

# 2010 Annual Report of Chunghwa Post

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## I. Financial Status

### Financial Status Comparison and Analysis

Unit: NT\$1,000

Item	2010	2009	Difference	
			Amount	%
Total Assets	5,486,746,426	5,318,734,633	168,011,793	3.16
Total Liabilities	5,369,489,125	5,218,313,585	151,175,540	2.90
Total Owners' Equity	117,257,301	100,421,048	16,836,253	16.77

Explanation of Increase/ Decrease:

1. Total assets have increased by NT\$168,011,793,000 over the previous period, mainly due to:

- (1) A decrease of NT\$271,521,847,000 in due from Central Bank and Other Banks.
- (2) A decrease of NT\$644,188,716,000 in due from Central Bank.
- (3) An increase of NT\$8,975,021,000 in financial assets at fair value through income statement.
- (4) An increase of NT\$188,322,000 in bonds sold under resale agreements.
- (5) An increase of NT\$593,669,000 in discounts and loans.
- (6) An increase of NT\$1,069,276,203,000 in funds and investment.
- (7) A decrease of NT\$150,011,000 in fixed assets.
- (8) An increase of NT\$ 4,839,152,000 in other assets.

2. Total liabilities have increased by NT\$151,175,540,000 over the previous period, mainly due to:

- (1) An increase of NT\$ 39,081,738,000 in deposits and remittances.
- (2) An increase of NT\$ 69,476,924,000 in provision for operating reserve.
- (3) An increase of NT\$ 27,920,950,000 in bonds sold under repurchase agreements.
- (4) An increase of NT\$ 14,695,928,000 in other liabilities.

3. Total owners' equity has increased by NT\$16,836,253,000 over the previous period due to:

- (1) An increase of NT\$ 7,636,256,000 in retained earning.
- (2) An increase of NT\$ 9,199,997,000 other owners' equity.

## II. Operating Results

### (I) Main reasons for major changes in operating revenue, net operating income and income before tax in the most recent 2 years

#### Financial Status Comparison and Analysis

Unit: NT\$1,000

Item	2010	2009	Increased/ Decreased Amount	Percent Change
Operating Revenue	411,546,557	287,710,355	123,836,202	43.04
Operating Costs	374,764,515	248,964,635	125,799,880	50.53
Operating Profit	36,782,042	38,745,720	(1,963,678)	(5.07)
Operating Expenses	25,601,132	24,926,537	674,595	2.71

## VIII. Financial Status, Operating Results and Risk Management

Operating Income	11,180,910	13,819,183	(2,638,273)	(19.09)
Non-operating Income	182,679	219,306	(36,627)	(16.70)
Non-operating Expenses	204,309	159,613	44,696	28.00
Income Before Tax	11,159,280	13,878,876	(2,719,596)	(19.60)
Income Tax Expenses	3,523,024	3,154,067	368,957	11.70
Net Income	7,636,256	10,724,809	(3,088,553)	(28.80)

Analysis on percentage change:

1. Operating income has increased by NT\$123,836,202,000 mainly due to:

- (1) A decrease of NT\$1,208,340,000 in interest income due to dropping interest rates.
- (2) An increase of NT\$17,861,149,000 in insurance premium.
- (3) An increase of NT\$89,561,175,000 in recovered premiums and reserve.
- (4) An increase of NT\$ 19,177,103,000 in investment profits.
- (5) A decrease of NT\$1,554,885,000 in other operating revenues.

2. Operating costs have increased by NT\$125,799,880,000 from the previous period, mainly due to:

- (1) A decrease of NT\$7,863,010,000 in interest expenses due to the drop of interest rates.
- (2) An increase of NT\$89,581,434,000 insurance claims and benefits.
- (3) An increase of NT\$ 20,624,795,000 in premium and pending claims reserve.
- (4) An increase of NT\$26,990,681,000 in loss on exchange.
- (5) A decrease of NT\$3,534,020,000 in other operating cost.

3. Non-operating income has decreased by NT\$36,627,000 from the previous period, mainly due to a decrease in overdue account income.

4. Non-operating expenses have increased by NT\$44,696,000 over the previous period, mainly due to a decrease in losses on assets.

(II) **Anticipated business goals and their basis:** business goals for the current fiscal year were determined in accordance with operating results from the previous year, the current business situation, and future trends. For details, please refer to page 10, (II)Major Business Targets for 2011.

(III) **Countermeasures:** please refer to page 9, II. 2011 Operation Plan Outlines, (I) Operation Policy.

