

2007 Annual Report



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To Shareholders,

The world economy continued to expand in 2007. However, the spread of the U.S. mortgage crisis in the 4th quarter which triggered a credit crunch worldwide along with the increase in the international crude oil price had reduced the overall global economic growth momentum.

Domestically, despite the ongoing increase in oil, agricultural and raw material prices, the economy remained stable with a growth rate of 5.46% throughout the year. Both export and import values attained record high. Employment market was active and the unemployment rate remained at same level as a year ago. The December leading benchmark was increasing, and the monitoring indicators remained at the “stable” green light, showing that the domestic economy was steady.

By the end of 2007, the Bank made no major change in its existing organization except that the Wealth Management Department increased the number of its centers to 12. This will help expand the wealth management business by providing versatile consultative services.

The Bank's operating results, budget execution, financial conditions and profitability, and credit rating for the year of 2007, and its business plan for 2008, external operating factors and future development strategies etc. are summarized as follows:

1. 2007 Operating Results & Budget Execution

As a result of the team effort of our bank staff, average balance of deposits totaled NT\$290,440 million for the year, which was 93.64% of the yearly target of NT\$310,165 million and an increase of NT\$9,947 million or 3.55% growth over NT\$280,493 million for 2006. Average balance of loans for NT\$206,058 million was 95.09% of the yearly target of NT\$216,690 million and was an increase of NT\$18,957 million or a 10.13% increase over that attained in 2006. Foreign exchange volume was US\$3,881 million which topped the annual target of US\$3,522 million and was an increase of US\$512 million or a 15.20% growth over that achieved a year ago.

2. Financial Condition & Profitability

For financial year of 2007, net interest income and fee income were NT\$7,256 million and NT\$1,657 million respectively. Income other than interest and fee income amounted to NT\$1,018 million. The net income was NT\$7,939 million after deducting amortization and loss on sales of non-performing loans (NPLs) totaling NT\$1,809 million and loss on asset impairment for NT\$183 million. To cope with the bad debt issue of consumer banking, the Bank made a bad debt provision of NT\$8,404 million aiming at bettering the asset quality. Besides, the operating expense was NT\$5,994 million and net loss after-tax was NT\$4,942 million.

3. Credit Rating

Taiwan Ratings Corporation (henceforth “TRC”), under its perpetual observation, gave its positive recognition on the Bank's overall operating results. TRC announced on December 28, 2007 the Bank's long and short-term ratings to stand at twA- and twA-2, respectively and outlook “Stable”. The ratings reflected our effort in establishing a niche position in consumer banking and an above-average performance in core profitability.

4. 2008 Business Plan

Our 2008 business policy intends to continuously develop the Bank into an omnibus bank dedicated to providing customers with satisfactory services and meeting their diversified financial needs. Taking both risk and revenue into consideration, the Bank will continue to exercise its asset management by clearing NPLs and strengthening the quality and quantity of loans. The Bank will make every endeavor to promote current deposits to augment its operating base and to enrich its working fund. The bank will continue to boost the expertise and efficiency of its employees through constant education and training programs. The Bank will reasonably evaluate various expenditure and tangibly fulfill the periodic review so as to achieve the objective of expense and cost control.

The Bank substantially wrote off bad debts in recent years. As of the end of 2007, the Bank's NPL rate was 2.39%, while the bad debt coverage rate was 63.87%. Therefore, the quality of assets improved significantly. For the coming year, the Bank shall spare no effort to write off bad debts, tone up its risk-bearing ability, to heighten its business developing capability and to lead all employees to go for the defined objectives. The various business goals for the new year have been set as follows: average deposit balance for NT\$302,743 million, average loan outstanding for NT\$202,078 million and total foreign exchange volume for US\$4,287 million.

5. External Factors & Future Development Strategies

Looking forward into 2008, the government will continue to strengthen its risk control and supervision over the financial industry, to promote stable development of the financial system, and to adhere to its pivotal administrative measures of "Major Investment and Great Warmth to achieve the policy-enforcing objectives of "Increase in Investment in Taiwan, Creation of Employment Opportunities, Shortening of Distance between Urban and Rural, and Narrowing of Disparity between the Rich and the Poor".

To cope with the upcoming diversified challenges, the Bank will continue to adhere to the SME loans, consumer banking and wealth management as the major business categories pursuant to its development strategies, to enhance its competitiveness by virtue of effective management, to upgrade its business performance and build an omnibus financial system to serve the public.

We appreciate very much your long-term patronage and look forward to receiving your continued support and encouragement in the future. We will endeavor to present a marvelous feat of performance under the Bank's operating mottoes of "*Enthusiasm, Soundness, Efficiency and Innovation*".

Shiang-Chang Lee
Chairman

Jeff Lin,
President

Bank Profile

1. Date of Establishment: December 31, 1991

2. History

(1) Major Milestones

Union Bank of Taiwan was the third private-owned bank approved by the government to be established in the awakening of banking liberalization and globalization. The founders of the Bank shared a common interest of running a perpetual business and together they set up the preparatory office on Mar. 29, 1989 and business operation initiated on Jan. 21, 1992. The Bank was officially listed on the OTC on Sep. 19, 1995 and the Taiwan Stock Exchange Corporate on Jun. 29, 1998, and has now become a widely acclaimed and recognized listed company. The Bank has set up the Ho Chi Minh City Representative Office in Vietnam and Hong Kong Representative Office in Hong Kong for internationalization on February 25, 1998 and August 24, 1999, respectively. To expand business channels and the scale of operations, the Bank has acquired Chung Shing Bank unconditionally on March 19, 2005. Up to the printing date of the annual report, the Bank operates through 79 domestic branches in major cities. To generate higher value and enlarge branch network, the Bank intends to open 8 branches within the next 2 years.

(2) Merger and Acquisition, Reinvestment Relative Enterprises and Reorganization for the Past Year and Current Year Up to the Printing Date of the Annual Report

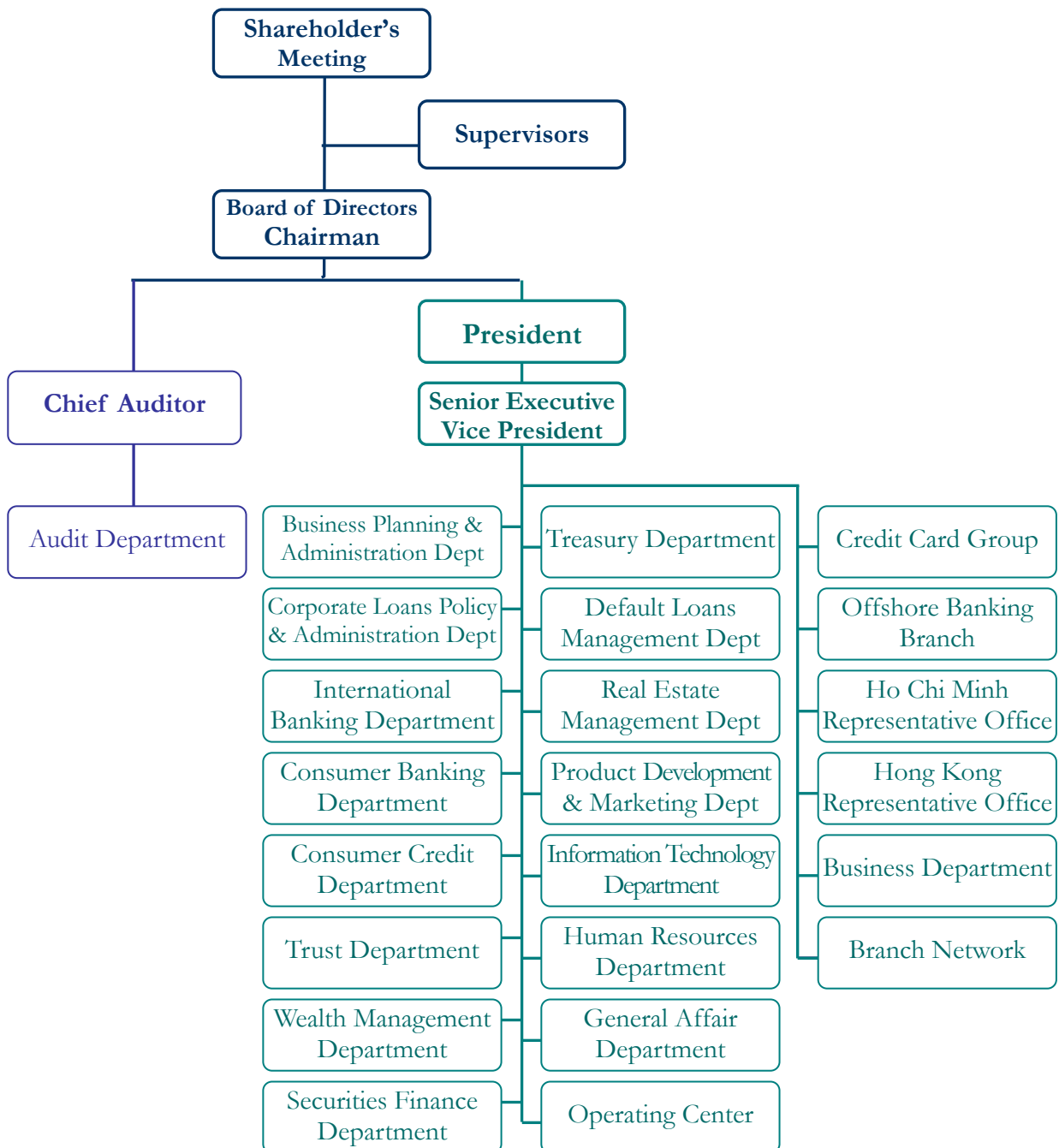
The bank also engaged in some financial and non-financial businesses besides banking businesses and has subsidiaries such as Union Bills Finance Bills Co., Union Finance & Leasing International Corp., Union Securities Investment Trust Corp., Union Insurance Broker Co., Union Information Technology Corp. and Union Finance International (HK) Ltd. Further, because trust enterprises was allowed by the competent authority to operate securities investment trust business concurrently, the Bank liquidated Union Securities Investment Consulting Corp. on June 1, 2007 considering costs cutting and better capital utilization.

(3) Major Change in or Transfer of Shareholding of Directors, Supervisors and Persons Requiring to Register Such Change Pursuant to Article 25-3 of the Banking Law and Changes in Management Rights and Methods or Other Significant Changes

The Bank has embraced the corporate philosophy “Enthusiasm”, Soundness”, “Efficiency” and “Innovation” since its establishment to offer financial and banking services that match public demand. We have assigned professional managers to manage each major business division. Our shareholder composition only changed slightly in 2006. There was no major transfer or change in shareholding of Directors, Supervisors or persons required to register such change pursuant to Article 25-3 of the Banking Law and we do not anticipate any major change in the near future.

Corporate Governance

1. Organizational Chart



2. Information on Directors, Supervisors, and Executive Officers

(i) General

Corporate Governance

A. Information of Directors and Supervisors (as of December 31, 2007)

	Title & Name	Shares	Shares held by spouse & minor children	Current position held in the Bank and other company	Relation (Spouse or within 2 nd -degree relatives of consanguinity) to each other		
					Title	Name	Relation
Chairman	Shiang-Chang Lee	1,152,207	2,108,700	Director of Union Finance Int'l (HK) Ltd., & Union Capital (Cayman) Co.	-		
Managing Director	Zhen-Xong Jiang	4,597,043	-	Managing Director of Union Optronics Corp.; Supervisor of Union Bills Finance Corp.	-		
	Yu-Pang Co., Ltd. Representative: Jia-Yi Wang	18,962,581	-		-		
Director	Union Enterprise Construction Co., Ltd. Representative: Jeff Lin	71,684,310	5,572,921	President of the Bank; Director of Liberty Times, Union Bills Finance Corp & Union Finance Int'l (HK) Ltd.; Supervisor of Lung Shan Lin Enterprise Co., Ltd. & Union Recreation Enterprise Corp.; Managing Director of Union Dyeing and Finishing Co., Ltd.	Director	Sue-Ere C. Lin	Son/ Mother
	Chung-Li Investment Co. Representative: Yao-Nan Lai	198,454,283	809,166	-	-		
	Chung-Li Investment Co. Representative: Sue-Feng Cao	198,454,283	3,523	Director of Tien-Sheng Investment Co., Ltd., Chung-Li Investment Co. & Hong-Peng Construction Co., Ltd., Supervisor of Union Real-Estate Management Corporation	-		
	Union Recreation Enterprise Corp. Representative: Sue-Ere C. Lin	26,577,782	77,286,891	Supervisor of Liberty Times; Chairman of Union Enterprise Construction Co., Ltd., Hung-Kou Construction Inc., Ltd. & Union Dyeing and Finishing Co., Ltd.; Director of Lian-Gi Investment Co., Ltd., Green Island Hotel Co., Ltd., Yu-Pang Co., Ltd. & Yong-Xuan Co., Ltd.	Director/ President	Jeff Lin	Mother/ Son
	Jin-Fu Liu	-	-	Director of Lien-Han Industrial Co., Ltd. & Li Chang Yao Ye Co.	-		
	Si-Yong Lin	16,934,581	1,494,018	Director of Jen-Yo Investment Co., Ltd., Union Dyeing and Finishing Co., Ltd., Sun-Che Investment Co., Ltd., Yeh Shan Construction Co., Ltd., Pai-Sheng Investment Co., Ltd., Chu-Pao Investment Co., Ltd., Lung Shan Lin Enterprise Co., Ltd., Hong Bung Construction Co., Ltd., Union Real-Estate Management Corporation, Union Optronic Corp. & EnTie Securities Finance Co., Ltd.; Chairman of Green Island Hotel Co., Ltd.	-		
Resident Supervisor	Yu-Quan Development Co., Ltd. Representative: Yu-Quan Lee	8,807,889	3,505,303	Chairman of Tien-How Construction Co., Ltd. & TWT Communication Corp.; Director of Yu-Quan Development Co., Ltd. & Taiwan 1 st Multiple Media Co., Ltd.	-		
Supervisor	Pao-Hsing Investment Co., Ltd. Representative: Zhen-Lu Lin	90,610,217	287,308	-	-		
	Ming-Shing Ho	32,100	229,278	President of Union Bills Finance Corp.	-		

Note: None of the above has shareholding under other's title.

B. Major Institutional Shareholders

Institutional Shareholder	Major Shareholders
Yu-Pang Co., Ltd.	Sue-Ere C. Lin, Hong-Yao Lin, Hong-Bang Lin, Rung-San Lin, and Jeff Lin
Chung-Li Investment Co.	Sue-Feng Cao, Hong- Bang Lin, Tsong-Yu Lee, and Si-Yong Lin
Union Enterprise Construction Co., Ltd.	Sue-Ere C. Lin, Hong-Yao Lin, Hsin-Yuan Lin, and Hong- Bang Lin
Union Recreation Enterprise Corp.	Jyh-Dong Chen, Hong-Yao Lin, Hong- Bang Lin, and Jeff Lin
Yu-Quan Development Co., Ltd.	Chao-Mei T. Lee, Yu-Quan Lee, Pei-Ling Lee, Pei-Shan Lee, Chung-Hwei Lee, Pei-Chun Lee, Kuan-Bing Wu, and Li-Hsueh Lin
Pao-Hsing Investment Co., Ltd.	Chiu-Tze Lin, Chuan-Jong Chang, Ciao-Yun Huang and Shiou-Chin Lee

C. Training Records of Director and Supervisors

Title , Name	Training Courses		Course Name	Hours	In compliance with regulations ¹
	Date	Organizer			
Chairman, Shiang-Chang Lee	2001.02.26	Taiwan Academy of Banking & Finance	The 14 th Symposium for Senior Management	3	Yes
	2001.05.17	(TABF)	Symposium for Senior Trust Officers	6	Yes
	2001.06.21 ~06.27	the Bank	Create Sales Opportunities Seminar	4	Yes
	2002.01.31	Taiwan Academy of Banking & Finance	Case study on bank reform & discussion on the impact of changes in banks' corporate governance standards on banking operation	6	Yes
	2004.02.04	Taiwan Securities Association	Seminar for senior securities dealing officers	7.5	Yes
	2007.03.15	Taiwan Securities Exchange	Independent director in Corporate Governance Forum	3	Yes
	2007.06.07	Financial Supervisory Commission	The 4 th Taipei Corporate Governance Forum	6	Yes
Director, Jeff Lin	2006.07.11	Taiwan Academy of Banking & Finance	Symposium for senior trust officers	3	Yes
Director, Sue-Feng Cao	2007.09.14	Securities & Futures Institute	Practice of (independent) directors & Supervisors	3	Yes
Supervisor, Ming-Shing Ho	2005.03.10	Taiwan Academy of Banking & Finance	Corporate Governance Seminar	3	Yes

Note:

Refer to as to whether the hours, scope, system, arrangement & information disclosures of training courses are in compliance with the "Criteria Governing the Training of Directors and Supervisors of Public Companies".

D. Professional Knowledge and Independence Information of Directors and Supervisors

Name	Qualification	With over 5 years of work experience and the following professional qualification			Independence status ¹										Serve as an independent director of other public companies
		Five or more years of experience in business, law, finance, or fields of business related	Judge, prosecutor, solicitor, CPA or professionally qualified and technical person as required by the company	Experience in business, law, finance, accounting or as required by the company	1	2	3	4	5	6	7	8	9	10	
Shiang-Chang Lee				✓			✓	✓	✓		✓	✓	✓	✓	–
Zhen-Xong Jiang				✓	✓		✓	✓	✓		✓	✓	✓	✓	–
Jia-Yi Wang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Jeff Lin				✓			✓		✓		✓		✓	✓	–
Yao-Nan Lai				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Sue-Feng Cao				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Sue-Ere C. Lin				✓	✓	✓			✓		✓		✓	✓	–
Jin-Fu Liu				✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	–
Si-Yong Lin				✓	✓	✓	✓	✓			✓	✓	✓	✓	–
Yu-Quan Lee				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Zhen-Lu Lin				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–
Ming-Shing Ho				✓		✓	✓	✓	✓		✓	✓	✓	✓	–

Notes:

1. Neither an employee of the Bank nor its affiliated enterprises.
2. Neither a director/ supervisor of the Bank or its affiliated enterprises (Excluding the independent directors of the Bank or its parent company or subsidiaries in which the Bank holds more than 50% interests).
3. Does not directly or indirectly own more than 1% of the Bank's outstanding shares; nor is one of the top ten non-institutional shareholders of the Bank.
4. Is not a spouse or within second-degree relation or fifth-degree immediate relation to any person specified in the preceding three criteria.
5. Is not a director, supervisor, or employee of a legal entity which directly owns more than 5% of the Bank's issued shares; nor a director, supervisor or employee of the top five legal entities which are owners of the Bank's issued shares.
6. Is not a director, supervisor, or manager of a company which has a business relationship with the Bank; nor a shareholder who owns more than 5% of such a company.
7. Is not an owner, partner, director, supervisor, manager or spouse of any sole proprietor business, partnership, company or institution which has provided the Bank and its affiliates with financial, business consulting, or legal services.
8. Not a spouse or within 2nd-degree relation to other directors.
9. Not qualified for status specified in Article 30 of the R.O.C. Company Law.
10. Not a government agency, juristic person or its representative pursuant under Article 27 of the R.O.C. Company Law.

(2) Management

Title	Name	Shares	Shares held by spouse & minor children	Position held in other company
President	Jeff Lin	5,572,921	-	Director of Liberty Times, Union Bills Finance Corp. & Union Finance Int'l (HK) Ltd.; Supervisor of Lung Shan Lin Enterprise Co., Ltd. & Union Recreation Enterprise Corp; Managing Director of Union Dyeing and Finishing Co., Ltd.
Senior Executive Vice President	Hao-Sen Lee	223,847	25,220	Director of Union Information Technology Co., Ltd. & Union Bills Finance Corp; Supervisor of Union Finance & Leasing Int'l Corp
Senior Executive Vice President	Herman Tu	176,567	173,956	Supervisor of Union Bills Finance Corp.; Managing Director of EnTie Securities Finance Co., Ltd.; Director of Union Finance & Leasing Int'l Corp
Senior Executive Vice President	Y. B. Chan	312,264	-	Director of Union Bills Finance Corp.; Supervisor of Union Finance & Leasing Int'l Corp
Chief Auditor	Yeh-Jye Chang	141,530	3,038	-
EVP & GM of Int'l Banking Dept. & OBU	Patrick Jean	71,394	-	Director of Union Finance Int'l (HK) Ltd.
EVP & GM of Corporate Loans Policy & Administration Department	Cheng-Yu Liu	-	-	-
EVP & GM of Business Department	Ching-Long Tsai	50,000	-	-
EVP & GM of Taipei Branch	Roger Wang	177,132	6,147	Director of Union Finance Int'l (HK) Ltd.
VP & GM of Head Office	Peter Chien	37,250	-	Supervisor of Union Bills Finance Corp
VP & GM of Business Planning & Administration Department	Yanger Yang	-	-	Director of Lian-An Service Co. Ltd.
VP & GM of Consumer Banking Department	Kuo-Shian Shia	-	10,000	Supervisor of Union Insurance Broker Co., Ltd. & Union Insurance Agent Co., Ltd.
VP & GM of Consumer Credit Department	Joy Tang	57,804	-	-
VP & GM of Trust Department	Hann-Tsau Tsai	146,276	2,000	Supervisor of EbizPrise Inc.
VP & GM of Wealth Management Dept.	Sophie Hsu	-	-	Director of Union Insurance Broker Co., Ltd. & Union Insurance Agent Co., Ltd.
VP & GM of Securities Finance Department	Chin-Ten Chuang	1,000	-	-
VP & GM of Treasury Department	Tarsicio Tong	53,858	-	-
VP & GM of Default Loans Management Dept.	Diana Tsai	1,676	-	Director of MSUB
VP & GM of Real Estate Management Dept.	Michael Lee	24,638	-	-
VP & GM of Product & Marketing Dept.	Tiffany Yu	31,000	-	Director of EnTie Securities Finance Co., Ltd., Li-Yu Venture Co. & Euroc III Venture Capital. Corp.
VP & GM of Information Technology Dept.	Luke Yang	62,000	-	Director of Union Information Technology Co., Ltd. & Hua Rong Venture Co.,
VP & GM of Human Resources Department	Michael Lin	-	-	-
VP & GM of General Affairs Department	Russell Chang	112,091	-	-
VP & GM of Operation Center	Shu-Feng Hsueh	8,000	2,144	-
Executive Director of Credit Card Group	Celia Chu	-	-	Supervisor of Union Information Technology Co., Ltd.; Director of Union Insurance Broker Co., Ltd. & Union Insurance Agent Co., Ltd.
VP & GM of Taoyuan Branch	Jen-Chung Cheng	-	-	-
VP & GM of Taichung Branch	Meng-Hsia Wu	57,987	-	-
VP & GM of Nanking East Road Branch	Ching-Wen Chen	-	-	-
VP & GM of Chungli Branch	Chang-Yung Chen	120,727	-	-
VP & GM of Sanchung Branch	Huang-Wen Huang	10,731	-	-
VP & GM of East Taipei Branch	Kuo-Pao Kang	-	-	-

Title	Name	Shares	Shares held by spouse & minor children	Position held in other company
VP & GM of Kaohsiung Branch	Poh-Yar Lin	189,960	-	-
VP & GM of Panchiao Branch	Chi-Pin Chen	503	-	-
VP & GM of Tainan Branch	He-Fong Ruan	-	-	-
VP & GM of Yuanlin Branch	Min-Fei Wang	32,855	-	-
VP & GM of Jenai Branch	Wu-Lien Peng	206,741	12,402	-
VP & GM of Nankan Branch	Ching-Chung Lin	112,140	-	-
VP & GM of Hsinchu Branch	Tawei Shih	-	-	-
VP & GM of Luchou Branch	Lin-Sheng Yu	5,000	-	-
VP & GM of Chiuju Branch	Lister Lee	68,000	-	-
VP & GM of Shuanho Branch	Jeng-Chorng Yeh	-	-	-
VP & GM of Hueilong Branch	Ru-Ji Cheng	623	-	-
VP & GM of Chiayi Branch	Chen-Yueh Wu	-	-	-
VP & GM of Chiayi Branch	Wendy Chi	45,771	-	-
VP & GM of Neili Branch	Ching-An Chen	25,294	-	-
VP & GM of Chunghsiao Branch	Jane Lu	101,695	-	-
VP & GM of Hsinchung Branch	Jeffery Tsai	-	-	-
VP & GM of Fengshan Branch	Keuin-Yung Tsai	46,424	-	-
VP & GM of Taoying Branch	Cheng-Shou Liou	193,395	-	-
VP & GM of Lungtan Branch	Han-Chou Chiu	638	-	-
VP & GM of Hsintien Branch	Chang-Chen Lin	-	-	-
VP & GM of Tachin Branch	Joe Lin	70,101	-	-
VP & GM of Chungshan Mini Branch	Li-Jen Wong	897	-	Director of Gianfranco Laura Co.
VP & GM of Wenhsin Branch	Tien-Tsu Chen	112,492	-	-
VP & GM of Chenshin Branch	Simon Tang	-	-	-
VP & GM of Chunggho Branch	Simon Wang	1,778	-	-
VP & GM of Neihu Branch	Ying-Feng Wang	74,795	48,618	-
VP & GM of Tayuan Branch	Wei-Chung Liu	68,191	-	-
VP & GM of Yunggho Branch	Hsiu-Yun Su	-	-	-
VP & GM of Chungkung Mini Branch	Wen-Chien Chien	69,687	-	-
VP & GM of Tonghwa Mini Branch	Mei-Lan Lin	1	-	-
VP & GM of Shihtung Branch	Chan-Kwan Chen	37,980	-	-
VP & GM of Breeze Center Mini Branch	Chien-Lung Chen	49,501	-	-
VP & GM of Changchun Branch	Chih-Chung Chang	14,532	-	-
VP & GM of Sungchiang Branch	Ching-Shan Chang	-	-	-
VP & GM of Taan Branch	Lanny Liaw	-	-	-
VP & GM of Yungchi Branch	Ying-Na Hsu	793	713	-
VP & GM of Wenlin Mini Branch	Pauline Sheng	5,000	-	-
VP & GM of Tungmen Branch	Jimmy Chou	799	-	-

Title	Name	Shares	Shares held by spouse & minor children	Position held in other company
VP & GM of Tunhwa Branch	Shen-Yung Peng	7,529	232	-
VP & GM of Hsihu Branch	Mary Huang	-	-	-
VP & GM of Beitou Branch	Cheng-Tai Rong	102,150	-	Director of Proavio Co., Ltd.
VP & GM of North Sanchung Branch	Teh-Chin Tsai	84,883	-	-
VP & GM of Houpu Branch	Su-Yean Lo	-	-	-
VP & GM of North Chunggho Mini Branch	Che-Ming Hsu	24,000	6,724	-
VP & GM of Hsisheng Branch	Shih-Wen Lu	-	-	-
VP & GM of Shulin Branch	Chi-Chun Wang	24,492	-	-
VP & GM of Hsichih Branch	Hung-Min Chen	25,492	247	-
VP & GM of North Taoyuan Branch	James Tsai	33,014	-	-
VP & GM of North Chungli Branch	Ping-Ching Chiang	95,545	-	-
VP & GM of North Taichung Branch	Hui-Fen Chao	73,526	-	-
VP & GM of Minchuan Branch	Jeng-Ping Liou	126,789	-	-
VP & GM of Hsitun Branch	Shih-Yuan Liaw	-	-	-
VP & GM of Singchung Branch	Chiung-Yu O	10,640	-	-
VP & GM of Beitun Branch	Chien-Chung Wu	19,000	-	-
VP & GM of South Yuanlin Branch	Wu-Yuan Chen	38,000	-	-
VP & GM of East Chiayi Branch	Shan-Chih Yen	24,000	6,724	Supervisor of Zhong-Guan Foods Enterprise Co., Ltd.
VP & GM of Fucheng Branch	Yao-Tsung Kao	-	-	-
VP & GM of Fongyuan Branch	Ta-Yu Chin	24,492	-	-
VP & GM of Fuchiang Branch	Pi-Jen Wu	25,492	247	-
VP & GM of Kaiyuan Branch	Roger Chang	33,014	-	-
VP & GM of South Tainan Branch	Hsien-Ming Yen	95,545	-	-
VP & GM of Lingya Branch	Feng-Li Lin	73,526	-	-
VP & GM of North Kaohsiung Branch	Miao-Hui Yeh	126,789	-	-
VP & GM of Sanmin Branch	Ming-Chang Wang	-	-	-
VP & GM of Wuchia Branch	James Ho	10,640	-	-
VP & GM of Pingtung Branch	Yuen-Song Lin	19,000	-	-
VP & GM of Hoping Branch	Yu-Yii Lin	38,000	-	-
VP & GM of Yongchun Branch	Wen-Hui Lin	24,000	6,724	-
VP & GM of Tenshin Branch	Ming-Chao Liu	-	-	-
VP & GM of Ankang Branch	Kuen-Cheng Chou	24,492	-	-
VP & GM of Dajhu Branch	Jyh-chiang Huang	25,492	247	-

Note: None of the above manager has shareholding under other's title.

(3) Remuneration of Directors, Supervisors, President and SEVP for 2007

A. Director's Remuneration and Range (In NT\$ thousand)

Title	Name	Remuneration								For holding another position in the Bank										Remuneration from investee companies excluding subsidiaries		
		Remuneration		Earning distribution		Costs incurred to perform duties		A+B+C as a % of net profit		Salaries, bonus & special allowance		Earnings distribution for employees' bonus				Stock options issued for employee		A+B+C +D+E as a % of net profit				
		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R			
		The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	Cash div.	Stock div.	Cash div.	Stock div.	Bank	Consolidated	Bank	Consolidated	
Chairman	Shiang-Chang Lee																					
Managing Director	Zhen-Xong Jiang; Yu-Pang Co., Ltd.																					
Director	Representative: Jia-Yi Wang																					
	Union Enterprise Construction Co., Ltd., Representative: Jeff Lin; Chung-Li Investment Co., Representative: Yao-Nan Lai; Chung-Li Investment Co., Representative: Sue-Feng Cao; Union Recreation Enterprise Corp., Representative: Sue-Ere C. Lin; Jin-Fu Liu; Si-Yong Lin	6,482	6,482	o	o	1,595	1,660	(Net loss after tax)	(Net loss after tax)	o	o	o	o	o	o	o	o	o	o	(Net loss after tax)	(Net loss after tax)	N/A

Note: Remuneration to the driver amounted to NT\$732 thousand.

Range of remuneration paid to Directors	Total remuneration of A+B+C		Total remuneration of A+B+C +D+E	
	The Bank	Consolidated	The Bank	Consolidated
Less than 2,000	Zhen-Xong Jiang, Jia-Yi Wang, Jeff Lin, Yao-Nan Lai, Sue-Feng Cao, Sue-Ere C. Lin, Jin-Fu Liu, Si-Yong Lin	Zhen-Xong Jiang, Jia-Yi Wang, Jeff Lin, Yao-Nan Lai, Sue-Feng Cao, Sue-Ere C. Lin, Jin-Fu Liu, Si-Yong Lin	Zhen-Xong Jiang, Jia-Yi Wang, Jeff Lin, Yao-Nan Lai, Sue-Feng Cao, Sue-Ere C. Lin, Jin-Fu Liu, Si-Yong Lin	Zhen-Xong Jiang, Jia-Yi Wang, Jeff Lin, Yao-Nan Lai, Sue-Feng Cao, Sue-Ere C. Lin, Jin-Fu Liu, Si-Yong Lin
Equal to or more than 2,000 but less than 5,000	-	-	-	-
Equal to or more than 5,000 but less than 10,000	Shiang-Chang Lee	Shiang-Chang Lee	Shiang-Chang Lee	Shiang-Chang Lee
Total number of Directors	9	9	9	9

B. Supervisor' Remuneration and Range (In NT\$ thousand)

Title	Name	Remuneration		Earning distribution		Costs incurred to perform duties		(A)+(B)+(C) as a % of net profit		Remuneration from Investee Companies Excluding Subsidiaries
		The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	
Resident Supervisor	Yu-Quan Development Co., Ltd. Representative: Yu-Quan Lee							-	-	
Supervisor	Pao-Hsing Investment Co., Ltd., Representative: Zhen-Lu Lin Ming-Shing Ho	420	3,390	0	0	108	108	(Net loss after tax)	(Net loss after tax)	N/A

Range of remuneration paid to Supervisors	The Bank	Consolidated
Less than 2,000	Yu-Quan Lee, Zhen-Lu Lin, Ming-Shing Ho	Yu-Quan Lee, Zhen-Lu Lin
Equal to or more than 2,000 but less than 5,000	-	Ming-Shing Ho
Total number of Supervisors	3	3

Note: Remuneration to the driver amounted to NT\$1,809 thousand.

C. President, Senior Executive Vice Presidents & Chief Auditor's Remuneration and Range (In NT\$ thousand)

Title	Name	Remuneration		Bonus		Earning distribution				Subtotal		Subtotal as a % of net profit		Stock options issued for employee		Remuneration from investee companies excluding Subsidiaries
		The Bank	Consolidated	The Bank	Consolidated	Cash div.	Stock div.	Cash div.	Stock div.	The Bank	Consolidated	The Bank	Consolidated	The Bank	Consolidated	
President	Jeff Lin											-	-			
SEVPs	Hao-Sen Lee Herman Tu Y. B. Chan	12,802	12,802	4,211	4,301	-	-	-	-	17,013	17,013	(Net loss after tax)	(Net loss after tax)	-	-	N/A
Chief Auditor	Yeh-Jye Chang															

Range of remuneration paid to Executives & Chief auditor	The Bank	Consolidated
Less than 2,000	Jeff Lin	Jeff Lin
Equal to or more than but less than 5,000	Hao-Sen Lee, Herman Tu, Y. B. Chan, Yeh-Jye Chang	Hao-Sen Lee, Herman Tu, Y. B. Chan, Yeh-Jye Chang
Total number of Executives and Chief auditor	5	5

D. Bonus to Executive Officers: None.

(4) Remuneration Policy

- Remuneration including transportation allowance, meeting attendance fees and salaries is paid on a fixed basis to the board and supervisors.
- Remuneration to President and SEVPs is made in accordance with their respective experience, quality, involvement in and contribution to the Bank's operation and the standards of banking industry. The Board is authorized to determine remuneration which is granted to the management under the Bank's Articles of Incorporations. In addition to monthly base salaries and allowances, executives may also be eligible for the annual and performance bonus depending on the annual results of operation and individual performance.

