



Mega International Commercial Bank

# Annual Report 2009

Annual Report 2009



## Notice

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

# **MEGA FINANCIAL GROUP**

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## *Message to Shareholders*

Associated with the bankruptcy of Lehman Brothers, major American and European financial institutions caught in the crisis of credit crunch, turning out to be the “financial tsunami” hit the global economy since the third quarter of 2008. The world economy contracted by 0.8% in 2009, so did Taiwan present the severest recession on record.

Since both external and internal sectors suffered a dramatic downturn, Taiwan’s banking industry sank into weakness hence. Nevertheless, Mega ICBC still reported a pretax profit of NT\$13.13 billion, a notable upsurge of 124% from the year before, which was the champion among all domestic banks in Taiwan. The superb achievement was not only generated from its solid corporate banking and emergent consumer banking businesses, but also as a result of the Bank’s sound assets quality and successful financial management.

Looking towards the future, Mega ICBC is confident to proceed to outstanding results in all aspects of its businesses. The Bank will make every endeavor to maintain the leading position in the market based on an already substantial base.

### Operation Result of 2009

#### I. Global & Domestic Economic Dynamics

##### 1. Economic Growth

The financial tsunami triggered by problematic financial institutions in the advanced economies caused most countries in the world to incur recession that was much worse than previously predicted. Many of them registered the biggest number of negative growth rate since the Second World War. Taiwan was not immune to the attack, affected by declining real exports of goods and services, and added effects of decreasing fixed capital formation and weakening private consumption, real GDP contracted by 9.06% and 6.85% in the first two quarters of 2009, respectively. Fortunately seeing the turning point, in the second half of 2009, the export sector performed

outstandingly due to the support of stimulus packages worldwide, with the domestic sector warming up, accompanying the lower base effect from the previous year, the economy continued to recover. Real GDP showed a year-on-year reduction of 0.98% in the third quarter, and later increased by 9.22% in the fourth quarter. However, overall real GDP shrank 1.87% in the year of 2009, a record low in history.

The Directorate General of Budget, Accounting and Statistics (DGBAS) forecasts real GDP will grow by 4.72% in 2010, as the global economy recovers from the financial tsunami. On the one hand, improving performance of the overseas economies is likely to bolster demand for Taiwan’s exports of goods and services. On the other hand, and most importantly, domestic demand is expected to buoy, partly because of the lower base effect, and serves as the main engine of growth.

Thanks to various stimulus measures and loose monetary policies of major countries, the international economy is recovering, but the pressure of inflation picks up accordingly. It calls attention to discussion of exit strategy about when and how to end such measures and policies. The execution of such exit mechanism brings uncertainty that may have impacts on the still fragile recovery.

##### 2. Financial Market

In the year of 2009, Taiwan’s CPI had decreased for eleven consecutive months since February, and the year’s average inflation rate dropped to a record low of -0.87% from the previous year’s 3.53%. Lower prices of fresh food and soft demand on private consumption are main factors contributed to the falling trend of inflation rate. Looking ahead to 2010, the underlying trend of inflation is considered an upward stream, the DGBAS forecasts an average inflation rate of 1.27% in 2010. However, it is worth noting that the possible appreciation of the New Taiwan dollar against the US dollar will help contain import inflation. Furthermore, with the prediction of limited improvement of domestic labor market and real income, the rate of price increases will likely be

restricted consequently.

As for interest rates, the Central Bank of China (Taiwan) had implemented seventh successive cuts in interest rate since the third quarter of 2008. The discount rate was lowered to 1.25% in February 19, 2009 and kept unchanged till the yearend. The Central Bank's action was rare as ever, in terms of the range and frequency of rate deduction.

In regard to the year of 2010, in line with growing

signs of gradual recovery, private investment resumes its momentum, and the banks' lending business is projected to follow a positive growth track. Besides, inflation pressure may be pushed up a little bit because the international commodity prices are hiking along with the global economic recovery, adding to liquidity flood, and it is believed that the Central Bank will shift the monetary policy to neutral from the extremely ease stance.

## II. The Bank's Budget Implementation

2009 Pretax Income (Millions in NT dollars)	2009 Pretax Income Budget (Millions in NT dollars)	Budget achievement rate (%)
13,128	13,011	100.90

### Business Plan of 2010

#### I. Business Plan

- Promote the Bank's profitability: solidify core businesses and strengthen overall financial services.
- Augment the effect of cross selling: make full use of the Mega Financial Holding Company's group resources to reach synergy.
- Consolidate the Bank's niche of international business: search for business opportunities globally, taking customers' needs into consideration at the same time.
- Ensure better legal compliance, risk management and crisis management: hold staff training courses regularly.
- Increase the Bank's fee income: spur wealth management and incorporate more functions on the electronic banking system.
- Enhance operational efficiency: build an integral information system and improve the operational flow.

#### II. Business Objectives

Addressing current economic and financial developments, the Bank has set up the following

business targets based on our competitive advantages for the year of 2010: total deposits of NT\$1,497,653 million, total loans of NT\$1,358,563 million, and foreign exchange business of US\$563,700 million.

#### Long-Term Development Strategies

- Continue developing diversified financial products and services to win advantage in the keenly competitive market.
- Enhance loan and investment review with recurrent researches in the economy, finance and industries to fortify asset quality.
- Evaluate business opportunities in China and emerging countries carefully to come up with the blueprint of future service outposts.
- Continue ongoing project in improving funds structure and capital allotment to elevate the Bank's ability to tackle risks.

#### Influences of External Competitiveness, Regulation Change, and Macro Economy

##### I. External competitive environment

- Competition in local banking industry has been intensified because a number of foreign financial institutions become active participants in domestic market through acquiring small- and

medium-sized Taiwan's banks.

- Taiwan's banks are vigorous in tapping the Chinese market, taking a favorable turn in the cross-strait relationship.
- With the loosening of the cross-strait financial policy, collaboration between financial institutions across the strait is flourishing.

## II. Regulatory environment

- The revised Estate and Gift Tax Act, effected by January 2009, lowers the maximum marginal tax rate, simplifies to flat tax rate, and accelerates the exemptions of obligation taxation. This revision is expected to have some positive effects on the capital inflow and broaden the scope of wealth management business in banking industry.
- "Full Deposit Insurance Coverage" has been extended to December 31, 2010 in consideration of matching the period of full coverage policies with those of neighboring counties, to ensure the stability of the domestic financial market and to prevent the possible capital flight.
- As "Memorandum of Understanding" (MOU) on financial regulation between Taiwan and China became effective in January 16, 2010, the cooperation of financial supervision with China

is ushering in a new era.

- The ongoing talk of "Economic Cooperation Framework Agreement" (ECFA) with China is proposed to negotiate for advantageous terms to Taiwan's banks. It is believed that Taiwan's banks will make progress in broadening operation capacity in China according to the agreement once it takes effect.

## III. Macroeconomic environment

- Interest rate spread narrows to historical low but shows sign of stop shrinking further, which may help pump up average profitability of Taiwan's banks.
- The banks' lending business stimulated by the steaming need of private investment is increasing, as Taiwan's economy continues recovering steadily.
- Banks tend to be more considerate in home loan business, keeping in mind that the rapid credit expansion may lead to the risk of housing bubble.
- The competition of credit card business has cooled down as a consequence of credit card default; card-selling strategy now focuses on increasing the amount of transaction rather than the number of card issuance.

### Credit Rating

Credit Rating Institute	Credit Rating		Outlook	Year/Month	Note
	Long-term	Short-term			
Moody's	A1	P-1	Stable	2009/11	Bank Financial Strength Rating: C-
S&P	A	A-1	Stable	2009/10	Bank Fundamental Strength Rating: B
Fitch Ratings	A-	F2	Stable	2009/09	Individual Rating: B/C

Rong-Jou Wang



Chairman

Kuang-Si Shiu



President



### Historical Overview

Mega International Commercial Bank Co., Ltd. (Mega ICBC) has come into being as a result of the merger of The International Commercial Bank of China and Chiao Tung Bank, effective on August 21, 2006. Both banks have been proud of their longtime histories of outstanding track records in our country.

In 1971, The Bank of China was privatized to become The International Commercial Bank of China Co., Ltd. (ICBC), whose origin dates back to the Ta Ching Bank and its predecessor, the Hupu Bank (the bank under the finance arm of the imperial court in the Ching Dynasty.) The Bank of China had been entrusted with the mission to serve as an agent of the Treasury and a note-issuing bank before the establishment of the Central Bank of China in 1928. The Bank of China was designated as a licensed specialized bank for international trade and foreign exchange thereafter. Taking advantage of its specialization in foreign exchange, worldwide network of outlets and correspondence banks, superb bank assets, and excellent business performance, ICBC has become a top-notch bank in the Republic of China.

Set up five years before the founding of the Republic of China, Chiao Tung Bank Co., Ltd. (CTB) had also been delegated to act as an agent of the government coffer and a note-issuing bank in concert with the Bank of China at the outset of the Republic. Transforming from a licensed bank for industries in 1928, an industrial bank in 1975, and a development bank in 1979, CTB turned from a state-controlled bank

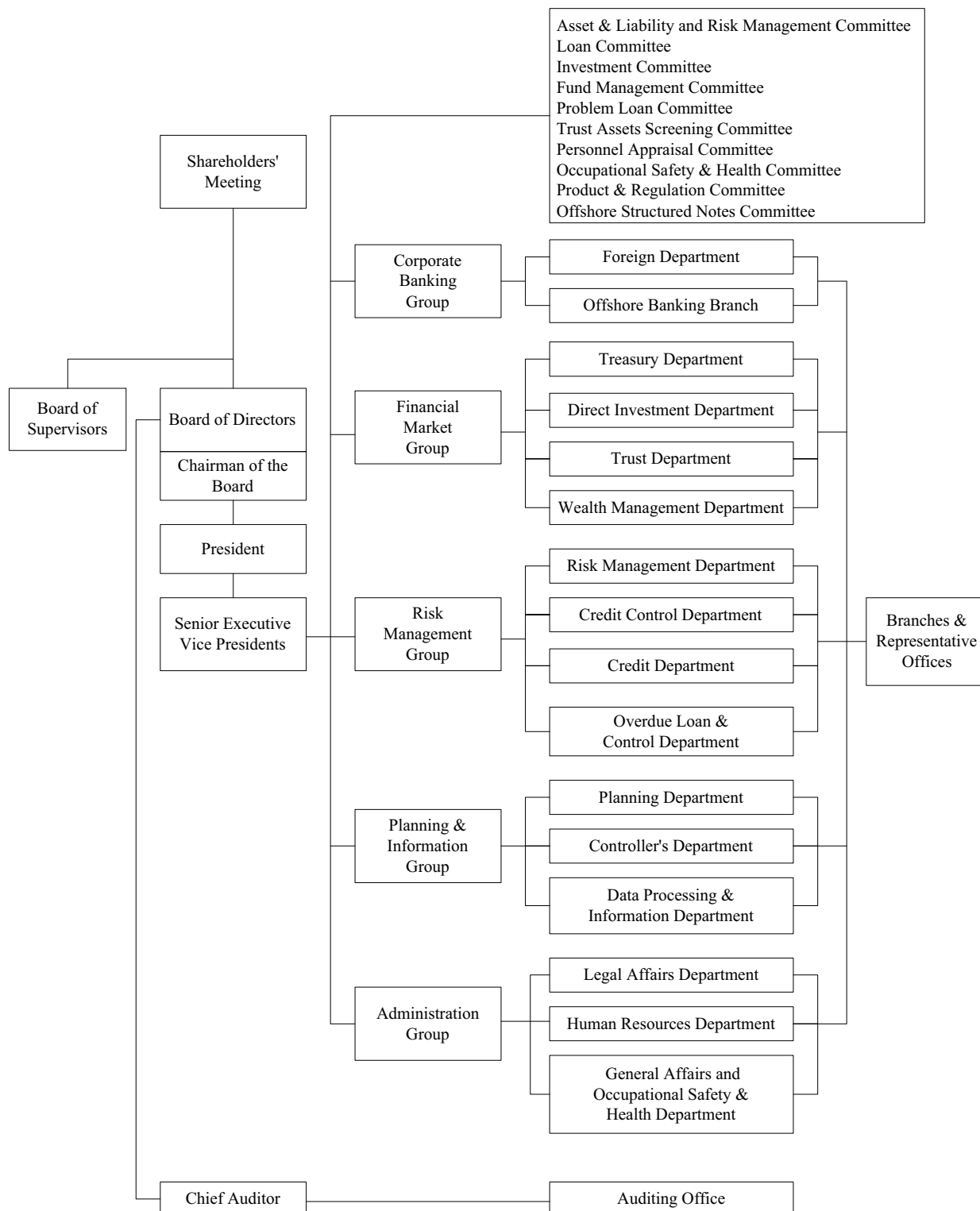
into a privately-owned one in 1999. It has engaged in loan extensions for medium- and long-term development, innovation and guidance investment (equity investment), and venture capital ever since. For years, CTB has made significant contributions to the improvement of industrial structure and the promotion of the upgrading of industry by assisting in the development of strategic and vital industries in line with the economic policy and the economic development plan of the government.

CTB and International Securities Company formed the CTB Financial Holding Company in 2002. Late on, Chung Hsing Bills Finance Corporation and Barits International Securities Company came under the financial umbrella. On December 31, 2002, Chung Kuo Insurance Company and ICBC joined forces with the Company to form a conglomerate named Mega Financial Holding Company.

With a view to enlarging the business scale and increasing the market share, ICBC and CTB formally merged into one bank under the name of Mega International Commercial Bank Co., Ltd. on August 21, 2006. By the end of 2009, the Bank has 107 branches at home, and 19 branches and 3 representative offices abroad. Together with the network are wholly-owned bank subsidiaries in Thailand and Canada, along with their branches, bringing the number of overseas outposts to 30 in total. It has manpower 5,105 and an aggregate paid-in capital of NT\$64.1 billion.



## Organization Chart



## Directors, Supervisors & Top Management

### I. Board of Directors and Supervisors

As of December 31, 2009

Title	Name	Position / Occupation
Chairman of the Board	Rong-Jou Wang	Chairman of the Board Mega Financial Holding Company and Mega ICBC
Independent Managing Director	Chan-Sheng Chen	Former President Central Deposit Insurance Corporation, ROC
Managing Director	Kuang-Si Shiu	President Mega Financial Holding Company and Mega ICBC
	Ming-Chung Tseng	Administrative Deputy Minister Ministry of Finance, ROC
	Meei-Yeh Wei	Senior Executive Vice President Mega ICBC
Independent Director	Liang-Chi Chien	Former Director General Directorate General of Customs, Ministry of Finance, ROC
	Chyan-Long Jan	Professor & Director Department of Accounting, Soochow University
Director	Yuan-Chung Lee	Chairman Curiemed Co., Ltd.
	Chen-Chia Lee	Chairman Maywufa Biopharmaceutical Ent. Group
	Fong-Yu Kuo	Deputy Minister Council of Labor Affairs, Executive Yuan, ROC
	Fu-Hsiung Hu	Chairman Joint Credit Information Center
	Chia-Pang Chiu	Vice President Mega ICBC
Resident Supervisor	Chu-Wei Tseng	Professor Department of Public Finance, National Chengchi University
Supervisor	Yaw-Chung Liao	Secretary General Council for Economic Planning and Development, Executive Yuan, ROC
	Jui-Yun Lin	Executive Vice President Mega Financial Holding Company

## II. Professional Qualifications and Independence Analysis of Directors and Supervisors

As of December 31, 2009

Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of other public companies in which the individual is concurrently serving as an Independent Director
		Instructor or higher position in a Department of Commerce, Law, Finance, Accounting, or other academic department related to the business needs of the bank in a public or private Junior College, College or University	Judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, who has passed a national examination and been awarded a certificate in a profession necessary for the business of the bank	Have work experience in the areas of commerce, law, finance, accounting, or otherwise necessary for the business needs of the bank	1	2	3	4	5	6	7	8	9	10	
Rong-Jou Wang			✓	✓			✓	✓			✓	✓	✓		0
Kuang-Si Shiu			✓				✓	✓			✓	✓	✓		0
Ming-Chung Tseng			✓	✓			✓	✓			✓	✓	✓		0
Chan-Sheng Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Meei-Yeh Wei			✓				✓	✓	✓	✓	✓	✓	✓		0
Liang-Chi Chien			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Chyan-Long Jan	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		0
Yuan-Chung Lee			✓	✓			✓	✓	✓	✓	✓	✓	✓		0
Chen-Chia Lee			✓	✓			✓	✓	✓	✓	✓	✓	✓		0
Fong-Yu Kuo			✓	✓			✓	✓	✓	✓	✓	✓	✓		0
Fu-Hsiung Hu			✓	✓			✓	✓	✓	✓	✓	✓	✓		0
Chia-Pang Chiu			✓				✓	✓	✓	✓	✓	✓	✓		0
Chu-Wei Tseng	✓		✓	✓			✓	✓	✓	✓	✓	✓	✓		0
Yaw-Chung Liao			✓	✓			✓	✓			✓	✓	✓		0
Jui-Yun Lin			✓				✓	✓			✓	✓	✓		0

Note: Check ("✓") the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### III. Major Shareholders of the Institutional Shareholders

As of December 31, 2009

Name of the Institutional Shareholders	Top 10 Shareholders (Percentage of Shares Ownership)
Mega Financial Holding Co., Ltd.	Bank of Taiwan Trust Account (11.17%)
	Ministry of Finance, ROC (9.98%)
	National Development Fund, Executive Yuan, ROC (6.11%)
	Chunghwa Post Co., Ltd. (2.73%)
	Silchester International Investors International Value Equity Trust (2.62%)
	Bank of Taiwan (2.51%)
	National Financial Stabilization Fund (2.40%)
	Pou Chen Corporation (1.43%)
	Silchester International Investors International Value Equity Group Trust (1.31%)
	Barits Development Corporation (0.97%)

### IV. Policies for the payment of remuneration

Except chairman of the board and independent directors, other directors and supervisors received only attendance fees and transportation allowances.

Total Remuneration for Directors, Supervisors, President & Vice Presidents in the year of 2009

Unit: thousands in NT dollars

	The Bank	The Bank and its investees
Directors	28,152	30,034
Supervisors	752	752
President & Vice Presidents	34,775	36,631
Total (Note)	50,752	53,306
Ratio to net income (%)	0.4759	0.4999

Note: For directors who serve as President or Senior Executive Vice Presidents in the Bank, remuneration was only calculated once.

## Execution of Corporate Governance

A total of ten meetings of the Board of Directors were held in 2009. Attendance of directors and supervisors was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remark
Chairman	Rong-Jou Wang	9	1	90.00	
Managing Director	Kuang-Si Shiu	9	1	90.00	
Managing Director	Chung-Ying Hu	7	1	87.50	Resigned on September 29, 2009
Managing Director	Jhao-Yi Chen	3	2	60.00	Resigned on July 14, 2009; Assumed on July 15, 2009 as Supervisor
Managing Director	Ming-Chung Tseng	7	3	70.00	
Managing Director	Meei-Yeh Wei	4	0	80.00	Assumed on July 15, 2009 as Director; Assumed on October 28, 2009 as Managing Director
Independent Managing Director	Chan-Sheng Chen	4	1	80.00	Assumed on July 15, 2009
Independent Director	Liang-Chi Chien	5	0	100.00	Assumed on July 15, 2009
Independent Director	Chyan-Long Jan	5	0	100.00	Assumed on July 15, 2009
Director	Sheng-Chung Lin	3	2	60.00	Resigned on July 14, 2009
Director	Yaw-Chung Liao	4	1	80.00	Resigned on July 14, 2009; Assumed on July 15, 2009 as Supervisor
Director	Chang-Hai Tsai	6	4	60.00	Resigned on December 11, 2009
Director	Yuan-Chung Lee	10	0	100.00	
Director	Chen-Chia Lee	7	3	70.00	
Director	Fong-Yu Kuo	8	0	80.00	
Director	E-Dawn Chen	3	0	100.00	Assumed on July 15, 2009; Resigned on September 29, 2009
Director	Rong-Tzaw Yeh	5	0	100.00	Resigned on July 14, 2009
Director	Hung-Wen Chien	4	1	80.00	Resigned on July 14, 2009
Director	Chih-Yuan Chen	8	0	100.00	Resigned on September 29, 2009
Director	Fu-Hsiung Hu	2	0	100.00	Assumed on September 30, 2009
Director	Chia-Pang Chiu	10	0	100.00	
Resident Supervisor	Chu-Wei Tseng	10	0	100.00	
Supervisor	Yeong-Chwan Hwang	8	0	100.00	Resigned on September 29, 2009
Supervisor	Wei-Ching Chung Leu	7	0	87.50	Resigned on September 29, 2009
Supervisor	Jhao-Yi Chen	2	0	66.67	Assumed on July 15, 2009; Resigned on September 29, 2009
Supervisor	Yaw-Chung Liao	4	0	80.00	Assumed on July 15, 2009
Supervisor	Jui-Yun Lin	2	0	100.00	Assumed on September 30, 2009

Note: 1. The Bank's directors and supervisors are appointed by the Mega Financial Holding Company.

2. None of the independent directors has a dissenting opinion or qualified opinion on the resolutions.

3. The Bank doesn't set up an auditing committee.

4. The attendance rate is calculated as the ratio of the number of Board of Directors meetings attended to the number held during the term in office.

5. The Board of Directors has performed its duties in compliance with the related laws and regulations.

## Social Responsibility

The International Commercial Bank of China Cultural and Educational Foundation was founded in 1992 by the International Commercial Bank of China Co., Ltd. (Note: The corporate name was changed into Mega International Commercial Bank Co., Ltd. after merger with Chiao Tung Bank on August 21, 2006.) The Foundation is dedicated to the service of the social vulnerable and disadvantaged groups, as well as promotion of cultural and educational events.

## Capital Overview

### Capital & Shares

#### I. Source of Capital Stock

Unit: NT dollar; share

Year/Month	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark
		Shares	Amount (NTD)	Shares	Amount (NTD)	Source of Capital
2002/12	10	3,726,100,000	37,261,000,000	3,726,100,000	37,261,000,000	Public offering
2006/08	10	2,684,887,838	26,848,878,380	2,684,887,838	26,848,878,380	Issuance of new shares for merger

#### II. Type of Stock

Unit: share

Type	Authorized Capital			Remark
	Issued Shares	Unissued Shares	Total Shares	
Ordinary Share	6,410,987,838	0	6,410,987,838	Public offering

Note: Shares have been stopped listed since the Bank joined Mega Financial Holding Company on December 31, 2002.

#### III. Structure of Shareholders

As of December 31, 2009

	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders			1			1
Shareholding (shares)			6,410,987,838			6,410,987,838
Percentage			100%			100%

Note: 100% shares are held by Mega Financial Holding Company.

#### IV. List of Major Shareholders

As of December 31, 2009

Shareholder's Name	Shareholdings	
	Shares	Percentage
Mega Financial Holding Co., Ltd.	6,410,987,838	100%

## V. Employee Bonuses and Compensation of Directors and Supervisors

Date of Board of Directors' Meeting		March 25, 2010
Remuneration Paid to Directors and Supervisors		0
Employee Bonus	Share	0
	Cash	280,022

## Other Fund-Raising Activities

### I. Issuance of preferred shares, global depository receipts, and employee share subscription warrants

None.

### II. Mergers, acquisitions, and issuance of new shares due to acquisition of shares of other companies

None.

## Capital Allocation Plans

Year	2009
Description of Capital Allocation Plan	The Bank applied for issuance of NT\$15 billion subordinated debt, and the plan was approved by Financial Supervisory Commission on May 22, 2009.
Purpose of Capital Allocation Plan	To increase tier 2 capital to amplify capital structure.
Publication of the Plan	The information of the capital allocation plan was uploaded to Market Observation Post System on May 6, 2009.
Implementation of Plan	Not implemented.
Comparison of actual benefits with expected benefits	The Bank's capital adequacy ratio rose significantly to 11.73% at the year end of 2009 because of higher-than-expected earnings, which benefited from the recovery of global economy.