### III. Analysis of Cash Liquidity :

#### (I) Analysis of Cash Liquidity for 2010 and 2009

Item	2010	2009	Growth
Cash Liquidity Percentage	85.13%	199.56%	-114.43%
Cash Flow Adequacy Ratio	784.22%	538.89%	245.33%
Cash Reinvestment Ratio	2.03%	3.56%	-1.53%

### (II) Analysis of Cash Liquidity for the next year

Unit: NT\$ 1,000

Cash and Cash Equivalents, Beginning of Period	Projected Net Cash Flow from the Year's Operation	Projected Cash Inflow (Outflow) for the Entire Year	Projected Cash Balance	Contingency Plans for Projected Insufficient Cash Position	
				Financing Plan	Finance Management Plan
834,078,884	35,692,342	56,332,973	926,104,199	No Data	No Data

- (1) Operating activities: Mainly due to the net cash inflow from the increase of projected net income and adjustments for non-cash items.
- (2) Investing activities: Mainly due to the net cash inflow from the increase of projected net income and adjustments for non-cash items.
- (3) Financing activities: Mainly due to the net cash outflow from financing activities from the net decrease or projected deposits, remittances and financial debentures.
- (4) Contingency plans for projected insufficient cash position and liquidity analysis: not applicable.
- (5) This table is compiled in accordance with the 2011 budget of company approved by the Executive Yuan.

### IV. Effects of Major Capital Expenditures During the Most Recent Fiscal Year on Financial Operation: **None**

### V. Policy for Reinvestment in the Most Recent Fiscal Year:

The company had invested in the following three companies:

#### (I) Taiwan Futures Exchange:

At the end of 2010, the Taiwan Futures Exchange (TFE) is expected to have capital of NT\$ 2,672.49 million with 267.25 million stock shares issued. The company holds 2,004,365 shares of stocks issued, or 0.75% of its outstanding common stocks. TFE expects to pay a cash dividend of NT\$1.0 and stock dividend of 0.67 per share this year, which means the company will be getting NT\$ 2,004,000 as cash dividend and 134,292 shares as stock dividend.

#### (II) Chunghwa Express Corp.:

At the end of 2010, Chunghwa Express Corp. is expected to have capital of NT\$100 million, with 10 million shares of stocks issued. The company holds 4 million shares of Chunghwa Express Corp., or 40% of its outstanding common stock. Investment income on long-term equity investment under the equity method is NT\$8,342,000.

#### (III) Financial Information Service Co., Ltd.:

At the end of 2010, Financial Information Service Co., Ltd. is expected to have capital of NT\$4 billion, with 400 million shares of stock issued. The company holds 4.55 million shares of Financial Information Service Co., Ltd., or 1.14% of its outstanding common stock. Financial Information Service Co., Ltd. expects to pay a cash dividend of NT\$2.40 per share this year, which means the company will be getting NT\$10,920,000 as cash dividend.

### VI. Risk Management

#### (I) Qualitative and Quantitative Information of Various Risks

##### 1. Credit Risk Management System

Item	Description
1. Credit Risk Strategy, Goals, Policy and Flow	The Company has drawn up "Guidelines for the Management of Postal Capital Deployment" which stipulates counterparties of various capital deployments or minimum credit rating for the issuing institutions. The company evaluates the financial status of its counterparties periodically so as to review and adjust the limit when necessary.

<p>2. Credit Risk Management Organization and Structure</p>	<p>The company has the “Risk Management Committee” which is convened by the Chairperson and consists of the President, Vice President, and executives of all departments. The committee holds a meeting every month and may hold impromptu meetings as necessary. The committee is responsible for reviewing the risk exposure of the overall credit of the company.</p> <p>The Department of Capital Operations is the credit risk management unit of the investment in all the financial products; the Department of Life Insurance is the managing unit of simple life insurance real estate mortgage loan business. An independent risk management section supervises risk and compiles relative risk management document in order to help high level management of the company to draw up relative strategic decisions.</p>
<p>3. The Scope and Characteristics of Credit Risk Reports and Credit Risk Assessment System</p>	<p>The risk management unit of CHP regularly submits credit risk reports to the Risk Management Committee and the BOD. The report content includes risk status of life insurance loans, loans to related parties, calling loans from and to banks and mortgage-backed securities investment.</p>
<p>4. Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program</p>	<p>Postal simple life insurance real estate mortgage loan business stipulates strict credit rating system and operational guidelines. Before loan disbursements to certain clients, the company would ask that the loan amount set within the evaluated value of the mortgage. When any of these clients break the contracts, the company will enforce these mortgages or other mortgaged rights.</p> <p>To disperse the credit risk of all the invested financial products and avoid concentrated call loans and transfer to only a few financial institutions and buying in bonds and notes issued, accepted or guaranteed by the few banks or financial institutions, the company sets the undertaking limit based on their credit situation.</p>
<p>5. Methods of regulatory capital accrument</p>	<p>Regulatory capital accrument dose not apply to CHP.</p>