3. Execution of Corporate Governance

(i) Board of Directors

The board of directors hosted 9 meetings in 2007. The status of attendance is as follows:

Title	Name	No. of actual attendance	Proxy	% of actual attendance
Chairman	Shiang-Chang Lee	9	0	100
Managing Director	Zhen-Xong Jiang;	9	0	100
	Yu-Pang Co., Ltd., Representative: Jia-Yi Wang	9	0	100
Director	Union Enterprise Construction Co., Ltd. Representative: Jeff Lin	9	0	100
	Chung-Li Investment Co. Representative: Yao-Nan Lai	9	0	100
	Chung-Li Investment Co. Representative: Sue-Feng Cao	9	0	100
	Union Recreation Enterprise Corp. Representative: Sue-Ere C. Lin	0	2	0
	Jin-Fu Liu	0	2	0
	Si-Yong Lin	8	0	88.88
	Yu-Quan Development Co., Ltd. Representative: Yu-Quan Lee	0	0	0
Resident Supervisor	Pao-Hsing Investment Co., Ltd. Representative: Zhen-Lu Lin	7	0	77.77
Supervisor	Ming-Shing Ho	9	0	100

Notes:

1. The Bank has not instituted Independent Directors.
2. The Bank has put in place the “Rules Governing Board of Directors’ Meeting”, which stipulate that the board meeting shall be convened at least once every other month. Notice and details of the meeting shall be made in writing and sent out to each Director and Supervisor. The Rules stipulate that Directors attending the meeting in person shall recuse themselves in case of conflict of interest situations. All Directors shall strictly comply with the provision.
3. The motion for interested parties in 2007 involved 5 credit extension cases, 6 office premises lease cases, and 1 procurement case for land and buildings. The cause for possible conflict of interest is that the relevant interested parties who assumed the responsible person or directors of the company, including Li Hsien-chang, Lin Hung-lien, Wang Chia-yi, Chiang Chen-hsiung, Tsao Su-feng, Lin Chang Su-o, Liu Ching-fu and Lin Tsun-yung, was automatically avoided when voting, or did not attend the meeting. They did not appoint any other directors to exercise the voting right on behalf of them either, while the other present directors proceeded solely with the voting.

(2) The Bank Has Not Instituted an Audit Committee.

(3) Compulsory Disclosure in Accordance with Principles Governing Corporate Governance Practices of Banks: Please Refer to the Bank’s Official Website: <http://www.ubot.com.tw>

(4) The Bank’s Practice of Corporate Governance and Differentiations with Standard Corporate Governance Practices of Banks.

Item	Execution	Reason of differentiation
1. Share holding pattern of the Bank and shareholders' rights:		
(1) Ways in which the Bank handles shareholders' recommendations or disputes.	(1) Shareholders' suggestions or disputes are handled by the Bank's designated personnel, which may refer the issue to the relevant departments to address.	The Bank's practices are in accordance with the relevant requirements, and there is no material discrepancy.
(2) Ways in which the Bank regularly monitors the list of key shareholders who have management control of the Bank, or those who have ultimate control of key shareholders.	(2) In accordance with the information detailed in the Shareholder Register current on the ex-dividend date, report changes in shareholding with the Taiwan Stock Exchange on a monthly basis pursuant to the Article 25 of the Securities Exchange Act to keep track of the shareholding status of major shareholders.	
(3) Ways in which the Bank establishes proper risk control mechanisms and firewalls between the Bank and its affiliated enterprises.	(3) The Bank has put in place the "Standards Governing Supervision and Control by the Union Bank of Taiwan Over Subsidiaries", which stipulate the risk management policies applicable between the Bank and its subsidiaries. In addition, all related party transactions are carried out in accordance with regulatory requirements.	
2. Composition and responsibilities of Directors:		
(1) Institution of Independent Directors.	(1) Currently, the Bank has not instituted Independent Directors. However, the qualifications of all current Directors meet the requirements set forth in the "Standards Governing Qualifications of the Responsible Person of Banks" stipulated by the Financial Supervisory Commission.	The Bank has not instituted Independent Directors.
(2) Regularly evaluate external auditors' independence.	(2) The Board of Directors evaluates, on a regular basis, the independence status of the Bank's external auditors.	No material discrepancy.
3. Composition and responsibilities of Supervisors:		
(1) Institution of Independent Supervisors.	The Bank has not instituted Independent Supervisors. However, the qualifications of all current Supervisors meet the requirements set forth in the "Standards Governing Qualifications of the Responsible Person of Banks" stipulated by the Financial Supervisory Commission.	The Bank has not instituted Independent Supervisors.
(2) Communication between Supervisors and the Banks' employees and shareholders.	The Bank's Supervisors attend the Board of Directors' meetings on a regular basis to monitor the Bank's operations and communicate with employees from time to time. The Bank's official website provides the avenue for communication between shareholders and Supervisors.	No material discrepancy.
4. Establishment of communication channels with stakeholders	In accordance with the Banking Law, the Bank has documented stakeholders' information and ensures that communication between the Bank and stakeholders is free and open to facilitate sound development of the Bank.	No material discrepancy.
5. Information disclosure		
(1) Establishment of corporate website to disclose information regarding the Bank's financials, business and corporate governance status.	The Bank's financial information and corporate governance practices and other information requiring disclosure prescribed by the securities commission are disclosed on a regular basis on the Bank's official website at www.ubot.com.tw	No material discrepancy.
(2) Other information disclosure channels (e.g. English website, appointing responsible people to handle information collection and disclosure, appointing spokesperson, webcasting investor conference)	A designated department is assigned to be in charge of the collection and disclosure of information published on the Bank's corporate website.	
	The Bank has appointed a spokesperson and acting spokesperson to make official statement. The annual report is prepared each year, disclosing the relevant information in accordance with the "Standards Governing Information to be published in the Annual Report of Banks".	
6. Operations of the Bank's audit committee and other committees of the Board of Directors	The Bank has appointed a Chief Auditor, overseeing the Bank's internal audit affairs. The seniority of the Chief Auditor is equivalent to that of the SEVP. The Internal Audit Department reports directly to the Board of	The Bank has not instituted an independent

Item	Execution	Reason of differentiation
	<p>Directors and is responsible for monitoring the operations of the respective business units.</p> <p>To enhance existing management mechanism, the Bank has set up the Assets and Liabilities Management Committee, Automated Services Committee, Investment and Credit Assessment Committee and NPL and Bad Debt Clearance Committee. All proposals made by these committees are put forward in accordance with the relevant procedures.</p>	Audit Committee.
<p>7. Please describe discrepancies between the status of the Bank's corporate governance practices and the "Standard Corporate Governance Practices of Banks"</p> <p>In general, there is no major discrepancy between the Bank's corporate governance practices and Standard Corporate Governance Practices of Banks such as, establishment of the relevant policies including regulatory compliance, internal control and internal audit, a window for employees to offer comments and feedbacks for the Bank's management to refer to, customer service center dealing with customer complaints and improving service efficiency and the contingency plan to deal with major disasters and accidents. The Bank will carefully review our corporate governance practices to improve our management results and effects.</p>		
<p>8. The Bank's social responsibilities (such as human rights, employee welfare, environmental conservation, community participation, supplier relations, monitoring and stakeholder rights), the adopted policies and measures and status of performing social responsibilities:</p> <p>(1) The Bank reviews employees' salaries and welfare policy for the best interest of employees. There is no labor agreement or dispute in place since the inception of establishment.</p> <p>(2) The Bank, Union Bills Finance Co., Ltd. and our affiliated enterprises jointly formed the "Union Culture & Art Foundation" in April 1998 with the mission of engaging in cultural, educational and charitable activities and the objective of facilitating cultural and educational exchange through cultural and art events, public speeches and the various symposiums.</p> <p>(3) Adopted the Chang-Chun Park No. 2 from 1997. The park was rated the best community park many years in a row.</p> <p>(4) Offer citizens assistance to resolve their debt issues via a customer service hotline in line with the government's policy on debt negotiation and repayment agreement.</p>		
<p>9. Other important information to facilitate better understanding of the Bank's corporate governance practices (e.g. Directors' and Supervisors' training records & attendance of the Board meetings, the implementation of risk management policies and risk evaluation measures, the implementation of consumers or customers protection policies, the implementation of directors recusing themselves in case of conflicts of interests situations, purchasing insurance for directors and supervisors.):</p> <p>(1) The Bank has put in place the "Rules Governing Board of Directors' Meeting", which stipulate that the board meeting shall be convened at least once every other month. Notice and details of the meeting shall be made in writing and sent out to each Director and Supervisor. The Rules stipulate that Directors attending the meeting in person shall recuse themselves in case of conflict of interest situations. All Directors shall strictly comply with the provision.</p> <p>(2) The Bank published Directors and Supervisors' training record and attendance in the board meeting from time to time on the Market Observation Post System (http://newmops.tse.com.tw).</p> <p>(3) Risk management policy and execution of the risk evaluation standards:</p> <p>(4) The Bank has put in place a Risk Management Policy, appointed a Risk Control Unit and clearly set out the responsibilities of the respective risk control groups. In relation to risk evaluation standards, the Bank's trading system offers realtime risk pricing, quota control and stop-loss functions to evaluate and control the market risks with the Bank's open positions. On the other hand, the construction of an internal credit risk model is currently under way.</p> <p>(5) The Bank has taken out deposit insurance to safeguard the interest of deposit holders.</p> <p>(6) In May 2006, the Bank has participated in the Taiwan Academy of Banking and Finance's project "Evaluation of the Effects of Consumer Protection Work by Banks". Consumers may use the evaluation results as the reference for selecting their bank while banks are drawn to emphasize consumer rights and the various protection measures. The objective is to establish a transparent, fair and secure banking environment.</p> <p>(7) Customers may offer comments or lodge complaints on the website. The Bank's responsible department will re-direct the issues to the relevant department for handling and follow-up.</p> <p>(8) The Bank has stipulated the organization and responsibilities chart of the Shareholders' Meeting, Board of Directors and Executive Officers, who are required to conduct business in accordance with the relevant authority levels.</p>		

- (5) Please Visit the Website: *Market Observation Post System* (<http://newmops.tse.com.tw>) for Further Inquiry about Corporate Governance or Material Information:
- (6) Internal Controls Execution Status
- A. Where an Independent Auditor is Appointed to Perform Audit on the Internal Control System, the Auditor's Report Shall Be Disclosed: Not applicable.
- B. Statement of Internal Control:

Union Bank of Taiwan

Statement of Internal Controls System

March 21, 2008

To Financial Supervisory Commission, Executive Yuan,

On behalf of Union Bank of Taiwan, we hereby state that from January 1, 2007 to December 31, 2007, we has duly complied with the "Enforcement Regulations for Bank Internal Audit Control System" in establishing its internal control system, implementing risk management, designating an independent and objective department to conduct audits, and regularly reporting to the Board of Directors and the Supervisors. With respect to the securities business, evaluation of the effectiveness of the design and implementation of its internal control systems described in the "Regulations Governing the Establishment of Internal Control Systems be Service Enterprises in Securities and Futures Markets", promulgated by the Securities and Futures Bureau, Financial Supervisory Commission. After prudent evaluation, except for items listed in the schedule, the internal control and legal compliance systems of each department have been in effect during year, this Statement will be included as the main content of the Bank's annual report and prospectus, and be published to the public. If there is any illegal activity such as fraud or concealment, liabilities under Article 20, 32, 171, and 174 of the Securities and Exchange Law will be involved.

Chairman: *Shiang-Chang Lee*

President: *Jeff Lin*

Chief Auditor: *Yeh-Jye Chang*

Compliance Officer of the Bank: *Diana Tsai*

The Improvement and Strengthening the Bank's Internal Control System

As of December 31, 2007

Issue	Improvement	Date of completion
1. Certain branch accountants took the chance to misappropriate funds in the account exclusive for meal expenses when handling the meal expenditure and failed to comply with the various procedural requirements and, therefore, broke the civil law and the Bank's work rules. It is necessary to enhance the supervision to urge the clerks to follow the Bank's business processing manual and relevant internal control requirements, and to execute the supervision precisely to prevent the unauthorized use of another person's authority and stamp.	1. Business Planning & Administration Dept. has restated some of accounting principles in writing, and the accountants' authority may only be applicable to the inquiries under accounting class and any inquiries other than accounting inquiries. The accountants are also strictly prohibited from providing their authority mutually for convenience, and they shall sign out from the terminal and affix their stamps in place when leaving the work place. Also, they shall clear suspended accounts and periodically review unverified Grade-D subsidiary accounts. The unit supervisors shall watch the clerks' ethical conduct and financial condition to verify the clerks' life style and social activities to prevent any misconduct.	March 23, 2007
2. For the NPL collection for auto loans contract, the contractor's staff assaulted customers for personal retaliation. The misconduct was reported by the media and hurt the Bank's reputation. The management unit shall pay attention to the protection of customer's interest and right in the car NPL collection operation, and shall enhance the audit and supervision of contractors periodically or irregularly.	2. The Bank has terminated the contract with the company, because of the Article 4 of contract entered into between and by Hua Hsin Shih Chi Co., Ltd. and the bank that the contractor shall be prohibited from damaging any customer's car or engaging in any conduct in violation of good morals and laws. Meanwhile, the Business Planning & Administration Dept. enacted the "Regulations Governing Selection of Contractors to be Commissioned" in April 2007 and amended the "Requirements Governing Internal Operation of Commission of the Bank's Business to Others" in August 2007, expressly defining that the units dedicated to outsourcing shall control the commissioned business per the Requirements and supervise the establishment and execution of internal control and audit system of the commissioned organizations. One on-site visit shall be paid to each commissioned organization at least once per year and be recorded for audit. The performance of contracts and relevant risk shall be evaluated and reviewed in January and July every year. The Bank has resumed the outsourcing operation of NPL collection for auto loans after receiving the approval of Financial Supervisory Commission, Executive Yuan on August 24, 2007.	August 29, 2007
3. Some promissory notes and IOU securing customers' loans in the branch's custody were disclosed and, therefore, the Bank was accused, and the relevant documents were submitted to Financial Supervisory Commission. The various business units shall strictly comply with the relevant requirements provided in the Title of Credit Extension in the Bank's business processing manual and shall affix the stamp of "invalidation" on any credit warrants other than those issued by the Bank and ask the customers to sign and claim them.	3. The Bank is used to valuing the management of the various credit extension files. The Title of Credit Extension in the business processing manual is exclusively intended to describe the management of the various credit extension files. The Bank asks each business unit to perform inventory with respect to the management of credit warrants irregularly and includes the management into the scope of voluntary audit. Meanwhile, the Audit Dept. has issued a letter to each business unit demanding that the business unit should conduct the voluntary audit when handling corporate banking and consumer banking projects and review the entirety of credit warrants and collaterals per corporate banking and consumer	March 30, 2007

Issue	Improvement	Date of completion
	banking customer.	
4. Some Account officers handled the mortgaged loans with forged trading contracts for the houses of three major house brokers and applied for excessive loans based on falsified credit investigation and appraisal reports and thereby caused a loss to the Bank. It is necessary to enhance the review and procedure of credit extension cases to prevent the risk resulting from the clerks' failure to fulfill the appraisal of the value of collaterals and to maintain the quality of the Bank's assets.	4. Consumer Banking Dept. has restated in writing that in order to control the entire credit extension risk, except the foreclosed house transactions tied with the Bank's out-of-pocket expenses for the foreclosure which shall be subject to voluntary appraisal, the other cases shall be appraised by the appraisal center, and the appraisers shall take pictures inside the houses. Further, the rules permitting branches to conduct voluntary appraisal on the three major house brokers' cases of the specific amount below have been suspended.	April 25, 2007
5. Some wealth management specialist, who was commissioned by a relative to clear the national cash card account and obtained the blank withdrawal slip affixed with the seal by the consignor, took the chance to misappropriate the overdraft account fund for his own use. Therefore, it is necessary to enhance the review of the existing national cash card accounts.	5. Consumer Credit Dept. has conducted a random check on similar cases and strictly executed the recheck once per six months to check whether there was any update in the present credit investigation and the previous one, and also rechecked the communication information of the existing customers.	April 30, 2007
6. Failure to verify the depositor's original specimen seal led others to misappropriate the funds in the account and thereby damaged the Bank's interest and right. Above all, the clerks failed to act when known depositors proceeded with the transactions with a third person's passbook and withdrawal slip and, therefore, failed to verify the specimen seal precisely. It is necessary to ask the supervising personnel to enhance supervising that clerks shall comply with the Bank's business processing manual to verify the specimen seal precisely to prevent any forgery of specimen seal.	6. Business Planning & Administration Dept. has restated in writing that each business unit shall verify the specimen seal strictly and the supervising staff shall fulfill their responsibility to supervise and recheck.	September 5, 2007
7. Some wealth management advisor failed to take the customer's age and experience in investment and recommended the structured product. As a result, the customer filed a complaint and thereby affected the Bank's interest and right. The various business units shall enhance supervising the wealth management advisors to comply with the Bank's wealth management operation procedure to prevent any customers' complaints by going beyond the customers' ability to bear risk.	7. Wealth Management Dept. has stated in writing that advisors who may sell structure notes should have the qualification required by the Bank. It also restated that its advisors should verify and precisely advise customers' preference of risk and have customers signed the risk tolerance analysis form. If a customer would like to change his/her degree of risk, he/she should be asked to tick the type of risk tolerance voluntarily and sign on the form. Further, if it is necessary to emphasize that the age of the customer wishing to subscribe for the structure note plus the useful year of structured product is equivalent to or more than 70 years, the customer should be asked to sign the risk disclosure statement in the risk notice.	October 25, 2007

(7) Legal Violations and Improvement for the Past Two Years

Item	Description	Improvement
(1) Responsible person or employee violated the law when conducting business and resulted in an indictment by a prosecutor.	None	None
(2) A fine was levied on the Bank for violations of the Banking associated laws.	<p>a. The network merchant payment business handled by the Bank has been subject to the company's inquiry agreement without the responsible person's written agreement. However, the responsible person's personal credit information may be available in Joint Credit Information Center.</p> <p>b. The Bank failed to establish an effective internal control system and fulfill internal audit in respect of outsourcing operation of collecting NPL of car loan.</p> <p>c. The Bank's e-banking foreign exchange operation procedure failed to establish the valid internal control system and, therefore, the exchange rate input by clerks in error could not be rechecked and discovered in time. Further, the actions taken to transfer out the fund from the customer's account and frozen the relevant depositor's balance in the ebanking transactions conducted based on the exchange rate input in error are not appropriate.</p> <p>d. Without the client's prior written consent, Chiuju Branch and Nankang Branch searched the client's credit information directly in Joint Credit Information Center.</p>	<p>a. The Bank has complied with the relevant requirements.</p> <p>b. The Bank has added (amended) the relevant regulations and enhanced the audit on contractors.</p> <p>c. The Bank has taken the relevant safety control actions.</p> <p>d. The Bank restated the rule of credit inquiry and included the issue into the scope internal audit, and also enhanced employee training to avoid repeating the issue when rotating employees' duties.</p>
(3) Misconduct occurred and resulted in the Financial Supervisory Commission's imposing strict corrective measures.	N/A	N/A
(4) Punishment imposed by the Financial Supervisory Commission, Executive Yuan in accordance with Paragraph 1, Article 16 of the ROC Banking Act	The Bank failed to establish an appropriate internal control system and fulfill the audit under the internal audit system with respect to outsourcing operation of car NPL collection. Therefore, the Bank's outsourcing operation of car NPL collection was suspended in whole.	The Bank added and amended the relevant regulations and enhanced the audit of outsourcing.
(5) Accidents occurring as a result of a fraud, major non-recurring incidence or failure to comply with the Guidelines for Maintaining the Security of Financial Institutions, as a result of which individual or accumulated losses during the year amounted to NT\$ 50 million or more and therefore the nature and amount of loss for which shall be disclosed	N/A	N/A
(6) Other necessary disclosures prescribed by the Financial Supervisory Commission, Executive Yuan	N/A	N/A

- (8) Material Resolutions of a Shareholders Meeting or a Board of Directors Meeting During the Current Fiscal Year up to the Date of Printing of the Annual Report
- A. Major Resolutions and the Execution Status Relating to Major Resolutions in the 2007 Shareholders' Meeting:
- a. The motion for earnings distribution in 2006: executed upon resolution.
 - b. Discuss the motion for raising capital by issuing of preferred stocks in the form of public offering or private placement: the capital raising has been executed in the form of private placement in September 2007 and the update has been registered.
 - c. Amendment to the Articles of Incorporation: resolved and awaiting approval by the competent authority.
- B. Major Resolutions of the Board Meetings
- a. Major resolutions in 2007:
 - I. The 8th Board meeting at the 6th term held on Mar. 25, 2007 resolved to amend the Bank's organizational articles, set up the call center of Default Loans Management Dept. and issue 2nd subordinate financial debentures with a duration of 5.5 years (and above) and a cap issuing amount of NT\$4 billion.
 - II. The 9th Board meeting at the 6th term held on Apr. 25, 2007 resolved to authorize the Board to issue new shares to raise capital subject to approval of the shareholders' meeting, amend the Bank's Articles of Incorporation, issuance of RMBS and replace the CPA in compliance with the corporate governance.
 - III. The 13th Board meeting at 6th term held on September 7, 2007, the Board resolved to proceed with the fund raising by private placement of Grade-A special preferred stock.
 - b. Major resolutions in 2008:
 - I. The 16th Board meeting at 6th term held on Mar. 19, 2008, the Board resolved to approve the amendments to the Bank's organization structure and the 2008 operation target.
 - II. In the 17th Board meeting at 6th held on April 30, 2008, the Board resolved to make amendments to the bank's Articles of Incorporation and organization structure.
- (9) During the Current Fiscal Year up to the Date of Printing of the Annual Report, a Director or Supervisor Has Expressed a Dissenting Opinion with Respect to a Material Resolution Passed by the Board of Directors, and Said Dissenting Opinion Has Been Recorded or Prepared as a Written Declaration, Disclose the Principal Context Thereof.
- (10) A Summary of Resignations and Dismissals, During the Most Recent Fiscal Year or During the Current Fiscal Year up to the Date of Printing of the Annual Report, of Persons Connected with the Company's Financial Report
4. Information on CPA Professional Fee
- (1) Disclosure of the Amount and Service Contents of Payment to External Auditors and the Employer of the External Auditors and Affiliates on Non-Audit Fees Accounted for 25% of the Fees for Financial Audit Services: None
 - (2) Change of Audit Engagement and that the Audit Fee for the Year of Change is Less than that Charged for the Year Prior to the Change: Not Applicable.
 - (3) Auditing Fee is 15% or More Below the Fee Charged for the previous year: None.
5. Information on Replacement of CPA

(1) Information on former auditors:

Date of replacement	Since 2007			
Reasons of replacement	To meet the internal business need of Deloitte & Touche			
Specify if it is the case that the client / CPA elected to terminate or declined to accept the appointment	Status	Concerned party	CPA	Client
	Voluntary termination of the appointment	N/A		
	Decline to accept (continue) the appointment			
Opinions on audit reports beyond unqualified opinions in the last 2 years and the reasons	Except the effect to the financial statements brought by the disposal of NPL deferred pursuant to Mergers and Acquisitions of Financial Institutions Act, no violations of “Rules Governing the Preparation of Financial Statements of Public Issued Banks”, Business Accounting Act and Business Accounting Principles and GAAP were found to be corrected in the Bank’s financial statements in all material respects.			
Adverse opinion with the Bank and other disclosure under Article 10.5.1.4 of the Standards)	No			

(2) Information on successive auditors

Name of CPA Firm	Deloitte & Touche
CPA's name	Yi-Chun Wu / Ray Chang
Date of appointment	As of 2007
Consultation of accounting methods or accounting principles before appointment that may affect the opinions given in auditors' report and the result of consultation.	No
Written opinions of successive auditors as contrasted with the former auditors	No

Reply from former auditors to Article 10.5.1 and 10.5.2.3 of the Standards: No.

6. Name, title and the period of the service of the Chairman, President and Executive Officers in charge of the Bank's financial or accounting affairs who have served a position in the CPA firm to which the independent auditor(s) belong or its affiliated enterprises during the past year: None.
7. Changes in shareholding and share pledges of Directors, Supervisors, Executive Officers and any person requiring to declare his/her registration of shares pursuant to Article 25.3 of the Securities and Exchange Law:

Name of Manager	2007	March 31, 2008
	Number of shares held increase (decrease)	
Michael Lin	(10,000)	-
Wendy Chi	(10,000)	-
Wen-Chien Chien	(18,000)	-
Luke Yang	(2,000)	-
Ming-Fei Wang	(40,000)	-
Chi-Pin Chen	(21,000)	-
Jane Lu	(18,000)	-
Ying-Feng Wang	(81,000)	-
Tiffany Yu	(9,000)	-
Yao-Tsung Kao	(25,000)	-
Michael Lee	(18,000)	-
Ching-An Chen	(31,000)	-
Chih-Chung Chang	(18,000)	-
Lanny Liaw	(13,080)	-
Pauline Shang	(7,000)	-
Shen-Yung Peng	(17,000)	-
Ta-Yu Chin	-	30,000
Pi-Jen Wu	5,000	-
James Ho	(18,000)	-

Notes:

1. Excluding the ones who has no increase or decrease in transfer or pledge under lien
2. The counterparts of said transfer or pledge under lien are not related parties.

8. Information for Top 10 Shareholders Being the Related Parties as Defined in Statements of Financial Accounting Standards No. 6

December 31, 2007

Shareholder	Shareholding		Spouse or minor children's shareholding		Top 10 shareholders being the related parties to each other	
	Shares	%	Shares	%	Name	Relation
Chung Li Investment Co. Representative: Sue-Feng Cao	198,454,283 3,523	8.558 0.000	-	-	Tien-Sheng Investment Co.	Same responsible person
Chu-Pao Investment Co. Representative: Si-Yong Lin	108,177,490 16,934,581	4.665 0.730	1,494,018	0.064	Pai-Sheng Investment Co.	Same responsible person
Pai-Sheng Investment Co. Representative: Si-Yong Lin	95,027,203 16,934,581	4.098 0.730	1,494,018	0.064	Chu-Pao Investment Co.	Same responsible person
Chien-Yuan Investment Co. Representative: C.C. Chang	96,410,434 -	4.158 -	-	-	-	-
Chi-Shun Investment Co. Representative: Jyh-Dong Chen	95,597,698 -	4.123 -	-	-	-	-
Kun-Che Investment Co. Representative: Y. C. Huang	94,537,203 -	4.077 -	-	-	-	-
Hung-Hsiang Investment Co. Representative: S.S. Yeh	93,946,947 -	4.051 -	-	-	Wei-Chih Investment Co.	Same responsible person
Pao-Hsing Investment Co. Representative: C. T. Lin	90,610,217 -	3.908 -	-	-	-	-
Wei-Chih Investment Co. Representative: S.S. Yeh	87,099,926 -	3.756 -	-	-	Hung-Hsiang Investment Co.	Same responsible person
Tien-Sheng Investment Co. Representative: Sue-Feng Cao	87,098,721 3,523	3.756 -	-	-	Chung Li Investment Co.	Same responsible person

9. Ownership of Investee Companies (as of December 31, 2007)

Investee Company ^{note}	Invested by the Bank		Invested by the Bank's directors, supervisors, managers & indirect or directly own entities		Total Investments	
	Shares	%	Shares	%	Shares	%
Union Bills Finance Corp.	126,576,000	42.76	40,456,000	13.67	167,032,000	56.43
Union Financial Int'l (HK) Ltd.	30,000,000	99.999994	2	0.000006	30,000,002	100.00
Union Information Technology Corp.	4,999,614	99.99	-	-	4,999,614	99.99
Union Finance and Leasing Int'l Corp.	100,000,000	100.00	-	-	100,000,000	100.00
Union Securities Investment Trust Corp.	10,500,000	35.00	1,451,000	4.84	11,951,000	39.84
Union Insurance Broker Company	500,000	100.00	-	-	500,000	100.00
Union Real-Estate Management Corp.	2,000,000	40.00	2,000,000	40.00	4,000,000	80.00
Morgan Stanley Union Bank Asset Management Corp.	1,323,000	49.00	-	-	1,323,000	49.00
EnTie Securities Finance Co.	65,206,250	12.15	687,266	0.128	65,893,516	12.28
Taiwan Asset Management Corp.	10,000,000	0.57	-	-	10,000,000	0.57
Li Yu Venture Corporation	1,501,404	4.76	-	-	1,501,404	4.76
Taiwan Financial Asset Service Corp.	5,000,000	2.94	-	-	5,000,000	2.94
Financial Information Service Co., Ltd.	9,577,000	2.39	-	-	9,577,000	2.39
Fu Hua Venture Corporation	3,000,000	5.00	-	-	3,000,000	5.00
Jiao Da Venture Corporation	2,130,000	5.00	-	-	2,130,000	5.00
Taiwan Depository & Clearing Corp.	241,391	0.08	482,780	0.17	724,171	0.25
Taiwan Futures Exchange Co., Ltd.	4,482,500	2.04	-	-	4,482,500	2.04
Taipei Forex Inc.	160,000	0.81	-	-	160,000	0.81
Huan Hua Securities Finance Co.	3,942,458	0.53	-	-	3,942,458	0.53
Lian An Service Corporation	125,000	5.00	-	-	125,000	5.00
Save Com International Inc.	63,448	0.07	-	-	63,448	0.07
Taipower Corporation	394,879	0.001197	-	-	394,879	0.001197
Hua Rong Venture Capital Co., Ltd.	777,600	4.55	-	-	777,600	4.55
Global Communication Semiconductor, Inc.	1,388,889	1.56	-	-	1,388,889	1.56
Sunny Asset Management Co.	386,376	6.44	-	-	386,379	6.44

Note: Investments made in accordance with Article 74 of the Banking Law.

Fund Raising Status

I. Capital and Shares

(1) Sources of Capital

Date	Issuance price	Authorized capital stock		Issued capital stock		Remark
		Number of shares	Amount	Number of shares	Amount	
Dec. 2007	\$10	3,000,000,000	30,000,000,000	2,318,824,429	23,188,244,290	Listed stocks
Mar. 2008	\$10	3,000,000,000	30,000,000,000	2,318,824,429	23,188,244,290	

Type	Authorized capital		Total	Remark
	Outstanding shares	Un-issued shares		
Common stocks	1,918,824,429			
Preferred stocks of private placement	400,000,000	681,175,571	3,000,000,000	Listed stocks

(2) Type of Shareholder

March 31, 2008

Type of Shareholder	Government Agencies	Financial Institutions	Other Legal Entities	Individuals	Foreign Institutions & Individuals	Total
No. of Shareholders	6	1	74	33,585	34	33,700
No. of Shares Held	6,808	133,000	1,739,180,116	545,149,343	34,149,373	2,318,824,429
% of Shareholding	0.001	0.006	75.002	23.509	1.482	100.00

(3) Shareholding Pattern

Dec. 31, 2007;
Par value per share: NT\$10

Category	No. of Shareholders	No. of Shares Held	% of Shareholding
1~ 999	16,318	3,140,802	0.13
1,000~ 5,000	7,744	18,656,510	0.80
5,001~ 10,000	2,633	20,707,011	0.89
10,001~ 15,000	4,181	53,278,689	2.30
15,001~ 20,000	613	11,581,068	0.50
20,001~ 30,000	652	16,842,839	0.73
30,001~ 50,000	453	18,564,502	0.80
50,001~ 100,000	458	33,355,731	1.44
100,001~ 200,000	325	45,667,524	1.97
200,001~ 400,000	148	41,830,768	1.80
400,001~ 600,000	46	22,900,014	0.99
600,001~ 800,000	29	20,629,392	0.89
800,001~1,000,000	13	11,481,631	0.50
Over 1,000,001	87	2,000,187,948	86.26
Total	33,700	2,318,824,429	100.00

Preferred Stocks

December 31, 2007;
Par Value per share: NT\$10

Category	No. of shareholders	No. of shares Held	% of shareholding
30,000,000~100,000,000	4	237,000,000	59.25
100,000,001~200,000,000	1	163,000,000	40.75
Total	5	400,000,000	100.00

(4) Major Shareholders (as of Mar. 31, 2008)

Major Shareholders	Shareholding	
	Number of shares	%
Chung-Li Investment Co., Ltd.	198,454,283	8.55
Chien-Yuan Investment Co., Ltd.	110,019,434	4.74
Pai-Sheng Investment Co., Ltd.	108,923,866	4.69
Chu-Pao Investment Co., Ltd.	108,177,490	4.66
Kun-Che Investment Co., Ltd.	96,387,203	4.15
Chi-Shun Investment Co., Ltd.	95,597,698	4.12
Hung-Hsiang Investment Co., Ltd.	93,946,947	4.05
Pao-Hsing Investment Co., Ltd.	90,610,217	3.90
Wei-Chih Investment Co., Ltd.	88,760,926	3.82
Tien-Sheng Investment Co., Ltd.	87,098,721	3.75
Cheng-Bang Construction Enterprise Co., Ltd.	83,000,000	3.57
Sue-Ere C. Lin	77,286,891	3.33
Lin Rung San Foundation of Culture and Social Welfare	71,782,660	3.09
Union Enterprise Construction Co., Ltd.	71,684,310	3.09
Quan-Cheng Investment Co., Ltd.	67,084,534	2.89
Hong-Gou Construction Enterprise Co., Ltd.	65,000,000	2.80
Hong-Peng Construction Enterprise Co., Ltd.	59,000,000	2.54
Bai-Ing Investment Co., Ltd.	57,275,558	2.47
Quan-Sheng Investment Co., Ltd.	50,422,358	2.17
Hong-Bang Construction Enterprise Co., Ltd.	49,927,983	2.15

Note: The list above shows shareholders with over 1% shareholding or those on the top 10 shares holders.

(5) Market Price, Net Worth, Earning & Dividend per Share and Other Relative Information for the Past Two Years

Item		2006	2007	Mar. 31, 2008
Market price per share	Highest	9.43	11.15	8.40
	(\$) Lowest	7.26	6.71	6.10
	Average	8.44	8.23	7.00
Net worth per share	Before Distribution	10.22	7.52	7.61
	(\$) After Distribution	10.22	7.52	7.61
Earning per share	Weighted Average Shares	1,825,966,891	1,868,474,203	1,918,824,429
	Earning Per Share(\$)	0.17	(2.65)	0.09
Dividend per share	Cash Dividends	-	-	-
	Stock Dividends	-	-	-
	Retained Earnings	-	-	-
	Capital Reserve	-	-	-
Return on investments	Accumulated Dividends	-	-	-
	Price/Earning Ratio ¹	49.65	(3.11)	77.78
	Price/Dividend Ratio ²	-	-	-
	Cash dividends yield rate ³	-	-	-

Notes:

1. P/E ratio= Average closing share price for the current fiscal year/ earnings per share.

2. P/D ratio= Average closing share price for the current fiscal year/ cash dividends per share.

3. Cash dividend yield to maturity= Cash dividends per share/ average closing share price for the current fiscal year.

(6) Dividend Policy and Implementation

The Bank's dividend policy has set out in the Articles of Incorporation: Refer to Financial Statement for 2007. The Bank has not made a proposal for distribution of dividend, employee bonus and Directors and Supervisors' remuneration for 2007.

