

玉山十九年  
19th

E.SUN BANK 5847  
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Printing Date : 2011.3.30

# ANNUAL REPORT 2010



九十九年年報

E.SUN COMMERCIAL BANK, LTD. ANNUAL REPORT 2010 E



玉山銀行 E.SUN BANK



Pure as Jade, Stern as Mountain.

#### E.SUN Spokesman

Name: Wu-Lin Duh

Position: President

Telephone: +886 2 2175 1313

email: wulin@email.esunbank.com.tw

#### Deputy Spokesman

Name: Magi Chen

Position: Senior Executive Vice President

Telephone: +886 2 2175 1313

email: magi@email.esunbank.com.tw

#### Registered Office and Branches

Name	Address	Telephone	Website
Register Office	No.115, Sec.3, Minsheng E. Rd., Songshan District, Taipei, Taiwan	+886 2 2175 1313	www.esunbank.com.tw
Branches	Please refer to the back cover		

#### Stock Transfer and Service Contact

Name : Stock Service Department, General Affairs Division, E.SUN Bank

Address : No.117, Sec. 3, Minsheng E. Rd., Songshan District, Taipei, Taiwan.

Website : www.esunbank.com.tw

Telephone : +886 2 2719 1313

#### Rating Agency

Name : Moody's Investors Service Inc.

Address : 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, U.S.A.

Telephone : +1 212 553 0300

Name : Taiwan Ratings Corporation

Address : 49th FL., Taipei 101 Tower No.7, Sec.5, Xinyi Rd., Taipei, Taiwan.

Telephone : +886 2 8722 5800

#### Auditing Certified Public Accountant

Certified Public Accountant : Chang Ryh Yan, Chen Li Chi

Accounting Firm : Deloitte Taiwan

Address : 12th FL., No. 156, Sec. 3, Minsheng E. Rd., Songshan District, Taipei, Taiwan.

Website : www.deloitte.com.tw

Telephone : +886 2 2545 9988

The highest peak, the best bank.



## I. Letter to Shareholders

In 2011 E.SUN Bank exercised its strategy of “Channel is King, Profitability is Priority” to focus on the strength of channel network and customer relationship management, and continued upholding its core value in a market of recovering economy and financial condition. Under the principle of “No Business Overrides Risk Management”, E.SUN has maintained its excellent asset quality and delivered a solid financial performance.

By the end of 2010, E.SUN Bank’s after-tax profit stands at NT\$3,981 million, which is equivalent to earnings per share of NT\$1.13 and return on equity of 7.48%, both figures doubled from the ones in 2009. Besides, its NPL ratio was 0.39%, 28 basis points lower from year 2009. E.SUN’s total deposits stood at NT\$917.9 billion (with a growth rate of 15.87%) and its total outstanding loans at NT\$598.6 billion (with a growth rate of 8.96%), while 2.62 million amount of credit cards in force. All areas of operations continued to display stable development and the Bank maintained the best asset quality in Taiwan. Moody’s has rated E.SUN Bank long- and short-term ratings to Baa1/P-2, while Taiwan Ratings has assigned E.SUN ratings of twA+/twA-1, with a stable outlook.

Maximizing network value is the crucial link in overall performance for E.SUN. In order to adapt to the fast-changing external environment, in 2011 E.SUN introduces a full-function branch model that emphasizes integration. We not only satisfy, but exceed customer expectations through the comprehensive distribution channels, including branches, e-banking and Call Center, to maximize the value of channel network. Furthermore, we will continue expanding our service network to provide excellent service and satisfy customers’ comprehensive financial needs.

E.SUN will focus on further building its relationship with focus groups of customers, and will continue to emphasize its market niche



Heritage of intelligence and leadership.

based on top-notch service and its brand name. E.SUN takes advantage of each opportunity to establish a close-knit financial services network offering rapid and convenient services. E.SUN utilizes its customer analysis system to integrate its corporate banking, consumer banking, wealth management, credit card, treasury, and securities sectors to offer customer-driven products and services, and providing the most suitable banking services to its customers. In 2010 E.SUN received the awards of the most trustworthy bank and best service bank in wealth management service from Business Today, ranked No. 1 among all financial companies in service quality in a survey carried out by Global View magazine, awarded with the Platinum Corporate Award by The Asset magazine and Top Awards in Banking Service Capital and Corporate Innovation Image by China Productivity Center. These all demonstrated E.SUN’s core value of “Pure as Jade, Stern as Mountain”, winning customers’ trust.

Approaching its 20th anniversary, E.SUN continues to emphasize its market niche based on trustworthy and professional services, as well as top-notch service. E.SUN promotes balanced development of its operations. Its total assets have exceeded NTD 1 trillion (NTD 1.746 trillion by



the end of 2010). While developing its business, E.SUN Bank also emphasizes improvement in strict risk control measures, self-discipline guidelines, and procedural controls in order to comply with Basel's international standards. E.SUN continues to improve quality, internal control and law compliance, adding points to E.SUN's outstanding brand values. With increasing contacts between the two sides of the Taiwan Strait, in 2011, E.SUN is making efforts to make its representative office in Dongguan into a branch office and to plan for its layout in China. It will also combine the transformation and development of Hong Kong branch, making it as a more efficient platform, assisting customers to fulfill their needs and to enhance the basis of international development.

E.SUN lives up to its responsibility to society. It has included social responsibility as one of its core business strategies. E.SUN continues to demonstrate its longstanding commitment to becoming a world class corporate citizen. The employees of E.SUN realize this both in their work and their daily lives, offering time, donations, or efforts based on their individual abilities. E.SUN continues to invite its E.SUN World Card cardholders to participate in various initiatives, such as the Golden Seed Project. Under this program, 32 E.SUN libraries are established in elementary schools in remote areas. E.SUN's Golden Seed Project is fostering loves for reading among more and more elementary school students, helping to broaden their horizons. E.SUN is also committed to promoting youth baseball on Taiwan through sponsoring the E.SUN Youth Baseball National Tournament, the E.SUN Youth Baseball Pitcher & Catcher Training Camp. E.SUN also holds blood drives and its Volunteers also provide service in a variety of areas. The E.SUN family as a whole pools its efforts, helping to give back to society and thereby making E.SUN a highly respected enterprise.

2011 marks an especially important year for E.SUN, as it embarks on its third decade. The Bank appreciates the encouragement provided to it by society over the years, as well as the recognition of the E.SUN brand name. Amid this honor and responsibility, we will continue to work to maximize the performance of the group, and work to create even greater value for the Bank and its customers. At the same time, E.SUN looks to pay back and thank its customers and shareholders for their longstanding support. I would like to extend to you my best wishes.



**Kuo-Lieh Tseng**  
Chairman of the Board



**Wu-Lin Duh**  
President



## II. Company Profile



The Pleasing Green Embraced by the Breeze.



## 1.Introduction



E.SUN Bank ranked No. 1 among all financial companies in service quality and won most trust worthy bank and first in service in wealth management service.

(1) Date of Establishment: 1992.2.21

(2) Company History

**E**.SUN is constantly endeavoring to improve itself. Since commencing operations on February 21, 1992, E.SUN's founder and chairman Huang Yung-Jen has led the Bank and all its employees in constantly striving to enhance service quality and fulfilling its corporate responsibility. E.SUN's longstanding objective has not only been to exhibit an outstanding financial performance, but also to be Taiwan's most respected Bank. E.SUN Financial Holding Company Ltd was established on January 28, 2002. As the flagship subsidiary, E.SUN Bank works to bring together other units within the group, continues to improve the quality of financial products E.SUN offers, and work to fulfill the pledges of the E.SUN brand name.

On April 30, 2010, the Board of Directors resolved to appoint Mr. Tseng Kuo-Lieh as E.SUN Bank Chairman. Together with E.SUN FHC Chairman Huang Yung-Jen and President Huang Nan-Chou, Chairman Tseng and Bank President Duh Wu-Lin will lead the group forward, passing along E.SUN's core values, instigating progress, continuing to pursue excellence, and creating new value for E.SUN.

E.SUN Bank is in the pursuit of sustainable development. The Company has focused on three

pillars to underpin its development – establishment of systems, cultivation of human resources, and development of information. In the wake of the expansion of its branch network, E.SUN always remembers that all operations are carried out with risk management in mind and cares to every area of operations and its efforts repeatedly win it the trust of the public at large. The Bank is promoting simultaneous growth in both the quality and quantity of its business. As the Bank embarks upon its third decade, it will make every effort to enhance corporate governance and fiscal performance, fulfill its corporate social responsible, do its part to protect the environment, and be responsible to its investors. This is being carried out with the intention of having E.SUN become the best performing and most respected enterprise.

E.SUN has implemented a corporate culture stressing honesty, responsibility, teamwork, harmony, happiness, excellence, honor, and gratitude. Accolades such as "Asia's Best Mortgage Bank," "Best Credit Guarantee Partner in SME Lending," and "Most Trusted Wealth Management Bank" point to the brand name value of E.SUN. The Bank continues to adopt strict risk control measures, self-discipline guidelines, and procedural controls in its consumer banking, corporate



banking, wealth management, treasury, and credit card operations, to offer comprehensive services and products to its customers. These efforts have helped E.SUN to repeatedly display the best asset quality in the industry, helping to win the group recognition for its brand name value.

E.SUN continues to move forward in a steady and resolute manner with its channel network of 122 branches throughout Taiwan combining the latest efforts in strengthening its IT system and e-platform. E.SUN will not only work to maintain its brand name competitive advantage, but also continue to work to cultivate an even larger pool of outstanding customers. E.SUN consistently strives to build its relationship with customers, generating even greater customer value. It also works in cooperation with other FHC subsidiaries to maximize synergy associated with joint marketing efforts, thereby providing full-function service to customers.

(3) Condition of Merger and Acquisition, Investment in Affiliates and Restructuring; Date of belonging to specified financial holding company; Mass transfer of shareholding form board members, supervisors or qualified persons who should report their shareholdings in accordance with Paragraph 3, Article 25 of Taiwan Banking Act; Change of ownership; Significant change of business operation or business contents, and any other event and its impacts which would affect shareholders' rights during period of 2010 and up till the printout date of 2010 annual report:

A. E.SUN Bank has become a subsidiary of E.SUN Financial Holding Co., Ltd. since January 28, 2002.

B. E.SUN Bank signed the Purchase Agreement with Chu Nan Credit-Cooperation Association to acquire its asset, liability and operation. The transaction will be completed in a condition of receiving approvals from the AGMs of both parties, and from the regulator.

C. Others: None

(4) Honors and Glory of E.SUN

In recent years, the joint efforts of all people

associated with E.SUN have helped the Bank win a great number of honors. With this, however, comes a responsibility to continue to provide the best to its customers and society:

\* 2010

- E.SUN Bank was awarded the Platinum Corporate Award for Management Excellence among Asian Enterprises (the Asset magazine)
- E.SUN Bank was again ranked No. 1 among all financial companies in service quality survey (Global View magazine)
- E.SUN Bank was awarded the Corporate Social Responsibility Award (Taiwan Academy of Banking and Finance)
- E.SUN Bank won an award with the number of transactions carried out through its payment system (ROC Bankers Association)
- E.SUN FHC received Certificate of Outstanding Corporate Governance for the third consecutive year (Taiwan Corporate Governance Association)
- E.SUN FHC won the Corporate Social Responsibility Award for the third consecutive year (Commonwealth magazine)
- E.SUN Bank won most trustworthy bank and first in service in wealth management service (Business Today)
- E.SUN Bank has won the SME Credit Guarantee Partner Award for many years (MOEA Credit Guarantee Fund)

\* 2009

- E.SUN Bank was chosen as the most trustworthy bank in Wealth Management Business (Business Today)
- E.SUN Bank ranked No.1 among all financial companies in service quality survey (Global View magazine)
- E.SUN Bank received Golden Safety award and Golden Quality award (JCIC)
- E.SUN Bank ranked No.2 among all financial companies under the brand image survey for businessman (Business Today)



- E.SUN FHC received Corporate Social Responsibility honorable award (Global View magazine)
- E.SUN FHC received Corporate Social Responsibility award (Commonwealth magazine)

\* 2008

- E.SUN Bank received National Quality Award (Executive Yuan) the second time, which represents the highest award in Taiwan.
- E.SUN FHC awarded as Best Corporate Governance corporate in Taiwan (The Asset magazine)
- E.SUN FHC received the certificate of corporate governance (TCCA)
- E.SUN received Best Risk Management award by Taiwan Academy of Banking and Finance
- E.SUN received Corporate Social Responsibility Awards (Commonwealth magazine and Global View magazine)
- E.SUN Bank awarded as Excellence in employee engagement (The Asian Banker magazine)
- E.SUN Bank received awards for Providing Loans to SMEs (Financial Supervisory Commission)
- E.SUN received Credit Guarantee Partner Award (MOEA, Credit Guarantee Fund)

Our commitment to service is a longstanding objective and is not something that we will compromise. E.SUN always seeks to exceed service expectations. The Bank takes its pledge towards pursuing a balance in terms of quality and quantity of business, while at the same time taking corporate social responsibility seriously. E.SUN will continue to promote the E.SUN Golden Seed Project via which it establishes E.SUN libraries at primary schools in remote areas around Taiwan, and to pool the resources from many sectors to create hope and knowledge for the next generation, creating a model in the banking industry with the objective of becoming not only the best performing, but also most respected enterprise.



E.SUN has delivered the quality service through its nationwide branch network.



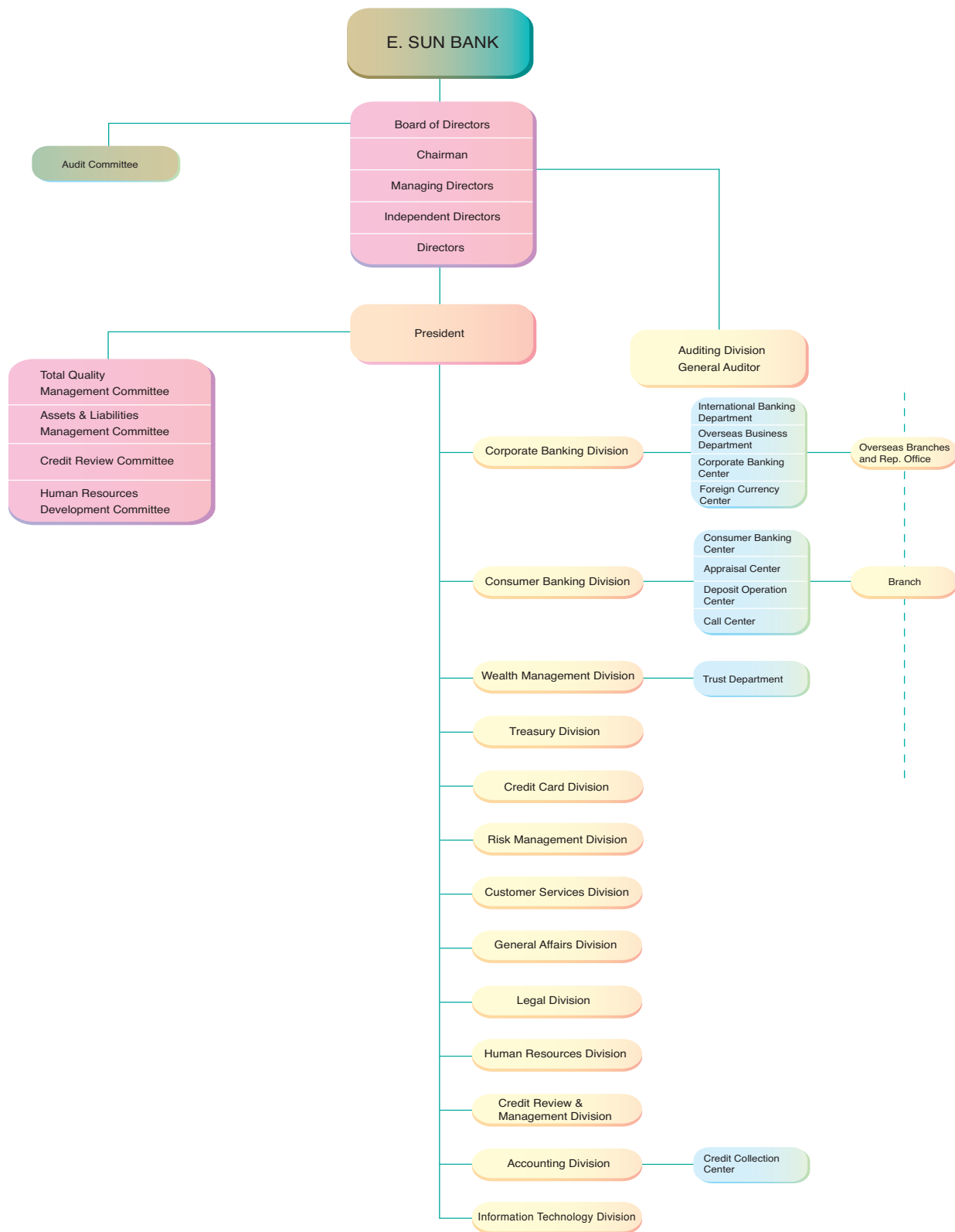
### III. Corporate Governance Report



Lush and Thrifty Blossom.



# 1.Organization



## 2. Directors, Independent Directors and Management Team



Strategic Planning for Future Development.

### 2.1 Directors and Independent Directors

2010.12.31 unit: 1,000 shares; %

Position	Representative (Name)	Date of Election	Term years	Date of First Elected	Shareholding When Elected		Shareholding in E.SUN FHC						Education (experience)	Current Position with Other Company	Devision Chiefs, directors or Supervisors are spouse or within the 2nd degree of consanguinity of each other		
							Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
					Shares	Ratio%	Shares	Ratio%	Shares	Ratio%	Shares	Ratio%					
Chairman	Representative of E.SUN Financial Holding Company Kuo-Lieh Tseng	2010.5.14	3	2010.5.14	3,120,000	100	3,510,000	100	0	0	0	0	Harvard University Master's in Public Administration in Director General of Banking Bureau, Financial Supervisory Commission	Director of E.SUN FHC	None	None	None
Managing Director & President	Representative of E.SUN Financial Holding Company Wu-Lin Duh	2008.6.13	3	1991.12.16	3,120,000	100	3,510,000	100	0	0	0	0	EMBA of National Cheng Kung University, 39years in Financial Industry	President of E.SUN Bank, Director of E.SUN FHC	None	None	None
Managing Director	Representative of E.SUN Financial Holding Company Jackson Mai	2008.6.13	3	1991.12.16	3,120,000	100	3,510,000	100	0	0	0	0	Kai-Nan Commercial & Technical High School	Chairman of Hsin Tung Yang Co., Ltd, Shang Yang Investment Co.Ltd, Ding Yang Investment Co.Ltd, Cheng Yang Investment Co.Ltd, Hsin Tung Yang Real Estate Broker Co., Ltd, Sheng Yang Construction Co.Ltd, and Sing Yang Investment Co. Ltd.; Director of J.K. MULTILAYER TECHNOLOGY CO., LTD., LION TECH. CO., LTD., TDW PHARMACEUTICALS INC., and OCEAN BRIGHT CO., LTD.; Director of E.SUN FHC.	None	None	None
Managing Director	Representative of E.SUN Financial Holding Company Chiu-Hsiung Huang	2008.6.13	3	1991.12.16	3,120,000	100	3,510,000	100	0	0	0	0	PhD of Business Administration at Dela Salle University	CPA; Supervisor of Ya Pu Construction; Representative of Comewell Investment (BVI) Co., Ltd; Chairman of Allcan Investment Co. Ltd, Perfect Source Technology Co. Ltd, and Sin Kang Investment Co.Ltd; Director of E.SUN FHC	None	None	None



Position	Representative (Name)	Date of Election	Term years	Date of First Elected	Shareholding When Elected		Shareholding in E.SUN FHC						Education (experience)	Current Position with Other Company	Devision Chiefs, directors or Supervisors are spouse or within the 2nd degree of consanguinity of each other		
							Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
					Shares	Ratio%	Shares	Ratio%	Shares	Ratio%	Shares	Ratio%					
Independent Director (Managing Director)	Representative of E.SUN Financial Holding Company Chang Lin Jen Jen	2008.6.13	3	2007.8.16	3,120,000	100	3,510,000	100	0	0	0	0	Master of University of Michigan	Independent Director of E.SUN FHC	None	None	None
Independent Director	Representative of E.SUN Financial Holding Company Chen –En Ko	2008.6.13	3	2007.8.16	3,120,000	100	3,510,000	100	0	0	0	0	PhD of Department of Accounting at University of Minnesota	Professor of Department of Accounting and Electronical Engineering at National Taiwan University; Independent Director of Chang Type Industrial Co., Ltd.; Supervisor of Furacstone Telecommunication Co., Ltd.	None	None	None
Independent Director	Representative of E.SUN Financial Holding Company Chi-Jen Lee	2008.6.13	3	2007.8.16	3,120,000	100	3,510,000	100	0	0	0	0	PhD of Business Administration, University of Illinois, USA	Professor of Graduate Institute of International Business at National Taiwan University; Independent Director of E.Sun FHC; Director of Aver Media Technologies Co., Ltd.	None	None	None
Independent Director	Representative of E.SUN Financial Holding Company Hsin-I Lin	2008.6.13	3	2008.6.13	3,120,000	100	3,510,000	100	0	0	0	0	Bachelor of Department of Mechanical Engineering, National Cheng-Kung University	Chairman of Guang Yuan Investmet Co.Ltd.; Managing Director of China Motor Co.; Director of Yulon Motor Co., Ltd., Tai Yuen Textile Co., Ltd., Acer Incorporated and Shye Shyang Mechanical Industrial CO., Ltd.; Independent Director of E.SUN Bank and Sinyi Realty and E.SUN FHC.	None	None	None
Director	Representative of E.SUN Financial Holding Company Yung-Hsung Hou	2008.6.13	3	1991.12.16	3,120,000	100	3,510,000	100	0	0	0	0	Department of Business Administration at National Taiwan University	Powertec Energy Corporation	None	None	None
Director	Representative of E.SUN Financial Holding Company Chai-Kuo Chen	2008.11.21	3	2008.11.21	3,120,000	100	3,510,000	100	0	0	0	0	MBA, UCLA	Chairman of Nien Hsing Textile Co.,Ltd., Nien Hsing Intl. Investment Co. Ltd., Ming Yuan Investment Co. Ltd., Chu Hsing Garment Co., Ltd., Wei Han Investment Co.Ltd., Ron Yuan Investment Co.Ltd., Jia Tien Sia Investment Co. Ltd. and Fu Yuan Construction Co.Ltd.; Director of Kuo Jhong Investment Co. Ltd. and E.SUN FHC.	None	None	None
Director	Representative of E.SUN Financial Holding Company Jian-Li Wu	2008.6.13	3	1995.04.17	3,120,000	100	3,510,000	100	0	0	0	0	Chung Jung High School .	Chairmean of Shang Li Car Co.,Ltd, Ruen Li Transportation Co., Ltd., Shen Li investment Co. Ltd., Shang Li Transportation Co., Ltd, Shan Li Transportation Co., Ltd, Shan Ben Intl. Investment Co.Ltd and San Li Investment Co. Ltd.; Director of Guang Yuan Investment Co., Ltd, KeeperTechnology Co. Ltd. and E.Sun FHC; Supervisor of Jung Shing Wire Co., Ltd.	None	None	None
Director	Representative of E.SUN Financial Holding Company Joseph Huang	2008.6.13	3	2008.6.13	3,120,000	100	3,510,000	100	0	0	0	0	MBA of the City University of New York, 17 years in Financial Industry	President of E.SUN FHC; Director of E.SUN Bank; Chairman of E.SUN Venture Capital; Director of Kellong (International) Cosmetic Limited	None	None	None

Position	Representative (Name)	Date of Election	Term years	Date of First Elected	Shareholding When Elected		Shareholding in E.SUN FHC						Education (experience)	Current Position with Other Company	Devision Chiefs, directors or Supervisors are spouse or within the 2nd degree of consanguinity of each other		
							Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
					Shares	Ratio%	Shares	Ratio%	Shares	Ratio%	Shares	Ratio%					
Director	Representative of E.SUN Financial Holding Company Cheng-Pin Lee	2008.6.13	3	1991.12.16	3,120,000	100	3,510,000	100	0	0	0	0	Master of Public Administration at University of San Francisco	Chairman of Hsin-Nan Co., Ltd, Danver Trading Co. Ltd and Hua Bin Co., Ltd; Director of TideHold Development Co. Ltd, Dai Kong Trading Co. Ltd, Kuan Cheng Limited, Danver Chemical & Pharmaceutical Co., Ltd, Tsai Hsing Co., Ltd; Supervisor of Taiwan Tanabe Seiyaku Co Ltd.	None	None	None
Director	Representative of E.SUN Financial Holding Company Tai-Chi Lee	2008.6.13	3	1992.11.26	3,120,000	100	3,510,000	100	0	0	0	0	Bachelor of Business Administration at Fu Jen Catholic University	Chairman of Tidehold Development Co., Ltd., Tai Yo Investment Co. Ltd, TideHold Investment Co., Ltd, Jia Hsing Investment Co., Ltd, Yung Jia Investment Co. Ltd, Jia Yo Investment Co. Ltd; Hsing Hua Matches Co., Ltd; Director of Hsing Yung Li Co. Ltd, Pu Lien Auto Co. Ltd, Pro Car Leasing Co. Ltd, Po Li Investment Co. Ltd; Supervisor of Po Hsing Chemical Co. Ltd.	None	None	None
Director	Representative of E.SUN Financial Holding Company Suka Chen	2008.6.13	3	2001.4.19	3,120,000	100	3,510,000	100	0	0	0	0	Master of Department of Agricultural Economics at National Taiwan University, 22years in Financail Industry	Chairman and President of E.SUN Securities; Director of E.SUN FHC, E.SUN Venture Capital and BankPro E-Service Technolofy Co., Ltd	None	None	None

## Major shareholders of the institutional shareholders

2010.12.31

Name of institutional shareholders	Major shareholders of the institutional shareholders
E.SUN Financial Holding Co., Ltd.	PCA Life Assurance Co., Ltd. (3.98%) HSBC Securities Asia Nominees Limited (3.80%) Cathay Life Insurance Co., Ltd.(3.79%) Ron-Yuan Investment Co., Ltd.(3.74%) Hsin Kang Investment Co., Ltd. (2.62%) Morgan Stanley Apollo Holdings (Cayman) Ltd. (2.62%) HSBC Securities Asia International - Asian Equity Derivatives (2.60%) E.SUN Bank Trust Account (2.21%) Atlas Nominees Limited (2.14%) Comewell Holding Company (BVI) Limited, Taiwan Branch (1.80%)



## Professional Qualifications and Independent Analysis of Directors

Criteria  Name (note)	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
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A 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 Company	Have Work Experience in the areas of Commerce, Law, Accounting, or otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Chairman Kuo-Lieh Tseng	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓		0
Managing Director Wu-Lin Duh			✓			✓	✓		✓	✓	✓	✓		0
Managing Director Chiu-Hsiung Huang		✓	✓	✓					✓	✓	✓	✓		0
Managing Director Jackson Mai			✓	✓		✓	✓		✓	✓	✓	✓		0
Independent Director/Managing Director Chang Lin Jen Jen			✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Independent Director Chen-En Ko	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		1
Independent Director Chi-Jen Lee	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Independent Director Hsin-I Lin			✓	✓	✓	✓	✓		✓	✓	✓	✓		1
Director Chai-Kuo Chen			✓	✓		✓	✓		✓	✓	✓	✓		0
Director Jian-Li Wu			✓	✓		✓	✓		✓	✓	✓	✓		0
Director Cheng-Pin Lee			✓	✓		✓		✓	✓	✓	✓	✓		0
Director Tai-Chi Lee			✓	✓		✓	✓		✓	✓	✓	✓		0
Director Yung-Hsung Hou			✓			✓	✓		✓	✓	✓	✓		0
Director Joseph Huang			✓			✓	✓		✓	✓	✓	✓		0
Director Suka Chen			✓			✓	✓		✓	✓	✓	✓		0

Note: Please tick 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, if 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, partner ship, 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 material 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.

## 2.2 Executive Officers



Prudent operation and innovation through stable management.

2011.2.28 Unit : 1,000 shares,%

Department	Position	Name	Date Effective	Shareholdings as in E.SUN FHC (2010.12.31)						Education (Experience)	Current Position Held at Other Company	Managers who are spouses or within the second degree of consanguinity		
				Shares Held		Shares Held by Spouse and Children Under 18		Shares Held Using Names of Others				Position	Name	Relationship
				Shares	Ratio%	Shares	Ratio%	Shares	Ratio%					
Headquarter	President	Wu-Lin Duh	2008.07.16	3,008	0.079	467	0.012	0	0	Deputy President, ESB	Managing Director of E.SUN Bank	None	None	None
Corporate Banking Division	Head of Corporate Banking	Tung-Long Kuo	2006.04.14	918	0.024	39	0.001	0	0	SEVP, ESB Corporate Banking Division	None	None	None	None
Corporate Banking Division	SEVP	Mao-Cin Chen	2009.05.08	772	0.020	4	0.0001	0	0	EVP, ESB Corporate Banking	Director, E.SUN VC	None	None	None
Corporate Banking Division	EVP	L.C. Lin	2011.01.24	243	0.006	0	0.000	0	0	EVP, ESB Corporate Banking	None	None	None	None
Corporate Banking Division	EVP	Da-Tan Lin	2011.01.24	319	0.008	7	0.0002	0	0	Senior VP of Corporate Banking	None	None	None	None
Corporate Banking Division	Senior Vice President	Yao-Bing Lin	2010.01.29	363	0.010	1	0.00002	0	0	GM, ESB Corporate Banking Division	None	None	None	None
International Banking Department	Senior Vice President	Maggy Chou	2010.01.29	613	0.016	385	0.010	0	0	GM, ESB International Banking Department	EVP, ESB Credit Card Division	GM	Chun-Nan Tsi	Spouse
Corporate Banking Division	Senior Vice President	Cathy Kuo	2010.01.29	501	0.013	0	0.000	0	0	General Manager, ESB OBU	None	None	None	None
Consumer Banking Division	Head of Consumer Banking	Joe Huang	2006.04.14	2,577	0.068	1,889	0.050	0	0	SEVP, ESB Consumer Banking Division	SEVP, E.SUN FHC	None	None	None
Consumer Banking Division	EVP	Wu-Ming Hsieh	2011.01.24	284	0.007	16	0.0004	0	0	Senior VP, ESB Consumer Banking Division	None	None	None	None
Consumer Banking Division	Senior Vice President	Chi-Gan Chung	2010.01.29	525	0.014	0	0.000	0	0	GM, ESB Consumer Banking Division	None	None	None	None
Consumer Banking Division	Senior Vice President	Mei-Lee Hsu	2010.01.29	386	0.010	0	0.000	0	0	GM, ESB Consumer Banking Division	Director of E.SUN Securities	None	None	None
Consumer Banking Division	Senior Vice President	Dian-An Huang	2006.04.14	149	0.004	0	0.000	0	0	GM, ESB Consumer Banking Division	None	None	None	None



Department	Position	Name	Date of Taking Office	Shareholdings as in E.SUN FHC (2010.12.31)						Education (Experience)	Current Position Held at Other Company	Managers who are spouses or within the second degree of consanguinity		
				Shares Held		Shares Held by Spouse and Children Under 18		Shares Held Using Names of Others				Position	Name	Relationship
				Shares	Ratio%	Shares	Ratio%	Shares	Ratio%					
Call Center	Senior Vice President	Ming-Ching Tai	2010.01.29	357	0.009	24	0.001	0	0	GM, ESB Call Center	None	None	None	None
Wealth Management Division	EVP	Zhi-Guang Huang	2011.01.24	599	0.016	0	0.000	0	0	EVP, ESB Wealth Management Division	Chairman of E.SUN Insurance Brokers	None	None	None
Wealth Management Division	Senior Vice President	Louis Chang	2010.01.29	374	0.010	105	0.003	0	0	GM, ESB Wealth Management	Director of E.SUN Insurance Brokers	None	None	None
Trust Division	GM	Edward Chen	2005.02.24	276	0.007	47	0.001	0	0	GM, ESB Trust Division	None	None	None	None
Treasury Division	CFO/ SEVP	Magi Chen	2011.01.24	388	0.010	0	0.000	0	0	EVP, ESB Treasury Division	CFO of E.SUN FHC	None	None	None
Treasury Division	EVP	Joseph Shue	2011.01.24	308	0.008	0	0.000	0	0	EVP, ESB Treasury Division	Vice CFO of E.SUN FHC	None	None	None
Treasury Division	Senior Vice President	Peter Shih	2010.01.29	464	0.012	0	0.000	0	0	GM, ESB Treasury Division	None	None	None	None
Credit Card Division	SEVP	Ben Chen	2004.02.13	1,457	0.038	547	0.014	0	0	EVP, ESB Credit Card Division	Director of E.SUN Insurance Brokers	None	None	None
Credit Card Division	EVP	Jung-Hua Lin	2010.01.29	433	0.011	13	0.0003	0	0	Senior VP, ESB Credit Card Division	None	None	None	None
Credit Card Division	Senior Vice President	Fu-Chung Huang	2010.01.29	405	0.011	22	0.001	0	0	GM, ESB Credit Card Division	None	None	None	None
Audit Division	General Auditor	Wei-Chin Chien	2004.02.13	726	0.019	0	0.000	0	0	General Auditor, E.SUN Bill Finance	General Auditor, E.SUN FHC	None	None	None
Audit Division	GM	Chi-Tung Hsieh	2006.12.25	630	0.017	74	0.002	0	0	General Auditor, E.SUN Bill Finance	None	None	None	None
General Affairs Division	EVP	Chien-Yu Chou	2007.02.15	1,132	0.030	322	0.008	0	0	EVP, ESB General Affairs Division	EVP, E.SUN FHC	None	None	None
Accounting Division	CAO/ EVP	Kuan-Her Wu	2011.01.24	200	0.005	0	0.000	0	0	EVP, ESB Accounting Division	CAO of E.SUNFHC, Supervisor of E.SUN VC	None	None	None
Accounting Division	Senior Vice President	Alan Chang	2010.01.29	696	0.018	0	0.000	0	0	GM, ESB Accounting Division	Supervisor of E.SUN Insurance Brokers	None	None	None
IT Division	CIO/ EVP	Jih-Hsiung Tseng	2011.01.24	1,654	0.043	1,235	0.032	0	0	EVP, ESB IT Division	CIO of E.SUN FHC	None	None	None
IT Division	Senior Vice President	Po-Hsuan Hsu	2010.01.29	394	0.010	55	0.001	0	0	GM, ESB IT Division	None	None	None	None
IT Division	Vice CIO/ Senior Vice President	Wanli Hsieh	2011.01.24	154	0.004	40	0.001	0	0	Senior Vice President, e-Banking Division	None	None	None	None
HR Division	Head of HR/ SEVP	J.C Wang	2007.02.15	1,155	0.030	477	0.013	0	0	EVP, ESB HR Division	HR Head of E.SUN FHC	None	None	None
Risk Management Division	CRO/ Senior Vice President	Oliver Hsieh	2010.01.29	342	0.009	0	0.000	0	0	GM, ESB Risk Management Division	Vice CRO of E.SUN FHC	None	None	None
Credit Review & Management Division	Vice CRO/ EVP	Jhong-Cheng Shun	2011.01.24	600	0.016	59	0.002	0	0	EVP, Credit Review & Management Division	Vice CRO of E.SUN FHC	None	None	None

## 2.3 Remuneration of Directors (including Independent Directors), President and Senior Executive Vice President

### (1) Remuneration of Directors (including Independent Directors)

2010.12.31 Unit: NT\$ thousand

Title	Name	Director Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)		Relevant remuneration received by directors who are also employees								Ratio of total compensation (A+B+C+D+E+F+G) to net income (%)		Compensation paid to directors from an invested company other than the Company's subsidiary		
		Base Compensation (A)		Severance Payment and Pension (B)		Bonus to Directors (C)		Allowance (D)				Salary, Bonuses, and Allowance (E)		Severance Payment and Pension (F)		Employee Bonus (G)		Exercisable Employee Stock Options (H)						
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements			The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements					
										Cash Stock	Cash Stock													
List as following		3,429	3,429	0	0	29,872	29,872	3,320	3,320	0.92%	0.92%	6,515	6,515	0	0	376	0	376	0	0	0	1.09%	1.09%	None

\* E.SUN FHC Representative: Chairman Kuo-Lieh Tseng; Managing Directors Wu-Lin Duh, Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen; Directors Chen-En Ko, Chi-Jen Lee, Hsin-I Lin, Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen. (E.SUN FHC on April 30, 2010 selected Mr. Tseng Kuo-Lieh as its board representative to replace Huang Yung-Jen, the former appointment. The financial supervisory authority on May 14, 2010 approved Mr. Tseng's qualifications to serve as E.SUN Bank Chairman.)

