

# Taishin Holdings

## 2007 Annual Report



2007 Annual Report



Taishin Holdings



## Taishin Holdings

### **Taishin Financial Holding Co., Ltd.**

12、16、20、21、22F, No.118, Sec. 4, Ren-ai Rd., Taipei, Taiwan  
886-2-2326-8888  
website : <http://www.taishinholdings.com.tw>

### **Taishin International Bank Co., Ltd.**

B1、1、2、3F, No.44, Sec. 2, Jhongshan N. Rd., Taipei, Taiwan  
886-2-2568-3988  
website : <http://www.taishinbank.com.tw>

### **Taiwan Securities Co., Ltd.**

4、4F-1, No.137, Sec. 2, Nanjing E. Rd., Taipei, Taiwan  
886-2-2516-6789  
website : <http://www.tsc.com.tw>

### **Taishin Bills Finance Co., Ltd.**

10F, No.118, Sec. 4, Ren-ai Rd., Taipei, Taiwan  
886-2-2326-8868  
website : <http://www.taishinbills.com.tw>

### **Taishin Asset Management Co., Ltd.**

2F-3, No.9, Dehuei St., Taipei, Taiwan  
886-2-2596-9388

### **Taishin Marketing Consultant Co. Ltd.**

2F, No.111, Sec. 4, Bade Rd., Taipei, Taiwan  
886-2-2326-8899

### **Taishin Venture Capital Investment Co., Ltd.**

2F-3, No.9, Dehuei St., Taipei, Taiwan  
886-2-2596-9388

### **Chang Hwa Bank** (Taishin Holdings has acquired 22.55% of shareholdings)

38 Tsu Yu Road, Section 2, Taichung, Taiwan  
886-4-2222-2001  
website : <http://www.chb.com.tw>

# Taishin Holdings

## 2007 Annual Report



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# I

## Message to Shareholders

### The Way to Love the Earth

In the future,

No matter you and I are willing to

Believe it or not

Global warming will change everyone's life

Let us learn how to change

To make a better life and to love the earth.



# I. Message to Shareholders



2007 Taishin Holdings Annual Report

Dear shareholders,

Taiwan's economic growth rate hit 5.46% in 2007, the highest in the recent three years, with the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) averaging 8,510 points, up 1,668 over 2006, and the total trading value reaching NT\$33 trillion, up 38.3%. Private consumption advanced 2.93% on the subsidence of the twin-card debt storm and the upturn of the stock market.

Amid the general economic environment, Taishin Financial Holding raked in NT\$4.089 billion of after-tax profit in 2007, the first black ink after having experienced the impact of the card-debt storm in the previous two years. The performance underscores that the company has returned to the growth track after having completed internal integration, resuming its status as a financial institution with quality assets and sound finance; it also underlines the effect deriving from the company's aggressive pursuit of growth and profit. We harbor a rosy business outlook and are confident of becoming a front player in the market again.

From the medium- and long-term perspective, Taishin Financial Holding will still center on banking operation in its future development. However, we will also endeavor to diversify our operation. A major breakthrough has been achieved in the insurance sector, a missing part on our business map in the past, with the establishment of Taishin AEGON Insurance Co., Ltd., a joint venture with AEGON group of Holland, one of the world's top 10 insurance groups, which is scheduled for inauguration in 2008. The venture will open up a new horizon for the financial holding firm's business development.

Presently, Taishin Financial Holding's three major functional business group are developing their businesses in the most favorable directions, building up growth momentum for the overall development and profit making of the financial holding firm.

## Consumer Banking Business Group

In 2007, the consumer banking business group shifted to the "single-client perspective" in overall business strategy, introducing client-group analytical technique to strengthen risk management, upgrade assets quality, and deepen customer relationship, as well as offering different client groups quality and custom products, thereby materializing the convenience of one-stop shopping. Meanwhile, the group has been continuously upgrading the functions of online banking to supplement the functions of bricks-and-mortar channels, in addition to strengthening the cross-selling service of banking and securities branches.

Regarding the construction of basic platform, the group continued improving internal operating flow and upgraded system automation and functions, so as to provide clients even more efficient and higher quality services. These efforts have won the company the affirmation of international professional media, including the best retail bank in Taiwan award 2007 granted by Asian Banker,

# I. Message to Shareholders

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the best core banking system initiative award in Asia 2007 granted by Asian Banking and Finance, and one of the five best private banks in Taiwan selected by Euromoney.

Recently, the financial holding firm's subsidiary Taishin International Bank joined hands with RT-MART hypermarket in issuing co-brand card, whose amount has topped 100,000 cards within a short time, scoring single-card highs in both the numbers of application cases and approved cards. The achievement gives rise to the hope for the bank to regain its market leadership amid the upturn of the consumer-banking business.

## Corporate Banking Business Group

The corporate banking business group staged a remarkable performance in 2007, ranking first and second place, respectively, for domestic book-runner and accounts-receivable factoring businesses, when Taishin Bills Finance also ranked third place in the underwriting of fixed-rate commercial paper (FRCP) and sixth place in syndicated-loan arranger business. The group also received the acknowledgement of its performance by various international professional media, including the honor of best forex brokerage, the best e-trading platform, the best forex product and portfolio innovation awards, as well as the second best domestic bank for forex service in Taiwan, granted by Asiamoney, in addition to the Best Deal award 2007 granted by the Asset to Taiwan Securities.

In addition to the deep cultivation of domestic quality corporate clients under the "integrated financial service" strategy, the corporate banking business group also stepped up the effort providing clients regional financial service, in line with the globalization of Taiwanese enterprises. Meanwhile, it also dedicated to the adjustment of the profit structure and the innovation and development of financial products, so as to cultivate niche businesses in accordance with the planning for assets and cash management. More important, it installed the risk management mechanism associated with the Basel II Capital Accord featuring the simultaneous consideration for price setting and risk management, which lays the foundation for the group to make all-out pursuit of business and profit growth.

## Wealth-Management Business Group

Taishin International Bank has been leading domestic peers in wealth-management business. Taiwan Securities ranks among the top five in terms of the markets shares for securities brokerage and margin-trade financing. Taiwan Futures ranks among the top three in the market shares for futures brokerage and foreign futures brokerage. Due to the frenzy for investing in overseas financial products among local people in recent years, re-consigned overseas investment business volume in Taiwan topped NT\$100 billion in 2007; accordingly, the company's re-consigned business volume also shot up 60% in the year.



In the future, in addition to continuing pursuit of profit and growth at the domestic securities market, the wealth-management business group will also continue developing in the two directions of market internalization and product diversification, as well as integrate domestic and overseas product and trading platforms, so as to meet clients' various wealth-management needs with quality service, thereby creating a win-win outcome with clients.

Looking ahead at 2008, the growth momentum for the global economy will slacken, due to the global credit crunch caused by the persistent impact of the U.S. subprime mortgage crisis and deteriorating inflation sparked by soaring petroleum and bulk-commodity prices. The International Monetary Fund (IMF) forecasts that the 2008 global economic growth rate will reach 4.8%, down from 2007's 5.2%, testifying to the challenges present in the overall environment. However, in the wake of the election for the nation's 12th President, the new government has announced a more open and aggressive cross-Taiwan Strait policy, facilitating the materialization of direct cross-Strait transportation link and investment by local financial institutions in China. Plus the gradual subsidence of the twin-card debt storm, the upturn of the stock and realty markets, the gradual recovery of private consumption, outlook for Taiwan's financial industry is steady and promising.

In the future, the three business groups under the auspices of Taishin Financial Holding will move towards balanced contribution in operation and profit. Although the plan for merger with Chang Hwa Bank was shelved in 2007, due to difference between both parties' financial consultants concerning the share-swap ratio, the legal status of Chang Hwa Bank as a subsidiary of Taishin Financial Holding remains unchanged. Taishin remains the controlling shareholder of Chang Hwa Bank and dominates its board of directors. The merger plan will be triggered again at proper time in the future, so as to realize the maximum long-term benefits of the shareholders of both parties.

"To become the treasure bowl for clients" is the mission and vision of Taishin Financial Holding. Under the goal, the company re-defined its core value as "integrity, commitment, innovation, and cooperation" in 2007, aspiring to achieve financial success for its clients and shareholders. Meanwhile, the board of directors installed two seats of independent directors, inviting Dr. Wang Chi-kang, former economics minister, Dr. Lin Neng-pai, former dean of the College of Management, National Taiwan University, to fill the posts. Those efforts are meant to intensify corporate governance and lay the foundation for the pursuit of shareholders' long-term benefits.

Last but not least, I would like to express my gratitude to our shareholders for their consistent support to and identification with Taishin Financial Holding and its subsidiaries, and look forward to your continuing support and guidance, in line with your patronage in the past. The management team will do its utmost and persist in its unrelenting effort to pursue the maximum long-term interests of our shareholders, clients, and employees.

Chairman  
Taishin Financial Holding  
May 2008

# III

## Brief Introduction to the Financial Holding Firm

### Cherish the Land

The effect of global warming  
Has caused a threat to the production of  
agriculture  
Please cherish the land which nourishes  
us and the plants  
By learning humbleness with respect.



## II. Brief Introduction to the Financial Holding Firm



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### A. The date of establishment

Feb. 18, 2002

### B. The origin of the financial holding firm

In the wake of the enactment of the Financial Institutions Merger Law and the Financial Holding Company Law, financial-institution merger and the cross selling of financial products have become an industrial trend. Taishin Financial Holding Co., Ltd. was established on Feb. 18, 2002 via share swap with Taishin International Bank following the latter's merger with Taan Bank. Subsequently, Taishin Financial Holding put Taiwan Securities and Taishin Bills Finance under its fold on Dec. 31, 2002, via the respective share-swap ratios of 1:1.2 and 1:1.3.

In addition, in order to help domestic financial institutions alleviate the pressure of high NPL (non-performing loan) ratio and liquidate their bad assets, the company set up a 100% venture Taishin Asset Management Co., Ltd. in Aug. 2002. In Oct. 2002, with the approval of the Ministry of Finance (MOF), it put under its auspices Taishin Marketing Consultant Co., Ltd., which became its subsidiary, with the aim of enhancing marketing efficacy and lowering marketing cost. Moreover, in September 2002 the company established Taishin Venture Capital, making its business structure even more complete and enabling it to offer clients plural product lineup, so as to help the staffers achieve even better performance by enriching the depth and magnitude of their industrial knowledge.

**On Oct. 18, 2004**, the company's subsidiary Taishin International Bank took over the Tenth Credit Cooperative of Hsinchu, further expanding the company's business-point deployment and business scale and winning it an advantageous market position, so as to facilitate its effort in boosting profit and achieving the maximum benefits for shareholders, clients, and employees.

**On Oct. 3, 2005**, the company obtained 22.5% controlling stake in Chang Hwa Bank at cost of NT\$36.5 billion before reshuffling the latter's board of directors and making the bank its subsidiary. The move boosted the company's total assets to NT\$2.35 trillion, the second largest among domestic financial firms, and made it one of the domestic financial firms with the largest amount of banking branches, paving the way for the company to become a domestic leading brand.

**In 2006**, the company introduced three strategic foreign partners, Newbridge Capital of the U.S., Nomura Group, and QE International (L) Ltd., which together invested NT\$35 billion in the company via subscribing to private share placement, strengthening the company's capital structure and boosting its capital adequacy ratio.

**On Dec. 7, 2007**, the company signed an agreement with AEGON group of Holland for setting up Taishin AEGON Insurance Co., Ltd., with the aim of developing life-insurance and annuity products, which is scheduled for inauguration in mid-2008 after receiving the approval of and

## II. Brief Introduction to the Financial Holding Firm

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the license issued by the regulator.

In adherence to the core value of “integrity, commitment, innovation, and cooperation” and the vision of “making Taishin a treasure bowl for clients,” the company commits to ceaseless innovation and aspires to achieve financial success for its clients and shareholders, in addition to adjusting its business direction optimally along with changes in the market environment.

### Honors for the company

- “Best Deal” award 2007 granted to Taiwan Securities by the Asset magazine.
- The best core banking system initiative award 2007 granted to Taishin International Bank by Asian Banking and Finance magazine.
- The best forex brokerage, the best forex product and portfolio innovation, and the best e-trading platform awards in Taiwan 2007, in addition to the second best domestic bank for forex service in Taiwan, granted to Taishin International Bank by Asiamoney.
- The best retail bank in Taiwan award 2007 granted to Taishin International Bank by Asian Banker.
- The honor of one of the five best private banks in Taiwan granted to Taishin Financial Holding by Euromoney.

# Corporate Governance

## Looking for Life-long Energies

The speeding consumption of energy

Not only stresses human beings to face the  
pressure of energy shortage

But also speeds up the crisis of global warming

In the future, seeking for non-polluted and  
life-long energies

Will be the first choice of all human beings

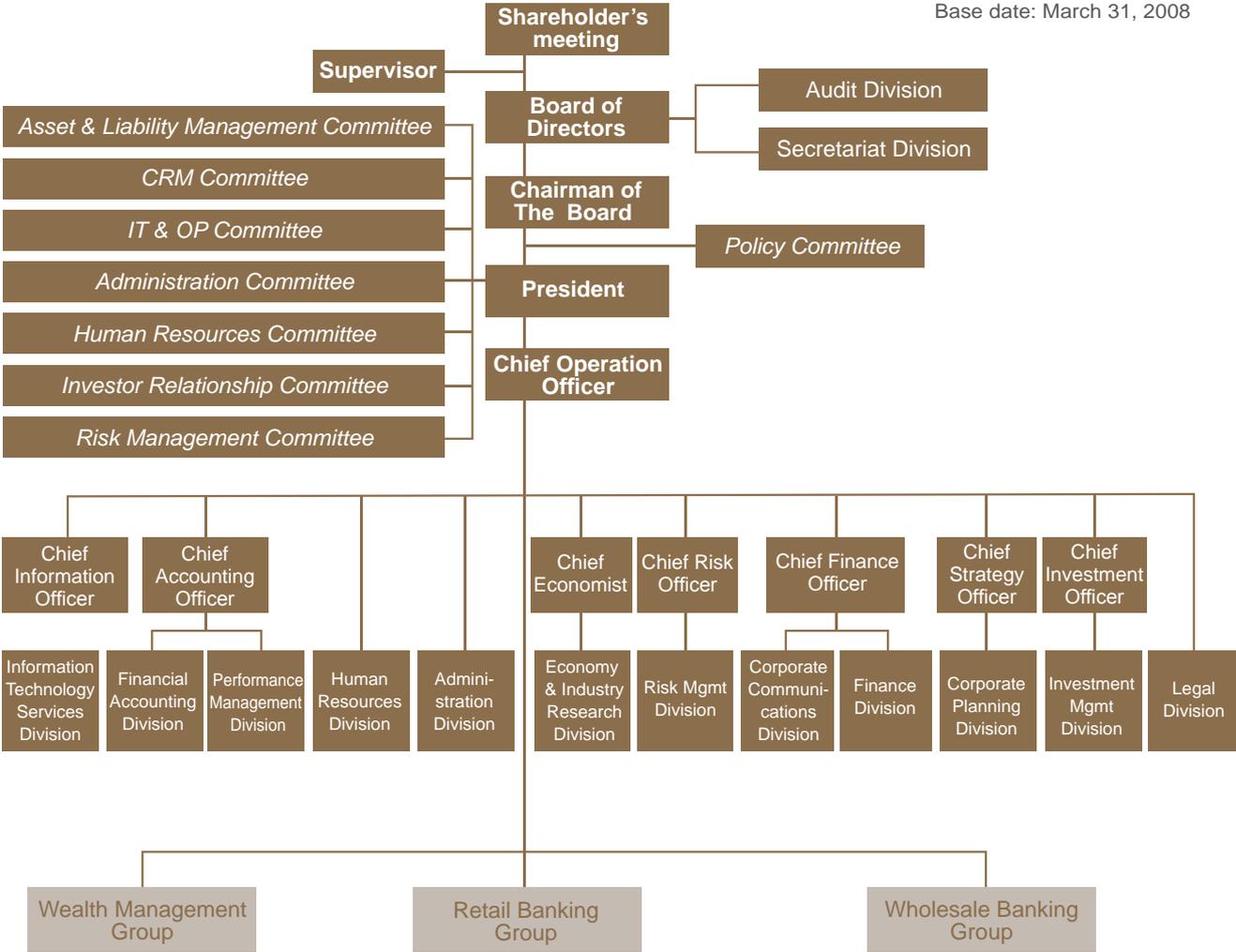


# III. Corporate Governance

## A. The organization of the financial holding firm

### a. Organizational system

#### 1. Organization chart





## 2. Responsibilities of major units:

The company sets up various committees and departments in charge of the following responsibilities:

### (1) Committees

- **Policy-Making Council:** the examination of the company's business strategy, the overall development direction of the group, the management of business planning and the formulation of business strategy, cross-department and –subsidiary coordination, and cross-line projects.
- **Customer Relationship Development Committee:** keeping of the company's data; initiation, management/control, and coordination for customer-relationship development projects.
- **Assets and Liabilities Management Committee:** the examination of the group's overall assets and liabilities management policy, and the supervision and control of subsidiaries' assets and liabilities management.
- **Human Resources Committee:** the examination of the group's major human-resources strategies and key personnel-appointment cases.
- **Administrative Management Committee:** the examination of major administrative management strategies and major administrative management programs of the group.
- **Information and Operation Integration Committee:** the examination of the group's overall operational and information-integration policies, and the establishment of integrated operation and information-integration platform for subsidiaries.
- **Investor Relationship Committee:** the examination of the group's development strategy for the relationship with domestic and foreign institutional investors and the projects for the maintenance of important relationships.
- **Risk Management Committee:** the control and planning of overall market risk, credit risk, and operational risk of the financial holding company and its subsidiaries (including overseas branches), in addition to enhancing risk-management quality and carrying out instant risk management.

### (2) Management units:

- **General Planning Department:** strategy planning, the execution of major strategic projects, the planning and execution of merger projects, communication and coordination among various business groups of the financial holding firm or among various subsidiaries, and communication and coordination with the regulator.

### III. Corporate Governance

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- **Investment Management Department:** the planning and management of the short-term securities and mutual-fund investments of subsidiaries, the collection and analysis of information on short-term securities-market development, and research on the related regulations of the regulator.
- **Economic and Industrial Research Development:** the economic and industrial research center of Taishin Financial Holding, carrying out the analysis of the global economy, exchange rates, interest rates, and the outlook of the world's major stock markets and industries, tracking the development outlook of listed Taiwanese companies and proposing investment suggestions accordingly, in addition to providing analytical opinions to the management in their decision making.
- **Risk Management Department:** the overall planning and management of the risk-management mechanism regarding credit risk, market risk, and operational risk; the disclosure of the status of risk-management execution and overall risk position; and the planning and establishment of integrated risk-management platform.
- **Financial Management Department:** the management of assets, liabilities, and liquidity risk; the analysis and management of capital adequacy ratio and credit rating; the planning and management of long-term investments, and coordination with external consultants.
- **Public Relationship Department:** public relationship, the maintenance and management of the relationship with institutional investors, in-house communication, and the planning of corporate management.
- **Administrative Service Department:** document reception and drafting, general affairs, and the construction and repair of buildings.
- **Information Service Department:** the planning, management, and installation of information system; the implementation of the resolutions of the Informatmion and Operation Integration Committee, such as the development and utilization of the group's information technology, the integration of the group's information planning and system software, the installation, maintenance, and management of client-date warehousing system.
- **Finance and Accounting Department:** the production of Taishin Financial Holding's annual budget and the compilation of various reports/statements, as well as the management of the finance and accounting of subsidiaries and the compilation of consolidated reports/statements.
- **Performance Management Department:** operation planning and management; the formulation of business strategy; the setting of annual business targets; the performance evaluation of the achievement of budget and targets (balanced scorecard); the planning,

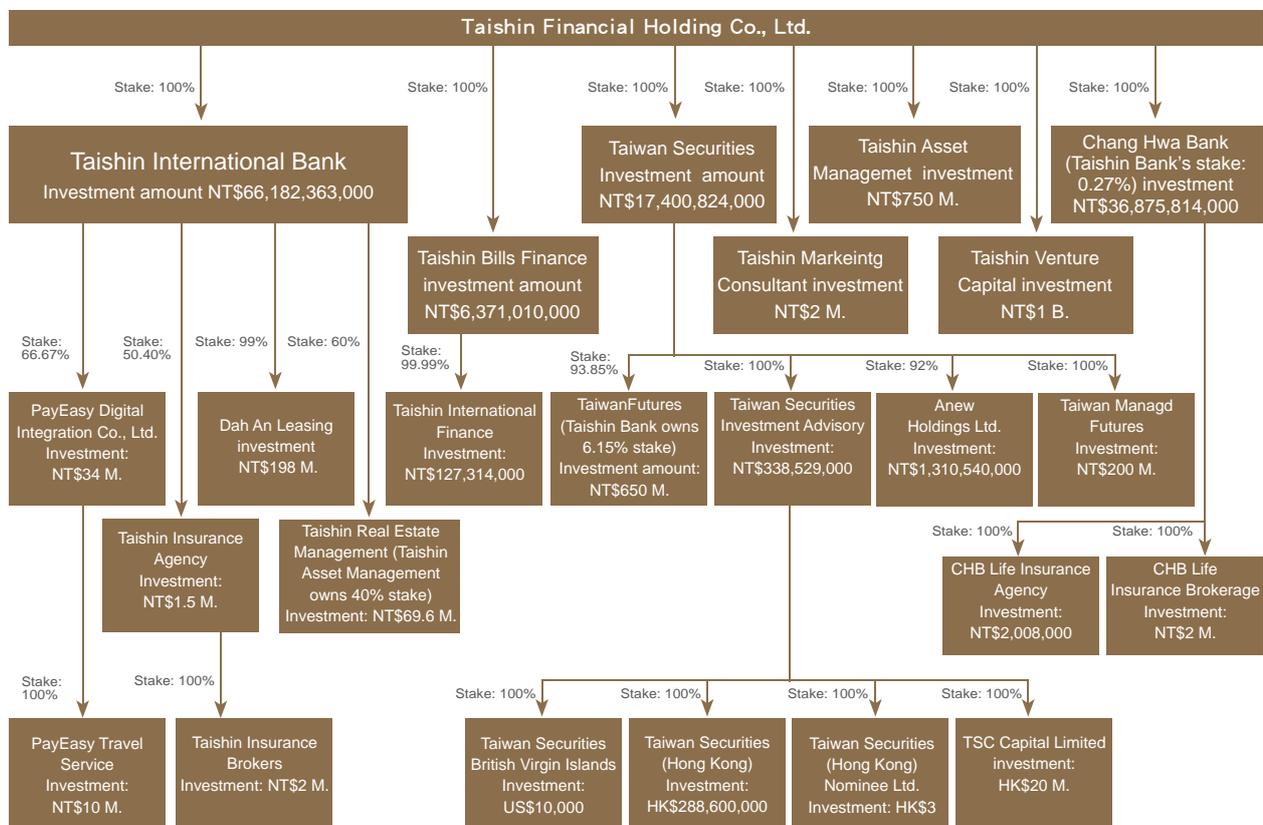


management, and report/statement compilation of the financial holding firm's management information system (MIS); the design and evaluation of the internal price-setting system of the financial holding firm's MIS.

- Human Resources Department:** the overall formulation and revision of the financial holding firm's human-resources regulations and policy; personnel recruitment, appointment, and performance evaluation/management; employee compensations and fringe benefits; the design, implementation, and management of communication channel with employees; the research, planning, revision, compilation, and execution of employee training courses and materials.
- Legal Affairs Department:** legal consultation and the inspection and supervision of various contracts/receipts of the financial holding firm.

## b. The Organizational Chart of Taishin Financial Holding and Its Affiliates

base date: March 31, 2008



Note: The investment amounts in the chart are the original investment amounts.

## III. Corporate Governance

### B. Data on board directors, supervisors, president, vice presidents, assistant presidents, and branch chiefs

#### a. data on board directors and supervisors

base date: April 15, 2008

Title (note 1)	Name	Education and working experience (note 3)	Current jobs with the financial holding company and other companies
Chairman	Fujui Co., Ltd. Representative: Thomas T.L. Wu	Board director of First Bank, supervisor of Hua Nan Bank, MBA, University of California, Los Angeles	Chairman, Taishin International Bank
Board director	TPG NEWBRIDGE TAISHIN HOLDINGS I, LTD. representative: Shan Wei-chien	Executive director, J.P. Morgan Chase & Co. Doctor of business administration, University of California, Berkely	TPG CAPITALpartner
Board director	Tunghsien Investment Co., Ltd. Representative: KuoWu Ju-yueh	Department of sociology, National Taiwan University	board director, Taishin International Bank
Board director	Taiho Investment Co., Ltd. Representative: Wu Cheng-ching	Doctor of industrial engineering, Tokyo University	standing board director, Chang Hwa Bank chairman, Taiwan Petrochemical Synthetization
Board director	Hsiangchao Investment Co., Ltd. Representative: Hsieh Sho-fu	President, Taishin Financial Holding and Taishin International Bank, Department of accounting, National Cheng Kung University	board director, Taishin Bank Chairman, Taishin Insurance Brokers and Taishin Insurance Agency
Board director	Pengcheng Co., Ltd. Representative: Wu Kuang-hsiung	President, consultant, Taiwan Stock Exchange MBA, National Chengchi University	chairman, Taiwan Securities Vice chairman, Taiwan Securities Association Supervisor, GreTai Securities Market
Board director	Chiao Yu-lon	supervisor, Dah An Bank Business smanagement department, University of Washington	Chairman, Walsin Lihwa
Independent director	Wang Chih-kang	Economics minister Doctor of business administration, Texas A&M University	Independent director, Taishin Bank Independent director, Chilsin Electronics
Independent director	Lin Neng-pai	Chairman, Taiwan Power Doctor of business administration, Ohio State University	Independent director, Taishin Bank Independent director, Darfon Corp
Standing supervisor	Minshih Business Management Consulting Representative: Wang Tsu-chan	Board director, Taishin Financial Holding, Taishin Bank Director, Shin Kong Investment Trust Department of pharmacy, Kaohsiung Medical College	standing supervisor, Taishin Bank Supervisor, Great Taipei Gas
Supervisor	Minhuang International Representative:Kao Shan-chih	Chairman, Dah An Bank, standing supervisor, Chang Hwa Bank Master, University of San Francisco	Standing director, Chang Hwa Bank Supervisor, Taishin Bank Vice chairman, I-Mei Foods
Supervisor	Taishin International Development Representative: Lin Lung-shih	Director, Taishin Fincial Holding Director, supervisor., Taishin Bank Doctor of chemistry, Virginia State University	Director, Chang Hwa Bank Chairman, Chiuju Corp.

Note 1: For representative of corporate shareholder, the name of the shareholders should be specified in the following table 1.

Note 2: Specify the times for those serving the board director or supervisor of the financial holding firm and the disruption of duties, should it happen.

Note 3: For those who served at the auditing CPA firm or affiliates of the company previously, specific their titles and responsibilities for the jobs.

**b. Managers**

Mar. 31, 2008

<b>Title</b>	<b>Name</b>
President	Kehhsiao Lin
Executive Vice President	Greg Gibb
General Manager, Wholesale Banking Group	Justin Tsai
General Manager, Retail Banking Group	Daniel M. Tsai
General Manager, Wealth Management Group & Chief Investment Officer	Welch Lin
Chief Financial Officer	Carol Lai
Chief Risk Officer	Loofei Hwang
Chief Information Technology Officer	B. R. Ho
Chief Accounting Officer	Ann Shaw
Chief Auditor	Diao-Li Lin
Senior Vice President	Tom Tsui
Senior Vice President	Ming-Nan Lin
Senior Vice President, Human Resources Division	Kevin Huang
Senior Vice President, Secretariat Division	David Chang
Senior Vice President, Legal Division	Charles M. Lin
Senior Vice President, Investment Management Division	Peter Tseng
Senior Vice President, Corporate Planning Division	Minna Chou
Senior Vice President	Shujen Tuan
Senior Vice President, Financial Division	Li-Tzu Chen
Senior Vice President	T. Y. Lee
Vice President, Audit Division	Chin-Woei Huang
Senior Vice President	Richard Liang

### III. Corporate Governance

#### C. Items Concerning the Implementation of Internal Control System Which Should Be Disclosed

##### 1. Internal Control Statement To Financial Supervisory Commission:

April 24, 2008

We hereby declare, on behalf of Taishin Financial Co., Ltd., that the company did set up internal control system, carry out risk management, and have an independent auditing department undertake auditing works with the results being reported to the board of directors and supervisors regularly, in compliance with “enforcement measures for internal control and auditing systems of financial holding companies,” during the period from January 1, 2007 to December 31, 2007. In addition to items listed on the attached tables, careful review and evaluation confirms effective execution by various business units in internal control and compliance with laws and regulations. The statement will become a major component of the company’s publicized annual report and proxy statement. Any falsehood, concealment, or other irregularities for the aforementioned statement will be liable to legal responsibilities stipulated in article 20, article 31, article 171, and article 174 of the Securities Transaction Law.

Chairman

吳東亮 

President

許雪芬 

General Auditor

林錫力 

Executive Responsible  
for Legal Compliance

黃志偉 



## Items needing improvement for the internal control system of Taishin Financial Holding and Improvement Plan

(base date: Dec. 31, 2007)

Items Needing Improvement	Improvement Measures	Schedule for Completion of Improvements
Banking subsidiary: 1. For own-residence loans and consumption loans with sufficient collateral, the bank should not ask borrowers to offer guarantors.	<ol style="list-style-type: none"> <li>1. Revise guidelines for consumer-banking business.</li> <li>2. Publicize inspection procedure for confirming loan usages and require related units complying with article 12-1, the Banking Law.</li> </ol>	Improvement completed
<ol style="list-style-type: none"> <li>2. Monitoring and management of subsidiary Taishin Finance (Hong Kong)               <ol style="list-style-type: none"> <li>(1) Major transactions with subsidiaries should be approved by the board of directors.</li> <li>(2) For cost ceiling in obtaining securities, the company should abide by the "rule on the categories and ceiling for commercial banks in securities investments."</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. The company has required its subsidiaries to report major transactions among them to the board of directors for approval and comply with regulations governing securities investments, in addition to demanding executives in charge to monitor the adherence to the requirement.</li> <li>2. The board of directors of Tashin International Bank has resolved to close down Taishin Finance (Hong Kong) due to the overlapping of its businesses with those of Taishin Bank's Hong Kong branch.</li> </ol>	The company has entrusted certified public accountant to carry out the closure of Taishin Finance (Hong Kong), which is scheduled for completion in the first quarter of 2009.
3. Data on the deposits, loans, or remittances of clients should be kept properly and inquiries on those data should not be allowed except for business needs.	The bank has put forward concrete measures for protecting client data, covering the four aspects of "precaution," "monitoring and control mechanism," "employee management," and "information security policy," such as ban on the linkage of PC with external storage device and the use of PC for browsing external websites, reviewing user privileges for various systems, and regular inspection of trading journal.	Improvement completed

## 2. Contents of the inspection report on the internal-control system by entrusted certified public accountant which should be disclosed: Nil.

### III. Corporate Governance

#### D. Irregularities bringing penalties to the financial holding firm and its subsidiaries in the recent years and rectifications

	Case and value	Rectifying measures
a. managerial staffers or employees indicted for crimes	Ms. Li, former manager of the Panchiao branch of Taiwan Securities was indicted in Feb. 2007 for colluding with others for stock speculation and the use of dummy accounts for clearance and deposit/remittance, in violation of Securities Transaction Law and Money Laundering Control Act.	Taiwan Securities dismissed Ms. Li on Oct. 12, 2007, in addition to intensifying personnel training and the implementation of internal control system to prevent recurrence of similar cases.
b. Irregularities bringing fines from the Financial Supervisory Commission	<p>1. Taishin Bank</p> <p>(1) Improper debt-collection practices by the entrusted establishments, in violation of article 45-1 of the Banking Law, for which the bank was fined NT\$2 million by the FSC.</p> <p>(2) extending own-residence loans and consumption loans, in violation of item 1, article 12-1 of the Banking Law, for which the bank was fined NT\$500,000 by the FSC (FSC No. 09600125931, April 26, 2007).</p> <p>(3) Transaction with subsidiaries without reporting to the board of directors and inadequate management of invested firms, for which the bank was fined NT\$6 million by the FSC (FSC, No. 09600015091, May 11, 2007).</p> <p>(4) Leakage of client data, in violation of item 1, article 45-1, the Banking Law, for which the bank was fined NT\$2 million by the FSC (FSC, No. 09600171481, May 17, 2007).</p>	<p>During regular inspections of entrusted establishments, the business management unit has adopted proper measures instantly when discovering improper debt-collection practices, including changing the posts of the related debt-collectors, cutting the entrusted business volume, requirement of compensation, or termination of the business contract.</p> <p>The bank has revised the internal guidelines for consumer-banking business and publicized the inspection procedure for confirming the usages of loans, in addition to requiring related units to strictly adhere to the regulation of article 12, the Banking Law.</p> <p>Taishin Fiance Co., Ltd. (Hong Kong) already suspended undertaking all new businesses on July 1, 2007 and has entrusted certified public accountant to carry out its closure, scheduled to be completed by the first quarter of 2009.</p> <p>The bank has put forward concrete measures for protecting client data, covering the four aspects of "precaution," "monitoring and control mechanism," "employee management," and "information security policy," such as ban on linkage of PC with external storage device and the use of PC for browsing external websites, reviewing user privileges for various systems, setting up regular inspection of trading journal, in-time discovery of improper inquiries, strengthening secret-keeping education for employees, and revising information-security policy.</p>



	<p>(5) Carrying out capital increment via private share placement without reporting to the regulator in time, in violation of item 5, article 43-6, Securities Transaction Law, for which the bank was fined NT\$240,000 by the FSC (FSC, No. 09600187421, May 1, 2007).</p> <p>(6) Violation of the regulations of Money Laundering Control Act for a large-amount currency trading at Jianguo N. Road branch in Taipei, for which the bank was fined NT\$200,000 by the FSC (FSC, No. 09600468211, Dec. 19, 2007).</p> <p>2. Taiwan Securities Falsification in several futures-trading consignment orders at the Yongli branch, in violation of the regulations for futures management, for which the company was fined NT\$120,000.</p> <p>3. Chang Hwa Bank (1) A salesman at Jicheng branch secretly sold the mutual-fund beneficiary certificates of clients, for which Chang Hwa Bank was fined NT\$10 million by the FSC for failing to establish and effectively implement internal control system, in violation of article 45-1, the Banking Law.</p> <p>(2) A clerk at the Sanmin branch embezzled NT\$8 million from automated teller machine (ATM), for which Chang Hwa Bank was fined NT\$2 million by the FSC for failing to establish and effectively implement internal control system, in violation of article 45-1, the Banking Law.</p>	<p>The capital increment was subscribed fully by the parent financial holding firm, whose board of directors resolved to publicize the important message at the Market Observation Post System on behalf of the bank, leading the bank to mistake that the parent firm had also completed reporting to the regulator for it. The operating flow has been revised to prevent recurrence of the same mistake.</p> <p>The bank has required related units to report currency trading exceeding NT\$1 million in value to the Bureau of Investigation, the Ministry of Justice, timely, according to article 7, Money Laundering Control Act and related regulations, in addition to intensifying related training and education among employees.</p> <p>Strengthen the education and training of business staffers requiring them to fill faithfully trading consignment orders when receiving trading consignments from clients.</p> <p>1. The bank has revised regulations governing trust business and system user privileges, to strengthen internal control.</p> <p>2. The bank has dismissed the salesman and required various business units to inspect their own operations assuring the completion of related improvement, thereby obtaining the FSC approval to resume the business "securities investment via specific money trust."</p> <p>The bank has notified various business units to comply with the bank's regulations regarding money replacement and filling for ATM, thereby actually realizing internal control, in addition to holding internal-control seminars for monitoring managerial staffers to augment their monitoring capability.</p>
<p>c. Defects harshly reprimanded by the FSC</p>	<p>1. Taishin Bank A clerk at the northern Taipei district under the Consumer Banking Business Group had fund exchange with and received gift from an entrusted realty agent; a managerial staffer used the account of a realty agent for personal-fund transfer.</p>	<p>The bank has reiterated rules forbidding employees to accept gifts or other illegal benefits in exchange for acts at odds with their responsibilities. The managerial staffers has been penalized and transferred to a non-managerial post.</p>
<p>d. Penalties inflicted by the FSC according to item 1, article 54, the Banking Law.</p>	<p>1. Taishin Bank leaked the personal data of credit-card client, in violation of item 1, article 45 of the Banking Law, for which the bank was fined NT\$2 million by the FSC, plus suspension of the issuance of new credit cards for over one month (FSC, No. 09600171481, May 17, 2007).</p>	<p>Same as b-1(4)</p>

### III. Corporate Governance

	<p>2. A clerk at the Jicheng branch of Chang Hwa Bank secretly sold mutual-fund beneficiary certificates of a client, for which the FSC order the bank to dismiss the clerk and suspended the bank receiving new new clients for securities investment via specific money trust, until it has actually improved its internal control system.</p>	Same as b-3(1)
<p>e. Loss exceeding NT\$50 million for an individual case or in combination in a fiscal year resulting from the irregularities of employees, major incidents (swindling, burglary, embezzlement or thestealing of assets, falsified transaction, the forgery of certificates or negotiable instruments, collection of kickbacks, natural disasters, external force, hacker attack, the stealing of data, and the leakage of business secrets or client information), or security incidents resulting from negligence of the security-maintenance regulations for financial institutions, which should be disclosed</p>	<p>1. Secretive sale of mutual-fund beneficiary certifications of client by a clerk at the Jicheng branch of Chang Hwa Bank on Dec. 23, 2005, resulting in NT\$63,814,000 of loss.</p> <p>2. embezzlement of NT\$8 million from ATM by a clerk at the Sanmin branch of Chang Hwa Bank.</p>	<p>Same as b-3(1)</p> <p>Same as b-3(2)</p>
<p>f. Other items required to be disclosed by the FSC</p>	<p>1. The FSC suspended the duty of Chang Po-hsin, chairman of Chang Hwa Bank, for half a year on May 25, 2006 for selling the bank's stake in Taiwan Development Corp. to specific parties in July 2005, in violation of the principles of corporate governance.</p> <p>2. Under the instruction of FSC, Ms. Li, manager of Taiwan Securities' Panqiao branch, was dismissed and a clerk Ms. Chang was suspended of her duty for one month for violation of the Securities Management Law (FSC, No. 09600570321, Oct. 4, 2007).</p>	<p>The bank already required various units to comply with the following principles, to assure the provision of sufficient materials for the board of directors in deliberating items on agenda:</p> <p>(1) Relevant materials should be sent to all directors by the deadline set by the board meeting rules, so that they can understand proposals for discussion beforehand.</p> <p>(2) Proposing units should dispatch related staffers to make report on the proposals, in addition to replying inquiries raised by board directors.</p> <p>(3) Proposing units should explain uncertain factors resulting from specific reasons for their proposals, should they exist.</p> <p>(4) The board of directors can resolve to shelve the discussion of proposals on the agenda for lack of sufficient materials.</p> <p>Same as a.</p>

# IV

## Fund Raising

### Help the Earth

Global warming is caused by too much carbon dioxide of the near-surface air  
By planting trees we can reduce the carbon dioxide  
If a tree can live 40 years,  
It can reduce 465 kilograms of carbon dioxide for the planet.



## IV. Fund Raising

### A. Shares and Dividend

#### a. Capital Sources

##### 1. capital sources

Base date: March 31, 2008, units:  
NT\$1,000; 1,000 shares

times	Issuing prices	Approved capital		Paid-in capital		notes	
		Number of shares	Value	Number of shares	Value	Capital sources	others
Feb. 2002	10	10,000,000	100,000,000	common share 2,300,000 A preferred share 300,000 B preferred share 400,000	common share 23,000,000 A preferred share 3,000,000 B preferred share 4,000,000	Issuance for conversion	MOF No. 0900015135, Dec. 31, 2001 (note 1)
Sept. 2002	10	10,000,000	100,000,000	common share 2,300,000 B preferred share 400,000	common share 23,000,000 B preferred share 4,000,000	Retrieval of A preferred shares after maturity	MOF, No. 0912001371, Oct. 11, 2002 (note 2)
Dec. 2002	10	10,000,000	100,000,000	common share 3,631,623 B preferred share 400,000	common share 36,316,236 B preferred share 4,000,000	Share conversion	MOF No. 0910050394, Nov. 7, 2002 (note 3)
May. 2003	10	10,000,000	100,000,000	common share 3,632,713 B preferred share 400,000	common share 36,316,236 B preferred share 4,000,000	Issuance for convertible corporate bonds in the first quarter 2003	MOEA No. 0920113370, May 7, 2003 (note 4)
July. 2003	10	10,000,000	100,000,000	common share 3,687,739 B preferred share 400,000	common share 36,877,397 B preferred share 4,000,000	Issuance for convertible corporate bonds in the second quarter 2003	MOEA No. 09201228300, July 30, 2003 (note 5)
Oct. 2003	10	10,000,000	100,000,000	common share 3,668,520 B preferred share 400,000	common share 36,685,207 B preferred share 4,000,000	Capital reduction in line with cancellation of treasury stocks	MOF No. 0920045919, Oct. 8, 2003 (note 6)
Oct. 2003	10	10,000,000	100,000,000	common share 3,676,978 B preferred share 400,000	common share 36,769,788 B preferred share 4,000,000	Issuance for convertible corporate bonds in the third quarter 2003	MOEA, No. 09201297690, Oct. 27, 2003 (note 7)
Feb. 2004	10	10,000,000	100,000,000	common share 3,756,113 B preferred share 400,000	common share 37,561,132 B preferred share 4,000,000	Issuance for convertible bonds in the fourth quarter 2003	MOEA No. 09301012440, Feb. 2, 2004 (note 8)
April 2004	10	10,000,000	100,000,000	common share 3,957,779 B preferred share 400,000	common share 39,577,790 B preferred share 4,000,000	Issuance for convertible bonds in the first quarter 2004	MOEA, No. 09301069080, April 28, 2004 (note 9)
July 2004	10	10,000,000	100,000,000	common share 4,015,045 B preferred share 400,000	common share 40,150,457 4,000,000	Issuance for convertible bonds in the second quarter 2004	MOEA, No. 09301138150, July 26, 2004 (note 10)



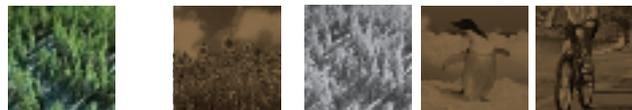
## 2007 Taishin Holdings Annual Report

times	Issuing prices	Approved capital		Paid-in capital		notes	
		Number of shares	Value	Number of shares	Value	Capital sources	others
Aug. 2004	10	10,000,000	100,000,000	common share 4,277,063 B preferred share 400,000	common share 42,770,639 B preferred share 4,000,000	Issuance from earnings, capital reserves and convertible bonds	MOEA, No. 09301156500, Aug. 19, 2004 (note 11)
Oct. 2004	10	10,000,000	100,000,000	common share 4,298,768 B preferred share 400,000	common share 42,987,687 B preferred share 4,000,000	Issuance for convertible bonds in the third quarter 2004	MOEA, No. 09301198370, Oct. 27, 2004 (note 12)
Jan. 2005	10	10,000,000	100,000,000	common share 4,407,292 B preferred share 400,000	common share 36,316,236 B preferred share 4,000,000	Issuance for convertible bonds in the fourth quarter 2004	MOEA, No. 09401015750, Jan. 27, 2005 (note 13)
May. 2005	10	10,000,000	100,000,000	common share 4,433,851 B preferred share 400,000	common share 44,338,511 B preferred share 4,000,000	Issuance for convertible bonds in the first quarter 2005	MOEA, No. 09401077610, May 4, 2005 (note 14)
Aug. 2005	10	10,000,000	100,000,000	common share 5,108,079 B preferred share 400,000	common share 51,080,795 B preferred share 4,000,000	Issuance from earnings, capital surplus, and for convertible bonds in the second quarter	MOEA No. 09401156030, Aug. 16, 2005 (note 15)
Oct. 2005	10	10,000,000	100,000,000	common share 5,108,079 B preferred share 400,000 C preferred share 500,000	common share 51,080,795 B preferred share 4,000,000 C preferred share 5,000,000	Issuance of C preferred shares	MOEA, No. 0940197220, Oct. 4, 2005 (note 16)
Oct. 2005	10	10,000,000	100,000,000	common share 5,114,999 400,000 C preferred share 500,000	common share 51,149,993 4,000,000 C preferred share 5,000,000	Issuance of convertible bonds in the third quarter 2005	MOEA No. 09401208520, Oct. 20, 2005 (note 17)
Jan. 2006	10	10,000,000	100,000,000	common share 5,123,209 B preferred share 400,000 C preferred share 500,000	common share 51,232,092 B preferred share 4,000,000 C preferred share 5,000,000	Issuance for convertible bonds in the fourth quarter 2005	MOEA, No. 09501013580, Jan. 26, 2006 (note 18)
March. 2006	10	10,000,000	100,000,000	common share 4,869,077 B preferred share 400,000 C preferred share 500,000	common share 48,690,778 B preferred share 4,000,000 C preferred share 5,000,000	Capital reduction (cancellation of treasury stocks)	MOEA, No. 09501037680, March 7, 2006 (note 19)
March. 2006	10	10,000,000	100,000,000	common share 5,424,633 B preferred share 400,000 C preferred share 500,000 D preferred share 777,777	common share 54,246,333 B preferred share 4,000,000 C preferred share 5,000,000 D preferred share 7,777,777	Issuance for capital increment via private placement	MOEA, No. 09501053470, March 29, 2006 (note 20)
April. 2006	10	10,000,000	100,000,000	common share 5,438,942 B preferred share 400,000 C preferred share 500,000 D preferred share 777,777	common share 54,389,420 B preferred share 4,000,000 C preferred share 5,000,000 D preferred share 7,777,777	Issuance for convertible bonds in the first quarter 2006	MOEA, No. 09501068440, April 18, 2006 (note 21)

## IV. Fund Raising

times	Issuing prices	Approved capital		Paid-in capital		notes	
		Number of shares	Value	Number of shares	Value	Capital sources	others
July 2006	10	10,000,000	100,000,000	common share 5,438,942 C preferred share 500,000 D preferred share 777,777	common share 54,389,420 C preferred share 5,000,000 D preferred share 7,777,777	Capital reduction upon maturity of B preferred shares	MOEA, No. 09501152460, July 20, 2006 (note 22)
Sept. 2006	10	10,000,000	100,000,000	common share 5,443,633 C preferred share 500,000 D preferred share 777,777	common share 54,436,334 C preferred share 5,000,000 D preferred share 7,777,777	Issuance for convertible bonds in the second quarter 2006	MOEA, No. 09501209040, Sept. 15, 2006 (note 23)
Jan. 2007	10	10,000,000	100,000,000	common share 5,710,300 C preferred share 500,000 D preferred share 777,777	common share 57,103,000 C preferred share 5,000,000 D preferred share 7,777,777	Common-share issuance for cash capital increment via private share placement	MOEA, No. 09601001020, Jan. 5, 2007 (note 24)

- Note 1: Taishin Bank and Dah An Bank joined hands in setting up Taishin Financial Holding via share swap and carried out merger during the establishment process, with Taishin Bank being the surviving company and Dah An Bank the disappearing company.
- Note 2: The company purchased back 300 million registered A preferred shares at face value of NT10 following their maturity on September 20, 2002, according to the corporate charter and measures for share issuance.
- Note 3: Taiwan Securities and Taishin Bills Finance became the company's subsidiaries via share swap, at the swap ratio of 1.2 common shares of Taiwan Securities to one common share of Taishin Financial Holding and 1.3 common shares of Taishin Bills Finance to one common share of Taishin Financial Holding, for which Taishin Financial Holding issued 1,331,623,623 new common shares for 1,123,486,810 common shares of Taiwan Securities and 514,000,000 common shares of Taishin Bills Finance, with December 31, 2002 as the base date for the share swap.
- Note 4: In the first quarter of 2003, 169 sheets of convertible bonds, valued at NT\$16.9 million, were converted to 1,090,319 common shares, upon applications of their holders.
- Note 5: In the second quarter of 2003, 8,529 sheets of convertible bonds, valued at NT\$852.9 million, were converted to 55,025,801 common shares, upon applications of their holders.
- Note 6: The company canceled 19,219,000 common shares of treasury stocks.
- Note 7: In the third quarter of 2003, 1,311 sheets of convertible bonds, valued at NT\$131.1 million, were converted to 8,458,064 common shares, upon applications of their holders.
- Note 8: In the fourth quarter of 2003, 5,302 sheets of convertible bonds, valued at NT\$530.2 million, were converted to 34,206,310 common shares, upon applications of their holders and 26,007 sheets of ECB (euro-dollar convertible bonds), valued at US\$26.007 million, were converted to 44,928,160 common shares.
- Note 9: In the first quarter of 2004, 8,523 sheets of convertible bonds, valued at NT\$852 million, were converted to 54,987,065 common shares, upon applications of their holders and 84,906 sheets of ECB (euro-dollar convertible bonds), valued at US\$84.906 million, were converted to 146,678,712 common shares.
- Note 10: In the second quarter of 2004, 4,226 sheets of convertible bonds, valued at NT\$422.6 million, were converted to 27,264,511 common shares, upon applications of their holders and 17,367 sheets of ECB (euro-dollar convertible bonds), valued at US\$17.367 million, were converted to 30,002,227 common shares.
- Note 11: 261,413,500 new shares were issued for capital increment with the company's earnings and capital reserves and 350 sheets of ECB, valued at US\$350,000, were converted to 604,639 common shares.
- Note 12: In the third quarter of 2004, 1,267 sheets of convertible bonds, valued at NT\$126.7 million, were converted to 8,737,913 common shares, upon applications of their holders and 6,720 sheets of ECB (euro-dollar convertible bonds), valued at US\$6.72 million, were converted to 12,996,912 common shares.
- Note 13: In the fourth quarter of 2004, 673 sheets of convertible bonds, valued at NT\$67.3 million, were converted to 4,641,367 common shares, upon applications of their holders and 53,836 sheets of ECB (euro-dollar convertible bonds), valued at US\$53.836 million, were converted to 103,881,984 common shares.
- Note 14: In the first quarter of 2005, 13,764 sheets of ECB, valued at NT\$13.764 million, were converted to 26,559,024 common shares, upon applications of their owners.
- Note 15: 669,404,441 new shares were issued for capital increment with the company's earnings and capital reserves and in the second quarter, 2,500 sheets of ECB, valued at NT\$2.5 million, were converted to 4,824,002 common shares, upon applications of their holders.
- Note 16: The company issued 500 million C preferred shares, at NT\$10 per share, totaling NT\$5 billion in value.
- Note 17: In the third quarter of 2005, 2,950 sheets of ECB, valued at NT\$2.95 million, were converted to 6,919,777 common shares, upon applications of their holders.
- Note 18: In the fourth quarter of 2005, 3,500 sheets of ECB, valued at NT\$3.5 million, were converted to 8,209,904 common shares, upon applications of their holders.
- Note 19: The company canceled 254,131,447 shares of treasury stocks, at NT\$10 per share, totaling NT\$2,541,314,470 in value, according to item 2, article 31 of the Financial Holding Company Law.
- Note 20: For cash capital increment via private share placement, the company issued 555,555,557 common shares and 777,777,779 D preferred shares, totaling 1,333,333,336 shares, at par value NT\$10 per share and premium price of NT\$18, thereby raising NT\$24,000,000,048 of fund.
- Note 21: In the first quarter of 2006, 6,100 sheets of ECB, valued at NT\$6.1 million, were converted to 14,308,689 common shares, upon applications of their holders.
- Note 22: The company bought back 400 million registered B preferred shares, at par value of NT\$10 per share, upon their maturity on June 30, 2006, according to the corporate charter and share-issuance measures.
- Note 23: In the second quarter of 2006, 2,000 sheets of ECB, valued at NT\$2 million, were converted to 4,691,372 common shares, upon applications of their holders. As of June 30, 2006, 220,000 sheets of ECB, valued at US\$220 million, had been converted to 404,575,402 common shares (ECB had been converted to common shares completely).
- Note 24: For cash capital increment via private share placement, the company issued 266,666,663 common shares, at par value NT\$10 per share and premium price of NT\$15, thereby raising NT\$3,999,999,945 of fund.



## 2. Issuance of preferred shares

- (1) The Financial Supervisory Commission (FSC) notified, in document No. 0940135173 dated August 30, 2005, its approval of cash capital-increment application by the company to issue 500 million registered C preferred shares, at par value of NT\$10 per share and premium price of NT\$30, totaling NT\$15 billion in value, which had been fully subscribed on September 28, 2005. The batch of registered C preferred shares boasts 3.5% of dividend annually, which is paid out in cash once every year, and cannot be converted to common shares. Following maturity of their seven-year term, the company would buy them back at actual issuing price with earnings or proceeds from new share issuance.
- (2) For cash capital increment via private share placement, the company issued 777,777,779 registered D preferred shares, at par value of NT\$10 per share and premium price of NT\$18, totaling NT\$14,000,000,022 in value, which had been fully subscribed on March 22, 2006 and reported to the regulator for reference within 15 days. The batch of registered D preferred shares boasts 6.5% of dividend annually, which is paid out in cash once every year, without accumulation, and their holders can take part in earnings distribution for common shares, at ratio of two D preferred shares for one common share. They can be converted to common shares at ratio of 1:1 three years after its issuance. Ten years after its issuance, the company can buy them back in part or in entirety anytime at actual issuing price with earnings or proceeds from new share issuance. Afterwards, annual dividend for the D preferred shares still in circulation will be raised to 7.5%.

Share categories	Approved capital			notes
	Shares in circulation	Shares without issuance	total	
Common shares	5,710,300,089 shares	2,789,699,911 shares	8,500,000,000 shares	Listed shares (including 822,222,220 shares from private share placement for capital increment, which have yet to be listed)
Preferred shares	1,277,777,779 shares	222,222,221 shares	1,500,000,000 shares	Including 777,777,779 shares from private share placement for capital increment.

Note: please specify whether the shares are listed on the centralized market or over-the-counter market (as well as those which are restricted from being listed on the centralized or OTC market).

## 3. Information on the overall application system: nil

## IV. Fund Raising

### B. The Execution of Fund Utilization Plan

#### a. Contents of the plan

Fund utilization plans for the aforementioned securities issuance or private placement have been fully implemented according to schedule.

#### b. Implementation description

April 30, 2008

years	2004		2005				2006			
Issuances	1st domestic unsecured subordinated corporate bond	2nd domestic unsecured subordinated corporate bond	1st domestic unsecured subordinated corporate bond	Issuance of C preferred shares	2nd domestic unsecured subordinated corporate bond	3rd domestic unsecured subordinated corporate bond	Private-placement common shares	Private-placement D preferred shares	Private-placement domestic unsecured convertible bonds	Private-placement common shares
Issuance dates	May 21, 2004	June 21, 2004	Sept. 20, 2005 Setp. 21, 2005	Sept. 28, 2005	Nov. 15, 2005	Dec. 8, 2005	March 22, 2006	March 22, 2006	Ma6 5, 2006	Dec. 27, 2006
Issuance values	NT\$ 2 B.	NT\$ 5 B.	NT\$ 12 B.	NT\$ 15 B.	NT\$ 3.65 B.	NT\$ 3 B.	NT\$ 10,000,000,026	NT\$ 14,000,000,022	NT\$ 7 B.	NT\$ 3,999,999,945
Plan contents	Improve financial structure and enhance capital adequacy ratio		Invest in B preferred shares of Chang Hwa Bank				Improve financial structure and enhance capital adequacy ratio			
Description of implementation	Changes in capital adequacy ratios: 126.57% on May 31, 2004 before the fund raising, which was raised to 130.05% after the fund raising.	Changes in capital adequacy ratio: 105.38% on June 30, 2004 before the fund raising, which was raised to 114.01% after the fund raising.	After receiving the fund injection from the company, Chang Hwa Bank greatly boosted its provision in 2005, thereby cutting its NPL ratio to 1.67%, from 5.4% originally.  Chang Hwa Bank scored conspicuous business improvement in 2006, raking in after-tax earnings of NT\$11.38 billion, which enabled the company to list NT\$2.59 billion of investment returns according to shareholding ratio. Chang Hwa Bank further scored after-tax earnings of NT\$8.48 billion in 2007, for which the company listed NT\$1.82 billion of investment returns.				Changes in capital adequacy rates: 98.54% on March 31, 2006 (domestic convertible bonds have yet to be converted, producing no effect on capital enhancement, as a result. Full conversion can lead to increase of 13percentage points in capital adequacy ratio) 98.54% before the fund raising, which was raised to 117.54% after the fund raising.			Changes in capital adequacy ratio: 90.45% on Dec. 31, 2006 before the fund raising, which was raised to 98.32% after the fund

Note: Changes in capital adequacy ratios denotes to that resulting from the effect of the single factor of fund raising.

# V

## Operating Status

### Save the Energy in A Fashionable Way

Saving the energy

Is not just a slogan

It's an attitude of returning back to simpleness

It's an achievement of living

A taste of green fashion



## V. Operating Status

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### A. Business Contents

#### Taishin Financial Holding Co., Ltd.

##### a. Business Scope

According to article 36 of the Financial Holding Company Law, the company's operation is confined to investment and the management of invested businesses.

1. The company is allowed to invest in the following businesses:
  - 1) banking
  - 2) bills finance
  - 3) credit card
  - 4) trust
  - 5) insurance
  - 6) securities
  - 7) futures
  - 8) venture capital
  - 9) foreign financial institutions with the regulator's approval
  - 10) other financial industry-related businesses acknowledged by the regulator
2. Management of aforementioned invested businesses
3. Businesses other than the aforementioned ones following approval by the regulator of applications by the company

##### b. Business plan of the current year:

The company's business strategy follows:

###### 1. Expand business scale, lower cost, and increase the deployment of business points via merger

Thanks to the business cooperation between the company's subsidiaries Taishin International Bank and Chang Hwa Bank, the company will witness balanced development between corporate banking and consumer banking businesses, with the number of its combined domestic business points topping 270 and that of its overseas business points reaching nine, among the highest in the domestic banking industry.



## **2. Introduction of foreign capital to strengthen corporate governance and thereby install an international operating framework**

Following the introduction of foreign institutional investors, the company will closely cooperate with them in tapping domestic and overseas markets and augmenting international business and management capabilities, so as to connect with the international financial market.

## **3. Strengthening capabilities for risk management, internal control, and managing large-scale international financial institution**

To augment management capability, in addition to recruiting several foreign executives with working experience in international financial institutions into the Taishin management team, we also expect to overhaul Taishin's overall financial business via the introduction of new products and technologies by the new management team, so as to make a fresh start in the year. We will focus our business efforts on recruiting quality clients, in addition to strengthening internal credit-evaluating system for pinpointing good clients and lowering risks.

## **4. Instituting complete corporate-banking, consumer-banking, wealth-management, and assets-management system**

In the emulation of the function-oriented responsibility system of international financial institutions, we will put in place a business group-based operating system, in hopes of enhancing service quality for clients according to the principle of balancing risk management and business growth.

### **c. Industry Status:**

#### **1. Market Status**

##### 1) Financial consolidation an industry trend

Affected by the twin-card debt turmoil, some banks with smaller consumer-market share or inadequate operation have successively exited the market. Meanwhile, foreign banks have taken the opportunity to make further incursion into the Taiwanese financial market, such as the acquisition of Hsinchu International Bank by Standard Chartered Bank and that of Bank of Overseas Chinese by Citibank. The trend of financial consolidation is expected to carry on in Taiwan.