## Overview of Business Operations

### Business Activities

I. Business Scope: Commercial banking, including a wide range of services indicated as following:

#### 1. Domestic Branches

- ◆ Deposits
- ◆ Loans & Guarantees
- ◆ Documentary Credits
- ◆ Remittance & Bill Purchase
- ◆ Offshore Banking
- ◆ Trust Business
- ◆ Foreign Exchange Trading
- ◆ Safety Boxes Services
- ◆ Consumer Banking
- ◆ U Card, VISA Card, MasterCard, JCB Card
- ◆ Consignment Securities
- ◆ Agency Services
- ◆ Money Market Securities
- ◆ Agency for selling gold, silver, gold/silver coins, Gold Deposit Account
- ◆ Electronic Banking
- ◆ Investment Banking

#### 2. Overseas Branches

- ◆ Deposits
- ◆ Loans & Guarantees
- ◆ Documentary Credits
- ◆ Remittance & Bill Purchase
- ◆ Foreign Exchange Trading
- ◆ Loans Backed by the Overseas Chinese Credit Guarantee Fund
- ◆ Trading Consulting Services
- ◆ Warehousing Services

### II. Distribution of Net Operating Income

	Amount (thousands in NT dollars)	As percentage of Net Operating Income (%)
NET INTEREST INCOME	21,580,655	63.45
NON-INTEREST INCOME	12,429,325	36.55
Fee Income – net	6,027,382	17.72
Gains on Financial Assets and Liabilities at Fair Value through Profit or Loss	4,593,569	13.51
Realized Gain on Available-for-Sale Financial Assets	524,771	1.54
Realized Gains/Losses on Held-to-Maturity Financial Assets	-179,844	-0.53
Investment Income Recognized by the Equity Method	328,996	0.97
Foreign Exchange Gain – net	1,672,057	4.92
Loss on Asset Impairment	-1,832,747	-5.39
Gains/Losses on Disposal of Properties	1,038,458	3.05
Other Losses	-108,939	-0.32
Other Provisions	-1,044,399	-3.07
Gain on Financial Assets Carried at Cost	461,141	1.36
Other Non-interest Income – net	948,880	2.79
NET OPERATING INCOME	34,009,980	100.00

## Industry & Market Overview

Non-performing loan ratio of domestic banks stood at 1.15% at the end of 2009, a significant drop from the previous year's 1.54%, while coverage ratio rose from 69.48% to 90.5% at the same time.

In spite of the continuous improvement in economy quarter by quarter in 2009, bank lending remained very weak, especially to the private sector. According to the statistics, domestic banks' total lending to private enterprises declined 4% from that of the previous year, while lending to government enterprises was NT\$666.7 billion, approximately the same as the year before.

### I. Positive Factors

- While the global financial turmoil looks to be mostly behind, the value of financial assets and investment are going to recover, or even begin to rise again.
- The upward performance of Taiwan's major industries arouses their plans for equipment investment and so on, attributing to great opportunities for banks to expand their business.
- After the massive credit expansion caused by cutthroat competition in credit card business in the past few years, the market turns to simmer down and the competition becomes normalized.

### II. Negative Factors

- Due to fierce competition in the domestic financial market, interest rate spread remains low, which hampers the outlook of profitability in banking industry.
- Affected by the economy downturn stemmed from the global financial turmoil, private consumption turns to be more and more prudent, so that the entire consumer banking business is hesitate to grow further.
- The fear of mounting risk of property bubble may restrict the banks' intension for expanding home loan business.

## Human Resources

		As of December 31,	
		2009	2008
Number of Employees	Domestic	4,678	4,742
	Overseas	427	427
	Total	5,105	5,169
Average Age		41.76	40.8
Average Years of Services		15.92	14.97
Education	Ph.D.	3	2
	Master's Degree	763	739
	Bachelor's Degree	4,011	4,090
	Senior High School	293	303
	Below Senior High School	35	35

## Financial Information

### Condensed Balance Sheets

Unit: Thousands in NT dollars

Item	As of December 31,		
	2009	2008	2007
Cash and Cash Equivalents, and Due from the Central Bank and Call Loans to Banks – net	396,370,422	363,609,201	339,112,297
Financial Assets at Fair Value through Profit or Loss	25,129,708	40,099,319	84,905,748
Securities Purchased under Resale Agreements	0	1,703,165	1,729,123
Available-for-Sale Financial Assets – net	113,744,529	101,441,676	103,132,834
Bills Discounted and Loans – net	1,264,904,835	1,303,532,614	1,194,304,385
Receivables – net	85,850,470	95,679,862	82,462,038
Held-to-Maturity Financial Assets – net	261,919,439	94,257,827	89,413,152
Investments Accounted for by the Equity Method – net	9,268,167	9,042,433	9,298,635
Properties and Equipment – net	14,803,951	16,189,414	14,887,155
Other Financial Assets – net	19,128,952	21,168,785	23,957,245
Other Assets – net	6,564,319	3,846,031	4,258,721
<b>Total Assets</b>	<b>2,197,684,792</b>	<b>2,050,570,327</b>	<b>1,947,461,333</b>
Due to the Central Bank and Commercial Banks	389,582,216	385,328,571	363,190,298
Deposits and Remittances	1,473,469,928	1,306,722,745	1,224,295,833
Financial Liabilities at Fair Value through Profit or Loss	32,930,365	48,544,695	52,226,998
Securities Sold under Repurchase Agreements	3,384,082	11,239,752	14,452,936
Borrowed Funds and Financial Bonds Payable	85,220,261	83,084,534	62,213,270
Accrued Pension Liabilities	1,541,227	1,218,320	1,204,178
Other Financial Liabilities	4,035,556	5,946,463	18,650,884
Payables and Other Liabilities	51,275,277	66,795,998	58,769,394
<b>Total Liabilities</b>	<b>2,041,438,912</b>	<b>1,908,881,078</b>	<b>1,795,003,791</b>
Capital Stock	64,109,878	64,109,878	64,109,878
Capital Reserve	33,070,028	33,070,028	33,070,660
Retained Earnings	52,834,864	43,773,487	49,946,398
Unrealized Gains or Losses on Available-for-Sale Financial Assets	2,257,357	( 4,232,555)	1,646,759
Cumulative Translation Adjustments	1,653,808	1,776,841	2,006,655
Land Revaluation Increment and Capital Surplus from Fixed Assets Revaluation	2,319,945	3,191,570	1,677,192
<b>Total Shareholders' Equity</b>	<b>156,245,880</b>	<b>141,689,249</b>	<b>152,457,542</b>

## Condensed Statements of Income

Unit: Thousands in NT dollars

Item	2009	2008	2007
Net Interest Income	21,580,655	26,779,009	22,431,529
Net Non-Interest Income	12,429,325	559,606	14,995,710
Net Operating Income	34,009,980	27,338,615	37,427,239
Provision for Loan Losses	6,388,508	7,315,386	6,522,998
Operating Expenses	14,493,855	14,171,283	14,599,001
Income Before Income Tax	13,127,617	5,851,946	16,305,240
Net Income	10,664,124	3,421,919	14,030,952

## Major Financial Analysis

Item		2009	2008	2007
Financial Structure	Total Liabilities to Total Assets (%)	92.74	93.00	92.07
	Fixed Assets to Total Shareholders' Equity (%)	9.47	11.43	9.76
Solvency	Liquidity Reserve Ratio (%)	32.73	16.98	24.79
Operating Performance Analysis	Loans to Deposits Ratio (%)	87.27	100.95	99.27
	NPL Ratio (%)	0.95	1.16	1.00
	Total Assets Turnover (Number of Times)	0.02	0.01	0.02
	Average Net Income per Employee (Thousands in NT dollars)	2,089	662	2,750
Profitability Analysis	ROA (%)	0.50	0.17	0.75
	ROE (%)	7.16	2.33	9.28
	Pre-tax Income to Capital Stock (%)	20.48	9.13	25.43
	Net Income to Net Operating Income (%)	31.36	12.52	37.55
	Earnings per Share (NT dollars)	1.66	0.53	2.19
	Cash Dividends per Share (NT dollars)	1.45	0.25	1.46
	Shareholders' Equity per Share Before Appropriation (NT dollars)	24.37	22.10	23.78
Capital Adequacy Ratio (%)		11.73	11.20	10.54



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PWCR09000381

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Mega International Commercial Bank Co., Ltd.

We have audited the accompanying balance sheets of Mega International Commercial Bank Co., Ltd. (the "Bank") as of December 31, 2008 and 2009 and the related statements of income, of changes in stockholders' equity and of 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.

We conducted our audits in accordance with the "Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mega International Commercial Bank Co., Ltd. as of December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports by Public Banks", "Business Accounting Act", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

As described in Note 3 to the financial statements, the Bank reclassified certain financial assets at fair value through profit or loss to available-for-sale financial assets in accordance with the revised SFAS No. 34, "Financial Instruments: Recognition and Measurement" dated October 17, 2008.

The Bank had prepared the consolidated financial statements as of and for the years ended December 31, 2008 and 2009, on which we have issued a modified unqualified opinion with explanatory paragraph thereon.

The financial statements of the Bank as of and for the year ended December 31, 2009 expressed in US dollars were translated from the New Taiwan dollar financial statements using the exchange rate of US\$1:NT\$32.176 at December 31, 2009 solely for the convenience of the readers. This basis of translation is not in compliance with generally accepted accounting principles in the Republic of China.

*PricewaterhouseCoopers, Taiwan*

March 16, 2010

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

(EXPRESSED IN THOUSANDS OF DOLLARS)

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated March 16, 2010.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**  
**(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)**

	2008	2009	2009
	New Taiwan Dollars		US Dollars
			(Unaudited - Note II)
INTEREST REVENUE (Note V)	\$ 61,457,939	\$ 35,218,365	\$ 1,094,554
INTEREST EXPENSES (Note V)	( 34,678,930)	( 13,637,710)	( 423,847)
NET INTEREST INCOME	<u>26,779,009</u>	<u>21,580,655</u>	<u>670,707</u>
NON-INTEREST INCOME			
FEE INCOME - NET (Notes IV 24 and V)	6,140,582	6,027,382	187,325
GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	1,695,172	4,593,569	142,764
REALIZED GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	143,715	524,771	16,309
REALIZED GAIN/LOSS ON HELD-TO-MATURITY FINANCIAL ASSETS	296	( 179,844)	( 5,589)
INVESTMENT INCOME RECOGNIZED BY THE EQUITY METHOD	176,919	328,996	10,225
FOREIGN EXCHANGE GAIN - NET	1,299,688	1,672,057	51,966
LOSS ON ASSET IMPAIRMENT (Notes IV 7, 8 and 25)	( 4,506,306)	( 1,832,747)	( 56,960)
GAINS/LOSSES ON DISPOSAL OF PROPERTIES	( 8,495)	1,038,458	32,274
OTHER LOSSES (Note IV 7)	( 5,474,863)	( 108,939)	( 3,386)
OTHER PROVISIONS (Note IV 7)	( 321,956)	( 1,044,399)	( 32,459)
GAIN ON FINANCIAL ASSETS CARRIED AT COST	563,654	461,141	14,332
OTHERS	<u>851,200</u>	<u>948,880</u>	<u>29,490</u>
NET OPERATING INCOME	<u>27,338,615</u>	<u>34,009,980</u>	<u>1,056,998</u>
PROVISION FOR LOAN LOSSES (Note IV 6)	( 7,315,386)	( 6,388,508)	( 198,549)
OPERATING EXPENSES			
STAFF EXPENSES (Note IV 26)	( 8,593,159)	( 9,437,059)	( 293,295)
DEPRECIATION AND AMORTIZATION (Note IV 26)	( 773,055)	( 697,771)	( 21,686)
OTHER GENERAL AND ADMINISTRATIVE EXPENSES (Note V)	( 4,805,069)	( 4,359,025)	( 135,474)
INCOME BEFORE INCOME TAX	5,851,946	13,127,617	407,994
INCOME TAX (Note IV 27)	( 2,430,027)	( 2,463,493)	( 76,563)
NET INCOME	<u>\$ 3,421,919</u>	<u>\$ 10,664,124</u>	<u>\$ 331,431</u>
EARNINGS PER SHARE (In Dollars) (Note IV 28)			
NET INCOME	<u>\$ 0.53</u>	<u>\$ 1.66</u>	

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated March 16, 2010.



**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

Items	Retained Earnings				Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses		
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve			Unappropriated Earnings	on Available-For-Sale Financial Assets	Total
(New Taiwan Dollars)									
Balance, January 1, 2008	\$ 64,109,878	\$ 33,070,660	\$ 30,752,520	\$ 1,435,713	\$ 17,758,165	\$ 1,677,192	\$ 2,006,655	\$ 1,646,759	\$ 152,457,542
Appropriation of 2007 earnings									
Legal reserve	-	-	4,209,286	- ( 4,209,286)	-	-	-	-	-
Special reserve	-	-	-	38,865 ( 38,865)	-	-	-	-	-
Cash dividends and bonus	-	-	-	- ( 9,360,043)	-	-	-	- ( 9,360,043)	-
Bonus to employees	-	-	-	- ( 234,787)	-	-	-	- ( 234,787)	-
Net income for 2008	-	-	-	-	3,421,919	-	-	-	3,421,919
Land revaluation increment	-	-	-	-	-	1,514,378	-	-	1,514,378
Change in equity adjustments from investments accounted for by the equity method	- ( 632)	-	-	-	-	-	-	- ( 632)	-
Changes in cumulative translation adjustments	-	-	-	-	-	-	( 229,814)	-	( 229,814)
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	( 5,879,314)	( 5,879,314)
Balance, December 31, 2008	\$ 64,109,878	\$ 33,070,028	\$ 34,961,806	\$ 1,474,578	\$ 7,337,103	\$ 3,191,570	\$ 1,776,841	-\$ 4,232,555	\$ 141,689,249

(Continued)

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

Items	Retained Earnings				Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses		
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve			Unappropriated Earnings	on Available-For-Sale Financial Assets	Total
(New Taiwan Dollars)									
Balance, January 1, 2009	\$ 64,109,878	\$ 33,070,028	\$ 34,961,806	\$ 1,474,578	\$ 7,337,103	\$ 3,191,570	\$ 1,776,841	\$ 4,232,555	\$ 141,689,249
Appropriation of 2008 earnings									
Legal reserve	-	-	1,026,576	-	( 1,026,576)	-	-	-	-
Special reserve	-	-	-	4,280,237	( 4,280,237)	-	-	-	-
Cash dividends and bonus	-	-	-	-	( 1,602,747)	-	-	-	( 1,602,747)
Net income for 2009	-	-	-	-	10,664,124	-	-	-	10,664,124
Land revaluation increment	-	-	-	-	-	( 871,625)	-	-	( 871,625)
Changes in cumulative translation adjustments	-	-	-	-	-	-	( 123,033)	-	( 123,033)
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	6,489,912	6,489,912
Balance, December 31, 2009	\$ 64,109,878	\$ 33,070,028	\$ 35,988,382	\$ 5,754,815	\$ 11,091,667	\$ 2,319,945	\$ 1,653,808	\$ 2,257,357	\$ 156,245,880
(US Dollars)(Unaudited-Note II)									
Balance, January 1, 2009	\$ 1,992,475	\$ 1,027,786	\$ 1,086,580	\$ 45,829	\$ 228,030	\$ 99,191	\$ 55,223	\$ 131,544	\$ 4,403,570
Appropriation of 2008 earnings									
Legal reserve	-	-	31,905	-	( 31,905)	-	-	-	-
Special reserve	-	-	-	133,026	( 133,026)	-	-	-	-
Cash dividends and bonus	-	-	-	-	( 49,812)	-	-	-	( 49,812)
Net income for 2009	-	-	-	-	331,431	-	-	-	331,431
Land revaluation increment	-	-	-	-	-	( 27,089)	-	-	( 27,089)
Changes in cumulative translation adjustments	-	-	-	-	-	-	( 3,824)	-	( 3,824)
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	201,700	201,700
Balance, December 31, 2009	\$ 1,992,475	\$ 1,027,786	\$ 1,118,485	\$ 178,855	\$ 344,718	\$ 72,102	\$ 51,399	\$ 70,156	\$ 4,855,976

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated March 16, 2010.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	2008	2009	2009
	New Taiwan Dollars		US Dollars
CASH FLOWS FROM OPERATING ACTIVITIES:			(Unaudited - Note II)
Net income	\$ 3,421,919	\$ 10,664,124	\$ 331,431
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Loss on asset impairment	4,506,306	1,832,747	56,960
Income from equity investments recognized under the equity method	( 176,919)	( 328,996)	( 10,225)
Cash dividends and remuneration of directors and supervisors received from investments accounted for under the equity method	320,626	449,717	13,977
(Gain) loss on disposal of properties	8,495	( 1,038,458)	( 32,274)
Provisions for loan losses	7,315,386	6,388,508	198,549
Other provision	321,956	1,044,399	32,459
Depreciation and amortization	773,055	697,771	21,686
Loss on scrapped properties and equipment	11,410	22,609	703
(Increase) decrease in operating assets			
Decrease in financial assets at fair value through profit or loss	38,265,516	14,432,911	448,561
Decrease in securities purchased under agreements to resell	25,958	1,703,165	52,933
(Increase) decrease in receivables	( 15,845,204)	9,090,720	282,531
Decrease in other financial assets	959,757	203,805	6,334
Net change in deferred income tax assets / liabilities	( 457,020)	1,013,972	31,513
(Decrease) increase in operating liabilities			
Increase (decrease) in payables	7,272,181	( 14,864,277)	( 461,968)
Decrease in financial liabilities at fair value through profit or loss	( 3,682,303)	( 15,614,330)	( 485,279)
Decrease in securities sold under agreements to repurchase	( 3,213,184)	( 7,855,670)	( 244,147)
Increase in accrued pension liabilities	14,142	322,907	10,036
Decrease in other financial liabilities	( 12,704,421)	( 1,910,907)	( 59,389)
Decrease in other liabilities	( 964,159)	( 698,269)	( 21,702)
Net cash provided by operating activities	26,173,497	5,556,448	172,689
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in due from the Central Bank and call loans to banks	146,325,105	12,665,395	393,629
Decrease (increase) in available-for-sale financial assets	75,194	( 5,895,772)	( 183,235)
(Increase) decrease in bills discounted and loans	( 113,616,881)	33,144,297	1,030,094
Increase in held-to-maturity financial assets	( 5,705,965)	( 167,192,443)	( 5,196,185)
Additions to properties and equipment	( 447,374)	( 334,291)	( 10,389)
Proceeds from disposal of properties and equipment	12,742	1,033,804	32,130
Decrease (increase) in other assets	849,427	( 3,750,493)	( 116,562)
Net cash (used in) provided by investing activities	27,492,248	( 130,329,503)	( 4,050,518)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in due to the Central Bank and commercial banks	22,138,273	4,253,645	132,199
Increase in deposits and remittances	82,426,912	166,747,183	5,182,347
Increase in borrowed funds	10,187,788	4,332,074	134,637
Increase (decrease) in bonds issued	10,683,476	( 2,196,347)	( 68,260)
Increase (decrease) in other liabilities	1,242,350	( 1,041,892)	( 32,381)
Distribution of bonus to employees	( 234,787)	-	-
Distribution of cash dividends and bonus	( 9,360,043)	( 1,602,747)	( 49,812)
Net cash provided by financing activities	117,083,969	170,491,916	5,298,729
EFFECTS OF EXCHANGE RATE CHANGES	72,310	( 292,374)	( 9,087)
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,822,024	45,426,487	1,411,813
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	89,717,998	260,540,022	8,097,340
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 260,540,022	\$ 305,966,509	\$ 9,509,153
SUPPLEMENTAL INFORMATION:			
Interest expense paid	\$ 35,268,718	\$ 16,535,921	\$ 513,921
Income tax paid	\$ 1,506,698	\$ 1,251,239	\$ 38,887
NON-CASH INVESTING AND FINANCING ACTIVITY:			
Payable - financial bonds within 1 year of maturity	\$ 18,099,347	\$ 11,583,341	\$ 359,999

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated March 16, 2010.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2009**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS EXCEPT AS INDICATED)**

**I. ORGANIZATION AND OPERATIONS**

Mega International Commercial Bank Co., Ltd. (the “Bank”; formerly The International Commercial Bank of China Co., Ltd.) was reorganized on December 17, 1971 in accordance with the “Law for International Commercial Bank of China” as announced by the President of the Republic of China (R.O.C.) (which was then abolished in December, 2005) and other related regulations. On December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction. With the view to enlarging business scale and increasing market share, the Bank entered into a merger agreement with Chiao Tung Bank Co., Ltd. On August 21, 2006, the effective date of the merger, the Bank was later renamed Mega International Commercial Bank Co., Ltd.

The Bank engages in the following operations: (a) commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust operations; (f) investment services on consignments by clients; (g) loan information services, including mid-term to long-term development loan and guarantee operations; (h) venture capital activities; and (i) other related operations approved by the R.O.C. government.

The Bank’s business and operations are widely managed by the head office. The Bank expands its network by opening branches at key locations in both domestic and foreign markets. As of December 31, 2009, the Bank had 107 domestic branches, 19 foreign branches, and 3 foreign representative offices.

The Trust Department of the Bank is primarily responsible for planning, management and operation of trust investment businesses regulated by the R.O.C. Banking Law.

As of December 31, 2008 and 2009, the Bank had 5,169 and 5,105 employees, respectively.

**II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements are prepared in conformity with the “Regulations Governing the Preparation of Financial Reports by Public Banks”, “Business Accounting Act”, “Regulation on Business Entity Accounting Handling” and generally accepted accounting principles in the Republic of China. The Bank’s significant accounting policies are summarized below:

**1. Basis for preparation of financial statements**

The accompanying financial statements include the accounts of the head office, domestic branches, foreign branches and foreign representative offices. All inter-branch and inter-office transactions and balances have been eliminated when the financial statements were prepared.

**2. Foreign-currency transactions and translations**

(1) The Bank maintains its accounts at the currencies in which transactions are denominated. Foreign currency income and expenses are converted into New Taiwan dollars (NT dollars or NT\$) at the prevailing exchange rates at the end of each month. Foreign-currency denominated monetary financial assets or liabilities and other foreign-currency denominated assets or liabilities regulated by the Statement of Financial Accounting Standards (SFAS) No. 34 “Financial Instruments: Recognition and Measurement” and No. 36 “Financial Instruments : Disclosure and Presentation” are translated into NT dollars at the prevailing exchange rates at the end of each month. The resulting translation differences are recognized as gain or loss in the current period. However, for translation gains or losses associated with cash flow hedges, foreign net investment hedges and equity investments accounted for by the equity method, cumulative translation adjustments under stockholders’ equity is recognized.

(2) Non-monetary financial assets or liabilities regulated by SFAS No. 34 and No. 36 and measured at fair value in foreign currency are translated using the prevailing rates at the end of each month. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

**3. Translation for the financial statements of foreign branches and representative offices**

The foreign-currency denominated financial statements of foreign branches and the representative offices are translated into NT dollars at the following exchange rates: 1) assets and liabilities – at the spot exchange rates prevailing at the balance sheet date, 2) head office account – except for the retained earnings which is carried forward from last year’s balance, the remaining balances are stated at historical rates, 3) dividends – at the prevailing rates when the dividends are declared, and 4) income and expenses – at the weighted-average rate for the period. The cumulative translation adjustments are included in the stockholders’ equity account. When a foreign operation is disposed of or sold, the cumulative translation adjustment is charged to current income.

**4. Financial assets and financial liabilities**

Starting from January 1, 2006, the Bank adopted the SFAS No. 34 “Financial Instruments: Recognition and Measurement” and No. 36 “Financial Instruments: Disclosure and Presentation” to account for its financial assets and liabilities. On initial recognition, financial assets and liabilities are measured at fair value. However, for fair value investments with changes in fair value recognized under equity and for investments measured at amortized costs, transaction costs that are directly attributable to the acquisition or issuance of liability should be capitalized.

Except for stocks which are recognized using trade date accounting, all financial assets and financial liabilities held by the Bank are recognized using settlement date accounting.

(1) Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets or liabilities designated as at fair value through profit or loss at inception. On subsequent measurement, these investments are reassessed at fair value and changes in fair value are recognized in current income or losses. Financial assets or liabilities designated at fair value through profit or loss are to eliminate or decrease inconsistency for an accounting measurement, which are initially recognized at fair value through profit or loss and recognized unrealized profit or loss in the current period.

For non-derivatives or financial assets originally designated as at fair value through profit or loss at initial recognition, if their main purposes are no longer for sale in the short-term in subsequent periods, are subject to be reclassified as other types of financial assets in accordance with the revised Paragraph No. 104 of the Statement of Financial Accounting Standards No. 34 “Financial Instruments: Recognition and Measurement”.

(2) Available-for-sale financial assets

Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair values are recognized as adjustments in equity except for impairment loss and translation gain or loss associated with foreign-currency denominated monetary assets. When the investment is derecognized, the cumulative gain or loss which had been recognized directly in equity is transferred to profit or loss in the income statement.

(3) Held-to-maturity financial assets

Held-to-maturity financial assets are subsequently remeasured at amortized cost calculated using the effective interest method. Gains or losses are recognized at the time of derecognition, impairment or amortization.

(4) Financial assets carried at cost

Investments in non-publicly traded stocks, emerging stocks and mutual funds where the Bank does not exercise significant influence are carried at their original cost calculated by the acquisition cost plus the aggregate par value of any stock dividends received before 1984.

(5) Investments in debt securities with no active market

Unquoted debt securities with fixed or determinable collections are classified as investments in debt securities with no active market and subsequently remeasured at cost under the effective interest method. Gains or losses are recognized at the time of derecognition, impairment or amortization.

