

# Taishin Holdings



2008 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

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## Message to Shareholders



# I .Message to Shareholders

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Dear shareholders,

In the second half of 2008, the global financial tsunami erupted from the Wall Street in the U.S. and then swept the entire world, including developed and emerging countries. Taiwan's economy declined 8.36% year-on-year in the fourth quarter of 2008, the steepest ever, with private consumption slipping 0.29%. In 2008, the global economy virtually stagnated, inching up only 0.12%.

Under the rigorous climate, Taishin Financial Holding faces the upcoming challenges with a very cautious stance, making, for instance, NT\$5.5 billion of bad-debt provision at the end of 2008, in preparation for various potential risks in 2009. As a result, the company incurred NT\$5.23 billion of after-tax loss in 2008 but the assets quality of Taishin International Bank has also greatly improved, as evidenced by its 135% bad-debt coverage ratio, almost double the industry average of 70%. On the solid basis, the company will strictly manage risks in the pursuit of profit this year.

Business review and prospects of the three major business groups follow:

## Consumer Banking Business Group

In 2008, based on the concept of "client orientation," the Consumer Banking Business Group continued implementing the core strategy of "single-client viewpoint," applying client-group analyzing technique to offer quality and tailor-made products to different client groups, intensified the management of branch channels, and provided convenient one-stop shopping service.

Regarding assets quality, Taishin International Bank has started to embrace Global FICO Score credit-rating system from 2007, applying efficiently and precisely many valuable informations of Joint Credit Information Center in risk management and business development. In addition to the establishment of an innovative dynamic risk-management mechanism, the company has also utilized the platform as a criterion in its pricing strategy. After two years, the effort started to bear fruit in 2008, lowering, for instance, the non-performing loan (NPL) ratio for primary-lien housing loans to mere 0.4%, the lowest among peers. At the end of 2008, the overall NPL ratio of the bank only reached 1.38%, the lowest for the bank in the recent years, and on the list of best performance among peers.

Regarding basic platform construction, the company has spared no effort in improving work flow from the client viewpoint, in the hope of providing clients more efficient and quality services via automated, paperless, and graphic operation. The changes and efforts have won the acknowledgement of international professional media, as evidenced by the "Best in Customer Experience Initiative" award granted by "Asian Banker" in 2008. The "Sales Force Automation System" (SFA), integratedly designed by the information department, also won the IT innovation award for Asia granted by Financial Insights.



# I .Message to Shareholders

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## Corporate Banking Business Group

In 2008, the Corporate Banking Business Group also suffered business decline under the impact of the global financial tsunami but still managed to rack up comparatively steady profit performance, with the overseas branches boasting better performance than the industry average. In 2008, the group ranked among the top three in the market in the total value of IPO (initial public offering) cases and factoring business. Taishin Bills Finance ranked fourth place in NT-dollar fixed-rate commercial papers (FRCP) and muscled into top five in financial electronic data interchange (FEDI) business and the trading volume in the ACH (automated clearing house) business of the Taiwan Clearing House. The group also won the acknowledgement of various international professional media for its performance, including the best e-trading platform award in Taiwan, the second best forex products and portfolio in Taiwan, and second place for forex service among local banks in Taiwan for Taishin Bank, granted by Asiamoney in 2008.

In 2009, the global economy and financial market will still be in a turbulent state. In order to alleviate the continuing impact of the global financial tsunami, Corporate Banking Business Group, in addition to continuing the “integrated financial service” strategy and deep-cultivating domestic quality corporate clients, will endeavor to adjust deposit/loan structure, intensify interaction with clients, upgrade assets quality, review bad-debt provision and credit-extension policies, in order to minimize potential risks. Regarding adjustment in profit-making structure, the group will focus on financial-product innovation in assets aspect and the development of cash-management business, so as to achieve steady profit growth.

## Securities and Assets Management Business Group

The Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) stood at 4,591 points at the end of 2008, down 3,915 points from a year earlier, with the total trading volume in the year shrinking 20.18% to NT\$26.45 trillion. The bankruptcy of Lehman Brothers triggered the global financial storm, driving the brisk economy in the first half of 2008 southward and dealing a heavy blow to the securities market. Taishin Securities Co., Ltd., therefore, suffered sharp profit decline, due to drastic shrinkage in brokerage fee income, but still managed to score pre-tax profit of NT\$0.11 per share, outperforming peers most of which were in the red.

The International Monetary Fund (IMF) predicted that the global economy will decline 1.3% in 2009, compared with 2008's 3.4% growth, underscoring the heavy downside risk for the global economy in the year. Taishin Financial Holding predicts that there will occur financial mergers in Taiwan in the coming 12 to 18 months. Therefore, in May this year the board of directors approved the proposed merger between Taishin Securities and KGI Securities. After the completion of the merger, the disposable cash position of Taishin Financial Holding will top NT\$40 billion, greatly strengthening its financial structure and boosting its clout in acquiring other financial institutions, either in Taiwan or

abroad, in the future.

In the wake of the eruption of THE financial tsunami, those with leading market status in specialized fields will fare much better than those which are mere participants in multiple market sectors. In the future, Taishin Financial Holding will focus its development on banking business, integrating its resources for application in the banking sector in which it enjoys competitive edge, while concentrating its securities business on deep cultivation of the bank's clients, especially those with high assets. Therefore, after the merger of Taishin Securities with KGI Securities, Taishin Financial Holding will establish or acquire a new general securities company, in order to continue one-stop shopping service consisting of underwriting and stock-affairs agency services for corporate clients and offering complete wealth-management and securities-brokerage service to individual clients.

Taishin Financial Holding has remained the single largest shareholder of Chang Hwa Bank, continuing to dominate its board of directors and spur its management to enhance its performance, in order to maximize long-term benefits for the shareholders of both companies.

Meanwhile, with the steady improvement of cross-Taiwan Strait relationship and the imminent signing of the memorandum of understanding (MOU) for cross-Strait cooperation in financial supervision, Taishin Financial Holding, like its peers, is gearing up to tap the mainland Chinese market, evaluating various approaches for the market, in the hope of entering the greater Chinese market quickly and expanding its business scale and scope.

"Making Taishin a cash cow for clients" has been the mission and vision of the company in serving clients. In order to continue the effort, the company has forged again its core values, namely "integrity, commitment, innovation, and cooperation." The company will deeply instill the values among its staff, so that all of its employees, whatever their ranks, can implement the values in their services, thereby helping clients and shareholders to attain financial success.

We are grateful of the consistent support of our shareholders to Taishin Financial Holding 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  
June 2009



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## Brief Introduction to the Financial Holding Firm





## 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 Taishin 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

## II. Brief Introduction to the Financial Holding Firm

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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 start to operate after receiving the approval of and the license issued by the regulator.

On March 18, the company's subsidiary Taishin Securities acquire 55% stake in Taishin Investment Trust, thereby transforming the latter into its 100%-owned subsidiary. The buyout has enabled Taishin Securities to expand its produce resources and offer clients more comprehensive wealth-management services, facilitating its effort to seek the maximum synergy effect under the principle of "client first," in the hope of creating a win-win outcome for shareholders and clients.

In adherence to the core value of "integrity, commitment, innovation, and cooperation" and the vision of "making Taishin a cash cow 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

- Taishin Bank: The best e-trading platform award in Taiwan, the second best forex products and portfolio in Taiwan, and second place for forex service among local banks in Taiwan, granted by Asiamoney in 2008.
- Taishin Bank: "Best in Customer Experience Initiative" award granted by "Asian Banker" in 2008.
- Taishin Bank and Taishin Insurance Agency: The best banking insurance award by Asian Banker.
- Taishin Bank: the IT innovation award for Asia by Financial Insights for the bank's "Sales Force Automation System" (SFA).

# III

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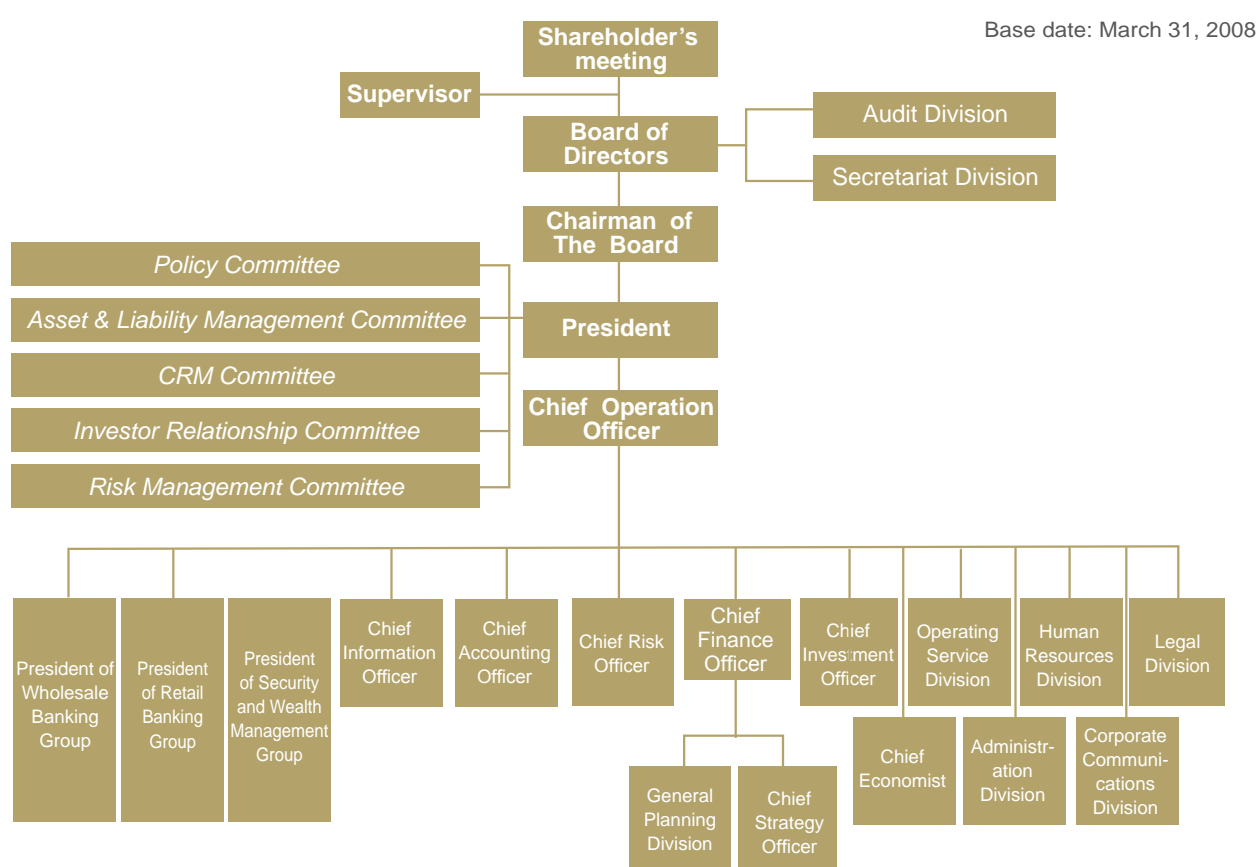
**Corporate Governance**

# 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.
- **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.
- **Customer Relations Management Committee:** Responsible for the establishment, management/control, and coordination of the group's data storage and customer-relations development.
- **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:

- **Chief Economist's Office:** The economic and industrial research unit of the financial holding company, the office is responsible externally for the analysis of the world's general economy, exchange rates, interest rates, and outlook of major stock markets and industries, in addition to tracking Taiwan's listed companies and offering investment suggestions. Internally, it also offers analysis and opinions to the company's executives in policy making and business decisions, to support its business development.
- **Chief Investment Officer's Office:** The units takes charge of the planning and management of the short-term securities and mutual-fund investments by subsidiaries, as well as the collection and analysis of short-term dynamic data on securities market. It also handles investment-consulting business and establish related analytical and application models; the analysis and management of the operation, performance, and risks of subsidiaries'

### III. Corporate Governance

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investment-related products; the formulation of policies for investment-related products; and the research of the regulations set by the regulator.

- **Chief Strategist's Office:** The unit is in charge of formulating medium- and long-term development strategies for the financial holding company and subsidiaries.
- **Chief Financial Officer's Office:** The unit takes care of fund management (including the planning and maintenance of internal fund evaluation system) and spread trading; the management of assets, liabilities, liquidity risks, capital planning; the analysis and management of capital adequacy ratio and credit rating; the planning and management of long-term investments; the financial planning and execution of merger and acquisition; and the planning and execution of securitization business.
- **Chief Risk-Management Officer's Office:** The unit is responsible for the planning and management of the management mechanism for credit risk, market risk, and operating risk, the disclosure of the risk-management execution and risk-exposure position, and the planning and establishment of integrated risk-management platform.
- **Chief Accounting Officer's Office:** The unit is in charge of the compilation of the financial holding company's annual budget; the planning and management of annual business goal, performance evaluation and inspection of the achievement of budget and goal (balanced scoreboard); efficacy evaluation of marketing program and compensation system; the planning, management, and document compilation of the financial holding company's management information system (MIS); the design and evaluation of the internal pricing system of the financial company's MIS; the planning and management of the financial holding company's accounting system; the research and consultation of various financial and taxation issue; and the compilation, analysis, and filing of the financial holding company's accounting operation.
- **Chief Information Officer's Office:** The unit is responsible for the formulation of information policy; the application, integration, and proposal of new information technologies, and the evaluation of major information investments.
- **Legal Affairs Division:** The unit handles legal-affairs consulting, the evaluation and supervision of various contracts and documents, and compliance with laws and regulations.
- **Public Relations Division:** The unit is in charge of the maintenance and management of public relationship, corporate-body relationship, brand management, and planning of corporate image.
- **Human Resources Division:** The unit takes care of the formulation, revision,





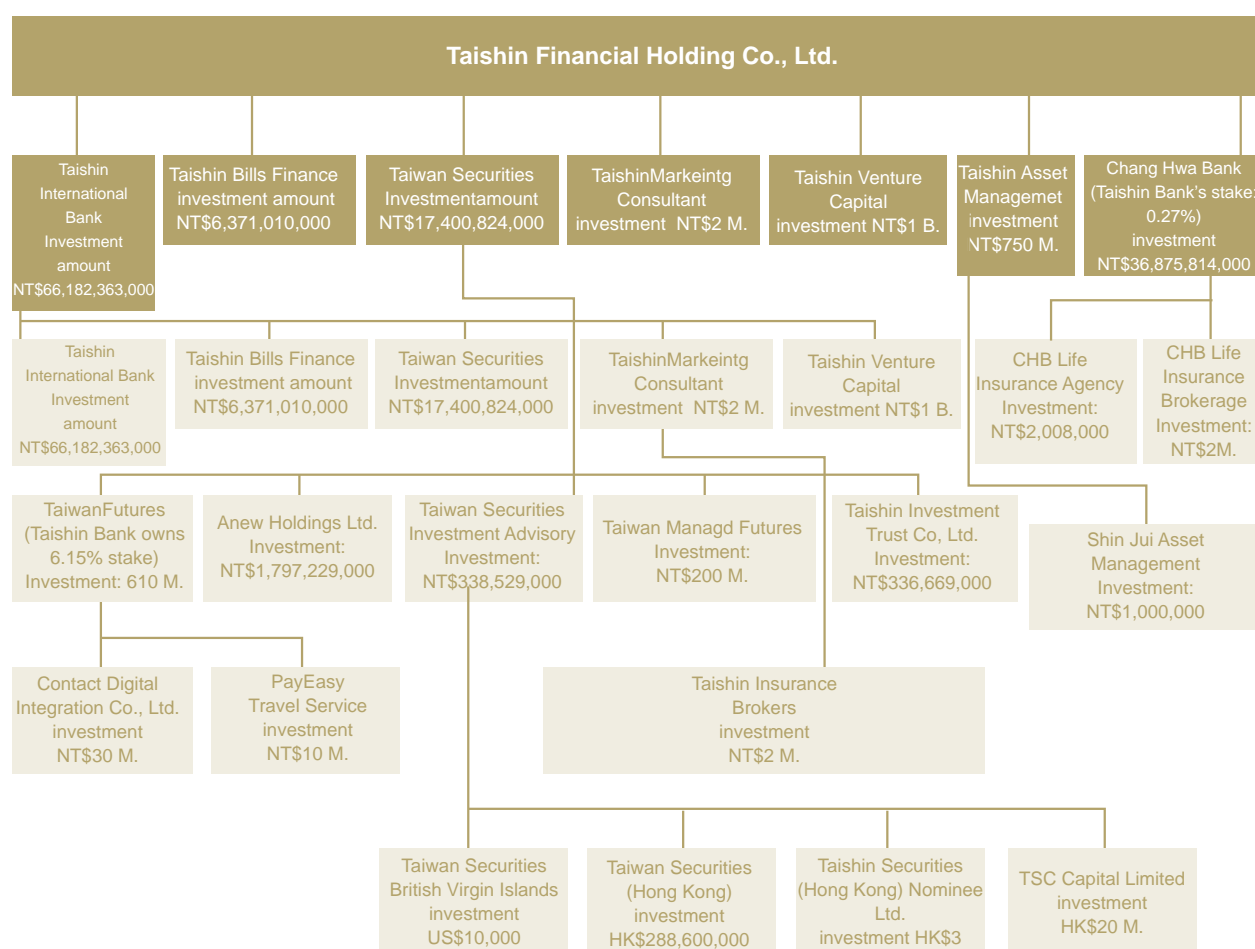
organizational planning, and publication of the financial holding company's human-resources regulations and policy; the management of personnel recruitment, appointment, and performance evaluation; employee compensations and welfare; the design, execution, and management of the communications channel with employees; and the research, planning, revision, compilation, and execution of staff-training courses and materials.

- **Administrative Service Division:** The unit is in charge of the receipt and issuance of papers, general affairs, and construction/repair.
- **Operating Service Division:** The unit handles the planning of the financial holding company's operation, the management of various centralized operations, and the posing of various work-flow improvement programs.
- **General Planning Division:** The unit is responsible for strategic planning, the execution of major strategic projects, the organization and planning of merger and acquisition, integrated business execution, the communications and coordination among the financial holding company and subsidiaries, and the communications and coordination with the regulator.

# III. Corporate Governance

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

Base date: March 31, 2008



Note: Taishin International Finance Co., Ltd. had been liquidated in Oct. 2008 and formally dissolved in April 2009; the board of directors of Taishin Managed Futures resolved to terminate its operation and dissolve the company in December 2008.

## 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, 2009

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 of Taishin Bank, chairman of Taishin Bank Art Foundation
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	Partner of TPG Capital and board director of Chang Hwa Bank
Board director	Tunghsian Investment Co., Ltd. Representative: Kuo Jui-hsung	Board director of the International Bank of Taipei, Doctor in physics, New Hampshire University	Board director, Taishin Bank; professor in information technology; Soochow University; Chairman, Juifang Industry
Board director	Taiho Investment Co., Ltd. Representative: Wu Cheng-ching	Doctor of industrial engineering, Tokyo University	Standing board director of Chang Hwa Bank, Chairman of TASCO Chemical, Excell Chemical, and Changfeng Transport
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 Agency
Board director	Pengcheng Co., Ltd. Representative: Wu Kuang-hsiung	President, consultant, Taiwan Stock Exchange MBA, National Chengchi University	Board director of Taishin Securities, vice chairman of Taishin Securities Association, supervisor of GreTai Securities Market
Board director	Chiao Yu-lon	supervisor, Dah An Bank Business management department, University of Washington	Chairman of Walsin Lihwa, Concord Venture Capital, Touch Micro-system Tech
Independent director	Wang Chih-kang	Economics minister Doctor of business administration, Texas A&M University	Independent board director of Taishin Bank, Chilisin Electronics, and Formosa Sumco Technology; chairman, Taiwan External Trade Development Council; board director of Straits Exchange Foundation
Independent director	Lin Neng-pai	Chairman, Taiwan Power Doctor of business administration, Ohio State University	Independent board director of Taishin Bank, Darfon Electronic, Teco Image System, and Litek Opto-electronics
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	Resident standing supervisor of Taishin Bank, supervisor of The Great Taipei Gas Corp., chairman of Pengcheng Co., and Hsienshun Co.
supervisor	Minhuang International Logistics Co., Ltd. Representative: To be designated	-	-
supervisor	Taishin International Development Representative: Lin Lung-shih	Director, Taishin Financial Holding Director, supervisor., Taishin Bank Doctor of chemistry, Virginia State University	Supervisor of Taishin Bank and chairman of Juiju Industry

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.

# III. Corporate Governance

## C.Items Concerning the Implementation of Internal Control System Whic

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


April 6, 2009

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, 2008 to December 31, 2008. 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

封志厚 

General Auditor

林明力 

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, 2008)

Items Needing Improvemen	Improvement Measures	Schedule for Completion of Improvements
Bank subsidiaries 1. Avoid simultaneously buying U.S. dollar call options/NT dollar call options and selling U.S. dollar put options/NT dollar call options simultaneously during the same trading day when undertaking NT dollar-foreign currency options business.	The company has reviewed the front-end business units, rear-end clearance and monitoring units, and information reporting system, thereby formulating various control and management measures.	Improvement completed.
2. Sufficient collaterals should be provided for extension of secured loans to related parties.	The company has collected sufficient collaterals from borrowers.	Improvement completed.
3. Loan contracts should specify interest rates and offer borrowers the two options of repayment anytime and limited repayment period.	(1) The company has already issued written notice requiring complete contents for loan contracts. (2) The company has revised loan contracts offering borrowers the two options of repayment anytime and limited repayment period.	Improvement completed.
4. Management and control of the services provided by wealth-management staffers and their visitors should be intensified.	The company has formulated forms for regular review by managers, guidelines for wealth-management staffers in visiting clients, and checking system for abnormal deposits, in order to intensify the oversight of the marketing activities of wealth-management staffers and avoid disputes deriving from surrogate trading for clients.	Improvement completed.
5. For commissioned marketing, firewall mechanism protecting clients' information should be instituted and the entrusted companies should be urged to intensify the management and control of client information.	The company has suspended all commissioned trading from April 1, 2006.	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. Indictment of executives or staffers by prosecutors for job-related crimes	<p>1. Mr. Chiu, a client of Taishin Bank's Nanda branch, was arrested by police for violation of Banning Law involving underground cross-Taiwan Strait remittance. Nanda branch's manager Zheng was subsequently indicted by prosecutors on Nov. 14, 2008, for instructing a staffer of the branch to inform Mr. Lin, a related client, of the above case.</p> <p>2. Taishin Securities received a copy of indictment from Taichung prosecutors' office on Feb. 2, 2007 concerning violation of Securities Transaction Law and Anti-Money Laundering Law by Ms. Li, former manager of the bank's Banqiao branch, and some others for illegal stock speculation and the use of surrogate accounts for settlement and deposit-remittance. Ms. Li pleaded innocence insisting that she didn't involve in or profit from the case. The case is still waiting for court verdict.</p>	<p>Mr. Zheng alleged that he was unaware of the crimes of the client and acted according to his on-site judgement. Taishin Bank has hired a lawyer to defend him.</p> <p>Under the order of the regulator, Taishin securities dismissed Ms. Li on Oct. 12, 2007 and has intensified the education/training and internal control of managerial and business staffers.</p>
B. Fines inflicted by Financial Supervisory Commission (FSC) for violation of laws/regulations	<p>1. Taishin Bank</p> <p>(1) The bank was fined NT\$500,000 by FSC for violation of item 1, article 12-1, Banking Law, involving the extension of own-residence loans and consumption loans (FSC, No. 09600125931, April 26, 2007)</p> <p>(2) The bank was fined NT\$6 million by FSC (FSC, no. 09600015091, May 11, 2007) for failing to submit trading with subsidiaries to the board of directors and improper business-investment management.</p> <p>(3) The bank was fined NT\$2 million by FSC (FSC, no. 09600171481, May 17, 2007) for violation of item 1, article 45-1, Banking Law involving leakage of information on credit-card holders.</p> <p>(4) The bank was fined NT\$240,000 by FSC (FSC, no. 09600187421, May 1, 2007) for violating item 5, article 43-6, Securities Transaction Law, for failing to report a common-share capital increment project via private placement in time.</p>	<p>(1) The bank has revised guidelines for consumer-banking products.</p> <p>(2) The bank has publicizes checking procedures for confirming the purposes of loans and issued written notifications to all related units requiring them to strictly comply with the regulation of item 1, article 12, Banking Law.</p> <p>The bank already suspended the undertaking of new businesses by Taishin Financial Co. (Hong Kong) on July 1, 2007 and completed the dissolution of the latter in April 2009.</p> <p>The bank has put forth concrete measures for intensifying client-information protection covering the four aspects of "precautionary measures," "supervision and control mechanism," "employee management," and "information security policy," such as ban on connection of PCs to external storage devices and browsing of external webpages, review of the contents of user authorization for various systems, daily inspection of trading record, timely decision of improper inquiries, intensification of employee's information-security education, and revision of information-security policy.</p> <p>The cash capital increment was 100% subscribed by the bank's parent firm Taishin Financial Holding and the bank's board of directors resolved to have the parent company post major message announcement on the Market Observation Post System of Taiwan Stock Exchange on its behalf. The bank mistakenly believed that the parent firm had also completed the reporting requirement on its behalf. The bank has revised its work flow, to avoid repeating such a mistake.</p>



	Case and value	Rectifying measures
	<p>(5) The bank was fined NT\$200,000 by FSC (FSC, no. 09600468211, Dec. 19, 2007) for violating the authorization regulation of Anti-Money Laundering Law involving the handling of a large-scale money trading by Jianbei branch.</p> <p>(6) The bank was fined NT\$3 million and ordered to dismiss two employees of Banqiao branch by FSC (FSC, no. 09700236261, Dec. 22, 2008) for the embezzlement of a client's deposit by the two persons at Banqiao and Pingtung ranch, respectively.</p> <p>2. Taishin Securities The company was fined NT\$120,000 by FSC (Aug. 24, 2007) for violation of Futures Management Law for incorrect contents of several futures-trading entrustment forms at Yungli branch.</p>	<p>The bank has reported all money trading exceeding NT\$1 million in scale to the Investigation Bureau, the Ministry of Justice, according to article 7 of Anti-Money Laundering Law and issued written instruction reiterating the requirement, in addition to intensifying education and training.</p> <p>The bank has formulated norms for regular inspections by managerial staffers, mechanism for notifications by wealth-management staffers for visiting clients, and inspection of abnormal deposits of wealth-management staffers, to preempt improper intention of wealth-management staffers in undertaking surrogate trading for clients.</p> <p>The company has intensified the education and training of business staffers requiring them to correctly fill in trading entrustment forms when accepting trading consignment of traders.</p>
C. Defects severely corrected by FSC	Nil	
D. Penalties inflicted by FSC for violating item 1, article 54, Banking Law	<p>Taishin Bank The bank was fined NT\$2 million and ordered to suspend issuance of new credit cards for at least one month by FSC (FSC, no. 09600171481, May 17, 2007) for violating item 1, article 45-1, Banking Law, involving leakage of information on credit-card holders.</p> <p>The bank was fined NT\$3 million and ordered to dismiss two employees by FSC (FSC, no. 09700236261, Dec. 22, 2008) for the embezzlement of a client's deposit by the two persons at Banqiao and Pingtung ranch, respectively.</p> <p>The bank was penalized by the Central Bank of China to suspend the NT-dollar exchange-rate option business and application for forex business during the period from Feb. 19 to May 18, 2008 for violating the regulation for NT-dollar exchange-rate trading.</p>	<p>1. Same as 1.(3), B.</p> <p>2. The bank resumed issuance of new credit cards on July 6, 2007 upon receiving the FSC document on July 5, 2007 lifting the penalty.</p> <p>Same as 1.(6), B.</p> <p>1. The bank has undertaken review of and formulated various management and control measures for front-end business units, rear-end clearance and monitoring units, and information reporting system.</p> <p>2. The bank resumed the businesses on May 19, 2008 after receiving a document from the CBC on May 15, 2008 lifting the penalty.</p>
E. Irregularities causing over NT\$50 million of loss in one year or several years whose loss or nature should be disclosed, including malpractices of staffers, major occasional incidents (fraud, stealth, embezzlement or stealth of assets, forged trading, fake certificates and securities, collection of kickbacks, natural disaster, loss inflicted by external forces, attack and stealth of information by hackers, and leakage of business secrets and client information), or security incidents caused by failure to comply with guidelines for the security maintenance of financial institutions.	Nil	

### III. Corporate Governance

	Case and value	Rectifying measures
F. Other items designated by FSC for mandatory disclosure	<p>1. Taishin Bank</p> <p>(1) The bank was fined NT\$1.1 million by Fair Trading Commission, the Executive Yuan, on Jan. 26, 2007 for the improper acceleration article in its consumption-loan contract.</p> <p>(2) The bank was fined NT\$1.1 million by Fair Trade Commission, the Executive Yuan, for failing to specify interest rates and offer borrowers the options of "loan repayment anytime" and "limited repayment period" in its loan contracts.</p> <p>(3) The was corrected by FSC (FSC, no. 09600518271, May 23, 2008) for continuing to allow Taichuan Management Consulting Co., Ltd. access to its internal client-information system after termination of the consigned marketing contract with the latter.</p> <p>(4) The FSC corrected the bank (FSC, no. 09700119561, July 8, 2008) for defect in extending secured loans to related party Shinkong Synthetic Fibers Corp.</p> <p>(5) The bank was corrected by FSC (FSC, no. 09700367571, Dec. 17, 2008) for leakage of client-application data during the period from April 2001 to Jan. 2004 when it outsourced its credit-card marketing and consumption-loan business.</p> <p>2. Taishin Securities</p> <p>(1) The FSC discovered the following defects of Taishin Securities when carrying out common business inspection of the company from Jan. 4 to Jan. 24, 2007: failure to disclose in its financial statement assets lease and purchase of foreign bonds from Taishin Securities (Hong Kong), invested by Taishin Securities' subsidiary Ihsin Holding; purchase of stocks by the securities dealership division other than stocks recommended by its trading policy report; acceptance of trading orders without completing the credit investigation of clients and trading orders with unspecified prices; unauthorized internal-party trading; and absence of "know-your-client" evaluation procedure for trading in derivatives. The FSC corrected the company on May 15, 2007 for those defects which violate securities management law/regulations.</p> <p>(2) Ms. Chen, a former business staffer of the Pingtung branch of Taishin Securities, committed the defects: embezzlement of a client's deposits via the usage of the client's bankbook and seal under her keeping, failure to carry out securities trading according to client's consignment, usage of her mother's securities account for securities trading, and unauthorized change of the delivery method for client's statement of account. Two other staffers of the branch were also negligent in their duties in the case, all testifying to the lax internal control of the company, for which the company received the correction of the FSC on Jan. 2, 2008.</p>	<p>The bank has revised the contract accordingly.</p> <p>The bank has revised the housing-loan contract offering borrowers the options of "repayment anytime" and "limited repayment period" for their free choice.</p> <p>The provision of the access to client-information system is mainly for the marketing of the bank's products. The bank has made follow-up collection of usage fees for the access from Taichung Co., Ltd. and referred the case to the personnel evaluation committee for studying penalties for those who made the mistake.</p> <p>Under the request of the bank, Shinkong Synthetic Fibers has offered additional machinery equipment as collateral for the loan, whose value is sufficient to cover the outstanding amount of the loan after re-appraisal.</p> <p>The bank has stopped to outsource marketing operation from April 1, 2006 and penalized those staffers responsible for the mistake.</p> <p>Regarding the defects, the company has required that the trading consignment of clients can be accepted only after having completed their credit investigation; it has also formulated "management measures for internal-party consigned trading in securities" and has revised the internal control system, both of which have been approved by the board of directors, as the guidance for internal-party trading in securities. The company has also required the securities dealership Division to strengthen the drafting and execution of trading-policy report and various units to strictly abide by the internal control system and related laws/regulations.</p> <p>The company has irregularly inspected business counters, intensified instruction of securities-related laws/regulations, and strictly forbidden business staffers using the accounts of clients or relatives for securities trading.</p>



	Case and value	Rectifying measures
	<p>(3) In 2002, Taishin Securities sold foreign insurance-policy discount products via business staffers of branches and conducted recommendation and mediation for clients in trading in foreign securities without regulator's approval, for which it was reprimanded by the FSC on Nov. 13, 2008 for violating article 66-1 of Securities Trading Law.</p> <p>(4) Ms. Lin, a former business staffer of the Sanchung branch of Taishin Securities undertook discretionary-account operation for clients and kept clients' bankbooks and book for centralized securities custody, for which the company was corrected by the FSC on Oct. 22, 2008 for lax internal control according to article 65 of the Securities Transaction Law.</p> <p>(5) Two business staffers of the Da an branch of Taishin Securities took custody of clients' bankbooks, another business staffer Ms. Chen undertook senior salesman's task without the qualification, the branch's manager Mr. Ho was negligent in his oversight duty, senior salesman Mr. Liang accepted trading consignment at spots other than business counter, and another senior salesman Ms. Lin accepted consignment for securities trading via mobile phone, for which the company was corrected by the FSC on Nov. 16, 2008 for violating article 65 of Securities Transaction Law.</p>	<p>Taishin Securities has intensified the instruction for the business department not to engage in the business solicitation, mediation, and marketing of unapproved products.</p> <p>The company has intensified the instruction banning salesmen to undertake discretionary-account operation for clients, embezzle or take custody of clients' securities, funds, seals, and bankbooks, in addition to conducting irregular inspections of salesmen's recorded telephone conversation and drawers, so as to ensure compliance of related regulations by salesmen in their works and avoid recurrence of similar mistakes.</p> <p>The company has intensified education and training of salesmen and instruction for them to comply with related regulations, in addition to irregularly inspecting business counters, to avoid recurrence of similar defects.</p>

# IV

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**Fund Raising**



## IV. Fund Raising

### A. Shares and Dividend

#### a. Capital Sources

##### 1. capital sources

Base date: March 31, 2009, 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 36,327,139 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)
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)

## IV. Fund Raising

times	Issuing prices	Approved capital		Paid-in capital		notes	
		Number of shares	Value	Number of shares	Value	Capital sources	others
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 44,072,921 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)
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)





times	Issuing prices	Approved capital		Paid-in capital		notes	
		Number of shares	Value	Number of shares	Value	Capital sources	others
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
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 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: Taishin Securities and Taishin Bills Finance became the company's subsidiaries via share swap, at the swap ratio of 1.2 common shares of Taishin 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 Taishin 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 ap-

plications 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.