(7) Impact of the Proposal for Stock Dividend Distribution on the Bank's Operations Results and Earning per Share: None

(8) Employees' Bonus and Directors' & Supervisors' Remuneration:

- A. The percentage or coverage of employees' bonus and the Directors' & Supervisors' remuneration: According to in the Bank's Dividend Policy.
- B. The information about the Board of Directors' meeting has resolved to distribute employees' bonus:
 - a. Distribution of cash bonus and stock bonus to employees and remuneration to directors and supervisors: None.
 - b. Ratio of the proposed number of stock dividends for distribution to employees as a percentage of capital increase by earnings capitalization: Not applicable.
 - c. Earnings per share after taking into account employees' bonus and directors' & supervisors' remuneration: Not applicable.
 - d. Earnings per share after taking into account stock dividend (based on market price) distribution to employees: Not applicable.
- C. Bonus to employees and remuneration to directors and supervisors from the retained earnings of the previous fiscal year.
 - a. Distribution of employees' bonus and Directors' & Supervisors' remuneration from previous year's earnings: None.
 - b. Proposal for distribution of employees' bonus and Directors' & Supervisors' remuneration passed in the Board of Directors' Meeting and differences: None.

(9) Share Repurchases: None

2. Issuance of Financial Debentures

Type of Financial Debentures	2004			2005	2006	
	1 st Unsecured Convertible Financial Debentures	1 st Subordinate Financial Debentures	2 nd Subordinate Financial Debentures	1 st Subordinate Financial Debentures	1 st Subordinate Financial Debentures Class A Class B	
Date of Approval	Jul. 30, 2004	Nov. 10, 2004	Nov. 10, 2004	Nov. 14, 2005	Nov. 14, 2005	
Issuance Date	Sept. 13, 2004	Dec. 23, 2004	Dec. 28, 2004	Dec. 6, 2005	Nov. 7, 2006	
Face Value	100,000	1,000,000/5,000,000/10,000,000	1,000,000/10,000,000/50,000,000	10,000,000	10,000,000	
Issuance/ Trade Place	Issued & traded domestically.					
Currency	NTD	NTD	NTD	NTD	NTD	
Issuance Price	Issued at par	Issued at par	Issued at par	Issued at par	Issued at par	
Issuance Amount	3 billion	1.5 billion	3.5 billion	2 billion	1.2 billion	0.8 billion
Interest Rate	0%	The average of 6 leading banks' fixed interest rates for 1-year time deposit savings +1.0%	3.55%, fixed rate	2.60%, fixed rate	2.60%, fixed Bank of Taiwan's fixed interest rate for 1-year time deposit +0.3%	
Term	5 Years	5.5 Years	5.5 Years	5.5 Years	5.5 Years	7 Years
Maturity	Sep. 13, 2009	Jun. 23, 2010	Jun. 28, 2010	Jun. 6, 2011	May 7, 2012	Nov. 7, 2013
Order of Redemption	Primary	Subordinate	Subordinate	Subordinate	Subordinate	
Guarantor	Nil	Nil	Nil	Nil	Nil	Nil
Trustee	Trust Dept. of EnTie Bank	Nil	Nil	Nil	Nil	Nil
Underwriter	KGI	Nil	Nil	Nil	Nil	Nil
Auditor	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai	S.S. Lai
CPA	Deloitte & Touche (Terence Huang/ Ray Chang)			Deloitte & Touche (Terence Huang/ Yi-Chun Wu)		
Certifying Financial Institution	“Book-Entry”	FuBon Bills Finance Corp.		Int'l Finance Bills Corp.	“Book-Entry”	
Method of Redemption	Full repayment of principal at maturity					
Unredeemed Balance	1.53 billion	1.5 billion	3.5 billion	2 billion	2 billion	
Paid-in Capital For the Previous Fiscal Year	14.89 billion	14.89 billion	14.89 billion	15.17 billion	18.25 billion	
After-tax Net Worth for the Previous Fiscal Year	16.72 billion	16.72 billion	16.72 billion	18.73 billion	18.33 billion	
Performance	Normal	Normal	Normal	Normal	Normal	
Redemption or Early Redemption	Refer to Articles 18 & 19 of the Prospectus for provisions governing issuance and conversion of debentures	Nil	Nil	Nil	Nil	
Conversion & Exchange Conditions	Refer to Article 11 of the Prospectus for provisions governing issuance and conversion of debentures	Nil	Nil	Nil	Nil	
Restrictions terms	Nil					
Fund Utilization Plan	Improve existing financial structure and the capital adequacy ratio					
Balance of issued debentures before adding the declared issue amount as a percentage of after-tax net worth for the previous fiscal year (%)	17.94%	24.55%	45.48%	51.28%	52.39%	
Whether it is accounted for as regulatory and type	Not included as capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	
Name of rating agency, date and result of rating	Nil	Nil	Nil	Nil	Nil	

Note: The 6 leading banks are First Commercial Bank, Hua-Nan Commercial Bank, Chang Hwa Commercial Bank, Land Bank of Taiwan, Taiwan Cooperative Bank and Bank of Taiwan

3. Issuance of Preferred Stock

Item		Date of Issuance: Sept. 26, 2007
Issuance	Face Value	NT\$10/share
	Price	10
	Shares	400,000,000
	Amount	4,000,000,000
Right & Obligation	Allocation of stock dividends and bonus	Grade-A preferred stock dividend is set at an annual payout rate of 6%, calculated at the actual issuing price and granted in cash in full amount every year. In addition to the fixed dividend payout rate, preferred shares holders have the right to convert a preferred share to a common share and participate in earnings distribution for common stock as well. However, the preferred shareholders cannot participate in the distribution of recapitalization from capital surplus.
	Allocation of residual property	The allocation shall prevail over that of common stocks, provided that it shall be no more than the issuing amount of the preferred stocks.
	Exercise of voting right	Preferred shareholders have no voting right and power in the common shareholders' meeting,, provided that they are entitled to be elected as directors and supervisors and the right to vote in preferred shareholders' meeting.
	Others	The earning of annual final account, if any, shall deduct for tax and make up the loss in the past years, and the balance, if any, shall be provided as the legal reserve fund and special reserve required under the articles of incorporation. The balance, if any, shall be allocated as the Grade-A preferential stock dividends to be allocated in the then year and as the cumulative stock dividend unallocated in the previous years. If there is no earning of annual final account or the allocable earning cannot afford to allocate Grade-A preferential stock dividends, the unallocated or insufficient Grade-A preferential stock dividends shall be cumulated and allocated in following years as the first priority.
	Collected or converted balance	0
Outstanding preferred stock	Uncollected or unconverted balance	4,000,000,000
	Terms & conditions of collection or conversion	Unless in the period for suspension of transfer registration required by laws and within three business days as of the ex-right date for suspension of transfer registration of allocated dividends resolved by the directors' meeting called by the Bank, ex-dividend date for suspension of transfer registration of cash dividends or the ex-right date for suspension of transfer registration of capital increase in cash, one Grade-A preferential stock may be converted to one common stock as of the day following expiration of one year as of the issuing date of Grade-A preferential stock until the record date for allocation of rights, and other periods for suspension of transfer registration required by laws. The Bank will make up the unallocated cumulative stock dividends to the preferential shareholders requesting the conversion in the year of earnings as the first priority. Unless in the period for suspension of the Bank's share transfer registration, the Bank may collect outstanding Grade-A preferential stock, in whole or in part, by earnings or stock payment received from issuance of new shares at the issuing price plus unallocated cumulative stock dividends to be allocated in the current year until the date of collection at any time upon the competent authority's approval, as of the day following expiration of six years as of the issuing date. The preferential stock dividends in the year when the stock is collected and converted into common stock shall be calculated based on the number of days for which Grade-A preferential stock is outstanding.
Market value per share, as of 03-31- 2008	Maximum	
	Minimum	
	Average	
Contingent upon other rights	Converted or subscribed amount until the publication date of the annual report	0
	Rules for issuance and conversion or option	
Effect on preferred stockholders' interest & right, possible dilution conditions of equity and influence on existing shareholders' equity caused by the issuance terms and conditions		
Effect on self capital and risk-based asset ratio caused by redemption of preferred stock		

4. Overseas Depository Receipts, Employee Stock Option, Acquisitions or Disposition of Other Financial Institutions: None.
5. Fund Utilization Plan and Execution Status
 - (1) Details of past launch or private placements of marketable securities and financial debentures
 - A. Details: Refer to page 26~27 for Issuance of Financial Debentures and preferred stocks.
 - B. Purpose: To improve financial structure and increase capital adequacy ratio.
 - C. Fund utilization status: All subordinate financial debentures issued by the Bank previously were included in Tier 2 Capital. Unsecured Convertible Financial Debentures were issued in 2004 to raise medium- and long-term operating capital.
 - (2) Status of past launch or private placement of marketable securities and financial debentures
 - A. All fund raising plans have been fully executed with targets accomplished.
 - B. Refer to page 39~42 for Financial Information & Changes in Capital Adequacy Ratio of Year 2003 to 2007.

Operational Highlights

I. Business Description

(I) Main Businesses

A. Primary Business Activities of the Respective Business Units

- a. To accept all types of deposits.
- b. To extend corporate loans, discount bills and notes, issue of domestic letters of credit and conduct accounts receivable factoring.
- c. To handle exports, imports, foreign remittances, foreign currency loans and guarantees.
- d. To extend mortgage, auto loans, personal loans and other consumer credits, and to provide credit cards services.
- e. Wealth management, trust, custodian business, safe-deposit box rental and certification services for marketable securities.
- f. To trade marketable securities and futures on behalf of customers.
- g. To act as collecting and paying agent for peripheral financial services including public facilities expenses, remittances and taxes.
- h. To conduct other relevant businesses authorized by the competent authority.

B. Operational Highlight

a. Deposits (In NT\$ Million)

Item	December 31, 2007		December 31, 2006		Increase (decrease)	Growth Rate,%
	Amount	%	Amount	%		
Checking Deposit	2,956	1.03	3,225	1.09	(269)	-8.34
Demand Deposit	27,592	9.61	24,342	8.21	3,250	13.35
Demand savings Deposit	57,346	19.97	58,247	19.64	(901)	-1.55
Time Deposit	66,042	23.01	55,956	18.86	10,086	18.02
Time Savings Deposit	109,973	38.30	133,955	45.16	(23,982)	-17.90
Deposit from Chunghwa Post Co. & Financial Institution	23,196	8.08	20,918	7.04	2,278	10.89
Total	287,105	100.00	296,643	100.00	(9,538)	-3.22

b. Loans (In NT\$ Million)

Item	December 31, 2007		December 31, 2006		Increase (decrease)	Growth Rate,%
	Amount	%	Amount	%		
Short-term Loans & Overdraft	12,948	6.37	14,619	7.15	(1,671)	-11.43
Short-term Secured Loans & Overdraft	24,013	11.82	17,741	8.67	6,272	35.35
Medium-term Loans	20,205	9.95	25,027	12.23	(4,822)	-19.27
Medium-term Secured Loans	16,626	8.18	15,318	7.49	1,308	8.54
Long-term Loans	15,145	7.45	18,424	9.01	(3,279)	-17.80
Long-term Secured Loans	114,271	56.23	113,430	55.45	841	0.74
Total	203,208	100.00	204,559	100.00	(1,351)	-0.66

c. Foreign Exchange Volume (In US\$ Million)

Item	December 31, 2007		December 31, 2006		Increase (decrease)	Growth Rate, %
	Amount	%	Amount	%		
Exports	162	4.17	138	4.10	24	17.39
Imports	238	6.13	254	7.54	(16)	(6.30)
Foreign Remittances	3,481	89.70	2,977	88.36	504	16.93
Total	3,881	100.00	3,369	100.00	512	15.20

d. Trust & Wealth Management (In NT\$ Million)

Item		December 31, 2007		December 31, 2006		Increase (decrease)	Growth Rate, %
		Amount	%	Amount	%		
Trust	Non-discretionary money trust invested in Foreign Securities	26,704	25.45	17,159	8.64	9,545	55.63
	Non-discretionary money Trust invested in Domestic Funds	9,932	9.47	7,838	3.95	2,094	26.72
	Preneed funeral agreement	2,877	2.74	2,080	1.05	797	38.32
	Other trusts	2,562	2.44	257	0.13	2,305	896.89
	Securities trust	178	0.17	108	0.05	70	64.81
	Real Estate trust	2,850	2.72	2,054	1.03	796	38.75
	Subtotal	45,103	42.99	29,496	14.85	15,607	52.91
Ancillary Service	Custody of funds	16,087	15.33	76,897	38.71	(60,810)	-79.08
	Other custodian business	21,173	20.18	59,858	30.13	(38,679)	-64.63
	Certification business	22,551	21.49	32,400	16.31	(9,849)	-30.40
Subtotal		59,811	57.01	169,155	85.15	(109,344)	-64.64
Total		104,914	100.00	198,651	100.00	(93,737)	-47.19

e. Credit Cards

Item	December 31, 2007 NT\$'000/ Card	December 31, 2006 NT\$'000/ Card	Increase (decrease)	Growth Rate, %
Cards in Circulation	2,852,622	2,932,337	(79,715)	-2.72
Credit Amount	65,087,932	64,263,312	824,620	1.28
Cash Advance Amount	5,836,605	6,422,494	(585,889)	-9.12
Accounts Receivables	27,344,458	33,789,008	(6,444,550)	-19.07
Revolving Credit Balance	15,697,214	22,513,458	(6,816,244)	-30.28
Sales Amount	83,875,831	84,412,977	(537,146)	-0.64

f. Total Revenue

Item	% of Total Revenue 2007	% of Total Revenue 2006	Changes (%)
Corporate Banking	14.18	12.55	1.66
Consumer Banking	22.48	17.94	4.59
Consumer Credit	3.43	7.40	-3.95
Auto Loans	4.69	7.50	-2.79
Trust	0.46	0.51	-0.05
Wealth Management	2.95	1.21	1.81
Securities	1.09	0.81	0.28
Credit Cards	24.35	35.12	-10.67
Other	26.37	16.96	9.12
Subtotal	100.00	100.00	

(2) Business Plan for 2008

A. Deposits

- Hold deposit development activities and encourage colleagues to spare no effort to achieve the objectives.
- Provide the client's preferential interest rate project, upgrade customers' loyalty and enhance their transactions with the Bank.
- Develop new businesses including collection and payment, salary fund transfer and school tuition and miscellaneous expenses to solicit current account deposits and provide customers with diversified financial services.

B. Corporate Banking

- Continue developing new customer base and new businesses to expand the operation segment and strive for the market opportunities.

- b. Utilize the credit guarantee fund mechanism and solicit fine-quality collaterals to enhance the protection of credit.
 - c. Careful in selecting honest and excellent customers, and eliminate customers with weak credit and (or) profit to ensure the stable growth of credit extension business and upgrade the Bank's profitability.
 - d. Enhance the credit investigation/ extension operation and make the management information digitalized, computerized and real time, and continue making good use of the existing system information to control the accuracy of credit extension in real time and simplify the acquisition of the relevant analysis data.
- C. Consumer Banking
 - a. Analyze the granted credit extension cases, and research and draft new consumer banking product planning based on the information in the same industry and demand in the market, select collaterals for credit extension carefully, and enhance follow-up on the management of granted loans.
 - b. Guide business units to develop business and enhance external activities to achieve the business and earning objectives of consumer loans and to upgrade the business performance.
 - c. Apply segment marketing to design loaning projects with respect to different groups, and develop consumer-banking business stably to upgrade the quality of credit assets.
 - d. Provide customers with services expeditiously and to their satisfactory, build up the fine-quality service goodwill, fulfill the profit center costs and benefits, strictly execute the budget control and precisely reflect the various units' performance.
- D. Foreign Exchange
 - a. Continue promoting such foreign exchange business as forfaiting of Usance letter of credit without recourse, receivable account financing and factoring.
 - b. Establish the bond position to earn coupons or engage in the swap of assets with the same trade to earn the price difference to transfer credit risk.
 - c. Stably develop the securities investment business and participate in international syndicated loan guarantee making to utilize the funds effectively and increase the Bank's income.
- E. Trust & Wealth Management
 - a. Strive for custody of new funds, promote the e-coupon management business and integrate e-coupon trust to create the service charges revenue and deposits.
 - b. Actively visit construction companies and asset management companies to promote the real estate transaction price trust business and money trust business.
 - c. Develop new customer base and beneficiary certificates via CPA firms, printing plants, branches and fund business.
 - d. Perform high-efficiency system service functions and operation procedures to upgrade the quality and efficiency of services, cultivate the relationship with customers thoroughly and increase customers' value.
 - e. Careful in selecting investment products, provide the wealth management intelligence on a daily basis, establish the research taskforce to provide the market tendency report and advice on investment.
 - f. Research inter-industry alliance, enhance marketing activities, provide differentiated fine-quality service to the different groups, introduce such diversified wealth management products as insurance, investment and multi-currency, and enhance the scale of managed assets.
- F. Credit Cards
 - a. Establish customers' loyalty system, raise the debit amount per card, and plan the undisbursed card marketing activities to promote the valid card rate.
 - b. Engage in promoting the card swiping activities in 2008 to aim at interaction with consumers, and apply effective card swiping activities and expand the cooperation with merchants with respect to segment marketing to stimulate card holders to purchase with the card.
 - c. Develop the customers at the top of pyramid, enhance the service to VIP members, plan to release the world card and establish the world top club to serve the Bank's high-value consumption customer base.
 - d. Provide new applications for co-brander card and plan card swiping activities, in order to enrich the added value of the card and upgrade the card utilization rate.
 - e. Release the card swiping promotional activities with respect to card members who have not disbursed the card within one year and execute the annual fee collection strategy to upgrade the Bank's valid card volume.
- G. Funds Utilization

- a. Under the credit and liquidity risk are evaluated and controlled effectively, enhance the transactions and investment of fixed income instruments to increase the gain and interest spread on capital.
- b. Develop customers actively through the Bank's TMU and provide the various financial products and information to satisfy the customers' needs and to increase the Bank's earnings.

(3) Market Analysis

A. Future Supply and Demand in the Market, and Growth of Market

Despite the on-going increase in international crude oil and agricultural and industrial raw material price, the domestic economy remained growing stably in 2007. However, the commodity price rose drastically as of the latter half of the year and the consumer commodity price index rose by 1.80% throughout the year. The Central Bank adjusted the interest rate upward for four times consecutively to control the domestic inflation and thereby caused the bank's interest rate on deposit and lending to be adjusted upward. Nevertheless, due to the excessive competition, it was impossible for banks to enlarge the margin. For deposits, the balance of deposit in the whole financial institutions domestically amounted to NT\$25.47 trillion at the end of 2007, an increase by 1.09% compared with 2006. For loans, the balance of loans granted by financial institutions domestically amounted to NT\$19.21 trillion at the end of 2007, an increase by 2.68% compared with 2006. On one hand, due to the credit and cash cards crisis, domestic financial institutions turned to focus on corporate lending. As far as SME loans are concerned, the balance of loans granted by banks to SMEs domestically amounted to NT\$3.09 trillion at the end of 2007, an increase by 9.30% compared with 2006. For consumer banking, the loan balance granted by banks and credit cooperatives domestically amounted to NT\$6.47 trillion at the end of 2007, an increase by 0.95% only compared with 2006. On the other hand, the scale of wealth management business primarily generating fee income has been growing on an ongoing basis. According to the data of FSC, the total assets managed by financial institutions amounted to be NT\$6.3 trillion at the end of 2005, NT\$7.47 trillion at the end of 2006, and NT\$8.7 trillion at the end of 2007, which become the major business to be developed by financial institutions. For the quality of assets, per the Government's request, banks continued to dispose of NPL and write off bad debts. Some banks with weaker financial condition tried to improve their financial structure by capital increase. Until the end of 2007, the NPL rate has been 1.84%, while the coverage rate of allowance for bad debts in NPL has been 64.82%. Accordingly, the operation in the banking industry appeared to be more stable.

It is anticipated that due to the fluctuation in international crude oil and raw material price and the U.S. subprime mortgage crisis, the global and domestic economic growth will become sluggish in 2008. Nevertheless, such factors as competent authorities' continuous opening financial policies, foreign investors' participation in domestic banking industry booming development of wealth management business and diminishing credit and cash cards crisis will be helpful for development of domestic banks. As far as corporate banking is concerned, with the project "to enhance domestic banks' loans to SMEs as promoted by the competent authorities", SME loans will grow continuously. Due to the credit and cash cards crisis, mortgage with lower risk and secured by collaterals will become the main support for consumer banking. Meanwhile, the wealth management business is expected to play an important role in the development of banking industry under the circumstance that the competent authorities have enacted the relevant regulations and banks have been dedicated to marketing the business actively.

B. Niche for Competition

Under the Bank's principles of stable operation and risk diversification, the corporate banking business continues to promoting the receivables factoring and financing and self-liquidating businesses, and enhances lending business which is secured by real estates and marketable securities to maintain growth of business and profitability.

Due to the intensive competition in the consumer banking, the Bank establishes the department dedicated to appraising collaterals and credit review desk to maintain the quality of credit assets, and also strictly adheres to the "5P" principles (people, purpose, payment, protection and prospective) to grant or reject the application for loans. In addition to developing lending business stably, the Bank also strengthens the communication with old customers to provide the customers with satisfactory service and build up corporate image.

For deposits and remittance, the Bank is actively engaged in promoting new businesses including collection and payment, salary fund transfer, collection of stock payment for capital increase, distribution of stock dividends, collection of security payment, school tuition and miscellaneous expenses and collection of the general enterprises' payment, in order to solicit current account deposits and strengthen the deposit structure, and also adheres to the stable growth principle, avoids pursuing the market share blindly or a price war and provides the optimal services at reasonable price.

Following trend of financial globalization and internationalization and the government successively release

financial restrictions, customers' concept of wealth management is being developed and the demand for wealth management is increasing relatively. In order to strive for the business, the Bank is oriented towards the customers' demand and provides customized wealth management products, releases the various impress projects and continues introducing such diversified products as insurance, investment and multi-currencies to develop the Bank's wealth management customer base thoroughly and increase the scale of managed assets. Meanwhile, the Bank also provides the exclusive wealth management service to customer with high net worth in hopes of helping them plan the layout of assets and achieve their financial objectives in life by virtue of the investment consultation service provided by a number of the Bank's well trained and experienced advisors of wealth management.

Because of external factors such as customers' maturing concept of trust and awareness of emerging consumer protection and promulgation of the relevant laws for the means in the form of trust, the existence of trust is getting more and more important. The Bank is dedicated to developing the base and construction financing trust, safety transaction price of real estate trust, preneed funeral agreement, money trust for on-line shopping money service, money trust for technology transfer, e-coupon trust and trust of money credit and collaterals thereof through the service of trust specialists and development of new products and with the strength for the existing channels, so as to meet the customers' diversified needs for trust.

The Bank's securities finance business primarily underwrites the securities brokerage. The securities market in the coming year could be able to maintain prosperous as same as 2007. Except continuing recruiting traders to develop the customer base, the Bank will also develop the market of institutional customers.

For derivatives products, the head office and branches work with each other to visit customers voluntarily, so that they may know the type of customers of branches and also verify the customers' actual needs and risk tolerance to provide the proper financial products. For the time being, the Bank still underwrites basic products primarily, but will develop the more competitive product portfolio and customized financial products to provide the customers with omnibus financial services.

The Bank adopts the segment marketing strategies with respect to consumer credit business, plans the diversified loan products and defines the fees and interest rates based on the various groups, so as to distinguish the credit loan products from those provided in the same trade. Further, in order to cope with the flexible repayment plan, the Bank allows customers to utilize the funds subject to their own needs, and controls the quality of credit monitoring and enhances the management after lending through the credit investigation and review system.

C. Favorable and Unfavorable Factors for Future Development and Response Actions thereof:

a. Favorable factors

- I. The effect of credit and cash cards crisis is diminishing, which urges the banking industry to pay more attention to risk control. It is expected that the bad debts in banks will be reduced in the upcoming year which will be helpful for profitability or business development in the banking industry positively.
- II. With the competent authority's active promotion, the possibility for foreign financial organizations' control or participation in the management of domestic banks is expected to be increased in 2008, and be helpful for the domestic banks' development of new businesses and financial products.
- III. The market development of wealth management business will be more well-founded due to such factors as competent authority's promulgation of the relevant requirements and reduction in high-risk products sold by dealers and thereby will help dealers develop the relevant business.

b. Unfavorable factors

- I. Consumer Debt Clearance Regulations will be enforced as of April 2008 and the default rate for debt repayment is expected to increase, so that the domestic banks' operation and profitability will be affected adversely.
- II. The domestic banks are mostly engaged in identical business and it is not easy to expand margin of deposit and loan. Meanwhile, the investment from foreign financial institutions in the domestic banks' management would lead the market to be much more competitive and, therefore, the profit zone will be relatively narrowed.
- III. The cross-strait relations remain vague and thereby cause it impossible for domestic banks to provide the funding service directly and to move forward to the market of Taiwanese businessmen. Meanwhile, the government still imposes multiple restrictions on the enterprises' investment in Mainland China and Taiwanese businessmen are used to investing via a third country. This is still disadvantageous to domestic banks' control over enterprise risk.

c. Response strategy

- I. The financial environment changes rapidly and types of banking businesses are getting more and more diversified. Meanwhile, with the speedy release of the various financial products, the bank's risk control is

getting more and more important. In order to cope with the enforcement of the New Basel Capital Accord, the Bank has established a control system for evaluating risks of credit, interest rate, market and operation to upgrade the quality of the Bank's assets.

- II. Considering that emerging wealth management products are numerous and the domestic wealth management business development is optimistic, and margins of deposits and loans are still low, most banks change their business strategies in increasing fee income instead of interest income. Therefore, the wealth management business will remain one of the priorities of banking business in 2008. The Bank provides exclusive wealth management services to the fine-quality customer base and satisfies the customers' various financial needs by orienting itself towards the customers' individual wealth management needs.
- III. To respond to the project "to enhance domestic banks' loans to SMEs as promoted by the competent authorities", the Bank will continue engaging in the SME loans and developing the market share of high-interest spread products, and will lower the cost for the general house loans and other non-secured consumer loans via simplification and standardization of the operation procedure, lower the NPL by targeting at the customer base with fair credit and enhance the business strategies for cross-sale of commodities with affiliated companies, in the hopes of maintaining the balance of quality and stable growth of profit under the slight interest spread.
- IV. The Bank will continue training financial experts and enhancing the marketability of the various financial products to provide customers with omnibus financial services.

(4) Research of Financial Products and Status of Business Development:

- A. The scale and income of main financial products and set up business departments in the most recent two years

The Bank has been dedicated to promoting wealth management business in the recent years. At the end of 2007, the Bank has setup 12 VIP wealth management centers and 127 full-time advisors. The accounts of wealth management are 21,596, an increase by 72% compared with 2006. The balance of the total assets managed was NT\$6,067 million, an increase by 32% compared with 2006. The operation income is NT\$544 billion, an increase by 157% compared with 2006.

- B. R&D Expenditure and Results for the Past Two Years and Future R&D Plans

- a. R&D Expenditure & Results:

	Yeas	2007	2006
R&D Expenditure		29,894	0

(In NT\$ thousand)

Note: The 2007 R&D expenditure figures have not been audited by independent auditors.

- b. The Bank released e-ATM service in July 2007. The service was equipped with such functions as the general ATM inquiries, fund transfer and payment, and also provided the chip ATM cardholders with the various considerate personal and trading advice services. Meanwhile, it may provide the advertisements for the Bank's products in the system. By virtue of the service system, the Bank wished to enhance the network services to the Bank's ATM cardholders and also to create the opportunities enabling the Bank to serve and market the products to other banks' chip ATM cardholders. In the latter half of 2007, the Bank continued the development of the e-ATM system and proceeded with the evaluation and planning of e-ATM acquiring service to enhance the Bank's collection channels and to seek the opportunities for collection.

(5) Plan of Short- and Long-term Business Development

- A. Short-term Plan: Refer to page 29-31 for Business Plan for 2008.

- B. Long-term Plan:

- a. Integrate the individual geographical conditions of the existing business bases and look for the locations suitable for establishment of the Bank's office premises to help the planning of the Bank's office layout and upgrade the effect of channels
- b. Serve consumer banking, SME loans and wealth management to be the three major types of business, and develop by taking care of quality and quantity at the same time
- c. Cultivate clerks' expertise and upgrade their competitiveness, and enhance the quality of clerks' service and build up a fair service reputation to upgrade the Bank's business performance and corporate identity
- d. Evaluate the various expenses effectively and reasonably, and fulfill the periodic control over the utilization to achieve the objectives for saving expenses

2. Employee Analysis

(I) Employee Data for the Past Two Years and Current Year Up to the Printing Date of the Annual Report:

	Year	End of 2006	End of 2007	As of Mar. 31, 2008
Number of Employees	Permanent	3,635	3,388	3,320
	Temporary	0	0	0
	Other	0	0	0
	Total	3,635	3,388	3,320
Average age		31.81	32.63	33.77
Average year of service		4.22	5.14	5.34
Education	Doctorate	0	0	0
	Master	4.62	4.72	4.91
	University (College)	82.53	84.06	83.86
	Senior High School	12.63	11.01	11.08
	Junior High School & Under	0.22	0.21	0.15

Type of professional certification held by employees	2006	2007	Mar. 31, 2008
Basic Proficiency Test for International Banking Personnel	167	217	216
Proficiency Test on Foreign Exchange Trading	3	6	6
Proficiency Test for Trust Operations Personnel	1,087	1,367	1,365
Subject Test - Laws and Regulations on Trust Businesses	0	1	2
Qualification exam for "General knowledge of Financial Markets and professional code of Ethics"	36	954	969
Financial Risk Manager (FRM)	3	3	3
Master Financial Professional	1	2	2
Certified Financial Consultant for Small and Medium Enterprise	1	1	1
Class B Accounts Clerk	0	6	6
Class C Accounts Clerk	83	149	146
Junior qualification examination for professional & technical personnel in the category of the accredited book-keeper for taxpayer	0	1	1
Basic Proficiency Test for Bank Lending Personnel	288	352	343
Advanced Proficiency Test for Bank Lending Personnel	29	30	30
Proficiency Test for Financial Planning Personnel	369	430	411
Certified Financial Planner (CFP)	1	1	1
Life insurance salesperson	1,013	1,723	1,664
Investment-oriented insurance salesperson	120	429	424
Non-life insurance salesperson	153	677	662
Non-life insurance assessor	0	15	14
Insurance agent	1	2	2
Insurance broker	0	2	2
Futures specialist	159	354	335
Qualification examination for "investment-oriented insurance products & financial system"	0	14	26
Bill finance specialist	19	47	42
Labor safety and health specialists (Class B certificate for labor safety and hygiene)	0	6	5
Labor safety and health managers (I)	5	52	52
Labor safety and health managers (II)	93	49	51
Labor safety and health managers (III)	4	7	7
Fire fighting management	46	93	92
First-aid personnel	107	118	123
Bond Specialist	5	18	17
Basic Proficiency Test on Internal Controls	1,341	2,546	2,443
Certified Internal Auditor	0	1	1
Securities specialist	133	232	221
Senior securities specialist	48	136	131
Securities investment trust and consulting professionals	57	126	120
Securities investment Analyst	2	2	1
Specialist of "Margin and Stock Loans by Securities Firms"	4	28	27
Qualification exam for securities investment trust and consulting regulations (including professional ethics rules)	8	22	22
For taking "Investment trust & consulting regulations(including self-disciplinary rules)" only	1	299	328
For taking "Securities laws & regulations" only	0	2	2
Land administration (registration) agents	3	5	5
Real estate appraiser	1	1	1
Assistant real estate. Brokers	1	7	8
Proficiency Test for Bank Collateral Appraisal Personnel	5	8	8

Note: Not include 2 employees of offshore units.

(2) Expenditure for Employee Training Program in 2007

The bank organized internal training seminars and had employees attend external training programs to enrich staff competency.

Item	Internal program	External program	Total
Number of employees trained	9,266	1,470	10,736
Total training expense (in NT\$ thousand)	10,113	4,893	15,006

(3) Rules of Employee Behavior and Ethics

The bank has put in place the “Employment Standards” and “Employee Service Rules” to govern employees’ behaviors and dedication for works while servicing in the bank. Employees are expected to highly respect teamwork, comply with regulations and code of conduct in performing their duties.

(4) Protection for Work Environment and Employee Safety

The Bank has complied with the relevant regulations set forth by the competent authorities and the Bankers’ Association to prevent the occurrence of potential disaster or minimize the damages that may result. The Bank has set in the place the “Procedures of Safety & Health Work” and convenes the “Labor Safety & Health Committee” meeting on a regular basis. The Bank also performs tests on work environment and conducts relevant employee safety and first aid training programs in accordance with the rules and regulations.

3. Corporate Responsibility and Ethical Conduct

(1) Sponsor Union Culture Foundation: Union Bank of Taiwan and Union Bills Finance Corp.

incorporated the “Union Culture Foundation” in April 1998, which was primarily engaged in educational and public welfare affairs and exchange of studies and culture through literature and art activities, academic lectures and symposiums. Under the sponsor’s support and authorization, the Foundation worked with its co-sponsor, Liberty Times, which contributed the media, to found the “Union Fine Art New Star Prize” to recommend and reward the new artist and also provided the high prize and held the exhibition for winning art works at fixed locations throughout the nation to provide the local new artists with a platform for creation to support their continuous belief to create works. It also founded the “Union Fine Art Impression Prize” which provided not only the first prize amounting to NT\$400,000 but also a broader platform for Taiwan artists since 2003. Further, in order to appreciate the contribution made by the experienced painters in art area, it also founded the “Taiwan Fine Art Contribution Prize” to commend senior Taiwanese painter for his contribution as recommended by the panel. The painter recommended by the panel in 2007 was Mr. Tse-Fan Lee. We hope junior art workers in Taiwan may have a model to follow by doing so. To enable all of art lovers throughout the nation may appreciate those excellent art works, the Foundation will conduct a tour nationally to exhibit the prize winners’ art works as of January every year.

(2) The Bank also held the 7th “Painting Mommy” painting contest, and also promoted the public welfare activity “Paint Your Mommy and the Bank Denotes Money” in hopes of rooting the local literature and art activities by virtue of training children’s sense of art and also upgrading the local fine art education level by promotion of art. The contest was participated in by a total of 4,700 children throughout the nation. The winners were commended in public and their art works were published in the Liberty Times and the Bank’s bimonthly magazine “God of Fortune Report” and also displayed in the traveling exhibit held in the Bank’s branches throughout Taiwan. Meanwhile, as long as receiving a school child’s painting of his/her mother, the Bank would denote NT\$10 to the “Yunlin County Government Elementary and Junior High Schools Students Aid Fund” in hopes of calling on the public to protect students who cannot afford their tuitions or lunch expenses from losing chances in learning because of family

financial deficits.

