Union Bank of Taiwan

Financial Statements for the
Years Ended December 31, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009 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 0.04% (NT$147,266 thousand) and 0.39% (NT$1,358,448 thousand) of the Bank's total assets as of December 31, 2010 and 2009, respectively. The losses from these equity-method investments were 1.26% (NT$23,181 thousand) and 1.41% (NT$9,536 thousand) of the pretax income in 2010 and 2009, 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 36, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the 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 14 and 25 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 an increase of NT$1,587,321 thousand and NT$1,587,340 thousand in pretax income in 2010 and 2009, respectively. Also, the balances of the other assets and unappropriated earnings as of December 31, 2010 and 2009 would have decreased by NT$965,255 thousand and NT$2,552,920 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, 2010 and 2009, 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, the Criteria Governing the Preparation of Financial Reports by Securities Firms, 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.

We have also audited the consolidated financial statements of Union Bank of Taiwan and subsidiaries as of and for the years ended December 31, 2010 and 2009, on which we have issued a qualified opinion in our report dated February 28, 2011.

February 28, 2011

Notice to Readers

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, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2010 Amount	2009 Amount	% Increase (Decrease)
CASH AND CASH EQUIVALENTS (Note 3)	$ 8,944,278	$ 5,560,882	61
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 4 and 25)	61,324,277	57,348,656	7
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 5 and 30)	3,017,823	400,971	653
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2, 25 and 27)	39,500	289,953	(86)
RECEIVABLES, NET (Notes 2, 6 and 25)	16,808,438	20,076,909	(16)
DISCOUNTS AND LOANS, NET (Notes 2, 7, 25 and 30)	189,657,099	169,959,853	12
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 8, 25 and 30)	6,230,049	7,134,236	(13)
HELD-TO-MATURITY INVESTMENTS (Notes 2, 9 and 30)	3,272,634	9,724,545	(66)
INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD (Notes 2 and 10)	1,050,576	2,209,409	(52)
OTHER FINANCIAL ASSETS, NET (Notes 2, 11, 12, 25, 26 and 30)			
Financial assets carried at cost	452,581	1,270,885	(64)
Unquoted debt instruments	50,878,823	49,401,914	3
Others	5,805,683	5,177,318	12
Other financial assets, net	57,137,087	55,850,117	2
PROPERTY AND EQUIPMENT (Notes 2, 13, 25 and 27)			
Cost			
Land	3,529,565	3,552,631	(1)
Buildings	4,980,750	4,766,076	5
Machinery and equipment	1,409,042	1,413,579	-
Transportation equipment	267,157	261,585	2
Leasehold improvements	332,035	298,545	11
	10,518,549	10,292,416	2
Less: Accumulated depreciation	2,467,723	2,236,464	10
	8,050,826	8,055,952	-
Prepayments for land, buildings and equipment	38,657	218,682	(82)
Net property and equipment	8,089,483	8,274,634	(2)
GOODWILL (Notes 2, 15 and 34)	2,374,485	2,369,638	-
OTHER ASSETS (Notes 2, 14 and 23)	5,127,948	7,930,237	(35)
TOTAL	$ 363,073,677	$ 347,130,040	5

LIABILITIES AND STOCKHOLDERS' EQUITY	2010 Amount	2009 Amount	% Increase (Decrease)
LIABILITIES			
Call loans and due to banks (Notes 16 and 25)	$ 10,287,346	$ 18,088,773	(43)
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 30)	51,584	81,243	(37)
Securities sold under repurchase agreements (Notes 2, 25 and 27)	33,596,926	26,415,907	27
Payables (Notes 17 and 25)	3,838,896	3,276,818	17
Deposits and remittances (Notes 18, 25 and 30)	289,605,854	271,124,191	7
Bank debentures (Notes 2, 19, 25 and 30)	4,890,000	9,900,000	(51)
Other financial liabilities (Note 30)	318,027	242,363	31
Other liabilities (Notes 2 and 21)	390,574	470,515	(17)
Total liabilities	342,979,207	329,599,810	4
STOCKHOLDERS' EQUITY(Notes 2 and 21)			
Capital stock			
Common stock at par value of NT$10.00, authorized - 3,000,000 thousand shares; issued and outstanding - 1,645,991 thousand shares in 2010 and 1,918,824 thousand shares in 2009	16,459,908	19,188,244	(14)
Preferred stock	3,025,088	4,000,000	(24)
Total capital stock	19,484,996	23,188,244	(16)
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)			
Unappropriated earnings (accumulated deficit)	1,176,594	(5,651,650)	121
Other equity			
Unrealized gain on financial instruments	155,124	17,065	809
Cumulative translation adjustments	(640,778)	31,662	(2,124)
Net loss not recognized as pension cost	(115,277)	(88,902)	30
Total other equity	(600,931)	(40,175)	1,396
Total stockholders' equity	20,094,470	17,530,230	15
CONTINGENCIES AND COMMITMENTS (Notes 2 and 27)			
TOTAL	$ 363,073,677	$ 347,130,040	5

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

(With Deloitte & Touche audit report dated February 28, 2011)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010 Amount	2009 Amount	%
INTEREST REVENUE (Notes 2 and 25)	$ 9,166,812	$ 9,578,523	(4)
INTEREST EXPENSE (Note 25)	2,516,524	3,735,662	(33)
NET INTEREST	6,650,288	5,842,861	14
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 25)	1,917,872	1,664,452	15
Commissions and fee expenses (Note 2)	431,668	447,074	(3)
Net commissions and fees	1,486,204	1,217,378	22
Gain on financial assets and liabilities at fair value through profit or loss (Notes 2 and 5)	287,503	483,435	(41)
Realized gain on available-for-sale financial assets (Note 2)	162,912	490,911	(67)
Investment income recognized under the equity method, net (Notes 2 and 10)	5,152	57,831	(91)
Foreign exchange loss, net (Note 2)	(170,169)	(169,955)	-
Impairment losses, net (Notes 2, 10, 11, 14 and 15)	(279,606)	(75,970)	268
Gain on unquoted equity investments (Note 2)	129,128	37,063	248
Gain on disposal of collaterals assumed, net	145,813	50,411	189
Securities brokerage fee revenues, net (Note 25)	84,221	92,202	(9)
Amortization of loss on disposal of nonperforming loans (Note 14)	(1,587,321)	(1,587,340)	-
Other noninterest net revenues (expenses) (Note 25)	(13,559)	231,130	(106)
Total net revenues	6,900,566	6,669,957	3
PROVISION (Note 7)	409,502	1,359,427	(70)
OPERATING EXPENSES			
Personnel expenses (Notes 2, 21 and 22)	2,148,514	2,103,722	2
Depreciation and amortization (Notes 2 and 22)	374,075	440,388	(15)
Others (Note 25)	2,135,963	2,090,912	2
Total operating expenses	4,658,552	4,635,022	1
INCOME BEFORE INCOME TAX	1,832,512	675,508	171
INCOME TAX EXPENSE (Notes 2 and 23)	422,087	419,622	1
NET INCOME	$ 1,410,425	$ 255,886	451

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24)				
Basic	$ 1.20	$ 0.92	$ 0.47	$ 0.18
Diluted	$ 1.00	$ 0.77	$ 0.39	$ 0.15

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

(With Deloitte & Touche audit report dated February 28, 2011) (Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding Common Stock		Issued and Outstanding Preferred Stock (Note 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	Donated Capital	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Total	Unrealized Gain (Loss) on Financial Assets (Notes 2, 10 and 30)	Cumulative Translation Adjustment (Note 2)	Net Loss Not Recognized as Pension Cost	Total	Total Stockholders' Equity
BALANCE, JANUARY 1, 2009	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
Appropriation of the 2008 earnings																
Legal reserve	-	-	-	-	-	-	-	(107,812)	-	107,812	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(240,655)	240,655	-	-	-	-	-	-
Net income in 2009	-	-	-	-	-	-	-	-	-	255,886	255,886	-	-	-	-	255,886
Change in unrealized gain on available-for-sale finance assets	-	-	-	-	-	-	-	-	-	-	-	162,900	-	-	162,900	162,900
Change in recognition of unrealized gain on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	99,014	-	-	99,014	99,014
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(58,610)	(58,610)	(58,610)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(18,181)	-	(18,181)	(18,181)
BALANCE, DECEMBER 31, 2009	1,918,824	19,188,244	400,000	4,000,000	1,398	32,413	33,811	-	-	(5,651,650)	(5,651,650)	17,065	31,662	(88,902)	(40,175)	17,530,230
Capital reduction to offset deficit	(467,671)	(4,676,712)	(97,491)	(974,912)	-	-	-	-	-	5,651,624	5,651,624	-	-	-	-	-
Issuance of common stock for merger	194,838	1,948,376	-	-	-	-	-	-	-	(233,805)	(233,805)	-	-	-	-	1,714,571
Net income in 2010	-	-	-	-	-	-	-	-	-	1,410,425	1,410,425	-	-	-	-	1,410,425
Change in unrealized gain on available-for-sale finance assets	-	-	-	-	-	-	-	-	-	-	-	127,783	-	-	127,783	127,783
Change in recognition of unrealized gain on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	10,276	-	-	10,276	10,276
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,375)	(26,375)	(26,375)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(672,440)	-	(672,440)	(672,440)
BALANCE, DECEMBER 31, 2010	1,645,991	$ 16,459,908	302,509	$ 3,025,088	$ 1,398	$ 32,413	$ 33,811	$ -	$ -	$ 1,176,594	$ 1,176,594	$ 155,124	$ (640,778)	$ (115,277)	$ (600,931)	$ 20,094,470

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

(With Deloitte & Touche audit report dated February 28, 2011)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,410,425	$ 255,886
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	374,075	440,388
Allowance for credit and other losses	423,484	1,365,450
Amortization of premium on available-for-sale financial assets	35,768	64,981
Amortization of premium on held-to-maturity investments	11,118	15,368
Amortization of premium (discount) on no-active market debt instruments	(76,088)	38,801
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	(90,184)	163,332
Realized gain on sale of available-for-sale financial assets	(131,305)	(484,012)
Investment income recognized under the equity method, net	(5,152)	(57,831)
Cash dividends received from equity-method investees	21,917	48,037
Gain on sale of financial assets carried at cost	(83,905)	-
Impairment losses on assets, net	279,606	75,970
Amortization of loss from disposal of nonperforming loans	1,587,321	1,587,340
Gain on disposal of collaterals assumed, net	(145,813)	(50,411)
Loss (gain) on disposal of property and equipment, net	6,846	(33,443)
Loss from the obsolescence of property and equipment	13,210	2,617
Deferred income taxes	219,885	427,298
Changes in operating assets and liabilities		
Held-for-trading financial assets	(2,227,711)	6,813,445
Receivables	3,672,716	3,663,361
Held for trading financial liabilities	(19,047)	(572)
Payables	532,168	(1,704,500)
Accrued pension cost	(97)	1,187
Net cash provided by operating activities	5,809,237	12,632,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in due from the Central Bank and other banks	(2,975,621)	(14,567,659)
Decrease in financial assets designated at fair value through profit or loss	50,313	166,182
Decrease in securities purchased under resell agreements	250,453	6,265,333
Decrease (increase) in discounts and loans	(20,100,442)	9,723,654
Proceeds from disposal of available-for-sale financial assets	11,869,859	18,092,440
Capital return on available-for-sale financial assets	295,000	495,000
Acquisition of available-for-sale financial assets	(6,557,087)	(18,860,027)
Capital return on held-to-maturity investments	7,208,662	26,979,549
Acquisition of held-to-maturity investments	(305,254)	(252,375)
Proceeds of the capital reduction of equity-method investments	-	355,357
Acquisition of investments accounted for by the equity method	(60,550)	-
Proceeds of the capital reduction of investee	3,195	2,793