## IV. Fund Raising

### b. 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).

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

## 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, 2009

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	Mar 6 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. Chang Hwa Bank further scored after-tax earnings of NT\$4.85 billion in 2008, for which the company listed NT\$0.97 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 raising.	

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



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**Operating Status**



# V. Operating Status

## 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.

# V. Operating Status

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## 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-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

# V. Operating Status

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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.

## Taishin International Bank

### a. Business contents

#### 1. Growth and change in 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 institutional clients, including enterprises, government agencies, and financial institutions, with the business scope including the businesses of commercial bank and investment bank, such as 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.

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### (4) e-financial business

In developing e-financial business, the bank focuses on two directions. One is to upgrade e-banking and enhance the popularity and convenience of e-ATM (automated teller's machine). The bank is providing clients over 100 e-banking services on around-the-clock basis. The other is "Channel Migration," encouraging clients to complete simple trading, such as inquiry, fee payment, money transfer, and deposit, via the bank's automated channel, capitalizing on its rapid, convenient, and safe functions. Clients can complete account trading via all of the bank's automated channels, including e-banking, e-ATM, physical ATM, and telephone. Therefore, "Channel Migration" offers clients effective online financial services, enabling to cut their 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, dynamic trading confirmation window, and the latest "second plug-in and -out security mechanism. 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, which enable clients to enjoy the bank's considerate services anytime anywhere.

In the face of the recession triggered by the global financial tsunami, the bank rolled out integrated "i-Rainbow" service, integrating the preferences of markup on demand deposit, preferential fee for subscription to mutual funds, money transfer, placement of stock trading order, and monthly daily-life preferential coupon, which zeroes in on salaried people aged 25-35, to help them build up their savings.

### (5) Trust

In addition to continuing the promotion of "planned money trust" 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 (with the addition of Taishin 2030/2040/2050 collective management accounts in March 2008).

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, thereby satisfying clients' plural wealth-management needs by offering them one-stop shopping service and complete assets-allocation planning.



Regarding structured notes, in response to the drastic market change, the bank will strengthen risk-management system and procedure for the product, such as the addition of risk-management RI-value index, the monitoring of the default and interest spread of issuing institutions, so as to precisely grasp the product performance and risk for clients.

Net income share (%)	2008	2007
Consumer banking	74%	76%
--wealth management	26%	24%
-- consumption financing	18%	22%
--credit card	20%	16%
--cash card	9%	15%
Corporate banking	26%	24%
total	100%	100%

Note: 2009 net income excludes loss deriving from Lehman Brothers and VISA IPO

## b. Business plan for the current year

### 1. Wealth management

Meet the client's need for all-round wealth and debt management by fully utilizing the platform of the island-wide branch channel and integrating various resources of Taishin Financial Holding, as well as their need for integrated planning via the provision of deposit and loaning services, supplemented with credit-card and insurance products.

Fully understand clients, strengthen risk management, provide clients professional planning for assets allocation according to their different financial status and needs, conduct sophisticated client-group segmentation for the provision of custom services, and take good care of client's entrusted assets.

Launch smart diamond financial system and provide clients uniform high quality products and services, via the assistance of complete standard advance, middle, and post work flow.

### 2. Consumer Banking

- (1) Solicit quality clients, properly utilize CRM information, and deep-cultivate customer relationship.
- (2) Strengthen the cooperative mechanism with channels and enhance the number of products held by clients.
- (3) Strengthen the management of branch channel, materialize one-stop shopping service for clients, and enhance the extent of product penetration.

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(4) Augment dynamic risk-management capability and strengthen assets quality.

(5) Further improve work flow, enhance service efficiency, and cut operating cost.

(6) Credit card

- Enlist RT Mart as a new co-brand card partner, so as to tap the business of new customer groups.
- Continue brand regeneration and vitalize existing products.
- Strengthen channel setup and simplify application procedure, so as to satisfy clients' fund need promptly.
- Undertake installment service for acquiring-bank business with existing merchants.

(7) Consumer banking products

- Develop value-added housing loans to tap the emerging market for housing loans and business opportunities.
- Enhance the prices and volume of high-yield products and expand interest spread.

(8) Commercial banking

- Stress the provision and development of integrated online payment service.
- Pursue steady growth for quality secured corporate loaning products.

## 3. Corporate and enterprise banking

- (1) Step up innovation for client assets-related products and the development of potential client groups.
- (2) Intensify the interaction with clients and deepen cash-management and demand-deposit business.
- (3) Develop surrogate-collection business for new clients and consolidate market share.
- (4) Closely inspect the strength of clients, grasp market changes to cut risk, and maintain good assets quality.
- (5) Pursue the steady growth of factoring for accounts receivable and L/C, underwriting business, and bond business.
- (6) Promote trade funding for small and medium enterprises and develop OBU (offshore banking unit) into a fund maneuvering and logistics center for overseas Taiwanese businesses.
- (7) Continue developing BASEL II risk-management mechanism, balancing business growth and risk management.

- (8) Actively soliciting the businesses of large-scale fund raising, overseas underwriting, and cross-border M&A (merger and acquisition).
- (9) Strengthen business development and management capability for realty securitization and trust.
- (10) Step up the integration of account trading platforms in greater China and adjust deposit/loan structure.
- (11) Apply for the establishment of representative's office in China and grasp the business opportunities associated with the opening up of China's financial market.

#### 4. e-finance

For the bank's automated channel, in addition to further enhancing the trading function of online banking and perfecting online banking platform, the bank will push "i-Rainbow" products among young people and salaried people.

Impacted by the global economic recession, domestic wholesale, retail, and restaurant businesses started to suffer consecutive revenue declines from June last year, with the figure plunging 16.34% year-on-year in December, the steepest ever. In the month, storeless retail business, though, jumped 13.64% year-on-year, bucking the sluggish trend and reflecting the emergence of "stay-at-home economy" as a mainstream business in the market. The bank, therefore, forged dedicated "i-Rainbow" service for busy salaried persons aged 25-35, which is bundled with the preferential treatments of markup for demand deposit interest rate and preferential fee for mutual fund, cross-bank money transfer, and placement of stock-trading orders, and preferential vouchers for daily consumption, in order to establish good rapport with clients via automated channel.

Study shows that over 50% of Taishin online banking clients age 25-35, among whom those with wealth-management plan spend NT\$10,000 on dollar-averaging subscription to mutual funds via online banking. Many of those investors, especially those salaried ones, are often too busy to undertake financial trading in persons at the counters of branches; they feature independent wealth-management ideas and stress flexible fund maneuvering in fund management. The "i-Rainbow" service is custom-made for those people; it recently provides clients "calendar for my account management" function, helping them carry out complete wealth-management planning.

Besieged by the adverse climate of financial tsunami, economic transformation, acute competition, and razor-thin margin, people have to very calculating with their money and online banking is an optimal option of investment at present time, due to its various preferences and the convenience for them to undertake optimal planning for the utilization of their limited funds.



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## 5. Trust

- (1) Plan for installment product line and system function for “So Easy target wealth-management plan,” so as to provide clients complete planning platform.
- (2) Develop online instrument and environment for pension fund-related wealth management and construct platform for pension fund-related investments of laborer’s own choice, so as to cash in on the business opportunities of labor pension fund.
- (3) Push yield-type securities and actively engage in securities lending market, so as to create securities-lending income for clients.
- (4) Develop “will-based trust” product, so as to cash in on the business opportunities deriving from the repatriation of overseas funds by high-assets clients in the wake of the implementation of new inheritance and gift tax.
- (5) Push cross-division marketing (in conjunction with Taishin Securities and Corporate Banking Business Group), so as to capitalize on the integrated marketing resources of the financial holding company.
- (6) Actively solicit custodianship business for domestic mutual funds, so as to create a sustained fee income.
- (7) Provide complete mutual-fund lineup based on the concept of assets allocation and actively solicit the agency business for domestic and foreign mutual funds with good performance, so as to offer investors complete product lineup and help them attain maximum potential profit.
- (8) Expand collective/single account product line/platform, so as to expand the magnitude of product line.
- (9) Develop the new business of “exclusive agency for offshore funds.”
- (10) Offer consigners the opportunity to buy secondary-market products.
- (11) Develop structured notes most suited to the needs of clients.
- (12) Push multi-theme overseas ETF (exchange traded fund).
- (13) Offer quality treasury bills, institutional bond, and corporate bonds.

## c. Market analysis

In 2008, with Taiwan’s economy suffering a major blow from the global financial tsunami, along with other economies worldwide, business closures skyrocketed and unemployment rate hit new highs repeatedly. In addition to the appropriations of provisions for loss resulting from the chain reaction of the Lehman Brothers incident, domestic financial institution also had to face profit shrinkage caused by economic downturn and possible high bad-debt loss, making 2008 the

harshest year for the industry in the wake of the twin-card storm. In order to cope with spike in risk cost and dampen potential credit risk, domestic banks successively embraced credit crunch and augment interest spread for loans, to assure their survival of the financial crisis.

In 2009, the global economy has formally plunged into a vicious cycle after the IMF revised its forecast for global economic growth to negative 0.5%, from the original 0.5% positive rate, underscoring the continuing rampage of the storm. Improvement of the physical economy is not in sight in the short term. Although the domestic consumption market has shown sign of an upturn, thanks to the stimulation of spending vouchers, overall domestic sale and export remain weak and unemployment continues to rise, as a result of which credit crunch may persist.

## d. R&D and business development

### 1. Major financial products and new business in recent two years

- (1) Housing transaction loan
- (2) Housing value-added loan: Based on the value of their houses, clients are able to flexibly capitalize on their assets and obtain needed funds in different stages of life.
- (3) Auto loan
- (4) Unsecured loan
- (5) Credit card
- (6) Corporate procurement card: Pioneer the provision of the most complete integrated online payment program to enterprises, offer satisfactory services for account processing, credit line management, and funding need for suppliers and buyers, and provide clients comprehensive and convenient financial solutions, entirely different from traditional loaning method.
- (7) Institution of insurance marketing department in 2008:  
Offer the bank's quality credit-card holders long-term insurance products via telephone marketing, so as to their three-fold needs of wealth management, saving, and production, in addition to enhancing their reliance on the use of the bank's credit cards.
- (8) Institution of customer-group management division in 2008:  
Integrate the management of virtual channels, including telephone communications platform, online platform, and automated teller machine, grasp the timing of contact with clients, enhance the extent of dealing with clients, and develop the business of existing clients via "single customer view," so as to offer products and services needed by clients timely.

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## 2. R&D fruits achievements in the recent two years

Date	R&D items	R&D achievements
March 27, 2007	VISA paywave	Induction-type card spending for VISA card, free of signature for amount under NT\$3,000, to the great convenience of card holders
Oct. 2007	Credit-card cash advance with installment repayment	Shorten application time and satisfy clients' fund need promptly.
Nov. 2007	Rollout of enterprise procurement card	Offer credit line to buyers in advance, facilitating their procurement of merchandises and raw materials from upstream suppliers; pay procurement cost via the bank's island-wide payment channel, sparing buyers trouble of complicated payment procedure; and offer buyers revolving working-capital line, to help clients undertake the most complete and effective fund maneuvering.
Jan. 2008	Launch of RT-Mart card	RT-Mart card holders are entitled to 10% discount for consumption at RT-Mart hypermarket and can accumulate bonus points of Taishin Bank and RT-Mart hypermarket simultaneously, as well as triple bonus points for the spending on their birthdays.
Jan. 2008	Launch of Greenlife credit card Greenlife	The first affinity card associated with green cause in Taiwan, with card holders' consumption points capable of contributing to tree planting or being converted to green products.
Jan. 2008	Co-insurance fund with travel agencies	Undertake acquiring-bank business for travel card spending in cooperation Travel Quality Assurance Association, offering consumers the most complete trading security protection for purchase of travel products from member travel agencies of the association.
June 2008	Installment repayment for credit-card spending	Clients determine the number of number and value of installment repayment for their card spending, to help with their flexible fund maneuvering.
July 2008	e-corporate gift vouchers	The vouchers are issued in conjunction with the contract performance guarantee business for the vouchers and added with mechanism of loyalty payback mechanism, augmenting the promptness for banking risk management and intensifying management of customer groups, leading to a triple-win outcome for enterprises, banks, and consumers.
Sept. 2008	ePOS acquiring-bank business	Merchants can complete trading authorization and payment application via the bank's system interface, an arrangement which can not only help merchants save on the cost for manual accounting and payment operation but also enable the bank to save on the labor cost for handling accounting and card terminal operation.
November 2008	J-speedy	J-speedy is an induction-type trading method of JCB credit card, similar to the method of VISA paywave.
July 2008	Launch of promissory note-type enterprise procurement card	In line with the diversified payment methods between suppliers and buyers, the card incorporates the promissory note-based mechanism for trading cycle, on top of the 30-day trading cycle.
Dec. 2008	Launch of contract-type enterprise procurement card	In response to the concern of suppliers over the risk of excessive concentration deriving from massive procurement and the concern of buyers over the uncertainty of shipment by suppliers, the bank institutes the intermediary contract-type payment mechanism based on the spirit of impartial third party and risk management, facilitating the extensive development of procurement card business.

## 3. Major financial products of corporate and enterprise banking in the recent two years

- (1) Factoring
- (2) Cash management
- (3) Arranger for syndicated loan
- (4) Underwriting of corporate bonds and bills

- (5) Double-currency deposit (DCD)
- (6) IPO/SPO underwriting in Taiwan and Hong Kong
- (7) E-Banking

#### 4. Future R&D plan

##### (1) Retail and consumer banking

- Maintain cooperative relationship with co-brand partners and undertake joint marketing, to achieve win-win outcome.
- Integrate customer services, marketing activities, and fee standards of various channels.
- Develop mobile payment function by combining mobile phone and credit card.
- Develop innovative new products cashing in on the business opportunities associated with direct cross-Taiwan Strait flights.
- Enhance competitive edge via innovative technological platform.
- Development e-payment for entire products, so as to enhance service efficiency.
- Continue carrying out multiple work-flow improvement, so as to cut cost and augment output.
- Embrace risk-based differentiated pricing and design different marketing events for different consumption behaviors.
- Strengthen centralized management, dynamic risk management, and supervisory/monitoring mechanism.
- Institute the evaluation system for SME credit-investigation information.

##### (2) Corporate and enterprise banking

- Strengthen development and quoting capability for various derivatives (with linkage to credit, merchandise, energy, and equity).
- Develop pluralized product lineup via combination of interest rate, exchange rate, bond, bulk commodities, and equity.
- Develop structured financing to meet the needs of clients.
- Accelerate talent cultivation for SME and inspection businesses.
- Integrated existing credit-line risk management system and operating platform, so as to enhance service efficiency and quality and cut credit-extension and operating risk.
- Set up strategic alliance with foreign banks and undertake factoring business in greater China, so as to provide plural funding solutions to Taiwanese businesses in China.

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- Expand offshore banking and overseas services, to meet the funding need of Taiwanese businesses in global deployment.

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

### 1. Wealth management

#### (1) Short-term business development plan:

- Continue pushing “planning-type money trust” and “securities trust” to expand market share.
- Launch pluralized current and inventory-yield financial products according to the business strategy of product differentiation, so as to intensify the dealing with clients and achieve a win-win outcome for clients and the bank.
- Continue strengthening legal compliance and risk management, thoroughly implement KYC (know-your-customer) requirement for understanding the risk nature and financial status of clients, and avoid improper sale.
- Expand the institution of branch service platform, so as to provide one-stop shopping service to clients.
- Actively plan payback program for VIP customers, so as to enhance client loyalty and deepen the dealing with clients.

#### (2) Long-term business development plan:

- Forge a new image in the wealth-management market and the image of first brand among clients.
- Enhance the growth rate of wealth-management and insurance businesses, expand the scale of deposit, augment staff quality and customer satisfaction, and materialize risk-management and crisis-handling capability.
- Develop pluralized securities trust business and institute payment function for trust platform.
- Create new blue sea for wealth management via pension wealth management, taxation planning, and overseas wealth management and tap the business opportunities associated with the aging population and insufficiency of labor pension funds, so as to achieve cross-border fund utilization, risk diversification, and active profit generation, in addition to enhancing brand image and business scale
- Expand overseas sale and satisfy clients’ need for cross-border wealth management.

- Strengthen the benefit of business integration and integrate loaning products and wealth management, so as to augment the overall contribution of client groups.
- Continue introducing pluralized new products and businesses based on the concept of sustainable management and the objective of all-round wealth management, in order to bring steady returns to investors in both bullish and bearish markets.

## 2. Consumer banking

### (1) Short-term development plan :

- Balance market interest rate and fund cost.
- Adjust deposit structure, so as to lower fund cost and increase product competitiveness.
- Combine products and business partners in the establishment of brand image.
- Create innovative product functions and services, so as to establish differentiated market value.
- Achieve one-stop shopping service and increase cross-selling opportunities, via capitalizing on the resources of the financial holding firm and packaged products.
- Cooperate with pluralized channel in grasping the key moment of contacting clients, so as to deepen the dealing with clients.
- Strengthen capability for customer-relation shipment management, carry out event marketing, and deep-cultivate existing clients.
- Pursue balanced growth emphasizing both quantity and quality for various loaning products.
- Precisely grasp assets quality via the utilization of risk analytical technique.
- Restructuring corporate work flow, so as to enhance management efficiency and cut operating cost.
- Continue pushing the popularity of online banking, strengthening online-banking information security, and expanding online banking functions.
- Continue pushing international assistance mechanism, so as to augment the expertise and product knowledge of staffers.

### (2) Long-term development plan

- Strengthen brand image and channel value, so as to offer clients more complete and convent financial services.

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- Adjust allocation of loaning products, in order to enhance the profitability of high-yield products.
- Cooperate with the projected joint-venture insurance firm in developing and offering insurance products suited to the bank's clients.
- Strengthen cooperation with various subsidiaries and business units of the financial holding company in the establishment of a complete product lineup.
- Discover and satisfy clients' potential needs via customer relationship management, on the basis of single customer view and customer orientation.
- Offer risk-based differentiated pricing and pluralized products via the utilization of segmented customer management mechanism.
- Continue strengthening risk management, so as to enhance assets quality and cut risk loss.
- Augment business information exchange and operating efficiency via the use of graphic transmission and further improve work flow.
- Establish various system platforms, shorten operating time, and speed up client services.
- Continue materializing the bank's core values, cultivate all-round financial elites, and consolidate the foundation for future development.

## 3. Corporate Banking

### (1) Short-term business development plan

- Capitalize on the resources of the financial holding company in implementing the all-round concerted marketing mechanism.
- Expand corporate clientele for deposit business, so as to cut the risk of over-concentration. Strengthen risk-management mechanism.
- Cultivate new customer groups for online payment service.
- Prepare the establishment of overseas representative's offices or the upgrading of existing offices to branches, so as to tap overseas clients.

### (2) Long-term development plan

- Carry out integrated marketing and deep-cultivate services, develop "Main Bank" strategy, establish long-term customer relationship, and enhance client contribution.
- Push double-track credit-extension inspection system and enhance inspection quality and efficiency.



- Augment the expertise of staffers and satisfy the overall need of customers.
- Augment the magnitude and depth of products.
- Expand international business scope, so as to offer clients global funding and fund-maneuvering services.

#### 4. Trust investment

##### (1) Short-term business development plan

- Enhance the scale of accumulation-stage products under the “So Easy target wealth-management plan” and increase payment-stage functions and the magnitude of product lineup.
- Develop online wealth-management function for the “So Easy target wealth-management plan” and expand focal channel for mass customer groups.
- Actively solicit money trust and securities trust business of large institutions and deep-cultivate the channels of Taishin Securities and corporate banking group.
- Provide convenient standard contracts, trading system, and e-services for planning-type trust clients.
- Continue expanding the sale of domestic and offshore funds on the basis of assets allocation, so as to create fee income.
- Roll out new “collective-management account” products annually and strengthen the own-developed product lineup of Taishin.
- Regularly launch conservative fixed-yield structured bonds as an optional outlet for abundant funds amid the low interest-rate climate.
- Development new order placement platform for overseas ETF (exchange traded fund), seeking preferential trading terms for clients, and regularly roll out various industrial and bullish or bearish ETF, so as to help cope with market changes flexibly.

##### (2) Long-term development plan

- Develop multiple securities trust businesses and satisfy clients’ multiple needs for tax saving and yield generation, so as to increase the bank’s market share and attain market leadership.
- Expand the product lineup for “So Easy target wealth-management plan” and institute complete system platform, so as to capitalize on the business opportunities associated with the planned permission for laborers to choose investment targets for their pension accounts and attain market leadership.

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- Keep tracking legal changes for the development of new trust businesses.
- Continue expanding the sale of domestic or offshore mutual funds, augment the scale of the AUM (assets under management) of Taishin's own-developed products, and push dollar-averaging investments, so as to create steady long-term management fee income.
- Actively solicit the custodianship business for domestic mutual funds and expand the scale of custodianship business, so as to create steady long-term fee income.
- Regularly tracking legal revisions by the regular for prompt response and push derivatives business.
- Cautiously track and develop risk-management indicators, so as to timely grasp product performance and risk for clients.
- Continue introducing pluralized new products and services, so as to bring steady returns to investment amid both bullish and bearish markets.

## Taishin Securities Co., Ltd.

### a. Business Scope

#### 1. Business Contents

- (1) Consigned securities trading at the centralized market
- (2) Consigned securities trading at business outlets
- (3) Securities dealings at the centralized market
- (4) Securities dealings at business outlets
- (5) Securities underwriting
- (6) Agency for stock affairs
- (7) Securities margin trading/ short sale
- (8) Consigned trading in foreign securities
- (9) Brokerage for short-term commercial papers
- (10) Futures introducing brokerage
- (11) Securities-related loaning
- (12) Securities-mortgaged loaning (except central book-entry bonds)
- (13) Other regulator-approved businesses



## 2. Business Mix

Unit: NT\$1,000

Item	Year	2006		2007		2008	
		Value	share %	Value	Share %	Value	Share %
Brokerage channel*		3,985,259	58	5,417,804	48	3,779,020	41
Securities dealer**		1,811,265	26	4,535,526	41	4,869,547	53
Underwriting		495,481	7	599,935	5	129,345	1
Financial agency		116,149	2	120,814	1	132,548	1
Others		444,125	7	536,977	5	230,040	4
Total		6,852,279	100	11,211,056	100	9,140,500	100

\* Brokerage channel includes revenue contribution from international business.

\*\* Securities dealer includes revenue contribution from bond business.

Source: certified 2008 financial statement

## 3. Existing products and services

Service items	Major contents
Agency channel business	Accepting trading consignment for securities listed on the centralized market, the GreTai Securities Market (over-the-counter market), and the emerging enterprise market (including e-trading) and undertaking securities delivery affair for investors. Offering margin trading and short sale services to securities investors and undertaking loaning and securities loan businesses.
Securities dealer business	Dealing in listed securities for balancing market supply and demand and contributing to the stability and growth of the stock market.
Underwriting	Assisting companies with public share placement to undertake share listing and raise funds from the capital market, in addition to offering various consulting services during the process, including diagnosis of business strength, innovation of management flow, domestic and overseas investment planning, taxation planning, and corporate restructuring.
Stock-affairs agency	Assisting enterprises in convening shareholders' meeting, offering stock affairs-related consulting service, and undertaking stock affairs for companies with public placement.
Bond	Undertaking issuance, dealing, and trading consignment (buyout and repo) of bonds, offering channels for short-, medium-, and long-term fund maneuvering and wealth-management planning, in order to give clients access to more investment options and help them achieve the goal of risk diversification and tax avoidance.
Derivatives	Undertaking warrant and structured note business, offering the functions of quotes and market maker for the secondary market, as well as the design and suggestions for tailor-made products.
Financial products	Helping clients in carrying out global assets deployment, strictly introducing various products approved by the regulator, with the existing product lineup including domestic mutual funds, offshore funds, overseas stocks, overseas bonds, and insurance, in the hope of satisfying clients' need for one-stop shopping service.

### 1. Development plan for new financial products and services

- (1) Continue to develop and upgrade existing e-platform functions and push e-bills, thereby enhancing convenience for clients.
- (2) Expand virtual channels and cross-line alliance, so as to increase the magnitude of clientele.
- (3) Comprehensively set up securities counters at Taishin Bank branches and augment the benefits from the utilization of client resources via the transfer of high-assets clients.

In addition, the company will closely track the regulator's policy for the opening of new

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products and related revision of laws/regulations, in the hope of continuously rolling out new products while keeping the highest vigilance at the same time, as well as offering investing public the most rapid and convenient services.

## **b. Business plan for the year**

### **1. Brokerage:**

In 2009, in addition to continuing to implement the graded management of business points, the company will endeavor to upgrade the productivity of employees, intensify the cooperation with the bank to expand service scope and strengthen client relationship, and augment client loyalty via upgrading the function of e-platform, thereby marching towards the goal of attaining the third place in the market.

### **2. Securities deale:**

In 2009, amid shrinking business profit, rising global employment, and continuing business downturn, the outlook of economic fundamentals is not good, in view of Taiwan economy's heavy reliance on export business. The effect of various governments' economic salvage programs has become the focus of observation. We believe that in view of the focus of various countries' economic programs on solving their domestic economic problems and stimulating consumption demands, the global economy will not recover until upturn in consumption has led to business stabilization of enterprises. In the short term, the markets of various industries will continue staying at the adjustment stage, while long-term outlook will hinge on the bottoming out of the employment rates of major countries. In 2008, risk management will be the primary consideration of the company in securities dealing.

### **3. Underwriting:**

In 2009, the company will focus its underwriting business on quality small- and medium-sized enterprises, assisting the share listings of quality enterprises with good fundamentals and small- and medium-sized enterprises in niche industrial sectors. In addition to the provision of custom financial planning, the company will also actively develop the businesses assisting overseas Taiwanese-invested enterprises to list their shares on Taiwan's stock market, so as to increase fee income.

### **4. Stock affairs agency:**

In view of the growing maturity and increasing competition of the market for stock affairs agency, the company will actively integrate the resources of the underwriting department and the corporate banking business group of Taishin Bank, thereby facilitating the solicitation of clients with the niche of comprehensive services and attaining the goal of increasing the number of

companies and shareholders for stock affairs agency business.

#### 5. Bond:

Along with the pluralization of global investment instruments and the growing need for fixed-yield products, the company will endeavor to develop interest- and bond-related derivatives, so as to satisfy the clients' need for diversified bond trading and offer clients optimal fund-raising service in domestic and overseas bond markets.

#### 6. Derivatives:

In the wake of the institution of traffic-flow provider system in the warrant market in 2009, the trading volume of warrants plunged, as issuing securities firms cannot engage in warrant trading themselves, which has affected the sale of warrants. In the year, the company will intensify the deep-cultivation of marketing channels, boost market competitiveness, and enhance the market shares and issuance volumes of existing products under the premise of maintaining steady gross margin.

Apart from warrant business, the company will also intensify strategic trading in futures/warrants and trading in structured products, in order to diversify business risks and enhance profits.

#### 7. Financial products:

To cope with market trend and satisfy clients' need for the internationalization of assets, the company will continue to strengthen the efficacy of the e-trading platform for overseas stocks, enabling investors to carry out quality and convenient global investments online. In addition, the company will continue to expand the partnership with life and non-life insurance firms and intensify the screening and performance evaluation of products, in the hope of offering complete and all-round financial product service to investors.

# V. Operating Status

## c. Industry Status

Unit: NT\$1 B

Total trading values of the securities market in the recent three years			
	2006	2007	2008
TSE			
Stock	23,900.36	33,043.85	26,115.41
ETF	75.23	125.37	232.04
Closed-end mutual fund	0.57	0.83	0.89
Beneficiary certificate	24.98	12.30	13.41
Call (put) warrant	175.07	253.18	275.82
TDR	29.04	91.93	28.61
Convertible corporate bond	0.10	0.00	0.00
Sub-total	24,205.35	33,527.46	26,666.18
OTC			
Stock	5,129.10	8,537.40	3,285.50
Call (put) warrant	32.30	103.20	51.10
Sub-total	5,161.40	8,640.60	3,336.60
<b>Total</b>	29,366.75	42,168.06	30,002.78
TAIEX index	7,823.72	8,506.28	4,591.22

Source: Securities & Futures Bureau website

Securities firms average	2006	2007	2008
After-tax profit (NT\$1,000)	422,942	638,079	-190,337
Earnings per share (NT\$)	1.01	1.40	-0.42
Return on equity (ROE)	7.09%	9.97%	-3.42%

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

In 2008, in a development similar to roller-coaster course, Taiex Index shot from the average of 7,922.65 points in January to 8,910.21 in May before nosediving to 4,496.38 in December. The drastic fluctuation is compounded by the government's policy halving the daily limit for share price increase and decline and the ban on short sale in the wake of the outbreak of the global financial tsunami. As a result, the monthly trading volume at the centralized market plunged 53% from NT\$3 trillion in January to NT\$1.4 trillion in December, leading to steep shrinkage in securities firms' profits.

## **d. Research and Development**

In 2008, the company further issued 185 call warrants, boosting the accumulated issuance value to NT\$4.13 billion, fully testifying to the achievement of the company's R&D effort.

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

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

- (1) Cooperate with Taishin Bank for setting up securities counters at its branches, with the number having reached 76 by the end of February 2009, which will be extended to all of the bank's branches ultimately.
- (2) Integrate e-trading platforms, enhance the convenience and functionality of the operating interface of platforms, and steadily increase the share of e-trading.
- (3) Have sales team push brokerage business, zeroing in on domestic and overseas target clients, and form custom teams to aggressively visit potential clients, so as to boost market share and seek other business opportunities.
- (4) In view of the sluggish market outlook, the company will carry out strict risk management for securities investments to avoid loss, in addition to strengthening the capability for stock selection.

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

- (1) Arrange various training courses according to the nature and types of employees and strengthen the capabilities of employees, thereby contributing to the augmentation of the company's overall competitiveness, so as to prepare for economic recovery.
- (2) With many peers having laid off staffers or cut pays amid the financial storm, the company will plan series programs, in order to alleviate uneasiness among staffers and enhance their identification with the company, including strengthening the communications channel between management and employees and boosting employee welfare. The purpose is to motivate employees and retain good staffers. Meanwhile, the company will review the compensation and promotion systems of employees, in order to increase their linkage to the evaluation of employee performance.