\* All Bonuses to Directors in Director Remuneration has been paid to E.SUN Financial Holding Company.

### Remuneration Bracket

Bracket	Name of Directors (Unit: NT\$ thousands)			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	Companies in the consolidated financial statements (I)	The Company	Companies in the consolidated financial statements (J)
Under NT\$ 2,000,000	Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen	Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen	Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen	Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen
NT\$ 2,000,000 ~ NT\$ 5,000,000	Kuo-Lieh Tseng; Wu-Lin Duh, Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen, Chen-En Ko, Chi-Jen Lee, Hsin-I Lin	Kuo-Lieh Tseng; Wu-Lin Duh, Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen, Chen-En Ko, Chi-Jen Lee, Hsin-I Lin	Kuo-Lieh Tseng; Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen, Chen-En Ko, Chi-Jen Lee, Hsin-I Lin	Kuo-Lieh Tseng; Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen, Chen-En Ko, Chi-Jen Lee, Hsin-I Lin
NT\$ 5,000,000 ~ NT\$ 10,000,000			Wu-Lin Duh	Wu-Lin Duh
NT\$ 10,000,000 ~ NT\$ 15,000,000				
NT\$ 15,000,000 ~ NT\$ 30,000,000				
NT\$ 30,000,000 ~ NT\$ 50,000,000				
NT\$ 50,000,000 ~ NT\$ 100,000,000				
Over NT\$ 100,000,000				
Total	36,621	36,621	43,512	43,512



(2) Comparison of Remuneration and the ratio of total Remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two years to Directors, Independent Directors, President and Senior Executive Vice Presidents of the Company, to the net profit after tax

Unit: NT\$ thousands

Year Title	2010						2009					
	The Company			Companies in the Consolidated Financial Statements			The Company			Companies in the Consolidated Financial Statements		
	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax
Directors	15	36,621	0.92%	15	36,621	0.92%	15	29,724	1.68%	15	29,724	1.68%
President and SEVP	11	57,938	1.46%	11	57,938	1.46%	11	40,113	2.26%	11	40,113	2.26%

Note : 2010 Bank Net Profit after tax was NT\$ 3,981,361; 2009 Bank Net Profit after tax was NT\$ 1,774,435.

(3) The Policies, Standards, and Portfolios for the Payment of Remuneration, the Procedures for Determining Remuneration, and the Correlation with Business Performance:

- a. The percentage of total profits distributed to directors as remuneration is based on regulations set forth in Article 40 of the Company's Articles of Incorporation. The ratio and adjustment of remuneration for the chairman and directors are based on regulations set forth in Article 30-1 of the statute. The remuneration reflects the level of participation in and contribution to the company's operations. At the same time, industry standards are considered. The board is authorized to decide the level of this compensation.
- b. The performance review system and remuneration framework for high-level managers (including the president and vice president) and managers is first screened by the Company's Remuneration Committee, following which the board makes a final decision. Salaries of managers should reflect their professional experience, and the Company's, counterparts' and market standards. The chairman is authorized to approve the respective salaries. Meanwhile, the Company will issue bonuses based on overall operational results and individual performance. This enables a manager's compensation to be closely related to operational performance. A manager's bonus will be impacted if a major risk event occurs that impacts the Company's reputation, inappropriate internal management is seen, or other abuses are documented. At the same time, the Company will carry out stress tests and scenario analysis to evaluate possible risk in the future, and the Risk Management Committee each quarter will report to the board and Auditing Committee on the level of such risk.

## 3. Implementation of Corporate Governance

### 3.1 Board of Directors

A total of 7 (A) meeting of the board of directors were held in the previous period. Director and supervisor attendance was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance rate (%) 【 B/A 】	Remarks
Chairman	E.SUN FHC representative Yung-Jen Huang	3	0	100	Tseng Kuo-Lieh, selected by E.SUN FHC as the new board representative on April 30, 2010, was approved by the financial supervisory authority as E.SUN Bank chairman. (2010.05.14)
Chairman	E.SUN FHC representative Kuo-Lieh Tseng	4	0	100	
Managing Director	E.SUN FHC representative Wu-Lin Duh	7	0	100	Re-elected
Managing Director	E.SUN FHC representative Chiu-Hsiung Huang	6	1	86	Re-elected
Managing Director	E.SUN FHC representative Jackson Mai	7	0	100	Re-elected
Independent Director (Managing Director)	E.SUN FHC representative Chang Lin Jen Jen	7	0	100	Re-elected
Independent Director	E.SUN FHC representative Chen-En Ko	7	0	100	Re-elected
Independent Director	E.SUN FHC representative Chi-Jen Lee	7	0	100	Re-elected
Independent Director	E.SUN FHC representative Hsin-I Lin	6	1	86	Re-elected
Director	E.SUN FHC representative Chai-Kuo Chen	6	1	86	Re-elected
Director	E.SUN FHC representative Jian-Li Wu	6	1	86	Re-elected
Director	E.SUN FHC representative Cheng-Pin Lee	7	0	100	Re-elected
Director	E.SUN FHC representative Tai-Chi Lee	7	0	100	Re-elected
Director	E.SUN FHC representative Yung-Hsung Hou	6	1	86	Re-elected
Director	E.SUN FHC representative Joseph Huang	7	0	100	Re-elected
Director	E.SUN FHC representative Suka Chen	6	1	86	Re-elected

Other mentionable items:

1.If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified: None

2.Practice of Directors' avoidance of motions in conflict of interest:

Director Name	Content of Motion	Cause of Avoidance	Voting
Hsin-I Lin	Renewal of strategic alliance contract with interested party	FHC Law related party	No
Hsin-I Lin	Purchase of non-recourse receivables	FHC Law related party	No
Suka Chen	Granting Loan to Related Party	Bank Law related party	No
Hsin-I Lin	Granting Loan to Related Party	Bank Law related party	No
Cheng-Pin Lee	Granting Loan to Related Party	Bank Law related party	No
Tai-Chi Lee	Granting Loan to Related Party	Bank Law related party	No
Chai-Kuo Chen	Granting Loan to Related Party	Bank Law related party	No
Jian-Li Wu	Granting Loan to Related Party	Bank Law related party	No

3.Measures taken to strengthen the functionality of the Board:

The Board of Directors has established Audit Committee, Corporate Governance and Nomination Committee, Compensation Committee and Board Strategy Development Committee in June, 2008 to assist the Board in carrying out its various duties.



### 3.2 Audit Committee Operation Information

A total of 6 (A) Audit Committee meetings were held in the previous period. The attendance of Independent Directors was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance rate (%) 【 B/A 】	Remarks
Independent Director	Chen-En Ko	6	0	100	Re-elected
Independent Director	Chi-Jen Lee	6	0	100	Re-elected
Independent Director	Chang Lin Jen Jen	6	0	100	Re-elected
Independent Director	Shin-I Lin	6	0	100	Re-elected

Other mentionable items:

1. If there are the circumstances referred to in Article 14-5 of Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors, the dates of meetings, sessions, contents of motions, resolutions of Audit Committee and the Company's response to Audit Committee's opinion should be specified: None
2. If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified:

Director Name	Content of Motion	Cause of Avoidance	Voting
Hsin-I Lin	Granting Loan to Related Party	Related party	No
3. Communications between the independent directors, the Company's Chief Internal Auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)  
The Audit Division reports quarterly on its auditing results to the board; CPA reports 2009 Financial Report and 2010H1 Financial Report to the 7th and 9th of Term 1 Audit Committee respectively.  
Independent Directors enjoy a sufficient communication and interaction with Internal Auditors and CPAs.

Note: In the event of the resignation of an independent director prior to the end of the fiscal year, ESUN shall clearly note the date of resignation and the percentage of attendance at meetings of the Auditing Committee.

Note: In the event of the election of an independent director prior to the end of the fiscal year, ESUN shall clearly note the incoming and outgoing independent directors, and whether the respective independent director is outgoing, incoming, continuing for another term, or date of election. The percentage of attendance at meetings of the Auditing Committee shall also be designated.

### 3.3 Corporate Governance Execution Status and Deviations from “Bank Governance Best-Practice Principles”:

Item	State of Implementation	Deviations from “Bank Corporate Governance Best Practice Principles” and Reasons
<p>1. Ownership structure and shareholders' equity of the Bank.</p> <p>(1)The manner in which the Bank handles shareholders' proposals or disputes</p> <p>(2)The ability of the Bank to identify its controlling shareholders and the ultimate person or persons behind such shareholders</p> <p>(3)The ways the Bank establishes firewalls and risk management mechanisms with respect to its affiliates</p>	<p>(1)E.SUN FHC is the sole shareholder of the Bank. The FHC's shareholder can file opinions via the spokespersons of the Bank or the FHC and FHC's Stock service department. The communication mechanisms were disclosed clearly on our website. Qualified persons will then handle these Issues. Avenue for communication are quite smooth.</p> <p>(2)The Bank is a wholly owned subsidiary of E.SUN FHC.</p> <p>(3)The risk control mechanisms and firewalls between the Bank and its affiliates were clearly set up. In addition, E.SUN risk management rules has been established for all business operations.</p>	No difference
<p>2. Duties of Board of Directors</p> <p>(1)State of Company designating of independent director.</p> <p>(2)State of regularly evaluating independence of certifying accountant</p>	<p>(1)The Bank's board has 15 members. On 13th of June, 2008. The Parent company appointed four Independent directors. The Bank has formulated guidelines delineating the responsibilities of independent directors to serve as a basis for these individuals in carrying out their jobs.</p> <p>(2)The Bank annually commissions an accounting agency to carry out and approve financial- and tax-related audits. The Auditing Committee and board screen accounting agencies for professionalism, independence and reasonable fees, after which they appoint an agency to serve as the Bank's auditing accountant.</p>	No difference
<p>3. State of establishing avenues of communication with related parties.</p>	<p>The Bank has a special department in charge of building up and maintaining list of related party and related communication.</p> <p>The Bank's customers can express their opinions through customer service units. Employee disputes will be handled by human resource departments. This ensures smooth communication channels for related parties.</p>	No difference
<p>4. Disclosure of information</p> <p>(1)The bank has set up website for the disclosure of financial information and its corporate governance practices.</p> <p>(2)Any other methods adopted by the Bank for the disclosure information (e.g., establishing English-version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website).</p>	<p>(1) a.The Bank set up a webpage (<a href="http://www.esunbank.com.tw/about/legal_info/info">http://www.esunbank.com.tw/about/legal_info/info</a>) to disclose information on financials, business operation and corporate governance.</p> <p>b.Information disclosed include financial information, business operation, internal control and contact information.</p> <p>(2) The Bank has mandated an individual with full knowledge of financial and operational information and department coordination ability as spokesperson. The contact information of spokesperson has been fully disclosed on the Bank's website.</p> <p>The Bank set up a Deputy Spokesperson as alternative to Spokesperson when the Spokesperson is unavailable for performance of duty.</p> <p><b>E.SUN Bank Spokespersons</b>  Name: Wu-Lin Duh  Position: President  Telephone +8862-2175-1313#1350  Email : wulin@email.esunbank.com.tw</p> <p><b>Deputy Spokesman</b>  Name: Magi Chen  Position: SEVP  Telephone: +8862-5556-1313#1833  Email : magi@email.esunbank.com.tw</p>	No difference
<p>5. The status of establishment and operation of functional committees, such as Nomination Committee, Remuneration committee, etc.</p>	<p>(1) The Bank's parent company, E.SUN FHC, has established Audit Committee, Corporate Governance and Nomination Committee, Compensation Committee and Board Strategy Development Committee. Independent directors serve as conveners or participate in these committee.</p> <p>(2) E.SUN Bank set up Audit Committee on 2008.6.13 and E.SUN FHC appoints 4 Independent Directors to the Committee.</p> <p>a. Rules of Audit committee organization has been established.</p> <p>b. The committee is compose with all independent directors, the committee has the following main objectives in its work:</p> <p>1.Ensuring the Company's financial statements are in proper form.</p> <p>2.Selecting (dismissing) certified Public Accountant(CPA)and to verifying CPA's independence and monitoring performance.</p> <p>3.Ensuring effective implementation of the Company's internal controls.</p> <p>4.Ensuring Company compliance with related rules and regulations</p> <p>5.Control the internal risk within the company</p>	No difference



Item	State of Operation	Deviations from "Bank Corporate Governance Best Practice Principles" and Reasons
<p>6. If the Company has established corporate governance principles based on "Bank Corporate Governance Best-Practice Principles", please describe any discrepancy between the principles and their implementation:</p> <p>The Bank practices Corporate Governance fully in accordance with "Bank Corporate Governance Best-Practice Principles" and there has been no difference. E.SUN Bank and E.SUN FHC have participated in the corporate governance certification system hosted by Taiwan Corporate Governance Association in an effort to strengthen the corporate governance systems of the companies.</p>		
<p>7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors):</p> <p>(1) Enacted Guidelines for Minutes of Board Meetings to improve supervision and management of such meetings and to provide a regulatory basis to abide by in holding meetings.</p> <p>(2) The Bank periodically asks directors and supervisors to take various courses, such as The Taiwan Corporate Governance Association, the Taiwan Stock Exchange and other institutions held various seminars and forums, such as "IFRS global practices and response by Taiwan enterprises," "Corporate governance assessment and fulfillment of duties by directors and supervisors," "Corporate M&amp;D practices; Risk assessment and controls," "Fund-raising methods and scale," "Corporate governance and securities laws," "Seminar to explain compliance with equity exchange laws in 2010," and "Balancing role, position, and interests of major and small shareholders in corporate M&amp;A."</p> <p>(3) The Bank has established as Risk Management Department to draft and carry out risk control policies. The scope of risk reports and measurement systems cover the following:</p> <p>a.Credit Risk</p> <p>The information imparted at these events helps to establish systematic methods to manage risk derived from borrowers, counterparties, and portfolios, including creating an appropriate credit risk control environment, the adoption of credit risk controls for counterparties, and the establishment of counterparty credit ratings, along with limits on exposure to a single product, single industry, or single conglomerate.</p> <p>b.Market Risk</p> <p>The Bank and all affiliates must establish price, currency, and interest rate fluctuation risk assessment and control mechanisms on all on-sheet and off-sheet items.</p> <p>c.Liquidity Risk</p> <p>The Bank evaluate liquidity risk on assets in its main portfolio and manage liquidity risk based on the nature of individual industries and regulations set forth by regulatory agencies. The Bank must also institutes a liquidity risk contingency plan to be used in emergencies.</p> <p>d.Operational Risk</p> <p>The Bank is making every effort to establish operational procedures in all areas of business, and controls and auditing procedures on authorized limits, documents and custodianship of beneficiary certificates.</p> <p>e.Other Risks</p> <p>The Bank has mechanisms to carry out and manage risk scenario stress tests, risk appetite analysis and capital adequacy.</p> <p>(4) The Bank has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies.</p> <p>(5) In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, our parent company, E.SUN FHC, has taken out liability insurance for directors, supervisors and key staff members. Those insured include past, present and future directors and key employees of E.SUN FHC and the FHC's subsidiaries, as well as managerial and supervisory personnel. The policies include liability insurance for these individuals, corporate compensation insurance, corporate securities claims liability coverage, and corporate employment practice liability coverage.</p> <p>(6) Employee disputes will be handled by human resource departments. This ensures smooth communication channels for interested parties. The Bank holds knowledge sharing meetings in different region every year to disclose company's goal, policy and other employee-related information. In addition, employee welfare committee is set up to take care all employees.</p> <p>(7) To encourage shareholders participating corporate governance, our parent company established stock affair unit providing a communication channel for shareholders to express their opinions and designated persons to handle shareholders issues. Status of Financial information and Business operation are disclosed comprehensively in the annual report and Bank's website.</p>		
<p>8. Please describe the results of any corporate governance self-appraisals by the Company or appraisal reports commissioned by the Company, any shortcomings or suggestions presented in the reports and measures to rectify such:</p> <p>The Company's parent company, E.SUN FHC, received Corporate Governance Certificate from Taiwan Corporate Governance Association in 2010.</p> <p>The Taiwan Corporate Governance Association has singled out E.SUN Bank for its concise introduction to the Bank's core businesses, strict discipline of managerial-level personnel, fulfillment of social responsibility and paying back society.</p>		

### 3.4 Social Responsibility

E.SUN makes every effort possible to be a world-class corporate citizen. E.SUN has incorporated the practice of corporate social responsibility into its strategy, and become the DNA for E.SUN's operation. Therefore, we participate in areas of social welfare, environment protection, volunteering, athletic and academic and arts activities. We hope through E.SUN's supports, we can bring in more attentions from the general public to the social issues and to fulfill our responsibility of corporate citizenship.

In social welfare, via the "E.SUN Golden Seeds Project", we invite our VIP customers to help E.SUN in setting up libraries for schools in the rural areas of Taiwan to enrich the studying resources for children in disadvantage. In environment protection, E.SUN produced a white paper on environmental protection—The E.SUN Green Policy to detail the Bank's mission on energy conservation and implemented several environment friendly initiatives to harness the influence of companies and individuals in this effort. In athlete activities, E.SUN supports the development of Taiwan youth baseball by setting up E.SUN youth baseball foundation account and donating for baseball training camps for the youth players with great potentials. In academic support, we provide scholarship for outstanding college and graduate students in hope to develop excellent management HR for the society. In addition, E.SUN also hosted financial knowledge seminars in campus to provide students the correct concept of consumption and wealth management to students and public.

E.SUN Bank has long sought to enhance customer value and streamline service and work procedures with the goal of being the best bank in Taiwan, representing Taiwan's tallest peak and its namesake "Yushan." In 2010, E.SUN Bank ranked No.1 among all financial companies in service quality survey from Global View

magazine and received the title of the Most Trustworthy Bank and Best Service Bank in Wealth Management Business from Business Today magazine, and The Green Procurement List of Excellence by the Executive Yuan's Environmental Protection Administration and the excellence in green procurement among private enterprises and groups as awarded by the Taipei City Government. These displayed the Bank's commitment to quality and its desire to contribute to customers, shareholders and society, as well as its desire to be not only the best performing, but also most respected enterprise.

### 3.5 Corporate Governance Guidelines and Regulations

Please refer to the Bank's website at  
[http://www.esunbank.com.tw/about/legal\\_info.info](http://www.esunbank.com.tw/about/legal_info.info)

### 3.6 Other Important Information Enhancing Understanding of the State of the Company's Corporate Governance

E.SUN has long embraced the principles of innovation, professionalism, honesty and stability in its operations. The Bank's business philosophy centers on professionalism, service, and responsibility. E.SUN's corporate culture, which emphasizes education and training, internal control systems, auditing systems, and legal compliance, creates the foundation for trustworthy operations.

To establish a corporate culture of stable and trustworthy operation, the Bank's parent company, E.SUN FHC, provided a reference structure for good operation governance for its subsidiaries. The Bank delivered a report at the 15th meeting of the seventh term of the board of directors detailing the state of the Bank's trustworthy operations. The Bank's board will continue to monitor the state of this initiative.



### 3.7 Trainings Received by Directors

Position	Name	Date Effective	Organization	Course Title	Units (hours)	Qualified training for regulatory request
Chairman	Kuo-Lieh Tseng	2010.5.14	Taiwan Corporate Governance Association (TCGA)	Global Practice of International Financial Reporting Standards (IFRS) and Preparation of Taiwan Corporations	3	Yes
Managing Director	Wu-Lin Duh	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Fulfilling Board Responsibilities through the Evaluation of Corporate Governance	3	Yes
Managing Director	Jackson Mai	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Practice of Corporate Merger and Acquisition	3	Yes
Managing Director	Chiu-Hsiung Huang	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Practice of Risk Assessment and Control	3	Yes
				Planning for Raising Capital	3	Yes
Independent Director	Chang Lin Jen Jen	2008.6.13	Taiwan Corporate Governance Association (TCGA)	How to Leverage Cross-Strait Capital Market for Speedy Corporate Growth	3	Yes
				Regulations of Corporate Governance and Securities	3	Yes
Independent Director	Chen –En Ko	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Corporate Governance Seminar: Establishment of Corporate Social Responsibility Concept and Practice in Taiwan	3	Yes
Independent Director	Chi-Jen Lee	2008.6.13	Securities & Futures Institute (SFI)	2010 Public Company Insider Trading Regulation Training	3	Yes
Independent Director	Hsin-I Lin	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Global Practice of International Financial Reporting Standards (IFRS) and Preparation of Taiwan Corporations	3	Yes
Director	Chai-Kuo Chen	2008.11.4	Taiwan Corporate Governance Association (TCGA)	Balance between Majority and Minority Shareholders' Rights and Positions in M&A	3	Yes
Director	Jian-Li Wu	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Shadows Behind Candle Light - Case Studies of the latest Financial Crimes	3	Yes
Director	Joseph Huang	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Balance between Majority and Minority Shareholders' Rights and Positions in M&A	3	Yes
Director	Yung-Hsung Hou	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Analysis of How Do Frauds and Misbehaviors Improve Corporate Governance	3	Yes
Director	Cheng-Pin Lee	2008.6.13	Taiwan Corporate Governance Association (TCGA)	Fulfilling Board Responsibilities through the Evaluation of Corporate Governance	3	Yes
Director	Tai-Chi Lee	2008.6.13	Taiwan Stock Exchange (TSE)	2010 Public Company Representatives Convention – Investor Relationship	3	Yes
Director	Suka Chen	2008.6.13	Taiwan Securities Association (TSE)	Theory and Practice on Warrants	3	Yes

### 3.8 Internal Control

#### 3.8.1 Representation on Internal Control

##### E.SUN COMMERCIAL BANK, LTD. Representation on Internal Control

March 18, 2011

On behalf of E.SUN Commercial Bank, Ltd., we hereby declare that the company indeed complied with the Enforcement Regulations for FHC and Bank Internal Audit Control System during the fiscal year of 2010, and have established the internal control system and risk management mechanism and been audited by the independent internal auditors; the internal audit reports have been periodically presented to the Bank's board of directors and auditing committee.

Regarding securities business, according to criteria for evaluation of internal control systems required by the "Criteria for Establishment of Internal Control Systems by Securities and Futures Service Enterprises" promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission, our bank has carried out an evaluation of whether the design and implementation of our internal control system is effective.

Under due assessment, the internal controls and legal compliance of each department during 2010 are effectively in place. This representation will be a part of our annual report and prospectus, and will also be released to the public. The existence of discrepancies or omissions in the content of this representation would constitute violations of Articles 20, 32, 171 and 174 of the Securities and Futures Exchange Act and entail relevant legal responsibility.

Submitting to,

Financial Supervisory Commission, Executive Yuan

Chairman



President



General Auditor

Wei Chin Chien

Compliance Officer



The status of improvement on E.SUN Bank internal control system

Required Items for Improvement	Actions of Improvement	Expected Schedule of Improvement
Internal control practice on information safety of personal internet banking service.	<p>1.Operational Procedure and Environment</p> <p>a.Upgrade the level of safety in IT operational environment and timing response in monitoring.</p> <p>b.Strengthen the principled practice in separation of coding, system maintenance and safety control in HR to create an effective internal control framework.</p> <p>c.Readjust the procedure and operation to ensure the completeness of record maintenance for the analysis of audit function</p> <p>d.Reexam the compliance effectiveness of the safety management in information system.</p> <p>2.Personal Internet Banking Application</p> <p>To ensure the customer information safety in using the personal internet banking service, we provide mechanisms of inserting PHP verification, periodical mandatory change on passwords and temporarily freezing the account function if maintaining as inactive account for certain period.</p> <p>3.External Independent Experts</p> <p>We hire the external independent experts to provide recommendations and exam the IT environment post improvement to ensure the effectiveness of IT safety.</p>	Internal control practice on information safety of personal internet banking service.

3.8.2 Disclosure of any commissioned internal control review review carried out by CPA: None



## IV. Capital Overview



Glory Mountain Nurtures Vitality of Life.

# 1. Shares and Dividends

## 1.1 Source of Capital

2010.12.31 Unit: thousand shares, NT\$ thousands

Month/Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Source	Others
2007.1.1		2,890,991	28,909,905	2,890,991	28,909,905		
2007.6.5 (note1)	10	29,009	290,095	29,009	290,095	Retained Earnings	
2007.6.21 (note2)	20	200,000	2,000,000	200,000	2,000,000	Cash Capital	
2009.6.26 (note3)	10	62,400	624,000	62,400	624,000	Retained Earnings	
2009.12.4 (note4)	14	180,000	1,800,000	180,000	1,800,000	Cash Capital	
2010.6.3 (note5)	10	147,600	1,476,000	147,600	1,476,000	Retained Earnings	

note1 : The Securities and Futures Bureau of the Executive Yuan's Financial Supervisory Committee on June 5, 2007 granted approval for issuance in its letter Zidi 0960027542.

note2 : The Banking Bureau of the Executive Yuan's Financial Supervisory Committee on June 21, 2007 granted approval for issuance in its letter Zidi 09600256501.

note3 : The Securities and Futures Bureau of the Executive Yuan's Financial Supervisory Committee on June 26, 2009 granted approval for issuance in its letter Zidi 0980030711.

note4 : The Banking Bureau of the Executive Yuan's Financial Supervisory Committee on December 4, 2009 granted approval for issuance in its letter Zidi 09800558761.

note5 : The Banking Bureau of the Executive Yuan's Financial Supervisory Committee on June 3, 2010 granted approval for issuance in its letter Zidi 0990027492.

## 1.2 Type of Shares

2010.12.31 Unit: Share

Type of Shares	Authorized Capital			Remark
	Issued Shares *	Un-issued Shares	Total Shares	
Common Shares	3,510,000,000	0	3,510,000,000	

### 1.3 State of Shareholders

The Bank is a wholly owned subsidiary of E.SUN FHC.

### 1.4 Shareholding Distribution Status

The Bank is a wholly owned subsidiary of E.SUN FHC.

### 1.5 List of Major Shareholders

The Bank is a wholly owned subsidiary of E.SUN FHC.

### 1.6 Dividend Policy and Implementation Status

The Bank's policy is to mainly pay dividends in the form of cash. When legal reserves do not equal paid-in capital, cash dividends should not exceed 15% of paid-in capital. In order to maintain ample capital, the Bank has resolved to distribute a dividend paid in stock of NT\$0.6 and cash of NT\$0.2 per share for fiscal year of 2010.

### 1.7 Impact on business performance and earnings per share of stock dividend payment proposed at the most recent shareholders' meeting: None

### 1.8 Employee Bouns and Compensation for Directors

- (1) Article 40 of the Bank's Articles of Incorporation: Should the Bank in a fiscal year post profits, after the payment of taxes and appropriations for any accumulated deficit, a 30% legal reserve shall be set aside. A special reserve may also be set aside if needed. Distribution of the remaining funds, including retained earnings from the previous fiscal year, is as follows:
- a. Shareholder Dividend: 94%.
  - b. Directors' Compensation: 1%.
  - c. Employee Bonus: 5%.

### 1.9 Information on board-approved Employee Bonus and Compensation for Directors

E.SUN Bank 2010 Statement of Profit Allocation		Unit: NT\$
Balance at beginning of the period		177,869,086
Add: 2009 net profit		3,981,360,670
Subtract: 30% Legal Reserved		1,194,408,201
Net Profit for distribution		2,964,821,555
Distribution :		
Shareholders' Bonus(NT\$0.6 Stock Dividend per share)		2,106,000,000
Shareholders' Bonus(NT\$0.2 Cash Dividend per share)		702,000,000
Total Shareholders' Bonus		2,808,000,000
Undistributed Profit at the end of the period		156,821,555

Note: Employee Bonus is NT\$ 149,361,702 and Directors' compensation is NT\$29,872,340.

1.10 Share Repurchase: None.

2. Preferred Shares Issuance: None.

3. GDR Issuance: None.

4. Employee Stock Option: None.

### 5. Status of New Shares Issuance in Connection with Mergers and Acquisitions:

E.SUN Bank signed the Purchase Agreement with Chu Nan Credit-Cooperation Association on March 18, 2011 to acquire its asset, liability and operation. The transaction will be completed in a condition of receiving approvals from the AGMs of both parties, and from the regulator.

### 6. Financing Plan and Implementation:

Analysis on previous Issuances or private placement of security and debenture have not been completed or the implementation impact of the recent 3-year financial plan has not been realized: None.



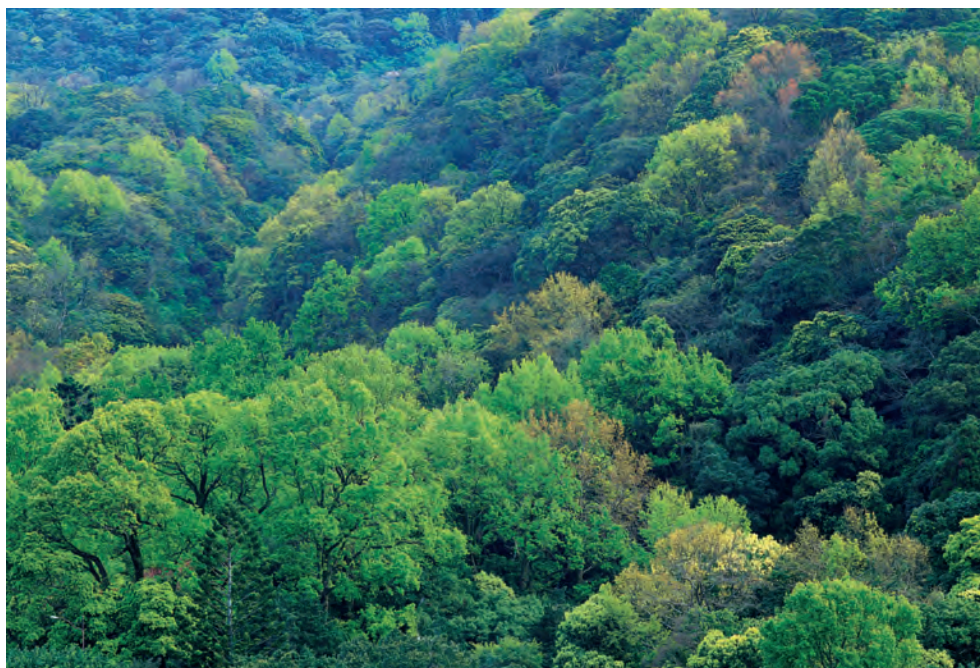
## V. Operational Highlights



The Sky is the Limit.



# 1. Business Activities



The Venerable Cypress Lives Forever.

E.SUN has a branch network that spans the whole country. In 2010, with its physical branch network, virtual network, and Los Angeles and Hong Kong branches, E.SUN has significantly enhanced the level of convenience in interacting with its customers. In looking at 2011, E.SUN will continue to pursue policies in which risk management governs all operations and in which it seeks growth of profit earning as an important strategy. The bank will devote in integration of various businesses and work to condense the strength of network, in an effort to pursue maximization of the value of networking.

## 1.1 Corporate Banking

### (1) Corporate Lending

E.SUN continues to focus on extending credit to corporate clients with strong credit records and reputable operations. At the same time, however, it protects itself by continually enhancing its risk control mechanisms. This has helped to boost capital utilization and enhance asset quality. At the end of 2010, outstanding corporate lending stood at NT\$262,681 million, representing 44% of the Bank's total loan portfolio. Corporate lending increased NT\$35,897 million in 2009. Of these loans, 55%

were extended to the manufacturing industry, 16% to the financial, insurance and real estate industries, and 14% to the wholesale and retail sector.

E.SUN provides a comprehensive range of banking products and services, underpinning growth in corporate banking. Whether it is credit to enterprises, trade financing, loans for factory construction, syndicated loans, corporate treasury options or cash management platforms, E.SUN Bank continues to integrate resources from the FHC. It seeks to provide "total solutions," satisfying the financing and financial service needs of its corporate customers, and thereby creating a win-win situation for all involved.