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
Received principal on unquoted debt instruments	$ 51,461,371	$ 49,928,919
Acquisition of unquoted debt instruments	(52,862,192)	(80,131,089)
Increase in other financial assets	(841,677)	(2,595,072)
Acquisition of property and equipment	(114,737)	(227,417)
Proceeds of the disposal of property and equipment	32,018	172,456
Proceeds of the disposal of collaterals assumed	1,043,914	274,487
Increase in other assets	(24,916)	(11,061)
Acquisition of cash and equivalents from merger	896,765	-
Net cash used in investing activities	(10,730,926)	(4,188,530)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in call loans and due to banks	(7,801,427)	(1,985,430)
Increase (decrease) in securities sold under repurchase agreements	3,504,638	(1,427,425)
Increase (decrease) in deposits and remittances	18,481,663	(6,627,143)
Increase in other financial liabilities	74,349	21,467
Decrease in other liabilities	(343,568)	(66,445)
Issuance of bank debentures	-	900,000
Decrease in bank debentures	(5,000,000)	(44,300)
Net cash provided by (used in) financing activities	8,915,655	(9,229,276)
EFFECT OF EXCHANGE RATE CHANGES	(610,570)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,383,396	(785,114)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,560,882	6,345,996
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,944,278	$ 5,560,882
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,553,928	$ 4,887,084
Income tax paid	$ 53,165	$ 59,096

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

The fair values of assets and liabilities from Union Bills Finance Corporation (UBF) on the acquisition date in 2010:

Cash and cash equivalents	$ 896,765
Due from the Central Bank and other banks	1,000,000
Financial assets at fair value through profit or loss	369,883
Receivables, net	429,768
Available-for-sale financial assets	3,591,440
Held-to-maturity investments	207,215
Financial assets carried at cost	9,277
Other financial assets - others	22,898
Land	7,564
Buildings	5,985
Machinery and equipment	3,199
Transportation equipment	1,141
Leasehold improvements	1,161
Other assets	131,837
Goodwill	130,498
Securities sold under repurchase agreements	(3,676,382)
Payables	(29,910)
Other financial liabilities	(1,315)
Other liabilities	(215,963)
Subtotal	2,885,061
Less: Investments accounted for by the equity method before acquisition	(1,170,490)
Issuance of common stock for acquisition	(1,714,571)
Cash paid for the acquisition of UBF	-
Add: Proceeds from the acquisition of UBF	896,765
Cash and equivalents from the acquisition of UBF	$ 896,765

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

(With Deloitte & Touche audit report dated February 28, 2011) (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, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

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

The Bank merged with the Union Bill Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity. Please refer to Note 34 for more merger information.

As of December 31, 2010, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 87 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.

As of December 31, 2010 and 2009, the Bank had 2,975 and 2,908 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, the Criteria Governing the Preparation of Financial Reports by Securities Firms, 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 noncurrent. 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.

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 values of financial assets and financial liabilities at the balance sheet date are determined as follows: publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market or Bloomberg; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

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.

Nonperforming Loans

Pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluation Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the Ministry of Finance, 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 of the balances of discounts and loans, receivables, 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 uncollectible; 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.

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. In addition, the difference between the carrying amount and selling price of the nonperforming loans disposed of in 2006 was amortized over 60 months in accordance with Rule No. 15 of the Financial Institution Consolidation Law (Note 14).

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.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment, intangible assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (CGUs) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long-term equity investments on which the Bank has significant influence but over which it has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses on the defined benefit plan are recognized as part of the net pension cost for the year.

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 - “Financial Instruments: Disclosure and Presentation,” transaction costs of bonds issued on or after January 1, 2006 are allocated in proportion to the liability and equity components of the bonds.

Reserve for Default Losses

Under the regulations of the Securities and Futures Bureau (SFB), the Bank will provide a default reserve equal to 0.0028% of the total consigned trades monthly until the accumulated reserve reaches $200,000 thousand. This reserve is used only to offset actual losses resulting from customers’ default or other losses as approved by the SFB.

Reserve for Securities Trading Losses

Under the regulations issued by the SFB, the Bank recognizes a trading loss reserve monthly at 10% of the net gain on sale of securities until this reserve reaches $200,000 thousand. It should be used only to offset actual losses on the sale of such securities.

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 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.

Tax credits for research and development and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Foreign-currency Transactions

Nonderivative 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 are 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.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Bank. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

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 in the financial statements as of and for the year ended December 31, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2010.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2010	**2009**
Cash on hand	$ 3,256,466	$ 3,498,682
Checks for clearing	1,639,146	1,264,387
Due from banks	4,048,666	797,813
	$ 8,944,278	$ 5,560,882

4. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2010	2009
Due from the Central Bank		
Deposit reserve - checking account	$ 3,652,952	$ 3,109,340
Required deposit reserve	7,642,173	6,907,140
Deposits reserve - foreign-currency deposits	29,152	32,176
Deposit account in Central Bank	50,000,000	47,300,000
	$ 61,324,277	$ 57,348,656

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar (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 rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn momentarily and are noninterest earning.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2010	2009
Financial assets held for trading		
Commercial paper	$ 2,618,625	$ 19,989
Government bonds	52,741	-
Corporate bonds	51,004	-
Domestic quoted stocks	33,093	131,245
Forward exchange contracts	164,207	76,466
Option contracts	7,491	2,529
Currency swap contracts	5,152	5,333
Interest exchange contracts	-	26,484
	2,932,313	262,046
Financial assets designated at fair value through profit or loss		
Corporate bonds	85,510	138,925
	$ 3,017,823	$ 400,971
Financial liabilities held for trading		
Forward exchange contracts	$ 43,947	$ 17,111
Option contracts	7,469	2,529
Currency swap contracts	168	588
Interest exchange contracts	-	61,015
	$ 51,584	$ 81,243

The Bank engaged in derivative transactions in 2010 and 2009 mainly to accommodate customers' needs and manage its exposure positions. The financial risk management object of the Bank is to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Forward exchange contracts	$ 7,125,486	$ 1,678,283
Currency swap contracts	8,450,517	11,414,710
Interest exchange contracts	-	3,700,000
Option contracts		
Buy	440,489	410,244
Sell	440,489	410,244

The gains or losses on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Net gain on financial assets at fair value through profit or loss	$ 201,421	$ 16,619
Net gain on financial liabilities at fair value through profit or loss	86,082	466,816
Gain, net	$ 287,503	$ 483,435
Realized gain	$ 197,319	$ 646,767
Unrealized gain (loss)	90,184	(163,332)
Gain, net	$ 287,503	$ 483,435

The financial instruments at fair value through profit or loss amounting to $2,722,740 thousand as of December 31, 2010 had been sold under repurchase agreements.

6. RECEIVABLES, NET

	December 31	
	2010	2009
Accounts receivable	$ 15,139,486	$ 17,255,775
Asset-backed commercial paper	1,608,794	2,246,258
Interest receivable	612,842	707,539
Receivable on disposal of property and equipment	309,605	487,534
Interbank clearing fund receivable	304,458	300,877
Income tax refund receivable	268,013	265,384
Acceptances receivable	131,767	129,238
Collection receivable	62,880	77,503
Others	84,762	313,897
	18,522,607	21,784,005
Less: Allowance for credit losses	1,714,169	1,707,096
	$ 16,808,438	$ 20,076,909

7. DISCOUNTS AND LOANS, NET

		December 31	
		2010	2009
Discounts and overdraft		$ 118,064	$ 862,182
Accounts receivable - financing		133,336	209,170
Loans			
Short-term	- unsecured	14,734,833	7,578,087
	- secured	28,246,782	21,501,759
Medium-term	- unsecured	9,812,574	10,982,521
	- secured	24,847,313	14,268,864
Long-term	- unsecured	7,824,029	11,493,298
	- secured	103,958,979	100,803,739
Import and export negotiations		84,434	45,163
Overdue loans		1,332,448	3,815,121
		191,092,792	171,559,904
Less: Allowance for credit losses		1,435,693	1,600,051
		$ 189,657,099	$ 169,959,853

As of December 31, 2010 and 2009, the balances of nonaccrual loans were $1,332,448 thousand and $3,815,121 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $54,408 thousand in 2010 and $120,646 thousand in 2009.

In 2010 and 2009, the Bank wrote off certain credits after completing the required legal procedures.

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

	2010		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 3,012,960	$ 387,140	$ 3,400,100
Provision	(277,598)	687,100	409,502
Write-off	(1,756,459)	-	(1,756,459)
Recovery of written-off credits	922,326	-	922,326
Merger with UBF	176,289	-	176,289
Effects of changes in foreign exchange rates	(1,896)	-	(1,896)
Balance, end of year (Note)	$ 2,075,622	$ 1,074,240	$ 3,149,862

	2009		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 4,338,404	$ 76,965	$ 4,415,369
Provision	1,049,252	310,175	1,359,427
Write-off	(3,162,495)	-	(3,162,495)
Recovery of written-off credits	786,431	-	786,431
Effects of changes in foreign exchange rates	1,368	-	1,368
Balance, end of year (Note)	$ 3,012,960	$ 387,140	$ 3,400,100

Note: As of December 31, 2009, the balance of the allowance for credit losses on overdue receivables was $92,953 thousand.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2010	**2009**
Debt investments - corporate bonds	$ 3,137,901	$ 2,595,199
Debt investments - government bonds	1,804,883	3,186,397
Overseas quoted stocks	506,408	-
Domestic quoted stocks	414,185	342,777
Mutual funds	366,672	996,591
Beneficial certificates of securitization	-	13,272
	$ 6,230,049	$ 7,134,236

The available-for-sale financial assets amounting to $4,076,647 thousand and $375,015 thousand as of December 31, 2010 and 2009, respectively, had been sold under repurchase agreements.

Entie Securities Finance Company ("Entie Finance"), an investee of the Bank, merged and was absorbed by the Capital Group on March 1, 2010. Based on the Operating Rules of the Taiwan Stock Exchange Corporation, the common shares held by the Bank, which had been newly issued by the Capital Group for its merger with the Bank, should be placed in centralized custody with the Taiwan Securities Central Depository Co., Ltd. Half of these shares may be withdrawn after six months from their listing date. The remaining shares may be withdrawn in full after a year from their listing date.

9. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2010	**2009**
Asset-based securities	$ 1,437,723	$ 8,248,884
Government bonds	1,435,157	1,275,828
Corporate bonds	399,754	199,833
	$ 3,272,634	$ 9,724,545

The held-to-maturity investments amounting to $1,429,903 thousand and $7,984,203 thousand as of December 31, 2010 and 2009, respectively, had been sold under repurchase agreements.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Finance and Leasing International Corporation	$ 738,898	100.00	$ 751,503	100.00
Union Security Investment Trust Corporation	116,145	35.00	54,041	35.00
Union Finance International (H.K.) Limited	93,221	99.99	81,590	99.99
Union Real-Estate Management Corporation	54,045	40.00	61,977	40.00
Union Insurance Broker Company	25,424	100.00	20,824	100.00
Union Information Technology Corporation	22,843	99.99	24,593	99.99
Union Bills Finance Corporation	-	-	1,214,881	42.76
	$ 1,050,576		$ 2,209,409	

Investment income (loss) recognized under the equity method was as follows:

	Years Ended December 31	
	2010	2009
Union Finance and Leasing International Corporation	$ 10,145	$ 43,601
Union Security Investment Trust Corporation	1,554	13,343
Union Finance International (H.K.) Limited	3,305	(35,831)
Union Real-Estate Management Corporation	271	9,114
Union Insurance Broker Company	18,384	15,310
Union Information Technology Corporation	(1,750)	(4,887)
Union Bills Finance Corporation	(26,757)	17,181
	$ 5,152	$ 57,831

The investment income (loss) for 2010 and 2009 was based on the investees' financial statements for the same reporting periods as those of the Bank, which had been audited by auditors.

On the available-for-sale financial assets held by the Bank's subsidiaries, the unrealized gain of $10,276 thousand in 2010 and $99,014 thousand in 2009 were included in stockholders' equity.

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 in March 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.

On February 21, 2002, the Bank began to amortize the cost of investment in UITC that was in excess of the investment equity. In 2009, the Bank recognized an impairment loss of $2,934 thousand on the remaining amortized amount.

In June 2010, Union Security Investment Trust Corporation issued 17,300 thousand shares and then reduced its capital to offset its deficit. The Bank proportionately subscribed for 6,055 thousand shares amounting to $60,550 thousand.

Union Bills Finance Corporation with the Bank on August 16, 2010. For further information, please refer to Note 34.

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2010	2009
Unquoted stocks		
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
Entie Securities Finance Company	-	492,298
VISA Inc.	-	331,342
Other	112,549	107,213
	$ 452,581	$ 1,270,885

The above equity investments, which had no quoted prices in an active market and had fair values that could not be reliably measured, were carried at cost. The Bank recognized impairment losses of $5,481 thousand on the investment in Global Securities Finance Company and $4,797 thousand on the investment in Liyu Venture Capital Company in 2009; these investments were both classified under "other."

On September 14, 2009, the board of directors of Entie Securities Finance Company ("Entie Finance"), an investee of the Bank, made a resolution to enter into a merger contract with the Capital Group at a share swap ratio of 1.4086:1, with "1" referring to the survivor entity, Capital Group. The merger date was March 1, 2010. Capital Group is a listed company; thus, the related equity investment was reclassified to available-for-sale financial assets from continuing operations.

The fair values of the investment in VISA Inc. and MasterCard Inc. of $331,342 thousand and $746 thousand (the latter amount is recorded in other), respectively, cannot be measured reliably because of a certain restriction on the sale of the investees' shares. When this restriction was lifted in 2010, these two investments classified as financial assets carried at cost were reclassified to available-for-sale financial assets.

12. NO-ACTIVE MARKET DEBT INSTRUMENTS

	December 31	
	2010	2009
Asset-based securities	$ 50,877,566	$ 49,384,867
Securitized beneficial certificates of securitization	1,257	17,047
	$ 50,878,823	$ 49,401,914

The no-active market debt instruments amounting to $34,541,660 thousand and $20,990,451 thousand as of December 31, 2010 and 2009, respectively, had been sold under repurchase agreements.

13. PROPERTY AND EQUIPMENT

	December 31 2010	December 31 2009
Cost	$ 10,518,549	$ 10,292,416
Less: Accumulated depreciation		
Buildings	739,956	635,702
Machinery and equipment	1,251,702	1,190,864
Transportation equipment	220,377	197,769
Leasehold improvements	255,688	212,129
	2,467,723	2,236,464
Prepayments for land, buildings and equipment	38,657	218,682
Net property and equipment	$ 8,089,483	$ 8,274,634

14. OTHER ASSETS

	December 31 2010	December 31 2009
Deferred tax assets, net (Note 23)	$ 3,323,224	$ 3,543,109
Deferred loss from disposal of nonperforming loans	965,255	2,552,920
Collaterals assumed, net	546,392	1,459,440
Deferred charges	177,804	246,935
Prepayments	113,051	124,763
Other	2,222	3,070
	$ 5,127,948	$ 7,930,237

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 pretax income in 2010 and 2009 would have increased by $1,587,321 thousand and $1,587,340 thousand, respectively; and the balances of the other assets and unappropriated earnings as of December 31, 2010 and 2009 would have decreased by $965,255 thousand and $2,552,920 thousand, respectively.

As of December 31, 2010 and 2009, the remaining payments of $309,601 thousand and $487,530 thousand, respectively, on the above remainder transaction amount had not been received from MSUB.

After evaluating the net fair value of the collaterals assumed, the Bank recognized an impairment loss of $173,146 thousand in 2010 and a gain of $75,000 thousand on impairment reversal in 2009.

15. GOODWILL

The Bank acquired Chung Shing Bank ("Chung Shing") on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, goodwill need no longer be amortized from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010 and recognized goodwill amounting to $130,498 thousand. For further information, please refer to Note 34.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill, which resulted from merger, 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 impairment test, the Bank recognized a goodwill impairment loss of $125,651 thousand in 2010 and $137,758 thousand in 2009, respectively. As of December 31, 2010 and 2009, the balances of accumulated impairment were $513,513 thousand and $387,862 thousand, respectively.

16. CALL LOANS AND DUE TO OTHER BANKS

	December 31	
	2010	**2009**
Due to Chunghwa Post Co., Ltd.	$ 10,225,910	$ 16,273,300
Due to the Central Bank and other banks	50,974	141,682
Overdraft	10,462	55,503
Call loans	-	1,618,288
	$ 10,287,346	$ 18,088,773

17. PAYABLES

	December 31	
	2010	**2009**
Notes and checks in clearing	$ 1,639,146	$ 1,264,387
Interest payable	730,318	767,722
Accrued expenses	381,256	309,113
Tax payable	249,808	64,601
Bank acceptances payable	134,883	133,449
Collection payable	131,120	205,484
Accounts payable on wire transfers received	63,400	138,876
Trust fund payable	51,497	62,437
Others	457,468	330,749
	$ 3,838,896	$ 3,276,818

18. DEPOSITS AND REMITTANCES

	December 31	
	2010	2009
Savings deposits	$ 194,756,958	$ 181,780,101
Time deposits	52,125,463	52,241,759
Demand deposits	38,225,437	32,849,935
Checking deposits	3,579,848	3,583,960
Negotiable certificates of deposit	736,600	595,700
Inward and outward remittances	181,548	72,736
	$ 289,605,854	$ 271,124,191

19. BANK DEBENTURES

	December 31		
	2010	2009	Term
First subordinated bank debentures issued in 2004	$ -	$ 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	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	1,190,000	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.
First subordinated bank debentures issued in 2009	900,000	900,000	Fixed interest rate of 2.95%; maturity: June 2016.
	$ 4,890,000	$ 9,900,000	

To increase its long-term fund and enhance its capital adequacy ratio, the Bank proposed the issuance of 5- to 10-year subordinated bank debentures at par, and this proposal got the approval by the Bank's board of directors on July 22, 2009 and by the Financial Supervisory Commission, Executive Yuan under Bank Bureau's letter (Ref. No. 09800384990). The amount of bonds issued should not be greater than the decrease of the Bank's subordinated debentures and the bonds should be issued within one year upon approval; otherwise, the permission for issuance will be canceled. The Bank issued the first tranche of the 2009 subordinated bank debentures with a face value of $900,000 thousand on December 30, 2009.

20. PENSION PLAN

The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the rate of the Bank's monthly contributions to employees' individual pension accounts is at 6% of monthly salaries and wages. Related pension costs were $81,448 thousand in 2010 and $78,344 thousand in 2009.

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 and wages 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 (in the Taipei branch of the Bank), respectively. The Bank recognized defined benefit pension costs of $38,849 thousand in 2010 and $35,995 thousand for 2009.

Other information on the defined benefit plan is as follows:

a. Components of net pension cost

	Years Ended December 31	
	2010	**2009**
Service cost	$ 21,153	$ 24,192
Interest cost	17,354	17,522
Projected return on plan assets	(9,832)	(12,531)
Net amortization of prior service cost	(519)	(519)
Net amortization of loss of pension	12,611	7,331
Curtailment or settlement gain	(1,918)	-
Net pension cost	$ 38,849	$ 35,995

b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2010 and 2009

	December 31	
	2010	**2009**
Benefit obligation		
Vested benefit obligation	$ (99,989)	$ (99,714)
Non-vested benefit obligation	(553,789)	(483,961)
Accumulated benefit obligation	(653,778)	(583,675)
Additional benefit based on future salaries	(351,379)	(195,081)
Projected benefit obligation	(1,005,157)	(778,756)
Fair value of plan assets	532,241	488,414
Funded status	(472,916)	(290,342)
Unrecognized net prior service cost	(4,894)	(5,442)
Unrecognized net loss	471,551	279,653
Additional liability	(115,278)	(79,129)
Accrued pension cost (included in other liability)	$ (121,537)	$ (95,260)
Vested benefit	$ (111,559)	$ (110,527)

c. Actuarial assumptions as of December 31, 2010 and 2009

	December 31	
	2010	**2009**
Discount rate used in determining present values	2.25%	2.25%
Future salary increase rate	3.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

	Years Ended December 31	
	2010	2009
d. Contributions to the fund	$ 57,218	$ 27,335
e. Payments from the fund	$ (19,536)	$ (38,062)

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. 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. 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.

To improve the Bank's financial structure, the board of directors of the Bank approved on May 19, 2010 a capital reduction to offset its deficit of $5,651,624 thousand by decreasing common stock by 467,671 thousand shares and preferred stock by 97,491 thousand shares, for a total of 565,162 thousand shares equal to a capital reduction of 24.3728%.