# V. Operating Status

## 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	2007	2008	Share	Change year-on-year
Purchase of commercial papers	28,498,500	12,780,517	40.54%	-55.15%
Purchase of bonds	20,779,957	12,984,885	41.19%	-37.51%
Banking deposits and call loans	5,951,966	2,513,687	7.97%	-57.77%
Other assets	1,080,987	3,246,745	10.30%	200.35%
Total assets	56,311,410	31,525,834	100.00%	-44.02%

### 3. Business mix in terms of revenues

Dec. 31, 2007 ; Unit: NT\$1,000, %

Item	2007	2007 Share	2008	2008 Share
Revenue from commercial-paper business	(25,809)	-1.95%	44,997	-7.19%
Revenue from bond business	(67,480)	-5.10%	(12,183)	1.95%
Interest income	1,208,067	91.29%	816,460	-130.45%
Fee income	239,493	18.10%	174,037	-27.80%
Other revenues	(31,013)	-2.34%	(1,649,245)	263.49%
Total revenue	1,323,258	100.00%	(625,934)	100.00%

### b. Business plan for the year

Under the impact of the global financial tsunami, the company will embrace the conservative and stable policy of “emphasizing quality rather than quantity” in credit extension, strengthening trading in buyout bonds, strictly manage trading in corporate and financial bonds, and strictly require credit quality for third party-guaranteed financial bills and banking NCD (non-negotiable certificates of deposits).

#### 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 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

# V. Operating Status

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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. Industry Status

### 1. Outlook of supply and demand in the financial market

#### (1) Review of economic situation

In 2007, the outbreak of the U.S. subprime mortgage crisis shrouded the global economy in the concern for downturn. In September 2008, Lehman Brothers sought court bankruptcy protection, dealing a vital blow to the global economy, and up to now the global financial system is still laden with crises and global economy has remained in the doldrums. Under the rigorous climate, Taiwan's gross domestic product plunged 8.36% in the fourth quarter of 2008 and the Directorate General of Budget, Accounting, and Statistics (DGBAS) predicted Taiwan's GDP will tumble 2.93% in 2009, to the dismay of local people. Moreover, exports plummeted over 40% year-on-year in December 2008 and Jan. 2009 consecutively, further overshadowing the business outlook.

#### (2) Financial-market review

Due to the effect of the financial storm, Fed has made multiple interest cuts for bailing out the beleaguered financial market, driving down the federal-funds rates to 0-0.25% now. In step

with the policy of central banks worldwide, the Central Bank of China (Taiwan) has also cut interest rates continuously, in order to bolster the slackening economy, driving down call-loan rate among financial peers to 0.2%.

### (3) Market status

Due to the adverse economic climate and the expectation for short-term interest rates to remain at low level in the short run, bond rates have dropped to historical low, but long-term bond rates may pick up anytime, thanks to the possibility for the government to expand bond issuance, in order to fund public construction projects and stimulate the economy. Regarding money market, despite excessive supply of short-term funds, thanks to the loose money policy of the CBC, financial institutions have remained quite conservative in extending guarantee and loans, due to the concern over the inability of enterprises to weather the business winter, slashing the issuance of commercial papers. Rates of commercial papers issued by quality clients dropped, due to competition among bills finance firms. Interest spread between primary and secondary clients expand, which, though, is insufficient to make up for the increasing bad-debt risk for financial institutions under the current economic situation. In 2009, improvement of the situation is unlikely, as the economy is expected to remain in the doldrums.

### (4) Supply and demand forecast

In 2009, with the economy expected to remain in the doldrums, short-term interest rate will remain low and fund supply loose, as a result of which profit will hinge on credit-risk management. Under the situation, assets quality, rather than the level of interest spread, should be the primary consideration in building up bills position. Convertible-bond position should be properly reduced and emphasis should be put on the liquidity of investment targets, in order to lower risk. For long-term fixed-yield investments, attention should be paid to the flow of investment tools and investments should be carried out in a staged manner to control risks.

## 2. Favorable and unfavorable factor for business outlook

### (1) Favorable factors:

- A. The regulator has successively opened up various new businesses, greatly diversifying the business items available for bills finance firms. The company will actively initiate new businesses, in order to enhance its cross-industry competitiveness.
- B. In 2008, the company was granted by Fitch Rating Ltd. BBB- for international long-term foreign-currency rating and twA for domestic rating, an excellent performance among peers, which is conducive to the enhancement of company's corporate image and business expansion.

## V. Operating Status

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- C. The backing of the integrated resource of Taishin Financial Holding will help the company push various businesses and increase the supply of commercial papers and funds.

(2) Unfavorable factors:

- A. The scale of the issuance volume of the bills market will shrink under the adverse economic climate.
- B. The financial storm will boost the risk of default by enterprises, further eroding the company's profits.
- C. With interest rates remaining low, it's difficult to carry out high-yield investments, due to the concern for credit risk.

### d. Research and Development

In line with the government's effort to develop the economy and finance and the opening up of the domestic securities market, the company will dedicate to the development of various financial products and actively take part in U.S. dollar-denominated commercial-paper business, in order to expand the company's business sources and boost income.

#### 1. R&D Fruits and Future Plan

- (1) In line with the regulator's policy, actively take part in U.S. dollar-denominated business, in the hope of assisting clients to conduct fund maneuvering flexibly, enlivening the market, and broadening the participation of investors in the money market.
- (2) Study and develop convertible bond-based financial products, to pluralize the company's products and diversify business risks, away from the over-reliance on interest rate-related products, in order to increase the company's income.
- (3) Study and develop credit-based financial products, in order to facilitate advance credit management via intensified credit investigation, diversification of credit extension, and limit on individual credit line, as well as hedge the company's credit 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:

### 1. Short-term objective:

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

### 2. Medium-term objective:

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

### 3. Long-term objective:

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

# V. Operating Status

## 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

Over 20 assets management companies, set up mainly by financial holding firms, banks, and big foreign investors, are participating the primary bad-debt market, sparking acute competition. The share and value of realty-secured bids have been on decline but the bidding prices have remained high, leading to imbalanced supply and demand in the market. Domestic life insurance firms favor commercial properties, due their promising stable long-term income and the higher risks of other investment targets. Commercial properties, though, have been plagued by declining rentals and rising vacancy, similar to the situation in other major cities worldwide. In 2009, the commercial-property market will still be a buyer's market. However, the Taipei commercial-property market has gradually shown long-term investment value, thanks to declining interest rates and improving investment returns. Meanwhile, due to economic decline triggered by the global financial tsunami, domestic enterprises have applied for government bailouts totaling NT\$200 billion in value, a phenomenon which indicates possible increase in NPL (non-performing loans) at banks. Taiwan Ratings predicts that the NPL ratio may top 3% in 2009, up from 2008's 1.54%, which will greatly boost the bad-debt cost of the financial industry.

### 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.

## 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.

# V. Operating Status

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## 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. Business contents:

Taishin Venture Capital will carry out venture-capital business according to "measures for the scope of and assistances for venture capital business" and the "guidelines for investment policy" formulated by the company. Taishin Venture Capital will seek to pinpoint investment targets with long-term development and profit potential, as well as lower risks via proper industrial and regional deployment, in order to form an investment portfolio capable of generating both short- and long-term profits. The company will focus its investments on the following industries and technologies with development potential:

- (1) Venture capital industry
- (2) Information technology industry
- (3) Bio-tech industry
- (4) Traditional industry, service industry, and other industries.

Among the aforementioned investment targets, focuses will be put on companies with both good management and investment performance in venture capital industry; energy and

optoelectronics, wireless and mobile communications, semiconductor, advanced materials, digital contents, online security, and application software in information technology industry; the development of new medicines, special medicines, medical equipment and appliances, and medical/health care in bio-tech industry; and niche lines capable of creating industrial status and entry threshold in traditional and service industries.

## 2. Business shares:

With its investments focusing on domestic and overseas hi-tech and venture-capital businesses, Taishin Venture Capital will properly establish and adjust its investment portfolio according to the overall investment climate and industrial development trend, in order to make profits and diversify risks simultaneously. Currently shares of investment areas are:

- (1) Domestic            80%
- (2) Overseas           20%

## 3. Plan for new financial products and services

Venture capital can often serve as a pioneer of corporate-banking business, first pinpointing startups with development potential for commercial bank to provide funding support later on and securities underwriting firm to assist them in share listing, thereby generating greater integrated benefits for financial holding firm. In addition, after the expansion of the investment scope of venture capital firms by the government, the company will actively locate and invest in listed Taiwanese firms with undervalued stock prices and good business prospects, so as to augment its profits.

## b. Business development plan of the current year

### 1. Brief description of 2008 business

In 2008, the company generated cash flow totaling NT\$24,103,131 from investment projects, including NT\$14,235,131 of cash-dividend incomes from investments in United Investmetns Fund, Chi Ting Venture Capital, Darfon Electronic, Grand Cathay Venture Capital, and Century Development Corp., and returned investments of NT\$9,868,000 from the capital reduction of First Vio Venture Capital.

According to the company's 2008 financial statement audited and certified by certified public accountant Tsai Hung-hsiang of Deloitte &Touche Taiwan, the company racked up revenue of NT\$17,512,649 and outlays of NT\$67,369,753 in 2008, leading to a net loss of NT\$49,857,104.

# V. Operating Status

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## 2. 2009 Business Development Plan

Impacted by the U.S. subprime mortgage crisis and the global financial tsunami, major economies worldwide, including the U.S., Germany, the United Kingdom, and Japan, have slipped into recession, dragging down stock markets from their height. Amid the business downturn, the investment climate for tech industries, both domestic and overseas, was not good, decreasing the number of startups and boosting investment risk. Therefore, Taishin Venture Capital's 2009 investment strategy will focus on the disposal of its share holdings and investments in targets with high liquidity in two to three years and undervalued stocks. In 2009, the company will invest NT\$100 million, mainly for new investments in one to three companies and capital increment for invested companies.

### c. Industry Status

Since the birth of the first venture capital company on the island in 1984, Taiwan's venture capital industry, after over two decades of development, have raised funds topping NT\$170 billion and invested over NT\$200 billion in 12,000 projects domestically. As of the end of 2007, the number of centralized market-listed tech firms with the support of ventural capital funds had hit 358, near half of 721 firms listed on the centralized and over-the-counter markets.

In recent years, however, the venture capital industry is facing serious challenge arising from global economic downturn and changes in Taiwan's political and economic climate. Statistics of Taiwan Private Equity and Venture Capital Association show that there were only two new venture capital firms in 2007, when the flow of fresh capital for the ventural capital industry reached only NT\$9.84 billion but the amount of capital reduction for the industry hit NT\$24.57 billion, underscoring the shrinkage of the industry's scale.

For the world's overall industrial development trend, energy, optoelectronics, and medical/health care may succeed electronic and tech industry to become industrial development mainstream in the future. Under the impact of the global financial tsunami, many enterprises with high growth potential have been undervalued and only venture capital firms can fully grasp long-term growth opportunities of industries and regions, thanks to their long-term deployment. Meanwhile, in view of the overall competitiveness of Taiwanese enterprises deriving from the clustering effect, substantial investment returns can be expected from investing in Taiwanese or overseas Taiwanese-invested companies and urging them to pursue growth in Taiwan. Therefore, Taishin Venture Capital has invested 80% of its fund in hi-tech industries in Taiwan.

## d. Research and Development

Venture capital can often serve as a pioneer of corporate-banking business, first pinpointing startups with development potential for commercial bank to provide funding support later on and securities underwriting firm to assist them in share listing, thereby generating greater integrated benefits for financial holding firm. Over the past five years, due to the over-supply of the global industry and low PE (price/earnings) ratio of tech firms, venture capital firms worldwide have been looking for new industrial direction. In recent years, thanks to the expansion of the investment scope of venture capital firms by the government, venture capital can actively pinpoint and invest in listed Taiwanese firms with undervalued stocks and good business prospects, thereby increasing their profit-making opportunities.

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

In the short term, the company will continue to cooperate with the Corporate Banking Business Group of Taishin Financial Holding, intensify the screening of investment projects, and invest in companies with high cash yields, so as enhance the company's cash flow in the year.

In the long term, the company will look for investment targets with long-term development and profit-making potential and establish an investment portfolio featuring proper industrial and regional deployment, capable of generating both short- and long-term profits. In accordance with the trend in the overall investment climate and industrial development, the company will follow the following principle in its investment strategy and industrial investment:

- Venture capital industry 45%
- Information technology industry 30%
- Bio-tech industry 10%
- Traditional industry, service industry, and others 15%

# V. Operating Status

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## Chang Hwa Commercial Bank Co., Ltd.

### a. Business scope

- checking deposit
- demand deposit
- 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
- engaging in wealth management business
- trading corporate bonds and financial debentures as a principal
- trading bonds as a principal
- engaging in other banking services approved by the central competent authority

## b. Business Development Plan for the Current Year

In 2008, the bank racked up business volumes of NT\$1,033,458,375,000 for the amount of deposits (excluding transferred deposits from the postal office), equivalent to 96.5% of the budget goal; NT\$928,560,491,000 for the amount of loans, 102.81% of the budget goal; US\$152,883,683,000 for forex trading volume, 103.44% of the goal; NT\$74,699,110,000 for securities brokerage, 66.13% of the goal; NT\$61,659,207,000 for trust (mutual fund) business, 46.17% of the goal; and NT\$5,793,899,000 for credit-card business (card-spending volume), 85.63% of the goal.

## c. Industry Status

Regarding the general status of domestic banks' business, despite the subsidence of the twin-card storm leading to decline in NPL (non-performing loan) ratio for both cash and credit cards, domestic banks are still quite conservative in extending high interest-spread personal unsecured loans, due to the great impact of the financial turbulence on their operations. In the aspect of wealth management, due to the heavy loss from the effect of global stock-market crash and the bankruptcy of Lehman Brother and the serious disputes for the sale of structured notes, confidence of the investing public in banks has plunged, which, plus the global economic downturn and adverse investment climate, will inevitably dampen the purchasing willingness for wealth-management products among local people. Consequently, fee income of domestic banks is expected to plummet. In the aspect of corporate banking, in view of the impact of global economic downturn on corporate operations, not only will major enterprises slash their funding need due to their shrinking capital outlays but also will small and medium enterprises have

# V. Operating Status

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difficulty obtaining banking loans, as banks have become very cautious in loan extension, due to mounting risks. Therefore, corporate loans will decline.

Meanwhile, the outstanding amount of housing loans, a major component of banking loans, will also tumble, as housing demands, for all sectors including common residences, stores, studio apartments, and even luxury residences, have plunged along with the sharp downturn of the housing market. The government has released a number of incentives to bolster the housing market, but the effect is expected to be limited, in view of the declining pays of people and rising unemployment rate. As a result, banks will continue to tighten their housing-loan extensions.

Looking ahead, despite the government's active financial liberalization policy, it won't easy for domestic banks to rid of their business predicament in short term, due to the small chance for quick upturn of the global economy, the stiff domestic competition, and excessive homogeneity of domestic financial products.

## d. Research and development

### 1. The bank's R&D outlay reached NT\$15,505,000 in 2008.

### 2. R&D achievement

The bank completed 25 research reports on risk management, customer-relationship management, performance management, and financial products in 2008.

### 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

# V. Operating Status

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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.

## **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, Taishin 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.

# V. Operating Status

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- (3) Taishin 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 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 deposit reception, loan extension, export/import foreign exchange, foreign-currency deposits, discount of negotiable instruments, currency conversion, guarantee, surrogate collection/payment, custody, trust, credit card, trading in derivatives, brokerage of short-term commercial paper, brokerage of short-term bills, securities dealer, certification and underwriting, factoring, securities investment and underwriting, offshore banking, and the issuance of financial bonds.

### b. Future demand and supply

Due to overall decline of developed economies and its effect on emerging economies, a big chunk of global wealth has evaporated, unemployment population soared, and import demand plunged, impacting Taiwan's economy which relies on export business as a major growth driver. In view of the impact on the export industry and the lack of momentum at the centralized market, the demand for NT dollar will remain low, creating pressure for the depreciation of the local currency. Regarding private consumption, despite the downturn of material price, facilitating recovery of the consumption market, local people have become increasingly cautious

in spending, due to rising unemployment, income decrease, and wealth shrinkage. The government has embarked various measures to stimulate consumption and expand domestic demand, including the issuance of spending vouchers, the inauguration of direct cross-Taiwan Strait charter flights, allowance of Chinese tourists to visit Taiwan, which, though, appear to be insufficient to offset the bullish impact of the global climate. Consequently, the Directorate General of Budget, Accounting, and Statistics, under the Executive Yuan, has forecast that Taiwan's economy will decline 2.97% in 2009. Meanwhile, along with income reduction and wealth shrinkage, fund demand among people exists but credit risk soars, necessitating an even more cautious stance on the part of banks in loan extension.

### c. Bussiness objective

In 2009, 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

#### 1. 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
- Abundant resources of the financial holding company and integrated marketing synergy via cross-selling
- Steady growth balancing business quantity and quality via the deep-cultivation of quality clients

#### 2. 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

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- 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.
- Acquisition of domestic banks by foreign investors, facilitating enlargement of banking scale and enhancement of banking competitiveness

## 3. 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.
- 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.

## 4. 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).

## Taishin Securities Co., Ltd.

### a. Market analysis

#### 1. 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.

#### 2. Market Shares of Major Securities Firms 2008

Ranking	Brokerage		Margin-trading financing	
	Companies	Market shares	Companies	Market shares
1	Yuanta Securities	11.40%	Fubon Securities	6.27%
2	Fubon Securities	5.35%	Capital Securities	5.36%
3	SinoPac Securities	4.41%	Taishin Securities	5.30%
4	Polaris Securities	4.30%	Jih Sun Securities	5.22%
5	Taishin Securities	4.29%	Polaris Securities	5.17%

Source: Taishin Securities

Ranking	Futures IB Market		Options IB Market	
	Companies	Market shares	Companies	Market shares
1	SinoPac Securities	3.74%	SinoPac Securities	9.66%
2	Yuanta Securities	3.56%	Polaris Securities	6.07%
3	Polaris Securities	3.29%	Yuanta Securities	4.94%
4	Jih Sun Securities	2.91%	KGI Securities	4.18%
5	Taishin Securities	2.65%	Fubon Securities	3.98%
6	Capital Securities	2.30%	Taishin Securities	3.33%

Source: Taishin Securities (IB-Introducing Broker)

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Ranking	Underwriting business status			
	Companies	Number of underwriting cases	Companies	Total underwriting value (NT\$1 B.)
1	SinoPac Securities	16	China Trust Bank	335
2	Fubon Securities	15	Yuanta Securities	294
3	Taishin Securities	12	Grand Cathay Securities	256
4	Capital Securities	11	Taishin Securities	246
5	Polaris Securities	9	Taiwan International Securities	231

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

## 3. Future demand, supply and growth potential

### (1) Supply and demand

As of the end of 2008, there had been 132 securities companies, with the number of branches reaching 1,011, 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 19.

### (2) Growth potential of the market

The global financial tsunami originated from the eruption of the U.S. subprime mortgage crisis in June 2007, which was followed by a litany of major incidents, including the crisis of Bear Stearns, the world's fifth largest investment bank, in March 2008, the credit-loan crisis of Fannie Mae and Freddie Mac in July, and the ascension of oil prices to historical high on July 23, gradually leading to the formation of a perfect storm. On September 18, the six central banks of the U.S., Europe, and Japan jointly injected US\$180 billion into the financial market, in order to solve the liquidity problem. On September 15, Lehman Brothers filed for court bankruptcy protection and subsequently Merrill Lynch was acquired by the Bank of America, AIG, the global insurance giant, plunged into a major crisis, and emerging countries, such as Iceland and Hungary, resorted to the International Monetary Fund (IMF) for bailout. The rapid aggravation of the global financial market dampened private consumption and boosted unemployment worldwide, leading to actual economic downturn.

Taiwanese financial institutions have been unable to remain intact from the impact of the storm, due to its comprehensive and complicated nature. The domestic securities market tumbled, slashing brokerage fee income. Statistics of the Taiwan Stock Exchange (TSE) show that in 2008 70% of securities firms on the island were in the red, leading to the occurrence of layoff, paycut, and suspension of personnel recruitment among peers.

Securities firms have been striving to formulate countermeasures and embrace shoestring budgets, in order to weather the chilly winter and a major shakeout of the saturated securities market is in the offing.



#### 4. Business Goal

With the financial tsunami dealing a heavy blow to all securities firms last year, in the future the company will strictly manage investment risks, strengthen brokerage business, push e-platform and futures/warrants business, and seek domestic and overseas investment opportunities, in order to pursue steady profit and growth, in addition to creating a win-win outcome with clients via the provision of quality services to meet their wealth-management needs.

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

##### (1) Favorable factors:

- A. Capitalize on the integrated resources of the financial holding firm to manifest brand value and enhance overall competitiveness.
- B. Enjoy leading advantage in various business sectors, thanks to its consolidated market status.
- C. Good credit rating facilitates new business applications and cut fund cost.
- D. The regulator actively pushes the liberalization and internationalization of the securities market, successively opening up various new businesses.

##### (2) Unfavorable factors:

- A. The wax and wane of the stock-market trading volume affects investors' participation willingness and profit stability.
- B. Peers actively scramble for channels and quality patents.

##### (3) Countermeasures

- A. Establish proprietary SPOT mechanism based on the company's business points throughout the island, plus the banking service points, thereby extending business reach via mutual transfer of high-assets clients.
- B. Continue to strengthen the mainstay brokerage business by developing the business of domestic and overseas target client groups. Actively make inroads into overseas markets and further seek proper sites for timely deployment, thereby marching towards the goal of an international securities firm.
- C. To alleviate the effect of the financial storm on the identification with the company and sense of security among employees, the company will review employee compensation and promotion system, increasing its linkage with performance evaluation and boosting its transparency. The company will also formulate employee loyalty program, including increasing the communications channels between management and employees and enhancing employee welfare, in order to stabilize workforce and retain talents.

# V. Operating Status

## 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.

### b. Outlook of demand and supply

Due to the effect of the financial storm, Fed has made multiple interest cuts for bailing out the beleaguered financial market, driving down the federal-funds rates to 0-0.25% now. In step with the policy of central banks worldwide, the Central Bank of China (Taiwan) has also cut interest rates continuously, in order to bolster the slackening economy, driving down call-loan rate among financial peers to 0.2%. In view of the languid economic climate and small chance for the upturn of short-term interest rates in the short run, bond rates have also dropped to historical low, although long-term bond rates may pick up anytime, thanks to the expanded bond issuance by the government to fund infrastructural projects, in order to stimulate the economy.

Regarding money market, despite excessive supply of short-term funds, thanks to the loose money policy of the CBC, financial institutions have remained quite conservative in extending guarantee and loans, slashing the issuance of commercial papers. Rates of commercial papers issued by quality clients dropped, due to competition among bills finance firms. Interest spread between primary and secondary clients expand, which, though, is insufficient to make up for the increasing bad-debt risk for financial institutions under the current economic situation.

In 2009, with the economy expected to remain in the doldrums, short-term interest rate will remain low and fund supply loose, as a result of which profit will hinge on credit-risk management. Under the situation, assets quality, rather than the level of interest spread, should be the primary consideration in building up bills position. Convertible-bond position should be properly reduced and emphasis should be put on the liquidity of investment targets, in order to lower risk. For fixed-yield long-term investments, attention should be paid to the flow of investment targets and investments should be carried out in a staged manner to control risks.

### c. Business objective

The company aims to further enhance service quality and operating efficiency, establish good reputation, 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 reputation, 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 factor for business outlook**

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

- (1) The regulator has successively opened up various new businesses, greatly diversifying the business items available for bills finance firms. The company will actively initiate new businesses, in order to enhance its cross-industry competitiveness.
- (2) In 2008, the company was granted by Fitch Rating Ltd. BBB- for international long-term foreign-currency rating and twnA for domestic rating, an excellent performance among peers, which is conducive to the enhancement of company's corporate image and business expansion.
- (3) The backing of the integrated resource of Taishin Financial Holding will help the company push various businesses and increase the supply of commercial papers and funds.

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

- (1) The scale of the issuance volume of the bills market will shrink under the adverse economic climate.
- (2) The financial storm will boost the risk of default by enterprises, further eroding the company's profits.
- (3) With interest rates remaining low, it's difficult to carry out high-yield investments, due to the concern for credit risk.

# V. Operating Status

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## 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 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.

# V. Operating Status

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## 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 2007, 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 2008, 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 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 177 branches and 6 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. Outlook of demand and supply

In 2009, with the global economy and the world’ external demand expected to remain in the doldrums, the domestic economy will slacken, as export will decline, private consumption will weaken, and investments will be postponed or decreased, due to uncertain business outlook and large amount of idle capacities. On February 19, the Directorate General of Budget, Accounting, and Statistics (DGBAS) sharply revised downward its forecast of Taiwan’s economic growth in 2009 to -2.97%, from the original forecast of 2.12% growth, deferring the schedule for recovery to the fourth quarter, from the third quarter originally.

# V. Operating Status

## c. Business objective

The budget objectives of major business items in 2009 follow:

1. Deposits: NT\$1,075,669,000,000
2. Loans: NT\$947,485,000,000
3. Forex trading: US\$146,097,000,000
4. Securities brokerage: NT\$40,821,000,000
5. Trust (mutual funds): NT\$40,800,000,000
5. Credit card (card-spending value): NT\$5,725,000,000

## d. Favorable and unfavorable factors for business outlook

### 1. Favorable factors:

- (1) Opening up of financial policy and relaxation of related laws/regulations
- (2) Banks have strengthened their fundamentals.
- (3) Gradual completion of the wealth-management market.

### 2. Unfavorable factors:

- (1) Downturn of the global economy
- (2) Possible increase in NPL (non-performing loan) in the banking industry
- (3) Small chance for the increase of interest spread

## D. Employees of Taishin Financial Holding

Base date: March 31, 2009

Year		2006	2007	2008	As of March 31, 2009
Total		9,515	9,173	8,134	7,737
Average age		32.8	33.6	34.5	35.0
Average service years		4.5	5.4	6.2	6.5
Shares of educational levels	Doctor	0.05%	0.07%	0.06%	0.04%
	Master	9.70%	10.43%	11.47%	11.67%
	College graduates	80.45%	79.96%	78.85%	78.64%
	Senior high	9.56%	9.39%	9.48%	9.54%
	Under senior high	0.24%	0.15%	0.14%	0.12%
Kinds and numbers of professional certificates owned by employees	Test of trust business salespersons	2,467	3,225	3,195	3,036
	Basic test of internal control	3,317	3,592	3,467	3,338
	Qualification test of property/insurance salespersons	1,700	2,589	2,804	2,694
	Investment-type insurance policy salespersons	1,325	1,672	1,669	1,607
	Personal-insurance policy salespersons	2,634	4,218	4,284	4,156
	Futures salespersons	480	1,819	1,822	1,820
	Securities investment analysts	8	25	41	41
	Senior securities salespersons	318	1,293	1,328	1,323
	Investment-trust/consulting salespersons	257	599	623	618
B-category investment trust- and investment consulting-related regulations (including codes of professional ethics)		770	1,232	1,353	1,284

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



## E. Corporate Responsibility and Ethical Behaviors

For a long while, in addition to its core financial business, Taishin Financial Holding has been dedicating to the causes of art/culture, social welfare, and environmental protection, due to its deep awareness of the responsibility and mission for an enterprise in the society. Via active participation in various activities, an enterprise can properly exercise its strength in bringing changes and influence to the society. Therefore, Taishin Financial Holding and its subsidiaries have strived to play well its role as a corporate member of the society by giving concrete paybacks to the society, the community, and underprivileged groups.

To materialize the combination of art, enterprise, and community payback, Taishin Financial Holding has continued to join hands with artistic and cultural circles to push contemporary Taiwanese arts and augment interaction with community. 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 in the Yuan Hall of Taishin Art and Culture Center on the second floor of Taishin Financial Holding headquarters building, including various artistic exhibitions and regular noontime musical concerts, featuring free performances of domestic musicians in various fields for enjoyment by citizens.

In 2008, Taishin Financial Holding joined forces with its subsidiaries in sponsoring various high-class artistic exhibitions. In the aspect of performing art, it sponsored the performance of “Lion King,” a musical produced by Disney, enabling local people to enjoy the world-class show, including its changeful costumes, vivid settings, and the breathtaking rhythm of African music. Taipei Art Festival, sponsored by the company, consisted of 10 performances from Indonesia, Chile, France, Hong Kong, and Taiwan. Another Taishin-sponsored event is concert of singer Li Sheng-jieh. These events offered local audiences abundant feasts of sensual stimulation in various artistic and cultural forms.

In the field of academics, Taishin Financial Holding assisted or participated in the organization of various financial and business management academic seminars, such as Taiwan Finance Academic Seminar, 2008 Sustainability and Responsibility Investment (SRI) Seminar, Chinese Economic and Financial Summit Forum, the annual forum of Monte Jade Science and Technology Association of Taiwan, and the 16th Securities and Financial Theory Seminar organized by National Sun Yat-sen University.

In the field of social welfare, Taiwan Financial Holding and its affiliate PayEasy.com joined hands in pushing series care-for-Taiwan events, starting with the effort to revitalize the

## V. Operating Status

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economy of the 921 earthquake-stricken regions. The event combined the clout of Taishin's corporate image and the abundant resources of e-commerce in assisting the marketing and plantation of agricultural products, as well as the development of tourism business, in those regions, bringing fresh hope to villagers in those areas.

From 2005, the care-for-Taiwan movement extended its reach to Kuohsing-village teenage karate team, not only promoting public understanding of the team via theme website, news coverage, and literature but also undertaking fund-raising for the team, to meet their training expenses and cost for attending international contests. In 2008, the team won 25 gold medals, 20 silver medals, and 23 bronze medals in domestic and overseas contests, a great pride to Taishin staffers.

In 2008, in order to assure the sustainable existence of rice paddies and availability of Taiwanese rice for local people, with the blessing of the Cabinet-level Council of Agriculture, the care-for-Taiwan movement organized the campaign for the sponsorship of rice-paddy operations by enterprises, dubbed "my one-acre rice paddy." The idea of the event is to increase the profits of rice farmers by sidestepping the intermediate sale cost and enable the public to eat 100% pure Taiwanese rice. Over 100 enterprises have taken part in the program, including Taishin Financial Holding which and whose affiliates have sponsored 18 units of rice paddies, equivalent to 9 hectares in space, allowing its employees, clients, and corresponding companies to taste quality Taiwanese rice.

In the same vein, Taishin Financial Holding joined forces with the Council of Agriculture, its affiliate PayEasy.com, Gukeng Village Farmers' Association, and Yunlin-county agricultural-product logistics center in rolling out the "corporate sponsorship of orange trees in Gukeng village" program, with Taishin purchasing 40 metric tons of orange from the village. In addition to sharing the fruit with its employees, clients, and corresponding companies, Taishin Financial Holding also sent the fruit to poor families via charity organizations under the arrangement of "Food Bank."

In the aspect of corporate responsibility for society, after the outbreak of the big Sichuan earthquake in 2008, Taishin Financial Holding donated NT\$10 million to the Red Cross to help with the reconstruction of the earthquake-stricken regions. In order to push the concept of corporate responsibility for society, the company participated in the organization of 2008 Sustainable and Social Responsibility Investment (SRI) seminar. It has also organized blood-donating events at its banking and securities units every summer and winter vacation. Its subsidiary Taishin Securities sponsored charity fairs organized by Genesis Social Welfare Foundation. Another subsidiary Taishin Bank organized money education seminars for Teacher Chang Foundation and other charity organizations, helping staffers of the organizations and



the general public to form correct money concept. The company and its subsidiary Taishin Insurance Agency jointly donated to Teacher Chang Foundation to fund its program for assisting high-risk families.

In 2008, Taishin Financial Holding donated NT\$4 million worth of musical instrument to the wind-instrument band of Litze Elementary School of Ilan County after learning of its loss inflicted by severe typhoon Chiangmi. Subsequently, the company organized a concert performed by the band and famous Japanese female singer Mai Kuraki before the audience of Taishin clients and staffers.