E.SUN's Customers enjoy the support from E.SUN's Professional Team.

## (2) Foreign Exchange

E.SUN's foreign exchange operations showed considerable growth in 2010, with import and export income rising 62% and 55% from the year earlier, respectively. The Bank continues to introduce new products to boost its foreign exchange deposits. It has also expanded the functionality of its Internet bank with regards to foreign exchange business, helping to satisfy the trade financing and cash flow needs of its customers. E.SUN's Internet bank features a highly functional and easy to use foreign exchange interface. Meanwhile, the Bank is introducing foreign currency ATM operations. In 2010, 10 more E.SUN branches became Designated Foreign Exchange Branches, bringing the Bank's total number to 70. E.SUN's foreign exchange transaction network circles the globe, providing customers convenient trade and commerce payment and receipt services. In 2010, E.SUN's total export/import and exchange volume stood at US\$75.96 billion, equivalent to growth of 30% from the previous year.

## 1.2 Consumer Banking

### (1) Deposit and Remittance business

At the end of 2010, the Bank's total deposits amounted to NT\$917,872 million, a rise of NT\$125,748 million, or 15.87%, from the end of 2009. Demand deposits amounted to NT\$418,889 million, comprising 45.64% of all deposits. Time deposits amounted to 54.36% of all deposits, amounting to NT\$498,982 million. The structure of deposits is advantageous to the bank and the amount of deposits continues to grow.



Special Mascot Campaign for Deposit and Payment.

## (2) Mortgage Loans

E.SUN continues to achieve a balance of quality and quantity in its mortgage operations. Integrated marketing is applied in this area of business. E.SUN has developed a range of products and tailored services to satisfy the wide-ranging needs of various customer segments. In addition, database analysis is helping to effectively develop pools of customers with business value, thereby boosting marketing efficiency and income, and ultimately profitability. The level of outstanding mortgage loans at the end of 2010 stood at NT\$314.6 billion, with E.SUN's business in this respect impacted by implementing government policy and the No. 34 accounting standard. In terms of credit risk, E.SUN continues to employ mortgage risk models to manage the quality of its mortgage assets. It also continues to utilize stress tests to strengthen its ability to monitor risk.



Enhance the Property Liquidity with E.SUN's Easy Account.

## (3) Unsecured Personal Loans

E.SUN became the market's fifth largest player in credit lending in the third quarter of 2010. The Bank has continued to enhance its screening system and operational procedures, thereby significantly expanding the volume of new credit extended while maintaining asset quality. Looking to 2011, the Bank's foremost objectives will be to maintain stable growth and manage risk. E.SUN will utilize advertising and integrated marketing to expand its brand name awareness. It will also establish and utilize various business models and databases to effectively achieve customer response and extend



new loans. This will maintain stable profitability in E.SUN's credit lending product lines.

#### (4) Micro SME

E.SUN aims to provide lending services to small companies and stores in the vicinity of each of its branches. It also helps its customers to manage their assets and liabilities, and strengthen customer cash flow management, thus making E.SUN the primary bank for these customers. E.SUN will boost its business with MSMEs by honing its relationship with vendors in the vicinity of its branches. It will seek to build loyalty between these shops and its branches, gradually creating a more close-knit service network. Looking forward to 2011, E.SUN's MSME business has positively expanded its practice and cumulated experience. It has proven beneficial in its efforts to continuous growth in its number of borrowers and scale of asset, thus allowing the practice of branch network to construct a better foundation.

#### (5) Internet Banking

E.SUN continues to strive to provide innovative and comprehensive transaction services and an online personal and corporate finance platform through its electronic bank. The Bank offers a wide range of solutions through the use of its IC card. E.SUN in 2010 won first place awards in banking card Smart Pay transaction volume growth and other online bill payment services presented by the Bankers Association. The Bank regularly plans and holds various activities to encourage transactions throughout its Internet bank, helping to boost interaction with and loyalty among customers. E.SUN intends to continue to engage in R&D and introduce innovative services to maximize the impact of its virtual network and generate new value in customer service.

### 1.3 Wealth Management

#### (1) Mutual Funds

Mutual funds constitute the main focus of E.SUN's marketing efforts, helping to make these

funds a core asset for its customers. It also assists customers in allocating assets and understanding the importance of stop-loss orders and when to take profits. E.SUN's efforts in this regard were instrumental in its being named again in 2010 as the most trustworthy bank in wealth management business by Business Today magazine. It also won the Best Service Award during the year. As of the end of 2010, the total amount of overseas trust assets stood at NT\$88,143 million, the total amount of domestic trust assets stood at NT\$19,980 million.

#### (2) Bancassurance

In the field of bancassurance, E.SUN Bank continuously strives to integrate the various product lines under the FHC, thereby providing customers with one-stop shopping in terms of advice and services, and maximizing business synergy. With regard to life insurance, E.SUN and Prudential Plc maintain a cooperative relationship to provide a comprehensive line of products and insurance services. By understanding customer needs, E.SUN is able to assist customers in risk planning and asset allocation. With respect to property insurance, E.SUN cooperates with Tokio Marine Nawa Insurance and Taian Insurance not only in common types of automobile, motorcycle, fire, and liability insurance, but also by working with these firms in developing special products for E.SUN customers. This also helps to differentiate E.SUN's banking services from its industry counterparts.

#### (3) Trust

E.SUN takes every opportunity to demonstrate its dedication to providing trustworthy services. It tailors trust products to individuals and provides comprehensive trust services to meet the needs of customers, as well as changes in the banking environment. At the end of 2010, total assets under trust stood at NT\$158,845 million, which was a rise of NT\$52,371 million from the previous year. Assets under custodianship in the form of securities stood at NT\$7,046 million,

while asset funds under custodianship in special accounts amounted to NT\$43,987 million.

#### 1.4 Credit Card

E.SUN's credit card business grew dramatically during the year thanks to the recovery in the macroeconomic environment, and a rebound in consumer confidence. Consequently, the total amount charged, the number of cards in issuance, the cards in force, and the balance of revolving credit increased for the industry across-the-board. E.SUN had 2.62 million cards in force at the end of 2010, with 1.64 million cards in use. The amount charged on the cards during the year was NT\$115.6 billion. All of these numbers grew from the previous year by 23%. Meanwhile, E.SUN's NPL ratio stood at 0.36%, which had decreased significantly from the previous year, pointing to a continued strong asset quality.



E.SUN Affinity EasyCard brings Fortune and Convenience to E.SUN Customers.

In an effort to develop business and maintain its leading status in the market, E.SUN pursued a strategy of growing this line of business in 2010, thereby providing differentiated marketing initiatives, and its customer-driven business policies. At the same time, the Bank maximized its profitability via appropriate risk/reward



E.SUN Bank, the Most Trustworthy Bank to the Public.

policies. Consequently, there were significant improvements in terms of its amount charged on cards and market share. Visa International in 2010 awarded E.SUN its Credit Card Growth Award in recognition of the Bank's performance in the credit card business

#### 1.5 Investment

E.SUN's investment operations include investment, transaction, planning and issuance of securities; transaction of foreign exchange and derivative banking products; treasury marketing, product planning and development, and marketing advisory services and management. Investments by E.SUN Bank at the end of 2010 stood at NT\$348 million. The Bank maintains stakes in the following companies: Taipei Forex Inc. (0.81%), Fu Ji Management Consulting Co. Ltd(2.56%), Taiwan Futures Exchange (0.45%), Financial Information Service (2.28%), Bank Pro E-Service Technology (3.33%), Taiwan Asset Management (0.57%), Taiwan Financial Asset Service (2.94%), Taiwan Incubator SMEs Development (3.44%), Taiwan Finance (0.41%), Apex Venture Capital (4.67%), Gapura (11.1%), and Sunny Asset Management Corporation (4.34%).

## 2. Business Plan



Prudent Management and Operation bring Prosperous Future.

In 2011, E.SUN's main objectives will stay as to integrate services associated with its product lines, providing omnibearing marketing team to maximize network value. Together, these measures will set the foundation for long-term, balanced and healthy development.

### 2.1 Corporate Banking

- (1) E.SUN will continue to be customer-oriented and will work to add depth to its relationship with customers. In addition, to operate in coordination with government's policy, E.SUN will nurture the development of SMEs, becoming the best partner for SMEs as they grow.
- (2) E.SUN will utilize the SME Credit Guarantee Fund, self-liquidating financing and risk control tools to reduce credit risk, in an effort to maintain the superiority of asset quality of Tier 1 bank.
- (3) E.SUN will use information technology and expertise as its foundation, and its brand name and professional workforce as the core of its efforts to meet the service needs of customers, thereby providing comprehensive range of and diversified

financial products and services.

- (4) E.SUN will generate value for customers and itself. It will engage in integrated marketing of various product lines, providing one-stop shopping. It will seek to realize its corporate banking vision of emphasizing its professional team, thereby making E.SUN the best choice for successful companies.

### 2.2 Consumer Banking

- (1) E.SUN is gradually establishing a full-function branch network, aiming to provide comprehensive and innovative services, in an effort to enhance customer satisfaction and loyalty, and generate new value.
- (2) E.SUN will maximize integrated marketing and service quality. The Bank is effectively utilizing information to boost its operational efficiency.
- (3) E.SUN will hone its ability to develop new products, and strengthen integrated marketing using its database. It will direct services to specific customer segments, increasing the number of products and services used



by customers, and therefore boosting overall performance.

- (4) E.SUN will take initiative approaching the pool of VIP customers, which will help satisfy the varying needs of customers and increase customer interaction with E.SUN, and therefore to improve overall performance.

### 2.3 Wealth Management

- (1) With its core philosophies focusing on trustworthiness and responsibility, E.SUN continues to expand its human resources in the area of personal finance. It cultivates outstanding account executives, thus enabling its employees to exhibit the highest level of professionalism with regards to personal finance products, trust and tax planning, and market research. E.SUN staff provides customers with top-notch services and assist customers in building both tangible and intangible wealth.
- (2) E.SUN will focus on mutual fund business and will continue to introduce outstanding series of mutual funds that meet the needs of customers and the market. It will package these items together with insurance and trust products to help achieve the investment and protection objectives for customers. E.SUN will also assist customers in asset allocation for different stages of life.
- (3) E.SUN relies on its outstanding corporate image and services in seeking to garner a share in providing mutual fund custodian services and discretionary custodian services for overseas Chinese and foreigners investing in local securities. This is expanding the amount of assets for which E.SUN acts as custodian.
- (4) The Bank is continuously creating its differentiation in product lines and customer's value. And it is aggressively introducing its virtual network through a marketing campaign, seeking to generate value from the Internet bank by providing a convenient service platform and satisfying the information needs of customers who like to take an active role in managing their

assets. E.SUN will also further improve its voice command personal financial system, providing customers with another option in carrying out transactions.

### 2.4 Credit Card

- (1) In response to growth in the consumer market, E.SUN makes sure that it is customer-driven, meeting the needs of different customer segments with regards to products, networks and activities.
- (2) The Bank turns to differentiated marketing to be able to provide suitable products to respective client groups. For instance, it designs various activities to encourage the frequent use of E.SUN credit cards and boost charged amounts.
- (3) It will engage in joint marketing of various product lines to raise customer value and increase the number of Bank products utilized by customers.
- (4) E.SUN uses information system to monitor changes of environment to establish directions in risk management. It has built various models and information to carry out risk management. The Bank will continue to implement a comprehensive risk management plan to help prevent risk, monitor risk post-disbursement, and determine when it is appropriate to seek collection on overdue credit. The Bank will enhance its operating procedures, and reduce costs and NPLs, helping to yield the maximum business results.

### 3. Market Analysis



One Earth, Various Forms.

The global economy in 2010 shrugged off the financial crisis and the effects of tight liquidity, and gradually moved along the path toward recovery. Nonetheless, issues such as stubbornly high unemployment, currency wars, asset bubbles, and rising inflationary pressures cast clouds over the economy. The pace of economic recovery was quite uneven among major economies and countries adopted differing fiscal and monetary policies to best meet their own respective situations. This resulted in a rapidly changing environment and major fluctuations in the financial markets. The global economy is poised to continue to exhibit an uneven recovery in 2011, with a host of uncertainties presenting challenges.

#### Divergent Economic Trends

Countries throughout the world largely adopted the same countermeasures in response to the financial tsunami, taking any possible measures to rescue the economy. A variety of untraditional measures, such as extraordinarily loose monetary policies and enormously expansive fiscal spending, helped the global economy begin to recover in the second half of 2009. A number of uncertainties emerged in 2010, making it difficult to accurately predict the economic outlook. Replenishing of inventories in the first half of the year, increased domestic demand in emerging markets, and a gradual recovery in global trade helped to underpin the global economy. Moving into the second half of the

year, however, market optimism began to wane on weakening economic indicators. Overall, the global economy remained fragile and the period of adjustment was quite slow.

In the United States, manufacturing activity took a turn upward starting in the second half of 2009. The ISM manufacturing index returned to pre-tsunami levels and corporate profits were also strong. Banks, however, remained hesitant in their lending and the housing market continued to be in the doldrums. Meanwhile, unemployment was still stuck at high levels. The US Conference Board's Consumer Confidence Index in 2010 fluctuated between 50 and 60. US Federal Reserve Chairman Ben Bernanke stated that America's economic prospects were "unusually uncertain." The economy was in the midst of a recovery from a deep recession, but the pace of recovery was anticipated to be slow.

A strong recovery was equally as tough to see in the euro zone. While export and investment growth in Germany helped to propel its economic performance, economies of other countries in the region remained sluggish. Meanwhile, skepticism about the ability of the financial system to repay its debts created other uncertainties, proving a significant challenge for the euro zone moving forward. Emerging markets, on the other hand,

were relatively unscathed by the financial tsunami in comparison with developed countries and posted a rapid recovery and growth. The IMF forecasts economic growth to slow modestly to 6.4% in 2011, with inflation, asset bubbles, and currency appreciations becoming the focus of attention during the year. Economic growth in China continued at a rapid clip, and in the second quarter of 2010 China's economy eclipsed Japan's to become the world's second largest. China, however, began implementing growth restraints to promote more balanced growth, and it strengthened monitoring of and controls on the real estate market and bank lending. The focus of China's 12th five-year plan has been fine-tuned to focus on stable growth, structural adjustments, and promotion of consumption. China is seeking to develop domestic demand and have this replace exports as the main momentum driving growth. China's economic transition and upgrading will have a major impact on future global economic trends.

#### Economic prospects amid divergent policies in the US and Europe: Loose Monetary Policy vs. Fiscal Austerity

The American economy remains fragile and deleveraging continues to be seen in the private sector. The savings rate remains between 4% and 6%, and end demand is weak. While President Obama stated his objective of doubling American exports in five years, the economic outlook remains unclear. Economic growth in 2011 is poised to be characterized as unstable. Euro zone nations overly relied on debt to support economic growth creating a series of sovereign debt crises. Consequently, some member countries may even ultimately have to withdraw from the euro zone.

#### Domestic Economic Trends and Outlook

Taiwan economy is highly correlated to the international economic movement. In 2010, the growth of global economy exceeded public's expectation.

The continuous growth of economy in emerging market and countries will benefit Taiwan's economy growth in 2011. The Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan announced a forecast of 4.51% in economic growth rate. Signing ECFA may help to improve the cross-

strait economic condition, the priority of Taiwan should remain on signing the FTAs with other countries in order to take on the opportunities in the global market. Taiwan is currently making an effort in negotiating FTA with the US, Singapore, Japan and EU. However, with Korea already signed the FTA with the US and EU, Taiwan should really speed up the process to maintain its competitiveness.

#### Financial Market and Outlook

International financial markets exhibited a high degree of turbulence in 2010. The world's major stock markets moved up widely and the price of gold and raw materials set new records on the back of a decline in the US dollar. An increasingly speculative atmosphere created a situation in which markets less and less provided an accurate reflection of the underlying economy and fundamentals.

Emerging markets displayed a faster paced economic rebound. These nations, however, began to be impacted by excess liquidity. In contrast, the economies of developed nations remain weak and require a period of adjustment before staging a recovery. Therefore, the monetary policies in emerging and developed nations will continue to move down different paths. In addition, continued volatility is expected in the financial markets. Euro's volatility during the year was caused by a weak economy and the European debt problems. These factors are expected to continue into 2011, keeping the euro on the weak side. The Chinese Yuan Renminbi has long been the focus of international attention. The domestic considerations make it unlikely that China will allow the Yuan to appreciate significantly. Rather, it will adopt a strategy of boosting wages, enabling corporate profits to be better distributed among workers. In addition, authorities will continue to push companies to relocate factories inland, seek to spark domestic demand, and promote development of the services industry.

Taiwan's central bank began to push interest rates higher starting in June 2010 in reflection of an upturn in the economy, rises in consumer prices, and soaring real estate prices. The NT dollar in the first half of the year exhibited a high degree of volatility, but in the second half of the year the currency appreciated steadily. Taiwan's economy is expected to exhibit continued stable growth in 2011.

## 4. Financial Products R&D and Business Status

Taking into account of financial environment and customers' needs, product lines are contributing their effort towards the following ways:

Corporate Banking operations will keep their effort in improving the procedure and efficiency of transaction financing and competency of products. To develop customized products and services, a series of marketing campaigns has been introduced in both corporate banking and remittance business to increase fee incomes and product penetration. Regarding cash flow, E.SUN will continue to advance the service of Corporate Internet Banking and Cash Management products and provide the safest and the most convenient service cross straight. It will also actively focus on marketing of foreign exchange deposit business. Regarding Risk management, it will continuously leverage IT techniques and advance system model, in an effort to combat with the possible impact of execution of IFRS and Basel III.

E.SUN has introduced its personal finance Easy Account, providing customers with the ability to mobilize capital in personal finance accounts whenever they require. Customers can withdraw and repay funds whenever they need. Interest is tabulated on a daily basis and only on the portion of funds mobilized. Funds that are not mobilized will not be charged interest. This is a specially designed investment-oriented personal finance loan product. Meanwhile, in an effort to facilitate customer use of electronic devices, E.SUN has developed a smartphone/iPhone App – E.SUN Internet Bank – that will enable customers to use mobile devices to see the location of branches and stores with sales in the nearby area. The app will also provide banking data and interest rate information. In the future, E.SUN will enhance and further expand the functionality of the app to satisfy the diverse needs of customers.

Regarding wealth management, in 2010, the Bank continued to develop and enhance its various transaction systems and its customer relationship management system. At the same time, it boosted operational efficiency and customer service quality. E.SUN has also established an online mutual fund personal finance platform, effectively providing VIP customers unable to visit branches to have a channel to carry out trades on a real-time basis. E.SUN also continues to expand its number of personal finance account executives, helping to provide guidance and assistance to account executives, boosting their expertise and the quality of service they offer.

Regarding credit card business, the Bank is making every effort to provide a comprehensive range of products. It introduces activities and services for different groups of customers to spark demand for these services. E.SUN issues the E.SUN World Card as a means for it and its customers to

assist society. A fixed percentage of spending on each card is donated for charitable activities. For instance, E.SUN's Golden Seed Project has been responsible for establishing E.SUN libraries at elementary schools in remote areas. Thirty of these libraries have been established to date, and E.SUN's top customers have expressed an interest in continuing to promote this type of social service work. Meanwhile, the nation's first female Titanium card designed especially for women has been an enormous success. E.SUN is also focusing on male clientele that emphasize a refined lifestyle with strong purchasing power by introducing the E.SUN Signature card. E.SUN is also inviting its Signature card cardholders to participate in a reforestation project by donating trees, helping to pay back Taiwan. In addition, E.SUN offers attractively priced hot springs or afternoon tea packages to these members. E.SUN strives for each one of its credit cards to be the card of choice among its customers.

E.SUN has also introduced the E.SUN EasyCard Affinity Card, which serves as a credit card, an EasyCard used for bus and subway fares, and a tool to make small-sized payments. E.SUN has designed an autoloan function for the card, offering customers the ability to automatically add to the stored value in the card. Functionality of Taiwan's EasyCard was expanded in April 2010 when the card began to function as a tool to make small payments. Besides its use to pay for public transportation, the card is accepted at over 10,000 convenience stores, supermarkets, drugstores, and coffee shops to pay for goods and services. The E.SUN EasyCard has become a favorite among commuters for the convenience that it offers.

R&D Expenditures in recent two years		Unit: NT\$ thousand
Item	2010	2009
R&D Expenditures	482,385	415,805

E.SUN Bank will review development of macro-financial environment and focus on the following:

- (1) E.SUN works to best manage its various segments of customers. The Bank turns to its database to assist in spotting the financial needs of its client groups and continues to enhance and innovative products to address those needs.
- (2) E.SUN closely monitors on asset quality, at the same time, it adopts a scientific approach towards system operation and the monitoring of procedures, helping to achieve effective precaution and follow up procedure.
- (3) E.SUN integrates its virtual and physical branch networks to maximize the impact of the services it offers. E.SUN also embraces the latest trends to develop products and services that meet the banking needs of companies and individuals in a highly digitized lifestyle.



## 5. Long-term and Short-term Development Plan



Vision for Future Development.

E.SUN Bank operates based on profession and sustainability. In addition to the development of new products and improvement of operation procedures, E.SUN continues to leverage its core competence to increase competitiveness and to set up short-term and long-term business development plan.

### 5.1 Corporate Banking

#### (1) Short-term Business Development Plan

- a.E.SUN continues to focus on credit guarantee operations, it will work in conjunction with the Small- and Medium Enterprise Credit Guarantee Fund to assist SMEs in obtaining working capital. This will help E.SUN effectively boosting the effective use of capital and protecting its interests.
- b.The Bank continues to enhance its cash management services, providing a variety of NT dollar and foreign currency products. This helps to expand its customer base and raise its market share.
- c.E.SUN will provide syndicated loans, trade financing, account receivable financing, corporate finance, guarantees, and investment and hedging products to outstanding companies, assisting in the stable operations of these enterprises.
- d.E.SUN will further refine its risk control mechanism. E.SUN has applied information technology to establish a system platform in

compliance with regulations associated with the No. 34 accounting standard. It will also continue to boost asset quality.

#### (2) Long-term Business Development Plan

- a.E.SUN will integrate the FHC's resources, cultivate professional labor force, maximize the benefits of joint marketing, and satisfy the diverse needs of customers.
- b.The Bank will continue to strengthen its information systems and will create a secure and user-friendly capital allocation platform. E.SUN also continues to enhance its financial competitiveness.
- c.E.SUN will develop banking operations in Taiwan, China, and Hong Kong. It will provide cash flow, personal finance, and lending services to Taiwan companies operating around the globe, satisfying the diverse needs of customers.

### 5.2 Consumer Banking

#### (1) Short-term Business Development Plan

- a.E.SUN will make every effort to integrate its

- resources of network, enhance its operating procedures and efficiency, in an effort to provide better environment of service.
- b.E.SUN will cultivate omnibearing financial staff member, it will also quickly build a strong foundation consisting of outstanding customers and increase the number of E.SUN products used by customers.
- c.The Bank will focus on management of fine customers, boosting interaction with them, helping to increase loyalty of customers and enhance the efficiency of business operation.

(2) Long-term Business Development Plan

- a.The Bank will take advantage of the E.SUN brand name and network value. Each branch will become a center for operations. Product lines and resources will be combined, raising the value for customers.
- b.The Bank will continue to introduce innovative products and procedures, develop its ability in product innovation, thereby adding depth to its relationship with customers and boosting service efficiency.
- c.E.SUN applies integrating data systems, streamlining operational procedures, boosting efficiency, and adopting security controls, in an effort to effectively raise operational synergy and strengthen development within the financial market.

### 5.3 Wealth Management

(1) Short-term Business Development Plan

- a.The Bank will continue to cultivate and expand its wealth management staff. It will strengthen education and training, provide professional services, focus on management of VIP customers, integrate network resources, helping to build sales momentum. E.SUN expects these initiatives to expand the scale of operations and its market share.
- b.E.SUN is dedicated to product innovation, creating products that set the Bank apart from its industry counterparts and give it a

competitive edge. It will continue to focus on the marketing of mutual funds and life insurance. It will also promote Internet trading and investment at fixed intervals. The Bank will also provide a selection of insurance, trust, ETFs and other financial products to satisfy the personal finance needs of customers.

- c.E.SUN will further educate customers on trusts and boost the exposure of trust products. It will provide and develop many types of products that meet the needs of customers and reflect the rapidly changing financial environment. E.SUN will expand its pool of trust customers by best utilizing the E.SUN brand name and network resources.

- d.E.SUN will strengthen risk controls, enhance information procedures, and boost the functions of operating systems. It will periodically examine the assets held by customers and when appropriate adjust the investment portfolios, supply advices and implement stop-loss and stop-gain strategies, helping the assets of customers to experience stable growth.

(2) Long-term Business Development Plan

- a.E.SUN will continue to demonstrate the spirit and value of the E.SUN wealth management brand name. E.SUN's conservative style helps protect the assets of customers and makes it a trusted and satisfied partner for customers.
- b.Marketing initiatives will effectively raise the Bank's effectiveness in the marketplace. The integration of visible and virtual channel network resources and cross-product line service platforms will provide customers with comprehensive and one-stop financial services.
- c.E.SUN will develop a pool of VIP customers. Besides providing a variety of personal finance tools to satisfy investment needs, it will adjust asset portfolios when appropriate, helping to steadily grow the assets of customers. This not only increases the size of assets with which the Bank is involved, but also helps to create value for both the Bank and customers.

d.E.SUN has created trust operations that address the various needs of its customers in different stages of their lives. The solutions make use of the Bank's outstanding financial products and help achieve the objective of asset security, the transfer of assets, investment, and tax planning. E.SUN provides comprehensive trust services to satisfy the needs of its customers.

#### 5.4 Credit Card

##### (1) Short-term Business Development Plan

- a.E.SUN eyes continued growth and aims to be the market leader. It appropriately manages different customer segments to satisfy their respective needs. It manages customer segments separately and continues to hone its risk models, thereby ensuring comprehensive risk management.
- b.E.SUN continues to develop new products and provide better services to seek greater opportunities to interact with customers and make E.SUN cards the primary cards used by its customers. It plans various card charging activities based on the consumption behavior of its customers. It is also aggressively expanding its network, strengthening business growth momentum, raising the amounts charged.
- c.Regarding risk management, E.SUN appropriately adjusts and refines its risk models in response to changes in the external environment, at the same time, establish clear direction for risk management. It is able to expertly evaluate the risk of granting revolving credit, monitor the

credit once it is disbursed, and initiate collection procedures when customers are overdue on their payments.

- d.E.SUN will continue to engage in joint marketing to increase the number of E.SUN products utilized by customers and interaction thereof.

##### (2) Long-term Business Development Plan

- a.E.SUN will continue to pursue the goals of having information serve as its core, generating the greatest value from customers, and thoroughly engaging in risk management. The Bank has established fundamental data systems and will utilize the power of this information. It will seek to boost "Wallet Share" and increase the amounts charge using E.SUN cards.
- b.In response to changes in the external environment, E.SUN seeks to boost dealings with its customers. It is not only provides considerate services to its existing customers, but also is constantly working to develop new customers, in an effort to encourage customers to make E.SUN-issued cards their main cards.
- c.E.SUN will plan various card charging activities based on the consumption behavior and demand of various segments of customers. This will increase the amounts charged using E.SUN cards, raising customer value and boosting brand loyalty. E.SUN is continuously expanding the number of stores with which it maintains agreements and looks to increase cooperative activities with various vendors, helping to increase E.SUN brand name awareness in the marketplace.
- d.E.SUN will continue to cultivate its network and seek to increase its interaction with government agencies. Besides, Joint-marketing initiatives help to yield greater business opportunities. In addition, E.SUN works with the nation's best travel agencies in introducing various itineraries, helping to create a brand name image for E.SUN's Your Smile travel center. These initiatives help to boost wallet share for E.SUN credit cards.



## 6. Human Resource

### Employees are E.SUN's most important asset

Highly talented individuals constitute the key to emerging victorious in the highly competitive banking environment. E.SUN has a longstanding commitment to training its workforce to provide outstanding service, and the Bank understands that these individuals are the most important asset in ensuring sustainable operations. At the same time, E.SUN strives to offer a harmonious and pleasant learning environment, enabling each employee to grow and fulfill his or her potential. The E.SUN family embraces the Bank's corporate culture and works as a team, exhibiting a high level of banking expertise and a broad international perspective. This pool of knowledge forms the foundation that will serve as the pillar for E.SUN's future development.

### Sustained training

E.SUN has a longstanding commitment to cultivate outstanding talent and developing human resources. In 2010, E.SUN held 135 internal training courses, while various staff were selected to participate in 444 training courses held by professional organizations. Each employee on average attended 4.44 of these training courses during the year, strengthening their professional background and enhancing their abilities.

As of the end of 2010, E.SUN had 4,583 employees. The average age of its staff was 31.5 years old. Meanwhile, 20.5% held master's degrees, 68.1% had bachelor's degrees, and 11.4% were graduates of technical colleges. From low level employees to the management team, the whole HR of E.SUN gradually advance in quality and contribution their profession and strength in the critical time of business development.

"The highest mountain, the best bank; the most beautiful mountain, the most beloved bank." E.SUN not only wants to become the best performing and most respected bank. It also wants to act as a second home for all of its employees. This is both E.SUN's responsibility and commitment to its employees. The Bank's well-rounded human resources system offers training to E.SUN employees at every stage of their career, helping to cultivate a workforce with a high degree of professional expertise and management acumen.

### E.SUN Bank Human Resource information

Item \ Year		2010	2009	2008
No. of Employees		4,583	4,433	4,286
Average Age		31.5	31.1	31.4
Avg. Years of Service		6.2	5.9	5.1
Educational Background (%)	Master's	20.5	20.7	18.9
	Bachelor's	68.1	66.6	67.1
	College	10.4	11.6	12.7
	High School (Vocational)	1	1.1	1.3
Number of Professional License	Bank	12,066	11,453	10,608
	Insurance	3,945	3,552	3,337
	Security	2,596	2,586	2,502
	Others	234	200	185



Training, Practice and Strategy.



## 7. Corporate Responsibility and Ethical Behavior

E.SUN has clearly set forth a vision of having its employees be world-class citizens and the Bank be a world-class corporate citizen. E.SUN's corporate culture revolves around fulfilling the Bank's corporate responsibility to society. As a result, E.SUN spares no effort in planning and participating in social welfare activities, environmental protection initiatives, athletic activities, volunteer service, academic and education projects, and cultural activities. It seeks to lend its corporate support with the objective of building something greater for the public.

E.SUN initiated the Golden Seed Project at the end of 2007. World Card cardholders are able to participate in public service via their spending. This long-term initiative will create E.SUN libraries at 100 elementary schools located in remote areas of Taiwan. E.SUN hopes this will reduce the development gap between urban and rural areas and will provide resources and an environment to encourage reading and learning among schoolchildren in remote areas. Having greater access to books will enable them to read more, expanding their horizons and leading to new opportunities. As of the end of 2010, 30 E.SUN libraries had been established in Keelung, Yilan, Taoyuan, Miaoli, Taichung, Changhua, Nantou, Yunlin, Chiayi, Tainan, Kaohsiung, Pingtung, Taitung, Penghu and Hualien.

E.SUN produced the E.SUN Green Policy white paper, which exhibits its commitment and determination to environmental protection. It continues to include

environmental protection considerations in its lending activities and it encourages energy conservation. The Bank holds many number of environmental protection activities. For example, on the date of 13th every month, each department holds seminar to promote energy saving and environment protection concept and methods. Every branch helps to clean nearby areas before work and makes a better living environment for the community. Furthermore, E.SUN has responded to the Earth Day activity to turn off lights for one hour. On Mid-Autumn Festival, it called for people to participate in an event to switch off lights in order to better see the moon, and it also participated in International Car Free Day on September 22. E.SUN has initiated activities on Taiwan to clean refuse from mountains and advocates other activities to cut carbon emissions.

An important goal for E.SUN is to continuously providing resources to improve the environment in Taiwan to foster the development of baseball. E.SUN established the E.SUN Youth Baseball Fund Special Account. The fund is being used to help stage the E.SUN Cup National Tournament, the E.SUN Sports Injuries Prevention Workshop, the E.SUN Youth Baseball Pitcher & Catcher Training Camp, and the Baseball Assistance Project for Remote Areas. It has provided baseball gear worth NT\$100,000 each to the baseball teams at Changhua Arts Senior High School and Yeang-Der Senior High School etc. In addition, the Chinese Taipei team that emerged victorious at the 24th World Youth Baseball Championship in Thunder



Joys of Volunteering.



E.Sun Cup National Tournament.

Bay, Canada was largely comprised of players from Taichung Shi Yuan Senior High School and National Taichung Agricultural Senior High School, which won the E.SUN Cup National Baseball Tournament. Meanwhile, Jim Lafabrre, a highly experienced coach in Major League Baseball, was invited to impart his knowledge at the E.SUN Youth Baseball Hitting Camp. He spoke and imparted the latest techniques, skills, and psychology with regard to coaching. This enabled Taiwan's youth baseball coaches to draw on the latest training methods, helping to create an even stronger foundation for youth baseball to develop on Taiwan.

E.SUN provides academic opportunities to students exhibiting potential. It also holds events to teach the public various fundamentals about banking and financial products. E.SUN offers outstanding students with scholarships so they can complete their education free from financial worries. To date, the Bank has provided scholarships to 41 students over the past six years under its Outstanding Manager Training Program. It hopes that the financial assistance provided will enable students to focus all of their energies on their studies and research, creating the groundwork for becoming outstanding managers and making a contribution to society and the nation. E.SUN also provided assistance to the FSC in an activity carried out in neighborhoods and campuses to promote proper concepts among the public and students with regard to spending and other banking-related knowledge.

E.SUN continues to hold blood drives, helping hospitals to increase their reserves of blood. Meanwhile, E.SUN employees and volunteers continued to accompany children living in orphanages to baseball games, concerts, and story-telling activities. Assistance is provided to tutor children, clean up neighborhoods and hold charity and fund-raising activities. It hopes these efforts will enable children to have happy memories as they grow up and bring love and compassion to every corner that needs it.