The Bank merged with Union Bills Finance Corporation (UBF) on August 16, 2010 by issuing 194,838 thousand common shares to the stockholders of UBF (see Note 34) at NT$8.8 per share and consequently debited $233,805 thousand to retained earnings. After the merger, the issued capital of the Bank amounted to $19,484,996 thousand, including $3,025,088 thousand in preferred shares.

b. Capital surplus

Under related regulations, the capital surplus from shares issued in excess of par and donations may be capitalized, which however is limited to certain percentage of the Bank's paid-in-capital.

Capital surplus from equity-method investments may not be used 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 plus accumulated unappropriated earnings from prior years), respectively, were recognized for the year ended December 31, 2010. The amounts were estimated based on past experiences. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for in the year of the proposal. 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.

Based on a directive issued by the Securities and Futures Bureau (SFB), an amount equal to the net debit balance of certain stockholders’ equity accounts (including unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments, except the treasury stock) shall be transferred from unappropriated earnings to a special reserve. 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 earnings appropriation.

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

Legal reserve should be appropriated until it has reached the Bank’s paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Bank’s paid-in capital, up to 50% thereof may be transferred to paid-in capital. 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.

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. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2010	2009
Personnel expenses		
Salaries and wages	$ 1,476,573	$ 1,504,462
Bonus and rewards	384,154	302,777
Labor insurance and national health insurance	157,870	149,424
Pension	121,474	116,467
Other	8,443	30,592
	$ 2,148,514	$ 2,103,722
Depreciation	$ 266,864	$ 322,380
Amortization	$ 107,211	$ 118,008

23. INCOME TAX EXPENSE

A reconciliation of income tax expense based on income before income tax at the statutory rates of 17% in 2010 and 25% in 2009 and income tax expense was as follows:

	Year Ended December 31	
	2010	2009
Income tax expense at the 25% statutory rate	$ 311,527	$ 168,867
Tax effect of adjusting items:		
Permanent differences		
Tax-exempt income	(449,872)	(860,478)
Others	(3,489)	(16,865)
Temporary differences	72,657	(279,757)
Loss carryforwards used	69,177	988,233
Additional income tax under the Alternative Minimum Tax Act	198,022	-
Current income tax expense	198,022	-
Deferred income tax expense		
Temporary differences	(50,883)	199,914
Investment tax credits	5,792	786
Loss carryforwards	332,818	(942,407)
Effect of tax law changes on deferred income tax	650,799	951,066
Adjustment in valuation allowance due to changes in tax laws	(124,752)	(123,607)
Other adjustment in valuation allowance	(593,889)	341,546
Tax separately levied on interest from short-term bills	3	2,260
Tax expense of previous bondholders	-	(9,946)
Adjustments for prior years' tax	4,177	10
	$ 422,087	$ 419,622

In 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

a. In January 2009 - the amendment of Article 39 of the Income Tax Law, which extends the operating loss carryforward period from 5 years to 10 years;

b. March 2009 - the amendment of Article 24 of the Income Tax Law, which requires (a) a profit-seeking enterprise that invests in short-term notes for which the issuance dates are on and after January 1, 2010 to include the related interest income, which was taxed separately before January 1, 2010, in its taxable income; and (b) a profit-seeking enterprise that invests in beneficial securities or asset-based securities issued under the Financial Asset Securitization Act or Real Estate Securitization Act to include, from January 1, 2010, the related interest income, which was taxed separately before January 1, 2010, in its taxable income;

c. May 2009 - the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010;

d. April 2010 - Article 10 of the Statute for Industrial Innovation, which states that a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year; this incentive is effective from January 1, 2010 till December 31, 2019;

e. May 2010 - the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

Deferred income tax assets (liabilities) were as follows:

	December 31	
	2010	**2009**
Loss carryforwards	$ 3,445,826	$ 4,394,797
Investment tax credit	9,506	15,298
Reserve for default	8,683	9,783
Unrealized loss on collaterals assumed	9,603	31,472
Impairment loss on financial assets	164,105	221,098
Allowance for credit losses	180,418	106,980
Unrealized valuation gain on derivative instruments	(19,592)	31,406
Investment income or loss under the equity method	1,165	2,032
Amortization of goodwill	(383,142)	(451,867)
Unrealized exchange gains or losses	21,168	12,062
Accrued pension cost	(1,473)	1,732
	3,436,267	4,374,793
Less: Allowance for valuation of deferred income tax assets	113,043	831,684
Net deferred income tax assets (included in other assets)	$ 3,323,224	$ 3,543,109

Under the Financial Institution Merger Act, the loss carryforwards from deferred income tax assets were recalculated on the basis of the proportion of shares in the surviving entity held by the Bank's stockholders after the merger, and the recalculated loss carryforwards can be deducted from taxable income of the next five years.

As of December 31, 2010, 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	$ 2,260	$ 2,260	2011
		4,164	4,164	2012
		1,882	1,882	2013
		1,200	1,200	2014
		$ 9,506	$ 9,506	

Loss carryforwards as of December 31, 2010 comprised:

Unused Amount	Expiry Year
$ 938,102	2013
1,514,764	2015
2,687,058	2016
7,476,918	2017
3,630,729	2018
3,711,565	2019
310,428	2020
$ 20,269,564	

The Bank's income tax returns through 2006 had been examined and cleared by the tax authorities.

Information about integrated income tax was as follows:

	December 31	
	2010	2009
Unappropriated earnings generated before January 1, 1998	$ -	$ -
Unappropriated earnings generated on and after January 1, 1998	1,176,594	-
	$ 1,176,594	$ -

As of December 31, 2010 and 2009, the balances of the imputation credits which can be allocated to the stockholders were $419,177 thousand and $328,140 thousand, respectively.

The creditable ratio for the distribution of earnings of 2010 was 20.48% (estimate).

For the distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocable to stockholders of the Bank is based on the balance of the ICA as of the date of dividend distribution. Thus, the expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

24. EARNINGS PER SHARE

The Bank issued convertible preferred stock, 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.

The numerators and denominators used in computing EPS are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	**After Tax**		**Pretax**	**After Tax**
2010					
Basic EPS	$ 1,832,512	$ 1,410,425	1,524,818	$ 1.20	$ 0.92
Effect of potential dilutive convertible preferred stock	-	-	302,509		
Diluted EPS	$ 1,832,512	$ 1,410,425	1,827,327	$ 1.00	$ 0.77
2009					
Basic EPS	$ 675,508	$ 255,886	1,451,153	$ 0.47	$ 0.18
Effect of potential dilutive convertible preferred stock	-	-	302,509		
Diluted EPS	$ 675,508	$ 255,886	1,753,662	$ 0.39	$ 0.15

The weighted-average number of shares outstanding for EPS calculation has been retroactively adjusted for the capital reduction to offset the deficit in 2009. The after-tax basic and diluted EPS for 2009 were adjusted from NT$0.13 to NT$0.18 and from NT$0.11 to NT$0.15, respectively.

25. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Bank and related parties are summarized as follows:

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp.	Subsidiary of UFLIC
New Asian Ventures Ltd.	Subsidiary of UFLIC
Union Bills Finance Corporation (UBF)	Subsidiary (merged with Union Bank of Taiwan, the survivor company, on August 16, 2010)
Union Real-Estate Management Corporation	Equity-method investee
Hung-Kou Construction Inc., Ltd. ("Hung-Kou")	Its chairman is a second-degree relative of the Bank's director/general manager
Union Ran Zheng Co., Ltd. (URZ)	Its chairman is a second-degree relative of the Bank's director/general manager

(Continued)

Related Party	Relationship with the Bank
The Liberty Times Co., Ltd. (“Liberty Times”)	The Bank’s director/general manager and the chairman of the board of directors are the director and supervisor, respectively, of Liberty Times
Long Shan Lin Corporation	Its chairman is a second-degree relative of the Bank’s director/general manager
Yong-Xuan Co., Ltd. (“Yong-Xuan”)	Its chairman is a second-degree relative of the Bank’s director/general manager
Liu Jin Fu	Director
Union Enterprise Construction Co., Ltd. (UECC)	Director
Zhong Li Venture Corporation	Director
Jiang Jhen Syong	Director
Lin Ci Yong	Supervisor
Bao Xing Investment Corporation	Supervisor
Yu-Pang Co., Ltd. (“Yu-Pang”)	Supervisor
Li Tsai Jhao Mei	The wife of the Bank’s director
Li Chang Yao Ye Co.	A Bank director, Liu Jin Fu, is its director
T-Movies Theater Co.	The wife of the Bank’s director, Lee Yu Quan, is its chairman.
Yu Quan Kai Fa Co., Ltd.	The wife of the Bank’s director, Lee Yu Quan, is its chairman.
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Related party in substance (the Bank sold its holding in MSUB on November 25, 2009)
Liang Ji Investment Corporation	Related party in substance
Union Recreation Enterprise Corporation	Related party in substance
Entie Securities Finance Co.	Related party in substance (merged with Capital Group, the survivor company, on March 1, 2010)
Others	Directors, supervisors, managers, and their relatives and affiliates.

(Concluded)

b. Significant transactions with related parties:

1) Loans

December 31, 2010

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2010	Ending Balance	Loans Classification: Normal Loans	Loans Classification: Nonperforming Loans	for Unrelated Parties	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	2	$ 1,301	$ 708	$ 708	$ -	-	None
Self-used housing mortgage loans	21	86,108	32,616	32,616	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,562,480	1,287,851	1,287,851	-	Land, building and time deposit	None
Other loans	Long Shan Lin Corporation	1,350,000	600,000	600,000	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	58,807	35,314	35,314	-	Land and factory	None
Other loans	T-Movies Theater Co.	99,479	99,479	99,479	-	Land and buildings	None

December 31, 2009

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2009	Ending Balance	Loans Classification: Normal Loans	Loans Classification: Nonperforming Loans	for Unrelated Parties	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	6	$ 3,516	$ 2,112	$ 2,112	$ -	-	None
Self-used housing mortgage loans	59	210,721	182,061	182,061	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,470,000	1,327,034	1,327,034	-	Land, building and time deposit	None
Other loans	EnTie Securities Finance Co.	640,000	640,000	640,000	-	Time deposits	None
Other loans	Long Shan Lin Corporation	1,540,000	1,350,000	1,350,000	-	Land and buildings	None
Other loans	Union Real-Estate Management Corporation	55,000	55,000	55,000	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	62,186	58,807	58,807	-	Land and factory	None
Other loans	T-Movies Theater Co.	10,607	8,515	8,515	-	Land and buildings	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2010	$ 2,055,968	1.08%	0.30%-3.10%	$ 30,334	0.33%
2009	3,623,529	2.13%	0.77%-14.17%	54,607	0.57%

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2010	$ 5,121,726	1.77%	0%-5.35%	$ 26,737	1.06%
2009	3,342,189	1.23%	0%-8.45%	32,542	0.87%

3) Guarantees and letters of credit

December 31, 2010

Name	Highest Balance in the Year Ended December 31, 2010	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 88,442	$ 79,749	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	49,566	8,866	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits
Union Finance International (H.K.) Limited	80,522	-	-	0.5%	

December 31, 2009

Name	Highest Balance in the Year Ended December 31, 2009	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 116,249	$ 88,440	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	68,008	17,721	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	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 other banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Revenue
2010	$ 1,700,000	$ -	0.15%-0.37%	$ 559
2009	1,900,000	-	0.097%-0.2%	718

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
2010	$ 200,000	$ -	0.15%	$ 8

6) Securities purchased under resell agreements

	Year of 2009					
			Securities Sold under Repurchase Agreements		Securities Purchased under Resell Agreements	
	Purchase of Securities (Note)	Sale of Securities (Note)	Balance of December 31	Rate (%)	Balance of December 31	Rate
UBF	$ 34,347,995	$ 28,545,742	$ -	-	$ -	-

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

7) Securities brokerage fees

	Years Ended December 31	
	Amount	%
2010	$ 2,692	3.20
2009	2,945	3.19

8) Consulting and advisory contract

The Bank and UFLIC entered into a three-year consulting contract in December 2006 and October 2009. UFLIC's services include consultation on management, marketing, and promotion activities of auto loans as well as on loan management and collection of overdue loans, etc. (excluding the approval of loan applications). The consulting fees and related expenses paid were $70,165 thousand in 2010 and $74,882 thousand in 2009 (both amounts included in other operating expenses), and the accrued expenses as of December 31, 2010 and 2009 were $8,288 thousand and $7,215 thousand, respectively.

