%
Hung-Kuo	228,524	15.50%	128,119	22.68%
Yong-Xuan	18,977	1.29%	81,418	14.41%
UECC	5,019	0.34%	10,221	1.81%
UBF	91	0.01%	365	0.06%
UFLIC	-	-	752	0.13%
2007				
Yu-Pang	454,826	39.68	20,251	3.54
Hung-Kuo	228,524	19.94	125,234	21.87
Yong-Xuan	19,550	1.71	79,190	13.83
UECC	5,019	0.44	10,650	1.86
UBF	91	0.01	365	0.06
UFLIC	-	-	752	0.13

The Bank rented cars for business from UFLIC, the rental expense in 2008 and 2007 were \$6,895 thousand and \$6,289 thousand, respectively. Rental payable as of December 31, 2008 and 2007 were \$7,218 thousand and \$7,205 thousand.

b) The Bank as lessor

The Bank's Tauring Branch, Kaohsiung Branch and Mincynan Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 2004 to December 2009, from July 2007 to December 2015 and from September 2007 to September 2017, respectively. The leasing revenues received were \$2,172 thousand in 2008 and \$1,878 thousand in 2007. The lease deposit received was \$315 thousand for 2008 and 2007. And the Bank's Beitun Branch leased part of its office to UBF under an operating lease agreement starting from February 2006 to January 2016. The leasing revenue received was \$419 thousand for 2008 and 2007. The lease deposit received was \$104 thousand for 2008 and 2007.

10) The disposal of nonperforming loans and assuming of related collateral

The Bank disposal a part of its nonperforming loans and related collateral property to Morgan Stanley Union Bank on June 27, 2006 and September 20, 2006, which amounted to \$995,000 thousand and \$615,025 thousand, respectively. Of this amount, \$644,025 thousand and \$966,030 thousand had not been received as of December 31, 2008 and 2007, respectively (refer to Note 15).

In addition, the Bank disposed a part of its nonperforming loans and related collaterals to Union Real-Estate Management Corporation at the price of $451,800 thousand on November 26, 2007, and had been completely received before June 30, 2008.

Related party: Union Real-Estate Management Corporation

Disposal date: November 26, 2007

<table>
<tr><th colspan="3">Contract Items</th><th>Amount (Note)</th><th>Carrying Amount (Note)</th><th>Price Allocation</th></tr>
<tr><td rowspan="2">Enterprise</td><td colspan="2">Secured</td><td>$ 332,961</td><td>$ 332,099</td><td>$ 211,581</td></tr>
<tr><td colspan="2">Non-secured</td><td>360,055</td><td>358,821</td><td>239,419</td></tr>
<tr><td rowspan="7">General</td><td rowspan="3">Secured</td><td>House mortgage</td><td>3,601</td><td>3,601</td><td>800</td></tr>
<tr><td>Car loans</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Others</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="4">Non-secured</td><td>Credit cards</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Cash cards</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Micro credit</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Others</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="3">Total</td><td>696,617</td><td>694,521</td><td>451,800</td></tr>
</table>

Note: Allowance for bad debt was excluded.

11) Available-for-sale financial assets and financial assets at fair value through profit or loss

As of December 31, 2008 and 2007, the Bank purchased 88,365 thousand and 85,318 thousand units, respectively, of beneficiary certificates issued by USITC, which amounted to $706,952 thousand (included in available-for-sale financial assets) and $974,415 thousand (included in financial assets at fair value through profit or loss), respectively.

As of December 31, 2008, the commercial papers which were classified as financial assets at FVTPL by the Bank were issued by Hung-Kou Construction Inc., Ltd., Long Shan Lin Corporation and Union Recreation Enterprise Corporation in the amount of $999,182 thousand, $409,764 thousand and $89,948 thousand, respectively.

12) Bank debentures

As of December 31, 2008 and 2007, UBF hold the Bank's debentures amounting to $655,000 thousand and $647,000 thousand, respectively.

13) Acquisition of property and equipment

In June 2008, the Bank purchased land from the president of the Bank, which amounted to $70,088 thousand. In addition, the Bank purchased buildings for operating office and warehouse from Long Shan Lin Corporation at the price of $46,730 thousand in June 2008. As of December 31, 2008, the amount of the two transactions had already been paid off.

The Bank purchased land for operating office and warehouse from Union Real-Estate Management Corporation at the price of $84,500 thousand in November 2007. As of December 31, 2008, the this purchase had been fully paid for.

14) UIT sold computers, related material and software and provided network service to the Bank. The related purchase and service fee in 2008 and 2007 were $151,316 thousand and $310,584 thousand, respectively.

15) The Bank provided insurance consulting service and sales assistance to UIB. The commission revenues in 2008 and 2007 were $143,767 thousand and $112,230 thousand, respectively. The consulting service revenues (including in other net revenues) in 2008 and 2007 were $45,566 thousand and $27,149 thousand, respectively.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to employees for savings and loans up to prescribed limits.

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2008	2007
Salaries	$ 19,594	$ 19,705
Incentives	2,952	2,747
Traveling fare	1,080	1,164
Special compensation	447	395
Car rental and oil subsidy	1,601	1,608
	$ 25,674	$ 25,619

27. PLEDGED ASSETS

As of December 31, 2008 and 2007, government bonds and bank debentures, which amounted to $637,700 thousand and $984,300 thousand (included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, as of December 31, 2008 and 2007, negotiable certificates of deposit, which amounted to $500,000 thousand and $1,300,000 thousand, respectively (included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

28. CONTINGENCIES AND COMMITMENTS

Financial instruments, contingencies and commitments of the Bank, in addition to those disclosed in Note 30, are summarized as follows:

a. Operating leases

The Bank rents several office premises for its branches under operating leases ranging from 2 to 10 years. Rentals are payable monthly, quarterly or annually. For the Nanking E. Rd., San Chung, and Wujia branches, lease deposits are made in lieu of lease payments, and rental expenses are recognized at imputed interests of 2.62%. Future minimum lease payments are as follows:

Year	Amount
2009	$ 427,553
2010	271,488
2011	118,638
2012	73,714
2013	40,871

The present value of total rentals beyond 2014, amounted to $268,401 thousand, is about $246,482 thousand, discounted by the Bank's one-year time deposit interest rate of 1.43% on January 1, 2009.

b. Computer equipment purchase contracts

The Bank contracted to purchase computer equipment and software for $54,974 thousand, of which $20,671 thousand (included in prepayments for equipment) had been paid as of December 31, 2008.

c. Securities sold under repurchase agreements

As of December 31, 2008, securities with a total cost of $27,843,332 thousand were sold under agreements to repurchase between January 31, 2009 and June 30, 2010. The repurchase price is based on the notional amount plus the interests which is calculated by the agreed interest rate.