##### 2) Improving consumer banking

In the wake of the eruption of the twin-card debt turmoil, financial institutions have become increasingly conservative toward unsecured loans. However, the enhancement of overall bad-

## V. Operating Status

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debt coverage ratio and decline in NPL (non-performing loan) ratio underscores the gradual improvement in banking assets and the subsidence of bad-debt problem among domestic banks. Banking profits are expected to score major upturn on reduction in provisions for twin-card bad debts.

### 3) Increasing competition for wealth-management business

Along with the multiplication and internationalization of financial products, there have appeared growing needs for assets-management services among rich Taiwanese clients, including overseas Taiwanese businessmen. As a result, domestic banks and foreign banks in Taiwan have listed wealth management as a business focus, vying fiercely for the market pie.

With the U.S. subprime mortgage crisis spreading globally, credit risk has surged, depressing the value of massive amount of structured products and inflicting heavy loss on investors, which has posed a major challenge to the hitherto fast-growing wealth-management business of domestic banks.

### 4) Developing investment-banking business

In line with financial liberalization/internationalization and the diversification of corporate fund-raising channels, investment banking has become an important component in banks' effort to diversify their profit sources. Investment banking boasts extensive business scope, including the issuance of corporate bonds, assistance to enterprises in share listing, assistance to corporate merger and acquisition, planning for debt or share swap, the issuance of commercial papers, interest-rate swap, loan transfer, assistance to municipal governments in bond issuance, the sale of various financial products to clients via wealth-management professionals, and the management of various funds or fund utilization under the commission of clients. Along with outbound investments by Taiwanese businessmen, increasing exchanges among domestic and foreign financial products, the growing internationalization of enterprise management, rapid wealth accumulation among locals, the multiplication and in-depth development of wealth-management needs among local people will step up inevitably.

### 5) Tapping overseas markets

In recent years, domestic financial institutions have successively strengthened overseas deployment to boost their operating and profit-making momentum, such as the incursion of Chinatrust Financial Holding into the consumer-banking markets of Indonesia and the Philippines featuring consumption type similar to that of Taiwan, the two-pronged strategy of Cathay Financial Holding to step into the life-insurance and banking markets of China and Vietnam, and the effort of Fubon Financial Holding to tap the Taiwanese enterprises-related businesses in the Pearl-River Delta area taking advantage of the resources of Taipei Fubon



Bank and Fubon Bank (Hong Kong). Overseas deployment strategies among Taiwanese financial institutions, including overseas branches, representative's offices, or subsidiaries, are expected to focus on Vietnam, Hong Kong, and China.

## 2. Development trend of various financial products

With financial-industry competition expected to become increasingly acute, non-interest income will emerge as a major income source for banks under the user-pay principle and many new financial products will be introduced into the domestic market from abroad, leading to market pluralization.

Thanks to the government successively lifting financial control, expanding the participation in banking management, and pushing the privatization of state financial enterprises, the financial-industry competition will, in addition to price competition, include such factors as service quality, personnel cultivation, and product development, boosting the maturity and stability of the domestic financial industry.

## d. Research and Development

The company will integrate the R&D resources and manpower of various subsidiaries, thereby enabling clients and employees to access various information on stock market, bond market, exchange rate, interest rate, mutual fund, and insurance via a single window or platform.

## e. Long- and Short-term Business Development Plans

As a financial holding firm, the company's operation is confined investment and management, and as such, its short-term plan is to strengthen the management of the invested firms and its long-term goal is to develop into a quality financial institution capable of providing complete financial services to Chinese clients worldwide. For achieving that goal, the company will embrace three strategies: developing into a large financial institution with international competitiveness, making deployment at Chinese communities worldwide, and continuously cultivating quality financial talents and developing complete product lineup.

With the joining of international partners (Newbridge Capital of the U.S., Japan's Nomura Group, and Quantum Group of Funds), the company will extend the reach of its operation from the domestic market to regional securities, financial, and insurance markets. The management is fully confident of developing the company into one of the most internationalized financial groups in Taiwan.

## V. Operating Status

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### Taishin International Bank

#### a. Business Scope

##### 1. Growth and changes of various business items:

###### 1) Wealth management

The bank offers one-to-one wealth management consulting service and undertakes comprehensive custom financial analysis and planning for clients with monthly dealing averaging over NT\$1.5 million, according to their needs and risk-enduring capability, with the service scope including currency investment and saving, various consumption loans, insurance protection, taxation, and assets planning.

###### 2) Consumer banking

The bank's consumer-banking operation includes consumption loans (housing loan, auto loan, unsecured loan, and subordinated housing loan), credit card, working capital for small and medium enterprises, e-cash flow, and online payment service. It provides various financial products developed according to market differentiation and the needs of various client groups, as well as various loaning programs to meet the financial needs of clients.

###### 3) Corporate banking

The bank's corporate-banking operation provides plural professional financial products and services to various corporate clients, including enterprises, government agencies, and financial institutions, with the business scope including deposits, short- and long-term financing, guarantee, trade financing, syndicated loan, bond transaction, commercial paper, the factoring of accounts receivable, cash management, e-banking for corporate financial network, foreign exchange and interest-rate derivatives, financial consulting, asset-based securities, and discretionary-account assets management.

###### 4) e-financial business

In developing e-financial business, the bank focuses on upgrading e-banking and popularizing e-ATM (automated teller's machine), for which we have been encouraging clients to utilize our e-financial services effectively and offering them more convenient wealth-management channels, in hopes of helping them cut operating cost. In order to popularize e-banking, the bank, in addition to strengthening its functions, also endeavors to address the security problem, for which it has developed many proprietary security functions capable of detecting irregularities which may jeopardize the security of online trading, such as advanced firewall, upgraded SSL encryption technology, online verification code, instant alarming service, dynamic keyboard, and dynamic trading confirmation window. Taishin Bank's e-banking has achieved rapid development in terms of both membership and trading volume, thanks



to innovative and complete functions, as well as various preferential marketing programs, tailored to different client groups and channels. In addition to e-banking, the bank has also offered integrated online payment service for small and medium enterprises, satisfying the clients' needs in account management and financing, in line with the "all-around service" concept.

## 5) Trust

In addition to continuing the promotion of "education and start-up trust for offspring" and "securities trust," the bank, in line with the inauguration of the new labor-pension system, pioneered the rollout of "So Easy retirement wealth-management plan" in October 2005 (renamed So Easy target wealth-management plan in 2006), soliciting increasing collective management accounts under its auspices, whose business volumes have been expanding steadily, thanks to the vigorous promotion of our entire staff. Regarding mutual-fund business, the bank has been offering our clients various new quality domestic and overseas mutual funds, expanding offshore mutual-fund agency business, and planning plural self-developed products, in addition to developing derivative products, thereby satisfying clients' plural wealth-management needs by offering them complete assets-allocation planning. In addition, the bank has also planned bond-ladder products, enabling clients to invest in proper fixed-yield products via one-stop shopping. Meanwhile, we have also been continuously developing and introducing structured notes and deep-cultivating target clients, offering optimal trust products to clients of different features.

## 6) Investment business

As a subsidiary of Taishin Financial Holding, the bank has submitted its investment policy and plan to the parent company, in line with article 36 of the Financial Holding Company Law which stipulates that following their conversion to financial holding companies, the investment activities of banks should be carried out by the financial holding companies but they can keep the stakes in the companies which they invested before the conversion without increasing the investment scale."

## 2. Shares of the bank's major revenue sources and their growth/changes:

Revenue share (%)	2007	2006
Consumer banking	76%	82%
--wealth management	24%	17%
-- consumption financing	22%	20%
--credit card	16%	20%
--cash card	15%	25%
Corporate banking	24%	18%
total	100%	100%

Notes: 1. 2006 net income excludes loss from the sale of NPL.

2. 2007 net income doesn't exclude loss from the sale of NPL, which was limited.

# V. Operating Status

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## b. Business Plan of the Current Year

### 1. Personal and consumer banking

- 1) Soliciting quality clients, properly utilizing CRM (customer relationship management) data, and deep-cultivating client relationship;
- 2) Strengthening branch-channel management, offering clients one-stop shopping service, and enhancing product penetration rates;
- 3) Augmenting asset quality and implementing risk management;
- 4) Upgrading work flow and improving system, upgrading service efficiency, and cutting operating cost;
- 5) Credit card
  - Designing proprietary credit cards for different client groups and issuing Green Life Card, in line with the growing environment-protection awareness;
  - Deep-cultivating existing clients, developing cash-advance and differentiated-interest products, and carrying out focus-group marketing;
  - Increasing the number of quality merchants;
  - Undertaking installment acquiring-bank business in cooperation with existing merchants.
- 6) Consumption loans
  - Developing value-added housing loans, so as to tap the emerging housing-loan market;
  - Boosting revenue and expanding interest differential.
- 7) Commercial financing
  - Focusing on the provision and development of integrated online payment service (for distribution and procurement cards);
  - Pursuing the steady growth of quality business mortgage loan business (business-owner housing loan, unsold-house loan, and the factoring of accounts receivable).
- 8) Cash card
  - Carrying out regionalized management for existing clients and deep-cultivating the relationship with existing clients;
  - Assisting existing clients to undertake debt consolidation to cut the bank's risks.



## 2. Corporate banking and enterprise financing

- Accelerating the development of asset-management business for domestic peers and corporate bodies;
- Actively pushing accounts receivable and L/C (letter of credit) factoring businesses and seeking the steady growth of underwriting and bond businesses;
- Developing trade financing business for small and medium enterprises and making our OBU (offshore banking unit) a financing and logistics center for overseas Taiwanese businesses;
- Strengthening and expanding domestic and overseas syndicated-loan business and project-consulting services;
- Instituting BASEL II risk-management mechanism, balancing business growth and risk management;
- Promoting cash-management business and integrated e-services;
- Pushing overseas business by offering financing platform for the greater Chinese region, financial management, and solutions for fund planning;
- Actively soliciting large-scale fund-raising, overseas-underwriting, and cross-border merger businesses.

## 3. Wealth-management and trust businesses

### (1) Wealth-management business

- Setting up competent professional wealth-management teams to achieve business performance and the financial contribution of wealth-management operation;
- Deep-cultivating client relations, augmenting client satisfaction, and establishing a long-standing and reliable partnership with clients;
- Offering, on the basis of client-needs orientation, different wealth-management portfolios suited to different client groups, as well as all-round financial planning for clients, so as to take care of every bunch of assets entrusted by clients and attain long-term business growth for clients.

### (2) Trust business

- Offering “profit-yielding securities trust” and actively taking part in the securities-lending market, so as to create securities-lending yield for clients;
- Expanding the product lineup and automated trading function of “So Easy target wealth-management plan,” to help clients achieve the wealth-management targets for various life stages;

## V. Operating Status

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- Actively soliciting the money trust and securities trust businesses of large corporate bodies;
- Seeking cross business-department concerted marketing and capitalizing on integrated marketing resources of the financial holding firm;
- Stepping up the promotion of trust-consultant business;
- Actively soliciting domestic mutual-fund custodian business, so as to create enduring custodian income;
- Actively soliciting the agency business for good-performance new mutual funds, to achieve complete product lineup and maximize the profits of investors;
- Expanding product magnitude by expanding collective- and single-account product line/platform;
- Continuing to introduce good-performance domestic/offshore mutual funds, in line with the concept of assets allocation, to enrich mutual-fund product line;
- Retaining the steady growth of funds' managed assets and creating steady fund-management income;
- Offering consigners opportunities to buy secondary-market products;
- Developing the general-agency business for offshore mutual funds;
- Rolling out bond ladder products and offering clients nearly tailor-made bond position, so that investors can establish bond investment portfolio suited to their risk and returns requirements;
- Continuing the development of new investment products, so as to offer investors pluralized investment targets amid the turbulent market.

### c. Industry Status

Five major foreign banks have owned scores of branches in the wake of the takeover of local banks, posing strong challenge to domestic banks by combining their international brands and expertise with indigenous resources and channels.

Meanwhile, the Central Bank of China has induced moderate rise in overnight call-loan rates in the financial industry by raising discount rates and eliminated inflation anticipation via continuous minor interest-rate hikes, thereby achieving reasonable fund allocation and maintaining long-term financial stability.



## d. Research and Development

### 1. Major financial products in the recent one year:

- 1) Housing transaction loan
- 2) Housing value-added loan: allowing clients to obtain funds meeting the needs in different lift stages by flexibly utilize their assets according to the values of their houses.
- 3) Auto loan
- 4) Credit card
- 5) Enterprise procurement card: most complete integrated cash-flow program for enterprises ever domestically and overseas, satisfying the needs of suppliers and buyers for accounting, quota management, and financing, and offering clients more complete and comprehensive financial solution, in place of traditional payment method.

### 2. Research and development achievements for personal and consumer banking in the recent two years

date	Item	Achievement
Feb. 2006	VISA card	The first "Phantom of Opera" card in Taiwan, with a unique design globally
July 2006	Easy-Card e-wallet	Pioneering the use of Easy-Card induction-type transaction at FamilyMart convenience stores
July 2006	Credit-card function	The first bank in Taiwan allowing card holder to exchange bonus points for goods at the five major convenience store chains
Sept. 2006	New product Rollout of platinum business credit-card	Pioneering the launch of business credit card with annual-fee charge and no exchange-rate differential for overseas transactions
Nov. 2006	VISA card benefits	First "dual spending/deposit benefits" for VISA card in Taiwan
July 2007	New product Rollout of World MasterCard	Rollout of World MasterCard for wealth-management VIP clients
Nov. 2007	New product Rollout of enterprise procurement card	Buyers can utilize credit line offered by Taishin Bank in the procurement of commodities and raw materials from upstream suppliers and can make the payments at the bank's island-wide payment channel, saving them troublesome payment procedure. Revolving credit line is also available for those with financial needs, helping them achieve optimal financial planning.

### 3. New financial products for corporate and enterprise banking in the recent two years

#### (1) Accounts-receivable factoring

Professional factoring team offers clients flexible working-capital financing.

#### (2) Cash management

Offering corporate clients plural and convenient collection and payment channels to boost clients' cash-management efficiency

## V. Operating Status

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- (3) Serving as arranger for syndicated loans
- (4) Underwriting the issuance of corporate bonds and commercial papers
- (5) Structured products
- (6) Underwriting IPO (initial public offering)/SPO (secondary public offering) in Taiwan and Hong Kong
- (7) e-banking

### 4. Future Development Plan

#### Personal and Consumer Banking

- Maintaining co-brand strategic partnership, actively cultivating the channel of the financial holding firm;
- Stressing own-developed wealth-management products, so as to enhance clients' identification with the bank's expertise and boost the bank's income;
- Augmenting the trading volumes of e-banking and online ATM via the cultivation of client groups;
- Integrating client services, marketing campaigns, and rate levels of various channels;
- Upgrading competitive edge via innovative technology platform;
- Developing e-loan extension flow for all products, so as to cut cost and lift efficiency;
- Embracing risk-based differentiated pricing and designing different marketing campaigns for clients with different consumption behaviors;
- Strengthening intermediate management, dynamic risk management, and monitoring mechanism;
- Instituting credit-information evaluation system for small and medium enterprises.



### Corporate and Enterprise Banking

- Developing new financial products in cooperation with foreign investment banks and seeking technological transfer from renowned financial mathematics consulting firms;
- Instituting comprehensive plural product lineup via product mix comprising interest rate, exchange rate, bond, bulk commodities, and shareholding, so as to satisfy the all-round financial risk-hedging needs of corporate clients;
- Offering accounts-receivable factoring service for the greater Chinese region via strategic alliances with foreign banks, so as to provide Taiwanese businesses in China plural financing solutions;
- In line with financial-product pluralization, combining new financial products with structured-type financing, to further meet clients' all-round needs;
- In line with the globalization trend, expanding offshore banking and overseas business-points services, to meet the financing needs of Taiwanese businesses for global deployment;
- Strengthening the Hong Kong IPO assistance and underwriting platform, so as to create synergy effect for clients;
- Stepping up the cultivation and SME (small and medium enterprise) business and auditing personnel.

## e. Short- and Long-term Business Development Plan

### 1. Personal and consumer banking

#### Short-term business development plan

- Balancing market interest rates and fund costs;
- Augmenting market profile and business volume via combining products and partners, to develop brand image;
- Instituting differentiated market value via innovative product functions and services;
- Offering one-stop shopping service and increasing cross-selling via the utilization of the financial holding firm's resources and packaged products;
- Intensifying dealings with clients via plural channels and the grasp of the critical moment for contacting clients;
- Offering optimal products and services for different client groups via client-group management;

## V. Operating Status

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### Short-term business development plan

- Deep-cultivating existing clients by strengthening CRM (customer relationship management) capability and via event marketing;
- Conducting balanced pursuit of business volume and quality and seeking balanced development of various loaning products;
- Precisely controlling asset quality via the utilization of risk analyzing technique;
- Restructuring business flow to enhance operating efficiency and cut operating cost;
- Continuing to push e-banking, and strengthening the information security and expanding the functions of e-banking;
- Instituting internal assisting and training mechanism, to boost the expertise and product knowledge of staffers;
- Offering insurance products to the bank's clients via cooperation with the joint-venture insurance firm.

### Long-Term business development plan

- Strengthening brand image and channel value; providing convenient and complete financial services;
- Adjusting the allocation ratios of loaning products and enhancing the profitability of various product lines;
- Developing brand-new products, enhancing the share of fee income, reducing the reliance on interest income, and instituting a business mode featuring enduring profit-making;
- Strengthening the cooperation among the financial holding company's various subsidiaries and business units, so as to set up complete product lines;
- Discovering and satisfying clients' potential needs via the single-customer viewpoint, customer-orientation, and the utilization of CRM;
- Offering clients risk-based differentiated pricing and plural products via client-group management mechanism;
- Further strengthening risk management to enhance asset quality and cut risk loss;
- Augmenting information-exchange and operating efficiency via graphic transmission and further improving operating flow;
- Instituting various system platforms to shorten operating time and speeding up client service;
- Cultivating all-round financial elites via internal personnel rotation, thereby laying a solid foundation for the company's future development.



## 2. Corporate and enterprise financing

### Short-term business development plan

- Combining the financial holding firm's resources to carry out all-round marketing among clients;
- Expanding cash-management clientele;
- Strengthening risk-management mechanism;
- Preparing the establishment of overseas representative's offices or the upgrading of existing offices to branches, so as to expand overseas clientele;
- Encouraging clients to utilize the Hong Kong or OBU (offshore banking unit) platform.

### Long-term business development plan

- Developing the "Main Bank" strategy via integrated marketing and deep-cultivated service, so as to enhance the contribution of clients;
- Pushing dual credit-examination system to enhance credit-examination quality and efficiency;
- Augmenting the expertise of staffers to satisfy the overall needs of clients;
- Increasing the magnitude and depth of products;
- Expanding global reach, so as to provide clients global financing and fund maneuvering service.

## 3. Wealth-management and trust business

### Short-term business development plan

- Continuing to promote education and start-up trust business for offspring and securities trust, augmenting market share
- Expanding "So Easy target wealth-management plan" business, augmenting added value for trust business and expanding the magnitude of product lines;
- Actively developing and deep-cultivating key channels;
- Further enhancing the sale of domestic and offshore mutual funds on the concept of asset allocation, thereby creating fee income;
- Launching new collective management-account products, so as to enrich self-developed product lines and meet the needs of investors for diversified investments
- Developing multiple financial derivatives for the provision of one-stop shopping service to different kinds of investors, so as to actively enhance market share and obtain market leadership

## V. Operating Status

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### Short-term business development plan

- Rolling out bond ladder products and offering clients nearly tailor-made bond position, so that investors can establish bond investment portfolio suited to their risk and returns requirements, in the hope of achieving their fixed-yield wealth-management demand via the dual consideration of safety and returns;

### Long-term business development plan

- Further introducing new products and businesses in 2008 despite uncertain market climate, so as to attain good returns in both bullish and bearish markets;
- Developing multiple securities trust businesses to satisfy clients' needs for tax saving and yield reaping, so as to enhance the bank's market share and attain market leadership;
- Instituting multiple payment functions for trust platform;
- Continuously tracking changes in related laws and regulations to develop new trust businesses;
- Further expanding business volume for domestic and overseas mutual funds, self-developed AUM (assets under management) business, and dollar-averaging fund investment, so as to create long-term stable management-fee income;
- Actively striving for custodianship business for domestic mutual funds, so as to expand the custodianship business scale and create long-term steady custodianship-fee income;
- Further improving the after-sales service system for structured notes and related products, so as to deep-cultivate client relationship;
- Continuously developing, derivatives business on sustainable-development concept, so as to achieve the goal of all-round assets management
- Continuously introducing multiple new products and businesses, in the hope of bringing investors steady returns in both bullish and bearish markets.



## Taiwan Securities Co., Ltd.

### a. Business Scope

#### 1. Business Contents

- Consigned securities trading at the centralized market
- Consigned securities trading at business outlets
- Securities dealings at the centralized market
- Securities dealings at business outlets
- Securities underwriting
- Agency for stock affairs
- Securities margin trading/ short sale
- Consigned trading in foreign securities
- Brokerage for short-term commercial papers
- Futures introducing brokerage
- Securities-related loaning
- Securities-mortgaged loaning (except central book-entry bonds)
- Other regulator-approved businesses

## V. Operating Status

### 2. Business Mix

Unit: NT\$1,000

Item \ Year	2005		2006		2007	
	Value	Share %	Value	Share %	Value	Share %
Brokerage channel*	3,231,690	41	3,985,259	58	5,417,804	48
Securities dealer**	3,632,035	47	1,811,265	26	4,535,526	41
Underwriting	679,273	9	495,481	7	599,935	5
Financial agency	117,201	2	116,149	2	120,814	1
Others	126,257	1	444,125	7	536,977	5
Total	7,786,456	100	6,852,279	100	11,211,056	100

\* Brokerage channel includes revenue contribution from international business.  
 \*\* Securities dealer includes revenue contribution from bond business.  
 Source: certified 2007 financial statement

### 3. Existing products and services

items	Major contents
Brokerage channel	Consigned trading in securities listed on the centralized market, over-the-counter market, and the emerging enterprise market, as well as securities delivery for investors Financing for margin trading and securities lending for short sale Re-consigned trading in regulator-approved foreign securities Providing research reports and financial-product consulting to foreign individuals and institutional investors
Futures	Consigned trading in domestic futures and options, as well as futures dealer business
Securities dealers	Dealings in securities listed on the centralized market, over-the-counter market, and the emerging enterprise market, helping balance market supply-and-demand and contribute to market stability and growth
Underwriting	Assist the share listing of companies with public share offering, assist enterprise raising fund on the capital market, offer enterprises professional consulting in domestic/overseas investments, the issuance of assets-based securities, taxation planning, corporate restructuring, and M&A (merger and acquisition).
Stock-affairs agency	Assist enterprises convening shareholders' meeting and provides legal consulting for stock affairs, and handle stock affairs for companies with public share offering
Bond	Dealings in primary- and secondary-market government bonds, consigned trading in bonds, the planning and sale of corporate bonds and financial bonds, and trading and R&D of New Taiwan dollar interest-rate and bond derivatives
Commercial paper	Brokerage for and dealings in commercial paper, treasury note, NCD (negotiable certificates of deposit), ABCP (assets-based commercial paper), and FRCP (fixed-rate commercial paper)
Derivatives	Engage in call (put) warrants and structured products, including quotes and market making for secondary market and design and suggestion for tailor-made products
Wealth management	Integrate the products and service resources of the financial holding company for providing clients integrated wealth-management services, such as taxation planning and assets allocation, according to their needs and within the scope of legal permission.
Financial products	Agency for the sale of domestic mutual funds, as well as regulator-approved offshore mutual funds, stocks, and bonds, satisfying clients' needs for various securities investments



#### 4. Projected new financial and services for the future

To help securities firms carry out assets allocation and financial planning for wealth-management clients and thereby enhance their business competitiveness, the Financial Supervisory Commission plans to revise the “guidelines for the wealth-management business of securities firms,” extending the scope for securities firms in carrying out the assets allocation for discretionary wealth-management accounts to various domestic financial products, including bonds with repurchase agreement, mutual funds, structured products, and assets-based securities, in addition to foreign securities originally. The company will closely track the progress of the legal revision, in order to take part in the new business and offer clients complete and one-stop shopping service for wealth management.

### b. Business plan for the current year

#### 1. Brokerage:

In 2008, the company will expand service scope via the banking channel and carry out software/hardware renovations of some business points for the provision of brand-new service pattern, in the hope of augmenting market share via new-client cultivation and enhancing business-point performance via business-point consolidation, thereby reinforcing its market status.

#### 2. Securities dealings

In view of the turbulence in the global financial market, resulting from soaring raw-material prices and liquidity crunch triggered by the U.S. subprime mortgage crisis, the global economic growth is expected to slow down in 2008, which overshadows the Taiwanese stock market. The company, therefore, will strictly execute risk management in the pursuit of optimal returns.

#### 3. Underwriting

In addition to helping quality small and medium enterprises with niche businesses list their shares and providing them tailor-made financial planning, in line with the company’s positioning as a SME investment bank, the company will continue developing large syndicated-loan business by capitalizing on the financial firm’s resources, so as to sustain its leading status in the domestic market. Meanwhile, in an extension of the service for overseas Taiwanese businesses, the company will intensify the IPO (initial public offering) business in Hong Kong, in a bid to achieve balanced development between local and global businesses.

#### 4. Stock-affairs agency

Although the stock-affairs agency market has become increasingly mature featuring acute competition, the company will still actively solicit clients with niche service via integrating the resources of the underwriting department and of Taishin Bank’s corporate banking business group, in hopes of increasing the numbers of companies and shareholders for the business.

## V. Operating Status

### 5. Bond

Along with the multiplication of global investment instruments, more and more fixed-yield products have hit the market and accordingly the company will endeavor to develop interest-rate and bond derivatives, to satisfy client's diversified needs for financial trading, in addition to providing corporate clients the best fund-raising service at the domestic and overseas bond markets.

### 6. Derivatives

Gradual trading liberalization by the regulator and the solution of the taxation problem will facilitate the company's effort in developing derivatives business, whose market, though, will witness increasingly acute competition, due to the active engagement of peers. In 2008, the company will endeavor to bolster its market share and issuance volume at sustained gross margin.

### 7. Financial products

In line with the market trend and clients' need for assets globalization, the company has dedicated to the development of e-trading platform, enabling clients to trade in offshore stocks and mutual funds online. The e-trading platform for stocks has come on line and the company will start planning the installation of e-trading platform for mutual funds actively. In addition to the provision of easy order-placement mode, the company will also continue strictly screening products, evaluating performance, and tracking results.

## c. Industry Status

Total trading values of the securities market in the recent three years

Unit: NT\$1 B.

	2005	2006	2007
<b>TSE</b>			
Stock	18,818.90	23,900.36	33,043.85
ETF	79.44	75.23	125.37
Closed-end mutual fund	1.19	0.57	0.83
Beneficiary certificate	12.27	24.98	12.30
Call (put) warrant	142.37	175.07	253.18
TDR	19.23	29.04	91.93
Convertible corporate bond	0.48	0.10	0.00
Sub-total	19,073.87	24,205.33	33,527.46
<b>OTC</b>			
Stock	3,166.50	5,129.10	8,537.40
Call (put) warrant	18.20	32.30	103.20
Sub-total	3,184.70	5,161.40	8,640.60
<b>Total</b>	<b>22,258.57</b>	<b>29,366.73</b>	<b>42,168.07</b>
TAIEX index	6,548.34	7,823.72	8,506.28

Source: Securities & Futures Bureau website



Securities firms average	2005	2006	2007
After-tax profit (NT\$1,000)	88,592	422,942	638,079
Earnings per share (NT\$)	0.23	1.01	1.40
Return on equity (ROE)	1.72%	7.09%	9.97%

Sources: the Taiwan Stock Exchange website, Taiwan Securities; the domestic securities firms include general and specialized securities firms.

Continuously rising stock prices and expanding trading volume were the main factors behind securities firms' enhanced profits in 2007, when the average month-end level of TAIEX index and total trading value hit 8,506 and NT\$42 trillion, respectively, up 9% and 44% over 2006. In 2007, domestic securities firms raked in NT\$638 million of after-tax profit on average, up 51%, with both earnings per share (EPS) and ROE climbing to three-year highs. Therefore, the performance of securities firms hinge on the performance of the stock market.

## d. Research and Development

### 1. R&D achievement

In 2007, the company further issued 163 call warrants, boosting the accumulated issuance value to NT\$4.47 billion, fully testifying to the achievement of the company's R&D effort.

### 2. R&D plan

The company is scheduled to launch a brand new order placement system this year, capable of providing investors first-hand current information on individual stocks and industrial development.

## e. Short- and long-term business development plans

In the recent three years, brokerage income accounted for half of the company's overall revenue, underlining the predominant role of the traditional business in the company's operation. In view of the increasing competition for the brokerage business, the company, however, intends to improve the profit quality by product multiplication and market diversification, thereby alleviating the impact resulting from the swing in the domestic market and a specific product. Meanwhile, the relaxation of legal restrictions by the regulator and the trend of market internationalization and liberalization are expected to help securities firms enhance their business scales and expand revenue sources.

### 1. Short-term business development plan

To circumvent the erosion of the company's profit by acute price competition among peers scrambling for clients, the company has been stepping up cooperation with other subsidiaries of the financial holding company, including mutual establishment of securities and banking

## V. Operating Status

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service counters, as well as providing quality clients more complete and comprehensive wealth-management services, via organizational and manpower integration, in addition to the rollout of a brand new order placement system, thereby attaining the optimal synergy under the “customer first” principle.

### 2. Long-term business development plan

To avoid the risk of excessive product concentration and in line with the regulator’s liberalization policy, the company has rolled out multiple products helping wealth-management clients carry out assets allocation and financial planning, creating extra revenue sources for the company. Meanwhile, in tandem with the financial holding firm’s overseas initiative, the company has also been looking for proper site and timing for setting up overseas business points at potential markets, so as alleviate the risk of market concentration.

## Taishin Bills Finance Co., Ltd.

### a. Business scope and business mix

#### 1. Business scope

- (1) The certification and underwriting of short-term commercial papers;
- (2) The brokerage and dealings of short-term commercial paper;
- (3) The guarantee and endorsement of short-term commercial paper;
- (4) Brokerage of call loans among peers;
- (5) Financial consulting;
- (6) Brokerage and dealings of government bonds;
- (7) Certification and underwriting of financial bonds;
- (8) Brokerage and dealings of financial bonds;
- (9) Brokerage and dealings of corporate bonds;
- (10) Regulator-approved derivatives.



## 2. Business mix in terms of assets

Dec. 31, 2007

Unit: NT\$1,000, %

Item	2006	2007	Share	Change year-on-year
Purchase of commercial papers	25,789,357	28,498,500	50.61%	10.50%
Purchase of bonds	23,312,362	20,779,957	36.90%	-10.86%
Banking deposits and call loans	9,822,200	5,951,966	10.57%	-39.40%
Other assets	1,843,965	1,080,987	1.92%	-41.38%
Total assets	60,767,884	56,311,410	100.00%	-7.33%

## 3. Business mix in terms of revenues

2007

Unit: NT\$1,000, %

Item	2006	2006 Share	2007	2007 Share
Revenue from commercial-paper business	590,377	42.76%	544,573	41.15%
Revenue from bond business	113,435	8.21%	-288,795	-21.82%
Interest income	620,879	44.97%	637,685	48.19%
Fee income	117,336	8.50%	239,493	18.10%
Other revenues	-61,293	-4.44%	190,302	14.38%
Total revenue	1,380,734	100.00%	1,323,258	100.00%

### b. Business development plan of the current year

With the global economy and the Taiwanese economy still on an upward movement, the company adheres to the conservative and steady principle stressing business quality rather than quantity in credit extension, in addition to strengthening bond trading without repurchase agreement and primary/secondary market trading. Due to the limited amount of own-guaranteed the commercial paper, the company will intensify client cultivation and step up quotes, in addition to increasing the purchase of NCD (negotiable certificates of deposits) with good credit standing and bidding for commercial paper NIF (note issuance facility), so as to boost commercial-paper issuance scale.

Future business development plan follows:

- 1. Credit extension:** Target at medium- and large-scale enterprises listed on the centralized, over-the-counter, and emerging enterprise markets; avoid excessive single credit extension and strengthen credit investigation to strictly control lending risk, following the principles of industry diversification and the precedence of quality over quantity.
- 2. Trading:** Strengthen commercial-paper and bond trading, intensify the development and deep-cultivation of potential clients, and enhance the trading volumes and shares of

## V. Operating Status

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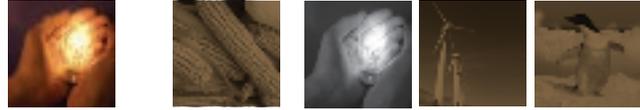
corporate bodies and individuals, thereby lessening the reliance on banking funds. Cement strategic alliance with Taishin Bank, such as certifying and underwriting NIF syndicated loans arranged by Taishin Bank; actively bid for government bonds and treasury bills; correctly grasp interest-rate trend by grasping political and economic status and stock-market and exchange-rate changes, so as to achieve good assets/liabilities management and effectively control risk position.

- 3. Information:** Carry out on-line instant monitoring of lending and trading risk, strengthen the functions of fund maneuvering and commercial-paper selection, pushing phone-call and online order placement for trading in commercial papers and bonds to save manpower, establish proprietary inter-bank remittance system, and develop client management system, so as to augment client service quality.
- 4. Management:** Reduce manpower, carry out personnel rotation, strengthen employee education and training, intensify e-document and administration for enhancing administrative efficiency, and intensify employee identification with the company by increasing the interaction with their families.
- 5. New financial products:** The regulator has greatly opened up new commercial-paper and related businesses, including a number of derivatives, such as fixed-rate commercial papers, commercial-paper and bond futures, interest-rate swap, bond options, assets swap, and corporate-bond dealings and brokerage. Adhering to the pioneering spirit, the company will actively participate in the development of new products and markets.
- 6. Others: Enhance the corporate** image, establish the reputation of the management team, institute the brand's eminent market status, and induce virtuous competition, in the hope of achieving steady growth in assets, market share, and returns on equity and capital.

## C. Market analysis

### 1. Future demand-and-supply of the financial market

- (1) In the first half 2007, the global economy continued in general the growth momentum in the previous several years but bumped in the U.S. subprime mortgage crisis in midyear inflicting mounting housing-loan loss on the global financial industry, which has topped US\$1 trillion up to now. The situation sparked serious suspicion among financial industries, disrupting normal lending on the market and prompting the central banks of major countries to continuously increase currency supply to bolster market liquidity. The market sentiment, tough, remained depressed, impacting the global economy, as a result of which the U.S. economy is set to slip into recession and the European Union, Japan, and even emerging-market economies are witnessing rapid deceleration of their economic



growth. Mounting inflationary pressure triggered by soaring energy and raw-material prices has greatly increased the possibility of global economic recession.

Taiwan was also subject to the impact of the subprime mortgage crisis in 2007, forcing domestic financial institutions to appropriate provisions for loss from structured products connected to U.S. housing loans, which, fortunately, was not high. Following the conclusion of the Presidential election, domestic politics and the outlook of cross-Taiwan Strait relationship tends to stabilize, giving the island's economy a rosier outlook than the world's other major economies. In view of the island's heavy reliance on imported energy and raw materials, the impact of soaring oil and bulk-commodity prices on the economy, though, still warrants close observation.

- (2) Review of the financial market: In the wake of the subprime mortgage crisis, the U.S. Federal Reserve Board (Fed) has cut interest rates several times, driving down the federal-funds rate to 2.5%, testifying to the imperative of the Fed to maintain market liquidity, even in the face of the mounting inflation pressure. If necessary, the Fed will continue cutting interest rates to bolster depressed sentiment in the market.

Due to the comparatively moderate influence of the subprime mortgage crisis on Taiwan, the Central Bank of China (CBC) still puts its priority on anti-inflation, continuing its policy of raising interest rates at gradual pace. However, with the central banks of major economies having started to cut interest rates or stop interest-rate hikes, plus the consideration for maintaining exchange stability, the upward movement of the interest rates for the sterilized intervention of the CBC has slowed down further, with the rates reaching 2.06%, 2.15%, and 2.25%, respectively, for 30 days, 91 days, and 182 days now.

- (3) Brief description of market status: Amid the environment, the outlook of the government-bond market is blurry. On the one hand, the inflationary pressure bolsters the bearish force, while on the other, steady short-term rates and excess short-term funds put a damper on long-term interest rates. Consequently, government-bond interest rates will undergo backing and filling. In the money market, the influx of foreign funds in the wake of the Presidential election has aggravated the money glut, outstripping demand for short-term funds. With excessive funds pursuing limited supply, bills finance companies will cut commercial-paper issuance interest rates, narrowing the differential between primary- and secondary-market rates. The situation will persist throughout 2008, when some NT\$1 trillion worth of NCD issued by the Central Bank of China will mature every month.
- (4) Emerging financial innovation: In response to the request of the industry, the regulator has continuously relaxed the restrictions on the operation of bills finance firms. Following the promulgation of the "measures governing the investments of bills finance firms in bonds and equity products" on Aug. 12, 2005, permitting bills finance companies to invest in various capital-market products, the regulator further opened up dealings in foreign currency-denominated bonds for bills finance companies in 2007. The ROC Bills Finance

## V. Operating Status

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Association is also actively planning the opening up of the certification and underwriting of foreign currency-denominated commercial papers and other foreign-currency products.

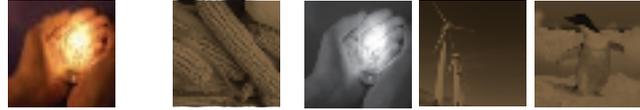
### 2. Favorable and Unfavorable Factors for Future Development

#### (1) Favorable factors:

- With the Central Bank of China appearing to stick to a loose monetary policy, the funding environment will remain stable for a while, facilitating the development of the money market.
- With successive opening up of various new businesses by the regulator greatly facilitating the business diversification of bills finance firms, the company will actively launch new businesses, thereby enhancing our cross-industry competitiveness.
- In 2007, Fitch Ratings Ltd. granted the company international long-term foreign-currency rating BBB- and domestic rating twnA, an outstanding performance among domestic peers, which, along with integration of the resources of Taishin Financial Holding group, will facilitate the company's business development in various sectors.
- Due to the U.S. subprime mortgage crisis and the narrowing of the NT-dollar and foreign-currency interest differential, demand for fixed-yield NT dollar products has increased, contributing to the stable growth of the company's core commercial-paper and bond businesses.
- In the wake of the U.S. subprime mortgage crisis, global funds are seeking risk-hedging havens and some of the funds will flow into the Taiwanese market, thanks to the attraction of comparatively high value.

#### (2) Unfavorable factors:

- In the wake of a spate of financial-institution mergers, a trend of "big getting bigger" has emerged in the financial market, confining the space for the development of commercial-paper and bond brokerage business.
- With fund demand among domestic enterprises remaining weak in a market plagued with fund glut, the scale of the commercial-paper/bond issuing market has shrunk, perpetuating the strained supply of products and dampening business development.
- For foreign currency-denominated products, such as U.S. dollar-denominated commercial papers and bonds, the company will have difficulty pushing related business due to the constraint of its limited book value and the lack of economy of scale will hamper its competitiveness initially.



## d. Financial-Product R&D and Business Development Status

In line with the government's policy pushing financial-industry development and opening up the domestic securities market, the company will dedicate to the development of various financial-product businesses. The company, for instance, has considerably boosted its business source and income via the certification and underwriting of ABCP (assets-based commercial paper). It has also pioneered the establishment of the position of foreign currency-denominated assets and its risk management. In addition, it is evaluating the feasibility of undertaking equity- and credit-based derivatives, in the hope of lowering the company's credit and market risk and expanding its profit sources.

### R&D achievements and future plan

1. The inauguration of the certification, underwriting, brokerage, and dealings of ABCP (assets-based commercial paper): In addition to expanding the company's business and profit sources, the initiation of the business has helped enliven the assets with lower liquidity in the market, suffice the supply of products, and increase the participation in the money market, offering clients all-round services. Internally, the company has dedicated to the risk management of foreign currency-denominated assets, safeguarding assets security, and lowering the impact of assets price swing on the company's income.
2. In line with the regulator's effort pushing U.S. dollar-denominated currency market, the company will assist in the carrying out the feasibility study for the development of market, in the hope of helping clients conduct flexible fund maneuvering, invigorating the market, and expanding the participation in the money market.
3. Develop and undertake equity-based financial products, to enrich the company's product lineup and diversify the risk of bills finance companies confining its operation to interest rate-related products, so as to augment the company's income.
4. Develop and undertake credit-based financial products, so as to intensify credit investigation, diversify credit extension, and restrict individual credit lines via good advance control, in addition to hedging the company's lending risk via credit derivatives.

## e. Short- and long-term business development plans

In order to cope with market competition, expand business, and strengthen organization, the company has formulated the following short-, medium- and long-term business development plans:

## V. Operating Status

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### 1. Short-term objective:

Further enhance service quality and operating efficiency, to establish a good repute.  
Step up credit extension and intensify credit investigation, to materialize risk management.  
Deep-cultivate good-record clients and actively solicit quality clients, thereby enhancing the depth of business dealings.  
Strengthen employee education and training, cultivate financial talents, and establish the professional corporate image.

### 2. Medium-term objective:

Actively launch new businesses and provide clients multiple financial services.  
Assure the security and accuracy of trading information and strictly comply with information-security rules, so as to enhance service quality.  
Establish quality credit standing, take part in credit ratings, and strive for good ratings.  
Materialize objective-management system and augment management/administration efficiency.

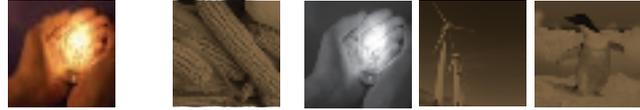
### 3. Long-term objective:

Augment management-team repute and induce virtuous market competition, so as to augment the influence on the financial market.  
Strengthen information-service function and enhance service efficiency, so as to cope with the fast-changing financial environment.  
Actively develop and push foreign currency-denominated commercial papers/bonds, money-market mutual funds, and other related products.  
Capitalize on the resources of the financial holding company in the pursuit of business growth and reasonable profits.

## Taishin Asset Management Co., Ltd.

### a. Business scope

1. Business contents: The company's major business items include the purchase of money-debt claims from financial institutions, the appraisal and auctioning of money-debt claims of financial institutions, and the management of money-debt claims and overdue accounts receivables for financial institutions.
2. Business mix: The company focuses on the purchase and disposal of money-debt claims from financial institutions.



## **b. Business development plan of the current year**

1. Bid for whole-package bad-debt claims of financial institutions.
2. Negotiate with peers on a case-by-case basis for the purchase of bad-debt claims.
3. Seek the commission of financial institutions and peers for the management of bad-debt claims with the appeal of the professional management team.

## **c. Industry status**

Currently, there are over 20 assets management companies engaged in the primary bad-debt claim market, mainly set up by financial holding companies, banks, and large-scale foreign institutions, leading to acute competition. Along with the recovery of the economy, open bids for bad-debt claims secured by realty collateral have been on decline yearly, in terms of values and shares, and asking prices for bids remain high, resulting in imbalanced demand and supply. Owing to the robust realty market, the time and returns for the disposal of bad-debt claims have improved.

## **d. Research and development:**

nil

## **e. Short- and long-term business development plans**

### **1. Bidding for bad-debt claims**

- (1) Continue disposing of bad-debt claims purchased from Taishin Bank.
- (2) Join hands with peers in bidding for bad-debt claims, thereby expanding business source, on one hand, and understanding the appraisal mode, assets-management know-how, and recovery plan of peers, on the other.
- (3) Set up a task force to bid for NPL (non-performing loans) secured by construction plots in greater Taipei, thereby expanding land development business via the restructuring of the debt claims.

### **2. Consigned management**

- (1) Continue disposing of bad assets for Taishin Bank.
- (2) Disposing of idle assets for Taishin Bank.
- (3) Consigned management and disposal of bad-debt claims acquired by assets management companies via open biddings.

## V. Operating Status

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### Taishin Marketing Consultant Co., Ltd.

#### a. Business Scope

##### 1. Business contents:

Taishin Marketing Consultant's main business is the provision of temporary-help supply (THS) service to Taishin Bank, in line with the manpower need of the bank.

##### 2. Business mix: Focus on THS service.

#### b. Business development plan of the current year

Provide temporary help service to Taishin Bank, in line with the need of the bank in manpower utilization and management.

#### c. Industry status

THS industry will emerge as a brand new line in the next three to five years, as many major enterprises have successively substituted THS mode for initial personnel recruitment by their own.

#### d. Research and development

The company doesn't have R&D outlay.

#### e. Short- and long-term business development plans

There are two kinds of manpower needs in the THS market: long-term THS and short-term THS, with the employment period for the former exceeding six months and that for the latter lasting under six months. The company will adjust its manpower support for Taishin Bank flexibly according to the latter's need.

### Taishin Venture Capital Co., Ltd.

#### a. Business scope

1. Taishin Venture Capital carries out venture-capital business, according to the "Measures for the Business Scope of and Assistance for Venture Capital Establishments," which confines the investment scope of venture capital firms to hi-tech business, other venture capital



businesses, and general manufacturing and service businesses. The scope of hi-tech business covers:

- (1) Communications, information technology, consumer electronics, semiconductor, precision machinery and automation, aeronautics, advanced materials, specialty chemicals and pharmaceutical, medicine and health care, pollution abatement, bio-tech, tech service, resources and resources development, and advanced sensor;
- (2) Scientific industries, in accordance with the definition in article 3 of the “Statute for the Establishment and Administration of Science-based Industrial Park”;
- (3) Emerging key strategic industries designated by article 8 of the “Statute for Industrial Upgrading”;
- (4) Other sci-tech industries designated or publicized by the Ministry of Finance along with the regulator.

Meanwhile, as knowledge economy-oriented service businesses have emerged as an indispensable component in future industrial development, the government expanded in early 2004 the investment scope of venture capital firms to related service businesses, including R&D and technology service business, information service business, logistics and transportation service business, medicine, health care and care-taking business, sightseeing, tourism, and leisure service industry, cultural innovation service business, financial service business, communication and media service business, personnel cultivation and training and temporary help supply (THS) service business, engineering consulting service business, environment-protection service business, and industrial design service business.

2. Business mix: In 2007, the company’s operation focused on investments in domestic and foreign sci-tech businesses and venture-capital businesses.

3. New financial products and services to be developed in the future

Venture capital business serves as the vanguard of corporate banking business, pinpointing startups with development potential which then receive financing from commercial banks and assistance from securities firms in share listing, bringing the financial holding firm bigger integrated benefits. Meanwhile, after the government further expands the investment scope of venture capital firms, the company will actively invest in undervalued listed stocks with good business prospects to increase its profits.

## **b. Business development plan of the current year**

### **1. Brief description of 2007 business**

The company was incorporated in September 2003, with paid-in capital reaching NT\$1 billion.

## V. Operating Status

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Armed with capital recovered from previous investments, the company invested in Chungyang special fund, Darfon Corp., Cyberheart Inc., and O2 Medtech Inc., totaling NT\$84,565,250 in value, 2007. As of the end of 2007, the company had invested NT\$957 million in 28 companies, with the current investment portfolio consisting of 18 companies after having disposed of the investments in 10 companies.

In 2007, the company raked in proceeds totaling NT\$192,243,951 from investment cases, including NT\$134,595,000 from disposing of investment in SET TV (with profit reaching NT\$8,595,000); NT\$18,770,071 from disposing of investments in United Investments Fund, Chiting Venture Capital, Hanhsin Venture Capital, and Kuanhua Venture Capital, as well as cash dividend from Century Development Corp.; NT\$38,217,000 from disposing of investments in First Bio-tech Venture Capital Co. and PC Home Online, as well as refund from the capital reduction of New Century InfoComm Tech. Co.; and NT\$661,880 of refund from investment in Changsheng International Development.

The company's 2007 financial statement was audited and certified by Tsai Hung-hsiang, certified public accountant of Deloitte & Touche Taiwan, which shows that the company's 2007 revenue reached NT\$30,895,641 and outlay NT\$43,667,321, with net loss amounting to NT\$12,799,494.

### 2. 2008 Business Development Plan

The company plans to add investments in three to five companies, or take part in the capital increments of invested firms, with the investment budget hitting NT\$100 million in 2008. In addition, it will continue disposing of existing shareholdings and focus its investments on targets capable of being liquidated in two years, such as underwriting firms listed on the centralized market, over-the-counter market, or emerging enterprise market, so as to realize short-term profits.

Investment targets will still focus on hi-tech industries with high growth potential, especially semiconductor, optoelectronics, and medical equipment, in Taiwan, supplemented with some investments in the U.S.

### c. Industry status

Viewed from the global industrial development trend, hi-tech industry will remain the mainstream of industrial development in the future. Owing to the sluggish market in the past several years, many enterprises with high growth potential have been undervalued; only via long-term deployment can venture capital firms fully grasp the long-term growth opportunities of industries and regions. Meanwhile, in view of Taiwan's overall corporate competitiveness deriving from the industrial clustering effect, venture capital firms can reap sizable returns from investing in Taiwanese and related overseas Chinese companies. The company's projected venture-capital



unit will focus on hi-tech industries in Taiwan, which will account for 80% of its investment portfolio.

#### **d. Research and development**

Venture capital business serves as the vanguard of corporate banking business, pinpointing startups with development potential which then receive financing from commercial banks and assistance from securities firms in share listing, bringing the financial holding firm bigger integrated benefits. Over the past five years, due to excessive global industrial output and the low PE (price-earnings) ratios of tech stocks, venture capitals firms worldwide have been looking for new industrial directions. With the government having expanded the scope for venture capital investments, venture capital firms can actively discover and invest in undervalued listed stocks with good business prospects to augment their profits.

#### **e. Short- and long-term business development plans**

For short-term development, the company will continue cooperating with the corporate banking business group of Taishin Financial Holding in screening investment cases and investing in companies capable of creating over 12% of cash yields, so as to augment the company's cash flow.

For long-term development, judging from the global industrial development trend, hi-tech industry will remain the mainstream of industrial development in the future. Owing to the sluggish market in the past several years, many enterprises with high growth potential have been undervalued; only via long-term deployment can venture capital firms fully grasp the long-term growth opportunities of industries and regions. In 2007, due to due to the sluggish business of domestic and foreign hi-tech companies, the overall investment willingness was low and overall investments, in terms of value and the number of cases, were limited. Due to the expected economic upturn, 2008 appears to be a good timing for venture capital firms to make medium- and long-term investments, which are expected to produce abundant returns in the next several years.

## **Chang Hwa Commercial Bank Co., Ltd.**

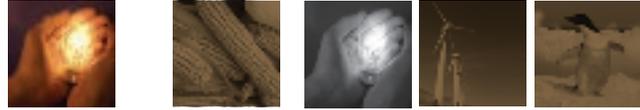
#### **a. Business scope**

- checking deposit
- demand deposit

## V. Operating Status

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- time deposit
- financial-bond issuance
- short-, medium-, and long-term loans
- negotiable-instrument discount
- investment in government bonds, short-term commercial papers, corporate bonds, financial bonds, and stocks
- domestic and overseas remittance
- cashing of drafts
- issuance of domestic and foreign L/Cs
- guarantee for the issuance of corporate bonds
- domestic and overseas guarantee
- surrogate payment and collection
- agency for the sale of government bonds, treasury bills, corporate bonds, and stocks
- credit card
- businesses approved by the Trust Law
- custody and warehousing
- the lease of safes
- derivatives approved by the central-level regulator
- the brokerage, dealings, certification, and underwriting of short-term commercial papers underwriting, dealings, or consigned trading of securities
- dealings in government bonds
- margin trading/short sale services
- trading or agency for the sale of gold ingots, silver ingots, gold coins, and silver coins
- agency service businesses related to various businesses specified on the business license or approved by the central-level regulator
- export-related foreign exchange, import-related foreign exchange, general outward and inward remittances, foreign-currency deposits, foreign-currency loans, and guarantee for secured foreign-currency payment
- export certification
- import certification
- securities-related futures introducing brokerage
- the agency of public lottery business approved by the central-level regulator
- other businesses approved by the central-level regulator



## b. Business development plan of the current year

In 2007, the bank's deposit volume hit NT\$1,018,987,003,000 (excluding the transferred deposits from the postal office), achieving 96.76% of the budget objective, the loan volume reached NT\$865,607,343,000, 96.99% of the budget objective, forex-trading volume stood at US\$140,763,029,000, 99.53% of the budget objective, securities-brokerage volume amounted to NT\$106,201,203,000, 109.8% of the budget objective, trust (mutual fund) business volume climbed to NT\$127,552,656,000, 155.55% of budget objective, and credit-card spending volume reached NT\$6,582,504,000, 91.46% of budget objective.

## c. Industry Status

### 1. Financial-industry status

In the wake of the twin-card debt storm, domestic banks have successively intensified risk management, becoming increasingly conservative towards unsecured high-interest individual loans, while shifting their business focus towards lower-risk wealth management and corporate banking, which, though, are also overshadowed by some potential problems. Wealth-management business is confined by the limited domestic market capacity, making it difficult to find new clients, which puts a damper on profits, unless domestic banks can effectively tap overseas markets. Corporate banking, meanwhile, is subject to vicious price competition, depressing interest differential, due to fund glut and the highly competitive environment.

A highlight in the banking industry in 2008 is the implementation of the "Consumer Debt Clearance Act" in April, which will considerably enhance the moral hazard among debtors, with the extent of impact hinging on the default rates of those which already participated in the debt negotiation mechanism. Industry players are also watching closely how will changes in global economic basics resulting from the U.S. subprime mortgage crisis affect the domestic banking industry. Another critical factor is whether the government will further liberalize the cross-Taiwan Strait financial policy in the wake of the Presidential election, as expected, which will directly affect the profit performance of the banking industry.

### 2. Development trend of the financial industry

- (1) Step up strategic alliance and technological cooperation with foreign firms.
- (2) Intensify deployment in overseas markets, actively develop OBU (offshore banking unit) business, and tap overseas markets.
- (3) Accelerate the incursion into the mainland Chinese market and provide Taiwanese-invested businesses cross-order fund maneuvering and rapid cash-management service.
- (4) Continuously develop wealth-management business and increase the share of fee income in revenue.

## V. Operating Status

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(5) Develop e-channel, combining physical branches and e-banking.

### d. Research and development

1. The bank's R&D outlay reached NT\$20,581,000 in 2007.

#### 2. R&D achievement

The bank completed 17 research reports on risk management, customer-relationship management, performance management, and financial products in 2007.

#### 3. Future R&D plan

The bank will carry out research on domestic/foreign economies, financial-market development trend, and new financial products, to facilitate long-term business development.

### e. Short- and long-term business development plan

#### 1. Short-term business development plan

Provide differentiated and plural products and services, revise business regulations, simplify operating flow, differentiate targeted client groups, formulate marketing program and advertisement materials, carry out investigation and research, and plan for education and training.

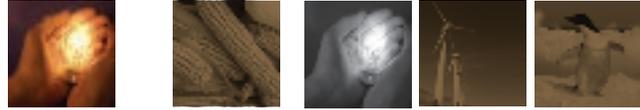
#### 2. Long-term business development plan

Strengthen the research and pushing of wealth management and other financial products, expand overseas business points and business, continue personnel cultivation, and enhance marketing efficacy.

## B. Cross-line and joint marketing efficacy

According to articles 43 and 48 of the Financial Holding Company Law, financial holding firms and their subsidiaries can carry out joint marketing, achieving the efficacy of integrated management via joint business pushing, information exchange, or the joint use of business facilities or outlets.

The company passed the "measures governing the integrated marketing of Taishin Financial Holding Co." with the approval of the chairman on July 31, 2003, as well as the "enforcement rules for the marketing-list management of Taishin Financial Holding Co." and "rules governing



the use of client data by the employees of Taishin Financial Holding Co.” in September and December 2003, respectively, and the “measures and enforcement rules governing the warehousing of client data of Taishin Financial Holding Co.” in July 2005, setting up guidelines for cross-selling and client recommendation for financial products among the employees of various subsidiaries or business groups, so as to facilitate constant monitoring and management.

## C. Market and Business Status

### Taishin Financial Holding Co., Ltd.

#### a. Market analysis

##### 1. The qualitative change of the market

Deriving from the concept of cross-line management, financial holding companies are expected to manifest a system integrating the resources and services of business groups, leading to qualitative changes in the financial markets, including the blurring of the borders among individual markets, the switch from product orientation to customer orientation in the operations of market competitors, and the creation of new integrates services and the expansion of market scale following the joining of new financial holding firms.

##### 2. Major domestic and foreign competitors

There are 15 financial holding companies in Taiwan now, with those boasting major banking subsidiaries including Taishin Financial Holding, Taiwan Financial Holding, First Financial Holding, Hua Nan Financial Holding, Chinatrust Financial Holding, Fubon Financial Holding, Yushan Financial Holding, and SinoPac Financial Holding, which enjoy strong edge in business expansion.

Foreign competitions consist mainly of U.S. and European banks, including Citibank, Standard Chartered Bank, and HSBC, which have acquired, respectively, the Bank of Overseas Chinese, Hsinchu International Bank, and the Chinese Bank. Those foreign banks have posed major challenges to domestic financial holding companies, thanks to their enhanced operational scale on the domestic market, niche positions in the greater China market, mature operating mode, and edge in product lineup and marketing.

## V. Operating Status

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### b. Competitive strategy

The company's competitive strategy focuses on rebuilding a good financial-service brand externally and pushing lean processing internally, via the following concrete measures:

#### 1. Expanding business scope and creating synergy

Achieve the following goals via M&A (merger and acquisition), cross-line alliances, or the establishment of overseas platform: 1) expand business domain and create business opportunities; 2) engage in cross-line management to enhance assets management capability, profit-making capability, and investment returns rate; 3) create business integration and enhance marketing efficiency; 4) achieve economy of scale and provide clients better-than-expectation service quality at reasonable cost.

#### 2. Strengthen management and strictly control risk

Strengthen risk management, uphold assets quality, implement assets/liability management, monitor and control liquidity risk, effectively utilize short-term fund, intensify the evaluation and management of long-term investments, raise fund yield, and carry out auditing and internal control system.

#### 3. Strengthen product and all-round services

Institute all-round financial services, including banking, commercial paper (bond), securities, insurance, and assets management, strive for consumer and corporate banking business opportunities, and carry out cross selling and the integration of operating platform.

#### 4. Embrace client group-orientation and division-of-labor operation

Carry out in-depth management of client data, differentiate client groups, embrace client group-oriented operation, develop whole-package tailor-made products for different client groups, institute proprietary business teams for different client groups, train salesmen to obtain complete product knowledge, service clients via single-customer view, and manage risk and create fortune for clients.

#### 5. Strengthen human resources and cultivate talents

Enhance manpower quality, cultivate talents, stress the career development, working flexibility, and satisfaction of employees, and foster a cooperative corporate culture.



## c. Competitive niche

### 1. Integrated channel

Taishin Financial Holding puts under its auspices various subsidiaries, including Taishin International Bank, Chang Hwa Bank, Taiwan Securities, Taishin Bills Finance, and a projected insurance firm, boasting different kinds of sales channels, whose integration can cover different client groups and offer more service points for the provision of related financial consulting.

### 2. Provision of plural products

Product multiplication is indispensable in order to meet clients' needs for different products at different times. "Making Taishin a treasury bowl of clients" has been an enduring vision of the company. The company aims to provide clients one-stop shopping service with the appeals of time saving and high service quality. In the future, the company will differentiate existing clients and provide them custom products, thereby achieving the goal of cross selling.

## d. Vision for future development

### 1. Favorable factors:

#### (1) Government's liberalization stance for cross-Taiwan Strait financial services

The Executive Yuan (the Cabinet) has promulgated "measures governing cross-Taiwan Strait financial dealings," permitting domestic banks to buy into Chinese banks via overseas branches. Meanwhile, the Ministry of Economic Affairs plans to revise the "negative list for the investments or technological cooperation of the service industry in China," allowing the overseas subsidiaries of financial holding firms and their banking subsidiaries to obtain under 20% stake in Chinese banks.