9) Leases

a) The Bank as lessee

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

	Lease Deposit (Included in Other Financial Assets)		**Rental Expense (Included in Other Operating Expense)**	
	Amount	**%**	**Amount**	**%**
2010				
Yu-Pang	$ 454,400	7.83	$ 12,498	0.59
Hung-Kuo	219,105	3.77	99,910	4.68
Yong-Xuan	13,905	0.24	57,452	2.69
UECC	4,384	0.08	9,242	0.43
UFLIC	-	-	2,117	0.10
2009				
Yu-Pang	454,400	8.78	15,243	0.73
Hung-Kuo	228,524	4.41	110,251	5.27
Yong-Xuan	15,017	0.29	65,575	3.14
UECC	4,384	0.08	9,245	0.44
UBF	-	-	137	0.01
UFLIC	-	-	1,774	0.08

The Bank rented cars for business use from UFLIC; the rental expenses in 2010 and 2009 were $5,969 thousand and $6,652 thousand, respectively. Rental payable as of December 31, 2010 was $32 thousand.

b) The Bank as lessor

The Bank's Tauring Branch, Kaohsiung Branch, Mincynan Branch, Chiayi Branch, Yuanlin Branch and Fucheng Branch leased part of their office premises to UFLIC under operating lease agreements starting from July 2009 to December 2113, from July 2007 to December 2015, from September 2007 to September 2017, from July 2009 to July 2114, from February 2009 to October 2113 and February 2009 to February 2114, respectively. The leasing revenues received were $2,130 thousand in 2010 and $2,414 thousand in 2009. The lease deposit received was $492 thousand each in 2010 and 2009. The Bank's Beitun Branch leased part of its office to UBF under an operating lease agreement effective from February 2006 to August 2010. The leasing revenues received were $261 thousand in 2010 and $419 thousand in 2009. The lease deposit received was $104 thousand for 2009.

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

On June 27, 2006 and September 20, 2006, the Bank sold to Morgan Stanley Union Bank some of its nonperforming loans and related collateral property for $995,000 thousand and $615,025 thousand, respectively. Of this amount, $309,601 thousand and $487,530 thousand had not been received as of December 31, 2010 and 2009, respectively (refer to Note 14).

11) Available-for-sale financial assets

As of December 31, 2010 and 2009, the Bank purchased 23,047 thousand and 64,878 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $306,792 thousand and $861,708 thousand, respectively.

12) Bank debentures

As of December 31, 2009, UBF hold the Bank's debentures amounting to $655,000 thousand.

13) UIT sold computers, related material and software and provided network service to the Bank. The related purchase and service fee in 2010 and 2009 were $99,194 thousand and $96,599 thousand, respectively.

14) The Bank provided insurance consulting service and sales assistance to UIB. The commission revenues in 2010 and 2009 were $166,049 thousand and $153,098 thousand, respectively. The consulting service revenues in 2010 and 2009 were $159,101 thousand and $130,664 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 within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	Years Ended December 31	
	2010	**2009**
Salaries	$ 18,700	$ 19,094
Incentives	2,820	2,185
Traveling fare	1,840	1,658
Special compensation	480	480
Car rental and oil subsidy	1,569	1,542
	$ 25,409	$ 24,959

26. PLEDGED ASSETS

As of December 31, 2010 and 2009, government bonds and bank debentures, which amounted to $231,800 thousand and $488,400 thousand (both amounts 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, 2010 and 2009, negotiable certificates of deposit, which amounted to $4,000,000 thousand and $3,000,000 thousand, respectively (both amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

27. 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. The rental expenses were recognized at imputed interests of 0.83% in 2010 and 1.39% in 2009. Future minimum lease payments are as follows:

Year	**Amount**
2011	$ 364,660
2012	313,013
2013	275,595
2014	213,915
2015	122,145

The present value of total rentals of $231,112 thousand for beyond 2016 is about $216,045 thousand, discounted at the Bank's one-year time deposit interest rate of 1.13% on December 31, 2010.

b. Computer equipment purchase contracts

The Bank contracted to purchase computer equipment and software for $39,011 thousand, of which $16,175 thousand had been paid as of December 31, 2010.

c. Securities sold under repurchase agreements

As of December 31, 2010, securities with a total cost of $33,596,926 thousand were sold under agreements for repurchase between January 2011 and March 2011. The repurchase price is based on the notional amount plus interest, which is calculated at the agreed-upon interest rate.

d. Securities purchased under resell agreements

As of December 31, 2010, securities with a total cost of $39,500 thousand had been purchased under agreements to resell for $39,506 thousand in January 2011.

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

Balance Sheet of Trust Accounts
December 31, 2010

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 2,145,758	Income tax payable	$ 26
Investments		Expenses payable	1
Mutual funds	33,188,406	Marketable securities payable	6,464,159
Common stock	169,444	Trust capital	38,713,535
Short-term bills and securities purchased under resell agreements	39,686	Reserve and deficit	(193,305)
Accounts receivable	1,819		
Stock in custody	6,464,159		
Real estate - land and building	2,975,144		
Total	$ 44,984,416	Total	$ 44,984,416

Balance Sheet of Trust Accounts
December 31, 2009

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 2,671,778	Income tax payable	$ 25
Investments		Expenses payable	61
Mutual funds	35,309,093	Marketable securities payable	6,952,267
Common stock	159,277	Trust capital	44,387,512
Accounts receivable	807	Reserve and deficit	(19,992)
Stock in custody	6,952,267		
Real estate - land and building	6,226,651		
Total	$ 51,319,873	Total	$ 51,319,873

Trust Income Statement
Year Ended December 31, 2010

	Amount
Trust income	
Interest revenue - demand accounts	$ 197
Interest revenue - time deposits	3,401
Interest revenue - short-term bills and securities purchased under resell agreements	8
Cash dividend	11,821
Other revenue	912
Realized capital gain - fund	1,962
Income from beneficial certificates	1,047
Total trust income	19,348
Trust expense	
Management expense	4,026
Taxation	207,800
Realized capital loss - fund	270
Other	34,532
Total trust expense	246,628
Loss before tax	(227,280)
Income tax expense	(236)
Loss after tax	(227,516)
Unrealized capital gain - GTSM stock	43,817
Unrealized capital gain - fund	972
Unrealized capital loss - fund	(666)
Net loss	$ (183,393)

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

Trust Income Statement
Year Ended December 31, 2009

	Amount
Trust income	
Interest revenue - demand accounts	$ 334
Interest revenue - time deposits	6,491
Cash dividend	7,881
Realized capital gain - fund	4,410
Income from beneficial certificates	1,390
Total trust income	20,506
Trust expense	
Management expense	3,234
Custody fee	17
Taxation	13,617
Realized capital loss - fund	3,949
Other	25,741
Total trust expense	46,558
Loss before tax	(26,052)
Income tax expense	(587)
Loss after tax	(26,639)
Unrealized capital gain - GTSM stock	33,651
Unrealized capital gain - fund	3,108
Unrealized capital loss - fund	(407)
Net income	$ 9,713

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

Trust Property and Equipment Accounts
December 31, 2010

Investment Portfolio	Amount
Bank deposits	$ 2,145,758
Investments	
Mutual funds	33,188,406
Common stock	169,444
Short-term bills and securities purchased under resell agreements	39,686
Accounts receivable	1,819
Stock in custody	6,464,159
Real estate - land and buildings	2,975,144
	$ 44,984,416

Trust Property and Equipment Accounts
December 31, 2009

Investment Portfolio	Amount
Bank deposits	$ 2,671,778
Investments	
Mutual funds	35,309,093
Common stock	159,277
Accounts receivable	807
Stock in custody	6,952,267
Real estate - land and buildings	6,226,651
	$ 51,319,873

28. SUBSEQUENT EVENT

Based on regulations newly issued by the Securities and Futures Bureau on January 13, 2011, security firms and futures commission merchants are required to transfer to special reserves the default losses reserve and trading losses reserve accumulated as of December 31, 2010. The Bank completed the transfer in accordance with these new regulations.

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.