In the green cause, Taishin Financial Holding has spared no effort in pushing environmental protection and energy conservation, which has become an important policy of the company. Under the auspices of the “Cool Biz” program, Taishin staffers shed traditional formal attire, in favor of casual dress and enhance the set temperature for air conditioners, in order to cut power consumption. Meanwhile, it has been pushing “paperless office” and encouraging staffers to do cycling, not only for energy conservation but also for the sake of health.

It's a firm belief of Taishin Financial Holding that only via a stable and harmonious society can a climate for the sustainable development of enterprises be formed. Therefore, in adherence to the concept of “client first,” the company will strive to meet client needs and create values for clients. It also aims to pursue the maximum investment returns for shareholders and at the same time actively take part in social-welfare events, in order to give payback to the public and fulfill the company's social responsibility.

# VI

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## Financial Statements



## VI. Financial Status

### A. Brief balance sheet and income statement in the recent five years and the name and opinions of the certified public accountant

#### Brief consolidated balance sheet of the financial holding company and its subsidiaries (1)

Unit : NT\$1,000

Item	Year	Financial data in the recent five years	
		2004	
Cash and cash equivalent		12,756,402	
Call loans for peers		4,298,347	
Deposits with CBC		15,673,291	
Short-term investment-net		134,084,685	
Business securities-net		18,337,634	
Investment in report bills and bonds		23,065,981	
Account receivable-net		105,252,058	
Account receivable for margin trading-net		15,306,766	
Advance payment		1,119,265	
Forex discount and loan-net		475,913,701	
Long-term investment		9,758,850	
Other financial assets		22,993,315	
Fixed assets-net		21,139,267	
Other assets		5,100,609	
Total assets		864,800,171	
Short-term borrowing		2,810,000	
Commercial paper payable-net		9,053,196	
Liabilities of repo bills and bonds		96,608,002	
Long-term liabilities due in one year		7,181,325	
Deposits of peers		29,465,417	
Account payable		33,624,707	
Advance collection		544,442	
Deposit and remittance		546,703,441	
Financial bonds		29,850,000	
Corporate bonds payable		21,026,930	
Appropriation for loaning fund		164,340	
Long-term liabilities		499,826	
Other liabilities		13,359,081	
Total liabilities		790,890,707	
Equity of parent firm	Common stock		48,072,921
	Additional paid-in capital		16,664,660
	Retained earnings	Pre-payout	12,680,273
		Post-payout	2,530,006
	Other items of shareholders' equity		(3,508,390)
Minority shareholding			0
Total share-holders' equity	Pre-payout		73,909,464
	Post-payout		67,558,997

# VI. Financial Status

## Brief consolidated balance sheet of the financial holding company and its subsidiaries (2)

Unit : NT\$1,000

Item			Year	Financial data in the recent five years				Financial data for current year as of March 31, 2009
				2005	2006 Re-compilation (note 1)	2007 Re-compilation (note 1)	2008	
Cash and cash equivalents due from the Central Bank and placement to other banks			216,425,777	267,549,614	284,769,797	257,667,779	292,335,623	
Financial assets stated as gain (loss) due to change in fair value			176,312,898	116,176,934	81,135,486	86,699,629	87,633,036	
Investment in RS bills and bonds			23,947,026	26,163,593	14,337,297	6,464,695	9,591,043	
Available-for-sale financial assets			66,766,759	94,109,665	106,149,641	70,363,526	66,885,959	
Accounts receivable			148,000,718	110,837,542	119,132,189	104,909,292	88,551,193	
Loans			1,373,616,078	1,380,374,402	1,466,208,014	1,491,834,854	1,454,156,552	
Financial assets held to maturity			198,561,940	185,561,348	127,639,354	182,357,996	203,872,844	
Equity investments under equity method			1,036,727	986,602	1,017,635	957,539	1,202,325	
Fixed assets			47,131,291	45,983,539	44,907,490	44,032,067	44,532,345	
Intangible assets			20,681,040	22,442,037	20,757,601	20,757,601	20,757,601	
Other financial assets			16,694,929	17,822,482	18,870,862	34,401,848	35,378,368	
Other assets			50,902,514	62,576,230	54,021,688	51,971,727	53,138,145	
Total assets			2,340,077,697	2,330,583,988	2,338,947,054	2,352,418,553	2,358,035,034	
Deposits by the Central Bank and other banks			272,419,392	236,622,085	209,768,825	183,388,667	189,337,739	
Deposits			1,611,660,444	1,628,076,369	1,669,015,794	1,731,784,195	1,775,989,212	
Financial liabilities stated as gain (loss) due to change in fair value			8,244,280	18,138,882	18,391,519	39,757,245	35,188,068	
RP bill and bond liabilities			86,673,177	87,195,497	84,212,588	60,543,383	60,779,749	
Accounts payable			87,510,287	72,145,841	62,077,023	56,179,116	40,698,993	
Financing from the Central Bank and other banks			405,645	384,585	0	0	0	
Bonds payable			103,284,196	108,789,414	107,498,220	112,404,780	83,341,958	
Special stock liabilities			0	0	0	0	0	
Reserve for operations and liabilities			1,684,161	1,797,106	1,593,369	1,272,793	1,225,076	
Other financial liabilities			9,494,539	8,897,787	11,148,608	1,170,748	1,166,512	
Other liabilities			16,301,013	15,719,802	17,691,040	18,726,102	21,735,064	
Total liabilities			2,197,677,134	2,177,767,368	2,181,396,986	2,205,227,029	2,209,462,371	
Equity of parent firm	Common stock		60,232,093	69,880,779	69,880,779	69,880,779	69,880,779	
	Additional paid-in capital		24,443,815	35,448,570	19,389,426	19,071,634	19,071,742	
	Re-tained earnings	Pre-payout	(383,556)	(16,014,155)	4,587,095	(3,838,131)	(3,060,940)	
		Post-payout	0	34,777	1,389,461	(note 2)	-	
	Other items of shareholders' equity		(3,014,317)	1,107,606	(482,574)	(546,608)	(549,293)	
Minority shareholding			61,122,528	62,393,820	64,175,342	62,623,850	63,230,375	
Total shareholders' equity	Pre-payout		142,400,563	152,816,620	157,550,068	147,191,524	148,572,663	
	Post-payout		142,400,563	152,816,620	154,034,642	(note 2)	-	



Note 1: Regarding reason for the re-compilation, refer to the auditing report of CPA attached.

Note 2: Proposal for the coverage of 2008 loss has yet to be passed by shareholders' meeting

Note 3: The above 2004-2005 financial statements were audited by CPAs Tsai Hongxiang and Guo Rongfang, who issued auditing report for their authenticity without reservation. The 2006 financial statement (re-compilation) was audited by CPAs Tsai Hongxiang and Weng Rongsui, who issued auditing report for their authenticity without reservation. The 2007 financial statement (re-compilation) was audited by CPAs Weng Rongsui and Yang Qinzhen, who issued auditing report for their authenticity without reservation. The 2008 financial statement was audited by CPAs Tsai Hongxiang and Weng Rongsui, who issued auditing report for their authenticity without reservation. The financial statement of March 31, 2009 was inspected by Tsai Hongxiang and Weng Rongshui, who issued inspection report for their authenticity without reservation.

## Brief balance sheet of the financial holding company (1)

Unit : NT\$1,000

Item	Year	Financial data in the recent five years	
		2004	
Liquid assets		13,782,100	
Fund and long-term investment		84,377,046	
Fixed assets		7,467	
Intangible assets		0	
Other assets		78,148	
Total assets		98,244,761	
Liquid liabilities	Pre-payout	8,293,511	
	Post-payout	14,643,978	
Long-term liabilities		16,037,956	
Other liabilities		3,830	
Total liabilities	Pre-payout	24,335,297	
	Post-payout	30,685,764	
Common stock	Pre-payout	48,072,921	
	Post-payout	54,766,966	
Additional paid-in capital	Pre-payout	16,664,660	
	Post-payout	13,770,415	
Retained earnings	Pre-payout	12,680,273	
	Post-payout	2,530,006	
Unrealized loss from price drop for Long-term equity investment		(44)	
Cumulative translation adjustment		(40,489)	
Net loss without listing pension cost		0	
Treasury stock		(3,467,857)	
Total shareholders' equity	Pre-payout	73,909,464	
	Post-payout	67,558,997	

# VI. Financial Status

## Brief balance sheet of the financial holding company (2)

Unit : NT\$1,000

Item	Year	Financial data in the recent five years				Financial data for current year as of March 31, 2009
		2005	2006 Re-compilation (note 1)	2007 Re-compilation (note 1)	2008	
Cash and cash equivalent		3,004,919	11,859,469	13,026,747	12,387,621	10,890,316
Financial assets stated as gain (loss) due to change in fair value		0	3,634	0	5,559	6,242
Available-for-sale financial assets		0	0	0	0	0
Accounts receivable		641,008	1,116,376	1,569,064	1,962,510	2,031,090
Financial assets held to maturity		0	0	0	0	0
Equity investments under equity method		112,269,585	106,530,981	116,325,691	107,790,722	108,951,017
Fixed assets		17,817	15,405	11,684	7,782	6,805
Intangible assets		0	0	0	0	0
Other financial assets		1,476,207	12,447,893	3,628,138	3,527,082	4,937,538
Other assets		63,027	387,006	364,500	410,374	409,284
Total assets		117,472,563	132,360,764	134,925,824	126,091,650	127,232,292
Financial liabilities stated as gain (loss) due to change in fair value		0	1,386,937	650,903	279,635	111,483
Accounts payable		2,252,489	1,454,802	1,487,093	1,496,155	1,944,508
Payable corporate bonds		33,934,195	39,089,414	39,398,220	39,736,721	39,822,507
Special stock liabilities		0	0	0	0	0
Other financial liabilities		0	0	0	0	0
Other liabilities		7,844	6,811	14,882	11,465	11,506
Total liabilities	Pre-payout	36,194,528	41,937,964	41,551,098	41,523,976	41,890,004
	Post-payout	36,194,528	41,937,964	45,066,524	(note 2)	-
Common stock		60,232,093	69,880,779	69,880,779	69,880,779	69,880,779
Additional paid-in capital		24,443,815	35,448,570	19,389,426	19,071,634	19,071,742
Retained earnings	Pre-payout	(383,556)	(16,014,155)	4,587,095	(3,838,131)	(3,060,940)
	Post-payout	0	34,777	1,389,461	(note 2)	-
Other shareholders' equity items		(3,014,317)	1,107,606	(482,574)	(546,608)	(549,293)
Total shareholders' equity	Pre-payout	81,278,035	90,422,800	93,374,726	84,567,674	85,342,288
	Post-payout	81,278,035	90,422,800	89,859,300	(note 2)	-

Note 1: Regarding reason for re-compilation, refer to CPA's auditing report attached.

Note 2: The proposal for the coverage of 2008 loss has yet to be passed by shareholders' meeting.

Note 3: 2004-2008 financial statements have been audited by CPAs and the financial statement of March 31, 2009 has been inspected by CPA.





## Brief Consolidated Financial Statement of the Financial Holding Company and Subsidiaries

Unit : NT\$1,000

Item	Year	Financial data in the recent five years					Financial data for current year as of March 31, 2009
		2004	2005	2006 Re-compilation (note 1)	2007 Re-compilation (note 1)	2008	
Net interest income		29,368,219	42,498,287	44,699,041	35,684,379	32,575,562	5,770,744
Net non-interest income		12,366,900	17,028,089	8,209,610	24,876,006	16,002,016	4,957,380
Bad-debt expense		(6,400,342)	(36,890,974)	(31,728,802)	(12,131,170)	(17,620,829)	(2,021,194)
Provisions of various insurance liabilities		0	0	0	0	0	0
Business expense		(20,540,993)	(25,135,475)	(31,879,357)	(32,611,981)	(32,183,954)	(6,740,229)
Pre-tax consolidated income of business department (continuation)		14,793,784	(2,500,073)	(10,699,508)	15,817,234	(1,227,205)	1,966,701
After-tax consolidated income of business department (continuation)		11,304,562	(1,182,400)	(7,886,556)	10,855,783	(1,638,872)	1,498,632
Income of extinct department (after-tax net value)		0	0	0	0	0	0
Extraordinary income (after-tax net value)		0	0	0	0	0	0
Accumulated extent of influence from changes in accounting principles (after-tax net value)		0	0	742,710	0	0	0
Total consolidated income	Belong to shareholders of parent firm	11,304,562	(2,913,562)	(16,014,155)	4,552,318	(5,227,592)	777,191
	Belong to minority shareholding	0	1,731,162	8,870,309	6,303,465	3,588,720	721,441
Earnings per common share		2.43	(0.68)	(3.13)	0.55	(1.01)	0.07

Note 1: Regarding reason for re-compilation, refer to the auditing report of CPA attached.

Note 2: Earning per common share is based on the unit of NT\$1.

Note 3: The above 2004-2005 financial statements were audited by CPAs Tsai Hongxiang and Guo Rongfang, who issued auditing report for their authenticity without reservation. The 2006 financial statement (re-compilation) was audited by CPAs Tsai Hongxiang and Weng Rongsui, who issued auditing report for their authenticity without reservation. The 2007 financial statement (re-compilation) was audited by CPAs Weng Rongsui and Yang Qinzhen, who issued auditing report for their authenticity without reservation. The 2008 financial statement was audited by CPAs Tsai Hongxiang and Weng Rongsui, who issued auditing report for their authenticity without reservation. The financial statement of March 31, 2009 was inspected by Tsai Hongxiang and Weng Rongshui, who issued inspection report for their authenticity without reservation.

## VI. Financial Status

### Bried Income Statement of the Financial Holding Company

Unit : NT\$1,000

Item	Year	Financial data in the recent five years					Financial data for current year as of March 31, 2009
		2004	2005	2006 Re-compilation (note 1)	2007 Re-compilation (note 1)	2008	
listed investment return on equity method		11,342,563	1,456,128	4,390,783	6,464,319	1,246,970	1,168,124
Other incomes		532,625	647,024	696,950	1,059,556	726,917	191,184
Listed investment loss on equity method		(38,251)	(4,411,309)	(19,681,508)	(13,471)	(5,269,349)	(5,252)
Business expense		(231,755)	(491,477)	(357,141)	(371,331)	(327,265)	(53,963)
Other expense and loss		(589,111)	(652,058)	(1,340,828)	(2,470,418)	(1,558,134)	(389,387)
Pre-tax income		11,016,071	(3,451,692)	(16,291,744)	4,668,655	(5,180,861)	910,706
After-tax income		11,304,562	(2,913,562)	(16,014,155)	4,552,318	(5,227,592)	777,191
Earning per common share (before tax)		2.37	(0.79)	(3.18)	0.57	(1.00)	0.10
Earning per common share (after tax)		2.43	(0.68)	(3.13)	0.55	(1.01)	0.07

Note 1: Regarding reason for re-compilation, refer to the CPA auditing report attached.

Note 2: Earning per share is based on the unit of NT\$1.

Note 3: 2004-2008 financial statements have been audited by CPA and financial statement of March 31, 2009 has been inspected by CPA

## B. Financial Analysis for the Recent Five Years

### Financial Analysis

Item		Financial Analysis in the recent five years					Financial Analysis for current year as of March 31, 2009 (note 3)
		2004	2005	2006 Re-compilation (note 1)	2007 Re-compilation (note 1)	2008	
Management capability	Turnover rate of total assets(times)	0.06	0.04	0.02	0.03	0.02	0.00
	Deposit/loan ratio of Taishin Bank (%)	85.82	83.57	85.71	84.82	82.73	79.24
	Deposit/loan ratio of Chang Hwa Bank (%)	84.26	83.95	85.63	90.49	88.95	84.24
	NPL ratio of Taishin Bank (%)	1.03	1.34	2.18	1.99	1.38	1.22
	NPL ratio of Chang Hwa Bank (%)	3.87	1.67	1.63	1.79	1.67	1.66
	Overdue credit-extension ratio of Taishin Bills Finance (%)	0	0	0	0	0	0
	Revenue per employee (NT\$1,000)	4,186	3,376	3,248	3,738	3,162	716
Profit-making capability	Profit per employee (NT\$1,000)	1,134	(note 2)	(note 2)	670	(note 2)	100
	Return on assets (%)	1.52	(0.07)	(0.31)	0.46	(0.07)	0.06
	Return on common shareholders' equity (%)	17.92	(4.98)	(27.24)	5.10	(9.84)	0.77
	Net profit rate (%)	27.09	(1.99)	(13.50)	17.93	(3.37)	13.97
	Earning per share (NT\$)	2.43	(0.68)	(3.13)	0.55	(1.01)	0.07
Financial Structure	Liabilities/assets ratio (%)	91.45	93.91	93.44	93.26	93.74	93.70
	Liabilities/book value ratio (%)	1070.08	1543.31	1425.09	1384.57	1498.20	1487.13
	Double leverage ratio of the financial holding company (%)	114	138	118	125	128	128
	Financial ratio of the financial holding company according to article 41 of the law	-	-	-	-	-	-
	Business leverage extent	2.82	(23.81)	(4.94)	3.83	(39.58)	5.45
Leverage extent	Financial leverage extent of financial holding company	1.05	0.80	0.92	1.32	0.70	1.42
Growth rate	Assets growth (%)	39.67	170.59	(0.41)	0.36	0.58	(note 4)
	Profit growth (%)	59.06	(116.90)	(327.97)	247.83	(107.76)	(note 4)
Cash flow	Cash flow ratio (%)	3.16	1.44	52.75	22.20	21.69	1.11
	Propriety ratio of cash flow (%)	40.12	14.26	27.54	19.26	15.91	(note 4)
	Cash-flow satisfaction ratio (%)	(3.58)	(2.23)	(89.40)	(66.04)	(111.31)	(5.55)
Business scale	Market share of assets (%)	7.01	7.51	7.92	7.77	8.09	(note 7)
	Market share of book value (%)	6.23	5.96	6.23	6.07	6.42	(note 7)
	Market share of Taishin Bank's deposit (%)	2.25	2.57	2.46	2.61	2.83	(note 7)
	Market share of Chang Hwa Bank's deposit (%)	4.31	4.16	4.06	4.00	4.99	(note 7)
	Market share of Taishin Bank's loan extension (%)	2.86	3.09	2.84	2.94	2.83	(note 7)
	Market share of Chang Hwa Bank's loan extension (%)	5.28	4.67	4.68	4.79	5.36	(note 7)
Mandatory disclosure by the financial holding company of the total value of credit extension, endorsement, or other trading extended by its subsidiaries to the same person, related party, or affiliate according to article 46 of the law		321,063 (note 6)	474,201 (note 6)	616,928 (note 6)	696,631 (note 6)	657,689 (note 6)	(note 4)
<p>Describe reasons for changes in various financial ratios in the recent two years (No need of analysis for change under 20%)</p> <p>Financial ratios of management capability, profit-making capability, leverage extent, and growth rate decreased, due to decrease in 2008 income (net revenue, net pre-tax profit, and net after-tax profit) from 2007.</p> <p>NPL ratio of Taishin Bank decreased in 2008 from 2007, due to active write-off of bad debts by Taishin Bank to greatly improve the quality of its assets, leading to reduction of NT\$3,944,782,000 in NPL.</p> <p>Cash-flow satisfaction ratio decreased in 2008 from 2007, due to reduction in the net cash outflow related to investment activities.</p> <p>Market share of Chang Hwa Bank's deposit increased in 2008 over 2007, due to the increased deposit of NT\$96,941,885,000 and reduction in the total deposits of financial institutions capable of undertaking deposit/loan business.</p>							

# VI. Financial Status

Note 1: Regarding reason for re-compilation, refer to CPA auditing report attached.

Note 2: Business was in the red in 2008, 2006, and 2005.

Note 3: Return rates as March 31, 2008 are not converted into annual rates

Note 4: Annual analytical data, not applicable to quarterly statement

Note 5: The above financial analytical data are consolidated figures, except those with specification for the financial holding company or subsidiaries.

Note 6: For details, refer to the financial statement of various years.

Note 7: The ratio of market scale for business scale as of March 31, 2009 is not provided, as the information on the overall market scale in March is not available yet.

Note 8: Calculation formulas follow:

## 1. Management capability

- (1) Turnover rate of total assets=Net revenue/average total assets
- (2) Deposit/loan ratio of subsidiary bank=Total loans of subsidiary bank/total deposit
- (3) NPL ratio of subsidiary bank=Total NPL of subsidiary bank/total loan
- (4) Revenue per employee=Net revenue/total number of employees
- (5) Profit per employee=After-tax profit/number of employees

## 2. Profit-making capability

- (1) Return on assets=After-tax income/average value of total assets
- (2) Return on common shareholders' equity=After-tax income/Average net value of common shareholders' equity
- (3) Net profit rate=After-tax income/net revenue
- (4) Earning per share= (After-tax net profit-dividend for preferred shares/weighted average amount of issued shares (Retroactive adjustment for earning per share has been made for those years with capital increment from retained earnings or employee bonus)

## 3. Financial structure

- (1) Liabilities/assets ratio=Total liabilities/total assets
- (2) Liabilities/book value ratio=Total liabilities/net shareholders' equity
- (3) Double leverage ratio of the financial holding company=Equity investment according to item 2, article 36 and 37 of the law/book value

## 4. Leverage extent

- (1) Business leverage extent=(Net revenue-variation in expense or loss/pre-tax income)
- (2) Financial leverage extent of financial holding company=pre-tax income+interest outlay/pre-tax income)

## 5. Growth rate

- (1) Assets growth rate= (Total assets in current year-total assets in previous year/total assets in previous year
- (2) Profit growth=(Pre-tax income in current year-pre-tax income in previous year)/pre-tax income in previous year)

## 6. Cash flow

- (1) Cash flow ratio=Business-related net cash flow/call loans and overdraft of bank and peers+commercial paper payable+financial liabilities deriving from variation in fair value included in the calculation of income+liabilities of repo bills and bonds+account payable due in one year)
- (2) Propriety ratio of net cash flow=Business-related net cash flow in recent years/(capital outlay+cash dividend) in recent five years.
- (3) Cash flow coverage ratio=net cash flow from operating activities/net cash flow from investment activities.

## 7. Business scale

- (1) Market share of assets=Total assets/total assets of financial holding companies
- (2) Market share of book value=Book value/total book values of financial holding companies
- (3) Market share of banking subsidiary's deposit=Total deposits/total deposits of financial institutions capable of undertaking deposit/loan business
- (4) Market share of banking subsidiary's loan extension=Total deposit/total deposits of financial institutions capable of undertaking deposit/loan business

## 8. BIS ratio (capital adequacy ratio)

- (1) Qualified net capital of the group=financial holding company's qualified capital+(shareholding ratio of financial holding company x qualified capital of subsidiaries)-designated deductible items.
- (2) Total required legal capital of the group=required legal capital of financial holding company+shareholding ratio of financial holding company x required legal capital of subsidiaries
- (3) BIS ratio of the group=Net qualified capital of the group/legal capital requirement of the group



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**C. The Latest Consolidated Financial Statements of the Company and Its Subsidiaries Audited and Certified by CPAs**

**Taishin Financial Holding Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 (Restated) and Independent Auditors' Report**

# VI. Financial Status

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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, 2008 and 2007 (restated), 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, 2008 and 2007, 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, Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Public Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations 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 2 to the consolidated financial statements, Taishin Financial Holding presented the 2008 consolidated financial statements and restated the consolidated financial statements as of December 31, 2007 in accordance with Interpretation 2009-046 issued by the Accounting

Research and Development Foundation (“ARDF”) on January 21, 2009. The interpretation requires companies, which have issued convertible bonds with conversion-price-reset option during January 1, 2006 and December 31, 2008, to adopt subjects II and III of Interpretation 2008-31 issued by the ARDF.

As disclosed in Note 3 to the consolidated financial statements, effective on July 1, 2008, Taishin Financial Holding and subsidiaries adopted the amended Statement of Financial Accounting Standards (“SFAS”) No. 34 “Financial Instruments: Recognition and Measurement” to reclassify financial instruments under certain conditions.

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.



March 30, 2009

#### 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 Status

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

DECEMBER 31, 2008 AND 2007 (RESTATED\*)

(In Thousands of New Taiwan Dollars)

ASSETS	2008 Amount	2007 (As Restated*) Amount	Percentage of Variation %
Cash and cash equivalents (Notes 2 and 4)	\$ 40,473,339	\$ 37,598,828	8
Due from Central Bank and call loans to banks (Note 5)	217,194,440	247,170,969	(12)
Financial assets at fair value through profit or loss (Notes 2 and 6)	86,699,629	81,135,486	7
Bonds and securities purchased under resell agreements (Note 2)	6,464,695	14,337,297	(55)
Receivables, net (Notes 2, 7 and 8)	104,909,292	119,132,189	(12)
Loans, net (Notes 2 and 8)	1,491,834,854	1,466,208,014	2
Available-for-sale financial assets (Notes 2 and 9)	70,363,526	106,149,641	(34)
Held-to-maturity financial assets (Notes 2 and 10)	182,357,996	127,639,354	43
Investments accounted for by the equity method, net (Notes 2 and 11)	957,539	1,017,635	(6)
OTHER FINANCIAL ASSETS (Note 2)			
Financial assets carried at cost (Note 12)	10,118,994	9,525,026	6
Hedging derivative financial instruments (Note 21)	221,161	-	-
Other miscellaneous financial assets (Note 13)	24,061,693	9,345,836	157
Other financial assets, net	34,401,848	18,870,862	82
PROPERTY AND EQUIPMENT (Notes 2 and 14)			
Cost			
Land	28,141,214	28,150,012	-
Buildings	15,361,924	15,114,703	2
Machinery equipment	9,599,281	9,381,938	2
Transportation equipment	1,010,990	1,025,419	(1)
Miscellaneous equipment	2,074,343	2,085,690	(1)
Leasehold improvement and leased asset	1,593,761	1,564,419	2
	57,781,513	57,322,181	1
Accumulated depreciation	(13,855,070)	(12,622,103)	10
	43,926,443	44,700,078	(2)
Construction in process and machine accessories	-	148,994	(100)
Prepayment for buildings and equipment	105,624	58,418	81
Property and equipment, net	44,032,067	44,907,490	(2)
GOODWILL (Notes 2 and 15)	20,757,601	20,757,601	-
OTHER ASSETS (Note 2)			
Prepayments	3,877,695	2,391,396	62
Refundable deposits	12,523,179	16,140,469	(22)
Deferred tax assets (Note 30)	24,168,589	23,963,497	1
Other deferred assets	1,864,666	2,413,611	(23)
Other miscellaneous assets (Note 16)	9,537,598	9,112,715	5
Other assets, net	51,971,727	54,021,688	(4)
TOTAL	\$ 2,352,418,553	\$ 2,338,947,054	1

\*On January 21, 2009, ARDF issued Interpretation 2009-046 that requires companies which issued convertible corporate bonds with conversion-price-reset option may not recognize conversion option as equity component. However, companies which have recognized conversion option as equity component could choose to restate their prior financial statements.

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 30, 2009)





LIABILITIES AND STOCKHOLDERS' EQUITY	2008 Amount	2007 (As Restated*) Amount	Percentage of Variation %
<b>LIABILITIES</b>			
Due to banks and Central Bank (Note 17)	\$ 183,388,667	\$ 209,768,825	(13)
Commercial paper payable, net (Note 18)	499,710	5,093,382	(90)
Financial liabilities at fair value through profit or loss (Notes 2 and 6)	39,757,245	18,391,519	116
Bonds and securities sold under repurchase agreements (Note 2)	60,543,383	84,212,588	(28)
Payables (Note 19)	56,179,116	62,077,023	(10)
Deposits (Note 20)	1,731,784,195	1,669,015,794	4
Bonds payable (Notes 2 and 21)	112,404,780	107,498,220	5
Other borrowings (Note 22)	-	5,530,000	(100)
Other financial liabilities	671,038	525,226	28
Reserve for operations and liabilities (Notes 2 and 23)	1,272,793	1,593,369	(20)
Other liabilities (Notes 2, 24 and 25)	18,726,102	17,691,040	6
Total liabilities	2,205,227,029	2,181,396,986	1
<b>TAISHIN FINANCIAL HOLDING STOCKHOLDERS' EQUITY (Note 26)</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	16,996,159	17,313,951	(2)
Other capital surplus (Note 2)	2,075,475	2,075,475	-
Retained earnings			
Legal reserve	408,912	-	-
Special reserve	482,574	-	-
Unappropriated earnings	(4,729,617)	4,587,095	(203)
Other items of stockholders' equity			
Cumulative translation adjustments (Note 2)	51,369	(465)	11,147
Unrealized gains or losses on financial instruments (Note 2)	(597,977)	(459,903)	30
Net loss not recognized as pension cost	-	(22,206)	100
Total Taishin Financial Holding stockholders' equity	84,567,674	93,374,726	(9)
<b>MINORITY INTERESTS</b>	62,623,850	64,175,342	(2)
Total stockholders' equity	147,191,524	157,550,068	(7)
<b>TOTAL</b>	<u>\$ 2,352,418,553</u>	<u>\$ 2,338,947,054</u>	1

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED\*)

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

	2008 Amount	2007 (As Restated*) Amount	Percentage of Variation %
INTEREST INCOME (Note 2)	\$ 73,439,902	\$ 77,609,049	(5)
INTEREST EXPENSES	(40,864,340)	(41,924,670)	(3)
NET INTEREST INCOME (Note 27)	32,575,562	35,684,379	(9)
NET INCOME OTHER THAN INTEREST INCOME (Note 2)			
Fee and commission income, net (Note 28)	12,968,697	15,640,516	(17)
(Loss) gain on financial assets and liabilities at fair value through profit or loss	(1,666,494)	1,894,307	(188)
Realized gain on available-for-sale financial assets	166,500	1,367,149	(88)
Investment (loss) income recognized under the equity method (Note 11)	(51,057)	43,905	(216)
Loss on disposal of investments accounted for by the equity method	-	(953,350)	100
Foreign exchange gain	919,874	1,403,183	(34)
Loss on asset impairments (Notes 9, 10, 12 and 13)	(1,768,462)	(63,681)	2,677
Other non-interest net income and losses			
Gain on issuance of warrants, net	196,909	1,031,621	(81)
Income from trading and other sale	1,327,572	1,120,125	19
Revenue from VISA Inc. restructuring (Note 12)	1,665,732	-	-
Other miscellaneous net income	2,242,745	3,392,231	(34)
GROSS INCOME	48,577,578	60,560,385	(20)
PROVISION FOR LOAN LOSSES (Notes 2 and 8)	(17,620,829)	(12,131,170)	45
OPERATING EXPENSES (Note 29)			
Personnel expenses	(18,112,228)	(17,953,373)	1
Depreciation and amortization	(2,728,584)	(2,990,380)	(9)
Others	(11,343,142)	(11,668,228)	(3)
Total operating expenses	(32,183,954)	(32,611,981)	(1)
(LOSS) INCOME BEFORE INCOME TAX	(1,227,205)	15,817,234	(108)
ESTIMATED INCOME TAX EXPENSE (Notes 2 and 30)	(411,667)	(4,961,451)	(92)
CONSOLIDATED NET (LOSS) INCOME	<u>\$ (1,638,872 )</u>	<u>\$ 10,855,783</u>	(115)
ATTRIBUTABLE TO			
Taishin Financial Holding's stockholders	\$ (5,227,592)	\$ 4,552,318	(215)
Minority interests	3,588,720	6,303,465	(43)
	<u>\$ (1,638,872 )</u>	<u>\$ 10,855,783</u>	(115)

(Continued)



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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED\*)

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

	2008		2007 (As Restated*)	
	Pretax	After-tax	Pretax	After-tax
BASIC (LOSS) EARNINGS PER SHARE (Note 31)	\$ (1.24)	\$ (1.01)	\$ 0.91	\$ 0.55
DILUTED (LOSS) EARNINGS PER SHARE (Note 31)	\$ (1.24)	\$ (1.01)	\$ 0.91	\$ 0.55

(Concluded)

\* On January 21, 2009, ARDF issued Interpretation 2009-046 that requires companies which issued convertible corporate bonds with conversion-price-reset option may not recognize conversion option as equity component. However, companies which have recognized conversion option as equity component could choose to restate their prior financial statements.