#### (2) Taishin Financial Holding boasts complete product lineup covering banking, securities, insurance, commercial paper (bond), and wealth management.

#### (3) Taiwan Securities boasts excellent repute in the domestic capital market.

#### (4) Chang Hwa Bank and Taishin Bank can offer clients best services to meet their needs via their extensive channels.

#### (5) Amid the financial-institution merger trend in the domestic market, Taishin Financial Holding can offer clients satisfactory services, meeting their demands for long-term partnership.

### 2. Unfavorable factors:

#### (1) There are 15 domestic financial holding companies, leading to acute competition, especially in view of their homogeneity in product development and packaging.

#### (2) The expansion of operational scales via M&A (merger and acquisition) by some domestic

## V. Operating Status

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financial holding firms and foreign banks, such as Taiwan Financial Holding, Yuanta Financial Holding, Citibank, Standard Chartered Bank, and HSBC, has posed rigorous challenges to other players. Foreign banks will become formidable competitors on the domestic market, adding their indigenous presence and channel to their international brand and expertise in business expansion.

### Taishin International Bank

#### a. Major products/services/markets

The bank's major business items include reception of deposits, extension of loans, export/import foreign exchanges, foreign-currency deposits, draft discount, remittance, guarantee, surrogate collection and payment, custody, trust, credit card, trading in derivatives, the brokerage, dealings, certification, and underwriting of short-term commercial papers, the factoring of accounts receivable, securities investments and underwriting, offshore banking, and the issuance of financial bonds.

Since its inception, the bank has been continuously expanding its business items and network, actively mediating the demand and supply of funds in the society and exercising the financial function of supporting economic development. The bank boasts 100 branches island-wide, in addition to the setup of OBU (offshore banking unit), the Hong Kong branch, and the Vietnam representative's office, forming an increasingly complete service network.

#### b. Future demand and supply

The U.S. economy is on the brink of slowdown, overshadowing the global economy. Taiwan's foreign trade, though, is expected to maintain steady growth, thanks to the gradual adjustment of its export structure, with the export share for emerging markets having increased considerably. Therefore, the statistics department of the Ministry of Interior forecasts Taiwan's economy will still score a steady growth of 4.32% in 2008. To curb the price hikes of various daily necessities triggered by soaring international material prices, the NT dollar will face revaluation pressure in the short term.

Owing to good corporate profits, steady job market, and the alleviation of consumption-loan crunch, private consumption will remain strong, jacking up the consumption market. The impact of price swing on private consumption, though, remains to be seen.



### c. Business objective

In 2008, the bank will continue pursuing steady growth balancing quantity and quality, or the considerations between risk management and profits. In addition to the provision of multiple packaged products, various subsidiaries of the financial holding firm will also strengthen their leading market statuses via cross selling, the improvement of operating flow, and the enhancement of brand image.

### d. Favorable and unfavorable factors for development outlook

#### Competitive edges of the bank

- Profound client base and competitive and extensive branch channel;
- Mature capability for risk management and data analysis;
- The abundant resources of the financial holding company, extensive product line, and marketing synergy via cross selling;
- Steady growth balancing business quantity and quality via the deep-cultivation of quality clients.

#### Favorable factors for development outlook

- The government's increasingly liberal policy towards the offshore development of the financial industry;
- Stable domestic economy and job market;
- The spread of the concept among local people commissioning specialists to carry out wealth management;
- Increasing risk-management awareness in loan extension among domestic banks in the wake of the twin-card debt storm;
- Fast-growing demand for offshore banking in the wake of the rapid development of Chinese and emerging Asian economies;
- Handsome potential of the assets management market for small and medium Taiwanese enterprises;
- Ample business opportunities for LBO (leveraged buyout) financing in Asia-Pacific.

#### Unfavorable factors for development outlook

- The execution of the "Consumer Debt Clearance Act" may impact consumer banking.
- With the housing price/income ratio having reached an excessively high level, there has appeared imbalanced demand-and-supply in the housing market, risking the formation of a market bubble.
- Narrowing interest differential and increasing competition for wealth-management business may impact profit margin.

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- Foreign banks will pose strong challenge following their takeover of domestic banks.
- Domestic peers resort to price competition due to insufficient R&D and innovation, dampening profit margin.
- The coverage of small and medium enterprise clients is insufficient.
- Banking competition will step up following the acquisitions of domestic banks by foreign banks to augment their domestic business scales.

### The bank's countermeasures:

- Further enhance risk analytical capability and implement differentiated management for client groups, so as to uphold loaning quality.
- Flexibly adjust interest differential according to product nature, so as to balance market interest rate and fund cost.
- Provided differentiated services and products to different client groups, so as to create service value.
- Stress the integration among subsidiaries, business units, and channels, so as to manifest cross-line management synergy.
- Capitalize on client-data analytical technique to provide clients different products in different stages timely, so as to augment client satisfaction.
- Deep-cultivate dealings with clients via the single customer view.
- Pursue balanced development among various businesses, so as to effectively diversify risk and enhance profits.
- Further augment core competence, especially in the aspect of intangible assets (such as analytical technique and client database).



# Taiwan Securities Co., Ltd.

## a. Major products/services/markets

The company targets to service domestic and foreign institutions and general investing public on the domestic market, in addition to extending its operation overseas. As of the end of April 2008, the company had set up 53 business points in Taiwan, as well as business point and representative's office in Hong Kong and Shanghai.

### Market Shares of Major Securities Firms 2007

Ranking	Brokerage		Margin-trading financing	
	Companies	Market shares	Companies	Market shares
1	Yuanta Securities	11.90%	Fubon Securities	6.42%
2	Fubon Securities	6.00%	Jih Sun Securities	5.55%
3	Polaris Securities	4.70%	Capital Securities	5.50%
4	SinoPac Securities	4.55%	Taiwan Securities	5.40%
5	Taiwan Securities	4.52%	Polaris Securities	5.17%

Source: Taiwan Securities

Ranking	Brokerage		Margin-trading financing	
	Companies	Market shares	Companies	Market shares
1	Polaris Securities	4.23%	SinoPac Securities	3.40%
2	Yuanta Securities	4.13%	Polaris Securities	3.11%
3	SinoPac Securities	4.09%	Yuanta Securities	1.87%
4	Jih Sun Securities	3.34%	Taiwan Securities	1.84%
5	Taiwan Securities	3.17%	Chinatrust Securities	1.59%

Source: Taiwan Securities (IB-Introducing Broker)

Ranking	Underwriting business status			
	Companies	Number of underwriting cases	Companies	Total underwriting value (NT\$1 B.)
1	Taiwan Securities	69	Taiwan Securities	23.7
2	SinoPac Securities	68	Fubon Securities	18
3	Jih Sun Securities	55	Grand Cathay Securities	17.9
4	Capital Securities	54	Yuanta Securities	14.9
5	Fubon Securities	53	Capital Securities	13.3

Source: Taiwan Securities (including both book-runner and participating cases)

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### b. Future demand and supply

#### 1. Supply

As of the end of 2007, there had been 133 securities companies, with the number of branches reaching 1,024, 36 of which had been approved by the Securities and Futures Bureau, the Financial Supervisory Commission, to undertake margin trading/short sale business. In addition, the number of the Taiwan branches of foreign securities firms stood at 17.

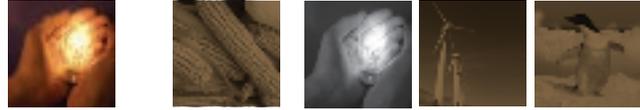
#### 2. Market growth potential:

In recent years, the government has carried out financial reform and relaxed legal restrictions, so that securities companies can provide more complete and professional services to clients. However, in the wake of the rapid changes in the domestic and foreign financial markets in recent years, the domestic industry has become increasingly saturated, as the homogeneous competition among peers has dampened profit margin, making it necessary for local firms to develop in the direction of enlarged scale and internationalization.

The establishment of financial holding companies has blurred the barriers among sub-financial sectors, as the operation of financial holding companies features breaking the borders among banking, insurance, and securities. Meanwhile, other financial companies have also started seeking strategic-alliance partners, enabling them to engage in cross-selling, too. Therefore, in order to step up dealings with clients, boost client loyalty, and thereby enhance competitiveness and profitability, securities firms have to upgrade their service quality for clients.

### c. Business objective

In 2007, in addition to further increasing its market share for brokerage business, the company will also dedicate to the enhancement of business-point management efficiency, maximize cross-selling efficacy by strengthening the cooperation with banking channel, and actively develop new products, to satisfy clients' varied needs. Moreover, the company will step into wealth-management business, in line with the opening up of the business by the regulator for securities firms. Regarding underwriting business, in addition to continuing assisting small and medium enterprises in share listing, the company will, via actively capitalizing on the resources of the financial holding, solicit large-scale fund-raising cases and develop cross-border M&A (merger and acquisition) and financial consulting businesses, thereby becoming partners of enterprise groups. For securities dealings, under the principle of strict risk management, the company will begin to study overseas markets and carry out small-amount investments on trial basis, so as to augment business performance. In sum, the company is confident of achieving further growth in 2008.



## d. Favorable and unfavorable factors for development outlook

### 1. Favorable factors:

- (1) Capitalize on the integrated resources of the financial holding firm to manifest brand value and enhance overall competitiveness.
- (2) Enjoy leading advantage in various business sectors, thanks to its consolidated market status.
- (3) Good credit rating facilitates new business applications and cut fund cost.
- (4) The regulator actively pushes the liberalization and internationalization of the securities market, successively opening up various new businesses.
- (5) Clients' needs for wealth-management service have been on the rise.

### 2. Unfavorable factors:

- (1) The wax and wane of the stock-market trading volume affects investors' participation willingness and profit stability.
- (2) Peers actively scramble for channels and quality patents.
- (3) Securities firms resort to price competition, leading to razor-thin margin.

### 3. Countermeasures:

The company will adhere to down-to-earth business strategy and attain higher stable profits via various development plans, including closer linkage to the resources of the financial holding company, the diversification of products and markets, the active pushing of lean processing, and continuing investments in manpower development.

## Taishin Bills Finance Co., Ltd.

### a. Major products/services/markets

The company's major business items are the certification, underwriting, brokerage, dealings, guarantee, and endorsement of short-term commercial paper; brokerage for inter-bank call loans; the brokerage and dealings of government bonds, financial bonds, and corporate bonds; and regulator-approved derivatives, such as FRCP (fixed-rate commercial paper), commercial-paper and bond futures, interest-rate swap, and assets swap. The company's address is 10-11th fl., No. 118, Renai Road, Sec. 4, Taipei City.

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### b. Future demand and supply

Despite continuous interest-rate hikes by the Central Bank of China (CBC) since 2007, the real interest rates remain low, due to the moderate scale of the rate hikes, leading to anticipation for further hikes by the CBC. Interest-rate hikes affected bills finance firms negatively, since they cut the returns from commercial-paper/bond holding, due to narrowed interest differential. In addition, immersed by fund glut, banks push loans with low interest rates, squeezing the needs for issuing commercial papers and dampening fee income. Therefore, companies in the line have to increase other incomes to offset the erosion on their profits.

Driven by economic upturn and abundant funds, the stock market moves upward steadily, boosting investor confidence. Therefore, the company has properly expanded investment in convertible corporate bonds to reap higher capital gains, while carrying out periodic investment in fixed-yield long-term bonds according to the direction of overall fund movement, so as manage risk.

### c. Business objective

The company aims to further enhance service quality and operating efficiency, establish good repute, intensify credit extension and examination, strengthen employee education and training, cultivate financial talents, assure the security and accuracy of various trading information, and institute excellent credit standing and professional corporate image. For long-term objective, the company will actively develop new businesses, enhance overall corporate image, establish management-team repute, set up quality brand status in the market, and capitalize on the resources of the financial holding company inducing virtuous market competition, in the hope of achieving steady growth in assets, market share, and returns on equity and capital.

### d. Favorable and unfavorable factors for development outlook

#### 1. Favorable factors:

- (1) With the Central Bank of China appears to be sticking to a loose monetary policy, the funding environment will remain stable for a while, facilitating the development of the money market.
- (2) With successive opening up of various new businesses by the regulator greatly facilitating the business diversification of bills finance firms, the company will actively launch new businesses, thereby enhancing our cross-industry competitiveness.
- (3) In 2007, Fitch Ratings Ltd. granted the company international long-term foreign-currency rating BBB- and domestic rating twA, an outstanding performance among domestic peers, which, along with integration of the resources of Taishin Financial Holding group, will facilitate the company's business development in various sectors.



- (4) Due to the U.S. subprime mortgage crisis and the narrowing of the NT-dollar and foreign-currency interest differential, demand for fixed-yield NT dollar products has increased, contributing to the stable growth of the company's core commercial-paper and bond businesses.
- (5) In the wake of the U.S. subprime mortgage crisis, global funds are seeking risk-hedging havens and some of the funds will flow into the Taiwanese market, thanks to the attraction of comparatively high value.

## 2. Unfavorable factors:

- (1) In the wake of a spate of financial-institution mergers, a trend of "big getting bigger" has emerged in the financial market, confining the space for the development of commercial-paper and bond brokerage business.
- (2) With fund demand among domestic enterprises remaining weak in a market plagued with fund glut, the scale of the commercial-paper/bond issuing market has shrunk, perpetuating the strained supply of products and dampening business development.
- (3) For foreign currency-denominated products, such as U.S. dollar-denominated commercial papers and bonds, the company will have difficulty pushing related business due to the constraint of its limited book value and the lack of economy of scale will hamper its competitiveness initially.

# Taishin Asset Management Co., Ltd.

## a. Major products/services/markets

The company's major business items include bidding for the bad-debt claims of financial institutions in Taiwan, subjecting them to management and restructuring, and disposing of them within reasonable time, so as to attain maximum returns.

## b. Future demand and supply status

With realty-mortgaged bad-debt claims having been mostly released, assets management companies have gradually switched their bidding targets from corporate-debt claims to consumer-debt claims. Due to the gradual shrinkage of the domestic market scale, quite a number of foreign peers have transformed their operations or exit the domestic market, with some peers having begun to sell the bad-debt claims they purchased. The trend has led to the

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emergence of secondary-market trading, facilitating the division or combination of single or small bad-debt claims, conducive to the disposal of bad-debt claims and enhancement of investment returns.

### c. Business objective

In addition to continuing the purchase and disposal of bad-debt claims, the company also aims to purchase NPL (non-performing loans) secured by construction plots in greater Taipei, thereby expanding land development business via the restructuring of the debt claims. Meanwhile, in response to market changes, the company will actively bid for consumer bad-debt claims. In the direction of pluralized development, the company will step into the field of corporate restructuring via integrating banking and securities platforms and capitalizing on its abundant funds and talents, thereby contributing to domestic financial and corporate reform.

### d. Favorable and unfavorable factors for development outlook

#### 1. Favorable factors:

The company's edge lies in the complete peripheral platforms and abundant resources of the financial holding company, enabling it to help affiliates dispose of their bad-debt claims and gradually develop other assets-management businesses along with the business development of the financial holding company and other subsidiaries.

#### 2. Unfavorable factors:

With domestic financial holding companies and foreign firms having successively established assets management companies, there have existed numerous competitors scrambling for the market piece, leading to price competition, which has been aggravated by the reluctance of financial institutions to sell off their bad-debt claims in the wake of the economic recovery.

## Taishin Marketing Consultant Co. Ltd.

### a. Major products/services/markets

The company's main business is the provision of temporary-help supply (THS) service.

### b. Future demand and supply status

Along with the changes in the business environment of international enterprises, the makeup of the job market has also been undergoing major adjustment. To cope with the environment of the razor-thin profit, THS service helps enterprises achieve higher flexibility and efficiency in



resources allocation, save expenses, and cut costs.

### **c. Business objective**

The company's main business is to dispatch staffers to Taishin Bank for undertaking the jobs of debt collection and assistants, in line with the bank's need in manpower manipulation and management.

### **d. Favorable and unfavorable factors for development outlook:**

#### **1. Favorable factors:**

Taishin Marketing Consultant can flexibly adjust its THS service according to the manpower need of Taishin Bank.

#### **2. Unfavorable factors:**

THS firms suffer high labor turnover and unsteady manpower quality, since THS services are mostly of provisional and simple jobs, with pays and fringe benefits inferior to formal jobs, prompting THS staffers to seek formal jobs, due to higher job security and sense of identification.

## **Taishin Venture Capital Co., Ltd.**

### **a. Major products/services/markets**

The company invests 80% of its fund in Taiwan and 20% overseas, mainly the U.S., Europe, and Asia, featuring strategic alliance opportunities for Taiwanese industries and economic benefits for Taiwan.

### **b. Future demand and supply**

Owing to sluggish domestic and international economies, investment willingness for startups was low in 2006, leading to limited venture-capital investment in terms of value and the number of cases, but along with gradual economic recovery, ample investment opportunities have emerged since 2007, which are expected to generate bountiful returns for venture capital firms in the next several years.

### **c. Business objective**

The venture capital fund plans to invest 30% of its money in startups, 20% in enterprises at expansion stage, in 50% in mature enterprises (including undervalued listed stocks with good

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development prospects), focusing on the four major tech sectors of information technology (IT), ICs, optoelectronics, and software/biotech and targeting at private companies in Taiwan, as well as startups and enterprises at growth stage in Taiwan and the U.S. The company will also introduce startups or startup teams in the U.S. or Europe to go to Taiwan for development, joining hands with Taiwanese enterprises in developing new tech businesses. Taiwan is expected to account for 80% of the company's total investments.

### d. Favorable and unfavorable factors for development outlook

#### 1. Favorable factors:

With Taiwan's venture capital industry having reached a mature stage, the government has expanded the fund sources for venture capital firms, in order to sustain the industry's further development, raising the ceilings for the investments of insurance firms, banks, and securities firms in venture capital companies, in addition to removing the restrictions on venture capital companies in investing in certain industries. Venture capital firms will continue playing a critical role in financing the development of tech industries, which remains central to the global industrial development. With capital outlays expected to rise along with the gradual recovery of the global economy, domestic venture capital firms stand to experience another round of expansion and growth in the next several years.

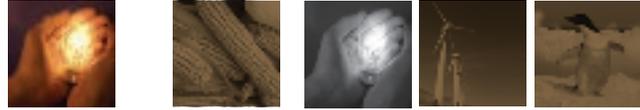
#### 2. Unfavorable factors:

(1) Taiwanese economy slackens, driving down investment willingness:

Investment activities hinge on economic performance, as a strong economy leads to a bullish market, facilitating fund raising and creating major returns for venture capital funds, while a sluggish economic dampens investment gains, making it difficult for fund raising. Therefore, amid the current global economic slowdown, demands for tech products drop and enterprises scale down their expansion, dampening investment activities. Meanwhile, attracted by the tax incentives offered by the Chinese government, many enterprises have transplanted their operations to China, putting a damper on investments in Taiwan.

(2) The scrapping of tax incentives for venture capital firms

Following the revision of the 'Statute for Industrial Upgrading' in 2000, the government scrapped the investment tax credit for the shareholders of venture capital firms.



## Chang Hwa Commercial Bank Co., Ltd.

### a. Major products/services/markets

The company's major business items include reception of deposits, loan extension, negotiable-instrument discount, remittance, guarantee, the brokerage and dealings of short-term commercial paper, export/import-related forex, foreign-currency deposits, trust, agency, custody, credit card, derivatives trading, the factoring of accounts receivable, offshore banking, and wealth management.

The bank now boasts 173 branches and 11 offices scattered mainly in major cities throughout Taiwan, in addition to six overseas branches in New York, Los Angeles, Tokyo, London, Hong Kong, and Singapore, as well as a representative's office in Kunshan, China.

### b. Future demand and supply

In the latest report released in February 2008, Global Insight revised downward the global economic growth forecast for 2008 to 3.2%, down 0.1 percentage point from the forecast growth released in November 2007 and lower than 2007's 3.8% growth, due to the spreading effect of the U.S. subprime mortgage crisis and soaring international crude-oil and raw-material prices.

Taiwan's foreign-trade surplus is expected to top US\$30 billion in 2008, up from 2007's US\$28.7 billion, and the share of trade with emerging markets will rise further, with the share of the five original ASEAN (the Association of East Asian Nations) member nations, Vietnam, India, and the Middle East having hit 17.7% in 2007, higher than 13% of the U.S. and 10.8% of European Union. The Cabinet-level Directorate General of Budget, Accounting, and Statistics (DGBAS) predicts that Taiwan's economy will grow 4.32% in 2008, lower than 2007's 5.7%, which was bolstered by growth in private consumption and fixed capital formation.

### c. Business objective

The budget objectives of major business items in 2008 follow:

1. Deposits: NT\$1,070,927,000,000
2. Loans: NT\$903,190,000,000
3. Forex trading: US\$147,801,000,000
4. Securities brokerage: NT\$112,954,000,000
5. Trust (mutual funds): NT\$133,542,000,000
6. Credit card (card-spending value): NT\$6,766,000,000

### d. Favorable and unfavorable factors

#### 1. Favorable factors

- (1) The wealth-management market has become increasingly sound.

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- (2) Domestic financial policies will be liberalized further.
- (3) The company will step up deployment of overseas branches.

### 2. Unfavorable factors:

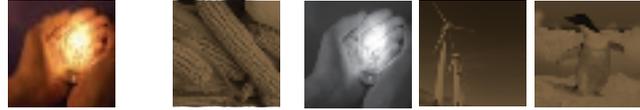
- (1) The implementation of the “Consumer Debt Clearance Act.”
- (2) Interest differential is difficult to expand, due to the homogeneity of products which squeezes profit margin.
- (3) It is difficult to expand consumption loans.
- (4) The liberalization of the government’s financial policy fails to live up to expectation.

## D. Employees of Taishin Financial Holding

Base date: March 31, 2008

Year		2006	2007	As of March 31, 2008
Total		9,515	9,173	9,252
Average age		32.8	33.6	33.9
Average service years		4.5	5.4	5.5
Shares of educational levels	Doctor	0.05%	0.07%	0.06%
	Master	9.70%	10.43%	10.44%
	College graduates	80.45%	79.96%	79.89%
	Senior high	9.56%	9.39%	9.46%
	Under senior high	0.24%	0.15%	0.15%
Kinds and numbers of professional certificates owned by employees	Auditor seminar	1,020	971	975
	Trust business seminar	597	576	583
	Test of trust business salespersons	2,467	3,225	3,301
	Basic test of internal control	3,317	3,592	3,610
	Seminar of computerized auditing	18	19	19
	Qualification test of property/insurance salespersons	1,700	2,589	2,634
	Investment-type insurance policy salespersons	1,325	1,672	1,686
	Personal-insurance policy salespersons	2,634	4,218	4,256
	Futures salespersons	480	1,819	1,829
	Securities investment analysts	8	25	26
	Senior securities salespersons	318	1,293	1,304
	Investment-trust/consulting salespersons	257	599	612
	B-category investment trust- and investment consulting-related regulations (including codes of professional ethics)	770	1,232	1,301

Note: the number of the financial holding firm’s employees, specified in the annual report, includes employees of Taishin Financial Holding, Taishin Bank, Taiwan Securities, Taishin Asset Management, Taishin Venture Capital, Taishin Marketing Consultant, and Taishin Bills Finance, but excludes that of Chang Hwa Bank.



## E. Corporate Responsibilities and Ethics

Over the past years, in addition to dedicating to the development of core financial business, Taishin Financial Holding has also spared no effort in contributing to social care, social benefits, and environmental protection, due to its deep awareness of the responsibilities and mission of an enterprise for the society's well-being. Via active participation in events pertaining to environment protection, social benefits, or humanities and arts, an enterprise can properly wield its clout bringing favorable changes to the society. Taishin Financial Holding and its subsidiaries can play well its role as a social member by giving substantive payback to the society, communities, and underprivileged groups.

To offer payback to communities, Taishin Financial Holding continuously joins hands with the art and cultural circle in promoting Taiwanese contemporary arts, in addition to augmenting interaction with communities. Founded by the Taishin Bank Art Foundation, Taishin Art Award grants topmost encouragement and honor to art workers in the two fields of indigenous visual and performing arts, thereby instituting everlasting historical status for the Taiwanese contemporary arts. In addition, various cultural and artistic activities have taken place at the Yuan Hall of Taishin Art and Culture Center, a versatile performing/exhibition venue, on the second floor of Taishin Financial Holding headquarters building, including various arts exhibitions and regular noontime musical concerts, the latter of which featuring free performances of domestic musicians in various fields for enjoyment by citizens.

In 2007, Taishin Financial Holding joined forces with subsidiaries in actively sponsoring various high-class arts exhibitions, including the "British Museum after 250 Years" exhibition, "the Terra Cotta Army of the First Emperor of China" exhibition, and the "World and Fantasy of Niki de Saint Phalle" exhibition, enabling Taiwanese people to access international art masterpieces without having to travel abroad. Regarding performing art, the French musical "Little Prince" offered a French musical feast; various foreign troupes performed at the Chiang Kai-shek Cultural Center square during the "Open Air International Arts" festival, introducing atypical circus performance to Taiwan; while the concert of Kuraki Mai, one of top three Japanese singers, enabled the public to have close encounter with Japanese popular music. Thanks to the sponsorship and support of Taishin, local people were able to enjoy various forms of artistic and cultural feasts.

Regarding social benefits, Taishin Financial Holding joined hands with its affiliate PayEasy.com in pushing series care-for-Taiwan public-benefit activities, starting with the program of assisting the industrial development in 921 earthquake-stricken areas in 2002, which aims to promote the sale of agricultural products, agricultural plantation, and tourism business via combining the influence of corporate brand and e-commerce. Via these activities, Taishin Financial Holding has helped brighten up the prospects of those areas.

From 2005, the "care for Taiwan" program switched its attention to education, helping, for

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instance, the public understand the strife of Kuohsing-village karate teenager team, in the earthquake-stricken areas, via website and news reports, followed by a fund-raising campaign in 2007, to finance the training and attendance in international tournaments of the children.

For payback to the society, Taishin Financial Holding regularly sponsors blood-donation loving month during summer and winter vacations at banking and securities business points under its auspices, gaining warm response from our colleagues and clients. In 2007, the company took part in the “little xiucai (intellectual) class” program, helping fund the establishment of “little xiucai” classes at grass-roots communities and hiring qualified teachers to help elementary-school students from disadvantaged families with their study. Taishin Bank also held money-education seminars for “teacher Chang” social workers and the general public to help them establish correct money concept.

Taishin Financial Holding also took part in sponsoring various financial and business management academic seminars, such as the 13th cross-Taiwan Strait financial academic seminar, advanced seminar on Taiwan enterprise restructuring, the annual forum of Monte Jade Science & Technology Association, seminar on Taiwan economic and financial development, and the first Shanghai Financial Forum.

Moreover, Taishin Financial Holding and its subsidiaries sponsored various campus seminars, including 2007 International Economic, Financial, and Accounting Seminar of National Taiwan University, 2007 International Financial Academic Seminar of National Taiwan University, and 15th Securities and Financial Theoretic Seminar. Taishin Financial Holding also joined hands with the College of Management, National Taiwan University in setting up “Research Scholar” program, offering three-year fellowship totaling NT\$3.6 million in value to encourage young business-management scholars to dedicate to teaching and research works, with the aim of cultivating next-generation excellent business-management teachers.

For environmental protection and anti-global warming cause, Taishin Financial Holding has made environmental protection and energy saving a company policy, such as pushing “Cool Biz” program in summer, encouraging employees to shun formal business suits, raising the set temperature for air conditioning in offices, and pushing paperless office. Meanwhile, it urges the public to ride bicycles, to achieve the dual benefits of enhancing health and cutting air pollution. It encouraged employees, their families, and clients to take part in the “car free day in greater Taipei” program, materializing the concept of “loving earth by using love as energy.”

Only a stable and harmonious society can offer an environment conducive to the sustainable development of enterprises. Therefore, Taishin Financial Holding embraces to the “client-centered” concept, satisfying client needs and creating values for clients from the angle of clients. For shareholders, it aims to create maximum investment returns rate for them. At the same time, it actively takes part in public-benefit activities, allowing the public to share its profits as a payback to their patronage and support, so as to fulfill its social responsibility.



## F. Information Equipment

### a. Major information systems

Items	System names	Hardware	Software	Business contents
1	NT dollar core system (B@NCS)	■ HP Superdome	■ HP-UX ■ ORACLE	■ B@NCS NT dollar application system ■ B@NCS NT dollar reporting system
2	Foreign exchange system(FITAS)	■ IBM AS400	■ IBM OS400 ■ FITAS	■ Export/import remittance, deposits, loans ■ SWIFT Global banking financial system
3	ATM front-end system (FEP)	■ IBM RS6000	■ IBM AIX ■ IBM MQ ■ ORACLE	■ ATM front-end processing system ■ Financial settlement processing system
4	Financial trading system (SUNGARD)	■ MS Windows	■ SunGard ■ MS SQL	■ Financial & Treasury trading ■ Trading risk management system
5	Database integrated system (DAI)	■ HP Superdome	■ HP-UX ■ ORACLE	■ Operating database system (ODS) ■ Data warehousing (DW/DM)
6	Automated sale operation application system (SFA)	■ HP Superdome	■ IBM OS400	■ Instant client viewing system (SCV) ■ Automated sale operation system (SFA)
7	Securities front- and rear-end system	■ IBM AS400	■ IBM OS400	■ Online securities-trading order placement ■ Rear-end securities accounting system
8	Front- and rear-end futures system	■ IBM AS400	■ IBM AS400	■ Online futures and warrants trading-order placement ■ Rear-end futures accounting system
9	Medium-end securities, futures, and warrants trading system	■ IBM AS400 ■ IBM RS6000 ■ HP X86 SERVER	■ IBM OS400 ■ IBM AIX ■ Red Hat Linux	■ Online domestic securities, futures, warrants trading system ■ Foreign futures and warrants accounting/inquiry system

### b. Future Development or procurement plans

1. Develop and institute "overseas branch system," providing an integrated tailor-made deposit and loan system for overseas branches to facilitate their business expansion.
2. Develop and install "user-privilege application management system," offering a common interface system for the application and management of user privilege for various application systems, featuring a design of convenient use, easy management, and security.

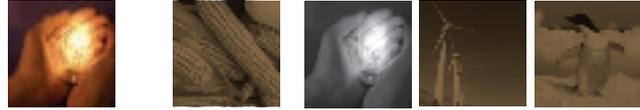
## V. Operating Status

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3. Expand the “single customer view integrated customer information system,” offering plural client information to various business groups instantly to help them enhance operating efficiency and service quality.
4. Institute IP phone application for branches, offering branches convenient VoIP (Voice over Internet Protocol) service to cut costs.
5. Upgrade the bandwidth of Hong Kong branch’s international digital line and backup line.
6. Upgrade information-system framework, augment the processing capability and capacity of business systems, and expand the backup scope of business systems.
7. Plan the institution of DWDM project, link up the networks of the headquarters and the backup center with Dark Fiber, and enhance the application flexibility and expandability of backup systems.
8. Institute diagnostic and analytical tools for the efficacy of application programs, so as to monitor and analyze the occupation of resources by application systems.
9. Continue strengthening and consolidating the functions of e-trading systems, so as to enhance client satisfaction and loyalty.
10. Develop and institute operating, profit-making, and accounting systems from the angles of organization, product, client groups, and salespersons.
11. Plan the switch to Western calendar year for front- and rear-end mainframes, to cope with the revision of date columns in 2011.
12. Strengthen the institution of foreign trading systems, including Bloomberg spot-market system, G/L Trade futures, and ORC securities/futures trading system.
13. Upgrade the capacities of front- and rear-end securities mainframes to cope with surge in trading volume.
14. Overhaul futures-related trading systems, in line with the implementation of new futures trading regulations by the Taiwan Futures Exchange.

### c. Emergent backup and precautionary security measures

1. Continue implementing the “sustained operation management” plan, further upgrade the backup-system framework, further expand the backup scope, and incorporate ODS operating database and SFA and SCV system.
2. Continue implementing “monitoring and management of the input and retrieval of PC resources” and pushing various plans of the “information security task force.”
3. Upgrade the LDAP integrated security monitoring system to cope with the organizational adjustment and expansion of the financial holding company.
4. Implement “ID account management” and “information encryption and decryption”



management, intensify account management, and strengthen the security of data input and retrieval.

5. Institute “information security monitoring” mechanism and check various security records daily, so as to discover potential information security problems early.
6. Implement “Early Alter” and “Abnormalities tracking” mechanism in stages, to assure the steadiness and reliability of operation.
7. Continue upholding ISO9001 quality indicators and plan the introduction of ISO27001 information security management standard.
8. Strengthen the detection and weakness scanning of information security system.

## G. Labor-management relationship

### a.

Employee fringe benefits and retirement system, their implementation, labor-management agreements, and measures upholding employee benefits:

1. Employee fringe benefits: The company has formulated “employee welfare measures” and instituted “employee’s welfare committee,” responsible for the pushing of various fringe benefits for employees.
2. Retirement system: The company has formulated “employee retirement measures”; employees’ retirement payment is calculated according to applicable retirement system and related law and regulations.
3. No other important agreements exist.

### b.

List loss from labor-management disputes in the recent year and as of the date of the publication of the annual report, disclose estimated current and future loss and countermeasures, or explain, in the case of inability to make reasonable estimate of the loss, the reasons for the inability to make the estimate: The company did not suffer any loss from labor-management disputes in the recent one year, due to harmonious labor-management relationship.

## V. Operating Status

### H. Important contracts

Taishin Financial Holding Co., Ltd.

Base date: March 31

Nature of contracts	Involved parties	Duration of contract	Major contents	Restrictive clause
Share transaction contract	Taishin Financial Holding (seller)/ AEGON International N.V.(buyer)	Signed on June 8, 2007	Transaction of Chang Hwa Bank shares (totaling 160,225,000 shares)	Common share-transaction terms
Joint venture contract	Taishin Financial Holding/AEGON International N.V.	Signed on Dec. 7, 2007	Jointly set up an insurance firm	<ol style="list-style-type: none"> <li>1. Requirement of higher percentages of presence and votes for important items pertaining to the operation and organization of the new insurance company.</li> <li>2. Anti-competition restriction clause</li> <li>3. Priority pushing of the new insurance company's business under certain conditions.</li> </ol>

Taiwan Securities Co., Ltd.

Base date: March 31, 2008

Nature of contracts	Involved parties	Duration of contract	Major contents	Restrictive clause
Medium-term syndicated-loan contract	Far Eastern Bank and other financial institutions	Three years (Nov. 7, 2006 to Nov. 7, 2009)	Credit-line ceiling NT\$3.9billion	According to the stipulations of the contract
Medium-term syndicated-loan contract	Cathay United Bank and other financial institutions	Three years (Aug. 10, 2007 to Oct. 10, 2010)	Credit-line ceiling NT\$3.5 billion	According to the stipulations of the contract
Loan contract	Sign contracts with scores of financial institution, including the Taiwan Cooperative Bank, in the name of the company	One-year term Medium- and long-term loans are arranged according to the terms of the contracts.	Set according to the agreements in the contracts.	According to the stipulations of the contract
Re-accommodation contract	Sign contracts with four securities firms, including Yuanta Securities, in the name of the company.	The contracts took effect from the signing date.	Capable of seeking re-accommodation from the four companies when in need of funds or securities	According to the measures governing securities margin trading/short sale for securities firms

Taishin International Bank (nil)

Taishin Bills Finance Co., Ltd. (nil)

Taishin Asset Management Co., Ltd. (nil)

# V

## Financial Statements

### You Can Also Live in this Way

Bring simpleness to your life

Try organic food

Learn to walk and bike more, to experience  
different values of life

You'll find that small actions can not only  
change you,

But also the big environment



## VI. Financial Statements

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### **INDEPENDENT AUDITORS' REPORT**

#### **The Board of Directors and Stockholders**

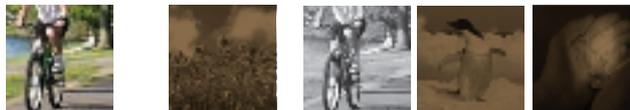
#### **Taishin Financial Holding Co., Ltd. and subsidiaries**

We have audited the accompanying consolidated balance sheets of Taishin Financial Holding Co., Ltd. ("Taishin Financial Holding") and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Taishin Financial Holding and subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taishin Financial Holding and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

As disclosed in Note 3 to the consolidated financial statements, effective on January 1, 2006, Taishin Financial Holding and subsidiaries adopted the amended Statement of Financial Accounting Standards ("SFASs") No. 34 "Financial Instruments: Recognition and Measurement," and No. 36 "Financial Instruments: Disclosure and Presentation," and other related revised standards



effective on January 1, 2006. In addition, goodwill arising from merger since January 1, 2006 have not amortized in conformity with the revised SFASs No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, No. 5 “Long-Term Investments under Equity Method,” and No. 25 “Business Combinations: Accounting Treatment under Purchase Method”.

We have also audited the accompanying schedules of significant accounts, provided for supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to above.

*Deloitte & Touche*

March 28, 2008

#### Notice to Readers

The accompanying consolidated 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 ROC and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the ROC.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 auditors' report and consolidated financial statements shall prevail.

## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006	Percentage of Variation
ASSETS	Amount	Amount	%
Cash and cash equivalents (Notes 2 and 4)	\$37,598,828	\$59,848,023	(17)
Due from Central Bank and call loans to banks (Note 5)	247,170,969	207,701,591	19
Financial assets at fair value through profit or loss (Notes 2 and 6)	81,135,642	116,183,851	(30)
Bonds and securities purchased under resell agreements (Note 2)	14,337,297	26,163,593	(45)
Receivables, net (Notes 2 and 7)	119,132,189	110,837,542	7
Loans, net (Notes 2 and 8)	1,466,208,014	1,380,374,402	6
Available-for-sale financial assets (Notes 2 and 9)	106,149,641	94,109,665	13
Held-to-maturity financial assets (Notes 2 and 10)	127,639,354	185,561,348	(31)
Investments accounted for by the equity method, net (Notes 2 and 11)	1,017,635	986,602	3
OTHER FINANCIAL ASSETS (Note 2)			
Financial assets carried at cost (Note 12)	9,525,026	10,105,861	(6)
Other miscellaneous financial assets ( Note 13)	<u>9,345,836</u>	<u>7,716,621</u>	21
Other financial assets, net	<u>18,870,862</u>	<u>17,822,482</u>	6
PROPERTY AND EQUIPMENT (Notes 2 and 14)			
Cost			
Land	28,150,012	28,237,797	-
Buildings	15,114,703	15,272,198	(1)
Machinery equipment	9,381,938	8,811,159	6
Transportation equipment	1,025,419	1,031,283	(1)
Miscellaneous equipment	2,085,690	2,087,342	-
Leasehold improvements	<u>1,564,419</u>	<u>1,513,578</u>	3
Accumulated depreciation	<u>(12,622,103)</u>	<u>(11,265,364)</u>	12
Construction in process and machine accessories	44,700,078	45,687,993	(2)
Prepayment for buildings and equipment	<u>58,418</u>	<u>66,856</u>	(13)
Property and equipment, net	<u>44,907,490</u>	<u>45,983,539</u>	(2)
GOODWILL (Notes 2 and 15)	<u>20,757,601</u>	<u>22,442,037</u>	(8)
OTHER ASSETS (Note 2)			
Prepayments	2,391,396	3,078,557	(22)
Refundable deposits	16,140,469	20,053,190	(20)
Deferred tax assets (Note 31)	23,963,497	27,879,289	(14)
Other deferred assets (Note 2)	2,413,611	2,406,131	-
Other miscellaneous assets (Note 16)	<u>9,112,715</u>	<u>9,159,063</u>	(1)
Other assets, net	<u>54,021,688</u>	<u>62,576,230</u>	(14)
TOTAL	<u>\$2,338,947,210</u>	<u>\$2,330,590,905</u>	-

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 28, 2008)



## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007	2006	Percentage of Variation
	Amount	Amount	%
INTEREST INCOME (Note 2)	\$77,609,049	\$81,287,342	(5)
INTEREST EXPENSES	<u>(41,644,653)</u>	<u>(36,414,402)</u>	14
NET INTEREST INCOME (Note 28)	35,964,396	44,872,940	(20)
NET INCOME OTHER THAN INTEREST INCOME (Note 2)			
Fee and commission income, net (Note 29)	15,667,964	12,413,997	26
Gain on financial assets and liabilities at fair value through profit or loss	1,151,092	1,242,234	(7)
Realized gain on available-for-sale financial assets	1,367,149	564,621	142
Investment income recognized under the equity method (Note 11)	43,905	20,372	116
Loss on disposal of investments accounted for by the equity method	(953,350)	-	-
Foreign exchange gain	1,403,183	1,257,136	12
Loss on asset impairments (Notes 2, 9 and 12)	(63,681)	(765,118)	(92)
Other non-interest net income and losses			(31)
Credit receivable management income	296,548	574,519	(48)
Gain (loss) on sale of nonperforming loans	182,850	(10,710,148)	102
Gain on issuance of warrants, net	1,031,621	422,924	144
Income from trading and other sale	1,120,125	924,966	21
Other miscellaneous net income	<u>2,885,385</u>	<u>1,955,823</u>	48
GROSS INCOME	<u>60,097,187</u>	<u>52,774,266</u>	14
PROVISION FOR LOAN LOSSES (Note 8)	<u>(12,131,170)</u>	<u>(31,728,802)</u>	(62)
OPERATING EXPENSES (Note 30)			
Personnel expenses	(17,949,237)	(17,509,649)	3
Depreciation and amortization	(2,990,380)	(2,941,419)	2
Others	<u>(11,672,364)</u>	<u>(11,428,289)</u>	2
Total operating expenses	<u>(32,611,981)</u>	<u>(31,879,357)</u>	2
INCOME (LOSS) BEFORE INCOME TAX	15,354,036	(10,833,893)	242
ESTIMATED INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 31)	<u>(4,961,451)</u>	<u>2,812,952</u>	(276)
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE	10,392,585	(8,020,941)	230
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE (Net of tax of \$29,150 thousand) (Note 3)	<u>-</u>	<u>742,710</u>	(100)
CONSOLIDATED NET INCOME (LOSS)	<u>\$10,392,585</u>	<u>\$(7,278,231)</u>	243
ATTRIBUTABLE TO			
Taishin Financial Holding's stockholders	\$4,089,120	\$(16,148,540)	125
Minority interests	<u>6,303,465</u>	<u>8,870,309</u>	(29)
	<u>\$10,392,585</u>	<u>\$(7,278,231)</u>	243

(Continued)



	2007		2006	
	Pretax	After-tax	Pretax	After-tax
<b>BASIC AND DILUTED EARNINGS (LOSS) PER SHARE</b> (Note 32)				
Net income (loss) before cumulative effects of changes in accounting principle	\$0.83	\$0.46	\$(4.27)	\$(3.29)
Net cumulative effects of changes in accounting principle	_____ -	_____ -	_____ 0.14	_____ 0.14
	_____ <b>\$0.83</b>	_____ <b>\$0.46</b>	_____ <b>\$(4.13)</b>	_____ <b>\$(3.15)</b>

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 28, 2008)

## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

	Capital Stock			Capital Surplus	Stock Option	Retained Earnings	
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions		Legal Reserve	
BALANCE, JANUARY 1, 2006	\$ 51,232,093	\$ 9,000,000	\$ 21,960,097	\$ 2,483,718	-	\$ 2,264,406	
Loss appropriation	-	-	(383,556)	-	-	(2,264,406)	
Convertible bonds converted to common stock	190,000	-	89,417	-	-	-	
Capital infusion with cash	8,222,223	-	5,680,387	-	-	-	
Issuance of preferred stock - D	-	7,777,778	-	-	-	-	
Redemption of matured preferred stock - B	-	(4,000,000)	-	-	-	-	
Equity components for compound financial instruments	-	-	-	-	99,608	-	
Translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	
Changes in ownership of investments accounted for by the equity method	-	-	-	-	-	-	
Unrealized gains of available-for-sale financial assets	-	-	-	-	-	-	
Cancellation of treasury stock	(2,541,315)	-	(594,760)	111,706	-	-	
Net loss not recognized as pension cost	-	-	-	-	-	-	
Consolidated net loss for the year ended December 31, 2006	-	-	-	-	-	-	
Minority interests	-	-	-	-	-	-	
BALANCE, DECEMBER 31, 2006	57,103,001	12,777,778	32,853,146	2,595,424	99,608	-	
Loss appropriation	-	-	(15,528,983)	(519,949)	(99,608)	-	
Translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	
Changes in ownership of investments accounted for by the equity method	-	-	(10,212)	-	-	-	
Unrealized losses of available-for-sale financial assets	-	-	-	-	-	-	
Net loss not recognized as pension cost	-	-	-	-	-	-	
Consolidated net income for the year ended December 31, 2007	-	-	-	-	-	-	
Minority interests	-	-	-	-	-	-	
BALANCE, DECEMBER 31, 2007	<u>\$57,103,001</u>	<u>\$12,777,778</u>	<u>\$17,313,951</u>	<u>\$2,075,475</u>	-	-	

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 28, 2008)



Retained Earnings		Equity Adjustments					
Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Minority Interests	Total
\$ 40,534	\$ (2,688,496)	\$ 10,919	\$ -	\$ (867)	\$ (3,024,369)	\$ 61,122,528	\$ 142,400,563
(40,534)	2,688,496	-	-	-	-	-	-
-	-	-	-	-	-	-	279,417
-	-	-	-	-	-	-	13,902,610
-	-	-	-	-	-	-	13,923,740
-	-	-	-	-	-	-	(4,000,000)
-	-	-	-	-	-	-	99,608
-	-	1,929	-	-	-	-	1,929
-	-	-	-	-	-	-	(44,401)
-	-	-	1,101,111	-	-	-	1,101,111
-	-	-	-	-	-	-	-
-	-	-	-	(5,486)	-	-	(5,486)
-	(16,148,540)	-	-	-	-	8,870,309	(7,278,231)
-	-	-	-	-	-	(7,599,017)	(7,599,017)
-	(16,148,540)	12,848	1,101,111	(6,353)	-	62,393,820	152,781,843
-	16,148,540	-	-	-	-	-	-
-	-	(13,313)	-	-	-	-	(13,313)
-	-	-	-	-	-	-	(10,212)
-	-	-	-	-	-	-	(1,561,014)
-	-	-	-	-	-	-	(15,853)
-	-	-	-	-	-	6,303,465	10,392,585
-	-	-	-	-	-	(4,521,943)	(4,521,943)
-	\$4,089,120	\$ (465)	\$ (459,903)	\$ (22,206)	-	\$ 64,175,342	\$ 157,052,093

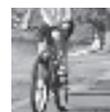
## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income (loss)	\$ 10,392,585	\$ (7,278,231)
Gain or loss with no effect on cash flows and other adjustments		
Provision for loan losses	12,131,170	31,728,802
Other provision	(27,328)	17,352
(Gain) loss on sale of nonperforming loans	(182,850)	10,710,148
Recovery of loans written off	9,790,497	10,008,804
Depreciation and amortization	2,990,380	2,941,419
(Gain) loss on disposal of property and equipment	(460,556)	338,524
Loss on asset impairments	63,681	765,118
Investment income recognized under equity method net of cash dividends received in current year	(32,173)	(7,859)
Discounts and premium	(852,460)	(1,585,629)
(Gain) loss on financial instruments valuation	334,608	(691,225)
Gain on disposal of investments	(914,465)	(499,190)
Prepayment for equipment transferred to expense	-	974,999
Deferred income tax expense (benefit)	3,444,910	(4,178,023)
Income tax benefit from linked-tax system	(1,031)	(20,216)
Others	125,164	(28,072)
Net changes in operating assets and liabilities		
Financial assets for trading purpose	35,483,171	63,247,387
Financial liabilities for trading purpose	219,521	8,210,097
Receivables	(9,182,704)	53,315,386
Other financial assets	(522,964)	(2,107,686)
Other assets	(137,902)	(983,927)
Credit item for consigned trades	114,056	217,518
Payables	(10,068,818)	(13,738,088)
Other financial liabilities	(9,815)	(309,674)
Futures commission merchants' equity	2,275,608	202,073
Accrued pension liability	161,207	(64,712)
Other liability	(477,206)	(372,910)
Others	23,135	22,644
Net cash provided by operating activities	54,679,421	150,834,829
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in due from Central Bank and call loans to banks	(39,469,378)	(65,263,944)
Decrease (increase) in bonds and securities purchased under resell agreements	11,826,296	(2,216,567)
Purchase of financial assets designated upon initial recognition as at fair value through profit or loss	-	(2,129,546)
Increase in loans (including delinquent loans)	(108,037,939)	(73,816,186)
Proceeds of sales of investments accounted for by the equity method	3,107,081	-
Purchase of financial assets carried at cost	(399,651)	(658,151)
Proceeds received on sale of financial assets carried at cost	1,257,587	236,817
Refund from combination of financial assets carried at cost	121,821	76,087
Purchase of available-for-sale financial assets	(83,959,035)	(50,613,312)
Proceeds received on sale of available-for-sale financial assets	71,526,711	26,970,274
Purchase of held-to-maturity financial assets	(508,264,342)	(506,927,305)

(Continued)



## 2007 Taishin Holdings Annual Report

	2007	2006
Proceeds received on sale of held-to-maturity financial assets	\$ 566,030,302	\$ 519,761,178
Purchase of bonds with no active market	(1,308,737)	(1,146,750)
Proceeds received on sale of bonds with no active market	1,151,134	-
Proceeds received on sale of nonperforming loans	182,850	167,986
Proceeds of sales of property, equipment, leased asset and idle asset	742,527	1,041,201
Purchase of property, equipment, leased asset and idle asset	(1,177,786)	(3,953,674)
Decrease (increase) in refundable deposits	3,912,721	(10,747,021)
Additional interest in a subsidiary	-	(1,933,948)
Return on liquidation or capital reduction of investments	-	56,692
(Increase) decrease in operating deposits and settlement funds	<u>(34,802)</u>	<u>461,050</u>
Net cash used in investing activities	<u>(82,792,640)</u>	<u>(170,635,119)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in other borrowings	1,280,000	1,420,000
Increase (decrease) in commercial paper payable	980,636	(1,705,904)
Decrease in due to Central Bank and banks	(26,853,260)	(35,797,307)
Decrease in call loans from Central Bank and banks	(384,585)	(21,060)
Increase in deposits and remittances	40,947,315	16,476,077
(Decrease) increase in bonds and securities sold under repurchase agreements	(2,982,909)	522,320
(Redemption) issuance of bonds	(1,600,000)	368,889
Issuance of preferred stock - D	-	13,923,740
Capital infusion with cash	-	13,902,609
Redemption of preferred stock at maturity	-	(10,000,000)
Increase (decrease) in guarantee deposits	30,279	(350,027)
Issuance cost of bonds payable	-	6,943,986
Cash dividends, compensation of directors and supervisors and employee dividends	(5,459,344)	(21,340)
Other	<u>-</u>	<u>(1,800)</u>
Net cash provided by financing activities	<u>5,958,132</u>	<u>5,660,183</u>
EFFECTS FORM CHANGES OF CONSOLIDATED ENTITIES	<u>(94,108)</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,249,195)	(14,140,107)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	59,848,023	73,988,130
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 37,598,828</u>	<u>\$ 59,848,023</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest	<u>\$ 41,358,078</u>	<u>\$ 34,867,477</u>
Income tax	<u>\$ 1,602,453</u>	<u>\$ 2,040,241</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 28, 2008)

(Concluded)

# VI. Financial Statements

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## TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

### 1. ORGANIZATION AND CONSOLIDATION POLICY

Taishin Financial Holding Co., Ltd. ("Taishin Financial Holding") was established by Taishin International Bank Co., Ltd. ("Taishin Bank") and Dah An Commercial Bank Co., Ltd. ("Dah An Bank") pursuant to the ROC Financial Holding Company Act and related regulations through a share swap on February 18, 2002. Taishin Financial Holding's main business activities are investing and managing its invested financial institutions.

According to Article 4 of the ROC Financial Holding Company Act, a financial holding company should hold controlling interests in a bank, an insurance company or a security firm. Taishin Bank and Dah An Bank established Taishin Financial Holding through a share swap. In forming the holding company, Taishin Bank merged with Dah An Bank, with Taishin Bank as the survivor company. In addition, Taiwan Securities Co., Ltd. ("Taiwan Securities") and Taishin Bills Finance ("Taishin Bills Finance") became wholly-owned subsidiaries of Taishin Financial Holding through a share swap effective on December 31, 2002.

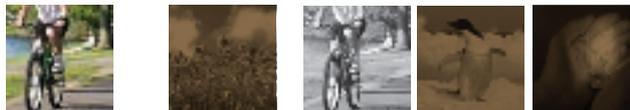
In the fourth quarter of 2005, Taishin Financial Holding acquired 1,400,000 thousand shares of preferred stock - B issued by Chang Hwa Commercial Bank Co., Ltd. ("Chang Hwa Bank") through private placements. The 22.55% ownership interest with voting rights held by Taishin Financial Holding allows them to take over half of the seats in the board of directors of Chang Hwa Bank. Accordingly, Taishin Financial Holding had a controlling interest in Chang Hwa Bank. The ownership interest with voting rights in Chang Hwa Bank held by Taishin Financial Holding and subsidiaries was 22.81% as of December 31, 2007.

As of December 31, 2007 and 2006, Taishin Financial Holding and subsidiaries have 16,200 and 16,288 employees, respectively.

Taishin Bank started its business operations on March 23, 1992. Taishin Bank provides customers with (a) general commercial banking services - commercial lending, foreign exchange transactions, installment and term loans, wire transfers, marketable security investments, receivable factoring, offshore banking business, etc. as well as (b) various financial instruments - letters of credit, bankers' acceptances, checking and savings accounts, credit cards, derivative instruments, etc.

Taishin Real-Estate Management Co., Ltd. ("Taishin Real-Estate") was established in August, 1995 and its operations include audits and consultations of construction plans, contract witness, and assessments and trades of real estate, etc.

Taishin Insurance Agency Co., Ltd. ("Taishin Insurance Agency") was established in September 1996 and provides life insurance agent service. Taishin Insurance Agency acquired 97.6%



equity interest of Taisin Non-Life Insurance Agency Co., Ltd. (“Taisin Non-Life Insurance”) in 1999 and 100% equity interest of Taishin Insurance Brokers Co., Ltd. (“Taishin Insurance Brokers”) in 2002. The stockholders approved the dissolution of Taisin Non-Life Insurance in the stockholders’ meeting held on June 20, 2006 because it did not accomplish its operation purposes. The liquidation process of Taisin Non-Life Insurance was completed on December 25, 2006.

PayEasy Digital Integration Co., Ltd. (“PayEasy Digital”) was established in April 2000 and its operations include advertising agent and data processing services.

Taishin International Finance Co., Ltd. (“Taishin Finance”) was established in January, 1999 and its operations include import and export of foreign exchange, trade financing, guarantee and acceptance.

Chang Hwa Bank was established on March 1, 1947 and got licensed from the Ministry of Economic Affairs in July, 1950. It mainly engages in the following businesses: (a) all commercial banking operations allowed by the Banking Act; (b) trust operations; (c) international banking operations; (d) overseas branch operations authorized by the respective foreign governments; and (e) other operations as authorized by the central authority.

Chang Hwa Bank’s headquarter is located in Taichung City, Taiwan. As of December 31, 2007, Chang Hwa Bank’s operations include not only the head office and trust departments, but also 172 domestic branches, an international financing branch, five agents conducting securities brokerage activities, six overseas branches located in New York, Los Angeles, Tokyo, London, Hong Kong and Singapore, and a representative office in China.

CHB Life Insurance Agency Co., Ltd. (“CHB Life Insurance Agency”) was established on October 3, 2001 to provide life insurance agent service. CHB Insurance Brokerage Co., Ltd. (“CHB Insurance Brokerage”) was established on April 7, 2003 to provide property insurance broker service.

Taiwan Securities was incorporated in October 1988 and its operations include security underwriting, brokerage, margin lending and security transfer services, and other operations approved by the relevant authorities. Taiwan Securities was approved to operate brokerage and dealing services related to futures from March 2004. In addition, Taiwan Securities acquired 100% ownership interest of Dong Shi Securities Co., Ltd. for \$330,107 thousand. The net assets of Dong Shi Securities Co., Ltd. amounted to \$251,700 thousand. The difference between total purchase price and net assets acquired of \$78,407 thousand was recognized as goodwill.

Taiwan Futures (“Taiwan Futures”) started to operate on December 26, 1997. Its operations include domestic/foreign futures management and consulting services. Taiwan Futures operated

## VI. Financial Statements

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dealing services related to futures from March 23, 2006.

Shin Ze Asset Management Co., Ltd. (“Shin Ze”) was licensed to operate on February 18, 2003. Shin Ze’s operations include collection, evaluation, auction, and management of delinquent loans and business management advisory. Taiwan Securities sold the whole interest in Shin Ze on March 30, 2007.

Anew Holdings Ltd. (“Anew Holdings”), Taiwan Securities’ overseas holding company, was established in the British Virgin Islands in August 1996. Anew Holdings owns 100% equity interests of Taiwan Securities (Hong Kong) Co., Ltd. (“Taiwan Securities - HK”), TSC Capital Limited, Taiwan Securities (Hong Kong) Co., Ltd. Nominess United (“Taiwan Securities - HK Nominess United”) and Tai Chen (BVI) Co., Ltd. (“Tai Chen (BVI)”, the operations of these investees are brokerage, underwriting, investment consulting, and trust agent business.

Taishin Bills Finance commenced operations on March 5, 1998 and its operations include: brokerage and dealing in short-term bills and bonds; underwriting and certifying of, and providing guarantees and endorsements on commercial paper; brokerage of interbank loans between financial institutions; and other businesses approved by the Ministry of Finance (“MOF”).

Taishin Asset Management Co. Ltd. (“Taishin AMC”) was established on August 14, 2002 in accordance with the Company Law and other related laws and obtained Business Certificate on August 27, 2002. Taishin AMC’s operations include acquisition, evaluation, auction, and management of delinquent loans.

Taishin Marketing Consultant Co., Ltd. (“Taishin Marketing”) was established on November 20, 1998. Its operations include investment and enterprise consulting, agent services, acquisition of accounts receivable, real estates and leasing.

Taishin Venture Capital was approved to establish on September 25, 2003. Its operations include engagement in investment start-up.

### Consolidation Policy

In accordance with the amended Statement of Financial Accounting Standard (“SFAS”) No. 7 “Consolidated Financial Statements”, all investees in which Taishin Financial Holding and subsidiaries have controlling interests should be included in the consolidated financial statements.

In preparing the consolidated financial statements, all material intercompany transactions are eliminated.