(6) Financial liabilities

On subsequent measurement, the Bank remeasured and stated all financial liabilities at amortized cost. However, financial liabilities at fair value through profit and loss and derivative financial liabilities for hedging are both measured at fair value.

The abovementioned fair value is determined by reference to the closing price at the balance sheet date for listed stocks, the net asset value for open-ended funds, and the quoted price at the balance sheet date for bonds. For other investments, the fair value is estimated using various valuation techniques where appropriate.

5. Derivative financial instruments

The Bank enters into various derivative contracts, including forward currency contracts, cross-currency swaps, options and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date when a derivative contract is entered into and subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation removed for the period.

6. Financial asset securitization

- (1) Under the “Financial Assets Securitization Act”, the Bank securitized part of its enterprise loans and transferred those loans to the special purpose trustee in return for the issuance of the related beneficiary certificates. Having surrendered the control of contractual rights on the loans and transferred to a special purpose trustee, the Bank derecognized all the enterprise loans and recorded gain or loss accordingly. In accordance with the Explanatory Letter (96) Ji-Mi-Zi No.0000000304, subordinated beneficiary certificates retained for the originator means the originator still holds the retained interests of the subordinated beneficiary securities. The retained interests of the subordinated beneficiary securities may be unable to recover most of the original investment cost due to the reasons other than obligor’s credit deterioration (such as effects of risk associated with beneficiary securities). Under this case, it should be reclassified as available-for-sale financial assets or financial assets at fair value through profit or loss. Except for subordinated beneficiary certificates retained for credit enhancement which was reclassified as other financial assets instead.
- (2) The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The aforementioned carrying amount of the loans should be allocated in proportion to the fair values of the part retained and the part sold on the date of sale. Since quotes are not available for loans and retained interests, the Bank estimates fair value at the present value of expected cash flows, using management’s key assumptions on credit losses and discount rates commensurate to the risks involved.
- (3) Interest income is recognized with respect to subordinated beneficiary securities when the Trustee pays the interest.

#### 7. Hedge accounting

When fair value hedges, cash flow hedges and net investment hedges in foreign operations meet the criteria for hedge accounting, net method is adopted for recognition of gain or loss arising from changes in fair values of all hedge instruments and hedged items. Related accounting methods are as follows:

- (1) Fair value hedges: When a derivative financial instrument is used as the underlying hedging instrument, fair value is applied for valuation. When a non-derivative financial instrument is used for hedging, any gain or loss arising from change in exchange rates is charged to current income. The carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged.
- (2) Cash flow hedges: The effective portion of the gain or loss on the hedging instrument is recognized directly in equity. When it is determined that the expected hedged transaction will result in financial assets or financial liabilities, amounts initially recorded in equity are transferred to income in the period in which profit or loss is affected by the related assets or liabilities.
- (3) Net investment hedge in foreign operations: Gains or losses generated from hedge instruments are recognized as adjustments in equity which are then transferred to profit or loss for the period upon disposal of foreign operations.

#### 8. Bonds purchased/sold under resale/repurchase agreements

Bonds sold/purchased with a commitment to repurchase/resell them at predetermined prices are treated as financing transactions. The accounting methods applied are as follows:

- (1) Upon the sale of bonds and bills subject to a repurchase agreement, bonds and bills sold under repurchase agreement is credited and the difference between the cost and the repurchase price is treated as interest expense.
- (2) Upon the purchase of bonds and bills subject to a resale agreement, bonds and bills purchased under resale agreements is debited and the difference between the cost and the resell price is treated as interest revenue.

#### 9. Allowances for probable losses

- (1) The allowances for probable losses are provided for due from call loans to banks, receivables and bills discounted and loans based on a review of its collectibility.
- (2) According to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts", reserves set aside for probable loan losses are based on the estimation of potential unrecoverable exposures, net of collateral. A significant degree of management discretion is used in the estimation process, which includes the assessment of the borrower's ability to pay and of the value of the underlying collateral.
- (3) Balances of uncollectible accounts are written-off against allowance for probable losses only upon the approval by the Board of Directors.

#### 10. Bills discounted and loans

- (1) Bills discounted and loans are recorded on the basis of outstanding principal amounts. Any unsettled bills discounted and loans upon maturity are to be reclassified to non-accrual loans along with the associated amount of accrued interest previously recorded within six months from the date of the maturity. In addition, interest receivable should no longer be accrued.
- (2) Non-accrual loans transferred from loans should be recorded under bills discounted and loans. For other non-accrual loans transferred from accounts other than loans, such as guarantees, acceptances and receivables on factoring should be recorded under other financial assets.

#### 11. Investments accounted for by the equity method

- (1) Investments with voting rights of at least 20% of the common stock and which hold significant influence over the investee are accounted for by the equity method. These investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Bank's share of the investee's net assets. The Bank will continue to recognize its equity in the net loss of an investee notwithstanding that it will result in a negative investment carrying amount (with this negative amount shown as liability) if the Bank had guaranteed the investee's debt or the Bank had obligated to provide financial support or the loss is temporary.
- (2) Cash dividends received are accounted for as reductions in the carrying amount of the investments. Stock dividends received are accounted for by the increase in the number of shares held by the Bank without any impact to the carrying amount of the investments and net income.
- (3) If an investee's capital reserve increases due to property revaluation, the Bank will recognize the proportional increase in the carrying amount of the investment and the gain will be included in the capital reserve in the stockholders' equity. The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 to 10 years. However, the difference attributable to goodwill is no longer amortized beginning on January 1, 2006, but is reviewed for potential impairment on an annual basis.
- (4) The Bank is required to include the accounts of all subsidiaries, which are more than 50%-owned and controlled in its consolidated financial statements. Consolidated financial statements are not required to be prepared for the first and third quarters.

## 12. Valuation and depreciation of properties and equipment

- (1) Except for land, all properties and equipments are depreciated on a straight-line basis according to their value after revaluation increment. Major improvements and renewals are capitalized as cost, and repairs and maintenance are expensed as incurred. Relevant promulgated principles should be applied if impairment has been found. Upon sale or disposal of properties and equipment, the related cost, revaluation increment, accumulated depreciation and accumulated impairment loss are written-off from the books, and any gain or loss is credited or charged to non-interest income.
- (2) When an impairment loss on a specified asset is identified, the related depreciation is recalculated based on the adjusted value over the estimated useful lives. The residual value of a property or equipment that is still in use at the end of the original estimated useful life is depreciated using the straight-line method over its revised estimated useful life.

## 13. Foreclosed properties

Foreclosed properties are stated at the lower of cost or net realizable value on the balance sheet date.

## 14. Reserve for operations

Reserve for operations is mainly provided for guarantee liabilities and trading losses. Reserve for guarantee liabilities is recognized based on the realizability of the balance pertaining to customers' customs duties, commodity tax and contract performance obligations, etc. Pursuant to the Rules Governing the Administration of Securities Firms (RGASF), 10% of the excess of gains on proprietary trading of securities over its losses must be set aside as reserve for trading losses on a monthly basis until the cumulative balance of such reserve reach \$200 million. Such reserve can only be used to offset the excess of securities trading losses over gains.

## 15. Pension plans

- (1) The Bank has pension plans for all regular employees under the relevant domestic and foreign government regulations. The Bank makes monthly contributions to a pension fund, which is administered by the workers' fund administration committee, at amounts up to 15% of the employees' salaries for domestic employees. The pension fund is deposited in the Bank of Taiwan under the name of the committee. In addition, the Bank makes contributions and payments for foreign employees under the relevant foreign government regulations.
- (2) The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Bank may choose to be covered by either the Act, and maintain their seniority before the enforcement of the Act, or the pension plan of the Bank. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts based on 6% of the employees' monthly wages.
- (3) Pension costs are based on actuarial calculations, with the unrecognized net transitional obligation being amortized over 15 to 22 years.

## 16. Recognition of revenue and service fees

- (1) Interest income for loans is recognized on an accrual basis except for loans classified as non-accrual loans. The accrual of income from non-accrual loans is discontinued and subsequent interest receipts are credited to income upon collection. In accordance to the regulations established by the Ministry of Finance, interest income arising from emergency loans and renewal of agreements is recorded as deferred revenue and subsequently recognized as income upon interest receipts.
- (2) Except for interest income arising from loans, commission income and other income are recognized on an accrual basis.
- (3) Service fee income is recognized when the services are rendered.

## 17. Use of estimates

In preparing the financial statements in conformity with generally accepted accounting principles in the R.O.C., the management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues, costs of revenues, and expenses during the reporting period. Therefore, actual results could differ from those estimates.

## 18. Asset impairment

The Bank assesses impairment for all assets within the scope of SFAS No. 35 "Impairment of Assets" if impairment indicators are found. Accordingly, the Bank compares the carrying amount with the recoverable amount of the assets or the cash-generating unit and writes down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair value or value in use. For recognized impairment loss, the Bank assesses, at each balance sheet date, whether there is any evidence indicating that the impairment may no longer exist or may have decreased. If such evidence is found, the Bank re-estimates the recoverable amount of the asset. If the recoverable amount increases, the Bank reverses the recognized impairment loss to the extent of the carrying amount as if no impairment loss had been recognized with respect to such asset. Impairment loss on goodwill shall no longer be reversed.

## 19. Impairment of financial assets

Effective from January 1, 2006, the Bank assesses at each balance sheet date whether the financial asset or group of financial assets is impaired. The methods of measurement are as follows:

### (1) Available-for-sale financial assets

The impairment loss is accounted for when there is objective evidence that an available-for-sale financial asset is impaired. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are recognized in equity. Reversals of impairment losses on debt instruments are recognized as income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in income.



(2) Held-to-maturity financial assets

The impairment loss is accounted for when there is objective evidence that a held-to-maturity investment is impaired. If the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized, reversals of impairment losses are recognized as income to the extent that the carrying value of the asset does not exceed its amortized cost without recognizing impairment loss at the reversal date.

(3) Financial assets carried at cost

The impairment loss is accounted for when there is objective evidence that a financial asset carried at cost is impaired. Such impairment losses can not be reversed.

20. Income tax

- (1) Income tax represents income tax paid and payable for the current period and the movement in the deferred tax assets and liabilities during the period. Deferred taxes are recognized for tax effects of temporary differences and unused tax credits. A valuation allowance is provided for deferred tax assets that are not certain to be realized. Adjustments of prior years' income taxes are recognized in the current period. Adjustment of deferred tax liability or asset for enacted change in tax rate measured by the balance sheet date is recognized as tax benefit or expense in the income statement for the period.
- (2) Tax credits generated from acquisitions of certain equipment or technology, research and development expenditure, personnel training expenditure and equity investment acquisition, are recognized in the current period.
- (3) Income taxes on undistributed earnings are charged at a 10% rate and recorded as expense in the year in which shareholders approve the retention of the earnings.
- (4) The R.O.C. government enacted the "Income Basic Tax Act" effective January 1, 2006. Under this Act, income tax payable shall be equal to or the higher of the regular income tax or basic income tax.
- (5) Since 2003, Mega Financial Holdings Co., Ltd. adopted the linked tax system for income tax filings with its qualified subsidiaries, including the Bank. As a result, the appropriation of income tax is accounted for as other payables.

21. Contingent losses

At the balance sheet date, if an asset is considered to be impaired or liability has been incurred, such loss is recorded as contingent losses for the current year where the amount of loss can be reasonably estimated. When the amount of the loss cannot be reasonably estimated or when it is probable that loss has been incurred, the obligation is disclosed as a contingent liability in the notes to the financial statements.

22. Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal obligation or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year.

23. Convenience translation into US dollars (Unaudited)

The Bank maintains its accounting records and prepares its financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the 2009 financial statements are presented solely for the convenience of the readers and were translated into US dollars using the exchange rate prevailing at December 31, 2009 of US\$1:NT\$32.176. Such translation amounts are not in compliance with generally accepted accounting principles in the Republic of China and should not be construed as representation that the New Taiwan dollar amounts represent, or have been or could be converted into United States dollars at that or any other rate.

**III. CHANGES IN ACCOUNTING POLICIES**

Effective from January 1, 2008, the Bank adopted the EITF 96-052 of the Accounting Research and Development Foundation, R.O.C. "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration". Such change in accounting principle had no significant effect on the Bank's net income and earnings per share for the year ended December 31, 2008.

During the period from July 1, 2008 to December 31, 2008, the Bank reclassified certain stocks listed on TSE or OTC originally classified as at fair value through profit or loss to available-for-sale financial assets in accordance with the revised Paragraph 104 of the Statement of Financial Accounting Standards No. 34. As a result of such change in accounting principle, net income increased by NT\$240,751 thousand and earnings per share increased by \$0.038 (dollar) for the year ended December 31, 2008.

#### IV. DETAILS OF SIGNIFICANT ACCOUNT BALANCES

##### 1. CASH AND CASH EQUIVALENTS

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Cash on hand	\$ 11,385,229	\$ 11,698,163	\$ 363,568
Revolving funds	4,561	3,991	124
Checks for clearing	1,114,103	1,145,877	35,613
Due from commercial banks	248,036,129	293,118,478	9,109,848
Total	<u>\$ 260,540,022</u>	<u>\$ 305,966,509</u>	<u>\$ 9,509,153</u>

##### 2. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS – NET

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Overdraft to banks	\$ 4	\$ -	\$ -
Call loans to banks	49,800,813	36,718,129	1,141,165
Due from the Central Bank:			
Reserve for deposits – category A	18,987,449	13,918,753	432,582
Reserve for deposits – category B	23,393,520	28,523,542	886,485
Reserve for deposits-foreign currency	87,669	443,621	13,787
Due from Central Bank – general deposits	10,800,290	10,800,285	335,663
Total	103,069,745	90,404,330	2,809,682
Less: allowance for probable losses	( 566 )	( 417 )	( 13 )
Net	<u>\$ 103,069,179</u>	<u>\$ 90,403,913</u>	<u>\$ 2,809,669</u>

As required by relevant laws, the reserves for deposits are calculated at prescribed rates on the average balances of various deposit accounts. The reserve for deposits – category A and foreign currency deposits accounts are non-interest bearing and call on demand. Reserve for deposits – category B earns interest but its use is restricted under relevant regulations.

##### 3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – NET

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
<u>Financial assets held for trading:</u>			
Stocks	\$ -	\$ 12,733	\$ 396
Financial bonds	664,274	10,069	313
Derivative financial instruments	4,250,700	1,229,538	38,213
<u>Financial assets designated by the Bank at fair value through profit or loss:</u>			
Corporate bonds	12,437,696	5,646,920	175,501
Government bonds	6,830,570	2,822,468	87,720
Financial bonds	13,457,415	11,950,839	371,421
Beneficiary securities	305,353	159,610	4,960
Derivative financial instruments	2,153,311	3,297,531	102,484
Total	<u>\$ 40,099,319</u>	<u>\$ 25,129,708</u>	<u>\$ 781,008</u>

As of December 31, 2008 and 2009, the aforementioned financial assets at fair value through profit or loss were not pledged to other parties as collateral.

##### 4. RECEIVABLES – NET

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Accounts receivable	\$ 84,467,383	\$ 74,310,808	\$ 2,309,511
Earned revenue receivable	110,533	482,105	14,983
Accrued interest	6,062,343	3,385,700	105,224
Acceptances receivable	8,246,115	11,457,847	356,099
Other receivables	562,425	546,963	16,999
Total	99,448,799	90,183,423	2,802,816
Less: allowance for probable losses	( 3,768,937 )	( 4,332,953 )	( 134,664 )
Net	<u>\$ 95,679,862</u>	<u>\$ 85,850,470</u>	<u>\$ 2,668,152</u>

## 5. BILLS DISCOUNTED AND LOANS – NET

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Inward/Outward documentary bills	\$ 14,421,430	\$ 13,577,053	\$ 421,962
Discounts	71,615	134,383	4,176
Overdrafts	260,525	94,097	2,924
Short-term loans	195,232,026	203,554,301	6,326,277
Secured overdrafts	486,882	964,503	29,976
Short-term secured loans	126,269,111	135,691,282	4,217,158
Medium-term loans	332,924,393	289,113,285	8,985,371
Medium-term secured loans	210,044,498	208,728,735	6,487,094
Long-term loans	125,905,186	118,415,452	3,680,242
Long-term secured loans	297,127,913	296,235,422	9,206,720
Non-accrual loans	12,593,685	10,634,954	330,525
Total	1,315,337,264	1,277,143,467	39,692,425
Less: allowance for probable losses	( 11,804,650 )	( 12,238,632 )	( 380,365 )
Net	<u>\$ 1,303,532,614</u>	<u>\$ 1,264,904,835</u>	<u>\$ 39,312,060</u>

(1) For the years ended December 31, 2008 and 2009, the Bank had not written-off bills discounted and loans without initiating any legal proceedings to collect such bills discounted and loans.

(2) As of December 31, 2008 and 2009, all balances of bills discounted and loans for which interest revenue was no longer accrued amounted to NT\$12,593,685 thousand and NT\$10,634,954 thousand, respectively. The unrecognized interest revenue on the above bills discounted and loans amounted to NT\$465,266 thousand and NT\$296,645 thousand for the years ended December 31, 2008 and 2009, respectively.

## 6. Movements in allowance for credit losses

The Bank had revalued the allowance for bills discounted and loans, non-accrual loans, call loans to banks, receivables and bills purchased by considering unrecoverable risks for the specific loans and inherent risks for the overall loan portfolio. Movements in allowance for credit losses for the years ended December 31, 2008 and 2009 were as follows:

January 1, 2008 to December 31, 2008	NT		
	Specific Risk	General Risk	Total
Balance, January 1, 2008	\$ 3,747,627	\$ 7,701,738	\$ 11,449,365
Provisions	2,910,293	4,405,093	7,315,386
Write-off-net	( 2,847,050 )	( 860,847 )	( 3,707,897 )
Recovery of written-off credits	1,725,185	165,815	1,891,000
Effects of exchange rate changes and others	( 23,371 )	( 44,156 )	( 67,527 )
Balance, December 31, 2008	<u>\$ 5,512,684</u>	<u>\$ 11,367,643</u>	<u>\$ 16,880,327</u>

January 1, 2009 to December 31, 2009	NT			US (Unaudited)		
	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
Balance, January 1, 2009	\$ 5,512,686	\$ 11,427,642	\$ 16,940,328	\$ 171,329	\$ 355,160	\$ 526,489
Provisions	5,918,656	469,852	6,388,508	183,946	14,603	198,549
Write-off-net	( 7,501,906 )	( 915,382 )	( 8,417,288 )	( 233,152 )	( 28,449 )	( 261,601 )
Recovery of written-off credits	2,356,876	149,842	2,506,718	73,250	4,657	77,907
Effects of exchange rate changes and others	64,259	333,664	397,923	1,997	10,370	12,367
Balance, December 31, 2009	<u>\$ 6,350,571</u>	<u>\$ 11,465,618</u>	<u>\$ 17,816,189</u>	<u>\$ 197,370</u>	<u>\$ 356,341</u>	<u>\$ 553,711</u>

The Bank's financial statements included provisions for probable credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated.

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NET

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Stocks	\$ 5,526,079	\$ 10,664,143	\$ 331,432
Commercial papers	10,551,441	19,427,529	603,789
Government bonds	24,091,923	17,298,230	537,613
Treasury bills	249,698	891,532	27,708
Corporate bonds	20,431,814	19,323,865	600,568
Beneficiary certificates	573,843	1,942,602	60,374
Beneficiary securities	11,678,254	9,117,545	283,365
Financial bonds	25,942,139	34,783,266	1,081,031
Certificates of deposit	2,396,485	295,817	9,194
Total	<u>\$ 101,441,676</u>	<u>\$ 113,744,529</u>	<u>\$ 3,535,074</u>

- (1) As of December 31, 2008 and 2009, the available-for-sale financial assets amounted to NT\$9,906,308 thousand and NT\$10,916,668 thousand, respectively, and were pledged to other parties as collateral of business reserves and guarantees.
- (2) As of December 31, 2008 and 2009, financial assets at fair value through profit or loss and available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$11,239,752 thousand and NT\$3,384,082 thousand, respectively. Such repurchase agreements were posted to the “Securities sold under repurchase agreements” account on the Bank’s balance sheet.
- (3) On December 21, 2005 and July 13, 2006, respectively, the Bank invested in subordinated beneficiary securities of “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” and “First Commercial Bank Co., Ltd. Collateralized Bond Obligation Special Purpose Trust 2006-2” amounting to NT\$1,685,279 thousand and NT\$384,870 thousand, respectively. At the end of 2007, the Bank reclassified the aforesaid subordinated beneficiary securities from “other financial assets – non active market” to “available-for-sale financial assets” in accordance with the Explanatory Note (96) No. 0000000304 of the Accounting Research and Development Foundation of the R.O.C. dated November 19, 2007.
- (4) The Bank also acts as a credit impaired asset put and clean up put provider of “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” and “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2”. When the credit rating of senior beneficiary securities (assets backed commercial paper) will not be at least “twA-3”, the rating institution will send “Credit Impaired Asset Notice”, and then the Bank should purchase the credit impaired assets in order to maintain the rating of senior beneficiary securities not lower than “twA-3”.

Additionally, the Bank evaluated asset pools of “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” and “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” by using market value, and the estimated loss amounted to NT\$350,201 thousand as of and for the year ended December 31, 2008 and the Bank evaluated asset pools of “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” by using market value, and the estimated loss amounted to NT\$1,039,998 thousand as of and for the year ended December 31, 2009, which were recorded under “other provisions”.

- (5) Information regarding “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” is set forth as follows:  
 “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” securitized trust assets are New Taiwan dollar-denominated bonds and U.S. residential mortgage backed securities. Special purpose trusts are rated by Taiwan Ratings Corporation and U.S. residential mortgage backed securities are rated by Standard & Poor. As of December 31, 2009, no default occurred in the asset pool. The special purpose trust reserve is sufficient for the cash flow model required by the special purpose trust; no actual loss has been incurred. The senior beneficiary securities issued by the “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” expect to mature on June 21, 2010. As of December 31, 2009, the senior beneficiary securities were rated “twA-3” by Taiwan Ratings Corporation.

- (6) Reserve for loss provided for “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” is as follows:

On July 25, 2008, the credit rating of senior beneficiary securities issued by “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1” was downgraded to “twA-3” and placed on the list for credit observation. Due to being a credit impaired asset put and clean up put provider, the Bank set aside reserve for loss amounting to NT\$2,640,761 thousand dated June 30, 2008.

In September 2008, the Bank purchased the credit impaired assets in the amount of US\$80,999 thousand dollars in accordance with the “Trust Agreement” and “Credit Impaired Asset Put and Clean Up Put Agreement” of “Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1”. In 2008, the Bank purchased impaired assets based on the abovementioned agreements that resulted in losses amounting to NT\$3.0 billion, recorded under “other losses”.

- (7) Information regarding “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” is set forth as follows:

On December 18, 2009, the “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” has been settled in advance.

- (8) Reserve for loss provided for “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” is as follows:

As of December 31, 2007, the credit rating of partial U.S. residential mortgage backed securities amounting to US\$33,207 thousand dollars of the “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” was downgraded. To maintain the credit rating of “twA-3” as the senior beneficiary securities was revolving issued on January 14, 2008, the Bank purchased the credit impaired assets in the amount of US\$33,207 thousand dollars in accordance with the “Trust Agreement” and “Credit Impaired Asset Put and Clean Up Put Agreement” in January 2008. The Bank set aside reserve for loss amounting to NT\$806,598 thousand at the end of 2007.

In February 2008, the credit rating of partial U.S. residential mortgage backed securities amounting to US\$92,809 thousand dollars of the “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” was downgraded by Standard & Poor. The Bank purchased the credit impaired assets in the amount of US\$92,809 thousand dollars in accordance with the “Trust Agreement” and “Credit Impaired Asset Put and Clean Up Put Agreement”. The Bank set aside reserve for loss amounting to NT\$2.4 billion during the 2008.

In August 2009, the credit rating of senior beneficiary securities issued by “First Commercial Bank Co., Ltd Collateralized Bond Obligation Special Purpose Trust 2006-2” was downgraded and placed on the list under credit observation. In accordance with the “Trust Agreement” and “Credit Impaired Asset Put and Clean Up Put Agreement”, the Bank purchased the credit impaired assets in the amount of US\$3,600 thousand dollars and recognized loss in the amount of NT\$108,939 thousand, recorded under “other losses” in September 2009. The credit impaired asset and New Taiwan dollar-denominated bonds purchased by the Bank have gradually matured since February 2008 matured on after another, causing the size of asset pools to be reduced sharply, and the purpose of securitization for resolving issues from structured bonds of MTTC has almost been completed; therefore, the Bank settled the case in advance in December 2009 and purchased the remaining assets amounting to US\$15 thousand and NT\$29,805 thousand.