- (3) The Bank also held the thanksgiving fair “Love Mommy and Extend Heartwarming Appreciation” for Mother’s Day, which was based on the concept of “Heart to Heart” and intended to express the love to mothers with smiling hearts. In the fair, there were a variety of interesting competitions and brilliant performing, and the Bank also planned a series of events to encourage mothers and intended to express the Bank’s thanks to mothers. 15% of the total revenue of the fair was donated to the Union Culture Foundation to help it to engage in the art and public welfare affairs continuously.
- (4) Also, the Bank held the public welfare activity “Golden Pig Announcing Good News and Union Extending Heartwarming Gift” and prepared blessing bags for the golden pig year (which means the year of 2007) as gifts for six elementary schools students in Taiwan for free, in hopes of calling on the public to care the society and make the elementary school students feel the kindness and consideration toward society.

4. Facilities of Information Technology

(1) Maintenance and Hardware & Software of major IT systems:

- A. Neihu Computer Room: One IBM z/890-150(z/OS, CICS & IMS/DB) server and z/800-001 backup server, two Shark 800 hard disk drives, two 3745 communication controllers, one 2074 terminal controller, one set of 3590 and 3490 tape drive each, three ATM front-end processors (NCR-UNIX), one backup device, fourteen IBM RS/6000 (AIX, DB2, WebSphere), one IBM i520(i5/OS, Quick EDD) and 74 PC servers.
- B. Mingsheng Computer Room: One IBM 9672-RA6(z/OS, CICS, IMS/DB) remote backup server, one Shark F20 hard disk drive, one 3745 communication controller, one 3174 back-end controller, one set of 3590 and 3490 tape drive each, one ATM front-end processor (NCR-UNIX), two IBM RS/6000(AIX, DB2, WebSphere), one IBM AS/400-720(i5/OS, Quick EDD) and seven PC servers.
- C. Network: Two CISCO 7502 routers, two CISCO 7507 routers, two CISCO 3660 routers, one CISCO 5509 & one 5505 switch and 100MPS optical fiber for connecting the Neihu and Minsheng computer rooms. Branches use CISCO 2600/2800 routers and connect to the Neihu computer room via an exclusive line with ISDN as the backup connection.
- D. The Bank has repair and maintenance agreements with the vendors for the hardware and software above.

(2) Future development and procurement plans:

- A. Upgrade of information system disaster backup
- B. Upgrade of the fund allocation system of Central Bank
- C. Upgrade of network switch
- D. Installation of automated equipment at KRTC
- E. Installation of credit investigation and extension management system
- F. Development of Tier-II system under Basel II
- G. Development of Lucky Deposit System
- H. Upgrade of TCP/IP of ATM machines
- I. Development of real estate and auction information files creation and control system °
- J. Development of merchant payment system
- K. 2nd and 3rd phase development of integration of procurement, cashier, accounting and notes operation procedures

(3) Emergency and Security Protection Measures

- A. Construct on-site backup device at Neihu computer room with Minsheng computer room serving as the remote backup support.
- B. Off-site media backup and storage of important documents, separately at Neihu and Minsheng computer rooms.
- C. Install access control system, surveillance cameras, line control, fire safety equipment and

environmental security systems to protect the IT equipment.

- D. Using intrusion detector, setting internal/external firewalls and anti-spam system, scanning virus, horse or spy programs, updating virus-code and system patch to ensure Internet and data transmission security.
- E. Formulate the “Plan for Union Bank of Taiwan IT Security Contingency” and conduct rehearsals of on-site and remote backup and fire safety in accordance with the “Plan for Union Bank of Taiwan IT Disaster Contingency” annually.

5. Labor Relations

- (1) Execution status of employee welfare and retirement policy, labor agreements and protection of employee welfare:
 - A. The Employee Welfare Committee deducts 0.5% of employees’ monthly salaries and appropriates 0.1% of operating revenue to administer employee welfare affairs such as Mother’s Day Fair and special allowances for marriage, funeral, births (including spouse) and major accidents.
 - B. In accordance with the Social Insurance Policy, the Bank administers Labor Insurance, National Health Insurance and Group Insurance (including term life insurance, group accident insurance, worker’s accident insurance, occupational injury insurance, cancer insurance and hospital and medical insurance for employees and their families).
 - C. Offer deposits, loans and unsecured consumer loan for staff at special rates.
 - D. The Employee Welfare Committee disburses bonus to employees on holidays of Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival.
 - E. Employee Retirement Policy has been set that any employee reaching retirement age or eligible for retirement pursuant to the Bank’s retirement policy is entitled to receive the retirement payout under the old pension system (Labor Standards Act). On the other hand, the Bank makes monthly contributions to individual retirement accounts for employees who apply for new pension system.
 - F. The Bank has set up rules for governing labor-management committee to maintain sound labor relation and currently no labor dispute occurred.
- (2) Loss incurred as a result of labor disputes in the past year and current year up to the printing date of annual report, the amount of estimated potential loss and the bank’s responses. Where it is impossible to make a reasonable estimate, provide the reason:
Though the Bank has not been involved in a labor dispute that resulted in a loss, we will review and evaluate the various welfare policies for the best interest of our employees and there is currently no labor dispute to be negotiated.

6. Major Contracts

Nature of Contract	Concerned Parties	Contract Period	Content	Restriction on Contract
Deposit Insurance Contract	Central Deposit Insurance Corporation	Signed on Apr. 27, 1994	Performance bond agreement for the solvency of financial institution in paying depositors	The maximum insured amount for each depositor at the same financial institution is NT\$ 1.5 million
Bankers Blanket Insurance	Cathay Century Insurance Co., Ltd.	Jan. 21, 2007 to Jan. 21, 2008	Infidelity of employees; Property on premises; Property in transit; Forgery or alteration of check & securities; Counterfeited currency; Damage to offices and content; Fault of securities or written document	The access fee and maximum claim amount apply to each type of accident

- 7. Securitization Commodities approved by the competent authority and relevant information launched in accordance with Financial Asset Securitization Act or Real Estate Securitization Act in recent years: None

Financial Highlights

1. Condensed Balance Sheets, Income Statements and Auditors' Opinions

(1) Condensed Balance Sheets (In NT\$ thousands, except par value)

Item	Year	2003	2004	2005	2006	2007	Mar-31-08 ^{note}
		Amount					
Cash and cash equivalent, due from the Central Bank and other banks		\$20,962,684	\$23,764,678	\$28,864,831	\$40,128,185	\$28,052,923	\$46,332,301
Financial assets at fair value through profit or loss		9,475,118	7,526,589	10,009,127	4,873,587	7,746,462	7,417,513
Securities purchased under resell agreements		-	9,180,055	10,311,415	3,820,626	5,863,732	501,028
Available-for-sale financial assets		245,832	3,028,946	7,072,617	5,997,931	3,439,568	2,803,493
Discounts & loans		120,815,370	141,367,952	182,118,196	207,070,571	205,523,586	199,542,997
Receivables		29,210,204	38,708,022	44,028,153	36,748,767	28,967,953	27,319,053
Held-to-maturity investment		2,800,935	5,486,681	19,756,961	30,096,773	48,559,541	42,140,322
Equity investments- Equity method		3,191,679	3,737,442	3,521,089	2,837,358	2,946,398	2,958,771
Property & equipment		2,760,877	2,345,382	8,963,594	8,761,361	8,618,058	8,545,512
Intangibles		-	-	2,757,500	2,757,500	2,574,217	2,574,217
Other financial assets		1,307,159	1,270,633	3,870,435	6,075,325	4,757,711	11,241,349
Other assets		13,725,978	10,616,722	7,418,905	12,201,452	11,478,015	11,121,455
Total Assets		204,495,836	247,033,102	328,692,823	361,369,436	358,528,164	362,498,011
Call loans and due to banks		5,832,135	4,712,951	26,652,827	31,817,010	27,086,819	24,750,458
Deposits and remittance		173,518,839	205,035,613	250,662,221	275,747,909	263,954,435	271,106,847
Financial liabilities at fair value through profit or loss		-	-	4,090	34,457	61,326	143,043
Securities sold under repurchase agreements		-	2,687,438	12,247,692	11,904,491	32,865,259	31,282,693
Payables		3,261,115	3,656,556	6,548,931	7,111,454	4,776,100	5,209,744
Bank debentures		3,500,000	11,194,000	13,105,400	15,083,700	10,526,400	10,526,400
Liability component of preferred stocks		-	-	-	-	327,200	327,200
Other financial liabilities		-	-	151,548	318,597	254,580	252,713
Other liabilities		1,663,576	1,015,798	986,372	668,395	578,133	615,176
Total Liabilities	Before distribution	187,775,665	228,302,356	310,359,081	342,686,013	340,430,252	344,214,274
	After distribution	187,775,665	228,302,356	310,359,081	342,686,013	340,430,252	344,214,274
Capital stock		14,889,264	15,171,292	18,253,942	18,277,979	22,861,044	22,861,044
Capital surplus		39,016	57,783	63,733	60,296	33,811	33,811
Retained earnings	Before distribution	1,900,803	3,500,428	42,651	348,465	(4,697,572)	(4,515,745)
	After distribution	1,900,803	3,500,428	42,651	348,465	(4,697,572)	(4,515,745)
Unrealized loss on financial assets		-	-	-	(39,132)	(124,678)	(72,478)
Cumulative translation adjustments		58,705	21,433	50,141	43,820	39,243	(8,959)
Others		(167,617)	(20,190)	(76,725)	(8,005)	(13,936)	(13,936)
Total Shareholders' Equity	Before distribution	167,720,171	18,730,746	18,333,742	18,683,423	18,097,912	18,283,737
	After distribution	167,720,171	18,730,746	18,333,742	18,683,423	18,097,912	18,283,737

Note: All financial data have been audited by independent accountants except for those for Quarter 1, 2008 which have been reviewed.

(2) Condensed Statements of Income (In NT\$ thousands, except earnings (loss) per share)

Item	Year	2003	2004	2005	2006	2007	Mar-31-08 ^{note}
		Amount					
Net interest		\$6,117,975	\$8,391,491	\$10,807,616	\$9,095,588	\$7,256,304	\$1,778,937
Net revenues other than interest		815,286	1,047,472	(4,359,876)	1,687,535	682,513	43,853
Bad debts		537,750	2,527,027	4,759,364	4,104,184	8,404,095	217,697
Operating expenses		4,925,438	5,425,260	6,534,898	6,332,613	5,993,462	1,375,630
Income (loss) before income tax		1,470,073	1,486,676	(4,846,522)	346,326	(6,458,740)	229,463
Income (loss) before cumulative effect of accounting changes		1,320,948	1,599,625	(3,457,777)	296,536	(4,942,358)	181,827
Profit (loss) of discontinued operations (Net of tax)		-	-	-	-	-	-
Extraordinary profit (loss)(Net of tax)		-	-	-	-	-	-
Cumulative effect of accounting changes (Net of tax)		-	-	-	9,278	-	-
Net Income (loss)		1,320,948	1,599,625	(3,457,777)	305,814	(4,942,358)	181,827
Earnings (loss) per share (\$)		\$0.91	\$1.07	(\$1.94)	\$0.17	(\$2.65)	\$0.09

Note: All financial data have been audited by independent auditors except for those for Quarter 1, 2008 which have been reviewed.

(3) Auditors' Opinion

Fiscal Year	Accounting Firm	Independent Auditors	Auditors' Opinion
2003	Deloitte & Touche	Terence Huang/ Ray Chang	Qualified opinion ^{note}
2004	Deloitte & Touche	Terence Huang/ Ray Chang	Qualified opinion ^{note}
2005	Deloitte & Touche	Terence Huang/ Yi-Chun Wu	Revised unqualified opinion
2006	Deloitte & Touche	Terence Huang/ Yi-Chun Wu	Qualified opinion ^{note}
2007	Deloitte & Touche	Yi-Chun Wu/ Ray Chang	Qualified opinion ^{note}

Note: A qualified audit opinion was issued on the Bank's decision to amortize loss incurred from selling its non-performing loans on a straight-line basis over 60 months pursuant to the Financial Institutions Merger Act.

2. Financial Analysis and Capital Adequacy Ratio

(1) Financial Analysis

		2003	2004	2005	2006	2007	Mar-31-08 ^{note}
Operating Capability	Loans to deposits ratio (%)	78.96	77.15	73.22	75.72	78.7	74.39
	Non-performing loan ratio (%)	3.84	2.52	3.76	2.41	2.39	2.65
	Interest expense to average total deposits	1.47	1.19	1.37	1.67	1.89	2.02
	Interest revenue to average total loans	5.31	5.00	5.04	4.22	3.85	3.97
	Total asset turnover (times)	0.0339	0.384	0.0196	0.0298	0.0221	0.005
	Average net income per employee	2,621	3,398	1,772	2,966	2,343	549
Profitability	Average earnings per employee	499	575	(950)	84	(1,459)	55
	Return on tier 1 capital (%)	10.44	9.58	(32.77)	2.55	(54.12)	2.29
	Return on assets (%)	0.70	0.71	(1.20)	0.09	(1.37)	0.05
	Return on equity (%)	8.28	9.02	(18.66)	1.65	(26.87)	1.00
	Net income ratio (%)	19.05	16.95	(53.63)	2.84	(62.26)	9.98
	EPS (\$)	0.91	1.07	(1.94)	0.17	(2.65)	0.09
Financial Structure	Total liabilities to total assets ratio (%)	91.82	92.42	94.42	94.83	94.95	94.96
	Fixed assets to shareholders' equity ratio (%)	16.51	12.52	48.89	46.89	47.62	46.74
	Asset growth ratio (%)	16.49	20.80	33.06	9.94	(0.79)	1.11
Growth Rate	Profitability growth ratio (%)	(202.89)	1.14	(426.00)	(107.15)	(1,964.93)	-
	Cash flow ratio (%)	-	-	7.20	32.87	2.16	5.08
	Cash flow adequacy ratio (%)	-	-	-	56.79	12.49	291.54
Cash Flow	Cash flow reinvestment ratio (%)	0.73	0.28	-	-	-	-
	Liquid Reserve Ratio (%)	11.60	13.02	11.56	9.73	10.66	14.31
	Balance of Secured Loans to Related Parties (In NT\$ thousand)	5,367,679	6,559,695	5,521,913	6,147,411	6,178,671	5,701,195
Total Secured Loans to Related Parties as a % of Total Loans		4.41	4.60	2.94	2.88	2.87	2.72
	Market share of asset (%)	0.73	0.83	1.05	0.95	0.96	0.95
	Market share of net worth (%)	1.03	1.06	0.98	0.89	0.88	0.86
Operation Scale	Market share of deposits (%)	0.82	0.91	1.24	1.31	1.24	1.26
	Market share of loans (%)	0.85	0.90	1.07	1.19	1.15	1.11

Note: The decrease in ROA, profit rate, ROE and return on Tier-I capital in 2007 compared with 2006 is a result of the increase in allowance for bad debt resulting from the cash card and credit card debt crisis in 2007.

1. All financial data have been audited by independent accountants except those for Quarter 1, 2008 which have been reviewed.

2. Financial ratios are computed as follows:

(1) Operating Capability

A. Loans to deposits ratio= Total loans/ total deposits (excluding redeposits of Chunghwa Post Co.)

B. Non-performing loan ratio= Total NPL/ total loans

C. Interest expense to average total deposits= Total interest expense/ average total deposits

D. Interest revenue to average total loans= Total interest revenue/ average total loans

E. Total asset turnover= Net operating revenue/ total assets

F. Average net income per employee= Net operating revenue/ total number of employees.

G. Average earnings per employee= Net income after tax/ total number of employees.

(2) Profitability

A. Return on tier 1 capital= Net income before tax/ average total tier 1 capital

B. Return on assets= Net income after tax/ average total assets.

C. Return on equity= Net income after tax/ average shareholders' equity

D. Net Income ratio= Net income after tax/ net income.

E. Earnings per share= (Net Income after tax - preferred stock dividend)/weighted average outstanding shares

- (3) Financial structure
 A. Total liabilities to total assets ratio=Total liabilities/total assets
 B. Fixed assets to net worth ratio=Fixed assets, net/shareholders' equity, net
- (4) Growth rate
 A. Asset growth ratio= (Total assets as at the end of this year - total assets as at the end of last year)/total assets as at the end of last year.
 B. Profitability growth ratio=(Net income before tax for the current year- net income before tax for the past year)/net income before tax for the past year
- (5) Cash flow
 A. Cash flow ratio=Net cash from operating activities/(call loans to banks+ CD payable+change in fair value of financial liabilities through the income statement + repurchase securities payable + Liabilities-current portion due within one year).
 B. Cash flow adequacy ratio=Net cash from operating activities for the past five years/(capital expenditure + cash dividends) incurred for the past 5 years.
 C. Cash flow reinvestment ratio=Net cash from operating activities/net cash from investing activities.
- (6) Liquid reserve ratio=Liquid assets statutorily required/reserve for liabilities.
- (7) Operation scale
 A. Market share of assets=Total assets/total assets of all authorized deposit-taking and loan-underwriting financial institutions*.
 B. Market share of net worth=Net worth/total assets of all authorized deposit-taking and loan-underwriting financial institutions*.
 C. Market share of deposits=Total deposits/total assets of all authorized deposit-taking and loan-underwriting financial institutions*.
 D. Market share of loans=Total loans/total assets of all authorized deposit-taking and loan-underwriting financial institutions*.
- * All authorized deposit-taking and loan-underwriting financial institutions include all domestic bank, the local branches of foreign banks, credit cooperative associations, farmers' & fishermen's associations and trust & investment corps.

(2) Capital Adequacy (Non-Consolidated)

In NT\$ thousand

Item			Year	2003	2004	2005	2006	2007	Mar-31-08 ^{note}	
Regulatory Capital	Tier 1 Capital	Common Stock		14,889,264	14,889,264	18,253,942	18,257,379	19,188,244	19,188,244	
		Irredeemable non-cumulative preferred stock		0	0	0	0	0	0	
		Non-cumulative subordinate debentures with no maturity date		0	0	0	0	0	0	
		Capital collected in advance		0	306,000	0	20,600	0	0	
		Capital Surplus (excl. fixed asset revaluation increment surplus)		39,016	33,811	63,733	60,296	33,811	33,811	
		Legal Reserve		504,806	901,090	1,380,978	16,067	107,812	107,812	
		Special Reserve		75,049	999,713	2,119,450	26,584	240,655	240,655	
		Cumulative Profit/Loss		1,327,652	1,609,309	-3,447,196	305,814	-5,046,039	-4,792,302	
		Minority Shareholding		0	0	0	0	0	0	
		Other Shareholders' Equity		35,239	1,243	-26,584	43,820	-72,449	-111,003	
		Less: Goodwill		0	0	2,757,500	2,757,500	2,574,217	2,574,217	
		Unamortized loss on sale of delinquent loans		0	0	0	0	0	0	
		Deduction items		2,230,167	2,358,898	2,385,062	2,042,419	1,940,220	1,946,505	
		Total Tier 1 Capital		14,640,859	16,381,533	13,201,761	13,930,641	9,937,596	10,146,495	
	Tier 2 Capital	Irredeemable Cumulative Preferred Stock		0	0	0	0	4,000,000	4,000,000	
		Cumulative subordinate debentures with no maturity date		0	0	0	0	0	0	
		Fixed asset revaluation increment surplus		0	0	0	0	0	0	
		45% of unrealized gain on financial assets available for sale		0	0	0	12,552	0	0	
		Convertible bonds		0	0	0	0	0	0	
		Operating reserve and allowance for bad debts		288,800	153,134	63,814	738,216	845,492	0	
		Long-term subordinate debentures		2,100,000	6,400,000	7,793,412	7,908,334	5,706,667	5,296,667	
		Redeemable preferred stocks		0	0	0	0	0	0	
		The sum of irredeemable non-cumulative preferred stocks and non-cumulative subordinate debentures with no maturity in excess of 15% of total Tier 1 Capital		0	0	0	0	0	0	
		Less: Deduction items		2,086,016	2,358,897	2,385,061	1,975,394	1,940,220	1,946,505	
		Total Tier 2 Capital		302,784	4,194,237	5,472,165	6,683,708	8,611,939	7,350,162	
		Tier 3 Capital	Short-term subordinate debentures		0	0	0	0	0	0
			Redeemable preferred stock		0	0	0	0	0	0
		Total Tier 3 Capital			0	0	0	0	0	0
Regulatory Capital				14,943,643	20,575,769	18,673,926	20,614,349	18,549,535	17,496,657	
Risk-weighted Assets	Credit Risk	Standardized Approach		135,983,019	158,993,550	197,017,419	206,525,039	180,228,521	174,179,063	
		Internal Ratings-Based Approach		0	0	0	0	0	0	
	Operational Risk	Asset Securitization		0	0	0	0	7,248,829	6,604,872	
		Basic Indicator Approach		0	0	0	0	15,819,638	15,819,638	
		Standardized Approach/ Alternative Standardized Approach		0	0	0	0	0	0	
	Market Risk	Advanced Measurement Approach		0	0	0	0	0	0	
		Standardized Approach		9,175,963	6,959,300	13,496,275	9,281,313	6,356,923	6,425,200	
		Internal Model Approach		0	0	0	0	0	0	
Total Risk-weighted Assets				145,158,982	165,952,850	210,513,694	217,720,435	209,653,910	203,028,773	
Capital Adequacy Ratio				10.29%	12.40%	8.87%	9.47%	8.85%	8.62%	
Ratio of tier 1 capital to risk-weighted assets				10.09%	9.87%	6.27%	6.40%	4.74%	5.00%	
Ratio of tier 2 capital to risk-weighted assets				0.21%	2.53%	2.60%	3.07%	4.11%	3.62%	
Ratio of tier 3 capital to risk-weighted assets				0	0	0	0	0	0	
Ratio of common stocks to total assets				7.28%	6.14%	5.55%	5.06%	5.35%	5.29%	

Please explain the reasons for changes (if any) in the capital adequacy ratios for the past two years except for changes under 20%

Notes:

- All financial ratios have been audited by independent auditors except those for Quarter 1, 2008.
- The ratios are computed as follows:

- (1) Core equity= Tier 1 capital + tier 2 capital + tier 3 capital
 - (2) Total risk-weighted assets= Credit risk weighted assets + (operational risk + market risk) capital appropriation* 12.5.
 - (3) Capital adequacy ratio= Regulatory capital/Total risk-weighted assets.
 - (4) Ratio of tier 1 capital to risk-weighted assets = Tier 1 capital/Total risk-weighted assets.
 - (5) Ratio of tier 2 capital to risk-weighted assets = Tier 2 capital/Total risk-weighted assets.
 - (6) Ratio of tier 3 capital to risk-weighted assets = Tier 3 capital/Total risk-weighted assets.
 - (7) Common Stock to A Total Assets Ratio= Common Stock/Total Assets.
3. The Basel I standards are applicable during the period from 2002 to 2006, and the ratios are computed as follows:
- (1) 50% of the Basel I capital deduction items are accounted for as deduction items under Tier 1 Capital deduction items and the remaining 50% are accounted for as deduction items under Tier 2 Capital.
 - (2) Basel I Credit Risk Requirement- listed as the capital requirement to cover credit risk under the “standardized approach”.

Capital Adequacy (Consolidated)

			In NT\$ thousand						
Item			Year	2003	2004	2005	2006	2007	
Regulatory Capital	Tier 1 Capital	Common Stock		14,889,264	14,889,264	18,253,942	18,257,379	25,358,882	
		Irredeemable non-cumulative preferred stock		0	0	0	0	0	
		Non-cumulative subordinate debentures with no maturity date		0	0	0	0	0	
		Capital collected in advance		0	306,000	0	20,600	0	
		Capital Surplus (excl. fixed asset revaluation increment surplus)		39,016	33,811	63,733	60,296	33,811	
		Legal Reserve		504,806	901,090	1,380,978	16,067	107,812	
		Special Reserve		75,049	999,713	2,119,450	26,584	240,655	
		Cumulative Profit/Loss		1,328,471	1,609,533	-3,446,896	305,814	-5,046,039	
		Minority Shareholding		1,928,544	2,083,463	2,113,161	0	0	
		Other Shareholders' Equity		35,239	1,243	-26,584	43,820	-173,382	
		Less: Goodwill		-7,613	5,466	2,757,500	2,757,500	2,574,217	
		Less: Unamortized loss on sale of delinquent loans		0	0	0	0	0	
		Less: Deduction items		982,720	1,037,620	836,976	960,842	2,289,832	
		Total Tier 1 Capital			17,810,056	19,781,031	16,863,308	15,012,218	15,657,690
	Tier 2 Capital	Irredeemable Cumulative Preferred Stock		0	0	0	0	4,000,000	
		Cumulative subordinate debentures with no maturity date		0	0	0	0	0	
		Fixed asset revaluation increment surplus		0	0	0	0	0	
		45% of unrealized gain on financial assets available for sale		0	0	0	12,552	12,485	
		Convertible bonds		0	0	0	0	0	
		Operating reserve and allowance for bad debts		504,278	437,868	320,575	803,520	878,547	
		Long-term subordinate debentures		2,100,000	6,400,000	7,434,300	7,602,934	5,706,667	
		Redeemable preferred stocks		0	0	0	0	0	
		The sum of irredeemable non-cumulative preferred stocks and non-cumulative subordinate debentures with no maturity in excess of 15% of total Tier 1 Capital		0	0	0	0	0	
		Less: Deduction items		838,569	1,037,619	836,976	893,817	2,289,832	
		Total Tier 2 Capital			1,765,709	5,800,249	6,917,900	7,525,189	8,307,867
		Tier 3 Capital	Short-term subordinate debentures		0	0	0	0	0
			Redeemable preferred stock		0	0	0	0	0
		Total Tier 3 Capital			0	0	0	0	0
Regulatory Capital				19,575,765	25,581,280	23,781,208	22,537,407	23,965,557	
Risk-weighted Assets	Credit Risk	Standardized Approach		150,461,977	178,839,212	215,021,523	223,100,007	194,310,086	
		Internal Ratings-Based Approach		0	0	0	0	0	
	Operational Risk	Asset Securitization		0	0	0	0	7,248,829	
		Basic Indicator Approach		0	0	0	0	16,606,550	
		Standardized Approach/ Alternative Standardized Approach		0	0	0	0	0	
	Market Risk	Advanced Measurement Approach		0	0	0	0	0	
		Standardized Approach		15,964,817	26,104,063	30,360,513	19,417,625	15,461,962	
		Internal Model Approach		0	0	0	0	0	
Total Risk-weighted Assets				166,426,794	204,943,275	245,383,036	242,517,632	233,627,426	
Capital Adequacy Ratio				11.76%	12.48%	9.69%	9.29%	10.26%	
Tier 1 Capital/Risk Assets				10.70%	9.65%	6.87%	6.19%	6.70%	
Tier 2 Capital/Risk Assets				1.06%	2.83%	2.82%	3.10%	3.56%	
Tier 3 Capital/Risk Assets				0	0	0	0	0	
Common Stocks/Total Assets				8.95%	7.27%	7.27%	7.53%	5.06%	

Please explain the reasons for changes (if any) in the capital adequacy ratios for the past two years except for changes under 20%

Notes:

1. All financial ratios have been audited by independent auditors except those for Quarter 1, 2008 which were unaudited figures.
2. The ratios are computed as follows:
 - (1) Regulatory capital = Tier 1 Capital + Tier 2 Capital + Tier 3 Capital
 - (2) Total risk-weighted assets = Credit risk weighted assets + (operational risk + market risk) capital appropriation $\times 12.5$.
 - (3) Capital adequacy ratio = Regulatory capital / Total risk-weighted assets.
 - (4) Tier 1 Capital to Risk Assets Ratio = Tier 1 Capital / Total risk-weighted assets.
 - (5) Tier 2 Capital to Risk Assets Ratio = Tier 2 Capital / Total risk-weighted assets.
 - (6) Tier 3 Capital to Risk Assets Ratio = Tier 3 Capital / Total risk-weighted assets.
 - (7) Common Stock to A Total Assets Ratio = Common Stock / Total Assets.
3. The Basel I standards are applicable during the period from 2002 to 2006. The ratios are computed as follows:
 - (1) 50% of the Basel I capital deduction items are accounted for as deduction items under Tier 1 Capital deduction items and the remaining 50% are accounted for as deduction items under Tier 2 Capital.
 - (2) Basel I Credit Risk Requirement- listed as the capital requirement to cover credit risk under the "standardized approach".

3. Supervisors' Report for the 2007 Financial Statements

Union Bank of Taiwan Co., Ltd.
Supervisors' Report

The Bank's Financial Statements and Consolidated Financial Statements for 2007, including Balance Sheets, Statements of Income and Changes in Shareholders' Equity, which have been audited by Deloitte & Touche, have been prepared and submitted by the Board of Directors to us. The above mentioned reports have been examined and determined to be correct and accurate by the undersigned, the supervisors of Union Bank of Taiwan. We hereby submit this report according to Article 219 of the Company Law.

Resident Supervisor: *Yu-Quan Development Co., Ltd.*
Representative: *Yu-Quan Lee*

Supervisor: *Pao-Hsing Investment Co., Ltd.*
Representative: *Zhen-Lu Lin*

Supervisor: *Ming-Hsing Ho*

March 19, 2008

4. Financial Statements for 2007: Please Refer to Appendix 1.
5. Financial Difficulties Experienced by the Bank and Its Affiliated Enterprises in the Past Year and Current Year up to the Printing Date of the Annual Report: None

Analysis of the Financial Status and Operating Results & Risk Management

Analysis of the Financial Status and Operating Results & Risk Management

I. Financial Status

in NT\$ thousand	Dec. 31, 2007	Dec. 31, 2006	Difference	
			Amount	%
Cash & cash equivalent, Due from Central Bank and Interbank Call Loan	\$28,052,923	\$40,128,185	(\$12,075,262)	(30)
Financial assets at fair value through profit or loss	7,746,462	4,873,587	2,872,875	59
Securities purchased under re-sale agreements	5,863,732	3,820,626	2,043,106	53
Financial assets available for sale	3,439,568	5,997,931	(2,558,363)	(43)
Discount & loans	205,523,586	207,070,571	(1,546,985)	(1)
Accounts Receivable	28,967,953	36,748,767	(7,780,814)	(21)
Held-to-maturity investment	48,559,541	30,096,773	18,462,678	61
Stock investments accounted for under the Equity Method	2,946,398	2,837,358	109,040	4
Property & equipment	8,618,058	8,761,361	(143,303)	(2)
Intangibles	2,574,217	2,757,500	(183,283)	(7)
Other Financial Assets	4,757,711	6,075,325	(1,317,614)	(22)
Other Assets	11,478,015	12,201,452	(723,437)	(6)
Total Assets	358,528,164	361,369,436	(2,841,272)	(1)
Call loans & due to banks	27,086,819	31,817,010	(4,730,191)	(15)
Deposits & Remittance	263,954,435	275,747,909	(11,793,474)	(4)
Financial liabilities at fair value through profit or loss	61,326	34,457	26,869	78
Securities sold under re-purchase agreements	32,865,259	11,904,491	20,960,768	176
Borrowing from Central Bank and Other Banks & Financial Bills Payable	4,776,100	7,111,454	(2,335,354)	(33)
Preferred Stock Liabilities	10,526,400	15,083,700	(4,557,300)	(30)
Pension Fund Liabilities	327,200	-	327,200	-
Other Financial Liabilities	254,580	318,597	(64,017)	(20)
Other Liabilities	578,133	668,395	(90,262)	(14)
Total Liabilities	340,430,252	342,686,013	(2,255,761)	(1)
Capital	22,861,044	18,277,979	4,583,065	25
Capital Surplus	33,811	60,296	(26,485)	(44)
Retained Earnings	(4,697,572)	348,465	(5,046,037)	(1,448)
Unrealized Loss on Financial Assets	(124,678)	(39,132)	(85,546)	(219)
Cumulative translation adjustments	39,243	43,820	(4,577)	(10)
Shareholders' Equity- Other	(13,936)	(8,005)	(5,931)	(74)
Total Shareholders' Equity	18,097,912	18,683,423	(585,511)	(3)

Notes:

- The decrease in cash and cash equivalents, nostro accounts and call loans to banks is a result of the decrease in time deposits of the Central Bank and call loans to banks.
- The increase/decrease in financial assets (liabilities) at fair value through income statement, financial assets in available-for-sale, financial assets held to maturity and other financial assets (liabilities) is a result of disposal of financial products and increase in trading volume of derivative financial products in the current year.
- The increase in RS (RP) bills and bonds investment is a result of the adjustment in capital.
- The decrease in receivable accounts is a result of the decrease in credit card debts.
- The decrease in payable financial bonds is a result of the repayment of 2nd priority bonds issued in 2002 made in the current year.
- The decrease in payable accounts is a result of the decrease in payable instrument to be exchanged.
- The increase in capital stock is a result of the preferential stock issued in the current year.
- The decrease in capital surplus is a result of the write-off of capital stock premium.
- The decrease in retained earnings is a result of the disposal of NPL in 2006, provision of loss in the current year and increase in allowance for bad debts.
- The decrease in other titles under shareholders' equity is a result of the increase in pension fund.

Analysis of the Financial Status and Operating Results & Risk Management

2. Results of Operation

in NT\$ thousand	2007	2006	Change Amount	%
Interest Income	\$7,256,304	\$9,095,588	(\$1,839,284)	(20)
Income other than Interest Income	682,513	1,687,535	(1,005,022)	(60)
Bad debt expense	8,404,095	4,104,184	4,299,911	105
Operating expense	5,993,462	6,332,613	(339,151)	(5)
Wages & salaries	2,573,336	2,565,208	8,128	1
Depreciation & amortization expense	477,853	456,513	21,340	5
Other business & administrative expense	2,942,273	3,310,892	(368,619)	(11)
Income (loss) before tax	(6,458,740)	346,326	(6,805,066)	(1,965)
Income tax benefits (expense)	1,516,382	(49,790)	1,566,172	3,146
Income before cumulative effects of changes in accounting principles	(4,942,358)	296,536	(5,238,894)	(1,767)
Cumulative effects of changes in accounting principles (net of income tax expense totaling \$ 1,488 thousand)	-	9,278	(9,278)	(100)
Net Income (Loss)	(4,942,358)	\$305,814	(\$5,248,172)	(1,716)

Notes of change:

1. The decrease in net interest income is a result of the increase in deposit interest due to decrease in revolving credit card interest and increase in the interest rate resulting from the credit card and cash card crisis in the current year.
2. The decrease in net income other than net interest income is a result of disposal of NPL in 2006 and provision of loss in the current year.
3. The increase in bad debt expenses is a result of the increase in allowance for bad debts resulting from the credit card and cash card crisis.
4. The decrease in the income before tax and net income is a result of the increase in recognized NPL loss and allowance for bad debts.

3. Cash Flow

(1) Cash Flow Analysis for the Past Two Years

	2007	2006	Change (%)
Cash flow ratio (%)	2.16	32.87	(30.71)
Cash flow adequacy ratio (%)	12.49	56.79	(44.30)
Cash reinvestment ratio (%)	-	-	-

Analysis of changes in proportion:

1. The decrease in the cash flow ratio is a result of the decrease in net cash inflow from operating activities due to the increase in financial assets for trading and decrease in the collectability of receivable accounts.
2. The decrease in net cash flow adequacy rate is a result of the decrease in cash inflow from operating activities over the capital expenditure in the current year.