Subsidiaries included in the consolidated financial statements as of December 31, 2007 and 2006 were as follows:

Investors' Names	Subsidiaries' Names	Ownership Interest (%)	Consolidated as of December 31, 2007	Consolidated as of December 31, 2006
Taishin Financial Holding	Taishin Bank	100.00	Yes	Yes
Taishin Financial Holding	Taiwan Securities	100.00	Yes	Yes
Taishin Financial Holding	Taishin Bills Finance	100.00	Yes	Yes
Taishin Financial Holding	Taishin AMC	100.00	Yes	Yes
Taishin Financial Holding	Taishin Marketing	100.00	Yes	Yes
Taishin Financial Holding	Taishin Venture Capital	100.00	Yes	Yes
Taishin Financial Holding	Chang Hwa Bank	22.55	Yes	Yes
Taishin Bank	Chang Hwa Bank	0.27	Yes	Yes
Taishin Bank	Taishin Real-Estate	60.00	Yes	Yes
Taishin Bank	Taishin Insurance Agency	50.40	Yes	Yes
Taishin Bank	PayEasy Digital	66.67	Yes	Yes
Taishin Bank	Taishin Finance	99.99	Yes	Yes
Taishin Bank	Taiwan Futures	6.15	Yes	Yes
Taiwan Securities	Anew Holding	<u>100.00</u>	<u>Yes</u>	<u>Yes</u>
Taiwan Securities	Taiwan Futures	93.85	Yes	Yes
Taishin AMC	Taishin Real-Estate	40.00	Yes	Yes
Taishin Insurance Agency	Taishin Insurance Brokers	100.00	Yes	Yes
Anew Holding	Taiwan Securities - HK	100.00	Yes	Yes
Chang Hwa Bank	CHB Life Insurance Agency	100.00	Yes	Yes
Chang Hwa Bank	CHB Insurance Brokerage	100.00	Yes	Yes

Subsidiaries not included in the consolidated financial statements as of December 31, 2007 and 2006 were as follows:

Investors' Names	Subsidiaries Names	Ownership Interest (%)	Consolidated as of December 31, 2007	Consolidated as of December 31, 2006	Note
Taishin Bank	Dah An Leasing Co., Ltd. ("Dah An Leasing")	99.00	No	No	Dah An Leasing was an equity method investee of Taishin Bank as of December 31, 2007 and 2006. Because its capital only accounted for 0.30% of the consolidated capital, also its total assets were less than 0.01% of the consolidated total assets, and it had no business, thus, it was not included in the consolidated financial statements.
Taishin Insurance Agency	Taisin Non-Life Insurance Agency	-	No	Yes	Taisin Non-Life Insurance Agency was liquidated on December 25, 2006.

## VI. Financial Statements

Investors' Names	Subsidiaries Names	Ownership Interest (%)	Consolidated as of December 31, 2007	Consolidated as of December 31, 2006	Note
Taiwan Securities	Taiwan Managed Futures Co., Ltd. ("Taiwan Managed Futures")	100.00	No	Yes	Taiwan Managed Futures was an equity method investee of Taiwan Securities as of December 31, 2007 and 2006. Because its capital only accounted for 0.30% of the consolidated capital. Neither its total assets nor operating income reached 0.02% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Taiwan Securities	Taiwan Securities Investment Advisory Co., Ltd. ("Taiwan Securities Investment Advisory")	92.00	No	No	Taiwan Securities Investment Advisory was an equity method investee of Taiwan Securities as of December 31, 2007 and 2006. Because its capital only accounted for 0.45% of the consolidated capital. Neither its total assets nor operating income reached 0.20% of consolidated total assets and operating income, respectively. It was not included in the consolidated financial statements.
Taiwan Securities	Shin Ze	-	No	Yes	Taiwan Securities disposed of its entire interest in Shin Ze on March 30, 2007. The income and expense of Shin Ze should not be included in the consolidated financial statements from the date Taiwan Securities lost control of Shin Ze in accordance with SFAS No. 7 "Consolidated Financial Statements" and Taishin Financial Holding are not necessary to restate consolidated financial statements for the year ended December 31, 2006.
PayEasy Digital	PayEasy Travel Agency Co., Ltd. ("PayEasy Travel")	100.00	No	No	PayEasy Travel Agency was an equity method investee of PayEasy Digital as of December 31, 2007 and 2006. Because its capital only accounted for 0.02% of the consolidated capital. Neither its total assets nor operating income reached 0.03% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
PayEasy Digital	PayEasy Travel Agency Co., Ltd. ("PayEasy Travel")	99.00	No	No	PayEasy Travel Agency was an equity method investee of PayEasy Digital as of December 31, 2007 and 2006. Because its capital only accounted for 0.02% of the consolidated capital. Neither its total assets nor operating income reached 0.03% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Anew Holdings	TSC Capital Limited ("TSC Capital")	100.00	No	No	TTSC Capital Limited was an equity method investee of Anew Holdings as of December 31, 2007 and 2006. Because its capital only accounted for 0.13% of the consolidated capital. Neither its total assets nor operating income reached 0.08% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Anew Holdings	Tai Chen (BVI)	100.00	No	No	Tai Chen (BVI) was an equity method investee of Anew Holdings as of December 31, 2007 and 2006. Because its capital was less than 0.06% of the consolidated capital. Neither its total assets nor operating income reached 0.06% of consolidated total assets and operating income. It was not included in the consolidated financial statements.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, Guidelines Governing the Preparation of Financial Report by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC"). In preparing the consolidated financial statements in conformity with these regulations, guidelines and principles, management may make certain estimates and assumptions, which could affect some of the financial instrument valuation, allowance for bad debts, depreciation of property and equipment, pensions, income tax, asset impairment loss, reserve for losses or guarantees, etc. Actual results could differ from these estimates due to changes in operating conditions and assumptions.

For the convenience of readers, the accompanying consolidated 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 consolidated financial statements shall prevail.

The significant accounting policies of Taishin Financial Holding and subsidiaries are summarized as follows:

### **Current/Noncurrent Assets and Liabilities**

Except for Taishin Bank and Chang Hwa Bank, assets and liabilities are classified into current and noncurrent based on their liquidity. Cash and cash equivalents and assets which are expected to be realized within one year from the balance sheet date are classified as current assets. All other assets such as property and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent. Because of banking business characteristics, assets and liabilities of Taishin Bank and Chang Hwa Bank are classified according to their nature and the sequence of liquidity rather than as current or noncurrent assets or liabilities.

As the banking companies account for a substantial portion of the total consolidated assets and liabilities, the consolidated assets and liabilities are classified in the consolidated financial statements according to their nature and the sequence of liquidity.

## VI. Financial Statements

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### Cash and Cash Equivalents

Cash and cash equivalents, consisting of cash in vault, working funds, post-dated checks for clearance, unrestricted deposits, and other financial institution's instruments, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

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

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. Taishin Financial Holding and subsidiaries recognize a financial asset or a financial liability on their balance sheets when Taishin Financial Holding and subsidiaries become a party to the contractual provisions of the financial instrument. A financial asset is derecognized when Taishin Financial Holding and subsidiaries have lost control of their contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. At each balance sheet date subsequent to issue of initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. For securities companies, all regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. For banks and bills companies, all regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis except for stocks and beneficial certificates which are recognized and derecognized on a trade date basis.

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

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - before September 30, 2007, at prices quoted by Grand Cathay Securities Corporation and Bloomberg, and after September 30, 2007, at prices quoted by the Taiwan GreTai Securities Market ("GTSM" or the Taiwan's Over-the-Counter Securities Exchange) and



Bloomberg; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Financial assets and liabilities designated upon initial recognition as at FVTPL include (a) compound financial instruments; and (b) financial assets or liabilities which have been designated to record at fair value upon initial recognition and for the purpose of eliminating major differences caused by inconsistent accounting process. In addition, a portfolio of financial assets, financial liabilities or its component which are managed by the risk control and investment policy of the company is designated as financial instruments at FVTPL.

### **Bonds and Securities Purchased/Sold under Specific Agreements**

Bonds and securities purchased under resell agreements are recorded at purchase price and are accounted for as financing transactions. Bonds and securities sold under repurchase agreements are recorded at sale price. Interest revenue and expenses are recorded on accrual basis.

### **Credit Facilities Receivable**

The cost of credit receivable acquired from financial institutions is recognized as the sum of acquisition cost and other necessary expenditures. The gain or loss from recovery or settlement of credit receivable is recognized based on cost-recovery method and cash basis. If the credit receivable is recovered by foreclosing the mortgage, the difference between the book value of credit receivable and the market value of the collateral will be deferred recognition of gain or loss until the collateral is sold. The cost incurred in the period of acquisition and resale is recorded as current operating expenses. Allowances for bad debts are calculated at period end based on the estimated uncollectibility of such credit receivable.

### **Delinquent Loans**

Overdue loans or other credit items including their accrued interest receivables are reclassified to delinquent loans when approved by the board of directors according to the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts.

The delinquent loans which are reclassified from loans are reported under loans, while others are reported as other miscellaneous financial assets.

### **Allowance for Loan Losses and Reserve for Guarantees**

Allowance for bad debts and reserve for guarantees of banks and bills companies are estimated based on the uncollectibility of specific loans, receivables, delinquent loans, other financial assets and guarantees as well as the uncollectibility of the overall credit portfolio referred to above.

## VI. Financial Statements

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Management of the banks and the bills companies assesses collectibility of the credit portfolio based on the borrowers'/clients' delinquent status and financial condition in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans and Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserve, and Handle Non-performing Credit, / Non-accrual Loans, and Bad Debt.

The regulations classify deteriorating loans into the "special mentioned", "substandard", "doubtful", and "uncollectible" categories. Provisions should be made at 2%, 10%, 50%, and 100% for each loan category, respectively, as the minimum standard of allowances for bad loans and guarantees.

Unrecoverable portions of delinquent loans are written off upon approval of board of directors. Recovery of delinquent loans previously written off is recognized as recovery of allowance for loan losses.

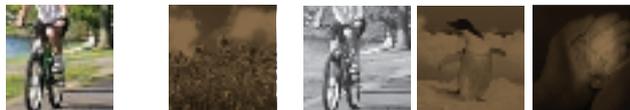
Consolidated entities other than banking institutions and bills companies assess their allowance for receivables based on their estimated recoverable amounts.

### **Available-for-Sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period. For securities companies, all regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. For banks and bills companies, all regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis except for stocks and beneficial certificates which are recognized and derecognized on a trade date basis.

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

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



## Financial Asset Securitization

According to the Statute for Financial Asset Securitization, mortgage loans, credit cards receivable and their related rights owned by the original institution can be transferred to a specific purpose trust for issuing beneficiary certificates and funds raised from such issuance should be transferred to the original institution. Under such structure, controls over the contractual rights of such financial assets had been transferred to the buyers of the beneficiary certificates, except for subordinated beneficiary securities issued for the purpose of credit enhancement. Therefore, the transferred financial assets are derecognized and any resulting gains or losses are recognized in the profit or loss.

Difference between the carrying amount and selling price of the loans is recognized as gain or loss. The carrying amount is allocated between the assets sold and the retained interests based on their fair market values on the date of transfer. Because there is no market price for the sold asset and the retained right, fair value is assessed by making the best estimate of loss rate on the creditor's right, advanced principal repayment rate and discount rate of related risks to project the present value of future cash flows.

Interest income is recognized when interest is received from the trustee institutions. The value of subordinate beneficiary securities is evaluated at the present value of future cash flow on the balance sheet date.

## Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a settlement date basis.

## Investments Accounted for by the Equity Method

Investments in which Taishin Financial Holding holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

Prior to January 1, 2006, the difference between the acquisition cost and the investor's proportionate share in the investee's equity was amortized by the straight-line method in five to twenty years. Effective January 1, 2006, pursuant to the revised SFAS No. 5 "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the investor's share of the fair value of the identifiable net assets acquired is recognized as goodwill. Such goodwill is not amortized but instead is tested for impairment annually or whenever there are indications that the investments are impaired.

## VI. Financial Statements

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Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized.

When the investor subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the investor records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings. The investor records the change in its equity in the investee's cumulative translation adjustments and other item of stockholders' equity as an adjustment to investments.

### Other Financial Assets

Financial assets carried at cost are investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets.

Bond investments with no active market are bond investments with fixed or determinable payments and with no quoted prices in an active market are carried at amortized cost using the effective interest method. The accounting treatment for such bond investments is similar to that for held-to-maturity financial assets, except for the absence of restriction on the timing of their disposal.

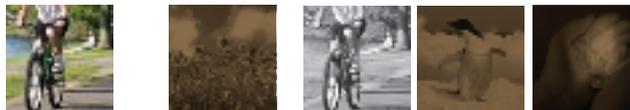
### Property, Equipment, Leased Asset and Idle Asset

Property, equipment, leased asset and idle asset are stated at cost less accumulated depreciation. Major additions and improvements to these assets are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is calculated using the straight-line method over the assets' useful lives based on guidelines prescribed by the government, and leasehold improvements are amortized over the lease terms. The related costs (including revaluation increment), accumulated depreciation, and any unrealized revaluation increment of an item of property and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in other gains and losses other than interest income or expense in the year of disposal.

### Goodwill

Goodwill arising on acquisition of companies was previously amortized over the estimated life of



five to twenty years based on a straight-line basis. Effective January 1, 2006, based on a newly released SFAS No. 25 "Accounting for Merger under Purchasing Method", goodwill is no longer amortized and instead is tested for impairment annually.

### **Deferred Assets and Other Assets**

Deferred charges which include computer software and other deferred assets and belong to intangible assets are amortized on a straight-line basis over the related service lives.

### **Assumed collaterals and residuals are recorded at cost.**

According to the Criteria Governing the Preparation of Financial Reports by Securities Firms, the accounts related to consigned trades are reclassified as debit item for consigned trades (including bank settlement account, proceeds receivable of securities purchased for customers, settlement prices, settlement accounts receivable, and margin transactions) and credit item for consigned trades (including price payable of securities sold for customers, settlement accounts payable, marginal and securities borrowers payable), respectively, and are reported at net amounts.

### **Impairment of Assets**

If there is an objective evidence of impairment, impairment loss on available-for-sale financial assets is recognized. In subsequent periods, the recovery of impairment loss of equity investments is recognized as other items of stockholders' equity; the recovery of impairment loss of debt investments is recorded in net income or loss for the period if the recovery can be objectively related to an event occurring after the loss was recognized.

If there is an objective evidence of impairment, impairment loss of held-to-maturity financial assets and investments in bonds which are not actively traded in market is recognized. In subsequent periods, the recovery of impairment loss is recorded in net income or loss for the period if the recovery can be objectively related to an event occurring after the loss was recognized. However, the book value after the loss reversal should be less than the book value if no impairment has happened.

If there is an objective evidence of impairment, the impairment loss of financial assets carried at cost is recognized and cannot be reversed thereafter.

Assets which are adopted SFAS No. 35 are tested for impairment annually or whenever there is an indication that the assets may be impaired, except for financial assets mentioned above. If evidence of impairment does exist and the recoverable amount of an asset or cash-generating units ("CGU") is estimated to be less than its carrying amount, the carrying amount of the asset or DGU is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revaluated amount. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may

## VI. Financial Statements

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not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. An reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revaluated amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

Annual impairment evaluation should be conducted for goodwill regardless of whether indication of the impairment loss exists or not. An impairment loss is recognized when recoverable amount is less than its carrying amount. A reversal of an impairment loss on goodwill is disallowed.

### Stock-based Compensation

Employee stock option plans with a grant or amendment date on or after January 1, 2004 is accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the intrinsic value method, under which compensation cost is recognized on a straight-line basis over the vesting period.

### Pension Cost

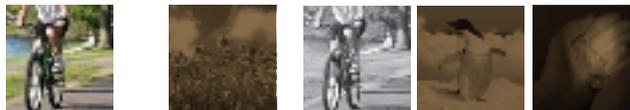
Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the period in which employees render services.

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

### Convertible Bonds

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

For convertible bonds issued on or after January 1, 2006, original issue price less the value of solely-measured liability and embedded derivatives will be taken as value for equity component if bondholders want to convert bonds to specific number of common stock with specific price or amount of bonds. The liability component other than derivative is measured by amortized cost under effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Company uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common



shares issued.

Transaction costs of convertible bonds issued on or before December 31, 2005 are recorded as deferred expenses and are amortized on a straight-line basis over the year from the issue date of the bonds to the date the put option becomes exercisable. Pursuant to a newly released SFAS, transaction costs of bonds issued on or after January 1, 2006 are allocated in proportion to the liability and equity components of the bonds. Transaction costs allocated to the equity component are accounted for as a deduction from equity, net of any income tax benefit.

### **Treasury Stock**

Treasury stock is stated at cost and shown as a reduction in shareholders' equity.

Gains on sales of treasury stock should be recorded as "capital surplus - treasury stock," and losses may be offset against capital surplus resulting from other treasury stock transactions. If capital surplus is not enough for this offset, the remaining loss is offset against unappropriated retained earnings.

When treasury stock is cancelled, the book value is reversed to offset capital stock and additional paid-in capital by the percentage of shares cancelled. If the book value of treasury stock exceeds the total of capital stock and additional paid-in capital, the difference is charged to additional paid-in capital from prior treasury stock transactions. If additional paid-in capital is not enough for this offset, the remaining loss is offset against unappropriated retained earnings. If the book value of treasury stock is lower than the total of capital stock and additional paid-in capital, the difference is credited to the additional paid-in capital from prior treasury stock transactions.

Based on SFAS No. 30 "Accounting for Treasury Stocks", the shares of Taishin Financial Holding held by its subsidiaries should be regarded as treasury stocks when the Company recognizes the investment income or loss of subsidiaries on preparation of its financial statements.

### **Foreign Currency Transactions and Related Translation of Financial Statements**

Non-derivative transactions negotiated in foreign currencies are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by applying prevailing exchange rates when foreign currency receivables and payables are settled are credited or charged to income. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. On the balance sheet date, foreign-currency monetary assets and liabilities are restated at the exchange rates prevailing on the balance sheet date, and resulting gains or losses are credited or charged to current income.

For the long-term investment in foreign currency valued under equity method, any currency

## VI. Financial Statements

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exchange gains or losses are recognized as cumulative translation adjustments to stockholders' equity.

### Income Recognition

Income is recognized in accordance with SFAS No. 32 "Accounting for Income Recognition".

Loans are recorded at outstanding principal amounts. The interest income on loans is recognized on an accrual basis. When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to delinquent loan accounts and the accrual of interest income is ceased. Interest income will be recognized when the delinquent interest is collected. According to the regulations issued by MOF, if the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue and recognized as income when collected.

Brokerage commission, gain on sale of securities and futures commission are recognized on the trading day.

Interest on margin loans and bonds purchased under resell agreements is accrued according to the term stated in the financing and trading contract.

Purchasing commission is recognized when the commission is received; underwriting commission is recognized at the completion of the underwriting contracts.

Income from credit receivable acquired from financial institutions is recognized based on cost-recovery method when recovered amounts exceed costs of loans.

Other operating income are estimated on an accrual basis and recognized when income is realized or realizable according to the contracts.

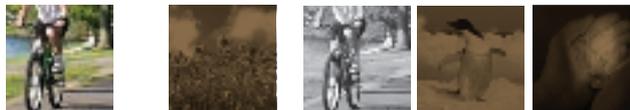
### Income Tax

The inter-year and intra-year tax allocations are applied for income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustment of prior years' income tax payable is recognized as current income tax expense.

According to the Income Tax Law, an additional 10% income tax is levied on distributable earnings earned in the current year that remain undistributed after the stockholders' meeting



held in the following year. The levied income tax should be recorded as current period income tax expense in the year the stockholders' meeting is held.

Taishin Financial Holding and its more than 90% owned subsidiaries adopt the linked-tax system for tax filings. Differences between current and deferred income tax expenses on consolidated entity basis and those on nonconsolidated entity basis are adjusted in Taishin Financial Holding's income tax expenses. Related reimbursement and appropriation are recognized as receivables or payables.

### **Reclassifications**

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2006 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2007.

## **3.EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES**

### **Adoption of New and Revised Standards**

#### SFAS No. 37, "Accounting for Intangible Assets"

On January 1, 2007, the Company adopted the newly released SFAS No. 37, "Accounting for Intangible Assets" and reassessed the useful lives of and the amortization method for its recognized intangible assets as of the same date. The adoption influence on the consolidated financial statements was insignificant.

#### SFASs No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Presentation and Disclosure"

Taishin Financial Holding and subsidiaries has adopted SFASs No. 34 "Financial Instruments: Recognition and Measurement", No. 36 "Financial Instruments: Presentation and Disclosure" and the related amendments to other SFASs since January 1, 2006.

According to the newly published or amended SFASs, Taishin Financial Holding and subsidiaries reclassified their financial assets and liabilities (including derivatives). Any adjustment related to financial instruments at fair value through profit or loss was recorded as cumulative effects of changes in accounting principles. Adjustment related to available-for-sale financial instruments was recorded as adjustment of stockholders' equity.

## VI. Financial Statements

The effects of adoption of the above SFASs were summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Income Tax )	Recognized as a Separate Component of Shareholders' Equity (Net of Income Tax )
Financial assets at FVTPL	\$ 780,431	\$ -
Available-for-sale financial assets	-	2,377,679
Held-to-maturity financial assets	11,781	-
Financial liabilities at FVTPL	(51,823)	-
Bonds payable	2,321	-
	<u>\$ 742,710</u>	<u>\$ 2,377,679</u>

Taishin Financial Holding and subsidiaries hold numerous financial instruments due to the nature of its industries and the reclassifications and valuation method used for these financial instruments prior to adoption of the abovementioned SFASs are substantially different. Accordingly, the impact on the consolidated net income for the year ended December 31, 2006 upon adoption of these new SFASs has not been disclosed as the amount cannot be practicably quantified.

SFASs No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements,” No. 5 “Long-Term Investments Accounted for by the Equity Method,” and No.25 “Business Combinations - Accounting Treatment under Purchase Method”

Taishin Financial Holding and subsidiaries adopted the recently revised SFASs No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements,” No. 5 “Long-Term Investments Accounted for by the Equity Method,” and No. 25 “Business Combinations - Accounting Treatment under Purchase Method” since January 1, 2006. Based on these revised SFASs, investment premiums, representing goodwill, are assessed for impairment instead of being amortized. The adoption of these revised SFASs resulted in decrease in consolidated net loss by \$1,660,670 thousand, no cumulative effect of changes in accounting principles, and decrease in after-tax loss per share by \$0.31 for the year ended December 31, 2006.

## 4. CASH AND CASH EQUIVALENTS

	December 31	
	2007	2006
Cash on hand	\$ 13,079,395	\$ 13,286,222
Checks for clearing	8,422,955	25,691,829
Due from banks	14,769,585	19,145,101
Others	1,326,893	1,724,871
	<u>\$ 37,598,828</u>	<u>\$ 59,848,023</u>



## 5. DUE FROM CENTRAL BANK AND CALL LOANS TO BANKS

	December 31	
	2007	2006
Reserve for checking account	\$ 30,303,694	\$ 9,960,493
Reserve for demand account	40,800,387	40,504,825
Reserve for foreign deposit	4,957,898	131,111
Call loans to banks	<u>79,082,970</u>	<u>101,636,245</u>
Certificate of deposits issued by the Central Bank	91,740,000	55,140,473
Others	<u>286,020</u>	<u>328,444</u>
	<u>\$ 247,170,969</u>	<u>\$ 207,701,591</u>

Taishin Bank and Chang Hwa Bank are required to maintain reserve balances in the Central Bank. These reserves amounted to \$76,061,979 thousand and \$50,596,429 thousand as of December 31, 2007 and 2006, respectively.

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

	December 31	
	2007	2006
Trading-purpose financial assets		
Investment in bills	\$ 30,043,204	\$ 48,973,944
Quoted stocks and mutual funds	3,043,804	6,817,753
Government bonds	9,436,384	11,919,678
Corporate bonds, bank notes and other bonds	8,628,862	12,124,266
Asset backed securities	-	2,777,444
Trading securities		
Dealing	6,762,678	12,617,123
Underwriting	2,071,736	848,657
Hedging	311,412	1,360,650
Futures	206,258	497,458
Forward exchange contracts	2,332,040	472,885
Currency swaps	852,134	1,369,519
Interest rate swaps	12,638,306	11,077,177
Cross-currency swaps	225,676	611,626
Currency options	536,585	343,316
Interest rate options	377,175	664,896
Asset-swap options	296,410	696,824
Equity-security options	122,991	247,202
Equity-linked swaps	206,860	326,346
Credit default swaps	366,489	105,094
Others	<u>111,703</u>	<u>202,447</u>
	<u>78,570,707</u>	<u>114,054,305</u>
Financial assets designated upon initial recognition at fair value through profit or loss		
Interest-rate combination instruments	<u>2,564,935</u>	<u>2,129,546</u>
	<u>\$ 81,135,642</u>	<u>\$ 116,183,851</u>

## VI. Financial Statements

For financial assets at FVTPL pledged as collaterals as of December 31, 2007 and 2006, please refer to Note 34.

For trading securities - dealing, bonds of \$5,060,620 thousand and \$9,440,000 thousand as of December 31, 2007 and 2006, respectively, are provided for transactions with repurchase agreements.

	2007	2006
Trading - purpose financial liabilities		
Forward exchange contracts	\$ 2,087,705	\$ 328,511
Currency swaps	572,544	1,061,220
Interest rate swaps	12,801,971	11,670,396
Cross-currency swaps	250,489	561,609
Currency options	13,765	294,921
Interest rate options	501,878	926,529
Asset-swap options	105,882	445,749
Equity-security options	514,881	17,679
Warrants	64,479	455,061
Equity-linked swaps	207,114	326,382
Others	620,329	663,889
	<u>\$ 17,741,037</u>	<u>\$ 16,751,946</u>

Taishin Bank engages in various derivative instruments to fulfill customers' needs, as well as to manage Taishin Bank's asset and liability positions and credit risk.

Chang Hwa Bank engages in various derivative instruments to eliminate the risk arising from exchange rate and interest rate fluctuations in the market. The purpose of Change Hwa Bank's hedging strategy is to eliminate the market price risk and cash flow risk.

The nominal principal amounts of outstanding derivative contracts as of December 31, 2007 and 2006 were as follows:

	2007	2006
Outstanding derivative contracts		
Trading-purpose		
Forward exchange contracts	\$ 364,398,189	\$ 83,913,996
Currency swaps	184,692,627	219,336,143
Interest rate swaps and asset swaps	1,511,343,632	1,446,225,669
Cross-currency swaps	25,466,682	38,031,446
Forward interest rate agreements	7,988,600	8,300,000
Futures	547,806	3,566,186
Future index options	3,651	72,918
Currency options	104,195,938	48,121,900
Interest rate options	167,642,981	197,849,287
Bond options	1,500,000	3,000,000
Equity-security options	3,680,685	4,513,617
Commodity options	1,433,916	801,862
Credit default swaps	13,331,379	13,787,912
Equity-linked swaps	3,464,653	5,283,225
Commodity swaps	958,626	-



The balance of trading-purpose interest rate swaps as of December 31, 2007 and 2006, includes the embedded interest rate swaps with notional amount of \$12,500,000 thousand and \$17,100,000 thousand, respectively, which were separated from hybrid instruments by Taishin Bank according to SFAS No. 34 "Accounting for Financial Instruments."

## Warrants

Details of warrants issued by Taiwan Securities are as follows:

	December 31	
	2007	2006
Warrants issued	\$ 3,788,121	\$ 782,893
(Loss) gain on change in fair value	(2,791,551)	250,871
Market value	996,57	1,033,764
Repurchased warrants	2,012,174	581,196
Loss on change in fair value	(1,080,083)	(2,493)
Market value	932,091	578,703
	<u>\$ 64,479</u>	<u>\$ 455,061</u>

Taiwan Securities issued American warrants, which are exercisable within six months after listing on market and will be settled in cash or in securities at the option of Taiwan Securities.

## 7. RECEIVABLES, NET

	December 31	
	2007	2006
Notes and accounts receivable	\$ 69,450,301	\$ 63,473,010
Margin loans receivable	23,212,565	20,055,312
Acceptance receivable	9,560,336	10,327,780
Revenue receivable	142,333	237,933
Interest receivable	8,339,528	9,174,723
Tax refund receivable	2,052,652	2,378,483
Other receivables	7,234,142	6,074,439
Less: allowance for receivables	(859,668)	(884,138)
	<u>\$ 119,132,189</u>	<u>\$ 110,837,542</u>

## 8. LOANS

The details of loans are as follows:

	December 31	
	2007	2006
Negotiated	\$ 4,481,006	\$ 3,992,877
Overdrafts	1,821,360	2,010,529
Discounts	4,504,645	4,700,624
Short-term loans	426,309,560	399,675,715
Medium-term loans	416,824,944	408,613,146
Long-term loans	604,895,454	559,556,051
Delinquent loans	26,496,082	27,637,644
Gross loans	1,485,333,051	1,406,186,586
Less: allowance for loan losses	(19,125,037)	(25,812,184)
	<u>\$ 1,466,208,014</u>	<u>\$ 1,380,374,402</u>

## VI. Financial Statements

Allowance for loan losses is as follows:

	Year Ended December 31, 2007			
	Receivables	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio	Total
Balance, January 1, 2007	\$ 884,138	\$ 14,088,848	\$ 11,723,336	\$ 26,696,322
Reclassification at beginning of the year	-	1,734,096	-	1,734,096
Provision (reversal of provision) for loan losses	354,668	11,619,216	349,022	12,322,906
Reclassification during this year	5,611	(11,382)	5,771	-
Loans written off	(912,628)	(28,890,132)	(3,030)	(29,805,790)
Recovery of loans previously written off	527,860	9,262,637	-	9,790,497
Reclassified as other financial assets	-	(755,033)	-	(755,033)
Others	<u>19</u>	<u>2,166</u>	<u>(478)</u>	<u>1,707</u>
Balance, December 31, 2007	<u>\$ 859,668</u>	<u>\$ 7,050,416</u>	<u>\$ 12,074,621</u>	<u>\$ 19,984,705</u>

	Year Ended December 31, 2006			
	Receivables	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio	Total
Balance, January 1, 2006	\$ 1,623,045	\$ 6,375,152	\$ 30,482,460	\$ 38,480,657
Reclassification at beginning of the year	-	152,210	-	152,210
Provision (reversal of provision) for loan losses	8,729,603	37,498,303	(14,607,090)	31,620,816
Reclassification during this year	(28,563)	4,172,065	(4,143,502)	-
Sale during this year	(710,377)	(2,882,895)	-	(3,593,272)
Loans written off	(8,736,364)	(39,466,202)	-	(48,202,566)
Recovery of loans written off	6,849	10,001,955	-	10,008,804
Reclassified as other financial assets	-	(1,734,096)	-	(1,734,096)
Others	<u>(55)</u>	<u>(27,644)</u>	<u>(8,532)</u>	<u>(36,231)</u>
Balance, December 31, 2006	<u>\$ 884,13</u>	<u>\$ 14,088,848</u>	<u>\$ 11,723,336</u>	<u>\$ 26,696,322</u>

Details of provision for loan losses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Provision for receivable and loan losses	\$ 12,322,906	\$ 31,620,816
(Reversal of reserve) reserve for guarantees	<u>(191,736)</u>	<u>107,986</u>
	<u>\$ 12,131,170</u>	<u>\$ 31,728,802</u>



## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2007	2006
Investment in bills	\$ 7,412,917	\$ -
Domestic quoted stocks	1,522,200	5,031,597
Government bonds	40,117,060	40,230,143
Corporate bonds and bank notes	51,193,227	45,424,871
Asset backed securities	5,288,891	2,713,003
Mutual funds	<u>615,346</u>	<u>710,051</u>
	<u>\$ 106,149,641</u>	<u>\$ 94,109,665</u>

For available-for-sale financial assets pledged as collaterals as of December 31, 2007 and 2006, please refer to Note 34.

The recoverable amount of bond investment was estimated to be less than its carrying amount, accordingly, Taishin Financial Holding and subsidiaries recognized impairment loss of \$2,163 thousand for the year ended December 31, 2006.

Asset backed securities were from the securitization transactions of mortgage loans and credit card receivables entrusted by Taishin Bank in the first quarter of 2004 and in the second quarter of 2005, respectively. In the two sales, Taishin Bank reserved D asset backed securities with carrying value of \$339,512 thousand and \$400,000 thousand, respectively. In addition, Chang Hwa Bank also entrusted its mortgage loans to other bank in the fourth quarter of 2004 and reserved D asset backed securities with carrying value of \$375,056 thousand. In response to the drastic market change in credit card business, Taishin Bank entrusted more credit card receivables to the credit card trust accounts and subscribed for all the asset backed securities "D" amounting to \$1,600,000 thousand issued by the specific trust for the year ended December 31, 2006.

### Taishin Bank - Information on Asset Backed Securities of Entrusted Mortgage Loans

In the first quarter of 2004, Taishin Bank entrusted mortgage loans with a carrying value of \$4,724,512 thousand to Deutsche Bank - Taipei Branch, which will issue asset backed securities on these loans, with terms from March 30, 2004 to June 21, 2026

Security Features	A	B	C
Issue amount	\$3,850,000	\$350,000	\$185,000
Issue price	Face value	Face value	Face value
Interest rate per annum	ARMS* rate on the interest-determination date plus 0.25%. If securities are not redeemed by the issuer on the first exercise date, the interest rate will plus additional 0.125%.	ARMS rate on the interest-determination date plus 0.60%. If securities are not redeemed by the originator on the first exercise date, the interest rate will plus additional 0.30%.	ARMS rate on the interest-determination date plus 0.85%. If securities are not redeemed by the originator on the first exercise date, the interest rate will plus additional 0.425%.

\*Note: "ARMS" means adjustable rate mortgages.

## VI. Financial Statements

Taishin Bank holds D securities, with face value of \$339,512 thousand, and the right to claim residual interests after paying fixed interests of A, B, and C securities. If the borrowers are not able to repay the loans on maturity, investors and Deutsche Bank - Taipei Branch do not have recourse to Taishin Bank's other assets. The right to claim loan principal follows the investors' rights, and its value depends on the credit risks, advanced principal payments and interest risks on the principal transferred.

### (a) Assumptions used to evaluate retained interests

Basic assumptions used to evaluate retained interests on entrustment day in 2004 are as follows:

	<b>Rights to Residential Mortgages</b>
Projected principal repayment rate (% per annum)	20.00%
Estimated weighted average number of years	15.58
Estimated loss rate of credit (% per annum)	1.42%
Discount rate of remaining cash flows (% per annum)	5.30%

### (b) Sensitivity analysis

Basic economic assumptions and influences of 10% to 20% unfavorable change in fair value are as follows:

	<b>Rights to Residential Mortgages</b>	
	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Fair value of retained interests	\$ 337,388	\$ 337,341
Discount rate of remaining cash flow (% per annum)	3.45%	3.14%
Projected principal repayment rate (% per annum)	30%	22%
Estimated weighted average number of years	11.83	12.83
Influence of 10% unfavorable change in fair value	\$ (121)	\$ (26)
Influence of 20% unfavorable change in fair value	\$ (249)	\$ (29)
Estimated loss rate of credit (% per annum)	0.60%	0.60%
Influence of 10% unfavorable change in fair value	\$ (150)	\$ (258)
Influence of 20% unfavorable change in fair value	\$ (300)	\$ (516)

(c) The loss rate of a static portfolio equals the estimated loss rate on credits because there is no actual credit loss for the securitized mortgage loans.

(d) Cash inflows from and cash outflows to securitization trustees are as follows:

	<b>Rights to Residential Mortgages</b>	
	<b>Years Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Other cash inflows from retained interests	\$ 12,561	\$ 16,843

### Taishin Bank - Information on Asset Backed Securities of Entrusted Credit Card Receivables

In the second quarter of 2005, Taishin Bank entrusted credit card receivables with a carrying value of \$11,752,793 thousand to HSBC - Taipei Branch, which will issue asset backed



securities and seller's equity securities on these receivables, with terms from May 31, 2005 to November 30, 2010.

Security Features	A	B	C
Issue amount	\$8,700,000	\$500,000	\$400,000
Issue price	Face value	Face value	Face value
Interest rate per annum	Reference rate*	Reference rate* plus 0.4%.	Reference rate* plus 0.8%.

\*Note: Reference rate is the 90-day commercial paper rate in the primary market, provided on page 51328 of the Moneyline Telerate at 11:30 am on the previous date of the interest-bearing period.

Taishin Bank holds D securities, with face value of \$2,000,000 thousand (including additional issue of D securities with face value of \$1,600,000 thousand), and the right to claim residual interests after paying fixed interests of A, B, and C security. If the borrowers are not able to repay the loans on maturity, investors and HSBC - Taipei Branch do not have recourse to Taishin Bank's other assets. The right to claim loan principal follows the investors' rights, and its value depends on the credit risks, advanced principal payments, and interest risks on the principal transferred.

(a) Assumptions used to evaluate retained interests

Basic assumptions used to evaluate retained interests on entrustment day in 2005 are as follows:

	Rights to Credit Card Receivables
Projected principal repayment rate (% per month)	17.60%
Estimated weighted average number of years	0.47
Estimated loss rate of credit (% per annum)	4.80%
Discount rate of remaining cash flows (% per annum)	25.00%

(b) Sensitivity analysis

Basic economic assumptions and influences of 10% to 20% unfavorable change in fair value are as follows:

	Rights to Credit Card Receivables	
	December 31	
	2007	2006
Fair value of retained interests	\$ 2,001,708	\$2,000,606
Discount rate of remaining cash flow (% per annum)	15.33%	18.94%
Projected principal repayment rate (% per month)	28.79%	16.04%
Estimated weighted average number of years	0.29	0.52
Influence of 10% unfavorable change in fair value	\$ (229,126)	\$(396,927)
Influence of 20% unfavorable change in fair value	\$ (458,252)	\$(793,854)
Estimated loss rate of credit (% per annum)	8.52%	10.60%
Influence of 10% unfavorable change in fair value	\$ (131,501)	\$(243,417)
Influence of 20% unfavorable change in fair value	\$ (263,001)	\$(486,834)

(c) The loss rate of a static portfolio equals the estimated loss rate on credits because there is no actual credit loss for the securitized credit card receivables.

## VI. Financial Statements

(d) Cash inflows from and cash outflows to securitization trustees are as follows:

	Rights to Credit Card Receivables	
	Years Ended December 31	
	2007	2006
Other cash inflows from retained interests	\$ 768,422	\$ 258,600
Cash reserve (recorded as refundable deposits)	-	(83,664)

### Chang Hwa Bank - Information on Asset Backed Securities of Entrusted Mortgage Loans

In December 2004, Chang Hwa Bank entrusted mortgage loans with carrying value of \$5,375,056 thousand to Deutsche Bank - Taipei Branch, which will issue asset backed securities on these loans, with terms from December 20, 2004 to August 20, 2025.

Designation	Interest rate	Class Initial Principal Amount
Class A1	0.02% + ARMS	\$ 2,365,000
Class A2	0.37% + ARMS	2,365,000
Class B	0.55% + ARMS	135,000
Class C	0.65% + ARMS	135,000
Class D	None	375,056

Chang Hwa Bank holds D securities of \$375,056 thousand as available-for-sale financial assets with the right to claim residual interests after paying fixed interest of Class A1, A2, B and C securities. If the borrowers are not able to repay the loans on maturity, investors and Deutsche Bank - Taipei Branch do not have recourse to Chang Hwa Bank's other assets. The right to claim loan principal follows the investors' rights, and its value depends on the credit risks, advanced principal payments and interest risk on the principal transferred.

(a) Assumptions used to evaluate retained interests

Basic assumptions used to evaluate retained interests on entrustment day in 2004 are as follows:

	Rights to Residential Mortgages	
	Years Ended December 31	
	2007	2006
Projected principal repayment rate (% per annum)	41%	47.5%
Estimated weighted average number of years	1.67	2.17
Estimated loss rate of credit (% per annum)	2%	2%
Discount rate of remaining cash flow	3.2%	3.2%



(b) Sensitivity analysis

Basic economic assumptions and influences of 10% to 20% unfavorable change in fair value are as follows:

	Rights to Residential Mortgages	
	December 31	
	2007	2006
Fair value of retained interest	\$ 379,430	\$ 381,521
Estimated weighted average number of years	1.67	2.17
Projected principal repayment rate	41%	47.5%
Influence of 10% adverse change in fair value	\$ (826)	\$ (21,374)
Influence of 20% adverse change in fair value	\$ (17,713)	\$ (12,111)
Estimated loss rate of credit (% per annum)	2%	2%
Influence of 10% adverse change in fair value	\$ (404)	\$ (19,679)
Influence of 20% adverse change in fair value	\$ (808)	\$ (19,000)

(c) The loss rate of a static portfolio equals the estimated loss rate on credits because there is no actual credit loss for the securitized mortgage loans.

(d) Cash inflows from and cash outflows to securitization trustees are as follows:

	Rights to Residential Mortgages	
	Years Ended December 31	
	2007	2006
Other cash inflows from retained interest	\$ 14,604	\$ 19,137
Income from securitization	8,691	10,670

## 10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31			
	2007		2006	
	Carrying Value	Ownership Interest (%)	Carrying Value	Ownership Interest (%)
Unquoted stocks				
Taiwan Securities Investment Advisory	\$ 332,215	92	\$ 337,128	92
Taiwan Managed Futures	164,302	100	170,338	100
Taishin Investment Trust Co., Ltd. ("Taishin Investment Trust")	149,006	45	135,446	45
Tai Chen (BVI)	83,189	100	66,926	100
TSC Capital	70,873	100	72,086	100
Dah An Leasing	159,037	99	158,656	99
PayEasy Travel	9,470	100	4,672	100
An Hsin Real-Estate Management Co., Ltd. ("An Hsin Real-Estate")	<u>49,543</u>	30	<u>41,350</u>	30
	<u>\$ 1,017,635</u>		<u>\$ 986,602</u>	

## VI. Financial Statements

Based on the investees' financial statements for the years ended December 31, 2007 and 2006, the amounts of investment income (loss) recognized under equity method are as follows:

	2007		2006	
	Individual Net Income (Loss)	Recognized Investment Income (Loss)	Individual Net Income (Loss)	Recognized Investment Income (Loss)
Taiwan Securities Investment Advisory	\$ 749	\$ 690	\$5,004	\$ 4,717
Taiwan Managed Futures	(6,036)	(6,036)	(7,648)	(7,640)
Taishin Investment Trust	30,129	13,560	10,552	4,748
Tai Chen (BVI)	16,818	16,818	2,024	2,024
TSC Capital	(628)	(628)	(1,148)	(1,148)
Dah An Leasing	385	381	2,733	2,706
PayEasy Travel	4,798	4,798	(4,632)	(4,632)
An Hsin Real-Estate	<u>48,705</u>	14,322	<u>35,730</u>	10,380
Taishin Venture Capital Investment Co., Ltd. (liquidated on June 13, 2006)	-	-	37,416	<u>9,217</u>
		<u>\$ 43,905</u>		<u>\$ 20,372</u>

### 12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2007	2006
Emerging market stocks	\$ 549,076	\$ 525,167
Unquoted stocks	8,632,150	9,518,094
Non-publicly traded mutual funds	<u>343,800</u>	<u>62,600</u>
	<u>\$ 9,525,026</u>	<u>\$ 10,105,861</u>

The recoverable amount of unquoted stocks was estimated to be less than the carrying value and reversal was improbable. Accordingly, impairment losses for the years ended December 31, 2007 and 2006 were \$63,681 thousand and \$762,955 thousand, respectively.

### 13. OTHER MISCELLANEOUS FINANCIAL ASSETS

	December 31	
	2007	2006
Bond investments with no active market	\$ 3,053,970	\$ 2,894,134
Customers' margin accounts	6,132,956	3,858,782
Delinquent loans reclassified from other subjects (excluding loans)	870,128	2,633,038
Less allowance for bad debt	(755,033)	(1,734,096)
Inward remittance	<u>43,815</u>	<u>64,763</u>
	<u>\$ 9,345,836</u>	<u>\$ 7,716,621</u>

The details of customers' margin accounts are as follows:

	December 31	
	2007	2006
Bank deposits	\$4,973,866	\$2,738,813
Balance in futures clearing houses		
Bank deposits	791,461	1,152,016
Receivables from (payables to) daily settlement price differences	241,922	(189,450)
Balance in settlement institutes		
Bank deposits	114,425	154,409
Gain/loss on open interests	<u>11,282</u>	<u>2,994</u>
	<u>\$ 6,132,956</u>	<u>\$ 3,858,782</u>



According to Article 70 of the Futures Trading Law, creditors of the futures commission merchants or designated institutions shall not file an attachment suit or claim any rights on the segregated customers' margin accounts.

Bank deposits refer to the account balances of customers' margin accounts keeping futures commission merchants' trading margins in the banks.

The clearing balance of the futures clearing house refers to the trading margins and rights of futures commission merchants transferred by a clearing member with its futures clearing house.

Other clearing balance of the futures commission merchants refers to the trading margins and rights of futures commission merchants transferred by a clearing non-member with its futures clearing house to those of a clearing member with its futures clearing house.

## 14. PROPERTY AND EQUIPMENT

	December 31			
		2007		2006
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 28,150,012	\$ -	\$ 28,150,012	\$ 28,237,797
Buildings	15,114,703	(3,489,586)	11,625,117	12,010,448
Machinery equipment	9,381,938	(5,330,411)	4,051,527	4,511,980
Transportation equipment	1,025,419	(764,656)	260,763	298,855
Miscellaneous equipment	2,085,690	(1,702,003)	383,687	436,036
Leasehold improvement and leased asset	1,564,419	(1,335,447)	228,972	192,877
Construction in process and machine accessories	148,994	-	148,994	228,690
Prepayments for building and equipment	<u>58,418</u>	<u>-</u>	<u>58,418</u>	<u>66,856</u>
	<u>\$ 57,529,593</u>	<u>\$ (12,622,103)</u>	<u>\$ 44,907,490</u>	<u>\$ 45,983,539</u>

For property and equipment pledged as collaterals as of December 31, 2007 and 2006, please refer to Note 34.

## 15. GOODWILL

	December 31	
	2007	2006
Goodwill from merger	<u>\$ 20,757,601</u>	<u>\$ 22,442,037</u>

Taishin Bank merged with Dah An Bank through a share swap in February 2002, in which Taishin Bank issued new shares to acquire the total assets and liabilities of Dah An Bank. The difference between the fair value of the new shares issued by Taishin Bank and the fair value of net assets acquired was recognized as goodwill. As of December 31, 2007, the unamortized amount is \$884,938 thousand with no material impairment loss noted.

Taishin AMC acquired 40% interest ownership of Taishin Real-Estate in April 2003. The difference between the purchase price and the net assets acquired was recognized as goodwill.

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As of December 31, 2007, the unamortized amount is \$4,187 thousand.

Taishin Bank acquired the net assets of the 10th Credit Cooperative of Hsin-Chu in October 2004. The acquisition price in excess of the net assets of 10th Credit Cooperative of Hsin-Chu was recognized as goodwill. As of December 31, 2007, the unamortized amount is \$267,336 thousand.

Taiwan Securities undertook all assets and liabilities of other securities firms and acquired 51% interest ownership of Shin Ze. The difference between total purchase price and net assets acquired was recognized as goodwill. Taiwan Securities sold the entire interest of Shin Ze on March 30, 2007, resulting in a decrease of goodwill amounted to \$1,847 thousand. As of December 31, 2007 and 2006, the unamortized goodwill is \$170,854 thousand and \$172,701 thousand, respectively.

In the fourth quarter of 2005 and the second quarter of 2006, Taishin Financial Holding and Taishin Bank acquired 22.81% and 2.58% interest in net assets of Chang Hwa Bank, respectively. The difference between investment cost and fair value of net assets was recognized as goodwill. The related information was as follows:

	Acquisition in the Fourth Quarter of 2005		Acquisition in the Second Quarter of 2006	
Total price paid by Taishin Financial Holding and subsidiaries		\$ 36,844,375		\$ 3,833,096
Fair value of Chang Hwa Bank's net assets	\$ 81,535,281		\$ 89,878,748	
Less equities attributed to stockholders of preferred stock - A	(6,275,753)		(6,536,466)	
Equities attributed to stockholders of common stock and preferred stock - B	75,259,528		83,342,282	
Multiplied by percentage of ownership interests acquired by Taishin Financial Holding and subsidiaries	22.81%		2.58%	
Fair value of Chang Hwa Bank's net assets acquired by Taishin Financial Holding and subsidiaries	<u>\$ 17,168,136</u>	<u>(17,168,136)</u>	<u>\$ 2,150,507</u>	<u>(2,150,507)</u>
Difference between investment cost and fair value of net assets acquired (goodwill)		<u>\$ 19,676,239</u>		<u>\$ 1,682,589</u>

The goodwill was amortized over 20 years by the straight-line method and subject to impairment test before December 31, 2005. The amortization for 2005 was \$245,953 thousand, and unamortized balance was \$21,112,875 thousand as of December 31, 2006. In the second quarter of 2007, Taishin Financial Holding sold 2.58% interest in net assets of Chang Hwa Bank originally acquired in the second quarter of 2006, resulting in a decrease of consolidated goodwill amounted to \$1,682,589 thousand. The unamortized balance was \$19,430,286 thousand as of December 31, 2007. Goodwill was no longer amortized since January 1, 2006, but was tested for impairment regularly each year. On performance of the asset impairment test, Chang Hwa Bank is taken as one cash generating unit on the basis of the consolidated



financial statements. Its operating assets, including Taishin Financial Holding's goodwill from the merger, the long-term investment under equity method and other non-operating assets are evaluated using estimated recoverable amounts determined as the higher of the value in use and fair value less costs to sell. The major assumptions in estimating the value in use are based on the historical profit performance and ability to generate cash flows in the future under normal business operations. Under the going concern assumption, the estimated cash flows in the future are discounted at the rate of cost of capital to calculate the value in use. Based on the result of the test, there is no material impairment of assets as of December 31, 2007 and 2006.

## 16. OTHER MISCELLANEOUS ASSETS

	December 31	
	2007	2006
Rental and idle assets, net	\$ 5,845,347	\$ 5,999,904
Debit item for consigned trades, net	838,954	953,010
Assumed collaterals and residuals, net	845,346	799,516
Operating deposits	838,554	724,221
Settlement funds	<u>448,799</u>	<u>443,601</u>
Others	295,715	238,811
	<u>\$ 9,112,715</u>	<u>\$ 9,159,063</u>

### Operating Deposits

#### *Taiwan Securities*

As stipulated in the Rules Governing Securities Firms, underwriters, dealers, and brokers should provide \$40 million, \$10 million and \$50 million, respectively, in the form of cash, government bonds, and/or bank notes as operating deposits to be placed in designated banks. Taiwan Securities should also provide an additional \$150 million and \$10 million as operating deposits for margin trading and branch operations, respectively, in accordance with the Regulation Governing Margins and Stock Loans by Securities Firms.

As stipulated in the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, the head office of a futures advisory firm should provide operating deposits of \$10 million for its operations and \$5 million for each of its branches.

As stipulated in the Rules Governing Futures Commission Merchants, futures dealers should have operating deposits of \$10 million for registration purposes.

As stipulated in the Criteria Governing Review of Securities Traded on Over-the-Counter Markets, Taiwan Securities should provide operating deposits of \$20 million each time it introduces warrants into the market.

## VI. Financial Statements

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As stipulated in the Criteria Governing Review of Class II Stocks Traded on Over-the-Counter Markets of the ROC, brokers should provide operating deposits of at least \$1 million for trading Class II Stocks on the GTSM exchange.

As stipulated in the GreTai Securities Market Guidelines for Securities Firms Engaged in Over-the-Counter Trading of Convertible Bond Asset Swaps and Structured Notes, a securities company should provide operating deposits according to the credit rating standard for transacting structured notes.

### ***Taishin Bills Finance***

As stipulated in Article 9 of the Rules Governing Securities Firms, futures brokers should have operating deposits to be placed in GTSM of the ROC.

### ***Taiwan Futures***

As stipulated in Article 10 of the Rules Governing the Establishment Criteria of Futures Commission Merchants, futures brokers should provide \$50 million, in the form of cash, government bonds, and/or bank notes as operating deposits to be placed in designated banks, and should also provide an additional \$10 million as operating deposits for each branch operation.

As stipulated in Article 11 of the Regulations Governing Futures Advisory Enterprises, a futures merchant should provide \$10 million as operating deposits to be placed in the designated banks when approved to engage in futures consulting services.

## Settlement Funds

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### ***Taiwan Securities***

As stipulated in the Rules Governing Securities Firms, all brokers should place \$15 million as settlement funds with the Taiwan Stock Exchange before starting trading transactions in the first year of trading and contribute a certain percentage of the transaction amounts to the fund within 10 days after the end of each quarter. In the second year, the settlement funds need to reach only \$7 million, including the previous year's contribution. If the funds accumulated until the previous year are more or less than \$7 million, the brokers can claim a refund from the Taiwan Stock Exchange or submit the shortage, respectively, at the end of January each year.

All dealers are required to deposit \$10 million as settlement fund to the Taiwan Stock Exchange before starting trading activities.

Securities firms are required to deposit \$3 million as settlement fund to the Taiwan Stock Exchange before each additional branch starts trading operations, and this deposit will be reduced to \$2 million from the second year.



## Taiwan Futures

In accordance with Taiwan Futures Exchange Corporation Criteria for Clearing Membership, settlement funds a general clearing member should provide are as follows:

Initial deposit: \$40 million.

For each additional consigned futures commission merchant: \$3 million.

For each additional new branch office of its contracted futures commission merchant or each additional consigned introducing brokers (IB) or each additional new branch office of the IB: \$1 million.

Funding rules are provided by the Taiwan Futures Exchange Corporation Clearing Committee.

## Rental and Idle Assets

	December 31	
	2007	2006
Rental land	\$ 4,964,439	\$ 5,182,355
Rental buildings	1,320,145	1,177,240
Less accumulated depreciation - rental buildings	(415,064)	(339,487)
Less accumulated impairment - rental assets	(76,604)	(76,604)
	5,792,916	5,943,504
Idle land	92,763	102,768
Less accumulated impairment - idle assets	<u>(40,332)</u>	<u>(46,368)</u>
	<u>52,431</u>	<u>56,400</u>
	<u>\$ 5,845,347</u>	<u>\$ 5,999,904</u>

For rental and idle assets pledged as collaterals as of December 31, 2007 and 2006, please refer to Note 34.

## Debit Item for Consigned Trades

	December 31	
	2007	2006
Debits		
Bank settlement account	\$ 2,457,912	\$ 1,816,768
Proceed receivable of securities purchased for customers	5,188,011	8,325,941
Settlement accounts receivable	3,867,318	4,112,261
Settlement prices	(527,189)	(3,984)
Receivable of securities sold for customers	<u>-</u>	<u>396</u>
	<u>10,986,052</u>	<u>14,251,382</u>
Credits		
Price payable of securities sold for customers	4,608,990	7,884,815
Settlement accounts payable	5,535,317	5,381,652
Marginal and securities borrowers payable	<u>2,791</u>	<u>31,905</u>
	<u>10,147,098</u>	<u>13,298,372</u>
Debit (credit) items for consigned trades, net	<u>\$ 838,954</u>	<u>\$ 953,010</u>

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### 17. DUE TO BANKS AND CENTRAL BANK

	December 31	
	2007	2006
Due to Central Bank	\$ 427,995	\$ 210,489
Due to other banks	36,317,345	40,587,855
Deposits transferred from the Postal Bureau	96,479,002	88,218,411
Call loans from other banks	72,444,480	105,304,426
Bank overdraft	<u>4,100,003</u>	<u>2,300,904</u>
	<u>\$ 209,768,825</u>	<u>\$ 236,622,085</u>

### 18. COMMERCIAL PAPER PAYABLE

	December 31	
	2007	2006
Guarantee or acceptance institution		
Mega Bills Finance	\$ 650,000	\$ 1,040,000
China Bills Finance	1,100,000	1,200,000
Ta Ching Bills Finance	500,000	500,000
Hua Nan Bills Finance	500,000	500,000
Taishin Bills Finance	900,000	-
International Bills Finance	200,000	850,000
Grand Bills Finance	350,000	30,000
Chinatrust Bills Finance	700,000	-
Taiwan Bills Finance	<u>200,000</u>	<u>-</u>
	5,100,000	4,120,000
Less discounts on commercial paper payable	<u>(6,618)</u>	<u>(7,254)</u>
	<u>\$ 5,093,382</u>	<u>\$ 4,112,746</u>

As of December 31, 2007 and 2006, interest rates for commercial paper payable ranged from 2.41% to 2.71% and 1.29% to 2.04% per annum, respectively.

### 19. PAYABLES

	December 31	
	2007	2006
Notes and accounts payable	\$ 30,342,980	\$ 36,276,330
Accrued expenses	4,564,390	4,617,290
Interest payable	8,833,182	8,440,743
Tax payable	508,434	601,551
Dividend and bonus payable	172,389	147,309
Acceptance payable	9,830,130	10,685,430
Checks for clearance payable	808,684	2,535,539
Receipts under custody payable	1,004,026	1,469,804
Guarantee deposits of security financing	1,120,115	1,837,156
Secured deposits of security financing	1,606,322	2,282,118
Other payables	<u>3,286,371</u>	<u>3,252,571</u>
	<u>\$ 62,077,023</u>	<u>\$ 72,145,841</u>



## 20. DEPOSITS

	December 31	
	2007	2006
Checking deposits	\$ 34,497,099	\$ 40,515,601
Demand deposits	255,930,750	232,254,949
Time deposits	483,165,895	420,908,740
Negotiable certificates of deposit	14,072,000	21,112,400
Savings deposits	878,793,102	911,983,458
Remittances and drafts issued	<u>2,556,948</u>	<u>1,301,221</u>
	<u>\$ 1,669,015,794</u>	<u>\$ 1,628,076,369</u>

## 21. BONDS PAYABLE

	December 31	
	2007	2006
Unsecured subordinated corporate bonds - par	\$ 33,650,000	\$ 33,650,000
Unsecured corporate bonds - par	5,000,000	5,000,000
Unsecured convertible bonds - par	7,000,000	7,000,000
Unsecured convertible bonds - discounts	(103,167)	(131,956)
Bank notes	<u>63,100,000</u>	<u>64,700,000</u>
	<u>\$ 108,646,833</u>	<u>\$ 110,218,044</u>

### Subordinated Corporate Bonds and Convertible Corporate Bonds Issued By Taishin Financial Holding

To raise working capital and enhance financial structure, Taishin Financial Holding issued unsecured subordinated corporate and convertible bonds under SFB approval. Bond issue terms are as follows:

	December 31	
	2007	2006
Unsecured Subordinated Corporate Bonds - 2003	\$ 8,000,000	\$ 8,000,000
Unsecured Subordinated Corporate Bonds - 2004 (I)	2,000,000	2,000,000
Unsecured Subordinated Corporate Bonds - 2004 (II)	5,000,000	5,000,000
Unsecured Subordinated Corporate Bonds - 2005 (I)	12,000,000	12,000,000
Unsecured Subordinated Corporate Bonds - 2005 (II)	3,650,000	3,650,000
Unsecured Subordinated Corporate Bonds - 2005 (III)	3,000,000	3,000,000
Unsecured Convertible Bonds - 2006 (par value)	7,000,000	7,000,000
Unsecured Convertible Bonds - 2006 (discount)	<u>(103,167)</u>	<u>(131,956)</u>
	<u>\$ 40,546,833</u>	<u>\$ 40,518,044</u>

## VI. Financial Statements

### **Domestic Unsecured Subordinated Corporate Bonds**

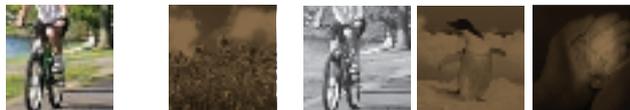
Taishin Financial Holding issued \$8 billion in unsecured subordinated corporate bonds in December 2003. Details are as follows:

Bon Item	AA	AB	AC	AD	AE	AF	AG	AH	AI	AJ	AK	AL	BA
Issue amount	4,500 million	500 million	500 million	200 million	300 million	300 million	200 million	450 million	200 million	200 million	200 million	200 million	250 million
Face value	10 or 50 million												10 million
Issue price	Par value												
Duration	2003.12.12 ~ 2010.12.12	2003.12.15 ~ 2010.12.15	2003.12.16 ~ 2010.12.16	2003.12.17 ~ 2010.12.17	2003.12.18 ~ 2010.12.18	2003.12.19 ~ 2010.12.19	2003.12.22 ~ 2010.12.22	2003.12.23 ~ 2010.12.23	2003.12.24 ~ 2010.12.24	2003.12.25 ~ 2010.12.25	2003.12.26 ~ 2010.12.26	2003.12.29 ~ 2010.12.29	2003.12.12 ~ 2010.12.12
Interest payment	From the issuance date, the interest will be accrued on fixed and simple interest rate.												From the issuance date, the interest will be paid semi-annually
Interest accrual	3.5%												The interest will be accrued on floating and simple interest rate, the first interest - determined date is on 2nd day before the issuance date, the interest should be adjusted semi-annual on the 2nd day before the interest payment date. In addition, the interest rate should not be lower than 0% and will be accrued on the basis of actual days.
Coupon rate													
Redemption on maturity:	In cash at par value.												
Other	<ol style="list-style-type: none"> <li>1. The interest payments rely on the amounts accrued by Taishin Financial Holding.</li> <li>2. The bonds are bearer, but could be converted into registered bonds upon holders' request.</li> <li>3. If Taishin Financial Holding's consolidated capital adequacy ratio (CAR) is less than the standard set under relevant regulations, Taishin Financial Holding should stop paying interest on and redeeming the bonds until the consolidated CAR conforms to the requirements.</li> </ol>												

Note: Floating rate is determined at the 90-day commercial paper fixing rate in the secondary market, provided on page 6165 of the Moneyline Telerate at 11:00 a.m. on the interest-determination day.