d. Securities purchased under resell agreements

As of December 31, 2008, securities with a total cost of $6,555,286 thousand were purchased under agreements to resell for $6,556,849 thousand between January 31, 2009 and February 28, 2009.

e. Balance sheet of trust accounts and trust property and equipment accounts

Balance Sheet of Trust Accounts
December 31, 2008

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 2,179,518	Income tax payable	$ 151
Investments		Expenses payable	171
Mutual funds	32,114,566	Marketable securities payable	6,389,391
Common stock	145,563	Trust capital	39,965,275
Accounts receivable	1,937	Reserve and deficit	(17,293)
Real estate - land and building	5,506,720		
Stock in custody	6,389,391		
Total	$ 46,337,695	Total	$ 46,337,695

Balance Sheet of Trust Accounts
December 31, 2007

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 2,172,546	Income tax payable	$ 118
Investments		Trust capital	45,370,798
Mutual funds	36,849,517	Reserve and deficit	(267,947)
Common stock	177,689		
Short-term bills and securities purchased under resell agreements	368,933		
Accounts receivable	1,594		
Real estate - land and building	5,532,690		
Total	$ 45,102,969	Total	$ 45,102,969

Trust Income Statement
Year Ended December 31, 2008

	Amount
Trust income	
Interest revenue - demand account	$ 437
Interest revenue - time deposit	5,276
Interest revenue - short-term bills and securities purchased under resell agreements	10,450
Cash dividend	4,650
Realized capital gain - fund	4,010
Income from beneficiary certificates	511
Total trust income	25,334
Trust expense	
Management expense	1,454
Taxation	7,509
Realized capital loss - fund	7,927
Other	3,796
Total trust expense	20,686
Loss before tax	4,648
Income tax expense	(465)
Loss after tax	4,183
Unrealized capital gain - GTSM stock	11,900
Unrealized capital gain - fund	2,133
Unrealized capital loss - fund	(5,442)
Net income	$ 12,774

Note: Trust income statements mentioned above are not included in the Bank's income statements.

Trust Income Statement
Year Ended December 31, 2007

	Amount
Trust income	
Interest revenue - demand account	$ 291
Interest revenue - time deposit	3,236
Interest revenue - short-term bills and securities purchased under resell agreements	2,579
Cash dividend	8,935
Realized capital gain - fund	2,966
Income from beneficiary certificates	138
Total trust income	18,145
Trust expense	
Management expense	2,209
Taxation	269,803
Realized capital loss - fund	46
Other	12,705
Total trust expense	284,763
Loss before tax	(266,618)
Income tax expense	(1,320)
Loss after tax	(267,938)
Unrealized capital gain - GTSM stock	33,415
Unrealized capital gain - fund	2,526
Unrealized capital loss - fund	(109)
Net loss	$ (232,106)

Note: Trust income statements mentioned above are not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2008

Investment Portfolio	Amount
Bank deposits	$ 2,179,518
Investments	
Mutual funds	32,114,566
Common stock	145,563
Accounts receivable	1,937
Real estate - land and building	5,506,720
Stock in custody	6,389,391
	$ 46,337,695

Trust Property and Equipment Accounts
December 31, 2007

Investment Portfolio	Amount
Bank deposits	$ 2,172,546
Investments	
Mutual funds	36,849,517
Common stock	177,689
Short-term bills and securities purchased under resell agreements	368,933
Accounts receivable	1,594
Real estate - land and building	5,532,690
	$ 45,102,969

29. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by the daily average balance of interest-earning assets and interest-bearing liabilities.

	2008	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents	$ 1,154,086	1.79
Due from the Central Bank and other banks	43,045,628	1.81
Financial assets at fair value through profit or loss	7,340,600	1.40
Securities purchased under resell agreements	4,253,749	1.82
Discounts and loans	193,064,815	3.87
Accounts receivable - credit card	13,079,395	15.36
Available-for-sale financial assets	4,068,702	2.01
Held-to-maturity investments	40,719,291	7.22
Non-active market debt instruments	12,700,778	6.59

(Continued)

	2008	
	Average Balance	**Average Rate (%)**
Interest-bearing liabilities		
Call loans and due to other banks	$ 1,988,207	1.95
Securities sold under repurchase agreements	33,019,586	3.29
Demand deposits	24,364,768	0.43
Savings - demand deposits	55,642,120	0.66
Time deposits	63,186,880	2.79
Due to Chunghwa Post Co., Ltd.	21,287,968	2.62
Time- savings deposits	122,910,521	2.56
Negotiable certificates of deposit	1,908,917	2.18
Bank debentures	10,097,158	2.85

(Concluded)

	2007	
	Average Balance	**Average Rate (%)**
Interest-earning assets		
Cash and cash equivalents	$ 1,615,824	1.36
Due from the Central Bank and other banks	30,217,041	1.39
Financial assets at fair value through profit or loss	7,815,700	0.75
Securities purchased under resell agreements	4,869,277	1.54
Discounts and loans	191,239,958	4.15
Accounts receivable - credit card	24,221,265	12.73
Available-for-sale financial assets	5,072,832	1.87
Held-to-maturity investments	41,799,919	6.85
Non-active market debt instruments	349,040	3.86
Interest-bearing liabilities		
Call loans and due to other banks	7,397,698	2.69
Securities sold under repurchase agreements	25,869,523	4.53
Demand deposits	22,835,652	0.60
Savings - demand deposits	59,709,459	0.71
Time deposits	57,718,677	3.07
Due to Chunghwa Post Co., Ltd.	21,152,800	2.39
Time - savings deposits	123,535,105	2.18
Negotiable certificates of deposit	4,602,083	1.11
Bank debentures	14,212,959	2.74
Liability component of preferred stocks	327,200	6.00

30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	December 31							
	2008				2007			
	Carrying Amount		Estimated Fair Value		Carrying Amount		Estimated Fair Value	
Assets								
Financial assets at fair value through profit or loss	$	7,675,019	$	7,675,019	$	7,746,462	$	7,746,462
Available-for-sale financial assets		6,279,718		6,279,718		3,439,568		3,439,568
Other short-term financial assets		78,982,810		78,982,810		62,689,648		62,689,648
Discounts and loans		179,918,155		179,918,155		205,523,586		205,523,586
Held-to-maturity financial assets		36,318,287		34,971,312		48,559,541		45,592,123
No-active market debt instruments		20,522,414		20,151,505		166,636		256,373
Other financial assets		2,825,795		2,825,795		3,498,355		3,498,355
Liabilities								
Financial liabilities at fair value through profit or loss		212,904		212,904		61,326		61,326
Other short-term financial liabilities		52,914,961		52,914,961		64,773,593		64,773,593
Deposits		277,735,226		277,735,226		263,909,020		263,909,020
Bank debentures		9,044,300		9,091,674		10,526,400		10,528,053
Other financial liabilities		220,896		220,896		254,580		254,580
Liability component of preferred stocks		-		-		327,200		327,200

b. Methods and assumptions applied in estimating the fair values disclosures for financial instruments are as follows:

1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, due from the Central Bank and other Banks, securities purchased under resell agreements, receivables (tax refundable excluded), agreements, call loans and due to banks, securities sold under repurchase payables and remittances.