E.SUN enhances its services to raise customer value. It will continue to work towards operating the best bank. In 2010, E.SUN won first place for best service among financial banks and for the customers' most trustworthy among wealth management banks for the second time. Besides, it won first place for best service among wealth management banks in a survey carried out by Business Today. It also won an award from the Bankers Association for the number of transactions carried out over its Internet bank to pay bills, as well as the Banking XML Business Promotion Award and the Banking XML Business Stability Award from the Bankers Association. In addition, E.SUN was singled out by the Environmental Protection Administration and the Taipei City Government for its green procurement policies. These awards demonstrate E.SUN's commitment to quality and its desire to repay customers, shareholders and society in a tangible manner. E.SUN has every desire to be both the best performing and most respected enterprise.



Winners of E.SUN Scholarship for Growing Outstanding Manager Training Program.



Passionate Lines for Blood Donation.



Honors and Recognitions.



## VI. Financial Information



Colorful Scenery for Pleasant Heart.



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# 1. Condensed Financial Statements from 2006~2010

## (1) Condensed Balance Sheet

Item \ Year		Financials from 2006 to 2010 (note 1)					Unit NT\$1,000
		2010	2009	2008	2007	2006	
Cash and cash equivalents due from the central bank and call loans to other banks		57,888,365	226,975,581	100,542,643	40,443,540	52,663,186	
Financial assets at fair value through profit or loss, net		54,900,270	39,489,518	72,690,441	97,181,827	73,575,027	
Securities purchased under resell agreements		1,439,552	3,384,993	353,252	295,975	3,847,059	
Available-for-sale financial assets, net		47,546,797	36,818,491	42,606,239	37,638,457	43,759,414	
Discounts and loans		599,161,337	550,483,765	532,944,978	514,648,763	439,171,905	
Receivables		35,891,606	32,990,151	30,559,788	28,262,525	30,462,086	
Held-to-maturity financial assets		254,655,585	18,278,241	14,241,499	14,389,915	14,641,840	
Equity investments under the equity method		0	0	0	130,259	170,638	
Properties		14,194,456	13,859,239	12,974,852	12,581,563	11,416,722	
Goodwill and Intangible assets		3,991,910	4,030,756	4,022,745	3,908,466	3,662,701	
Other financial assets, net		2,801,199	6,146,635	8,097,140	8,069,883	4,377,370	
Other assets		2,169,454	2,339,493	3,617,672	4,409,031	5,325,742	
Total assets		1,074,640,531	934,796,863	822,651,249	761,960,204	683,192,663	
Due to central bank and other banks		38,869,814	39,051,957	21,168,220	32,516,451	29,746,974	
Deposits and remittances		904,760,847	775,064,009	666,460,275	598,773,839	519,016,789	
Financial liabilities at fair value through profit or loss		12,945,397	11,059,469	26,488,285	30,507,142	32,130,738	
Securities sold under repurchased agreement		17,394,242	14,518,968	22,448,022	16,364,237	21,210,489	
Payables		9,911,896	7,556,252	9,718,794	7,980,699	14,117,566	
Financial Bonds		34,000,000	33,500,000	27,300,000	25,600,000	22,300,000	
Other financial liabilities		304,715	2,136,729	2,372,937	2,799,588	2,791,235	
Other liabilities		1,511,978	402,615	474,846	755,284	884,877	
Total liabilities	Before distribution	1,019,698,889	883,289,999	776,356,379	715,297,240	642,198,668	
	After distribution	(note2)	883,831,983	776,980,379	716,624,900	642,217,185	
Capital stock		35,100,000	33,624,000	31,200,000	31,200,000	28,909,905	
Capital surplus		8,290,091	8,083,943	7,321,485	7,321,485	5,321,485	
Retained earnings	Before distribution	11,459,706	9,496,329	8,345,894	8,891,591	6,608,752	
	After distribution	(note2)	7,478,345	7,721,894	7,563,931	6,590,235	
Cumulative translation adjustments		(128,172)	(39,540)	(11,318)	(8,906)	(4,297)	
Unrealized gain/ loss on Financial		220,017	342,132	(636,191)	(741,206)	158,150	
Total stockholders' equity	Before distribution	54,941,642	51,506,864	46,219,870	46,662,964	40,993,995	
	After distribution	(note2)	50,964,880	45,595,870	45,335,304	40,975,478	

Note 1: Audited by certified public accountants.

Note 2: Earnings apportion of 2010 is to be determined by shareholders meeting.



## (2) Condensed Income Statement

Unit: NT\$1,000 except earnings per share

Item \ Year	Financials from 2010 - 2006 (note)				
	2010	2009	2008	2007	2006
Net interest	11,376,853	8,601,685	9,375,272	8,822,737	9,227,474
Total net revenues and gains other than interest	5,429,956	3,714,781	3,623,824	4,114,977	717,739
Total net revenues	16,806,809	12,316,466	12,999,096	12,937,714	9,945,213
Bad-debt expenses	(2,727,059)	(2,112,036)	(3,536,372)	(2,174,707)	(2,339,840)
Operating expenses	(9,489,674)	(8,336,371)	(8,278,201)	(7,473,608)	(7,242,457)
Income before income tax	4,590,076	1,868,059	1,184,523	3,289,399	362,916
Income tax benefit(expense)	(608,715)	(93,624)	(402,560)	(697,948)	37,310
Income before cumulative effect of changes in accounting principles	3,981,361	1,774,435	781,963	2,591,451	400,226
Cumulative effect of changes in accounting principles (After income tax)	0	0	0	0	46,460
Net income	3,981,361	1,774,435	781,963	2,591,451	446,686
Basic earnings per share (NT\$)	1.13	0.56	0.25	0.86	0.15

Note : Audited by csrtified public accountants.

## (3) CPAs' Auditing Opinion for the Recent Five Years

Wu Mei Hui, CPA, and Way Yung Do, CPA, of Deloitte & Touche had examined the Financial Statement of E.SUN Financial Holding Company for the years of 2006, ended on December 31, and issued modified unqualified opinion reports ; Chen Li Chi, CPA, and Wu Mei Hui, CPA, of Deloitte & Touche had examined the Financial Statement of E.SUN Financial Holding Company for the years of 2007, each ended on December 31, and issued modified unqualified opinion reports ; Chen Li Chi, CPA, and Wu Mei Hui, CPA, of Deloitte & Touche had examined the Financial Statement of E.SUN Financial

Holding Company for the years of 2008, ended on December 31, and issued modified unqualified opinion reports ; Chen Li Chi, CPA, and Chang Ryh Yan, CPA, of Deloitte & Touche had examined the Financial Statement of E.SUN Financial Holding Company for the years of 2009, ended on December 31, and issued modified unqualified opinion reports. Chen Li Chi, CPA, and Chang Ryh Yan, CPA, of Deloitte & Touche had examined the Financial Statement of E.SUN Financial Holding Company for the years of 2010, ended on December 31, and issued modified unqualified opinion reports.



## 2. Financial Analysis from 2006 to 2010

Item \ Year		Financials from 2006 to 2010				
		2010	2009	2008	2007	2006
Operating ratio	Ratio of loans to deposits	66.65	71.49	80.51	86.38	85.11
	NPL ratio (note1)	0.39	0.67	0.90	0.89	0.99
	Ratio of interest expenses to average deposit (note 2)	0.58	0.84	1.86	1.85	1.61
	Ratio of interest revenues to average loans	1.97	1.89	3.25	3.24	3.21
	Total assets turnover (Times)	0.02	0.01	0.02	0.02	0.01
	Average revenue per employee	3,667	2,778	3,033	3,270	2,645
	Average net income per employee	869	400	182	655	119
Profitability ratio (%)	Ratio of return on tier 1 capital (%) (note 3)	9.82	4.44	2.91	8.41	0.99
	Ratio of return on total assets(%)	0.40	0.20	0.10	0.36	0.07
	Ratio of return on stockholders' equity(%)	7.48	3.63	1.68	5.91	1.10
	Profit margin ratio(%)	23.69	14.41	6.02	20.03	4.49
	Basic earnings per share (NT\$)	1.13	0.56	0.25	0.86	0.15
Financial structure	Ratio of debt to assets	94.89	94.49	94.38	93.88	94.00
	Ratio of properties to stock holders equity	25.84	26.91	28.07	26.96	27.85
Ratio of growing	Ratio of assets growing(%)	14.96	13.63	7.97	11.53	9.12
	Ratio of income growing(%) (note 3)	145.71	57.71	-63.99	806.38	-90.57
Analyses of Liquidity	Cash flow ratio	note 4	39.34	38.82	note 4	34.16
	Cash flow Adequacy ratio (note 5)	6.24	46.83	23.20	12.66	40.45
	Cash flow content ratio	note 4	note 4	note 4	note 4	31.41
Ratio of liquidity preparation(note 6)		32.03	26.26	16.95	13.78	11.44
Secured loan balance of related-party		5,609,941	5,316,351	5,617,704	3,441,334	2,687,461
Ratio of secured loans balance of related-party to total loan blance (%)		0.93	0.96	1.05	0.67	0.61
Operating Scale	Market share of assets (%)	2.87	2.36	2.37	2.32	2.11
	Market share of equity (%)	2.40	2.41	2.31	2.35	2.16
	Market share of deposit (%)	3.53	3.19	2.91	3.21	2.83
	Market share of assets loans (%)	3.04	2.98	2.90	2.87	2.51

Note 1: In order to maintain superior asset quality, the Bank wrote off its bad debt, as a result, the default rate decreased in 2010.

Note 2: The lower ratio in 2010 was caused by the lower average interest rate for deposit of 2010 than that of 2009.

Note 3: The respected ratios increased as the result of higher net profit in 2010 than 2009.

Note 4: Since cash flows from operating activities, cash flows from investing activities or cash flows from operating activities in the recent five years are negative, analysis is not required.

Note5: Since the Bank had a cash outflows from operating activities in 2010, the variation of the ratio is high.

Note6: Liquidity Reserve Ratio raised as a result of complying E.SUN bank's liquidity policy.



#### 1. Operating Ratio

- (1) Ratio of loans to deposits = Total loans / Total deposits
- (2) NPL ratio = Nonperforming loans / Total loans
- (3) Interest expense to average total deposits = Total interest expense / Average total deposit.
- (4) Interest revenue to average total loans = Total interest revenue / Average total loans
- (5) Total assets turnover rate = Net income / Total asset
- (6) Average net income per employee = Income after income tax / Employee
- (7) Average revenue per employee = Net revenues / Employee

#### 2. Profitability ratio

- (1) First tier capital ROE = Net income before tax / Average total first tier capital
- (2) Ratio of return on total assets =  $\frac{\text{Income after income tax} + \text{interest expenses} \times (1 - \text{tax rate})}{\text{Average assets}}$
- (3) Ratio of return on stockholders' equity =  $\frac{\text{Income after income tax}}{\text{Average stockholders' equity}}$
- (4) Profit margin ratio = Income after income tax / Net revenues
- (5) Basic earnings per share =  $\frac{\text{Income after income tax} - \text{Dividends for preferred stocks}}{\text{Average issued shares}}$

#### 3. Financial structure

- (1) Ratio of debt to assets = Total liabilities / Total assets
- (2) Ratio of fixed assets to net worth ratio = Net fixed asset / Net shareholder's equity

#### 4. Ratio of growing

- (1) Ratio of assets growing =  $\frac{\text{Total assets} - \text{Last year total assets}}{\text{Last year total assets}}$
- (2) Ratio of income growing =  $\frac{\text{income before income tax} - \text{Last year income before income tax}}{\text{Last year income before income tax}}$

#### 5. Analyses for liquidity

- (1) Cash flow ratio =  $\frac{\text{Net cash provided by operating activities}}{(\text{Due to the bank} + \text{Commercial paper issued} + \text{Financial liabilities at fair value through profit of loss} + \text{Securities purchased under resell agreements} + \text{Current portion of Payables})}$
- (2) Cash flow adequacy ratio =  $\frac{\text{Net cash provided by operating activities (from 2006 to 2010)}}{\text{from 2006 to 2010 (capital expenditure} + \text{cash dividends)}}$
- (3) Cash flow content ratio =  $\frac{\text{Net cash provided by operating activities}}{\text{Net cash provided by investing activities}}$

#### 6. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided

#### 7. Operating Scale

- (1) Market share of assets = Total assets / Total assets of all Financial Holding Co., Ltd.
- (2) Market share of equity = Total stockholders' equity / Total stockholders' equity of all Financial Holding Co., Ltd.
- (3) Market share of deposit (%) (bank) =  $\frac{\text{Total deposits}}{\text{Total deposits held by all financial institutions which are qualified in deposit and loan business.}}$
- (4) Market share of assets loans (%) (bank) =  $\frac{\text{Total loans}}{\text{Total loans granted by all financial institutions which are qualified in deposit and loan business.}}$



## Capital adequacy Ratio from 2006 to 2010

Item		Year	Financials from 2010 - 2006				
		2010	2009	2008	2007	2006	
Equity capital	Tier 1 capital	Common stock	35,100,000	33,624,000	31,200,000	31,200,000	28,909,905
		Non-cumulative Preferred Shares	0	0	0	0	0
		Perpetual non-cumulative subordinated debentures	0	0	0	0	0
		Capital collected in advance	0	0	0	0	0
		Additional paid-in capital(excluding reserve derived from rise in value of fixed assets)	8,290,091	8,083,943	7,321,485	7,321,485	5,321,485
		Legal reserve	7,300,476	6,768,146	6,533,557	5,756,121	5,622,116
		Special reserve	0	636,191	741,206	0	0
		Retained earnings	4,159,230	2,091,992	1,071,131	3,135,470	986,636
		Minority interest	0	0	0	0	0
		Other stockholders' equity	(394,412)	(363,049)	(1,348,758)	(57,408)	(4,297)
		Less:Goodwill	3,662,701	3,662,701	3,662,701	3,662,701	3,662,701
		Less:non-amortized loss on the sales of NPL	0	0	0	0	0
		Less:Capital Allowances	920,246	3,528,928	1,448,709	1,725,012	348,098
		Total tier 1 capital	49,872,438	43,649,594	40,407,211	41,067,955	36,825,046
	Tier 2 capital	Perpetual accumulated preferred shares	0	0	0	0	0
		Perpetual cumulative subordinated debentures	0	0	0	0	0
		Reserve derived from rise in value of fixed assets	0	0	0	0	0
		45%of capital surplus via unrealized long-term equity investment	218,816	299,538	315,562	93,283	71,167
		Convertible bonds	0	0	0	0	0
		Operating reserve and bad loan provisioning	177,479	0	0	0	1,198,811
		Long-term subordinated debentures	18,000,000	16,660,000	15,100,000	15,700,000	14,898,333
		Non-perpetual preferred shares	0	0	0	0	0
		The total of perpetual non-cumulative preferred shares & subordinated debentures excess of 15 of Tier 1 capital	0	0	0	0	0
		Less:Capital Allowances	920,246	2,555,890	1,028,897	1,007,419	348,097
		Total tier 2 capital	17,476,049	14,403,648	14,386,665	14,785,864	15,820,214
	Tier 3 capital	Short-term subordinated debentures	0	0	0	0	0
		Non-perpetual preferred shares	0	0	0	0	0
		Total tier 3 capital	0	0	0	0	0
	Equity capital		67,348,487	58,053,242	54,793,876	55,853,819	52,645,260
Weighted Risk Assets	Credit Risk	The standardized approach	529,891,296	467,100,520	458,686,467	424,965,189	400,768,871
		Internal rating-based approach	-	-	-	-	-
		Asset securitisation	1,193,323	2,104,311	4,622,215	3,105,807	-
	Operational Risk	Basic indicator approach	26,757,188	24,446,038	24,659,738	25,549,112	-
		Standardized approach/Alternative standardized approach	-	-	-	-	-
		Advanced measurement approaches	-	-	-	-	-
	Market Risk	The standardized approach	25,347,388	32,578,363	30,842,550	35,621,250	87,292,388
		Internal model approach	-	-	-	-	-
		Total risk-weighted assets	583,189,195	526,229,232	518,810,970	489,241,358	488,061,259
	Capital adequacy ratio(%)		11.55%	11.03%	10.56%	11.42%	10.79%
Group capital adequacy ratio(%)		-	-	-	-	10.81%	
Ratios of tier 1 capital to risk-weighted assets(%)		8.55%	8.29%	7.79%	8.40%	7.62%	
Ratios of tier 2 capital to risk-weighted assets(%)		3.00%	2.74%	2.77%	3.02%	3.31%	
Ratios of tier 3 capital to risk-weighted assets(%)		0	0	0	0	0	
Ratios of common stockholders' equity to total assets(%)		3.27%	3.60%	3.79%	4.09	4.23	

Equity capital = Tier 1 capital + Tier 2 capital + Tier 3 capital

2. Risk weighted assets = Credit risk weighted assets + (operation risk + market risk) capital charge × 12.5

3. Capital Adequacy Ratio = Equity capital / Risk weighted assets

4. Tier 1 capital as a percentage of risk weighted assets = Tier 1 capital / Risk weighted assets

5. Tier 2 capital as a percentage of risk weighted assets = Tier 2 capital / Risk weighted assets

6. Tier 3 capital as a percentage of risk weighted assets = Tier 3 capital / Risk weighted assets

7. Common stock's equities as a percentage of total asset = Common stock's equities / Total Asset



### 3. Audit Committee Report

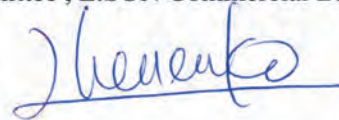
#### Audit Committee Report

To: E.SUN Commercial Bank

The 2010 financial statements of E.SUN Commercial Bank have been audited by Certified Public Accountants of Deloitte & Touche. After reviewing the financial statements and discussing with the CPAs, the Audit Committee found them to meet the requirements of applicable laws and regulations. This report is hereby prepared in accordance with Article 14-4 and Article 36 of Security and Exchange Law and submitted along with the financial statements of E.SUN Commercial Bank for the Board's approval.

Audit Committee, E.SUN Commercial Bank

Convener



Date: March 18, 2011



## 4. Financial statements of 2010

### (1)Independent Auditors' report.



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#### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
E.SUN Commercial Bank, Ltd.

We have audited the accompanying balance sheets of E.SUN Commercial Bank, Ltd. as of December 31, 2010 and 2009, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements of the Bank's Los Angeles Branch for 2010 and 2009. The Branch's total assets were 1.36% (NT\$14,595,045 thousand) and 1.57% (NT\$14,681,080 thousand) of the Bank's total assets as of December 31, 2010 and 2009, respectively. The Branch's net revenues were 1.42% (NT\$238,309 thousand) and 0.55% (NT\$67,240 thousand) of the Bank's net revenues in 2010 and 2009, respectively. The Branch's financial statements had been audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Branch, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of E.SUN Commercial Bank, Ltd. as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Securities Firms, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

*Deloitte & Touche*

February 14, 2011

#### Notice to Readers

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

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

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## (2)BALANCE SHEET

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

DECEMBER 31, 2010 AND 2009

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

	2010	2009	Percentage Increase (Decrease)
	Amount	Amount	%
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS (Note 3)	\$ 11,159,112	\$ 9,800,366	14
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 4)	46,729,253	217,175,215	(78)
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, NET (Notes 2, 5 and 30)	54,900,270	39,489,518	39
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2 and 6)	1,439,552	3,384,993	(57)
RECEIVABLES, NET (Notes 2, 7, 29 and 30)	35,891,606	32,990,151	9
DISCOUNTS AND LOANS, NET (Notes 2, 8, 29 and 30)	599,161,337	550,483,765	9
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 2, 9, 10 and 30)	47,546,797	36,818,491	29
HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 2, 11 and 30)	254,655,585	18,278,241	1,293
OTHER FINANCIAL ASSETS, NET (Notes 2, 12 and 30)	2,801,199	6,146,635	(54)
PROPERTIES, NET (Notes 2 and 13)	14,194,456	13,859,239	2
INTANGIBLE ASSETS (Notes 2 and 14)	3,991,910	4,030,756	(1)
OTHER ASSETS, NET (Notes 2, 15, 23, 26, 29 and 31)			
Idle assets, net	85,125	261,488	(67)
Rentable assets, net	628,507	630,245	-
Refundable deposits	1,225,445	1,213,159	1
Deferred income tax assets, net	-	110,757	(100)
Others	230,377	123,844	86
Total other assets, net	2,169,454	2,339,493	(7)
<b>TOTAL</b>	<b>\$ 1,074,640,531</b>	<b>\$ 934,796,863</b>	<b>15</b>

	2010	2009	Percentage Increase (Decrease)
	Amount	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 16)	\$ 38,869,814	\$ 39,051,957	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 5, 20 and 29)	12,945,397	11,059,469	17
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 2, 5, 6, 9, 11 and 17)	17,394,242	14,518,968	20
PAYABLES (Notes 2, 18 and 29)	9,911,896	7,556,252	31
DEPOSITS AND REMITTANCES (Notes 19 and 29)	904,760,847	775,064,009	17
BANK DEBENTURES (Note 20)	34,000,000	33,500,000	1
OTHER FINANCIAL LIABILITIES (Notes 21 and 29)	304,715	2,136,729	(86)
OTHER LIABILITIES (Notes 2, 22, 26 and 29)	1,511,978	402,615	276
Total liabilities	1,019,698,889	883,289,999	15
<b>CAPITAL STOCK</b>			
Common stock, NT\$10.00 par value, authorized, issued and outstanding: 3,510,000 thousand shares in 2010; 3,362,400 thousand shares in 2009	35,100,000	33,624,000	4
<b>CAPITAL SURPLUS</b>			
Additional paid-in capital from share issuance in excess of par value	8,189,144	8,083,460	1
From treasury stock transactions	483	483	-
Others	100,464	-	-
Total capital surplus	8,290,091	8,083,943	3
<b>RETAINED EARNINGS</b>			
Legal reserve	7,300,476	6,768,146	8
Special reserve	-	636,191	(100)
Unappropriated earnings	4,159,230	2,091,992	99
Total retained earnings	11,459,706	9,496,329	21
<b>EQUITY ADJUSTMENTS</b>			
Cumulative translation adjustments	(128,172)	(39,540)	224
Unrealized valuation gains or losses on financial instruments	220,017	342,132	(36)
Total equity adjustments	91,845	302,592	(70)
Total stockholders' equity	54,941,642	51,506,864	7
<b>CONTINGENCIES AND COMMITMENTS (Notes 2 and 31)</b>			
<b>TOTAL</b>	<b>\$ 1,074,640,531</b>	<b>\$ 934,796,863</b>	<b>15</b>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 14, 2011)



### (3) STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010	2009	Percentage Increase (Decrease)
	Amount	Amount	%
INTEREST REVENUE (Notes 2 and 29)	\$ 17,354,284	\$ 15,931,683	9
INTEREST EXPENSE (Notes 2 and 29)	(5,977,431)	(7,329,998)	(18)
NET INTEREST	11,376,853	8,601,685	32
NET REVENUES AND GAINS OTHER THAN INTEREST			
Service fee income, net (Notes 2, 24 and 29)	4,506,952	3,161,030	43
Gains (losses) on financial assets and liabilities at fair value through profit or loss (Notes 2, 5 and 29)	61,283	(33,851)	281
Realized gains on available-for-sale financial assets (Note 2)	318,876	295,573	8
Realized losses on held-to-maturity financial assets (Note 2)	(104,392)	(6,954)	1,401
Foreign exchange gains, net (Note 2)	472,982	556,517	(15)
Reversal of impairment losses (impairment losses) on assets (Notes 2, 12 and 15)	91,113	(27,850)	427
Gains on financial assets carried at cost, net (Note 2)	48,426	48,296	-
Rental income (Note 29)	42,842	82,923	(48)
Net loss on the sale of loans	-	(228,805)	100
Other noninterest losses	(8,126)	(132,098)	(94)
Total net revenues and gains other than interest	5,429,956	3,714,781	46
TOTAL NET REVENUES	16,806,809	12,316,466	36
ALLOWANCE FOR BAD-DEBT EXPENSES (Notes 2 and 8)	(2,727,059)	(2,112,036)	29
OPERATING EXPENSES (Notes 2, 23, 25 and 29)			
Personnel	(4,369,570)	(3,826,337)	14
Depreciation and amortization	(902,614)	(922,220)	(2)
General and administrative	(4,217,490)	(3,587,814)	18
Total operating expenses	(9,489,674)	(8,336,371)	14
INCOME BEFORE INCOME TAX	4,590,076	1,868,059	146
INCOME TAX EXPENSE (Notes 2 and 26)	(608,715)	(93,624)	550
NET INCOME	\$ 3,981,361	\$ 1,774,435	124

	2010	2009
	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 27)		
Basic earnings per share	\$ 1.31	\$ 1.13

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 14, 2011)

### (4) STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

	Capital Stock (Note 28)		Retained Earnings (Notes 2 and 28)			Equity Adjustments			Total Stockholders' Equity
	Shares (in Thousands)	Common Stock	Capital Surplus (Notes 2 and 28)	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gains or Losses on Financial Instruments (Note 2)	
BALANCE, JANUARY 1, 2009	3,120,000	\$ 31,200,000	\$ 7,321,485	\$ 6,533,557	\$ 741,206	\$ 1,071,131	\$ (11,318)	\$ (636,191)	\$ 46,219,870
Reversal of special reserve	-	-	-	-	(105,015)	105,015	-	-	-
Appropriation of prior year's earnings (Note)	-	-	-	234,589	-	(234,589)	-	-	-
Legal reserve	-	-	-	-	-	(624,000)	-	-	-
Stock dividends	62,400	624,000	-	-	-	-	-	-	-
Balance after appropriation	3,182,400	31,824,000	7,321,485	6,768,146	636,191	317,557	(11,318)	(636,191)	46,219,870
Share-based payment arrangements involving ESFHC's common stock	-	-	42,458	-	-	-	-	-	42,458
Capital increase in December 2009	180,000	1,800,000	720,000	-	-	-	-	-	2,520,000
Net income in 2009	-	-	-	-	-	1,774,435	-	-	1,774,435
Change in unrealized gain on financial instruments	-	-	-	-	-	-	-	978,323	978,323
Change in cumulative translation adjustments	-	-	-	-	-	-	(28,222)	-	(28,222)
BALANCE, DECEMBER 31, 2009	3,362,400	33,624,000	8,083,943	6,768,146	636,191	2,091,992	(39,540)	342,132	51,506,864
Reversal of special reserve	-	-	-	-	(636,191)	636,191	-	-	-
Appropriation of prior year's earnings (Note)	-	-	-	532,330	-	(532,330)	-	-	-
Legal reserve	-	-	-	-	-	(541,984)	-	-	(541,984)
Cash dividends	-	-	-	-	-	(1,476,000)	-	-	-
Stock dividends	147,600	1,476,000	-	-	-	-	-	-	-
Balance after appropriation	3,510,000	35,100,000	8,083,943	7,300,476	-	177,869	(39,540)	342,132	50,964,880
Share-based payment arrangements involving ESFHC's common stock	-	-	206,148	-	-	-	-	-	206,148
Net income in 2010	-	-	-	-	-	3,981,361	-	-	3,981,361
Change in unrealized loss on financial instruments	-	-	-	-	-	-	-	(122,115)	(122,115)
Change in cumulative translation adjustments	-	-	-	-	-	-	(88,632)	-	(88,632)
BALANCE, DECEMBER 31, 2010	3,510,000	\$ 35,100,000	\$ 8,290,091	\$ 7,300,476	\$ -	\$ 4,159,230	\$ (128,172)	\$ 220,017	\$54,941,642

Note: For the years ended December 31, 2009 and 2008, the remuneration to directors of \$21,468 thousand and \$6,638 thousand, respectively, and bonus to employees of \$107,340 thousand and \$33,192 thousand, respectively, were deducted from the income statements.

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 14, 2011)



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

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,981,361	\$ 1,774,435
Allowance for bad-debt expenses	2,727,059	2,112,036
Provision of reserve for losses on the sale of bonds	22,625	39,936
Recovery of written-off credits and reserve for losses on guarantees	669,333	514,292
Depreciation and amortization expenses	902,614	922,220
Salary expenses on share-based payment	206,148	42,458
Realized losses (gains) on the sale of financial instruments designated at fair value through profit or loss	56,598	(68,221)
Net loss on the sale of loans	-	228,805
Realized gains on the sale of available-for-sale financial assets	(277,069)	(267,601)
Amortization of premium or discount on bonds	223,920	218,175
Losses (gains) on the sale of properties, rentable assets and idle assets, net	15,021	(15,478)
Losses (gains) on valuation of financial instruments	(139,092)	797,660
Impairment losses (reversal of impairment losses) on assets	(91,113)	27,850
Deferred income tax	344,138	53,714
Realized gains on the sale of financial assets carried at cost	(3,570)	(13,762)
Realized losses on the sale of held-to-maturity financial assets	104,392	6,954
Realized losses (gains) on the sale of debt instruments with no active market	(16,973)	2,435
Net changes in operating assets and liabilities		
Held-for-trading financial assets	(13,660,857)	26,534,306
Held-for-trading financial liabilities	878,648	(1,459,403)
Receivables	(4,668,392)	(3,925,170)
Other assets	(106,970)	96,892
Payables	2,168,497	(2,163,901)
Other liabilities	850,728	(107,439)
Net cash provided by (used in) operating activities	<u>(5,812,954)</u>	<u>25,351,193</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from the Central Bank and call loans to other banks	170,445,962	(128,204,819)
Decrease (increase) in securities purchased under resell agreements	1,945,441	(3,031,741)
Increase in discounts and loans	(50,172,703)	(18,880,268)
Decrease (increase) in financial assets designated at fair value through profit or loss	(1,604,353)	5,423,273
Acquisition of available-for-sale financial assets	(56,584,175)	(40,063,855)
Proceeds of the sale of available-for-sale financial assets	45,239,186	46,947,447
Acquisition of debt instruments with no active market	(885,000)	(386,112)
Return of principal on or proceeds of the sale of debt instruments with no active market	4,114,809	2,273,465
Acquisition of held-to-maturity financial assets	(642,963,253)	(5,308,187)
Return of principal on or proceeds of the sale of held-to-maturity financial assets	405,785,240	1,030,020
Return of principal on financial assets carried at cost	12,352	16,786
Acquisition of properties and intangible assets	(748,457)	(668,905)
Proceeds of the sale of properties	1,543	73,093
Proceeds of the sale of rentable assets and idle assets	66,980	14,285
Decrease in other financial assets	30,097	80,375
Increase in other assets	(13,405)	(106,087)
Net cash used in investing activities	<u>(125,329,736)</u>	<u>(140,791,230)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in due to the Central Bank and other banks	(182,143)	17,883,737
Increase (decrease) in securities sold under repurchase agreements	2,875,274	(7,929,054)
Increase in deposits and remittances	129,696,838	108,603,734
Increase (decrease) in financial liabilities designated at fair value through profit or loss	944,232	(13,455,508)
Issuance of bank debentures	5,500,000	6,200,000
Repayment of bank debentures	(5,000,000)	-
Decrease in other financial liabilities	(1,832,014)	(236,208)
Cash dividends paid	(541,984)	-
Capital increase	-	2,520,000
Net cash provided by financing activities	<u>131,460,203</u>	<u>113,586,701</u>
EFFECTS OF EXCHANGE RATE CHANGES	1,041,233	81,455
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,358,746	(1,771,881)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,800,366	11,572,247
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,159,112</u>	<u>\$ 9,800,366</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Interest paid	<u>\$287,642</u>	<u>\$ 417,979</u>
Income tax paid		

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 14, 2011)



## (6)NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

### 1.ORGANIZATION AND OPERATIONS

E.SUN Commercial Bank, Ltd. (the “Bank”) engages in banking activities permitted by the Banking Law.

As of December 31, 2010, the Bank had a business department, international banking department, trust department, credit card business division, an offshore banking unit (OBU), 2 overseas branches (Los Angeles and Hong Kong), 121 domestic branches and 1 representative office (Dongguan).

The operations of the Bank’s Trust Department consist of planning, managing and operating a trust business. These operations are regulated under the Banking Law and Trust Law of the Republic of China (ROC).

On December 10, 2001, the Bank’s stockholders approved the establishment of E.SUN Financial Holding Company, Ltd. (ESFHC) to hold the shares of the Bank, E.SUN Bills Finance Corp. (E.SUN Bills) and E.SUN Securities Corp. The board of directors designated January 28, 2002 as the effective date of the related share swap. After the shares transfer, the Bank became a 100% subsidiary of ESFHC. Also on January 28, 2002, the trading of the Bank’s stock on the Taiwan Stock Exchange (TSE) was stopped, and ESFHC’s stock started to be traded on the TSE.

To integrate resources, enhance operating effectiveness, strengthen the Bank’s equity structure, and ensure its long-term development, the stockholders resolved on August 25, 2006 for the Bank to merge with E.SUN Bills. The effective date of the share swap and the merger recording date were both December 25, 2006. The Financial Supervisory Commission (FSC) approved this merger on November 10, 2006.

As of December 31, 2010 and 2009, the Bank had 4,583 and 4,433 employees, respectively.

### 2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The Bank’s financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Securities Firms, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC. In preparing financial statements, the Bank is required to make certain estimates and assumptions that could affect the valuation of financial instruments, the amounts of allowance for possible losses, reserve for losses on guarantees, property depreciation, amortization on intangible assets, pension, income tax, impairment loss on assets, accrued litigation loss, bonus to employees

and remuneration to directors and supervisors. Actual results could differ from these estimates.

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank’s financial statements are not classified as current or noncurrent. Nevertheless, these accounts are properly categorized according to the nature of each account and sequenced by liquidity. Please refer to Note 33 for the maturity analysis of assets and liabilities.

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

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

#### Basis of Preparation

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

#### Basis of Fair Value

Fair values are determined as follows: (a) short-term bills - reference prices published by Reuters; (b) listed stocks and GreTai Securities Market (GTSM) stocks - closing prices as of the balance sheet date; (c) beneficiary certificates (open-end funds) - net asset values as of the balance sheet date; (d) bonds - period-end reference prices published by the GTSM; (e) securities which is unlisted and not traded in GTSM with quoted market prices or trading records - quoted market prices or trading prices; and (f) financial instruments without active markets - fair value estimates based on valuation techniques.

#### Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss are financial assets or liabilities that are designated on initial recognition as those to be measured at fair value with fair value changes in profit or loss or financial assets or liabilities classified as held for trading. These instruments are required to be recognized at fair value plus direct acquisition costs and to be measured at fair value through profit or loss on the balance sheet date. The Bank uses settlement date accounting when recording related transactions, except for stocks and beneficiary certificates, for which trade date accounting is used.