### **Domestic Unsecured Subordinated Corporate Bonds - 2004 (I)**

- (a) Issue amount: \$2,000,000 thousand.
- (b) Denomination: \$10,000 thousand.
- (c) Issue date: May 21, 2004.
- (d) Issue price: 100% of the principal amount of the bonds.
- (e) Maturity: 7 years from the issue date.
- (f) Coupon rate: 2.9% per annum.
- (g) Interest payment: Simple interest per annum from the issue date.
- (h) Redemption on maturity: In cash.
- (i) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meets the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).



### ***Domestic Unsecured Subordinated Corporate Bonds - 2004 (II)***

- (a) Issue amount: \$5,000,000 thousand.
- (b) Denomination: \$10,000 thousand.
- (c) Issue date: June 21, 2004.
- (d) Issue price: 100% of the principal amount of the bonds.
- (e) Maturity: 7 years from the issue date.
- (f) Coupon rate: 3.5% per annum.
- (g) Interest payment: Simple interest per annum from the issue date.
- (h) Redemption on maturity: In cash.
- (i) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meets the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

### ***Domestic Unsecured Subordinated Corporate Bonds - 2005 (I)***

- (a) Issue amount: \$12,000,000 thousand, and divided into Bond A and Bond B according to the issue dates. The total issue amount for Bond A and Bond B was \$11,500,000 thousand and \$500,000 thousand, respectively.
- (b) Denomination: \$10,000 thousand.
- (c) Maturity: Both Bond A and B mature 7 years from the issue date. Bond A was issued on September 20, 2005 and will mature on September 20, 2012. Bond B was issued on September 21, 2005 and will mature on September 21, 2012.
- (d) Issue price: Both Bond A and B were issued at 100% of the principal.
- (e) Coupon rate: 2.70% per annum for both Bond A and B.
- (f) Interest payment: Simple interest per annum from the issue date for both Bond A and B.
- (g) Redemption on maturity: In cash for both Bond A and B.
- (h) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meet the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

### ***Domestic Unsecured Subordinated Corporate Bonds - 2005 (II)***

- (a) Issue amount: \$3,650,000 thousand.
- (b) Denomination: \$10,000 thousand.
- (c) Issue date: November 15, 2005.

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- (d) Issue price: 100% of the principal amount of the bonds.
- (e) Maturity: 7 years from the issue date.
- (f) Coupon rate: 2.70 % per annum.
- (g) Interest payment: Simple interest per annum from the issue date.
- (h) Redemption on maturity: In cash.
- (i) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meets the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

### ***Domestic Unsecured Subordinated Corporate Bonds - 2005 (III)***

- (a) Issue amount: \$3,000,000 thousand.
- (b) Denomination: \$50,000 thousand.
- (c) Issue date: December 8, 2005.
- (d) Issue price: 100% of the principal amount of the bonds.
- (e) Maturity: 7 years from the issue date.
- (f) Coupon rate: "floating rate of one-year time deposit of Chunghwa Post Co., Ltd." posted on Central Bank's website at 10:30 am of two business days prior to the interest calculation period, plus 0.5%.
- (g) Interest payment: Simple interest semiannual from the issue date.
- (h) Redemption on maturity: In cash.
- (i) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meets the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

### ***Domestic Unsecured Convertible Corporate Bonds - 2006 (I)***

- (a) Issue amount: \$7,000,000 thousand.
- (b) Denomination: \$50,000 thousand.
- (c) Issue date: May 5, 2006.
- (d) Issue price: 100% of the amount of the bonds.
- (e) Maturity: 5 years from the issue date.
- (f) Coupon rate: 2.75% per annum.
- (g) Interest payment: Simple interest per annum from the issue date.
- (h) Conversion method:
  - i) Conversion object: Taishin Financial Holding's common shares.
  - ii) Conversion period:  
Except for the closed period (as defined by relevant ROC laws), bonds may be converted from after 30 days of the issue date until the 10th day before the maturity date.



iii) Pricing:

- Conversion price per share of \$19.80 dollars is determined on the pricing date.
- Taishin Financial Holding should change the conversion price in accordance with any of the events specified in the Trust Deed.

(i) Redemption at the bondholders' option: None

(j) Redemption at the Taishin Financial Holding's option:

- i) If the closing price of Taishin Financial Holding's common shares listed on the Taiwan Stock Exchange for 30 consecutive trading days exceeds 50% of the conversion price, Taishin Financial Holding may redeem the bonds at par value in cash from after three years of the issue date until the 40th day before the maturity date.
- ii) If the bonds which have been redeemed or converted were over 90%, Taishin Financial Holding may redeem the bonds at par value in cash after one month of the issue date until the 40th day before the maturity date.

(k) Redemption on maturity:

Unless previously converted, or repurchased, the bond will be redeemed in cash at par value on maturity.

According to SFAS No. 34 and No. 36, the conversion option should be separated from liabilities. Therefore, Taishin Financial Holding recognized equity and liability amounted to \$99,609 thousand and \$6,849,398 thousand, respectively. As of December 31, 2007, no option had been exercised.

## Bank Notes Issued By Taishin Bank

Taishin Bank has issued bank notes to enhance its capital ratio and raise medium to long-term operating funds. Details of the bank notes are as follows:

	December 31	
	2007	2006
Subordinated Bank Notes - 2001.10.02	\$ 5,000,000	\$ 5,000,000
Subordinated Bank Notes - 2002.01.30	5,000,000	5,000,000
Subordinated Bank Notes - 2002.07.10	-	2,700,000
Subordinated Bank Notes - 2002.11.15	-	1,900,000
Bank Notes-2003 (I)	1,000,000	1,000,000
Bank Notes-2003 (II)	900,000	900,000
Bank Notes-2003 (III)	2,100,000	2,100,000
Bank Notes-2003 (IV)	1,000,000	1,000,000
Bank Notes-2003 (V)	1,900,000	1,900,000
Bank Notes-2003 (VI)	3,200,000	3,200,000
Subordinated Bank Notes - 2004 (I)	5,000,000	5,000,000
Subordinated Bank Notes - 2005 (I)	1,508,000	1,508,000
Subordinated Bank Notes - 2005 (II)	3,300,000	3,300,000
Subordinated Bank Notes - 2005 (III)	5,000,000	5,000,000
Subordinated Bank Notes - 2005 (IV)	<u>5,192,000</u>	<u>5,192,000</u>
	<u>\$ 40,100,000</u>	<u>\$ 44,700,000</u>

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(a) 10-year bank notes amounting to \$5,000 million were issued on October 2, 2001. The interest rates are 4.05% for year one to five and 4.45% for year six to ten. Interests are payable annually. Taishin Bank has redemption right on these bank notes at par value plus accrued interest payable starting from the sixth year.

(b) 7-year bank notes amounting to \$5,000 million were issued on January 30, 2002. The interest rate is 4.00%. Interests are payable annually. The principal will be repaid on maturity.

(c) Taishin Bank issued \$2,700 million in subordinated bank notes on July 10, 2002. Terms are as follows:

Bond Item	B	C	D	E	F	G	H	
Issue Amount	600,000	500,000	500,000	500,000	200,000	200,000	200,000	
Face Value	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Issue Price	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Term	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	
Interest Payment	From the issuance date, interest is accruable quarterly and payable semiannually. The interest of the three months before maturity will be paid on the maturity date.							
Interest Accrual	The interest is accruable at simple and floating coupon rates: the first interest - determination date is on 2nd day before the issue date. From the issue date, the interest rate should be adjusted quarterly in accordance with the floating rate on the 2nd day before the interest-determination date and be accrued at a simple rate; in addition, the interest rate should not be lower than 0.00% and the interest will be accrued on the basis of actual days.							
Interest Rate	1st Year	(6.35%-Floating Rate)	(6.35%-Floating Rate)	(6.70%-Floating Rate)	4.63%	The first 18 months: 8.00%-Floating Rate From the 19th month: 6.70%-Floating Rate	(11.00%-2x Floating Rate)	4.15%
	2nd Year	(6.75%-Floating Rate)	(6.75%-Floating Rate)	(7.00%-Floating Rate)			(10.50%-2x Floating Rate)	4.15%
	3rd Year	(7.15%-Floating Rate)	(7.15%-Floating Rate)	(7.30%-Floating Rate)			(10.00%-2x Floating Rate)	If the floating rate is lower than 4.70% - the coupon rate is 4.15% - otherwise, rate is (8.85% - Floating Rate)
	4th Year	(7.55%-Floating Rate)	(7.55%-Floating Rate)	7.60%-Floating Rate	(9.50%-2x Floating Rate)			
	5th Year-Maturity date	(7.95%-Floating Rate)	(7.95%-Floating Rate)		(7.05%-Floating Rate)		(9.00%-2x Floating Rate)	
Redemption on Maturity	The bonds will be redeemed at the maturity date in cash at par value							
Other Agreements	<ol style="list-style-type: none"> <li>The interest payments are based on the amount Taishin Bank accrued amount. No overrun interest will be paid.</li> <li>The bonds are bearer bonds, which can be converted into registered bonds upon holders' request.</li> <li>The floating rate is determined at the 90-day commercial paper fixing rate in the secondary market, provided on page 6165 of the Moneyline Telerate at 11:00 am on the interest-determination day.</li> </ol>							

(d) On November 15, 2002, Taishin Bank issued 5-year bank notes with an aggregate par value of \$1,900 million. The interest rate is 5.02% minus the current interest rate for 180-day commercial paper but should not be less than 0%. The interest is payable semiannually. The principal is repayable on note maturity.



(e) Under the approval of the Ministry of Finance, Taishin Bank was authorized to issue \$15 billion in bank notes and has partially issued \$10.1 billion in bank notes as follows:

Taishin Bank made a first issue of \$1,000 million in bank notes in 2003 as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.10.08	2008.10.08	5 years	\$200 million/issuance	4.2% minus 6 months' USD LIBOR, but fixed at 4.1% in the first year. In addition, the interest rate should not be less than 0%. From the second year, interest is payable semiannually at the floating rate on the first day of each interest payment period. The floating rate is provided by the Moneyline Telerate on the re-set day at 11:00 a.m.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semiannually from the issue date.
B	2003.10.08	2008.10.08					
C	2003.10.08	2008.10.08					
D	2003.10.08	2008.10.08					
E	2003.10.08	2008.10.08					

Taishin Bank made a second issue of \$900 million in bank notes in 2003, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.11.28	2008.11.28	5 years	\$300 million	4.9% minus 6 months' USD LIBOR and the interest rate should not be less than 0%. The first interest determination date is November 28, 2003. The following interest rate, from the 2nd year to the 5th year, is recalculated at the floating rate on the 2nd day before the interest payment date, the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the reset day at 11:00 a.m.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semiannually from the issue date.
B	2003.11.28	2008.11.28					
C	2003.11.28	2008.11.28		\$200 million each			
D	2003.11.28	2008.11.28					
E	2003.11.28	2008.11.28					

Taishin Bank made a third issue of \$2,100 million bank notes in 2003, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.12.16	2008.12.16	5 years	\$200 million each	The interest rate is [2.5*(NTD CMS 5y-NTD CMS 2y)] +0.45%. "NTD CMS 5y" "NTD CMS 2y" is determined by the IRS MID rate of 5 year and 2 year NTD interest rate swap on the 2nd day before interest payment date at 11 AM, provided by PYTWD01 of Reuters on the reset day at 11:00 a.m. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semiannually from the issue date.
B	2003.12.16	2008.12.16					
C	2003.12.16	2008.12.16		\$300 million each			
D	2003.12.16	2008.12.16					
E	2003.12.16	2008.12.16					
F	2003.12.16	2008.12.16		\$200 million each			
G	2003.12.16	2008.12.16					
H	2003.12.16	2008.12.16					
I	2003.12.16	2008.12.16					

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Taishin Bank made a fourth issue of \$1,000 million bank notes in 2003, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2004.01.06	2009.01.06	5 years	\$300 million each	If the 3-month USD LIBOR is less than 1.1%, the interest rate is the 3-month USD LIBOR; if the 3-month USD LIBOR is between 1.1% and 2.05%, the interest rate is 3.80%; if the 3-month USD LIBOR is greater than 2.05%, the interest rate is 4.70% minus 3-month USD LIBOR. The 3-month USD LIBOR is determined at the 3 months' US LIBOR on the 2nd day before the interest payment date, provided by the Moneyline Telerate on the reset day at 11:00 a.m. The first interest-determination date is January 6, 2005. The following interest rates from the 2nd year to the 5th year are recalculated at the floating rate on the interest payment date, the first day of each payment period. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate quarterly and payable semiannually from the issue date.
B	2004.01.06	2009.01.06					
C	2004.01.06	2009.01.06		\$200 million each			
D	2004.01.06	2009.01.06					

The original issue terms are applicable from the issue date to July 6, 2005. Since July 6, 2005, the interest rate is determined at the 180-day commercial paper fixing rate in Taipei's secondary market on the two business dates before the interest-bearing period. The 180-day commercial paper fixing rate in the secondary market is shown on page 6165 of the Moneyline Telerate at 11:00 am (Taipei time). If the rate is not shown on page 6165 of the Moneyline Telerate, the 180-day commercial paper fixing rate in the secondary market is determined by JP Morgan Chase Bank-Taipei Branch.

Taishin Bank made a fifth issue of \$1,900 million in bank notes in 2003, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2004.03.11	2009.03.11	5 years	\$300 million	If 6-month USD LIBOR is less than 1.1%, the interest rate is 6-month USD LIBOR; if 6-month USD LIBOR is between 1.1% and 2.10%, the interest rate is 3%; if 6-month USD LIBOR is greater than 2.10%, the interest rate is 5% minus 6-month USD LIBOR. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semiannually from the issue date.
B	2004.03.11	2009.03.11		\$300 million			
C	2004.03.11	2009.03.11		\$300 million each			
D	2004.03.11	2009.03.11		\$200 million			
E	2004.03.11	2009.03.11		\$200 million	If the 6-month USD LIBOR is less than 1.1%, the interest rate is 6-month USD LIBOR; if the 6-month USD LIBOR is between 1.1% and 2.10%, the interest rate is 3.60%; if the 6-month USD LIBOR is greater than 2.10%, the interest rate is 4.50% minus 6-month USD LIBOR. The interest rate should not be less than 0%.		
F	2004.03.11	2009.03.11		\$300 million			
G	2004.03.11	2009.03.11		\$300 million			



Taishin Bank made a sixth issue of \$3,200 million in bank notes in 2003, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2004.03.26	2009.03.26	5 years	\$600 million	If the index interest rate is less than 1.1%, the interest rate is index interest rate (Note b); if the index interest rate is between 1.1% and 2.1%, the interest rate is 3.2%; if the index interest rate is greater than 2.10%, the interest rate is 4.6% minus index interest rate. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semiannually from the issue date.
B	2004.03.26	2009.03.26		\$300 million			
C	2004.03.26	2009.03.26		\$300 million	3.5% multiplied by T/N (Notes [a] and [b]), except for the 3.5% fixed rate on the first year. The interest rate should not be less than 0%.		
D	2004.03.26	2009.03.26		\$300 million			
E	2004.03.26	2009.03.26		\$200 million			
F	2004.03.26	2009.03.26		\$200 million			
G	2004.03.26	2009.03.26		\$300 million	2.8% multiplied by T/N (Notes [a] and [b]), except for the fixed 3.5% on the first six months. The interest rate should not be less than 0%.		
H	2004.03.26	2009.03.26		\$300 million	3.0% multiplied by T/N (Notes [a] and [b]), except for the 3.5% fixed rate on the first half year. The interest rate should not be less than 0%.		
I	2004.03.26	2009.03.26		\$300 million			
J	2004.03.26	2009.03.26		\$400 million	3.5% multiplied by T/N (Notes [a] and [b]), except for the 3.5% fixed rate on the first half year. The interest rate should not be less than 0%.		

Note a: (i)  $\lceil T \rceil$  : Between two interest-determination dates, the number of days with interest rate falling within the ranges of interest rates shown after item (iii) below.  
(ii)  $\lceil N \rceil$  : The number of days between two interest-determination dates.  
(iii) The interest-determination period is between nine months before and one day before the interest payment date; interest rate ranges mentioned above are as follows:

	Bank Notes C, D, E, F
Second year	1.0%-2.0%
Third year	1.0%-2.5%
Fourth year	1.0%-3.0%
Fifth year	1.0%-3.5%
	Bank Notes G, H, I
Seventh month to the end of the first year	0.75%-2.0%
Second year	1.0%-2.5%
Third year	1.0%-3.0%
Fourth year	1.0%-3.5%
Fifth year	1.0%-4.0%
	Bank Note J
Seventh month to the end of the first year	0.75%-2.0%
Second year	1.0%-2.0%
Third year	1.0%-2.5%
Fourth year	1.0%-3.0%
Fifth year	1.0%-3.5%

Note b: The indexed interest rate for bank notes A and B is calculated at the floating rate on the first day of each interest payment period. The floating rate is provided on page 3750 of the Moneyline Telerate on the reset day at 11:00 a.m. The first interest-determination date is March 26, 2004. The interest rate from the 2nd year to the 5th year is recalculated semiannually.

The indexed interest for bank notes C, D, E, F, G, H, I and J is at the floating rate on the first day of each interest payment period. The floating rate is provided on page 3750 of the Moneyline Telerate on the reset day at 11:00 a.m. The indexed interest rate between nine months before and one day before the interest payment date is calculated at the floating rate provided by the Moneyline Telerate on the reset day at 11:00 a.m. The interest rate for bank notes C to J is recalculated semiannually (except for Taishin bank notes accrued at the fixed coupon rate) in accordance with the coupon rate rule.

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- (f) Under the approval of the Financial Supervisory Commission, Executive Yuan in 2004, Taishin Bank was authorized to issue \$20 billion in bank notes as follows:

Taishin Bank made a first issue of \$5,000 million in bank notes in 2004, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
2004, first issue of bank note	2004.12.15	2014.12.15	10 years	\$5,000 million	Taishin Bank's floating interest rate for one-year time deposit plus 0.85% from the first to the fifth year and Taishin Bank's floating interest rate for one-year time deposit plus 1.85% since the sixth year. The floating rate is provided by the Central Bank on the reset day at 10:30 a.m.	\$100 million	Interest is accruable at a simple rate and payable annually from the issue date. Additional interest is not accruable if principal and interest are withdrawn after the interest date. Notes are redeemable at par value in cash on the maturity date.

Redemption policy: Taishin Bank can redeem all or part of the notes on each interest payment date at the principal value plus interest after the fifth anniversary (December 15, 2009) by notifying the holders in written form seven days before redemption. Taishin Bank can also redeem all or part of the notes on the noninterest date at the principal value plus the interest after the fifth anniversary by notifying the holders in written form two months before redemption.

Taishin Bank made a first issue of \$1,508 million in bank notes in 2005, as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2005.03.04	2015.03.04	10 years	\$1,287.5 million	Taishin Bank's floating interest rate for one-year time deposit plus 0.30% from the first to the fifth year and Taishin Bank's floating interest rate for one-year time deposit plus 0.50% since the sixth year.	\$500 thousand, \$10 million, and \$1 million	Notes are redeemable at par value in cash on the maturity date. Interest is accruable and payable annually from the issue date.
B	2005.03.04	2015.03.04		\$5,000 million	2.25% fixed interest rate from the first to the fifth year and Taishin Bank's floating interest rate for one-year time deposit plus 0.75% since the sixth year.		

Redemption policy: Taishin Bank can redeem all of the notes on each interest payment date at the principal value plus interest after the fifth anniversary (March 4, 2010) and notify the holders of redemption by posting it on Taishin Bank's website or main newspapers one month before redemption.



Taishin Bank made a second issue of \$3,300 million in bank notes in 2005 as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
2005, second issue of bank note	2005.04.28	2017.04.28	12 years	\$3,300 million	2.70% fixed interest rate from the first to the seventh year. From the eighth to twelfth year, if the holder does not exercise the put option, the rate will be Taishin Bank's interest rate for one-year time deposit plus 0.80%; if Taishin Bank does not exercise the redemption right, the rate will be Taishin Bank's interest rate for one-year time deposit plus 0.95%. The interest rate is recalculated annually.	\$10 million	Interest is accrued at a simple rate and paid annually from the issue date. Additional interest is not accrued if principal and interest are withdrawn after the interest date. Notes are redeemable at par value in cash on the maturity date, unless the redemption or put option is exercised.

i) Put option and redemption policies:

Upon the seventh, eighth, ninth, tenth and eleventh anniversaries of the note issue, if terms of exercising put option or redemption rights are satisfied, and if the noteholders exercise the put option or Taishin Bank exercises the redemption rights, the notes will be expired on current interest payment date. Taishin Bank will repay the noteholders at the principal value plus accrued interests.

ii) Terms of exercising put option or redemption rights:

The rate is provided by the Central Bank on March 10, 2012, 2013, 2014, 2015, and 2016 at 10:30 a.m. If the rate is less than or equal to 1.85%, the holders can exercise the put option; if the rate is greater than 1.85%, Taishin Bank can exercise the redemption right.

iii) Exercise of put option by the noteholders:

If terms of exercising put option are satisfied and the noteholders plan to exercise the put option, holders should notify Taishin Bank in written form within ten days after the terms are satisfied. Taishin Bank should post holders' exercise of put option on major local newspapers thirty days before current interest payment date.

iv) Exercise of redemption right by Taishin Bank:

If terms of exercising redemption right are satisfied and Taishin Bank plans to exercise the right, Taishin Bank should post it on major local newspapers within thirty days before current interest payment date.

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Taishin Bank made a third issue of \$5,000 million in bank notes in 2005 as follows:

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
2005, third issue of bank note	2005.05.18	2017.05.18	12 years	\$5,000 million	Taishin Bank's fixed interest rate for one-year time deposit plus 0.80% from the first to the seventh year and Taishin Bank's fixed interest rate for one-year time deposit plus 1.10% from the eighth year. The interest rate is recalculated annually.	\$100 million	Interest is accrued at a simple rate and paid annually from the issue date. Additional interest is not accrued if principal and interest are withdrawn after the interest date. Notes are redeemable at par value in cash on the maturity date, unless the redemption is exercised.

Redemption policy: Taishin Bank can redeem all or part of the notes on each interest payment date at the principal value plus interest after the seventh anniversary (May 18, 2012) by notifying the holders in written form seven days before redemption. Taishin Bank can also redeem all or part of the notes on the noninterest payment date at the principal value plus interest after the seventh anniversary by notifying the holders in written form two months before redemption.

Taishin Bank made a fourth issue of \$5,192 million in bank notes in 2005 as follows

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2005.06.06	2017.06.06	12 years	\$2,950 million	2.70% fixed interest rate from the first to the seventh year and 3.20% fixed interest rate from the eighth to the twelfth year.	\$100 million, \$10 million, and \$1 million, respectively	Interest is accrued at a simple rate and paid annually from the issue date. Additional interest is not accrued if principal and interest are withdrawn after the interest date. Notes are redeemable at par value in cash on the maturity date, unless the redemption or put option is exercised.
B	2005.06.06	2017.06.06		\$1,442 million			
C	2005.06.06	2017.06.06		\$800 million			

Redemption policy: Taishin Bank can redeem all or part of the notes on each interest payment date at the principal value plus interest after the seventh anniversary (June 6, 2012) by notifying the holders in written form seven days before redemption. Taishin Bank can also redeem all or part of the notes on the noninterest date at the principal value plus interest after the seventh anniversary by notifying the holders in written form two months before redemption.



## Bank Notes Issued By Chang Hwa Bank

Chang Hwa Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. Under the approval of the MOF, Chang Hwa Bank issued \$20,000 million subordinated bank notes with terms from five to ten years on March 15, 2002. On March 15, 2007 bank note-A had been redeemed on maturity, and bank note-D had also been redeemed in advance. Under the approval of the Financial Supervisory Commission, Executive Yuan on August 14, 2007, Chang Hwa Bank was authorized to issue \$10 billion bank notes and has partially issued \$5 billion subordinated bank notes with 7-year term on September 26, 2007. As of December 31, 2007 and 2006, the details of subordinated bank notes are as follows:

Bank Note	Interest Rate and Maturity Date	December 31	
		2007	2006
91-1 A	5-year term, interest payable annually, annual interest 3.30%, maturity date: March 15, 2007	\$ -	\$ 1,000,000
91-1 B	7-year term, interest payable annually, annual interest 3.85%, maturity date: March 15, 2009	4,000,000	4,000,000
91-1 C	7-year term, based on the Bank's variable one year regular savings' rate +1.00%, interest payable monthly according to actual number of days, maturity date: March 15, 2009	14,000,000	14,000,000
91-1 D	10-year term, interest payable annually, annual interest rate for the first 5 years is 3.90%, and 4.60% for the last 5 years, maturity date: March 15, 2012 (the bank notes had been redeemed in advance on March 15, 2007)	-	1,000,000
96-1 A	7-year term, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.35%, provided by Reuters Limited, maturity date: September 26, 2014	<u>5,000,000</u>	-
		<u>\$ 23,000,000</u>	<u>\$ 20,000,000</u>

## Unsecured Corporate Bonds Issued by Taishin Bills Finance

To raise working capital and enhance financial structure, Taishin Bills Finance issued unsecured corporate bonds under SFB approval. Bond issue terms are as follows:

	December 31	
	2007	2006
Unsecured corporate bonds (I)	\$ 1,200,000	\$ 1,200,000
Unsecured corporate bonds (II)	1,300,000	1,300,000
Unsecured corporate bonds (III)	1,000,000	1,000,000
Unsecured corporate bonds (IV)	1,500,000	1,500,000
	\$ 5,000,000	\$ 5,000,000

### Unsecured Bonds (I)

Item	A Bond	B Bond	C Bond	Total
Denomination	\$ 800,000	\$ 200,000	\$ 200,000	\$ 1,200,000
Issue amount	\$ 800,000	\$ 200,000	\$ 200,000	\$ 1,200,000
Rate	1.85%	1.85%	1.85%	
Issue date	June 25, 2003	June 26, 2003	June 27, 2003	
Record date	Every June 25	Every June 26	Every June 27	
Term	5 years	5 years	5 years	
Redemption on the maturity date	In cash at par value	In cash at par value	In cash at par value	

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### Unsecured Bonds (II)

Item	A Bond	B Bond	C Bond	D Bond	E Bond	F Bond	Total
Denomination	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$300,000	\$1,300,000
Issue amount	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$300,000	\$1,300,000
Rate	1.6250%	1.6251%	1.6250%	1.6251%	1.6251%	1.6250%	
Issue date	August 25, 2003	August 25, 2003	August 26, 2003	August 26, 2003	August 27, 2003	August 27, 2003	
Record date	Every August 25	Every August 25	Every August 26	Every August 26	Every August 27	Every August 27	
Term	5 years						
Redemption on maturity	In cash at par value						

### Unsecured Bonds (III)

Item	A Bond	B Bond	C Bond	D Bond	E Bond	Total
Denomination	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,000,000
Issue amount	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,000,000
Rate	2.3000%	2.3000%	2.3000%	2.3000%	2.3000%	
Issue date	November 10, 2003	November 11, 2003	November 12, 2003	November 13, 2003	November 14, 2003	
Record date	Every May 10 and November 10	Every May 11 and November 11	Every May 12 and November 12	Every May 13 and November 13	Every May 14 and November 14	
Term	5 years					
Redemption on maturity	In cash at par value					

### Unsecured Bonds (IV)

Item	A Bond	B Bond	C Bond	D Bond	E Bond	F Bond	Total
Denomination	\$300,000	\$200,000	\$300,000	\$300,000	\$200,000	\$200,000	\$1,500,000
Issue amount	\$300,000	\$200,000	\$300,000	\$300,000	\$200,000	\$200,000	\$1,500,000
Rate	2.5000%	2.4502%	2.4501%	2.4500%	2.4500%	2.4501%	
Issue date	December 26, 2003	December 29, 2003	December 29, 2003	December 29, 2003	December 30, 2003	December 30, 2003	
Record date	Every June 26 and December 26	Every June 29 and December 29	Every June 29 and December 29	Every June 29 and December 29	Every June 30 and December 30	Every June 30 and December 30	
Term	5 years						
Redemption on maturity	In cash at par value						

## 22. OTHER BORROWINGS

	December 31	
	2007	2006
Short-term unsecured borrowings	\$ 2,230,000	\$ 4,250,000
Long-term unsecured borrowings	<u>3,300,000</u>	<u>-</u>
	<u>\$ 5,530,000</u>	<u>\$ 4,250,000</u>



As of December 31, 2007 and 2006, interest rates on short-term unsecured borrowings range from 2.55% to 2.70% and 1.70% to 1.87% per annum, respectively. Interest rate on long-term unsecured borrowings is 2.58% to 2.60% as of December 31, 2007.

## 23. RESERVE FOR OPERATION AND LIABILITIES

	December 31	
	2007	2006
Reserve for guarantee liabilities	\$ 870,632	\$ 1,062,450
Reserve for default losses	302,659	287,533
Reserve for trading losses	406,155	433,200
Reserve for bad debt	<u>13,923</u>	<u>13,923</u>
	<u>\$ 1,593,369</u>	<u>\$ 1,797,106</u>

### Reserve for Default Losses

#### *Taiwan Securities and Chang Hwa Bank*

According to the Rules Governing Securities Firms, securities brokers are required to provide 0.0028% of their monthly transaction amount as reserve for contract loss until the reserve reaches \$200,000 thousand. This reserve may be used only to offset loss from brokerage trading or for items approved by the Securities and Futures Bureau.

#### *Taiwan Futures*

According to Article 16 of the Rules Governing Futures Commission Merchants, futures commission merchants are required to provide 2% of their monthly commission income as reserve for default loss until the reserve reaches the legally required level of minimum paid-in capital. This reserve may be used only to offset loss from default futures trading or for items approved by the Securities and Futures Bureau. If the reserve reaches \$200 million, an additional reserve is not required. In accordance with Letter No. (88) Tai-Tsai-Cheng-7- 108957, issued by Securities and Future Bureau on December 24, 1999, futures commission merchants need not provide this reserve from July 1, 1999 to June 30, 2003, as stipulated in Article 16 of Rules Governing Futures Commission Merchants.

### Reserve for Trading Losses

#### *Taishin Bank, Chang Hwa Bank, Taiwan Securities and Taishin Bills Finance*

Under the Rules Governing Securities Firms, securities proprietary traders are required to provide 10% of their monthly net dealing gain as reserve for security dealing losses until the reserve reaches \$200,000 thousand. Reserve may be used only to offset the dealing losses in excess of dealing gains.

## VI. Financial Statements

### Taiwan Futures

As stipulated in the Rules Governing Futures Commission Merchants, futures dealers should provide 10% of their monthly net realized dealing gain as reserve for security dealing losses until this reserve equals the operating funds. This reserve may be used only to offset dealing losses in excess of dealing gains.

### Reserve for Bad Debt

In accordance with Letter No. (88) Tai-Tsai-Cheng-7-91625, the futures commission merchants should write off or make a loss provision of bad debt equivalent to the amount of 3% sales from major operating sectors to comply with the Article 11 of the amended Sales Tax Law within four years upon the effective date of the amendment to the law, effective on July 1, 1999.

## 24. OTHER LIABILITIES

	December 31	
	2007	2006
Advance receipts	\$ 1,147,323	\$ 1,394,966
Value-added tax for land appraisal	5,642,116	5,701,075
Guarantee deposits	1,319,308	1,289,029
Accrued pension liability	2,809,271	2,648,064
Futures commission merchants' equity	6,089,285	3,813,677
Deferred income	387,835	459,288
Others	295,902	413,703
	<u>\$ 17,691,040</u>	<u>\$ 15,719,802</u>

### Futures Commission Merchants' Equity

Futures commission merchants' equity of Taiwan Securities and Taiwan Futures is as follows:

	December 31			
	2007		2006	
	Foreign Currency	New Taiwan Dollar	Foreign Currency	New Taiwan Dollar
NTD		\$ 4,789,582		\$ 3,151,230
USD	\$35,680	1,157,113	\$17,386	566,710
JPY	381,016	110,380	171,910	47,120
GBP	103	6,685	137	8,808
HKD	6,125	25,460	4,616	19,352
EUR	1	65	473	20,327
AUD	-	-	5	130
		<u>\$ 6,089,285</u>		<u>\$ 3,813,677</u>



## 25. PENSION EXPENSE

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

The pension plan under the LPA is a defined contribution pension plan. Based on the LPA, Taishin Financial Holding and subsidiaries make monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Such pension costs were \$473,266 thousand and \$472,845 thousand for the years ended December 31, 2007 and 2006, respectively.

The pension plan under the LSL is a defined benefit pension plan. Taishin Financial Holding and subsidiaries fund the retirement plan monthly at amounts equal to 2% to 15% of salaries and wages of employees who choose the pension plan under the LSL. Such pension fund is deposited in the Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity). In the pension fund monitoring committee, Taishin Financial Holding and subsidiaries recognized pension costs of \$658,159 thousand and \$736,647 thousand for the years ended December 31, 2007 and 2006, respectively. The pension cost of \$736,647 thousand for the year ended December 31, 2006 included net pension cost of \$734,897 thousand and payments from the funds of \$1,750 thousand.

Information about the defined benefit plan was as follows:

### a. Components of net yearic pension cost

	Years Ended December 31	
	2007	2006
Service cost	\$ 511,569	\$ 621,822
Interest cost	159,609	163,108
Expected return on pension funds	(76,319)	(75,010)
Amortization of net transition obligations	39,381	30,356
Amortization of unrecognized (income) losses	14,838	(664)
Transfer of pension funds	9,200	-
Curtailment or settlement income	(119)	(4,715)
	<u>\$ 658,159</u>	<u>\$ 734,897</u>

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### b. Reconciliation of funded status of the plan and the accrued pension cost

	Years Ended December 31	
	2007	2006
Benefit obligation		
Vested benefits obligation	\$ (2,684,358)	\$ (2,089,168)
Non-vested benefits obligation	(2,786,661)	(2,416,025)
Accumulated benefit obligation	(5,471,019)	(4,505,193)
Additional benefits based on future salaries	(1,967,396)	(1,735,335)
Projected benefit obligation	(7,438,415)	(6,240,528)
Fair value of pension funds	3,228,168	2,597,955
Funded status	(4,210,247)	(3,642,573)
Unrecognized net transitional obligations	47,134	63,669
Unrecognized gains or losses	1,552,697	1,092,683
Deferred pension cost	-	507
Unrecognized net loss of pension cost	-	(45,250)
Unamortized gains or loss	(7,958)	-
Additional liability	(82,070)	(21,207)
Prepaid pension cost	(108,827)	(95,893)
	<u>\$ (2,809,271)</u>	<u>\$ (2,648,064)</u>
Vested benefits	<u>\$ 3,064,155</u>	<u>\$ 2,368,307</u>

### c. Actuarial assumptions

	Years Ended December 31	
	2007	2006
Discount rate used in determining present values	2.75%	2.50%~3.25%
Future salary increase rate	2.25%~3.75%	2.00%~4.25%
Expected rate of return on plan assets	2.75%	2.50%~3.25%
Contributions to the fund	<u>\$ 636,639</u>	<u>\$ 664,632</u>
Payments from the fund	<u>\$ 83,612</u>	<u>\$ 773,174</u>

## 26. STOCKHOLDERS' EQUITY

### Common Stock and Preferred Stock

As of December 31, 2007, Taishin Financial Holding's authorized capital is \$100,000,000 thousand (10,000,000 thousand shares); registered capital is \$69,880,779 thousand, divided into 5,710,300 thousand common shares and 1,277,778 thousand preferred shares at NT\$10.00 par value. Details of outstanding capital stock as of December 31, 2007 are as follows:



	Common Stock	Preferred Stock	Total
First share swap	\$ 23,000,000	\$ 7,000,000	\$ 30,000,000
Less cancellation of preferred stock - A	-	(3,000,000)	(3,000,000)
Less cancellation of preferred stock - B	-	(4,000,000)	(4,000,000)
Second share swap	13,316,236	-	13,316,236
Capital infusion with cash	8,222,223	-	8,222,223
Convertible bonds converted to common stock	5,989,867	-	5,989,867
Issue of preferred stock - C	-	5,000,000	5,000,000
Issue of preferred stock - D	-	7,777,778	7,777,778
Stock dividends distributed	9,308,180	-	9,308,180
Less cancellation of treasury stock	(2,733,505)	-	(2,733,505)
	<u>\$57,103,001</u>	<u>\$ 12,777,778</u>	<u>\$ 69,880,779</u>

As of February 18, 2002, Taishin Financial Holding issued 2,300,000 thousand common stocks, 300,000 thousand preferred stock - A and 400,000 thousand preferred stock - Series B to acquire all the issued common stock, preferred stock - A, and preferred stock - B of Taishin Bank through a share swap at a 1:1 ratio, respectively. Preferred stock - A and preferred stock - B have been redeemed and cancelled as of September 20, 2002 and June 30, 2006, respectively.

As of December 31, 2002, Taishin Financial Holding issued 1,331,624 thousand stocks to acquire all the issued common stocks of Taiwan Securities and Taishin Bills Finance through share swaps at ratios of 1:1.2 and 1:1.3, respectively, with "1" representing Taishin Financial Holding.

As of September 22, 2003, Taishin Financial Holding had written off its own 19,219 thousand common stock held by its subsidiary, Taishin Bank, in compliance with Article 31 of the ROC Financial Holding Company Act.

As of February 16, 2006, Taishin Financial Holding's subsidiary Taishin Bank cancelled the common stock from share conversion totaling 254,131 thousand shares, which according to Article 31-2 of Financial Holding Company Law are treated as unissued shares of a company if the shares are not transferred or sold within three years as specified by law.

As of March 22, 2006, Taishin Financial Holding issued the private placement of common stock totaling \$10,000,000 thousand, 555,556 thousand shares at NT\$18 dollars per share. The rights and obligations are the same as those of common stock issued.

As of December 27, 2006, Taishin Financial Holding issued the private placement of common stock totaling \$4,000,000 thousand, 266,667 thousand shares at NT\$15 dollars per share. The rights and obligations are the same as those of common stock issued.

## VI. Financial Statements

Taishin Financial Holding's group capital adequacy ratio is 107.35% as of December 31, 2007.

As of September 28, 2005, preferred stock - C amounting to \$15,000,000 thousand (500,000 thousand shares) was issued with a cumulative, non-participating and non-convertible dividend at 3.5% per annum based on issue price, are redeemable on September 28, 2012 at NT\$30.00 per share. Preferred stock - C has preference over common stock but inferior to preferred stock - B in dividend distribution.

As of March 22, 2006, Taishin Financial Holding issued the private placement of preferred stock - D totaling 777,778 thousand shares at NT\$18 per share in the total amount of \$14,000,000 thousand. The stock dividends are fixed at 6.5% per annum based on issue price, participating, but non-cumulative. Preferred stock - D has preference over common stock but inferior to preferred stock - B and preferred stock - C. The stockholders of preferred stock D may request to convert the preferred stock - D to common stock at ratio of 1:1 three years from the issue date. Taishin Financial Holding may redeem partial or all outstanding preferred stock - D at issue price.

### Stock-Based Employee Compensation Plan

Taishin Financial Holding adopted the Stock-Based Employee Compensation Plan on March 15, 2007, August 2, 2005 and August 19, 2004 (Plan of 2007, Plan of 2005 and Plan of 2004, respectively) and recognized its compensation costs under the intrinsic value method. As of December 31, 2007 the compensation cost was \$0. Under the Plan of 2007, 2005 and 2004, Taishin Financial Holding has to grant 150,000 units, 150,000 units and 77,549 units, respectively, of stock warrant to its qualified employees. Each unit represents the right to obtain 1,000 shares of Taishin Financial Holding's common stock, and the exercise price is equal to the stock closing price on the Taiwan Stock Exchange on the grant date.

The exercise price of the employee stock warrants is subject to adjustments based on certain situations specified in the compensation plan.

Stock warrants under the Plan of 2007 can be exercised in two years from the grant date and will expire in ten years from the grant date. The exercisable percentage is as follows:

Stock-Warrants Grant Period	Percentage Exercisable	Cumulative Percentage Exercisable
2 years	15~40%	15~40%
3 years	15~40%	30~80%
4 years	15~40%	45~100%
5 years	15~40%	60~100%
6 years	15~40%	100%



Stock warrants under the Plan of 2005 can be exercised in two years from the grant date and will expire in ten years from the grant date. The exercisable percentage is as follows:

Stock-Warrants Grant Period	Percentage Exercisable	Cumulative Percentage Exercisable
2 years	20%	20%
3 years	20%	40%
4 years	20%	60%
5 years	20%	80%
6 years	20%	100%

Stock warrants under the plan of 2004 can be exercised in two years from the grant date and will expire in five years from the grant date. The exercisable percentage is as follows:

Stock-Warrants Grant Period	Percentage Exercisable	Cumulative Percentage Exercisable
2-3 years	50%	50%
3-4 years	25%	75%
4-5 years	25%	100%

The quantity and weighted-average exercise price of the stock warrants are as follows:

	Year Ended December 31, 2007				
				Unit	Weighted Average Exercise Price (Dollars)
<b>Plan of 2007</b>					
Outstanding units, beginning balance				150,000	\$ 16.50
Units forfeited				<u>3,020</u>	16.50
Outstanding units, ending balance				<u>146,980</u>	16.50
Exercisable units, ending balance				<u>-</u>	
	Years Ended December 31				
	2007		2006		
	Unit	Weighted Average Exercise Price (Dollars)	Unit	Weighted Average Exercise Price (Dollars)	
<b>Plan of 2005</b>					
Outstanding units, beginning balance	145,010	\$22.60	147,780	\$ 23.55	
Units forfeited	<u>3,610</u>	22.60	<u>2,770</u>	22.60	
Outstanding units, ending balance	<u>141,400</u>	22.60	<u>145,010</u>	22.60	
Exercisable units, ending balance	<u>28,280</u>		<u>-</u>		
<b>Plan of 2004</b>					
Outstanding units, beginning balance	66,755	\$20.60	69,049	\$ 21.20	
Units forfeited	<u>3,054</u>	20.60	<u>2,29</u>	20.60	
Outstanding units, ending balance	<u>63,701</u>	20.60	<u>66,755</u>	20.60	
Exercisable units, ending balance	<u>47,776</u>		<u>-</u>		

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Disclosures of the outstanding units of the stock warrants as of December 31, 2007 are as follows:

	Exercise Price (Dollars)	Outstanding Units	Expected Weighted Average Outstanding Period (Years)	Weighted Average Exercise Price (Dollars)	Exercisable Unit	Weighted Average Exercise Price (Dollars)
Plan of 2007	\$ 16.50	146,980	9.21	\$ 16.50	-	\$ -
Plan of 2005	22.60	141,400	7.59	22.60	28,280	22.60
Plan of 2004	20.60	<u>63,701</u>	1.63	20.60	47,776	20.60
		<u>352,081</u>				

Had Taishin Financial Holding recognized the compensation cost of its stock-based employee compensation plan under the fair value method, the related assumptions, as of December 31, 2007 would have been as follows:

Valuation Model	Binomial	Plan of 2007	Plan of 2005	Plan of 2004
Assumptions	Dividend yield	7.00%	14.48%	15.00%
	Expected price volatility	33.26%	32.65%	39.39%
	Risk-free interest rate	2.15%	1.94%	2.36%
	Expected outstanding periods	9.21 years	7.59 years	1.63 years

		December 31	
		2007	2006
Net income (loss)	As reported	\$4,089,120	\$(16,148,540)
	Pro forma	3,785,407	(16,407,608)
Basic and diluted after income tax earnings (loss) per share (in dollars)	As reported	\$0.46	\$(3.15)
	Pro forma	0.41	(3.20)

Weighted market price per unit of stock warrants granted in 2007, 2005 and 2004 is \$3.62 thousand, \$3.69 thousand and \$5.49 thousand, respectively.

### Capital Surplus

Taishin Financial Holding's capital surplus as of December 31, 2007 is \$19,389,426 thousand, which included additional paid-in capital of \$1,167,989 thousand from the unappropriated earnings of the financial institutions that swapped shares to form Taishin Financial Holding. Under Article 47-4 of the ROC Financial Holding Company Act, distribution of the portion from the original financial institutions' unappropriated earnings is not limited to the guidelines under Article 241-1 of the ROC Company Law. The additional paid-in capital in excess of par of preferred stock - D should not be capitalized in the period the preferred stock - D is outstanding.

### Distribution of Earnings and Dividend Policy

Taishin Financial Holding's Articles of Incorporation provide that earnings should be appropriated in the following order:

- (a) Payment of income taxes;



- (b) Offset of prior year's losses, if any;
- (c) Legal reserve and if needed, special reserve;
- (d) Dividends to holders of preferred stock;
- (e) 1% to 8% as bonuses to employees and 3% as remuneration to directors and supervisors;
- (f) The remainder, together with the unappropriated retained earnings of previous years, as dividends.

Taishin Financial Holding's board of directors should prepare a proposal on above item (f) for approval in the stockholders' regular annual meeting. However, under the requirements of MOF, if the group's capital adequacy ratio is less than 100%, distributions of dividends may also be restricted.

The appropriation of the 2006 loss has been approved in the meeting of stockholders as of June 15, 2007, and the stockholders decided not to distribute any dividends.

The appropriation of the 2007 earning has not been approved by the board of directors as of March 28, 2008, the date of the accompanying independent auditors' report. Information about the appropriation of earnings is available on the Market Observation Post System website of the Taiwan Stock Exchange

## 27. TREASURY STOCK

In Thousands of Shares

	Year Ended December 31, 2006			Ending Balance
	Beginning Balance	Increase	Decrease	
Stock held by subsidiaries	254,131	-	254,131	-

Based on SFAS No. 30, "Accounting for Treasury Stocks," the shares of Taishin Financial Holding held by its subsidiaries are regarded as treasury stock.

Under Articles 38 and 31 of the ROC Financial Holding Company Act, subsidiaries and investees in which a subsidiary's ownership is over 20%, and investees in which a financial holding company has a controlling interest are not allowed to hold shares of the financial holding company unless the shares resulted from conversion (shares held as a result of conversion should be disposed of or transferred within three years). Controlling interest means the financial holding company's ownership of shares with voting rights or capital stock of a bank, insurance company or securities firms is more than 25%, or the financial holding company has direct or indirect ability to designate the majority of the directors of a bank, insurance company or securities firms.

In February 2006, Taishin Financial Holding and Taishin Bank canceled 254,131 thousand shares of Taishin Financial Holding converted from share swap and thus reduced capital in

## VI. Financial Statements

accordance with Article 31-2 of the Financial Holding Company Act. Capital reduction date was February 16, 2006.

### 28. INTEREST INCOME, NET

	Years Ended December 31	
	2007	2006
Interest income		
Loans	\$ 55,634,137	\$ 60,597,080
Due from and call loans to banks	7,501,043	4,820,763
Bonds and securities purchased under resell agreements	409,896	420,887
Investment in marketable securities	7,942,906	8,982,690
Circulation interest in credit card	1,440,053	3,126,737
Asset backed securities	831,651	550,735
Margin trading	1,489,017	1,055,366
Others	<u>2,360,346</u>	<u>1,733,084</u>
	<u>77,609,049</u>	<u>81,287,342</u>
Interest expense		
Deposits	(28,270,998)	(24,556,844)
Due to and call loans from banks and Central Bank	(8,162,766)	(7,155,965)
Bonds and securities sold under repurchase agreements	(1,624,243)	(1,044,546)
Issuance of bonds and securities	(3,192,452)	(3,092,911)
Others	<u>(394,194)</u>	<u>(564,136)</u>
	<u>(41,644,653)</u>	<u>(36,414,402)</u>
	<u>\$ 35,964,396</u>	<u>\$ 44,872,940</u>

### 29. FEE AND COMMISSION INCOME, NET

	Years Ended December 31	
	2007	2006
Fee and commission income		
Fees from import and export	\$ 553,658	\$474,934
Remittance fees	543,552	587,888
Interbank fees	590,384	588,443
Loan and guarantees fees	1,217,415	1,147,515
Fees from certification, underwriting and brokerage	5,056,848	3,720,534
Fees from trust business	4,691,395	2,882,361
Agency fees	1,771,059	1,708,437
Fees from credit card and cash card	2,288,135	2,069,098
Others	<u>2,046,789</u>	<u>2,027,004</u>
	<u>18,759,235</u>	<u>15,206,214</u>
Fee and commission expense		
Interbank fees	(129,992)	(138,115)
Fees from trust business	(294,593)	(119,885)
Brokerage fees	(322,735)	(298,471)
Underwriting fees	(9,110)	(271,660)
Agency fees	(446,170)	(364,939)
Fees from credit card and cash card	(182,381)	(443,414)
Others	<u>(1,706,290)</u>	<u>(1,155,733)</u>
	<u>(3,091,271)</u>	<u>(2,792,217)</u>
	<u>\$ 15,667,964</u>	<u>\$ 12,413,997</u>



### 30. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2007 and 2006 are summarized as follows:

	Years Ended December 31					
	2007			2006		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel						
Salary	\$ 162,457	\$ 15,424,205	\$15,586,662	\$ 138,616	\$ 15,005,193	\$15,143,809
Insurance	-	867,608	867,608	-	816,018	816,018
Pension	-	1,219,425	1,219,425	-	1,209,492	1,209,492
Others	-	437,999	437,999	-	478,946	478,946
	<u>\$ 162,457</u>	<u>\$ 17,949,237</u>	<u>\$18,111,694</u>	<u>\$ 138,616</u>	<u>\$ 17,509,649</u>	<u>\$17,648,265</u>
Depreciation	-	1,881,830	1,881,830	-	1,823,523	1,823,523
Amortization	-	1,108,550	1,108,550	-	1,117,896	1,117,896

### 31. INCOME TAX

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

In 2003, Taishin Financial Holding adopted the linked tax system for tax filing with subsidiaries Taishin Bank, Taiwan Securities, Taishin Bills Finance, Taishin AMC and Taishin Marketing. Taishin Venture Capital was included in this tax system in 2004.

Taishin Financial Holding and subsidiaries' income tax expenses (benefits) for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Current income tax payable	\$ 1,189,404	\$ 737,005
Deferred income tax expense (benefit)	3,444,910	(4,178,023)
Investment tax credits	(3,221)	(2,644)
Tax separately levied on interest	222,639	484,853
Income tax benefit - linked tax system	(1,031)	(20,216)
Additional 10% income tax on unappropriated earnings	16,117	1,995
Adjustments for prior years' tax	11,138	(17,813)
Additional income tax under the AMT	-	87,231
Offshore income tax expense	59,818	367,498
Others	21,677	(272,838)
Income tax expenses (benefits)	<u>\$ 4,961,451</u>	<u>\$ (2,812,952)</u>

## VI. Financial Statements

The details of deferred income tax assets were as follows:

	December 31	
	2007	2006
<b>Assets</b>		
Loss carryforwards	\$19,455,830	\$23,665,884
Investment tax credits	14,348	38,917
Allowance for bad debts in excess of tax limit	4,542,076	4,625,495
Other reserves in excess of tax limit	120,407	186,042
Pension reserves	541,262	505,245
Unrealized loss on financial instruments	42,333	57,736
Impairment loss of credit receivables	49,200	51,500
Unrealized investments losses	67,500	303,363
Unrealized net losses on collaterals	57,549	31,578
Others	83,261	66,701
Less valuation allowance	<u>(419,561)</u>	<u>(1,231,043)</u>
	<u>24,554,205</u>	<u>28,301,418</u>
<b>Liabilities</b>		
Unrealized gains on valuation of derivative instruments	(187,907)	(86,814)
Unrealized exchange gains	(1,044)	(47,438)
Investment income recognized on overseas equity-method investment	(140,813)	(76,116)
Goodwill amortization	(256,937)	(208,436)
Others	<u>(4,007)</u>	<u>(3,325)</u>
	<u>(590,708)</u>	<u>(422,129)</u>
Deferred income tax assets, net	<u>\$ 23,963,497</u>	<u>\$ 27,879,289</u>

Consolidated information for loss carryforwards was as follow:

Expiry Year	December 31	
	2007	2006
2007	\$ -	\$ 4,976,081
2008	1,386	1,386
2009	5,118	5,118
2010	11,076,073	11,425,137
2011	7,727,030	7,258,162
2012	646,223	-
	<u>\$ 19,455,830</u>	<u>\$ 23,665,884</u>

Based on the amended ROC Income Tax Law, information on the imputation credit accounts (ICA) and imputed tax credit rates were as follows:

	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	<u>\$ 523,714</u>	<u>\$ 870,124</u>	<u>\$ 33,171</u>	<u>\$ 2,772</u>	<u>\$ 20,048</u>	<u>\$ 52,036</u>
	December 31, 2006					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	<u>\$ 426,513</u>	<u>\$ 648,388</u>	<u>\$ 13,069</u>	<u>\$ 26,153</u>	<u>\$ 377,785</u>	<u>\$ 7,409</u>
	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	<u>10.14%</u>	<u>32.11%</u>	<u>1.78%</u>	<u>33.82%</u>	<u>0.22%</u>	<u>NA~33.53%</u>
	December 31, 2006					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	<u>-</u>	<u>-</u>	<u>1.02%</u>	<u>6.31%</u>	<u>3.42%</u>	<u>NA~26.32%</u>



## Examination of Taishin Financial Holding's and Subsidiaries' Income Tax

Taishin Financial Holding's 2003 income tax return has been examined and cleared by the tax authorities.

Taishin Bank's 2003 income tax return has been examined and cleared by the tax authorities. The income tax returns of Taishin Real - Estate, PayEasy Digital, Taishin Insurance Agency, Taishin Insurance Brokers and Taisin Non-Life Insurance Agency through 2005 have been examined and cleared by the tax authorities.

In regard to the goodwill amortization of \$758,768 thousand and \$635,098 thousand from the merger of the First Credit Cooperative of Tainan and Dah An Bank reported in the 2003 and 2002 income tax returns of Taishin Bank, the tax authorities had disapproved the related expense due to the reason that the goodwill resulted from negotiations of the dealing parties rather than a purchase from open market. Taishin Bank is filing an appeal to a high court.

The income tax returns of Taiwan Securities through 2003 have been examined and cleared by the tax authorities. Taiwan Securities disagreed with the tax authorities' assessments on the 2001 and 2002 income tax returns and had filed an objection to the high court accordingly. The income tax returns of Taiwan Futures through 2004 have been examined and cleared by the tax authorities.

The income tax returns of Taishin Bills Finance through 2003 have been examined and cleared by the tax authorities.

The income tax returns of Taishin AMC through 2003 have been examined and cleared by the tax authorities.

The income tax returns of Taishin Marketing through 2003 have been examined and cleared by the tax authorities.

The income tax returns of Taishin Venture Capital Investment through 2003 have been examined and cleared by the tax authorities.

The income tax returns of Chang Hwa Bank through 2005 have been examined and cleared by the tax authorities. The income tax returns of CHB Life Insurance Agency and CHB Insurance Brokerage through 2004 have been examined and cleared by the tax authorities.

Information on unappropriated earnings (accumulated deficit) was as follows:

	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Until 1997	\$ -	\$ -	\$ 26,098	\$ -	\$ -	\$ -
From 1998	<u>4,089,120</u>	<u>2,709,441</u>	<u>1,868,088</u>	<u>4,648</u>	<u>8,970,178</u>	<u>(12,651)</u>
	<u>\$ 4,089,120</u>	<u>\$ 2,709,441</u>	<u>\$ 1,894,186</u>	<u>\$ 4,648</u>	<u>\$ 8,970,178</u>	<u>\$ (12,651)</u>

## VI. Financial Statements

	December 31, 2006					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Until 1997	\$ -	\$ -	\$ 26,098	\$ -	\$ -	\$ -
From 1998	<u>(16,148,540)</u>	<u>(19,964,031)</u>	<u>1,277,216</u>	<u>385,215</u>	<u>11,377,055</u>	<u>122,41</u>
	<u>\$ (16,148,540)</u>	<u>\$ (19,964,031)</u>	<u>\$ 1,303,314</u>	<u>\$ 385,215</u>	<u>\$ 11,377,055</u>	<u>\$ 122,419</u>

As stipulated in the Ministry of Finance Letter No. (91) Tai-Tsai-Tax 0910454466, the denominator to be used in the imputed tax credit ratio should include the unappropriated earnings generated from 1998 of the financial institutions that established Taishin Financial Holding through a share swap (these earnings are credited to the capital surplus of the financial holding company). As of December 31, 2007, the capital surplus of Taishin Financial Holding included \$1,075,454 thousand of these post-1998 earnings.