2) Fair values of financial instruments designated as at FVTPL and available-for-sale or held-to-maturity financial assets are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   Fair values of forward contracts, interest rate swap and cross-currency swap contracts are estimated based on the forward rates provided by Reuters.

   The fair value of non-active debt instruments are based on quoted prices of counter-parties and adjusted by evaluations of debtor's credit.

3) Discounts and loans, and deposits are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on the carrying amount, which is net of allowance for credit losses.

4) Investments under the equity method and financial assets carried at cost have no quoted market prices in an active market and their fair value cannot be reliably measured. Thus, the Bank does not disclose their fair value.

5) Refundable deposits have no specified maturity date and thus its market value is estimated based on its carrying value in the balance sheet. The carrying value of the guarantee deposits received is the reasonable base to estimate their market values as the carrying value is the current pay-off price.

6) The fair values of bank debentures are estimated based on the price published by GTSM.

7) The fair values of forward contracts and interest rate swap contracts are based on present value techniques. Options' fair value are based on estimates using Black Scholes model.

8) Fair value of liability component of preferred stocks are estimated based on the present value of future cash flows.

c. Fair value of financial assets and financial liabilities determined based upon quoted market prices or valuation techniques summarized as follows:

	Quoted Market Prices		Valuation Techniques	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Financial assets				
Financial assets at fair value through profit or loss	$ 2,515,790	$ 4,070,001	$ 5,159,229	$ 3,676,461
Available-for-sale financial assets	6,279,718	3,439,568	-	-
Held-to-maturity investments	1,090,082	646,813	33,881,230	44,945,310
Non-active market debt instruments	-	-	20,151,505	256,373
Other financial assets	-	-	2,825,795	3,498,355
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	-	212,904	61,326
Bank debentures	9,091,674	10,528,053	-	-
Other financial liabilities	-	-	220,896	254,580
Liability component of preferred stock	-	-	-	327,200

Valuation gains arising from changes in fair value of financial instruments determined using valuation techniques were $43,274 thousand and $102,766 thousand for the years ended December 31, 2008 and 2007, respectively.

As of December 31, 2008 and 2007, the interest income (expense) associated with financial assets (liabilities) other than those at FVTPL was as follows:

	Year Ended December 31	
	2008	2007
Total interest income	$ 14,695,130	$ 14,571,107
Total interest expense	7,502,445	7,415,733

The Bank recognized an unrealized loss of $419,219 thousand and $65,287 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets in the year ended December 31, 2008 and 2007, respectively, and of which $362,590 thousand and $14,982 thousand were reclassified into current loss in the income statement.

d. Financial risks

1) Market risk

The risk management of the Bank, please refer to Note 31.

2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2008 and 2007, ratios of secured loans to total loans were 78.81% and 77.93 %, respectively. Ratio of secured financial guarantees and standby letters of credits were 35.09% and 32.52%. Collaterals held vary but may include cash, inventories, marketable securities, and other properties. When the customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising from the guarantees received. 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.

The Bank has significant credit commitments principally relating to credit cards issued and credit facilities extended. The terms of most of the credit commitments range from half year to ten years. For the years ended December 31, 2008 and 2007, the loan interest rates ranged from 1.75% to 9.50% and 1.70% to 9.1%, respectively, and the highest interest rate for credit cards was 19.99%. The Bank also provided guarantees on customers' loans and letters of credit obtained from third parties. The maturity dates of these commitments are not concentrated in a particular period.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2008 and 2007 were as follows:

	December 31	
	2008	**2007**
Credit commitments for credit cards	$ 304,808,175	$ 339,144,137
Guarantees and standby letters of credit	6,767,588	8,465,275
Irrevocable loan commitments	998,233	492,923

The maximum exposure of counterparties presented above were evaluations on off-balance sheet credit risk contracts with positive amounts on the balance sheet date. Concentrations of credit risk exist when changes in economic or other factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure on a continuous basis. Credit risk profile by region is not significant on December 31, 2008 and 2007. On December 31, 2008 and 2007, the Bank's most significant concentrations of credit risk were summarized as follows:

	Carrying Amount	
	December 31	
Credit Risk Profile by Counterparty	**2008**	**2007**
Consumer	$ 135,964,871	$ 147,532,855
Private sector	38,496,650	51,623,058
Government	772,580	1,263,725
	$ 175,234,101	$ 200,419,638

Credit Risk Profile by Industry Sector	December 31, 2008	Credit Risk Profile by Industry Sector	December 31, 2007
Real estate activities	$ 10,349,728	Real estate activities	$ 18,677,997
Commercial	6,587,644	Finance and insurance	8,315,135
Finance and insurance	5,708,141	Manufacturing	6,711,177
	$ 22,645,513		$ 33,704,309

The Bank does not make significant loans to foreign areas in 2008 and 2007. The credit risks of the abovementioned loans are the same with their respective the carry amount classified by either the counterparty or industry sector.

3) Liquidity risk

As of December 31, 2008 and 2007, the liquidity reserve ratio was 18.81% and 10.66%, respectively. The Bank has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of failing to liquidate the derivative financial instruments with reasonable price is remote.

The management policy of the Bank is to match the maturity and interest rate of its assets and liabilities. Due to the uncertainty resulting from terms of transactions, the maturities and interest rates of assets and liabilities usually didn't fully match. The gap may arise potential gain or loss.

The Bank applied appropriate way to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

	December 31, 2008					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due After One Year	Total
Assets						
Cash and cash equivalents	$ 5,953,729	$ 6,267	$ 180,000	$ 206,000	$ -	$ 6,345,996
Due from the Central Bank and other banks	38,280,997	2,600,000	1,900,000	-	-	42,780,997
Financial assets at fair value through profit or loss	7,349,968	18,172	144,642	9,021	153,216	7,675,019
Securities purchased under resell agreements	6,355,286	200,000	-	-	-	6,555,286
Receivables	23,963,327	59,815	33,961	35,883	7,702	24,100,688
Discounts and loans	8,697,834	5,513,286	9,018,474	15,819,184	143,735,272	182,784,050
Available-for-sale financial assets	-	-	-	425,466	5,854,252	6,279,718
Held-to-maturity investments	500	-	38,155	8,992	36,270,640	36,318,287
	90,601,641	8,397,540	11,315,232	16,504,546	186,021,082	312,840,041
Liabilities						
Call loans and due to banks	262,883	-	6,644	19,804,676	-	20,074,203
Financial liabilities at fair value through profit or loss	110,173	13,484	239	4,570	84,438	212,904
Securities sold under repurchase agreements	12,856,958	1,483,502	-	-	13,502,872	27,843,332
Payables	3,755,335	364,520	401,384	424,993	35,086	4,981,318
Deposits and remittance	38,898,974	35,699,113	41,806,409	76,609,937	84,736,901	277,751,334
Bank debentures	-	-	-	44,300	9,000,000	9,044,300
	55,884,323	37,560,619	42,214,676	96,888,476	107,359,297	339,907,391
Net liquidity gap	$ 34,717,318	$ (29,163,079)	$ (30,899,444)	$ (80,383,930)	$ 78,661,785	$ (27,067,350)