(2) Liquidity Analysis for the Next Year

Opening balance of cash (1)	Expected cash inflows (outflows) from operating activities (2)	Total expected cash inflows (outflows) (3)	Expected cash surplus (deficit) (1)+ (2)+ (3)	Implementation for cash deficiency	
				Investment Plan	Financing Plan
5,501,501	(3,400,199)	2,479,937	4,581,239	-	-

1. Cash flow analysis:
 - (1) Operating activities: The increase was due to business growth and increases in operating revenue and profitability.
 - (2) Investing activities: To meet the business demand of growth in loans.
 - (3) Financing activities: To meet the business demand of growth in loans, expansion of deposits and capital increase.
2. Measures to finance cash deficiency and liquidity analysis: None.

4. The Impact of Major Capital Expenditure During 2007 on the Bank's Financial and Business Operations

Analysis of the Financial Status and Operating Results & Risk Management

Major Capital Expenditures in Recent Years:

In NT\$ thousand									
Project	Sources of Funding	Date of Completion	Total Funding	Utilization of Actual or Estimated Source of Funding					
	Actual or Estimated		Required	2005	2006	2007	2008	2009	2010
Office equipment	Self-funding	December 2008	\$970,508	\$375,971	\$150,926	\$154,374	\$289,237	\$ -	\$ -
Transportation equipment			189,866	44,760	107,591	13,865	23,650	-	-
Other equipment			229,866	192,414	8,272	10,686	18,494	-	-
Land			5,139,937	4,946,487	116,605	76,845	-	-	-
Building & improvements			4,362,569	3,992,535	9,075	-	360,959	-	-
Expected Benefits from Capital Expenditures:									
1. Expected increase in operating revenue, operating expense and operating income: acquisition of office equipment and upgrade of major computer systems in line with business expansion.									
2. Other expected benefits: None.									

5. Reinvestment Policy, the Main Reasons for Profit or Loss, and Corrective Action Plan in 2007, and Investment Plan for the Next Year:
 - (1) For the time being, businesses reinvested by the Bank covers the various financial segments, such as bills, leases, securities investment trust and insurance agent, which help the entire enterprise's operation positively and satisfy customers' diversified needs to upgrade the quality of our service as well. Besides, the Bank does review all the financial conditions and business development of its reinvested enterprises periodically and would adjust those businesses in a timely manner to control the performance of its investments.
 - (2) Considering that the competent authority has approved trust businesses to apply for running securities investment consultation business concurrently, and in order to save expenses and return the capital to the Bank for more effective utilization, the Bank has liquidated Union Securities Investment Management Co., Ltd. on June 1, 2007. Union Securities Investment Trust Co., Ltd., 35% of shares of which were held by the Bank, performed the capital reduction in the mid-term in December 2007 to make up loss and increased capital in cash after its business was restricted because the net value of the recognized loss upon disposal of structured debts was less than the book value. As a major member of MasterCard, the Bank has received allocated stock without consideration and fixed stock dividend revenue in the past years; therefore, the Bank's operating income was increased. The Bank disposed of the stock in September 2007 and received the gain totaling NT\$26,710,000. The gain on investment recognized by the Bank under the equity method in 2007 was NT\$169,240,000.
 - (3) The Bank has no new reinvestment plans in the next year.
6. Risk Management
 - (1) Qualitative and Quantitative Information About the Various Risks:

Analysis of the Financial Status and Operating Results & Risk Management

A. Credit Risk Management System and Capital Requirement of 2007:

Item	Contents
1. Credit risk strategies, objectives, policies and procedures	<p>Strategies: The Bank has enacted the "Credit Risk Management Guidelines of Union Bank of Taiwan", which serves to be the basis for the Bank's relevant units to plan, promote, manage and execute credit risk management.</p> <p>Objectives: The short-term objective is based on the Standard Method to establish the internal control mechanism. The mid-term and long-term objectives aim at establishing the Bank's internal assessment model and the assessment result will be the important reference for the Bank's credit investigation and extension operations and internal control.</p> <p>Policies: Maintain adequate capital and create maximum rewards within the tolerable scope.</p> <p>Procedure: The procedure for risk identification, measuring, communication and supervision and management.</p>
2. Credit risk management organization and structure:	<p>1. Board of Directors, the supreme body of the Bank's risk management policy, shall be responsible for supervising the resolutions made by Assets & Liabilities Management Committee and ensuring the establishment and maintenance of valid risk management policies.</p> <p>2. Assets & Liabilities Management Committee, the supreme review body of the Bank's risk management policy, shall be responsible for reviewing the important matters defined by the Bank and risk taskforces.</p> <p>3. Credit Risk Taskforce shall be charged by the Corporate Loans Policy & Administration Dept. and responsible for calling the credit extension units related to credit risk together to plan the Bank's credit risk management system and promotion and execution thereof.</p> <p>4. Execution unit: All branches shall be the execution units working with the Credit Risk Taskforce to implement the Bank's credit risk management.</p>
3. Scope and characteristics of credit risk report and measuring system	<p>Risk report and measuring system: The Bank follows up and reports the NPL and collection in the various credit extension businesses on a monthly basis, and establishes the capital requirement system under the credit risk standard method to control the Bank's risk periodically. Further, the Bank may output an official statement monthly providing information by types of businesses and the analysis information by types of branches and customers for the credit extension business.</p> <p>Scope of risk report: 1. The Credit Risk Taskforce will report to Assets & Liabilities Management Committee the balance, NPL and collection of the credit extension business and layout of the risk-based assets periodically. 2. The unit dedicated to risk control will report to the Board the execution of risk control measures against the various businesses.</p>
4. Credit risk hedging or reduction policies, and effective strategies and procedures for controlling risk hedging and reduction tools	<p>The Bank will take appropriate action to avoid, reduce/ transfer, lower and bear the potential loss in the credit risk to be encountered by the various businesses subject to the nature of business and cost effects. The Bank's information system provides the relevant information to the management level to conduct the risk control procedure, and then the unit dedicated to risk control will report to the Board the various risk controls periodically.</p>
5. Approach to require the authorized capital	Standard Method

As of March 31, 2008		In NT\$ thousand	
Type of exposure	Balance after risk reduction	Capital requirement	
Sovereign states	0	0	
Public departments other than the central government	176,302	14,104	
Banks (including multiple development banks)	3,960,415	316,833	
Enterprises (including securities and insurance companies)	44,977,209	3,598,177	
Retailing credits	60,141,254	4,811,300	
Residential real property	46,467,344	3,717,388	
Investments in equity securities	818,446	65,476	
Other assets	17,600,813	1,408,065	
Total	174,141,783	13,931,343	

Analysis of the Financial Status and Operating Results & Risk Management

B. Risk Management System, Exposure and Capital Requirement of Asset Securitization of 2007:

Item	Contents
1. Asset securitization management strategy and procedure	Strategy: For the time being, the Bank's securitization strategy is intended to prevent the Bank from being a founding bank of any securitized products other than an investor. The underlying assets of investments are also focused on the highest grade beneficiary securities. Procedure: Upon assessment of the characteristics, credit ratings, rewards and risks of products prior to the investment, report it to the Board of Managing Directors and review the external rating of the investments periodically upon the investment.
2. Asset securitization management organization and framework	The Bank does not act as a founding bank of any securitized products. The positions invested are evaluated and reviewed by the investing unit and the Bank's risk management unit periodically.
3. Scope and characteristics of asset securitization risk report and measuring system	The beneficiary securities dominated in NTD are focused primarily on ABCP of Land Bank of Taiwan and Taishin Int'l Com'l Bank. The Bank will supervise and control the credit ratings of beneficiary securities and asset pools. In addition to observe the economy, inflation and market interest rate with respect to the CMO secured by the U.S. Government to decide whether it is necessary to engage in interest rate hedging, the Bank, meanwhile, will also evaluate and assess the risk periodically, and make presentation before Assets & Liabilities Management Committee on a monthly basis, and submit the risk report to the Board semiannually.
4. Asset securitization hedging or risk reduction policies, and effective strategies and procedures for controlling risk hedging and reduction tools	The relevant units shall review and control the securitized products invested by them periodically.
5. Approach to require the authorized capital	Standard Method

As of March 31, 2008

Type	Total issue amount	Outstanding balance	Balance of repurchase
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As of March 31, 2008

In NT\$ thousand

Type of exposure	Non-founding bank		Founding bank						Capital requirement prior to securitization
	Purchased or held securitized exposures	Capital requirement	Exposure						
			Non-asset-based promissory note				Asset-based promissory note		
			Conventional		Portfolio				
			With position	Without position	With position	Without position			
House loans	20,599,741	329,596							
Asset-based promissory note	100,594	4,024							
Beneficiary securities	2,434,626	194,770							
Total	23,134,961	528,390							

Analysis of the Financial Status and Operating Results & Risk Management

C. Operation Risk Management System and Capital Requirement of 2007:

Item	Contents
1. Operation risk management strategy and procedure	<p>Operation risk management procedure:</p> <ol style="list-style-type: none"> 1. Risk identification: Define 7 operation risk scenarios, including fraud and corruption, procedure risk, safety control failure, system risk, violation of laws, force majeure and customer's dispute etc. 2. Risk assessment: For the time being, the Bank uses "internal control self-assessment" as the tool to assess operation risk. The Bank will apply the "operation risk self-assessment form" and "operation risk indicator" to measure the frequency and effect of operation risk. 3. Risk measuring: The Bank currently applies the Basic Index Method as the basis for capital requirement of operation risk, and will apply the Standard Method in the near future. 4. Risk report: The relevant units and management will be notified pursuant to the Bank's "Main Points for Collection of Information on Operation Risk Loss".
2. Operation risk management organization and structure:	<ol style="list-style-type: none"> 1. Board of Directors, the supreme decision-making body of the Bank's risk management policy, shall be responsible for supervising the resolutions made by Assets & Liabilities Management Committee and ensuring the establishment and maintenance of valid risk management policies. 2. Assets & Liabilities Management Committee, the supreme review body of the Bank's risk management policy, shall be responsible for reviewing the important matters defined by the Bank and risk taskforces. 3. Operation risk taskforce: It shall be charged by the Business Planning & Administration Dept., which shall be responsible for calling the management units of Head Office related to operation risk together to plan the Bank's operation risk management system and execution thereof. The management units of HO shall expressly define the operation risk management procedure in the business processing manual and relevant requirements. 4. Business execution unit: All departments and branches shall be the business execution units, namely the units generating risk. The execution units shall perform their job responsibly pursuant to the Bank's business processing manual and relevant requirements, and identify and control the operation risk in the process of executing the business to ensure the safety of business and accuracy of operation.
3. Scope and characteristics of operation risk report and measuring system	<p>The business execution units shall complete the event report form with respect to the business charged by them before the end of January and July per year. The form shall be submitted to Risk management division of Business Planning & Administration Dept. upon being sealed and signed by the heads of business execution units. The Risk Management Div. shall summarize the operation risk report (containing important events, effect, follow-up corrective actions or risk transfer methods) and report the summarization in the (managing directors') directors' meeting in following month.</p>
4. Operation risk hedging or reduction policies, and effective strategies and procedures for controlling risk hedging and reduction tools	<p>The Bank's operation risk hedging or reduction is handled in the following 3 manners:</p> <ol style="list-style-type: none"> 1. Outsourcing operation: First assess the business professional in nature and with the higher risk, and apply the outsourcing operation to commission the business to some professional organization if the assessment result shows that the Bank's cannot conduct the business independently 2. Insurance: Assess the risk that might lead to more loss, and transfer the loss upon to the insurance company able to bear the risk by enrollment in some insurance program insofar as it is permitted under the circumstances (namely, the insurance company is willing to underwrite the insurance proposal). 3. Urgent response actions: meanwhile, such risk transfer mechanism as certain backup and urgent response actions have been planned to cope with the potential risks for failure in the information system, equipment and software/hardware devices. <p>Additionally, the operation manual for core products and internal official letters do take the operation risk into consideration and contain the applicable response actions, and the operation risk response actions may be enhanced through the external and internal audit.</p>
5. Approach to require the authorized capital	Basic Index Method

As of March 31, 2008		In NT\$ thousand
Year	Gross profit	Capital requirement
2005	6,380,259	
2006	10,567,540	
2007	8,363,627	
Total	25,311,426	1,265,571

Analysis of the Financial Status and Operating Results & Risk Management

D. Market Risk Management System and Capital Requirement of 2007:

Item	Contents
1. Market risk management strategy and procedure	<p>The Bank's market risk management procedure consists of four steps including risk identification, risk measurement, risk supervision and control and risk report.</p> <ol style="list-style-type: none"> 1. Risk identification: To identify the market risk and document it to help the follow-up operation 2. Risk measurement: The transaction generation units and risk control units shall research the risk measuring projects applicable to the Bank, and establish the risk measuring mechanism. For the time being, the market measurement is based on the market evaluation. 3. Risk control and management: The Bank's Risk Management Div. shall summarize the risks generated by the market risk units of the Bank, conduct the supervision and control pursuant to the risk management standard operation procedure, and define the procedure to dispose of excess and exceptional circumstances. 4. Risk report: It means the installation of reporting system. The risk management unit shall analyze the information periodically and submit it to competent high-ranking management staff, and disclose the risk in proper meetings periodically.
2. Market risk management organization and structure:	<ol style="list-style-type: none"> 1. Board of Directors: The Board is the supreme decision-making body of the Bank's risk management policy and shall be responsible for supervising the resolutions made by Assets & Liabilities Management Committee and ensuring the establishment and maintenance of valid risk management policies. 2. Assets & Liabilities Management Committee: The Commission is the supreme review body of the Bank's risk management policy and shall be responsible for reviewing the important matters defined by the Bank and risk taskforces. 3. Market risk taskforce: The Bank's operation risk taskforce shall be charged by the Treasury Dept., which shall be responsible for calling the investment, financial trading and financial dispatching units related to market risk together to plan the Bank's market risk management system and promotion and execution thereof. 4. Execution unit: Said investment, financial trading and financial dispatching units which potentially generate market risk shall be the execution units. The risk management unit (now Risk Management Division) of the Bank shall be the final authority to be reported the market risk.
3. Scope and characteristics of market risk report and measuring system	<ol style="list-style-type: none"> 1. Market risk management system: The risk measuring in the market risk management system integrates with the internal authorization transaction limit. The risk management unit shall control the investment income periodically. 2. The market risk management system may produce the sufficient information to help the management levels execute the individual risk control missions, and support the capital requirement approach selected by the Bank and produce the relevant internal and external statements as the basis for decision making.
4. Market risk hedging or reduction policies, and effective strategies and procedures for controlling risk hedging and reduction tools	<p>The Bank's market risk hedging and reduction is conducted in the following manners:</p> <ol style="list-style-type: none"> 1. Hedging 2. Investment portfolio adjustment 3. Position allocation 4. Stop loss and close
5. Approach to require the authorized capital	Standard Method

As of March 31, 2008		In NT\$ thousand
Type of risk	Capital requirement	
Interest rate risk		70,520
Equity securities risk		351,475
Foreign exchange risk		92,021
Product risk		0
Total		514,016

E. Liquidity Risk Including the Analysis of Maturities of Assets and Liabilities, and Also Specify the Approach to Manage the Liquidity of Assets and Maturity Gap:

Analysis of the Financial Status and Operating Results & Risk Management

a. New Taiwan Dollar

In NT\$ thousand; as of December 31, 2007

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

Note: The above amounts included only New Taiwan Dollars amounts held in the onshore branches of the Bank.

b. Foreign Currency

In US\$ thousand; as of December 31, 2007

Item	Total	The amount of remaining period to maturity				
		1~30 days	31~90 days	91~180 days	181 days ~1 year	Over 1 year
Assets	2,240,020	634,712	72,376	28,572	5,859	1,498,501
Liabilities	2,240,021	1,118,923	351,511	357,151	376,973	35,463
Gap	-1	-484,211	-279,135	-328,579	-371,114	1,463,038
Accumulated Gap	-1	-484,211	-763,346	-1,091,925	-1,463,039	-1

Note: The above Table includes foreign currency (all in USD) assets and liabilities for the Head Office and domestic and offshore offices and branches.

c. Approach to Manage Assets and Liabilities

- I. The Bank's assets and liabilities management mechanism applies the asset and liability interest rate sensitivity and gap analysis for the purpose of control. For the time being, the Bank established the Assets & Liabilities Management Committee to provide guidance, policy instruction and interest rate gap management. Therefore, the Committee will control the change of interest rate and gap position solely, and will also call the management meeting at any time subject to the market needs to conduct the overall review.
 - II. For the NTD and foreign currency interest risk control, the Bank has established the well-founded trading and fund management system to control the daily update in deposits and loans of the Bank, cost and balance of the deposits of the various terms and types, floating and fixed interest rate deposit and loan analysis, interest rate sensitivity assets and liabilities analysis and interest spread analysis. The Bank also utilizes the interest rate adjustment simulation and analysis system, enact the interest rate adjustment strategies, report it to Assets & Liabilities Management Committee for approval, or call the top management's meetings to adjust the interest rate from time to time.
 - III. For foreign exchange risk, the Bank has designed independent and related procedures and steps for transaction and settlement, and also applied the position control, individual trader position control and stop-loss control etc.
 - IV. For liquidity risk, the Bank will strictly supervise and control the Bank's cash on hand and cash flow every day, and also has established the mechanism to forecast, measure, calculate and early warn the future needs of funding and change to realize current assets to meet the needs.
- (2) Domestic and Global Changes in Government Policies and Legal Environment, and the Effect on the Financial and Operational Status of the Bank, and Response Actions thereof:
- A. The Consumer Debt Clearance Regulations has been enforced as of April 2008, which produces the following effects to the Bank's financial business: a) increase in NPL rate and amount; b) decrease in collected debts and increase in lending risk; c) increase in allowance for bad debts.
 - B. The Bank's response actions:
 - a. Provide the repayment in installment projects to urge customers to repay the debts and prevent them from suffering the debt clearance procedure.
 - b. Perform the provisional seizure on NPL customers actively, or demand the mortgage or pledge to protect the Bank's credit.
- (3) The Effect of Technological and Industrial Changes on the Financial Position and Operation of the Bank and Response Actions thereof:

Analysis of the Financial Status and Operating Results & Risk Management

The Internet has become the trend of the times. Following the wide application of the Internet and booming development of network resources, the network has become the main media for business activities. Enterprises are actively engaged in developing the e-commerce. Meanwhile, considering that e-commerce is booming and function and technology thereof is getting more and more well-founded, consumers' concern about the on-line transactions are being eliminated successively. The diversification of network advertisements, including the development of spreading sweet smell via network, might alter the consumers' purchase habits indirectly.

In order to cope with the transformation, the Bank is actively developing e-banking business, and not only installs the automated equipment but also develop and enhance the various functions to strengthen customers' willingness to use the service.

Cyber frauds and crimes have become rampant locally in the recent years. In order to maintain the safety of customers' use of the network services, the Bank applies the dynamic keyboards and invents the dynamic message code to integrate mobile phones with computer to make the on-line transactions safer.

(4) The Effect of the Change in the Corporate Identity of the Bank and Response Actions thereof:

The Bank adheres to the management philosophy signifying "passion", "stability", "efficiency" and "innovation". With the management philosophy, the Bank has outstanding performance in wealth management, credit card and consumer banking. In order to continue upgrading the market share of the wealth management business, the Bank not only establishes the wealth management flagship branch but also spares no efforts to expand the wealth management service locations throughout the nation, in hopes of providing the Bank's customers with more complete, considerate and omnibus financial service throughout the nation to expand the scale and performance of operation.

(5) Expected Result and Possible Risks of Mergers and Acquisitions and Response Actions thereof: None.

(6) Expected Result for Establishing More Business Locations, Possible Risk and Response Actions Thereof:

Expansion and layout of business locations will be helpful for the service to customers different in territory and nature. The timing of establishment and excellence of managers and recruited staff training programs will affect the performance of the locations significantly. The Bank designated the units dedicated to looking for appropriate locations, handling the decoration work and applying for establishment with the competent authority to help the business locations open within the shortest time. Meanwhile, the personnel unit will enhance the recruitment and training of talents to exert its effect.

(7) Risk in the Over Concentration of Business and Response Action thereof: None

(8) The Effect of Change in the Management of the Bank, Possible Risk and Response Action Thereof: None

(9) Legal Actions and Non-contentious Matters:

A. The Bank's pending legal actions or non-contentious matters are mostly related to credit extension business; however, they would not affect the normal operation of the Bank's finance and business.

B. The Bank and its affiliated enterprise, Union Bills Finance Co., Ltd., have reached settlement with Taipei National Tax Administration with respect to the administrative remedy case for the interest of previous bond owner in 2004, agreeing that Taipei National Tax Administration may recognize the tax refund based on 65% and 60% of the withholding tax paid by the previous owner in the past years, according to the negotiation result in the same trade.

(10) Other Major Risks and Response Actions thereof: None.

7. Contingency Plan

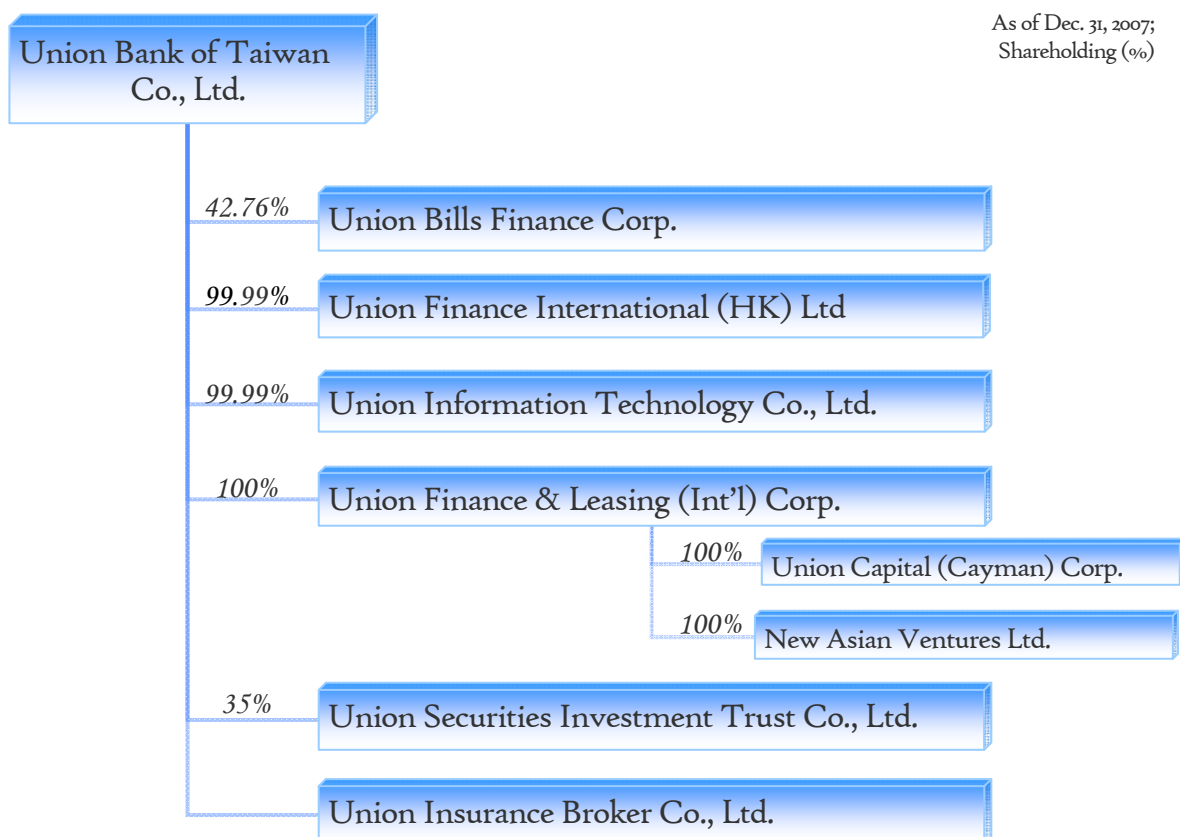
The Bank enacted the “Main Points for Urgent Response Action to Disasters of Union Bank of Taiwan” in accordance with the requirements defined by the competent authority, which contains (1) deliverables of urgent response action, (2) expedient measures for customers’ service, (3) information system security management and (4) simulation of the various crisis management modes and procedures, in order to well found the Bank’s disaster rescue system and enhance the disaster prevention measures, and to execute the disaster funding effectively, stabilize the life of victims of the disaster and expeditiously recover social and economic order.

The Bank has established the crisis management taskforce and urgent contact and report mechanism to execute the various disaster rescue measures effectively. The various business units shall perform the disaster education training programs and drills in accordance with the Bank’s “Instructions to Safety Protection” and “Safety Protection Drill Implementation Plan”, and shall also check and maintain the safety facilities for more than twice per year.

8. Other Important Matters: None

1. Information on Affiliated Enterprises

(1) Organization Chart



(2) General Information

Affiliate Enterprises	Director, Supervisor and President		Representative
Union Bills Finance Corp.	Chairman	Union Bank of Taiwan Co., Ltd.	Kuo-Chang Lee
	Director	Union Bank of Taiwan Co., Ltd.	Jeff Lin
		Union Bank of Taiwan Co., Ltd.	Yin-Bor Chan
		Union Bank of Taiwan Co., Ltd.	Hao-Sen Lee
		EnTie Commercial Bank Co., Ltd.	Lai-Fong Chen
		EnTie Commercial Bank Co., Ltd.	Chang-Ming Chen
	Managing Director	EnTie Commercial Bank Co., Ltd.	Ken-Teng Chang
	Independent Director	Shih-Song Cheng	
		Chien-Chen Tseng	
	Supervisor	Union Enterprise Construction Co., Ltd.	Zhen-Xong Jiang
Union Finance Int'l (HK) Ltd.	Resident Supervisor	Union Enterprise Construction Co., Ltd.	Peter Chien
		Yu-Pang Co., Ltd.	Herman Tu
	President	Min-Hsing Ho	
	Director	Union Bank of Taiwan Co.	Jeff Lin
		Union Bank of Taiwan Co.	Patrick Jean
	Director & President	Roger Wang	
		Shiang-Chang Lee	
		Amanda Lin	

Affiliate Enterprises	Director, Supervisor and President		Representative
Union Information Technology Co., Ltd.	Chairman	Union Bank of Taiwan Co., Ltd.	Qin-Ming Huang
	Director	Union Bank of Taiwan Co., Ltd.	Hao-Sen Lee
		Union Bank of Taiwan Co., Ltd.	Luke Yang
	Supervisor	Union Bank of Taiwan Co., Ltd.	Celia Chu
	President	Qin-Ming Huang	
Union Finance & Leasing (Int'l) Corp.	Chairman	Union Bank of Taiwan Co., Ltd.	Cheng-Juh Hsieh
	Director	Union Bank of Taiwan Co., Ltd.	Hao-Sen Lee
		Union Bank of Taiwan Co., Ltd.	Herman Tu
	Supervisor	Union Bank of Taiwan Co., Ltd.	Yin-Bor Chan
	President	Cheng-Juh Hsieh	
Union Securities Investment Trust Co., Ltd.	Chairman	Kun-Che Investment Co., Ltd.	Cheng-Juh Hsieh
	Director	Kun-Che Investment Co., Ltd.	Chi-Hao Yuei
		Kun-Che Investment Co., Ltd.	Hsiao-Yi Tsai
		Kun-Che Investment Co., Ltd.	Wen-Min Lee
		Goldsun Computer Communication Co., Ltd.	Kuo-Hwa Lee
	Supervisor	Kun-Che Investment Co., Ltd.	Chaio-Chuan Tsai
		Kun-Che Investment Co., Ltd.	Chih-Nan Tai
Union Insurance Broker Co., Ltd.	Acting President	Kuo-An Tsai	
	Chairman	Union Bank of Taiwan Co., Ltd.	Chun-Hsien Chang
	Director	Union Bank of Taiwan Co., Ltd.	Celia Chu
		Union Bank of Taiwan Co., Ltd.	Sophie Hsu
	Supervisor	Union Bank of Taiwan Co., Ltd.	Kuo-Shian Shia
Union Capital (Cayman) Corp.	President	Chun-Hsien Chang	Chih-Nan Tai
	Director	Union Finance & Leasing (Int'l) Co., Ltd.	Shiang-Chang Lee
		Union Finance & Leasing (Int'l) Co., Ltd.	Cheng-Juh Hsieh
New Asian Ventures Ltd.	Director	Union Finance & Leasing (Int'l) Co., Ltd.	Cheng-Juh Hsieh

(3) Operation Highlights (in NT\$ thousand):

Affiliate Enterprises	Capital	Total Assets	Total Liabilities	Net Worth	Operating		Net Income (Loss) (After Tax)	EPS (NT\$)
					Income	Profit		
Union Bills Finance Corp.	2,960,000	22,265,677	19,184,006	3,081,671	483,228	(29,095)	(83,816)	(0.28)
Union Finance Int'l (HK) Ltd. ^{note1}	106,589	460,176	327,767	132,409	48,413	20,341	21,295	0.17
Union Info. Technology Co., Ltd.	50,000	172,551	72,458	100,093	330,250	44,851	33,471	6.69
Union Finance & Leasing (Int'l) Corp.	1,000,000	3,772,767	2,724,839	1,047,928	628,459	2,250	28,398	0.28
Union Securities Investment Trust Co., Ltd.	300,000	329,722	16,335	313,387	55,699	(9,698)	(38,304)	(1.28)
Union Insurance Broker Co., Ltd.	5,000	35,418	6,265	29,153	174,265	10,574	9,304	18.61
Union Capital (Cayman) Corp. ^{note2}	1,644	487,775	60	487,715	0	(133)	25,056	501.13
New Asian Ventures Ltd. ^{note2}	1	106,279	59	106,220	0	(115)	575	575,198.24

Notes:

1. At the end of 2007, 1HKD = NT\$ 4.1646, and the average exchange rate of 2007 was 1HKD = NT\$ 4.2036
2. At the end of 2007, 1USD = NT\$ 32.484, and the average exchange rate of 2007 was 1USD = NT\$ 32.7823

2. Status of Securities through Private Placement in the Most Recent Year and Until the Date of Publication of the Annual Report:

Information on securities through private placement

Item	Date	1 st private placement in 2007				
		Date of issuance: Sept. 26, 2007				
Type of security		Preferred Stock A				
Date of shareholders' or the boards' meeting		Total number of shares to be issued is approved on June 15, 2007.				
Basis and rationale of pricing		The Pricing Date was set as Sept. 7, 2007, and the price is set based on market condition and average closing price of Common Stocks within 1, 3 or 5 business days prior to the Date.				
Selection of specific persons		The chairman was authorized by the Article 43-6 of <i>Securities and Exchange Act</i> to seek the competent specific persons.				
Reasons for private placement		The capital increase in the form of private placement is conducted in order to prevent the existing shareholders' equity from being affected and in consideration of the efficiency, convenience and issuing cost for fund raising.				
Date of completion of payment		Sept. 26, 2007				
Subscribers		Chung-Li Investment Co., Ltd.	Cheng-Pang Construction Co., Ltd.	Hong-Peng Construction Co., Ltd.	Hong-Kou Construction Co., Ltd.	Lin Rung San Foundation of Culture & Social Welfare
Information		Comply with Paragraph 1.2 of Article 43-6 of Securities and Exchange Act				
Qualification						
No. of Shares Subscribed (in thousand)		163,000	83,000	59,000	65,000	30,000
In relation to the Bank		Major Shareholder				
Engage in the Bank's management		Director	N/A			
Actual subscription (conversion) price, reference price and the difference of prices		Actual subscription (conversion) and reference (conversion) prices are NT\$10/share and NT\$8.08/share, respectively, and the difference of the 2 prices is NT\$1.92/share.				
Effect on shareholders' equity caused by private placement (e.g. increase in accumulated loss)		None				
Utilization of raised fund and status of the Plan		To strengthen financial structure of the Bank and increase the capital adequacy ratios; the execution completed in 3 rd quarter of 2007.				
Significant effect of private placement		The capital adequacy ratio is expected to be increased by 2% upon private placement				

3. Shares Acquired or Disposed of by Subsidiaries: None.
4. Other Necessary Supplements: None.
5. Details of any event with material impact on shareholders' equity or the share price as defined in Item 2, Paragraph 2, Article 36 of the *Securities and Exchange Law*: None.