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

(With Deloitte & Touche audit report dated March 30, 2009)

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED\*)

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus		
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions	Stock Option
BALANCE, JANUARY 1, 2007	\$ 57,103,001	\$ 12,777,778	\$ 32,853,146	\$ 2,595,424	\$ -
Loss appropriation	-	-	(15,528,983)	(519,949)	(99,608)
Appropriation of 2006 earnings					
Cash dividends	-	-	-	-	-
Adjustments accounted for under Interpretation 2009-046	-	-	-	-	99,608
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	-	-	-	-	-
Disposal of subsidiary	-	-	-	-	-
Others	-	-	-	-	-
BALANCE, DECEMBER 31, 2007 (Restated)	57,103,001	12,777,778	17,313,951	2,075,475	-
Appropriation of 2007 earnings					
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Dividend on preferred stock B	-	-	-	-	-
Dividend on preferred stock C	-	-	-	-	-
Dividend on preferred stock D	-	-	-	-	-
Bonus to employees	-	-	-	-	-
Bonus to directors and supervisors	-	-	-	-	-
Cash dividends	-	-	(317,792)	-	-
Translation adjustments	-	-	-	-	-
Unrealized gains or losses of available- for-sale financial assets	-	-	-	-	-
Net loss not recognized as pension cost	-	-	-	-	-
Consolidated net (loss) income for the year ended December 31, 2008	-	-	-	-	-
Capital reduction from subsidiary	-	-	-	-	-
Others	-	-	-	-	-
BALANCE, DECEMBER 31, 2008	\$ 57,103,001	\$ 12,777,778	\$ 16,996,159	\$ 2,075,475	\$ -

\*On January 21, 2009, ARDF issued Interpretation 2009-046 that requires companies which issued convertible corporate bonds with conversion-price-reset option may not recognize conversion option as equity component. However, companies which have recognized conversion option as equity component could choose to restate their prior financial statements.

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 30, 2009)

Retained Earnings			Equity Adjustments					
Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost	Minority Interests	Total	
\$ -	\$ -	\$(16,014,155)	\$ 12,848	\$ 1,101,111	\$ (6,353)	\$ 62,393,820	\$ 152,816,620	
-	-	16,148,540	-	-	-	-	-	
-	-	-	-	-	-	(5,459,344)	(5,459,344)	
-	-	(99,608)	-	-	-	-	-	
-	-	-	-	-	-	10,212	-	
-	-	-	-	(1,561,014)	-	(1,136,744)	(2,697,758)	
-	-	-	-	-	(15,853)	-	(15,853)	
-	-	4,552,318	-	-	-	6,303,465	10,855,783	
-	-	-	-	-	-	2,135,393	2,135,393	
-	-	-	-	-	-	(91,431)	(91,431)	
-	-	4,587,095	(465)	(459,903)	(22,206)	64,175,342	157,550,068	
408,912	-	(408,912)	-	-	-	-	-	
-	482,574	(482,574)	-	-	-	-	-	
-	-	(361,342)	-	-	-	-	(361,342)	
-	-	(1,186,644)	-	-	-	-	(1,186,644)	
-	-	(910,000)	-	-	-	-	(910,000)	
-	-	(7,396)	-	-	-	-	(7,396)	
-	-	(22,189)	-	-	-	-	(22,189)	
-	-	(710,063)	-	-	-	(4,458,812)	(5,486,667)	
-	-	-	51,834	-	-	(101,084)	(49,250)	
-	-	-	-	(138,074)	-	55,605	(82,469)	
-	-	-	-	-	22,206	-	22,206	
-	-	(5,227,592)	-	-	-	3,588,720	(1,638,872)	
-	-	-	-	-	-	(634,938)	(634,938)	
-	-	-	-	-	-	(983)	(983)	
\$ 408,912	\$ 482,574	\$ (4,729,617)	\$ 51,369	\$ (597,977)	\$ -	\$ 62,623,850	\$ 147,191,524	

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED\*)

(In Thousands of New Taiwan Dollars)

	2008	2007 (As Restated*)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net (loss) income	\$ (1,638,872)	\$ 10,855,783
Gain or loss with no effect on cash flows and other adjustments		
Provision for loan losses	17,620,829	12,131,170
Other provision	2,320	(27,328)
Deferred income tax (benefit) expense	(905,932)	3,444,912
Income tax expense (benefit) from linked-tax system	1,683	(1,031)
Recovery of loans written off	7,810,479	9,790,497
Depreciation and amortization	2,728,584	2,990,380
Loss (gain) on disposal of property and equipment	13,216	(460,556)
Loss on asset impairment	1,768,462	63,681
Investment loss (income) recognized under equity method net of cash dividends received in current period	64,445	(32,173)
Amortization of discount on bond investment	(1,447,701)	(852,460)
Loss (gain) on financial instruments valuation	1,937,038	(408,607)
Unrealized exchange (gain) loss of available-for-sale and held-to-maturity financial assets	(140,554)	37,623
Gain on disposal of investments	(318,210)	(914,465)
Revenue from VISA Inc. restructuring	(732,488)	-
Gain on sale of nonperforming loans	-	(182,850)
Others	144,492	367,556
Net changes in operating assets and liabilities		
Financial assets for trading purpose	(3,119,922)	35,476,410
Financial liabilities for trading purpose	17,190,149	226,282
Receivables	12,789,375	(9,182,704)
Other financial assets	(1,708,148)	(522,964)
Other assets	(2,323,855)	(137,902)
Client's position	309,308	114,056
Payables	(5,897,907)	(10,068,818)
Other financial liabilities	145,812	(9,815)
Futures commission merchants' equity	1,341,357	2,275,608
Other liabilities	(303,595)	(315,999)
Others	21,287	23,135
Net cash provided by operating activities	45,351,652	54,679,421
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in due from Central Bank and call loans to banks	29,976,529	(39,469,378)
Decrease in bonds and securities purchased under resell agreements	7,872,602	11,826,296
Increase in loans (including delinquent loans)	(49,858,599)	(108,037,939)
Proceeds received on sale of subsidiary	-	3,107,081
Purchase of financial assets carried at cost	(315,820)	(399,651)
Proceeds received on sale of financial assets carried at cost	132,488	1,257,587
Refund from combination of financial assets carried at cost	-	121,821
Capital reduction of financial assets carried at cost	100,767	-
Purchase of available-for-sale financial assets	(59,735,440)	(83,959,035)
Proceeds received on sale of available-for-sale financial assets	74,786,556	71,526,711
Purchase of held-to-maturity financial assets	(540,222,780)	(508,264,342)
Proceeds received from maturity of held-to-maturity financial assets	492,399,368	566,030,302
Purchase of bond investments without active market	-	(1,308,737)

(Continued)



# TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED\*)

(In Thousands of New Taiwan Dollars)

	2008	2007 (As Restated*)
Proceeds received on sale of bond investments without active market	\$ 823,518	\$ 1,151,134
Proceeds received on sale of nonperforming loans	-	182,850
Proceeds of sales of property, equipment, leased asset and idle asset	112,057	742,527
Purchase of property, equipment, leased asset and idle asset	(1,070,415)	(1,177,786)
Decrease in refundable deposits	3,617,290	3,912,721
Decrease (increase) in operating guarantee deposits and settlement funds	138,927	(34,802)
Purchase of investments accounted for by the equity method	(4,000)	-
Proceeds received on sale of collaterals	504,671	-
Net cash used in investing activities	(40,742,281)	(82,792,640)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in other borrowings	(5,530,000)	1,280,000
(Decrease) increase in commercial paper payable	(4,593,672)	980,636
Decrease in due to Central Bank and banks	(26,380,158)	(26,853,260)
Decrease in call loans from Central Bank and banks	-	(384,585)
Increase in deposits and remittances	62,718,751	40,947,315
Decrease in bonds and securities sold under repurchase agreements	(23,669,205)	(2,982,909)
Increase (decrease) in bonds payable	4,350,000	(1,600,000)
(Decrease) increase in guarantee deposits	(21,399)	30,279
Capital reduction	(634,938)	-
Remunerations to directors and supervisors, employee bonuses and cash dividends	(7,974,239)	(5,459,344)
Net cash (used in) provided by financing activities	(1,734,860)	5,958,132
<b>EFFECTS FROM CHANGES OF CONSOLIDATED ENTITIES</b>	-	(94,108)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,874,511	(22,249,195)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	37,598,828	59,848,023
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 40,473,339	\$ 37,598,828
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest	\$ 41,750,849	\$ 41,358,078
Income tax	\$ 1,823,021	\$ 1,602,453

(Concluded)

\*On January 21, 2009, ARDF issued Interpretation 2009-046 that requires companies which issued convertible corporate bonds with conversion-price-rest option may not recognize conversion option as equity component. However, companies which have recognized conversion option as equity component could choose to restate their prior financial statements.

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

(With Deloitte & Touche audit report dated March 30, 2009)

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED)

(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, Taishin Securities Co., Ltd. ("Taishin Securities") and Taishin Bills Finance Co., Ltd. ("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, Ltd. ("Chang Hwa Bank") through private placements. The 22.55% ownership interest with voting rights allows Taishin Financial Holding to take over half of the seats in the board of directors of Chang Hwa Bank. Accordingly, Taishin Financial Holding had controlling power over 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, 2008. On October 3, 2008, this preferred stock - B had converted into 1,400,000 thousand shares of common stock.

As of December 31, 2008 and 2007, Taishin Financial Holding and subsidiaries have 15,365 and 16,200 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 100% equity interest of Taishin Insurance Brokers Co., Ltd. ("Taishin Insurance Brokers").

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. Taishin Finance had gone into liquidation in October 2008 because it did not have the capability of achieving operation purposes.

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.

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.

Taishin 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. Taishin Securities was approved to operate brokerage and dealing services related to futures from March 2004. On April 16, 2006, Taishin Securities paid \$330,107 thousand to acquire 100% ownership interest of Dong Shi Securities Co., Ltd. The net assets of Dong Shi Securities Co., Ltd. were \$251,700 thousand on acquisition date. The difference between purchase price and net assets was \$78,407 thousand and was recognized as goodwill.

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

## VI. Financial Status

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Shin Ze's operations include collection, evaluation, auction, and management of delinquent loans and business management advisory. Taishin Securities sold the whole interest in Shin Ze on March 30, 2007.

Anew Holdings Ltd. ("Anew Holdings"), Taishin 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 ("TSC Capital"), Taiwan Securities (Hong Kong) Nominee Ltd. ("Taiwan Securities - HK Nominee") and Tai Chen (BVI) Co., Ltd. ("Tai Chen (BVI)"). The operations of these investees described above 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 Co., Ltd. ("Taishin Venture Capital") was approved to establish on December 25, 2002. 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, 2008 and 2007 were as follows:



Investors' Names	Subsidiaries' Names	Ownership Interest (%)	Consolidated as of December 31, 2008	Consolidated as of December 31, 2007
Taishin Financial Holding	Taishin Bank	100.00	Yes	Yes
Taishin Financial Holding	Taishin 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 (liquidated)	-	No	Yes
Taishin Bank	Taiwan Futures	6.15	Yes	Yes
Taishin Securities	Anew Holdings	100.00	Yes	Yes
Taishin 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 Holdings	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, 2008 and 2007 were as follows:

Investors' Names	Subsidiaries' Names	Ownership Interest (%)	Consolidated as of December 31, 2008	Consolidated as of December 31, 2007	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, 2008 and 2007. Since 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 did not have operating activities, thus, it was not included in the consolidated financial statements.
Taishin Securities	Taiwan Managed Futures Co., Ltd. ("Taiwan Managed Futures")	100.00	No	No	Taiwan Managed Futures was an equity method investee of Taishin Securities as of December 31, 2008 and 2007. Its capital only accounted for 0.30% of the consolidated capital, and its total assets and operating income did not reach 0.01% of consolidated total assets and of gross income. Thus, it was not included in the consolidated financial statements.

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Investors' Names	Subsidiaries' Names	Ownership Interest (%)	Consolidated as of December 31, 2008	Consolidated as of December 31, 2007	Note
Taishin 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 Taishin Securities as of December 31, 2008 and 2007. Its capital only accounted for 0.45% of the consolidated capital, and its total assets and operating income did not reach 0.25% of consolidated total assets and of gross income. Thus, it was not included in the consolidated financial statements.
Taishin Securities	Shin Ze	-	No	No	Taishin Securities disposed of its entire interest in Shin Ze on March 30, 2007. In accordance with SFAS No. 7 "Consolidated Financial Statements," Shin Ze's income and expense should not be included in the consolidated financial statements from the date that Taishin Securities lost control of Shin Ze.
Taishin AMC	Shin Jui Assets Management Co., Ltd. ("Shin Jui AMC")	100.00	No	-	Taishin AMC invested in Shin Jui AMC on July 14, 2008. Shin Jui AMC's capital, total assets, and operating income did not reach 0.01% of consolidated capital, of consolidated assets, and of consolidated gross income. Thus, it was not included in the consolidated financial statements.
PayEasy Digital	PayEasy Travel Service Co., Ltd. ("PayEasy Travel")	100.00	No	No	PayEasy Travel was an equity method investee of PayEasy Digital as of December 31, 2008 and 2007. Its capital only accounted for 0.02% of the consolidated capital, and its total assets and operating income did not reach 0.04% of consolidated total assets and of gross income. Thus, it was not included in the consolidated financial statements.
PayEasy Digital	Contect Digital Integration Co., Ltd. ("Contect Digital Integration")	100.00	No	-	Contect Digital Integration was an equity method investee of PayEasy Digital as of December 31, 2008. Contect Digital Integration's capital and total assets did not reach 0.01% of consolidated capital and of consolidated total assets. Therefore, it was not included in the consolidated financial statements.
Anew Holdings	TSC Capital	100.00	No	No	TSC Capital was an equity method investee of Anew Holdings as of December 31, 2008 and 2007. Its capital only accounted for 0.13% of the consolidated capital, and its total assets and operating income did not reach 0.08% of consolidated total assets and of gross income. Thus, 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, 2008 and 2007. Its capital was less than 0.01% of the consolidated capital, and its total assets and operating income did not reach 0.06% of consolidated total assets and of gross income. Thus, it was not included in the consolidated financial statements.
Anew Holdings	Taiwan Securities - HK Nominee	100.00	No	No	Taiwan Securities - HK Nominee was an equity method investee of Anew Holdings as of December 31, 2008 and 2007. Its capital and total assets only accounted for 0.01% of consolidated capital and of consolidated total assets and it had no business operation. Thus, 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, Regulations Governing the Preparation of Financial Reports by Public Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in ROC. In preparing the consolidated financial statements in conformity with these regulations, guidelines and principles, management may make certain estimates and assumptions, which are related to the financial instrument valuation, allowance for bad debts, depreciation of property and equipment, pensions, income tax, asset impairment loss, reserve for losses or guarantees, bonuses to employees, directors and supervisors, 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 of other subsidiaries are classified into current and noncurrent based on their liquidity. Cash and cash equivalents and those 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 the nature and the sequence of liquidity.

Since the banking companies account for a substantial portion of the consolidated statements, the consolidated assets and liabilities are classified according to the nature and the sequence of liquidity. Therefore, those assets and liabilities are not classified as current or noncurrent.

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## Cash and Cash Equivalents

Cash and cash equivalents, consisting of cash in vault, working funds, post-dated checks for clearance, commercial paper, 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 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 asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

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 or financial liabilities designated as at FVTPL are hybrid financial instruments. To eliminate or reduce accounting inconsistency, Taishin Financial Holding and subsidiaries also designated financial assets or liabilities with different accounting policies as at FVTPL on initial recognition. In addition, a portfolio of financial assets, of financial liabilities or of other components under the same risk control policy and investment strategy is designated as at FVTPL. The performance of this portfolio is evaluated by fair values and reported to management.

#### 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 arose from the transactions mentioned above 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 recognition of gain or loss from recovery or disposal of credit receivable is based on cost-recovery method and cash basis. Except there is an objective evidence that the fair value of collaterals is greater than the book value of the credit receivable, the gain or loss will not be recognized until the collateral is sold, if the credit receivable is recovered by foreclosing the mortgage. The cost incurred in the period of acquisition and resale is recorded as current operating expenses. Allowances for bad debts are calculated at the end of period based on the estimated uncollectibility of the credit receivable.

### Delinquent Loans

Overdue loans or other credit items including their accrued interest receivables are reclassified to delinquent loans according to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

The delinquent loans transferred from loans are reported under loans, while those that are not transferred from loans are reported under 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.

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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 "losses" 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 measurement of fair value 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 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.

For the subordinate asset backed securities with no quoted prices in an active market, interest received from the trustee institutions is recognized as income for the period. 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 and subsidiaries exercise 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-

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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. 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 proportionately 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 including non-publicly traded stocks and stocks traded in the Emerging Stock Market. These financial assets carried at cost 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 without active market are bond investments with fixed or determinable payments and with no quoted prices in an active market. These bond investments without active market are carried at amortized cost under using the effective interest method. The accounting policy for such bond investments is similar to that for held-to-maturity financial assets, except for the restriction of disposal.

### Hedging Derivative Financial Instruments

Derivatives that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders’ equity, depending on the nature of the hedging relationship.

Property, Equipment, Leased Asset and Idle Asset

Property, equipment, leased asset and idle asset are stated at cost plus revaluation increment 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 non-interest net income or loss 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 Business Combination under Purchase Method”, goodwill is no longer amortized and instead is tested for impairment annually.

## Deferred Assets and Other Assets

Deferred charges including computer software and other deferred assets are classified as intangible assets and amortized on a straight-line basis over the related service lives.

Assumed collaterals and residuals are recorded at cost.

According to the Regulations Governing the Preparation of Financial Reports by Securities Firms, the accounts related to consigned trades are reclassified as client’s position - debit (including bank settlement account, proceeds receivable of securities purchased for customers, settlement prices, settlement accounts receivable, and margin transactions) and client’s position - credit (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 not exceed the carrying amount that no impairment loss had been recognized for the asset in prior years.

If there is an objective evidence of impairment, the impairment loss of financial assets carried at

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cost is recognized and cannot be reversed thereafter.

Assets which are adopted SFAS No. 35 are evaluated whether there is any indication that the assets may be impaired, except for the 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 CGU 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 not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A 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 test should be conducted for goodwill regardless of whether indication of impairment 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 options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the ARDF. Taishin Financial Holding adopted the intrinsic value method, under which compensation cost was 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

For convertible bonds issued on or after January 1, 2006, if bondholders may exchange a specific number or amount of bonds for a specific number of equity instrument, the company first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component

from the fair value of the convertible bonds as a whole. If the convertible bonds do not contain an associated equity component, the company determines the carrying amount of the liability component by deducting the fair value of the embedded derivatives from the fair value of these convertible bonds.

The liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, Taishin Financial Holding may use 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.

Pursuant to a newly released SFAS, transaction costs of bonds issued on or after January 1, 2006, net of related income tax benefit, are allocated in proportion to the liability and equity components of the bonds.

## **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.

## **Hedge Accounting**

Chang Hwa Bank enters into derivative transactions to manage interest risk exposures arising from assets and liabilities. To avoid the fair value risk resulted from the variation of market interest rate in fixed interest liabilities, these transactions are accounted as fair value hedge.

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When engaging in hedge transactions, Chang Hwa Bank prepared formal designation and documentation, which contained the hedging relationship between the hedging instruments and the hedged items, the risk management objectives, the hedge strategies, and the method to evaluate the effectiveness.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

### Foreign Currency Transactions

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

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

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of shareholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated

at exchange rates at trade dates.

## Income Recognition

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

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.

Other operating income is estimated on an accrual basis and recognized when the 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 tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

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

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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, 2007 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2008.

### Reason for and Effect of Restatement of Financial Statements

The ARDF issued Interpretation 2009-046 on January 21, 2009. For the consolidated financial statements as of December 31, 2008, this Interpretation requires companies to adopt the subjects II and III of the ARDF Interpretation 2008-331 in dealing with convertible bonds which were issued during January 1, 2006 and December 31, 2008 and whose conversion prices were reset by fair values. Therefore, Taishin Financial Holding recognized both conversion option and call option as financial liabilities for trading purpose, recognized liability component as bonds payable and did not recognize any equity component. Taishin Financial Holding also restated the financial statements as of December 31, 2007. The effects of the restatement are as follows:

	Before Restatement	After Restatement	Difference
Consolidated balance sheet as of December 31, 2007			
Financial assets at fair value through profit or loss	\$ 81,135,642	\$ 81,135,486	\$ (156)
Financial liabilities at fair value through profit or loss	17,741,037	18,391,519	650,482
Bonds payable	108,646,833	107,498,220	(1,148,613)
Unappropriated earnings	4,089,120	4,587,095	497,975
Consolidated income statement for the year ended December 31, 2007			
Interest expense	41,644,653	41,924,670	280,017
Loss or gain on financial assets and liabilities at fair value through profit or loss	1,151,092	1,894,307	743,215
Consolidated net income	10,392,585	10,855,783	463,198
Attributable to			
Taishin Financial Holding's stockholders	4,089,120	4,552,318	463,198

## 3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

### Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued Interpretation 2007-052 that requires companies to recognize remunerations to directors and supervisors and employee bonuses as compensation expenses since January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in an increase of \$199,025 thousand in consolidated net loss and an increase in basic loss per share of \$0.008 for the year ended December 31, 2008.





## Accounting for Financial Instruments

On July 1, 2008, Taishin Financial Holding and subsidiaries adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS No. 34 mainly deal with reclassification of financial assets held for trading purpose and of available-for-sale financial assets that met the definition of bond investments without active market. Chang Hwa Bank adopted the amendment mentioned above to reclassify certain financial assets. Please refer to Note 39 for relevant information regarding reclassifications of financial instruments.

## Accounting for Intangible Assets

On January 1, 2007, Taishin Financial Holding and subsidiaries adopted the newly released SFAS No. 37, "Accounting for Intangible Assets". The influence of this newly SFAS on the consolidated financial statements was insignificant.

## 4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash on hand	\$ 12,360,308	\$ 13,079,395
Checks for clearing	11,679,895	8,422,955
Due from banks	11,938,272	14,769,585
Others	4,494,864	1,326,893
	<u>\$ 40,473,339</u>	<u>\$ 37,598,828</u>

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

	December 31	
	2008	2007
Reserve for checking account	\$ 14,577,734	\$ 30,303,694
Reserve for demand account	41,632,358	40,800,387
Reserve for foreign deposit	180,368	4,957,898
Call loans to banks	69,278,086	79,082,970
Certificate of deposits issued by Central Bank	90,900,000	91,740,000
Others	625,894	286,020
	<u>\$ 217,194,440</u>	<u>\$ 247,170,969</u>

Taishin Bank and Chang Hwa Bank are required to maintain reserve balances in the Central Bank. These reserves amounted to \$56,390,460 thousand and \$76,061,979 thousand as of December 31, 2008 and 2007, respectively.

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

	December 31	
	2008	2007 (As Restated)
Trading-purpose financial assets		
Investment in bills	\$ 23,367,166	\$ 30,043,204
Quoted stocks and mutual funds	771,880	3,043,804
Government bonds	4,870,488	9,436,384
Corporate bonds, financial debentures and other bonds	6,281,156	8,628,862
Trading securities		
Dealing	7,133,149	6,762,678
Underwriting	1,319,470	2,071,736
Hedging	39,208	311,412
Futures	335,776	206,258
Forward exchange contracts	1,599,673	2,332,040
Currency swaps	2,465,173	852,134
Interest rate swaps	20,447,322	12,638,306
Cross-currency swaps	978,214	225,676
Currency options	1,112,684	536,585
Interest rate options	165,406	377,019
Asset-swap options	26,716	296,410
Equity-linked options	59,500	122,991
Equity-linked swaps	85,023	206,860
Credit default swaps	599,538	366,489
Commodity options	12,852,889	31,512
Others	95,957	80,191
	84,606,388	78,570,551
Financial assets designated upon initial recognition at fair value through profit or loss		
Interest-rate combination instruments	2,093,241	2,564,935
	\$ 86,699,629	\$ 81,135,486

Please refer to Note 33 for relevant information regarding financial assets at FVTPL pledged as collaterals as of December 31, 2008 and 2007.

The par values of those financial assets at FVTPL provided for transactions with repurchase agreements were \$33,915,250 thousand and \$43,574,368 thousand as of December 31, 2008 and 2007, respectively.

	December 31	
	2008	2007 (As Restated)
Trading-purpose financial liabilities		
Forward exchange contracts	\$ 1,803,888	\$ 2,087,705
Currency swaps	1,292,661	572,544
Interest rate swaps	20,373,365	12,801,971
Cross-currency swaps	757,409	250,489
Currency options	857,231	13,765
Interest rate options	245,822	501,878
Conversion-price-reset options and call options for convertible bond	279,635	650,482
Equity-linked options	18,538	514,881
Asset-swap options	21,740	105,882
Commodity options	12,852,891	31,512
Securities borrowing	473,782	111,100
Warrants	17,761	64,479
Equity-linked swaps	85,023	207,114
Credit default swaps	600,345	89,380
Asset based commercial papers	43,892	231,127
Others	33,262	157,210
	\$ 39,757,245	\$ 18,391,519

Taishin Bank engages in various derivative instruments to fulfill customers' needs, as well as to manage Taishin Bank's asset and liability positions and 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 Chang 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, 2008 and 2007 were as follows:

	December 31	
	2008	2007
Outstanding derivative contracts		
Trading-purpose		
Forward exchange contracts	\$ 104,742,722	\$ 364,398,189
Currency swaps	123,924,737	184,692,627
Interest rate swaps and asset swaps	1,322,794,144	1,511,343,632
Cross-currency swaps	44,522,080	25,466,682
Forward interest rate agreements	500,000	7,988,600
Futures	572,436	547,806
Future and electronic index options	20,696	3,651
Currency options	45,501,339	104,195,938
Interest rate options	89,709,295	167,642,981
Bond options	200,000	1,500,000
Equity-linked options	1,627,884	3,680,685
Commodity options	91,504,355	1,433,916
Credit default swaps	10,470,608	13,331,379
Equity-linked swaps	2,891,549	3,464,653
Commodity swaps	1,672,844	958,626
Fixed rate commercial papers	3,770,000	7,925,000
Assets based commercial papers	1,403,000	21,204,500

The interest rate swaps contracts as of December 31, 2008 and 2007 including the notional amounts of the embedded interest rate swaps were \$7,000,000 thousand and \$12,500,000 thousand, respectively. Taishin Bank separated these embedded interest rate swaps from the hybrid instruments in accordance with SFAS No. 34 "Financial Instruments: Recognition and Measurement."

Net gain (loss) of financial assets for trading purpose for the years ended December 31, 2008 and 2007 was \$2,509,083 thousand (including loss on valuation of \$1,203,972 thousand, gain on disposal of \$3,648,193 thousand, and dividend revenue of \$64,862 thousand) and \$3,078,986 thousand (including gain on valuation of \$434,962 thousand, gain on disposal of \$2,555,080 thousand, and dividend revenue of \$88,944 thousand, respectively).

Net gain (loss) of financial liabilities for trading purpose for the years ended December 31, 2008 and 2007 was \$(4,175,577) thousand (including loss on valuation of \$733,066 thousand and loss on disposal of \$3,442,511 thousand) and \$(1,184,679) thousand (including loss on

## VI. Financial Status

valuation of \$26,355 thousand and loss on disposal of \$1,158,324 thousand, respectively).

### Warrants

Details of warrants issued by Taishin Securities were as follows:

	December 31	
	2008	2007
Warrants issued	\$ 1,214,549	\$ 3,788,121
Gain on change in fair value	(887,769)	(2,791,551)
Market value	326,780	996,570
Repurchased warrants	520,093	2,012,174
Loss on change in fair value	(211,074)	(1,080,083)
Market value	309,019	932,091
	<u>\$ 17,761</u>	<u>\$ 64,479</u>

The American warrants, which were issued by Taishin Securities, are exercisable within six months after listed on market and will be settled in cash or in securities by Taishin Securities's choice.

## 7. RECEIVABLES, NET

	December 31	
	2008	2007
Notes and accounts receivable	\$ 65,467,238	\$ 69,450,301
Margin loans receivable	7,584,046	23,212,565
Acceptance receivable	7,046,822	9,560,336
Revenue receivable	206,704	142,333
Interest receivable	6,191,290	8,339,528
Tax refund receivable	2,629,214	2,052,652
Asset based security refund receivable	7,280,830	1,463,712
Installment receivable	4,004,687	2,897,194
Other receivables	5,941,568	2,873,236
Less: allowance for receivables	(1,443,107)	(859,668)
	<u>\$ 104,909,292</u>	<u>\$ 119,132,189</u>

## 8. LOANS

The details of loans are as follows:

	December 31	
	2008	2007
Negotiated	\$ 3,196,099	\$ 4,481,006
Overdrafts	3,893,706	1,821,360
Discounts	4,310,460	4,504,645
Short-term loans	413,853,595	426,309,560
Medium-term loans	435,134,592	416,824,944
Long-term loans	631,496,351	604,895,454
Delinquent loans	23,296,544	26,496,082
Gross loans	1,515,181,347	1,485,333,051
Less: allowance for loan losses	(23,346,493)	(19,125,037)
	<u>\$ 1,491,834,854</u>	<u>\$ 1,466,208,014</u>

Allowance for loan losses is as follows:

	Year Ended December 31, 2008			
	Receivables	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio	Total
Balance, January 1, 2008	\$ 859,668	\$ 7,050,416	\$ 12,074,621	\$ 19,984,705
Reclassification at beginning of the year	-	755,033	-	755,033
Provision for loan losses	1,109,945	14,814,999	1,630,169	17,555,113
Reclassification during this year	2,099	-	(2,099)	-
Loans written off	(851,676)	(19,860,220)	(148,981)	(20,860,877)
Recovery of loans written off	318,161	7,492,318	-	7,810,479
Reclassified as other financial assets	-	(826,950)	-	(826,950)
Reclassification from reserve for guarantees	1,634	368,279	-	369,913
Others	3,276	(11,112)	10,020	2,184
Balance, December 31, 2008	\$ 1,443,107	\$ 9,782,763	\$ 13,563,730	\$ 24,789,600

	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 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 written off	527,860	9,262,637	-	9,790,497
Reclassified as other financial assets	-	(755,033)	-	(755,033)
Others	19	2,166	(478)	1,707
Balance, December 31, 2007	\$ 859,668	\$ 7,050,416	\$ 12,074,621	\$ 19,984,705

Details of provision for loan losses for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Provision for receivable and loan losses	\$ 17,555,113	\$ 12,322,906
Reserve for guarantees	65,716	(191,736)
	\$ 17,620,829	\$ 12,131,170

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## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Investment in bills	\$ 1,144,312	\$ 7,412,917
Domestic quoted stocks	933,414	1,522,200
Government bonds	37,162,123	40,117,060
Corporate bonds and financial debentures	24,889,645	51,193,227
Asset based securities	6,182,755	5,288,891
Mutual funds	51,277	615,346
	<u>\$ 70,363,526</u>	<u>\$ 106,149,641</u>

Please refer to Note 33 for relevant information regarding available-for-sale financial assets pledged as collaterals as of December 31, 2008 and 2007.

Chang Hwa Bank recognized impairment loss of \$1,388,566 thousand in bond investment for the year ended December 31, 2008.

The par values of bond investments in available-for-sale financial assets provided for transactions with repurchase agreements were \$19,241,200 thousand and \$27,059,900 thousand as of December 31, 2008 and 2007, respectively.

Asset based 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 based 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 based 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 based 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 Based 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 based 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.

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 were as follows:

	Rights to Residential Mortgages
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 were as follows:

	Rights to Residential Mortgages	
	December 31	
	2008	2007
Fair value of retained interests	\$ 335,652	\$ 337,388
Discount rate of remaining cash flow (% per annum)	2.35%	3.45%
Projected principal repayment rate (% per annum)	24%	30%
Estimated weighted average number of years	10.83	11.83
Influence of 10% unfavorable change in fair value	\$ (210)	\$ (121)
Influence of 20% unfavorable change in fair value	\$ (439)	\$ (249)
Estimated loss rate of credit (% per annum)	0.60%	0.60%
Influence of 10% unfavorable change in fair value	\$ (118)	\$ (150)
Influence of 20% unfavorable change in fair value	\$ (235)	\$ (300)

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

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

	<b>Rights to Residential Mortgages</b>	
	<b>Years Ended December 31</b>	
	<b>2008</b>	<b>2007</b>
Other cash inflows from retained interests	\$ 11,507	\$ 12,561

### Taishin Bank - Information on Asset Based 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 based securities and seller's equity securities on these receivables, with terms from May 31, 2005 to November 30, 2010.