	December 31, 2007					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due After One Year	Total
Assets						
Cash and cash equivalents	$ 5,145,501	$ -	$ 150,000	$ 206,000	$ -	$ 5,501,501
Due from the Central Bank and other banks	22,551,422	-	-	-	-	22,551,422
Financial assets at fair value through profit or loss	7,597,036	-	-	-	149,426	7,746,462
Securities purchased under resell agreements	5,863,732	-	-	-	-	5,863,732
Receivables	31,036,332	49,639	16,616	26,106	7,569	31,136,261
Discounts and loans	10,069,320	6,783,794	11,159,784	21,283,178	158,400,794	207,696,871
Available-for-sale financial assets	12,607	-	-	386,049	3,040,912	3,439,568
Held-to-maturity investments	7,200	-	-	10,038	48,542,303	48,559,541
	82,283,150	6,833,433	11,326,400	21,911,371	210,141,004	332,495,358
Liabilities						
Call loans and due to banks	4,003,403	500	15,820	23,067,096	-	27,086,819
Financial liabilities at fair value through profit or loss	1,051	422	881	551	58,421	61,326
Securities sold under repurchase agreements	19,782,772	6,038,169	974,520	6,069,798	-	32,865,259
Payables	3,318,320	340,626	381,437	508,267	227,450	4,776,100
Deposits and remittance	34,702,397	35,282,682	40,365,540	118,361,355	35,242,461	263,954,435
Bank debentures	-	-	-	-	10,526,400	10,526,400
	61,807,943	41,662,399	41,738,198	148,007,067	46,054,732	339,270,339
Net liquidity gap	$ 20,475,207	$ (34,828,966)	$ (30,411,798)	$ (126,095,696)	$ 164,086,272	$ (6,774,981)

e. Reclassifications

On July 1, 2008, the Bank reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassifications	After Reclassifications
Financial assets at fair value through profit or loss - held for trading	$ 2,021,441	$ -
Available-for-sale financial assets	-	2,021,441
	$ 2,021,441	$ 2,021,441

In addition, the Bank reclassified its assets backed commercial paper from held for trading financial assets into non-active market debt instruments in accordance with the amended SFAS No. 34 during the third quarter of 2008. Please refer to Note 6 for detail.

The carrying amounts and fair values of the reclassified financial assets as at December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$ 884,082	$ 884,082
Non-active market debt instruments	1,283,869	1,283,869

The changes in fair value of the reclassified financial assets recognized in profit and loss or stockholders' equity were as follows:

	Year Ended December 31, 2008			
	Before Reclassifications		After Reclassifications	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Held for trading financial assets	$ (488,120)	$ -	$ -	$ -
Available-for-sale financial assets	-	-	(350,394)	(199,525)
Non-active market debt instruments	-	-	(962,389)	-

The changes in fair value recognized in profit and loss or stockholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Amounts Recorded		Pro Forma Information Assuming No Reclassifications
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss
Available-for-sale financial assets	$ -	$ (199,525)	$ (199,525)
Held-to-maturity financial assets	(962,389)	-	(962,389)

31. MARKET RISK CONTROL AND HEDGE STRATEGY

a. Risk managing indicators and strategy

The Bank's main risk are credit risk, market risk and liquidity risk. The risk management policies are 1) short-term goal: To integrate and collect any risk variables to set up quantifiable risk quote; 2) long-term goal: To maximize stockholder's return by setting up risk management and evaluative system and best capital allocation.

b. Quantifiable risk measurement and control

1) Credit risk: The goal is to control risk in tolerable level by setting up measurement tools which quantify risk across products and businesses. Then, the Bank builds the model in loan procedures to ensure the spread could bear the risk to protect the stockholder and depositors.

    a) Setting up credit risk measurement system and database when making loans and reserving the historical data of credit risk measurement.

    b) Setting up credit rating system connecting with interest spread.

    c) Modulating credit risk measurement model and instruments by economy, forecasting and customer attribute to ensure the data match status.

2) Market risk: The goal is to set up the identifying, evaluating, monitoring, reporting and controlling procedures. The Bank builds related risk management procedure and mechanism under the guideline of Based II and plans to build risk management system to ensure that the outcomes of risk-taking activities are predictable and within the Bank's risk tolerance parameter and that there is an appropriate balance between risk and reward.

a) The trade limit control: The limit approved by the board of directors or senior management committees included the limit of investment, counter parties, trader and total limit.

b) The price risk control: Marked-to-market valuation method which values the open position by settlement price daily. The data of sensitivity analysis of all outstanding position and stop-loss monitor information can be obtained through trading management system.

c) The risk report: To ensure risk control effectively, outstanding position report and integrated risk management report are available on a continuing basis.

3) Operational risk

a) Establishment of the strategy procedures at an all-bank level control procedure and process.

b) Establishment of database and reporting system of the operational risk loss data by activity units or activities, and keep the data to improve internal control.

c) Establish information and employees backup system to lower the loss of spot situation.

4) Liquidity risk

The Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. The Bank measures and forecasts cash commitments on a daily basis and conducts regular liquidity crisis stress testing. The Bank's liquidity contingency plan provides the framework from which to determine appropriate action plan in the event of a liquidity crisis.

32. STATEMENT OF CAPITAL ADEQUACY

(In Thousands of New Taiwan Dollars, %)

Items			December 31, 2008 Union Bank	December 31, 2008 Consolidated
Eligible capital	Tier 1 capital		$ 8,682,110	$ 11,505,308
	Tier 2 capital		6,298,585	7,308,692
	Tier 3 capital		-	-
	Eligible capital		14,980,695	18,814,000
Risk-weighted assets	Credit risk	Standardized approach	154,638,398	169,321,710
		Internal ratings - based approach	-	-
		Securitization	760,942	760,942
	Operational risk	Basic indicator approach	16,657,182	17,915,629
		Standardized approach/Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	5,137,292	8,577,007
		Internal model approach	-	-
	Risk-weighted assets		177,193,814	196,575,288
Capital adequacy ratio			8.45	9.57
Ratio of tier 1 capital to risk-weighted assets			4.90	5.85
Ratio of tier 2 capital to risk-weighted assets			3.55	3.72
Ratio of tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			5.36	5.11

Note 1: The above tables were prepared in accordance with the "Regulations Governing the Capital Adequacy Ratio of Banks" and related calculation tables.