2. Risk Management System of Asset Backed Securitization

Item	Description
<p>1. Asset Backed Securitization Management Strategy and Flow</p>	<p>The Company does not act as an originating bank of asset backed securitization and is simply an investor for the merchandise. The Company has drawn up the “Guidelines for the Management of Postal Capital Deployment” which stipulates the minimum credit rating for the asset backed securitization merchandise and contracted institutions with regard to the investment of the merchandise and submit to relative responsible superior officials based on authorized amount for approval when operating transactions.</p>
<p>2. Asset Backed Securitization Management Organization and Structure</p>	<p>The company has the “Risk Management Committee” which is convened by the Chairperson and consists of the President, Vice President, and executives of all departments. The committee holds a meeting every month and may hold impromptu meetings as necessary. The committee is responsible for reviewing the risk exposure of the securitization of the assets of the company.</p>

	The Department of Capital Operations closely watches issuing status of the market. And evaluate whether or not the risk to be borne goes to in accordance with strategies, goals, risk policy and limits in advance. An independent risk management section supervises risk and compiles relative risk management document in order to help high level management of the company to draw up relative strategic decisions.
3. The Scope and Characteristics of Asset Backed Securitization Risk Reports and Risk Assessment	The company invests in securized commodities and hold them mostly until expiration. Related risk information is submitted to the Risk Management Committee and the Board of Directors.
4. Asset Backed Securitization Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	The company mainly invests in foreign securized commodities and therefore continues to enter into foreign exchange forwards and swaps to hedge against the risk of fluctuation of foreign exchange. The hedging results are periodically reviewed.
5. Methods of regulatory capital accrue ment	Regulatory capital accrue ment dose not apply to CHP.

3. Operational Risk Management System

Item	Description
1. Operational Risk Management Strategy and Flow	The company develops a comprehensive internal control system and related business management measures as the basis for the operation of each business and adjusts the design and execution of internal control system based on the changes of the operation policy of the company.
2. Operational Risk Management Organization and Structure	The company has the “Risk Management Committee” which is convened by the Chairperson and consists of the President, Vice President, and executives of all departments. The committee holds a meeting every month and may hold impromptu meetings as necessary. The committee is responsible for reviewing the risk exposure of the operation of the company. Deputy director of each business unit is responsible for internal risk management of the department and supervises the real operating risk management section takes charge of corresponding and coordinating relative items of risk management within the company in order to effectively master and timely control the vital risks in order to help high level management of this company to draw up relative strategic decisions.
3. The Scope and Characteristics of Operational Risk Reports and Risk Assessment	Each unit drafts relative risk management task program according to risk management scope and engaged business or task performed. A quarterly report is submitted to the Company's Risk Management Committee for discussion. With regard to the summary of operational risk losses, a monthly report is made to Risk Management and submitted to the Board of Directors.

4. Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	Executors and risk auditors perform internal operations. They cannot concur mutually in order to effectively avoid the occurrence of possible negligence. The company has formulated the “Contingency Measures for Operation Crises of Savings, Remittances and Life Insurance Business” to clearly provide the measures to be taken by all levels of units in case of crisis.
5. Methods of regulatory capital accrue ment	Regulatory capital accrue ment dose not apply to CHP.

4. Market Risk Management System

Item	Description
1. Market Risk Management Strategy and Flow	The company has formulated the “Market Risk Management Guidelines” to control the market risks likely to be faced by the financial products. Operation regulations are provided for all the financial products to designate the types of instruments it can invest in and limits for various capital deployments. The company also keeps its eyes on the economic development of domestic and foreign industries and prepares a report regarding the trading of various kinds of financial instruments. In addition, it has established the “Guidelines for Interest Rate Risk Management” to be made monthly and “Interest- Rate Sensitive Analyses of the Company's Assets and Liabilities” in order to effectively control the Company's interest rate risk.
2. Operational Risk Management Organization and Structure	The company has established the “Risk Management Committee” with the Chairperson being the convener and the members including the president, vice president and executives of each unit. The committee holds a monthly meeting and interim meetings are held as necessary. The committee is in charge of review of the market risk tolerance of the company’ s overall use of capital, the risk limit of each operation unit and the company’ s exposure to risks. The risk management unit of the company is responsible for the collection of market risk information, review of the market risk tolerance of the company's overall use of capital and the risk limit of each operation unit and monitors whether the risk control measures adopted in the trade of derivatives comply with the laws and regulations.
3. The Scope and Characteristics of Market Risk Reports and Risk Assessment	The company's risk management unit monitors the market risk of daily investment position and reports it to the top executives; the unit submits the market risk report to the Risk Management Commission and the Board of Directors on a regular basis. The report includes information such as market risk exposure, value-at-risk limited use ratio, interest rate risk status, liquidity gap, derivatives hedging effect and investment limit ratio in the investment regulations.