<b>Security Features</b>	<b>A</b>	<b>B</b>	<b>C</b>
<b>Issue amount</b>	\$8,700,000	\$500,000	\$400,000
<b>Issue price</b>	Face value	Face value	Face value
<b>Interest rate per annum</b>	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. In May, August and November of 2008, Taishin Bank made the first, second and third payment of A securities. Each payment equaled to \$2,175,000 thousand, and the balance of A securities was \$2,175,000 thousand as of December 31, 2008.

(a) Assumptions used to evaluate retained interests

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

	<b>Rights to Credit Card Receivables</b>
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 were as follows:

	Rights to Credit Card Receivables	
	December 31	
	2008	2007
Fair value of retained interests	\$ 2,078,179	\$ 2,001,708
Discount rate of remaining cash flow (% per annum)	13.50%	15.33%
Projected principal repayment rate (% per month)	35.43%	28.79%
Estimated weighted average number of years	0.24	0.29
Influence of 10% unfavorable change in fair value	\$ (66,242)	\$ (229,126)
Influence of 20% unfavorable change in fair value	\$ (132,483)	\$ (458,252)
Estimated loss rate of credit (% per annum)	5.52%	8.52%
Influence of 10% unfavorable change in fair value	\$ (30,792)	\$ (131,501)
Influence of 20% unfavorable change in fair value	\$ (61,585)	\$ (263,001)

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

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

	Rights to Credit Card Receivables	
	Years Ended December 31	
	2008	2007
Other cash inflows from retained interests	\$ 135,182	\$ 768,422

## Chang Hwa Bank - Information on Asset Based 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 based 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

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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 were as follows:

	Rights to Residential Mortgages	
	Years Ended December 31	
	2008	2007
Projected principal repayment rate (% per annum)	39.3%	41%
Estimated weighted average number of years	1.5	1.67
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 were as follows:

	Rights to Residential Mortgages	
	December 31	
	2008	2007
Fair value of retained interest	\$ 377,592	\$ 379,430
Discount rate of remaining cash flow (% per annum)	3.2%	3.2%
Estimated weighted average number of years	1.5	1.67
Projected principal repayment rate	39.3%	41%
Influence of 10% unfavorable change in fair value	\$ (4,660)	\$ (826)
Influence of 20% unfavorable change in fair value	\$ (6,495)	\$ (17,713)
Estimated loss rate of credit (% per annum)	2%	2%
Influence of 10% unfavorable change in fair value	\$ (335)	\$ (404)
Influence of 20% unfavorable change in fair value	\$ (669)	\$ (808)

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

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

	Rights to Residential Mortgages	
	Years Ended December 31	
	2008	2007
Other cash inflows from retained interest	\$ 16,939	\$ 14,604
Service revenue	3,508	8,691

## 10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Investment in bills	\$ 158,396,798	\$ 103,525,731
Government bonds	9,836,390	15,273,222
Corporate bonds and financial debentures	13,932,975	8,647,024
Asset based securities	191,833	193,377
	<u>\$ 182,357,996</u>	<u>\$ 127,639,354</u>

Please refer to Note 33 for relevant information regarding held-to-maturity financial assets pledged as collaterals as of December 31, 2008 and 2007.

Chang Hwa Bank recognized impairment loss of \$150,613 thousand in bond investments for the year ended December 31, 2008.

The par values of bonds investments in held-to-maturity financial assets provided for transactions with repurchase agreements were \$3,740,400 thousand and \$6,393,000 thousand as of December 31, 2008 and 2007, respectively.

## 11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2008		2007	
	Carrying Value	Ownership Interest (%)	Carrying Value	Ownership Interest (%)
Unquoted stocks				
Taiwan Securities Investment Advisory	\$ 330,523	92	\$ 332,215	92
Taiwan Managed Futures	158,604	100	164,302	100
Taishin Investment Trust Co., Ltd. ("Taishin Investment Trust")	131,278	45	149,006	45
Tai Chen (BVI)	56,442	100	83,189	100
TSC Capital	53,085	100	70,873	100
Dah An Leasing	161,666	99	159,037	99
PayEasy Travel	13,715	100	9,470	100
An Hsin Real-Estate Management Co., Ltd. ("An Hsin Real-Estate")	48,343	30	49,543	30
Shin Jui AMC	883	100	-	-
Contect Digital Integration	3,000	100	-	-
	<u>\$ 957,539</u>		<u>\$ 1,017,635</u>	

## VI. Financial Status

Based on the investees' financial statements for the years ended December 31, 2008 and 2007, the amounts of investment income (loss) recognized under equity method were as follows:

	2008		2007	
	Individual Net Income (Loss)	Investment Income (Loss) Recognized	Individual Net Income (Loss)	Investment Income (Loss) Recognized
Taiwan Securities Investment Advisory	\$ (1,158)	\$ (1,065)	\$ 749	\$ 690
Taiwan Managed Futures	(5,698)	(5,698)	(6,036)	(6,036)
Taishin Investment Trust	(39,392)	(17,728)	30,129	13,560
Tai Chen (BVI)	(26,623)	(26,623)	16,818	16,818
TSC Capital	(18,260)	(18,260)	(628)	(628)
Dah An Leasing	2,655	2,629	385	381
PayEasy Travel	4,245	4,245	4,798	4,798
An Hsin Real-Estate	39,850	11,560	48,705	14,322
Shin Jui AMC	(117)	(117)	-	-
		<u>\$ (51,057)</u>		<u>\$ 43,905</u>

## 12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2008	2007
Domestic emerging market stocks	\$ 381,173	\$ 549,076
Domestic and oversea unquoted stocks	9,240,171	8,632,150
Mutual funds without active market	497,650	343,800
	<u>\$ 10,118,994</u>	<u>\$ 9,525,026</u>

The net assets of certain unquoted stocks were less than the carrying values of those. Moreover, the possibility that the net assets of these unquoted stocks would recover was rare. Therefore, impairment losses of \$37,681 thousand and \$63,681 thousand were recognized for the years ended December 31, 2008 and 2007, respectively.

VISA restructured as VISA Inc. in 2007 and recalculated its members' equity based on the annual financial report as of December 31, 2007. Taishin Bank was received cash \$935,902 thousand and common stock C 560,331 shares and recognized revenue of \$1,665,732 thousand.

### 13. OTHER MISCELLANEOUS FINANCIAL ASSETS

	December 31	
	2008	2007
Bond investments without active market	\$ 16,371,325	\$ 3,053,970
Customers' margin accounts	7,463,736	6,132,956
Delinquent loans reclassified from other items (excluding loans)	990,312	870,128
Less: allowance for bad debt	(826,950)	(755,0v33)
Inward remittance	33,192	43,815
Others	30,078	-
	<u>\$ 24,061,693</u>	<u>\$ 9,345,836</u>

Chang Hwa Bank recognized impairment loss of \$191,602 thousand in bond investment without active market for the year ended December 31, 2008.

The details of customers' margin accounts were as follows:

	December 31	
	2008	2007
Bank deposits	\$6,265,794	\$4,973,866
Balance in futures clearing houses	-	-
Bank deposits	1,001,438	791,461
Receivables from (payables to) daily settlement price differences	(85,544)	241,922
Balance in settlement institutes	-	-
Bank deposits	308,665	114,425
Gain/loss on open interests	(26,617)	11,282
	<u>\$ 7,463,736</u>	<u>\$ 6,132,956</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.

## VI. Financial Status

### 14. PROPERTY AND EQUIPMENT

	December 31			
	2008		2007	
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 28,141,214	\$ -	\$ 28,141,214	\$ 28,150,012
Buildings	15,361,924	(3,774,535)	11,587,389	11,625,117
Machinery equipment	9,599,281	(6,223,249)	3,376,032	4,051,527
Transportation equipment	1,010,990	(797,309)	213,681	260,763
Miscellaneous equipment	2,074,343	(1,720,565)	353,778	383,687
Leasehold improvement and leased asset	1,593,761	(1,339,412)	254,349	228,972
Construction in process and machine accessories	-	-	-	148,994
Prepayments for building and equipment	105,624	-	105,624	58,418
	<u>\$ 57,887,137</u>	<u>\$ (13,855,070)</u>	<u>\$ 44,032,067</u>	<u>\$ 44,907,490</u>

Please refer to Note 33 for relevant information regarding property and equipment pledged as collaterals as of December 31, 2008 and 2007.

### 15. GOODWILL

	December 31	
	2008	2007
Goodwill	<u>\$ 20,757,601</u>	<u>\$ 20,757,601</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. The unamortized amount as of December 31, 2008 and 2007 were both \$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. The unamortized amount as of December 31, 2008 and 2007 were both \$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. The unamortized amount as of December 31, 2008 and 2007 were both \$267,336 thousand.

Taishin Securities undertook all assets and liabilities of other securities firms. The difference between total purchase price and net assets acquired was recognized as goodwill. The unamortized amounts as of December 31, 2008 and 2007 were both \$170,854 thousand.

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	\$ 17,168,136 (17,168,136)	\$ 2,150,507 (2,150,507)
Difference between investment cost and fair value of net assets acquired (goodwill)	\$ 19,676,239	\$ 1,682,589

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, 2008 and 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 CGU 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 expected investment yield rate to calculate the value in use. Based on the result of the test, there is no material impairment of assets as of December 31, 2008 and 2007.

# VI. Financial Status

## 16. OTHER MISCELLANEOUS ASSETS

	December 31	
	2008	2007
Deposits required for securities borrowing	\$ 1,156,849	\$ -
Operating guarantee deposits	723,726	838,554
Settlement funds	424,700	448,799
Rental and idle assets, net	5,750,685	5,845,347
Client's position - debit	529,646	838,954
Collaterals, net	516,953	845,346
Others	435,039	295,715
	<u>\$ 9,537,598</u>	<u>\$ 9,112,715</u>

### Deposits Required for Securities Borrowing

Borrowing securities from security finance companies, Taishin Securities is required to provide deposits for this transaction.

### Operating Guarantee Deposits

#### *Taishin Securities*

As stipulated in the Regulations Governing Securities Firms, underwriters, dealers, and brokers should provide \$40 million, \$10 million, \$50 million and \$10 million for each additional branch, respectively, in the form of cash, government bonds, and/or financial debentures as operating deposits to be placed in designated banks. Taishin Securities should also provide \$50 million as operating deposits in accordance with the Regulation Governing Margins and Stock Loans by Securities Firms.

As stipulated in the Regulations Governing the Operation of Futures Introducing Broker Business 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 Regulations Governing Futures Commission Merchants, futures dealers should provide operating deposits of \$10 million for registration purposes.

Deposits for warrants are required as stipulated in the Taiwan Stock Exchange Corporation Rules Governing Call (Put) Warrant Listing Examination.

#### *Taiwan Futures*

As stipulated in Article 10 of the Standards Governing the Establishment of Futures Commission Merchants, futures brokers should provide \$50 million, in the form of cash, government bonds, and/or financial debentures 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 10 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.

As stipulated in Article 11 of the Standards Governing the Establishment of Managed Futures Enterprises, the promoters shall deposit a sum of \$25 million in a financial institution designated by the competent authority.

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

As stipulated in Article 9 of the Regulations Governing Securities Firms, securities firms should have operating deposits to be placed in GTSM of the ROC.

## **Settlement Funds**

### ***Taishin Securities***

As stipulated in the Regulations 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.

As stipulated in GTSM Rules Governing Settlement Funds in the Joint Liability System, except for the \$3 million deposited from headquarters, the brokers should continually provide settlement funds based on a specified percentage of the executed value of OTC-listed securities which were traded through GTSM.

As stipulated in GTSM Rules Governing Settlement Reserve in the Electronic Bond Trading System, the headquarters should provide minimum amount of reserve in cash for the participation in the Electronic Bond Trading System.

## VI. Financial Status

### *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	
	2008	2007
Rental land	\$ 4,916,474	\$ 4,964,439
Rental buildings	1,296,105	1,320,145
Less: accumulated depreciation - rental buildings	(437,721)	(415,064)
Less: accumulated impairment - rental assets	(76,604)	(76,604)
	<u>5,698,254</u>	<u>5,792,916</u>
Idle land	92,763	92,763
Less: accumulated impairment - idle assets	(40,332)	(40,332)
	<u>52,431</u>	<u>52,431</u>
	<u>\$ 5,750,685</u>	<u>\$ 5,845,347</u>

Please refer to Note 33 for relevant information regarding rental and idle assets pledged as collaterals as of December 31, 2008 and 2007.

### Client's Position - Debit

	December 31	
	2008	2007
Debits		
Bank settlement account	\$2,304,453	\$2,457,912
Proceed receivable of securities purchased for customers	3,063,413	5,188,011
Settlement accounts receivable	1,501,419	3,867,318
Settlement prices	161,341	(527,189)
	<u>7,030,626</u>	<u>10,986,052</u>
Credits		
Price payable of securities sold for customers	2,887,224	4,608,990
Settlement accounts payable	3,594,557	5,535,317
Marginal and securities borrowers payable	19,199	2,791
	<u>6,500,980</u>	<u>10,147,098</u>
Client's position - debit	<u>\$ 529,646</u>	<u>\$ 838,954</u>



## 17. DUE TO BANKS AND CENTRAL BANK

	December 31	
	2008	2007
Due to Central Bank	\$ 96,578	\$ 427,995
Due to other banks	36,733,319	36,317,345
Deposits transferred from the Postal Bureau	94,472,338	96,479,002
Call loans from other banks	49,002,965	72,444,480
Bank overdraft	3,083,467	4,100,003
	<u>\$ 183,388,667</u>	<u>\$ 209,768,825</u>

## 18. COMMERCIAL PAPER PAYABLE

	December 31	
	2008	2007
Guarantee or acceptance institution		
China Bills Finance	\$ 500,000	\$ 1,100,000
Grand Bills Finance	-	350,000
Chinatrust Bills Finance	-	700,000
International Bills Finance	-	200,000
Mega Bills Finance	-	650,000
Taishin Bills Finance	-	900,000
Ta Ching Bills Finance	-	500,000
Taiwan Bills Finance	-	200,000
Hua Nan Bills Finance	-	500,000
Less: discounts on commercial paper payable	(290)	(6,618)
	<u>\$ 499,710</u>	<u>\$ 5,093,382</u>

As of December 31, 2008 and 2007, the ranges of interest rate for commercial paper payable were 1.41% and 2.41%~2.71% per annum, respectively.

## 19. PAYABLES

	December 31	
	2008	2007
Notes and accounts payable	\$ 28,531,911	\$ 30,342,980
Accrued expenses	4,037,559	4,564,390
Interest payable	7,986,179	8,833,182
Tax payable	1,984,600	508,434
Dividend and bonus payable	197,119	172,389
Acceptance payable	7,136,079	9,830,130
Check for clearance payable	1,052,412	808,684
Collection payable	865,232	1,004,026
Deposits received from securities borrowers	1,980,465	1,120,115
Guarantee price deposits received from securities borrowers	951,675	1,606,322
Other payables	1,455,885	3,286,371
	<u>\$ 56,179,116</u>	<u>\$ 62,077,023</u>

# VI. Financial Status

## 20. DEPOSITS

	December 31	
	2008	2007
Checking deposits	\$ 35,972,973	\$ 34,497,099
Demand deposits	254,098,707	255,930,750
Time deposits	582,960,515	483,165,895
Negotiable certificates of deposit	20,746,200	14,072,000
Savings deposits	836,766,704	878,793,102
Remittances and drafts issued	1,239,096	2,556,948
	<u>\$ 1,731,784,195</u>	<u>\$ 1,669,015,794</u>

## 21. BONDS PAYABLE

	December 31	
	2008	2007 (As Restated)
Unsecured subordinated corporate bonds - par	\$ 33,650,000	\$ 33,650,000
Unsecured corporate bonds - par	-	5,000,000
Unsecured convertible bonds - par	7,000,000	7,000,000
Unsecured convertible bonds - discounts	(913,279)	(1,251,780)
Financial debentures	72,668,059	63,100,000
	<u>\$ 112,404,780</u>	<u>\$ 107,498,220</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	
	2008	2007 (As Restated)
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)	(913,279)	(1,251,780)
	<u>\$ 39,736,721</u>	<u>\$ 39,398,220</u>

### ***Domestic Unsecured Subordinated Corporate Bonds - 2003***

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

Bond 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	Payable annually from the issue date.												From the issuance date, the interest will be paid semi-annually
Interest accrual	From the issuance date, the interest will be accrued on fixed and simple interest rate.												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	3.5%												5.7% - floating rate
Redemption on maturity:	In cash at par value.												
Other	1.The interest payments rely on the amounts accrued by Taishin Financial Holding. 2.The bonds are bearer, but could be converted into registered bonds upon holders' request. 3.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).												

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).

## VI. Financial Status

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### ***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.
- (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***

- (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.

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(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:

Unless previously redeemed, repurchased, converted into common shares or during the closed period (as defined by relevant ROC laws), bonds may be converted into common shares at any time after 30 days of the issue date and before 10 days prior to the maturity date.

iii) Pricing:

■ Conversion price per share of \$19.80 dollars is determined on the pricing date.

■ Taishin Financial Holding should adjust the conversion price in accordance with any of the events specified in the Trust Deed. The conversion price was reset on May 6, 2008 and adjusted to \$17.3.

(i) Redemption at the bondholders' option: None

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

i) If the closing prices of Taishin Financial Holding's common shares listed on the Taiwan Stock Exchange for 30 consecutive trading days exceed 50% of the conversion price, Taishin Financial Holding may redeem the bonds at par value in cash at any time after three years of the issue date before the 40th day prior to 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.

The ARDF issued Interpretation 2009-046 on January 21, 2009. For the consolidated financial statements as of December 31, 2008, this Interpretation requires companies to adopt the subjects II and III of the ARDF Interpretation 2008-331 in dealing with convertible bonds which were issued during January 1, 2006 and December 31, 2008 and whose conversion prices were reset by fair values. Therefore, Taishin Financial Holding recognized both conversion option and call option as financial liabilities for trading purpose of \$1,714,490 thousand and recognized straight bond as bonds payable of \$5,246,868 thousand. As of December 31, 2008, no option had been exercised.



## Financial Debentures Issued By Taishin Bank

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

	December 31	
	2008	2007
Subordinated Financial Debentures - 2001.10.02	\$ 5,000,000	\$ 5,000,000
Subordinated Financial Debentures - 2002.01.30	5,000,000	5,000,000
Financial Debentures-2003 (I)	-	1,000,000
Financial Debentures-2003 (II)	-	900,000
Financial Debentures-2003 (III)	-	2,100,000
Financial Debentures-2003 (IV)	1,000,000	1,000,000
Financial Debentures-2003 (V)	1,900,000	1,900,000
Financial Debentures-2003 (VI)	3,200,000	3,200,000
Subordinated Financial Debentures - 2004 (I)	5,000,000	5,000,000
Subordinated Financial Debentures - 2005 (I)	1,508,000	1,508,000
Subordinated Financial Debentures - 2005 (II)	3,300,000	3,300,000
Subordinated Financial Debentures - 2005 (III)	5,000,000	5,000,000
Subordinated Financial Debentures - 2005 (IV)	5,192,000	5,192,000
	<u>\$ 6,100,000</u>	<u>\$ 40,100,000</u>

(a) 10-year financial debentures 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 financial debentures at par value plus accrued interest payable starting from the sixth year.

(b) 7-year financial debentures 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) Under the approval of the Ministry of Finance, Taishin Bank was authorized to issue \$15 billion financial debentures and has partially issued \$10.1 billion financial debentures as follows:

Taishin Bank made first issue of \$1,000 million in financial debentures in 2003 as follows:

Financial Debentures	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 each	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	Debentures 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					

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Taishin Bank made second issue of \$900 million in financial debentures in 2003, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method 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	Debentures are re-deemable 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		\$200 million each			
C	2003.11.28	2008.11.28					
D	2003.11.28	2008.11.28					

Taishin Bank made third issue of \$2,100 million financial debentures in 2003, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
A	2003.12.16	2008.12.16	5 years	\$200 million each	4.9% minus 6-month LIBOR. The 6-month LIBOR is recalculated at the floating rate on the 2nd day interest payment date, which is the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the re-set day at 11:00 a.m. The interest rate should not be less than 0%.	\$10,000 thousand	Debentures are re-deemable 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					
D	2003.12.16	2008.12.16					
E	2003.12.16	2008.12.16					
F	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	Debentures are re-deemable at par value in cash on the maturity date. Interest is accruable at a simple rate quarterly and payable semiannually from the issue date.
G	2003.12.16	2008.12.16					
H	2003.12.16	2008.12.16	5 years	\$200 million each	If 3-month USD LIBOR is less than 1.1%, the interest rate is 3 month USD LIBOR plus 0.65%; if 3-month USD LIBOR is between 1.1% and 2%, the interest rate is 3.25%; if the 3-month USD LIBOR is greater than 2.0%, the interest rate is 5.0% minus the 3-month USD LIBOR. The 3-month USD LIBOR is determined at the 3-month USD 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 interest rate should not be less than 0%.	\$10,000 thousand	Debentures are re-deemable at par value in cash on the maturity date. Interest is accruable at a simple rate quarterly and payable semiannually from the issue date.
I	2003.12.16	2008.12.16					

Taishin Bank made fourth issue of \$1,000 million financial debentures in 2003, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method 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	Debentures are re-deemable 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 fifth issue of \$1,900 million in financial debentures in 2003, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method 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	Debentures 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			
D	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%.		
E	2004.03.11	2009.03.11		\$200 million			
F	2004.03.11	2009.03.11		\$300 million			
G	2004.03.11	2009.03.11		\$300 million			

Taishin Bank made sixth issue of \$3,200 million in financial debentures in 2003, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method 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	Debentures 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	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%.		
C	2004.03.26	2009.03.26		\$300 million			
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	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%.		
G	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%.
H	2004.03.26	2009.03.26		\$300 million			
I	2004.03.26	2009.03.26		\$300 million			
J	2004.03.26	2009.03.26		\$400 million			

Note a: (i) 「T」: 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) 「N」: The number of days between two interest-determination dates.

(iii) The interest-determination period is between six months before and one day before the interest payment date; interest rate ranges mentioned above are as follows:

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	Financial Debentures 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%
	Financial Debentures 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%
	Financial Debentures 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 financial debentures 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 financial debentures 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 financial debentures C to J is recalculated semiannually (except for Taishin financial debentures accrued at the fixed coupon rate) in accordance with the coupon rate rule.

(d) Under the approval of the Financial Supervisory Commission, Executive Yuan in 2004, Taishin Bank was authorized to issue \$20 billion in financial debentures as follows:

Taishin Bank made first issue of \$5,000 million in financial debentures in 2004, as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
2004, first issue of financial debentures	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. Debentures are redeemable at par value in cash on the maturity date.

Redemption policy: Taishin Bank can redeem all or part of the debentures 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 debentures 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 first issue of \$1,508 million in financial debentures in 2005, as follows:

Financial Debentures	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	Debentures 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		\$220.5 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 debentures 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 second issue of \$3,300 million in financial debentures in 2005 as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
2005, second issue of financial debentures	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. Debentures 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 debentures issue, if terms of exercising put option or redemption rights are satisfied, and if the holders exercise the put option or Taishin Bank exercises the redemption rights, the debentures will be expired on current interest payment date. Taishin Bank will repay the holders 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 holders:

If terms of exercising put option are satisfied and the holders plan to exercise the put option, holders should notify Taishin Bank in written form within ten days after the terms are satisfied.

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### 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.

Taishin Bank made third issue of \$5,000 million in financial debentures in 2005 as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
2005, third issue of financial debentures	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. Debentures 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 debentures 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 debentures 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 fourth issue of \$5,192 million in financial debentures in 2005 as follows:

Financial Debentures	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method 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. Debentures are redeemable at par value in cash on the maturity date, unless the redemption is exercised.
B	2005.06.06	2017.06.06		\$1,442 million			
C	2005.06.06	2017.06.06		\$800 million	Taishin Bank's floating interest rate for one-year time deposit plus 0.65%. The interest rate is recalculated annually.		

Redemption policy: Taishin Bank can redeem all or part of the debentures 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 debentures 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.

## Financial Debentures Issued By Chang Hwa Bank

On March 15, 2002, September 26, 2007, May 19, 2008, and December 15, 2008, Chang Hwa Bank has issued subordinated financial debentures to enhance its capital adequacy ratio and raise medium to long-term operating funds. The details of these subordinated financial debentures were as follows:

	December 31	
	2008	2007
Subordinated Financial Debentures - 2008 (I)	\$ 2,000,000	\$ -
Valuation adjustment	218,059	-
	2,218,059	-
<u>Non-hedged</u>		
Subordinated Financial Debentures B - 2002 (I)	4,000,000	4,000,000
Subordinated Financial Debentures C - 2002 (I)	14,000,000	14,000,000
Subordinated Financial Debentures - 2007 (I)	5,000,000	5,000,000
Subordinated Financial Debentures - 2008 (I)	3,000,000	-
Subordinated Financial Debentures - 2008 (II)	8,350,000	-
	34,350,000	23,000,000
	<u>\$ 36,568,059</u>	<u>\$ 23,000,000</u>

The details of subordinated financial debentures were as follows:

### ***Subordinated Financial Debentures - 2002 (I)***

- (a) Issue amount: \$20,000,000 thousand and divided into Financial Debentures A \$1,000,000, Financial Debentures B \$4,000,000, Financial Debentures C \$14,000,000 and Financial Debentures D \$1,000,000.
- (b) Issue date: March 15, 2002.
- (c) Issue price: 100% of the principal amount of the bonds.
- (d) Maturity: Financial Debentures A matures 5 years from the issue date. Financial Debentures B and C mature 7 years from the issue date. Financial Debentures D matures 10 years from the issue date.
- (e) Coupon rate: 3.30% per annum for Financial Debentures A and 3.85% per annum for Financial Debentures B. Coupon rate for Financial Debentures C is based on CHB Bank's floating interest rate for one year time deposit +1.00%. Coupon rate is 4.60% per annum for Financial Debentures D.
- (f) Interest payment: Interest payable annually from the issue date.
- (g) Other: Financial Debentures A was refunded on March 15, 2007 and D had been redeemed in advance on March 15, 2007.

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## ***Subordinated Financial Debentures - 2007 (I)***

- (a) Issue amount: \$5,000,000 thousand.
- (b) Issue date: September 26, 2007.
- (c) Issue price: 100% of the principal amount of the bonds.
- (d) Maturity: 7 years from the issue date.
- (e) Coupon rate: The 90-day commercial paper fixed rate in the secondary market plus 0.35%, provided by Reuters Limited.
- (f) Interest payment: Interest payable annually from the issue date.

## ***Subordinated Financial Debentures - 2008 (I)***

- (a) Issue amount: \$5,000,000 thousand.
- (b) Issue date: May 19, 2008.
- (c) Issue price: 100% of the principal amount of the bonds.
- (d) Maturity: 7 years from the issue date.
- (e) Coupon rate: 3.10 % per annum.
- (f) Interest payment: Interest payable annually from the issue date.
- (g) Other: To avoid fair value risks as a result of changes in interest rates, Chang Hwa Bank engaged in derivative transactions as hedging tools. The interest rate swaps nominal principal was \$2,000,000 thousand and the hedging derivative financial asset was \$221,161 thousand as of December 31, 2008.

## ***Subordinated Financial Debentures - 2008 (II)***

- (a) Issue amount: \$8,350,000 thousand.
- (b) Issue date: December 15, 2008.
- (c) Issue price: 100% of the principal amount of the bonds.
- (d) Maturity: 7 years from the issue date.
- (e) Coupon rate: 3.05% per annum.
- (f) Interest payment: Interest payable annually from the issue date.

## **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. These bonds were mature during 2008, and the details of those were as follows:





	December 31	
	2008	2007
Unsecured corporate bonds (I)	\$ -	\$ 1,200,000
Unsecured corporate bonds (II)	-	1,300,000
Unsecured corporate bonds (III)	-	1,000,000
Unsecured corporate bonds (IV)	-	1,500,000
	\$ -	\$ 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	

### 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	5 years	5 years	5 years	5 years	5 years	
Redemption on maturity	In cash at par value	In cash at par value	In cash at par value	In cash at par value	In cash at par value	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
Record	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	5 years	5 years	5 years	5 years	
Redemption on maturity	In cash at par value	In cash at par value	In cash at par value	In cash at par value	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	5 years	5 years	5 years	5 years	5 years	
Redemption on maturity	In cash at par value	In cash at par value	In cash at par value	In cash at par value	In cash at par value	In cash at par value	

# VI. Financial Status

## 22. OTHER BORROWINGS

	December 31	
	2008	2007
Short-term unsecured borrowings	\$ -	\$ 2,230,000
Long-term unsecured borrowings	-	3,300,000
	<u>\$ -</u>	<u>\$ 5,530,000</u>

As of December 31, 2007, interest rates on short-term unsecured borrowings ranged from 2.55% to 2.70% per annum. Interest rates on long-term unsecured borrowings were 2.58% to 2.60% as of December 31, 2007.

## 23. RESERVE FOR OPERATIONS AND LIABILITIES

	December 31	
	2008	2007
Reserve for guarantee liabilities	\$ 563,050	\$ 870,632
Reserve for default losses	318,611	302,659
Reserve for trading losses	378,209	406,155
Reserve for bad debt	12,923	13,923
	<u>\$ 1,272,793</u>	<u>\$ 1,593,369</u>

### Reserve for Default Losses

#### *Taishin Securities and Chang Hwa Bank*

According to the Regulations 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 Regulations 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. 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, Taishin Securities and Taishin Bills Finance*

Under the Regulations 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.

### *Taiwan Futures*

As stipulated in the Regulations 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 Value-added and Non-value-added Business Tax Act within four years upon the effective date of the amendment to the law, effective on July 1, 1999.

## 24.OTHER LIABILITIES

	December 31	
	2008	2007
Advance receipts	\$ 1,102,426	\$ 1,147,323
Reserve of land value increment tax	5,641,548	5,642,116
Guarantee deposits	1,297,909	1,319,308
Accrued pension liability	2,839,609	2,809,271
Futures commission merchants' equity	7,430,642	6,089,285
Deferred income	160,556	387,835
Others	253,412	295,902
	<u>\$ 18,726,102</u>	<u>\$ 17,691,040</u>

# VI. Financial Status

## Futures Commission Merchants' Equity

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

	December 31			
	2008		2007	
	Foreign Currency	New Taiwan Dollar	Foreign Currency	New Taiwan Dollar
NTD		\$ 5,495,284		\$ 4,789,582
USD	\$ 47,164	1,546,984	\$ 35,680	1,157,113
JPY	930,062	338,170	381,016	110,380
HKD	6,367	26,952	6,125	25,460
GBP	456	21,630	103	6,685
EUR	35	1,622	1	65
		<u>\$ 7,430,642</u>		<u>\$ 6,089,285</u>

## 25. PENSION EXPENSE

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 \$515,510 thousand and \$473,266 thousand for the years ended December 31, 2008 and 2007, 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 \$729,727 thousand and \$658,159 thousand for the years ended December 31, 2008 and 2007, respectively.