Note 2: Formulas used were as follows:

1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk - weighted assets.

4) Ratio of tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets.

6) Ratio of tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets.

7) Ratio of common stock to total assets = Common stock ÷ Total assets.

(In Thousands of New Taiwan Dollars, %)

Items			Year: December 31, 2007	
			Union Bank	**Consolidated**
Eligible capital	Tier 1 capital		$ 9,937,596	$ 15,657,690
	Tier 2 capital		8,611,939	8,307,867
	Tier 3 capital		-	-
	Eligible capital		18,549,535	23,965,557
Risk-weighted assets	Credit risk	Standardized approach	180,228,521	$ 194,310,086
		Internal ratings - based approach	-	-
		Securitization	7,248,829	7,248,829
	Operational risk	Basic indicator approach	15,819,638	16,606,550
		Standardized approach/Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	6,356,923	15,461,962
		Internal model approach	-	-
	Risk-weighted assets		209,653,911	233,627,427
Capital adequacy ratio			8.85	10.26
Ratio of tier 1 capital to risk-weighted assets			4.74	6.70
Ratio of tier 2 capital to risk-weighted assets			4.11	3.56
Ratio of tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			5.35	5.06

Note: Capital adequacy ratio = Eligible capital/Risk-weighted assets pursuant to the Banking Law and related regulations.

33. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Credit risks

1) Asset quality: Table 4 (attached)

2) Concentration of credit extensions

December 31, 2008

(In Thousands of New Taiwan Dollars, %)

Rank	Group Enterprise name	Total Amount of Credit Endorsement or Other Transactions	Percentage of Equity (%)
1	Union Group	$3,252,274	19.03
2	Wei Da Group	1,588,126	9.29
3	Li Ba Group	1,370,831	8.02
4	Chinatrust Financial Holdings Co., Ltd.	1,203,828	7.04
5	Lin San Hao Group	1,075,032	6.29
6	Miramar Group	918,817	5.38
7	Hung Tai Group	842,500	4.93
8	Qing Feng Group	755,436	4.42
9	Tao Da Construction Group	748,244	4.38
10	President Group	494,733	2.89

December 31, 2007

(In Thousands of New Taiwan Dollars, %)

Rank	Group Enterprise name	Total Amount of Credit Endorsement or Other Transactions	Percentage of Equity (%)
1	Hung Tai Group	$3,830,853	21.17
2	Union Group	3,376,147	18.65
3	Wei Da Group	2,495,200	13.79
4	Chinatrust Financial Holdings Co., Ltd.	1,170,663	6.47
5	Lin San Hao Group	1,134,356	6.27
6	Qing Feng Group	1,081,772	5.98
7	Miramar Group	906,810	5.01
8	Chang Liao Leasing Group	842,622	4.66
9	Tao Da Construction Group	592,900	3.28
10	Wei Jing Group	529,689	2.93

b. Interest rate sensitivity information

Interest Rate Sensitivity
December 31, 2008

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest rate-sensitive assets	$ 213,601,977	$ 5,812,242	$ 4,778,414	$ 30,299,882	$ 254,492,515
Interest rate-sensitive liabilities	120,107,401	92,539,253	46,719,775	23,049,855	282,416,284
Interest rate sensitivity gap	93,494,576	(86,727,011)	(41,941,361)	7,250,027	(27,923,769)
Net worth					14,931,060
Ratio of interest rate-sensitive assets to liabilities					90.11%
Ratio of interest rate sensitivity gap to net worth					(187.02%)

Interest Rate Sensitivity
December 31, 2007

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 218,099,045	$ 5,168,829	$ 6,943,359	$ 35,606,979	$ 265,818,212
Interest rate-sensitive liabilities	131,285,553	94,259,067	34,611,237	13,392,927	273,548,784
Interest rate sensitivity gap	86,813,492	(89,090,238)	(27,667,878)	22,214,052	(7,730,572)
Net worth					16,430,138
Ratio of interest rate-sensitive assets to liabilities					97.17%
Ratio of interest rate sensitivity gap to net worth					(47.05%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the onshore branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities 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.

Interest Rate Sensitivity
December 31, 2008

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 89,336	$ 21,087	$ 1,513	$ 1,664,347	$ 1,776,283
Interest rate-sensitive liabilities	1,139,922	219,993	143,764	-	1,503,679
Interest rate sensitivity gap	(1,050,586)	(198,906)	(142,251)	1,664,347	272,604
Net worth					100,849
Ratio of interest rate-sensitive assets to liabilities					118.13%
Ratio of interest rate sensitivity gap to net worth					(270.31%)

Interest Rate Sensitivity
December 31, 2007

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 61,453	$ 30,015	$ 3,315	$ 1,492,532	$ 1,587,315
Interest rate-sensitive liabilities	1,042,557	351,851	374,167	457	1,769,032
Interest rate sensitivity gap	(981,104)	(321,836)	(370,852)	1,492,075	(181,717)
Net worth					58,855
Ratio of interest rate-sensitive assets to liabilities					89.73%
Ratio of interest rate sensitivity gap to net worth					(308.75%)

Note 1: The above amounts includes U.S. dollar amounts held by the onshore branches, OBU and offshore branches of the Bank, excludes contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities 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.

c. Liquidity risk

1) Profitability:

(%)

Items		2008	2007
Return on total assets	Before income tax	(0.50)	(1.79)
	After income tax	(0.34)	(1.37)
Return on net worth	Before income tax	(10.17)	(35.12)
	After income tax	(6.88)	(26.87)
Profit margin		(19.31)	(62.26)

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 represents income for the years ended December 31, 2008 and 2007.

2) Maturity analysis of assets and liabilities:

Maturity Analysis of Asset and Liabilities
December 31, 2008

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	$ 294,084,584	$ 77,175,025	$ 14,064,636	$ 13,351,058	$ 18,432,721	$ 171,061,144
Main capital outflow on maturity	303,901,307	35,920,922	31,215,142	35,304,525	92,563,047	108,897,671
Gap	(9,816,723)	41,254,103	(17,150,506)	(21,953,467)	(74,130,326)	62,163,473

Maturity Analysis of Asset and Liabilities
December 31, 2007

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	$ 295,568,826	$ 58,083,491	$ 11,092,436	$ 14,787,158	$ 24,759,616	$ 186,846,125
Main capital outflow on maturity	302,654,939	40,342,182	33,625,779	30,271,304	135,843,861	62,571,813
Gap	(7,086,113)	17,741,309	(22,533,343)	(15,484,146)	(111,084,245)	124,274,312

Note: The above amounts included only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e. excluding foreign currency).