Head Office

3F, No.109, Sec. 3, Minsheng E. Rd.,
Taipei 105, Taiwan ROC
886-2-2718-0001

International Banking Department

2F, No.109, Sec. 3, Minsheng E. Rd.,
Taipei 105, Taiwan ROC
886-2-2718-0001

Offshore Banking Branch

2F, No.109, Sec. 3, Minsheng E. Rd.,
Taipei 105, Taiwan ROC
886-2-2718-0001

Trust Department

3F, No.137, Sec. 2, Nanjing E. Rd.,
Taipei 104, Taiwan ROC
886-2-2507-4066

Credit Card Group

5F, No.399, Rueiguang Rd.,
Taipei 114, Taiwan ROC
886-2-2545-5168

Domestic Branch Network

Taipei

Business Department

No.105, Sec. 1, Chengde Rd.,
Taipei 103, Taiwan ROC
886-2-2556-8500

East Taipei Branch

No.217, Sec. 5, Nanjing E. Rd.,
Taipei 105, Taiwan ROC
886-2-2753-0900

Hoping Branch

No.68-2, Sec. 3, Heping E. Rd.,
Taipei 106, Taiwan ROC
886-2-2735-2828

Breeze Center Mini Branch

2F., No.39, Sec. 1, Fusing S. Rd.,
Taipei 105, Taiwan ROC
886-2-8772-2858

Yongchun Branch

No.453, Sec. 5, Jhongsiao E. Rd.,
Taipei 110, Taiwan ROC
886-2-2748-0188

Tachin Branch

No.649, Mingshuei Rd.,
Taipei 104, Taiwan ROC
886-2-2532-3836

Panchiao Branch

No.226, Mincyuan Rd., Banciao City,
Taipei County 220, Taiwan ROC
886-2-2965-6600

Taipei Branch

No.109, Sec. 3, Minsheng E. Rd.,
Taipei 105, Taiwan ROC
886-2-2718-0001

Chunghsiao Branch

2F., No.5, Lane 223, Sec. 4, Jhongsiao E. Rd.,
Taipei 106, Taiwan ROC
886-2-2773-3456

Chungshan Mini Branch

No.83, Sec. 2, Jhongshan N. Rd.,
Taipei 104, Taiwan ROC
886-2-2571-7890

Tunhua Branch

No.209-1, Sec. 1, Dunhua S. Rd.,
Taipei 106, Taiwan ROC
886-2-8773-3588

Yungchi Branch

No.306, Yongji Rd.,
Taipei 110, Taiwan ROC
886-2-2748-0329

Shihtung Branch

No.1-1, Lane 91, Shihdong Rd.,
Taipei 111, Taiwan ROC
886-2-2875-6161

Houpu Branch

No.77, Chongcing Rd., Banciao City,
Taipei County 220, Taiwan ROC
886-2-2964-2777

Changchun Branch

No.328, Changchun Rd.,
Taipei 104, Taiwan ROC
886-2-2545-5588

Jenai Branch

No.401, Sec. 4, Ren-ai Rd.,
Taipei 106, Taiwan ROC
886-2-2781-3366

Kungkuan Branch

No.272, Sec. 3, Roosevelt Rd.,
Taipei 100, Taiwan ROC
886-2-2369-2678

Taan Branch

No.14, Sec. 2, Dunhua S. Rd.,
Taipei 106, Taiwan ROC
886-2-2704-9588

Neihu branch

No.399, Rueiguang Rd.,
Taipei 114, Taiwan ROC
886-2-2658-6121

Wenlin Mini Branch

No.758, Wenlin Rd.,
Taipei 111, Taiwan ROC
886-2-2835-1818

Sanchung Branch

No.10, Sec. 3, Chongsin Rd., Sanchong City,
Taipei County 241, Taiwan ROC
886-2-2977-7666

Nanking East Road Branch

No.137, Sec. 2, Nanjing E. Rd.,
Taipei 104, Taiwan ROC
886-2-2515-1333

Tungmen Branch

No.101, Sec. 2, Sinyi Rd.,
Taipei 100, Taiwan ROC
886-2-2358-2345

Sungchiang Branch

No.228, Songjiang Rd.,
Taipei 104, Taiwan ROC
886-2-2561-6601

Tonghua Mini Branch

No.74, Tonghua St.,
Taipei 106, Taiwan ROC
886-2-2739-5888

Hsihu Branch

No.88, Sec. 1, Neihu Rd.,
Taipei 114, Taiwan ROC
886-2-8797-1537

Beitou Branch

No.68, Sec. 1, Jhongyang N. Rd.,
Taipei 112, Taiwan ROC
886-2-2896-6333

North Sanchung Branch

No.245, Jhengyi N. Rd., Sanchong City,
Taipei County 241, Taiwan ROC
886-2-2982-6226

Tenshin Branch

No.16, Sec. 3, Jhongsiao Rd., Sanchong City,
Taipei County 241, Taiwan ROC
886-2-8982-1155

Chungho Branch

No.150, Jian 1st Rd., Jhonghe City,
Taipei County 235, Taiwan ROC
886-2-8226-5168

Hsintien Branch

No.100, Mincyuan Rd., Sindian City,
Taipei County 231, Taiwan ROC
886-2-2219-9989

Chungkung Mini Branch

No.308, Jhonggang Rd., Sinjhuang City,
Taipei County 242, Taiwan ROC
886-2-2276-9678

Luchou Branch

No.80, Jhongheng Rd., Lujhou City,
Taipei County 247, Taiwan ROC
886-2-2848-5577

North Chungho Mini Branch

No.122, Sec. 3, Jhongshan Rd., Jhonghe City,
Taipei County 235, Taiwan ROC
886-2-2221-9698

Ankang Branch

No.161, Sec. 2, Ankang Rd., Sindian City,
Taipei County 231, Taiwan ROC
886-2-2211-9088

Shulin Branch

No.275, Jhonghua Rd., Shulin City,
Taipei County 238, Taiwan ROC
886-2-8685-8939

Taoyuan & Hsinchu

Taoyuan Branch

No.332, Sianfu Rd., Taoyuan City,
Taoyuan County 330, Taiwan ROC
886-3-339-5300

North Chungli Branch

No.222, Yuanhua Rd., Jhongli City,
Taoyuan County 320, Taiwan ROC
886-3-426-1133

Dajhu Branch

No.43, Dasin Rd., Lujhu Township,
Taoyuan County 338, Taiwan ROC
886-3-313-4688

Hsinchu Branch

No.107, Jhongheng Rd.,
Hsinchu 300, Taiwan ROC
886-3-524-9966

North Taoyuan Branch

No.191, Yong-an Rd., Taoyuan City,
Taoyuan County 330, Taiwan ROC
886-3-339-6262

Neili Branch

No. 258, Sec. 1, Jhonghua Rd., Jhongli City,
Taoyuan County 320, Taiwan ROC
886-3-435-1288

Hueilong Branch

No.253, Sec. 1, Wanshou Rd., Gueishan Township,
Taoyuan County 333, Taiwan ROC
886-2-8209-0808

Shuanho Branch

No.222, Jhongheng Rd., Yonghe City,
Taipei County 234, Taiwan ROC
886-2-2945-9898

Hsinchung Branch

No.601, Sihyuan Rd., Sinjhuang City,
Taipei County 242, Taiwan ROC
886-2-8522-7799

Hsichih Branch

No.159, Sec. 1, Sintai 5th Rd., Sijhih City,
Taipei County 221, Taiwan ROC
886-2-8642-5289

Taoying Branch

No.343, Taoying Rd., Taoyuan City,
Taoyuan County 330, Taiwan ROC
886-3-377-9797

Chenshin Branch

No.95, Sec. 2, Longgang Rd., Jhongli City,
Taoyuan County 320, Taiwan ROC
886-3-428-0808

Lungtan Branch

No.245, Jhongheng Rd., Lungtan Township,
Taoyuan County 325, Taiwan ROC
886-3-470-9188

Yungho Branch

No.137, Sec. 2, Yonghe Rd., Yonghe City,
Taipei County 234, Taiwan ROC
886-2-8660-0808

Hsisheng Branch

No.26, Hougang 1st Rd., Sinjhuang City,
Taipei County 242, Taiwan ROC
886-2-2205-2299

Chungli Branch

No.62, Sec. 1, Jhongyang W. Rd., Jhongli City,
Taoyuan County 320, Taiwan ROC
886-3-426-5111

Nankan Branch

No.137, Jhongheng Rd., Lujhu Township,
Taoyuan County 338, Taiwan ROC
886-3-322-9699

Tayuan Branch

No.56, Jhongheng E. Rd., Dayuan Township,
Taoyuan County 337, Taiwan ROC
886-3-385-0505

Taichung, Yuanlin & Chiayi

Taichung Branch

No.9-5, Sec.2, Chungkang Rd., Situn District,
Taichung 407, Taiwan ROC
886-4-2328-5666

North Taichung Branch

No.13, Sec. 3, Wunsin Rd., Situn District,
Taichung 407, Taiwan ROC
886-4-2311-8555

Wenhsin Branch

No.208-1, Sec. 4, Wunsin Rd., N. District,
Taichung 404, Taiwan ROC
886-4-2298-0808

Beitun Branch

No.701, Sec. 4, Wunsin Rd., Beitun District,
Taichung 406, Taiwan ROC
886-4-2245-2636

Bank Directory

Minchuan Branch

No.135, Mincyuan Rd., West District,
Taichung 403, Taiwan ROC
886-4-2220-6789

Yuanlin Branch

No.785, Sec. 1, Jhongshan Rd., Yuanlin Township,
Changhua County 510, Taiwan ROC
886-4-834-7666

Chiayi Branch

No.285, Jhongshan Rd.,
Chiayi 600, Taiwan ROC
886-5-228-5908

Hsitun Branch

No.277, Sec. 2, Situn Rd., Situn District,
Taichung 407, Taiwan ROC
886-4-2702-2152

South Yuanlin Branch

No.37, Sanmin St., Yuanlin Township,
Changhua County 510, Taiwan ROC
886-4-832-6388

East Chiayi Branch

No.372-1, Gongming Rd.,
Chiayi 600, Taiwan ROC
886-5-229-3922

Singchung Branch

No.406, Sec. 1, Fusing Rd., South District,
Taichung 402, Taiwan ROC
886-4-2261-4040

Chiayi Branch

No.285, Jhongshan Rd.,
Chiayi 600, Taiwan ROC
886-5-228-5908

Fongyuan Branch

No.102, Fucian St., Fongyuan City,
Taichung County 420, Taiwan ROC
886-4-2522-8800

East Chiayi Branch

No.372-1, Gongming Rd.,
Chiayi 600, Taiwan ROC
886-5-229-3922

Tainan, Kaohsiung & Pingtung

Tainan Branch

No.271, Sec. 4, Simen Rd., North District,
Tainan 704, Taiwan ROC
886-6-251-3377

South Tainan Branch

No.379, Sec. 1, Jinhua Rd., South District,
Tainan 702, Taiwan ROC
886-6-265-5663

Kaohsiung Branch

No.204, Guanghua 1st Rd., Lingya District,
Kaohsiung 802, Taiwan ROC
886-7-226-5353

North Kaohsiung Branch

No.548, Jiouru 2nd Rd., Sanmin District,
Kaohsiung 807, Taiwan ROC
886-7-322-3699

Pingtung Branch

No.172, Minzu Rd., Pingtung City,
Pingtung County 900, Taiwan ROC
886-8-732-6777

Fucheng Branch

No.92, Jhongheng Rd., West Central District,
Tainan 700, Taiwan ROC
886-6-229-0866

Lingya Branch

No.30, Sihwei 4th Rd., Lingya District,
Kaohsiung 802, Taiwan ROC
886-7-338-6033

Fengshan Branch

No.224, Kaisyuan Rd., Fongshan City,
Kaohsiung County 830, Taiwan ROC
886-7-763-8185

Fuchiang Branch

No.15, Sec. 3, Dongmen Rd., East District,
Tainan 701, Taiwan ROC
886-6-260-1268

Sanmin Branch

No.73, Jiouru 1st Rd., Sanmin District,
Kaohsiung 807, Taiwan ROC
886-7-389-0258

Wuchia Branch

No.173, Nanhua Rd., Fongshan City,
Kaohsiung County 830, Taiwan ROC
886-7-721-5866

Kaiyuan Branch

No.229, Kaiyuan Rd., North District,
Tainan 704, Taiwan ROC
886-6-235-4445

Chiuju Branch

No.495, Jiouru 2nd Rd., Sanmin District,
Kaohsiung 807, Taiwan ROC
886-7-311-8871

Pingtung Branch

No.172, Minzu Rd., Pingtung City,
Pingtung County 900, Taiwan ROC
886-8-732-6777

Representative Office

Hong Kong Representative Office

8F, Unit C-D, Entertainment Building, No.30,
Queen's Road Central, Hong Kong
848-825-0407

Ho Chi Minh Representative Office

No.8, Nguyen Hue St., Dist.1,
Ho Chi Minh City, Vietnam
852-2521-1678

Union Bank of Taiwan

**Financial Statements for the
Years Ended December 31, 2007 and 2006 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, 2007 and 2006, 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, 2007 and 2006 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 0.44% (NT\$1,582,353 thousand) and 0.43% (NT\$1,562,099 thousand) of the Bank's total assets as of December 31, 2007 and 2006, respectively. The incomes from these equity-method investments were 1.16% (NT\$74,734 thousand) of the Bank's pretax loss in 2007 and 10.94% (NT\$39,082 thousand) of the pretax income in 2006. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts pertaining to these investees and to these investees' information mentioned in Note 34, is based solely on the reports of the other auditors.

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

As stated in Notes 15 and 26 to the financial statements, the Bank sold a part of its nonperforming loans to an asset management company in 2006, and the Bank deferred related losses, amortizable over 60 months, as required by the Financial Institution Consolidation Law. Had these losses not been deferred, there would have been decreases of NT\$1,587,348 thousand in pretax loss in 2007 and of NT\$7,315,874 thousand in pretax income in 2006. Also, the balances of the other assets and unappropriated earnings as of December 31, 2007 and 2006 would have decreased by NT\$5,727,630 thousand and NT\$7,315,874 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2006, the Bank adopted the newly released Statements of Financial Accounting Standards (“Standards” or SFAS) No. 34 “Accounting for Financial Instruments” and No. 36 “Disclosure and Presentation of Financial Instruments” and related revisions of previously released Standards, which were amended to harmonize with SFAS No.34 and 36.

We have also audited the consolidated financial statements of Union Bank of Taiwan and subsidiaries as of and for the years ended December 31, 2007 and 2006, on which we have issued a qualified opinion in our report dated March 13, 2008.

March 13, 2008

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, 2007 AND 2006

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

ASSETS	2007 Amount	2006 Amount	% Increase (Decrease)
CASH AND CASH EQUIVALENTS (Note 4)	\$ 5,501,501	\$ 7,580,583	(27)
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 26)	22,551,422	32,547,602	(31)
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6 and 26)	7,746,462	4,873,587	59
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2, 26 and 28)	5,863,732	3,820,626	53
RECEIVABLES, NET (Notes 2, 7 and 26)	28,967,953	36,748,767	(21)
DISCOUNTS AND LOANS, NET (Notes 2, 8 and 26)	205,523,586	207,070,571	(1)
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 3 and 9)	3,439,568	5,997,931	(43)
HELD-TO-MATURITY INVESTMENTS (Notes 2 and 10)	48,559,541	30,096,773	61
EQUITY INVESTMENTS - EQUITY METHOD (Notes 2 and 11)	2,946,398	2,837,358	4
OTHER FINANCIAL ASSETS, NET (Notes 2, 12, 13 and 26)			
Unquoted equity instruments	1,092,720	1,110,246	(2)
Non-active market debt instruments	166,636	2,666,843	(94)
Others (Note 27)	<u>3,498,355</u>	<u>2,298,236</u>	52
Other financial assets, net	<u>4,757,711</u>	<u>6,075,325</u>	(22)
PROPERTY AND EQUIPMENT (Notes 2, 14, 26 and 28)			
Cost			
Land	3,491,778	3,366,936	4
Buildings and improvements	4,829,515	4,835,566	-
Machinery and equipment	1,487,162	1,446,297	3
Transportation equipment	260,784	255,406	2
Leasehold improvements	<u>276,280</u>	<u>236,201</u>	17
	10,345,519	10,140,406	2
Accumulated depreciation	<u>1,727,461</u>	<u>1,494,843</u>	16
	8,618,058	8,645,563	-
Prepayments for equipment	<u>-</u>	<u>115,798</u>	(100)
Net property and equipment	<u>8,618,058</u>	<u>8,761,361</u>	(2)
GOODWILL (Notes 2, 3 and 16)	<u>2,574,217</u>	<u>2,757,500</u>	(7)
OTHER ASSETS (Notes 2, 15, 24 and 26)	<u>11,478,015</u>	<u>12,201,452</u>	(6)
TOTAL	<u>\$ 358,528,164</u>	<u>\$ 361,369,436</u>	(1)

LIABILITIES AND STOCKHOLDERS' EQUITY	2007 Amount	2006 Amount	% Increase (Decrease)
LIABILITIES			
Call loans and due to banks (Notes 17 and 26)	\$ 27,086,819	\$ 31,817,010	(15)
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 6)	61,326	34,457	78
Securities sold under repurchase agreements (Notes 2, 26 and 28)	32,865,259	11,904,491	176
Payables (Notes 18 and 26)	4,776,100	7,111,454	(33)
Deposits and remittances (Notes 19 and 26)	263,954,435	275,747,909	(4)
Bank debentures (Notes 2, 20 and 26)	10,526,400	15,083,700	(30)
Other financial liabilities (Note 26)	254,580	318,597	(20)
Liability component of preferred stocks (Note 21)	327,200	-	-
Other liabilities (Notes 2 and 22)	<u>578,133</u>	<u>668,395</u>	(14)
Total liabilities	<u>340,430,252</u>	<u>342,686,013</u>	(1)
STOCKHOLDERS' EQUITY			
Capital stock			
Common stock - NT\$10.00 par value; authorized - 2007 and 2006: 2,488,926 thousand shares; issued and outstanding - 2007: 1,918,824 thousand common shares, 2006: 1,827,798 thousand common shares	19,188,244	18,277,979	5
Preferred stock	<u>3,672,800</u>	<u>-</u>	-
Total capital stock	<u>22,861,044</u>	<u>18,277,979</u>	25
Capital surplus			
Additional paid-in capital - issue of shares in excess of par	-	26,485	(100)
Donated capital	1,398	1,398	-
Treasury stock transactions	<u>32,413</u>	<u>32,413</u>	-
Total capital surplus	<u>33,811</u>	<u>60,296</u>	(44)
Retained earnings (accumulated deficit)			
Legal reserve	107,812	16,067	571
Special reserve	240,655	26,584	805
Unappropriated earnings (accumulated deficit)	<u>(5,046,039)</u>	<u>305,814</u>	(1,750)
Total retained earnings (accumulated deficit)	<u>(4,697,572)</u>	<u>348,465</u>	(1,448)
Unrealized loss on financial assets	<u>(124,678)</u>	<u>(39,132)</u>	219
Cumulative translation adjustments	<u>39,243</u>	<u>43,820</u>	(10)
Net loss not recognized as pension cost	<u>(13,936)</u>	<u>(8,005)</u>	74
Total stockholders' equity	<u>18,097,912</u>	<u>18,683,423</u>	(3)
CONTINGENCIES AND COMMITMENTS (Notes 2 and 28)			
TOTAL	<u>\$ 358,528,164</u>	<u>\$ 361,369,436</u>	(1)

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

(With Deloitte & Touche audit report dated March 13, 2008)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	<u>2007</u>	<u>2006</u>	
	Amount	Amount	%
INTEREST REVENUE (Notes 2 and 26)	\$ 14,672,037	\$ 14,759,801	(1)
INTEREST EXPENSE (Note 26)	<u>7,415,733</u>	<u>5,664,213</u>	<u>31</u>
NET INTEREST	<u>7,256,304</u>	<u>9,095,588</u>	<u>(20)</u>
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 26)	2,300,371	2,308,292	-
Commissions and fee expenses	<u>642,801</u>	<u>794,360</u>	<u>(19)</u>
Net commissions and fees	1,657,570	1,513,932	9
Gains on financial assets and liabilities at fair value through profit or loss (Note 6)	587,887	318,882	84
Realized losses on available-for-sale financial assets	(14,982)	(53,770)	(72)
Income from equity-method investments (Notes 2 and 11)	169,241	107,084	58
Foreign exchange losses, net (Note 2)	(216,879)	(35,179)	517
Impairment losses (Notes 2 and 16)	(183,283)	(340,016)	(46)
Loss on unquoted equity investments (Note 2)	79,991	39,522	102
Amortization and recognition of loss on sale of nonperforming loans (Notes 2 and 15)	(1,809,289)	(643,111)	181
Securities brokerage fee revenues, net (Note 26)	153,653	107,384	43
Gain on disposal of property and equipment, net	84,844	577,608	(85)
Other net revenues (Note 26)	<u>173,760</u>	<u>95,199</u>	<u>83</u>
Total net revenues	<u>7,938,817</u>	<u>10,783,123</u>	<u>(26)</u>
BAD DEBTS	<u>8,404,095</u>	<u>4,104,184</u>	<u>105</u>
OPERATING EXPENSES			
Personnel expenses (Notes 2, 22 and 23)	2,573,336	2,565,208	-
Depreciation and amortization (Note 23)	477,853	456,513	5
Others (Note 26)	<u>2,942,273</u>	<u>3,310,892</u>	<u>(11)</u>
Total operating expenses	<u>5,993,462</u>	<u>6,332,613</u>	<u>(5)</u>

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	<u>2007</u>	<u>2006</u>	
	Amount	Amount	%
INCOME (LOSS) BEFORE INCOME TAX	\$ (6,458,740)	\$ 346,326	(1,965)
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 24)	<u>1,516,382</u>	<u>(49,790)</u>	<u>3,146</u>
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	(4,942,358)	296,536	(1,767)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (NET OF TAX EXPENSE \$1,488 THOUSAND) (Notes 3 and 24)	<u>-</u>	<u>9,278</u>	<u>(100)</u>
NET INCOME (LOSS)	<u>\$ (4,942,358)</u>	<u>\$ 305,814</u>	<u>(1,716)</u>
	<u>2007</u>	<u>2006</u>	
	Before Tax	After Tax	Before Tax After Tax
EARNINGS (LOSS) PER SHARE (Note 25)			
Basic	<u>\$ (3.46)</u>	<u>\$ (2.65)</u>	<u>\$ 0.20</u> <u>\$ 0.17</u>
Diluted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.17</u> <u>\$ 0.14</u>

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

(With Deloitte & Touche audit report dated March 13, 2008)

(Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding Common Stock		Issued and Outstanding Preferred Stock (Notes 2 and 21)		Capital Surplus (Notes 2 and 21)				Retained Earnings (Notes 2 and 21)				Unrealized Gain (Loss) on Financial Assets (Notes 2 and 11)	Cumulative Translation Adjustment (Note 2)	Net Loss not Recognized as Pension Cost (Note 2)	Other Adjustments (Note 2)	Total Stockholders' Equity
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount	Issue of Shares in Excess of Par	Donated Capital	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Total					
BALANCE, JANUARY 1, 2006	1,825,394	\$ 18,253,942	-	\$ -	\$ 29,922	\$ 1,398	\$ 32,413	\$ 63,733	\$ 1,380,978	\$ 2,119,450	\$(3,457,777)	\$ 42,651	\$ -	\$ 50,141	\$ -	\$ (76,725)	\$ 18,333,742
Effects of adopting new Statements of Financial Accounting Standards	-	-	-	-	-	-	-	-	-	-	-	-	(103,278)	-	-	76,725	(26,553)
Offset of deficit against these appropriations from the 2005 earnings:																	
Legal reserve	-	-	-	-	-	-	-	-	(1,364,911)	-	1,364,911	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	(2,092,866)	2,092,866	-	-	-	-	-	-
Net income in 2006	-	-	-	-	-	-	-	-	-	-	305,814	305,814	-	-	-	-	305,814
Unrealized gain on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	82,120	-	-	-	82,120
Recognition of unrealized loss on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	(17,974)	-	-	-	(17,974)
Cumulative translation adjustment on equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,321)	-	-	(6,321)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,005)	-	(8,005)
Convertible bank debentures converted to common stock	<u>2,404</u>	<u>24,037</u>	<u>-</u>	<u>-</u>	<u>(3,437)</u>	<u>-</u>	<u>-</u>	<u>(3,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,600</u>
BALANCE, DECEMBER 31, 2006	1,827,798	18,277,979	-	-	26,485	1,398	32,413	60,296	16,067	26,584	305,814	348,465	(39,132)	43,820	(8,005)	-	18,683,423
Appropriation of 2006 earnings																	
Legal reserve	-	-	-	-	-	-	-	-	91,745	-	(91,745)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	214,071	(214,071)	-	-	-	-	-	-
Net loss in 2007	-	-	-	-	-	-	-	-	-	-	(4,942,358)	(4,942,358)	-	-	-	-	(4,942,358)
Convertible bank debentures converted to common stock	91,026	910,265	-	-	(26,485)	-	-	(26,485)	-	-	(103,679)	(103,679)	-	-	-	-	780,101
Issuance of preferred stock for cash	-	-	400,000	3,672,800	-	-	-	-	-	-	-	-	-	-	-	-	3,672,800
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(50,305)	-	-	-	(50,305)
Recognition of unrealized loss on financial assets - equity-method investments	-	-	-	-	-	-	-	-	-	-	-	-	(35,241)	-	-	-	(35,241)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,931)	-	(5,931)
Cumulative translation adjustment on equity-method investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,577)</u>	<u>-</u>	<u>-</u>	<u>(4,577)</u>
BALANCE, DECEMBER 31, 2007	<u>1,918,824</u>	<u>\$ 19,188,244</u>	<u>400,000</u>	<u>\$ 3,672,800</u>	<u>\$ -</u>	<u>\$ 1,398</u>	<u>\$ 32,413</u>	<u>\$ 33,811</u>	<u>\$ 107,812</u>	<u>\$ 240,655</u>	<u>\$(5,046,039)</u>	<u>\$(4,697,572)</u>	<u>\$ (124,678)</u>	<u>\$ 39,243</u>	<u>\$(13,936)</u>	<u>\$ -</u>	<u>\$ 18,097,912</u>

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

(With Deloitte & Touche audit report dated March 13, 2008)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (4,942,358)	\$ 305,814
Adjustments to net income to determine cash flows:		
Income from equity-method investments, net	(169,241)	(107,084)
Cash dividends recognized by the equity method	74,234	529,647
Depreciation and amortization	477,853	456,513
Gain on disposal of property and equipment, net	(84,844)	(577,608)
Loss from the obsolescence of property and equipment	6,462	18,255
Amortization and recognition of loss from sale of nonperforming loans	1,809,289	643,111
Liquidation loss on Union Securities Investment Consulting Company	1,966	-
Impairment losses on assets	183,283	340,016
Unrealized (gain) loss on financial assets and liabilities at fair value through profit or loss	334,967	(179,672)
Loss on sale of available-for-sale financial assets	14,982	53,770
Provision for credit and other losses	8,408,436	4,107,537
Deferred income taxes	(1,533,866)	40,077
Decrease (increase) in held for trading financial assets	(3,417,566)	2,277,203
Increase in held-for-trading financial liabilities	26,869	30,367
Decrease in receivables	2,530,598	8,212,780
Increase in accrued pension cost	13,996	7,967
Increase (decrease) in payables	<u>(2,335,354)</u>	<u>562,523</u>
Net cash provided by operating activities	<u>1,399,706</u>	<u>16,721,216</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in securities purchased under resell agreements	(2,043,106)	6,490,789
Decrease (increase) in due from the Central Bank and other banks	9,996,180	(11,095,616)
Decrease in financial assets designated at fair value through profit or loss	209,724	3,038,009
Increase in discounts and loans	(3,416,183)	(37,926,771)
Acquisition of property and equipment	(417,740)	(421,891)
Proceeds of the disposal of property and equipment	64,804	336,639
Decrease in other assets	1,415,374	1,303,954
Proceeds of the disposal of available-for-sale financial assets	3,036,781	-
Decrease (increase) in available-for-sale financial assets	(543,704)	1,076,483
Increase in held-to-maturity investments	(25,008,397)	(11,270,548)
Proceeds of held-to-maturity investments	5,798,249	-
Proceeds of the sale of real estate owned assets	569,795	-

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
Proceeds of the sale of nonperforming loans	\$ 90,360	\$ -
Increase in equity investments - equity method	(87,500)	(4)
Proceeds of the capital reduction and liquidation of investee	31,683	236,877
Decrease (increase) in other financial assets	<u>2,163,012</u>	<u>(56,716)</u>
Net cash used in investing activities	<u>(8,140,668)</u>	<u>(48,288,795)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in call loans and due to banks	(4,730,191)	5,164,183
Increase (decrease) in securities sold under repurchase agreements	20,960,768	(343,201)
Increase (decrease) in deposits and remittances	(11,793,474)	25,085,688
Increase (decrease) in other financial liabilities	(64,017)	30,028
Increase (decrease) in other liabilities	65,994	(200,281)
Issuance of bank debentures	-	2,000,000
Decrease in bank debentures	(3,777,200)	(1,100)
Issuance of preferred stock for cash	<u>4,000,000</u>	<u>-</u>
Net cash provided by financing activities	<u>4,661,880</u>	<u>31,735,317</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,079,082)	167,738
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,580,583</u>	<u>7,412,845</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,501,501</u>	<u>\$ 7,580,583</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 6,921,760</u>	<u>\$ 5,457,103</u>
Income tax paid	<u>\$ 81,331</u>	<u>\$ 79,566</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Convertible bank debentures converted to common stock	<u>\$ 780,101</u>	<u>\$ 20,600</u>

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

(With Deloitte & Touche audit report dated March 13, 2008)

(Concluded)

UNION BANK OF TAIWAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

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

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

As of December 31, 2007, the Bank’s operating units included Banking, Trust, Wealth Management, Security Finance and International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 78 domestic branches.

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

The Bank’s shares are traded on the Taiwan Stock Exchange (the “TSE”).

As of December 31, 2007 and 2006, the Bank had 3,388 and 3,637 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank’s financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these criteria, law and principles, the Bank is required to make certain estimates and assumptions that could affect the amounts of the fair value of certain financial assets, allowance for credit losses, property and equipment depreciation, pension, losses on suspended lawsuits, assets impairment, income tax and provision for losses on guarantees. Actual results could differ from these estimates.

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

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

Basis of Financial Statement Preparation

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

Basis of Fair Value Determination

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

Financial Instruments at Fair Value Through Profit or Loss

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

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

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

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

Securities Purchased or Sold Under Resell or Repurchase Agreements

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

Available-for-sale Financial Assets

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

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

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

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

Nonperforming Loans

Under guidelines issued by the Banking Bureau of Financial Supervisory Commission (the Banking Bureau), the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is overdue and shall be authorized by a resolution passed by the board of directors. Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, are classified as other financial assets.

Allowance for Credit Losses and Provision for Losses on Guarantees

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

Pursuant to “Regulations Governing the Procedures for Banking Institutions to Evaluation Assets and Deal with Non-Performing/Non-accrual Loans” (the “Regulations”) issued by the Banking Bureau, the Bank evaluates credit losses on the basis of the estimated collectibility.

In accordance with the Regulations stated above, the loan assets divided into different classes subject assets that require special mentioned, assets that are substandard, assets that are doubtful, and assets for which there is loss. The minimum allowance for credit losses and provision for losses on guarantees for the aforementioned classes should be 2%, 10%, 50% and 100% of outstanding credits, respectively.

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

Held-to-maturity Investments

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

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

Equity Investments - Equity Method

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

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

Profits from upstreaming transactions with an equity method investee are eliminated in proportion to the company's percentage of ownership in the investee ratio.

Property and Equipment

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

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

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

Other Financial Assets

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

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

Goodwill

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

Other Assets

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

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

Collaterals Assumed

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

Nonfinancial Asset Impairment

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

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

Convertible Bank Debentures

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

For convertible bonds issued on or after January 1, 2006, the Bank first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Bank uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

Compound Instruments

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

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

Accounting Treatment of Foreign-currency Translation

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Stockholders' equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, are recognized in the income statement and adjusted as the spot rate.

Unrealized exchange differences on nonmonetary financial assets (such as investments in equity instruments) are a component of the change in their entire fair value. For nonmonetary financial assets and liabilities classified as financial instruments measured at fair value through profit or loss, unrealized exchange differences are recognized in the income statements. For nonmonetary financial instruments that are classified as available-for-sale, unrealized exchange differences are recorded directly under stockholders' equity until the asset is sold or becomes impaired. Nonmonetary financial instruments that are classified as carried at cost are recognized at the exchange rates on the transaction dates.

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

Recognition of Interest Revenue and Service Fees

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

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

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

Income Tax

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

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

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

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

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

Pension

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

Contingencies

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

Reclassifications

Certain accounts of the 2006 financial statements have been reclassified to conform to the presentation of the 2007 financial statements.

3. ACCOUNTING CHANGES

On January 1, 2007, the Bank adopted the newly released SFAS No. 37, "Accounting for Intangible Assets" and reassessed the useful lives of and the amortization method for its recognized intangible assets as of the same date.

On January 1, 2006, the Bank adopted the newly released SFAS No. 34, "Financial Instruments: Recognition and Measurement" and SFAS No. 36, "Financial Instruments: Disclosure and Presentation".

The Bank categorized its financial assets and financial liabilities upon initial adoption of these newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at FVTPL were included in the cumulative effect of changes in accounting principles, and the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The cumulative effect of accounting changes are as follows:

	Cumulative Effect of Accounting Changes, After Tax	Stockholders' Equity Adjustments, After Tax
Financial assets at fair value through profit or loss	\$ 9,278	\$ -
Available-for-sale financial assets	<u>-</u>	<u>(26,553)</u>
	<u>\$ 9,278</u>	<u>\$ (26,553)</u>

In March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The interpretation is effective January 1, 2008.

4. CASH

	<u>December 31</u>	
	2007	2006
Checks for clearing	\$ 1,024,239	\$ 3,472,880
Cash on hand	3,502,810	3,167,643
Due from banks	<u>974,452</u>	<u>940,060</u>
	<u>\$ 5,501,501</u>	<u>\$ 7,580,583</u>

5. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	2007	2006
Due from the Central Bank		
Deposit reserve - checking account	\$ 1,882,910	\$ 3,716,672
Required deposit reserve	6,620,234	6,746,237
Deposits reserve - foreign-currency deposits	958,278	14,693
Deposit account in Central Bank	<u>13,090,000</u>	<u>20,570,000</u>
	22,551,422	31,047,602
Call loans to banks and bank's overdrafts	<u>-</u>	<u>1,500,000</u>
	<u>\$ 22,551,422</u>	<u>\$ 32,547,602</u>

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

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

6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2007	2006
<u>Held for trading financial assets</u>		
Beneficiary certificates	\$ 2,593,386	\$ 2,799,033
Asset backed commercial paper	2,516,942	-
Commercial paper	945,889	-
Government bonds	689,886	914,871
Listed and GTSM stock	489,927	413,241
Corporate bonds	147,376	210,064
Forward exchange contracts	152,661	68,374
Currency swap contracts	48,947	106,925
Option contracts	1,894	1,143
Interest exchange contracts	10,128	786
	<u>7,597,036</u>	<u>4,514,437</u>
<u>Financial assets designated at fair value through profit or loss</u>		
Credit linked notes	-	359,150
Corporate bonds	149,426	-
	<u>149,426</u>	<u>359,150</u>
	<u>\$ 7,746,462</u>	<u>\$ 4,873,587</u>
<u>Held for trading financial liabilities</u>		
Forward exchange contracts	\$ 50,008	\$ 22,961
Currency swap contracts	1,010	9,104
Interest exchange contracts	8,412	1,249
Option contracts	1,896	1,143
	<u>\$ 61,326</u>	<u>\$ 34,457</u>

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

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

	December 31	
	2007	2006
Currency swap contracts	\$ 9,914,372	\$ 6,645,991
Forward exchange contracts	4,687,031	7,387,684
Interest exchange contracts	1,900,000	1,900,000
Options		
Buy	279,362	212,225
Sell	279,362	212,225

Appendix I

The gains on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Net gain on financial assets at fair value through profit or loss	\$ 583,166	\$ 133,512
Net gain on financial liabilities at fair value through profit or loss	<u>4,721</u>	<u>185,370</u>
Gain, net	<u>\$ 587,887</u>	<u>\$ 318,882</u>
Realized gain	\$ 922,854	\$ 139,210
Unrealized gain (loss)	<u>(334,967)</u>	<u>179,672</u>
Gain, net	<u>\$ 587,887</u>	<u>\$ 318,882</u>

As of December 31, 2007 and 2006, the Bank's financial instruments at fair value through profit or loss amounting to \$369,483 thousand and \$989,706 thousand, respectively, had been sold under repurchase agreements.