- (9) Please refer to Note IV 25 for details of impairment loss recognized by the Bank for the years ended December 31, 2008 and 2009.
- (10) The Bank reclassified stocks listed on TSE or OTC, beneficiary certificates and bonds originally classified as at fair value through profit or loss to available-for-sale financial assets amounting to NT\$6,540,913 thousand for the year ended December 31, 2008 in accordance with the revised Paragraph 104 of the Statement of Financial Accounting Standards No. 34. Relevant information was as follows:

- i. Fair value information regarding the reclassified assets that have not been derecognized from the balance sheet as of December 31, 2008 and 2009 was as follows:

	December 31, 2008		December 31, 2009	
	Fair value		Fair value	
	NT		NT	US (Unaudited)
Bonds	\$	3,575,945	\$	1,626,441
Beneficiary certificates		290,114		96,632
Total	\$	<u>3,866,059</u>	\$	<u>1,723,073</u>
			\$	<u>53,551</u>

- ii. Movements on fair value of the reclassified assets for the years ended December 31, 2008 and 2009 were as follows:

	For the year ended December 31, 2008			
	Recognized in profit and loss		Recognized as adjustments in equity	
	NT		NT	
Listed stocks	\$	53,857	\$	-
Beneficiary certificates		46,505	(	135,081)
Bonds		69,352	(	105,670)
Total	\$	<u>169,714</u>	(\$	<u>240,751</u> )

	For the year ended December 31, 2009			
	Recognized in profit and loss		Recognized as adjustments in equity	
	NT	US	NT	US (Unaudited)
Listed stocks	\$	-	\$	-
Beneficiary certificates	-	-	(	44,101)
Bonds	-	-	(	10,470)
Total	\$	<u>-</u>	(\$	<u>33,631</u> )
			(\$	<u>1,046</u> )

- iii. If the above reclassified assets were not reclassified as available-for-sale financial assets for the period from July 1 to December 31, 2009, the fair value of the reclassified assets would be as follows:

	NT\$	US\$ (Unaudited)
July 1 ~ December 31, 2008	(\$ 240,751)	(\$ 7,482)
January 1 ~ December 31, 2009	33,631	1,046
Total	(\$ 274,832)	(\$ 6,436)

- (11) The Bank invested in certain bonds issued by Lehman Brothers Group. Due to the bankruptcy of Lehman Brothers Group, the amount invested may no longer be recovered. Hence, as of December 31, 2009, the Bank has recognized an accumulated impairment loss of \$481,479 thousand. (of which \$141,189 thousand was recorded under receivables - provision for credit loss) and none of which was recognized for the year ended December 31, 2009.
- (12) The Bank holds financial debentures issued by several banks in Iceland. Some of the banks were taken over by Iceland government. As the amount invested may no longer be recovered, the Bank has recognized an accumulated impairment loss of \$215,108 thousand and none of which was recognized for the year ended December 31, 2009.

#### 8. HELD-TO-MATURITY FINANCIAL ASSETS – NET

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Government bonds	\$	1,178,106	\$	2,035,057
Certificates of deposits		78,862,192		241,900,000
Financial bonds		13,317,312		17,356,138
Corporate bonds		689,617		417,644
Beneficiary securities		210,600		210,600
Total	\$	<u>94,257,827</u>	\$	<u>261,919,439</u>
			\$	<u>8,140,211</u>

- (1) As of December 31, 2008 and 2009, held-to-maturity financial assets amounting to NT\$15,642,072 thousand and NT\$15,618,528 thousand, respectively, were pledged to other parties as collateral of business reserves and guarantees.
- (2) The Bank invested in bonds issued by Lehman Brothers Group. Due to the bankruptcy of Lehman Brothers Group, the amount invested may no longer be recovered. The accumulated impairment loss was NT\$469,642 thousand as of December 31, 2009 and \$67,531 thousand of which was recognized for the year ended December 31, 2009.
- (3) The Bank holds financial debentures issued by several banks of Iceland. Some of the banks were taken over by Iceland government and the amount invested may no longer be recovered. The accumulated impairment loss was NT\$428,807 thousand as of December 31, 2009 (of which \$209,139 thousand was recorded under receivables - provision for credit loss) and none of which was recognized for the year ended December 31, 2009.

- (4) As there is no quoted market price for the bonds, the Bank reclassified bonds originally classified as at fair value through profit or loss to held-to-maturity financial assets amounting to NT\$536,700 thousand for the year ended December 31, 2009 in accordance with the amended Paragraph 104 of SFAS No. 34. Relevant information was as follows:

- i. Fair value information regarding the reclassified assets that have not been derecognized from the balance sheet as of December 31, 2009 was as follows:

	December 31, 2009	
	Carrying Value	
	NT\$	US\$ (Unaudited)
Bonds	\$ 570,955	\$ 17,745

- ii. As of December 31, 2009, the discounted amount of the above reclassified assets was NT\$34,255 thousand.

#### 9. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD – NET

Investee Companies	December 31, 2008		December 31, 2009		% of ownership
	Book value NT	% of ownership	Book value NT	US (Unaudited)	
Mega International Commercial Bank Public Co., Ltd. (Thailand)	\$ 4,432,878	100.00	\$ 4,706,221	\$ 146,265	100.00
Mega International Commercial Bank (Canada)	796,928	100.00	942,887	29,304	100.00
Cathay Investment & Development Corporation (Bahamas)	708,593	100.00	307,511	9,557	100.00
Mega Management & Consulting Co., Ltd. (Note)	65,771	100.00	73,830	2,294	100.00
Cathay Investment & Warehousing Ltd.	53,337	100.00	106,460	3,309	100.00
Ramlett Finance Holdings Inc.	-	100.00	-	-	100.00
Yung-Shing Industries Co.	795,073	99.56	875,277	27,203	99.56
China Products Trading Company	65,030	68.27	62,868	1,954	68.27
Cathy Insurance Company, INC.	5,717	30.37	4,937	153	30.37
United Venture Capital Corp.	81,381	25.31	80,806	2,511	25.31
China Insurance Co., (Siam) Ltd.	33,131	25.25	35,738	1,111	25.25
Mega 1 Venture Capital Co., Ltd. (Note)	230,071	25.00	265,346	8,247	25.00
IP Fundseven Ltd.	212,454	25.00	216,701	6,735	25.00
An Fang Co., Ltd.	12,072	25.00	12,396	385	25.00
Taiwan Bills Finance Co.	1,398,271	24.55	1,416,477	44,023	24.55
Everstrong Iron Steel & Foundry & Mfg Corp.	34,984	22.22	33,843	1,052	22.22
China Real Estate Management Co., Ltd.	116,742	20.00	126,869	3,943	20.00
Total	\$ 9,042,433		\$ 9,268,167	\$ 288,046	

Note: Former CTB Financial Management & Consulting Co., Ltd and former CTB I Venture Capital were renamed as Mega Management & Consulting Co., Ltd and Mega 1 Venture Capital Co., Ltd on May 25, 2009 and June 16, 2009, respectively.

- (1) The above investments and the related investment income accounted for by the equity method were partially recognized based on the investee's audited financial statements. For those equity investments income recognized based on the investee's unaudited financial statements, the balances of these investments as of December 31, 2008 and 2009 accounted for 0.01% and 0.03% of the Bank's total assets, respectively. For the years ended December 31, 2008 and 2009, investment income recognized from these investments accounted for 0.47% and 0.60% of the Bank's income before tax, respectively. Hence, the Bank considered there will be no significant impact if those financial statements have been audited.

- (2) As of December 31, 2008 and 2009, equity investments accounted for under the equity method were not pledged as collateral.

- (3) Investee companies in which the Bank holds more than 50% of ownership have been included in the preparation of the consolidated financial statements except for CTB Financial Management & Consulting Co., Ltd., Cathay Investment & Warehousing Ltd., Ramlett Finance and China Products Trading Company wherein no significant impact were expected.

#### 10. OTHER FINANCIAL ASSETS – NET

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Financial assets carried at cost:				
Stocks	\$ 20,088,335		\$ 18,714,217	\$ 581,620
Debt investment with no active market:				
Beneficiary securities	993,590		113,859	3,539
Bills purchased	35,382		27,511	855
Non accrual loans transferred from overdue receivables – net	51,478		273,365	8,496
Total	\$ 21,168,785		\$ 19,128,952	\$ 594,510

- (1) For the years ended December 31, 2008 and 2009, the amounts of impairment loss recognized by the Bank due to investees operating at loss over an extended period of time were NT\$1,066,385 thousand and NT\$1,346,008 thousand, respectively.

- (2) As of December 31, 2008 and 2009, the abovementioned financial assets are not pledged as collateral of business reserves and guarantees.



# 11. OTHER ASSETS – NET

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Prepayment	\$ 127,489	\$	140,416	\$ 4,364
Prepaid tax	420,093		476,570	14,811
Other prepaid expenses	604,199		2,510,227	78,016
Deferred pension costs	-		137,408	4,271
Deferred income tax - net	1,288,621		1,579,795	49,099
Refundable deposits	368,258		468,546	14,562
Temporary payments	701,998		906,961	28,188
Foreclosed property	65,548		64,352	2,000
Accumulated impairment	-	(	5,180)	( 161 )
Others	269,825		285,224	8,864
Net	<u>\$ 3,846,031</u>	<u>\$</u>	<u>6,564,319</u>	<u>\$ 204,013</u>

# 12. DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Due to Central Bank	\$ 274,830,032	\$	311,950,366	\$ 9,695,126
Transfer deposits from China Post Co.	75,261,706		48,773,005	1,515,819
Overdrafts from other banks	89,509		3,643,163	113,226
Call loan from other banks	35,147,324		25,215,682	783,680
Total	<u>\$ 385,328,571</u>	<u>\$</u>	<u>389,582,216</u>	<u>\$ 12,107,851</u>

# 13. BORROWED FUNDS

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Refinancing to borrow funds from Central Bank	\$ 13,360,458	\$	11,833,151	\$ 367,764
Other funds borrowed from Central Bank	30,821,946		31,487,152	978,591
Funds borrowed from other banks	9,002,783		14,196,958	441,228
Total	<u>\$ 53,185,187</u>	<u>\$</u>	<u>57,517,261</u>	<u>\$ 1,787,583</u>

# 14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Financial liabilities held for trading:				
Derivative financial instruments	\$ 3,258,967	\$	1,743,748	\$ 54,194
Financial liabilities designated at fair value through profit or loss:				
Financial bonds	44,120,922		28,243,643	877,786
Derivative financial instruments	1,164,806		2,942,974	91,465
Total	<u>\$ 48,544,695</u>	<u>\$</u>	<u>32,930,365</u>	<u>\$ 1,023,445</u>

# 15. PAYABLES

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Accounts payable	\$ 25,691,311	\$	9,782,997	\$ 304,046
Bankers' acceptances	8,808,807		11,775,432	365,969
Accrued interests	5,731,228		2,833,018	88,048
Dividends and bonus payable	5,679,263		5,679,263	176,506
Income tax payable	2,070,720		3,554,850	110,481
Accrued expense	2,670,387		3,191,138	99,178
Collections payable for customers	809,982		981,398	30,501
Other payables	1,371,479		1,321,617	41,075
Other payable – parent company account (Note)	2,017,615		869,462	27,022
Total	<u>\$ 54,850,792</u>	<u>\$</u>	<u>39,989,175</u>	<u>\$ 1,242,826</u>

(Note) Please refer to Notes IV 27 and V.

# 16. DEPOSITS AND REMITTANCES

	December 31, 2008		December 31, 2009	
	NT		NT	US (Unaudited)
Checking deposit	\$ 22,592,486	\$	26,973,568	\$ 838,313
Demand deposit	270,054,882		395,053,137	12,277,882
Time deposit	591,874,250		551,795,375	17,149,285
Savings deposit	418,387,844		489,621,294	15,216,972
Remittances	3,813,283		10,026,554	311,616
Total	<u>\$ 1,306,722,745</u>	<u>\$</u>	<u>1,473,469,928</u>	<u>\$ 45,794,068</u>

# 17. FINANCIAL BONDS PAYABLE

	December 31, 2008	December 31, 2009
	NT	NT US (Unaudited)
Subordinated Bonds	\$ 27,700,000	\$ 27,700,000 \$ 860,890
Coordinated Bonds	2,199,347	3,000 93
Total	\$ 29,899,347	\$ 27,703,000 \$ 860,983

Name of bond	Issuing period	Interest rate%	Total issued amount	December 31, 2008	December 31, 2009		Remark
				NT	NT	US (Unaudited)	
16-20 Development Financial bond	2002.01.08~2009.01.08	3.50	\$ 720,000	\$ 80,000	\$ -	\$ -	Interest is paid yearly. The principal is repaid upon 36 months. 1/9 of the principal is repaid at every 6 months.
16-28 Development Financial bond	2002.02.18~2009.02.18	3.00	140,000	23,333	-	-	Interest is paid yearly. The principal is repaid upon 24 months. 1/6 of the principal is repaid at every 12 months.
16-29 Development Financial bond	2002.02.18~2009.02.18	3.13	600,000	54,546	-	-	Interest is paid yearly. The principal is repaid upon 24 months. 1/11 of the principal is repaid at every 6 months.
16-34 Development Financial bond	2002.04.12~2009.04.12	3.38	330,000	36,668	-	-	Interest is paid yearly. The principal is repaid upon 36 months. 1/9 of the principal is repaid at every 6 months.
19-6 Development Financial bond	2004.11.26~2009.11.26	2.35	500,000	500,000	-	-	Interest is paid yearly. The principal is repaid at maturity.
19-7 Development Financial bond	2004.11.26~2009.11.26	2.35	500,000	500,000	-	-	Interest is paid yearly. The principal is repaid at maturity.
19-8 Development Financial bond	2004.11.26~2009.11.26	2.35	500,000	500,000	-	-	Interest is paid yearly. The principal is repaid at maturity.
19-9 Development Financial bond	2004.11.26~2009.11.26	2.35	500,000	500,000	-	-	Interest is paid yearly. The principal is repaid at maturity.
93-6 Development Financial bond	2004.06.29~2010.01.29	2.70	2,200,000	2,200,000	2,200,000	68,374	Interest is paid yearly. The principal is repaid at maturity.
93-107 Development Financial bond	2004.10.12~2010.04.12	2.85	500,000	500,000	500,000	15,540	Interest is paid yearly. The principal is repaid at maturity.
93-207 Development Financial bond	2004.10.12~2011.04.12	3.00	4,500,000	4,500,000	4,500,000	139,856	Interest is paid yearly. The principal is repaid at maturity.
96-1 Development Financial bond	2007.09.27~2014.09.27	Floating rate	5,000,000	5,000,000	5,000,000	155,395	Interest is paid yearly. The principal is repaid at maturity.
96-3 Development Financial bond	2007.12.28~2014.12.28	2.99	300,000	300,000	300,000	9,324	Interest is paid yearly. The principal is repaid at maturity.
96-4 Development Financial bond	2007.12.28~2014.12.28	Floating rate	400,000	400,000	400,000	12,432	Interest is paid yearly. The principal is repaid at maturity.
97-4 Development Financial bond	2008.06.26~2015.06.26	Floating rate	6,000,000	6,000,000	6,000,000	186,474	Interest is paid yearly. The principal is repaid at maturity.
97-6 Development Financial bond	2008.06.26~2011.06.26	Floating rate	300,000	300,000	300,000	9,324	Interest is paid yearly. The principal is repaid at maturity.
97-7 Development Financial bond	2008.09.29~2010.09.29	2.50	500,000	500,000	500,000	15,539	Interest is paid yearly. The principal is repaid at maturity.
97-8 Development Financial bond	2008.09.29~2015.09.29	3.00	1,600,000	1,600,000	1,600,000	49,726	Interest is paid yearly. The principal is repaid at maturity.
97-9 Development Financial bond	2008.12.23~2015.12.23	3.00	6,400,000	6,400,000	6,400,000	198,906	Interest is paid yearly. The principal is repaid at maturity.
Other				4,800	3,000	93	Mature but not yet collected
Total				\$ 29,899,347	\$ 27,703,000	\$ 860,983	



## 18. ACCRUED PENSION LIABILITIES

- (1) Net pension cost comprises the following:

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Service cost	\$ 583,565	\$ 607,497	\$ 18,880
Interest cost	307,168	315,086	9,793
Expected return on plan assets	( 204,029 )	( 207,789 )	( 6,458 )
Amortization	108,962	134,494	4,180
Net pension cost	<u>\$ 795,666</u>	<u>\$ 849,288</u>	<u>\$ 26,395</u>

- (2) Funded status of the pension plan and reconciliation of accrual pension liabilities are as follows:

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Benefit obligation			
Vested benefit obligation	(\$ 6,116,616)	(\$ 7,291,637)	(\$ 226,617)
Non-vested benefit obligation	( 2,300,386 )	( 2,251,862 )	( 69,986 )
Accumulated benefit obligation	( 8,417,002 )	( 9,543,499 )	( 296,603 )
Effect of future salary increments	( 3,255,950 )	( 3,511,531 )	( 109,135 )
Projected benefit obligation	( 11,672,952 )	( 13,055,030 )	( 405,738 )
Fair value of plan assets	7,495,948	8,002,272	248,703
Funded status	( 4,177,004 )	( 5,052,758 )	( 157,035 )
Unrecognized net transition obligation	196,588	174,910	5,436
Unrecognized service cost in prior year	83,542	60,902	1,893
Non-amortization of gain or loss on plan assets	2,678,554	3,413,127	106,077
Unfunded accrued pension liability	-	( 137,408 )	( 4,271 )
Accrued pension liabilities	<u>(\$ 1,218,320 )</u>	<u>(\$ 1,541,227 )</u>	<u>(\$ 47,900 )</u>

- (3) Actuarial assumptions are as follows:

Discount rate	2.75%	2.50%
Rate of compensation increase in salaries	3.00%	3.00%
Expected rate of return on plan assets	2.75%	2.50%

- (4) Effective July 1, 2005, the Bank established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Bank contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The pension costs under the defined contribution pension plan for the years ended December 31, 2008 and 2009 were NT\$54,696 thousand and NT\$58,208 thousand, respectively.

## 19. OTHER FINANCIAL LIABILITIES

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Appropriation for loans	\$ 5,943,610	\$ 4,035,556	\$ 125,421
Reserve for loans	2,853	-	-
Total	<u>\$ 5,946,463</u>	<u>\$ 4,035,556</u>	<u>\$ 125,421</u>

## 20. OTHER LIABILITIES

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Refundable deposits	\$ 3,410,415	\$ 2,368,523	\$ 73,612
Reserve for losses on guarantees	1,793,019	3,159,758	98,202
Temporary credits	3,235,267	2,701,709	83,967
Others	3,506,505	3,056,112	94,981
Total	<u>\$ 11,945,206</u>	<u>\$ 11,286,102</u>	<u>\$ 350,762</u>

## 21. CAPITAL STOCK

As of December 31, 2008 and 2009, the authorized capital stock was \$64,109,878 thousand, consisting of 6,410,988 thousand shares, and issued capital stock was \$64,109,878 thousand with par value of \$10 New Taiwan dollars per share for both years.

## 22. RETAINED EARNINGS AND DIVIDEND POLICIES

- (1) The current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings (including reversible special reserve) are then distributed 2.4% as bonuses to employees, and the remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' decision to propose a distribution plan and to submit to the Ordinary Stockholders' Meeting. Bonus to employees and dividends to stockholders are distributed in the form of cash. Distribution of bonus to employees should be resolved by the Board of Directors.
- (2) Legal reserve can be only used to recover accumulated deficits or to increase capital stock and shall not be used for any other purposes. It is permitted that the legal reserve is used to increase capital stock if the balance of the legal reserve has reached fifty percent of the issued capital stock, and then only half of the legal reserve can be capitalized.

- (3) Under the Article 41-1 of the Securities and Exchange Act, special reserve can be used to recover accumulated deficits and under the Article 239 of Company Law of the R.O.C., a company shall not use the capital reserve to recover its capital loss, unless the surplus reserve is insufficient to recover such loss. However, the annual net income after income taxes should be first used to recover accumulated deficits, and the remaining amount should then be set aside as special reserve. The remaining earnings are then distributed to stockholders.
- (4) In compliance with the Explanatory Letter Jin-Guan-Jen (1) No. 0950000507 of the FSC, Executive Yuan, effective from 2007, except for appropriating legal reserve according to the law, if the current year-end contra accounts in the stockholders' equity have negative/debit balances, public companies are required to appropriate a special reserve equaling such negative / debit balances before distributing the undistributed earnings. Such appropriation of the special reserve should be subject to the following restriction in accordance with Article 41-1 of the Securities and Exchange Act. (a) If the amounts of the contra accounts in the stockholders' equity result from the current year, the amount of the special reserve to be set aside should not exceed the current net income after income taxes plus the accumulated undistributed earnings of the prior years. (b) If the amounts of the contra accounts in the stockholders' equity result from the prior years, the amount of the special reserve to be set aside should not exceed the accumulated undistributed earnings of the prior years less those undistributed earnings that have been set aside in the above (a). In the subsequent years, if there is a reversal of special reserve due to reduction in the negative / debit balances of the contra accounts in the stockholders' equity, the portion of the reversal of the special reserve can be used for earnings distribution.
- (5) Under the Integrated Income Tax System, which took effect on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

Under the Financial Supervisory Commission regulations, when appropriating the current year's net income, the Bank should set aside a special reserve, which is equal to the debit balance of cumulative translation adjustments and unrealized loss resulting from the decline in value of financial instruments. A portion of this reserve is reversed to unappropriated earnings when the debit balances of the foregoing accounts decrease.

Unappropriated retained earnings information:

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
1998 and onward	\$ 7,337,103	\$ 11,091,667	\$ 344,719

- (6) The appropriations and distributions for 2007 and 2008 approved by the Bank's Board of Directors on the stockholders' behalf on May 8, 2008 and May 6, 2009, respectively, were as follows:

	2007	2008	
	NT	NT	US (Unaudited)
Legal reserve	\$ 4,209,286	\$ 1,026,576	\$ 31,905
Special reserve	38,865	4,280,237	133,026
Cash dividends (NT\$1.46 and NT\$0.25 per share)	9,360,043	1,602,747	49,812
Employees' cash bonus and remunerations to directors and supervisors	234,787	-	-
Total	\$ 13,842,981	\$ 6,909,560	\$ 214,743

Information on the appropriation of the Company's earnings as approved by the Board of Directors and during the shareholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange. The Company's 2008 actual earnings distributions were as mentioned above, bonuses to employees and remunerations to supervisors and directors in 2008 approved by the Board of Directors were consistent with the amounts recognized in the financial statements as of and for the year ended December 31, 2008.

- (7) The Bank recognized the estimated costs of NT\$0 and NT\$280,022 thousand for employees' bonuses for the years ended December 31, 2008 and 2009 which, after taking net income and legal reserve into account, is based on the ratio stipulated in the Company's Articles of Incorporation.

## 23. Unrealized revaluation increment

The Bank made revaluations of its assets in accordance with the relevant laws and regulations. As of December 31, 2008 and 2009, the balance of the revaluation increment of land and other fixed assets amounted to NT\$3,658,847 thousand and NT\$2,828,009 thousand, respectively, and were recorded under "properties and equipment". As of December 31, 2008 and 2009, balance of the reserves for land valuation increment tax were NT\$988,038 thousand and NT\$712,253 thousand, respectively, and were recorded under "other liabilities"

## 24. FEE INCOME – NET

	For the years ended December 31,		
	2008	2009	
	NT	NT	US (Unaudited)
Service fee income	\$ 6,798,984	\$ 6,614,527	\$ 205,573
Service fee charges	( 658,402 )	( 587,145 )	( 18,248 )
Net service fee income	\$ 6,140,582	\$ 6,027,382	\$ 187,325

## 25. ASSET IMPAIRMENT LOSSES

	For the years ended December 31,		
	2008	2009	
	NT	NT	US (Unaudited)
Available-for-sale financial assets	\$ 2,384,280	\$ 238,085	\$ 7,399
Held-to-maturity financial assets	861,290	67,531	2,099
Financial assets carried at cost - stocks	1,066,385	1,346,008	41,833
Fixed assets - lands	194,351	175,808	5,464
Foreclosed property	-	5,315	165
Total	<u>\$ 4,506,306</u>	<u>\$ 1,832,747</u>	<u>\$ 56,960</u>

## 26. STAFF, DEPRECIATION AND AMORTIZATION EXPENSES

The following is a summary of the components of staff, depreciation, and amortization expenses for the years ended December 31, 2008 and 2009, respectively.