Maturity Analysis of Assets and Liabilities
December 31, 2008

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	$ 2,357,101	$ 601,424	$ 43,401	$ 30,871	$ 1,927	$ 1,679,478
Capital outflow on maturity	2,357,101	1,159,146	318,258	221,563	145,284	512,850
Gap	-	(557,722)	(274,857)	(190,692)	(143,357)	1,166,628

Maturity Analysis of Assets and Liabilities
December 31, 2007

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	$ 2,240,020	$ 634,712	$ 72,376	$ 28,572	$ 5,859	$ 1,498,501
Capital outflow on maturity	2,240,021	1,118,923	351,511	357,151	376,973	35,463
Gap	(1)	(484,211)	(279,135)	(328,579)	(371,114)	1,463,038

Note 1: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

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

34. ADDITIONAL DISCLOSURES

a. Related information of significant transactions and investees:

1) Financing provided: The Bank and Union Bills Financial Corporation - not applicable; investee company - none

2) Endorsement/guarantee provided: The Bank and Union Bills Financial Corporation - not applicable; investee company - none

3) Marketable securities held: The Bank - not applicable; investee company: Table 1 (attached)

4) Acquired and disposed of investee investment at costs or prices of at least NT$300 million or 10% of the issued capital: None

5) Acquisition of individual real estates at costs of at least NT$300 million or 10% of the issued capital: None

6) Disposal of individual real estates at prices of at least NT$300 million or 10% of the issued capital: None

7) Allowance for service fee to related parties amounting to at least NT$5 million: None

8) Receivables from related parties amounting to at least NT$300 million or 10% of the issued capital: Table 2 (attached)

9) Sale of nonperforming loans: None

10) Financial asset securitization: Table 3 (attached)

11) Other significant transactions which may affect the decision of financial statements users: Table 4 (attached)

12) The information of investees: Table 5 (attached)

13) Derivative financial transactions: For the Bank's related information, please see Note 30. The investees' related information is as follows:

<u>Union Bills Finance Corporation (UBF)</u>

UBF enters into derivative financial instruments for cash flow and risk management.

a) The contract (notional) amount of derivative financial instruments as of December 31, 2008 and 2007 were as follows:

	December 31	
	2008	2007
Financial Instruments	**Contract (Notional) Amounts**	**Contract (Notional) Amounts**
Assets swap	$ 32,500	$ 122,600
Interest rate swap	15,300,000	25,500,000

b) Fair value of derivative financial instruments

	December 31, 2008		December 31, 2007	
Financial Instruments	**Carrying Value**	**Fair Value Based on Estimates**	**Carrying Value**	**Fair Value Based on Estimates**
Assets				
Asset swaps	$ 32,233	$ 32,233	$ 121,431	$ 121,431
Interest rate swap	-	-	6,590	6,590
Liabilities				
Interest rate swap	26,529	26,529	33,969	33,969

c) Market price risk

The risk factors of market price risk includes changes in rate and price. UBF measures risk of interest rate by using PVBP (price value of a basic point) to determine the decrease of the amount of the fair value of bonds while the market interest rate increase by 1%. The risk of changes is determined by analyzing the valuation of financial instruments based on their identity.

The market price will be adopted once the centralized trading markets are available for the financial instruments such as the interest future, stock future, option and stock. Otherwise, the theoretical prices based on valuation techniques will be used in determining the price of the financial products such as interest rate swap, asset swap and bond option. UBF plans to develop and establish the system of calculating risk.

d) Credit risk

UBF is exposed to credit risk in the event of default on contracts by counter-parties. The maximum exposure of counter parties were evaluations on off-balance sheet credit risk contracts with positive amounts on the balance sheet date.

The maximum credit exposure of the financial instruments (except for the fair value of collaterals) held by UBF equaled the book value except which analysed as follows:

	December 31, 2008		December 31, 2007	
Financial Instrument	**Notional Amounts**	**Financial Instruments**	**Notional Amounts**	**Financial Instruments**
Derivative financial instrument				
Interest rate swap	$ 15,300,000	$ 42,102	$ 25,500,000	$ 68,908
Asset swap	$ 32,500	$ 6	$ 122,600	$ -

e) Liquidity risk

UBF has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of failing to dispose the derivative financial instruments held by UBF with reasonable price is remote, except for the interest rate swap contract characterized by leverage effect.

f) Accounting policy for derivative instruments

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

b. Investment in Mainland China: None.

35. SEGMENT INFORMATION

The Bank engages only in banking activities allowed under the Banking Law and operates entirely in the Republic of China. The Bank has no single customer that accounts for 10% or more of the Bank’s operating revenues. No geographic and customer information is required to be disclosed.

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2008				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	872	$ 7,085	0.06%	$ 7,085	-
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	2,198	-	2,198	-
	China Chemical Corporation	-	Available-for-sale financial assets	356	4,883	-	4,883	-
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	509,213	100.00%	US$ 15,525	-
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	109,037	100.00%	US$ 3,324	-
	Union Bills Finance Corporation	Affiliate	Unquoted equity instruments	2,100	26,250	0.71%	19,140	Note 1
	WI Harper Group	-	Unquoted equity instruments	1,317	7,487	3.33%	10,111	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	4,748	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	1	487	0.99%	5,235	Note 1
Union Bills Finance Corporation	Stock							
	TSEC Taiwan 50 Index	-	Financial assets at fair value through profit or loss	-	3,681	-	3,681	-
	Formosa Chemicals & Fiber Corporation	-	Financial assets at fair value through profit or loss	-	29,528	-	29,528	-
	Taiwan Hon chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss	-	437	-	437	-
	Ttet Union Corporation	-	Available-for-sale financial assets	-	982	-	982	-
	UPC Technology Co., Ltd.	-	Available-for-sale financial assets	1	11,449	-	11,449	-
	China Steel Co., Ltd.	-	Available-for-sale financial assets	2	50,124	-	50,124	-
	Chung Hung Steel	-	Available-for-sale financial assets	2	17,340	-	17,340	-
	Yeun Chyang Co., Ltd.	-	Available-for-sale financial assets	-	934	-	934	-
	TSRC Corporation	-	Available-for-sale financial assets	2	58,702	-	58,702	-
	Far EasTone Co., Ltd.	-	Available-for-sale financial assets	-	134	-	134	-
	Debt Instrument Depository and Clearing Co., Taiwan	-	Unquoted equity instruments	-	8,974	-	8,974	Note 2
	Beneficiary certificate							
	NITC Global Trends Fund	-	Financial assets at fair value through profit or loss - fund	1	9,900	-	9,900	-
	Adam Global Emerging Markets Fund	-	Available-for-sale financial assets	1	5,709	-	5,709	-
	JF(Taiwan) Asia Fund	-	Available-for-sale financial assets	-	5,777	-	5,777	-
	AIG Latin American Fund	-	Available-for-sale financial assets	1	4,996	-	4,996	-
	Far Eastern Alliance Global Material and Energy Fund	-	Available-for-sale financial assets	-	6,220	-	6,220	-