Financial instruments used in derivative transactions that do not qualify for hedge accounting are classified as financial assets or liabilities held for trading. If the fair value of a derivative is a positive number, the derivative is carried as an asset, and if the fair value is a negative number, the derivative is carried as a liability.



Applying the fair value option eliminates accounting measurement mismatch for items that naturally offset each other or eliminates the burden of separating embedded derivatives that are not considered to be closely related to the host contract pertaining to a hybrid instrument.

The Bank did not adopt hedge accounting in 2010 and 2009. If the hedged items are not designated as financial assets or liabilities at fair value through profit or loss (FVTPL), accounting measurement mismatches on these items will occur as a result of differences in measurement attributes. Thus, the Bank designated debt instruments and bank debentures issued as financial assets and liabilities at FVTPL. Moreover, the Bank designated a hybrid instrument as financial assets and liabilities at FVTPL because embedded derivatives are not separated from the host contract in a hybrid instrument.

#### Securities Purchased/Sold Under Resell/ Repurchase Agreements

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

#### Overdue Loans

Under Financial Supervisory Commission guidelines, the Bank classifies loans and other credits (including accrued interest) overdue for at least six months as overdue loans.

Overdue loans (except other credits) resulting from loans are classified as discounts and loans, and the remaining are classified as other financial assets.

#### Allowances for Possible Losses and Reserve for Losses on Guarantees

The Bank makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific or general risks.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credits. Under Financial Supervisory Commission (FSC) guidelines, the Bank makes 100%, 50%, 10% and 2% provisions for credits deemed uncollectible, highly uncollectible, substandard and special mention, respectively, as minimum provisions for possible losses.

Under FSC guidelines, credits deemed uncollectible may be written off if the write-off is approved by the Board of Directors.

#### Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus direct acquisition costs. When assets are subsequently measured at fair value, the changes in fair value are excluded from

earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is de-recognized from the balance sheet. The Bank uses settlement date accounting when recording transactions, except for stocks and beneficiary certificates, for which trade date accounting is used.

Cash dividends received within a year of asset acquisition are recognized as a reduction of the original investment cost and are subsequently recognized as investment income on the ex-dividend date. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. Any difference between the initial carrying amount of a debt security and its amount on maturity is amortized and then recognized as earnings using the effective interest method.

#### Financial Asset Securitization

Under the Financial Asset Securitization Act, the Bank securitized part of its bonds and entrusted those bonds to a trustee for the issuance of beneficiary securities. Except for beneficiary securities being retained for credit enhancement and reclassified as available-for-sale financial assets, the Bank de-recognizes the bonds from the balance sheet and recognizes gain or loss because the control of contractual rights on these bonds has been surrendered and transferred to a trustee. The gain or loss on the sale of the bonds is the difference between the proceeds and carrying amount of the bonds, and this carrying amount should be allocated at the ratio of the retained rights and the part sold to their fair values on the date of the sale.

Since quoted market prices are not available for retained beneficiary securities, the Bank estimates fair value using management's key assumptions on bond credit loss rate and discount rates commensurate to the risks involved. The fair value is the expected future cash flows, and the changes in fair value are reported as a separate component of stockholders' equity.

#### Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. These financial assets are initially recognized at fair value plus direct acquisition costs. Gains or losses are recognized at the time of de-recognition, impairment or amortization. The Bank uses settlement date accounting when recording transactions.

#### Other Financial Assets

Investments in equity instruments with no quoted market prices in an active market and with fair value that cannot be reliably measured (including unlisted stocks and emerging stocks) are measured at cost. The accounting treatment for dividends on these instruments is the same as that for dividends on available-for-sale financial assets, except for the recognition of cash dividends upon the declaration by an investee's stockholders under an approved resolution.



Debt instruments with no active market are those with no quoted market prices in an active market and with predetermined amounts. These instruments are carried at amortized cost. The accounting treatment for debt instruments with no active market is similar to that for held-to-maturity financial assets. In addition, in contrast to held-to-maturity financial assets, debt instruments with no active market can be sold anytime.

### Properties, Rentable Assets and Idle Assets

Properties, rentable assets and idle assets are stated at cost less accumulated depreciation and accumulated impairment. The cost of betterments and major renewals that extend the useful life of an item of property and equipment is capitalized. The cost of repairs and maintenance is charged to expense as incurred.

Depreciation is calculated by the straight-line method over service lives estimated as follows: buildings, 5 to 50 years; computers, 3 to 8 years; transportation equipment, 5 to 8 years; miscellaneous equipment, 5 to 10 years; rentable assets, 50 years; and idle assets, 50 years. If an asset reaches its residual value but is still in use, it is further depreciated over its newly estimated service life.

The cost, accumulated depreciation and accumulated impairment are removed from the accounts when an item of properties, rentable assets and idle assets is disposed of or retired, and any gain or loss is credited or charged to net income.

### Intangible Assets

Intangible assets are recorded at acquisition cost. Computer software is amortized by the straight-line method over its service life estimated at three years. The carrying value of goodwill is based on the cost, net of accumulated impairment.

### Asset Impairment

#### a. Available-for-sale financial assets

If an available-for-sale financial asset is determined to be impaired, a loss is recognized. If the impairment loss on equity securities decreases, this loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt instruments, this loss is reversed and recognized as earnings.

#### b. Held-to-maturity financial assets and debt instruments with no active market

If a held-to-maturity financial asset or debt instrument with no active market is determined to be impaired, a loss is recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed. However, the reversal should not result in the carrying amount of financial assets exceeding the amortized cost that would have been determined had no impairment loss been recognized.

#### c. Financial assets carried at cost

If there is objective evidence that a financial asset carried at cost is impaired, an impairment loss is recognized. However, impairment loss reversal is prohibited.

#### d. Properties, intangible assets, and other assets

The Bank tests assets (mainly properties, idle assets, rentable assets and intangible assets) and cash-generating units (CGUs) for impairment on each balance sheet date. If impairment is determined, the Bank estimates the recoverable amounts of assets or CGUs. An impairment loss should be recognized whenever the recoverable amount of the assets or the CGUs is below the carrying amount.

If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation or amortization) had the impairment loss not been recognized.

Goodwill is tested for impairment annually, or more frequently if events indicate goodwill impairment. Impairment loss is recorded if the book value exceeds value in use. No recording of a subsequent recovery in fair value of goodwill is allowed.

### Pension Costs

The Bank has two types of pension plans: Defined benefit and defined contribution. For the defined benefit plan, the Bank recognizes pension costs on the basis of actuarial calculations. Unrecognized net transitional assets are amortized over 27 to 29 years. For the defined contribution plan, the Bank recognizes as pension costs the amounts contributed to the employees' individual pension accounts during the employees' service periods.

When a defined benefit plan is amended, the prior service costs should be amortized on a straight-line basis over the average period from the plan effective or amendment date until the benefits become vested. When the benefits are vested following changes to the defined benefit plan, the Bank should recognize the prior service cost as expense immediately.

### Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded on an accrual basis. Under Ministry of Finance regulations, no interest revenue is recognized on loans and other credits extended by the Bank that are classified as overdue loans. The interest revenue on those loans is recognized upon collection.

The unpaid interest on rescheduled loans should be recorded as deferred revenue, and the paid interest is recognized as interest revenue.

Service fees are recorded when a major part of the earnings process is completed and revenue is realized.

### Income Tax

Provision for income tax is based on inter-period and intra-period tax allocation. The tax effects of deductible temporary differences, unused tax credits, operating loss carryforwards and debit of stockholders' equity adjustments are recognized as deferred income tax assets, and those of taxable temporary differences and credit of stockholders' equity adjustments are recognized as deferred income tax liabilities. Valuation



allowance is provided for deferred income tax assets that are not certain to be realized.

Tax credits for personnel training and stock investments are recognized in the current period.

Income tax on interest in short-term negotiable instruments or special-purpose trust beneficiary securities, which is levied separately according to the tax laws, and any adjustment of income taxes of prior years are added to or deducted from the current year's income tax expense.

According to the Income Tax Law, income taxes (10%) on undistributed earnings generated annually since 1998 are recorded as expenses in the year when the stockholders resolve to retain the earnings.

ESFHC and its subsidiaries elected to file consolidated tax returns for periods starting in 2003. However, since the Bank applied the accounting treatment mentioned in the preceding paragraph to income tax, any distribution of cash payments and receipts among the consolidated group members is recorded as receivables or payables.

### Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of the situation that might result in a possible loss but the amount of loss cannot be reasonably estimated.

### Foreign-currency Transactions

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Every month-end, foreign currency income and expenses are translated into New Taiwan dollars at the closing exchange rates announced by the Central Bank of China (CBC). On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reporting using the CBC closing exchange rates, and exchange differences are recognized in the income statement.

Unrealized exchange differences on nonmonetary financial assets and liabilities are a component of the change in their entire fair value. For nonmonetary financial assets and liabilities classified as financial instruments measured at fair value through profit or loss, unrealized exchange differences are recognized in the income statement. For nonmonetary financial instruments that are classified as available-for-sale, unrealized exchange differences are recorded directly under stockholders' equity until the asset is sold or becomes impaired. Nonmonetary financial instruments that are classified as carried at cost are recognized at the exchange rates on the transaction dates. The Bank translates overseas branches' financial statements at the following rates: Asset and liabilities - the CBC closing exchange rates on the balance sheet date; and income and expenses - the average exchange rate in the year. Translation differences net of income tax are recorded as "cumulative translation adjustments" under stockholders' equity.

## 3.CASH AND CASH EQUIVALENTS

	December 31	
	2010	2009
Cash on hand	\$ 5,925,959	\$ 5,865,705
Checks for clearing	3,195,583	2,604,154
Due from banks	2,037,570	1,330,507
	<u>\$ 11,159,112</u>	<u>\$ 9,800,366</u>

## 4.DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS

	December 31	
	2010	2009
Deposit reserves - account A	\$16,731,208	\$12,812,619
Deposit reserves - account B	23,462,401	19,897,536
Reserves for deposits - foreign currency deposits	91,450	78,831
Deposit in the Central Bank	-	173,000,000
Call loan to banks	5,433,500	10,368,417
Due from the Central Bank - other	1,010,694	1,017,812
	<u>\$ 46,729,253</u>	<u>\$ 217,175,215</u>

As required by law, the deposit reserves are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. The deposit reserves - account B is subject to withdrawal restrictions, but deposit reserves - account A and foreign-currency deposit reserves may be withdrawn anytime.



## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2010	2009
<b>Held-for-trading financial assets</b>		
Commercial paper	\$ 9,362,593	\$ 7,135,900
Negotiable certificates of deposit	6,999,501	-
Treasury bills	4,596,802	356,758
Interest rate swap contracts	1,954,425	2,415,101
Currency option contracts	833,359	252,962
Overseas bonds	545,967	575,538
Currency swap contracts	498,096	223,031
Cross-currency swap contracts	422,106	232,252
Forward contracts	357,119	84,843
Listed stock - domestic	295,199	371,170
Beneficiary certificates	168,178	89,633
Bank debentures	85,895	93,553
Futures exchange margins	80,932	67,735
Metal commodity swap contracts	52,166	13,344
Credit default swap contracts	45,400	33,799
Non-deliverable forward contracts	30,871	28,441
Foreign-currency margin contracts	12,097	27,340
Forward commodity contracts	4,574	9,525
Convertible corporate bonds	1,855	433,323
Commodity option contracts	1,620	-
	<u>26,348,755</u>	<u>12,444,248</u>

### Financial assets designated at fair value through profit or loss

Bank debentures	\$ 15,868,075	\$ 15,768,353
Corporate bonds	12,245,346	10,228,135
Overseas government bonds	377,939	414,896
Sold equity securities with interest receivable	60,155	131,295
Structured products	-	502,591
	<u>28,551,515</u>	<u>27,045,270</u>
	<u>\$ 54,900,270</u>	<u>\$ 39,489,518</u>

### Held-for-trading financial liabilities

Interest rate swap contracts	\$ 2,102,296	\$ 2,482,752
Currency option contracts	840,549	327,495
Currency swap contracts	783,691	215,379
Cross-currency swap contracts	319,718	198,363
Forward contracts	160,978	20,736
Non-deliverable forward contracts	60,429	31,744
Metal commodity swap contracts	36,551	11,898
Credit default swap contracts	4,831	22,690
Forward commodity contracts	4,573	9,525
Commodity option contracts	1,620	-
Foreign-currency margin contracts	20	47
	<u>4,315,256</u>	<u>3,320,629</u>

### Financial liabilities designated at fair value through profit or loss

Bank debentures (Note 20)	4,718,248	4,775,793
Structured products	3,911,893	2,963,047
	<u>8,630,141</u>	<u>7,738,840</u>
	<u>\$ 12,945,397</u>	<u>\$ 11,059,469</u>

As of December 31, 2010 and 2009, some of the securities which amounted to \$4,563,500 thousand and \$4,626,000 thousand (face value), respectively, had been sold under repurchase agreements.

The Bank engages in derivative transactions mainly to accommodate customers' needs, manage its exposure positions and hedge its exchange rate and interest rate exposures as well as its credit risks as a bond holder.

The contract (nominal) amounts of derivative transactions as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Interest rate swap contracts	\$ 240,650,173	
Currency option contracts	84,054,552	
Currency swap contracts	62,112,617	
Forward contracts	14,829,074	
Credit default swap contracts	9,823,500	
Non-deliverable forward contracts	7,465,334	
Cross-currency swap contracts	6,226,155	
Metal commodity swap contracts	1,774,387	
Forward commodity contracts	222,341	
Foreign-currency margin contracts	142,348	
Commodity option contracts	84,075	
Futures contract	-	

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

	2010	2009
<b>Financial assets at FVTPL</b>		
Realized gains	\$ 2,044,959	\$ 2,384,923
Valuation gains (losses)	202,140	(1,311,565)
	<u>2,247,099</u>	<u>1,073,358</u>
<b>Financial liabilities at FVTPL</b>		
Realized losses	(2,122,768)	(1,621,114)
Valuation gains (losses)	(63,048)	513,905
	<u>(2,185,816)</u>	<u>(1,107,209)</u>
	<u>\$ 61,283</u>	<u>\$ (3,851)</u>

## 6. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities acquired for \$1,439,552 thousand and \$3,384,993 thousand under resell agreements as of December 31, 2010 and 2009, respectively, will be sold for \$1,439,933 thousand and \$3,386,255 thousand by January 18, 2011 and March 3, 2010, respectively. Some of the securities, which amounted to \$40,000 thousand and \$1,542,400 thousand (face value), respectively, had been sold under repurchase agreements as of December 31, 2010 and 2009.

## 7. RECEIVABLES, NET

	December 31	
	2010	2009
Credit cards	\$ 30,684,185	\$ 29,478,091
Acceptances	1,815,729	1,335,674
Accrued interest	1,598,891	1,471,953
Factoring accounts receivable without recourse	1,365,701	528,849
Receivable on overdue securities	296,407	323,295
Accounts receivable	233,161	44,609
Other receivable - ESFHC	176,533	295,875
Accrued income	145,650	675
Tax refundable	23,446	97,035
Other	318,147	341,877
	<u>36,657,850</u>	<u>33,917,933</u>
Less: Allowance for possible losses	766,244	927,782
	<u>\$ 35,891,606</u>	<u>\$ 32,990,151</u>



The changes in allowance for possible losses are summarized below:

	2010	2009
Balance, January 1	\$ 927,782	\$ 954,965
Provisions	1,629,375	1,340,653
Write-offs	(2,030,794)	(1,517,487)
Recovery of written-off receivables	267,302	158,612
Effects of exchange rate changes	(27,421)	(8,961)
Balance, December 31	<u>\$ 766,244</u>	<u>\$ 927,782</u>

## 8.DISCOUNTS AND LOANS, NET

	December 31	
	2010	2009
Loans		
Short-term	\$ 121,799,926	\$ 90,348,550
Medium-term	152,540,092	127,221,157
Long-term	324,362,571	331,776,592
Overdue loans	1,873,841	3,430,524
Bills negotiated and discounts	<u>2,199,917</u>	<u>1,158,958</u>
	602,776,347	553,935,781
Less: Allowance for possible losses	<u>3,615,010</u>	<u>3,452,016</u>
	<u>\$ 599,161,337</u>	<u>\$ 550,483,765</u>

As of December 31, 2010 and 2009, the loan and credit balances, for which accrual of interest revenues was discontinued, amounted to \$1,873,841 thousand and \$3,430,524 thousand, respectively. The unrecognized interest revenues on these loans and credits amounted to \$48,319 thousand and \$76,127 thousand in 2010 and 2009, respectively.

In 2010 and 2009, the Bank carried out legal procedures required before writing off certain credits.

The details of and changes in allowance for credit losses are summarized below:

	2010		
	Specific Risk	General Risk	Total
Balance, January 1	\$ 2,388,552	\$ 1,063,464	\$ 3,452,016
Provisions	208,227	886,406	1,094,633
Write-offs	(1,262,137)	-	(1,262,137)
Recovery of written-off credits	402,031	-	402,031
Effects of exchange rate changes	-	(71,533)	(71,533)
Balance, December 31	<u>\$ 1,736,673</u>	<u>\$ 1,878,337</u>	<u>\$ 3,615,010</u>

	2009		
	Specific Risk	General Risk	Total
Balance, January 1	\$ 2,498,972	\$ 1,068,309	\$ 3,567,281
Provisions	728,512	43,093	771,605
Write-offs	(1,194,612)	-	(1,194,612)
Recovery of written-off credits	355,680	-	355,680
Effects of exchange rate changes	-	(47,938)	(47,938)
Balance, December 31	<u>\$ 2,388,552</u>	<u>\$ 1,063,464</u>	<u>\$ 3,452,016</u>

The details of allowance for bad-debt expenses in 2010 and 2009 were as follows:

	2010	2009
Provisions for possible losses on discounts and loans	\$ 1,094,633	\$ 771,605
Provisions for possible losses on receivables	1,629,375	1,340,653
Provisions for (reversal of) reserve for guarantees	<u>3,051</u>	<u>(222)</u>
	<u>\$ 2,727,059</u>	<u>\$ 2,112,036</u>

## 9.AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	December 31	
	2010	2009
Bank debentures	\$ 2 1,346,714	\$ 13,474,351
Government bonds	15,287,603	11,514,703
Corporate bonds	4,899,885	5,918,361
Beneficiary securities under securitization	4,588,339	4,609,377
Listed stock - domestic	<u>1,424,256</u>	<u>1,301,699</u>
	<u>\$ 47,546,797</u>	<u>\$ 36,818,491</u>

As of December 31, 2010 and 2009, the available-for-sale financial assets amounted \$5,237,500 thousand and \$5,682,300 thousand (face value), respectively, had been sold under repurchase agreements.

## 10.FINANCIAL ASSET SECURITIZATION

The Bank entered into four trust contracts with The Hong Kong and Shanghai Banking Corporation Limited (HSBC, the trustee) and transferred the Bank's rights and risks on bond holdings. These contracts amounted to \$10,060,287 thousand and \$18,340,853 thousand in the fourth quarter of 2005 and \$8,960,000 thousand and \$18,164,571 thousand in the second quarter of 2007 to the trustee in accordance with the Financial Asset Securitization Act. Upon the transfer, the trustee acquired the bondholder's rights from the Bank, and the trustee issued beneficiary securities named E.SUN CBO 2005-1, E.SUN CBO 2005-2, E.SUN CBO 2007-1 and E.SUN CBO 2007-2 to general investors and turned over to the Bank the funds raised on securities issuance along with the retained beneficiary securities (E.SUN CBO 2005-1 is Type D; E.SUN CBO 2005-2 is Type C) and the sold equity securities with interest receivable.

The issuance period for E.SUN CBO 2005-1, amounting to \$10,050,000 thousand, is between October 19, 2005 and July 20, 2012. Interest is payable quarterly. The beneficiary securities are categorized as follows:



Type of Beneficial Security	Repayment Priority	Issued Amount	Interest Rate
A	First	\$ 8,750,000	1.825%
B	Second	800,000	2.050%
C	Third	450,000	1.925%
D	Fourth/remainder	50,000	None

The issuance period for E.SUN CBO 2005-2, amounting to \$18,341,000 thousand, is between December 28, 2005 and September 20, 2014. The beneficiary securities are categorized as follows:

Type of Beneficial Security	Repayment Priority	Issued Amount	Interest Rate	Percentage to Total Amount Issued
A1	First	\$ 2,500,000	0%	95.36
A2	First	6,215,000	0%	90.08
A3	First	5,774,349	0%	83.60
B	Second	1,908,281	0%	82.03
C	Third/remainder	1,943,370	None	

The issuance period for E.SUN CBO 2007-1, amounting to \$9,000,000 thousand, is between May 16, 2007 and March 15, 2047. The beneficiary securities are categorized as follows:

Type of Beneficial Security	Repayment Priority	Issued Amount	Interest Rate	Percentage to Total Amount Issued
A1	First	\$ 4,000,000	2.10%	100
B1	Second	4,400,000	2.45%	100
B2	Third	560,000	3.10%	100
B3	Fourth/remainder	40,000	12%and residual	100

The issuance period for E.SUN CBO 2007-2, amounting to \$19,650,000 thousand, is between June 22, 2007 and February 10, 2016. Interest is payable quarterly. The beneficiary securities are categorized as follows:

Type of Beneficial Security	Repayment Priority	Issued Amount	Interest Rate	Percentage to Total Amount Issued
A1	First	\$ 8,800,000	None	95.63
A2	Second	5,940,000	None	83.65
B	Third	1,720,000	3.0%	100.00
C	Fourth	990,000	4.0%	100.00
D	Fifth	2,200,000	Residual	100.00

The Bank is the servicer of E.SUN CBO 2005-1, E.SUN CBO 2005-2 and E.SUN CBO 2007-1. Future service income on these contracts is expected to cover all service costs; thus, no service asset or service liability is recognized. The Bank's retained beneficiary securities ensure that the Bank will retain its liquidity after the investor collects its income based on the trust contract. If the security issuers cannot disburse funds upon security maturity, the investors and the trustee have no right of recourse on the Bank's other assets. In addition, the investors' rights take precedence over the rights on the retained beneficiary securities. The value of the retained beneficiary

securities will be affected by the credit risk of the bond issuers, interest rate risk, etc.

#### a.Key assumptions used in measuring retained beneficiary securities:

	E.SUN CBO 2005-1		E.SUN CBO 2005-2	
	December 31		December 31	
	2010	2009	2010	2009
Projected advance reimbursement rate	0%	0%	0%	0%
Projected credit loss rate	0%	0%	2%	2%
Discount rate for residual cash flows	1.538%	2.519%	1.142%	1.579%

All the bond issuers or guarantors in the asset pool of E.SUN CBO 2005-1 have attained the credit rating of twA or above, and during 1999 to 2009, debtors with credit rating above twBBB never breached the contracts according to the Taiwan Ratings 2006 to 2009 research. Thus, the Bank's projected credit loss rate will be zero.

#### b.Sensitivity analysis:

As of December 31, 2010 and 2009, the key assumptions and the sensitivity of the current fair value of residual cash flows to the immediate adverse changes by 10% and 20%, respectively, in these assumptions were as follows:

	E.SUN CBO 2005-1		E.SUN CBO 2005-2	
	December 31		December 31	
	2010	2009	2010	2009
Carrying amount of retained interests	\$ 50,000	\$ 57,146	\$ 4,324,036	\$ 4,287,420
Projected credit loss rate (annual)	0%	0%	2%	2%
Impact on fair value of 10% adverse change	-	-	(92,543)	(72,474)
Impact on fair value of 20% adverse change	-	-	(196,829)	(147,761)

c.As of December 31, 2010 and 2009, there had been no credit loss on the securitized bonds; thus, the expected static pool credit loss rate is equal to projected credit loss rate.

#### d.Cash flows

Cash flows resulting from the securitization were as follows:

	E.SUN CBO 2005-1		E.SUN CBO 2005-2		E.SUN CBO 2007-1	
	2010	2009	2010	2009	2010	2009
Service income	\$ 431	\$ 836	\$ 2,598	\$ 3,003	\$ 600	\$ 1,505
Receipt of reserve deposit	18,516	15,944	-	-	-	-



e. In 2005, the Bank bought structured bonds from the mutual fund managed by E.SUN Securities Investment Trust Corp. (ESSIT) and securitized these bonds under E.SUN CBO 2005-2. ESSIT promised to compensate the Bank for any loss when the trust contract ends. This transaction had been approved by the board of directors and related authorities. However, on July 17, 2008, ESFHC decided to sell all shares of ESSIT and to undertake the obligation of ESSIT to compensate the Bank for any loss at the trust contract end. The Bank also agreed to waive the obligation of ESSIT.

#### 11. HELD-TO-MATURITY FINANCIAL ASSETS, NET

	December 31	
	2010	2009
Negotiable certificates of deposit	\$ 235,900,000	\$ -
Government bonds	8,408,541	6,696,028
Bank debentures	5,635,821	6,034,374
Corporate bonds	4,349,985	4,783,171
Overseas bonds	293,215	319,516
Beneficiary securities under securitization	68,023	445,152
	<u>\$ 254,655,585</u>	<u>\$ 18,278,241</u>

As of December 31, 2010 and 2009, held-to-maturity financial assets amounted \$6,426,200 thousand and \$1,708,600 thousand (face value), respectively, had been sold under repurchase agreements.

#### 12. OTHER FINANCIAL ASSETS, NET

	December 31	
	2010	2009
Debt instruments with no active market, net	\$ 1,739,498	\$ 4,943,595
Excess reserve trust assets for E.SUN CBO 2005-1	550,000	550,000
Financial assets carried at cost, net	476,165	587,407
Others	35,536	65,633
	<u>\$ 2,801,199</u>	<u>\$ 6,146,635</u>

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost. Some investees had operating losses; thus, the Bank recognized an impairment loss of \$13,197 thousand on financial assets carried at cost in 2009.

	December 31	
	2010	2009
Corporate bonds	\$ 944,000	\$ 933,104
Beneficiary securities under securitization	695,498	3,910,491
Credit-linked products - host contract	100,000	100,000
	<u>\$ 1,739,498</u>	<u>\$ 4,943,595</u>

There were default events in the underlying asset pool of IBT CBO 2005-1; thus, the Bank recognized impairment losses of \$10,399 thousand in 2010 and \$8,883 thousand in 2009 on beneficiary securities under securitization.

#### 13. PROPERTIES, NET

	December 31	
	2010	2009
Cost		
Land	\$ 8,561,175	\$ 8,126,091
Buildings	6,099,092	5,678,249
Computers	2,627,938	2,646,300
Transportation equipment	482,010	471,357
Miscellaneous equipment	1,408,625	1,379,102
	<u>19,178,840</u>	<u>18,301,099</u>
Less: Accumulated depreciation		
Buildings	1,550,597	1,292,763
Computers	2,159,612	2,063,452
Transportation equipment	331,960	282,676
Miscellaneous equipment	1,025,072	892,266
	<u>5,067,241</u>	<u>4,531,157</u>
	14,111,599	13,769,942
Prepayments	82,857	89,297
	<u>\$ 14,194,456</u>	<u>\$ 13,859,239</u>

#### 14. INTANGIBLE ASSETS

	December 31	
	2010	2009
Goodwill	\$ 3,662,701	\$ 3,662,701
Computer software	329,209	368,055
	<u>\$ 3,991,910</u>	<u>\$ 4,030,756</u>

In testing assets for impairment, the Bank defined an operating unit or operating segment as a cash-generating unit (CGU), except for rentable assets and idle assets using net fair value as recoverable amount. Goodwill on the acquisition of the Kaohsiung Business Bank Co., Ltd. was allocated to operating units or operating segments (CGUs with allocated goodwill). The recoverable amount of a CGU was determined at its value in use. The Bank estimates the next five years' cash flows of a CGU as a going-concern entity on the basis of each CGU's operations or business cycle, etc., and this estimate is used to determine the value in use of each CGU. The discount rates for future cash flows of CGUs were determined using the capital asset pricing model (CAPM). The testing for asset impairment showed that no impairment losses had been incurred.



## 15. OTHER ASSETS, NET

	December 31	
	2010	2009
Refundable deposits	\$ 1,225,445	\$ 1,213,159
Rentable assets, net (less accumulated depreciation amounting to \$21,621 thousand in 2010 and \$18,191 thousand in 2009 and less accumulated impairment amounting to \$24,139 thousand in 2010 and \$25,829 thousand in 2009)	628,507	630,245
Prepaid expenses	227,952	120,982
Idle assets, net (less accumulated depreciation amounting to \$4,320 thousand in 2010 and \$23,026 thousand in 2009 and less accumulated impairment amounting to \$30,042 thousand in 2010 and \$137,251 thousand in 2009)	85,125	261,488
Deferred charges, net	2,425	2,862
Deferred income tax assets, net	-	110,757
	<u>\$ 2,169,454</u>	<u>\$ 2,339,493</u>

There were no indications that the value in use of rentable assets and idle assets significantly exceeded net fair value, which was used as the recoverable amount. Thus, the Bank designated real estate appraisal firms and the Bank's appraisal center to value these assets. The Bank recognized a net reversal of impairment loss of \$100,362 thousand in 2010. This reversal was mainly due to the transfer of some idle assets to properties.

In accordance with the evaluation of the recoverable amount of refundable deposits, the Bank recognized an impairment loss reversal of \$1,150 thousand in 2010 and an impairment loss of \$5,770 thousand in 2009.

## 16. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2010	2009
Call loans from banks	\$ 28,940,878	\$ 25,705,056
Deposits from Chunghwa Post Co., Ltd.	9,623,530	12,522,380
Due to banks	178,109	548,024
Bank overdraft	105,681	232,300
Due to the Central Bank	21,616	44,197
	<u>\$ 38,869,814</u>	<u>\$ 39,051,957</u>

## 17. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold for \$17,394,242 thousand and \$14,518,968 thousand, under repurchase agreements as of December 31, 2010 and 2009, respectively, would be purchased for \$17,406,396 thousand and \$14,527,740 thousand by August 4, 2011 and August 23, 2010, respectively.

## 18. PAYABLES

	December 31	
	2010	2009
Checks for clearing	\$ 3,195,583	\$ 2,604,154
Acceptances	1,859,329	1,339,890
Accrued interest	1,396,670	1,341,157
Accrued expenses	1,212,210	861,153
Collections payable	412,486	488,400
Accounts payable	292,010	44,205
Factoring accounts payable	258,492	155,539
Tax payable	148,277	137,209
Other	1,136,839	584,545
	<u>\$ 9,911,896</u>	<u>\$ 7,556,252</u>

## 19. DEPOSITS AND REMITTANCES

	December 31	
	2010	2009
Deposits:		
Checking	\$ 9,175,765	\$ 8,181,983
Demand	184,974,280	157,557,326
Savings - demand	224,739,514	191,774,073
Time	253,836,574	206,143,109
Negotiable certificates of deposit	29,166,300	19,821,200
Savings - time	202,511,734	191,374,338
Remittances	356,680	211,980
	<u>\$ 904,760,847</u>	<u>\$ 775,064,009</u>



## 20. BANK DEBENTURES

	December 31	
	2010	2009
Subordinated bonds issued on September 16, 2004; 2.95% interest, payable semiannually; principal repayable on maturity date (5.5 years after the issue date).	\$ -	\$ 1,300,000
Subordinated bonds issued on December 17, 2004; 2.80% interest, payable semiannually; principal repayable on maturity date (5.5 years after the issue date).	-	3,700,000
Bonds issued on June 24, 2005; 2.75% interest, payable annually; principal repayable on maturity date (10 years after the issue date).	5,000,000	5,000,000
Subordinated bonds issued on October 11, 2005; interest rate at the one-year time savings deposit floating rate of Chunghwa Post Co., Ltd. plus 0.425%, payable quarterly; principal repayable on maturity (7 years after the issue date).	2,000,000	2,000,000
Subordinated bonds issued on October 19, 2005; 2.725% interest, payable annually; principal repayable on maturity date (7 years after the issue date).	1,400,000	1,400,000
Subordinated bonds issued on November 4, 2005; interest rate at the one-year time savings deposit floating rate of Chunghwa Post Co., Ltd. plus 0.4%, payable annually; principal repayable on maturity (7 years after the issue date).	1,600,000	1,600,000
Two types of subordinated bonds issued on August 24, 2006; interest rate at (a) 90 days' interest rate for commercial paper (stated below) plus 0.25% for type A bond; and (b) 2.60% interest for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years after the issue date).	6,000,000	6,000,000
Two types of subordinated bonds issued on June 29, 2007; interest rate at (a) the one-year time savings deposit floating rate of Bank of Taiwan plus 0.5% for type A bond; and (b) 90 days' interest rate for commercial paper plus 0.39% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years after the issue date).	3,700,000	3,700,000
Subordinated bonds issued on February 15, 2008; 3.10% interest, payable annually; principal repayable on maturity date (7 years after the issue date).	2,300,000	2,300,000
Subordinated bonds issued on October 24, 2008; 3.15% interest, payable annually; principal repayable on maturity date (7 years after the issue date).	300,000	300,000
Subordinated bonds issued on February 20, 2009; 2.10% interest, payable annually; principal repayable on maturity date (5 years after the issue date).	1,000,000	1,000,000
Subordinated bonds issued on March 5, 2009; 2.15% interest, payable annually; principal repayable on maturity date (5.5 years after the issue date).	500,000	500,000
Two types of subordinated bonds issued on April 3, 2009; interest rate at (a) 2.15% for Type A bond and (b) 2.50% for Type B bond; interest payable annually for both bond types; principal repayable on maturity date (5.5 years for Type A bond and 7 years for Type B bond after the issue date).	500,000	500,000
Subordinated bonds issued on May 18, 2009; 2.35% interest payable annually; principal repayable on maturity date (5.5 years after the issue date).	1,800,000	1,800,000
Subordinated bonds issued on July 17, 2009; 2.50% interest payable annually; principal repayable on maturity date (7 years after the issue date).	900,000	900,000
Subordinated bonds issued on October 20, 2009; 2.35% interest payable annually; principal repayable on maturity date (7 years after the issue date).	1,500,000	1,500,000
Subordinated bonds issued on May 28, 2010; 2.20% interest payable annually; principal repayable on maturity date (7 years after the issue date).	3,000,000	-
Subordinated bonds issued on July 13, 2010; 2.20% interest payable annually; principal repayable on maturity date (7 years after the issue date).	2,500,000	-
	<u>\$ 34,000,000</u>	<u>\$ 33,500,000</u>



The details of bank debentures designated at fair value through profit or loss were summarized below:

	December 31	
	2010	2009
Three types of bonds issued on February 27, 2004; interest rates at 3.03% if 6M LIBOR is less than or equal to 2.5%, or 5.2% minus 6M LIBOR if 6M LIBOR is more than 2.5%, with all interest rates not to fall below 0% and interest payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date).	\$ 1,000,000	\$ 1,000,000
Five bond types issued on May 10, 2004; interest rates at (a) (6M LIBOR plus 0.5001%) $\times$ n/N for type A bond; (b) (6M LIBOR plus 0.5002%) $\times$ n/N for type B bond; (c) (6M LIBOR plus 0.5003%) $\times$ n/N for type C bond; (d) (6M LIBOR plus 0.5004%) $\times$ n/N for type D bond, with 6M LIBOR for types A to D bonds between 1% and 2% in the first year, between 1% and 2.25% in the second year, between 1.05% and 3.00% in the third year, between 1.05% and 3.50% in the fourth year, between 1.1% and 4.0% in the fifth year, between 1.10% and 4.25% in the sixth year, between 1.1% and 4.5% in the seventh year, “n” means the total days of 6M LIBOR between the foregoing interest rate range in each interest-bearing period, “N” means total days of each interest-bearing period; and (e) 1.15 times of the ten years’ US\$ Constant Maturity Swap (CMS) minus the two years’ US\$ CMS with interest rates not to fall below 0% for type E bond; interest payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date).	2,300,000	2,300,000
Three types of bonds issued on May 19, 2004, interest rates at (a) 3% if 6M LIBOR is less than or equal to 2.5%, or 5.3% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type A bond; (b) 6M LIBOR if 6M LIBOR is less than 1.1%, or 3.82% if 6M LIBOR is between 1.1% and 2.5%, or 5% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type B bond; and (c) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR is between 1.1% and 2.0%, or 5.1% minus 6M LIBOR if 6M LIBOR is more than 2%, with all interest rates not to fall below 0% and interest payable semiannually for all bond types; principal repayable on the maturity date (7 years after the issue date).	900,000	900,000
Bonds issued on June 1, 2004; interest rate at 6M LIBOR if 6M LIBOR is less than 0.9%, or 4% if 6M LIBOR is between 0.9% and 3.5%, or 5.5% minus 6M LIBOR if 6M LIBOR is more than 3.5%, with all interest rates not to fall below 0% and interest payable semiannually; principal repayable on the maturity date (7 years after the issue date).	500,000	500,000
	4,700,000	4,700,000
Valuation adjustment	18,248	75,793
Financial liabilities designated at fair value through profit or loss	\$ 4,718,248	\$ 4,775,793

Commercial paper interest rates for 90 days and floating interest rates were based on the average interest rate quoted by Hong Kong’s Moneyline Telerate and Reuters.