	For the years ended December 31,		
	2008	2009	
	NT	NT	US (Unaudited)
Staff expenses			
Payroll expense	\$ 6,876,953	\$ 7,718,412	\$ 239,881
Staff insurance	418,898	444,579	13,817
Pension	915,321	919,159	28,567
Other staff expenses	381,987	354,909	11,030
	<u>\$ 8,593,159</u>	<u>\$ 9,437,059</u>	<u>\$ 293,295</u>
Depreciation	<u>\$ 752,772</u>	<u>\$ 684,719</u>	<u>\$ 21,280</u>
Amortization	<u>\$ 20,283</u>	<u>\$ 13,052</u>	<u>\$ 406</u>

## 27. INCOME TAX

(1) The reconciliation of income tax expense and income tax payable is as follows:

	For the years ended December 31,		
	2008	2009	
	NT	NT	US (Unaudited)
Income tax at the statutory tax rate	\$ 1,462,976	\$ 3,281,121	\$ 101,974
Tax effect of permanent differences	912,924	( 1,970,816)	( 61,251)
Effects on enacted change in tax rates	-	282,027	8,765
Income tax of overseas branches	( 349,420)	( 20,052)	( 623)
Net change in deferred income tax assets	457,020	291,174	9,049
Prepaid and withholding taxes	( 762,754)	( 1,054,059)	( 32,759)
Income tax payable- current period	<u>\$ 1,720,746</u>	<u>\$ 809,395</u>	<u>\$ 25,155</u>

	For the years ended December 31,		
	2008	2009	
	NT	NT	US (Unaudited)
Income tax payable - current period	\$ 1,720,746	\$ 809,395	\$ 25,155
Separate tax expenses	348,009	197,180	6,128
Deferred income tax benefit	( 457,020)	( 291,174)	( 9,049)
Income tax payable attributed to foreign branches and adjustments of prior years income taxes	55,538	694,033	21,570
Prepaid and withholding taxes	<u>762,754</u>	<u>1,054,059</u>	<u>32,759</u>
Income tax expense	<u>\$ 2,430,027</u>	<u>\$ 2,463,493</u>	<u>\$ 76,563</u>

(2) As of December 31, 2009, the income tax returns of the Bank through 2004 have been examined by the tax authorities. In connection with such examinations, the Bank disagreed with the assessment and appealed to the tax authorities for 2003 and 2004.

- (3) Deferred income taxes as of December 31, 2008 and 2009 consisted of deferred income tax assets - net (presented as part of other assets), as follows:

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
A. Total deferred income tax liabilities	\$ 1,202,895	\$ 2,234,711	\$ 69,453
B. Total deferred income tax assets	( \$ 2,491,516 )	( \$ 654,916 )	( \$ 20,354 )
C. Temporary differences resulting in deferred income tax assets:			
Provision for employees' pension liabilities	\$ 1,153,199	\$ 1,329,475	\$ 41,319
Adjustments for depreciation	942,609	-	-
Unrealized loss on investments	3,833,873	5,335,486	165,822
Bad debt expenses in excess of the amount determined by tax regulation	258,599	1,434,917	44,596
Others	623,772	626,728	19,478
D. Temporary differences resulting in deferred income tax liabilities:			
Unrealized foreign exchange gains	\$ 954,963	\$ 1,069,860	\$ 33,250
Cumulative equity in net income of foreign investees	1,619,163	1,823,075	56,659
Unrealized gain on derivative financial instruments	2,074,901	193,144	6,003
E. Deferred income tax assets	\$ 1,703,013	\$ 1,745,324	\$ 54,243
Deferred income tax assets attributed to foreign branches	788,503	489,387	15,210
Deferred income tax liabilities	( 1,162,257 )	( 617,216 )	( 19,182 )
Deferred income tax liabilities attributed to foreign branches	( 40,638 )	( 37,700 )	( 1,172 )
Deferred income tax assets (liabilities), net	<u>\$ 1,288,621</u>	<u>\$ 1,579,795</u>	<u>\$ 49,099</u>

- (4) The information on the implementation of the integrated income tax system as of December 31, 2008 and 2009 is as follows:

	December 31, 2008	December 31, 2009	
	NT	NT	US (Unaudited)
Balances of the imputed tax	<u>\$ 440,399</u>	<u>\$ 188,027</u>	<u>\$ 5,844</u>

A. The estimated creditable tax ratio for distributing 2009 earnings was 1.70%.

B. The actual tax ratio for distributing 2008 earnings was 8.08%.

- (5) The Bank adopted the linked tax system for income tax filings with the parent company, Mega Financial Holding Co., Ltd., and other qualified subsidiaries in 2003. As a result, any amounts payable to the parent company is posted to Miscellaneous – Parent Company Account under Payables.

## 28. EARNINGS PER SHARE

	For the years ended December 31,					
	2008		2009			
Weighted-average shares outstanding (shares in thousand)	<u>6,410,988</u>		<u>6,410,988</u>			

	For the years ended December 31,					
	2008		2009			
	NT		NT		US (Unaudited)	
	Pre-tax	After tax	Pre-tax	After tax	Pre-tax	After tax
Net income	<u>\$ 5,851,946</u>	<u>\$ 3,421,919</u>	<u>\$ 13,127,617</u>	<u>\$ 10,664,124</u>	<u>\$ 407,994</u>	<u>\$ 331,431</u>
Earnings per share (in dollars)						
Net income	<u>\$ 0.91</u>	<u>\$ 0.53</u>	<u>\$ 2.05</u>	<u>\$ 1.66</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>

## V. RELATED PARTY TRANSACTIONS

### 1. NAMES OF THE RELATED PARTIES AND THEIR RELATIONSHIP WITH THE BANK

Related parties		Relationship
Mega Financial Holdings Co., Ltd.	Mega Financial Holdings	The Parent company
Mega Bills Finance Co., Ltd.	Mega Bills	Jointly controlled by Mega Financial Holdings
Mega Securities Co., Ltd.	Mega Securities	Jointly controlled by Mega Financial Holdings
Mega Investment Trust Co., Ltd.	Mega Investment Trust	Jointly controlled by Mega Financial Holdings
Mega Insurance Co., Ltd.	Mega Insurance	Jointly controlled by Mega Financial Holdings
Mega Asset Management Co., Ltd.	Mega Asset	Jointly controlled by Mega Financial Holdings
Mega Venture Capital Co., Ltd.	Mega Venture	Jointly controlled by Mega Financial Holdings
Mega Life Insurance Co., Ltd.	Mega Life Insurance	Jointly controlled by Mega Financial Holdings
Mega International Investment Service Corp.	Mega International Investment Service	Jointly controlled by Mega Financial Holdings
Mega Futures Co., Ltd.	Mega Futures	Jointly controlled by Mega Financial Holdings
Mega Securities Holdings Co., Ltd.	Mega Securities Holdings	Jointly controlled by Mega Financial Holdings
Chunghwa Post Corporation Limited	Chunghwa Post	Director of Mega Financial Holdings
Bank of Taiwan Corp.	Bank of Taiwan	Director of Mega Financial Holdings
Yung-Shing Industries Co.	Yung-Shing	Subsidiary of the Bank
China Products Trading Company	China Products	Subsidiary of the Bank
Mega Management & Consulting Co., Ltd.	Mega Financial Management & Consulting	Subsidiary of the Bank
Mega International Commercial Bank (Canada)	Mega ICBC (Canada)	Subsidiary of the Bank
Cathay Investment & Development Corporation (Bahamas)	Cathay Investment (Bahamas)	Subsidiary of the Bank
Mega International Commercial Bank Public Co., Ltd. (Thailand)	Mega ICBC (Thailand)	Subsidiary of the Bank
Cathay Investment & Warehousing Ltd.	Cathay Investment & Warehousing	Subsidiary of the Bank
Win Card Co., Ltd.	Win Card	Indirect subsidiary of the Bank
ICBC Assets Management & Consulting Co., Ltd.	ICBC Consulting	Indirect subsidiary of the Bank
Mega 1 Venture Capital Co., Ltd.	Mega 1 Venture	Equity investees
United Venture Capital Corp.	United Venture	Equity investees
Everstrong Iron Steel & Foundry & Mfg Corp.	Everstrong Iron Steel	Equity investees
IP Fundseven Ltd.	IP Fundseven	Equity investees
China Real Estate Management Co., Ltd.	China Real Estate	Equity investees
Taiwan Finance Co., Ltd.	Taiwan Finance	Equity investees
An Fang Co., Ltd.	An Fang	Equity investees
Chinatrust Financial Holdings Co., Ltd.	CFHC	Business conglomerate of Mega's director
Chinatrust Commercial Bank Co., Ltd. (Note 1 and Note 2)	CCBC	Business conglomerate of Mega's director
Others		Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

Note 1: Chinatrust Bills Finance Co., Ltd. entered into a merger contract with Chinatrust Commercial Bank Co., Ltd. on April 26, 2008 with Chinatrust Bills Finance Co., Ltd. as the dissolving company and Chinatrust Commercial Bank Co., Ltd. as the surviving company.

Note 2: Chinatrust Commercial Bank Co., Ltd. and its group were directors of Mega Financial Holdings Co., Ltd. (the Bank's parent company) until April 20, 2009. Since April 20, 2009, Chinatrust Commercial Bank Co., Ltd. and its group entrusted shares of Mega Financial Holdings Co., Ltd. held by them to a designated trust account with Bank of Taiwan, which released Chinatrust Commercial Bank Co., Ltd. and its group from being the Board of Directors. Therefore, Chinatrust Commercial Bank Co., Ltd. and its group were no longer the Bank's related parties. (Note V. 2. Major transactions and balance with Chinatrust Commercial Bank Co., Ltd. and its group were disclosed until April 19, 2009)

## 2. MAJOR TRANSACTIONS AND BALANCES WITH RELATED PARTIES

(1) Due from and due to banks

	Balance as of December 31,			Highest Outstanding Balance			For The Years Ended December 31,			For The Years Ended December 31,		
	2008		NT	2009		US (Unaudited)	2008		NT	2009		US (Unaudited)
	NT	\$		NT	\$		NT	\$		NT	\$	
<u>Due from banks</u>												
Mega ICBC (Canada)	\$ 186,330	\$ 283,533	\$ 8,812	\$ 595,757	\$ 929,494	\$ 28,888	0.01~4.34	\$ 4,633	\$ 5,070	\$ 481	\$ 158	
Mega Bills	-	-	-	5,000,000	3,500,000	108,777	1.80~2.07	3,970	481	282	15	
Bank of Taiwan	7,307	7,993	248	1,878,917	5,489,338	170,603	0.35~2.23	543	282	9	9	
Mega ICBC (Thailand)	4,832	45,942	1,428	103,951	216,288	6,722	8.00~9.00	38	64	( 2)	( 2)	
Chinatrust Commercial Bank (Note)	-	-	-	2,022,771	360,220	11,195	0.47~1.00	79	20	1	1	
<u>Due to banks</u>												
China Post	\$ 75,370,246	\$ 48,924,218	\$ 1,520,519	\$ 113,377,330	\$ 96,637,588	\$ 3,003,406	0.01~2.83	( \$ 1,984,121)	( \$ 986,759)	( \$ 30,668)	( \$ 30,668)	
Mega ICBC (Canada)	257,693	114,963	3,573	298,142	358,901	11,154	0.01~4.75	( 1,907)	( 242)	( 8)	( 8)	
Mega ICBC (Thailand)	393,186	1,145,282	35,594	2,844,815	2,342,982	72,818	1.00~6.50	( 3,907)	( 678)	( 21)	( 21)	
Chinatrust Commercial Bank (Note)	799,889	-	-	1,600,000	900,000	27,971	0.60~1.00	( 209)	( 63)	( 2)	( 2)	
Bank of Taiwan	-	-	-	5,487,090	2,000,000	62,158	0.30~2.72	( 16,892)	( 14)	( 0)	( 0)	

Note: As described in Note V.1. Note 2, Chinatrust Commercial Bank was no longer the Bank's related party since April 20, 2009.

(2) Loans and deposits

	Balance as of December 31,			Total Interest Income (Expense) For The Years Ended December 31,			Interest Rate (%)		
	2008		NT	2009		US(Unaudited)	2008		2009
	NT	\$		NT	\$		NT	\$	
<u>Counterparty</u>									
All related parties	\$ 44,700,224	3.43	\$ 58,077,621	\$ 1,804,998	3.94	\$ 679,637	1.96	( \$ 375,563)	2.75
All related parties	116,671,087	8.87	83,504,875	2,595,253	6.60	3,273,994	5.33	1,670,386	4.74

The interest rates shown above are similar to, or approximate, those offered to third parties. But the interest rates for savings deposits of Bank managers within the prescribed amounts are the same as for savings deposits of employees.

In compliance with the Banking Law, except for consumer loans and government loans, credit extended by the Bank to any related party are fully secured, and the terms of credit extended to related parties are similar to those for third parties.

The Bank presents its transactions or account balances with related parties, in the aggregate, except for those which the amount represents over 10% of the account balance.

### (3) Lease Agreements

The related parties had leased office spaces from the Bank as summarized below:

Related Party	Lease Period	Lease Receipt Method	For the years ended December 31,			
			2008		2009	
			NT		NT	
			Rental Revenue	Rental Revenue	Rental Revenue	US (Unaudited) Rental Revenue
Win Card	2008.01-2015.01	Quarterly	\$ 10,490	\$ 8,659	\$ 269	
Yung-Shing	2006.10-2012.09	Quarterly	-	1,631	51	
Yung-Shing	2006.10-2009.09	Quarterly	1,648	-	-	
Mega Insurance	2003.05-2012.04	Monthly	-	2,424	75	
Mega Insurance	2003.05-2009.04	Monthly	2,431	-	-	
Mega Life Insurance	2001.01-2011.06	Monthly	1,124	1,124	35	
Mega Securities	2003.03-2009.12	Monthly	18,620	19,340	601	
Mega Financial Management & Consulting	2006.08-2010.12	Monthly	-	1,456	45	
Mega Financial Management & Consulting	2005.10-2009.08	Monthly	1,421	-	-	
Mega Bills	2005.01-2010.12	Monthly	44,550	45,000	1,399	
Mega Asset	2006.04-2010.12	Monthly	6,392	6,277	195	
Mega Financial Holdings	2006.08-2010.07	Monthly	216	216	7	
Mega Investment Trust	2007.08-2012.07	Monthly	10,605	10,881	338	

The Bank had made lease agreements with the related parties as summarized below:

Related Party	Lease Period	Lease Payment Method	For the years ended December 31,		
			2008		2009
			NT		US (Unaudited)
			Rental Expense	Rental Expense	Rental Expense
Yung-Shing	1994.12-2014.11	Annually	\$ 6,260	\$ 6,260	\$ 195
Mega Insurance	2007.12-2012.08	Monthly	-	22,325	694
Mega Insurance	2007.12-2011.11	Monthly	22,272	-	-
China Products	2007.04-2012.03	Monthly	-	1,760	55
China Products	2003.04-2009.03	Monthly	1,759	-	-
Mega Bills	2006.05-2010.12	Monthly	106,928	109,826	3,413
Mega Financial Holdings	2006.12-2010.12	Monthly	6,538	6,620	206
Mega Securities	Note	Note	4,833	4,951	154
Cathay Investment & Warehousing	1996.08-2021.08	Monthly	8,242	6,120	190

Note: The Bank sets up offices of collection / payment of securities trading for customers in all operating bases of Mega Securities. There are neither formal contracts nor actual lease terms. The rental fees are paid according to certain percentage of deposit balance of each operating base.

(4) Transaction balance of financial instruments

	December 31, 2008		December 31, 2009	
	Amount (NT)	% of Total	Amount (NT)	US (Unaudited)
1. Financial assets designated at fair value through profit or loss				
Financial bonds issued by Chinatrust Commercial Bank (Note)	\$ 1,520,734	3.79	\$ -	\$ -
2. Available-for-sale financial assets				
Financial bonds issued by Chinatrust Commercial Bank (Note)	\$ 335,624	0.33	\$ -	\$ -
Funds managed by Mega International Investment Trust Co., Ltd	283,729	0.28	366,896	11,403
	\$ 619,353	0.61	\$ 366,896	\$ 11,403
3. Other financial assets				
Beneficiary securities issued by Chinatrust Commercial Bank (Note)	\$ 393,590	1.86	\$ -	\$ -

Note: As described in Note V. 1. Note 2, Chinatrust Commercial Bank was no longer the Bank's related party since April 20, 2009.

(5) Miscellaneous Payables – Parent Company Account

	December 31, 2008		December 31, 2009	
	Amount (NT)	% of Total	Amount (NT)	US (Unaudited)
Mega Financial Holdings	\$ 2,017,615	3.68	\$ 869,462	\$ 27,022

The parent company's accounts payable to Mega Financial Holding Co., Ltd. is the estimated income tax payable as a result of adopting the linked tax system for income tax filings starting from the year 2003.

(6) Service Fees

	For the years ended December 31, 2009		2009	
	Amount (NT)	% of Total	Amount (NT)	US (Unaudited)
Mega Life Insurance	\$ 196,755	2.89	\$ 153,620	\$ 4,774

The above amount represents service fee revenues earned from acting as an agent for Mega Life Insurance.

(7) Service Fees Expense

	For the years ended December 31, 2009		2009	
	Amount (NT)	% of Total	Amount (NT)	US (Unaudited)
Mega Securities	\$ 978	0.15	\$ 413	\$ 13

The service fees are chargeable based on certain percentage of securities deposits balance when the balance meets certain threshold.



## For the years ended December 31,

(9) For the years ended December 31, 2008 and 2009, the commissions and service revenue from International Security Investment Trust Corporation was NT\$37,906 thousand and NT\$16,626 thousand (US\$517 thousand), respectively. The uncollected balance on the related receivable was NT\$152,929 thousand and NT\$152,928 thousand (US\$4,753 thousand) as of December 31, 2008 and 2009, respectively.

(10) The Bank's processes of printing documents and labor outsourcing have been outsourced to Yung-Shing Industries Co. Under this arrangement, the Bank paid operating expenses and labor outsourcing of NT\$116,824 thousand and NT\$109,909 thousand (US\$3,416 thousand) for the years ended December 31, 2008 and 2009, respectively.

(12) Loans

December 31, 2008

**(13) Guarantees:**

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(14) Related party transactions of derivative financial instruments:

Related Party	Derivative Contracts	Contract Period	Notional Amount	Valuation gain (loss)	December 31, 2009	
					Account	Balance
Chinatrust Commercial Bank (Note)	Interest rate swap contracts	2004/3/23-2015/4/17	NT\$9,260,000 (US\$287,792 thousand)	-	Financial assets held for trading	-

Related Party	Derivative Contracts	Contract Period	Notional Amount	Valuation gain (loss)	December 31, 2008	
					Account	Balance
Chinatrust Commercial Bank	Interest rate swap contracts	2004/3/23-2015/4/17	NT\$ 12,090,000	(NT\$ 147,954 )	Financial assets held for trading	(NT\$ 147,954 )
	Cross-currency swap contracts	2004/7/16-2009/7/16	500,000	2,046	Financial assets held for trading	2,046

Note 1: As described in Note V. 1. Note 2, Chinatrust Commercial Bank was no longer the Bank's related party since April 20, 2009.

Note 2: The valuation gain (loss) represents those arising from derivative financial instruments measured at fair value as of December 31.

(15) Disposal of non-performing loans for related party: None.

(16) Information on remunerations to the Bank's directors, supervisors, general managers and vice general managers:

	For the years ended December 31,		
	2008	2009	2009
	NT	NT	US (Unaudited)
Salaries	\$ 40,270	\$ 59,128	\$ 1,838
Bonus	28,645	13,006	404
Business expenses	8,191	7,852	244
	<u>\$ 77,106</u>	<u>\$ 79,986</u>	<u>\$ 2,486</u>

A. Salaries represent salary, extra pay for duty, pension and severance pay.

B. Bonus represents bonuses and rewards.

C. Business expenses represent transportation expense, extraneous charges, subsidies, housing benefits and vehicles provided.

D. Earnings distribution represents estimated remunerations to be paid to supervisors and directors and bonuses to be paid to employees in 2009.

E. Please refer to the Bank's Annual Report for relevant information.

## VI. PLEDGED ASSETS

Please refer to Notes IV 7 and 8.

## VII. COMMITMENTS AND CONTINGENT LIABILITIES

- As of December 31, 2008 and 2009, the Bank had the following commitments and contingent liabilities not reflected in the financial statements:

	December 31,		
	2008	2009	2009
	NT	NT	US (Unaudited)
Loan commitments	\$ 842,717,797	\$ 1,111,868,313	\$ 34,555,828
Securities sold under repurchase agreement	11,248,556	3,384,414	105,184
Securities purchased under resale agreement	1,705,861	-	-
Credit card line commitments	47,399,797	52,867,335	1,643,067
Guarantees issued	154,226,725	168,861,728	5,248,065
Letters of credit	65,659,968	82,069,329	2,550,638
Customers' securities under custody	230,539,879	230,717,618	7,170,488
Properties under custody	391,511	459,395	14,278
Guarantee received	102,686,224	79,637,567	2,475,061
Collections for customers	186,786,368	143,464,376	4,458,739
Agency loans payable	5,664,705	4,767,109	148,157
Travelers' checks consigned-in	2,282,810	2,153,075	66,915
Payables on gold consigned-in	29,009	25,382	789
Payables on consignments-in	4,867	4,207	131
Agent for government bonds	210,182,278	119,995,200	3,729,339
Short-dated securities under custody	45,034,345	55,488,243	1,724,523
Investments for customers	265,016	265,016	8,236
Trust liability	449,003,733	453,632,668	14,098,479
Certified notes paid	14,349,527	12,987,664	403,644
Total	<u>\$ 2,370,178,976</u>	<u>\$ 2,522,648,639</u>	<u>\$ 78,401,561</u>

- For premises occupied by its branches, the Bank has renewable lease agreements expiring on various dates up to 2023. Rentals are payable monthly, quarterly or semiannually. Refundable deposits on these leases totaled NT\$128,092 thousand (shown as other assets). Rentals for the next five years are as follows:

Year	NT	US (Unaudited)
2010	\$ 518,113	\$ 16,102
2011	231,998	7,210
2012	168,761	5,245
2013	99,794	3,102
2014 and after	48,589	1,510
	<u>\$ 1,067,255</u>	<u>\$ 33,169</u>

## VIII. SIGNIFICANT DISASTER LOSS

None.

## IX. SIGNIFICANT SUBSEQUENT EVENT

None.

## X. OTHERS

### 1. INFORMATION ON FINANCIAL INSTRUMENTS

#### (1) Fair Value

	December 31, 2008		December 31, 2009			
	NT		US (Unaudited)			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Non-derivative financial instruments</b>						
<b>Assets</b>						
Cash and cash equivalents	\$ 260,540,022	\$ 260,540,022	\$ 305,966,509	\$ 305,966,509	\$ 9,509,153	\$ 9,509,153
Due from the Central Bank and call loans to banks	103,069,179	103,069,179	90,403,913	90,403,913	2,809,669	2,809,669
Financial assets held for trading						
Stocks	-	-	12,733	12,733	396	396
Financial bonds	664,274	664,274	10,069	10,069	313	313
Financial assets designated at fair value through profit or loss						
Corporate bonds	12,437,696	12,437,696	5,646,920	5,646,920	175,501	175,501
Governments bonds	6,830,570	6,830,570	2,822,468	2,822,468	87,720	87,720
Financial bonds	13,457,415	13,457,415	11,950,839	11,950,839	371,421	371,421
Beneficiary securities	305,353	305,353	159,610	159,610	4,960	4,960
Securities purchased under resale agreements	1,703,165	1,703,165	-	-	-	-
Receivables—net	95,679,862	95,679,862	85,850,470	85,850,470	2,668,152	2,668,152
Bills discounted and loans—net	1,303,532,614	1,303,532,614	1,264,904,835	1,264,904,835	39,312,060	39,312,060
Available-for-sale financial assets						
Stocks	5,526,079	5,526,079	10,664,143	10,664,143	331,432	331,432
Commercial papers	10,551,441	10,551,441	19,427,529	19,427,529	603,789	603,789
Governments bonds	24,091,923	24,091,923	17,298,230	17,298,230	537,613	537,613
Treasury bills	249,698	249,698	891,532	891,532	27,708	27,708
Corporate bonds	20,431,814	20,431,814	19,323,865	19,323,865	600,568	600,568
Beneficiary certificates	573,843	573,843	1,942,602	1,942,602	60,374	60,374
Beneficiary securities	11,678,254	11,678,254	9,117,545	9,117,545	283,365	283,365
Financial bonds	25,942,139	25,942,139	34,783,266	34,783,266	1,081,031	1,081,031
Certificate of deposits	2,396,485	2,396,485	295,817	295,817	9,194	9,194
Held-to-maturity financial assets	94,257,827	94,257,827	261,919,439	261,919,439	8,140,211	8,140,211
Other financial assets	21,168,785	21,168,785	19,128,952	19,128,952	594,510	594,510
<b>Liabilities</b>						
Due to the Central Bank and other banks	\$ 385,328,571	\$ 385,328,571	\$ 389,582,216	\$ 389,582,216	\$ 12,107,851	\$ 12,107,851
Funds borrowed from the Central Bank and other banks	53,185,187	53,185,187	57,517,261	57,517,261	1,787,583	1,787,583
Financial liabilities at fair value through profit or loss						
Financial bonds	44,120,922	44,120,922	28,243,643	28,243,643	877,786	877,786
Securities sold under repurchase agreements	11,239,752	11,239,752	3,384,082	3,384,082	105,174	105,174
Payables	54,850,792	54,850,792	39,989,175	39,989,175	1,242,826	1,242,826
Deposits and remittances	1,306,722,745	1,306,722,745	1,473,469,928	1,473,469,928	45,794,068	45,794,068
Financial bonds payable	29,899,347	29,899,347	27,703,000	27,703,000	860,983	860,983
Other financial liabilities	5,946,463	5,946,463	4,035,556	4,035,556	125,421	125,421

#### Non-hedging derivative financial instruments

	December 31, 2008		December 31, 2009			
	NT		US (Unaudited)			
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Forward exchange contracts	\$ 154,490,222	\$ 2,223,517	\$ 39,896,798	(\$ 172,778)	\$ 1,239,955	(\$ 5,370)
Interest rate swap contracts	179,439,191	1,514,924	160,048,243	982,959	4,974,150	30,549
Cross-currency swap contracts	66,252,408	( 1,073,330 )	49,599,670	( 853,075 )	1,541,511	( 26,513 )
Assets swap contracts	8,416,614	231,921	5,887,160	( 149,433 )	182,967	( 4,644 )
Options	21,853,146	( 754,144 )	16,856,757	( 536,849 )	523,892	( 16,685 )
Credit default swap	1,638,700	( 168,311 )	1,608,800	( 23,275 )	50,000	( 723 )
Currency swap	291,338,239	5,661	527,122,919	592,798	16,382,488	18,424
Financial futures	-	-	66,976	-	2,082	-

(2) The methods and assumptions used to estimate the fair value of financial instruments are as follows:

- A. The carrying values of cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under resale agreements, receivables, due to the central bank and other banks, payables, remittances, borrowed funds, and other financial liabilities approximate their fair values because of the short maturity of these instruments.
- B. Among financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and other financial assets, the fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares and depositary receipts, net asset value for open-ended funds, the quoted price at the balance sheet date for bonds, the clearing value, quoted price or value defined by model theory for derivative financial instruments, and valuation techniques for financial instruments with no active market.
- C. Bills discounted and loans, securities sold under agreements to repurchase, deposits and bonds issued are financial assets and liabilities with mainly floating interests. Thus, their carrying values are deemed to be equivalent to their fair values.
- D. Since financial assets carried at cost are composed of unlisted stocks or those not actively traded in the market which do not have significant influences, they are measured at cost in compliance with the statements of financial accounting standards.