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2008				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	<u>Bond</u>							
	Jih Sun Financial Bonds - 2004-1	-	Financial assets at fair value through profit or loss	80 piece	$ 815,334	-	$ 815,334	-
	Union Bank Financial Bonds 2004-1 (Issued by The Bank)	-	Financial assets at fair value through profit or loss	159 piece	544,973	-	544,973	-
	Union Bank Financial Bonds 2004-2 (Issued by The Bank)	-	Financial assets at fair value through profit or loss	55 piece	101,594	-	101,594	-
	Far Eastern International Bank Financial Bonds	-	Financial assets at fair value through profit or loss	30 piece	300,918	-	300,918	-
	Taishin Bank Financial Bond 2003-1-5 D Issue	-	Financial assets at fair value through profit or loss	20 piece	199,937	-	199,937	-
	Taishin Bank Financial Bonds 2003-1-6 B Issue	-	Financial assets at fair value through profit or loss	30 piece	299,186	-	299,186	-
	Union Bank Financial Bonds 2006-1 (Issued by The Bank)	-	Financial assets at fair value through profit or loss	-	9,973	-	9,973	-
	China Development Financial Bonds 2005-1	-	Financial assets at fair value through profit or loss	15 piece	150,022	-	150,022	-
	Taishin Bank Financial Bonds - 2003-1	-	Financial assets at fair value through profit or loss	10 piece	102,185	-	102,185	-
	Jih Sun Financial Bonds - 2005-1	-	Financial assets at fair value through profit or loss	5 piece	51,015	-	51,015	-
	Transcend Convertible Bonds	-	Financial assets at fair value through profit or loss	2,500 piece	2,500	-	2,500	-
	China Airline Convertible Bonds 2004	-	Financial assets at fair value through profit or loss	20,000 piece	20,000	-	20,000	-
	China Airline Convertible Bonds 2004	-	Financial assets at fair value through profit or loss	10,000 piece	10,000	-	10,000	-
	Nan Ya Plastics Corporate Bonds	-	Financial assets at fair value through profit or loss	-	189,818	-	189,818	-
	Formosa Plastics Corporate Bond	-	Financial assets at fair value through profit or loss	-	47,644	-	47,644	-
	Cathay United Bank Financial Bonds - 2005-2	-	Available-for-sale financial assets	10 piece	100,153	-	100,153	-
	NAN YA Plastics Corporation Bonds 2003-1 A Issue	-	Available-for-sale financial assets	7 piece	34,982	-	34,982	-
	Yang Ming Marine Transport Corporation Unsecured Bond 2006-1 B Issue	-	Available-for-sale financial assets	10 piece	100,845	-	100,845	-
	China Development Financial Holding Corporation Unsecured Bond 2005-2A Issue	-	Available-for-sale financial assets	45 piece	450,001	-	450,001	-
	Chi Mei Corporation 1st Unsecured Bond 2005-1 D Issue	-	Available-for-sale financial assets	3 piece	30,072	-	30,072	-
	Formosa Plastics Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets	-	302,668	-	302,668	-
	Far Eastern Textile 2nd Unsecured Bond 2008 Issue	-	Available-for-sale financial assets	-	202,269	-	202,269	-
	Nanya Technology Corporate Bond 2005-3 Issue	-	Available-for-sale financial assets	-	199,103	-	199,103	-
	Inotera Corporate Bonds - 2006-2	-	Available-for-sale financial assets	-	297,742	-	297,742	-
	Inotera Corporate Unsecured Bond 2006-1 Issue	-	Available-for-sale financial assets	-	495,390	-	495,390	-
	Formosa Plastics Corporation Unsecured Bond 2008-3 Issue	-	Available-for-sale financial assets		409,385	-	409,385	-

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2008				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Yang Ming Marine Transport Corporation Unsecured Bond 2006-1 A Issue	-	Available-for-sale financial assets	-	$ 148,431	-	$ 148,431	-
	Taiwan Mobile 2nd Unsecured Bonds	-	Available-for-sale financial assets		205,297	-	205,297	-
	Mega Holdings 2nd Unsecured Bond 2007 Issue	-	Available-for-sale financial assets	-	202,601	-	202,601	-
	Mega Holdings 2nd Unsecured Bond 2007 Issue	-	Available-for-sale financial assets	-	197,169	-	197,169	-
	Yuanta Financial Holdings Bonds 2008-1	-	Available-for-sale financial assets	-	101,279	-	101,279	-
Union Information Technology Corporation	Stock							
	Jin Shang Chang Development Co., Ltd.	-	Available-for-sale financial assets	-	1	-	1	-
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,000	17,132	16.33%	22,891	Note 4
	eBizServe, Inc.	-	Unquoted equity instruments	825	3,066	8.25%	6,211	Note 4
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 piece	US$ 395	-	US$ 395	-
	Wash Mutual PFD Funding	-	Available-for-sale financial assets	900 piece	US$ 346	-	US$ 346	-
	Penn West Energy	-	Available-for-sale financial assets	29 piece	US$ 322	-	US$ 322	-
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 439	-	US$ 439	-
	Applied Materials Inc.	-	Financial assets at fair value through profit or loss	3	US$ 249	-	US$ 249	-
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 356	-	US$ 356	-
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 191	-	US$ 191	-
Union Insurance Broker Company	Stock							
	Asus Computer Corp.	-	Available-for-sale financial assets	21	764	-	764	-
	Protop Technology Co., Ltd.	-	Available-for-sale financial assets	1	-	-	-	-
New Asian Ventures Ltd.	Stock							
	PGWC Wireless Inc.	-	Available-for-sale financial assets	372	US$ -	3.93%	US$ -	-
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US$ 2,500	0.74%	US$ 2,233	Note 3
	Medinox Inc.	-	Unquoted equity instruments	403	US$ 350	1.23%	US$ -	Note 3

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. WI Haper Group and ERA Communications Co., Ltd. and Yung Li Securities Co., Ltd. - audited stockholders' equity as of December 31, 2007.
b. Union Bills Finance Corporation - the audited stockholders' equity as of December 31, 2008.

Note 2: Union Bills Finance Corporation had investments in Taiwan Depository & Clearing Corporation - the audited stockholders equity as of December 31, 2008.

(Continued)

Note 3: New Asian Ventures Ltd.:

a. Medinox Inc. - unaudited stockholders' equity as of June 30, 2008.
b. Grace Thw Holding Limited - audited stockholders equity as of December 31, 2007.

Note 4: Except above, other companies - unaudited stockholders' equity as of December 31, 2007.

The market value of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. Beneficiary certificates were based on net asset values as of the balance sheet date.