To increase its capital adequacy ratio and strengthen its capital structure, the Bank proposed the issuance of non-cumulative perpetual subordinated bank debentures with aggregate face value of \$5,000,000 thousand. The proposal was approved by the Financial Supervisory Commission on September 2, 2010. As of February 14, 2011, the bank debentures amounting to \$5,000,000 thousand had not yet been issued.



## 21. OTHER FINANCIAL LIABILITIES

	December 31	
	2010	2009
Guarantee deposits received	\$ 171,739	\$ 104,138
Appropriations for loans	132,976	182,591
Credit-linked structured products - host contract	-	1,850,000
	<u>\$ 304,715</u>	<u>\$ 2,136,729</u>

Credit-linked structured products refer to money deposited in accordance with the structured-product contracts, valued in New Taiwan dollars, between the Bank and other parties, in which credit risks on certain bonds will be transferred to the counterparties. When the bond issuers face certain situations as described in the contract, the Bank can make repayments by giving the bonds to the counterparties. The interest rate for this product was from 2.18% to 2.40%, and product maturity was in November 2010.

## 22. OTHER LIABILITIES

	December 31	
	2010	2009
Advance receipts	\$ 1,106,189	\$ 255,461
Deferred income tax liabilities	236,345	-
Reserve for losses on the sale of bonds	83,866	61,642
Reserve for land revaluation increment tax	55,197	58,203
Reserve for losses on guarantees	14,294	11,271
Other	16,087	16,038
	<u>\$ 1,511,978</u>	<u>\$ 402,615</u>

## 23. PENSION PLAN

The Bank has a defined benefit pension plan for all regular employees. Under this plan, the Bank makes monthly contributions, equal to 2% of salaries to a pension fund. The fund is deposited in the Bank of Taiwan in the name of the employees' fund administration committee, which manages the fund. The difference between the foregoing contributions and the pension costs based on actuarial calculations is deposited in a financial institution in the name of the employees' pension fund administration committee. The Bank amended the defined benefit plan in 2005. Upon retirement, an employee will receive an amount calculated on the basis of service years.

The Labor Pension Act (the "Act"), which took effect on July 1, 2005, provides for a new, defined contribution pension plan. Bank employees who were subject to the Labor Standards Act (LSA) before the enforcement of this Act were allowed to choose to continue being subject to the LSA or to be subject instead to the pension mechanism under the Act, with their service years before the enforcement of this Act to be retained. Based on the Act, the rate of the Bank's monthly contributions to the employees' individual pension accounts is at 6% of

monthly salaries and wages. For employees who chose to keep on using the pension mechanism under the LSA, the Bank has continued to make monthly contributions to the pension fund from July 1, 2005 at the same rate of 2% of salaries. Pension expenses were \$168,009 thousand in 2010 and \$172,411 thousand in 2009, of which \$131,544 thousand and \$129,155 thousand, respectively, were under the Act.

Other information in 2010 and 2009 on the defined benefit plan is as follows:

	2010	2009
a. Net pension cost		
Service cost	\$ 26,035	\$ 28,412
Interest cost	25,760	25,143
Actual return on plan assets	(161,348)	(99,371)
Amortization	146,018	89,072
Net pension cost	<u>\$ 36,465</u>	<u>\$ 43,256</u>

	December 31	
	2010	2009
b. Reconciliation of the plan funded status to balance sheet amounts		
Benefit obligation:	\$ (124,294)	\$ (127,279)
Vested benefit obligation		
Non-vested benefit obligation	(653,426)	(539,808)
Accumulated benefit obligation	(777,720)	(667,087)
Additional benefits based on future salaries	(422,414)	(363,312)
Projected benefit obligation	(1,200,134)	(1,030,399)
Fair value of plan assets	1,096,313	934,590
Funded status	(103,821)	(95,809)
Unrecognized transitional net asset	(19,004)	(20,261)
Unamortized prior service cost	74,803	84,607
Unamortized net pension gains or losses	68,499	54,613
Prepaid pension (part of other assets - others)	<u>\$ 20,477</u>	<u>\$ 23,150</u>
Vested benefits	<u>\$ (141,696)</u>	<u>\$ (146,342)</u>

	December 31	
	2010	2009
c. Actuarial assumptions		
Discount rate	2.00%	2.50%
Rate of increase in compensation	2.50%	2.50%
Expected long-term rate of return on plan assets	2.00%	2.50%

	2010	2009
d. Summary of pension fund contributions and payments		
Contributions	<u>\$33,792</u>	<u>\$42,306</u>
Payment of benefits	<u>\$33,417</u>	<u>\$15,355</u>



## 24. SERVICE FEE INCOME, NET

	2010	2009
Service fee	\$ 5,366,727	\$ 3,931,102
Service charge	(859,775)	(770,072)
	<u>\$ 4,506,952</u>	<u>\$ 3,161,030</u>

## 25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2010	2009
Personnel expenses		
Salaries	\$ 3,751,899	\$ 3,239,270
Insurance	244,174	230,357
Pension	168,009	172,411
Other	205,488	184,299
Depreciation expenses	678,630	736,940
Amortization expenses	223,984	185,280

## 26. INCOME TAX

	2010	2009
Income tax expense - current before tax credits	\$ 263,312	\$ 45,053
Net change in deferred income tax:		
Goodwill	-	203,914
Loss carryforwards	330,416	(45,459)
Effect of tax law changes on deferred income tax	9,363	15,567
Allowance for valuation of deferred income tax assets	9,178	-
Impairment losses on assets	7,025	(6,963)
Unrealized gain or loss on financial instruments	3,740	(106,811)
Tax credits	338	(2,721)
Unrealized foreign exchange gain	(15,922)	(5,233)
Tax on unappropriated earnings (10%)	-	2,839
Adjustment of prior year's tax	1,265	(6,562)
Income tax expense	<u>\$ 608,715</u>	<u>\$ 93,624</u>

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law again, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective 2010. The Bank recalculated its deferred tax assets and liabilities in accordance with this amendment and recorded the resulting difference as an income tax expense.

b.A reconciliation of income tax expense - current before tax credits and income tax expense on income before income tax is shown below:

	December 31	
	2010	2009
Income tax expense on income before income tax at statutory rate (17% in 2010 and 25% in 2009)	\$ 780,313	\$ 467,005
Permanent differences:		
Tax-exempt income	(278,365)	(615,585)
Others	(243,794)	279,544
Temporary differences	5,158	(90,306)
Tax under the Alternative Minimum Tax Act	-	4,395
Income tax expense - current before tax credits	<u>\$ 263,312</u>	<u>\$ 45,053</u>

c.Net deferred income tax assets were as follows:

	December 31	
	2010	2009
Deferred income tax assets		
Loss carryforwards	\$ 287,125	\$ 726,519
Unrealized loss on the valuation of financial instruments	82,559	119,166
Cumulative translation adjustments	26,252	9,885
Tax credits	9,178	9,516
Impairment losses on assets	4,021	12,994
	409,135	878,080
Less: Allowance for valuation of deferred income tax assets	9,178	-
	<u>399,957</u>	<u>878,080</u>
Deferred income tax liabilities		
Unrealized foreign exchange gain	(13,643)	(34,783)
Goodwill	(622,659)	(732,540)
	<u>(636,302)</u>	<u>(767,323)</u>
Net deferred income tax assets (liabilities)	<u>\$ (236,345)</u>	<u>\$ 110,757</u>

Loss carryforwards not yet expired as of December 31, 2010 are summarized as follows:

Expiration	Amount
2016	\$ 643,066
2018	838,117
2019	207,785

As of December 31, 2010, there were unused tax credits amounting to \$9,178 thousand for personnel training expenditures. Unexpired tax credits are summarized as follows:

Expiration	Amount
2011	\$1,881
2012	4,917
2013	2,380

d.Imputed tax credit is summarized as follows:

	December 31	
	2010	2009
Balance of stockholders' imputed tax credit	<u>\$ 17,112</u>	<u>\$ 29,627</u>



For the distribution of the 2009 earnings, the actual creditable tax ratios were 5.01% for cash dividends and 5.02% for stock dividends. The Bank estimated the creditable tax ratio for distributing 2010 earnings at 0.42%. The actual creditable tax ratio may differ from the estimated creditable tax ratio since such ratio is computed on the date the dividend is actually paid or distributed.

e.The unappropriated earnings generated before January 1, 1998 as of December 31, 2010 and 2009 were both \$91,777 thousand.

f.The main effective tax rates to calculate deferred income tax for 2010 and 2009 were about 17% and 20%, respectively.

g.Income tax returns through 2005 had been examined by the tax authorities. The tax authorities examined the Bank's over-distribution of the stockholders' imputed tax credit amounting to \$27,416 thousand in their assessment of the 2001 to 2005 (except 2003) stockholders' imputed tax credit returns because of foregoing withholding taxes. The Bank filed an application for

the refund of overpaid tax and also initiated an administrative litigation. In addition, the Bank did not accrue the related liabilities because the possibility of a positive result on the Bank's application and administrative litigation is high.

On the goodwill amortization of \$407,828 thousand and \$1,223,483 thousand resulting from the merger of the Bank with Kaohsiung Business Bank Co., Ltd. (KBB) and reported in the income tax returns of 2004 and 2005, respectively, the tax authorities disapproved the related expense because the authorities considered the goodwill on the purchase of KBB's assets, liabilities and operations as having resulted from a subsidy authorized by the Executive Yuan to be released from the Resolution Trust Corporation fund and not the Bank's use of its own cash. The Bank disagreed with the tax authorities' decision and initiated an administrative litigation. In addition, the Bank did not accrue the related liabilities because the possibility of a positive result on the Bank's administrative litigation is high.

## 27.EARNINGS PER SHARE

TThe numerators and denominators used in calculating earnings per share were as follows:

	Amount (Numerator)		Shares (Denominator in Thousands)	Earnings Per Share (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
2010					
Basic earnings per share					
Net income	<u>\$ 4,590,076</u>	<u>\$ 3,981,361</u>	<u>3,510,000</u>	<u>\$ 1.31</u>	<u>\$ 1.13</u>
2009					
Basic earnings per share					
Net income	<u>\$ 1,868,059</u>	<u>\$ 1,774,435</u>	<u>3,329,306</u>	<u>\$ 0.56</u>	<u>\$ 0.53</u>

The number of shares outstanding was retroactively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation. Because of this adjustment, the basic earnings per share before and after income tax decreased from NT\$0.59 to NT\$0.56 and from NT\$0.56 to NT\$0.53 for 2009.

## 28.STOCKHOLDERS' EQUITY

The stockholders resolved to use the unappropriated earnings of \$624,000 thousand as stock dividends of 62,400 thousand shares. This issuance was approved by the Ministry of Economic Affairs (MOEA).

In December 2009, the Bank increased its capital by \$2,520,000 thousand and issued 180,000 thousand shares at NT\$14.00 per share. ESUN Financial Holdings Company, Ltd. (ESFHC) subscribed for all the new shares. This issuance was approved by the MOEA.

The stockholders resolved to use the unappropriated earnings of \$1,476,000 thousand as stock dividends of 147,600 thousand shares. This issuance was approved by the MOEA. As of December 31, 2010, the Bank's issued and outstanding capital stock amounted to \$35,100,000 thousand.

The Bank's Articles of Incorporation provide that the following should be appropriated from the annual net income less any accumulated deficit:

a.30% as legal reserve;

b.Special reserve, if needed; and

c.From any remainder -

1)94% as dividends;

2)1% as remuneration to directors; and

3)5% as bonus to employees.

The stockholders may decide not to declare any dividends or decide to distribute only a portion of the distributable earnings.

Under the Bank's policy, cash dividends are the major portion of the declared dividends. However, cash dividends should not be more than 15% of paid-in capital if legal reserve is less than the total paid-in capital.

For the years ended December 31, 2010 and 2009, the bonus to employees and remuneration to directors, which totaled \$179,234



thousand and \$128,807 thousand, respectively, 5% (employees' bonus) and 1% (directors' remuneration) of the appropriation of earnings, were accrued on the basis of past experience. If the bonus and remuneration proposed by the Bank's Board of Directors change materially, the change should be included in the expenses of the current year. If the bonus and

remuneration approved by the Bank's stockholders differ from the Board of Directors' proposal, this change should be treated as a revision of the accounting estimate, and the related accrued expenses should be adjusted in the year of the stockholders' approval of the bonus and remuneration.

The appropriations from earnings for 2009 and 2008 were approved in the stockholders' meetings on April 30, 2010 and May 8, 2009, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2009	2008	2009	2008
Legal reserve	\$ 532,330	\$ 234,589		
Cash dividends	541,984	-	\$ 0.16	\$ -
Stock dividends	1,476,000	624,000	0.44	0.20

The bonus to employees and the remuneration to directors for 2009 and 2008 approved in the stockholders' meetings on April 30, 2010 and May 8, 2009, respectively, were as follows:

	2009	2008
Bonus to employees - cash	\$ 107,340	\$ 33,192
Remuneration to directors - cash	21,468	6,638

On the bonus to employees and the remuneration to directors, there was no difference between the approved amounts and the accrued amounts recognized in the financial statements for the years ended December 31, 2009 and 2008. As of February 14, 2011, the date of the accompanying auditors' report, the board of directors had not resolved the appropriation of the 2010 earnings. Information on the appropriation of earnings or deficit offsetting can be accessed through the Web site of the Taiwan Stock Exchange (<http://emops.tse.com.tw>).

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to offset a deficit. When the reserve exceeds 50% of the Bank's paid-in capital, the excess may be distributed as follows: (a) if the Bank has no earnings, the excess may be declared as dividends or bonus; and (b) if the Bank has no deficit, only the excess portion that is over 25% of the Bank's paid-in capital may be declared as stock dividends. In addition, the Banking Law limits the appropriation of cash dividends to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be waived.

Under a Securities and Futures Bureau directive, a special reserve is appropriated from the balance of the retained earnings at an amount that is equal to the debit balance of unrealized loss on financial instruments in the stockholders' equity section. The balance of the special reserve is adjusted to reflect any changes in the debit balance of unrealized loss on financial instruments.

On June 29, 2010, ESFHC announced the transfer of shares to employees of ESFHC and its subsidiaries at per share amounts of NT\$8.02 and NT\$13.50, respectively, based on the date of share acquisition. Under an explanation issued by the Accounting Research and Development Foundation (ARDF) of the Republic of China, the Bank recognized under salary expenses for share-based payment and under capital surplus amounted to \$105,684 thousand each in 2010.

On August 31, 2009, ESFHC announced the transfer of shares to employees of ESFHC and its subsidiaries at NT\$8.02 per share based on the date of share acquisition. Under an explanation issued by the ARDF, the Bank recognized under salary expenses on share-based payment and under capital surplus amounted to \$42,458 thousand each in 2009.

In accordance with the Articles of Incorporation of ESFHC, the employees of ESFHC's subsidiaries could be included in the distribution of bonus to employees. Thus the Bank recognized the estimated distribution of share bonus to the Bank's employees under salary expenses and under capital surplus at \$100,464 thousand each in 2010.

If the bonus proposed by ESFHC's board of directors change materially, the change should be included in the expenses of the current year. If the bonus approved by ESFHC's stockholders differ from ESFHC's board of directors' proposal, this change should be treated as a revision of the accounting estimate, and the related accrued expenses should be adjusted in the year of the stockholders' approval of the bonus.

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

Under the integrated income tax system, which took effect on January 1, 1998, the stockholders are allowed a tax credit for their proportionate share of the income tax paid by the Bank on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Bank for such income tax and the tax credit allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.



## 29. RELATED-PARTY TRANSACTIONS

In addition to Table 1 and those mentioned in other notes, the significant related-party transactions are summarized as follows:

### a. Related parties

Related Party	Parent company
E.SUN Financial Holding Company, Ltd. (ESFHC)	Parent company
E.SUN Securities Corporation ("E.SUN Securities"), E.SUN Venture Capital Co., Ltd., E.SUN Insurance Broker Co., Ltd. ("E.SUN Insurance Broker"), and E.SUN Securities Investment Consulting Corp.	Subsidiaries of ESFHC
E.SUN Foundation and E.SUN Volunteer & Social Welfare Foundation	One-third of the funds are donated by the Bank
Fugui Consulting Co., Ltd. (formerly Fubon Securities Finance Co.) and Bank-Pro E-Service Technology Co., Ltd.	The Bank is a director of these two companies
Financial Information Service Co., Ltd.	The Bank was a supervisor of the company until June 25, 2010
Chiu-Hsiung Huang	Representative of an institutional director of the Bank
Joseph N. C. Huang	Representative of an institutional director of the Bank
Heng-Hwa Yang	Deputy president (retired in November 2010)
Joe Huang	Head of consumer banking
J.C. Wang	Vice president
Shuei-Ping Wan	Vice president
Kuan-Her Wu	Executive vice president
Wu-Shin Chen	Executive vice president
Ching-Lee Kao	Manager
Wen-Chuan Tu	Manager
Cheng-Ta Lee	Manager
Davis Tsai	Manager
Vivian Ho	Manager
Chun-Nan Tsai	Manager
Rong-Huel Chang	Manager
L.C. Lin	Manager
Jia-Tie Huang	Manager
Town-Wen Liu	Manager
Edward Chen	Manager
David H.C. Lien	Manager
Mei-Nu Chen	Manager
Day-Yu Chen	Manager
Cheng-Hao Chang	Manager
Shin-Ching Wei	Manager
Ping-Huei Chen	Manager
Tomy Wong	Manager
Benny Chen	Manager
I-Shun Chou	Manager
Peter Chen	Manager
Tsung-Pin Chen	Manager
Shih-Hui Lin	Manager
Kuang-Yi Hung	Manager
Sin-Hua Chen	Manager
Wen-Chian Chang	Manager
Huei-Ling Tsai	Manager
Nan-Ming Chen	Manager
Yi-Shing Hsiao	Manager
Cheng-Jen Liu	Manager
hu-Hua Yang	Related to the president in the second degree by consanguinity
Yin-Sung Liu	Related to the ex-chairman in the second degree by consanguinity
Yin-Hung Liu	Related to the ex-chairman in the second degree by consanguinity
Other	Directors, supervisors, managers and related to the Bank's chairman and president in the second degree by consanguinity



b. Significant transactions between the Bank and related parties

	December 31			
	Amount	% to Total	Interest Rate (%)	Revenue (Expense)
<u>2010</u>				
1) Loans	\$520,301	-	0.75-2.75	\$7,137
2) Deposits	\$9,214,102	1	0-7.60	\$(49,658)
<u>2009</u>				
1) Loans	\$435,067	-	0.75-3.81	\$8,049
2) Deposits	\$7,230,697	1	0-8.65	\$(93,205)

	December 31			
	2010	% to Total	Interest Rate (%)	Revenue (Expense)
3) Other receivable (part of receivables)				
ESFHC	\$176,533	-	\$295,875	1
4) Refundable deposit	\$1,086	-	-	-
5) Prepaid expense (part of other assets - other)	\$2,391	-	\$1,667	-
6) Interest payable (part of payables)	\$12,260	-	\$4,000	-
7) Remuneration to directors and supervisors (part of payables)	\$29,872	-	\$21,468	-
8) Guarantee deposits received (part of other financial liabilities)	\$8,557	3	\$8,293	-
9) Unearned revenue (part of other liabilities)	\$3,376	-	\$3,443	1

The Bank's parent company, ESFHC, has filed consolidated corporate tax returns, i.e., including the Bank's income tax return, from 2003, as allowed by certain tax regulations.

	December 31			
	2010	% to Total	2009	% to Total
10) Service fee (part of service fee income, net)	\$ -	\$ -	\$ 40	\$ -

	December 31			
	2010	% to Total	2009	% to Total
11) Rental income				
E.SUN Securities	\$ 23,345	54	\$ 8,226	10
ESFHC	5,460	13	5,460	6
Other	3,864	9	3,151	4
	\$ 32,669	76	\$ 16,837	20
12) Donation (part of general and administrative expenses)	\$ 16,485	-	\$ 9,229	-
13) Other (part of general and administrative expenses)	\$ 45,014	1	\$ 32,476	1

The above donation is for E.SUN Volunteer & Social Welfare Foundation's social welfare charity and for E.SUN Foundation's culture and education promotion.



14)Directors as credit guarantors

December 31				
	Amount	% to Total	Interest Rate (%)	Rate of Guarantee Service Fee (%)
2010	\$ 37,500	-	2.02-2.08	-
2009	\$ 81,799	-	1.21-2.47	-

15)The Bank made cross-currency swap with ESFHC. The contract (nominal) amounts were \$1,293,475 thousand as of December 31, 2009, and the valuation loss was \$1,011 thousand in 2009. The realized gain was \$8,240 thousand in 2010 and \$252 thousand in 2009.

16)The Bank made currency swap contracts with ESFHC. The realized gain was \$14,350 thousand in 2009.

The Bank has operating lease contracts with related parties, which cover certain office spaces within the Bank's building. The monthly or quarterly rentals, which were receivable in advance, were based on rentals for buildings near the Bank.

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates for deposits given to managers of the Bank are the same as the interest rates for a certain amount of employees' savings deposits.

Under the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

c.Compensation of directors, supervisors and management personnel

	2010	2009
Salaries	\$ 34,646	\$ 34,380
Incentives	14,775	11,770
Special compensation	3,320	3,600
Bonus	33,246	24,243
	<u>\$ 85,987</u>	<u>\$ 73,993</u>

December 31		
	2010	2009
Financial assets at fair value through profit or loss (bonds and securities at face value)	\$ 5,390,800	\$ 414,900
Receivables (bonds)	200	200
Available-for-sale financial assets (bonds)	243,300	339,900
Held-to-maturity financial assets (bonds and securities at face value)	9,552,700	3,470,552
Other financial assets (face value)	737	804
	<u>\$ 15,187,737</u>	<u>\$ 4,226,356</u>

As of December 31, 2010 and 2009, the foregoing securities, with aggregate face value of \$9,000,000 thousand and \$3,400,000 thousand, respectively, had been provided as collaterals for day-term overdraft to comply with the Central Bank's clearing system requirement for real-time gross settlement (RTGS). The unused overdraft amount at the end of a day can also be treated as the Bank's liquidity reserve.

The Bank is authorized by the Central Bank of the Republic of China to act as a national treasury agent bank. As agent, the Bank had provided securities as collaterals with aggregate face value of \$4,100,000 thousand as of December 31, 2010. It had also provided other securities as collaterals for operating reserve and judiciary provisional seizure.

b.To expand its capital sourcing and enhance its liquidity position, the Bank's Los Angeles Branch obtained access privileges at the Discount Window of the Federal Reserve Bank of San Francisco. For this access, the Branch pledged the following assets:

(In Thousands of U.S. Dollars)		
Date	Outstanding Loan Balance	Collateral Value
December 31, 2010	\$ 16,488	\$ 12,860
December 31, 2009	<u>\$ 21,868</u>	<u>\$ 13,121</u>

### 30.PLEDGED ASSETS

a.In addition to those mentioned in other notes, the pledged assets were as follows:

### 31.CONTINGENCIES AND COMMITMENTS

In addition to those mentioned in other notes, the commitments as of December 31, 2010 were as follows:

a.Renewable operating lease agreements on premises occupied by the Bank's branches, which will expire on various dates by July 2019. Rentals are calculated on the basis of the leased areas and are payable monthly, quarterly or semiannually. As of December 31, 2009, refundable



deposits on these leases totaled \$910,266 thousand (shown as “refundable deposits”). Minimum annual rentals for the next five years are as follows:

Year	Amount
2011	\$ 494,777
2012	431,588
2013	353,056
2014	275,151
2015	201,527

Total rentals for January 2016 to May 2020 will aggregate \$69,184 thousand. The present value of these rentals is \$65,038 thousand, based on 0.83%, which is the annual fixed interest rate set by Chunghwa Post Co., Ltd. for its one-year time savings deposits on the balance sheet date.

b. Agreements on the acquisition and decoration of buildings and various purchases related to the improvements of existing premises occupied by the Bank's branches amounted to approximately \$275,153 thousand. As of December 31, 2010 the remaining unpaid amount was approximately \$193,176 thousand.

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

	2010		2009	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>				
Cash and cash equivalents - due from banks	\$ 1,654,719	0.08	\$ 1,295,487	0.11
Call loans to banks	2,879,923	0.39	10,050,054	0.82
Due from the Central Bank	75,581,859	0.57	123,076,143	0.63
Held-for-trading financial assets - bonds	1,249,268	2.24	2,462,622	1.81
Held-for-trading financial assets - bills	94,515,070	0.56	19,838,890	0.86
Financial assets designated at fair value through profit or loss - bonds and bills	29,983,950	2.14	29,320,370	2.47
Securities purchased under resell agreements	1,955,642	0.31	2,619,371	0.06
Discounts and loans	579,552,768	1.97	536,973,072	1.89
Receivables of credit cards	16,354,055	13.10	16,990,288	12.48
Available-for-sale financial assets - bonds	40,326,020	2.17	39,187,961	2.09
Held-to-maturity financial assets	73,198,890	0.96	17,966,090	2.26
Debt instruments with no active market	3,570,020	2.17	6,080,789	2.24
<u>Interest-bearing liabilities</u>				
Due to the Central Bank and other banks	36,665,881	0.51	21,371,779	0.43
Financial liabilities at fair value through profit or loss (exclusive of financial liabilities designated at fair value through profit or loss - bank debentures)	2,900,000	1.42	3,608,375	0.57
Securities sold under repurchase agreements	20,277,755	0.34	26,293,478	0.24
Demand deposits	157,915,171	0.12	110,668,431	0.09
Savings - demand deposits	208,374,053	0.24	167,405,007	0.25
Time deposits	224,620,522	0.74	208,009,400	1.07
Time savings deposits	195,367,148	1.05	210,870,315	1.51
Negotiable certificates of deposit	25,366,667	0.43	12,415,442	0.72
Bank debentures (inclusive of financial liabilities designated at fair value through profit or loss - bank debentures)	38,126,795	2.00	37,038,639	2.29



### 33. FINANCIAL INSTRUMENTS

#### a. Fair value of financial instruments

	December 31			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair value approximating carrying amounts	\$ 96,244,989	\$ 96,244,989	\$ 264,170,974	\$ 264,170,974
Financial assets at fair value through profit or loss	54,900,270	54,900,270	39,489,518	39,489,518
Available-for-sale financial assets	47,546,797	47,546,797	36,818,491	36,818,491
Discounts and loans	599,161,337	599,161,337	550,483,765	550,483,765
Held-to-maturity financial assets	254,655,585	254,980,994	18,278,241	18,585,200
Other financial assets (exclusive of financial assets carried at cost)	2,325,034	2,336,975	5,559,228	5,580,481
<u>Financial liabilities</u>				
Financial liabilities - with fair value approximating carrying amounts	\$ 66,027,675	\$ 66,027,675	\$ 60,989,968	\$ 60,989,968
Financial liabilities at fair value through profit or loss	12,945,397	12,945,397	11,059,469	11,059,469
Deposits and remittances	904,760,847	904,760,847	775,064,009	775,064,009
Bank debentures	34,000,000	34,659,058	33,500,000	33,919,422
Other financial liabilities	304,715	304,715	2,136,729	2,136,729

b. Methods and assumptions applied to estimate the fair value of financial instruments are summarized as follows:

- 1) The carrying amounts of short-term financial instruments approximate their fair values because of the short maturities of these instruments. Other short-term financial assets are cash and cash equivalents, due from the Central Bank and call loans to other banks, securities purchased under resell agreements, receivables (except tax refundable and other receivable - ESFHC) and refundable deposits. Other short-term financial liabilities are due to the Central Bank and other banks, securities sold under repurchase agreements, payables (except tax payable and other payable - ESFHC) and remittances.
- 2) For financial instruments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and bank debentures, fair value is best determined on the basis of quoted market prices. However, in many instances where there are no quoted market prices for the Bank's various financial instruments, fair values are based on estimates using other financial data and appropriate valuation methodologies.

The Bank estimated the fair value of each forward contract on the basis of the exchange rates quoted by Reuters on each settlement

date. Fair values of interest rate swap contracts and cross-currency swap contracts are calculated using the discounted cash flow method, unless the fair values on these two types of contracts are provided by counter-parties. Fair values of currency option contracts are based on estimates using the Black Scholes model, binomial method or Monte Carlo simulation. Fair values of credit default swap contracts are valued using the discount spreads method or modified Hull-White model. The fair value of each futures contract is calculated using the prices quoted by the futures exchange.

For valuation of debt instruments with no active market, the fair value is determined on the basis of the discounted cash flow method. The Bank uses a discount rate approximating the rate of return of financial instruments with similar terms and characteristics, including the credit risk of the debtors, the residual period during which the fixed interest rate prescribed by contracts is accrued, the residual period for principal repayments, and the type of currency (New Taiwan dollar, U.S. dollar, etc.) to be used for payments. As of December 31, 2010 and 2009, the discount rates used range from 0.25% to 1.87% and from 0.108% to 2.185%, respectively, for the New Taiwan dollar and from



0.23% to 4.161% and from 0.175% to 4.477%, respectively, for the U.S. dollar.

If there are trade prices or prices quoted by major market players, the latest trade prices and quoted prices are used as the basis for valuating the fair value of debt instruments with no active market and classified as other financial assets; otherwise, the Bank uses the foregoing discounted cash flow method to determine fair value.

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

4) Financial assets carried at cost consist of unlisted stock, these investments have no quoted market prices in an active market and their fair value could not be reliably measured. Thus, the Bank does not disclose their fair value.

5) Other financial liabilities include guarantee deposits received, appropriations for loans and credit-linked structured products. They are interest-bearing liabilities or items that can be transferred to other banks at any time depending on the business situation or withdrawn by providers. The carrying amounts of these liabilities represent their fair values.

c. As of December 31, 2010 and 2009, the fair values of financial assets and liabilities determined using quoted market prices or market prices estimated on the basis of valuation method were as follows:

	December 31			
	2010		2009	
	Quoted Market Prices	Estimated Market Prices	Quoted Market Prices	Estimated Market Prices
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 21,883,000	\$ 33,017,270	\$ 8,869,416	\$ 30,620,102
Available-for-sale financial assets	16,711,859	30,834,938	12,816,402	24,002,089
Held-to-maturity financial assets	244,539,685	10,441,309	6,952,915	11,632,285
Other financial assets (exclusive of financial assets carried at cost)	585,536	1,751,439	615,632	4,964,849
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	12,945,397	-	11,059,469
Bank debentures	-	34,659,058	-	33,919,422

d. A valuation of financial instruments at estimated market prices showed a gain of \$123,925 thousand in 2010 and a loss of \$837,390 thousand in 2009.

e. For the years ended December 31, 2010 and 2009, the adjustments of stockholders' equity credited directly from the available-for-sale financial assets amounted to \$154,954 thousand and \$1,245,924 thousand, respectively; the gain recognized and deducted from the adjustments of stockholders' equity amounted to \$277,069 thousand and \$267,601 thousand, respectively.

f. Financial risk information

1) Risk management

The Bank established the Risk Management Division to draw up the principles and policies of risk management followed by each department, to coordinate and monitor the enforcement of risk management policies of each department and to deliberate whether proposals brought up by each risk-based unit focusing on a variety of

individual issues are suitable for the Bank. The division also supports decision making on several important issues, such as asset allocation, designing and pricing of new products and transfer of ownership, from the point of view of risk management to ensure that the Bank has adequate capital to achieve profit objectives under reasonable risk.