7. RECEIVABLES, NET

	December 31	
	2007	2006
Accounts receivable	\$ 27,171,938	\$ 33,517,573
Receivable on disposal of property and equipment	1,399,597	1,537,320
Interest receivable	1,324,407	1,540,538
Inter-bank clearing fund receivable	300,131	306,719
Acceptances receivable	311,543	302,507
Tax refundable	194,960	198,268
Accrued revenue	7,740	88,307
Other	<u>425,945</u>	<u>298,935</u>
	31,136,261	37,790,167
Less: Allowance for credit losses	<u>2,168,308</u>	<u>1,041,400</u>
	<u>\$ 28,967,953</u>	<u>\$ 36,748,767</u>

8. DISCOUNTS AND LOANS

	December 31	
	2007	2006
Discounts and overdraft	\$ 1,189,022	\$ 824,991
Accounts receivables - financing	291,817	154,695
Loans		
Short-term - unsecured	12,565,751	14,459,568
- secured	22,914,269	16,921,883
Medium-term - unsecured	20,204,821	25,026,721
- secured	16,625,830	15,317,731

(Continued)

Appendix I

	December 31	
	2007	2006
Long-term - unsecured	\$ 15,145,327	\$ 18,423,595
- secured	114,271,693	113,430,041
Import and export negotiations	114,832	140,204
Nonperforming loans	<u>4,373,509</u>	<u>4,082,572</u>
	207,696,871	208,782,001
Less: Allowance for credit losses	<u>2,173,285</u>	<u>1,711,430</u>
	<u><u>\$ 205,523,586</u></u>	<u><u>\$ 207,070,571</u></u>
		(Concluded)

As of December 31, 2007 and 2006, the balances of nonaccrual loans were \$4,373,509 thousand and \$4,082,572 thousand, respectively. The unrecognized interest revenues on nonperforming loans amounted to \$201,020 thousand in 2007 and \$202,212 thousand in 2006, respectively.

In 2007 and 2006, all credits written off had been subjected to legal proceedings before being written off.

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

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

	2006		
	Specific Provision	General Provision	Total
Balance, beginning of year	\$ 2,059,474	\$ 4,308	\$ 2,063,782
Provision	3,986,553	117,631	4,104,184
Write-off	(4,107,804)	-	(4,107,804)
Recovery of written-off credits	694,073	-	694,073
Result from change of foreign exchange rate	<u>(1,405)</u>	<u>-</u>	<u>(1,405)</u>
Balance, end of year	<u><u>\$ 2,630,891</u></u>	<u><u>\$ 121,939</u></u>	<u><u>\$ 2,752,830</u></u>

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2007	2006
Debt investments - government bonds	\$ 2,606,978	\$ 5,149,404
Debt investments - corporate bonds	330,012	482,288
Debt investments - bank debentures	489,971	345,013
Beneficiary certificates of securitization	<u>12,607</u>	<u>21,226</u>
	<u>\$ 3,439,568</u>	<u>\$ 5,997,931</u>

The available-for-sale financial assets amounting to \$3,118,760 thousand and \$5,776,377 thousand as of December 31, 2007 and 2006, respectively, had been sold under repurchase agreements.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2007	2006
Asset backed commercial paper	\$ 47,898,804	\$ 28,976,924
Government bonds	650,699	1,109,731
Bank debentures	<u>10,038</u>	<u>10,118</u>
	<u>\$ 48,559,541</u>	<u>\$ 30,096,773</u>

The held-to-maturity investments amounting to \$41,220,855 thousand and \$4,571,000 thousand as of December 31, 2007 and 2006, respectively, had been sold under repurchase agreements.

11. EQUITY INVESTMENTS - EQUITY METHOD

	December 31			
	2007		2006	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Bills Finance Corporation	\$ 1,317,722	42.76	\$ 1,385,409	42.76
Union Finance and Leasing International Corporation	1,047,928	100.00	1,026,444	100.00
Union Finance International (H.K.) Limited	132,396	99.99	135,203	99.99
Union Information Technology Corporation	103,019	99.99	109,959	99.99
Union Insurance Broker Company	28,634	100.00	54,799	100.00
Union Real-Estate Management Corporation	132,235	40.00	41,487	40.00
Morgan Stanley Union Bank Asset Management Corporation	74,778	49.00	37,876	49.00
Union Security Investment Trust Corporation	109,686	35.00	35,592	35.00
Union Securities Investment Consulting Company	<u>-</u>	-	<u>10,589</u>	100.00
	<u>\$ 2,946,398</u>		<u>\$ 2,837,358</u>	

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

	Years Ended December 31	
	2007	2006
Union Bills Finance Corporation	\$ (37,129)	\$ 28,799
Union Finance and Leasing International Corporation	28,398	5,917
Union Finance International (H.K.) Limited	21,087	8,125
Union Information Technology Corporation	33,428	43,172
Union Insurance Broker Company	8,897	13,412
Union Real-Estate Management Corporation	90,776	2,158
Morgan Stanley Union Bank Asset Management Corporation	36,902	15,089
Union Security Investment Trust Corporation	(13,406)	(32,614)
Union Securities Investment Consulting Company	288	(759)
Union Bank Futures Corporation	<u>-</u>	<u>23,785</u>
	<u>\$ 169,241</u>	<u>\$ 107,084</u>

Except for net income of 2007 of Union Securities Investment Consulting Company and net income of 2006 of Union Bank Future Corporation were based on the investees' unaudited financial statements, income from equity investments - equity-method were based on the investees' audited financial statements for 2007 and 2006, respectively. The Bank believes that had the financial statements of the abovementioned companies been audited, any adjustments arising would have no material effect on the Bank's financial statements.

Union Securities Investment Consulting Company and Union Futures Company had ceased operation and liquidated on May 30, 2007 and June 22, 2006, respectively.

As of December 31, 2007 and 2006, the unrealized loss on financial assets (included in stockholders' equity) amounted to \$35,241 thousand and \$17,974 thousand resulted from evaluating the available-for-sale financial assets which were held by the subsidiaries of the Bank.

12. UNQUOTED EQUITY INSTRUMENTS

	December 31	
	2007	2006
Unlisted stocks		
Entie Securities Finance Company	\$ 622,188	\$ 622,188
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	100,000	100,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	<u>130,500</u>	<u>148,026</u>
	<u>\$ 1,092,720</u>	<u>\$ 1,110,246</u>

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at cost.

13. NON-ACTIVE MARKET DEBT INSTRUMENTS

	December 31	
	2007	2006
Beneficiary certificates of securitization	\$ 90,705	\$ 2,447,517
Overseas corporate bonds	<u>75,931</u>	<u>219,326</u>
	<u>\$ 166,636</u>	<u>\$ 2,666,843</u>

14. PROPERTY AND EQUIPMENT

	December 31	
	2007	2006
Cost	\$ 10,345,519	\$ 10,140,406
Accumulated depreciation		
Buildings and improvements	436,987	323,390
Office equipment	1,030,648	970,679
Transportation equipment	148,541	121,551
Leasehold improvements	<u>111,285</u>	<u>79,223</u>
	<u>1,727,461</u>	<u>1,494,843</u>
Prepayments for equipment	<u>-</u>	<u>115,798</u>
Net property and equipment	<u>\$ 8,618,058</u>	<u>\$ 8,761,361</u>

15. OTHER ASSETS

	December 31	
	2007	2006
Deferred loss from sale of nonperforming loans	\$ 5,727,630	\$ 7,315,874
Collaterals assumed, net	1,781,746	2,227,085
Deferred tax assets, net	3,373,081	1,839,215
Prepayments	216,074	421,691
Deferred charges	377,642	393,805
Other	<u>1,842</u>	<u>3,782</u>
	<u>\$ 11,478,015</u>	<u>\$ 12,201,452</u>

In 2006, the Bank sold nonperforming loans with a carrying value of \$9,557,282 thousand at the contract price of \$1,610,025 thousand to Morgan Stanley Union Bank Asset Management Corporation and recognized losses of \$7,947,257 thousand. The Bank deferred and amortized the losses over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets. Had the losses not been deferred, the net loss in 2007 would have decreased by \$1,587,348 thousand and the net income in 2006 would have decreased by \$7,315,874 thousand and the balances of the other assets and unappropriated earnings as of December 31, 2007 and 2006 would have decreased by \$5,727,630 thousand and \$7,315,874 thousand, respectively.

As of December 31, 2007 and 2006, payments of \$966,030 thousand and \$1,288,020 thousand, respectively, had not been received from the Morgan Stanley Union Bank Asset Management Corporation.

16. GOODWILL

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

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

As a result of the Bank’s impairment testing, a goodwill impairment amounting to \$183,283 thousand as of the end of 2007 was recognized by the Bank.

17. CALL LOANS AND DUE TO BANKS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Due to Taiwan Post Co., Ltd.	\$ 22,859,340	\$ 20,879,630
Due to the Central Bank and other banks	417,031	58,320
Call loans	3,810,448	10,834,175
Overdraft	<u>-</u>	<u>44,885</u>
	<u>\$ 27,086,819</u>	<u>\$ 31,817,010</u>

18. PAYABLES

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Notes and checks in clearing	\$ 1,024,294	\$ 3,472,880
Interest payable	1,946,751	1,452,778
Accrued expenses	451,307	510,082
Collection payable	162,994	176,736
Tax payable	111,699	88,698
Bank acceptances payable	312,668	304,115
Accounts payable on wire transfers received	204,218	162,252
Other	<u>562,169</u>	<u>943,913</u>
	<u>\$ 4,776,100</u>	<u>\$ 7,111,454</u>

19. DEPOSITS AND REMITTANCES

	December 31	
	2007	2006
Checking	\$ 2,956,438	\$ 3,224,672
Demand	27,591,881	24,342,007
Savings	167,319,262	192,202,275
Time	64,128,039	52,822,345
Negotiable certificates of deposit	1,913,400	3,133,100
Inward and outward remittances	<u>45,415</u>	<u>23,510</u>
	<u>\$ 263,954,435</u>	<u>\$ 275,747,909</u>

20. BANK DEBENTURES

	December 31		
	2007	2006	Term
First subordinated bank debentures issued in 2002	\$ -	\$ 3,500,000	Fixed interest rate of 3.8%; maturity: November 2007.
First unsecured, convertible bank debentures issued in 2004	1,526,400	2,583,700	Zero coupon; maturity: September 2009; the bondholders may convert the debentures into common shares of the Bank during the period between one month after the issuance date and 10 days prior to maturity.
First subordinated bank debentures issued in 2004	1,500,000	1,500,000	Average one year time savings deposit rate of First Bank, Hua Nan Bank, Chang Hwa Bank, Land Bank, Taiwan Cooperative Bank and Bank of Taiwan plus 1%; maturity: June 2010.
Second subordinated bank debentures issued in 2004	3,500,000	3,500,000	Fixed interest rate of 3.55%; maturity: June 2010.
First subordinated bank debentures issued in 2005	2,000,000	2,000,000	Fixed interest rate of 2.60%; maturity: June 2011.
First subordinated bank debentures issued in 2006	1,200,000	1,200,000	Fixed interest rate of 2.60%; maturity: May 2012.
First subordinated bank debentures issued in 2006	800,000	800,000	On year time savings deposit rate of First Bank plus 0.3%; maturity: November 2013.
	<u>\$ 10,526,400</u>	<u>\$ 15,083,700</u>	

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

a. Redemption terms

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

- 1) Early redemption at the option of the Bank: The Debentures may be wholly or partly redeemed at their par amount, at the Bank’s option under any of these conditions:
 - a) After one year from the issue date and before 40 days prior to maturity, the balance of unconverted debentures is lower than \$300,000 thousand.
 - b) After one year from the issue date and before 40 days prior to maturity, the closing prices of the Bank’s common shares on the Taiwan Stock Exchange for 30 consecutive trading days have exceeded 50% of the conversion price.
- 2) Redemption at the option of the bondholders: In the second, third and fourth year of the issue date is the “put date.” The Bank will redeem all or any portion of the Debentures at par value; yield rate of 0%.

As of December 31, 2007, the Bank redeemed \$278,300 thousand of the Debentures at par value.

b. Pledged: None

c. Conversion period and conversion right

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

d. Conversion price

The initial conversion price was set at NT\$10.85.

The conversion price is subject to adjustment based on certain terms of the related indenture. As of December 31, 2007, the conversion price was NT\$8.57.

The bondholders had converted the Debentures amounting to \$1,195,300 thousand into 129,898 thousand common shares as of December 31, 2007.

21. STOCKHOLDERS’ EQUITY

- a. In their 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\$10.00 par value and 6% dividend rate.

Under the Bank’s Articles of Incorporation, after the Bank appropriates the legal and special reserves from its net income (less any deficit), the Bank should use part of the remainder as dividends to the preferred stockholders. The preferred stockholders can participate in the distribution of the remaining earnings at the ratio of one preferred share for one common share after earnings distribution to the common stockholders but cannot participate in the distribution of capital surplus transferred to common

stock. A preferred share can be converted into one common share in the year of the issuance date. The Bank, upon getting approval from the Banking Bureau, can call back some or all of the outstanding preferred shares after six years from the issuance date at the price of the issuance amount plus unpaid accumulated dividends. In 2007, the Bank bifurcated the conversion rights embedded in the preferred stock and the liability component, which amounted to \$3,672,800 thousand and \$327,200 thousand, respectively.

b. Capital surplus

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

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

c. Retained earnings

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

- 1) 30% as legal reserve;
- 2) Special reserve, as deemed proper;
- 3) Dividends;
- 4) The remainder:
 - a) Employees' bonus of at least 10%;
 - b) Retained earnings, as deemed proper;
 - c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as remuneration to directors and supervisors.

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

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

After the stockholders' approval, the declaration of stock dividend needs further approval by the SFB.

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

In their ordinary meeting on June 9, 2006, the stockholders of the Bank approved the offset of 2005 deficit against the special reverse of \$2,092,866 thousand and surplus deficit of \$1,364,911 thousand would be offsets by legal reverse.

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

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

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

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

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

22. PENSION

The Labor Pension Act (the "LPA") took effect on July 1, 2005. Employees subject to the Labor Standards Law (the "LSL") prior to July 1, 2005 were allowed to choose to continue being subject to the LSL or to be subject to the LPA, with their service years as of July 1, 2005 retained. Those hired as regular employees on or after July 1, 2005 automatically become subject to the LPA.

Under the Labor Standards Law, the Bank has a defined benefit pension plan covering all regular employees. The Bank makes monthly contributions at 2% of salaries to a pension fund, which is deposited to the Labor Pension Fund (managed by the employees' pension fund administrative committee) deposited in the Bank of Taiwan and to an employee pension account (established in Taipei branch of the Bank), respectively. As of December 31, 2007 and 2006, the accounts amounted to \$452,416 thousand and \$429,400 thousand, respectively.

Based on the Labor Pension Act, the Bank has made monthly contributions to the employees' individual pension accounts at 6% of employee salaries. These contributions amounted to \$89,805 thousand and \$87,362 thousand in 2007 and 2006, respectively.

a. Pension fund changes are summarized below:

	2007	2006
Balance, January 1	\$ 429,400	\$ 414,104
Contributions	39,954	45,580
Interest revenue	10,231	11,062
Benefits paid	(26,716)	(39,631)
Unrealized loss from financial assets	(453)	(4)
	<u>\$ 452,416</u>	<u>\$ 431,111</u>
Balance, December 31	<u>\$ 452,416</u>	<u>\$ 431,111</u>

Appendix I

- b. Net pension costs in 2007 and 2006 are summarized below:

	2007	2006
Service cost	\$ 27,982	\$ 35,144
Interest cost	18,466	17,828
Expected return on plan assets	(10,250)	(10,514)
Net amortization and deferral	(519)	(519)
Net amortization of gain or loss of pension	<u>4,258</u>	<u>3,799</u>
Net pension cost	<u>\$ 39,937</u>	<u>\$ 45,738</u>

- c. The reconciliation of the funded status of the plan and accrued pension cost as of December 31, 2007 and 2006 is as follows:

	December 31	
	2007	2006
Benefit obligation		
Vested benefit obligation	\$ 104,068	\$ 85,160
Non-vested benefit obligation	<u>363,854</u>	<u>352,803</u>
Accumulated benefit obligation	467,922	437,963
Additional benefits based on future salaries	<u>118,208</u>	<u>112,425</u>
Projected benefit obligation	586,130	550,388
Fair value of plan assets	<u>(446,498)</u>	<u>(430,535)</u>
Funded status	139,632	119,853
Unrecognized prior service cost	6,480	6,999
Unrecognized pension loss	(138,624)	(127,429)
Additional accrued pension liabilities	<u>13,936</u>	<u>8,005</u>
Accrued pension cost (included in other liability)	<u>\$ 21,424</u>	<u>\$ 7,428</u>
d. Vested benefits obligation	<u>\$ 114,352</u>	<u>\$ 92,452</u>
e. Actuarial assumptions		
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	0%-2.0%	0%-2.0%
Expected rate of return on plan assets	2.5%	2.5%

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2007	2006
Personnel expenses		
Salaries and wages	\$ 1,736,986	\$ 1,824,923
Bonus and rewards	517,086	414,961
Labor insurance and national health insurance	163,243	170,392
Pension	134,368	135,994
Other	<u>21,653</u>	<u>18,938</u>
	<u>\$ 2,573,336</u>	<u>\$ 2,565,208</u>
Depreciation	<u>\$ 380,177</u>	<u>\$ 365,975</u>
Amortization	<u>\$ 97,676</u>	<u>\$ 90,538</u>

24. INCOME TAX BENEFIT

The government enacted the Alternative Minimum Tax Act (the “AMT Act”), which became effective on January 1, 2006. The alternative minimum tax (“AMT”) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

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

	2007	2006
Income tax on income before income tax at 25% statutory rate	\$ -	\$ 86,572
Permanent difference	(279,990)	(271,139)
Temporary difference	<u>(233,960)</u>	<u>(612,966)</u>
Current tax payable	(513,950)	(797,533)
Loss carryforward unused	513,950	797,533
Change in deferred income tax	(1,533,866)	40,077
Separate tax on interest income on short-term bills	18,998	11,201
Prior year’s income tax adjustment	<u>(1,514)</u>	<u>-</u>
Income tax expense (benefit) before cumulative effect of accounting changes	(1,516,382)	51,278
Income tax expense of cumulative effect of accounting changes	<u>-</u>	<u>(1,488)</u>
Income tax expense (benefit)	<u>\$ (1,516,382)</u>	<u>\$ 49,790</u>

- b. As of December 31, 2007 and 2006, deferred income tax assets (liabilities) consisted of the tax effects of the following:

	December 31	
	2007	2006
Loss carryforwards	\$ 3,555,559	\$ 1,572,989
Amortization of goodwill	(285,079)	(165,450)
Loss on selling nonperforming loans	89,937	580,197
Investment tax credit	27,746	34,168
Reserve for default	11,456	10,582
Unrealized loss on collaterals assumed	86,858	86,858
Investment income under the equity method	(7,432)	(2,160)
Allowance for credit losses	464,067	44,717
Unrealized valuation gain on derivative instruments	(23,475)	(2,816)
Others	<u>1,452</u>	<u>1,837</u>
	3,921,089	2,160,922
Allowance for valuation of deferred income tax assets	<u>548,008</u>	<u>321,707</u>
Net deferred income tax assets (included in other assets)	<u>\$ 3,373,081</u>	<u>\$ 1,839,215</u>

The loss carryforwards as of December 31, 2007 may be used to reduce the Bank’s taxable income until 2012; investment tax credits of research development and personnel training expense may be used to reduce the Bank’s tax until 2011.

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

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Balances of the imputation credit account	\$ <u>157,552</u>	\$ <u>281,073</u>

The creditable tax ratio for earnings in 2006 is 33.33%. As of December 31, 2007, the Bank had no earnings available for distribution; thus, a creditable tax ratio was not estimated.

The Bank's income tax returns through 2004 had been examined and cleared by the tax authorities.

In December 2003, the tax authorities and the Bank reached a compromise on the lawsuit with regard to withholding tax. Under the compromise agreement, the Taipei National Tax Administrative (TNTA) had decided to give a tax refund at 65% of tax paid on interest income earned by the bank, and the Bank accepted this refund rate and accrued 35% of the withholding tax denied.

25. EARNINGS (LOSS) PER SHARE

The Bank issued convertible bonds, which could be transferred to common stocks of the Bank; thus, the capital structure of the Bank is complicated, and the calculation of basic and diluted earnings per share (EPS) is required. However, since the bottom line of the Bank in 2007 showed a net loss, convertible bonds will have an anti-dilutive effect in calculating loss per share; thus, the potential common shares were not included in the calculation of diluted loss per share. The numerators and denominators used in computing EPS are summarized as follows:

	<u>Numerator (Amounts)</u>		<u>Denominator</u>	<u>Earnings (Loss)</u>	
	<u>Pretax</u>	<u>After Tax</u>	<u>(Shares in Thousands)</u>	<u>Per Share (NT\$)</u>	
<u>2007</u>				<u>Pretax</u>	<u>After Tax</u>
Basic EPS	\$ <u>(6,458,740)</u>	\$ <u>(4,942,358)</u>	<u>1,868,474</u>	\$ <u>(3.46)</u>	\$ <u>(2.65)</u>
<u>2006</u>					
Basic EPS					
Income before cumulative effect of accounting changes	\$ 346,326	\$ 296,536	<u>1,825,967</u>	\$ 0.19	\$ 0.16
Cumulative effect of accounting changes	<u>10,766</u>	<u>9,278</u>	<u>1,825,967</u>	<u>0.01</u>	<u>0.01</u>
Basic EPS	357,092	305,814	1,825,967	\$ <u>0.20</u>	\$ <u>0.17</u>
Influence brought by diluted common shares:					
Convertible bank debenture	<u>-</u>	<u>-</u>	<u>301,482</u>		
Diluted EPS	\$ <u>357,092</u>	\$ <u>305,814</u>	<u>2,127,449</u>	\$ <u>0.17</u>	\$ <u>0.14</u>

26. RELATED-PARTY TRANSACTIONS

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

a. Related parties

<u>Related Party</u>	<u>Relationship with the Bank</u>
Yu-Pang Co., Ltd. (“Yu-Pang”)	Director
Yong-Xuan Co., Ltd. (“Yong-Xuan”)	Its chairman is Bank’s director
Zhong Li Venture Corporation	Director
Union Recreation Enterprise Corporation	Director
Lin Ci Yong	Director
Liu Jin Fu	Director
Yu Quan Kai Fa Co., Ltd.	Supervisor
Bao Xing Investment Corporation	Supervisor
He Ming Xing	Supervisor
Union Enterprise Construction Co., Ltd. (UECC)	Its chairman is Bank’s director
Union Ran Zheng Co., Ltd.	Its chairman and director are the Bank’s director
Hung-Kou Construction Inc., Ltd. (“Hung-Kou”)	Its chairman is a second-degree relative of the Bank’s director
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Capital (Cayman) Corp.	Equity-method investee
New Asian Ventures Ltd.	Equity-method investee
Union Bills Finance Corporation (UBF)	Equity-method investee
Union Securities Investment Trust Corporation (USITC)	Equity-method investee
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Equity-method investee
Union Real-Estate Management Corporation	Equity-method investee
Union Futures Exchange Co., Ltd. (liquidated on June 22, 2006)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Securities Investment Consulting Company (USI) (liquidated on May 31, 2007)	Subsidiary
Long Shan Lin Corporation	UBF is its director
EnTie Securities Finance Co.	The Bank holds more than 3% of its stock
Li Chang Yao Ye Co.	Liu Jin Fu is its director
T-Movies Theater Co.	Lee Yu Quan’s wife is its chairman
Hong Bang Construction Co., Ltd.	Main stockholder of the Bank
The Liberty Times Co., Ltd.	Its director and supervisor are the Bank’s director
Others	Directors, supervisors, managers, their relatives and affiliates.

b. Significant transactions with related parties:

1) Loans

December 31, 2007

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

December 31, 2006

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2006	Ending Balance	Loans Classification		Collateral	Differences in Terms of Transaction Compared with Those for Unrelated Parties
				Normal Loans	Nonperform- ing Loans		
Consumer loans	65	\$ 5,902	\$ 5,338	\$ 5,338	\$ -	-	None
Self-used housing mortgage loans	74	418,490	342,331	342,331	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,660,000	1,580,000	1,580,000	-	Land, building and time deposits	None
Other loans	EnTie Securities Finance Co.	700,000	680,000	680,000	-	Time deposits	None
Other loans	Union Real-Estate Management Corporation	564,000	564,000	564,000	-	Land and buildings	None
Other loans	Yong-Xuan	273,000	-	-	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	135,000	135,000	135,000	-	Land and factory	None
Other loans	T-Movies Theater Co.	84,195	19,691	19,691	-	Land and buildings	None
Other loans	Long Shan Lin Corporation	1,065,000	1,065,000	1,065,000	-	Land and buildings	None

	December 31		Rate	Interest Revenue	
	Amount	%		Amount	%
2007	\$ 4,553,769	2.22	1.98%-19.02%	\$ 94,225	0.64
2006	4,391,360	2.12	1.40%-19.02%	83,101	0.56

2) Deposits

	December 31		Rate	Interest Expense	
	Amount	%		Amount	%
2007	\$ 4,867,380	1.84	0%-7.20%	\$ 70,755	0.95
2006	4,725,898	1.71	0%-7.40%	50,412	0.89

3) Guarantees and letters of credit

December 31, 2007

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

December 31, 2006

Name	Highest Balance in the Year Ended December 31, 2006	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Yong-Xuan	\$ 490,000	\$ -	\$ -	0.75%	Time deposits
Union Recreation Enterprise Corporation	77,265	77,265	-	0.3%-0.5%	Time deposits
Li Chang Yao Ye Co.	798	-	-	1%	Land and factory
The Liberty Times Co., Ltd.	104,012	95,357	-	0.05%	Land and buildings

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

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

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Revenue
2007	\$ 2,200,000	\$ -	1.69%-3.95%	\$ 4,549
2006	2,040,000	1,500,000	1.44%-1.72%	9,209

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
2007	\$ 1,450,000	\$ -	1.69%-3.80%	\$ 6,644
2006	160,000	-	1.42%-1.65%	31

6) Securities purchased under resell agreements

	December 31			
	2007		2006	
	Amount	Rate	Amount	Rate
Securities purchased under resell agreements				
USITC	\$ -	-	\$ 2,532,351	1.675%
UBF	-	-	499,724	1.73%
Securities sold under repurchase agreements				
UBF	590,000	1.95%-2.15%	-	-

7) Securities brokerage fees

	Years Ended December 31	
	Amount	%
2007	\$ 13,844	9.01
2006	7,318	6.81

8) Consulting and advisory contract

In October 2005, the Bank and UFLIC entered into a three year consulting and advisory contract on auto financing operations which will expire in 2008. UFLIC's services include consultation on management, marketing, and promotional activities of auto loans, as well as on loan management and collection of overdue loans, etc. (exclude approval of loan application). The consulting fees and related expenses paid in 2007 and 2006 were \$168,431 thousand and \$217,157 thousand (included in other operating expense), respectively, and the accrued expenses as of December 31, 2007 was \$14,954 thousand.

9) Leases

a) The Bank as lessee

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

	Lease Deposit		Rental Expense	
	Amount	%	Amount	%
<u>2007</u>				
Yu-Pang	\$ 454,826	39.68	\$ 20,251	3.54
Hung-Kuo	228,524	19.94	125,234	21.87
Yong-Xuan	19,550	1.71	79,190	13.83
UECC	5,019	0.44	10,650	1.86
UBF	91	0.01	365	0.06
UFLIC	-	-	752	0.13

(Continued)

	<u>Lease Deposit</u>		<u>Rental Expense</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>2006</u>				
Yu-Pang	\$ 455,070	36.87	\$ 16,039	2.69
Hung-Kuo	228,524	18.52	121,920	20.44
Yong-Xuan	19,521	1.58	82,505	13.83
UECC	5,019	0.41	10,640	1.78
UBF	91	0.01	364	0.06
UFLIC	-	-	376	0.06
			(Concluded)	

The Bank rented cars for business from UFLIC, the rental expense in 2007 and 2006 were \$6,289 thousand and \$5,052 thousand, respectively. Rental payable as of December 31, 2007 and 2006 were \$7,205 thousand and \$11,093 thousand.

b) The Bank as lessor

The Bank's Tauring Branch, Kaohsiung Branch and Mincynan Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 2004 to December 2009, from January 2006 to December 2015 and from September 2007 to September 2017, respectively. The leasing revenues received were \$1,878 thousand in 2007 and \$1,935 thousand in 2006. And the Bank's Beitun Branch leased part of its office to UBF under an operating lease agreement starting from February 2006 to January 2016. The leasing revenue received were \$419 thousand in 2007 and \$381 thousand in 2006. The lease deposit received was \$104 thousand for 2007 and 2006.

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

The Bank sold to Morgan Stanley Union Bank a part of its nonperforming loans and related collateral property on June 27, 2006 and September 20, 2006, which amounted to \$995,000 thousand and \$615,025 thousand, respectively. Of this amount, \$966,030 thousand and \$1,288,020 thousand had not been received as of December 31, 2007 and 2006, respectively (refer to Note 15).

In addition, the Bank sold part of its nonperforming loans and related collaterals to Union Real-Estate Management Corporation at the price of \$451,800 thousand on November 26, 2007, and of which \$361,440 thousand had not been received as of December 31 2007.

Related party: Morgan Stanley Union Bank Asset Management Corporation

Disposal date: June 27, 2006

Contract Items			Amount	Carrying Amount	Price Allocation
Enterprise	Secured		\$ 42,240	\$ 42,240	\$ 6,922
	Non-secured		-	-	-
General	Secured	House mortgage	-	-	-
		Car loans	366,610	366,610	60,078
		Others	-	-	-
	Non-secured	Credit cards	2,096,671	2,096,671	652,500
		Cash cards	2,504,372	2,504,372	232,263
		Micro credit	466,203	466,203	43,237
		Others	-	-	-
Total			5,476,096	5,476,096	995,000

Related party: Morgan Stanley Union Bank Asset Management Corporation

Disposal date: September 20, 2006

Contract Items			Amount	Carrying Amount	Price Allocation
Enterprise	Secured		\$ 569,701	\$ 569,701	\$ 58,913
	Non-secured		-	-	-
General	Secured	House mortgage	154,512	154,512	30,751
		Car loans	140,739	140,739	21,040
		Others	-	-	-
	Non-secured	Credit cards	2,227,326	2,227,326	436,668
		Cash cards	695,868	695,868	47,606
		Micro credit	293,040	293,040	20,047
		Others	-	-	-
Total			4,081,186	4,081,186	615,025

Related party: Union Real-Estate Management Corporation

Disposal date: November 26, 2007

Contract Items			Amount (Note)	Carrying Amount (Note)	Price Allocation
Enterprise	Secured		\$ 332,961	\$ 332,099	\$ 211,581
	Non-secured		360,055	358,821	239,419
General	Secured	House mortgage	3,601	3,601	800
		Car loans	-	-	-
		Others	-	-	-
	Non-secured	Credit cards	-	-	-
		Cash cards	-	-	-
		Micro credit	-	-	-
		Others	-	-	-
			-	-	-
Total			696,617	694,521	451,800

Note: Allowance for bad debt was excluded.

11) Financial assets at fair value through profit or loss

As of December 31, 2007 and 2006, the Bank purchased 85,318 thousand and 72,962 thousand units, respectively, of beneficiary certificates issued by USITC, which amounted to \$974,415 thousand and \$855,698 thousand, respectively.

12) Bank debentures

As of December 31, 2007 and 2006, UBF was holding the Bank's debentures amounting to \$647,000 thousand and \$432,000 thousand, respectively.

13) Acquisition of property and equipment and unquoted equity instruments

In June 2006, the Bank purchased property and equipment and 3,050 thousand shares of Taiwan Future Exchange Corporation from Union Bank Future Corporation, which amounted to \$5,687 thousand and \$61,000 thousand, respectively.

The Bank purchased land for operating office and warehouse from Union Real-Estate Management Corporation at the price of \$84,500 thousand in November 2007.

- 14) UIT sold computers, related material and software and provided network service to the Bank. The related purchase and service fee in 2007 and 2006 were \$310,584 thousand and \$363,907 thousand, respectively.
- 15) The Bank provided insurance consulting service and sales assistance to UIB. The commission revenues in 2007 and 2006 were \$112,230 thousand and \$96,451 thousand, respectively. The consulting service revenues in 2007 and 2006 were \$27,149 thousand and \$21,340 thousand, respectively.
- 16) USI provided securities investment consulting to the Bank. The related consulting expense in 2006 is \$1,524 thousand.

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

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

27. PLEDGED ASSETS

As of December 31, 2007 and 2006, government bonds and bank debentures, which amounted to \$984,300 thousand and \$965,315 thousand (included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve of credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, negotiable certificates of deposit aggregating \$1,300,000 thousand had been provided to the Central Bank as collateral for the day-term overdraft as of December 31, 2007.

28. CONTINGENCIES AND COMMITMENTS

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

a. Operating leases

The Bank rents several office premises for its branches under operating leases ranging from 2 to 10 years. Rentals are payable monthly, quarterly or annually. For the Nanking E. Rd., San Chung, Shin-Dian and Wujia branches, lease deposits are made in lieu of lease payments, and rental expenses are recognized at imputed interests of 2.175%. Future minimum lease payments are as follows:

Year	Amount
2008	\$ 368,390
2009	230,357
2010	102,768
2011	48,214
2012	48,214

The present value of total rentals beyond 2013, amounted to \$250,606 thousand, is about \$214,585 thousand, discounted by the Bank's one-year time deposit interest rate of 2.62% on January 1, 2008.

b. Computer equipment purchase contracts

The Bank contracted to purchase computer equipment and software for \$84,580 thousand, of which \$54,950 thousand (included in prepayments for equipment) had been paid as of December 31, 2007.

c. Securities sold under repurchase agreements

As of December 31, 2007, securities with a total cost of \$32,865,259 thousand were sold under agreements to repurchase between January 2008 and July 2008. The buy back price is based on the notional amount plus the interests which is calculated by the agreed interest rate.

d. Securities purchased under resell agreements

As of December 31, 2007, securities with a total cost of \$5,863,732 thousand were purchased under agreements to resell for \$5,865,587 thousand in January 2008.