Some fair values of financial and non-financial instruments have not been included in the above summary, so those fair values do not represent the total value of the Bank.

(3) The fair values of the Bank's financial assets and liabilities determined by quoted market prices and pricing models are as follows:

	December 31,					
	2008		2009			
	Quoted market prices	Amount determined by a valuation technique	Quoted market prices		Amount determined by a valuation technique	
	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
<b>Non-derivative financial instruments</b>						
<b>Assets</b>						
Financial assets held for trading						
Stocks	\$ -	\$ -	\$ 12,733	\$ 396	\$ -	\$ -
Financial bonds	-	664,274	-	-	10,069	313
Financial assets designated at fair value through profit or loss						
Corporate bonds	-	12,437,696	-	-	5,646,920	175,501
Government bonds	6,830,570	-	2,822,468	87,720	-	-
Financial bonds	-	13,457,415	-	-	11,950,839	371,421
Beneficiary securities	-	305,353	-	-	159,610	4,960
Securities purchased under resale agreements	-	1,703,165	-	-	-	-
Available-for-sale financial assets						
Stocks	5,526,079	-	10,664,143	331,432	-	-
Commercial papers	-	10,551,441	-	-	19,427,529	603,789
Government bonds	24,091,923	-	17,298,230	537,613	-	-
Treasury bills	-	249,698	-	-	891,532	27,708
Corporate bonds	-	20,431,814	-	-	19,323,865	600,568
Beneficiary certificates	573,843	-	1,942,602	60,374	-	-
Beneficiary securities	-	11,678,254	-	-	9,117,545	283,365
Financial bonds	-	25,942,139	-	-	34,783,266	1,081,031
Certificate of deposits	-	2,396,485	-	-	295,817	9,194
Receivables – net	-	95,679,862	-	-	85,850,470	2,668,152
Bills discounted and loans – net	-	1,303,532,614	-	-	1,264,904,835	39,312,060
Held-to-maturity financial assets	-	94,257,827	-	-	261,919,439	8,140,211
Other financial assets	-	21,168,785	-	-	19,128,952	594,510
<b>Liabilities</b>						
Due to the Central Banks and other banks	\$ -	\$ 385,328,571	\$ -	\$ -	\$ 389,582,216	\$ 12,107,851
Funds borrowed from the Central banks and other banks	-	53,185,187	-	-	57,517,261	1,787,583
Financial liabilities designated at fair value through profit or loss						
Financial bonds	-	44,120,922	-	-	28,243,643	877,786
Securities sold under repurchase agreements	-	11,239,752	-	-	3,384,082	105,174
Payables	-	54,850,792	-	-	39,989,175	1,242,826
Deposits and remittances	-	1,306,722,745	-	-	1,473,469,928	45,794,068
Financial bonds payable	-	29,899,347	-	-	27,703,000	860,983
Other financial liabilities	-	5,946,463	-	-	4,035,556	125,421
<b>Non-hedging derivative financial instruments</b>						
Financial assets held for trading	-	4,250,700	-	-	1,229,538	38,213
Financial assets designated at fair value through profit or loss	-	2,153,311	-	-	3,297,531	102,484
Financial liabilities held for trading	-	3,258,967	-	-	1,743,748	54,194
Financial liabilities designated at fair value through profit or loss	-	1,164,806	-	-	2,942,974	91,465

(4) Net loss arising from derivative financial instruments at fair value through profit or loss for the years ended December 31, 2008 and 2009 amounted to NT\$333,349 thousand and NT\$1,210,065 thousand (US\$37,608 thousand), respectively.

(5) The interest income arising from other than financial assets at fair value through profit or loss for the years ended December 31, 2008 and 2009 amounted to NT\$59,982,686 thousand and NT\$34,260,927 thousand (US\$1,064,798 thousand), respectively.

(6) The adjustment in equity arising from available-for-sale financial assets for the years ended December 31, 2008 and 2009 amounted to NT\$5,767,278 thousand and NT\$6,343,335 thousand (US\$197,145 thousand), respectively.

## 2. INFORMATION ON FINANCIAL RISK

### (1) Market risk

Except for fund dispatching, deposit pricing and long-term/medium-term capital funding and usage, the Bank controls market risk, manages indicators of interest rate sensitivity asset and liabilities and market risk exposure limits through the treasury department. Regarding the foreign exchange market, foreign currency market, capital market and derivative transactions and so on, the Bank sets regulations on the transaction range and amount, assesses the limitation of the position and estimation of management risk index. Also, sets limitations on daily amount, overnight amount, counterparties amount and stop loss points for the dealing room and dealers. The foreign branches set limitation for foreign exchange which is controlled daily, and monthly reports are presented to the management for reference. The transactions have set limitations and are periodically accrued as unrealized profit or loss, and reports are prepared for management and Board of Directors review.

To measure the risk weighted assets in accordance with the standards set by the authorities.

The interest rate risk is measured based on the “Interest-rate sensitivity gap” and the “Interest rate sensitivity asset and liabilities ratio” and so on, so that the interest rate risk can be maintained within the suitable range. As for the exchange rate and investments in quoted securities exposure amount, the daily estimation of profit or loss is based on the market price and the stop loss point in order to make sure it is within the range acceptable for risk control.

Derivatives on trading book with hedge or non-hedge transaction characteristic are evaluated on a semi-monthly and weekly basis.

### (2) Credit risk

- A. Credit risk represents the risk of loss that the Bank would incur if the counterparty fails to perform the Bank’s contractual obligations.

The concentrations of credit risk exist when the counter party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. The Bank has not transacted with one single customer or entered into one single transaction which would expose the Bank to concentration risk. However, the Bank is likely exposed to industry concentration risk.

For credit cards, no collateral is required, but the credit status of each cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit.

- B. The maximum credit risk exposure amounts of financial instruments held by the Bank are as follows:

	December 31,					
	2008		2009			
	Book value	Maximum risk exposure amount	Book value		Maximum risk exposure amount	
Financial assets	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
Financial assets at fair value through profit or loss	\$ 40,099,319	\$ 42,843,533	\$ 25,129,708	\$ 781,008	\$ 25,155,681	\$ 781,815
Available-for-sale financial assets	101,441,676	101,441,676	113,744,529	3,535,074	113,744,529	3,535,074
Bills discounted and loans	1,303,532,614	1,303,532,614	1,264,904,835	39,312,060	1,264,904,835	39,312,060
Held-to-maturity financial assets	94,257,827	94,257,827	261,919,439	8,140,211	261,919,439	8,140,211
Off-balance sheet commitments and guarantees	2,370,178,976	2,370,178,976	2,522,648,639	78,401,561	2,522,648,639	78,401,561
Total	<u>\$3,909,510,412</u>	<u>\$3,912,254,626</u>	<u>\$4,188,347,150</u>	<u>\$ 130,169,914</u>	<u>\$4,188,373,123</u>	<u>\$ 130,170,721</u>

The amounts summarized above are valued from financial instruments with positive fair value and off-balance sheet commitments and guarantees.

- C. The Bank strictly assesses and evaluates each credit application for loan facility, guarantee and letters of credit. Collaterals, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the result of the credit worthiness evaluation. As of December 31, 2008 and 2009, collaterals secured approximately 48.66% and 50.66%, respectively, of total loans (excluding overdue loans). When a borrower defaults, the Bank would enforce the foreclosure of the collaterals and guarantees to lower the Bank's credit risk. As disclosing the maximum credit risk exposure amount, the Bank would not consider the fair value of collaterals. However, the Bank is likely exposed to industry concentration risk. The Bank's information on industry concentration of credit risk is as follows:

	December 31,					
	2008		2009			
	Book value	Maximum risk exposure amount	Book value	Maximum risk exposure amount	Book value	Maximum risk exposure amount
Industry type	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
Manufacturing	\$ 481,773,816	\$ 481,773,816	\$ 442,041,940	\$ 13,738,250	\$ 442,041,940	\$ 13,738,250
Financial institution, insurer, real estate and leasing	184,648,034	184,648,034	183,560,744	5,7074,896	183,560,744	5,704,897
Wholesale and retail sale	107,950,842	107,950,842	107,651,214	3,345,699	107,651,214	3,345,699
Shipping and warehouse storage	62,040,294	62,040,294	79,026,647	2,456,074	79,026,647	2,456,074
Government institution	61,442,342	61,442,342	43,657,581	1,356,837	43,657,581	1,356,837
Individuals	265,728,484	265,728,484	263,662,493	8,194,384	263,662,493	8,194,384
Others (Note 2)	315,256,275	315,256,275	338,256,002	10,512,680	338,256,002	10,512,680
Total	<u>\$ 1,478,840,087</u>	<u>\$ 1,478,840,087</u>	<u>\$ 1,457,856,621</u>	<u>\$ 45,308,821</u>	<u>\$ 1,457,856,621</u>	<u>\$ 45,308,821</u>
 <u>Geographic region</u>						
Domestic	\$ 1,072,887,461	\$ 1,072,887,461	\$ 1,086,985,407	\$ 33,782,490	\$ 1,086,985,407	\$ 33,782,490
North America	70,112,652	70,112,652	61,680,911	1,916,985	61,680,911	1,916,985
Others (Note 2)	335,839,974	335,839,974	309,190,303	9,609,346	309,190,303	9,609,346
Total	<u>\$ 1,478,840,087</u>	<u>\$ 1,478,840,087</u>	<u>\$ 1,457,856,621</u>	<u>\$ 45,308,821</u>	<u>\$ 1,457,856,621</u>	<u>\$ 45,308,821</u>

Note 1: The above figures include loans (excluding overdue loans – factoring without recourse), guarantees and acceptances.

Note 2: Including amounts pursuant to government policies.



Contract amounts of significant credit risk concentration are as follows:

December 31, 2009			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
1	Taiwan High Speed Rail – Transportation and Storage	\$ 65,994,942	42.24%
2	Formosa Plastics Group – Non-metallic Manufacturing	61,701,899	39.49%
3	China Steel Group – Basic Metal Manufacturing	26,142,575	16.73%
4	Far Eastern Group – Non-metallic Manufacturing	19,113,158	12.23%
5	CHIMEI Group – Optoelectronic Materials and Semi-conductors Manufacturing	15,805,165	10.12%
6	BenQ Group – Optoelectronic Materials and Semi-conductors Manufacturing	14,450,664	9.25%
7	YU FENG Group – Real Estate	13,874,503	8.88%
8	Foxconn Group – Computer Communication and Audio and Video Electronic Products Manufacturing	12,863,657	8.23%
9	Uni-President Group – Food Manufacturing	12,284,240	7.86%
10	Ta Tung Group – Computer Communication and Audio and Video Electronic	11,049,694	7.07%

December 31, 2008			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
1	Taiwan High Speed Rail – Transportation and Storage	\$ 67,271,240	47.48%
2	Formosa Plastics Group – Non-metallic Manufacturing	63,613,010	44.90%
3	China Steel Group – Basic Metal Manufacturing	20,919,534	14.76%
4	CHIMEI Group – Optoelectronic Materials and Semi-conductors Manufacturing	18,542,689	13.09%
5	BenQ Group – Optoelectronic Materials and Semi-conductors Manufacturing	15,076,928	10.64%
6	Uni-President Group – Food Manufacturing	11,901,761	8.40%
7	YU FENG Group – Real Estate	11,730,693	8.28%
8	Far Eastern Group – Non-metallic Manufacturing	11,264,578	7.95%
9	Taiwan Cement Group Companies – Non-metallic Manufacturing	10,316,158	7.28%
10	Powerchip Semiconductor Corp. – Optoelectronic Materials and Semi-conductors Manufacturing	9,698,490	6.84%

Note 1: Ranking the top ten enterprise other than government and state-owned enterprise according to their total amounts of outstanding loans. If a outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by “code” plus “industry type” (for example, company (or group) A – Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group should be disclosed. Industry type should be filled in accordance with “Standard Industrial Classification System” of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased without recourse factoring, acceptance receivable and guarantees.

Profile of concentration of credit risk and credit extensions of interested parties

	December 31, 2008		December 31, 2009	
Amount of credit extensions to interested parties	\$ 86,738,710		\$ 85,458,200	
Ratio of credit extensions to interested parties (%)	5.72%		5.67%	
Ratio of credit extensions secured by stocks (%)	2.01%		1.74%	
Industry concentration (Ranking the top 3 ratio of amount of credit extensions / total credit extensions)	Industry	Ratio	Industry	Ratio
	Manufacturing	33.67%	Manufacturing	35.40%
	Transportation and storehouse industry	8.78%	Transportation and Storehouse industry	9.01%
	Real estate industry	7.24%	Real estate industry	7.23%

Note 1: Total amount of credit extensions include bills discounted and loans, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

Note 2: The ratio of credit extensions to interested parties = the amount of credit extensions to interested parties / the total amount of all credit extensions.

Note 3: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.

(3) Liquidity risk

The capital and working capital of the Bank were sufficient to execute all the obligation of contracts and had no liquidity risk. The possibility of the derivative financial instruments held by the Bank being unable to liquidate quickly with minimal loss in value is low.

The management policy of the Bank is to match the contractual maturity profile and interest rate of its assets and liabilities. As a result of the uncertainty, the maturities and interest rates of assets and liabilities usually do not fully match. The gap may result in potential gain or loss. The Bank applied the appropriate grouping of assets and liabilities.

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Analysis for time to maturity of the Bank's assets and liabilities  
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Unit: thousands of New Taiwan dollars

Financial instruments	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
<b>Assets</b>								
Due from Central Bank and call Loans to banks	\$ 90,404,330	\$ 90,403,913	\$ -	\$ -	\$ -	\$ -	\$ 90,404,330	\$ 90,403,913
Financial assets at fair value through profit or loss (Note)	2,588,144	2,588,144	17,584,135	17,584,135	417,627	417,627	20,589,906	20,589,906
Bills discounted and loans Available-for-sale financial assets	354,015,619	352,260,713	497,842,020	493,955,661	425,285,828	418,688,461	1,277,143,467	1,264,904,835
(Note)	47,942,558	47,942,558	50,404,459	50,404,459	2,790,767	2,790,767	101,137,784	101,137,784
Held-to-maturity financial assets	247,544,819	247,544,819	14,370,944	14,370,944	3,676	3,676	261,919,439	261,919,439
Other financial assets (Note)	141,625	141,370	-	-	544,337	273,365	685,962	414,735
<b>Total Assets</b>	<b>742,637,095</b>	<b>740,881,517</b>	<b>580,201,558</b>	<b>576,315,199</b>	<b>429,042,235</b>	<b>422,173,896</b>	<b>1,751,880,888</b>	<b>1,739,370,612</b>
<b>Liabilities</b>								
Due to the Central Bank and commercial banks	389,582,216	389,582,216	-	-	-	-	389,582,216	389,582,216
Borrowed funds from the Central Bank and other banks	57,517,261	57,517,261	-	-	-	-	57,517,261	57,517,261
Financial liabilities at fair value through profit or loss (Note)	8,880,341	8,880,341	19,363,302	19,363,302	-	-	28,243,643	28,243,643
Securities sold under repurchase agreements	3,384,082	3,384,082	-	-	-	-	3,384,082	3,384,082
Time deposit	738,164,659	738,164,659	19,204,879	19,204,879	-	-	757,369,538	757,369,538
Financial bonds payable	2,703,000	2,703,000	25,000,000	25,000,000	-	-	27,703,000	27,703,000
Other financial liabilities	4,035,556	4,035,556	-	-	-	-	4,035,556	4,035,556
<b>Total Liabilities</b>	<b>1,204,267,115</b>	<b>1,204,267,115</b>	<b>63,568,181</b>	<b>63,568,181</b>	-	-	<b>1,267,835,296</b>	<b>1,267,835,296</b>
<b>Net liquidity gap</b>	<b>( \$ 461,630,020 )</b>	<b>( \$ 463,385,598 )</b>	<b>\$ 516,633,377</b>	<b>\$ 512,747,018</b>	<b>\$ 429,042,235</b>	<b>\$ 422,173,896</b>	<b>\$ 484,045,592</b>	<b>\$ 471,535,316</b>

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

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Unit: thousands of US dollars

Financial instruments	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
<b>Assets</b>								
Due from Central Bank and call								
Loans to banks	\$ 2,809,682	\$ 2,809,669	\$ -	\$ -	\$ -	\$ -	\$ 2,809,682	\$ 2,809,669
Financial assets at fair value through profit or loss (Note)	80,437	80,437	546,498	546,498	12,980	12,980	639,915	639,915
Bills discounted and loans	11,002,474	10,947,934	15,472,465	15,351,680	13,217,486	13,012,446	39,692,425	39,312,060
Available-for-sale financial assets								
(Note)	1,490,010	1,490,010	1,566,523	1,566,523	86,735	86,735	3,143,268	3,143,268
Held-to-maturity financial assets	7,693,462	7,693,462	446,636	446,636	113	113	8,140,211	8,140,211
Other financial assets (Note)	4,402	4,394	-	-	16,917	8,496	21,319	12,890
<b>Total Assets</b>	<b>23,080,467</b>	<b>23,025,906</b>	<b>18,032,122</b>	<b>17,911,337</b>	<b>13,334,231</b>	<b>13,120,770</b>	<b>54,446,820</b>	<b>54,058,013</b>
<b>Liabilities</b>								
Due to the Central Bank and commercial banks	12,107,851	12,107,851	-	-	-	-	12,107,851	12,107,851
Borrowed funds from the Central Bank and other banks	1,787,583	1,787,583	-	-	-	-	1,787,583	1,787,583
Financial liabilities at fair value through profit or loss (Note)	275,993	275,993	601,793	601,793	-	-	877,786	877,786
Securities sold under repurchase agreements	105,174	105,174	-	-	-	-	105,174	105,174
Time deposit	22,941,468	22,941,468	596,870	596,870	-	-	23,538,338	23,538,338
Financial bonds payable	84,007	84,007	776,976	776,976	-	-	860,983	860,983
Other financial liabilities	125,421	125,421	-	-	-	-	125,421	125,421
<b>Total Liabilities</b>	<b>37,427,497</b>	<b>37,427,497</b>	<b>1,975,639</b>	<b>1,975,639</b>	<b>-</b>	<b>-</b>	<b>39,403,136</b>	<b>39,403,136</b>
<b>Net liquidity gap</b>	<b>( \$ 14,347,030 )</b>	<b>( \$ 14,401,591 )</b>	<b>\$ 16,056,483</b>	<b>\$ 15,935,698</b>	<b>\$ 13,334,231</b>	<b>\$ 13,120,770</b>	<b>\$ 15,043,684</b>	<b>\$ 14,654,877</b>

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

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Analysis for time to maturity of the Bank's assets and liabilities  
December 31, 2008

Unit: thousands of New Taiwan dollars

Financial instruments	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
<b>Assets</b>								
Due from Central Bank and call Loans to banks	\$ 103,069,745	\$ 103,069,179	\$ -	\$ -	\$ -	\$ -	\$ 103,069,745	\$ 103,069,179
Financial assets at fair value through profit or loss (Note)	13,401,883	13,401,883	19,884,040	19,884,040	409,385	409,385	33,695,308	33,695,308
Securities purchased under resale agreements	1,703,165	1,703,165	-	-	-	-	1,703,165	1,703,165
Bills discounted and loans Available-for-sale financial assets (Note)	336,741,590	334,996,827	542,968,891	538,459,469	435,626,783	430,076,318	1,315,337,264	1,303,532,614
Held-to-maturity financial assets	36,868,777	36,868,777	48,711,924	48,711,924	9,761,053	9,761,053	95,341,754	95,341,754
Other financial assets (Note)	80,682,841	80,682,841	13,349,654	13,349,654	225,332	225,332	94,257,827	94,257,827
	35,382	35,382	993,590	993,590	781,434	51,478	1,810,406	1,080,450
<b>Total Assets</b>	<b>572,503,383</b>	<b>570,758,054</b>	<b>625,908,099</b>	<b>621,398,677</b>	<b>446,803,987</b>	<b>440,523,566</b>	<b>1,645,215,469</b>	<b>1,632,680,297</b>
<b>Liabilities</b>								
Due to the Central Bank and commercial banks	385,328,571	385,328,571	-	-	-	-	385,328,571	385,328,571
Borrowed funds from the Central Bank and other banks	53,185,187	53,185,187	-	-	-	-	53,185,187	53,185,187
Financial liabilities at fair value through profit or loss (Note)	16,117,241	16,117,241	28,003,681	28,003,681	-	-	44,120,922	44,120,922
Securities sold under repurchase agreements	11,239,752	11,239,752	-	-	-	-	11,239,752	11,239,752
Time deposit	776,882,053	776,882,053	34,229,133	34,229,133	-	-	811,111,186	811,111,186
Financial bonds payable	2,199,347	2,199,347	27,700,000	27,700,000	-	-	29,899,347	29,899,347
Other financial liabilities	5,946,463	5,946,463	-	-	-	-	5,946,463	5,946,463
<b>Total Liabilities</b>	<b>1,250,898,614</b>	<b>1,250,898,614</b>	<b>89,932,814</b>	<b>89,932,814</b>	-	-	<b>1,340,831,428</b>	<b>1,340,831,428</b>
<b>Net liquidity gap</b>	<b>( \$ 678,395,231 )</b>	<b>( \$ 680,140,560 )</b>	<b>\$ 535,975,285</b>	<b>\$ 531,465,863</b>	<b>\$ 446,803,987</b>	<b>\$ 440,523,566</b>	<b>\$ 304,384,041</b>	<b>\$ 291,848,869</b>

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

(4) Cash flow risk and fair value risk of interest rate fluctuation

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest rate. The risk is considered to be material to the Bank, and the Bank enters into interest rate swap contracts to manage the risk.

As of December 31, 2009, expected repricing and maturity dates of interest-bearing financial instruments are not affected by dates of related contracts.

3. RISK CONTROL AND HEDGE STRATEGY

The risk management policies and practices and major exposure of risk conditions of the credit risk, market risk, operation risk, and liquidity risk are as follows:

The Bank's Board of Directors has the ultimate approval right in risk management and has ultimate responsibility for the Bank's risk strategies and ensures the function works. The Assets & liabilities Management Committee, Loan Committee, Problem Loan Committee, Investment Committee, Fund Management Committee, Wealth Management Committee, Offshore Structured Products Screening Committee, Product & Regulation Committee, Personal Appraisal Committee, Occupational Safety & Health Committee and Trust Assets Screening Committee subordinated under President are responsible for reviewing relevant risk proposals. In addition, a disaster (risk) emergency team convened by the President for the purpose of handling disasters or other contingent events, taking actions to minimize losses, bring disaster/risk to an end and restore normal business operations.