	2010	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents	$ 894,294	0.70
Due from the Central Bank and other banks	66,476,771	0.55
Financial assets at fair value through profit or loss	1,921,479	0.67
Securities purchased under resell agreements	448,783	0.39
Discounts and loans	178,326,954	2.52
Accounts receivable - credit card	12,353,069	11.52
Available-for-sale financial assets	8,217,169	0.98
Held-to-maturity investments	6,005,322	4.91
Non-active market debt instruments	52,477,456	4.55
Interest-bearing liabilities		
Call loans and due to other banks	1,251,244	0.17
Securities sold under repurchase agreements	33,310,743	0.58
Demand deposits	34,581,322	0.10
Savings - demand deposits	78,976,152	0.24
Time deposits	51,348,591	0.87
Due to Chunghwa Post Co., Ltd.	14,614,516	1.08
Time-savings deposits	107,991,613	1.18
Negotiable certificates of deposit	830,071	0.34
Bank debentures	7,322,419	2.64

	2009	
	Average Balance	**Average Rate (%)**
Interest-earning assets		
Cash and cash equivalents	$ 1,054,310	1.01
Due from the Central Bank and other banks	46,177,370	0.51
Financial assets at fair value through profit or loss	3,912,294	0.49
Securities purchased under resell agreements	9,549,817	0.32
Discounts and loans	171,144,313	2.57
Accounts receivable - credit card	14,402,925	9.70
Available-for-sale financial assets	8,971,094	1.24
Held-to-maturity investments	22,375,294	6.14
Non-active market debt instruments	36,381,724	4.64
Interest-bearing liabilities		
Call loans and due to other banks	948,564	0.09
Securities sold under repurchase agreements	13,632,200	1.98
Demand deposits	27,826,340	0.11
Savings - demand deposits	63,564,496	0.27
Time deposits	56,585,874	1.36
Due to Chunghwa Post Co., Ltd.	19,384,646	1.23
Time-savings deposits	119,532,094	1.65
Negotiable certificates of deposit	1,074,616	1.47
Bank debentures	9,036,488	2.93

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2010		2009	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Financial assets at fair value through profit or loss	$ 3,017,823	$ 3,017,823	$ 400,971	$ 400,971
Available-for-sale financial assets	6,230,049	6,230,049	7,134,236	7,134,236
Other short-term financial assets	86,848,480	86,848,480	83,011,016	83,011,016
Discounts and loans, net	189,657,099	189,657,099	169,959,853	169,959,853
Held-to-maturity financial assets	3,272,634	3,301,223	9,724,545	9,749,544
Financial assets carried at cost	452,581	-	1,270,885	-
No-active market debt instruments	50,878,823	50,674,438	49,401,914	49,590,988
Other financial assets	5,805,683	5,805,683	5,177,318	5,177,318
Liabilities				
Financial liabilities at fair value through profit or loss	51,584	51,584	81,243	81,243
Other short-term financial liabilities	47,654,908	47,654,908	47,789,633	47,789,633
Deposits	289,424,306	289,424,306	271,051,455	271,051,455
Bank debentures	4,890,000	4,932,140	9,900,000	9,936,529
Other financial liabilities	318,027	318,027	242,363	242,363

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), call loans and due to banks, securities sold under repurchase agreements, payable (tax payable excluded) 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) Financial assets carried at cost are investments in unquoted shares, i.e., shares that have no quoted prices in an active market and entail an unreasonably high cost to determine their fair values. Therefore, no fair value is presented.

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, cross-currency swap contracts and interest rate swap contracts are based on present value techniques. Options' fair value are based on estimates using Black Scholes model.

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

	December 31			
	2010		2009	
	Quoted Market Prices	**Valuation Techniques**	**Quoted Market Prices**	**Valuation Techniques**
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	$ 136,838	$ 2,880,985	$ 131,245	$ 269,726
Available-for-sale financial assets	6,230,049	-	7,134,236	-

(Continued)

	December 31			
	2010		2009	
	Quoted Market Prices	Valuation Techniques	Quoted Market Prices	Valuation Techniques
Held-to-maturity investments	$ 1,851,792	$ 1,449,431	$ 1,491,059	$ 8,258,485
Non-active market debt instruments	-	50,674,438	-	49,590,988
Other financial assets	-	5,805,683	-	5,177,318
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	51,584	-	81,243
Bank debentures	4,932,140	-	9,936,529	-
Other financial liabilities	-	318,027	-	242,363

(Concluded)

On financial instruments with fair values determined through valuation techniques, valuation showed a gain of $89,326 thousand in 2010 and a loss of $148,292 thousand in 2009.

As of December 31, 2010 and 2009, the interest income (expense) associated with financial assets (liabilities) other than those at FVTPL was as follows:

	Years Ended December 31	
	2010	2009
Total interest income	$ 9,153,962	$ 9,559,531
Total interest expense	2,516,524	3,735,662

For the changes in fair value of available-for-sale financial assets, the Bank recognized in stockholders' equity the unrealized gains of $259,088 thousand in 2010 and $646,912 thousand in 2009, of which $131,305 thousand and $484,012 thousand, respectively, were reclassified to current gain in the income statement.

d. Financial risks

1) Market risk

On 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 or third parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' creditworthiness. 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, 2010 and 2009, the ratios of secured loans to total loans were 82.82% and 81.89%, respectively, and the ratio of secured financial guarantees and standby letters of credits to the totals of these two financial instruments were 36.13% and 44.45%, respectively. Collaterals held vary and may include cash, inventories, marketable securities, and other properties.. If 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 is a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or of collaterals 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. Loan interest rates ranged from 1.02% to 7.00% in 2010 and from 1.01% to 7.25% in 2009, 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, 2010 and 2009 were as follows:

	December 31	
	2010	**2009**
Credit commitments for credit cards	$ 174,597,000	$ 200,688,219
Guarantees and standby letters of credit	9,837,554	6,267,792
Irrevocable loan commitments	535,838	1,010,252

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, 2010 and 2009. On December 31, 2010 and 2009, the Bank's most significant concentrations of credit risk were summarized as follows:

	Carrying Amount	
	December 31	
Credit Risk Profile by Counter-party	**2010**	**2009**
Consumer	$ 146,782,202	$ 128,818,672
Private sector	35,005,468	34,719,994
Government	2,174,000	1,024,140
	$ 183,961,670	$ 164,562,806

	December 31	
Credit Risk Profile by Industry Sector	**2010**	**2009**
Real estate activities	$ 12,225,152	$ 10,184,925
Commercial	7,521,571	5,462,862
Finance and insurance	4,943,447	4,987,710
	$ 24,690,170	$ 20,635,497

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, 2010 and 2009, the liquidity reserve ratio was 21.13% and 23.81%, 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 the appropriate method to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

	December 31, 2010					
	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	$ 8,441,278	$ 135,000	$ 162,000	$ 206,000	$ -	$ 8,944,278
Due from the Central Bank and other banks	51,001,623	2,811,383	2,584,032	2,142,937	2,784,302	61,324,277
Financial assets at fair value through profit or loss	2,992,371	9,299	11,652	4,501	-	3,017,823
Securities purchased under resell agreements	39,500	-	-	-	-	39,500
Receivables	5,814,951	3,874,896	2,710,456	4,409,251	1,713,053	18,522,607
Discounts and loans	7,801,276	8,243,834	14,237,611	32,244,742	128,555,329	191,092,792
Available-for-sale financial assets	-	-	253,804	676,567	5,299,678	6,230,049
Held-to-maturity investments	141,320	-	-	1,885,435	1,245,879	3,272,634
No active market debt instruments	221	442	664	1,327	50,876,169	50,878,823
	76,232,540	15,074,854	19,960,219	41,570,760	190,484,410	343,322,783
Liabilities						
Call loans and due to banks	61,436	-	5,700,000	4,525,910	-	10,287,346
Financial liabilities at fair value through profit or loss	34,584	3,997	8,451	4,401	151	51,584
Securities sold under repurchase agreements	26,637,022	6,959,904	-	-	-	33,596,926
Payables	2,271,780	787,827	406,654	185,823	186,812	3,838,896
Deposits and remittance	31,346,739	35,690,114	49,400,560	77,069,543	96,098,898	289,605,854
Bank debentures	2,000	-	-	1,988,000	2,900,000	4,890,000
	60,353,561	43,441,842	55,515,665	83,773,677	99,185,861	342,270,606
Net liquidity gap	$ 15,878,979	$ (28,366,988)	$ (35,555,446)	$ (42,202,917)	$ 91,298,549	$ 1,052,177

	December 31, 2009					
	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	$ 5,057,882	$ 135,000	$ 162,000	$ 206,000	$ -	$ 5,560,882
Due from the Central Bank and other banks	51,147,103	785,536	941,499	1,818,988	2,655,530	57,348,656
Financial assets at fair value through profit or loss	254,043	6,024	1,259	134,728	4,917	400,971
Securities purchased under resell agreements	289,953	-	-	-	-	289,953
Receivables	5,921,724	2,712,753	2,822,312	5,504,720	4,822,496	21,784,005
Discounts and loans	6,765,941	6,518,639	10,312,120	20,921,978	127,041,226	171,559,904
Available-for-sale financial assets	-	-	115,974	-	7,018,262	7,134,236
Held-to-maturity investments	400,300	-	164,626	3,511,697	5,647,922	9,724,545
No active market debt instruments	315	4,988	820	9,667	49,386,124	49,401,914
	69,837,261	10,162,940	14,520,610	32,107,778	196,576,477	323,205,066

(Continued)

	December 31, 2009					
	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
Liabilities						
Call loans and due to banks	$ 1,654,593	$ 160,880	$ 13,100,480	$ 3,172,820	$ -	$ 18,088,773
Financial liabilities at fair value through profit or loss	19,236	60,069	895	1,023	20	81,243
Securities sold under repurchase agreements	11,759,482	1,399,913	-	13,256,512	-	26,415,907
Payables	1,871,481	737,965	292,724	176,088	198,560	3,276,818
Deposits and remittance	31,855,566	32,391,237	43,540,161	68,710,014	94,627,213	271,124,191
Bank debentures	-	-	5,000,000	-	4,900,000	9,900,000
	47,160,358	34,750,064	61,934,260	85,316,457	99,725,793	328,886,932
Net liquidity gap	$ 22,676,903	$ (24,587,124)	$ (47,413,650)	$ (53,208,679)	$ 96,850,684	$ (5,681,866)

(Concluded)

e. Reclassifications

On July 1, 2008, the Bank reclassified its financial assets in accordance with the newly amended Statement of Financial Accounting Standards No. 34 - "Financial Instruments: Recognition and Measurement." The fair values of the reclassified financial assets 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

The carrying amounts and fair values of the reclassified financial assets (excluding those that had been derecognized) as at December 31, 2010 and 2009 were as follows:

	Years Ended December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale financial assets	$ 40,755	$ 40,755	$ 110,960	$ 110,960

The gains or losses recorded for the reclassified financial assets (excluding those that had been derecognized before December 31, 2010 and 2009, respectively) for 2010 and 2009 and the pro forma gains or losses assuming no reclassifications had been made were as follows:

	Years Ended December 31			
	2010		2009	
	Gains (Losses) Recorded	Pro Forma Gains (Losses)	Gains (Losses) Recorded	Pro Forma Gains (Losses)
Available-for-sale financial assets	$ -	$ (183)	$ -	$ (18,646)

31. MARKET RISK CONTROL AND HEDGE STRATEGY

a. Risk managing indicators and strategy

The Bank's main risks 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. CAPITAL ADEQUACY RATIO

(In Thousands of New Taiwan Dollars, %)

Items			December 31, 2010 Union Bank	December 31, 2010 Consolidated
Eligible capital	Tier 1 capital		$ 13,539,665	$ 14,200,593
	Tier 2 capital		3,715,928	4,162,325
	Tier 3 capital		-	-
	Eligible capital		17,255,593	18,362,918
Risk-weighted assets	Credit risk	Standardized approach	154,210,916	161,235,905
		Internal ratings-based approach	-	-
		Securitization	629	54,476
	Operational risk	Basic indicator approach	14,993,291	16,722,350
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	3,225,875	3,314,250
		Internal model approach	-	-
	Risk-weighted assets		172,430,711	181,326,981
Capital adequacy ratio			10.01	10.13
Ratio of Tier 1 capital to risk-weighted assets			7.85	7.83
Ratio of Tier 2 capital to risk-weighted assets			2.16	2.30
Ratio of Tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			4.53	4.50
Leverage ratio			3.85	3.94

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 × 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