	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Until 1997	\$ -	\$ -	\$ 26,098	\$ -	\$ -	\$ -
From 1998	<u>4,089,120</u>	<u>2,709,441</u>	<u>1,868,088</u>	<u>4,648</u>	<u>8,970,178</u>	<u>(12,651)</u>
	<u>\$ 4,089,120</u>	<u>\$ 2,709,441</u>	<u>\$ 1,894,186</u>	<u>\$ 4,648</u>	<u>\$ 8,970,178</u>	<u>\$ (12,65)</u>

### 32. EARNINGS PER SHARE

	Year Ended December 31, 2007				
	Amount (Numerator)		Shares in Thousands (Denominator)	Shares in Thousands (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net income (of the parent company's stockholders)	\$ 6,177,757	\$ 4,089,120			
Less preferred stock dividends	<u>(1,435,000)</u>	<u>(1,435,000)</u>			
Basic earnings per share					
Net income of common stockholders	4,742,757	2,654,120	5,710,300	<u>\$ 0.83</u>	<u>\$ 0.46</u>
Dilutive effect of common stocks - convertible bonds	-	-	960		
Diluted earnings per share					
Net income of common stockholders and effect of dilutive common stocks	<u>\$ 4,742,757</u>	<u>\$ 2,654,120</u>	<u>5,711,260</u>	<u>\$ 0.83</u>	<u>\$ 0.46</u>

	Year Ended December 31, 2006				
	Amount (Numerator)		Shares in Thousands (Denominator)	Shares in Thousands (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net income (of the parent company's stockholders)	\$(21,360,703)	\$(16,148,540)			
Less preferred stock dividends	<u>(645,005)</u>	<u>(645,005)</u>			
Basic earnings per share					
Net income of common stockholders	(22,005,708)	(16,793,545)	5,325,693	<u>\$ (4.13)</u>	<u>\$ (3.15)</u>
Dilutive effect of common stocks - convertible bonds	-	-	-		
Diluted earnings per share					
Net income of common stockholders and effect of dilutive common stocks	<u>\$(22,005,708)</u>	<u>\$(16,793,545)</u>	<u>5,325,693</u>	<u>\$ (4.13)</u>	<u>\$ (3.15)</u>



### 33.RELATED-PARTY TRANSACTIONS

Names and relationships of related parties are as follows:

Name	Relationship
Dah An Leasing	Equity method investee
An Hsin Real-Estate	Same as above
Taishin Bank Employee's Welfare Institution	Its responsible person is Taishin Bank's general president
Wang Tien Woollen Textile Co., Ltd.	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Shin Kong Financial Holding Co., Ltd. ("Shin Kong Financial Holding")	Same as above
Shin Kong Co., Ltd. ("Shin Kong Co.")	Same as above
Shin Kong Life Insurance Co., Ltd. ("Shin Kong Life Insurance")	Same as above
Shin Kong Synthetic Fibers Corp. ("Shin Kong Synthetic Fibers")	Same as above
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd. ("Shin Kong Fire & Marine Insurance")	Same as above
Shinshen Co., Ltd.	Same as above
Shinkong Engineering Corp.	Same as above
Jupiter Venture Capital Co., Ltd. ("Jupiter Venture Capital")	Same as above
Mercury Venture Capital Co., Ltd. ("Mercury Venture Capital")	Same as above
Shin Kong Wu Ho-Su Memorial Hospital	Same as above
PayEasy Travel	Wholly owned by PayEasy Digital
Taiwan Securities Investment Advisory	Equity method investee
Taishin Investment Trust	Same as above
Taiwan Managed Futures	Wholly owned by Taiwan Securities
Tai Chen (BVI)	Wholly owned by Anew Holdings
Taiwan Securities - HK Nominee United	Same as above
TSC Capital	Same as above
Dah Chung Bills Financial Corp. ("Dah Chung Bills")	Taishin Bank serves as its director
Taiwan Shin Kong Commercial Bank Co., Ltd. ("Shin Kong Bank")	Wholly owned by Shin Kong Financial Holding
Shin Kong Investment Trust Co., Ltd.	Same as above
Fu Mei Co., Ltd.	Its guarantor is Taishin Financial Holding's supervisor
Ming Huang International Property Co., Ltd.	The supervisor of Taishin Financial Holding
CyberSoft Digital Service Corp. ("CyberSoft Digital Service")	Its chairman is Taiwan Securities' chairman
Taishin International Investment Development Co., Ltd.	Its chairman is Taishin Financial Holding's supervisor
Taishin Leasing & Financing Co., Ltd.	Taishin International Investment Development Co., Ltd.'s parent company
Jiouru Co., Ltd.	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Jiouru Investment Co., Ltd.	Same as above
Peng Cheng Co., Ltd.	Its chairman is Taishin Bank's supervisor
Shang Ho Hsing Co., Ltd.	Its guarantor is Taishin Bank's supervisor
Shin Kong Recreation Co., Ltd.	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Charity Foundation of Chang Kong-Yu in Taichung City	The director and supervisor of Chang Hwa Bank
Ho Chuan Co., Ltd.	Chang Hwa Bank's director
PChome Online Co., Ltd. ("PChome Online")	Its chairman is PayEasy Digital's chairman
Miniatures Museum of Taiwan	Its chairman is a relative within the second degree of Taishin Financial Holding's general president
Individual A	The chairman of Taishin Real-estate
Individual B	A relative within the second degree of Taishin Financial Holding's chairman
Individual C	The spouse of the director of Taiwan Securities
Individual D	A relative within the second degree of Taishin Financial Holding's chairman
Individual E	The vice president of Taiwan Securities
Individual F	The manager of Taishin Bank
Individual G	Same as above
Individual H	Same as above
Individual I	The supervisor of Taishin Financial Holding

## VI. Financial Statements

Material transactions with related parties are as follows:

### Loans, Deposits and Guaranteed Loans

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
<u>Consumer loans</u>					
153 accounts	\$ 151,245	\$ 175,347	\$ 151,245	\$ -	Land, building, chattels
<u>Self-use residence mortgage loans</u>					
332 accounts	1,180,770	1,304,309	1,180,770	-	Land, building
<u>Other loans</u>					
Jiouru Co., Ltd.	65,000	65,000	65,000	-	Land, building
Peng Cheng Co., Ltd.	88,000	104,000	88,000	-	Land, building
Fu Mei Co., Ltd.	200,000	225,000	200,000	-	Land, building
Taishin Leasing & Financing Co., Ltd.	15,000	193,000	15,000	-	Securities - mutual funds, stocks
Taishin International Investment Development Co., Ltd.	25,000	301,000	25,000	-	Securities - government bonds, bank notes
Ming Huang International Property Co., Ltd.	170,000	170,000	170,000	-	Land, building
Jiouru Investment Co., Ltd.	58,500	117,000	58,500	-	Land, building
Shinkong Engineering Corp.	72,000	110,000	72,000	-	Securities - stocks
Shang Ho Hsing Co., Ltd.	71,000	90,000	71,000	-	Credit
Individual D	16,430	17,195	16,430	-	Land, building
Individual C	189,300	331,830	189,300	-	Land
Individual A	2,500	4,200	2,500	-	Securities - stocks
Individual H	1,099	1,099	1,099	-	Securities - certificate deposit
Individual G	1,406	1,765	1,406	-	Securities - certificate deposit
Individual F	3,179	9,739	3,179	-	Time deposit
Individual B	10,220	20,869	10,220	-	Time deposit
Others	<u>3,393</u>		<u>3,393</u>	-	Credit, time deposit, securities - stocks, certificate deposit
	<u>\$ 2,324,042</u>		<u>\$ 2,324,042</u>		

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
<u>Guarantee for loans of related parties</u>					
Shin Kong Synthetic Fibers	\$ 800,202	\$ 1,308,260	0.00~0.60	\$ -	Securities - stocks/ chattels



Loans to Related Parties	Year Ended December 31, 2007		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
<u>Deposits from related parties</u>			
Shin Kong Life Insurance	\$1,981,394	0.15-2.51	\$(2,850)
Jupiter Venture Capital	390,637	0.15-2.25	(5,988)
Mercury Venture Capital	408,934	0.15-2.25	(5,875)
Dah Chung Bills	420,850	0.00-2.45	(5,557)
Taishin Bank Employee's Welfare Institution	230,606	0.15-2.25	(3,648)
Shin Kong Fire & Marine Insurance	105,671	0.00-2.53	(1,580)
Shin Kong Recreation Co., Ltd.	125,892	0.00-0.15	(208)
Shin Kong Synthetic Fibers	114,382	0.00-2.50	(2,358)
Dah An Leasing	170,460	0.15-0.15	(255)
PChome Online	190,164	0.15-2.46	(2,222)
Taiwan Securities Investment Advisory	110,157	0.15-2.25	(1,584)
Taiwan Managed Futures	120,020	0.15-2.27	(1,889)
Others	<u>2,682,229</u>		<u>(56,287)</u>
	<u>\$7,051,396</u>		<u>\$(90,301)</u>

Loans to Related Parties	Year Ended December 31, 2006				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
<u>Consumer loans</u>					
104 accounts	\$38,835	\$46,282	\$38,835	\$-	Land, building, chattels, securities - stocks, certificate deposit
Self-use residence mortgage loans					
355 accounts	1,137,227	1,224,987	1,137,227	-	Land, building
<u>Other loans</u>					
Jiouru Co., Ltd.	65,000	65,000	65,000	-	Land, building
Peng Cheng Co., Ltd.	65,000	104,000	65,000	-	Land, building
Fu Mei Co., Ltd.	180,000	203,000	180,000	-	Land, building
Shin Kong Synthetic Fibers	300,000	1,276,923	300,000	-	Chattels, securities - stocks
Taishin Leasing & Financing Co., Ltd.	68,000	350,000	68,000	-	Securities - stocks, mutual funds
Taishin International Investment Development Co., Ltd.	201,000	324,000	201,000	-	Securities - bank notes
Ming Huang International Property Co., Ltd.	160,000	170,000	160,000	-	Land, building
Jiouru Investment Co., Ltd.	58,500	117,000	58,500	-	Land, building
Shinkong Engineering Corp.	110,000	110,000	110,000	-	Securities - stocks
Cybersoft Digital Service	81,000	96,000	81,000	-	Building
Shang Ho Hsing Co., Ltd.	90,000	90,000	90,000	-	Credit
Individual D	17,450	18,385	17,450	-	Land, building
Individual C	331,830	498,360	331,830	-	Land
Individual E	1,189	1,855	1,189	-	Credit
Individual A	2,000	2,000	2,000	-	Securities - certificate deposit
Individual F	3,195	6,487	3,195	-	Securities - certificate deposit
Individual B	<u>10,268</u>	<u>20,710</u>	<u>10,268</u>	-	Securities - certificate deposit
	<u>\$2,920,494</u>		<u>\$2,920,494</u>		

## VI. Financial Statements

Loans to Related Parties	Year Ended December 31, 2006				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
<u>Guarantee for loans of related parties</u>					
Shin Kong Synthetic Fibers	\$681,922	\$1,503,771	0.50~0.60	\$-	Securities - stocks, chattels

Loans to Related Parties	Year Ended December 31, 2006		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
<u>Deposits from related parties</u>			
Shin Kong Life Insurance	\$1,515,764	0.00~2.50	\$(1,247)
Jupiter Venture Capital	431,132	0.15~1.68	(3,262)
Mercury Venture Capital	371,994	0.15~1.68	(4,439)
Taishin Bank Employee's Welfare Institution	239,590	0.15~1.67	(3,293)
PChome Online	185,571	0.15~2.05	(957)
Dah An Leasing	168,305	0.15~0.15	(252)
Shin Kong Synthetic Fibers	138,030	0.01~2.50	(2,353)
Taishin Investment Trust	127,473	0.15~2.12	(2,151)
Taiwan Securities Investment Advisory	110,466	0.15~1.60	(1,021)
Dah Chung Bills	22,779	0.00~0.15	(13)
Individual I	106,345	0.00~0.00	(262)
Others	<u>2,410,431</u>		<u>(34,395)</u>
	<u>\$5,827,880</u>		<u>\$(53,645)</u>

As of December 31, 2007, the balance of deposits from and lending to related parties of Chang Hwa Bank amounted to \$1,074,833 thousand and \$352,089 thousand, respectively, with the interest rates ranged from 0% to 13% and 2.00% to 8.03%, respectively.

As of December 31, 2006, the balance of deposits from and lending to related parties of Chang Hwa Bank amounted to \$1,374,100 thousand and \$12,497,674 thousand, respectively, with the interest rates ranged from 0% to 13% and 0.55% to 7.63%, respectively.

Loans to related parties of Chang Hwa Bank are as follows:

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
<u>Consumer loans</u>					
29 accounts	\$32,553	\$33,158	\$32,553	\$-	Credit, real estate
Self-use residence mortgage loans					
85 accounts	<u>319,536</u>	325,521	<u>319,536</u>	-	Real estate
	<u>\$352,089</u>		<u>\$352,089</u>		



All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

## Trading Securities

Related Parties	Year Ended December 31, 2007					
	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Shin Kong Life Insurance	\$-	\$-	\$3,899,515	1.20~3.00	\$-	-
Shin Kong Financial Holding	-	-	100,143	1.67~2.60	-	-
	<u>\$-</u>	<u>\$-</u>	<u>\$3,999,658</u>		<u>\$-</u>	

Related Parties	Year Ended December 31, 2006					
	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Shin Kong Life Insurance	\$-	\$-	\$998,677	1.41~1.67	\$-	-
Shin Kong Financial Holding	-	-	314,496	1.42~1.68	-	-
	<u>\$-</u>	<u>\$-</u>	<u>\$1,313,173</u>		<u>\$-</u>	

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

## Derivative

Related Party	Derivative Contracts	Period	Nominal Principal Amount	Year Ended December 31, 2007		
				Unrealized Gain (Loss)	Account	Balance
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.25	\$1,450,000	\$(7,368)	Financial assets at FVTPL	\$14,833
Shin Kong Bank	Interest rate swaps	2003.12.10~2009.02.16	4,800,000	(83,316)	Financial assets at FVTPL	71,070
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	(5,625)	Financial liabilities at FVTPL	(4,093)
				<u>\$(96,309)</u>		<u>\$81,810</u>

Related Party	Derivative Contracts	Period	Nominal Principal Amount	Year Ended December 31, 2006		
				Unrealized Gain (Loss)	Account	Balance
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.30	\$1,650,000	\$22,202	Financial assets at FVTPL	\$22,202
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	1,532	Financial assets at FVTPL	1,532
				<u>\$23,734</u>		<u>\$23,734</u>

## VI. Financial Statements

### Call Loans to Banks and Call Loans from Banks

Year Ended December 31, 2007					
Related Party	Item	Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Dah Chung Bills	Call loans to banks	\$	\$200,000	1.98	\$11
Shin Kong Bank	Inter-bank finance	-	360,000	3.56	(246)
Shin Kong Bank	Call loans to banks	-	200,000	2.03~3.20	20
Shin Kong Bank	<u>Call loans from banks</u>	-	<u>500,000</u>	<u>1.69~3.50</u>	(2,468)

Year Ended December 31, 2007					
Related Party	Item	Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Shin Kong Bank	Call loans to banks	\$	\$250,000	1.59~1.62	\$32
Shin Kong Bank	Call loans from banks	400,000	400,000	1.21~1.70	(3,052)

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

### Other Material Transactions

Related Party	December 31			
	2007		2006	
	Item	Amount	Item	Amount
Cybersoft Digital Service	Operating expense	380,385	Operating expense	481,293

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.



Over \$100 million transactions with related parties of subsidiaries are as follows:

## Taishin Bank

Name	Relationship
Taishin Venture Capital	Parent company
Taiwan Securities	Wholly owned by the same parent company
Taishin Marketing	Same as above
Taishin Bills Finance	Same as above
Taishin AMC	Same as above
Chang Hwa Bank	Same as above
Dah An Leasing	Under control by the same parent company
Taiwan Futures	Equity-method investee
Taishin Insurance Agency	Same as above
Taishin Real-Estate	Same as above
Taishin Finance	Same as above
An Hsin Real-Estate	Same as above
PayEasy Digital	Same as above
Taishin Bank Employee's Welfare Institution	Same as above
Jupiter Venture Capital	Its responsible person is Taishin Bank's general president
Mercury Venture Capital	Its chairman is a relative within the second degree of Taishin Bank's chairman
Shin Kong Life Insurance	Same as above
Shin Kong Synthetic Fibers	Same as above
Shin Kong Financial Holding	Same as above
Shin Kong Fire & Marine Insurance	Same as above
Shinkong Engineering Corp.	Same as above
PayEasy Travel	Same as above
Taishin Insurance Broker	Wholly owned by PayEasy Digital
Anew Holdings	Wholly owned by Taishin Insurance Agency
Taiwan Managed Futures	Wholly owned by Taiwan Securities
Taiwan Securities Investment Advisory	Same as above
CHB Life Insurance Agency	Equity-method investee
CHB Insurance Brokerage	Wholly owned by Chang Hwa Bank
Tai Chen (BVI)	Same as above
Taiwan Securities - HK	Wholly owned by Anew Holdings
Taiwan Securities - HK Nominee United	Same as above
TSC Capital	Same as above
Shin Kong Bank	Same as above
Dah Chung Bills	Wholly owned by Shin Kong Financial Holding
Fu Mei Co., Ltd.	Taishin Bank serves as its director
Ming Huang International Property Co., Ltd.	Its guarantor is Taishin Bank's supervisor
CyberSoft Digital Service	Its chairman is Taishin Financial Holding's supervisor
Taishin International Investment Development Co., Ltd.	Its chairman is Taiwan Securities' chairman
Taishin Leasing & Financing Co., Ltd.	Taishin Financial Holding's supervisor
Jiouru Co., Ltd.	Taishin International Investment Development Co., Ltd.'s parent company
Jiouru Investment Co., Ltd.	Its chairman is a relative within the second degree of Taishin Bank's chairman
Peng Cheng Co., Ltd.	Same as above
Shang Ho Hsing Co., Ltd.	Its chairman is Taishin Bank's supervisor
Shin Kong Recreation Co., Ltd.	Its guarantor is Taishin Bank's supervisor
PChome Online	Its chairman is a relative within the second degree of Taishin Bank's chairman
Individual A	Its chairman is PayEasy Digital's chairman
Individual B	The chairman of Taishin Real-estate
Individual C	A relative within the second degree of Taishin Financial Holding's chairman
Individual D	Same as above
Individual E	The spouse of the director of Taiwan Securities
Individual F	The vice president of Taiwan Securities
Individual G	The manager of Taishin Bank
Individual H	Same as above
Individual I	Same as above
	Taishin Financial Holding's supervisor

## VI. Financial Statements

Material transactions with related parties are as follows:

### *Loans, Deposits and Guaranteed Loans*

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
<u>Consumer loans</u>					
153 accounts	\$151,245	\$175,347	\$151,245	\$-	Land, building, chattels
Self-use residence mortgage loans					
332 accounts	1,180,770	1,304,309	1,180,770	-	Land, building
<u>Other loans</u>					
Jiouru Co., Ltd.	65,000	65,000	65,000	-	Land, building
Peng Cheng Co., Ltd.	88,000	104,000	88,000	-	Land, building
Fu Mei Co., Ltd.	200,000	225,000	200,000	-	Land, building
Taishin Leasing & Financing Co., Ltd.	15,000	193,000	15,000	-	Securities - mutual funds, stocks
Taishin International Investment Development Co., Ltd.	25,000	301,000	25,000	-	Securities - government bonds, bank notes
Ming Huang International Property Co., Ltd.	170,000	170,000	170,000	-	Land, building
Jiouru Investment Co., Ltd.	58,500	117,000	58,500	-	Land, building
Shinkong Engineering Corp.	72,000	110,000	72,000	-	Securities - stocks
Shang Ho Hsing Co., Ltd.	71,000	90,000	71,000	-	Credit
Individual C	16,430	17,195	16,430	-	Land, building
Individual D	189,300	331,830	189,300	-	Land
Individual A	2,500	4,200	2,500	-	Securities - stocks
Individual G	1,099	1,099	1,099	-	Securities - certificate deposit
Individual H	1,406	1,765	1,406	-	Securities - certificate deposit
Individual F	3,179	9,739	3,179	-	Time deposit
Individual B	10,220	20,869	10,220	-	Time deposit
Others	<u>3,393</u>		<u>3,393</u>	-	Credit, time deposit, securities - stocks, certificate deposit
	<u>\$2,324,042</u>		<u>\$2,324,042</u>		

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
<u>Guarantee for loans of related parties</u>					
Shin Kong Synthetic Fibers	\$800,202	\$1,308,260	0.00-0.60	\$-	Securities - stocks, chattels



	Year Ended December 31, 2007		
Loans to Related Parties	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
<u>Deposits from related parties</u>			
Shinkong Life Insurance	\$1,981,394	0.15~2.51	\$(2,850)
Taiwan Futures	319,923	0.00~2.53	(23,532)
Jupiter Venture Capital	390,637	0.15~2.25	(5,988)
Mercury Venture Capital	408,934	0.15~2.25	(5,875)
Taiwan Securities	875,911	0.00~2.62	(8,013)
PayEasy Digital	445,921	0.00~2.46	(4,646)
Taishin Financial Holding	13,026,747	0.00~2.02	(216,871)
Dah Chung Bills	420,850	0.00~2.45	(5,557)
Taishin Insurance Agency	1,159,471	0.00~2.45	(5,596)
Taiwan Securities - HK	1,172,778	0.01~4.25	(8,481)
Taishin Bank Employee's Welfare Institution	230,606	0.15~2.25	(3,648)
Shin Kong Fibers & Marine Insurance	105,671	0.00~2.53	(1,580)
Shin Kong Recreation Co., Ltd.	125,892	0.00~0.15	(208)
Shin Kong Synthetic Fibers	114,382	0.00~2.50	(2,358)
Dah An Leasing	170,460	0.15~0.15	(255)
PChome Online	190,164	0.15~2.46	(2,222)
Taiwan Securities Investment Advisory	110,157	0.15~2.25	(1,584)
Taiwan Managed Futures	120,020	0.15~2.27	(1,889)
Taishin Finance	228,267	0.10~4.90	(6,771)
Others	<u>2,859,147</u>		<u>(59,229)</u>
	<u>\$24,457,332</u>		<u>\$(367,153)</u>

## VI. Financial Statements

Loans to Related Parties	Year Ended December 31, 2006				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
<u>Consumer loans</u>					
104 accounts	\$38,835	\$46,282	\$38,835	\$-	Land, building, chattels, securities - stocks, certificate deposit
Self-use residence mortgage loans					
355 accounts	1,137,227	1,224,987	1,137,227	-	Land, building
<u>Other loans</u>					
Jiouru Co., Ltd.	65,000	65,000	65,000	-	Land, building
Peng Cheng Co., Ltd.	65,000	104,000	65,000	-	Land, building
Fu Mei Co., Ltd.	180,000	203,000	180,000	-	Land, building
Shin Kong Synthetic Fibers	300,000	1,276,923	300,000	-	Chattels, securities - stocks
Taishin Leasing & Financing Co., Ltd.	68,000	350,000	68,000	-	Securities - stocks, mutual funds
Taishin International Investment Development Co., Ltd.	201,000	324,000	201,000	-	Securities - bank notes
Ming Huang International Property Co., Ltd.	160,000	170,000	160,000	-	Land, building
Jiouru Investment Co., Ltd.	58,500	117,000	58,500	-	Land, building
Cybersoft Digital Service	81,000	96,000	81,000	-	Building
Shang Ho Hsing Co., Ltd.	90,000	90,000	90,000	-	Credit
Taiwan Securities	40,000	300,000	40,000	-	Building, securities - convertible bonds
Shinkong Engineering Corp.	110,000	110,000	110,000	-	Securities - stocks
Individual C	17,450	18,385	17,450	-	Land, building
Individual D	331,830	498,360	331,830	-	Land
Individual E	1,189	1,855	1,189	-	Credit
Individual A	2,000	2,000	2,000	-	Securities - certificate deposit
Individual F	3,195	6,487	3,195	-	Securities - certificate deposit
Individual B	<u>10,268</u>	20,710	<u>10,268</u>	-	Securities - certificate deposit
	<u>\$2,960,494</u>		<u>\$2,960,494</u>		

Loans to Related Parties	Year Ended December 31, 2006				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
<u>Guarantee for loans of related parties</u>					
Shin Kong Synthetic Fibers	\$681,922	\$1,503,771	0.50-0.60	\$-	Securities - stocks, chattels



Loans to Related Parties	Year Ended December 31, 2006		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
<u>Deposits from related parties</u>			
Taishin Financial Holding	\$11,859,419	0.00~5.00	\$(193,648)
Shinkong Life Insurance	1,515,764	0.00~2.50	(1,247)
Taiwan Securities	755,947	0.00~2.50	(7,083)
Taishin Insurance Agency	736,264	0.00~1.60	(2,367)
Jupiter Venture Capital	431,132	0.15~1.68	(3,262)
PayEasy Digital	391,108	0.00~1.71	(2,126)
Mercury Venture Capital	371,994	0.15~1.68	(4,439)
Taiwan Futures	346,430	0.60~2.50	(7,625)
Taiwan Securities - HK	313,566	0.01~4.75	(1,031)
Taishin Bank Employee's Welfare Institution	239,590	0.15~1.67	(3,293)
PChome Online	185,571	0.15~2.05	(957)
Dah An Leasing	168,305	0.15~0.15	(252)
Taishin Real-Estate	115,394	0.00~2.14	(1,514)
Shin Kong Synthetic Fibers	138,030	0.01~2.50	(2,353)
Taishin Investment Trust	127,473	0.15~2.12	(2,151)
Taiwan Securities Investment Advisory	110,466	0.15~1.60	(1,021)
Dah Chung Bills	22,779	0.00~0.15	(13)
Individual J	106,345	0.00~0.00	(262)
Others	<u>2,699,790</u>		<u>(46,636)</u>
	<u>\$20,635,367</u>		<u>\$(281,280)</u>

The above related-party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Call Loans to Banks and Call Loans from Banks

Related Party	Item	Year Ended December 31, 2007			
		Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Taishin Bills Finance	Call loans to banks	\$	\$500,000	1.70~1.98	\$154
	Call loans from banks	-	30,000	2.10	(2)
Chang Hwa Bank	Call loans to banks	-	2,000,000	1.97~2.04	1,414
	<u>Call loans from banks</u>	-	<u>2,622,150</u>	<u>1.92~5.00</u>	<u>(1,737)</u>
Dah Chung Bills	<u>Call loans to banks</u>	-	<u>200,000</u>	<u>1.98</u>	11

Related Party	Item	Year Ended December 31, 2006			
		Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Taishin Bills Finance	Call loans to banks	\$	\$1,500,000	1.46~1.59	\$2,645
	Call loans from banks	-	50,000	1.47	(2)
Chang Hwa Bank	Call loans to banks	-	97,788	4.57	261

## VI. Financial Statements

### Trading Securities

Related Parties	Year Ended December 31, 2007					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Shin Kong Life Insurance	\$-	\$-	\$3,899,515	1.20~3.00	\$-	-
Shin Kong Financial Holdings	-	-	<u>100,143</u>	1.67~2.60	-	-
Taishin Bills Finance	12,150,879	7,056,162	-	-	-	-
Taishin Financial Holding	-	-	<u>1,142,779</u>	1.62~2.55	-	-
Taiwan Securities	<u>46,261,904</u>	<u>43,126,114</u>	-	-	-	-
	<u>58,412,783</u>	<u>\$50,182,276</u>	<u>\$5,142,437</u>		<u>\$</u>	

Related Parties	Year Ended December 31, 2006					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taiwan Securities	\$40,279,536	\$30,980,663	\$	-	\$-	-
Taishin Bills Finance	<u>32,248,597</u>	<u>11,715,728</u>	-	-	-	-
Shin Kong Life Insurance	-	-	998,677	1.41~1.67	-	-
Shin Kong Financial Holding	-	-	314,496	1.42~1.68	-	-
Taishin Financial Holding	-	-	<u>1,889,794</u>	1.38~1.62	-	-
	<u>\$72,528,133</u>	<u>\$42,696,391</u>	<u>\$3,202,967</u>		<u>\$</u>	

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Derivative

Related Party	Derivative Contracts	Period	Nominal Principal Amount	Year Ended December 31, 2007		
				Unrealized Gain (Loss)	Account	Balance
Taishin Financial Holding	Interest rate swaps	2003.12.12~2010.12.12	\$250,000	\$4,081	Financial assets at FVTPL	\$421
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.25	1,450,000	(7,368)	Financial assets at FVTPL	14,833
Shin Kong Bank	Interest rate swaps	2003.12.10~2009.02.16	4,800,000	(83,316)	Financial assets at FVTPL	71,070
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	<u>(5,625)</u>	Financial liabilities at FVTPL	<u>(4,093)</u>
				<u>\$(92,228)</u>		<u>\$82,231</u>



Related Party	Year Ended December 31, 2006					
	Derivative Contracts	Period	Nominal Principal Amount	Unrealized Gain (Loss)	Account	Balance
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.30	\$1,650,000	\$22,202	Financial assets at FVTPL	\$22,202
Taishin Financial Holding	Interest rate swaps	2003.12.12~2010.12.12	250,000	(3,660)	Financial liabilities at FVTPL	(3,660)
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	1,532	Financial assets at FVTPL	1,532
Taiwan Securities	<u>Interest rate options</u>	2006.11.13~2009.11.10	<u>700,000</u>	<u>(790)</u>	Financial liabilities at FVTPL	<u>(49,090)</u>
				<u>\$19,284</u>		<u>\$(29,016)</u>

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Transferring Ownerships of Loans

	Year Ended December 31, 2006						
	Transferring Date	Book Value	Transfer Price	Losses of Disposal	Composition of NPLs	Relationship	Agreement with Added Terms
Taishin AMC	2006.06.30	\$7,341,503	\$546,697	\$(6,794,806)	Credit cards, cash cards and small amount consumer credit	Wholly owned by the same parent company	Defined in the contract, 5 years from measurement date, Taishin AMC authorized Taishin Bank the rights to collect payments from debtors and will pay 30% of loans collected as service fee and 40% of remaining amounts as commission.
	2006.08.31	4,049,961	158,000	(3,891,961)	Credit cards and cash cards	Same as above	Same as above

In July and September 2006, Taishin Bank sold nonperforming loans ("NPLs") that resulted from cash cards, credit cards and small consumer loans to Taishin AMC through public bidding. Based on the contract, June 30 and August 31, 2006 were determined as the basic measurement date of this transaction. In addition, Taishin Bank agreed to transfer all the NPLs rights, benefits and litigation rights to Taishin AMC. The loss of \$10,686,767 thousand from the NPLs sale may be deferred and amortized within five years as stated in "The Financial Institutions Merger Act". However, to comply with GAAP, Taishin Bank decided on December 31, 2006 to make a one-time recognition of this loss. As of June 30 and August 31, 2006, the outstanding receivables from the sale of NPLs were categorized as follows:

## VI. Financial Statements

Basic measurement date: June 30, 2006

Composition of NPLs			Original Amounts	Book Value	Authorized Price
Corporations	<u>Secured</u>		\$	\$	\$
	Unsecured		-	-	-
Individuals	Individuals Secured	Mortgage loans	-	-	-
		Vehicles loans	-	-	-
		Others	-	-	-
	<u>Unsecured</u>	Credit cards	1,896,286	1,039,849	133,689
		Cash cards	3,480,294	3,129,408	145,339
		Small amount consumer credit	4,117,573	3,172,246	267,669
		Others	-	-	-
Total			9,494,153	7,341,503	546,697

Basic measurement date: August 31, 2006

Composition of NPLs			Original Amounts	Book Value	Authorized Price
Corporations	<u>Secured</u>		\$	\$	\$
	Unsecured		-	-	-
Individuals	Secured	Mortgage loans	-	-	-
		Vehicles loans	-	-	-
		Others	-	-	-
	Unsecured	Credit cards	777,153	390,032	34,298
		Cash cards	4,713,431	3,659,929	123,702
		Small amount consumer credit	-	-	-
		Others	-	-	-
Total			5,490,584	4,049,961	158,000

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

### Other Material Transactions

	December 31			
	2007		2006	
	Item	Amount	Item	Amount
Taishin Insurance Agency	Fee income	\$587,779	Fee income	\$500,947
Cybersoft Digital Service	Operating expense	380,385	Operating expense	481,293

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.



## Chang Hwa Bank

Name	Relationship
Directors, supervisors, managers and the relatives	Chang Hwa Bank's directors, supervisors, managers and the relatives
CHB Life Insurance Agency	Equity-method investee
CHB Insurance Brokerage	Same as above
Charity Foundation of Chang Kong-Yu in Taichung City	Chang Hwa Bank's director and supervisor
Ho Chuan Co., Ltd	Chang Hwa Bank's director
Taishin Financial Holding	Chang Hwa Bank's director and supervisor
Taishin Bank	The subsidiary of Chang Hwa Bank's director and supervisor
Taishin Bills Finance	Same as above
Taiwan Securities	Same as above
Taishin Real-Estate	Same as above
Shin Kong Synthetic Fibers	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Shin Kong Life Insurance	Same as above
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance	Same as above
Shin Kong Co.	Same as above
Shin Kong Wu Ho-Su Memorial Hospital	Same as above
Others	Related party in substance

Material transactions with related parties are as follows:

### Deposits

Item	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
The balance on December 31, 2007 (each related party is not over 10% of total deposits)	\$1,110,196	0.11	0~13
The balance on December 31, 2006 (each related party is not over 10% of total deposits)	1,404,424	0.14	0~13

Chang Hwa Bank provides interest rate at 13% per annum to the above affiliates such as the board of directors, supervisors, and managers for their savings with a balance below \$480 thousand. For any excess amount, the interest is calculated at the rate for regular savings deposits. The rest is the same as regular depositors.

### Loans

Item	Ending Balance	Percentage of Loans (%)	Interest Rate (%)
The balance on December 31, 2007 (each related party is not over 10% of total loans)	\$352,089	0.04	2.00~8.03
The balance on December 31, 2006 (each related party is not over 10% of total loans)	12,497,674	1.48	0.55~7.63

Chang Hwa Bank provides mortgage loans and consumer loans at interest rates of 2.3% with the balance below \$8,000 thousand and below \$800 thousand for the years ended December 31, 2007 and 2006, respectively, to the above natural persons such as the board of directors, supervisors, and managers. The rest is the same as regular loan borrowers.

## VI. Financial Statements

Loans to related parties of Chang Hwa Bank are classified as follows:

	Year Ended December 31, 2007					The Difference in Terms Between Related Parties and Non-related Parties
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	
Consumer loans						
29 accounts	\$32,553	\$33,158	\$32,553	\$	Credit and real estate	None
Self-use residence mortgage loans						
85 accounts	<u>319,536</u>	325,521	<u>\$5,142,437</u>		<u>Real estate</u>	<u>None</u>
	<u>\$352,089</u>		<u>\$352,089</u>			

### Due to Other Banks

Year	Related Party	Branch	Highest Amount (In Thousands)	Ending Balance (In Thousands)	Percentage of Loans (%)
December 31, 2007	Taishin Bank	N.Y. Office	US\$80	US\$68	-

### Call from Related Parties and Call to Related Parties

The details of Chang Hwa Bank call from related parties for the years ended December 31, 2007 and 2006 were as follows:

Year	Related Party	Branch	Highest Amount (In Thousands)	Ending Balance	Loans Limited	Interest Rate (%)	Interest Expense (In Thousands)
2007	Taishin Bank	Head office	\$2,000,000	\$	According to counterparts	1.97~2.04	\$1,414
2006	Taishin Bank	L.A. office	US\$3,000	-	According to counterparts	4.57	US\$8

The details of Chang Hwa Bank call to related parties for the year ended December 31, 2007 are as follows:

Year	Related Party	Branch	Highest Amount (In Thousands)	Ending Balance	Loans Limited	Interest Rate (%)	Interest Expense (In Thousands)
2007	Taishin Bank	Head office	\$1,000,000	-	\$2,000,000	1.92~5.0	\$634
		OBU	US\$50,000	-	US\$70,000 over night and 180 days for US\$40,000	4.93	US\$34
	Taishin Bills Finance	Head office	\$1,000,000	-	\$1,500,000	2.9~3.8	\$813

The above transactions were approved by the Bank's chief executive officer. Terms are the same as those of the non-related parties.

### Others

Chang Hwa Bank provided CHB Life Insurance Agency and CHB Insurance Brokerage with personnel resources and distribution channels, recognizing service charges of \$234,190 thousand and \$41,940 thousand for the years ended December 31, 2007, \$130,431 thousand and \$34,885 thousand for the years ended December 31, 2006. Chang Hwa Bank also undertook Repurchase Agreement on Bond with CHB Life Insurance Agency and CHB Insurance Brokerage, the ending balance was \$167,777 thousand and \$126,737 thousand as of December 31, 2007 and 2006, respectively; recognizing interest expense of \$2,011 thousand and \$1,136 thousand for the years ended December 31, 2007 and 2006, respectively.



## Taiwan Securities

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Bills Finance	Same as above
Taiwan Futures	94% owned by Taiwan Securities
Taiwan Securities Investment Advisory	92% owned by Taiwan Securities
Taiwan Securities Investment Trust	45% owned by Taiwan Securities
Taiwan Securities - HK	100% indirectly owned by Taiwan Securities
Shin Kong Life Insurance	Related party in substance
Shin Kong Spinning Co., Ltd.	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above
Taishin International Investment Development Co., Ltd.	Same as above
Taishin Insurance Agency	Same as above
Chang Hwa Bank	Same as above
Miniatures Museum of Taiwan	Same as above

## Material Transactions with Related Parties

Item	Related Party	Year Ended December 31,			
		2007		2006	
		Amount	Percentage of Item (%)	Amount	Percentage of Item (%)
Commission revenue for futures	Taiwan Futures	\$136,396	100	\$162,390	100

## Material Transactions with Related Parties

Item	Related Party	December 31,			
		2007		2006	
		Amount	Percentage of Item (%)	Amount	Percentage of Item (%)
Bank deposits	Taishin Bank	\$404,537	73	\$213,427	44
Financial assets at FVTPL	Taiwan Securities - HK	234,665	2	-	-
Other current assets					
Operating deposits	Taishin Bank	325,000	32	390,000	37
Other assets					
Other clearing specific account	Taiwan Securities - HK	383,053	100	736,965	100
Debit item for consigned trades of bank settlement account	Taishin Bank	109,035	87	27,656	69
Prepaid underwriting stock value	Taishin Bank	32,554	75	118,505	93

## Loans and Commercial Paper Payable

Related Party	December 31, 2006			
	Highest Amount	Ending Balance	Interest Rate (%)	Interest Expense
Taishin Bank	\$250,000	\$40,000	1.83	\$379

Taiwan Securities sold operating securities - Ichia ECB with book value of \$223,932 thousand to Taiwan Securities - HK. The difference between the book value and the selling price amounted to \$1,435 thousand was recognized as unrealized gain or loss.

## VI. Financial Statements

### Taishin Bills Finance

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taiwan Securities	Same as above
Chang Hwa Bank	Under control by the same parent company
Shin Kong Financial Holding	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Shin Kong Bank	Wholly owned by Shin Kong Financial Holding

### Loans

Loans between Taishin Bills Finance and related parties for the years ended December 31, 2007 and 2006 were as follows:

	2007				
	Related Party	Ending Balance	Highest Amount	Interest Rate (%)	Interest Expense
Call loans to banks	Taishin Bank	\$-	\$30,000	2.10	\$2
Call loans from banks	Taishin Bank	-	500,000	1.70~1.98	(154)
Short-term borrowing from Central Bank and banks	Shin Kong Bank	-	360,000	3.56	(246)
Call loans to banks	Shin Kong Bank	-	200,000	2.03~3.20	20
Call loans from banks	Shin Kong Bank	-	500,000	1.69~3.50	(2,468)
Call loans from banks	Chang Hwa Bank	-	1,000,000	2.90~3.80	(813)

	2006				
	Related Party	Ending Balance	Highest Amount	Interest Rate (%)	Interest Expense
Call loans to banks	Taishin Bank	\$-	\$50,000	1.47	\$2
Call loans from banks	Taishin Bank	-	1,500,000	1.46~1.59	\$(2,645)
Short-term borrowing from Central Bank and banks	Shin Kong Bank	-	1,200,000	1.67~1.75	(340)
Call loans to banks	Shin Kong Bank	-	250,000	1.59~1.62	32
Call loans from banks	Shin Kong Bank	400,000	400,000	1.21~1.70	(3,052)

Taishin Bills Finance pledged its time deposits of \$1,200,000 thousand and \$700,000 thousand in Taishin Bank as collaterals of financing for the years ended December 31, 2007 and 2006.



## Deposits

Taishin Bills Finance deposits to related parties as of December 31, 2007 and 2006 were as follows:

	Related Party	2007		2006	
		Amount	Rate (%)	Amount	Rate (%)
Time deposits	Shin Kong Bank	\$100,000	1.65~2.45	\$500,000	1.65~2.45

Interest income from Shin Kong Bank for the years ended December 31, 2007 and 2006 were \$6,680 thousand and \$13,011 thousand, respectively.

## Trading Securities and Bonds

Related Parties	Year Ended December 31, 2007					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank	\$7,056,162	\$12,150,879	\$	-	\$-	-
Taiwan Securities	<u>14,453,514</u>	<u>14,777,996</u>	-	-	-	-
	<u>\$21,509,676</u>	<u>\$26,928,875</u>	<u>\$-</u>		<u>\$-</u>	

Related Parties	Year Ended December 31, 2006					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Normal Loans	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank	\$11,715,728	\$32,248,597	\$-	-	\$-	-
Taiwan Securities	<u>22,867,417</u>	<u>24,549,986</u>	-	-	-	-
	<u>\$34,583,145</u>	<u>\$56,798,583</u>	<u>\$-</u>		<u>\$-</u>	

## Financial Assets at Fair Value through Profit or Loss and Available-for-Sale Financial Assets

Account	Related Party	Item	December 31			
			2007		2006	
			Nominal	Cost	Nominal	Cost
Financial assets at FVTPL	Shin Kong Bank	Negotiable certificate deposit	\$-	-	\$503,800	\$503,805

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

## VI. Financial Statements

### Taishin AMC

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Real-Estate	Equity-method investee
Cybersoft Digital Service	Its chairman is Taiwan Securities' chairman

Material transactions with related parties are as follows:

#### ***Credit Receivable***

In June 2005, Taishin AMC bought Taishin Bank's loans, referring to 12 clients and with a book value of \$2,951,353 thousand, for \$986,000 thousand. The purchase price, \$986,000 thousand, was payable in seven installments from the contract date to October 31, 2006. The difference of \$10,591 thousand between the purchase price and the present value (cost of purchased loans) of \$975,409 thousand, which was calculated at its imputed interest rate, was charged to unrealized interest expense and was amortized by the interest method.

In July 2006, Taishin AMC bought NPLs that resulted from cash cards, credit cards and small consumer loans from Taishin Bank for \$546,697 thousand with book value of \$9,494,153 thousand. Based on the contract, June 30, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$546,697 thousand will be paid off in two installments by September 15, 2006. In September 2006, Taishin AMC bought NPLs that resulted from cash cards, credit cards and small consumer loans from Taishin Bank for \$158,000 thousand with book value of \$5,490,584 thousand. Based on the contract, August 31, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$158,000 thousand will be paid off in two installments by October 31, 2006. Also defined in the contract, 5 years from measurement date, Taishin AMC authorized Taishin Bank the rights to collect payments from debtors and will pay the 30% of loans collected as service fee and 40% of amounts paid as commission.

The collected credit receivables for years ended December 31, 2007 and 2006 were \$407,055 thousand and \$461,029 thousand, respectively. The credit receivables written-off were \$715,049 thousand and \$1,038,271 thousand for years ended December 31, 2007 and 2006, respectively.

#### **a. Transferring ownerships of loans**

	Year Ended December 31, 2007			
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$18,918,889	\$-	\$(715,049)	\$18,203,840



	Year Ended December 31, 2006			
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$4,972,424	\$14,984,736	\$(1,038,271)	\$18,918,889

### b. Credit Receivable, net

	Year Ended December 31, 2007				
	Beginning Balance	Purchased	Collected	Bad Debt Loss	Ending Balance
Credit receivable	\$773,817	\$-	\$(407,055)	\$-	\$366,762
Allowance for bad debt	<u>(206,000)</u>	-	-	<u>9,200</u>	<u>(196,800)</u>
<u>Credit receivable, net</u>	<u>\$567,817</u>	<u>\$-</u>	<u>\$(407,055)</u>	<u>\$9,200</u>	<u>\$169,962</u>

	Year Ended December 31, 2006				
	Beginning Balance	Purchased	Collected	Bad Debt Loss	Ending Balance
Credit receivable	\$530,149	\$704,697	\$(461,029)	\$	\$773,817
Allowance for bad debt	<u>(266,271)</u>	-	-	<u>60,271</u>	<u>(206,000)</u>
Credit receivable, net	<u>\$263,878</u>	<u>\$704,697</u>	<u>\$(461,029)</u>	<u>\$60,271</u>	<u>\$567,817</u>

### c. Payables for Purchasing Loans

	Year Ended December 31, 2006				
	Beginning Balance	Loans sold	Amount Paid	Overdue Within a Year	Ending Balance
Payable for purchasing loans	\$591,600	\$704,697	\$(1,296,297)	\$-	\$-
(Unrealized) realized interest expense	(4,582)	-	4,582	-	-
Payable for purchasing loans, net	\$587,018	\$704,697	\$(1,291,715)	\$-	\$-

## Taishin Marketing

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Insurance Broker	Taishin Bank's subsidiary

## Taishin Venture Capital

Names and relationships of related parties are as follows:

Name	Relationship
Taichern Financial Management Co., Ltd.	Its chairman is Taisin Venture's chairman (Liquidated on October 2, 2006)
Taishin Bank	Wholly owned by the same parent company

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### 34. PLEDGED ASSETS

Pledged Assets	Description	December 31	
		2007	2006
Refundable deposits	Cash and certificates of time deposits	\$16,140,469	\$20,053,190
Operating deposits	Cash	838,554	724,221
Settlement funds	Cash	448,799	443,601
Financial assets at FVTPL	Certificates of time deposits and bonds	507,988	1,190,118
Available-for-sale financial assets	Bonds	1,445,375	2,061,896
Held-to-maturity financial assets	Certificates of time deposits and bonds	9,137,180	13,305,016
Property and equipment	Land and buildings	2,153,975	2,305,550
Rental and idle assets	Land and buildings	367,980	241,137

### 35. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to those mentioned in Note 6, Taishin Financial Holding and subsidiaries have the following contingent liabilities and commitments as of December 31, 2007 and 2006:

	2007	2006
Guarantees	\$75,093,664	\$72,383,940
Letters of credit	38,733,481	35,770,839
Trust liabilities	323,503,214	253,264,770
Unpaid equipment purchase contracts	852,018	329,909
Unused loan commitments (excluding credit card)	52,152,236	84,823,530
Unused loan commitments (credit card only)	384,398,039	386,151,458

Chang Hwa Bank enters into operating leases for its domestic branch premises. Significant provisions of the contracts are as follows:

- (a) The lease period ranges from one to fifteen years. Rental payments are made annually.
- (b) As of December 31, 2007, the estimated future lease payments under the lease contracts are as follows:

Period	Amount
2008	\$471,443
2009	391,906
2010	296,391
2011	184,058
2012	105,933

The Department of National Defense of Iran as the recipient requested Chang Hwa Bank to release US\$15,000 thousand. On August 1, 2002, the Supreme Court decided in favor of Chang Hwa Bank. The Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taipei District Court. On September 10, 2004, the Taipei District Court decided in favor of Chang Hwa Bank. However, the Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taiwan High Court on October 6, 2004. The lawsuit is still in legal process at the High Court.



## 36. DISCLOSURES OF FINANCIAL INSTRUMENTS INFORMATION

### Information of Fair Value

	December 31, 2007	
	Carrying Value	Fair Value
<b>Financial assets</b>		
Cash and cash equivalents	\$37,598,828	\$37,598,828
Due from Central Bank and call loans to banks	247,170,969	247,170,969
Financial assets at FVTPL	81,135,642	81,135,642
Bonds and securities purchased under resell agreements	14,337,297	14,337,297
Receivables	119,132,189	119,132,189
Loans	1,466,208,014	1,466,208,014
Available-for-sale financial assets	106,149,641	106,149,641
Held-to-maturity financial assets	127,639,354	127,547,077
Other miscellaneous financial assets	9,345,836	9,345,836
<b>Financial liabilities</b>		
Due to banks and Central Bank	209,768,825	209,768,825
Commercial paper payable	5,093,382	5,093,382
Financial liabilities at FVTPL	17,741,037	17,741,037
Bonds and securities sold under repurchase agreements	84,212,588	84,212,588
Payables	62,077,023	62,077,023
Deposits	1,669,015,794	1,669,015,794
Bonds payable	108,646,833	108,870,756
Other borrowings	5,530,000	5,530,000
Other financial liabilities	525,226	525,226

	December 31, 2006	
	Carrying Value	Fair Value
<b>Financial assets</b>		
Cash and cash equivalents	\$59,848,023	\$59,848,023
Due from Central Bank and call loans to banks	207,701,591	207,701,591
Financial assets at FVTPL	116,183,851	116,183,851
Bonds and securities purchased under resell agreements	26,163,593	26,163,593
Receivables	110,837,542	110,837,542
Loans	1,380,374,402	1,380,374,402
Available-for-sale financial assets	94,109,665	94,109,665
Held-to-maturity financial assets	185,561,348	185,518,624
Other miscellaneous financial assets	7,716,621	7,716,621
<b>Financial liabilities</b>		
Due to banks and Central Bank	236,622,085	236,622,085
Call loans from banks and Central Bank	384,585	384,585
Commercial paper payable	4,112,746	4,112,746
Financial liabilities at FVTPL	16,751,946	16,751,946
Bonds and securities sold under repurchase agreements	87,195,497	87,195,497
Payables	72,145,841	72,145,841
Deposits	1,628,076,369	1,628,076,369
Bonds payable	110,218,044	110,748,864
Other borrowings	4,250,000	4,250,000
Other financial liabilities	535,041	535,041

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Taishin Financial Holding and subsidiaries adopt the following methods and assumptions to determine the fair values of financial instruments for the years ended December 31, 2007 and 2006:

- (a) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, due from Central Bank and call loans to banks, bonds and securities purchased under resell agreements, receivables, due to banks and Central Bank, payables, commercial paper payable, bonds and securities sold under repurchase agreements, other borrowings and call loans from banks and Central Bank.
- (b) Fair values of financial instruments designated as at FVTPL and available-for-sale or held-to-maturity financial assets are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

Fair values of debt investments not actively traded in market are determined at their expected future cash flow, the frequency of interest payments, the remaining contract period, the creditworthiness of borrowers and the discount rate, which is determined at the yield rate of the equivalent instruments in the market. Fair values of the equity investments are determined at the market value.

Fair values of bond investments with no active market are based on their transaction prices on quoted prices made by market makers. For those investments with no transaction prices or quoted prices, their fair values are determined by the preceding valuation techniques.

Fair values of derivative instruments are determined at the expected acquired or paid amount, assuming that Taishin Financial Holding and subsidiaries terminate the contracts in accordance with the contracts. Taishin Financial Holding and subsidiaries adopt the model consistent with those generally used by other market participants to price financial instruments.

- (c) Loans and deposits are interest-bearing financial assets and liabilities and their carrying values approach to their fair values. The carrying amount of delinquent loans is the estimated collectable amount which is the book value less allowance for bad debt. Therefore, the fair value of delinquent loans and receivables is determined at their carrying value.
- (d) Financial assets carried at cost and investments accounted for by the equity method are equity instrument investments of which the fair value could not be measured reliably, including non-public stocks and stocks traded in the Emerging Stock Market. Fair values of these instruments are determined at their carrying values.



Fair values of financial assets and liabilities using based on quoted market prices or valuation techniques were as follows:

	December 31, 2007	
	Quoted Market Prices	Valuation Techniques
Financial assets		
Financial assets at FVTPL	\$47,106,360	\$34,029,282
Available-for-sale financial assets	80,804,460	25,345,181
Held-to-maturity financial assets	6,808,697	120,738,380
Financial liabilities		
Financial liabilities at FVTPL	176,000	17,565,037

	December 31, 2006	
	Quoted Market Prices	Valuation Techniques
Financial assets		
Financial assets at FVTPL	\$55,951,142	\$60,232,709
Available-for-sale financial assets	87,873,559	6,236,106
Held-to-maturity financial assets	7,146,682	178,371,942
Financial liabilities		
Financial liabilities at FVTPL	455,061	16,296,885

Valuation gains (losses) arising from changes in fair value of financial instruments determined using quoted market prices or valuation techniques were \$40,176 thousand and \$(374,784) thousand for the year ended December 31, 2007, respectively. Valuation gains (losses) arising from changes in fair value of financial instruments determined using quoted market prices or valuation techniques were \$990,390 thousand and \$(181,514) thousand for the year ended December 31, 2006, respectively.

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

	Years Ended December 31	
	2007	2006
Total interest income	\$76,001,354	\$77,187,404
Total interest expense	41,275,412	36,364,981

For the years ended December 31, 2007 and 2006, the increase (decrease) in stockholders' equity from available-for-sale financial asset amounted to \$(193,865) thousand and \$1,665,732 thousand, respectively. The amount deducted from the stockholders' equity adjustment and recognized as current income or loss was \$1,367,149 thousand and \$564,621 thousand for the years ended December 31, 2007 and 2006, respectively.

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### Financial Risk

#### *Market Risk*

Taishin Financial Holding and subsidiaries engage in derivatives mainly to meet customers' needs, trade for business and manage market risks. While taking into account the CAR ratio, annual budget, and the anticipation on market fluctuations, the board of directors annually reviewed the measurement of risks and returns to determine whether they are appropriate, oversaw the assumed risks to ensure compliance with Taishin Financial Holding's requirement, approved the authorization limits on market risk, and ensured all trading engaged within authorization limits.

Taishin Financial Holding and subsidiaries use the market risk factor sensitivity as the instrument for market risk controls. The market risk factor sensitivity refers to the change in value resulting from a unit change in a specific market risk factor. Market risk factors include interest rate, exchange rate, price of equity instruments and commodity prices. The market risk factor sensitivity of Taishin Financial Holding and subsidiaries discloses the market risks derived from different risk positions on the trading book.

Foreign exchange rate factor sensitivity, FX Delta, refers to the net risk positions of different currencies on balance sheet date. That is the effect of the change in present value due to 100% change in foreign exchange for each currency. The foreign exchange rate factor sensitivity not only includes those of foreign-currency derivatives, but also integrates the risk sensitivity of spot foreign rate positions for hedging purpose and spot position of different currencies.

Interest rate factor sensitivity refers to the effect (DV01 or PVBP) of change in present value of future cash flows generated from spot rate positions and interest-rate derivative positions incurred by moving upwards the yield curves under evaluation by 0.01% (one b.p.) on the interest rate structure.

Risk sensitivity of equity instruments refers to the effect of price change in the value of derivative positions due to 100% price change in equity instruments and in underlying assets of derivative instruments. Taishin Financial Holding and subsidiaries engage in the trading of equity instruments including stock, convertible bonds, and stock-index options and stock options.



(In thousands of original currencies)

Market Risk Type	Currency	December 31	
		2007	2006
Exchange rate risk value	EUR	\$29,827	\$18,969
	JPY	(856,545)	1,651,728
	USD	1,270,791	909,983
	Others (Note)	(139,960)	(775,080)
Interest rate sensitivity DV01	TWD	(13,808)	(18,176)
	USD	(15)	(59)
	Others (Note)	(69)	-
Interest curve of IRS and CCS	TWD	5,679	3,500
	USD	(78)	120
	Others (Note)	(135)	18
Equity securities risk value	TWD	8,379,883	16,723,373
	USD	19,376	51,198
	Others (Note)	-	221

Note: Presented as NT dollars which is translated from original currencies.

## Credit Risk

Credit risks refer to the losses from financial instruments incurred by non-performance of the contracted obligations by Taishin Financial Holding and subsidiaries' counterparties or others. Taishin Financial Holding and subsidiaries provide loans, loan commitments and guarantee services based on prudent credit evaluations. The collaterals that Taishin Financial Holding and subsidiaries demand to be pledged on loans, loan commitments or guarantees are normally cash, inventory, marketable securities or other property. When the counterparties or others default, Taishin Financial Holding and subsidiaries have rights to enforce the collaterals or other guarantees and effectively reduce credit risks. In disclosures on the maximum amounts for credit risk exposures, the market values of the collaterals are not considered. Taishin Financial Holding and subsidiaries are trading various derivatives with its peer financial institutions within trading limits authorized in accordance with world rankings and credit ratings. Taishin Financial Holding and subsidiaries anticipate that the probability of default by counterparties is very low.

The maximum credit risk exposures of various financial instruments held by Taishin Financial Holding and subsidiaries are the same as per book values. Please refer to consolidated financial statements.

The contract amounts of financial assets with off-balance-sheet credit risks held by Taishin Financial Holding and subsidiaries as of December 31, 2007 and 2006 were as follows:

Financial Instrument Type	December 31	
	2007	2006
Guarantees	\$75,093,664	\$72,383,940
Letters of credit	38,733,481	35,770,839
Unused loan commitments (excluding credit card)	52,152,236	84,823,530
Unused loan commitments (credit card only)	384,398,039	386,151,458

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Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics for concentration of credit risks include the nature of business activities engaged by debtors. Taishin Financial Holding and subsidiaries have not engaged in transactions that involved a prominent concentration of one client or one transaction party, but have transaction parties of similar industry type or from similar region.

Taishin Financial Holding and subsidiaries' information with prominent aggregate attributes of credit risk are as follows:

Industry Type	December 31			
	2007		2006	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Manufacturing	\$390,106,563	26.26	\$361,277,970	25.69
Wholesale and retailing	98,630,726	6.64	118,532,897	8.43
Finance and insurance	74,260,141	5.00	85,281,926	6.06
Real estate and leasing	66,375,650	4.47	47,016,949	3.34
Service	34,076,648	2.29	28,322,861	2.01
Individuals	626,457,290	42.18	623,831,698	44.36
Others	195,426,033	13.16	141,922,285	10.11
	\$1,485,333,051		\$1,406,186,586	

Geographic Location	December 31			
	2007		2006	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Asia	\$1,402,623,392	94.43	\$1,287,022,329	91.53
Europe	13,796,590	0.93	13,090,958	0.93
North America	45,588,140	3.07	61,482,300	4.37
Others	<u>23,324,929</u>	1.57	44,590,999	3.17
	\$1,485,333,051		\$1,406,186,586	

### Liquidity Risk

Taishin Financial Holding and subsidiaries had stipulated regulations on liquidity management to appropriately arrange the allocation of assets and liabilities, avoid concentration on nationalities, transaction parties, and product lines in regard to the sources and uses of funds, and thus reduce the liquidity risk of failing to raise capital for contract performance or failing to sell financial assets with reasonable prices in the market. Overall, the working capital of Taishin Financial Holding and subsidiaries is sufficient to cover the increase in assets and pay off the liabilities when due.



Taishin Financial Holding and subsidiaries' information on liquidity risk is as follows:

- (1) Taishin Financial Holding and subsidiaries' capital and working capital are sufficient to perform all the contracted obligations, and its investments in securities purchased under resell agreements are marketable financial assets that have low liquidity risks and are easily traded with reasonable prices in the market.
- (2) Taishin Bank's ratios of liquidity reserves were 18.98% and 18.44% for the years ended December 31, 2007 and 2006, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Taishin Bank's derivatives, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.
- (3) Taiwan Securities' working capital is sufficient and there will be no liquidity risk of failing to raise capital funds to perform contracted obligations. Its investments in bonds are marketable and are expected to be sold with fair value in the market. Taiwan Securities' investments in equity instruments do not have active market or the transaction volume is limited and thus are expected to have liquidity risks. But Taiwan Securities doesn't expect to sell the investment in the short run. And it has sufficient working capital and thus is expected to have no significant liquidity risk.
- (4) Taishin Bills Finance's capital and working capital are sufficient to perform all the contracted obligations, and thus there will be no liquidity risks due to failure to raise capital funds to perform contracted obligations. Taishin Bills Finance's derivatives, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have low liquidity risks.
- (5) Chang Hwa Bank's ratios of liquidity reserves were 15.31% and 21.50% for the years ended December 31, 2007 and 2006. Its capital and working capital are sufficient to perform all the contracted obligations, and thus there will be no liquidity risks due to failure to raise capital funds to perform contracted obligations. Chang Hwa Bank's derivatives, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have low liquidity risks.

### ***Cash Flow Risk from Change in Interest Rates***

- (1) Taishin Financial Holding issues debenture bonds with floating rates and anticipates fluctuations in cash flows in the future due to change in market interest rates. To manage interest rate risks effectively, Taishin Financial Holding engages in trading of interest rate

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swaps in accordance with the evaluation of interest rate risks to avoid cash flow risks as a result of change in interest rates.

- (2) Taishin Bank, Taishin Bills Finance and Chang Hwa Bank's cash flow risks as a result of change in interest rates refer to cash flow fluctuations in the future from its assets with floating rates and liabilities with floating rates. Taishin Bank, Taishin Bills Finance, and Chang Hwa Bank evaluate interest rates risks in trends of interest rate and engage in trading of interest rates swaps in accordance with risk levels and operational needs to reduce cash flow risks as a result of changes in interest rates.