Risk management is controlled by each individual department of head office according to its authorization and responsibility. In terms of credit risk, Credit Control Department is responsible for risk management of credit business, management of large amount of money and risk exposure of related parties, credit policy and drafting relevant Articles; Cards Service Center is in charge of risk management of credit card business and drafting relevant Articles; Direct Investment Department manages risk management of investment business and drafting relevant Articles; Treasury Department presides over risk management of investment banking, financial assets and real estate securitization and drafting relevant Articles; Credit Department takes care of credit checking, analysis and evaluation of corporate banking clients and drafting relevant Articles. For market risk and liquidity risk, risk management is carried out by Financial Management Center, accounting for setting up pricing model and valuation system of financial instruments, controlling of the Bank's exposure to financial instruments, and drafting relevant Articles. For operation risk, losses may be incurred from internal operation, personnel, system or external events; therefore, Risk Management Department is responsible for execution performance of each department. In addition, Risk Management Department is also in charge of setting up the Bank's short-term, medium-term and long-term targets, drives risk management mechanism of the Bank, holds risk control meetings on a quarterly basis, (amended to on a bimonthly basis since 2010) summarizes risk controls and reports to the Board of Directors and Risk Management Committee of Mega Financial Holdings regularly.

Risk management policy is established to identify, evaluate, monitor, report and respond to financial risks in the Group's operating units, to set up accurate risk management objectives, management mechanism and segregation of duties, to ensure operation risk is within the tolerable limits, and to maximize the Bank's earnings and stockholders' profits. The procedures of risk management and principles of measuring and controlling credit risk, operation risk, liquidity risk and country risk are as follows:

(1) Credit risk

A. Procedures of risk management

The promotion of credit and investment business of the Bank is in accordance with the bank laws and other related regulations; moreover, risk management targets identified by each business supervisor units are sent to the risk control department and reported to the risk control committee of Mega Financial Holdings and Board of Directors for approval. In addition, the Bank conveys risk tolerance limits and maintains sound credit risk management organizations and standards through stipulation in the credit and investment Articles.

As a result of the implementation of Basel II, the Bank is developing various credit risk component models and valuation systems, adopting Internal Ratings Based Approach which links to probability of default, and using quantifiable analysis tools to predict customers' probability of default, loss given default and so on. This also enhances the credit rating system and then strengthens monitoring efficiency.

The Bank should ensure that credit checking and examination have been done before engaging loan and investment business and also designates credit amount, provides responsibilities according to levels to shorten operating procedures, and require periodic monitoring while engaging the business. The Bank also should set up a reporting system and have timely reports if any unusual event or significant accident occurs.

Establishment of a unit mainly responsible for the overdue loan management in order to solve credit management problems and to seek the recovery of obligations. The Bank appropriately evaluates asset rewards for dealing with recovery of non-performing loans, outsourcing of loans receivable in order to strengthen management of doubtful credits and overdue loans and accelerate the recovery of obligations.

B. Principles of measuring and controlling

The Bank's goals of credit risk management are presented to the Board of Directors for approval. In order to strengthen the risk management, the evaluation of conducting circumstances is in accordance with the economic and financial conditions. Moreover, in accordance with regulatory institutions, the Bank is required to disclose the information of credit risk through its financial reports and website.

In order to control the group and industry risk and avoid excess concentration risk, the Bank will separately set the credit limit of the group and industry based on the industry condition, perspective and credit risk, and report to the management unit regarding the condition of complying with the bank laws, regulations stipulated by the authorities, relevant internal credit and investments rules to set the credit limits and balances regularly.

In order to strengthen the understanding of the client's credit, reviews should be conducted periodically. For those that have high risk or abnormalities, the frequency of their reviews will be increased. Analysis and reviews will be made annually and the reports will be sent to the management.

Analysis and investigation on investments should be conducted at least once a year, especially operation, capital inflow/outflow and business plan execution and problem solving. Reports on operation profiles of long-term equity investments will be sent to the Board of Directors.

Abnormal notification system: When operating units determine that a client's operations are abnormal, facing financial difficulties, or experience some unexpected events, the business supervisor will report this to the management, and information will be sent to the Mega Financial Holdings by the risk management department, in order for them to understand the circumstances so that they are able to take proper actions.

Appraisal of assets: The Bank estimates and provides provision for credit losses or accumulated impairments for assets, investments, other assets, or contingent assets based on the experience of bad debts, reserves, other historical losses, the current overdue loan rate, recovery conditions, supervisory regulations, generally accepted accounting principles and so on.

(2) Market risk

A. Procedures of risk management

The Bank's market risk management objectives are set up by the Treasury Department and Financial Management Center. The Risk Management Department then summarizes and reports to the Risk Management Committee of Mega Financial Holdings and the Bank's Board of Directors for approval.

The Financial Management Center not only prepares daily market risk positions and profit or loss statements of financial instruments, but also summarizes investment performance of marketable securities and reports to the Board of Directors regularly. Risk Management Department summarizes and analyzes financial information prepared by the Treasury Department on a daily basis and the Treasury Department pays attention to market changes when it is close to stop loss limits. Monthly summaries are prepared to analyze positions, profit or loss, sensitivity risk indicators analysis and stress test of financial products held by the Bank for management to review market risk exposure of the Bank.

B. Principles in measuring and controlling

The Bank's market risk reports including positions and profit or loss evaluation of exchange rate, interest rate and equity securities products. All transactions should follow amount limits and stop loss policy and submit for supervisors to be approved in accordance with the Bank's policies and procedures. As long as transactions meet stop loss limits, the transactions should be revoked immediately; if not, the transaction unit should explain reasons and follow-up plans for management approval and report to the Board of Directors on a quarterly basis.

Non-hedging positions of derivative financial products are evaluated on daily market price while hedging positions are evaluated twice a month.

The Bank started to set up the SUMMIT information system from 2008, sub-systems of FX transactions, call loans system, currency exchange rate options and foreign currency denominated bond are completed and others are expected to be completed in the middle of 2010. Upon completion, the system provides on-spot credit limit control, profit or loss evaluation, sensitivity risk indicators analysis, stress test and risk value calculation and so on.

(3) Operation risk

A. Procedures of risk management

Prior the release of new products, new business and establishment of new foreign spots, risk identification and evaluation, law compliance analysis and information operation system planning should be performed.

The Bank institutes business management Articles and operating guidance which are embedded in computer system for personnel on-spot search, as business support.

Self-assessment is conducted to understand business controls and modify weakness.

In accordance with eight industries and seven loss events of Basel II, report and gather operation risk loss events.

The Bank sets up self-assessment mechanism of operation risk at the Bank level, in order to strengthen identification and evaluation of operation risk and improve current control mechanism.

B. Principles in measuring and controlling

The Bank establishes self-assessment mechanism of operation risk for assessing risk exposure of operation risk and strengthening controls on risk items with risks very likely to happen and highly affected.

The Bank reports operation risk loss events, compliance with laws and regulations, auditing and self-assessment to Board of Directors regularly.

Operation risk loss events reports, compliance with laws and regulations and auditing system covering all departments of the Bank, and self-assessments are conducted by Occupational Safety & Health Committee, Data Processing & Information Department, domestic and foreign branches and subsidiaries.

Each department discovers weakness via the aforesaid management mechanism. Each weakness will be discusses and improved and followed-up by its management.

(4) Liquidity risk

A. Procedures of risk management

There is an upper limit to control the amount of cash flow shortage for daily NTD and USD. Also, the Financial Management Center is in charge of preparing weekly reports which are submitted to the fund management committee on semi-monthly basis in order to control the liquidity risk and which also are reported to the Board of Directors periodically.

B. Principles of measuring and controlling

The Bank sets up limits of liquidity gap by periods and periodically prepares liquidity gap tables for monitoring liquidity risk and considers seasonal and short-term factors in order to effectively control capital flows.

In terms of fund management, in addition to providing sufficient legal reserves, the Bank invests in government bonds, negotiable certificates of time deposits of Central Bank, treasury bills, financial bonds, government bonds with repurchase agreement, corporate bonds, commercial papers, bankers' acceptance and beneficiary certificates. The Bank diversifies its investments to reduce its operation risk.

(5) Country risk

A. Procedures of risk management

Planning Department reports to the Board of Directors for the establishment of guideline governing country risk, and prepares monthly "table of risk limits to individual countries and each level" to inspect risk limits and to be submitted to management. The Planning Department also reports the usage and exposure of country risk limits on a quarterly basis and then Risk Management Department reports to the Board of Directors for review.

B. Principles of measuring and controlling

For the political stability, economic development, credit condition and ability to pay back debts of individual countries, the Bank takes the latest Country Ceilings for Foreign Currency published by Moody's Investors Services, actual usage of allocated country risk limits and other information as references for setting up country risk limits of individual countries and each level and summarizing creditor's rights of individual countries on a monthly basis, in order to avoid risk concentration on a specific country.

4. Net position for major foreign currency transactions

	December 31, 2008		December 31, 2009		
	Currency	NTD (in thousands)	Currency	NTD (in thousands)	US (Unaudited) (in thousands)
Net position for major foreign currency transactions (Market Risk)	THB	\$ 4,452,364	THB	\$ 4,756,258	\$ 147,820
	USD	4,101,077	EUR	2,439,781	75,826
	EUR	2,321,180	USD	2,217,730	68,925
	AUD	978,276	AUD	1,633,434	50,766
	CAD	837,542	CAD	948,968	29,493



5. AVERAGE AMOUNT AND AVERAGE INTEREST RATES OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

For the years ended December 31,					
	2008		2009		
	Average Amount (NT)	Average Interest Rate (%)	Average Amount (NT)	Average Amount (US) (Unaudited)	Average Interest Rate (%)
<u>Assets</u>					
Due from banks	\$ 228,709,643	2.14	\$ 427,938,526	\$ 13,299,929	0.53
Due from the Central Bank	46,413,315	2.29	51,324,486	1,595,117	0.44
Financial assets held for trading	1,152,462	5.63	623,050	19,364	4.50
Financial assets at fair value through profit or loss	48,079,467	2.93	26,947,407	837,500	1.66
Securities purchased under resale agreements	1,663,939	3.63	864,133	26,856	1.64
Available-for-sale financial assets	94,445,258	3.28	115,559,999	3,591,497	1.80
Receivables – credit card transaction with circulating interests	2,585,493	18.16	2,326,547	72,307	15.64
Receivables on factoring	35,451,672	2.84	26,779,740	832,289	1.04
Bills discounted and loans	1,282,394,987	3.62	1,279,368,230	39,761,569	2.14
Held-to-maturity financial assets	105,489,658	2.61	179,480,107	5,578,074	0.81
Other debt investments	1,468,718	5.66	326,607	10,151	6.56
Bills purchased	48,367	6.50	35,375	1,099	6.18
<u>Liabilities</u>					
Due to the Central Bank	232,964,467	1.73	363,842,014	11,307,870	0.27
Due to other banks	131,306,470	2.41	96,256,377	2,991,558	0.93
Demand deposits	276,806,316	0.53	357,599,428	11,113,856	0.07
Demand saving deposits	196,882,501	0.72	242,562,473	7,538,615	0.38
Time deposits	554,117,290	2.78	594,202,423	18,467,256	0.90
Time saving deposits	199,442,488	2.65	211,587,554	6,575,943	1.57
Negotiable certificate of deposits	3,471,389	2.83	2,176,747	67,651	0.63
Financial liabilities at fair value through profit or loss	49,722,296	2.04	34,343,228	1,067,355	2.23
Securities sold under repurchase agreements	18,714,270	1.74	5,320,358	165,352	0.19
Borrowed funds from the Central Bank and other banks	37,378,750	3.14	52,170,203	1,621,401	0.74
Financial bonds payable	21,739,519	2.73	29,531,874	917,823	2.15
Commercial paper payable – net	8,282,649	7.62	-	-	-

6. Asset quality

Unit: thousands of New Taiwan dollars, %

Month / Year	December 31, 2009				
Business / Items	Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (%) (Note 2)	Allowance for doubtful accounts	Coverage ratio (%) (Note 3)
Corporate banking	\$ 2,552,853	\$ 392,052,049	0.65%	-	-
Consumer banking	7,224,814	623,807,577	1.16%	-	-
	2,215,185	207,004,644	1.07%	-	-
	-	-	-	-	-
Small amount of credit loans (Note 5)	101,115	10,000,257	1.01%	-	-
Others	79,099	44,002,907	0.18%	-	-
Secured loans	1,378	276,033	0.50%	-	-
Unsecured loans (Note 6)	12,174,444	1,277,143,467	0.95%	12,238,632	100.53%
Gross loan business	Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio (%)	Allowance for doubtful accounts	Coverage ratio
Credit card services	41,631	4,304,464	0.97%	70,774	170.00%
Without recourse factoring (Note 7)	67,558	62,708,005	0.11%	300,321	444.54%

Month / Year	December 31, 2008				
Business / Items	Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (%) (Note 2)	Allowance for doubtful accounts	Coverage ratio (%) (Note 3)
Corporate Banking	\$ 6,001,821	\$ 397,222,697	1.51%	-	-
Consumer banking	5,949,927	654,110,102	0.91%	-	-
	2,772,409	213,595,523	1.30%	-	-
Cash card services	-	-	-	-	-
Small amount of credit loans (Note 5)	406,459	8,866,532	4.58%	-	-
Others	92,897	41,327,006	0.22%	-	-
Secured loans	1,437	215,404	0.67%	-	-
Unsecured loans (Note 6)	15,224,950	1,315,337,264	1.16%	11,804,650	77.53%
Gross loan business	Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio (%)	Allowance for doubtful accounts	Coverage ratio
Credit card services	78,471	4,795,718	1.64%	126,043	160.62%
Without recourse factoring (Note 7)	764	52,636,589	0.00%	684	89.53%

Note 1: The amount recognized as non-performing loans is in accordance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amount included in overdue accounts for credit cards is in accordance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio=non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.

Note 3: Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards=allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.

Note 4: For residential mortgage loans, the borrower provides his/her (or spouse's) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.

Note 5: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

Note 6: Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

Non-performing loans and overdue receivables exempted from reporting in the financial statements

	Unit: thousands of New Taiwan dollars			
	December 31, 2009		December 31, 2008	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	273	-	1,024	-
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	133	6,147	-	2,976
	406	6,147	1,024	2,976

Note 1: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with the Explanatory Letter Jin-Guan-Yin (I) No. 09510001270 of the FSC dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and restructuring program in accordance with the Explanatory Letter Jin-Guan-Yin (I) No. 09700318940 of the FSC dated September 15, 2008

7. Sensitivity analysis of interest rate for assets and liabilities

Sensitivity analysis of interest rate for assets and liabilities (NTD)

December 31, 2009

Items	(Expressed in Thousands of New Taiwan dollars, %)			
	1~90 days	91~180 days	181 days ~1 year	Over 1 year
Interest-rate-sensitive assets	\$ 536,913,205	\$ 572,852,683	\$ 36,375,198	\$ 40,838,015
Interest-rate-sensitive liabilities	475,194,700	461,337,356	47,957,612	33,569,471
Interest-rate-sensitive gap	61,718,505	111,515,327	( 11,582,414)	7,268,544
Total stockholders' equity				
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)				
Ratio of interest-rate-sensitive gap to stockholders' equity (%)				
				Total
				\$ 1,186,979,101
				1,018,059,139
				168,919,962
				156,245,880
				116.59%
				108.11%

(1) The amounts listed above represent the items denominated in NT dollars (i.e., excluding foreign currency) for both Head Office and domestic branches and overseas branches.

(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.

(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets - interest-rate-sensitive liabilities

(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities (refer to interest-rate-sensitive assets and interest-rate-sensitive liabilities denominated in NTD)

Sensitivity analysis of interest rate for assets and liabilities (USD)  
December 31, 2009

(Expressed in thousands of US dollars, %)					
Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 20,863,092	\$ 938,605	\$ 88,767	\$ 241,117	\$ 22,131,581
Interest-rate-sensitive liabilities	22,971,663	848,476	590,239	310	24,410,688
Interest-rate-sensitive gap	( 2,108,571)	90,129	( 501,472 )	240,807	( 2,279,107)
Total stockholders' equity					4,855,976
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					90.66%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					-46.93%

- (1) The amounts listed above represent the items denominated in US dollars for head office, domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.  
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.  
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities  
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities.

Sensitivity analysis of interest rate for assets and liabilities (NTD)  
December 31, 2008

(Expressed in Thousands of New Taiwan dollars, %)

(Expressed in Thousands of New Taiwan dollars, %)					
Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 811,664,189	\$ 43,423,323	\$ 17,351,902	\$ 190,550,898	\$ 1,062,990,312
Interest-rate-sensitive liabilities	475,428,596	337,558,566	72,145,532	47,786,372	932,919,066
Interest-rate-sensitive gap	336,235,593	( 294,135,243)	( 54,793,630)	142,764,526	130,071,246
Total stockholders' equity					141,689,249
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					113.94%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					91.80%

- (1) The amounts listed above represent the items denominated in NT dollars (i.e., excluding foreign currency) for both Head Office and domestic branches and overseas branches.  
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.  
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities  
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities (refer to interest-rate-sensitive assets and interest-rate-sensitive liabilities denominated in NTD)

Sensitivity analysis of interest rate for assets and liabilities (USD)  
December 31, 2008

(Expressed in thousands of US dollars, %)					
Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	\$ 19,722,630	\$ 591,599	\$ 75,801	\$ 784,753	\$ 21,174,783
Interest-rate-sensitive liabilities	21,221,985	885,556	612,996	-	22,720,537
Interest-rate-sensitive gap	( 1,499,355)	( 293,957)	537,195	784,753	( 1,545,754)
Total stockholders' equity					4,323,221
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					93.20%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					-35.74%

- (1) The amounts listed above represent the items denominated in US dollars for head office, domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.  
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.  
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities  
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities

## 8. Profitability

	For the years ended	December 31, 2008	December 31, 2009
Return on total assets (%)	Before tax	0.29	0.62
	After tax	0.17	0.50
Return on stockholders' equity (%)	Before tax	3.98	8.81
	After tax	2.33	7.16
Net profit margin ratio (%)		12.52	31.36

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

Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.

Note 3: Net profit margin ratio = Income after income tax / total operating revenues.

Note 4: The term "Income before (after) income tax" represents net income from January 1 to the balance sheet date of the reporting period.

9. Structure analysis of time to maturity

December 31, 2009

	Total	1~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	\$ 1,574,965,993	\$ 523,275,492	\$ 100,581,485	\$ 82,862,256	\$ 169,449,864	\$ 698,796,896
Primary funds outflow upon maturity	1,649,549,392	328,391,436	182,309,213	173,837,005	231,379,081	733,632,657
Gap	( 74,583,399 )	194,884,056	( 81,727,728 )	( 90,974,749 )	( 61,929,217 )	( 34,835,761 )

Note: The amounts listed above represent the funds denominated in NT dollars only (i.e., excluding foreign currency) for both Head Office and domestic branches.

December 31, 2009

	Total	1~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	\$ 21,466,924	\$ 5,981,102	\$ 2,915,333	\$ 3,429,264	\$ 3,648,891	\$ 5,492,334
Primary funds outflow upon maturity	21,505,767	12,513,533	2,578,801	2,496,609	2,409,311	1,507,513
Gap	( 38,843 )	6,532,431	336,532	932,655	1,239,580	3,984,821

Note 1: The amounts listed above represent the funds denominated in US dollars for Head Office, domestic branches and offshore banking units, except otherwise indicated, fill in based on the carrying amount, for those unlisted, fill in are not required (eg. negotiable certificates of deposits, bonds and stocks).

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

December 31, 2008

	Total	1~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	\$ 1,321,790,773	\$ 244,254,750	\$ 109,087,850	\$ 89,029,366	\$ 138,389,944	\$ 741,028,863
Primary funds outflow upon maturity	1,413,261,388	245,567,134	196,785,284	136,452,715	187,471,279	646,984,976
Gap	( 91,470,615 )	1,312,384	( 87,697,434 )	( 47,423,349 )	( 49,081,335 )	94,043,887

Note: The amounts listed above represent the funds denominated in NT dollars only (i.e., excluding foreign currency) for both Head Office and domestic branches.

December 31, 2008

	Total	1~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	\$ 18,315,054	\$ 3,854,615	\$ 3,985,505	\$ 1,868,752	\$ 1,997,354	\$ 6,608,828
Primary funds outflow upon maturity	18,126,277	8,413,071	4,038,522	2,398,603	1,929,335	1,346,746
Gap	188,777	4,558,456	( 53,017 )	( 529,851 )	68,019	5,262,082

Note 1: The amounts listed above represent the funds denominated in US dollars for Head Office, domestic branches and offshore banking units, except otherwise indicated, fill in based on the carrying amount, for those unlisted, fill in are not required (eg. negotiable certificates of deposits, bonds and stocks).

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

10. Capital adequacy ratio

(Expressed in Thousands of New Taiwan dollars)

			December 31, 2008	December 31, 2009
Self-owned capital	Tier 1 Capital		129,491,371	141,671,943
	Tier 2 Capital		30,046,915	25,518,063
	Tier 3 Capital		1,000,000	1,000,000
	Self-owned capital, net		160,538,286	168,190,006
Total risk - weighted assets (Note 1)	Credit risk	Standardized Approach	1,317,770,497	1,318,900,873
		Internal Ratings-Based Approach	-	-
		Asset securitization	7,170,857	300,837
	Operation risk	Basic Indicator Approach	69,897,475	69,403,513
		Standardized Approach / Alternative Standardized Approach	-	-
		Advanced Measurement Approaches	-	-
	Market risk	Standardized Approach	38,184,825	45,063,638
		Internal Models Approach	-	-
	Total risk-weighted assets		1,433,023,654	1,433,668,861
Capital adequacy ratio (Note 2)			11.20%	11.73%
Tier 1 Risk-based Capital Ratio			9.04%	9.88%
Tier 2 Risk-based Capital Ratio			2.09%	1.78%
Tier 3 Risk-based Capital Ratio			0.07%	0.07%
Shareholder's equity/Total assets			3.13%	2.92%
Leverage ratio			6.48%	6.67%

The Company preparing consolidated financial statements should disclose consolidated capital adequacy ratio.

Note 1: The self-owned capital and risk-weighted assets in the table above should be filled in accordance with "Regulations Governing the Capital Adequacy Ratio of Banks" and "calculation method and table of self-owned capital and risk-weighted assets".

Note 2: Current and prior year's capital adequacy ratio should be disclosed in the annual reports. In addition to current and prior year's capital adequacy, capital adequacy ratio at the end of prior year should be disclosed in the semi-annual reports.

Note 3: The relevant formulas are as follows:

1. Self-owned capital = Tier 1 capital + Tier 2 capital + Tier 3 capital
2. Total risk-weighted assets = credit risk-weighted assets + (operation risk + market risk) \* 12.5
3. Capital adequacy ratio = Self-owned capital / Total risk-weighted assets
4. Tier 1 Risk-based Capital Ratio = Tier 1 capital / Total risk-weighted assets
5. Tier 2 Risk-based Capital Ratio = Tier 2 capital / Total risk-weighted assets
6. Tier 3 Risk-based Capital Ratio = Tier 3 capital / Total risk-weighted assets
7. Shareholder's equity to total assets ratio = Shareholder's equity/Total assets
8. Gearing ratio = Tier 1 capital / averaged assets after adjustments (average assets – tier 1 capital – goodwill – unamortized loss on sale of non-performing loans and amounts should be deducted from the tier 1 capital pursuant to "calculation method and table of self-owned capital and risk-weighted assets").

Note 4: For 1st quarter and 3rd quarter financial reports, the table of capital adequacy ratio is not required to disclose.

11. Extraordinary Items

December 31, 2009	
	Cases and amount
Directors or employees prosecuted due to violation of laws and regulations in relation to the operations in the latest year	None.
Fine due to the non-compliance with laws and regulations in the latest year	A staff member in Kaohsiung Branch negotiated price by her own accord without supervisor's approval and fabricated trading sheets to earn profits by foreign exchange arbitrage, which did not adhere to the Bank's internal regulations. The competent authority fined the Bank NT\$2,000 thousand on February 25, 2010.
Shortcoming and negligence rectified by the Ministry of Finance in the latest year	None.
Disciplinary actions according to Article 61-1 of the Banking Act of Republic of China in the latest year	<ol style="list-style-type: none"> <li>1. Order the Bank to discharge the staff member in Kaohsiung Branch pursuant to the Article 61-1-1-3 of the Banking Act of the Republic of China.</li> <li>2. The Bank's foreign department did not carry out credit checking and obtain proper collateral when conducting marketable securities collateral loans, violating the Bank's internal regulations, which should be rectified in accordance with Article 61-1-1 of the Banking Act of Republic of China.</li> </ol>
Incurred losses over NT\$50 million individually or in aggregate due to employee fraud or major incidental violations of rules provided in the "Notices to Financial Institutions about Safeguarding" in the latest year.	None.
Others	As the Australian Branch did not satisfy the requirements of Money Laundering Control Act and related regulations stipulated by the local financial supervisory commission, the Australian Branch signed off an Enforceable Undertaking with the competent authorities on July 1, 2009 and August 27, 2009, respectively.