8) Leverage ratio = Tier 1 capital ÷ Adjusted average total asset (the average total asset - goodwill, deferred losses on the sale of nonperforming loans and the amount of ineligible items (as defined in the “Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks”) deducted from the Tier 1 capital

(In Thousands of New Taiwan Dollars, %)

Items			Year: December 31, 2009 Union Bank	Consolidated
Eligible capital	Tier 1 capital		$ 11,428,073	$ 13,882,881
	Tier 2 capital		2,686,699	3,360,171
	Tier 3 capital		-	-
	Eligible capital		14,114,772	17,243,052
Risk-weighted assets	Credit risk	Standardized approach	138,505,286	153,104,392
		Internal ratings-based approach	-	-
		Securitization	1,024,060	1,078,855
	Operational risk	Basic indicator approach	14,901,512	16,297,550
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	4,298,058	5,196,627
		Internal model approach	-	-
	Risk-weighted assets		158,728,916	175,677,424
Capital adequacy ratio			8.89	9.82
Ratio of Tier 1 capital to risk-weighted assets			7.20	7.90
Ratio of Tier 2 capital to risk-weighted assets			1.69	1.92
Ratio of Tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			5.53	5.33
Leverage ratio			3.29	3.82

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

(In Thousands of New Taiwan Dollars, %)

	Year Ended December 31, 2010				Year Ended December 31, 2009		
Rank	**Industry**	**Total Amount of Credit Endorsement or Other Transactions**	**Percentage of Equity (%)**	**Rank**	**Industry**	**Total Amount of Credit Endorsement or Other Transactions**	**Percentage of Equity (%)**
1	A Group - Real estate	3,551,534	17.67	1	B Group - Real estate	$3,653,880	20.84
2	B Group - Real estate	2,569,462	12.79	2	C Group - Real estate	2,909,237	16.60
3	C Group - Rail transport	2,047,602	10.19	3	K Group - Rail transport	2,855,806	16.29
4	D Group - Real estate	1,827,760	9.10	4	A Group - Real estate	2,073,900	11.83
5	E Group - Television	1,222,234	6.08	5	L Group - Television	1,542,787	8.80
6	F Group - Financial securities	850,000	4.23	6	M Group - Financial securities	1,057,000	6.03
7	G Group - Real estate	619,263	3.08	7	N Group - Real estate	860,358	4.91
8	H Group - Real estate	532,500	2.65	8	O Group - Real estate	757,000	4.32
9	I Group - Real estate	502,666	2.50	9	G Group - Real estate	670,842	3.83
10	J Group - Interior design	490,000	2.44	10	P Group - Interior design	491,624	2.80

b. Interest rate sensitivity

Interest Rate Sensitivity
December 31, 2010

(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	$ 235,734,239	$ 7,038,372	$ 13,691,427	$ 19,590,572	$ 276,054,610
Interest rate-sensitive liabilities	128,821,835	128,391,152	14,888,860	12,053,024	284,154,871
Interest rate sensitivity gap	106,912,404	(121,352,780)	(1,197,433)	7,537,548	(8,100,261)
Net worth					13,834,570
Ratio of interest rate-sensitive assets to liabilities					97.15%
Ratio of interest rate sensitivity gap to net worth					(58.55%)

Interest Rate Sensitivity
December 31, 2009

(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	$ 206,477,005	$ 5,454,142	$ 10,707,734	$ 26,899,080	$ 249,537,961
Interest rate-sensitive liabilities	115,143,447	116,572,355	22,102,637	16,489,294	270,307,733
Interest rate sensitivity gap	91,333,558	(111,118,213)	(11,394,903)	10,409,786	(20,769,772)
Net worth					12,828,558
Ratio of interest rate-sensitive assets to liabilities					92.32%
Ratio of interest rate sensitivity gap to net worth					(161.90%)

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, 2010

(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	$ 226,652	$ 11,098	$ 15,695	$ 1,754,528	$ 2,007,973
Interest rate-sensitive liabilities	1,257,750	388,720	144,937	-	1,791,407
Interest rate sensitivity gap	(1,031,098)	(377,622)	(129,242)	1,754,528	216,566
Net worth					253,968
Ratio of interest rate-sensitive assets to liabilities					112.09%
Ratio of interest rate sensitivity gap to net worth					85.27%

Interest Rate Sensitivity
December 31, 2009

(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	$ 72,708	$ 15,375	$ 113,441	$ 1,677,896	$ 1,879,420
Interest rate-sensitive liabilities	1,165,573	309,093	123,505	-	1,598,171
Interest rate sensitivity gap	(1,092,865)	(293,718)	(10,064)	1,677,896	281,249
Net worth					184,937
Ratio of interest rate-sensitive assets to liabilities					117.60%
Ratio of interest rate sensitivity gap to net worth					152.08%

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		2010	2009
Return on total assets	Before income tax	0.52	0.19
	After income tax	0.40	0.07
Return on net worth	Before income tax	9.74	3.90
	After income tax	7.50	1.48
Profit margin		20.44	3.84

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, 2010 and 2009.

2) Maturity analysis of assets and liabilities:

Maturity Analysis of Asset and Liabilities
December 31, 2010

(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	$ 300,562,620	$ 75,283,316	$ 14,685,296	$ 19,667,562	$ 41,660,523	$ 149,265,923
Main capital outflow on maturity	352,933,224	35,211,468	34,577,982	45,941,514	84,965,520	152,236,740
Gap	(52,370,604)	40,071,848	(19,892,686)	(26,273,952)	(43,304,997)	(2,970,817)

Maturity Analysis of Asset and Liabilities
December 31, 2009

(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	$ 283,344,792	$ 74,369,061	$ 10,009,332	$ 14,058,585	$ 29,845,101	$ 155,062,713
Main capital outflow on maturity	322,271,748	30,413,646	31,349,270	48,316,526	82,802,833	129,389,473
Gap	(38,926,956)	43,955,415	(21,339,938)	(34,257,941)	(52,957,732)	25,673,240

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, 2010

(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	$ 2,029,836	$ 206,867	$ 21,802	$ 10,762	$ 15,699	$ 1,774,706
Capital outflow on maturity	2,046,088	914,486	343,517	388,781	145,343	253,961
Gap	(16,252)	(707,619)	(321,715)	(378,019)	(129,644)	1,520,745

Maturity Analysis of Assets and Liabilities
December 31, 2009

(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	$ 1,922,181	$ 83,651	$ 10,192	$ 15,414	$ 113,456	$ 1,699,468
Capital outflow on maturity	1,804,439	584,861	189,073	539,507	306,061	184,937
Gap	117,742	(501,210)	(178,881)	(524,093)	(192,605)	1,514,531

Note: 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).

34. ACQUISITIONS OF ANOTHER FINANCIAL INSTITUTION'S ASSETS, LIABILITIES AND OPERATIONS

To integrate its operating resources and promote Bank's competitiveness in the financial market, the board of directors resolved on December 17, 2009 to merge the Bank with Union Bill Finance Corporation (UBF), with the Bank as the survivor equity. Under the merger contract, the Bank will acquire UBF's assets and liabilities through a share swap at a 1:1.13, with each share of UBF to be exchanged for 1.13 shares of the Bank. The merger contract stated that this ratio could be adjusted. On June 23, 2010, the board of directors approved the change of the swap ratio to 1:1.15, with August 16, 2010 as the merger date. The merger was completed on August 16, 2010. The assets and liabilities recognized by UBF on the merger date and all rights and obligations as of the merger date were assumed by the Bank.

The issued capital of the Bank before the merger was $17,536,620 thousand, representing 1,753,662 thousand shares at a par value of NT$10.00, consisting of 1,451,153 thousand common shares and 302,509 thousand preferred shares. The Bank increased its capital by $1,948,376 thousand by issuing 194,838 thousand common shares for the merger. The issued capital of the Bank after merger amounted to $19,484,996 thousand. This issuance was approved by the Ministry of Economic Affairs.

UBF started preparations for its establishment in November 1994 and was established in July 1995. It began its main operating activities and generated major revenues on October 11, 1995. Under approval by authorities, UBF mainly brokers and trades short-term bills; underwrites, certifies, guarantees and endorses commercial paper; brokers government bonds, financial bonds and trading bonds; and derivatives-related business.

The Bank applied Statement of Financial Accounting Standards (SFAS) No. 25 - "Business Combinations to the merger with UBF. Under SFAS No. 25, since the Bank had control over UBF before the merger, the Bank recognized (a) UBF's assets and liabilities at book value at the Bank's percentage of ownership (42.76%) and (b) the remaining assets and liabilities attributed to the minority interest (57.24%) at fair value as of the merger date. Also in line with SFAS No. 25, since the Bank's accounting policies on assets and liabilities were more appropriate to use than those of UBF, the Bank adjusted the book value of UBF's assets and liabilities on the basis of the Bank's accounting policies.

Also under SFAS No. 25, the Bank recognized $1,714,571 thousand as the cost of acquiring minority-interest shares and issued 194,838 thousand common shares at NT$8.8 per share to the stockholders. The amount of $130,498, resulting from the deduction of the net asset fair value of $1,584,073 thousand from the acquisition cost of $1,714,571 thousand, was recorded as goodwill.

The amounts of the assets and liabilities recognized by the Bank after the merger are summarized as follows:

	Fair Value of Identifiable Net Assets	Book Value	Total
Cash and cash equivalents	$ 513,308	$ 383,457	$ 896,765
Due from the Central Bank and other banks	572,400	427,600	1,000,000
Financial assets at fair value through profit or loss	211,721	158,162	369,883
Receivables, net	245,999	183,769	429,768
Available-for-sale financial assets	2,055,740	1,535,700	3,591,440
Held-to-maturity financial assets	118,610	88,605	207,215
Financial assets carried at cost	5,310	3,967	9,277
Other financial assets	13,107	9,791	22,898
Land	4,330	3,234	7,564
Buildings	3,426	2,559	5,985
Machinery and equipment	1,831	1,368	3,199
Transportation equipment	653	488	1,141
Leasehold improvements	665	496	1,161
Other assets	79,658	52,179	131,837
Securities sold under repurchase agreements	(2,104,361)	(1,572,021)	(3,676,382)
Payables	(17,120)	(12,790)	(29,910)
Other financial liabilities	(753)	(562)	(1,315)
Other liabilities	(120,451)	(95,512)	(215,963)
Subtotal	1,584,073	$ 1,170,490	$ 2,754,563
Cost of combination	1,714,571		
Goodwill	$ 130,498		$ 130,498

The foregoing fair values and book values of identifiable net assets were calculated at the share ratios of 57.24% and 42.76%, respectively, on the basis of the unaudited financial statements prepared by UBF. In calculating the amount corresponding to the share ratio of 42.76%, the Bank had already adjusted the book value of UBF's assets and liabilities in accordance with the Bank's accounting policy.