### ***Effective Interest Rate (Excluding Financial Assets at Fair Value through Profit or Loss)***

As of December 31, 2007 and 2006, the effective interest rate distinction based on the main currencies of financial instruments that Taishin Financial Holding and subsidiaries held or issued were as follows:

	Year Ended December 31, 2007	
	Effective Interest Rate (%)	
	NTD	USD
Bonds and securities purchased under resell agreements	0.86%~2.55%	-
Available-for-sale financial assets	1.75%~3.01%	4.94%~7.75%
Held-to-maturity financial assets	1.50%~6.25%	4.68%~5.77%
Loans	0.08%~20.00%	4.37%~15.46%
Commercial paper payable	2.41%~2.71%	-
Bonds and securities sold under repurchase agreements	1.70%~2.85%	-
Deposits	0.00%~6.88%	0.50%~8.88%
Bonds payable	0.00%~4.45%	-

	Year Ended December 31, 2006	
	Effective Interest Rate (%)	
	NTD	USD
Bonds and securities purchased under resell agreements	1.16%~2.00%	-
Available-for-sale financial assets	1.75%~2.17%	5.14%~5.49%
Held-to-maturity financial assets	0.00%~6.25%	4.68%~5.75%
Loans	0.08%~18.16%	2.86%~16.23%
Commercial paper payable	1.76%~2.04%	-
Bonds and securities sold under repurchase agreements	1.40%~1.68%	-
Deposits	0.00%~4.00%	0.50%~5.95%
Bonds payable	0.00%~6.26%	-



## 37. RELATED INFORMATION OF CAPITAL ADEQUACY

### Group Capital Adequacy Ratio

Company	Item	December 31, 2007		
		Ownership Interest (%)	Group Eligible Capital	Group's Statutory Capital Requirement
Taishin Financial Holding			108,080,004	116,384,827
Taishin Bank		100.00%	65,837,326	52,930,047
Chang Hwa Bank		22.55%	20,569,218	15,880,889
Taishin Bills Finance		100.00%	6,615,945	3,477,843
Taiwan Securities		100.00%	13,461,373	5,128,334
Taishin Venture Capital		100.00%	859,185	429,648
Taishin AMC		100.00%	1,312,466	763,637
Taishin Marketing		100.00%	5,799	3,330
Exclusive items amounts subtracted			(132,321,088)	(116,358,725)
Total			84,420,228	78,639,830
Group's capital adequacy rate (Note)				107.35%

### Financial Holding Company Eligible Capital

Item	Amount as of December 31, 2007
Common stock	\$57,103,001
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates which comply with eligible Tier 1 capital	8,462,177
Other Preferred stock and subordinated corporate bonds	36,026,668
Advance receipts for capital stock	-
Capital surplus	3,243,465
Legal reserve	-
Special reserve	-
Retained earnings	4,089,120
Equity adjustment	(482,574)
Subtracted:	
Goodwill	-
Deferred assets	361,853
Treasury stock	-
Total	108,080,004

Note a: The above list was prepared according to "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Company."

Note b: Group's capital adequacy rate = Group's eligible capital ÷ Group's statutory capital requirement.

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### 38. DISCLOSURES ACCORDING TO ARTICLE 46 OF FINANCIAL HOLDING ACT

According to Article 46 of Financial Holding Company Act, all subsidiaries of financial holding company should disclose the balance of credit, endorsements and other transactions to the same person, same related person or same related enterprise.

(In NT\$ Million; %)

Transaction Party	Relationship	Total of Credit, Endorsement and Other Transaction	As Proportion of Financial Holding's Net Equity
Central Bank	Same related enterprise	221,279	140.90%
Formosa Plastics Co. and related parties	Same related enterprise	40,795	25.98%
Taiwan High Speed Rail Co., Ltd.	Same related enterprise	37,071	23.60%
National Treasury Agency	Same related enterprise	28,000	17.83%
Chinatrust Co. and related parties	Same related enterprise	25,922	16.51%
Chi Mei Co. and related parties	Same related enterprise	17,824	11.35%
Uni-President Co. and related parties	Same related enterprise	16,298	10.38%
Taiwan Power Co., Ltd.	Same related enterprise	13,099	8.34%
Tatung Co. and related parties	Same related enterprise	12,190	7.76%
Yuanta Group	Same related enterprise	10,012	6.37%
Bureau of National Health Insurance	Same related enterprise	10,000	6.37%
Fubon Financial Holding and related parties	Same related enterprise	9,184	5.85%
Mega Financial Holdings and related parties	Same related enterprise	9,156	5.83%
Ya-Dong Group	Same related enterprise	9,128	5.81%
Union Bank and related parties	Same related enterprise	9,093	5.79%
Department of Finance, Taipei City Government	Same related enterprise	9,000	5.73%
China Development Financial Holdings and related parties	Same related enterprise	8,880	5.65%
AU Optronics Corp. and related parties	Same related enterprise	8,046	5.12%
Yuen Foong Yu Group	Same related enterprise	7,650	4.87%
Ever Green Co. and related parties	Same related enterprise	7,637	4.86%
China Airline Co. and related parties	Same related enterprise	7,053	4.49%
Mosel Vitelic Group	Same related enterprise	6,944	4.42%
First Financial Holding and related parties	Same related enterprise	6,492	4.13%
E-United Group	Same related enterprise	6,180	3.94%
Ford Motor Company	Same related enterprise	6,063	3.86%
Hon Hai Precision Ind. Co. Ltd., and related parties	Same related enterprise	5,926	3.77%
Industrial bank of Taiwan and related parties	Same related enterprise	5,644	3.59%
Pouchen Industry Group	Same related enterprise	5,635	3.59%
Huanan Financial Holding and related parties	Same related enterprise	5,446	3.47%
Lin Yuan Group	Same related enterprise	5,324	3.39%
DeutscheZentral - Genossenschafts Bank - DZ Bank AG	Same related enterprise	5,152	3.28%
BNP Paribas	Same related enterprise	5,016	3.19%
CPC Corporation, Taiwan	Same related enterprise	5,000	3.18%
First International Computer Inc. and related parties	Same related enterprise	4,658	2.97%
China Steel Group	Same related enterprise	4,645	2.96%
Hong Tai Group	Same related enterprise	4,576	2.91%
Powerchip Group	Same related enterprise	4,518	2.88%
Civil Service Housing and Welfare Committee, Taipei City Government	Same related enterprise	4,410	2.81%
Taita Chemical Company, Ltd. and related parties	Same related enterprise	4,381	2.79%
Polaris Financial Group	Same related enterprise	4,181	2.66%
Fu Sheng Group	Same related enterprise	4,144	2.64%



Transaction Party	Relationship	Total of Credit, Endorsement and Other Transaction	As Proportion of Financial Holding's Net Equity
E-Sun Financial Holdings and related parties	Same related enterprise	4,126	2.63%
Waterl and Financial Holdings	Same related enterprise	4,092	2.61%
Acer Group	Same related enterprise	4,028	2.56%
Yulon Group	Same related enterprise	3,959	2.52%
Walsin Lihwa Co. and related parties	Same related enterprise	3,948	2.51%
Taiwan International Securities Group	Same related enterprise	3,885	2.47%
Jih Sun Financial Holdings and related parties	Same related enterprise	3,877	2.47%
Lloyds TSB Bank Plc	Same related enterprise	3,735	2.38%
Taipei Financial Center Co.	Same related enterprise	3,623	2.31%
Aurora Co. and related parties	Same related enterprise	3,600	2.29%
Hosin Group	Same related enterprise	3,583	2.28%
The Capital Group	Same related enterprise	3,504	2.23%
Nice Group	Same related enterprise	3,438	2.19%
Taiwan Post Co., Ltd.	Same related enterprise	3,343	2.13%
Department of Transportation, Taipei City Government	Same related enterprise	3,231	2.06%
Qisda Co. and related parties	Same related enterprise	3,228	2.06%
Hotung Chemical Company, Ltd. and related parties	Same related enterprise	3,228	2.06%
Lianhua Group	Same related enterprise	3,222	2.05%
Hsin-Tao Power Corporation	Same related enterprise	3,133	1.99%
Lealea Group	Same related enterprise	3,121	1.99%
The Shanghai Commercial & Savings Bank, Ltd.	Same related enterprise	3,075	1.96%

### 39. FINANCIAL INFORMATION BY BUSINESS

The financial information by business for the years ended December 31, 2007 and 2006 was as follows:

Item	Business Type	2007				Total
		Bank Business	Securities Business	Bills Business	Other Business	
Net interest revenue (loss)		35,517,973	1,402,254	207,591	(1,163,422)	35,964,396
Net non- interest revenue (loss)		19,127,858	5,802,938	(129,835)	(668,170)	24,132,791
Net revenue (loss)		54,645,831	7,205,192	77,756	(1,831,592)	60,097,187
Bad debt expenses		(12,353,566)	-	222,396	-	(12,131,170)
Operating expenses		(26,778,370)	(4,712,167)	(143,521)	(977,923)	(32,611,981)
Income (loss) before income tax of continued operations		15,513,895	2,493,025	156,631	(2,809,515)	15,354,036
Income tax expense		(3,939,211)	(732,173)	(155,800)	(134,267)	(4,961,451)
Income (loss) after income tax of continued operations		11,574,684	1,760,852	831	(2,943,782)	10,392,585

Item	Business Type	2006				Total
		Bank Business	Securities Business	Bills Business	Other Business	
Net interest revenue (loss)		44,401,512	1,200,984	292,524	(1,022,080)	44,872,940
Net non- interest revenue		3,082,778	4,617,936	119,420	81,192	7,901,326
Net revenue (loss)		47,484,290	5,818,920	411,944	(940,888)	52,774,266
Bad debt expenses		(31,720,816)	-	(7,986)	-	(31,728,802)
Operating expenses		(27,041,007)	(4,177,174)	(153,299)	(507,877)	(31,879,357)
Income (loss) before income tax of continued operations		(11,277,533)	1,641,746	250,659	(1,448,765)	(10,833,893)
Income tax expense		3,174,240	(505,726)	(108,696)	253,134	2,812,952
Income (loss) after income tax of continued operations		(8,103,293)	1,136,020	141,963	(1,195,631)	(8,020,941)

## VI. Financial Statements

### 40. FINANCIAL STATEMENTS OF TAISHIN FINANCIAL HOLDING

#### TAISHIN FINANCIAL HOLDING CO., LTD. BALANCE SHEETS

DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

ASSETS	2007	2006
Cash and cash equivalents	\$13,026,747	\$11,859,469
Financial assets at FVTPL	156	10,550
Bonds and securities purchased under resell agreements	3,595,104	12,414,859
Receivables	1,569,064	1,116,376
Prepaid expenses	1,441	1,209
Investments accounted for by the equity method	116,325,691	106,530,981
OTHER FINANCIAL ASSETS		
Financial assets carried at cost	33,034	33,034
PROPERTY AND EQUIPMENT		
Cost		
Machinery equipment	16,002	15,668
Transportation equipment	4,380	4,380
Miscellaneous equipment	3,809	3,647
	24,191	23,695
Accumulated depreciation	(12,507)	(8,290)
Property and equipment, net	11,684	15,405
OTHER ASSETS		
Deferred tax assets	336,014	349,252
Other deferred assets	25,839	33,552
Other miscellaneous assets	1,206	2,993
Other assets	363,059	385,797
TOTAL	134,925,980	\$132,367,680



<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>2007</b>	<b>2006</b>
<b>LIABILITIES</b>		
Financial liabilities at FVTPL	\$421	\$-
Payables		
Accrued expense	479,076	541,233
Other payables	1,008,017	913,569
	1,487,093	1,454,802
Financial liabilities carried at cost	40,546,833	40,518,044
Other liabilities	14,882	6,811
Total liabilities	42,049,229	41,979,657
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock		
Common stock	57,103,001	57,103,001
Preferred stock	12,777,778	12,777,778
Capital surplus		
Additional paid-in capital in excess of par	17,313,951	32,853,146
Others	2,075,475	2,695,032
Retained earnings		
Accumulated earnings	4,089,120	(16,148,540)
Other items of stockholders' equity		
Cumulative translation adjustments	(465)	12,848
Unrealized gains or losses of financial instruments	(459,903)	1,101,111
Net loss not recognized as pension cost	(22,206)	(6,353)
Total stockholders' equity	92,876,751	90,388,023
<b>TOTAL</b>	<b>\$134,925,980</b>	<b>\$132,367,680</b>

## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. INCOME STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007	2006
<b>INCOME</b>		
Investment income under equity method	\$6,464,319	\$4,390,783
Interest income	285,332	347,713
Others	<u>40,969</u>	<u>28,601</u>
Total income	<u>6,790,620</u>	<u>4,767,097</u>
<b>EXPENSES AND LOSSES</b>		
Investment loss under equity method	(13,471)	(19,681,508)
Loss on disposal of investments accounted for by the equity method	(953,350)	-
Operating expenses	(371,331)	(357,141)
Interest expense	(1,236,630)	(1,153,374)
Others	<u>(10,381)</u>	<u>(1,203)</u>
Total expenses and losses	<u>(2,585,163)</u>	<u>(21,193,226)</u>
INCOME (LOSS) BEFORE INCOME TAX	4,205,457	(16,426,129)
INCOME TAX (EXPENSE) BENEFIT	(116,337)	274,645
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE (Minus tax of \$981 thousand)	-	<u>2,944</u>
NET INCOME (LOSS)	<u>\$4,089,120</u>	<u>\$(16,148,540)</u>

	2007		2006	
	Pretax	After Tax	Pretax	After Tax
<b>EARNINGS PER SHARE</b>				
Basic & diluted				
Net income (loss) before cumulative effects of changes in accounting principle	\$0.49	\$0.46	\$(3.21)	\$(3.15)
Cumulative effects of changes in accounting principle	-	-	-	-
Net income (loss)	\$0.49	\$0.46	\$(3.21)	\$(3.15)



## TAISHIN FINANCIAL HOLDING CO., LTD. STATEMENTS OF CASH FLOWS

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

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$4,089,120	\$(16,148,540)
Depreciation and amortization	12,316	20,047
Deferred tax expense (benefit)	110,532	(347,257)
Income tax (benefit) expense on linked-tax system	(1,031)	(20,216)
Loss (gain) on evaluation of financial assets	10,815	(8,543)
Gain on financial assets carried at cost	-	(7,331)
Impairment loss on financial assets carried at cost	-	1,080
Investment (income) loss recognized under equity method	(6,450,848)	15,290,725
Loss on disposal of Investments accounted for by the equity method	953,350	-
Cash dividends under equity method	2,732,764	839,614
Amortization on discount of convertible bonds	28,789	23,662
Loss on discard of property and equipment	-	9
Changes in interest payable compensation	-	626
Net changes in operating assets and liabilities		
Financial assets at FVTPL	-	(2,007)
Bonds and securities purchased under resell agreements	8,819,755	(11,042,242)
Receivables	220,032	(1,404,880)
Prepaid expenses	(232)	1,039
Other assets	(95,614)	10,350
Payables	(639,398)	147,422
Others	10,266	(7,298)
Net cash provided by (used in) operating activities	<u>9,800,616</u>	<u>(12,653,740)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds refunded from combination of financial assets carried at cost	-	76,807
Proceeds of sales of investments accounted for by the equity method	3,067,437	-
Increase in investments accounted for by the equity method	(11,700,000)	(9,333,096)
Purchase of property and equipment	(496)	(4,252)
Sale of property and equipment	-	1,852
Decrease in refundable deposits	221	290
Increase in deferred expense	-	(3,200)
Net cash used in investing activities	<u>(8,632,838)</u>	<u>(9,261,599)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance cost of bonds payable	(500)	(445)
Issuance of convertible bonds	-	6,943,986
Redemption of preferred stock at maturity	-	(4,000,000)
Issuance of preferred stock - D	-	13,923,739
Capital infusion with cash	-	13,902,609
Net cash (used in) provided by financing activities	<u>(500)</u>	<u>30,769,889</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,167,278	8,854,550
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,859,469</u>	<u>3,004,919</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$13,026,747</u>	<u>\$11,859,469</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest	<u>\$1,208,262</u>	<u>\$1,049,434</u>
Income tax	<u>\$6,835</u>	<u>\$35,742</u>

## VI. Financial Statements

### TAISHIN FINANCIAL HOLDING CO., LTD. STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus			Retained Earnings	
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions	Stock Option	Legal Reserve	
BALANCE, JANUARY 1, 2006	\$51,232,093	\$9,000,000	\$21,960,097	\$2,483,718	\$-	\$2,264,406	
Elimination of 2005 deficit	-	-	(383,556)	-	-	(2,264,406)	
Convertible bonds converted to common stock	190,000	-	89,417	-	-	-	
Capital infusion with cash	8,222,223	-	5,680,387	-	-	-	
Issuance of preferred stock - D	-	7,777,778	6,145,962	-	-	-	
Redemption of matured preferred stock - B	-	(4,000,000)	-	-	-	-	
Equity components for compound financial instruments	-	-	-	-	99,608	-	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	
Changes in ownership interest in subsidiaries	-	-	(44,401)	-	-	-	
Unrealized gains or losses of available-for-sale financial assets	-	-	-	-	-	-	
Cancellation of treasury stock	(2,541,315)	-	(594,760)	111,706	-	-	
Net loss not recognized as pension cost	=	=	=	-	-	-	
Consolidated net loss for the year ended December 31, 2006	=	=	=	=	=	=	
BALANCE, DECEMBER 31, 2006	<u>57,103,001</u>	<u>12,777,778</u>	<u>32,853,146</u>	2,595,424	99,608	-	
Elimination of 2006 deficit	=	=	<u>(15,528,983)</u>	(519,949)	(99,608)	-	
Translation adjustments on long-term equity investments	=	=	=	-	-	-	
Changes in ownership interest in subsidiaries	=	=	<u>(10,212)</u>	-	-	-	
Unrealized gains or losses of available-for-sale financial assets	=	=	=	-	-	-	
Net loss not recognized as pension cost	=	=	=	-	-	-	
Consolidated net income for the year ended December 31, 2007	=	=	=	=	=	=	
BALANCE, DECEMBER 31, 2007	<u>\$57,103,001</u>	<u>\$12,777,778</u>	<u>\$17,313,951</u>	<u>\$2,075,475</u>	<u>\$-</u>	<u>\$-</u>	



	Retained Earnings		Equity Adjustments			Treasury Stock	Total
	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost		
	\$40,534	\$(2,688,496)	\$10,919	\$-	\$(867)	\$(3,024,369)	\$81,278,035
	(40,534)	2,688,496	-	-	-	-	-
	-	-	-	-	-	-	279,417
	-	-	-	-	-	-	13,902,610
	-	-	-	-	-	-	13,923,740
	-	-	-	-	-	-	(4,000,000)
	-	-	-	-	-	-	99,608
	-	-	1,929	-	-	-	1,929
	-	-	-	-	-	-	(44,401)
	-	-	-	1,101,111	-	-	1,101,111
	-	-	-	-	-	3,024,369	-
	-	-	-	-	(5,486)	-	(5,486)
	=	<u>(16,148,540)</u>	=	=	=	=	<u>(16,148,540)</u>
	-	(16,148,540)	12,848	1,101,111	(6,353)	-	90,388,023
	-	16,148,540	-	-	-	-	-
	-	-	(13,313)	-	-	-	(13,313)
	-	-	-	-	-	-	(10,212)
	-	-	-	(1,561,014)	-	-	(1,561,014)
	-	-	-	-	(15,853)	-	(15,853)
	=	<u>4,089,120</u>	=	=	=	=	<u>4,089,120</u>
	<u>\$-</u>	<u>\$4,089,120</u>	<u>\$(465)</u>	<u>\$(459,903)</u>	<u>\$(22,206)</u>	<u>\$-</u>	<u>\$92,876,751</u>

## VI. Financial Statements

### 41. PROFITABILITY OF TAISHIN FINANCIAL HOLDING (STAND-ALONE AND CONSOLIDATED)

#### Stand-Alone

Item	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	3.15%	3.06%	(13.15%)	(12.93%)
Return on net worth	4.59%	4.46%	(19.13%)	(18.81%)
Profit margin		60.22%	-	(338.75%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

#### Consolidated

Item	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	0.66%	0.45%	(0.43%)	(0.31%)
Return on net worth	9.19%	6.71%	(6.82%)	(4.93%)
Profit margin		17.29%	-	(13.79%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.



## 42. CONDENSED BALANCE SHEETS AND STATEMENTS OF INCOME AND IMPORTANT FINANCIAL NOTES OF SUBSIDIARIES

### Taishin Bank

#### *Balance Sheet*

	December 31	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$9,465,317	\$10,883,151
Due from Central Bank and call loans to banks	135,175,119	91,074,180
Financial assets at FVTPL	26,103,651	56,432,692
Receivables	78,814,545	70,497,131
Loans	558,713,701	517,279,676
Available-for-sale financial assets	23,610,956	6,786,174
Held-to-maturity financial assets	15,658,652	18,012,885
Investments accounted for by the equity method	2,227,146	2,171,305
Other financial assets	2,399,698	3,726,752
Property and equipment	16,752,240	17,504,724
Other assets	<u>24,623,965</u>	<u>28,587,623</u>
	<u>\$893,544,990</u>	<u>\$822,956,293</u>
<b>Liabilities</b>		
Due to banks and Central Bank	\$73,610,040	\$66,384,638
Financial liabilities at FVTPL	16,000,476	15,037,060
Bonds and securities sold under repurchase agreements	19,244,688	16,284,892
Payables	27,335,247	23,690,821
Deposits	667,548,327	620,420,052
Bank notes	40,100,000	44,700,000
Other financial liabilities	178,476	184,641
Other liabilities	1,345,616	1,400,411
	<u>845,362,870</u>	<u>788,102,515</u>
<b>Stockholders' equity</b>		
Capital stock	41,750,118	34,867,765
Capital surplus	3,806,630	13,254,298
Retained earnings	2,709,441	(14,265,315)
Cumulative translation adjustments	(8,717)	(7,065)
Unrealized gains or losses of available-for-sale financial assets	(75,313)	1,004,095
Other adjustments	<u>(39)</u>	<u>-</u>
	<u>48,182,120</u>	<u>34,853,778</u>
	<u>\$893,544,990</u>	<u>\$822,956,293</u>

## VI. Financial Statements

### Income Statement

	Years Ended December 31	
	2007	2006
Net interest income	\$16,586,530	\$25,887,383
Net non-interest income	<u>11,460,311</u>	<u>(2,856,204)</u>
Gross income	28,046,841	23,031,179
Bad debt expenses	(11,496,635)	(34,493,945)
Operating expenses	<u>(13,844,276)</u>	<u>(15,018,729)</u>
Income before income tax	2,705,930	(26,481,495)
Estimated income tax benefit	13,723	6,685,472
Cumulative effects of changes in accounting principle	-	<u>146,393</u>
Net income	<u>\$2,719,653</u>	<u>\$(19,649,630)</u>
Pre-tax basic earnings (loss) per share (dollar)	<u>\$0.68</u>	<u>\$(9.39)</u>
After-tax basic earnings (loss) per share (dollar)	<u>\$0.68</u>	<u>\$(7.02)</u>

### Key Financial and Business Highlights

#### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	0.32%	0.32%	(3.16%)	(2.36%)
Return on net worth	6.52%	6.55%	(61.28%)	(45.74%)
Profit margin		9.70%		(85.32%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

#### Asset Quality

Business Type	Item	December 31, 2007					
		Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note C)	
Corporate finance	Secured	751,030	102,934,059	0.73%	347,381	46.25%	
	Unsecured	1,229,496	135,649,334	0.91%	1,254,544	102.04%	
Consumer finance	Mortgage loans (Note d)	1,167,594	206,317,243	0.57%	184,728	15.82%	
	Cash cards	3,233,975	32,699,343	9.89%	1,742,553	53.88%	
	Credit loans (Note e)	4,259,263	37,353,470	11.40%	2,493,251	58.54%	
	Others (Note f)	Secured	248,623	45,437,231	0.55%	39,276	15.80%
		Unsecured	352,567	4,537,551	7.77%	152,797	43.34%
Total		11,242,548	564,928,231	1.99%	6,214,530	55.28%	



Business Type		Item	December 31, 2006					
			Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	CCoverage Ratio	
Corporate finance	Secured		661,498	94,298,971	0.70%	1,577,582	238.49%	
	Unsecured		1,280,580	97,753,535	1.31%	2,144,562	167.47%	
Consumer finance	Mortgage loans (Note d)		999,083	206,845,620	0.48%	180,783	18.09%	
	Cash cards		3,803,266	51,861,548	7.33%	6,258,253	164.55%	
	Credit loans (Note e)		3,741,660	49,117,689	7.62%	3,692,371	98.68%	
	Others (Note f)	Secured		387,142	24,491,420	1.58%	13,446	3.47%
		Unsecured		707,491	7,039,026	10.05%	261,136	36.91%
Total			11,580,720	531,407,809	2.18%	14,128,133	122.00%	

Business Type		Item	December 31, 2007				
			Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio (Note C)
Credit card			568,731	22,169,934	2.57%	550,703	96.83%
Norecource receivable factoring (Note g)			5,308	27,818,937	0.02%	5,308	100.00%

Business Type		Item	December 31, 2006				
			Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio (Note C)
Credit card			819,411	27,510,316	2.98%	1,665,782	203.29%
Norecource receivable factoring (Note g)			24,161	26,889,019	0.09%	18,526	76.68%

Note a: Nonperforming loans are in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005. (Ref. No. Jin-Guan-Yin (4)0944000378).

Note b: Nonperforming loans ratio = Nonperforming loan ÷ Loans

Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note c: Coverage ratio of allowances for loan losses = Allowances for loan losses ÷ Nonperforming loans

Coverage ratio of allowance for loan losses of credit card = Allowance for loan losses of credit card ÷ Nonperforming loans of credit cards

Note d: Mortgage loans are for borrowers to build or repair buildings, providing the borrowers, spouse or minor children to fully collateralize their buildings and install the right on mortgage to financial institutions.

Note e: Credit loans are to fit in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin - Guan - Yi (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note f: The others of consumer financial business are defined as secured or unsecured consumer financial business, excluding mortgage loans, cash cards, credit loans and credit cards.

Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin - Guan - Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation are from factors or insurance companies are ascertained to be non-recoverable.

## VI. Financial Statements

### Concentration of Credit Risk

December 31, 2007			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Formosa Plastics Group	10,634,922	22.07
2	Chinatrust Group	9,164,652	19.02
3	Wintech Group	5,718,107	11.87
4	Chi Mei Group	4,991,489	10.36
5	Tatung Group	4,798,551	9.96
6	Acer Group	4,474,988	9.29
7	First International Computer Group	4,148,510	8.61
8	Fu Sheng Group	4,144,010	8.60
9	Pou Chen Group	3,650,023	7.58
10	Union Group	3,605,000	7.48

December 31, 2006			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Chinatrust Group	8,130,174	23.33
2	Formosa Plastics Group	6,674,775	19.15
3	First International Computer Group	4,684,151	13.44
4	Wintech Group	4,571,244	13.12
5	BenQ Group	4,425,039	12.70
6	Tatung Group	3,887,703	11.15
7	Hon Hai Group	3,715,231	10.66
8	Chi Mei Group	3,610,505	10.36
9	Union Group	3,380,000	9.70
10	Walsin Lihwa Group	3,277,051	9.40

Note a: Sort by the balance of loans on December 31, 2007 and 2006, excluding government or state-run business.

Note b: Transaction party is in accordance with the article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.

### Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2007 and 2006 were as follows:

	2007	
	Average Value	Average Interest Rate %
<b>Assets</b>		
Due from banks and call loans to banks	\$115,674,289	2.25
Financial assets at FVTPL	10,939,003	1.63
Bonds and securities purchased under resell agreements	451,579	4.49
Receivables	34,365,472	7.80
Loans	526,887,459	4.63
Available-for-sale financial assets	11,959,390	8.90
Held-to-maturity financial assets	18,658,948	3.30
<b>Liabilities</b>		
Due to banks and call loans from banks	65,773,630	2.51
Bonds and securities sold under repurchase agreements	15,272,428	1.74
Demand deposits	193,740,401	0.60
Time deposits	413,008,598	2.55
Other financial liabilities	44,020,943	2.69



2006		
	Average Value	Average Interest Rate %
<b>Assets</b>		
Due from banks and call loans to banks	\$43,515,946	1.77
Financial assets at FVTPL	99,426,178	1.80
Bonds and securities purchased under resell agreements	2,385,230	1.25
Receivables	44,768,681	9.40
Loans	525,647,765	5.79
Available-for-sale financial assets	2,637,471	21.19
Held-to-maturity financial assets	15,923,148	3.04
<b>Liabilities</b>		
Due to banks and call loans from banks	72,270,597	2.81
Bonds and securities sold under repurchase agreements	19,450,572	1.39
Demand deposits	182,379,986	0.58
Time deposits	435,218,475	2.17
Other financial liabilities	44,873,853	2.65

## Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	473,342,908	24,686,442	28,536,317	180,731,904	707,297,571
Interest-sensitive liabilities	379,289,517	101,104,334	126,942,664	123,967,703	731,304,218
Interest sensitivity gap	94,053,391	(76,417,892)	(98,406,347)	56,764,201	(24,006,647)
Net worth					46,625,822
Ratio of interest-sensitive assets to liabilities					96.72%
Ratio of interest sensitivity gap to net worth					(51.49%)

(In Thousands of New Taiwan Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	414,785,141	34,146,578	35,209,683	202,448,312	686,589,714
Interest-sensitive liabilities	383,568,196	241,141,356	58,076,915	42,964,803	725,751,270
Interest sensitivity gap	31,216,945	(206,994,778)	(22,867,232)	159,483,509	(39,161,556)
Net worth					32,820,529
Ratio of interest-sensitive assets to liabilities					94.60%
Ratio of interest sensitivity gap to net worth					(119.32%)

Note a: The amounts listed above include amounts in NT dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(NT dollars only)

## VI. Financial Statements

(In Thousands of U.S. Dollars)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	2,410,786	891,571	779,167	1,059,052	5,140,576
Interest-sensitive liabilities	3,546,940	1,146,796	435,468	333,738	5,462,942
Interest sensitivity gap	(1,136,154)	(255,225)	343,699	725,314	(322,366)
Net worth					29,755
Ratio of interest-sensitive assets to liabilities					94.10%
Ratio of interest sensitivity gap to net worth					(1,083.40%)

(In Thousands of U.S. Dollars)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	3,895,326	1,562,641	480,598	979,929	6,918,494
Interest-sensitive liabilities	2,891,902	1,237,274	199,095	137,167	4,465,438
Interest sensitivity gap	1,003,424	325,367	281,503	842,762	2,453,056
Net worth					36,278
Ratio of interest-sensitive assets to liabilities					154.93%
Ratio of interest sensitivity gap to net worth					6,761.83%

Note a: The amounts listed above include amounts in U.S. dollars only for domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(U.S. dollars only)

### Maturity Analysis of Assets and Liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2007				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 year
Major maturity cash inflow	799,015,376	234,800,107	59,812,930	27,381,232	35,760,485	441,260,622
Major maturity cash outflow	799,015,376	201,005,774	98,953,468	134,099,305	169,469,232	195,487,597
Gap	-	33,794,333	(39,140,538)	(106,718,073)	(133,708,747)	245,773,025

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 year
Major maturity cash inflow	794,206,444	201,207,107	56,839,957	37,556,806	43,074,941	455,527,633
Major maturity cash outflow	794,206,444	167,845,870	274,875,610	122,737,600	118,226,870	110,520,494
Gap	-	33,361,237	(218,035,653)	(85,180,794)	(75,151,929)	345,007,139

Note: The amounts listed above include amounts in NT dollars only (i.e., excluding foreign currency) for both head office and domestic branches



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(In Thousands of U.S. Dollars)

	Total	December 31, 2007				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	11,123,796	4,629,472	2,249,869	1,485,793	1,106,449	1,652,213
Major maturity cash outflow	11,123,796	4,364,648	1,783,373	1,660,845	796,965	2,517,965
Gap	-	264,824	466,496	(175,052)	309,484	(865,752)

(In Thousands of U.S. Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	7,675,611	2,395,782	2,100,714	1,568,075	482,279	1,128,761
Major maturity cash outflow	7,675,611	2,151,643	2,587,674	1,853,800	566,114	516,380
Gap	-	244,139	(486,960)	(285,725)	(83,835)	612,381

Note: The amounts listed above include amounts in U.S. dollars for head office, domestic branches, and OBU.

### Capital Adequacy

Item	Year	Consolidated	Date and Amount Due		
		December 31, 2007	December 31, 2007	December 31, 2006	
Self-owned capital	Tier I capital	46,053,567	44,896,726	32,695,739	
	Tier II capital	20,940,600	20,940,600	17,329,797	
	Tier III capital	-	-	-	
	Self-owned capital	66,994,167	65,837,326	45,326,787	
Risk-weighted assets	Credit risk	Standardized approach	565,566,754	565,797,663	549,041,561
		IRB	-	-	-
		Real estate securitization	-	-	-
	Operation risk	Basic indicator approach	-	-	-
		Standardized approach / optional standard	59,290,613	59,290,613	-
		Advanced internal-rating based approach	-	-	-
	Market price risk	Standardized approach	36,537,313	36,537,313	57,591,186
		Internal model approach	-	-	-
Total		661,394,680	661,625,589	606,632,747	
Capital Adequacy ratio		10.13%	9.95%	7.47%	
Tier I capital to risk weighted assets ratio		6.69%	6.79%	5.39%	
Tier II capital to risk weighted assets ratio		3.17%	3.17%	2.86%	
Tier III capital to risk weighted assets ratio		-	-	-	
Common stock equity to total assets ratio		4.46%	4.46%	4.24%	

## VI. Financial Statements

Based on the "Illustration of Capital Adequacy Computation," if the provision calculated using the standard approach to credit risk is smaller than the amount based on the formula prescribed by the Banking Bureau for calculating the provision for expected loss (EL), the provision must be deducted from the Tier I regulatory capital. To determine its capital adequacy, the Bank not only referred to the EL-provision calculation and had intensive discussions with the Banking Bureau but also adjusted its calculation in light of its historical loss experience, risk characteristics of its portfolio and industry, market, economic and other trends. Thus, Taishin Bank will implement a three-year improvement plan on asset quality and capital to improve its capital adequacy.

### Trust Accounts

Under Article 3 of the Trust Law, Taishin Bank can offer trust services. The items and amounts of trust accounts as of December 31, 2007 and 2006 were as follows:

	2007	2006
Special purpose trust accounts - foreign and domestic investments	\$166,699,593	\$138,040,534
Special purpose monetary fund - master	9,309,027	6,993,948
Special purpose monetary fund - stand-alone	782,651	829,545
Special purpose cover fund - stand-alone	532,167	365,511
Specific monetary fund - stand-alone	3,159,027	2,816,849
Specific cover fund - stand-alone	32,439,092	27,638,405
Real estate securitization	4,182,929	3,914,046
Real estate trust	642,400	700,380
Monetary mutual trust fund	<u>2,204,805</u>	<u>3,069,598</u>
	<u>\$219,951,691</u>	<u>\$184,368,816</u>

### Transferring Ownerships of Loans

Year Ended December 31, 2007							
	Transferring Date	Book Value (Note a)	Transferring Price	Gain of Disposal	Composition of NPLs	Relationship	T Agreement with Added Terms
Mega Asset Management Co., Ltd.	2007.06.01	-	\$90,000	\$90,000	Corporate and individual loans	None	Share of the 30% disposal gain of collateral
Mega Asset Management Co., Ltd.	2007.08.28	-	\$92,850	\$92,850	Corporate and individual loans	None	None

Note a: Book value = Original loan balance - allowance

Note b: The details about sale of nonperforming loans to related parties, please refer to Note 33 "Related-party transaction".



The nonperforming loans amounted to \$1 billion (excluding related-parties transactions) in the preceding transactions were categorized as follows:

Entity: Mega Asset Management Co., Ltd. Basic measurement date: June 1, 2007

Composition of NPLs		Original Amounts (Note c)	Book Value	Authorized Price (Note d)
Corporate	Secured	\$53,288	\$-	\$53,288
	Unsecured	1,166,042	-	34,100
Risk-weighted assets	Credit risk	Mortgage loans	-	-
		Vehicles loans	-	-
		Others	-	-
	Operation risk	Credit cards	-	-
		Cash cards	-	-
		Small amount consumer credit	-	-
		Others	96,740	-
<b>Total</b>	<b>1,316,070</b>	<b>-</b>	<b>90,000</b>	

Entity: Mega Asset Management Co., Ltd. Basic measurement date: August 28, 2007

Composition of NPLs		Original Amounts (Note c)	Book Value	Authorized Price (Note d)
Corporate	Secured	\$-	\$-	\$-
	Unsecured	1,458,725	-	82,380
Individual	Secured	Mortgage loans	-	-
		Vehicles loans	-	-
		Others	-	-
	Unsecured	Credit cards	-	-
		Cash cards	-	-
		Small amount consumer credit	-	-
		Others	192,033	-
<b>Total</b>	<b>1,650,758</b>	<b>-</b>	<b>92,850</b>	

Note c: The original amounts include the aggregate of the balance of nonperforming loans (without deducting allowance) and the loans written-off refer to the buyer's claim amount to creditors.

Note d: The authorized price refers to the transferring price which is allocated among nonperforming loans by estimating the recovery of loans.

## VI. Financial Statements

### Chang Hwa Bank

#### Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$25,904,032	\$44,126,907
Due from Central Bank and call loans to banks	111,995,804	116,366,938
Financial assets at FVTPL	9,594,198	11,146,041
Bonds and securities purchased under resell agreements	6,460,770	8,559,731
Receivables	15,494,884	17,668,191
Loans	908,124,870	863,458,135
Available-for-sale financial assets	67,596,193	69,275,366
Held-to-maturity financial assets	111,881,124	167,548,463
Investments accounted for by the equity method	110,046	61,644
Other financial assets	7,581,452	7,492,708
Property and equipment	25,025,676	25,071,214
Other assets and intangible assets	<u>21,863,339</u>	<u>24,829,994</u>
	<u>\$1,311,632,388</u>	<u>\$1,355,605,332</u>
<b>Liabilities</b>		
Due to banks and Central Bank	\$131,975,991	\$162,470,067
Financial liabilities at FVTPL	1,115,761	48,517
Bonds and securities sold under repurchase agreements	15,367,505	16,301,987
Payables	28,168,061	40,772,769
Deposits	1,018,918,551	1,022,848,401
Bank notes	23,000,000	20,000,000
Accrued pension liabilities	2,468,404	2,331,485
Other financial liabilities	346,750	350,400
Other liabilities	<u>8,459,200</u>	<u>8,297,157</u>
	<u>1,229,820,223</u>	<u>1,273,420,783</u>
<b>Stockholders' equity</b>		
Capital stock	62,094,756	62,094,756
Retained earnings	12,383,294	11,377,055
Other adjustments	<u>7,334,115</u>	<u>8,712,738</u>
	<u>81,812,165</u>	<u>82,184,549</u>
	<u>\$1,311,632,388</u>	<u>\$1,355,605,332</u>

#### Income Statement

	Years Ended December 31	
	2007	2006
Net interest income	\$18,635,067	\$18,219,176
Net non-interest income	<u>12,304,078</u>	<u>11,576,326</u>
Gross income	30,939,145	29,795,502
Bad debt expense	(7,149,656)	(4,625,824)
Operating expenses	<u>(11,561,517)</u>	<u>(10,845,182)</u>
Income before income tax	12,227,972	14,324,496
Estimated income tax expense	(3,744,691)	(3,240,079)
Cumulative effects of changes in accounting principle	=	292,638
Net income	<u>\$8,483,281</u>	<u>\$11,377,055</u>
Pretax basic earnings per share (dollar)	<u>\$2.41</u>	<u>\$2.85</u>
After-tax basic earnings per share (dollar)	<u>\$1.63</u>	<u>\$2.18</u>



## Key Financial and Business Highlights

### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	0.92%	0.64%	1.08%	0.84%
Return on net worth	14.91%	10.35%	18.43%	14.35%
Profit margin		27.42%		38.18%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

### Asset Quality

Business Type		Item	December 31, 2007				
			Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note C)
Corporate finance	Secured		9,191,784	237,021,553	3.88%	7,231,320	78.67%
	Unsecured		2,680,760	395,190,777	0.68%	2,680,760	100.00%
Consumer finance	Mortgage loans (Note d)		3,277,663	225,401,287	1.45%	1,975,290	60.27%
	Cash cards (Note h)		-	-	-	-	-
	Credit loans (Note e)		38,460	4,230,702	0.91%	38,460	100.00%
	Others (Note f)	Secured	1,211,008	53,087,914	2.28%	927,617	76.60%
Unsecured		67,569	6,113,653	1.11%	67,569	100.00%	
Total			16,467,244	921,045,886	1.79%	12,921,016	78.46%

Business Type		Item	December 31, 2006				
			Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note C)
Corporate finance	Secured		8,762,395	240,531,063	3.64%	7,041,621	80.36%
	Unsecured		1,400,829	365,347,014	0.38%	1,400,829	100.00%
Consumer finance	Mortgage loans (Note d)		2,753,798	211,348,687	1.30%	1,862,326	67.63%
	Cash cards (Note h)		-	-	-	-	-
	Credit loans (Note e)		48,777	5,402,043	0.90%	48,777	100.00%
	Others (Note f)	Secured	1,310,321	45,809,476	2.86%	1,310,321	100.00%
Unsecured		23,443	6,707,169	0.35%	23,443	100.00%	
Total			14,299,563	875,145,452	1.63%	11,687,317	81.73%

Business Type		Item	December 31, 2007				
			Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio (Note C)
Credit card			4,596	796,225	0.58%	9,874	214.84%
Norecourse receivable factoring (Note g)			-	690,802	-	-	-

## VI. Financial Statements

Business Type \ Item	December 31, 2006				
	Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio (Note C)
Credit card	19,020	980,863	1.94%	32,200	169.30%
Norecourse receivable factoring (Note g)	7,490	1,418,645	0.53%	7,490	100.00%

Note a: Nonperforming loans are in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005. (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note b: Nonperforming loans ratio = Nonperforming loan ÷ Loans

Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note c: Coverage ratio of allowances for loan losses = Allowances for loan losses ÷ Nonperforming loans

Coverage ratio of allowance for loan losses of credit card = Allowance for loan losses of credit card ÷ Nonperforming loans of credit cards

Note d: Mortgage loans are for borrowers to build or repair buildings, providing the borrowers, spouse or minor children to fully collateralize their buildings and install the right on mortgage to financial institutions.

Note e: Credit loans are to fit in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin - Guan - Yi (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note f: The others of consumer financial business are defined as secured or unsecured consumer financial business, excluding mortgage loans, cash cards, credit loans and credit cards.

Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin - Guan - Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation from factors or insurance companies are ascertained to be non-recoverable.

Note h: Chang Hwa Bank does not engage in cash card business.

### Concentration of Credit Risk

December 31, 2007			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Formosa Plastics Co., and related parties	28,669,737	35.04
2	Chi Mei Co., and related parties	14,354,061	17.55
3	Ever Green Co., and related parties	10,635,889	13.00
4	Uni-President Co., and related parties	9,120,967	11.15
5	Qisda Group	8,678,821	10.61
6	E-United Group	7,635,992	9.33
7	Tatung Co., and related parties	7,624,057	9.32
8	China Airline Co., and related parties	6,752,500	8.25
9	Far Eastern Group	5,100,424	6.23
10	Liuhe Group	4,995,000	6.11

Note a: Sort by the balance of loans on December 31, 2007, excluding government or state-run business.

Note b: Transaction party is in accordance with the Article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.



## Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
<b>Assets</b>				
Due from and call loans to banks	\$137,810,469	4.80	\$114,291,947	4.48
Due from Central Bank	44,160,352	0.98	39,793,824	1.00
Financial assets - bonds and bills	220,960,876	2.55	233,463,939	2.20
Loans	868,149,123	3.56	830,989,230	3.42
<b>Liabilities</b>				
Due to and call loans from banks	162,436,817	4.82	137,798,330	4.34
Demand deposits	519,284,883	0.67	498,993,243	0.68
Time deposits	493,345,206	2.55	478,741,687	2.26
Negotiable certificates of deposits	6,356,914	1.37	6,597,892	1.16
Deposits transferred from the Postal Bureau	35,489,931	2.41	44,869,187	2.16
Bank notes	19,728,767	3.40	20,000,000	3.26

## Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	710,960,247	157,976,210	34,919,887	65,024,919	968,881,263
Interest-sensitive liabilities	366,836,777	470,702,265	72,823,265	12,708,208	923,070,515
Interest sensitivity gap	344,123,470	(312,726,055)	(37,903,378)	52,316,711	45,810,748
Net worth					83,762,207
Ratio of interest-sensitive assets to liabilities					104.96%
Ratio of interest sensitivity gap to net worth					54.69%

(In Thousands of New Taiwan Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	701,271,875	136,658,210	71,968,184	75,466,249	985,364,518
Interest-sensitive liabilities	371,137,472	472,853,197	71,501,341	11,525,356	927,017,366
Interest sensitivity gap	330,134,403	(336,194,987)	466,843	63,940,893	58,347,152
Net worth					83,219,294
Ratio of interest-sensitive assets to liabilities					106.29%
Ratio of interest sensitivity gap to net worth					70.11%

Note a: The amounts listed above include amounts in NT dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

## VI. Financial Statements

(In Thousands of U.S. Dollars)

Item	December 31, 2007				
	1-90 Days	91-180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	5,270,699	949,385	82,449	471,680	6,774,213
Interest-sensitive liabilities	6,455,311	464,439	276,454	10,035	7,206,239
Interest sensitivity gap	(1,184,612)	484,946	(194,005)	461,645	(432,026)
Net worth					7,954
Ratio of interest-sensitive assets to liabilities					94.00%
Ratio of interest sensitivity gap to net worth					(5,431.56%)

(In Thousands of U.S. Dollars)

Item	December 31, 2006				
	1-90 Days	91-180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	5,425,494	968,490	417,965	410,002	7,221,951
Interest-sensitive liabilities	5,600,283	1,428,204	471,762	3,127	7,503,376
Interest sensitivity gap	(174,789)	(459,714)	(53,797)	406,875	(281,425)
Net worth					22,264
Ratio of interest-sensitive assets to liabilities					96.25%
Ratio of interest sensitivity gap to net worth					(1,264.04%)

Note a: The amounts listed above include amounts in U.S. dollars only for domestic branches, OBU and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

### The Maturity Analysis of Assets and Liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2007				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days~ 1 Year	More Than 1 year
Major maturity cash inflow	1,086,146,735	168,168,829	95,769,126	115,479,784	89,730,053	616,998,943
Major maturity cash outflow	1,210,565,939	146,325,495	163,068,616	115,279,777	221,227,174	564,664,877
Gap	(124,419,204)	21,843,334	(67,299,490)	200,007	(131,497,121)	52,334,066

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days~ 1 Year	More Than 1 year
Major maturity cash inflow	1,109,735,594	214,747,344	111,119,819	75,058,203	98,665,576	610,144,652
Major maturity cash outflow	1,217,196,971	173,021,793	148,072,983	107,535,049	202,661,155	585,905,991
Gap	(107,461,377)	41,725,551	(36,953,164)	(32,476,846)	(103,995,579)	24,238,661

Note: This table only includes amounts denominated in New Taiwan dollars of Chang Hwa Bank and its branches.



(In Thousands of U.S. Dollars)

	Total	December 31, 2007				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	5,193,538	2,307,317	680,344	607,406	196,488	1,401,983
Major maturity cash outflow	5,940,630	2,652,413	761,471	1,118,737	480,497	927,512
Gap	(747,092)	(345,096)	(81,127)	(511,331)	(284,009)	474,471

(In Thousands of U.S. Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	4,847,139	1,952,757	1,142,010	848,856	85,860	817,656
Major maturity cash outflow	5,341,352	2,806,879	813,740	388,942	414,390	917,401
Gap	(494,213)	(854,122)	328,270	459,914	(328,530)	(99,745)

Note: This table includes amounts denominated in U.S. dollars for head office, domestic branches and OBU.

## Transferring Ownerships of Loans

	Year Ended December 31, 2007						
	Transferring Date	Book Value	Transferring Price	Gain of Disposal	Composition of NPLs	Relationship	Agreement with Added Terms
Mega Asset Management Co., Ltd.	2007.04.17	2,700 (Note a)	193,151	190,451	Corporate loans - secured	None	None
Ji-Jia Corporation Ltd.	2007.08.30	18,000 (Note b)	37,266	19,266	Corporate loans - secured	None	None
Yu-Sheng Asset Management Co., Ltd.	2007.09.19	- (Note c)	76,302	76,302	Corporate loans - secured	None	None
Far-Eastern Asset Management Co., Ltd.	2007.11.12	- (Note d)	104,255	104,255	Corporate loans - secured	None	None

Note a: The original amounts of loans are \$359,180 thousand, with write-off amounts of \$356,480 thousand. The book value at transferring date is \$2,700 thousand.

Note b: The original amounts of loans are \$192,970 thousand, with write-off amounts of \$174,970 thousand.

Note c: The original amounts of loans are \$146,228 thousand, which is totally written-off.

Note d: The original amounts of loans are \$325,305 thousand, which is totally written-off.

## Special Recorded Items

	Cases and amount
Management or any employee being involved in lawsuit for any fault in business in one year	On December 23, 2005, an employee of a branch of Chang Hwa Bank stole and sold customer's trustee funds. Chang Hwa Bank has sued the employee for this case on November 29, 2006, and won the lawsuit on February 16, 2007.
The Bank being fined for disobeying the Banking Law in one year	None
The Bank being punished by MOF for any fault in one year	None
The Bank incurred losses over \$50,000 thousand for management or employee fraud or for any security incident in one year	None

Note: The "in one year" refers to the period from January 1, 2007 to December 31, 2007.

## VI. Financial Statements

### Capital adequacy

Item		Period	December 31, 2007	June 30, 2007	December 31, 2006
Self-owned capital	Tier I capital		67,958,851	64,135,071	70,256,567
	Tier II capital		23,272,620	20,818,253	29,835,914
	Tier III capital		-	-	-
	Self-owned capital		91,231,471	84,953,324	93,235,570
Risk-weighted assets	Credit risk	Standardized approach	832,939,491	827,446,698	821,292,880
		IRB	-	-	-
		Real estate securitization	389,569	479,678	-
	Operation risk	Basic indicator approach	40,408,697	51,337,225	-
		Standardized approach / optional standard	-	-	-
		Advanced internal-rating based approach	-	-	-
	Market price risk	Standardized approach	6,726,464	6,699,913	13,080,675
		Internal model approach	-	-	-
	Total		880,464,221	885,963,514	834,373,555
	Capital Adequacy ratio		10.36%	9.59%	11.17%
Tier I capital to risk weighted assets ratio		7.72%	7.24%	8.42%	
Tier II capital to risk weighted assets ratio		2.64%	2.35%	3.58%	
Tier III capital to risk weighted assets ratio		-	-	-	
Common stock equity to total assets ratio		3.67%	3.58%	3.55%	

Note: 1. The ratios as of December 31, 2007 and June 30, 2007 are calculated in accordance with the Letters issued by the MOF on January 4, 2007 (Ref. No. Jin-Guan-Yin 09610000020 and 09610000025). This ratio of December 31, 2006 is calculated in accordance with Article 44 of the Banking Law and the letters issued by the MOF on October 16, 2001 (Ref. No. Tai-Tsai-Ron 0090345106) and on December 9, 2003 (Ref. No. Tai-Tsai-Ron 0928011668)

Note: 2. Formula:

Note: a. Self-owned capital = Tier I capital + Tier II capital + Tier III capital.

Note: b. Risk-weighted assets = Credit risk-weighted assets / Operation risk Capital / Market price risk Capital /  $\times 12.5$

Note: c. Capital Adequacy = Self-owned capital / Risk-weighted assets

Note: d. Tier I capital to risk weighted assets ratio / Tier I capital / Risk-weighted assets

Note: e. Tier II capital to risk weighted assets ratio / Tier II capital / Risk-weighted assets

Note: f. Tier III capital to risk weighted assets ratio / Tier III capital / Risk-weighted assets

Note: g. Common stock equity to total assets ratio / Common stock equity / total assets

### Trust Accounts

Under Article 3 of the Trust Law, Chang Hwa Bank can offer trust services. The details of trust accounts are as follows:

	December 31	
	2007	2006
Special purpose trust accounts - domestic	\$45,769,804	\$33,030,829
Special purpose trust accounts - foreign	55,567,305	19,716,694
Insurance trust	1,137	858
Retirement and breeds trust	51,543	4,386
Umbilical-cord-blood trust	373,357	270,800
Money claim and guarantee trust	328,348	294,200
Marketable securities trust	192,141	132,660
Real estate trust	<u>1,267,888</u>	<u>553,760</u>
	<u>\$103,551,523</u>	<u>\$54,004,187</u>



## Taiwan Securities

### Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Current assets	\$39,136,587	\$43,602,082
Funds and investments	3,496,151	3,240,312
Property and equipment	2,594,665	2,881,327
Other assets	2,871,009	3,248,292
Debit item for consigned trades, net	318,310	214,234
	<u>\$48,416,722</u>	<u>\$53,186,247</u>
<b>Liabilities</b>		
Current liabilities	<u>\$24,158,235</u>	<u>\$31,030,257</u>
Long-term liabilities	<u>3,300,000</u>	<u>1,993,547</u>
Other liabilities	<u>529,459</u>	<u>655,282</u>
	<u>27,987,694</u>	<u>33,679,086</u>
<b>Stockholders' equity</b>		
Capital stock	<u>13,255,044</u>	<u>13,255,044</u>
Capital surplus	<u>2,082,283</u>	<u>2,082,283</u>
Retained earnings	<u>5,127,709</u>	<u>4,171,572</u>
Other adjustments	<u>(36,008)</u>	<u>(1,738)</u>
	<u>20,429,028</u>	<u>19,507,161</u>
	<u>\$48,416,722</u>	<u>\$53,186,247</u>

### Income Statement

	Years Ended December 31	
	2007	2006
Revenue	\$11,209,670	\$6,852,279
Expense	<u>(8,749,966)</u>	<u>(5,188,298)</u>
Income before income tax	2,459,704	1,663,981
Income tax expense	(651,280)	(478,593)
Cumulative effects of changes in accounting principle	=	32,165
Net income	<u>\$1,808,424</u>	<u>\$1,217,553</u>
Pretax basic earnings per share (dollar)	<u>\$1.86</u>	<u>\$1.28</u>
After-tax basic earnings per share (dollar)	<u>\$1.36</u>	<u>\$0.91</u>

## Key Financial and Business Highlights

### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	4.84%	3.56%	3.37%	2.42%
Return on net worth	12.32%	9.06%	8.87%	6.37%
Profit margin		16.13%		17.77%

## VI. Financial Statements

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

### ***Balance Sheet of Futures-Dealing Department***

Please refer to Table 5.

### ***Income statement of Futures-Dealing Department***

Please refer to Table 6.

### **Limitation and Execution of Financial Ratios As Stipulated in the Futures Trading Law**

In accordance with the "Guidelines Governing the Preparation of Financial Reports by Futures Commission Merchants" stipulated by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, major financial ratios of Taiwan Securities and Taiwan Futures as of December 31, 2007 and 2006 are disclosed as follows to show financial status, operating results and cash flow information:

#### ***Taiwan Securities***

Items	December 31, 2007		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	$\frac{404,954}{574}$	705.49	≧ 1
Current assets/ Current liabilities	$\frac{390,344}{574}$	680.04	≧ 1
Shareholders' equity/ Minimum issued capital	$\frac{404,954}{400,000}$	101.24%	≧ 60% ≧ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	$\frac{393,864}{148}$	266,124.32%	≧ 20% ≧ 15%

Items	December 31, 2006		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	$\frac{382,950}{650}$	589.15	≧ 1
Current assets/ Current liabilities	$\frac{365,523}{650}$	562.34	≧ 1
Shareholders' equity/ Minimum issued capital	$\frac{382,950}{400,000}$	95.74%	≧ 60% ≧ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	$\frac{367,413}{2,611}$	14,071.73%	≧ 20% ≧ 15%



## Taiwan Futures

Items	December 31, 2007		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	918,490	6.22	≧ 1
	147,773		
Current assets/ Current liabilities	7,019,081	1.13	≧ 1
	6,202,351		
Shareholders' equity/ Minimum issued capital	918,490	145.79%	≧ 60% ≧ 40%
	630,000		
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	917,737	136.08%	≧ 20% ≧ 15%
	674,393		

Items	December 31, 2006		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	882,939	6.69	≧ 1
	132,020		
Current assets/ Current liabilities	4,678,656	1.20	≧ 1
	3,914,051		
Shareholders' equity/ Minimum issued capital	882,939	140.15%	≧ 60% ≧ 40%
	630,000		
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	880,343	92.49%	≧ 20% ≧ 15%
	951,800		

## Taishin Bills Finance Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$1,321,920	\$3,566,727
Due from Central Bank and call loans to banks	46	260,473
Financial assets at FVTPL	35,225,716	32,350,833
Bonds and securities purchased under resell agreements	-	345,177
Receivables	410,664	406,900
Available-for-sale financial assets	14,270,881	17,285,855
Property and equipment	360,246	343,840
Other assets	<u>4,721,937</u>	<u>6,208,079</u>
	<u>\$56,311,410</u>	<u>\$60,767,884</u>
<b>Liabilities</b>		
Call loans from banks	\$4,185,000	\$8,155,000
Financial liabilities at FVTPL	398,205	347,534
Bonds and securities sold under repurchase agreements	39,867,699	39,744,197
Payables	129,801	116,349
Bonds payable	5,000,000	5,000,000
Other liabilities	<u>291,738</u>	<u>564,894</u>
	<u>49,872,443</u>	<u>53,927,974</u>
<b>Stockholders' equity</b>		
Capital stock	5,140,000	5,140,000
Retained earnings	1,422,699	1,687,922
Other adjustments	<u>(123,732)</u>	<u>11,988</u>
	<u>6,438,967</u>	<u>6,839,910</u>
	<u>\$56,311,410</u>	<u>\$60,767,884</u>

## VI. Financial Statements

### Income Statement

	Years Ended December 31	
	2007	2006
Net interest income	\$205,924	\$318,231
Net non-interest income	<u>104,662</u>	<u>152,441</u>
Gross income	310,586	470,672
Bad debt expenses	(7,450)	(18,014)
Operating expenses	<u>(143,521)</u>	<u>(153,299)</u>
Income before income tax	159,615	299,359
Income tax expense	(155,800)	(108,696)
Cumulative effects of changes in accounting principle	-	<u>193,815</u>
Net income	<u>\$3,815</u>	<u>\$384,478</u>
Pretax basic earnings per share (dollar)	<u>\$0.31</u>	<u>\$0.99</u>
After-tax basic earnings per share (dollar)	<u>\$0.01</u>	<u>\$0.75</u>

### Key Financial and Business Highlights

#### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	0.27%	0.01%	0.78%	0.59%
Return on net worth	2.40%	0.06%	7.47%	5.61%
Profit margin		1.23%		81.69%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

#### Asset Quality

	December 31	
	2007	2006
Guarantees and endorsed credit amount not exceeding payment date three months	\$-	\$-
Nonperforming loans (NPLs, including delinquent loans)	-	-
Surveillance loans	184,700	185,869
Delinquent loans	-	-
NPL ratio	-	-
NPL ratio plus surveillance loan ratio	1.38%	1.81%
Allowance for bad debts and guarantees based on rules	203,107	191,294
Allowance for bad debts and guarantees in actual	250,258	472,653

Note: The above are categorized in accordance with the Regulations Governing the Procedures for Bills Finance Companies to evaluate assets, set aside loss reserves, and handle non-performing credit, non-accrual loans, and bad debt and related regulations.



## Capital Adequacy

	December 31	
	2007	2006
Capital requirement	\$6,615,945	\$7,213,897
Risk-weighted assets	43,473,032	40,702,230
Capital adequacy ratio	15.22%	17.72%
Tier I capital to risk weighted assets ratio	14.81%	16.68%
Tier II capital to risk weighted assets ratio	0.41%	1.04%
Tier III capital to risk weighted assets ratio	-	-
Common stock equity to total assets ratio	11.43%	11.27%

Note a: Capital adequacy ratio = Capital requirement ÷ Risk weighted assets.

Note b: Total assets are the total assets amount of balance sheet.