2) Market risk

The Bank evaluated the market risk of financial instruments on the basis of value at risk (VaR). VaR is the potential loss in market value of financial instruments held by the Bank, which is measured within a set confidence interval for a specified period. The Bank estimated VaR on the basis of the changes in prices of financial instruments in the past two years.

Information on the foreign-currency financial assets and liabilities with significant effect: Table 4 (attached).



### 3)Credit risk

The Bank is exposed to potential loss due to defaults by counter-parties or issuers. Under normal business operations, the Bank is a party to transactions involving financial services with off-balance-sheet risks, such as issuing credit cards, extending credit facilities and providing financial guarantee and obligations under letters of credit issued. Generally, these transactions are for one year.

As of December 31, 2010 and 2009, the interest rates for loans ranged from 0.405% to 19.46% and from 0.15% to 18.25%, respectively. The highest interest rate for credit cards was 19.71% in both years.

There was no concentration of maturity dates in one particular period that would potentially result in liquidity problems to the Bank.

The Bank evaluates the creditworthiness of credit applications case by case, taking into account the applicant's credit history, credit rating and financial condition. Collateral, mostly in the form of real estate, cash, inventories, marketable securities and other assets, may be required depending on the evaluation result. As of December 31, 2010 and 2009, about 69% and 70% of total loans granted, respectively, and about 14% and 15%, respectively, for both the aggregate guarantees and letters of credit issued, were secured. If the customers break a contract, the Bank will execute its right on the collaterals and decrease its credit risk. However, the Bank discloses the maximum credit exposure without consideration of collateral fair value.

The maximum credit exposure of financial assets is the carrying amounts of financial assets on the balance sheet date.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Credit card commitments	\$ 263,899,255	\$ 248,796,255
Guarantees and letters of credit issued	22,577,834	17,880,961

The concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Groups or industries and regions with outstanding loans that were 10% or more of total outstanding loans were as follows:

	December 31			
	2010		2009	
Credit Risk Profile by Group or Industry	Amount	%	Amount	%
Natural person	\$ 336,050,327	55	\$ 322,569,407	57
Manufacturing	152,817,100	25	124,544,378	22

	December 31			
	2010		2009	
Credit Risk Profile by Region	Amount	%	Amount	%
Domestic	\$ 574,364,486	93	\$ 525,862,522	93
Asia	16,251,981	3	10,852,963	2
South America	12,372,766	2	8,095,308	1
North America	6,681,992	1	10,796,412	2



#### 4) Liquidity risk

In December of 2010 and 2009, the liquidity reserve ratio was 32.03% and 26.26%, respectively. The Bank has sufficient equity capital and working capital to execute all contract obligations and had no liquidity risk.

The contract or notional amount is used to calculate the amounts to settle with the counter-parties, so it is neither the actual amount delivered nor the cash requirement for the Bank. Also, the Bank can enter into derivative financial contracts at reasonable market terms. Thus, the Bank did not expect significant cash flow demands to settle these contracts.

The management policy of the Bank is to match the contractual maturity profile to the interest rates for its assets and liabilities. Because of uncertainties, however, the maturities did not fully match the interest rates, resulting in gaps that may potentially give rise to gain or loss.

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

	December 31, 2010					
	Due in One Month	Due after One Month Up to Three Months	Due after Three Months Up to One Year	Due after One Year Up to Seven Years	Due after Seven Years	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 11,159,112	\$ -	\$ -	\$ -	\$ -	\$ 11,159,112
Due from the Central Bank and call loans to other banks	45,253,253	1,476,000	-	-	-	46,729,253
Financial assets at fair value through profit or loss	18,914,048	10,856,388	3,387,726	21,027,434	714,674	54,900,270
Securities purchased under resell agreements	1,439,552	-	-	-	-	1,439,552
Receivables	318,217	30,641,861	131,177	5,566,595	-	36,657,850
Discounts and loans	78,887,226	34,736,785	67,316,256	217,786,064	204,050,016	602,776,347
Available-for-sale financial assets	17,740,125	15,230,166	4,224,860	10,215,562	136,084	47,546,797
Held-to-maturity financial assets	236,176,713	1,522,561	3,199,205	13,701,362	55,744	254,655,585
Other financial assets (exclusive of financial assets carried at cost)	584,798	501,500	-	1,238,736	-	2,325,034
	<u>\$ 410,473,044</u>	<u>\$ 94,965,261</u>	<u>\$ 78,259,224</u>	<u>\$ 269,535,753</u>	<u>\$ 204,956,518</u>	<u>\$ 1,058,189,800</u>
<b>Liabilities</b>						
Due to the Central Bank and other banks	\$ 19,303,784	\$ 9,942,500	\$ 9,623,530	\$ -	\$ -	\$ 38,869,814
Financial liabilities at fair value through profit or loss	4,292,515	1,307,184	3,419,650	3,920,882	5,166	12,945,397
Securities sold under repurchase agreements	13,640,188	1,805,327	1,948,727	-	-	17,394,242
Payables	5,479,619	410,835	686,994	3,334,448	-	9,911,896
Deposits and remittances	537,212,645	122,417,779	231,791,364	13,339,059	-	904,760,847
Bank debentures	-	-	-	34,000,000	-	34,000,000
Other financial liabilities	551	29,070	90,306	132,975	51,813	304,715
	<u>\$ 579,929,302</u>	<u>\$ 135,912,695</u>	<u>\$ 247,560,571</u>	<u>\$ 54,727,364</u>	<u>\$ 56,979</u>	<u>\$ 1,018,186,911</u>



	December 31, 2009					
	Due in One Month	Due after One Month Up to Three Months	Due after Three Months Up to One Year	Due after One Year Up to Seven Years	Due after Seven Years	Total
<b>Assets</b>						
Cash and cash equivalents	\$9,800,366	\$ -	\$ -	\$ -	\$ -	\$9,800,366
Due from the Central Bank and call loans to other banks	150,389,990	52,802,585	13,982,640	-	-	217,175,215
Financial assets at fair value through profit or loss	11,592,696	1,469,807	4,481,713	20,703,697	1,241,605	39,489,518
Securities purchased under resell agreements	-	3,384,993	-	-	-	3,384,993
Receivables	294,487	29,445,511	130,313	4,047,622	-	33,917,933
Discounts and loans	56,965,804	34,209,971	57,689,394	199,327,741	205,742,871	553,935,781
Available-for-sale financial assets	7,039,034	86,537	3,413,240	24,551,649	1,728,031	36,818,491
Held-to-maturity financial assets	160,599	224,319	402,978	16,627,442	862,903	18,278,241
Other financial assets (exclusive of financial assets carried at cost)	772	-	969,655	1,586,246	3,002,555	5,559,228
	<u>\$236,243,748</u>	<u>\$121,623,723</u>	<u>\$81,069,933</u>	<u>\$266,844,397</u>	<u>\$212,577,965</u>	<u>\$918,359,766</u>
<b>Liabilities</b>						
Due to the Central Bank and other banks	\$22,751,593	\$3,508,184	\$12,792,180	\$ -	\$ -	\$39,051,957
Financial liabilities at fair value through profit or loss	2,900,000	45,000	3,414,469	4,700,000	-	11,059,469
Securities sold under repurchas agreements	10,684,799	2,126,860	1,707,309	-	-	14,518,968
Payables	3,241,111	792,217	1,617,918	1,901,139	3,867	7,556,252
Deposits and remittances	430,737,338	98,117,703	234,411,849	11,797,119	-	775,064,009
Bank debentures	-	1,300,000	3,700,000	28,500,000	-	33,500,000
Other financial liabilities	500,000	1,948	1,379,922	182,591	72,268	2,136,729
	<u>\$470,814,841</u>	<u>\$105,891,912</u>	<u>\$59,023,647</u>	<u>\$47,080,849</u>	<u>\$76,135</u>	<u>\$882,887,384</u>

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

a. Asset quality  
Table 2 (attached)



b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Rank (Note 1)	December 31, 2010			December 31, 2009		
	Industry of Group Enterprise (Note 2)	Total Amount of Credit Endorsement or Other Transactions (Note 3)	Percentage of E.SUN Bank's Equity	Industry of Group Enterprise (Note 2)	Total Amount of Credit Endorsement or Other Transactions (Note 3)	Percentage of E.SUN Bank's Equity
1	Group A Other electronic parts and components manufacturing not classified elsewhere	\$ 9,322,367	16.97	Group B Integrated circuits production	\$ 6,125,680	11.89
2	Group B Integrated circuits production	7,746,499	14.10	Group C Iron and steel smelting	5,357,218	10.40
3	Group C Iron and steel smelting	6,376,403	11.61	Group D Liquid crystal panel and components production	5,275,618	10.24
4	Group D Liquid crystal panel and components production	5,753,178	10.47	Group A Other electronic parts and components manufacturing not classified elsewhere	5,070,856	9.85
5	Group E Civil air transportation	3,886,230	7.07	Group K Railway transportation	3,804,407	7.39
6	Group F Real estate development	3,315,500	6.03	Group L Petroleum and coal products production	3,000,804	5.83
7	Group G Semiconductors packaging and testing	2,970,438	5.41	Group M Liquid crystal panel and components production	2,911,598	5.65
8	Group H Cement manufacturing	2,695,899	4.91	Group F Real estate development	2,911,500	5.65
9	Group I Real estate for sale and rental with own or leased property	2,675,000	4.87	Group N Footwear manufacturing	2,778,518	5.39
10	Group J Wholesale of computers and peripheral equipment and software	2,607,350	4.75	Group E Civil air transportation	2,492,578	4.84

Note 1: The list shows rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: The total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, factoring accounts receivable without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

Interest Rate Sensitivity (New Taiwan Dollars)

December 31, 2010

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 828,318,706	\$ 10,932,206	\$ 3,411,177	\$ 32,001,860	\$ 874,663,949
Interest rate-sensitive liabilities	434,439,782	393,874,015	29,775,827	27,127,604	885,217,228
Interest rate sensitivity gap	393,878,924	(382,941,809)	(26,364,650)	4,874,256	(10,553,279)
Net worth					53,325,461
Ratio of interest rate-sensitive assets to liabilities					98.81
Ratio of interest rate sensitivity gap to net worth					(19.79)



### Interest Rate Sensitivity (New Taiwan Dollars)

December 31, 2009

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$709,246,308	\$20,070,792	\$2,204,275	\$35,442,324	\$766,963,699
Interest rate-sensitive liabilities	334,062,458	373,152,769	43,925,381	23,190,420	774,331,028
Interest rate sensitivity gap	375,183,850	(353,081,977)	(41,721,106)	12,251,904	(7,367,329)
Net worth					50,107,296
Ratio of interest rate-sensitive assets to liabilities					99.05
Ratio of interest rate sensitivity gap to net worth					(14.70)

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

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

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in New Taiwan dollars).

### Interest Rate Sensitivity (U.S. Dollars)

December 31, 2010

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 4,221,419	\$ 517,492	\$ 156,942	\$ 201,473	\$ 5,097,326
Interest rate-sensitive liabilities	4,733,880	303,530	211,466	51,444	5,300,320
Interest rate sensitivity gap	(512,461)	213,962	(54,524)	150,029	(202,994)
Net worth					52,051
Ratio of interest rate-sensitive assets to liabilities					96.17
Ratio of interest rate sensitivity gap to net worth					(389.99)

### Interest Rate Sensitivity (U.S. Dollars)

December 31, 2009

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$3,353,219	\$456,559	\$145,603	\$326,979	\$4,282,360
Interest rate-sensitive liabilities	3,712,607	289,952	216,744	-	4,219,303
Interest rate sensitivity gap	(359,388)	166,607	(71,141)	326,979	63,057
Net worth					41,084
Ratio of interest rate-sensitive assets to liabilities					101.49
Ratio of interest rate sensitivity gap to net worth					153.48

Note 1: The above amounts included only U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank and excluded contingent assets and contingent liabilities.

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

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in U.S. dollars)



d.Profitability

(%)

Items		Year Ended December 31, 2010	Year Ended December 31, 2009
Return on total assets	Before income tax	0.46	0.21
	After income tax	0.40	0.20
Return on equity	Before income tax	8.62	3.82
	After income tax	7.48	3.63
Net income ratio		23.69	14.41

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

Note 2:Return on equity = Income before (after) income tax/Average equity

Note 3:Net income ratio = Income after income tax/Total net revenues

Note 4:Income before (after) income tax represents income for the years ended December 31, 2010 and 2009.

Note 5:The above profitability ratios are expressed annually.

e.Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

December 31, 2010

(In Millions of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days- 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 960,162	\$ 313,119	\$ 77,509	\$ 41,112	\$ 61,369	\$ 467,053
Main capital outflow on maturity	1,173,511	164,138	170,577	180,481	272,089	386,226
Gap	(213,349)	148,981	(93,068)	(139,369)	(210,720)	80,827

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

December 31, 2009

(In Millions of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days- 1 Year	Over 1 Year
Main capital inflow on maturity	\$845,822	\$190,812	\$96,124	\$45,418	\$49,035	\$464,433
Main capital outflow on maturity	1,053,093	120,877	149,164	182,505	261,983	338,564
Gap	(207,271)	69,935	(53,040)	(137,087)	(212,948)	125,869

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



### Maturity Analysis of Assets and Liabilities (U.S. Dollars)

December 31, 2010

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	\$ 4,439,875	\$ 1,274,095	\$ 639,628	\$ 578,962	\$ 402,010	\$ 1,545,180
Main capital outflow on maturity	4,759,974	2,077,542	1,098,051	754,671	735,431	94,279
Gap	(320,099)	(803,447)	(458,423)	(175,709)	(333,421)	1,450,901

### Maturity Analysis of Assets and Liabilities (U.S. Dollars)

December 31, 2009

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	\$3,626,444	\$843,685	\$670,001	\$490,237	\$295,151	\$1,327,370
Main capital outflow on maturity	3,729,442	1,563,170	890,782	602,067	546,998	126,425
Gap	(102,998)	(719,485)	(220,781)	(111,830)	(251,847)	1,200,945

Note: The above amounts included only U.S. dollar amounts held by the head office, domestic branches and OBU of the Bank.

f. Operation and legal risk

### Matters Requiring Special Notation

(In Thousands of New Taiwan Dollars)

Causes	Summary and Amount	
	December 31, 2010	December 31, 2009
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor	None	None
Within the past year, a fine was levied on the Bank resulting in the authorities for violations of laws and regulations	The Bank found a leakage of customers' information due to the weak security management of its e-Banking system. This leakage was in violation of Article 45-1 of Paragraph 1 and Article 48 of Paragraph 2 of the Banking Law of The Republic of China and entailed an administrative fine of \$4,000 thousand.	None
Within the past year, misconduct occurred, resulting in the authorities imposing strict corrective measures on the Bank	None	None
Within the past year, the Bank faced penalties due to violations of "the Banking Law of the Republic of China" Article 61-1	None	None
Within the past year, the individual loss or total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for Maintenance of Soundness of Financial Institutions" exceeded NT\$50 million dollars	None	None
Other	None	None

Note: The term "within the past year" means one year before the balance sheet date.



### 35. TRUST BUSINESS UNDER THE TRUST LAW

a. Trust-related items, as shown in the following balance sheets, statements of income and trust property list

The trust-related items shown below were managed by the Bank's Trust Department. However, these items were not included in the Bank's financial statements.

Balance Sheets of Trust Accounts  
December 31, 2010 and 2009

Trust Assets	2010	2009	Trust Liabilities	2010	2009
Cash in banks	\$ 2,346,217	\$ 1,224,668	Account payable on securities under custody	\$ 43,987,187	\$ 8,752,604
Short-term investments	110,729,159	95,570,898	Trust capital		
Land	1,731,924	857,840	Cash	113,781,875	98,625,763
Collective investment trust fund account	50,847	68,303	Securities	4,522,085	3,613,791
Securities under custody	43,987,187	8,752,604	Real estates	1,731,924	857,840
			Collective investment trust fund account	50,847	68,303
			Reserves and accumulated deficit	(9,165,890)	(6,035,053)
			Net income	3,937,306	591,065
Total assets	<u>\$ 158,845,334</u>	<u>\$ 106,474,313</u>	Total liabilities	<u>\$ 158,845,334</u>	<u>\$ 106,474,313</u>

Trust Property List  
December 31, 2010 and 2009

Investment Items	2010	2009
Cash in banks	\$ 2,346,217	\$ 1,224,668
Stocks	4,594,836	3,597,902
Mutual funds	105,694,153	91,482,799
Bonds	438,825	488,425
Unsettled beneficiary certificates	605	1,032
Collective investments	740	740
Land	1,731,924	857,840
Collective investment trust fund account	50,847	68,303
Securities under custody	43,987,187	8,752,604
	<u>\$ 158,845,334</u>	<u>\$ 106,474,313</u>

Statements of Income on Trust Accounts  
Years Ended December 31, 2010 and 2009

	2010	2009
<u>Revenues</u>		
Interest	\$ 5,126	\$ 6,372
Cash dividend	2,447,742	1,627,451
Property gain	3,196,394	1,993,858
Realized capital gain - mutual funds	28,668	7,457
Realized capital gain - bonds	492	-
Revenues from beneficiary certificates	693	578
Realized foreign exchange gain	7	-
	<u>5,679,122</u>	<u>3,635,716</u>
<u>Expenses</u>		
Management fees	187,109	218,268
Supervisor fees	230	133
Service fees	1,872	3,198
Property loss	1,500,453	2,795,992
Income tax	285	378
Other expenses	51,270	25,638
Realized capital loss - mutual funds	597	913
Realized capital loss - collective investments	-	131
	<u>1,741,816</u>	<u>3,044,651</u>
Net income	<u>\$ 3,937,306</u>	<u>\$ 591,065</u>

b.Nature of trust business operations under the Trust Law: Note 1.



### 36.ALLOCATION OF REVENUE, COST AND EXPENSE THAT RESULTED FROM THE SHARING OF RESOURCES BETWEEN E.SUN FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

Under cooperation arrangements, the Bank and E.SUN Securities shared some equipment and operating sites; thus, related expenses were allocated as follows:

	Bank	E.SUN Securities	Total	Allocation Method
<u>2010</u>				
Rental expense	\$2,160	\$1,080	\$3,240	The Bank - 2/3 and E.SUN Securities - 1/3
Broadcasting and security systems	36	36	72	50% each
Others	1,381	1,283	2,664	Cleaning expenses - the Bank - 24% and E.SUN Securities - 76% Utilities - 50% each Building maintenance fee. Based on space actually occupied
	<u>\$ 3,577</u>	<u>\$ 2,399</u>	<u>\$ 5,976</u>	
	Bank	E.SUN Securities	Total	Allocation Method
<u>2009</u>				
Rental expense	\$2,160	\$1,080	\$3,240	The Bank - 2/3 and E.SUN Securities - 1/3
Broadcasting and security systems	36	36	72	50% each
Others	1,357	1,268	2,625	Cleaning expenses - the Bank - 24% and E.SUN Securities - 76% Utilities - 50% each Building maintenance fee. Based on space actually occupied
	<u>\$ 3,553</u>	<u>\$ 2,384</u>	<u>\$ 5,937</u>	

Under cooperation arrangements, the Bank and E.SUN Insurance Broker Co., Ltd. (ESIB) shared some equipment and operating sites, personnel, and an internet service system and provided cross-selling financial services starting in 2004. The service fees earned by the Bank were based on 10% of the gross revenue derived from the insurance companies' products sold by the Bank. In 2010 and 2009, ESIB should have paid the Bank \$59,094 thousand and \$39,113 thousand, respectively; the unpaid amount was \$4,469 thousand and \$4,298 thousand on December 31, 2010 and 2009, respectively.



The cross-selling transactions between the Bank and E.SUN Securities were as follow (the amounts below refer to the Bank):

	2010	2009
Revenue	\$ 3,796	\$ 2,459
Expense	\$ 60,704	\$ 56,802

### 37. CAPITAL ADEQUACY RATIO

(Unit: In Thousands of New Taiwan Dollars, %)

Items			Year	December 31, 2010	December 31, 2009
Eligible capital	Tier 1 capital			\$ 49,872,438	\$ 43,649,594
	Tier 2 capita			17,476,049	14,403,648
	Tier 3 capital			-	-
	Eligible capital			67,348,487	58,053,242
Risk-weighted assets	Credit risk	Standardized approach		529,891,296	467,100,520
		Internal ratings - based approach		-	-
		Securitization		1,193,323	2,104,311
	Operational risk	Basic indicator approach		26,757,188	24,446,038
		Standardized approach/Alternative standardized approach		-	-
		Advanced measurement approach		-	-
	Market risk	Standardized approach		25,347,388	32,578,363
		Internal model approach		-	-
	Risk-weighted assets			583,189,195	526,229,232
Capital adequacy ratio				11.55	11.03
Ratio of tier 1 capital to risk-weighted assets				8.55	8.29
Ratio of tier 2 capital to risk-weighted assets				3.00	2.74
Ratio of tier 3 capital to risk-weighted assets				-	-
Ratio of common stock to total assets				3.27	3.60
Ratio of leverage				4.99	5.01

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks”.

Note 2: Formulas used were as follows:

- 1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets.
- 5) Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets.
- 6) Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets.
- 7) Ratio of common stock to total assets = Common stock ÷ Total assets.
- 8) Ratio of leverage = Tier 1 capital ÷ Adjusted average total asset (the average total asset excludes goodwill, deferred losses on the sale of nonperforming loans and ineligible items deducted from Tier 1 capital under the “Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks”).

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 8%. In addition, if the Bank's CAR falls below 8%, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.



### 38. OTHERS

On December 6, 2010, the Bank signed a letter of intent of collaboration with China Zheshang Bank Co., Ltd. Under the regulations of relevant authorities, both parties will exchange business and staff training experience and collaborate in related matters on the basis of the principles of equality, mutual benefits, amity and cooperation.

On January 14, 2011, the Bank signed with Fong-Yi Construction Company a property purchase agreement amounting to \$821,410 thousand. The registration for this property transfer had been completed as of February 14, 2011, the date of the accompanying auditors' report. The property, located in Xitun District of Taichung City, will be used for business operation.

### 39. ADDITIONAL DISCLOSURE

Following are the additional disclosures for the Bank and its investees:

a. Significant transactions and investees:

- 1) Financing provided: Not applicable.
- 2) Endorsement/guarantee provided: Not applicable.
- 3) Marketable securities held: Not applicable.
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital (the Bank disclosed its investments accumulated or disposed of): None.
- 5) Acquisition of individual real estates at costs of at least NT\$300 million or 10% of the paid-in capital: None.
- 6) Disposal of individual real estates at costs of at least NT\$300 million or 10% of the paid-in capital: None.
- 7) Financial asset securitization: Note 10 to the financial statements.
- 8) Allowance of service fees to related parties amounting to at least NT\$5 million: None.
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the paid-in capital: None.
- 10) Sale of nonperforming loans: None.
- 11) Other significant transactions which may affect the decisions of users of financial reports: Note 38 to the financial statements.
- 12) The related information and proportionate share in investees: Table 3 (attached).
- 13) Derivative transactions: The Bank - Notes 5 and 33 to the financial statements; investee - none.

b. Investment in Mainland China: None.

### 40. SEGMENT AND GEOGRAPHIC INFORMATION

The Bank's operations all belong to one business segment, namely, banking. Also, all overseas units individually represent less than 10% of the Bank's total revenues and 10% of its total assets. No other segment information is required to be disclosed.



**E.SUN COMMERCIAL BANK, LTD.**

**TABLE 1**

**RELATED-PARTY TRANSACTIONS  
DECEMBER 31, 2010 AND 2009  
(In Thousands of New Taiwan Dollars)**

**1. Loans  
December 31, 2010**

Type	Account Volume or Name	Highest Balance in the Nine Months Ended December 31, 2009 (Note)	Ending Balance	Loans Classification		Collateral	Differences in Terms of Transaction Compared with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans	82	\$ 160,920	\$ 114,253	\$ 114,253	\$ -	Land and buildings as collateral for part of the loans	None
Self-used housing mortgage loans	66	427,672	335,652	335,652	-	Land and buildings	None
Other loans	J.C. Wang	1,712	1,586	1,586	-	Land and buildings	None
Other loans	J.C. Wang	1,500	1,476	1,476	-	Land and buildings	None
Other loans	Ching-Lee Kao	5,000	2,187	2,187	-	Land and buildings	None
Other loans	Wen-Chuan Tu	1,000	1,000	1,000	-	Land and buildings	None
Other loans	Cheng-Ta Lee	600	580	580	-	Land and buildings	None
Other loans	Davis Tsai	671	-	-	-	Land and buildings	None
Other loans	Vivian Ho	1,100	1,081	1,081	-	Land and buildings	None
Other loans	Shuei-Ping Wan	870	-	-	-	Land and buildings	None
Other loans	Chun-Nan Tsai	2,500	2,478	2,478	-	Land and buildings	None
Other loans	Rong-Huel Chang	3,940	2,054	2,054	-	Land and buildings	None
Other loans	L.C. Lin	900	900	900	-	Land and buildings	None
Other loans	Jia-Tie Huang	2,000	1,807	1,807	-	Land and buildings	None
Other loans	Kuan-Her Wu	1,845	-	-	-	Land and buildings	None
Other loans	Town-Wen Liu	800	-	-	-	Land and buildings	None
Other loans	Edward Chen	3,825	3,612	3,612	-	Land and buildings	None
Other loans	David H. C. Lien	3,000	786	786	-	Land and buildings	None
Other loans	Mei-Nu Chen	2,000	1,922	1,922	-	Land and buildings	None
Other loans	Day-Yu Chen	700	-	-	-	Land and buildings	None
Other loans	Cheng-Hao Chang	5,000	5,000	5,000	-	Land and buildings	None
Other loans	Cheng-Hao Chang	5,000	5,000	5,000	-	Land and buildings	None
Other loans	Shin-Ching Wei	1,900	1,900	1,900	-	Land and buildings	None
Other loans	Ping-Huei Chen	5,000	5,000	5,000	-	Land and buildings	None
Other loans	Tomy Wong	5,800	5,800	5,800	-	Land and buildings	None
Other loans	Benny Chen	1,000	975	975	-	Land and buildings	None
Other loans	I-Shun Chou	3,000	2,040	2,040	-	Time deposit	None
Other loans	Peter Chen	1,000	1,000	1,000	-	Land and buildings	None
Other loans	Tsung-Pin Chen	3,828	-	-	-	Land and buildings	None
Other loans	Tsung-Pin Chen	5,000	-	-	-	Land and buildings	None
Other loans	Shih-Hui Lin	1,675	1,595	1,595	-	Land and buildings	None
Other loans	Kuang-Yi Hung	1,500	1,441	1,441	-	Land and buildings	None
Other loans	Joe Huang	13,000	-	-	-	Land and buildings	None
Other loans	Joe Huang	5,000	2,800	2,800	-	Land and buildings	None
Other loans	Sin-Hua Chen	3,800	3,596	3,596	-	Land and buildings	None
Other loans	Yin-Sung Liu	6,445	6,201	6,201	-	Land and buildings	None
Other loans	Wen-Chian Chang	400	393	393	-	Land and buildings	None
Other loans	Heng-Hwa Yang	320	-	-	-	Time deposit	None
Other loans	Huei-Ling Tsai	4,000	2,350	2,350	-	Land and buildings	None
Other loans	Wu-Shin Chen	800	189	189	-	Land and buildings	None
Other loans	Joseph N. C. Huang	1,000	1,000	1,000	-	Land and buildings	None
Other loans	Nan-Ming Chen	1,949	1,861	1,861	-	Land and buildings	None
Other loans	Yi-Shing Hsiao	800	786	786	-	Land and buildings	None



**December 31, 2009**

Type	Account Volume or Name	Highest Balance in the Nine Months Ended December 31, 2009 (Note)	Ending Balance	Loans Classification		Collateral	Differences in Terms of Transaction Compared with Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans	75	\$ 211,719	\$ 168,019	\$ 168,019	\$ -	Land and buildings as collateral for part of the loans	None
Self-used housing mortgage loans	52	330,067	217,222	217,222	-	Land and buildings	None
Other loans	Chiu-Hsiung Huang	35,000	-	-	-	Land and buildings	None
Other loans	Joseph N. C. Huang	10,000	1,000	1,000	-	Land and buildings	None
Other loans	Joseph N. C. Huang	4,947	4,717	4,717	-	Land and buildings	None
Other loans	Heng-Hwa Yang	363	-	-	-	Land and buildings	None
Other loans	Heng-Hwa Yang	356	320	320	-	Land and buildings	None
Other loans	Joe Huang	1,300	-	-	-	Land and buildings	None
Other loans	Joe Huang	6,000	6,000	6,000	-	Land and buildings	None
Other loans	J.C. Wang	1,834	1,712	1,712	-	Land and buildings	None
Other loans	Shuei-Ping Wan	870	870	870	-	Land and buildings	None
Other loans	Kuan-Her Wu	1,933	1,845	1,845	-	Land and buildings	None
Other loans	Rong Huel Chang	463	-	-	-	Land and buildings	None
Other loans	Rong Huel Chang	4,000	3,940	3,940	-	Land and buildings	None
Other loans	Shih-Hui Lin	2,156	1,675	1,675	-	Land and buildings	None
Other loans	Yin-Sung Liu	6,445	6,445	6,445	-	Land and buildings	None
Other loans	Yin-Sung Liu	1,500	-	-	-	Land and buildings	None
Other loans	Yin-Sung Liu	1,400	-	-	-	Land and buildings	None
Other loans	Yin-Hung Liu	35,000	-	-	-	Land and buildings	None
Other loans	I-Shun Chou	2,991	-	-	-	Land and buildings	None
Other loans	Cheng-Ren Liu	2,660	-	-	-	Land and buildings	None
Other loans	Jia-Tie Huang	2,000	2,000	2,000	-	Land and buildings	None
Other loans	Edward Chen	4,000	3,825	3,825	-	Land and buildings	None
Other loans	Tsung-Pin Chen	4,000	3,828	3,828	-	Land and buildings	None
Other loans	Tsung-Pin Chen	5,000	5,000	5,000	-	Land and buildings	None
Other loans	Day-Yu Chen	5,100	700	700	-	Land and buildings	None
Other loans	Shu-Hua Yang	150	-	-	-	Time deposit	None
Other loans	Nan-Ming Chen	2,000	1,949	1,949	-	Land and buildings	None
Other loans	Huei-Ling Tsai	4,000	4,000	4,000	-	Land and buildings	None

**2. Derivatives**

**December 31, 2010**

Name	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Amounts on the Balance Sheet	
					Account	Amounts
E.SUN Financial Holding Company, Ltd.	Cross-currency swap contracts	2010.06.04-2010.09.15	\$ 975,640	\$ -	-	\$ -

**December 31, 2009**

Name	Type of Derivatives	Contract Period	Nominal Amounts	Valuation Gain (Loss)	Amounts on the Balance Sheet	
					Account	Amounts
E.SUN Financial Holding Company, Ltd.	Currency swap contracts	2008.9.15-2009.3.18	\$314,820	\$ -	-	\$ -
E.SUN Financial Holding Company, Ltd.	Currency swap contracts	2009.1.23-2009.2.6	33,540	-	-	-
E.SUN Financial Holding Company, Ltd.	Cross-currency swap contracts	2009.12.16-2010.12.17	1,293,475	(1,011)	Financial liabilities at fair value through profit or loss	1,011

Note: The sum of the respective highest balances of all accounts in the years ended December 31, 2010 and 2009.



TABLE 2

## E.SUN COMMERCIAL BANK, LTD.

## ASSET QUALITY - NONPERFORMING LOANS AND RECEIVABLES

DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2010					December 31, 2009				
Items		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate	Secured	\$ 372,086	\$110,691,000	0.34	\$ 765,484	205.73	\$ 586,353	\$ 90,561,093	0.65	\$ 586,353	100.00
Banking	Unsecured	718,342	146,957,474	0.49	1,301,743	181.21	1,296,494	136,370,502	0.95	1,296,494	100.00
Consumer Banking	Housing mortgage (Note 4)	632,569	247,911,168	0.26	667,134	105.46	819,020	255,536,546	0.32	549,736	67.12
	Cash card	1,168	26,839	4.35	10,707	916.70	3,990	40,746	9.79	3,990	100.00
	Small scale credit loans (Note 5)	502,203	21,957,675	2.29	637,331	126.91	861,627	14,181,548	6.08	861,627	100.00
	Other (Note 6)										
	Secured	55,265	68,867,637	0.08	154,506	279.57	51,252	51,479,366	0.10	51,252	100.00
	Unsecured	60,851	6,364,555	0.96	78,105	128.35	102,564	5,765,980	1.78	102,564	100.00
Loan		2,342,484	602,776,348	0.39	3,615,010	154.32	3,721,300	553,935,781	0.67	3,452,016	92.76
		Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards		111,421	30,887,743	0.36	436,132	391.43	430,815	29,849,038	1.44	575,489	133.58
Factoring accounts receivable without recourse (Note 7)		-	1,365,701	-	3,464	-	-	528,849	-	2,000	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)		158,038					96,047				
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)		620,348					1,018,770				
Amounts of executed debt-restructuring projects not reported as nonperforming loans (Note 9)		141,981					85,078				
Amounts of executed debt-restructuring projects not reported as nonperforming receivables (Note 9)		772,477					800,828				

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrued Loans."

Nonperforming receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

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

Ratio of nonperforming receivables: Nonperforming receivables ÷ Outstanding receivables balance.

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

Coverage ratio of receivables: Allowance for possible losses for receivables ÷ Nonperforming receivables.