(Concluded)

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE ISSUED CAPITAL
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Company	Counter-party	Relationship	Ending Balance	Turnover Rate	Overdue Receivables from Related Parties		Collection Subsequently	Allowance for Bad Debts
					Amount	Deal With		
Union Bank of Taiwan	Morgan Stanley Union Bank Asset Management Corporation	Equity-method investee	$644,025	Unsuitable for financial institution	None	Unsuitable	None	None

Note: Receivables were from sale of nonperforming loans to Morgan Stanley Union Bank Asset Management Corporation as of June 27 and September 20, 2006.

TABLE 3

UNION BANK OF TAIWAN

FINANCIAL ASSET SECURITIZATION
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Special Purpose Trust (SPT)

In November 2005, the Union Securities Investment Trust Corporation (USITC) entered into contracts for a special-purpose trust with the Taishin International Bank ("Taishin") and the Land Bank of Taiwan ("Land Bank"). Under the contract and the "Regulations for Financial Asset Securitization," structured bonds amounting to $2,000,000 thousand, in which the bond funds managed by USITC had been invested, were placed in an asset pool for the issuance of revolving beneficiary securities, i.e., the beneficiary securities will be issued once every three months for seven years. USITC should appropriate $94,000 thousand, recorded as other assets, to enhance the credit once the asset pool has a shortage of cash flows and to absorb expenses needed for the issuance of the beneficiary securities. The amount of this appropriation was based on the calculation of credit agency. After assessing the recoverable amount of the cash flow reserve, USITC recognized loss allowances of $1,218 thousand and of $26,193 thousand as of December 31, 2008 and 2007, respectively. The security issuance expenses were $12,239 thousand in 2008 and $2,489 thousand in 2007.

When Lehman Brothers Holdings Inc. ("Lehman"), a global financial services agency, declared bankruptcy in 2008, the special-purpose trust was affected because the interest on some foreign structure bonds in the asset pool was not paid on time. On November 21, 2008, the special-purpose trust terminated the issuance of revolving beneficiary securities. In addition, as of December 31, 2008, USITC recognized a loss of $219,178 thousand based on the estimation of possible losses and also reclassified the beneficiary securities to debt receivable.

UNION BANK OF TAIWAN

ASSET QUALITY
DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2008					December 31, 2007				
Items		**Nonperforming Loans (Note 1)**	**Loans**	**Ratio of Nonperforming Loans (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**	**Nonperforming Loans (Note 1)**	**Loans**	**Ratio of Nonperforming Loans (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**
Corporate Banking	Secured	$ 1,072,003	$ 34,215,928	3.13%			$ 1,119,333	$ 42,383,195	2.64%		
	Unsecured	1,603,040	25,015,959	6.41%			1,555,161	30,073,837	5.17%		
Consumer Banking	Housing mortgage (Note 4)	858,804	110,149,766	0.78%			811,799	118,455,726	0.69%		
	Cash card	51,097	1,333,339	3.83%			90,554	2,113,454	4.28%		
	Small scale credit loans (Note 5)	1,004,392	3,277,605	30.64%	$ 2,865,895	58.22%	880,293	4,136,338	21.28%	$ 2,173,285	43.74%
	Other (Note 6) Secured	96,771	858,400	11.27%			122,215	1,013,535	12.06%		
	Other (Note 6) Unsecured	236,347	6,610,975	3.58%			389,079	8,769,362	4.44%		
Deposits and Remittances	Certificates of deposit	-	1,322,078	-			-	751,424	-		
Loan		4,922,454	182,784,050	2.69%	2,865,895	58.22%	4,968,434	207,696,871	2.39%	2,173,285	43.74%
		Nonperforming Receivables (Note 1)	**Receivables**	**Ratio of Nonperforming Receivables (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**	**Nonperforming Receivables (Note 1)**	**Receivables**	**Ratio of Nonperforming Receivables (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**
Credit cards		$ 584,633	$ 20,744,565	2.82%	$ 542,413	92.78%	$ 628,185	$ 26,619,791	2.36%	$ 2,159,272	343.73%
Factoring accounts receivable without recourse (Note 7)		-	-	-	-	-	-	-	-	-	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)		632,883					787,987				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)		2,670,815					4,124,834				
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans (Note 9)		27,862					-				
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming receivable (Note 9)		376,111					-				

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans." Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

(Continued)

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumers banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), factoring accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Note 8: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: Amounts of executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN

INFORMATION OF AND PROPORTIONATE SHARE IN INVESTEES
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	The Proportionate Share of the Bank and its Affiliates in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership	
Financial - related										
Union Bills Finance Co.	Taipei	Bills finance	42.76%	$ 1,152,724	$ (159,869)	166,581	-	166,581	56.43%	Note
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00%	1,035,276	13,272	100,000	-	100,000	100.00%	Note
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99%	81,992	(4,056)	30,001	-	30,001	100.00%	Note
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00%	40,698	(68,988)	11,951	-	11,951	39.84%	Note
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00%	30,112	10,919	500	-	500	100.00%	Note
Morgan Stanley Union Bank Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution; does accounts receivable factoring	49.00%	-	(74,778)	1,323	-	1,323	49.00%	Note
Taiwan Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution	0.57%	100,000	6,716	10,000	-	10,000	0.57%	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94%	50,000	-	5,000	-	5,000	2.94%	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53%	43,935	-	3,942	-	3,942	0.53%	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44%	3,864	111	386	-	386	6.44%	
Entie Securities Finance Co.	Taipei	Securities finance	12.15%	492,298	-	65,206	-	65,206	12.15%	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81%	2,113	509	160	-	160	0.81%	
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99%	72,412	(515)	5,000	-	5,000	99.99%	Note
Financial Information Service Co., Ltd.	Taipei	Information service	2.39%	118,782	16,281	9,577	-	9,577	2.39%	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.08%	4,639	302	247	-	247	0.08%	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04%	71,250	4,483	4,783	-	4,783	2.04%	
Non-financial related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00%	66,160	14,806	4,000	-	4,000	80.00%	Note
Fu Hua Venture Corporation	Taipei	Investments	5.00%	23,925	-	3,000	-	3,000	5.00%	
Jiao Da Venture Corporation	Taipei	Investment	5.00%	10,558	-	1,917	-	1,917	5.00%	
Li Yu Venture Corporation	Taipei	Investment	4.76%	13,619	-	1,216	-	1,216	4.76%	
Lian An Service Corporation	Taipei	Security service	5.00%	1,501	125	125	-	125	5.00%	
Save Com International Inc.	Taipei	Telecommunication and net work integration	0.07%	75	-	63	-	63	0.07%	
Taipower Corporation	Taipei	Electricity-related business	0.0012%	6,124	-	395	-	395	0.0012%	
Global Communication Semiconductor, Inc.	U.S.A.	-	1.56%	9,185	-	1,389	-	1,389	1.56%	
Master Card	U.S.A.	Credit card	-	746	-	1	-	1	-	
VISA	U.S.A.	Credit card	-	331,342	-	235	-	235	-	

Note: The information of investee company shown above are based on audited financial reports as of December 31, 2008.