Information about the defined benefit plan was as follows:

### a. Components of net pension cost

	Years Ended December 31	
	2008	2007
Service cost	\$ 552,704	\$ 511,569
Interest cost	203,799	159,609
Expected return on pension funds	(97,167)	(76,319)
Amortization of net transition obligations	65,146	39,381
Amortization of unrecognized (income) losses	10,697	14,838
Transfer of pension funds	-	9,200
Curtailment or settlement income	(5,452)	(119)
	<u>\$ 729,727</u>	<u>\$ 658,159</u>

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

	December 31	
	2008	2007
Benefit obligation		
Vested benefits obligation	\$ (2,804,995)	\$ (2,684,358)
Non-vested benefits obligation	(2,708,161)	(2,786,661)
Accumulated benefit obligation	(5,513,156)	(5,471,019)
Additional benefits based on future salaries	(2,061,154)	(1,967,396)
Projected benefit obligation	(7,574,310)	(7,438,415)
Fair value of pension funds	3,887,740	3,228,168
Funded status	(3,686,570)	(4,210,247)
Unrecognized net transitional obligations	17,236	47,134
Unrecognized gains or losses	965,198	1,552,697
Unamortized gains or loss	(2,898)	(7,958)
Additional liability	(16,653)	(82,070)
Prepaid pension cost	(115,922)	(108,827)
	<u>\$ (2,839,609)</u>	<u>\$ (2,809,271)</u>
Vested benefits	<u>\$ 3,432,226</u>	<u>\$ 3,064,155</u>

## c. Actuarial assumptions

	December 31	
	2008	2007
Discount rate used in determining present values	2.50~2.75%	2.75%
Future salary increase rate	2.00%~3.75%	2.25%~3.75%
Expected rate of return on plan assets	2.50%~2.75%	2.75%

	Years Ended December 31	
	2008	2007
d. Contributions to the fund	\$ 646,612	\$ 636,639
e. Payments from the fund	\$ 95,349	\$ 83,612

## 26. STOCKHOLDERS' EQUITY

### Common Stock and Preferred Stock

As of December 31, 2008, Taishin Financial Holding's authorized capital was \$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, 2008 were as follows:

## VI. Financial Status

	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 shares of common stock, 300,000 thousand shares of preferred stock - A and 400,000 thousand shares of preferred stock - 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 common shares to acquire all the issued common stocks of Taishin 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 March 22, 2006, Taishin Financial Holding issued the private placement of common stock totaling \$10,000,000 thousand in 555,556 thousand shares at NT\$18 dollars per share. The rights and obligations are the same as those of the common stock outstanding.

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

Taishin Financial Holding's group capital adequacy ratio was 109.40% as of December 31, 2008.

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, 2008, 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
Over 2 years	15~40%	15~40%
Over 3 years	15~40%	30~80%
Over 4 years	15~40%	45~100%
Over 5 years	15~40%	60~100%
Over 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
Over 2 years	20%	20%
Over 3 years	20%	40%
Over 4 years	20%	60%
Over 5 years	20%	80%
Over 6 years	20%	100%

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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
Over 2 years but less than 3 years	50%	50%
Over 3 years but less than 4 years	25%	75%
Over 4 years but less than 5 years	25%	100%

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

	Years Ended December 31			
	2008		2007	
	Unit	Weighted Average Exercise Price (Dollars)	Unit	Weighted Average Exercise Price (Dollars)
<u>Plan of 2007</u>				
Outstanding, beginning balance	146,980	\$ 16.50	150,000	\$ 16.50
Forfeited	2,030	16.50	3,020	16.50
Outstanding, ending balance	144,950	16.50	146,980	16.50
Exercisable, ending balance	-		-	
<u>Plan of 2005</u>				
Outstanding, beginning balance	141,400	22.60	145,010	22.60
Forfeited	2,170	22.60	3,610	22.60
Outstanding, ending balance	139,230	22.60	141,400	22.60
Exercisable, ending balance	55,692		28,280	
<u>Plan of 2004</u>				
Outstanding, beginning balance	63,701	20.60	66,755	20.60
Forfeited	2,047	20.60	3,054	20.60
Outstanding, ending balance	61,654	20.60	63,701	20.60
Exercisable, ending balance	61,654		47,776	

Disclosures of the outstanding units of the stock warrants as of December 31, 2008 were as follows:

	Exercise Price (Dollars)	Outstanding Unit	Expected Weighted Average Outstanding Period (Years)	Weighted Average Exercise Price (Dollars)	Exercisable Unit	Weighted Average Exercise Price (Dollars)
Plan of 2007	\$ 16.50	144,950	8.21	\$ 16.50	-	-
Plan of 2005	22.60	139,230	6.59	22.60	55,692	22.60
Plan of 2004	20.60	61,654	0.63	20.60	61,654	20.60
		345,834				



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, 2008 and the pro forma net income and EPS for the years ended December 31, 2008 and 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	8.21 years	6.59 years	0.63 year

		Years Ended December 31	
		2008	2007 (As Restated)
Net income	As reported	\$ (5,227,592)	\$ 4,552,318
	Pro forma	(5,456,070)	4,248,605
Basic (loss) earnings per share (in dollars)	As reported	(1.01)	0.55
	Pro forma	(1.05)	0.49

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

## Capital Surplus

Taishin Financial Holding's capital surplus as of December 31, 2008 was \$19,071,634 thousand, which included additional paid-in capital of \$850,198 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 annual net income, after used to pay for taxes and offset any accumulated deficits should be appropriated in the following orders:

- (a) Legal reserve and if needed, special reserve;
- (b) Dividends to holders of preferred stock;
- (c) 0.01% of the remainder as bonuses to employees and 2% of the remainder as remuneration to directors and supervisors;
- (d) The remainder, together with the unappropriated retained earnings of previous years, as dividends.

## VI. Financial Status

Taishin Financial Holding's board of directors should prepare a proposal on above item (d) 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 bonus to employees, directors, and supervisors was based on the percentage described above of the net income (net of the bonus to employees, directors, and supervisors) and based on past experiences. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

On June 15, 2007, the stockholders resolved to use capital surplus to offset the net loss of 2006 and not to distribute any dividend.

On June 13, 2008, the stockholders resolved to appropriate the net income of 2007 and to distribute preferred stock dividends of \$2,457,986 thousand; common stock dividends of \$1,027,855 thousand; bonuses to employees of \$7,396 thousand and remunerations to directors and supervisors of \$22,189 thousand. The board of directors had later resolved July 22, 2008 to be the ex-dividend date. If bonuses paid to employees and the remunerations to directors and supervisors had been recognized as compensation expenses in 2007, the pro forma EPS (after tax) would have been \$0.46, the same as the reported basic EPS in 2007.

Information about the bonus to employees and the remuneration to directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

## 27. NET INTEREST INCOME

	Years Ended December 31	
	2008	2007(As Restated)
Interest income		
Loans	\$ 54,793,527	\$ 55,634,137
Due from and call loans to banks	5,820,440	7,501,043
Bonds and securities purchased under resell agreements	274,726	409,896
Investment in marketable securities	7,127,229	7,942,906
Circulation interest of credit card	986,380	1,440,053
Asset based securities	796,617	831,651
Securities financing	1,103,272	1,489,017
Others	2,537,711	2,360,346
	<u>73,439,902</u>	<u>77,609,049</u>
Interest expense		
Deposits	(29,336,846)	(28,270,998)
Due to and call loans from banks and Central Bank	(6,194,817)	(8,162,766)
Bonds and securities sold under repurchase agreements	(1,400,626)	(1,624,243)
Issuance of bonds and securities	(3,727,641)	(3,472,469)
Others	(204,410)	(394,194)
	<u>(40,864,340)</u>	<u>(41,924,670)</u>
	<u>\$ 32,575,562</u>	<u>\$ 35,684,379</u>

## 28. FEE AND COMMISSION INCOME, NET

	Years Ended December 31	
	2008	2007
Fee and commission income		
Fees from import and export	\$ 490,113	\$ 553,658
Remittance fees	523,815	543,552
Interbank fees	641,052	590,384
Loan and guarantees fees	1,273,376	1,217,415
Fees from certification, underwriting and brokerage	3,479,078	5,029,400
Fees from trustee business	3,742,200	4,691,395
Agency fees	1,444,578	1,771,059
Fees from credit card and cash card	2,385,013	2,288,135
Others	1,810,845	2,046,789
	<u>15,790,070</u>	<u>18,731,787</u>
Fee and commission expense		
Interbank fees	(144,599)	(129,992)
Fees from trustee business	(137,190)	(294,593)
Brokerage fees	(247,760)	(322,735)
Marketing fees	(519,382)	(497,622)
Agency fees	(355,558)	(446,170)
Fees from credit card	(167,588)	(182,381)
Others	(1,249,296)	(1,217,778)
	<u>(2,821,373)</u>	<u>(3,091,271)</u>
	<u>\$ 12,968,697</u>	<u>\$ 15,640,516</u>

## 29. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2008 and 2007 were summarized as follows:

	2008	2007
Personnel		
Salary	\$ 15,480,580	\$ 15,424,205
Insurance	915,801	867,608
Pension	1,245,237	1,219,425
Others	470,610	442,135
	<u>\$ 18,112,228</u>	<u>\$ 17,953,373</u>
Depreciation	\$ 1,845,319	\$ 1,881,830
Amortization	883,265	1,108,550
	<u>\$ 2,728,584</u>	<u>\$ 2,990,380</u>

# VI. Financial Status

## 30. INCOME TAX

In 2003, Taishin Financial Holding adopted the linked tax system for tax filing with subsidiaries Taishin Bank, Taishin 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 for the years ended December 31, 2008 and 2007 were as follows:

	2008	2007
Current income tax payable	\$ 991,800	\$ 1,189,404
Deferred income tax (benefit) expense	(905,932)	3,444,912
Taxed separately levied on interest	186,368	222,639
Income tax expense (benefit) - linked tax system	1,683	(1,031)
Investment tax credits	(3,568)	(3,221)
Additional 10% income tax on unappropriated earnings	4,250	16,117
Adjustments for prior years' tax	(37,196)	11,136
Offshore income tax expense	165,662	59,818
Others	8,600	21,677
Income tax expenses	<u>\$ 411,667</u>	<u>\$ 4,961,451</u>

The details of deferred income tax assets were as follows:

	December 31	
	2008	2007
Assets		
Loss carryforwards	\$ 17,723,798	\$ 19,455,830
Investment tax credit	33,361	14,348
Allowance for bad debts in excess of tax limit	5,752,547	4,542,076
Other reserves in excess of tax limit	123,073	120,407
Pension reserves	554,220	541,262
Unrealized loss on financial instruments	490,375	42,333
Unrealized loss on warrants	544,122	
Loss for decline in market value of credit receivable	54,200	49,200
Unrealized loss on investments	402,301	67,500
Unrealized loss on collateral	19,136	57,549
Others	74,022	83,261
Less: allowance	<u>(920,630)</u>	<u>(419,561)</u>
	<u>24,850,525</u>	<u>24,554,205</u>
Liabilities		
Unrealized gains on valuation of derivative instruments	\$ (283,736)	(187,907)
Unrealized exchange gain	(1,549)	(1,044)
Investment income recognized from overseas investment accounted for by the equity method	(119,590)	(140,813)
Goodwill amortization	(274,788)	(256,937)
Others	<u>(2,273)</u>	<u>(4,007)</u>
	<u>(681,936)</u>	<u>(590,708)</u>
Deferred income tax assets, net	<u>\$ 24,168,589</u>	<u>\$ 23,963,497</u>

Consolidated information for loss carryforwards was as follows:

Expiry Year	December 31	
	2008	2007
2013	\$ 1,386	\$ 1,386
2014	5,118	5,118
2015	9,224,250	11,076,073
2016	7,727,030	7,727,030
2017	633,057	646,223
2018	132,957	-
	<u>\$ 17,723,798</u>	<u>\$ 19,455,830</u>

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

	December 31, 2008					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	<u>\$ 266,714</u>	<u>\$ 129,591</u>	<u>\$ 2,837</u>	<u>\$ 8,812</u>	<u>\$ 13,358</u>	<u>\$ 18,462</u>

	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	<u>\$ 523,714</u>	<u>\$ 870,124</u>	<u>\$ 36,241</u>	<u>\$ 2,772</u>	<u>\$ 132,932</u>	<u>\$ 50,224</u>

	December 31, 2008					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	<u>-</u>	<u>-</u>	<u>4.29%</u>	<u>-</u>	<u>0.25%</u>	<u>NA~39.62%</u>

	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	<u>21.90%</u>	<u>33.33%</u>	<u>3.54%</u>	<u>35.98%</u>	<u>1.53%</u>	<u>NA~33.53%</u>

The expected creditable ratio for the 2008 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

## VI. Financial Status

### 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 2006 income tax returns of Taishin Real-Estate, Taishin Insurance Agency and Pay Easy Digital had been examined and cleared by the tax authority. Taishin Insurance Brokers's 2007 income tax return had been examined and cleared by the tax authority.

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 authority 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.

Taishin Securities's 2003 income tax return had been examined and cleared by the tax authority. Taishin 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. Taiwan Futures's 2006 income tax return had been examined and cleared by the tax authority.

Taishin Bills Finance's 2003 income tax return had been examined and cleared by the tax authority.

Taishin AMC's 2003 income tax return had been examined and cleared by the tax authority.

Taishin Marketing's 2003 income tax return had been examined and cleared by the tax authority.

Taishin Venture Capital Investment's 2003 income tax return had been examined and cleared by the tax authority.

The 2006 income tax returns of Chang Hwa Bank, of CHB Life Insurance Agency, and of CHB Insurance Brokerage had been examined and cleared by the tax authority.

Information on unappropriated earnings (accumulated deficits) was as follows:

	December 31, 2008					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Unappropriated earnings generated before December 31, 1997	\$ -	\$ -	\$ 26,098	\$ -	\$ -	\$ -
Unappropriated earnings generated after January 1, 1998	(4,729,617)	(4,098,205)	66,095	(1,115,272)	5,267,456	87,083
	<u>\$ (4,729,617)</u>	<u>\$ (4,098,205)</u>	<u>\$ 92,193</u>	<u>\$ (1,115,272)</u>	<u>\$ 5,267,456</u>	<u>\$ 87,083</u>



	December 31, 2007					
	Taishin Financial Holding	Taishin Bank	Taishin Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Unappropriated earnings generated before December 31, 1997	\$ -	\$ -	\$ 26,098	\$ -	\$ -	\$ -
Unappropriated earnings generated after January 1, 1998	4,587,095	2,709,441	1,868,088	4,648	8,970,178	(12,651)
	<u>\$ 4,587,095</u>	<u>\$ 2,709,441</u>	<u>\$ 1,894,186</u>	<u>\$ 4,648</u>	<u>\$ 8,970,178</u>	<u>\$ (12,651)</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 capital surplus which is originally the un-appropriated earnings generated after January 1, 1998 before the share swap in establishing a financial holding company. As of December 31, 2008, the capital surplus of Taishin Financial Holding mentioned above amounted to \$757,662 thousand.

### 31. EARNINGS PER SHARE

	Year Ended December 31, 2008				
	Amount (Numerator)		Shares in Thousands (Denominator)	Earnings Per Share (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net income (of the parent company's stockholders)	\$(6,549,037)	\$(5,227,592)			
Less: preferred stock dividends	(525,000)	(525,000)			
Basic earnings per share					
Net income of common stockholders	(7,074,037)	(5,752,592)	5,710,300	\$ (1.24)	\$ (1.01)
Dilutive effect of common stocks	-	-	-		
Diluted earnings per share					
Net income of common stockholders and effect of dilutive common stocks	<u>\$(7,074,037)</u>	<u>\$(5,752,592)</u>	<u>5,710,300</u>	<u>\$ (1.24)</u>	<u>\$ (1.01)</u>

	Year Ended December 31, 2007 (As Restated)				
	Amount (Numerator)		Shares in Thousands (Denominator)	Earnings Per Share (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net income (of the parent company's stockholders)	\$ 6,640,955	\$ 4,552,318			
Less: preferred stock dividends	(1,435,000)	(1,435,000)			
Basic loss per share					
Net loss of common stockholders	5,205,955	3,117,318	5,710,300	\$ 0.91	\$ 0.55
Dilutive effect of common stocks	-	-	960		
Diluted loss per share					
Net income of common stockholders and effect of dilutive common stocks	<u>\$ 5,205,955</u>	<u>\$ 3,117,318</u>	<u>5,711,260</u>	<u>\$ 0.91</u>	<u>\$ 0.55</u>

# VI. Financial Status

## 32. 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 president is Taishin Bank's general manager
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. ("Shin Kong Spinning")	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd. ("Shin Kong Fire & Marine Insurance")	Same as above
Shinshen Co., Ltd.	Same as above
Shin Kong Engineering Corp. ("Shin Kong Engineering")	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
Jiouru Co., Ltd. ("Jiouru")	Same as above
Jiouru Investment Co., Ltd. ("Jiouru Investment")	Same as above
Shin Kong Recreation Co., Ltd.	Same as above
Miniatures Museum of Taiwan	Same as above
Chia Hao Investment Co., Ltd. ("Chia Hao Investment")	Same as above
Shin Jui AMC	Wholly owned by Taishin AMC
PayEasy Travel	Wholly owned by PayEasy Digital
Contect Digital Integration	Same as above
Taiwan Securities Investment Advisory	Equity method investee by Taishin Securities
Taishin Investment Trust	Same as above
Taiwan Managed Futures	Wholly owned by Taishin Securities
Tai Chen (BVI)	Wholly owned by Anew Holdings
Taiwan Securities - HK Nominee	Same as above
TSC Capital	Same as above
Dah Chung Bills Finance Corp. ("Dah Chung Bills")	Taishin Bank serves as its corporate 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
Ming Huang International Property Co., Ltd. ("Ming Huang International Property")	Taishin Financial Holding's supervisor
Taishin International Investment Development Co., Ltd. (Taishin International Investment Development)	Same as above
CyberSoft Digital Service Corp. ("CyberSoft Digital Service")	Related party in substance
Taishin Leasing & Financing Co., Ltd. ("Taishin Leasing & Financing")	Taishin International Investment Development Co., Ltd.'s parent company
Peng Cheng Co., Ltd. ("Peng Cheng")	Taishin Financial Holding's director
Anlon Co., Ltd.	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
PChome Online Co., Ltd. ("PChome Online")	Its chairman is PayEasy Digital's chairman
PriceWaterhouse Coopers	Its partner is a relative within the second degree of Chang Hwa Bank's chairman
Individual A	A relative within the second degree of Taishin Financial Holding's chairman
Individual B	Same as above
Individual C	The spouse of Taishin Securities's director
Individual D	The chairman of Taishin Real Estate
Individual E	The manager of Taishin Bank
Individual F	Same as above
Individual G	Same as above
Individual H	Same as above
Individual I	Same as above





Material transactions with related parties were as follows:

Loans to Related Parties	Year Ended December 31, 2008				
	Ending Balance	Highest Amount	Normal Loans	Non- Performing Loans	Collateral
<u>Consumer loans</u>					
226 accounts	\$ 220,499	\$ 382,178	\$ 220,499	\$ -	Land, building, chattels
<u>Self-used residence mortgage loans</u>					
330 accounts	1,158,638	1,359,403	1,158,638	-	Land, building
<u>Other loans</u>					
Jiouru Investment	58,500	58,500	58,500	-	Land, building
Jiouru	65,000	65,000	65,000	-	Land, building
Ming Huang International Property	173,000	173,000	173,000	-	Land, building
Peng Cheng	28,000	92,000	28,000	-	Land, building
Shin Kong Engineering	25,000	72,000	25,000	-	Stocks
Taishin Leasing & Financing	10,000	19,000	10,000	-	Stocks, mutual funds
Individual B	15,410	16,430	15,410	-	Land, building
Individual E	3,220	3,288	3,220	-	Time deposit
Individual A	10,351	10,568	10,351	-	Time deposit
Individual F	1,589	1,589	1,589	-	Certificate deposit
Individual G	1,183	1,576	1,183	-	Certificate deposit
Others	432		432	-	Certificate deposit
	<u>\$ 1,770,822</u>		<u>\$ 1,770,822</u>		

	Year Ended December 31, 2008				
	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	\$ 300,000	\$ 800,000	0.50~0.60	\$ -	Stocks, chattels
PChome Online	180,000	180,000	1.00	-	Certificate deposit

	Year Ended December 31, 2008		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
<u>Deposits from related parties</u>			
Shin Kong Life Insurance	\$ 3,009,823	0.10~2.72	\$ (53,418)
Shin Kong Synthetic Fibers	366,320	0.00~2.19	(708)
Dah Chung Bills	439,515	0.00~2.50	(9,906)
PChome Online	318,997	0.10~2.65	(3,509)
Taishin Bank Employee's Welfare Institution	222,395	0.10~2.28	(4,493)
Shin Kong Fire & Marine Insurance	234,895	0.00~2.72	(2,497)
Dah An Leasing	172,954	0.10~2.05	(626)
Jupiter Venture Capital	113,603	0.10~2.32	(4,476)
Mercury Venture Capital	117,371	0.10~2.32	(6,768)
Taiwan Securities Investment Advisory	166,174	0.10~2.62	(2,323)
Taiwan Managed Futures	157,141	0.10~2.65	(2,875)
Chia Hao Investment	101,777	0.10~2.16	(30)
Others	3,241,259		(60,616)
	<u>\$ 8,662,224</u>		<u>\$ (152,245)</u>

## VI. Financial Status

Loans to Related Parties	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Normal Loans	Non-Performing Loans	Collateral
Consumer loans					
153 accounts	\$ 151,245	\$ 175,347	\$ 151,245	\$ -	Land, building, chattels
Self-used residence mortgage loans					
332 accounts	1,180,770	1,304,309	1,180,770	-	Land, building
Other loans					
Jiouru	65,000	65,000	65,000	-	Land, building
Peng Cheng	88,000	104,000	88,000	-	Land, building
Fu Mei Co., Ltd.	200,000	225,000	200,000	-	Land, building
Shin Kong Engineering	72,000	110,000	72,000	-	Stocks
Taishin Leasing & Financing	15,000	193,000	15,000	-	Stocks, mutual funds
Taishin International Investment Development	25,000	301,000	25,000	-	Bonds, financial debentures
Ming Huang International Property	170,000	170,000	170,000	-	Land, building
Jiouru Investment	58,500	117,000	58,500	-	Land, building
Shang Ho Hsing	71,000	90,000	71,000	-	Credit
Individual B	16,430	17,195	16,430	-	Land, building
Individual E	3,179	9,739	3,179	-	Time deposit
Individual A	10,220	20,869	10,220	-	Time deposit
Individual D	2,500	4,200	2,500	-	Stocks
Individual H	1,099	1,099	1,099	-	Certificate
Individual I	1,406	1,765	1,406	-	Certificate
Individual C	189,300	331,830	189,300	-	Land
Others	3,393		3,393	-	Credit, time deposit, certificate deposit, stocks
	<u>\$ 2,324,042</u>		<u>\$ 2,324,042</u>		

	Year Ended December 31, 2007				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
Guarantee for loans of related parties					
Shin Kong Synthetic Fibers	\$ 800,202	\$ 1,308,260	0.00~0.60	\$ -	Stocks, chattels

	Year Ended December 31, 2007		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
Deposits from related parties			
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	2,682,229		(56,287)
	<u>\$ 7,051,396</u>		<u>\$ (90,301)</u>

As of December 31, 2008 and 2007, the balance of deposits from related parties of Chang Hwa Bank amounted to \$1,082,444 thousand and \$1,074,833 thousand, respectively, with the interest rates ranged from 0.00% to 13.00%.

Loans to related parties of Chang Hwa Bank were as follows:

Loans to Related Parties	Year Ended December 31, 2008					Collateral
	Ending Balance	Highest Amount	Normal Loans	Non- Performing Loans		
<u>Consumer loans</u>						
50 accounts	\$ 43,881	\$ 59,689	\$ 43,881	\$ -		Credit, real estate
<u>Self-used residence mortgage loans</u>						
91 accounts	317,709	326,140	317,709	-		Real estate
<u>Other loans</u>						
Anlon Co., Ltd.	20,000	20,000	20,000	-		Real estate

Loans to Related Parties	Year Ended December 31, 2007					Collateral
	Ending Balance	Highest Amount	Normal Loans	Non- Performing Loans		
<u>Consumer loans</u>						
29 accounts	\$ 32,553	\$ 33,158	\$ 32,553	\$ -		Credit, real estate
<u>Self-used residence mortgage loans</u>						
85 accounts	319,536	325,521	319,536	-		Real estate

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, 2008					
	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Dah Chung Bills	\$ 8,651,999	\$ 8,971,108	-	-	\$ -	-

Related Parties	Year Ended December 31, 2007					
	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Ending Balance	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	-	-
Dah Chung Bills	14,529,150	14,830,116	-	-	-	-
	<u>\$ 14,529,150</u>	<u>\$ 14,830,116</u>	<u>\$ 3,999,658</u>		<u>\$ -</u>	

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

# VI. Financial Status

## Derivatives

Related Party	Year Ended December 31, 2008					
	Derivative Contracts	Period	Nominal Principal Amount	Valuation Gain (Loss)	Account	Balance
Shin Kong Bank	Interest rate swaps	2003.12.10~2009.02.16	\$ 1,300,000	\$(68,136)	Financial assets at FVTPL	\$ 2,933
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.18	1,950,000	(11,599)	Financial assets at FVTPL	5,251
	FX swaps	2007.02.09~2009.08.19	7,557,800	2,741	Financial assets at FVTPL	32,929
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	3,822	Financial liabilities at FVTPL	(272)
Dah Chung Bills	Interest rate swaps	2005.01.05~2013.04.22	2,400,000	(26,366)	Financial liabilities at FVTPL	(17,352)

Related Party	Year Ended December 31, 2007					
	Derivative Contracts	Period	Nominal Principal Amount	Valuation Gain (Loss)	Account	Balance
Shin Kong Synthetic Fibers	Interest rate	2004.04.07~2009.04.07	\$ 500,000	\$ (5,625)	Financial liabilities at FVTPL	\$ (4,093)
	FX forward	2007.12.07~2008.01.22	291,987	1,031	Financial assets at FVTPL	979
Shin Kong Bank	Interest rate	2003.12.10~2009.02.16	5,100,000	(85,466)	Financial assets at FVTPL	70,072
Shin Kong Life Insurance	Interest rate	2005.03.02~2015.03.25	1,950,000	3,576	Financial assets at FVTPL	16,850
	FX swaps	2007.02.09~2008.09.08	5,515,310	(92,298)	Financial assets at FVTPL	24,724
Dah Chung Bills	Interest rate	2005.01.05~2012.01.17	2,100,000	7,058	Financial assets at FVTPL	9,014

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

## Call Loans to Banks and Call Loans from Banks

Related Party	Year Ended December 31, 2008				
	Item	Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Shin Kong Bank	Call loans from banks	\$ -	\$ 300,000	1.69~2.06	\$ 2,014

Related Party	Year Ended December 31, 2007				
	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	Call loans from banks	-	500,000	1.69~3.50	(2,468)



### Other Material Transactions

	Years Ended December 31			
	2008		2007	
	Item	Amount	Item	Amount
CyberSoft Digital Service	Operating expense	\$ 374,702	Operating expense	\$ 380,385

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

### Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2008	2007
Salaries	\$ 130,709	\$ 151,813
Incentives	85,881	105,817
Bonus	4,609	13,680
	<u>\$ 221,199</u>	<u>\$ 271,310</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008. Please refer to the 2007 annual report for the relevant information.

## VI. Financial Status

Over \$100 million transactions with related parties of subsidiaries were as follows:

Taishin Bank	
Name	Relationship
Taishin Financial Holding	Parent company
Taishin Securities	Wholly owned by the same parent company
Taishin Bills Finance	Same as above
Taishin AMC	Same as above
Taishin Marketing	Same as above
Taishin Venture Capital	Same as above
Chang Hwa Bank	Under control by the same parent company
Dah An Leasing	Equity-method investee
Taiwan Futures	Same as above
Taishin Insurance Agency	Same as above
Taishin Real-Estate	Same as above
An Hsin Real-Estate	Same as above
PayEasy Digital	Same as above
Taishin Bank Employee's Welfare Institution	Its president is Taishin Bank's general manager
Shin Kong Recreation Co., Ltd.	Its chairman is a relative within the first degree of Taishin Bank's chairman
Jupiter Venture Capital	Its chairman is a relative within the second degree of Taishin Bank's chairman
Mercury Venture Capital	Same as above
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
Shin Kong Engineering	Same as above
Jiouru	Same as above
Jiouru Investment	Same as above
Chia Hao Investment	Same as above
Shin Jui AMC	Wholly owned by Taishin AMC
PayEasy Travel	Wholly owned by PayEasy Digital
Contect Digital Integration	Wholly owned by PayEasy Digital
Taishin Insurance Broker	Wholly owned by Taishin Insurance Agency
Anew Holdings	Wholly owned by Taishin Securities
Taiwan Managed Futures	Same as above
Taiwan Securities Investment Advisory	The equity-method investee of Taishin Securities
CHB Life Insurance Agency	Wholly owned by Chang Hwa Bank
CHB Insurance Brokerage	Same as above
Tai Chen (BVI)	Wholly owned by Anew Holdings
Taiwan Securities - HK	Same as above
Taiwan Securities -HK Nominee	Same as above
TSC Capital	Same as above
Shin Kong Bank	Wholly owned by Shin Kong Financial Holding
Dah Chung Bills	Taishin Bank serves as its corporate director
Ming Huang International Property	Taishin Financial Holding's supervisor
Taishin International Investment Development	Taishin Financial Holding's supervisor
CyberSoft Digital Service	Related party in substance
Taishin Leasing & Financing	Taishin International Investment Development's parent company
Peng Cheng	Taishin Financial Holding's director
PChome Online	Its chairman is PayEasy Digital's chairman
Individual A	A relative within the second degree of Taishin Bank's chairman
Individual B	Same as above
Individual C	The spouse of the director of Taishin Securities
Individual D	The chairman of Taishin Real Estate
Individual E	The manager of Taishin Bank
Individual F	Same as above
Individual G	Same as above
Individual H	Same as above
Individual I	Same as above



Material transactions with related parties were as follows:

### Loans, Deposits and Guaranteed Loans

Loans to Related Parties	Year Ended December 31, 2008				
	Ending Balance	Highest Amount	Normal Loans	Non- Performing Loans	Collateral
Consumer loans					
226 accounts	\$ 220,499	\$ 382,178	\$ 220,499	\$ -	Land, building, chattels
Self-used residence mortgage loans					
330 accounts	1,158,638	1,359,403	1,158,638	-	Land, building
Other loans					
Jiouru Investment	58,500	58,500	58,500	-	Land, building
Jiouru	65,000	65,000	65,000	-	Land, building
Ming Huang International Property	173,000	173,000	173,000	-	Land, building
Peng Cheng	28,000	92,000	28,000	-	Land, building
Shin Kong Engineering	25,000	72,000	25,000	-	Stocks
Taishin Leasing & Financing	10,000	19,000	10,000	-	Socks, mutual funds
Individual B	15,410	16,430	15,410	-	Land, building
Individual E	3,220	3,288	3,220	-	Time deposit
Individual A	10,351	10,568	10,351	-	Time deposit
Individual F	1,589	1,589	1,589	-	Certificate deposit
Individual G	1,183	1,576	1,183	-	Certificate deposit
Others	432		432	-	Certificate deposit
	<u>\$ 1,770,822</u>		<u>\$ 1,770,822</u>		

	Year Ended December 31, 2008				
	Ending Balance	Highest Amount	Interest Rate (Per Annum %)	Reserve for Guarantee Liabilities	Collateral
Guarantee for loans of related parties					
Shin Kong Synthetic Fibers	\$ 300,000	\$ 800,000	0.50~0.60	\$ -	Stocks, chattels
PChome Online	180,000	180,000	1.00	-	Certificate deposit

	Year Ended December 31, 2008		
	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
Deposits from related parties			
Shin Kong Life Insurance	\$ 3,009,823	0.10~2.72	\$ (53,418)
Shin Kong Synthetic Fibers	366,320	0.00~2.19	(708)
Dah Chung Bills	439,515	0.00~2.50	(9,906)
PChome Online	318,997	0.10~2.65	(3,509)
Taishin Insurance Agency	370,901	0.00~2.45	(3,913)
Taishin Financial Holding	12,387,621	0.10~2.15	(231,731)
Taishin Securities	2,622,883	0.00~2.70	(11,641)
Taiwan Futures	513,435	0.00~2.72	(47,463)
Taishin Bills Finance	935,354	0.00~2.58	(11,556)
Taishin Bank Employee's Welfare Institution	222,395	0.10~2.28	(4,493)
Shin Kong Fire & Marine Insurance	234,895	0.00~2.72	(2,497)
Dah An Leasing	172,954	0.10~2.05	(626)
Jupiter Venture Capital	113,603	0.10~2.32	(4,476)
Mercury Venture Capital	117,371	0.10~2.32	(6,768)
Taiwan Securities Investment Advisory	166,174	0.10~2.62	(2,323)
Taiwan Managed Futures	157,141	0.10~2.65	(2,875)
Chia Hao Investment	101,777	0.10~2.16	(30)
PayEasy Digital	262,456	0.00~2.72	(5,268)
Others	3,557,894		(74,789)
	<u>\$ 26,071,509</u>		<u>\$ (477,990)</u>