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

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

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



Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), factoring accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

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

Note 9: Amounts of executed debt-restructuring projects not reported as nonperforming loans or receivables are disclosed to the public in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

**TABLE 3**

**E.SUN COMMERCIAL BANK, LTD.**

**THE RELATED INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES  
YEAR ENDED DECEMBER 31, 2010  
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	The Proportionate Share of the Bank and its Affiliates in Investees (Note 1)				Notes
							Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
									Shares (Thousands)	Percentage of Ownership	
E.SUN Commercial Bank, Ltd. (the “Bank”)	<u>Finance-related business</u>										
	Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	\$ 2,000	\$ 511	160	-	160	0.81	
	Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	0.45	9,000	1,127	1,203	-	1,203	0.45	
	Taiwan Asset Management Corporation	Taipei	Acquisition of delinquent loans	0.57	100,000	6,784	10,000	-	10,000	0.57	
	Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	500	5,000	-	5,000	2.94	
	Taiwan Finance Corp.	Taipei	Bills financing	0.41	21,355	424	2,120	-	2,120	0.41	
	Sunny Asset Management Co.	Taipei	Acquisition of delinquent loans	4.34	2,603	336	260	-	260	4.34	
	<u>Non-finance related business</u>										
	Fugi Consulting Co., Ltd. (formerly Fubon Securities Finance Co.)	Taipei	Investment consulting	2.56	247	9,200	26	-	26	2.56	
	Financial Information Service Co., Ltd.	Taipei	Information service	2.28	108,954	27,300	9,100	-	9,100	2.28	
	Apex Venture Capital Corp.	Taipei	Investment	4.67	21,963	-	2,196	-	2,196	4.67	
	Gapura Incorporated	Taipei	Investment	11.10	3,544	-	592	-	592	11.10	
	BankPro E-Service Technology Co., Ltd.	Taipei	E-commerce application service	3.33	4,500	999	450	-	450	3.33	
	Taiwan Incubator Small & Medium Enterprises Development Co., Ltd.	Taipei	Small and medium enterprise incubation	3.44	24,071	-	2,425	-	2,425	3.44	

Note 1: Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates in accordance with the Company Law have been included.

Note 2: a. Pro forma shares are shares that are assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.

b. Equity-based securities are covered by Article 11 of "Securities and Exchange Law Enforcement Rules," such as convertible bonds and warrants.

c. Derivative contracts are those conforming to the definition of derivatives in Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments," such as stock options.



**E.SUN COMMERCIAL BANK, LTD.**

**TABLE 4**

**INFORMATION ON THE FOREIGN-CURRENCY FINANCIAL ASSETS AND  
LIABILITIES WITH SIGNIFICANT EFFECT  
DECEMBER 31, 2010 AND 2009**

(Unit: In Thousands)

	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<b>Financial assets</b>						
USD	\$ 3,826,695	29.5000	\$ 112,887,503	\$ 3,141,059	32.1760	\$ 101,066,714
AUD	319,903	30.0281	9,606,079	168,964	28.8715	4,878,244
HKD	1,738,109	3.7900	6,587,433	915,446	4.1490	3,798,185
JPY	10,220,888	0.3622	3,702,006	10,804,343	0.3480	3,759,911
EUR	67,039	39.2468	2,631,066	42,641	46.2305	1,971,315
NZD	7,752	22.7593	176,430	665	23.3437	15,524
CHF	3,511	31.5339	110,716	813	31.0789	25,267
RMB	23,050	4.4664	102,951	14,268	4.7129	67,244
SGD	3,886	22.8718	88,880	3,754	22.9239	86,056
GBP	1,875	45.5510	85,408	13,251	51.7358	685,551
CAD	1,616	29.5118	47,691	8,936	30.5856	273,313
ZAR	7,376	4.4426	32,769	1,221	4.3425	5,302
SEK	2,539	4.3671	11,088	12,911	4.5008	58,110
THB	7,667	0.9788	7,504	9,632	0.9645	9,290
MYR	77	9.5624	736	77	9.3972	724
<b>Financial liabilities</b>						
USD	4,190,070	29.5000	123,607,065	3,358,512	32.1760	108,063,482
EUR	171,945	39.2468	6,748,291	99,940	46.2305	4,620,276
AUD	139,638	30.0281	4,193,064	240,961	28.8715	6,956,906
JPY	10,938,607	0.3622	3,961,963	4,227,815	0.3480	1,471,280
HKD	950,202	3.7900	3,601,266	593,955	4.1490	2,464,319
ZAR	543,863	4.4426	2,416,166	686,231	4.3425	2,979,958
NZD	96,299	22.7593	2,191,698	109,991	23.3437	2,567,597
GBP	32,942	45.5510	1,500,541	19,279	51.7358	997,414
CAD	25,804	29.5118	761,522	17,281	30.5856	528,550
SGD	5,835	22.8718	133,457	2,319	22.9239	53,161
CHF	2,470	31.5339	77,889	1,504	31.0789	46,743
SEK	15,824	4.3671	69,105	42,959	4.5008	193,350
RMB	230	4.4664	1,027	-	4.7129	-
MYR	-	9.5624	-	1	9.3972	9



## VII. Risk Management



Stable Foundation for Sustainable Development.

# 1.Risk Management

E.SUN's business development policies place security and liquidity first, followed by returns and then growth. E.SUN's main business divisions have all established risk management units that are responsible for direct management of risk operations. Regarding product designation, operational procedures and business marketing, E.SUN is continuously engaging in risk measurement, supervision and control tasks that are independent of the respective business operations.

Apart from each risk management unit under different business divisions, E.SUN has established the Risk Management Division in order to centralize screening, supervision and coordination of the Bank's risk management mechanisms. The division is in charge of drafting risk management policies and principles that serve as a guide for all business units. It also supervises and coordinates the operation of risk management mechanisms in these offices. In addition, E.SUN's risk management policies are linked with capital adequacy. Guidelines under the Basel II Accord have been used as a basis in formulating rules and procedures that are intended to ensure an appropriate risk appetite, risk reporting lines, and capital adequacy. Reports are regularly provided to the Risk Management Committee so management can periodically review E.SUN's risk appetite and risk reporting lines.

## 1.1 Qualitative and Quantitative Information Concerning Risk Types

### (1)Credit Risk Management System and Capital Charges

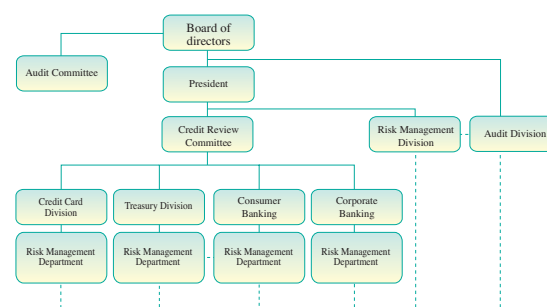
- a. Credit Risk Management System
- (a) Credit Risk Strategies, Goals, Policies and Processes

The objective of the Bank's risk management and development strategy is to comply with the regulatory system and internal lending and transaction risk control mechanisms, thus continuing to assess and to follow with domestic and foreign economic and financial trends, make adjustments to internal criteria as appropriate. E.SUN complies with the rules of Basel II, set up comprehensive credit management system and adopt credit evaluation models, formulate guidelines for short-term bills guarantees with any single company or affiliate, and determine

internal guidelines for lending ratios for each industry in compliance with regulations set forth by regulators.

### (b) Credit Risk Management Organization and Framework

Each main business division has established a risk management unit to facilitate the identification and handling of risk on the front line, to establish acceptance risk limits, and create indicators for use in monitoring risk. For its part, the Risk Management Division formulates risk management policies and principles, bears responsibility for assessing and monitoring Bank-wide risk management quality, and regularly reports to the Risk Management Committee. E.SUN's credit risk management organizations is shown in the schematic diagram below.



### (c) Scope and Features of Credit Risk Reporting and Measurement System

The objective of Bank units responsible for establishing risk controls and managing risk, as well as credit risk assessment and management procedures, is to screen credit risk, mid-term management, engage in credit rating, manage the level of credit extended, and monitor loans after they have been disbursed. Every unit which is responsible for risk management in E.SUN adopts various measures to effectively monitor such risk and regularly produces reports that detail its efforts to manage credit risk. The Bank also releases data that provide a true picture on all types of credit risk, including sovereign risk, trading counterparty



credit risk, large amounts of exposure, concentration of credit in specific industries, and amount of credit extended to a single institution or conglomerate. This data is forwarded to managers instantaneously at all levels so they are aware of the level of risk exposure.

To comply with Basel II, E.SUN has completed the roll-out of credit risk datamart, a consumer banking and corporate banking IRB model. The IRB rating model has been integrated with the Bank's credit processing system (CPS). In addition, reviews and improvements to the mechanisms are constantly being carried out, including credit risk control policies, Measurement procedures, and credit development strategies.

(d) Credit Risk Hedging and Risk Mitigation Policies; Strategies and Processes to Monitor the Continued Effectiveness of Risk Mitigation Tools

Credit risk mitigation refers to techniques used to reduce credit risk, thereby reducing total risk-based assets and required capital charges. For instance, collateral, third-party guarantees, trading credit derivatives as a hedge, using the counterparty's deposits to offset its liabilities or asset securitization can be used to shift credit risk from the Bank. E.SUN's credit handbook explicitly states that in order to avoid losses associated with defaults by a counterparty, collateral must be provided by the counterparty or a third party. Should the customer default, be unable to repay the loan or become insolvent, the collateral will be disposed based on clear procedural guidelines. At the same time, E.SUN effectively reduces its credit risk by requiring guarantees from the Taiwan Small and Medium Enterprise Credit Guarantee Fund on lending to SMEs and credit insurance for personal credit loans.

(e) Approach to Determining Regulatory Capital Charges

Standardized approach.

b. Credit Risk Capital Charged

The Standardized Approach to Credit Risk:  
Exposure after Risk Mitigation and Capital Charges

2010.12.31 unit: NT\$ thousand

Category of Exposure	Exposure after Risk Mitigation	Capital Charges
Sovereign	0	0
Public Sector (Non-central government)	0	0
Banks (including multilateral development banks)	12,907,525	1,032,602
Corporate (including securities and insurance companies)	230,326,788	18,426,143
Retail Bonds	171,537,223	13,722,978
Residential Real Estate	95,216,339	7,617,307
Equity Investments	660,488	52,839
Other Assets	19,242,933	1,539,435
Total	529,891,296	42,391,304

(2) Asset Securitization Risk Management System, Exposure and Capital Charge

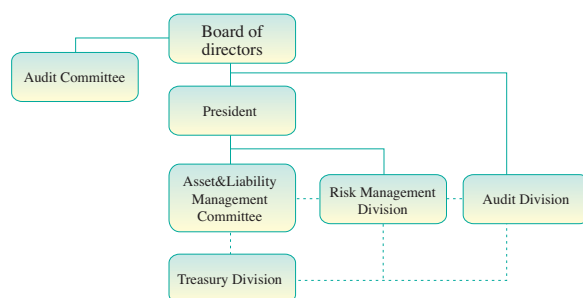
a. Asset Securitization Risk Management System

(a) Asset Securitization Strategy, Goals, Policies and Processes

Asset securitization aims to reduce the risk of structured bonds in bond funds, enhance secondary market liquidity, expand participation in the securitized product market, and build global markets for Taiwan's securitized products.

(b) Asset Securitization Management Organization and Framework

Regulators have prescribed that the board of directors of the originating organization must approve asset securitization cases, and securitized products may be issued by a trust organization only upon approval by regulators. Consequently, E.SUN obtains board approval for each instance of asset securitization, and it manages each case separately. The Treasury Division is responsible for instigating asset securitization cases, financial assessment and implementation of relevant issuance procedures. The Risk Management Division bears responsibility for asset securitization risk management and fair value assessment. E.SUN's asset securitization risk management organization is shown in the diagram below.



### (c) Scope and Features of Asset Securitization Reporting and Measurement System

The Bank, as the initiator of the securitization, is responsible for creating a fair value assessment of the securities. The Bank and the financial advisor for each case establish a cash flow model prior to issuance. The model is used in conjunction with market data to generate an estimated cash flow. This data is then entered into the Reuters Kondor+ system to appraise market value and thereby accurately reflect the current situation of market risk.

### (d) Asset Securitization Hedging and Risk Mitigation Policies; Strategies and Processes for Monitoring the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools

Risk avoidance and risk mitigation tools comply with related rules set forth by regulators and internal risk control mechanisms. They are adjusted at appropriate times based on domestic and foreign economic and financial trends in order to ensure that they remain effective.

### (e) Approach to Determining Regulatory Capital Charges

Standardized approach.

## b. Asset Securitization Capital Charged

2010.12.31 Unit: NT\$ thousand

Type of Exposure	Non-Originator		Originator						
	Buy or Hold	Capital Charged	Exposure Amount						Capital Charged before Securitization
			Non-Asset Based Commercial Paper		Structured		Asset Based Commercial Paper		
			Traditional	Non-Hold Position	Hold Position	Non-Hold Position			
Bank Type	0	9,565	0	0	0	0	0	0	0
Corporate Type	351,474	95,466	0	0	0	0	0	0	0
E SUN BANK 2005-1									
Collateralized Bond Obligation SPT	0	0	649,451	0	0	0	0	0	402,800
E SUN BANK 2005-2									
Collateralized Bond Obligation SPT	0	0	4,457,853	0	0	0	0	0	475,520
E SUN BANK 2007-1									
Collateralized Bond Obligation SPT	0	0	0	0	0	0	0	0	382,400
E SUN BANK 2007-2									
Collateralized Bond Obligation SPT	0	0	0	0	0	0	0	0	540,800
Total	351,474	105,031	5,107,304	0	0	0	0	0	1,801,520

## (3) Operations Risk Management System, Exposure and Capital Charges

### a. Operations Risk Management System

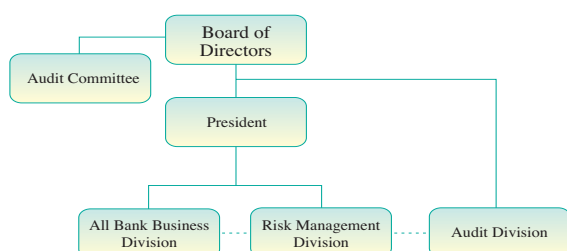
#### (a) Operations Risk Strategy, Goals, Policies and Processes

E.SUN believes the international measures to minimize operations risk are founded on an excellent operating system, a high degree of risk awareness among all employees, a rule-abiding and disciplined corporate culture, and a comprehensive internal audit system. In addition to providing extensive education and training to personnel, E.SUN has also drafted rules and regulations to guard against operations risk, including employee guidelines, customer service (including KYC), product design criteria, enforcement rules, operating regulations, data security, system backup, and emergency response guidelines. In addition, in order to ensure protection against risk caused by external events, E.SUN continuously monitors the market environment, customer behavior, changes in technology, and laws and regulations. This enables it to be sensitive to any steps that need to be taken and react appropriately and immediately.



(b) Operations Risk Management Organization and Framework

Each business division has its respective operating guidelines and internal criteria. In addition, each must perform regular self-audits. Furthermore, the Audit Division carries out audits on a regular or periodic basis. The Risk Management Division has assisted in establishing internal control system indicators, and it regularly reports to the Risk Management Committee. The Bank's operations risk management organization is depicted in the diagram below.



(c) Scope and Features of Operations Risk Reporting and Measurement System

The Bank has incorporated operational risk in its stress testing monitoring and regularly reviews its appetite for operations risk and determines management limits based on assessments of bank-wide operations risk. The limits serve as an early warning system and also reflect overall risk appetite. This allows the Bank to draft policies to improve systems as needed.

The operations risk management unit at the headquarters will regularly disclose information detailing its monitoring of operations risk throughout the Bank. Operations risk data and other related information is compiled and presented in reports to senior management, the Risk Management Committee, and the board of directors.

E.SUN has completed development of a database on losses associated with operations

risk. Related units input information on a regular basis. E.SUN in the future will continue to enhance the development of its internal and external operating procedures, and it will set forth rules and regulations in this regard in order to strengthen internal controls.

(d) Operations Risk Hedging or Risk Mitigation Policies; Strategies and Processes to Monitor the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools

E.SUN has taken out general insurance to cover the daily operations of its branches. This insurance covers cash on hand, cash in transport, cash in automated machinery, machinery and assets in offices and employee fidelity.

(e) Approach to Determining Regulatory Capital Charges  
Indicator approach.

b. Operational Risk Capital Charged

2010.12.31 unit: NT\$ thousands

Year	Gross Income	Capital Charged
2008	13,378,019	
2009	12,584,888	
2010	16,848,601	
合計	42,811,508	2,140,575

(4) Market Risk Management System, Exposure and Capital Charges

a. Market Risk Management System

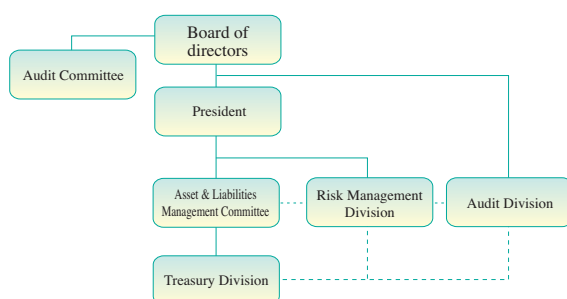
(a) Market Risk Strategy, Goals, Policies and Processes

In order to avoid excessive risk from fluctuations in the prices of equities, products, interest rates and foreign exchange rates, and from any linkage between these prices of these items, all financial product transactions must be carried out in accordance with the Bank's Compliance Principles for Transactions, Investments and Funding, and Procedures for Handling Derivatives Transactions. In addition, VaR must be calculated in accordance with definitions set by the Bank for International

Settlements, in an effort to control E.SUN's market risk.

(b) Market Risk Management Organization and Framework

E.SUN has set forth market risk management policies. In addition, the Risk Management Division is responsible for risk management and fair value assessment of financial products and report to the board and risk management committee periodically on market risk portfolio, liquidity risk and stress testing. The Assets and Liabilities Management Committee is charged with allocation of the Bank's assets and liabilities in order to fully realize market risk management objectives. The Bank's market risk management organizational framework is shown in the diagram below.



(c) Scope and Features of Market Risk Reporting and Measurement System

Regarding market risk management, E.SUN presently employs the Reuters Kondor+ system and Bloomberg datamart to monitor trading positions and real-time pricing. The system also generates VaR for all transactions carried out in the Bank and all investment positions, helping to monitor the procedures. Besides, E.SUN Bank uses KGL system to manage position limits, taking market volatility into consideration to manage counter-party risk limits.

(d) Market Risk Hedging and Risk Mitigation Policies; Strategies and Processes for Monitoring the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools

The Bank uses derivatives such as credit default swaps or total return swaps to

ensure credit safeguards and thereby reduces ordinary market risk, specific risks and counterparty risk.

(e) Approach to Determining Regulatory Capital Charges

In accordance with the capital charge requirements prescribed by the New Basel Accord, foreign exchange options positions are calculated using sensitivity analysis (Delta-plus), for which E.SUN has been approved to do by the FSC. All other financial products are calculated using the standardized approach.

b. Market Risk Capital Charged

2010.12.31 unit: NT\$ thousands

Risk Type	Capital Charged
Interest rate risk	1,651,266
Securities risk	217,131
FX risk	126,738
Commodity Risk	25,930
Option based on simple method	6,726
Total	2,027,791

(5) Liquidity Risk Management and Asset and Liability Maturity Analysis

E.SUN has drafted NT Dollar Liquidity Risk Management Policies and Principles for Liquidity Risk Management to guide liquidity risk management. Various control factors are monitored on a daily basis, and Bank-wide liquidity risk is regularly subjected to stress tests and reported to Asset-Liability Management Committee every month.

2. Impact of Important Domestic or Foreign Policy and Legal Changes on the Bank's financial Operations, and Countermeasures

- (1) Stage 1 of IFRS will be applied to financial statements of the banking industry in 2013. In light of this, statements in 2012 will need to be compiled based on IFRS. Besides initial



adjustments in taxes on capital reserves and equity, new systems will be instituted to measure lending and receivables. These changes are expected to more precisely assess any lending- or receivables-related losses and impairment. E.SUN has already begun planning associated with the adoption of these new standards and will be entirely prepared prior to the implementation date set forth by regulators. This will ensure that E.SUN maintains its competitive edge.

- (2) The Cross-Strait Economic Cooperation Framework Agreement formally took effect on September 12, 2010. The pact is expected to pave the way for more frequent cross-strait banking interaction. Banks on both sides of the Taiwan Strait will establish branches on the other side based on the agreement. With regard to E.SUN, the Bank is applying to establish branches in mainland China and will look to introduce Yuan business. E.SUN has already begun evaluating the possible impact of the agreement and will be closely analyzing the details therein. The Company will be poised to take advantage of any opportunities that will effectively boost its competitiveness as a result of these developments and will also evaluate any associated risks.

### **3. Impact of Technological and Industrial Changes on the Bank's Financial Operations, and Countermeasures**

Advances in information technology enable E.SUN to provide various banking products and services to customers through its virtual network, satisfying the needs of its various customer segments. E.SUN will continue to invest resources in all sorts of R&D to introduce even more convenient products and services needed by its customers. As a result, E.SUN constantly monitors technological and industrial trends, applies the advice of world-class consultants, and strives to ensure that its overall business knowledge and skills adhere to global standards and to provide customer the most suitable products and comprehensive data security protection.

### **4. Impact of Changes in the Bank's Image on the Company, and Countermeasures**

E.SUN has made every effort to be a model in terms of corporate governance. Transparency is provided for transactions carried out by affiliated parties in order to avoid conflicts of interest. At the same time, the Bank emphasizes protecting the interests of shareholders, providing better framework in risk management, employees training and benefits to employees. E.SUN is committed to social welfare and environmental protection causes and it has made every effort to transfer its commitment in practice. In order to maintain its image, internal departments will regularly examine and make correction thereof if any of its actions lead to damage or decline in its image. E.SUN desires to be an example of an outstanding company and seeks to fulfill its corporate social responsibility, thereby continually maintaining its image. The Bank places great importance on having a strong image and caring for its customers. In 2010, E.SUN received several awards in this field, including No.1 among all financial companies in service quality survey by Global View magazine, the most trustworthy bank and the best service bank by Business Today.

### **5. Anticipated Benefits and Possible Risks Associated with Mergers and Acquisitions, and Countermeasures**

E.SUN is currently in the process of acquiring Chu Nan Credit Cooperative Association (CNCCA). Other than expanding channel network, E.SUN expects the deal can generate synergies from accessing to new customers and providing them with quality services and valuable products for more profits. The risks involved in the transaction may include the adjustment of CNCCA employees to E.SUN corporate culture and the prolong of IT integration. E.SUN will follow the established IT integration plan and encourage employees from CNCCA to stay with E.SUN and provide customers the same image, profession and quality service of E.SUN Bank to create customer values.

## **6. Anticipated Benefits and Possible Risks of Expansion, and Countermeasures**

In 2010, E.SUN's total domestic and overseas branch network reached 125 (including the Los Angeles and Hong Kong branches, and the OBU). In addition to the gradual expansion of its physical branch network, E.SUN also offers expansive electronic banking services, mobile banking and a call center, creating a tight-knit financial services network and boosting customer value. Provision of comprehensive range of financial products line and services, together with integrated marketing initiatives also promise to maximize synergy. With regard to any unexpected impact of or possible operations risks associated with new branches, the bank continues to observe the status of business development after any expansion in its branch network and thereby reduces any impact to a minimum due to its strict internal controls.

## **7. Risks from Concentration of Operations, and Countermeasures**

With regard to concentration of operations, E.SUN continues to pay close attention to any changes in the financial industry. It stays abreast of macroeconomic and industrial trends, as well as the direction of prices. It adjusts its business development strategies as appropriate. With regard to risk associated with concentration of counterparties, the Bank sets upper limits of risk exposure for recipients of loans and investment, as well as individual conglomerates, and it strictly adheres to these limits. It acts in accordance with post-disbursement management regulations to regularly review the suitability of credit terms and assess the possibility of systemic risk. It also carries out Bank-wide risk appetite stress tests to ensure that possible risk associated with the development of new areas of business is kept within acceptable limits.

## **8. Influence of Changes in Ownership of the Bank, Possible Risks and Countermeasures**

E.SUN Commercial Bank was 100% owned subsidiary of E.SUN Financial Holdings Company at the end of 2010, and there had been no major change in managerial authority.

## **9. Litigious or Non-litigious Incidents: None**

## **10. Other Major Risk Countermeasures**

E.SUN did not establish an appropriate internal control procedure to oversee its information safety and was fined by the Financial Supervisory Commission in 2010. The Bank has implemented measures to rectify the situation.

## **11. Crisis Management and Response Mechanism**

E.SUN has drafted Emergency Response and Crisis Management Regulations, Guidelines Governing Handling of Extraordinary Events, and Rules to Maintain Safety. These measures are mobilized should the Bank face a run on deposits, embezzlement, plunder, robbers, violence, damage, fire, air raid, natural disaster or other major events. In addition, E.SUN has created a Crisis Management Task Force and a position of Emergency Contact that takes action and provides real-time reports and notification upon any irregular internal or external events. Furthermore, E.SUN has formulated countermeasures and contingency plans in the event of emergencies or irregular events. The company follows plans and steps to effectively prevent crises from expanding and has instituted a real-time notification system. Each business unit also carries out drills on a regular basis to determine the effectiveness of contingency measures. This strengthens the Bank's ability to address emergencies and handle and manage crises in a well thought-out manner.



## VIII. Special Disclosure



Lively Spring Mountain with Green Skirt.



# 1. Summary of Affiliated Companies

## 1.1 Consolidated Operating Report on Affiliated Companies

### (1) Organization Chart of Affiliated Companies



### (2) Operation Status of Affiliated Companies

2010.12.31 Unit: NT\$ thousands

Name	Capital	Total Asset	Total Liability	Net Worth	2010 P/L (after tax)	EPS (after tax in NT\$)
E.SUN FHC	38,033,000	68,429,293	13,187,434	55,241,859	3,923,072	1.04
E.SUN Securities	3,060,000	7,762,960	4,185,678	3,577,282	239,257	0.78
E.SUN Venture Capital	1,500,000	1,782,972	19,503	1,763,469	150,269	1.00
E.SUN Insurance Brokers	113,000	609,171	92,337	516,834	349,664	30.94
E.SUN Investment Consulting	50,000	60,656	7,533	53,123	1,104	0.22

## 1.2 Report on Affiliation

2010.12.31

Name of Controlling Company	Reason of Control	Shareholding and Pledge status of Controlling Company			Representation of Directors, Independent Directors or Managers of Controlling Company
		No. of Shareholding	Shareholding Ratio	Pledged Share Number	
E.SUN Financial Holding Company	100% shareholding	3,510,000,000 shares	100%	0 share	Title and name as following note

\*Note:

Chairman: Kuo-Lieh Tseng

Managing Directors: Wu-Lin Duh, Jackson Mai, Chiu-Hsiung Huang, Chang Lin Jen Jen (also Independent Director)

Independent Directors: Chen-En Ko, Chi-Jen Lee, Hsin-I Lin

Directors: Chai-Kuo Chen, Jian-Li Wu, Tai-Chi Lee, Cheng-Pin Lee, Yung-Hsung Hou, Joseph Huang, Suka Chen

### (3) Range of Operations of E.SUN Bank and Affiliates

Business includes banking operations and investment in domestic and overseas banking-related businesses and investment as approved by regulatory agencies, broking and dealing of short-term bills, broking, underwriting and dealing of securities, venture capital, life insurance broking, non-life insurance broking, and securities investment consulting. Each affiliate is an independent institution and each carries out its respective line of business.



### 1.3 Other Important Transaction

(1) The Bank engages in cross currency swap trades with E.SUN FHC. In 2010 the realized gain was NT\$8,240,000.

1.4 Guarantee for Affiliated Companies: None

1.5 Representation of Consolidated Financial Statements of Affiliated Enterprises

2.Private Placement Securities in the Most Recent Years: None

3.The Shares in the Company Held Disposed of by Subsidiaries in the Most Recent Years: None

4.Other Required Supplementary Disclosure: None



## 5. Representation of Consolidated Financial Statements of Affiliated Enterprises

### Representation

February 14, 2011

On behalf of E.SUN Commercial Bank Ltd., we hereby declare that the company's 2010 Affiliation Report (Period from Jan. 1st 2010 to Dec. 31st 2010) followed the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises". There is no material discrepancy with the information disclosed in the notes of financial report for the said period.

E.SUN Commercial Bank, Ltd.

Chairman





*Pure as Jade, Stern as Mountain*



- **The Most Trustworthy Bank in Wealth Management Business.**  
(Business Today magazine)
- **No.1 Bank on Service Quality Survey of Taiwan.**  
(Global View magazine)
- **Platinum Corporate Award for Management Excellence.**  
(The Asset magazine)

Thank you for your entrustment,  
we appreciate your comments and encouragement!

**E.SUN Commercial Bank, Ltd.**

Chairman of the Board

March 30, 2011 Printed





**With our heartfelt appreciation and eternal blessing.**



## Service Network of E.SUN FHC

E.SUN BANK	phone		phone		phone
Head Office Business Division	+886 2 2719 1313	Nanshijiao Branch	+886 2 2942 8813	Dali Branch	+886 4 2485 1313
International Banking Division/OBU	+886 2 2175 1313	Banciao Branch	+886 2 8257 1313	Caotun Branch	+886 4 9238 1313
Trust Division	+886 2 2175 1313	Pu Chain Branch	+886 2 2963 1313	Changhua Branch	+886 4 728 1313
Credit Card Division	+886 2 2182 1313	Banhsin Branch	+886 2 8952 1313	Yuanlin Branch	+886 4 836 1313
Nanching East Road Branch	+886 2 2760 1313	Haishan Branch	+886 2 2256 1313	Doullou Branch	+886 5 532 1313
Chengjhong Branch	+886 2 2389 1313	Guangfu Branch	+886 2 2957 1313	Chiayi Branch	+886 5 223 1313
Dongmen Branch	+886 2 2321 1313	Sanchung Branch	+886 2 2280 1313	East Chiayi Branch	+886 5 216 1313
Chengtung Branch	+886 2 2504 1313	Chongsin Branch	+886 2 2984 1313	Puzih Branch	+886 5 379 1313
Keelungroad Branch	+886 2 2378 1313	Er-Chong Branch	+886 2 2278 1313	Tainan Branch	+886 6 241 1313
Hsinyi Branch	+886 2 8789 1313	East Sanchung Branch	+886 2 2971 1313	East Tainan Branch	+886 6 289 1313
Tienmu Branch	+886 2 2835 1313	Tucheng Branch	+886 2 2274 1313	Jinhua Branch	+886 6 291 1313
Minsheng Branch	+886 2 2509 1313	SouthTucheng Branch	+886 2 2267 1313	Yungkang Branch	+886 6 201 1313
Fuhsing Branch	+886 2 2771 1313	Shulin Branch	+886 2 8675 1313	Chiali Branch	+886 6 721 1313
Tunnan Branch	+886 2 2754 1313	Hueilong Branch	+886 2 2689 1313	Rende Branch	+886 6 270 6613
Changchun Branch	+886 2 2546 1313	Wugu Branch	+886 2 2290 1313	Kaohsiung Branch	+886 7 336 1313
Chungshan Branch	+886 2 2537 1313	Sindian Branch	+886 2 2916 1313	Dashun Branch	+886 7 727 1313
Neihu Branch	+886 2 2659 1313	Beisin Branch	+886 2 8911 1313	Lingya Branch	+886 7 716 1313
Shilin Branch	+886 2 2834 1313	Sanxia Branch	+886 2 2673 6613	Cianjhen Branch	+886 7 761 1313
Dong-Hu Branch	+886 2 2632 1313	Taishan Branch	+886 2 2297 1313	Chihsien Branch	+886 7 235 1313
North Tienmu Branch	+886 2 2877 1313	Sinshu Branch	+886 2 2647 1313	Zuoying Branch	+886 7 559 1313
Songshan Branch	+886 2 3765 1313	Taoyuan Branch	+886 3 332 1313	Nanzih Branch	+886 7 364 1313
Heping Branch	+886 2 2362 1313	South Taoyuan Branch	+886 3 337 1313	North Kaohsiung Branch	+886 7 350 1313
Mincyuan Branch	+886 2 2568 1313	Tao Yin Branch	+886 3 375 1313	Sanmin Branch	+886 7 315 1313
Jhonglun Branch	+886 2 2577 1313	Linkou Branch	+886 3 396 1313	Dachang Branch	+886 7 341 1313
Daan Branch	+886 2 2755 1313	Nankan Branch	+886 3 352 1313	Chengcing Branch	+886 7 386 1313
Guting Branch	+886 2 2364 1313	Bade Branch	+886 3 367 1313	Siaogang Branch	+886 7 807 1313
Beitou Branch	+886 2 2895 1313	Jhongli Branch	+886 3 427 1313	Fongshan Branch	+886 7 743 1313
Songjiang Branch	+886 2 2562 1313	Lisin Branch	+886 3 492 1313	Gangshan Branch	+886 7 621 1313
Mujha Branch	+886 2 2936 1313	Yangmei Branch	+886 3 488 1313	Linyuan Branch	+886 7 643 1313
Jhongsiao Branch	+886 2 8772 1313	Hsinchu Branch	+886 3 523 1313	Houjhuang Branch	+886 7 702 1313
Sinhu Branch	+886 2 2203 1313	Guanghua Branch	+886 3 533 1313	Pingtung Branch	+886 8 733 1313
Jiancheng Branch	+886 2 2556 1313	Jhu Bei Branch	+886 3 554 1313	Chaozhou Branch	+886 8 786 1313
Nangang Branch	+886 2 2789 1313	Sinfong Branch	+886 3 557 1313	Donggang Branch	+886 8 835 1313
Hsinchuang Branch	+886 2 2202 1313	Jhunan Branch	+886 3 746 1313	Neipu Branch	+886 8 778 1313
North Hsinchuang Branch	+886 2 2997 1313	Taichung Branch	+886 4 2291 1313	Keelung Branch	+886 2 2427 1313
Lujhou Branch	+886 2 2848 1313	Dadun Branch	+886 4 2320 1313	Luodong Branch	+886 3 957 1313
Shwangho Branch	+886 2 2923 1313	Nantun Branch	+886 4 2380 1313	Hualien Branch	+886 3 831 1313
Yonghe Branch	+886 2 2949 1313	Situn Branch	+886 4 2461 1313	Taitung Branch	+886 8 936 1313
Fu-Hei Branch	+886 2 8923 1313	Jhonggong Branch	+886 4 2350 8913	Penghu Branch	+886 6 927 1313
Yung An Branch	+886 2 8921 1313	Daya Branch	+886 4 2568 1313	Los Angeles Branch	+1 626 810 2400
Jhonghe Branch	+886 2 2222 1313	Longjing Branch	+886 4 2636 6813	Hong Kong Branch	+852 3405 6168
Liancheng Branch	+886 2 8228 1313	Fongyuan Branch	+886 4 2512 1313	Ho Chi Minh City Representative Office	+84 8 911 1313
Taihe Branch	+886 2 2242 1313			Dongguan Representative Office	+86 769 2698 5452



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