All of UBF's operating results after August 16, 2010 were included in the Bank's income statement, but any profit or loss before the merger date was not included. For comparison purposes, the combined pro forma income statements for 2010 and 2009 are provided as follows (UBF's data for the period from January 1, 2010 to August 15, 2010 had been prepared by UBF and those for the year ended December 31, 2009 had been prepared by other auditors, and all of these data had been adjusted in accordance with the Bank's accounting policy).

Items	2010	2009	Percentage Increase (Decrease)
Net interest	$ 6,585,622	$ 6,026,483	9
Net revenues and gains other than interest	338,362	817,850	(59)
Net revenues	6,923,984	6,844,333	1
Bad-debt expenses for loans	(409,502)	(1,363,493)	(70)
Operating expenses	(4,716,837)	(4,762,930)	(1)
Income before income tax	1,797,645	717,910	150
Income tax expense	(423,038)	(439,025)	(4)
Net income	$ 1,374,607	$ 278,885	393
Earnings per share (NT$)	$0.90	$0.19	

The pro forma combined statements of income are presented for illustrative purposes only. That is, this information merely shows the financial position and results of operations under the assumption that the Bank merged with UBF on January 1, 2009 and represents neither the future financial position nor the result of operations of the merged Bank and UBF.

35. OTHER

Financial assets and liabilities denominated in foreign currencies:

	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 2,399,693	29.152	$ 69,955,850	$ 1,956,718	32.1760	$ 62,959,358
AUD	34,126	29.6913	1,013,245	56,975	28.8940	1,646,236
HKD	170,385	3.7499	638,927	136,714	4.1490	567,226
JPY	9,633,860	0.3581	3,449,885	6,400,942	0.3482	2,228,808
EUR	64,084	38.9325	2,494,950	24,937	46.2369	1,153,010
NZD	75,769	22.5636	1,709,621	104,135	23.3597	2,432,562
CHF	2,010	31.1120	62,535	506	31.0879	15,730
SGD	836	22.7217	18,995	727	22.9255	16,667
GBP	8,328	45.2001	376,426	8,630	51.7550	446,646
CAD	8,466	29.1665	246,924	5,425	30.6000	166,005
ZAR	168,228	4.4036	740,809	170,328	4.3539	741,591
THB	115	0.9697	112	109	0.9650	105
Financial liabilities						
Monetary items						
USD	2,137,471	29.152	62,311,555	1,763,332	32.1760	56,736,970
EUR	65,411	38.9325	2,546,614	24,907	46.2369	1,151,622
AUD	34,101	29.6913	1,012,503	56,904	28.8940	1,644,184
JPY	9,840,422	0.3581	3,523,855	6,259,344	0.3482	2,179,504

(Continued)

	2010			2009		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**	**Foreign Currencies**	**Exchange Rate**	**New Taiwan Dollars**
HKD	$ 170,325	3.7499	$ 638,702	$ 135,135	4.1490	$ 560,675
ZAR	168,641	4.4036	742,628	170,472	4.3539	742,218
NZD	75,832	22.5636	1,711,043	103,888	23.3597	2,426,793
GBP	8,338	45.2001	376,878	8,627	51.7550	446,490
CAD	8,448	29.1665	246,399	5,424	30.6000	165,974
SGD	837	22.7217	19,018	702	22.9255	16,094
CHF	1,999	31.1120	62,193	500	31.0879	15,544

(Concluded)

36. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau:

a. Significant transactions of the Bank and its investees:

1) Financing provided: The Bank - not applicable; investee company - none

2) Endorsement/guarantee provided: The Bank - not applicable; investee company - Table 1 (attached)

3) Marketable securities held: The Bank - not applicable; investee company: Table 2 (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 3 (attached)

9) Sale of nonperforming loans: None

10) Financial asset securitization: None

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: Please see Note 30.

b. Investment in Mainland China: None.

37. 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.

TABLE 1

UNION BANK OF TAIWAN

ENDORSEMENTS/GUARANTEES PROVIDED
YEAR ENDED DECEMBER 31, 2010
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Year	Ending Balance	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per the Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable
		Name	Nature of Relationship						
1	Union Capital (Cayman) Corp.	Union Finance and Leasing International Corporation	Subsidiary	US$ 16,026	$ 400,000	$ 400,000	$ 400,000	85.62	US$ 16,026

TABLE 2

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2010
(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, 2010 Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	872	$ 11,591	0.06%	$ 11,591	Note 4
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	5,789	0.18%	5,789	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	10,211	0.11%	10,211	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	US$ 16,026	100.00%	US$ 16,026	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	US$ 2,983	100.00%	US$ 2,983	Note 1
	WI Harper Group	-	Unquoted equity instruments	1,284	4,878	3.33%	4,878	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	4,935	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	1	487	0.99%	355	Note 1
	Schmidt Technology Co., Ltd.	-	Unquoted equity instruments	83	-	0.29%	429	Note 1
	Bond							
	Taiwan Life Insurance Co., Ltd.	-	Financial assets designated at fair value through profit or loss	500	69,330	-	69,330	Note 1
Union Information Technology Corporation	Stock							
	Jin Shang Chang Development Co., Ltd.	-	Available-for-sale financial assets	-	-	-	-	Note 4
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,000	17,132	16.33%	25,542	Note 3
	eBizServe, Inc.	-	Unquoted equity instruments	496	1,374	4.20%	3,420	Note 3
	Xiehe E-commence Co., Ltd.	-	Unquoted equity instruments	169	1,692	7.99%	1,733	Note 3
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900	US$ 704	-	US$ 704	-
	Penn West Energy	-	Available-for-sale financial assets	29	US$ 694	-	US$ 694	-
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 765	-	US$ 765	Note 4
	Applied Materials Inc.	-	Financial assets at fair value through profit or loss	3	US$ 940	-	US$ 940	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 422	-	US$ 422	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 380	-	US$ 380	Note 4
Union Insurance Broker Company	Stock							
	Asus Computer Corp.	-	Available-for-sale financial assets	3	864	-	864	Note 4
	Pegatron Corporation	-	Available-for-sale financial assets	8	353	-	353	Note 4
New Asian Ventures Ltd.	Stock							
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US$ 2,500	0.74%	US$ 1,601	Note 2

(Continued)

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, ERA Communications Co., Ltd., Yung Li Securities Co., Ltd. and Schmidt Technology Co., Ltd. - audited stockholders' equity as of December 31, 2009.
b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited stockholders' equity as of December 31, 2010.
c. Taiwan Life Insurance Co., Ltd. - the valuation of expert as of December 31, 2010.

Note 2: New Asian Ventures Ltd.:

Grace Thw Holding Limited - unaudited stockholders equity as of December 31, 2010.

Note 3: Union Information Technology Corporation:

a. ELTA Technology Co., Ltd. - audited stockholders' equity as of December 31, 2010.
b. eBizServe, Inc. - the audited stockholders' equity as of December 31, 2010.
c. Xiehe E-commence Co., Ltd. - audited stockholders' equity as of June 30, 2010.

Note 4: Except above, other companies - unaudited stockholders' equity as of December 31, 2010.

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. Beneficial 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, 2010
(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 (the "Bank")	Morgan Stanley Union Bank Asset Management Corporation	Related party in substance	$309,601	Not applicable for financial institution	$ -	-	$ -	$309,601

UNION BANK OF TAIWAN

ASSET QUALITY
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2010					December 31, 2009				
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		$ 651,295	$ 47,862,791	1.36%	$ 769,586	85.92%	$ 1,067,545	$ 35,907,507	2.97%	$ 1,041,884	36.41%
	Unsecured		244,446	24,884,802	0.98%			1,793,942	21,734,030	8.25%		
Consumer Banking	Housing mortgage (Note 4)		258,371	107,260,319	0.24%	109,801	42.50%	618,252	104,002,937	0.59%	112,356	18.17%
	Cash card		150,215	635,823	23.63%	359,715	239.47%	259,038	1,140,466	22.71%	221,037	85.33%
	Small scale credit loans (Note 5)		89,766	2,047,095	4.39%	189,460	211.06%	180,357	1,898,240	9.50%	147,185	81.61%
	Other (Note 6)	Secured	9,814	5,220,717	0.19%	7,131	46.27%	30,644	2,088,942	1.47%	77,589	64.37%
		Unsecured	5,598	2,288,868	0.24%			89,894	4,084,822	2.20%		
Deposits and Remittances	Certificates of deposit		-	892,377	-	-	-	-	702,960	-	-	-
Loan			1,409,505	191,092,792	0.74%	1,435,693	101.86%	4,039,672	171,559,904	2.35%	1,600,051	39.61%
			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			$ 97,189	$ 14,858,556	0.65%	$ 500,784	515.27%	$ 306,141	$ 16,852,485	1.82%	$ 579,749	189.37%
Accounts receivable factored without recourse (Note 7)			-	-	-	-	-	-	-	-	-	-

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.

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.

(Continued)

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2010		December 31, 2009	
	Not Reported as Nonperforming Loans	**Not Reported as Nonperforming Receivables**	**Not Reported as Nonperforming Loans**	**Not Reported as Nonperforming Receivables**
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 347,757	$ 1,595,038	$ 166,778	$ 2,022,394
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	77,085	1,100,915	72,547	977,535
Total	424,842	2,695,953	239,325	2,999,929

Note 1: 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 2: Amounts of discharged and 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, 2010
(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: Shares (Thousands)	Pro Forma Shares (Note 2)	Total: Shares (Thousands)	Total: Percentage of Ownership	Note
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00%	$ 738,898	$ 10,145	70,000		70,000	100.00%	Note
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99%	93,221	3,305	30,000		30,000	100.00%	Note
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00%	116,145	1,554	11,951		11,951	39.84%	Note
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00%	25,424	18,384	500		500	100.00%	Note
Taiwan Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution	0.57%	100,000	6,785	10,000		10,000	0.57%	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94%	50,000	500	5,000		5,000	2.94%	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53%	38,454	-	3,942		3,942	0.53%	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44%	3,864	498	386		386	6.44%	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81%	2,113	511	160		160	0.81%	
Fu Hua Venture Corporation	Taipei	Investments	5.00%	23,926	-	3,000		3,000	5.00%	
Jiao Da Venture Corporation	Taipei	Investment	5.00%	5,446	-	1,406		1,406	5.00%	
Li Yu Venture Corporation	Taipei	Investment	4.76%	7,946	-	1,008		1,008	4.76%	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04%	71,250	5,103	5,445		5,445	2.04%	
Nonfinancial-related										
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99%	22,843	(1,750)	1,000		1,000	99.99%	Note
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00%	54,045	271	4,000		4,000	80.00%	Note
Financial Information Service Co., Ltd.	Taipei	Information service	2.39%	118,782	28,731	9,577		9,577	2.39%	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25%	13,916	371	742		742	0.25%	
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%	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012%	6,123	-	395		395	0.0012%	
Global Communication Semiconductor, Inc.	U.S.A.	-	1.56%	9,185	-	1,389		1,389	1.56%	

Note: The investees' information shown above is based on audited financial reports as of December 31, 2010.