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

**Balance Sheet of Trust Accounts
December 31, 2007**

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

**Balance Sheet of Trust Accounts
December 31, 2006**

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	\$ 244,665	Income tax payable	\$ 33
Investments		Expenses payable	2
Mutual funds	25,198,608	Trust capital	29,492,796
Common stock	108,046	Reserve and deficit	<u>2,767</u>
Real estate - land and building	<u>3,944,279</u>		
Total	<u>\$ 29,495,598</u>	Total	<u>\$ 29,495,598</u>

**Trust Income Statement
Year Ended December 31, 2007**

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

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

**Trust Income Statement
Year Ended December 31, 2006**

	Amount
Trust income	
Interest revenue - demand account	\$ 86
Interest revenue - time deposit	1,453
Interest revenue - bonds	2,511
Cash dividend	8,022
Realized capital gain - fund	<u>9,930</u>
Total trust income	22,002
Trust expense	
Management expense	883
Taxation	16,321
Realized capital loss - fund	6,080
Realized capital loss - bonds	1,105
Other	<u>1,801</u>
Total trust expense	26,190
Income before tax	(4,188)
Income tax expense	<u>(328)</u>
Income after tax	(4,516)
Unrealized capital gain - GTSM stock	6,856
Unrealized capital gain - fund	<u>1,633</u>
Net income	<u>\$ 3,973</u>

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

**Trust Property and Equipment Accounts
December 31, 2007**

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

**Trust Property and Equipment Accounts
December 31, 2006**

Investment Portfolio	Amount
Demand deposits	\$ 244,665
Investments	
Mutual funds	25,198,608
Common stock	108,046
Real estate - land and building	<u>3,944,279</u>
	<u>\$ 29,495,598</u>

**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.

	<u>2007</u>	
	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>		
Cash and cash equivalents	\$ 1,615,824	1.36
Due from the Central Bank and other banks	30,217,041	1.39
Financial assets at fair value through profit or loss	7,815,700	0.75
Securities purchased under resell agreements	4,869,277	1.54
Discounts and loans	191,239,958	4.15
Accounts receivable - credit card	24,221,265	12.73
Available-for-sale financial assets	5,072,832	1.87
Held-to-maturity investments	41,799,919	6.85
Non-active market debt instruments	349,040	3.86

(Continued)

Appendix I

	2007	
	Average Balance	Average Rate (%)
<u>Interest-bearing liabilities</u>		
Call loans and due to other banks	\$ 7,397,698	2.69
Securities sold under repurchase agreements	25,869,523	4.53
Demand deposits	22,835,652	0.60
Savings - demand deposits	59,709,459	0.71
Time deposits	57,718,677	3.07
Deposit from the post office	21,152,800	2.39
Time - savings deposits	123,535,105	2.18
Negotiable certificates of deposit	4,602,083	1.11
Bank debentures	14,212,959	2.74
Liability component of preferred stocks	327,200	6.00
	(Concluded)	

	2006	
	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>		
Cash and cash equivalents	\$ 18,274,476	1.62
Due from the Central Bank and other banks	11,691,375	1.31
Financial assets at fair value through profit or loss	7,072,852	1.16
Securities purchased under resell agreements	3,332,750	1.66
Discounts and loans	192,318,446	4.04
Accounts receivable - credit card	25,985,383	16.20
Available-for-sale financial assets	10,095,105	1.23
Held-to-maturity investments	23,932,640	6.44
Non-active market debt instruments	1,202,467	1.88

<u>Interest-bearing liabilities</u>		
Call loans and due to other banks	5,611,141	3.31
Securities sold under repurchase agreements	13,584,328	2.54
Demand deposits	19,833,083	0.64
Savings - demand deposits	54,193,646	0.73
Time deposits	49,718,606	2.35
Deposit from the post office	21,095,436	2.13
Time- savings deposits	127,724,610	1.92
Negotiable certificates of deposit	5,350,750	1.49
Bank debentures	13,403,112	2.64

30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	December 31			
	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 7,746,462	\$ 7,746,462	\$ 4,873,587	\$ 4,873,587
Available-for-sale financial assets	3,439,568	3,439,568	5,997,931	5,997,931
Other short-term financial assets	62,689,648	62,689,648	80,499,310	80,499,310
Discounts and loans	205,523,586	205,523,586	207,070,571	207,070,571
Held-to-maturity financial assets	48,559,541	45,592,123	30,096,773	30,992,015
Non-active market debt instruments	166,636	256,373	2,666,843	2,779,535
Other financial assets	3,498,355	3,498,355	2,298,236	2,298,236
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	61,326	61,326	34,457	34,457
Other short-term financial liabilities	64,773,593	64,773,593	50,856,465	50,856,465
Deposits	263,909,020	263,909,020	275,724,399	275,724,399
Bank debentures	10,526,400	10,528,053	15,083,700	15,910,342
Other financial liabilities	254,580	254,580	318,597	318,597
Liability component of preferred stocks	327,200	327,200	-	-

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

- 1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, receivables, payables and short-term bank loans.
- 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 Clear Stream Banking and adjusted by evaluations of debtor's credit.

- 3) Discounts and loans, and deposits are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on the carrying amount, which is net of allowance for credit losses.
- 4) Investments under the equity method and financial assets carried at cost have no quoted market prices in an active market and their fair value cannot be reliably measured. Thus, the Bank does not disclose their fair value.

- 5) Refundable deposits have no specified maturity date and thus its market value is estimated based on its carrying value in the balance sheet. The carrying value of the guarantee deposits received is the reasonable base to estimate their market values as the carrying value is the current pay-off price.
 - 6) The fair values of bank debentures are estimated based on the price published by GTSM.
 - 7) The fair values of forward contracts and interest rate swap contracts are based on present value techniques. Options' fair value are based on estimates using Black Scholes model.
 - 8) Fair value of liability component of preferred stocks are estimated based on the present value of future cash flows.
- c. Fair value of financial assets and financial liabilities determined based upon quoted market prices or valuation techniques summarized as follows:

	<u>Quoted Market Prices</u>		<u>Valuation Techniques</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 4,070,001	\$ 4,696,359	\$ 3,676,461	\$ 177,228
Available-for-sale financial assets	3,439,568	5,997,931	-	-
Held-to-maturity investments	646,813	-	44,945,310	30,992,015
Other financial assets	-	-	3,754,728	5,077,771
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	61,326	34,457
Bank debentures	10,528,053	15,910,342	-	-
Other financial liabilities	-	-	254,580	318,597
Liability component of preferred stock	-	-	327,200	-

Valuation gains (losses) arising from changes in fair value of financial instruments determined using valuation techniques were \$102,766 thousand and \$48,286 thousand for the years ended December 31, 2007 and 2006, respectively.

As of December 31, 2007 and 2006, the interest income (expense) associated with financial assets (liabilities) other than those at FVTPL was as follows:

	<u>Year Ended</u>	
	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Total interest income	\$ 14,571,107	\$ 14,677,728
Total interest expense	(7,415,733)	(5,664,213)

The Bank recognized an unrealized loss of \$65,287 thousand and \$74,928 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets in the year ended December 31, 2007 and 2006, respectively, and of which \$14,982 thousand and \$53,770 thousand were reclassified into current loss in the income statement.

d. Financial risks

1) Market risk

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

2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2007 and 2006, ratios of secured loans to total loans were 77.93 % and 75.12%, respectively. Ratio of secured financial guarantees and standby letters of credits were 32.52% and 37.52%. Collaterals held vary but may include cash, inventories, marketable securities, and other properties. When the customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising from the guarantees received. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

The Bank has significant credit commitments principally relating to credit cards issued and credit facilities extended. The terms of most of the credit commitments range from half year to ten years. For the years ended December 31, 2007 and 2006, the loan interest rates ranged from 1.70% to 9.1% and 1.45% to 11.06%, respectively, and the highest interest rate for credit cards was 19.71%. 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, 2007 and 2006 were as follows:

	<u>December 31</u>	
	2007	2006
Credit commitments for credit cards	\$ 339,144,137	\$ 350,953,553
Guarantees and standby letters of credit	8,465,275	9,723,013
Irrevocable loan commitments	492,923	1,063,098

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, 2007 and 2006. On December 31, 2007 and 2006, the Bank's most significant concentrations of credit risk were summarized as follows:

	<u>Carrying Amount</u>	
	<u>December 31</u>	
Credit Risk Profile by Counterparty	2007	2006
Consumer	\$ 147,532,855	\$ 149,665,575
Private sector	51,623,058	50,362,553
Government	<u>1,263,725</u>	<u>1,940,789</u>
	<u>\$ 200,419,638</u>	<u>\$ 201,968,917</u>

Credit Risk Profile by Industry Sector	Carrying Amount	
	December 31	
	2007	2006
Real estate activities	\$ 18,677,997	\$ 12,037,565
Finance and insurance	8,315,135	6,488,063
Manufacturing	<u>6,711,177</u>	<u>7,439,864</u>
	<u>\$ 33,704,309</u>	<u>\$ 25,965,492</u>

The Bank does not make significant loans to foreign areas in 2007 and 2006. 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, 2007 and 2006, the liquidity reserve ratio was 10.66% and 9.73%, respectively. The Bank has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of failing to liquidate the derivative financial instruments with reasonable price is remote.

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

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

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

	December 31, 2006					
	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
<u>Assets</u>						
Cash and cash equivalents	\$ 7,243,820	\$ 230,000	\$ 763	\$ 106,000	\$ -	\$ 7,580,583
Due from the Central Bank and other banks	32,547,602	-	-	-	-	32,547,602
Financial assets at fair value through profit or loss	4,869,286	3,468	729	104	-	4,873,587
Securities purchased under resell agreements	3,820,626	-	-	-	-	3,820,626
Available-for-sale financial assets	249,831	-	3,616	157,230	5,587,254	5,997,931
Discounts and loans	6,245,720	9,320,290	8,276,300	20,878,162	164,061,529	208,782,001
Held-to-maturity investments	28,976,924	-	-	516,099	1,534,486	31,027,509
Receivables	37,513,764	75,307	37,604	153,240	10,252	37,790,167
	<u>121,467,573</u>	<u>9,629,065</u>	<u>8,319,012</u>	<u>21,810,835</u>	<u>171,193,521</u>	<u>332,420,006</u>
<u>Liabilities</u>						
Call loans and due to banks	5,047,736	5,929,320	1,000	20,493,776	345,178	31,817,010
Financial liabilities at fair value through profit or loss	124	1,019	-	-	33,314	34,457
Securities sold under repurchase agreements	6,869,441	897,273	219,777	3,918,000	-	11,904,491
Payables	6,030,977	330,482	235,842	352,227	161,926	7,111,454
Deposits and remittance	26,741,607	31,791,062	80,590,758	123,531,513	13,092,969	275,747,909
Bank debentures	-	-	-	3,500,000	11,583,700	15,083,700
	<u>44,689,885</u>	<u>38,949,156</u>	<u>81,047,377</u>	<u>151,795,516</u>	<u>25,217,087</u>	<u>341,699,021</u>
Net liquidity gap	<u>\$ 76,777,688</u>	<u>\$ (29,320,091)</u>	<u>\$ (72,728,365)</u>	<u>\$ (129,984,681)</u>	<u>\$ 145,976,434</u>	<u>\$ (9,279,015)</u>

31. MARKET RISK CONTROL AND HEDGE STRATEGY

a. Risk managing indicators and strategy

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

b. Quantifiable risk measurement and control

- 1) Credit risk: The goal is to control risk in tolerable level by setting up measurement tools which quantify risk across products and businesses. Then, the Bank builds the model in loan procedures to ensure the spread could bear the risk to protect the stockholder and depositors.
 - a) Setting up credit risk measurement system and database when making loans and reserving the historical data of credit risk measurement.
 - b) Setting up credit rating system connecting with interest spread.
 - c) Modulating credit risk measurement model and instruments by economy, forecasting and customer attribute to ensure the data match status.
- 2) Market risk: The goal is to set up the identifying, evaluating, monitoring, reporting and controlling procedures. The Bank builds related risk management procedure and mechanism under the guideline of Based II and plans to build risk management system to ensure that the outcomes of risk-taking activities are predictable and within the Bank's risk tolerance parameter and that there is an appropriate balance between risk and reward.
 - a) The trade limit control: The limit approved by the board of directors or senior management committees included the limit of investment, counter parties, trader and total limit.

- b) The price risk control: Marked-to-market valuation method which values the open position by settlement price daily. The data of sensitivity analysis of all outstanding position and stop-loss monitor information can be obtained through trading management system.
 - c) The risk report: To ensure risk control effectively, outstanding position report and integrated risk management report are available on a continuing basis.
- 3) Operational risk
- a) Establishment of the strategy procedures at an all-bank level control procedure and process.
 - b) Establishment of database and reporting system of the operational risk loss data by activity units or activities, and keep the data to improve internal control.
 - c) Establish information and employees backup system to lower the loss of spot situation.
- 4) Liquidity risk

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

32. STATEMENT OF CAPITAL ADEQUACY

(In Thousands of New Taiwan Dollars, %)

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

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

Note 2: Formulas used were as follows:

- 1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk - weighted assets.
- 4) Ratio of tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets.
- 5) Ratio of tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets.
- 6) Ratio of tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets.
- 7) Ratio of common stock to total assets = Common stock ÷ Total assets.

(In Thousands of New Taiwan Dollars, %)

	December 31, 2006
Net eligible capital	\$ 20,614,349
Total risk-weighted assets	217,720,435
Capital adequacy ratios	9.47
Ratios of tier 1 capital to risk-weighted assets	7.31
Ratios of tier 2 capital to risk-weighted assets	3.98
Ratios of tier 3 capital to risk-weighted assets	-
Ratios of common stockholders' equity to total assets	5.06

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

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

a. Credit risks

- 1) Asset quality: Table 4 (attached)

2) Concentration of credit extensions

December 31, 2007

(In Thousands of New Taiwan Dollars, %)

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

December 31, 2006

(In Thousands of New Taiwan Dollars, %)

Rank	Group Enterprise name	Total Amount of Credit Endorsement or Other Transactions	Percentage of Equity (%)
1	Union Group	\$3,831,624	20.51
2	Hung Tai Group	1,970,000	10.54
3	Wei Da Group	1,943,217	10.40
4	Lin San Hao Group	1,136,355	6.08
5	Qing Feng Group	1,101,135	5.89
6	Li Ba Group	1,043,839	5.59
7	Chinatrust Financial Holdings Co., Ltd.	1,037,812	5.55
8	Miramar Group	938,554	5.02
9	Xin Guang Group	906,000	4.85
10	Chang Lian Leasing Group	842,622	4.51

b. Interest rate sensitivity information

**Interest Rate Sensitivity
December 31, 2007**

(In Thousands of New Taiwan Dollars, %)

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

**Interest Rate Sensitivity
December 31, 2006**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest rate-sensitive assets	\$ 199,646,073	\$ 6,567,559	\$ 8,171,991	\$ 66,481,146	\$ 280,866,769
Interest rate-sensitive liabilities	153,515,468	93,498,184	33,494,563	19,746,558	300,254,773
Interest rate sensitivity gap	46,130,605	(86,930,625)	(25,322,572)	46,734,588	(19,388,004)
Net worth					18,131,369
Ratio of interest rate-sensitive assets to liabilities					93.54%
Ratio of interest rate sensitivity gap to net worth					(106.93%)

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, 2007**

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

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

**Interest Rate Sensitivity
December 31, 2006**

(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	\$ 47,076	\$ 31,431	\$ 30,074	\$ 919,322	\$ 1,027,903
Interest rate-sensitive liabilities	555,721	219,785	173,708	-	949,214
Interest rate sensitivity gap	(508,645)	(188,354)	(143,634)	919,322	78,689
Net worth					19,774
Ratio of interest rate-sensitive assets to liabilities					108.29%
Ratio of interest rate sensitivity gap to net worth					397.94%

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		2007	2006
Return on total assets	Before income tax	(1.79)	0.10
	After income tax	(1.37)	0.09
Return on net worth	Before income tax	(35.12)	1.87
	After income tax	(26.87)	1.65
Profit margin		(62.26)	2.84

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, 2007 and 2006.

2) Maturity analysis of assets and liabilities:

**Maturity Analysis of Asset and Liabilities
December 31, 2007**

(In Thousands of New Taiwan Dollars)

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

**Maturity Analysis of Asset and Liabilities
December 31, 2006**

(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	\$ 313,989,005	\$ 62,661,694	\$ 18,531,882	\$ 12,237,790	\$ 24,682,230	\$ 195,875,409
Main capital outflow on maturity	319,977,313	30,098,550	30,069,252	74,043,794	138,775,898	46,989,819
Gap	(5,988,308)	32,563,144	(11,537,370)	(61,806,004)	(114,093,668)	148,885,590

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, 2007**

(In Thousands of U.S. Dollars)

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

**Maturity Analysis of Assets and Liabilities
December 31, 2006**

(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	\$ 1,405,166	\$ 386,442	\$ 19,451	\$ 29,030	\$ 29,166	\$ 941,077
Capital outflow on maturity	1,405,169	632,445	221,224	220,825	295,671	35,004
Gap	(3)	(246,003)	(201,773)	(191,795)	(266,505)	906,073

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

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

34. ADDITIONAL DISCLOSURES

a. Related information of significant transactions and investees:

- 1) Financing provided: The Bank - not applicable; investee company - none
- 2) Endorsement/guarantee provided: The Bank - not applicable; investee company - none
- 3) Marketable securities held: Table 1 (attached)
- 4) Acquired and disposed of investee investment at costs or prices of at least NT\$300 million or 10% of the issued capital: None
- 5) Acquisition of individual real estates at costs of at least NT\$300 million or 10% of the issued capital: None
- 6) Disposal of individual real estates at prices of at least NT\$300 million or 10% of the issued capital: None
- 7) Allowance for service fee to related parties amounting to at least NT\$5 million: None
- 8) Receivables from related parties amounting to at least NT\$300 million or 10% of the issued capital: Table 2 (attached)
- 9) Sale of nonperforming loans: Table 3 (attached)

- 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: For the Bank's related information, please see Note 30. The investees' related information is as follows:

Union Bills Finance Corporation (UBF)

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

- a) The contract (notional) amount of derivative financial instruments as of December 31, 2007 and 2006 were as follows:

	December 31	
	2007	2006
	Contract (Notional) Amounts	Contract (Notional) Amounts
Financial Instruments		
<u>Trading purposes</u>		
Assets swap	\$ 122,600	\$ 325,100
Interest rate swap	25,500,000	25,900,000

- b) Fair value of derivative financial instruments

	December 31, 2007		December 31, 2006	
	Carrying Value	Fair Value Based on Estimates	Carrying Value	Fair Value Based on Estimates
Financial Instruments				
Assets				
Asset swaps	\$ 121,431	\$ 121,431	\$ 2,540	\$ 2,540
Interest rate swap	6,590	6,590	-	-
Liabilities				
Put option	-	-	547	547
Interest rate swap	33,969	33,969	42,331	42,331

- c) Market price risk

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

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

d) Credit risk

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

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

Financial Instrument	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Notional Amounts	Financial Instruments	Notional Amounts	Financial Instruments
Derivative financial instrument				
Interest rate swap	\$ 25,500,000	\$ 68,908	\$ 25,900,000	\$ 47,128
Asset swap	\$ 122,600	\$ -	\$ 325,100	\$ 2,567

e) Liquidity risk

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

f) Accounting policy for derivative instruments

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

b. Investment in Mainland China: None.

35. SEGMENT INFORMATION

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

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD

DECEMBER 31, 2007

(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, 2007				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	<u>Stock</u>							
	China Chemical Corporation	-	Available-for-sale financial assets	356	\$ 5,685	0.12%	\$ 5,685	-
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	486,905	100.00%	US\$ 15,014	-
	Union Bills Finance Corporation	Affiliate	Unquoted equity instruments	2,100	26,250	0.71%	21,863	Note 1
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	5,521	0.19%	5,521	-
	Union Semi-Conductors Technology Corp.	-	Unquoted equity instruments	1,600	548	2.65%	-	Note 1
	WI Harper Group	-	Unquoted equity instruments	1,583	10,153	3.33%	14,446	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	4,791	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	47	942	0.99%	1,038	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investments - equity method	-	106,043	100.00%	US\$ 3,270	-
Union Bills Finance Corporation	Masterlink Securities Corporation.	-	Available-for-sale financial assets	872	10,807	0.06%	10,807	-
	<u>Stock</u>							
	Debt Instrument Depository and Clearing Co., Taiwan	-	Unquoted equity instruments	483	9,277	0.17%	16,864	Note 2
	China Steel Co., Ltd.	-	Available-for-sale financial assets	1,379	59,965	0.01%	59,965	-
	Sysco Co., Ltd.	-	Available-for-sale financial assets	106	2,947	0.03%	2,947	-
	Yeun Chyang Co., Ltd.	-	Available-for-sale financial assets	410	12,546	0.13%	12,546	-
	UPC Technology Co., Ltd.	-	Available-for-sale financial assets	670	12,194	0.08%	12,194	-
	Formosa Chemicals & Fiber Corporation	-	Financial assets at fair value through profit or loss	828	68,741	0.01%	68,741	-
	AU Optronics Corp.	-	Financial assets at fair value through profit or loss	175	11,113	-	11,113	-
	TSRC Corporation	-	Available-for-sale financial assets	1,636	70,103	0.15%	70,103	-
	Far EasTone Co., Ltd.	-	Available-for-sale financial assets	200	8,200	0.05%	8,200	-
	<u>Beneficiary certificate</u>							
	PCA Asia Pacific High Yield Equity Fund	-	Financial assets at fair value through profit or loss - stock and fund	1,226	16,187	-	16,187	-
	Prudential Financial Global Small & Mid Cap Fund	-	Financial assets at fair value through profit or loss - stock and fund	485	10,753	-	10,753	-
	Prudential Financial Great China Fund	-	Financial assets at fair value through profit or loss - stock and fund	910	25,782	-	25,782	-

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Adam Global Emerging Markets Fund	-	Financial assets at fair value through profit or loss - stock and fund	839	\$ 19,178	-	\$ 19,178	-
	JF(Taiwan) Asia Fund	-	Financial assets at fair value through profit or loss - stock and fund	826	38,691	-	38,691	-
	NITC Asia Technology Fund	-	Financial assets at fair value through profit or loss - stock and fund	517	9,831	-	9,831	-
	Truswell Eastern Key Fund	-	Financial assets at fair value through profit or loss - stock and fund	694	8,478	-	8,478	-
	AIG Latin American Fund	-	Financial assets at fair value through profit or loss - stock and fund	1,729	25,246	-	25,246	-
	Far Eastern Alliance Global Material and Energy Fund	-	Financial assets at fair value through profit or loss - stock and fund	544	15,621	-	15,621	-
	<u>Bond</u>							
	NAN YA Plastics Corporation Bonds 2003-1A Issue	-	Available-for-sale financial assets through profit or loss	7 pieces	34,558	-	34,558	-
	Taiwan Power Company 2st Unsecured Bond 2004-1D Issue	-	Available-for-sale financial assets through profit or loss	60 pieces	298,750	-	298,750	-
	China Development Financial Holding Corporation Unsecured Bond 2005-2A Issue	-	Available-for-sale financial assets through profit or loss	45 pieces	442,802	-	442,802	-
	Chi Mei Corporation 1st Unsecured Bond 2005 Issue	-	Available-for-sale financial assets through profit or loss	3 pieces	29,619	-	29,619	-
	Nanya Technology Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	3,000 pieces	295,499	-	295,499	-
	Yang Ming Marine Transport Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	1,500 pieces	147,189	-	147,189	-
	Fortune Motors Corporation Secured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	16 pieces	79,276	-	79,276	-
	Formosa Plastics Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	3,000 pieces	296,061	-	296,061	-
	Nanya Technology Corporate Bonds - 2005	-	Available-for-sale financial assets through profit or loss	2,000 pieces	197,603	-	197,603	-
	Inotera Corporate Bonds - 2006-2	-	Available-for-sale financial assets through profit or loss	5,000 pieces	491,299	-	491,299	-
	Cathay United Bank Financial Bonds - 2005-2	-	Available-for-sale financial assets through profit or loss	10 pieces	98,819	-	98,819	-
	Jih Sun Financial Bonds - 2004-1	-	Financial assets at fair value through profit or loss	80 pieces	819,366	-	819,366	-
	Union Bank Financial Bonds 2004-1 (Issued by The Bank)	Parent Company	Financial assets at fair value through profit or loss	151 pieces	537,000	-	537,000	-

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Union Bank Financial Bonds 2004-2 (Issued by The Bank)	Parent Company	Financial assets at fair value through profit or loss	55 pieces	\$ 101,654	-	\$ 101,654	-
	Far Eastern International Bank Financial Bonds	-	Financial assets at fair value through profit or loss	30 pieces	290,624	-	290,624	-
	Taishin Bank Financial Bonds 2003-1	-	Financial assets at fair value through profit or loss	20 pieces	194,477	-	194,477	-
	Taishin Bank Financial Bonds 2003-1	-	Financial assets at fair value through profit or loss	30 pieces	290,603	-	290,603	-
	Union Bank Financial Bonds 2006-1 (Issued by The Bank)	Parent Company	Financial assets at fair value through profit or loss	100 pieces	9,835	-	9,835	-
	China Development Financial Bonds	-	Financial assets at fair value through profit or loss	-	283,347	-	283,347	-
	United Microelectronics Corporate Bonds - 2003-3	-	Financial assets at fair value through profit or loss	30 pieces	148,514	-	148,514	-
	China Development Financial Bonds 2005-1	-	Financial assets at fair value through profit or loss	15 pieces	147,655	-	147,655	-
	Taishin Bank Financial Bonds - 2003-1	-	Financial assets at fair value through profit or loss	10 pieces	102,067	-	102,067	-
	Jih Sun Financial Bonds - 2005-1	-	Financial assets at fair value through profit or loss	5 pieces	50,496	-	50,496	-
	Nan Ya Plastics Corporate Bonds	-	Financial assets at fair value through profit or loss	-	184,156	-	184,156	-
	Formosa Plastics Corporate Bond	-	Financial assets at fair value through profit or loss	-	187,882	-	187,882	-
	Formosa Plastics Corporate Bond	-	Financial assets at fair value through profit or loss	500 pieces	46,133	-	46,133	-
	Yulon Convertible Bonds	-	Financial assets at fair value through profit or loss	401 pieces	40,100	-	40,100	-
	Transcend Convertible Bonds	-	Financial assets at fair value through profit or loss	25 pieces	2,500	-	2,500	-
	China Airline Convertible Bonds 2004	-	Financial assets at fair value through profit or loss	200 pieces	20,000	-	20,000	-
	China Airline Convertible Bonds 2004	-	Financial assets at fair value through profit or loss	100 pieces	10,000	-	10,000	-
	China Airline Convertible Bonds 2004	-	Financial assets at fair value through profit or loss	500 pieces	50,000	-	50,000	-
Union Information Technology Corporation	<u>Stock</u> ELTA Technology Co., Ltd.	-	Equity investments - equity method	2,000	17,132	16.33%	19,331	Note 4
	eBizServe, Inc.	-	Unquoted equity instruments	1,650	3,066	15.08%	3,066	-
	Jin Shang Chang Development Co., Ltd.	-	Available-for-sale financial assets	-	-	-	-	-
Union Finance International (HK) Limited	<u>Bond</u> Federal Home Loan Bank Bond	-	Held-to-maturity investments	-	US\$ 1,000	-	-	Note 6
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 pieces	US\$ 793	-	US\$ 793	-
	Chunghwa Picture Tubes Ltd.	-	Held-to-maturity investments	1 pieces	US\$ 1,000	-	-	Note 6
	Wash Mutual PFD Funding	-	Available-for-sale financial assets	900 pieces	US\$ 579	-	US\$ 579	-

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Penn West Energy	-	Available-for-sale financial assets	29 pieces	US\$ 762	-	US\$ 762	-
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	-	US\$ 486	-	US\$ 486	-
	Caterpillar Inc.		Financial assets at fair value through profit or loss	-	US\$ 494	-	US\$ 494	-
	<u>Stock</u>							
	ING Group N.V.	-	Available-for-sale financial assets	33	US\$ 743	-	US\$ 743	-
	Fairfield Greenwich Group	-	Available-for-sale financial assets	2	US\$ 2,104	-	US\$ 2,104	-
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US\$ 462	-	US\$ 462	-
	Qualcomm Incorporation	-	Financial assets at fair value through profit or loss	12	US\$ 475	-	US\$ 475	-
	Applied Materials Inc.	-	Financial assets at fair value through profit or loss	26	US\$ 460	-	US\$ 460	-
	<u>Stock</u>							
Union Insurance Broker Company	Asus Computer Corp.	-	Available-for-sale financial assets	19	1,838	-	1,838	-
	Protop Technology Co., Ltd.	-	Available-for-sale financial assets	1	1	-	1	-
New Asian Ventures Ltd.	<u>Stock</u>							
	PGWC Wireless Inc.	-	Available-for-sale financial assets	372	US\$ 1	3.93%	US\$ 1	-
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US\$ 2,500	0.74%	US\$ 2,009	Note 3
	Medinox Inc.	-	Unquoted equity instruments	403	US\$ 350	1.23%	-	Note 3

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

Note 1: Union Finance and Leasing International Corporation:

- Union Semi-Conductors Technology Corp., WI Haper Group and ERA Communications Co., Ltd. and Yung Li Securities Co., Ltd. - audited stockholders' equity as of December 31, 2006.
- Union Bills Finance Corporation - the audited stockholders' equity as of December 31, 2007.

Note 2: Union Bills Finance Corporation had investments in Taiwan Depository & Clearing Corporation - the audited stockholders equity as of December 31, 2007.

Note 3: New Asian Ventures Ltd.:

- Medinox Inc. - audited stockholders' equity as of March 30, 2007.
- Grace Thw Holding Limited - unaudited stockholders equity as of December 31, 2006.

Note 4: Union Information Technology Corporation had investments in ELTA Technology Co., Ltd. - the audited stockholders' equity as of December 31, 2007.

Note 5: Except above, other companies - unaudited stockholders' equity as of December 31, 2007.

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

Note 6: There are no open market in the securities, thus no market value is available.

(Concluded)

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$300 MILLION OR 10% OF THE ISSUED CAPITAL
DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

Company	Counter-party	Relationship	Ending Balance	Turnover Rate	Overdue Receivables from Related Parties		Collection Subsequently	Allowance for Bad Debts
					Amount	Deal With		
Union Bank of Taiwan	Morgan Stanley Union Bank Asset Management Corporation	Equity-method investee	\$966,030	Unsuitable for financial institution	None	Unsuitable	None	None
	Union Real-Estate Management Corporation	Equity-method investee	361,440	Unsuitable for financial institution	None	Unsuitable	None	None

Note: Receivables were from sale of nonperforming loans to Morgan Stanley Union Bank Asset Management Corporation as of June 27 and September 20, 2006 and to Union Real-Estate Management Corporation as of November 26, 2007.

UNION BANK OF TAIWAN

SALE OF NONPERFORMING LOANS AMOUNTING TO AT LEAST NT\$5,000 MILLION
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

Transaction Date	Buyer	Types of Nonperforming Loans	Loan Amount (Note)	Price	Gain (Loss) on Disposal	Payment Term	Relationship
2007.11.26	Union Real-Estate Management Corporation	Credit cards, cash cards, micro-credit, and motor financing	\$ 673,741	\$ 451,800	\$ (221,941)	-	Equity-method investee

Note: Allowance for bad debt expense had been deducted.

UNION BANK OF TAIWAN

ASSET QUALITY

DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2007					December 31, 2006				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured		\$ 1,119,333	\$ 42,383,195	2.64%	\$ 2,173,285	43.74%	\$ 1,550,184	\$ 38,811,602	3.99%	\$ 1,711,430	34.03%
	Unsecured		1,555,161	30,073,837	5.17%			1,740,311	31,173,472	5.58%		
Consumer Banking	Housing mortgage (Note 4)		811,799	118,455,726	0.69%			772,682	116,630,951	0.66%		
	Cash card		90,554	2,113,454	4.28%			146,874	3,630,868	4.05%		
	Small scale credit loans (Note 5)		880,293	4,136,338	21.28%			117,281	4,463,460	2.63%		
	Other (Note 6)	Secured	122,215	1,013,535	12.06%			75,314	1,398,676	5.38%		
		Unsecured	389,079	8,769,362	4.44%			626,053	11,774,915	5.32%		
Deposits and Remittances	Certificates of deposit		-	751,424	-			-	898,057	-		
Loan			4,968,434	207,696,871	2.39%	2,173,285	43.74%	5,028,699	208,782,001	2.41%	1,711,430	34.03%
			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			\$ 628,185	\$ 26,619,791	2.36%	\$ 2,159,272	343.73%	\$ 909,007	\$ 33,463,159	2.72%	\$ 1,032,364	113.57%
Factoring accounts receivable without recourse (Note 7)			-	-	-	-	-	-	-	-	-	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)			787,987					1,234,730				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)			4,124,834					6,225,345				

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: $\text{Nonperforming loans} \div \text{Outstanding loan balance}$.
Ratio of nonperforming credit card receivables: $\text{Nonperforming credit card receivables} \div \text{Outstanding credit card receivables balance}$.

Note 3: Coverage ratio of loans: $\text{Allowance for possible losses for loans} \div \text{Nonperforming loans}$.
Coverage ratio of credit card receivables: $\text{Allowance for possible losses for credit card receivables} \div \text{Nonperforming credit card receivables}$.

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.

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

UNION BANK OF TAIWAN

INFORMATION OF AND PROPORTIONATE SHARE IN INVESTEEES
YEAR ENDED DECEMBER 31, 2007
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	The Proportionate Share of the Bank and its Affiliates in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership	
<u>Financial - related</u>										
Union Bills Finance Co.	Taipei	Bills finance	42.76%	\$ 1,317,722	\$ (37,129)	167,032	-	167,032	56.43%	Note
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00%	1,047,928	28,398	100,000	-	100,000	100.00%	Note
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99%	132,396	21,087	30,000	-	30,000	100.00%	Note
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00%	109,686	(13,406)	11,951	-	11,951	39.84%	Note
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00%	28,634	8,897	500	-	500	100.00%	Note
Morgan Stanley Union Bank Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution; does accounts receivable factoring	49.00%	74,778	36,902	1,323	-	1,323	49.00%	Note
Union Security Investment Consulting Company	Taipei	Securities investment consulting	-	-	288	-	-	-	-	
Taiwan Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution	0.57%	100,000	9,410	10,000	-	10,000	0.57%	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94%	50,000	-	5,000	-	5,000	2.94%	
Hua Rong Venture Capital Co., Ltd.	Taipei	Investment	4.55%	5,975	-	778	-	778	4.55%	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53%	43,935	-	3,942	-	3,942	0.53%	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44%	3,864	-	386	-	386	6.44%	
MasterCard	Taipei	Credit card related businesses	-	-	50,711	-	-	-	-	
EnTie Securities Finance Co.	Taipei	Securities finance	12.15%	622,188	-	65,206	-	65,206	12.15%	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81%	2,113	498	160	-	160	0.81%	
Fu Hua Venture Corporation	Taipei	Investment	5.00%	23,925	-	3,000	-	3,000	5.00%	
Jiao Da Venture Corporation	Taipei	Investment	5.00%	12,688	-	2,130	-	2,130	5.00%	
Li Yu Venture Corporation	Taipei	Investment	4.76%	16,477	-	1,501	-	1,501	4.76%	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04%	71,250	2,730	4,483	-	4,483	2.04%	
<u>Non-financial related</u>										
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99%	103,019	33,428	5,000	-	5,000	99.99%	Note
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00%	132,235	90,776	4,000	-	4,000	80.00%	Note
Financial Information Service Co., Ltd.	Taipei	Information service	2.39%	118,782	16,281	9,577	-	9,577	2.39%	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.08%	4,639	236	241	-	241	0.08%	
Lian An Service Corporation	Taipei	Security service	5.00%	1,501	125	125	-	125	5.00%	
Save Com International Inc.	Taipei	Telecommunication and net work integration	0.07%	75	-	63	-	63	0.07%	
Taipower Corporation	Taipei	Electricity-related business	0.0012%	6,123	-	395	-	395	-	
Global Communication Semiconductor, Inc.	U.S.A.		1.56%	9,185	-	1,389	-	1,389	1.56%	

Note: The information of investee company shown above are based on audited financial reports as of December 31, 2007.