12. In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet and trust property list are as follows:

(1) Trust Balance Sheet

Trust Balance Sheet			
December 31, 2009			
Trust assets		Trust liabilities	
Bank deposits	\$ 55,887,835	Trust capital	
Short-term investments		Pecuniary capital	\$ 275,209,310
Mutual funds	149,001,778	Pecuniary creditor's right and its collateral right trust	166,426
Bonds	13,422,409	Securities trust	16,757,490
Stocks	40,077,883	Real estate trust	37,087,928
Bills	-	Customer's securities under custody	124,411,514
Real estate	68,241,113		
Properties	28,114		
Customer's securities under custody	124,411,514		
Other assets	2,562,022		
Total trust assets	\$ 453,632,668	Total trust liabilities	\$ 453,632,668

Trust Balance Sheet			
December 31, 2008			
Trust assets		Trust liabilities	
Bank deposits	\$ 4,862,840	Trust capital	
Short-term investments		Pecuniary capital	\$ 266,786,420
Mutual funds	126,313,870	Pecuniary creditor's right and its collateral right trust	404,760
Bonds	65,853,989	Securities trust	16,904,360
Stocks	39,191,308	Real estate trust	34,269,698
Bills	176,044	Customer's securities under custody	130,638,495
Real estate	58,032,263		
Properties	37,074		
Customer's securities under custody	130,638,495		
Other assets	23,897,850		
Total trust assets	\$ 449,003,733	Total trust liabilities	\$ 449,003,733

## (2) Trust Income Statement

(Expressed in Thousands of New Taiwan dollars)

Trust Income Statement		
For the years ended December 31,		
	2009	2008
<b>Trust income:</b>		
Interest income	\$ 11,506	\$ 36,406
Rental income	1,477,519	1,523,537
Cash dividend income	1,429	1,927
Other income	44,179	37,439
Unrealized capital gain	57,151	22,037
Unrealized exchange gain	75,300	63,551
Realized capital gain	186,220	52,076
Exchange gain	25,879	6,570
	<u>1,879,183</u>	<u>1,743,543</u>
<b>Trust expenses:</b>		
Management expenses	( 63,063 )	( 66,087 )
Duty expenses	( 16,082 )	( 15,345 )
Other operating expenses	( 542,066 )	( 500,075 )
Loss on disposal of assets	( 44 )	( 5 )
Unrealized capital loss	-	( 37,177 )
Realized capital loss	( 69,940 )	( 272,093 )
Unrealized exchange loss	( 142,477 )	( 104,518 )
Realized exchange loss	( 16,298 )	( 90,358 )
Total Trust expenses	( 849,970 )	( 1,085,658 )
Net income before income tax (Net investment income)	1,029,213	657,885
Income tax expense	( 54 )	( 310 )
Net income after income tax	<u>\$ 1,029,159</u>	<u>\$ 657,575</u>

## (3) Schedule of investment for trust business

(Expressed in Thousands of New Taiwan dollars)

Schedule of investment for trust business		
	December 31, 2009	December 31, 2008
Bank deposits	\$ 55,887,835	\$ 4,862,840
Short-term investments:		
Mutual funds	149,001,778	126,313,870
Bonds	13,422,409	65,853,989
Stock	40,077,883	39,191,308
Bills	-	176,044
Real estate	68,241,113	58,032,263
Properties	28,114	37,074
Customer's securities under custody	124,411,514	130,638,495
Other assets	2,562,022	23,897,850
Total	<u>\$ 453,632,668</u>	<u>\$ 449,003,733</u>

## 13. Information about the transactions with the Mega Financial Holdings Co., Ltd and its subsidiaries are as follows:

(1) Transactions between the Bank and its affiliates: Please refer to Note V.

(2) Joint promotion of businesses:

In order to create synergies within the group and provide customers financial services in all aspects, the Bank has continuously established other financial consulting service centers (including banking services, securities trading services, and insurance services) in its subsidiaries and simultaneously promoted service business in banking, securities and insurances areas.

(3) Sharing of information

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law, and the related regulations stipulated by MOF, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are restricted to use the information for the joint promotion purposes only. In addition, the Bank is required to disclose its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

## 14. Certain accounts in the 2008 financial statements have been reclassified to conform to the presentation of the 2009 financial statements.

# X1. SUPPLEMENTARY DISCLOSURES

## 1. Related information on material transaction items:

(1) Information regarding stock of long-term equity investment for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital:

		Balance as at January 1, 2009				Addition		Disposal		Balance as at December 31, 2009	
Investor	Marketable securities	General ledger account	Counterparty	Relationship with the Bank	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Gain (Loss) on disposal	Number of shares (in thousands)	Amount
The Bank	Taiwan Top 50 Tracker Fund	Available-for-sale financial assets	-	-	6,300	\$ 220,266	17,191	\$681,214	\$ 42,288	3,825	\$ 195,310
The Bank	ACC	Available-for-sale financial assets	-	-	1,830	45,124	8,506	270,918	4,455	-	-
The Bank	TC	Available-for-sale financial assets	-	-	2,200	49,166	8,464	251,327	19,220	210	7,627
The Bank	TFC	Available-for-sale financial assets	-	-	-	-	5,440	457,468	37,392	480	50,936
The Bank	TSRC	Available-for-sale financial assets	-	-	3,374	79,732	7,135	219,368	16,193	-	-
The Bank	CST	Available-for-sale financial assets	-	-	-	-	6,375	321,902	37,623	810	55,758
The Bank	Foxconn	Available-for-sale financial assets	-	-	-	-	4,050	365,764	9,881	440	62,496
The Bank	TSMC	Available-for-sale financial assets	-	-	1,000	41,663	16,550	923,227	28,510	2,120	129,682
The Bank	ACER	Available-for-sale financial assets	-	-	300	12,767	6,957	397,566	13,771	265	23,888
The Bank	Quanta	Available-for-sale financial assets	-	-	-	-	6,002	337,507	1,501	532	35,984
The Bank	CHT	Available-for-sale financial assets	-	-	5,075	279,968	6,190	363,728	( 7,470)	-	-
The Bank	MTK	Available-for-sale financial assets	-	-	-	-	1,178	477,749	22,781	175	88,068
The Bank	Hwaku	Available-for-sale financial assets	-	-	-	-	5,001	362,380	27,373	-	-
The Bank	VMTC	Available-for-sale financial assets	-	-	-	-	5,690	326,723	5,640	304	19,552
The Bank	TWM	Available-for-sale financial assets	-	-	6,266	305,158	2,720	129,926	( 19,772)	210	12,598
The Bank	Wistron	Available-for-sale financial assets	-	-	-	-	7,598	309,068	38,266	230	13,560

(2) Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

(3) Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Property disposed of by	Property	Date of disposal	Date of acquisition	Book value	Disposal amount	Status of collection of proceeds	Gain (loss) on disposal	Counterparty	Relationship with the Company	Reason for disposal	Basis or reference used in setting the price	Other commitments
Mega International Commercial Bank	Warehouse and land located in Xin Zhuang	2009.1.19	1968.7.1	\$ 161,855	\$ 1,215,092	Fully collected	\$1,053,237	Yuan-Hao Wu and Yao-Tang Xu	None	Disposal of idle assets	Public auction	None

(4) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.

(5) Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Creditor	Counterparty	Relationship	Balance as at December 31, 2009	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
MICB	MITC	Jointly controlled by Mega Financial Holdings	\$ 951,107	Not applicable for financial industry	\$ 798,179	Negotiated actively with MITC for repayment	-	-

(6) Information regarding selling non-performing loans:

A. Summary of selling non-performing loans

For the year ended December 31, 2009

(Expressed in Thousands of New Taiwan dollars)							
Transaction date (contract date)	Counterparty	Contents of right of claim	Carrying value (Note 1)	Sale price	Gain or loss from disposal	Attached conditions	Relationship with the Company
2009.07.09	Jing Li Asset Management Co., Ltd.	General long-term secured loan	\$ -	\$ 42,937	\$ 42,937	None	None
2009.10.15	Taishin Asset Management Co., Ltd.	Financing - secured loans	\$ -	\$ 243,800	\$ 243,800	None	None

Note 1: Carrying value is the difference of initial claim amount minus allowance for doubtful accounts.

B. Single-run of sales of non-performing loans with an amount exceeding NT\$ 1 billion excluding sales of non-performing loans to related parties: None.

(7) Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: None.

(8) Other material transaction items which were significant to the users of the financial statements: None.

2. Supplementary disclosure regarding investee companies:

(1) Supplementary disclosure regarding investee companies:

Investee companies	Address	Main service	As of December 31, 2009					(Expressed In Thousands Of New Taiwan dollars)		
			Percentage of ownership %	Book value \$	Investment income (loss) \$	Share (in thousands)	Share-holdings of the Bank and related enterprises		Note	
							Pro forma information on number of stock held	Share (in thousands)		
								400,000		100.00%
Mega International Commercial Bank Public Co., Ltd. (Thailand)	36/12P.S.Tower, Asoke, Sukhumvit 21 Klongtoey-nua, Wattana, Bangkok 10110,Thailand	1. Deposits	100.00%	4,706,221	171,224		None			
		2. Negotiation, bill for collection and foreign exchange								
		3. Loan(credit 、 loan and L/C)								
Mega International Commercial Bank (Canada)	North York Madison Centre, 4950 Yonge Street, Suite 1002, Toronto, Ontario, M2N 6K1, Canada	1. Deposits	100.00%	942,887	14,808	230	None	230		100.00%
		2. Negotiation, bill for collection and foreign exchange								
		3. Loan(credit 、 loan and L/C)								
Cathay Investment & Development Corporation (Bahamas)	Post Office Box 3937, Nassau, Bahamas	International investment and exploration	100.00%	307,511	( 35,039 )	5	None	5		100.00%
Mega Management & Consulting Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Management consulting industry	100.00%	73,830	38,059	1,000	None	1,000		100.00%
Cathay Investment & Warehousing Ltd.	Calle 16 Colon Free Zone Local No 4 Edificio No. 49, P.O.Box 0302-00622, Colon Free Zone, Colon, Republic of Panama	1. Warehousing	100.00%	106,460	55,387	1	None	1		100.00%
		2. Manage and make the investment for the business in foreign trade business								
		3. Office rental								
RAMLETTE FINANCE HOLDINGS INC.	Calle 50 Y Esquina Margarita A De Vallarino, Entrada Nuevo Campo Alegre, Edificio ICBC, No.74, P.O. Box 0816-00704, Panama	Real estate investment industry	100.00%	-	( 2,660 )	2	None	2		100.00%

(Expressed In Thousands Of New Taiwan dollars)

Investee companies	Address	Main service	As of December 31, 2009				Share-holdings of the Bank and related enterprises			
			Percentage of ownership %	Book value \$	Investment income (loss) \$	Share (in thousands)	Pro forma		Percentage %	Note
							information on stock held	Share (in thousands)		
Yung-Shing Industries Co.	7F., No.100, Jilin Rd., Taipei City	Agency business industry, manage and make the investment for the business in foreign trade business and customer request service	99.56%	875,277	28,528	1,350	None	1,350	99.56%	
China Products Trading Company	12F., No.100, Jilin Rd., Taipei City	Processing agricultural product and investment industry	68.27%	62,868	771	68	None	68	68.27%	
Cathy Insurance Company, Inc.	3rd F1, Pacific Bldg., Makati Ave., Makati City, Philippines	Insurance industry	30.37%	4,937	( 786 )	152	None	432	86.46%	
United Venture Capital Corp.	4F-2, No.76, Sec. 2, Dunhua S. Rd., Taipei City	Investment industry	25.31%	80,806	( 9,729 )	13,440	None	13,440	25.31%	
China Insurance Co., (Siam) Ltd.	32/12, P.S. Tower. Asoke, Sukhumrit 21, Phrakhanong Bankok 10110, Thailand	Insurance industry	25.25%	35,738	977	1,515	None	1,515	25.25%	
Mega 1 Venture Capital Co., Ltd	7F., No.91, Hengyang Rd., Taipei City	Investment industry	25.00%	265,346	5,351	25,000	None	40,000	40.00%	
IP Fundseven Ltd.	7F., No.122, Dunhua N. Rd., Songshan District, Taipei City	Investment industry	25.00%	216,701	4,246	25,000	None	25,000	25.00%	
An Fang Co., Ltd.	3F., No.139, Jhenghou Rd., Taipei City	Automatic Teller Machine rental, configure and maintain	25.00%	12,396	1,599	750	None	750	25.00%	
Taiwan Finance Co., Ltd.	3F., No.123, Sec. 2, Nanjing E. Rd., Taipei City	Brokerage underwriting attestation guarantee and endorsement of commercial papers, proprietary trading of government bonds and corporate bonds	24.55%	1,416,477	38,349	126,714	None	126,714	24.55%	



(Expressed In Thousands Of New Taiwan dollars)

Investee companies	Address	As of December 31, 2009					Share-holdings of the Bank and related enterprises		
		Percentage of ownership %	Book value	Investment income (loss)	Share (in thousands)	Pro forma information on number of stock held	Total		Note
							Share (in thousands)	Percentage %	
Everstrong Iron Steel & Foundry & Mfg Corp	4F-5, No.121, Sec. 1, Chongcing S. Rd., Taipei City	22.22%	\$ 33,843	\$ 2,379	1,760	None	1,760	22.22%	
China Real Estate Management Co., Ltd.	11F., No.35, Guangfu S. Rd., Taipei City	20.00%	126,869	15,532	9,000	None	9,000	20.00%	
			\$ 9,268,167	\$ 328,996					

(2) For those investee companies that the Bank has direct or indirect control interest over, further disclosures are as follows:

A. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

B. Information on the disposal of the real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

C. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.

D. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

E. Information regarding selling non-performing loans: None.

F. Information on and categories of securitized assets which are approved by the authority pursuant to the Financial Asset Securitization Act or the Real Estate Securitization Act: None.

G. Lending to other parties: None.

H. Guarantees and endorsements for other parties: None.

I. Information regarding securities held as of December 31, 2009:

(Expressed in thousands of New Taiwan dollars)

Investor	Name of investee and type of securities	Relationship	Account	Share / Units (in thousands)	At year-end			Note
					Book value	Ownership percentage (%)	Market value	
Mega Management & Consulting Co., Ltd.	Stocks							
"	ID Reengineering Inc.	Equity investees	Investments accounted for by the equity method	25	\$ 2,675	25.00%	\$ 2,675	
Mega I Venture Capital Co., Ltd.	Funds							
"	Fubon Chi-Hsiang Fund	None	Available-for-sale financial assets	19,458	\$ 232,154		\$ 232,154	
"	Mega Diamond Bond Fund	"	Available-for-sale financial assets	3,337	50,079		50,079	
"	Shin Kong Chi-Shin Fund	"	Available-for-sale financial assets	2,029	30,051		30,051	
	Total				\$ 312,284			
Mega I Venture Capital Co., Ltd.	Stocks							
"	Geo Bision Inc.	None	Available-for-sale financial assets	290	\$ 39,440	0.60%	\$ 39,440	
"	Paragon Technologies Co., Ltd.	"	Available-for-sale financial assets	550	50,325	0.70%	50,325	
"	Unitech electronics Co., Ltd.	"	Available-for-sale financial assets	50	2,130	0.11%	2,130	
"	Ju Teng Technology Co., Ltd.	"	Available-for-sale financial assets	400	14,400	0.04%	14,400	
"	Jiin Ming Industry Co., Ltd.	"	Available-for-sale financial assets	757	11,847	0.78%	11,847	
"	Goodway Machine Corp.	"	Available-for-sale financial assets	707	20,916	0.75%	20,916	
"	Neo Solar Power Corporation	"	Available-for-sale financial assets	400	32,345	0.19%	32,345	
"	Formosa Advanced Technologies Co., Ltd.	"	Available-for-sale financial assets	1,035	49,680	0.23%	49,680	
"	Darfon Electronics Corp.	"	Available-for-sale financial assets	116	5,856	0.04%	5,856	
"	Jentek Precision Industrial Co., Ltd.	"	Available-for-sale financial assets	500	92,500	0.69%	92,500	
"	TaiDoc Corporation	"	Financial assets carried at cost	100	13,000	0.21%	13,000	
"	ATM Electronic Corp.	"	Financial assets carried at cost	1,911	35,000	7.75%	35,000	
"	Taiwan Video System Co., LTD	"	Financial assets carried at cost	1,289	24,000	3.16%	24,000	



(Expressed in thousands of New Taiwan dollars)

Investor	Name of investee and type of securities	Relationship	At year-end			
			Account	Share / Units (in thousands)	Book value	Ownership percentage (%)
					Market value	Note
Mega I Venture Capital Co., Ltd.	UniBright Chemical Co., Ltd.	None	Financial assets carried at cost	125	\$ 1,890	\$ 1,890
"	Sin-ying-cai Corp.	"	Financial assets carried at cost	800	9,600	9,600
"	Yung Fa Corp.	"	Financial assets carried at cost	3,466	27,738	27,738
"	TPO Displays Corp.	"	Financial assets carried at cost	2,426	24,260	24,260
"	Mobile Action Technology Inc.,	"	Financial assets carried at cost	308	9,700	9,700
"	MobilMAX Technology Inc.	"	Financial assets carried at cost	500	17,500	17,500
"	ProbeLeader Co., Ltd.	"	Financial assets carried at cost	600	15,000	15,000
"	MOSA Industrial Corp.	"	Financial assets carried at cost	924	20,000	20,000
"	Y.C.C. Parts MFG Co., Ltd.	"	Financial assets carried at cost	1,000	32,000	32,000
"	Vista Vision Corp.	"	Financial assets carried at cost	645	16,890	16,890
"	Dong Zhun Photoelectric Material Corp.	"	Financial assets carried at cost	1,000	30,000	30,000
"	Taiwan United Medical Inc.	"	Financial assets carried at cost	500	6,000	6,000
"	Avaule technology Inc.	"	Financial assets carried at cost	1,415	46,963	46,963
"	Feature Integration Technology Inc.	"	Financial assets carried at cost	550	19,250	19,250
"	Wisdom Marine Lines S.A	"	Financial assets carried at cost	1,152	37,801	37,801
"	High Power Opto. Inc.	"	Financial assets carried at cost	1,006	18,394	18,394
"	Applied Wireless Identification Group Inc.	"	Financial assets carried at cost	1,127	1,699	1,699
	Total				<u>\$ 726,124</u>	
Yung-Shing Industries Co.	Stocks					
"	First Bio Venture Capital Corp.	None	Financial assets carried at cost	302	\$ 1,780	\$ 1,780
"	SysJusl Corporation	"	Financial assets carried at cost	559	6,878	6,878
"	Hi-Scene World Enterprise Co., Ltd.	"	Financial assets carried at cost	3,535	8,100	8,100
"	An Fang Co., Ltd.	"	Financial assets carried at cost	150	1,833	1,833

(Expressed in thousands of New Taiwan dollars)

Investor	Name of investee and type of securities	Relationship	At year-end			
			Share / Units (in thousands)	Book value	Ownership percentage (%)	Market value
Yung-Shing Industries Co.	Fan-yang Venture Capital Investment Corp.	None	2,250	\$ 22,500	7.44%	\$ 22,500
	Forture Venture Capital Investment Corp.	"	2,000	20,000	7.84%	20,000
	TaiOne International Ltd.	"	2,660	9,629	19.00%	9,629
	Hua-sheng Venture Capital Investment Corp.	"	2,000	20,000	0.00%	20,000
	H&H Venture Capital Investment Corp.	"	4,113	41,132	7.89%	41,132
	Wisdom Marine Kines S.A	"	1,653	51,838	0.77%	51,838
	Nanrenhu Enterprise Corp.	"	172	3,070	0.20%	3,070
	Optimax Technology Corporation	"	10	22	0.06%	22
	Wafer Works Corporation	"	118	6,896	1.09%	6,896
	Tingyi (Cayman Islands) Holding Corp.	"	1,000	46,500	0.02%	46,500
	Win Card Co., Ltd.	Equity investees	500	66,940	100%	66,940
	ICBC Assets Management & Consulting Co., Ltd.	"	28,539	329,533	100%	329,533
	Total			<u>\$ 636,651</u>		
ICBC Assets Management & Consulting Co., Ltd.	Funds					
	ICBC AMC Offshore Limited	Equity investees	-	\$ 35,678	100.00%	\$ 35,678
	Junior Preference Share Company Limited	"	-	308,805	100.00%	308,805
	ICBC AMC Offshore (Taiwan) II Limited	"	-	8,841	100.00%	8,841
	Junior Preference Share Company (Taiwan) II Limited	"	-	( 12,758)	100.00%	( 12,758)
	Total			<u>\$ 340,566</u>		



(Expressed in thousands of New Taiwan dollars)

Investor	Name of investee and type of securities	Relationship	Account	Share / Units (in thousands)	At year-end			Note
					Book value	Ownership percentage (%)	Market value	
ICBC Assets Management & Consulting Co., Ltd.	Stocks							
	H&H Venture Capital Investment Corp.	None	Financial assets carried at cost	2,742	\$ 27,421	5.71%	\$ 27,421	
	Formosa Advanced Technologies Co., Ltd.	"	Available-for-sale financial assets	131	6,300	0.03%	6,300	
	Total				<u>\$ 33,721</u>			
Cathay Investment & Development Corporation (Bahamas)	Funds							
	AsiaTech Taiwan Venture Fund LP	None	Financial assets carried at cost	-	\$ 19,184	-	\$ 19,184	
	SC Biotechnology Development Fund	"	Financial assets carried at cost	-	112,823	-	112,823	
	Tai An Technologies Corp.	"	Financial assets carried at cost	-	5,097	-	5,097	
	Accumulated impairment				( 103,402 )			
	Total				<u>\$ 33,702</u>			

J. Information regarding securities for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

K. Information regarding trading in derivative financial instruments: None.

L. Other material transaction items which were significant to the users of the financial statements: None.

3. Investments in People's Republic of China: None.

## **XII. SEGMENTS AND GEOGRAPHIC INFORMATION**

### 1. Financial information by business segments

The Bank is engaged in business stipulated in Article 3 of the Banking Law; therefore, the disclosure of financial information by business segments is not required.

### 2. Financial information by geographic area

#### Mega International Commercial Bank Co., Ltd.

##### Financial Information By Geographic Area

December 31, 2009

	(Expressed in thousands of New Taiwan dollars)			
	Domestic	North America	Other overseas operating departments	Adjustment and elimination
Revenue from customers outside the Bank	\$ 40,605,216	\$ 2,964,854	\$ 6,050,327	\$ -
Revenue from departments within the Bank	17,657,644	99,408	580,453	( 18,337,505 )
Total revenue	\$ 58,262,860	\$ 3,064,262	\$ 6,630,780	\$ ( 18,337,505 )
Profit or loss	\$ 11,657,493	\$ 489,922	\$ 980,202	\$ -
Asset attributable to specific departments	\$ 1,765,779,944	\$ 326,926,244	\$ 104,978,604	\$ 2,197,684,792

### 3. Export sales by geographic area

The export sale amount of the Bank's domestic operating department is not more than 10% of the Bank's operating revenues for the year ended December 31, 2009.

### 4. Information on major customers

The revenue generated from any single customer of the Bank is not more than 10% of the Bank's operating revenues for the year ended December 31, 2009.

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Email: [megaservice@megabank.com.tw](mailto:megaservice@megabank.com.tw)

As of May 31, 2010

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***Kuang-Si Shiu, President***

***Meei-Yeh Wei, Senior Executive Vice President***

***Chao-Hsien Lai, Senior Executive Vice President***

***Dan-Hun Lu, Senior Executive Vice President***

***Li-Tu Chiang, Senior Executive Vice President***

***Chih-Wen Cheng, Senior Executive Vice President & General Manager***

***Ying-Ying Chang, Chief Auditor***

### ***Auditing Office***

***Ying-Ying Chang, Chief Auditor***

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### ***Human Resources Department***

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### ***General Affairs and Occupational Safety & Health Department***

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## **Domestic Units**

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### **Wen Shan Branch**

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### **Taipei Airport Branch**

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**North Hsinchu Branch****Huoo-Chine Yeh, Vice President & General Manager**

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**Hsinchu Science Park Chu-tsuen Branch****Edward Yuan, Vice President & General Manager**

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**Chung Li Branch****Jung-Chang Lin, Vice President & General Manager**

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**Tao Hsin Branch****Li-Chu You, Vice President & General Manager**

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# Annual Report 2009



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