<p>4. Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program</p>	<p>The company enters into foreign exchange forwards and swaps mainly to hedge against foreign exchange rate fluctuations. The company enters into Taiwan stock index futures and options to hedge against market volatility in the domestic stock market. Both are not for trading purposes.</p> <p>The Company has drawn up “Guidelines for Derivatives Trading” and “Derivatives Hedge Trading Instructions” to strengthen internal control and risk management. In addition, before hedge transactions counterparties, kinds, authorized limits and all and specific place amount must be specified and submitted to Risk Management Committee for approval and implementation.</p> <p>In addition to regular assessment of the connection between the derivatives and the hedged items for adjustment of hedging strategies, the execution results of the hedging strategies are reported to the president on weekly basis and regularly reported to the Risk Management Committee and the board of directors.</p>
<p>5. Methods of regulatory capital accrue ment</p>	<p>Regulatory capital accrue ment dose not apply to CHP.</p>

5. Liquidity Risk

The assets of the company are mainly deposited in central banks and other banks and therefore have a higher liquidity. According to “The Postal Savings Exchange Law”, there is no limitation on liquid reserve ratio; the short-term liquidity risk management of the company was compiled in to the “New Taiwan Dollar Cash Liquidity Gap Analysis Table” counting the gap from day 1-10 and day 11-30 every ten days. In addition, the Structure Analysis of the Maturation of NTD is compiled in each quarter to be submitted to the Risk Management Committee and Board of Directors on a regular basis.

(1) Structure Analysis of the Maturation of NTD

December 31, 2010

Unit: NT\$ 1,000

	Total	Dollar Amount for the remaining period prior to the maturation date				
		0-30 Days	31-90 Days	91-180 Days	181 days to One Year	Over One Year
Primary capital inflow upon maturity	4,725,287,734	1,337,013,897	538,384,664	597,356,547	845,357,548	1,407,175,078
Primary capital out-flow upon maturity	4,663,457,899	1,893,519,792	523,853,344	645,071,377	1,349,644,038	251,369,348
Capital gap	61,829,835	-556,505,895	14,531,320	-47,714,830	-504,286,490	1,155,805,730

Note: This table does not include the foreign currency and insurance businesses.

### (2) Structure Analysis of the Maturation of USD

December 31, 2010

Unit: US\$ 1,000

	Total	Dollar Amount for the remaining period prior to the maturation date				
		0-30 Days	31-90 Days	91-180 Days	181 days to One Year	Over One Year
Primary capital in-flow upon maturity	1,038,251	1,038,251				
Primary capital out-flow upon maturity	741	741				
Capital gap	1,037,510	1,037,510				

Note: The figures in table are the total of US currency held at headquarters and all post office branches.

(II) Effects of major international and domestic policy changes on the company's financial business and countermeasures: **none**

(III) Effects of technological and industry changes on the company's financial business and countermeasures: **none**

(IV) Effects of company image changes on the company's financial business and countermeasures: **none**

(V) Expected benefits and potential risks of mergers and acquisitions: **none**

(VI) Expected benefits and potential risks of business base expansion: **none**

(VII) Business concentration risk:

The company's credit extension and investment business is operated under the Guidelines for the Management of Postal Capital Deployment and must be kept within specified limits.

(VIII) Effects of the change in right of authority for the company and its risks: **none**

(IX) With regard to litigation or nonlitigation events, a list shall be made providing the name of its board directors, supervisors, presidents, major shareholders holding greater than 1% of outstanding shares and the company's subsidiaries. With regard to litigation (whether pending or for which a verdict has been reached), non-litigation or administrative appeals involving the company, and the results may greatly effect the rights of its depositors and shareholders, the company shall disclose the details of the disputes, the amount involved, the dates the litigation started, primary litigants, and the status as of the printing date of the annual report: **none**

(X) Other Major Risks and Countermeasures:

This company is one hundred percent run and owned by the government and is operated strictly in accordance with regulations and stipulations. The company draws up business plans and a risk management program every year. Every department of the company submits a quarterly report on its progress to lower the operational risk.

VII. Other Important Items : **none**