## Management Information

### a. Business Highlights

	December 31	
	2007	2006
Guarantees and endorsed notes	\$13,414,800	\$10,280,900
Ratio of guarantees and endorsed notes to net assets (after appropriation of last year's earnings)	2.04	1.60
Short-term securities sold under repurchase agreements	39,867,699	39,744,197
Ratio of short-term securities sold under repurchase agreements to net assets (after appropriation of last year's earnings)	6.07	6.17

### b. Concentration of Credit Risks

Item	Industry	December 31	
		2007(%)	2006(%)
Approved credit concentration	Agriculture, forestry, fishery and animal husbandry	-	-
	Mining	-	-
	Manufacturing	12.46	16.98
	Utilities	-	-
	Construction	0.82	3.96
	Wholesale and retailing, food and beverage	9.56	13.54
	Transportation, warehousing and communications	1.87	2.92
	Finance and insurance	14.71	14.78
	Securities brokerage and futures	19.68	7.73
	Real estate	15.25	6.31
	Investment	23.49	33.78
	Industrial and commercial society and individual service industry	2.16	-
	Others	=	=
		<u>100.00</u>	<u>100.00</u>

Note a: Percentage of loans to parties with common interests / Loans to parties with common interests ÷ Total loans.

Note b: Stock pledged and approved credit ratio / Loans secured by stocks ÷ Total loans.

Note c: Loans include guarantees, endorsed notes and delinquent loans.

## VI. Financial Statements

### c. Special Recorded Items

Item	Industry
Within the past year, the person in charge or employee violated the law in the course of business operations and was sued by the public prosecutor.	None
Within the past year, a fine was levied on Taishin Bills Finance for violating the Law Governing Bills Finance Business.	None
Within the past year, Taishin Bills Finance committed a misdemeanor, resulting in the Ministry of Finance's (MOF) subjecting Taishin Bills Finance to corrective measures.	None
Within the past year, there was an actual loss of more than \$50,000 thousand due to a major employee fraud, workplace accidents or failure to comply with financial institutions' guidelines for sound operations.	None
Others	None

Note: The "past year" refers to the period from October 1, 2006 to December 31, 2007.

### *Interest-Earning Assets and Interest-Bearing Liabilities*

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2007 and 2006 were as follows:

	2007		2006	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
<b>Assets</b>				
Cash and cash equivalents	\$9,018,486	2.3479	\$5,725,786	1.8258
Due from Central Bank and call loans to banks	121,350	2.3416	134,854	1.5429
Financial assets at FVTPL	36,013,765	2.1748	39,591,795	1.9552
Bonds and securities purchased under resell agreements	494,968	0.8596	3,365,455	1.1643
Available-for-sale financial assets	17,389,994	1.9164	17,964,087	1.8324
<b>Liabilities</b>				
Call loans from banks	5,928,704	2.0448	10,521,030	1.5660
Bonds and securities sold under repurchase agreements	45,387,712	1.9916	44,182,736	1.4620
Bonds payable	5,000,000	2.0645	5,000,000	2.0645



## Liquidity

	December 31, 2007				
	1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Cash used in					
Bills	\$11,351,101	\$15,397,116	\$1,750,284	\$-	\$-
Bonds	3,399,937	-	677,514	2,954,776	13,965,869
Deposits	211,920	150,000	360,000	600,000	-
Call loans to banks	46	-	-	-	-
Others (Note)	<u>41,609</u>	-	<u>815,000</u>	<u>3,815,000</u>	<u>28,006</u>
	<u>15,004,613</u>	<u>15,547,116</u>	<u>3,602,798</u>	<u>7,369,776</u>	<u>13,993,875</u>
Cash provided by					
Call loans from banks	4,185,000	-	-	5,000,000	-
Bonds and securities sold under repurchase agreements	38,618,647	1,106,663	141,889	500	-
Self-owned capital	-	-	-	-	<u>6,438,966</u>
	<u>42,803,647</u>	<u>1,106,663</u>	<u>141,889</u>	<u>5,000,500</u>	<u>6,438,966</u>
Net flow	<u>\$(27,799,034)</u>	<u>\$14,440,453</u>	<u>\$3,460,909</u>	<u>\$2,369,276</u>	<u>\$7,554,909</u>
Accumulated net flow	<u>\$(27,799,034)</u>	<u>\$(13,358,581)</u>	<u>\$(9,897,672)</u>	<u>\$(7,528,396)</u>	<u>\$26,513</u>

Note: Others refer to other receivables, refundable deposits, refundable collaterals and other assets.

## Interest Rate Sensitivity

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	30,942,387	3,602,798	7,369,776	13,993,875	55,908,836
Interest-sensitive liabilities	44,438,316	141,889	5,000,500	-	49,580,705
Interest sensitivity gap	(13,495,929)	3,460,909	2,369,276	13,993,875	6,328,131
Net worth					6,438,966
Ratio of interest-sensitive assets to liabilities					112.76%
Ratio of interest sensitivity gap to net worth					98.28%

Note a: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note b: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

## VI. Financial Statements

### Taishin AMC

#### Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Current assets	\$579,791	\$701,429
Long-term investments accounted for by the equity method	134,934	242,803
Financial assets carried at cost	374,486	92,396
Held-to-maturity financial assets	99,578	-
Property and equipment	3,057	1,870
Other assets	<u>335,428</u>	<u>608,762</u>
	<u>\$1,527,274</u>	<u>\$1,647,260</u>
<b>Liabilities</b>		
Current liabilities	\$206,011	\$226,559
Other liabilities	<u>8,797</u>	<u>9,267</u>
	<u>214,808</u>	<u>235,826</u>
<b>Stockholders' equity</b>		
Capital stock	1,100,000	1,100,000
Retained earnings	<u>212,466</u>	<u>311,434</u>
	<u>1,312,466</u>	<u>1,411,434</u>
	<u>\$1,527,274</u>	<u>\$1,647,260</u>

#### Income Statement

	Years Ended December 31	
	2007	2006
Operating revenue	\$303,026	\$190,570
Operating cost and expenses	<u>(169,410)</u>	<u>(182,542)</u>
Operating income	133,616	8,028
Nonoperating income and gains	114,602	219,858
Nonoperating expenses and losses	<u>(109,056)</u>	<u>(35,715)</u>
Income before income tax	139,162	192,171
Income tax expense	(18,028)	(22,442)
Cumulative effects of changes in accounting principle	=	<u>55,780</u>
Net income	<u>\$121,134</u>	<u>\$225,509</u>
Pretax basic earnings per share (dollar)	<u>\$1.27</u>	<u>\$2.26</u>
After-tax basic earnings per share (dollar)	<u>\$1.10</u>	<u>\$2.05</u>

#### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	8.77%	7.63%	12.02%	10.93%
Return on net worth	10.22%	8.89%	19.09%	17.36%
Profit margin		29.01%		54.94%



Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Operating income Nonoperating income and gains}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

## Taishin Marketing

### Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Current assets	\$ 6,292	\$ 8,666
Property and equipment	333	1,109
Other assets	<u>35</u>	<u>35</u>
	<u>\$ 6,660</u>	<u>\$ 9,810</u>
<b>Liabilities</b>		
Current liabilities	\$ 820	\$ 3,184
Other liabilities	<u>41</u>	<u>155</u>
	<u>861</u>	<u>3,339</u>
<b>Stockholders' equity</b>		
Capital stock	1,000	1,000
Retained earnings	<u>4,799</u>	<u>5,471</u>
	<u>5,799</u>	<u>6,471</u>
	<u>\$ 6,660</u>	<u>\$ 9,810</u>

### Income Statement

	Years Ended December 31	
	2007	2006
Revenue	\$17,094	\$63,491
Expenses	<u>(17,893)</u>	<u>(63,617)</u>
Loss before income tax	(799)	(126)
Income tax benefit	<u>127</u>	<u>931</u>
Net (loss) income	<u>\$(672)</u>	<u>\$805</u>
Pretax basic loss per share (dollar)	<u>\$(7.99)</u>	<u>\$(1.26)</u>
After-tax basic (loss) earnings per share (dollar)	<u>\$(6.72)</u>	<u>\$8.05</u>

### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	(9.70%)	(8.16%)	(0.79%)	5.02%
Return on net worth	(13.02%)	(10.95%)	(2.08%)	13.26%
Profit margin		(3.93%)		1.27%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006.

## VI. Financial Statements

### Taishin Venture Capital Balance Sheet

	December 31	
	2007	2006
<b>Assets</b>		
Current assets	\$198,623	\$105,121
Available-for-sale financial assets	18,360	-
Financial assets carried at cost	642,312	768,728
Other assets	-	7
	<u>\$859,295</u>	<u>\$873,856</u>
<b>Liabilities</b>		
Current liabilities	\$110	\$232
	<u>110</u>	<u>232</u>
<b>Stockholders' equity</b>		
Capital stock	1,000,000	1,000,000
Retained earnings	(139,175)	(126,376)
Unrealized loss on financial instruments	(1,640)	-
	<u>859,185</u>	<u>873,624</u>
	<u>\$859,295</u>	<u>\$873,856</u>

### Income Statement

	Years Ended December 31	
	2007	2006
Revenue	\$30,896	\$20,019
Expenses	(43,667)	(53,163)
Loss before income tax	(12,771)	(33,144)
Income tax expense	(28)	-
Cumulative effects of changes in accounting principle	-	1,265
Net loss	<u>\$(12,799)</u>	<u>\$(31,879)</u>
Pretax basic loss per share (dollar)	<u>\$(0.13)</u>	<u>\$(0.32)</u>
After-tax basic loss per share (dollar)	<u>\$(0.13)</u>	<u>\$(0.32)</u>

### Profitability

Item	December 31			
	2007		2006	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	(1.47%)	(1.48%)	(3.58%)	(3.58%)
Return on net worth	(1.47%)	(1.48%)	(3.58%)	(3.58%)
Profit margin		(41.43%)		(159.24%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2007 and 2006.

Note e: Loss before tax includes loss before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

# VII

## **Financial Status, Review of Business Performance, and Risk Management**

### **Cherish Water**

Water is good for drinking and cleansing

It is also a clean, endless green energy

It doesn't bring air pollution or  
cause noise at all

It won't burn the fuel either

It's a green hope of human being's future



## VII. Financial Status, Review of Business Performance, and Risk Management

### A. Financial Status

Unit: NT\$1,000

Item	2006	2007	Change	
			Value	Percentage (%)
Cash and cash equivalent	11,859,469	13,026,747	1,167,278	9.84
Financial assets from changes in fair value included in income statement	10,550	156	(10,394)	(98.52)
Financial assets ready for sale	0	0	0	-
Accounts receivable	1,116,376	1,569,064	452,688	40.55
Financial assets held until maturity	0	0	0	-
Equity investments on equity method	106,530,981	116,325,691	9,794,710	9.19
Fixed assets	15,405	11,684	(3,721)	(24.15)
Intangible assets	0	0	0	-
Other financial assets	12,447,893	3,628,138	(8,819,755)	(70.85)
Other assets	387,006	364,500	(22,506)	(5.82)
Total assets	132,367,680	134,925,980	2,558,300	1.93
Financial liabilities from changes in fair value included in income statement	0	421	421	-
Accounts payable	1,454,802	1,487,093	32,291	2.22
Corporate bonds payable	40,518,044	40,546,833	28,789	0.07
Preferred-share liabilities	0	0	0	-
Other financial liabilities	0	0	0	-
Other liabilities	6,811	14,882	8,071	118.50
Total liabilities	41,979,657	42,049,229	69,572	0.17
Equity capital	69,880,779	69,880,779	0	-
Capital surplus	35,548,178	19,389,426	(16,158,752)	(45.46)
Retained earnings	(16,148,540)	4,089,120	20,237,660	125.32
Other items of shareholders' equity	1,107,606	(482,574)	(1,590,180)	(143.57)
Total value of shareholders' equity	90,388,023	92,876,751	2,488,728	2.75

Explanation to changes:

- 1) Financial assets from changes in fair value included in income statement on Dec. 31, 2007 decreased from the corresponding value on Dec. 31, 2006, due to reduction in the fair value of derivatives.
- 2) Accounts receivable on Dec. 31, 2007 increased over the corresponding value on Dec. 31, 2006, due to the increase of NT\$442,490,000 from account receivable from subsidiaries pertaining to the linked taxation system.
- 3) Fixed assets on Dec. 31, 2007 decreased from the corresponding value on Dec. 31, 2006, due to amortization for the depreciation of fixed assets.
- 4) Other financial assets on Dec. 31, 2007 decreased from Dec. 31, 2006, due to reduced investment in commercial paper with repurchase agreement and bond.
- 5) Other liabilities on Dec. 31, 2007 increased over the corresponding value on Dec. 31, 2006, due to increased liabilities for retirement fund.
- 6) Capital surplus on Dec. 31, 2007 decreased from the corresponding value on Dec. 31, 2006, due to the coverage of the 2006 loss of NT\$16,148,540.
- 7) Retained earnings on Dec. 31, 2007 increased over the corresponding value on Dec. 31, 2006, due to turnaround of the company's operation in 2007.
- 8) Other items of shareholders' equity on Dec. 31, 2007 decreased from the corresponding value on Dec. 31, 2006, due to reduction of NT\$1,516,014,000 in the unrealized benefit from the financial products ready for sale of invested companies calculated according to equity method.



## B. Business Performance

Unit: NT\$1,000

Item	2006	2007	Change	
			Value	Percentage (%)
Investment income calculated according to equity method	4,390,783	6,464,319	2,073,536	47.22
Other incomes	376,314	326,301	(50,013)	(13.29)
Investment loss calculated according to equity method	(19,681,508)	(13,471)	19,668,037	99.93
Operating expense	(357,141)	(371,331)	(14,190)	(3.97)
Other expenses and loss	(1,154,577)	(2,200,361)	(1,045,784)	(90.58)
Pre-tax income (loss)	(16,426,129)	4,205,457	20,631,586	125.60
After-tax income (loss)	(16,148,540)	4,089,120	20,237,660	125.32

Explanation to changes:

- 1) Net investment income (loss) calculated according to equity method in 2007 increased over 2006, due to the turnaround of Taishin Bank.
- 2) Other expenses and loss increased over 2006, due to the provision of NT\$953,350,000 for loss from the disposal of stakes in invested companies calculated according to equity method.

## C. Cash flow

### Analysis of cash flow in the coming one year

Unit: NT\$1,000

Initial cash balance 1	Expected cash flow from business activities for the whole year 2	Expected cash outflow (inflow) for the whole year 3	Expected cash surplus (shortage) <sup>1+2-3</sup>	Remedies for expected cash shortage	
				Investment plan	Financing plan
13,026,747	(1,147,037)	1,335,424	10,544,286	Nil	Nil

## VII. Financial Status, Review of Business Performance, and Risk Management

### D. Influence on finance of major capital outlays in the recent one year

Unit: NT\$1,000

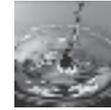
Items of plans	Actual or expected funding source	Actual or expected date of completion	Total fund needed	Actual or expected fund utilization				
				2004	2005	2006	2007	2008
Equity investment on equity method	Own fund or corporate-bond issuance	2004	11,500,000					
		2005	36,568,000					
		2006	9,333,096	11,500,000	36,568,000	9,333,096	11,700,000	4,570,000
		2007	11,700,000					
		2008	4,570,000					

### Expected increased income

Item	Actual or expected income				
	2004	2005	2006	2007	2008
Investment income (loss) calculated according to equity method	11,304,312	(2,955,181)	(15,290,725)	6,450,848	6,407,345

### E. Investment policy in the recent year, main reasons for income or loss, improvement plan, and investment plan in the coming one year

The company carries out investments according to article 36 and 37 of the Financial Holding Company Law, the assessment of investment returns rate, and joint-marketing benefits among subsidiaries, in the hope of augmenting the returns on equity. In response to the demand of clients for assets accumulation and wealth-management planning, the company will inevitably expand its business scope, on top of providing comprehensive professional financial services. Looking ahead, in the face of acute competition and a fast-changing financial environment, the company will continue, via own or external growth, expanding the scale and market shares in the operations of banking, securities, insurance, investment finance, commercial paper/bond, and other financial sectors, as well as overseas deployment, in order to tap the businesses of clients in various sections, strengthen competitive edge, and expand profit sources.



## F. Assessment of risk management in the recent year and as of the date for the publication of the annual report by analyzing consolidated financial and business status

### a. Risk-management framework and policy of the financial holding company and subsidiaries

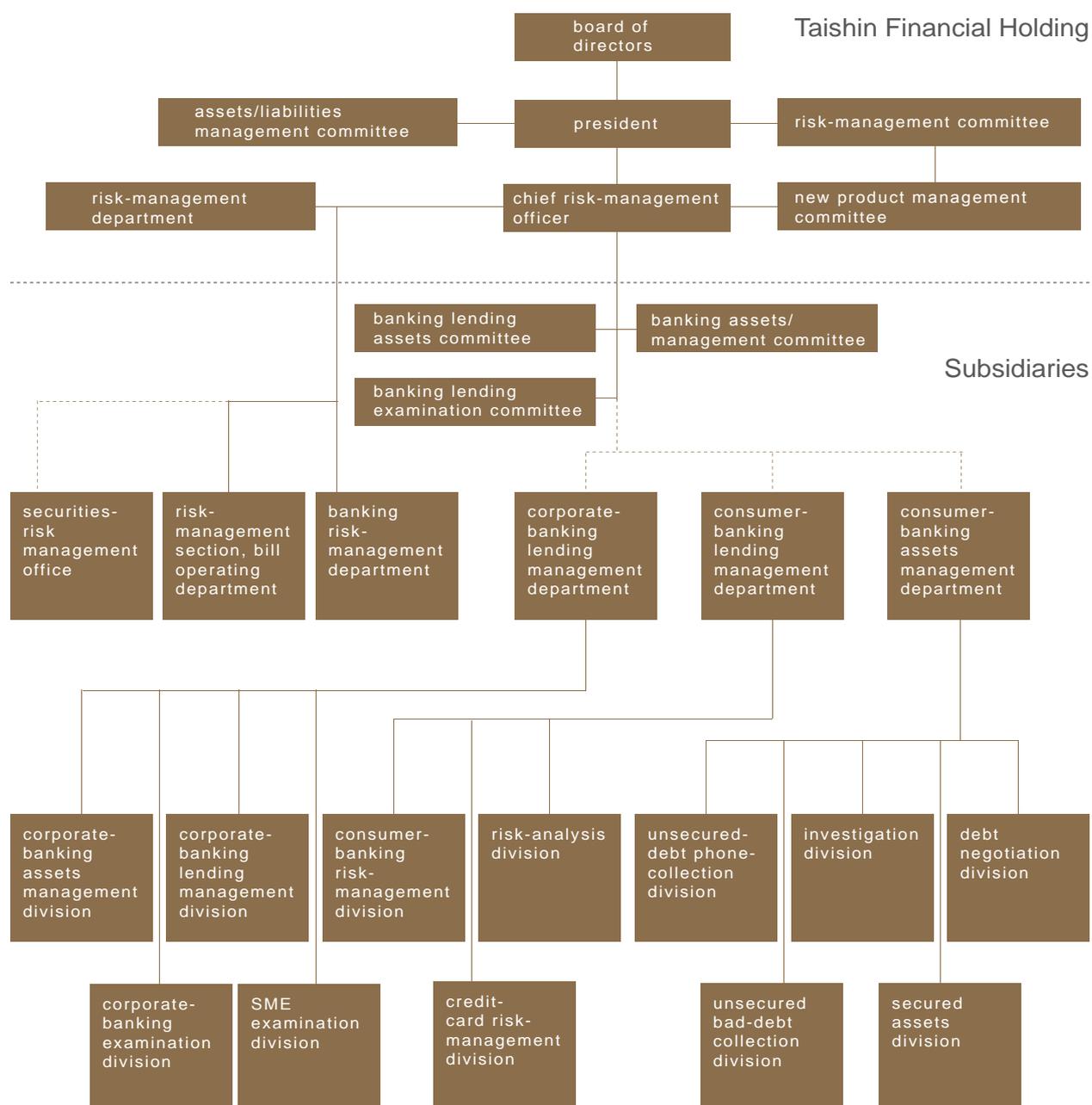
To cope with its comprehensive business scope, the company needs efficient identification, assessment, consolidation, and management of risks, in addition to properly allocating capital to various business units. The company manages risks via a procedure closely associated with its risk-management policy, organizational framework, risk assessment, and business activities. According to overall risk-management planning, the financial holding company has instituted independent risk-management organizations, with their frameworks listed below:

Organization	Contents
Board of directors	Approval of risk-management policy and procedure Approval of overall market risk, credit risk, and operational risk ceilings of the financial holding company
Risk Management Committee	The president of the financial holding company serves as the convener of the committee. Review of the risk-management policy and procedure of the financial holding company Ratification of the policy, measures, and guidelines for the market risk, credit risk, and operating risk of subsidiaries Supervising the institution of market-risk, credit-risk, and operating-risk management mechanism Reviewing performance report of the risk-management units of subsidiaries and the overall risk analytical report of the financial holding company Reviewing and finalizing risk model, risk parameters and indicators, and pressure-test plan The committee oversees a new product management committee, responsible for reviewing risks involving new products and complicated trading of subsidiaries' trading units. Monitoring various risks undertaken by the company, adopting necessary measures for controlling large risk exposure Report of other risk-related projects Execution of risk management-related resolutions of the board of directors
Chief Risk-Management Officer	Vice convener of the Risk-Management Committee Implementing risk-management strategy and instituting risk-management framework approved by the board of directors Supervising Risk-Management Department and risk-management units of subsidiaries in executing related policy Assuring effective cross-department communication and coordination for risk-management functions
Risk-Management Department	Formulation and institution of risk-management mechanism Disclosure of risk-management implementation Producing overall risk analytical report for the financial holding company Coordination and contact for risk-management affairs with subsidiaries Instituting integrated risk-management information system Introducing the risk-management norm of Basel II Capital Accord, so as to institute a risk-management mechanism complying with international standards
Risk-management units of subsidiaries	Provision of risk management-related information Implementing the financial holding company's risk-management policy

## VII. Financial Status, Review of Business Performance, and Risk Management

### Risk-Management Functional Organization Chart of Taishin Financial Holding

Base date: March 31, 2008





## b. Risk assessment method and quantified information on the risk exposure of the financial holding company and subsidiaries

### 1. Common regular disclosure

The subsidiaries under the auspices of the financial holding company all engage in financial business, facing in their operations various risks, including credit risk, market risk, and operating risk covering risks in operation and legal aspects. Therefore, the financial holding company's risk management covers an extensive scope, including systems and measures suited to the respective operations of subsidiaries and the institution of the integrated risk-management policy and organizational framework of the financial holding company, meant to achieve comprehensive and efficient grasp of the financial holding company's various risks.

#### ■ Credit-risk management

##### 1) Corporate banking

- Pinpoint target loan clients, enhance profit margin, and expand low-risk business, so as to strengthen risk-enduring capability and cut overall risks.
- Ascertain credit analytical report and strengthen the training of credit examination and loaning staffers.
- Further strengthen internal credit rating mechanism.
- Further strengthen post-lending management and review system.
- Institute the evaluation system for individual risks and overall credit risk involving securities underwriting and investment position.
- Strengthen the management of credit-risk concentration associated with loaning, investment, and trading of various financial products such as derivatives.
- Institute individual management measures for businesses involving specific risk (such as ceiling for loans mortgaged with specific stocks, tracking the price threshold for margin calls, and the undertaking and post management of realty financing).
- Institute the system for the alert, notification, and control of abnormal accounts.
- Implement concentrated management of bad assets.

##### 2) Consumer banking

The utilization of quantified risk indicators for various products, including the analysis and monitoring of NPL (non-performing loan) ratio, NPL flow rate, analysis of debt duration, NPL status, bad-debt status, bad-debt collection, and investment returns rate.

- Further enhancement of risk-management technique: Further introduction and deep-

## VII. Financial Status, Review of Business Performance, and Risk Management

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cultivation of rating model and policy-making model; the monitoring, adjustment, and upgrading of the models' efficacy;

- Core risk analytical team: Core professional talents with analytical capability, product design capability, risk-management capability, and execution capability.
- Lending policy based on client-group analysis: Analyze client risks according clients' external and internal behaviors, and flexibly adjust lending policy according to the risk levels of various client groups, so as to maintain proper client-group ratio.
- Prevention of NPL and fraud: Further track the behavioral modes of NPL and fraud cases and repayment status, thereby forging policy and credit-examination/lending flow, so as to institute a proactive preventive mechanism.
- Client management based on risk analysis, rating model, and policy model; debt collection, and case review system.
- Lending strategy based consolidated account management.

### ■ Market-risk management

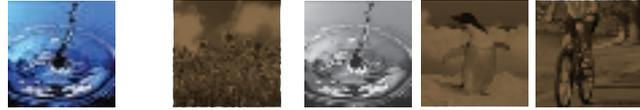
To consolidate the management of risks deriving from the price swings of interest rate, exchange rate, and equity securities, the company assesses via marked-to-market method the income or loss of trading positions for various financial products held by subsidiaries. Meanwhile, for derivatives, as a precautionary measure for the credit risk deriving from default of trading partners before delivery date due to trading loss, the company imposes a ceiling on trading volume so as to control possible loss within reasonable scope.

### ■ Operating-risk management

To achieve a consistent and complete operating-risk management system, assure the inclusion of operating-risk management into the company's daily operation and decision-making, and keep various operating risks within the company's endurable range, the company has formulated operating-risk management policy and operating-risk endurable extent. It has also established "operating-risk reporting procedure," "self evaluation and auditing operation procedure," "key risk indicator procedure," and risk-offsetting procedure, featuring mutually linked analysis to uphold operating-risk forecast capability.

## 2. Risk-management methods and quantified risk-exposure information of subsidiaries

### 1) Banking subsidiaries: Including Taishin Bank and Taishin Bills Finance Co., Ltd.



## ■ Credit risk

### 1) Consumer banking—Taishin Bank

- (1) The main goal of risk management is to pursue maximum profits under reasonable risk, so as to uphold shareholders' interest. Effectively grasp the trend of assets quality via regular monitoring of numerical changes in net flow and adjust lending policy and debt-collection strategy accordingly.
- (2) Formulate proper lending-risk management policy according to operating objective, such as application scoring system, behavior scoring system, collection scoring system, and global FICO score, which is used, along with the concept of product-profit model, to pinpoint optimal lending terms and banking profit model for different client groups with different loaning conditions.
- (3) Flexibly adjust various risk-management indicators and segmentation management via periodical assets-quality analysis and default commonness analysis, so as to achieve operating objectives.
- (4) The company's risk-management units are independent organizations, with the Consumer-Banking Lending Management Department taking charge of consumer-banking credit-risk management system entirely as a parallel organization to business units.

### 2) Corporate banking-Taishin Bank and Taishin Bills Finance

- (1) In compliance with existing business guidelines, the company's corporate-banking lending-risk management strategy stresses cash flow as the main source for repayment and the consideration of obtaining proper risk returns. The lending-risk management of Corporate Banking Business Group is handled by its Corporate-Banking Lending Management Department, which oversees Corporate-Banking Lending Management Division, Corporate-Banking Examination Division, Corporate-Banking SME Examination Division, and Corporate-Banking Assets Management Division. Corporate-Banking Examination Division and Corporate-Banking SME Examination Division are in charge of the management of normal lending cases, while Corporate-Banking Assets Management Division is responsible for the collection of NPL (non-performing loan).
- (2) Assess and manage credit risk according to internal credit rating system. In addition to credit rating made upon application, all lending cases are subject to follow-up tracking and management. The internal credit rating system covers two aspects: borrower's credit rating, evaluating borrower's capability in fulfilling financial commitment via the assistance of statistical model and rating table, and credit-line rating, set according to the factors of collateral, mortgage order, and products. Risk is reduced by the provision of collaterals, featuring different appraisal methods and assessment durations for the different collaterals of real estate, chattel, and securities, so as to effectively cut risk.

## VII. Financial Status, Review of Business Performance, and Risk Management

### 3) Quantified information on risk exposure

#### (1) Taishin Bank

#### Risk exposure after deducting risk on credit-risk method and risk-based capital requirement

Dec. 31, 2007 (note): Unit: NT\$1,000

Kinds of risk exposure	Risk exposure after deduction	Risk-based capital requirement
Sovereign state	130,933,688	15,294
non-central government public sector	190,158	4,563
Bank (including multilateral development bank)	71,077,874	1,997,106
Enterprise (including securities and insurance companies)	304,597,045	23,601,665
Retail debt claim	147,051,879	9,427,484
Housing realty	220,684,955	7,990,750
Equity investment	970,131	310,442
Other assets	40,279,675	1,865,263
Total	915,785,405	45,212,567

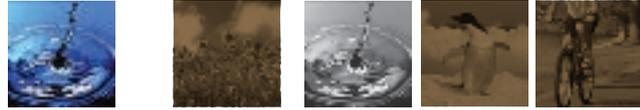
Note: Fill in information up to the end of the previous quarter of the date for the publication of the annual report.

#### (2) Taishin Bills Finance

#### Items in the Table-Credit Risk-Based Assets

Unit: NT\$1,000		
		Dec. 31, 2007
Items	Applicable risk weight	Risk-based assets
Debt claims of central government and central bank	0%	0
Governments at various levels other than central government	10%	0
Debt claims for domestic banks and guarantees for them	20%	490,121
Capital items and other assets other than common shares of other financial institutions	100%	666,280
Minus: provision for possible loss from loaning assets	-	(95,959)
2. 1% of outstanding guarantee	-	(134,148)
Total	-	926,294
Note: Fill in according to the data in the recent report submitted to the Financial Supervisory Commission		
Items Outside the Table—Credit Risk-Based Assets		
Unit: NT\$1,000		
	Dec. 31, 2007	
Item	Risk-based Assets	
Common trading outside the table	13,414,800	
Derivatives	228,376	
Liabilities of commercial paper/bond with repurchase agreement	59,874	
Investment in commercial paper/bond with resale agreement	0	
Total	13,703,050	

Note: Fill in according to the data in the recent report submitted to the Financial Supervisory Commission



## ■ Liquidity risk

Manage well liquidity position for basic operating and growth need, so as to assure adequate liquidity. Assets/Liabilities Management Commission formulates liquidity-risk management policy and oversees its execution, with the fund management units of subsidiaries undertaking the execution and reporting to the Assets/Liabilities Management Commission monthly.

### 1) Taishin Bank

#### (1) Analysis for the Structure of NT-dollar Due Dates (1)

Dec. 31, 2007; Unit: NT\$1,000

	Total	Value for balance period before due dates				
		One to 30 days	31 to 90 days	91 to 180 days	181 days to one year	Over one year
Main fund inflow due	799,015,376	234,800,107	59,812,930	27,381,232	35,760,485	441,260,622
Main fund outflow due	799,015,376	201,005,774	98,953,468	134,099,305	169,469,232	195,487,597
Expected gap	-	33,794,333	(39,140,538)	(106,718,073)	(133,708,747)	245,773,025

Note: The table only contains NT-dollar funds of the headquarters and domestic branches.

#### (2) Analysis for the Structure of U.S.-dollar Due Dates (2)

Dec. 31, 2007; Unit: US\$1,000

	Total	Value for balance period before due dates				
		One to 30 days	31 to 90 days	91 to 180 days	181 days to one year	Over one year
Main fund inflow due	11,123,796	4,629,472	2,249,869	1,485,793	1,106,449	1,652,213
Main fund outflow due	11,123,796	4,364,648	1,783,373	1,660,845	796,965	2,517,965
Expected gap	-	264,824	466,496	(175,052)	309,484	(865,752)

Note: The table contains U.S.-dollar funds of the headquarters, domestic branches, and OBU (offshore banking unit).

### 2) Taishin Bills Finance

#### Analysis of Assets/Liabilities Due

Dec. 31, 2007; Unit: NT\$1,000

	Total	Value for balance period before due dates				
		One to 30 days	31 to 90 days	91 to 180 days	181 days to one year	Over one year
Assets	55,908,836	15,395,271	15,547,116	3,602,798	7,369,776	13,993,875
Liabilities	49,580,705	43,331,653	1,106,663	141,889	5,000,500	—
Gap	6,328,131	(27,936,382)	14,440,453	3,460,909	2,369,276	13,993,875
Accumulated gap	6,328,131	(27,936,382)	(13,495,929)	(10,035,020)	(7,665,744)	(6,328,131)

## VII. Financial Status, Review of Business Performance, and Risk Management

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### ■ Market risk

#### Objective and policy of market-risk management

##### 1) Strategy and flow

(1) The bank's risk management strategy calls for setting restrictions on capital according to risk-adjusted returns rate, whereby seeking maximum value for shareholders. Accordingly, various business units have to seek approved quota before trading and independent risk-management units assess income or loss for trading positions daily, in addition to reporting income/loss and risk exposure of trading position to executives regularly.

(2) The scope and features of risk report and assessment system

Risk report is meant to disclose risk as an important reference for executives in formulating countermeasure and adjusting investment portfolio for achieving business objectives. The bank dedicates to integrating trading management systems for various products, so as to assess changes in risk exposure and income/loss deriving from its investment positions.

##### 2) Trading and risk management system

(1) Quality-wise, the bank stresses the formulation and implementation of risk-management policy and norms, as well as the establishment of risk-management culture. Risk-management units are independent from risk-undertaking units and responsible for assessing and analyzing risk exposure and reporting the results to executives for use in policy making, in addition to instituting assessment flow, the flow for new-product launch, and certification procedure model, in the hope of complying with the regulations of the regulator, precisely assess risk, and standardizing operating and risk-management flows.

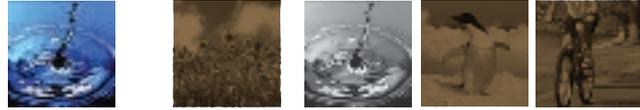
(2) Quantity-wise, positions with different purposes are described below:

- Trading-book position

The bank sets price-sensitivity quota for various products with different risk factors as criteria for risk assessment. In compliance with the regulations of Basel Capital Accord and the regulator, it plans to calculate integrated VaR (Value-at-Risk) for investment portfolio with internal model and set up VaR ceiling, so as to control the impact of market swings on the bank's positions.

- Bankbook position

Impact on banking position derives mainly from interest-rate risk. The bank assesses



the influence of interest-rate swing on position according to changes in net-interest income and the economic value of banking position, as well as supplementary pressure test, so as to detect the bank's capability in enduring drastic interest swing under extreme situation.

## ■ Operating risk-Taishin Bank

### 1) Operating-risk management policy and framework

To attain effective operating-risk management, the bank has formulated its operating-risk management policy, according to the norms set by the Basel Committee on Banking Supervision, the Bank for International Settlements, and the Financial Supervisory Commission (FSC), the Executive Yuan (the Cabinet). The policy covers operating-risk management framework, operating-risk management principles, risk identification and assessment technique, and risk reporting/supervision, in order to foster consistent operating-risk awareness inside the bank, establish operating-risk management culture, and implement risk management system, in addition to specifying the operating-risk tolerability of the bank. To assure consistency between the bank's operating-risk management mechanism and corporate strategy, the company has established independent risk-management units, further consolidating the bank's operating-risk management.

### 2) Identification of operating risk

The company defines operating risk as "Risk of loss triggered by the impropriety or mistake involving internal flow, staffers, system, or external incidents, including legal risk but excluding strategic or credit-standing risks." In order to identify existing and potential risks, the bank has formulated various operating-risk management flow, as well as company-wide risk glossary, loss incidence reportingsystem, risk self-evaluation system, key risk indicators, and risk reporting/disclosure procedure, so as to establish operating-risk identification, assessment, and supervision method. Meanwhile, for the purpose of controlling various operating risks within endurable range, enhance operating efficacy, and create corporate value, the bank carries out regular analysis of existing and potential operating risk, thereby putting forward action plan to cut related operating risks.

### 3) Operating-risk assessment and supervision

(1) Taishin Bank has test-calculated the chance and exposure value of operating risk according to information in loss database and Taishin Bills Finance already introduced loss incident reporting system. The financial holding company will gradually extend these practices to other subsidiaries, so as to better grasp the operating-risk VaR of the entire company.

(2) The financial holding company formulated operating-risk ceilings for the various units

## VII. Financial Status, Review of Business Performance, and Risk Management

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of Taishin Bank, Taishin Bills Finance, and Taiwan Securities at the end of 2007, which have included the 2008 KPI (key performance indicators), so as to incorporate operating-risk supervision into regular management.

### 4) Operating-risk reporting and disclosure

The company has formulated operating-risk reporting and disclosure mechanism, in order to help executives grasp the company's overall operating risk and make key decisions properly with the timely provision of key operating-risk information and help market participants make proper decisions with the timely provision of key market information, thereby augmenting the company's responsive capability for operating risk and upholding the confidence of investors.

## 2) Securities subsidiary: Market risk, trading-partner risk, basic risk, and operating risk

### ■ Risk-management method

As of 2007, Taiwan Securities had instituted complete risk-management mechanism, aiming to effectively contain risk via effective assessment and strict management flow. The company's risk-management strategy, organization, and assessment method follow:

#### 1) Risk-management strategy and flow

##### (1) Risk-management objective

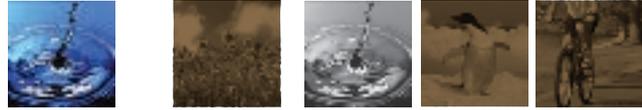
The company has formulated risk-management policy according to the risk-management policy of Taishin Financial Holding, aiming to

- \* Institute and implement integrated risk-management mechanism covering market risk, credit risk, operating risk, and liquidity risk, so as to effectively contain risks by centralizing risk management and diversifying risk;
- \* Upgrade assets quality;
- \* Augment the efficacy of capital allocation and maximize risk-adjusted returns.

##### (2) Procedure for risk-policy formulation and approval

The company's risk-management policy is formulated according to the following three principles:

- \* Grasp the company's multiple risks via a complete risk-assessment mechanism, thereby laying the foundation for the company's sustainable development;
- \* Stress the efficacy of risk-based assets.

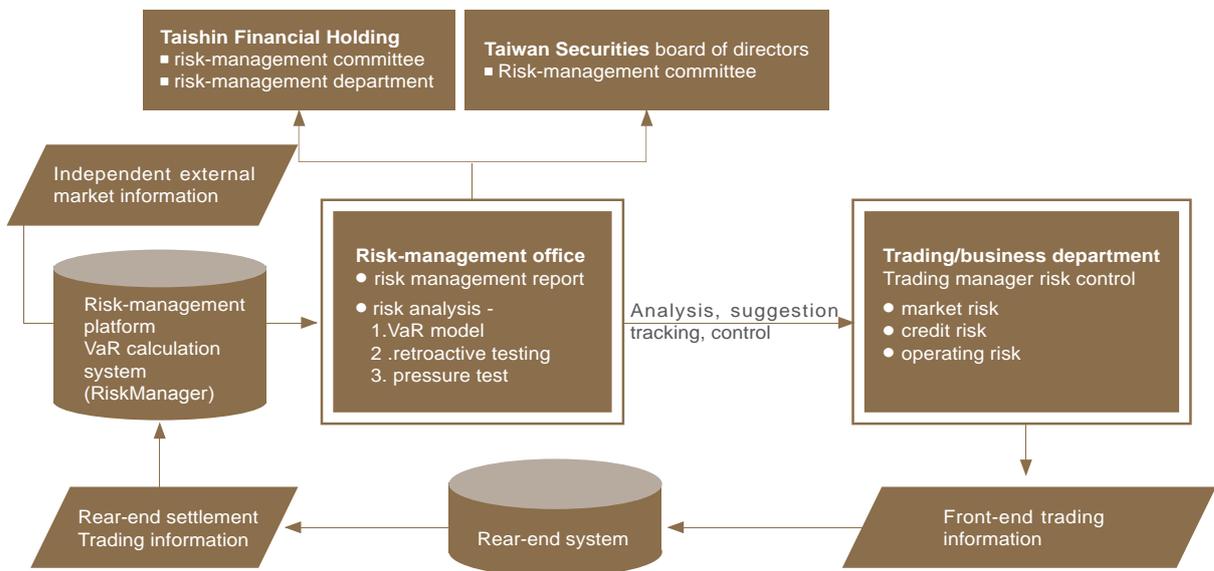


\* Stress underlying risk in the pursuit of maximum returns, thereby including risk factors into performance evaluation.

Approval procedure: The company's risk-management policy is formulated by risk-management units and approved by the board of directors.

## 2) Organization and framework of risk-management system

### (1) Chart of risk-management organizational framework



The board of directors of Taiwan Securities oversees an independent risk-management office, responsible for monitoring the company's overall risk and various units' risk, in addition to reporting income/loss and financial-exposure status at risk-management meetings regularly. The risk-management office is independent from various profit centers and report to the board of directors directly, taking charge of monitoring the company's various risks.

## VII. Financial Status, Review of Business Performance, and Risk Management

### 3) Scope and features of risk report and assessment system

#### (1) Assessment methods for the management of various risks

Kinds of risks	Assessment methods
Market risk	Linear financial products: Assess price risk-exposure with Var, Delta, and DV01. Non-linear financial products: Assess price risk-exposure with Greeks (such as Delta, gamma, vega), in addition to Var and DV01.
Credit risk	Credit trading: Assessment of the keeping rate of clients' collaterals and internal credit rating OTC derivatives : Calculate PSR (pre-settlement risk) daily
Operating risk	Consigned trading : Calculation of the percentage of erroneous accounts

#### (2) Information contents, frequency, and flow of risk reports

Information	Frequency	Flow
Analysis of linear/non-linear product sensitivity	Daily	Daily monitoring tool of risk-management units
Assess the risk exposure of bonds and PSR (pre-settlement risk) of the same party.	Daily	Daily monitoring tool of risk-management units
Compiling risk-management tables for all products	Daily	Daily monitoring tool of risk-management units for the balance position and income/loss of risk-based assets
Producing report on risk-based assets management (including the company's overall balance position and VaR)	Monthly	Report to Risk-Management Committee
Producing report on quantified indicators of the company's various risks	Monthly	Report to Risk-Management Committee
Producing tracking report on the unsettled loss position	Monthly	Report to Risk-Management Committee
Producing pressure test report	Monthly	Report to Risk-Management Committee
Assessing liquidity reserves	Monthly	Report to president as reference for performance evaluation.
Producing risk evaluation reports for various businesses	Quarterly	Report to the board of directors.
Disclosing information on the quality of risk management	Annually	Report to the board of directors and publicize it according to the regulations of the regulator.



## Chang Hwa Commercial Bank Co., Ltd.

### ■ Various risk assessment and management methods and quantified information on risk exposure

#### A. Credit risk

##### a. Strategy

Develop management systems and regulations for the implementation of Basel II Capital Accord, strengthen the identification, assessment, and monitoring/management functions for credit risk via the institution of various system tools and reports/tables, and assure steady business development via enhancing risk-management quality, so as to comply with optimal risk-management principles.

##### b. Flow

1. To assure the independence of credit-risk management, institute lending management department under the headquarters and corporate (consumer) banking risk-management sections under regional business departments, in charge of the examination of lending cases. The headquarters sets up a lending examination committee, examining lending cases needing the approval of the president. Regional business departments establish lending examination committees, examining via discussion method lending cases within the authorization for the departments.
2. Institute lending policy as the ultimate guidelines for lending operation and set credit lines for the same related party, the same business group, and the same line.
3. Reasonably reflect collateral value/loan ratio via regular appraisal mechanism for housing-loan realty collaterals, so as to effectively identify risk-bearing status.
4. Institute corporate credit-rating system, as a tool for lending examination, price setting, and various credit-risk management rules, thereby augmenting credit-risk identification and management efficacy.
5. Institute rules for loan assets evaluation according to steady development principle; identify loan-assets quality and the propriety of bad-assets provision via quantified and qualitative evaluation methods.
6. Incorporate credit score card into the bank's loan application flow, tracking the verification of score-card efficacy, institute the approval mechanism for the upgrading of special consumer-banking cases.

## VII. Financial Status, Review of Business Performance, and Risk Management

7. Carry out loan-application evaluation and examination according the bank's consumer-banking management norm, standard consumer-banking operating procedure, and loan-examination regulations, supplemented with lending-risk database and automated lending management system.
8. Continuously sponsor risk-management seminars and training, so as to forge the bank's risk-management culture.

### B. Risk of financial-trading partner

#### a. Strategy and flow

1. The bank embraces external credit rating for financial-trading partners, as the basis for internal credit-risk classification and rating.
2. Determine the overall quota and various risk quotas for financial-trading partners according to their book values and set credit lines for various businesses within the overall quota.
3. Effectively manage the risks of the bank's financial-trading partners via monitoring and reporting procedure.

#### b. Organization and framework of the management system for financial-trading partner risk



### C. Market risk

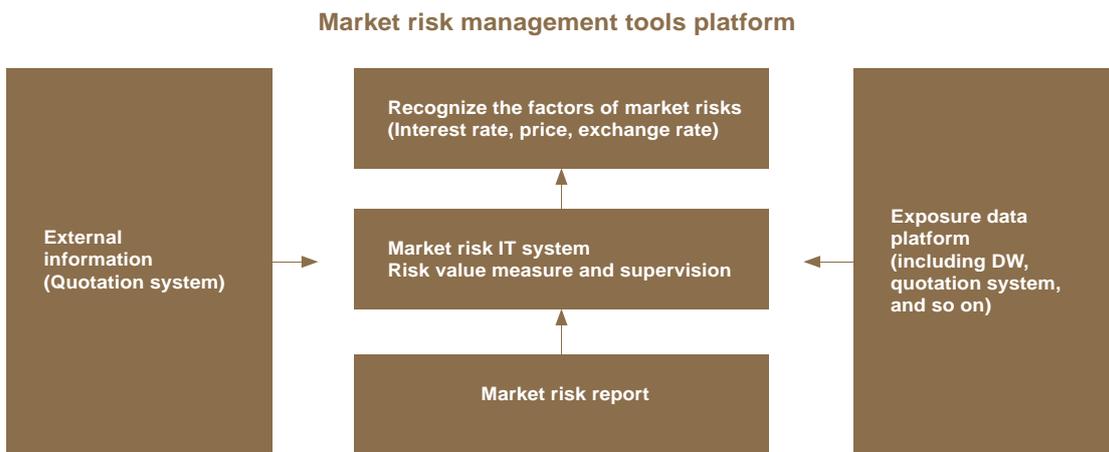
#### a. Strategy and flow

Plan, suggest, and implement market-risk management to assure effective risk identification, assessment, monitoring, and reporting, so that the bank can control market risk within



tolerable range and precisely evaluate and effectively carry out fund allocation, in addition to complying with the regulation of Basel Capital Accord.

## b. Organization and framework of market-risk management system



## c. Scope and features of risk report and assessment system

The disclosure of risks in risk reports enables executives to grasp overall market-risk status and make proper adjustments accordingly. Quantified risk indicators produced by risk management system also help achieve risk management.

## d. Strategy and flow for achieving the sustained effectiveness of risk-hedging policy and risk-hedging monitoring

- 1) Institute risk-management objective, to cut the bank's possible loss from adverse market-price swings.
- 2) Formulate risk-hedging strategy, including measures to offset risks from interest swing, exchange-rate swing, stock-price swing, and credit downgrading.
- 3) Identify trading and its nature for risk avoidance.
- 4) Evaluate the effectiveness of risk-hedging tools: At the beginning and mid-term of risk hedging, anticipate changes in fair value or cash flow caused by the effectiveness of risk-hedging in offsetting designated risk avoidance, in addition to continuously evaluating actual offsetting results.

## VII. Financial Status, Review of Business Performance, and Risk Management

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### D. Operating risk

#### a. Strategy and flow

Manage the banking operating risk according to clear-cut definition, including formulating risk-management methods in various business guidelines and the development of application tools by risk-management units to assist staffers carrying out the risk-management procedure of identifying, evaluating, controlling, supervising, and reporting risks.

#### b. The organization and framework of risk-management system

The bank's risk-management organizational framework consists of three defense lines, the first being the daily operating-risk management undertaken by various units, the second operating-risk management framework and implementation policy formulated and pushed by the Risk-Management Department, and the third the evaluation of the effectiveness of operating-risk management by the Auditing Department.

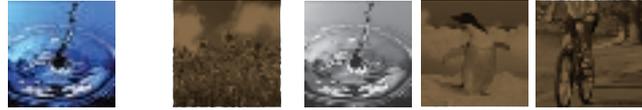
#### c. The scope and features of risk report and assessment system

The bank has started to collect data on internal operating-risk loss incidents and classify them according to the types specified in the Basel II Capital Accord, in addition to gradually pushing risk-management and self-evaluation system.

### D. National risk

#### a. Strategy and flow

1. The bank formulates standard ceilings for national risks, according to external credit rating and other related information for different countries.
2. The bank's maximum exposure values for national risks are set by multiplying the bank's book values.
3. Within the overall national-risk ceiling, determine risk ceiling for a specific nation according to its politics and economic status, as well as the bank's business needs.
4. Continuously assess and monitor exposure values, and suspend or revoke risk quota for countries with unstable political and economic situation, or with downgraded credit rating.



### **c. Influence of important domestic and foreign policy and legal changes on the finance of the financial holding company and countermeasures**

1. There is no major legal change affecting the financial holding company's finance.
2. The Ministry of Finance (MOF) put into force Basic Financial Statement No. 35 in 2005, Basic Financial Statements No. 34 and No. 36 in 2006, Basic Financial Statements No. 37 and No. 38 in 2007, and Basic Financial Statement No. 39 in 2008.

After learning of related policy and legal changes, the company's unit in charge of legal compliance immediately notified related units, formulated countermeasures, and carried out related education/training, in addition to having responsible units revise internal regulations or operating procedure at odds with the new regulations.

### **d. Influence of scientific/technological and industrial changes on the financial holding company's finance and countermeasures**

New information-technology application greatly facilitates the systemization of financial business. In response to the ever-changing information-security irregularities and incidents, Taishin Financial Holding has regarded the continuing upgrading of internal and external information security as a priority task, in addition to sticking to continuous application of new technologies in the provision of convenient financial services to clients.

Regarding information-security management, the company has set the restriction of user privilege for PC, e-mail, network application systems and client data, supplemented with follow-up auditing of exceptional trading and review of client-data usage, thereby forming a complete active and passive security protection network to effectively safeguard the security of client data and assets. The company also convenes information-security meetings regularly, overseeing the pushing of information-application security task and accepting opinions from various units for improving information-security management, in the hope of closely linking information-security management with business development.

On-line banking is expected to bring revolutionary change to the financial industry in the future. Although on-line trading has been treated as an emerging trading channel, financial institutions still face major tasks in pushing on-line banking, including how to enhance willingness to access online banking among clients, assist clients understanding online banking, and augment the share of automated trading. Various studies show that the major blockade for the promotion of online banking is the security concern. Therefore, the biggest challenge facing financial institutions is now to remove clients' concern by establishing a secure automated trading platform under existing technologies and cost consideration.

## VII. Financial Status, Review of Business Performance, and Risk Management

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The establishment of secure trading mechanism must also take care of the convenient use by clients and ward off frequent hacker raids, such as the stealth of secret account code, the execution of automated registration program, and Phishing. In response, Taishin Bank has continuously developed anti-hacker and encryption mechanisms, such as the establishment of advanced firewall for online banking, the upgrading of SSL encryption technology, the development of online verification code, instant alarm service, dynamic keyboard, window for dynamic-trading confirmation, and the display of information on latest 10 registrations upon registration for online banking. The main purpose is to safeguard the security of client accounts. The encryption mechanism for financial chip cards further enhances the security of online trading mechanism.

Taishin Bank has also developed three proprietary security mechanisms for online ATM, including instant alarm, dynamic code verification, and dynamic keyboard, to help clients prevent the execution of automated registration program, ward off hacker raids via the exchange between secret-code and verification code columns, and detect abnormal registration immediately via instant alarm.

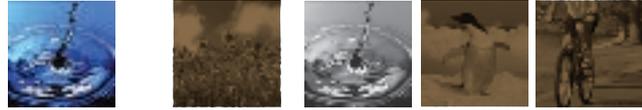
Online technology has been intimately linked to our daily life. In adhering to the core customer-centered spirit, Taishin Bank has continuously launched secure online financial trading platform winning the trust and reliance of customers and as such is confident of becoming the treasure bowl of customers.

### **e. Influence of image change of financial holding companies and subsidiaries on the company and countermeasures**

Taiwan Financial Holding won the bid for preferential shares of Chang Hwa Bank in 2005 and subsequently joined the board of directors of Chang Hwa Bank. In 2007, it pushed to merge with Chang Hwa Bank via share swap, causing a stir in the society due to controversy over the share-swap ratio.

To counter the effect, the company actively communicates with the regulator, shareholders, related parties (Chang Hwa Bank's employees and trade union), and media, in addition to stepping up various public-benefit activities, so as to augment the company's positive image via substantive payback and contribution to the society.

The share-swap program has been suspended due to disagreements between the two banks' financial consultants on share-swap ratio, pending the appearance of proper timing for its execution. However, Taishin Financial Holding continued to participate in various public-benefit and social payback programs, fulfilling its social responsibilities as a corporate member of the society, such as the sponsorship of the annual Taishin Arts Award and various



artistic and cultural performances by Taishin Bank Culture and Art Foundation, continuous implementation of “Care-for-Taiwan” series activities, helping the development of indigenous industries in 921 earthquake-stricken areas, and the sponsorship of various academic and practical-affairs seminars in cooperation with universities. These activities positively affect the overall image of the financial holding company.

## **f. Anticipated benefits and possible risks for merger and countermeasures**

### **1. Anticipated benefits:**

- 1) Expand business scope, enhance assets scale, and augment market ranking, thereby intensifying business competitiveness.
- 2) Expand marketing and sale channel, thereby providing clients more convenient plural service channel.
- 3) Generates business synergy, thereby maximizing returns for shareholders.
- 4) Provide all-round services and deep-cultivate dealings with clients.
- 5) Diversify business risks and expand the domain of business development.

### **2. Possible risks**

Failure to make proper adjustments concerning the integration of operation, information, and human resources may discount the synergy of merger.

### **3. Countermeasures**

To materialize the expected synergy from merger, the company will better communicate with related parties and monitor the achievement of merger according to schedule.

## **g. Risks for business concentration and countermeasures**

### **1. Backup mechanism**

Due to the sharing of resources and manpower resulting from concentrated operation, the eruption of emergent incidents would produce major impact on the bank. To cope with possible risks, the Risk-Management Department of the financial holding company has forged integrated sustained operation plan, including emergent responsive mode for venue, system, and manpower and disaster recovery plan. The Operating Service Department has also instituted sustained operation plan mechanism, carrying out annual test, in addition to preparing backup copies for documents at different place.

## VII. Financial Status, Review of Business Performance, and Risk Management

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### 2. Paper delivery

Due to concentrated operation, internal delivery or sending of original documents may lead to information leakage or document missing during the process, creating serious consequence for clients and the bank. To prevent that, the bank has kept reception-signature record and formulated complete delivery rules for important documents.

h. Influence of massive share transfer or exchange by board directors, supervisors, or major shareholders with over 1% stake, risk, and countermeasures

Due to the diversified shareholding of the company and low stake of a single shareholder, massive shareholding transfer or exchange would not impact the makeup of the company's shareholders or produce major influence or risk.

### i. Influence of management right on the financial holding company, risk, and countermeasures

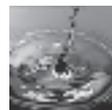
Change in the management right of financial holding company may result from the replacement of management by shareholders due to bad performance, hostile takeover, or own initiative of the original management wishing to look for new management to take over their position. Change in management may produce the following influence and risks on financial holding company:

#### 1. Possible benefits:

- 1) Create new management direction and value for the company.
- 2) Renovate corporate culture and organizational framework, bringing new business momentum and profit performance to the company.
- 3) Inject new idea and financial resources, creating triple wins for shareholders, clients, and employees.

#### 2. Possible risks:

- 1) Change in business strategy may affect company's business development and profit performance.
- 2) Change in management right may cause panic among employees, leading to high turnover and thereby affecting company's regular operation.
- 3) Change in management right may trigger concern among investors over company's management stability, driving down stock price.



### 3. Countermeasure:

For the triple benefits of shareholders, clients, and employees, the company will endeavor to maintain the stability of management right.

## j . Litigation and non-litigation incidents

### 1. Taishin Financial Holding

Involved parties: Truswell Investment Trust (plaintiff), Taishin Financial Holding (defendant)

Case: Request for compensating the violation of contract

Requested value: NT\$46,130,000

Description of the case: The financial holding company signed a contract with Lin Wei-tung of Truswell Investment Trust pledging to obtain 82.01% stake in Truswell after obtaining the approval of the regulator. Due to the failure to win the approval of the regulator, the financial holding company notified Truswell of the decision to invalidate the contract on September 2, 2005. Truswell sued Taishin on May 2006, requesting NT\$46.13 million of compensation for violating the contract. Taishin won the first trial but Truswell has appealed.

### 2. Taiwan Securities

the Tseng Yu-chun case

Due to personal financial dispute with Chang Min-chang, former salesperson at the company's Yunli branch, and Tseng Ya-yin, former deputy wealth-management manager of the branch, Tseng Yu-chun, a client of the branch, filed a criminal suit along with a civil suit, requesting NT\$60 million of joint compensation from the company, Chang Min-chang, and Tseng Ya-yin.

Taoyuan district court rejected the NT\$60 million compensation request of Tseng Yu-chun against the company in first trial and Taiwan high court upheld the ruling on March 3, 2008. The case had remained unsettled up to March 31, 2008.

The Wu Yu-chun and Wu Chiang Yu-ying case

Due to personal financial dispute with Tseng Ya-yin, former deputy wealth-management manager of the company's Yungli branch, Wu Yu-chun and Wu Chiang Yu-ying, clients of the branch, sued the company on Jan. 16, 2003, requesting NT\$21 million of compensation for joint responsibility as the employer of Tseng Ya-yin.

The case is being tried by Taoyuan district court and the outcome is still unsettled.

The Hung Shu-feng case

Due to personal financial dispute with Tsai Shu-chen, former salesperson of the company, Hung Su-feng and three other persons filed criminal suit along with civil suit on Jan. 23, requesting NT\$21.5 million of joint compensation from the company and the four persons.

## VII. Financial Status, Review of Business Performance, and Risk Management

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After discovering the improper relationship between Tsai Shu-chen and the four persons, the company filed a criminal suit against the five persons with Kaohsiung district court on March 12, 2007 for alleged fraud.

The case is being tried by Kaohsiung district court and the outcome is still unsettled.

### 3. Changhwa Commercial Bank

The bank engaged in a law suit with the national defense ministry of Iran involving a wired remittance of US\$15 million in 1991. The supreme court handed down a final verdict in the bank's favor on Aug. 1, 2002. The Iran party filed a suit of "surrogate request for returning the remittance" against the bank in 1997 again, for which Taipei district court also ruled in the bank's favor on Sept. 10, 2004, but the Iran party appealed the case to Taiwan high court on Oct. 6, 2004, which is still trying the case.

### 4. Taishin International Bank (nil)

### 5. Taishin Bills Finance (nil)

### 6. Taishin Asset Management (nil)

### 7. Taishin Marketing Consultant (nil)

### 8. Taishin Venture Capital (nil)

## k. Other key risks and countermeasures (nil)

## G. Crisis management and response mechanism

To assure the uninterrupted operation of the company's major business activities, strengthen the company's responsive capability for emergent incidents, and minimize the influence of disaster and resume normal operation within the shortest time possible, the company has formulated the BCP (business contingency plan), specifying the definition of emergent incidents, grading risks, and pinpointing responsibilities, and related handling procedure. Following the outbreak of emergent incidents, the chiefs of responsible units must handle the incidents immediately and notify superiors at various levels according to the extents of influence. For third-grade emergent incidents, the president should take charge, convening the headquarters' emergency responding task force and activate BCP, directing the Risk-Management Department and supporting units to adopt contingent measures and plan for the resumption of operation.

## H. Other important items: nil





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