## VI. Financial Status

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-used residence mortgage loans</u>						
332 accounts	1,180,770	1,304,309	1,180,770	-	Land, building	
<u>Other loans</u>						
Jiouru	65,000	65,000	65,000	-	Land, building	
Peng Cheng	88,000	104,000	88,000	-	Land, building	
Fu Mei Co., Ltd.	200,000	225,000	200,000	-	Land, building	
Taishin Leasing & Financing	15,000	193,000	15,000	-	Stocks, mutual funds	
Taishin International Investment Development	25,000	301,000	25,000	-	Bond, financial debentures	
Ming Huang International Property	170,000	170,000	170,000	-	Land, building	
Jiouru Investment	58,500	117,000	58,500	-	Land, building	
Shin Kong Engineering	72,000	110,000	72,000	-	Stocks	
Shang Ho Hsing Co., Ltd.	71,000	90,000	71,000	-	Credit	
Individual B	16,430	17,195	16,430	-	Land, building	
Individual C	189,300	331,830	189,300	-	Land	
Individual D	2,500	4,200	2,500	-	Stocks	
Individual H	1,099	1,099	1,099	-	Certificate deposit	
Individual I	1,406	1,765	1,406	-	Certificate deposit	
Individual E	3,179	9,739	3,179	-	Time deposit	
Individual A	10,220	20,869	10,220	-	Time deposit	
Others	3,393		3,393	-	Credit, time deposit, certificate deposit, stocks	
	\$ 2,324,042		\$ 2,324,042			

	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	\$ -	Stocks, chattels





Year Ended December 31, 2007					
	Ending Balance		Interest Rate (Per Annum %)		Interest Expense
<u>Deposits from related parties</u>					
Taishin Financial Holding	\$ 13,026,747		0.00~2.02	\$	(216,871)
Shin Kong Life Insurance	1,981,394		0.15~2.51		(2,850)
Taishin Securities	875,911		0.00~2.62		(8,013)
Taishin Insurance Agency	1,159,471		0.00~2.45		(5,596)
Jupiter Venture Capital	390,637		0.15~2.25		(5,988)
PayEasy Digital	445,921		0.00~2.46		(4,646)
Mercury Venture Capital	408,934		0.15~2.25		(5,875)
Taiwan Futures	319,923		0.00~2.53		(23,532)
Dah Chung Bills	420,850		0.00~2.45		(5,557)
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 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)
Taishin International Finance	228,267		0.10~4.90		(6,771)
Others	2,859,147				(59,229)
	<u>\$ 24,457,332</u>			<u>\$</u>	<u>(367,153)</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*

Year Ended December 31, 2008					
Related Party	Item	Balance	Highest Amount	Interest Rate %	Interest Revenue (Expense)
Taishin Bills Finance	Call loans to banks	\$ 1,215,000	\$ 2,820,000	0.60~2.08	\$ 3,705
	Call loans from banks	-	500,000	1.40~2.02	(269)
Chang Hwa Bank	Call loans to banks	-	2,920,080	2.04~2.10	1,075
	Call loans from banks	-	1,642,600	2.00~2.63	(1,432)
Year Ended December 31, 2007					
Related Party	Item	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
	Call loans from banks	-	2,622,150	1.92~5.00	(1,737)
Dahl Chung Bills	Call loans to banks	-	200,000	1.98	11

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

## VI. Financial Status

### Trading Securities

Related party	Year Ended December 31, 2008					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bills Finance	\$ 3,433,000	\$ 3,262,366	\$ -	-	\$ -	-
Chang Hwa Bank	4,682,355	4,496,300	-	-	-	-
Dah Chung Bills	8,651,999	8,971,108	-	-	-	-
Taishin Securities	35,875,924	35,624,456	313,814	(8.20)~2.01	-	-
Taishin Financial Holding	-	-	547,138	0.40~1.94	-	-
	<u>\$ 52,643,278</u>	<u>\$ 52,354,230</u>	<u>\$ 860,952</u>		<u>\$ -</u>	

Related party	Year Ended December 31, 2007					
	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Agreements		Resell Agreements	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bills Finance	\$ 12,150,879	\$ 7,056,162	\$ -	-	\$ -	-
Shin Kong Life Insurance	-	-	3,899,515	1.20~3.00	-	-
Taishin Securities	46,261,904	43,126,114	-	-	-	-
Shin Kong Financial Holding	-	-	100,143	1.67~2.60	-	-
Taishin Financial Holding	-	-	1,142,779	1.62~2.55	-	-
Chang Hwa Bank	2,524,359	3,553,666	-	-	-	-
Dah Chung Bills	14,529,150	14,830,116	-	-	-	-
	<u>\$ 75,466,292</u>	<u>\$ 68,566,058</u>	<u>\$ 5,142,437</u>		<u>\$ -</u>	

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Derivatives

Related Party	Year Ended December 31, 2008					
	Derivative Contracts	Period	Nominal Principal Amount	Valuation Gain (Loss)	Account	Balance
Shin Kong Bank	Interest rate swaps	2003.12.10~2009.02.16	\$1,300,000	\$ (68,136)	Financial assets at FVTPL	\$ 2,933
Taishin Financial Holding	Interest rate swaps	2003.12.12~2010.12.12	250,000	(5,980)	Financial liabilities at FVTPL	(5,559)
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.18	1,950,000	(11,599)	Financial assets at FVTPL	5,251
	FX swaps	2007.02.09~2009.08.19	7,557,800	2,741	Financial assets at FVTPL	32,929
Shin Kong Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	3,822	Financial liabilities at FVTPL	(272)
Dah Chung Bills	Interest rate swaps	2005.01.05~2013.04.22	2,400,000	(26,366)	Financial liabilities at FVTPL	(17,352)
Taishin Bills Finance	Interest rate swaps	2007.03.19~2013.05.16	3,500,000	73,176	Financial assets at FVTPL	68,903
Taishin Securities	Interest rate swaps	2007.03.19~2012.06.14	600,000	703	Financial liabilities at FVTPL	(5,478)



Related Party	Derivative Contracts	Year Ended December 31, 2007				
		Period	Nominal Principal Amount	Valuation 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 Synthetic Fibers	Interest rate swaps	2004.04.07~2009.04.07	500,000	(5,625)	Financial liabilities at FVTPL	(4,093)
	FX forward	2007.12.07~2008.01.22	291,987	1,031	Financial assets at FVTPL	979
Shin Kong Bank	Interest rate swaps	2003.12.10~2009.02.16	5,100,000	(85,466)	Financial assets at FVTPL	70,072
Shin Kong Life Insurance	Interest rate swaps	2005.03.02~2015.03.25	1,950,000	3,576	Financial assets at FVTPL	16,850
	FX swaps	2007.02.09~2008.09.08	5,515,310	(92,298)	Financial assets at FVTPL	24,724
Taishin Bills Finance	Interest rate swaps	2007.04.16~2012.06.15	3,200,000	(5,405)	Financial liabilities at FVTPL	(4,273)
Taishin Securities	Interest rate swaps	2005.03.21~2012.06.14	600,000	(6,181)	Financial liabilities at FVTPL	(6,181)
Dah Chung Bills	Interest rate swaps	2005.01.05~2012.01.17	2,100,000	7,058	Financial assets at FVTPL	9,014
Taishin Securities	FX swaps	2007.12.17~2008.01.09	481,259	(112)	Financial assets at FVTPL	123

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Other Material Transactions

	Years Ended December 31			
	2008		2007	
	Item	Amount	Item	Amount
Taishin Insurance Agency	Commission income	\$ 499,137	Commission income	\$ 587,779
CyberSoft Digital Service	Operating expense	374,702	Operating expense	380,385

The above related party transactions are made at arm's length in compliance with Taishin Bank's policies.

### Compensation of Directors, supervisors and Management Personnel

	Years Ended December 31	
	2008	2007
Salaries	\$ 110,003	\$ 102,473
Incentives	84,136	82,753
	<u>\$ 194,139</u>	<u>\$ 185,226</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008. Please refer to Taishin Bank's 2007 annual report for the relevant information.

## VI. Financial Status

### Chang Hwa Bank

Names and relationships of related parties are as follows:

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
Taishin Financial Holding	The corporate director and supervisor of Chang Hwa Bank
Taishin Bank	The subsidiary of Taishin Financial Holding
Taishin Securities	Same as above
Shin Kong Life Insurance	Its chairman is a relative within the second degree of Taishin Financial Holding's chairman
Shin Kong Synthetic Fibers	Same as above
Shin Kong Fire & Marine Insurance	Same as above
Shin Kong Wu Ho-Su Memorial Hospital	Same as above
Anlon Co., Ltd.	Same as above
PriceWaterhouse Coopers	Its partner is the first immediate family of Chang Hwa Bank's chairman
An Hsin Real-Estate	The company is the equity method investee of Taishin Bank
Dah Chung Bills	Taishin Bank serves as its corporate director
Others	Related party in substance

Material transactions with related parties were as follows:

### Deposits

Item	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
The balance on December 31, 2008	\$ 1,145,391	0.10	0~13
The balance on December 31, 2007	1,110,196	0.11	0~13

Chang Hwa Bank provides interest rate at 13% per annum to the board of directors, supervisors, and managers of the above affiliates 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, 2008	\$ 381,590	0.04	1.61~7.69
The balance on December 31, 2007	352,089	0.04	2.00~8.03

Loans to related parties of Chang Hwa Bank are as follows:

	Year Ended December 31, 2008					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	The Difference in Terms Between Related Parties and Non-related Parties
<u>Consumer loans</u>						
50 accounts	\$ 43,881	\$ 59,689	\$ 43,881	\$ -	Credit and real estate	None
<u>Self-use residential mortgage loans</u>						
91 accounts	317,709	326,140	317,709	-	Real estate	None
<u>Others</u>						
Anlon Co., Ltd.	20,000	20,000	20,000	-	Real estate	None

	Year Ended December 31, 2007					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	The Difference in Terms Between Related Parties and Non-related Parties
<u>Consumer loans</u>						
29 accounts	\$32,553	\$33,158	\$32,553	\$ -	Credit and real estate	None
<u>Self-use residential mortgage loans</u>						
85 accounts	319,536	325,521	319,536	-	Real estate	None

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, respectively. For the years ended December 31, 2008 and 2007, to the above natural persons such as the board of directors, supervisors, and managers. The rest is the same as regular loan borrowers.

### *Due to Other Banks*

Period	Related Party	Branch	Highest Amount (In Thousands)	Ending Balance (In Thousands)	Percentage of Loans (%)
Year ended December 31, 2008	Taishin Bank	N.Y. Office	US\$154	US\$21	-
Year ended December 31, 2007	Taishin Bank	N.Y. Office	US\$80	US\$68	-

## VI. Financial Status

### *Call Loans to Banks and Call Loans from Banks*

The details of Chang Hwa Bank call loans from banks for the years ended December 31, 2008 and 2007 were as follows:

Year	Related Parties	Branch	Highest Balance (In Thousands)	Ending Balance	Loans Limited (In Thousands)	Interest Rate %	Interest Expense (In Thousands)
2008	Taishin Bank	Head office	NT\$ 2,000,000	\$ -	According to counterparts	2.04~2.10	NT\$ 1,072
2008	Taishin Bank	London branch	US\$ 28,000	\$ -	According to counterparts	0.12	-
2007	Taishin Bank	Head office	NT\$ 2,000,000	\$ -	According to counterparts	1.97~2.04	NT\$ 1,414

The details of Chang Hwa Bank call loans to banks for the years ended December 31, 2008 and 2007 were as follows:

Year	Related Parties	Branch	Highest Balance (In Thousands)	Ending Balance	Loans Limited (In Thousands)	Interest Rate %	Interest Expense (In Thousands)
2008	Taishin Bank	Head office	NT\$ 1,000,000	\$ -	NT\$ 1,000,000	2.00~2.08	NT\$ 83
		OBU	US\$ 20,000	\$ -	US\$60,000 over night and 180 days for US\$20,000	2.54~2.63	US\$ 42
2007	Taishin Bank	Head office	NT\$ 1,000,000	\$ -	NT\$ 2,000,000	1.92~5.00	NT\$ 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	NT\$ 1,000,000	\$ -	NT\$ 1,500,000	2.9~3.8	NT\$ 813

The above transactions were approved by the Bank's general manager. Terms were 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 \$323,000 thousand and \$50,500 thousand for the year ended December 31, 2008, and of \$234,190 thousand and \$41,940 thousand for the year ended December 31, 2007. Chang Hwa Bank also undertook Repurchase Agreement on Bond with CHB Life Insurance Agency and CHB Insurance Brokerage. The ending balance was \$112,931 thousand and \$167,777 thousand as of December 31, 2008 and 2007, respectively. Chang Hwa Bank also recognized interest expense of \$2,617 thousand and \$2,011 thousand for the years ended December 31, 2008 and 2007, respectively.



## Compensation of Directors, supervisors and Management Personnel

	Years Ended December 31	
	2008	2007
Salaries	\$ 42,214	\$ 49,200
Incentives	8,794	13,818
Bonus	37,868	54,271
	<u>\$ 88,876</u>	<u>\$ 117,289</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008. Please refer to Chang Hwa Bank's 2007 annual report for the relevant information.

## Taishin Securities

Names and relationships of related parties were 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 Taishin Securities
Taiwan Securities Investment Advisory	92% owned by Taishin Securities
Taishin Investment Trust	45% owned by Taishin Securities
Taiwan Securities - HK	100% indirectly owned by Taishin Securities
Shin Kong Life Insurance	Related party in substance
Shin Kong Spinning	Same as above
Taishin Insurance Agency	Same as above
Taishin Insurance Brokerage	Same as above
Chang Hwa Bank	Same as above
CyberSoft Digital Service	Same as above
PayEasy Digital	Same as above

## Transactions with Related Parties

Item	Related Party	Years Ended December 31			
		2008		2007	
		Amount	Percentage of Item (%)	Amount	Percentage of Item (%)
Cash and cash equivalents					
Bank deposits	Taishin Bank	\$ 2,052,967	14	\$ 404,537	73
Cash equivalents	Taishin Bills Finance	239,489	6	-	-
Bonds and securities purchased under resell agreement	Taishin Bank	313,814	13	-	-
Operating deposits	Taishin Bank	536,000	52	325,000	32
Other assets - other clearing specific account	Taiwan Securities - HK	455,196	88	383,053	90
Client's position - debit					
Bank settlement account	Taishin Bank	16,112	80	109,035	87

# VI. Financial Status

## Material Transactions with Related Parties

Item	Related Party	Years Ended December 31			
		2008		2007	
		Amount	Percentage of Item (%)	Amount	Percentage of Item (%)
Future Commission income	Taiwan Futures	\$ 170,716	100	\$ 136,396	100

## Taishin Bills Finance

Names and relationships of related parties were as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Securities	Same as above
Chang Hwa Bank	Under control by the same parent company
Shin Kong Bank	Wholly owned by Shin Kong Financial Holding

Material transactions with related parties were as follows:

## Loans

Loans between Taishin Bills Finance and related parties for the years ended December 31, 2008 and 2007 were as follows:

	Related Party	2008			
		Ending Balance	Highest Amount	Interest Rate (%)	Interest Expense
Call loans to banks	Taishin Bank	\$ -	\$ 500,000	1.40~2.02	\$ 269
Call loans from banks	Taishin Bank	1,215,000	2,820,000	0.60~2.08	(3,705)
Call loans from banks	Shin Kong Bank	-	300,000	1.69~2.06	2,014

	Related Party	2007			
		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)
Borrowing from banks and Central Bank	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)

Taishin Bills Finance pledged its time deposits of \$500,000 thousand and \$1,200,000 thousand in Taishin Bank as collaterals of financing for the years ended December 31, 2008 and 2007.





## Deposits

Taishin Bills Finance deposits to related parties for the years ended December 31, 2008 and 2007 were as follows:

	Related Party	2008		2007	
		Amount	Rate (%)	Amount	Rate (%)
Time deposits	Taishin Bank	\$ 500,000	2.42~2.58	\$ -	-
Time deposits	Shin Kong Bank	-	-	100,000	1.65~2.45

Interest income from Taishin Bank for the years ended December 31, 2008 and 2007 was \$10,268 thousand and \$11 thousand, respectively.

Interest income from Shin Kong Bank for the years ended December 31, 2008 and 2007 was \$6,990 thousand and \$6,680 thousand, respectively.

## Trading Securities

Year Ended December 31, 2008						
Related Party	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank	\$ 9,502,366	\$ 3,433,000	\$ -	-	\$ -	-
Taishin Securities	6,525,557	7,125,513	239,489	-	-	-
	<u>\$ 16,027,923</u>	<u>\$ 10,558,513</u>	<u>\$ 239,489</u>		<u>\$ -</u>	

Year Ended December 31, 2007						
Related Party	Purchase		Repurchase Agreements		Resell Agreements	
	Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank	\$ 7,056,162	\$ 12,150,879	\$ -	-	\$ -	-
Taishin Securities	14,453,514	14,777,996	-	-	-	-
	<u>\$ 21,509,676</u>	<u>\$ 26,928,875</u>	<u>\$ -</u>		<u>\$ -</u>	

## Financial Assets at Fair Value through Profit or Loss

Account	Related Party	Item	December 31			
			2008		2007	
			Nominal	Cost	Nominal	Cost
Financial assets at FVTPL	Taishin Bank	Negotiable certificate deposit	\$ 432,200	\$ 432,199	\$ -	\$ -

All transactions with related parties are made under arm's length terms, which are consistent with normal policies.

## VI. Financial Status

### *Compensation of Directors, supervisors and Management Personnel*

	Years Ended December 31	
	2008	2007
Salaries	\$ 18,935	\$ 18,998
Incentives	8,273	11,916
	<u>\$ 27,208</u>	<u>\$ 30,914</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008.

### **Taishin AMC**

Names and relationships of related parties were as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Real-Estate	Equity-method investee

Material transactions with related parties were as follows:

### *Credit Receivable*

In July 2006, Taishin AMC bought non-performing loans that resulted from cash card, credit card and small consumer loans from Taishin Bank for \$546,697 thousand with book value of \$9,494,153 thousand. According to 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 non-performing loans that resulted from cash card, credit card and small consumer loans from Taishin Bank for \$158,000 thousand with book value of \$5,490,584 thousand. According to 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, 2008 and 2007 were \$136,903 thousand and \$407,055 thousand, respectively. The credit receivables written-off were \$393,443 thousand and \$715,049 thousand for years ended December 31, 2008 and 2007, respectively.



### a. Transferring ownerships of loans

	Year Ended December 31, 2008			
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$ 18,203,840	\$ -	\$ (393,443)	\$ 17,810,397

	Year Ended December 31, 2007			
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$ 18,918,889	\$ -	\$ (715,049)	\$ 18,203,840

### b. Credit receivable, net

	Year Ended December 31, 2008				
	Beginning Balance	Purchased	Collected	Bad Debt (Loss) Reverse	Ending Balance
Credit receivable	\$ 366,762	\$ -	\$ (136,903)	\$ -	\$ 229,859
Allowance for bad debt	(196,800)	-	-	(20,000)	(216,800)
Credit receivable, net	\$ 169,962	\$ -	\$ (136,903)	\$ (20,000)	\$ 13,059

	Year Ended December 31, 2007				
	Beginning Balance	Purchased	Collected	Bad Debt (Loss) Reverse	Ending Balance
Credit receivable	\$ 773,817	\$ -	\$ (407,055)	\$ -	\$ 366,762
Allowance for bad debt	(206,000)	-	-	9,200	(196,800)
Credit receivable, net	\$ 567,817	\$ -	\$ (407,055)	\$ 9,200	\$ 169,962

## Taishin Marketing

Names and relationships of related parties were 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 were as follows:

Name	Relationship
Taishin Bank	Wholly owned by the same parent company

# VI. Financial Status

## 33. PLEDGED ASSETS

Pledged Assets	Description	December 31	
		2008	2007
Refundable deposits	Cash and certificates of time deposits	\$ 12,523,179	\$ 16,140,469
Operating deposits	Cash	723,726	838,554
Settlement funds	Cash	424,700	448,799
Financial assets at FVTPL	Bonds	590,689	507,988
Available-for-sale financial assets	Bonds	1,986,990	1,445,375
Held-to-maturity financial assets	Certificates of time deposits and bonds	9,064,901	9,137,180
Property and equipment	Land and buildings	2,136,809	2,153,975
Rental and idle assets	Land and buildings	360,414	367,980

## 34. 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, 2008 and 2007:

	2008	2007
Guarantees	\$ 62,750,271	\$ 75,093,664
Letters of credit	24,012,954	38,733,481
Trust liabilities	431,813,163	513,937,843
Unpaid equipment purchase contracts	1,062,942	852,018
Unused loan commitments (excluding credit card)	267,024,809	215,077,781
Unused loan commitments (credit card only)	384,964,942	384,398,039

Taishin Bank and Chang Hwa Bank entered into operating leases for their domestic branches, and main agreements of the contracts were as follows:

- The lease period ranges from one to ten years. Rental payments are made annually.
- As of December 31, 2008, the estimated future lease payments under the lease contracts were as follows:

Period	Amount
2009	\$ 841,008
2010	655,544
2011	405,681
2012	249,160
2013	108,119

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.

Taishin Financial Holding has already appointed Lee and Li Attorney-at-Law help Taishin Bank's customers to declare the legal right to Lehman Brother about the loss of investment in Lehman Brother's securities. The related law service charge will be paid by Taishin Bank. However, this case is a worldwide affair, and it currently is on initial stage. Thus, Taishin Bank can't reasonably estimate related litigation fee.

## 35.DISCLOSURES OF FINANCIAL INSTRUMENTS INFORMATION

### Information of Fair Value

	December 31, 2008	
	Carrying Value	Fair Value
Financial assets		
Cash and cash equivalents	\$ 40,473,339	\$ 40,473,339
Due from Central Bank and call loans to banks	217,194,440	217,194,440
Financial assets at FVTPL	86,699,629	86,699,629
Bonds and securities purchased under resell agreements	6,464,695	6,464,695
Receivables	104,909,292	104,909,292
Loans	1,491,834,854	1,491,834,854
Available-for-sale financial assets	70,363,526	70,363,526
Held-to-maturity financial assets	182,357,996	181,847,439
Hedging derivative financial instruments	221,161	221,161
Other miscellaneous financial assets	24,061,693	23,051,988
Financial liabilities		
Due to banks and Central Bank	183,388,667	183,388,667
Commercial paper payable	499,710	499,710
Financial liabilities at FVTPL	39,757,245	39,757,245
Bonds and securities sold under repurchase agreements	60,543,383	60,543,383
Payables	56,179,116	56,179,116
Deposits	1,731,784,195	1,731,784,195
Bonds payable	112,404,780	113,995,494
Other financial liabilities	671,038	671,038

## VI. Financial Status

	December 31, 2007 (As Restated)	
	Carrying Value	Fair Value
Financial assets		
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	81,135,486	81,135,486
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	9,340,338
Financial liabilities		
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	18,391,519	18,391,519
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	107,498,220	107,722,143
Other borrowings	5,530,000	5,530,000
Other financial liabilities	525,226	525,226

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, 2008 and 2007:

- (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 without active market are based on their transaction prices or 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 under 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 estimated based on quoted market prices or by using valuation techniques were as follows:

	December 31, 2008	
	Quoted Market Prices	Valuation Techniques
Financial assets		
Financial assets at FVTPL	\$ 32,460,291	\$ 54,239,338
Available-for-sale financial assets	40,761,810	29,601,716
Held-to-maturity financial assets	4,062,132	177,785,307
Financial liabilities		
Financial liabilities at FVTPL	307,378	39,449,867

	December 31, 2007 (As Restated)	
	Quoted Market Prices	Valuation Techniques
Financial assets		
Financial assets at FVTPL	\$ 47,106,204	\$ 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	175,579	18,215,940

## VI. Financial Status

Valuation (losses) gains arising from changes in fair value of financial instruments determined using quoted market prices or valuation techniques were \$(2,389,768) thousand and \$452,730 thousand for the year ended December 31, 2008, respectively. Valuation gains arising from changes in fair value of financial instruments determined using quoted market prices or valuation techniques were \$50,991 thousand and \$357,616 thousand for the year ended December 31, 2007, respectively.

As of December 31, 2008 and 2007, the interest income and interest expense associated with financial assets (liabilities) other than those at FVTPL were as follows:

	Years Ended December 31	
	2008	2007
Total interest income	\$ 72,610,954	\$ 76,001,354
Total interest expense	40,855,577	41,555,429

For the years ended December 31, 2008 and 2007, the credit (debit) in stockholders' equity from available-for-sale financial asset amounted to \$28,426 thousand and \$(193,865) thousand, respectively. The amount debited from the stockholders' equity adjustment and recognized as current income was \$166,500 thousand and \$1,367,149 thousand for the years ended December 31, 2008 and 2007, respectively.

### 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	
		2008	2007
Exchange rate risk value	EUR	\$ 62,491	\$ 29,827
	JPY	1,293,417	(856,545)
	USD	1,167,346	1,270,791
	Others (Note)	544,796	(139,960)
Interest rate sensitivity DV01			
Interest curve of bonds	TWD	(17,764)	(13,808)
	USD	(33)	(15)
	Others (Note)	(137)	(69)
Interest curve of IRS and CCS	TWD	1,714	5,679
	USD	(16)	(78)
	Others (Note)	(718)	(135)
Equity securities risk value	TWD	4,080,170	8,379,883
	USD	9,547	19,376

Note: Presented as NT dollars which is translated from original currencies.

# VI. Financial Status

## *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, 2008 and 2007 were as follows:

Financial Instrument Type	December 31	
	2008	2007
Guarantees	\$ 62,750,271	\$ 75,093,664
Letters of credit	24,012,954	38,733,481
Unused loan commitments (excluding credit card)	267,024,809	215,077,781
Unused loan commitments (credit card only)	384,964,942	384,398,039

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 were as follows:

Industry Type	December 31			
	2008		2007	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Manufacturing	\$ 423,654,714	27.96	\$ 390,106,563	26.26
Wholesale and retailing	102,358,804	6.76	98,630,726	6.64
Finance and insurance	69,031,871	4.56	74,260,141	5.00
Real estate and leasing	60,498,220	3.99	66,375,650	4.47
Service	30,794,040	2.03	34,076,648	2.29
Individuals	627,952,866	41.44	626,457,290	42.18
Others	200,890,832	13.26	195,426,033	13.16
	<u>\$ 1,515,181,347</u>		<u>\$ 1,485,333,051</u>	

Geographic Location	December 31			
	2008		2007	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Asia	\$ 1,418,416,107	93.61	\$ 1,402,623,392	94.43
Europe	14,948,371	0.99	13,796,590	0.93
North America	59,134,514	3.90	45,588,140	3.07
Others	22,682,355	1.50	23,324,929	1.57
	<u>\$ 1,515,181,347</u>		<u>\$ 1,485,333,051</u>	

## 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.

## VI. Financial Status

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- 2) Taishin Bank's ratios of liquidity reserves were 20.25% and 18.98% for the years ended December 31, 2008 and 2007, 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) Taishin 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. Taishin Securities' investments in equity instruments do not have active market or the transaction volume is limited and thus they are expected to have liquidity risks. But Taishin 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 19.55% and 15.31% for the years ended December 31, 2008 and 2007. 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 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, 2008 and 2007, 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:

	December 31, 2008	
	Effective Interest Rate (%)	
	NTD	USD
Bonds and securities purchased under resell agreements	0.40%~1.95%	-
Available-for-sale financial assets	1.65%~5.75%	0.71%~7.75%
Held-to-maturity financial assets	1.02%~6.25%	1.55%~4.93%
Loans	0.08%~20.00%	1.17%~9.70%
Commercial paper payable	1.41%~1.41%	-
Bonds and securities sold under repurchase agreements	0.35%~1.90%	-
Deposits	0.00%~4.00%	0.01%~5.89%
Bonds payable	0.90%~9.23%	-

	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%~9.23%	-

# VI. Financial Status

## 36. RELATED INFORMATION OF CAPITAL ADEQUACY

### Group Capital Adequacy Ratio

Company \ Item	December 31, 2008		
	Ownership Interest (%)	Group Eligible Capital	Group's Statutory Capital Requirement
Taishin Financial Holding		93,553,656	107,893,874
Taishin Bank	100.00%	59,648,468	48,532,607
Chang Hwa Bank	22.55%	22,569,109	17,022,737
Taishin Bills Finance	100.00%	5,699,465	2,071,388
Taiwan Securities	100.00%	12,904,999	4,284,612
Taishin Venture Capital	100.00%	795,400	397,858
Taishin AMC	100.00%	1,474,964	762,311
Taishin Marketing	100.00%	5,006	2,801
Exclusive items amounts subtracted		(116,630,338)	(107,823,756)
Total		80,020,729	73,144,432
Group's capital adequacy rate (Note)			109.40%

### Financial Holding Company Eligible Capital

Item	December 31, 2008
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	7,078,310
Other Preferred stock and subordinated corporate bonds	31,184,552
Advance receipts for capital stock	-
Capital surplus	2,925,673
Legal reserve	408,912
Special reserve	482,574
Retained earnings	(4,729,617)
Equity adjustment	(546,608)
Subtracted:	
Goodwill	-
Deferred assets	353,141
Treasury stock	-
Total	93,553,656

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.



## 37.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, the same related person or the same related enterprise.

Details for the balance of credit, endorsements and other transactions to the same person as of December 31, 2008 were as follows:

(In NT\$ Million; %)

Transaction Party	Relationship	Credit, Endorsement and Other Transaction	As Proportion of Financial Holding's Net Equity
Central Bank	Same related enterprise	286,846	194.88
Formosa Plastics Co. and related parties	Same related enterprise	42,397	28.80
Taiwan High Speed Rail Co., Ltd.	Same related enterprise	35,760	24.29
National Treasury Agency	Same related enterprise	24,400	16.58
Chi Mei Co. and related parties	Same related enterprise	23,586	16.02
National Health Insurance	Same related enterprise	15,000	10.19
Ever Green Co. and related parties	Same related enterprise	14,227	9.67
Uni-President Co. and related parties	Same related enterprise	13,403	9.11
Ya-Dong Group	Same related enterprise	11,885	8.07
Taiwan Power Co., Ltd.	Same related enterprise	10,893	7.40
Tatung Co. and related parties	Same related enterprise	10,335	7.02
Hon Hai Precision Ind. Co. Ltd., and related parties	Same related enterprise	9,524	6.47
China Steel Group	Same related enterprise	9,132	6.20
E-United Group	Same related enterprise	8,933	6.07
Chinatrust Co. and related parties	Same related enterprise	8,690	5.90
CPC Corporation, Taiwan	Same related enterprise	8,402	5.71
China Airline Co. and related parties	Same related enterprise	6,888	4.68
National Financial Stabilization Fund Committee	Same related enterprise	6,854	4.66
AU Optonics Corp. and related parties	Same related enterprise	6,733	4.57
Mosel Vitelic Group	Same related enterprise	6,720	4.57
Yuen Foong Yu Group	Same related enterprise	6,642	4.51
Qisda Co. and related parties	Same related enterprise	6,120	4.16
China Development Financial Holdings and related parties	Same related enterprise	5,929	4.03
Industrial bank of Taiwan and related parties	Same related enterprise	5,513	3.75
Pouchen Industry Group	Same related enterprise	5,375	3.65
Powerchip Group	Same related enterprise	5,339	3.63
Kinpo Electronics Group	Same related enterprise	5,193	3.53
ASE Group	Same related enterprise	4,658	3.16
Mega Financial Holdings and related parties	Same related enterprise	4,400	2.99
Ford Motor Company	Same related enterprise	4,308	2.93
Taiwan Liteon Group	Same related enterprise	4,075	2.77
Hosin Group	Same related enterprise	4,007	2.72
Aurora Co. and related parties	Same related enterprise	3,969	2.70
Chaillease and related parties	Same related enterprise	3,884	2.64
Fu Sheng Group	Same related enterprise	3,799	2.58
Department of Transportation, Taipei City Government	Same related enterprise	3,721	2.53
Union Group	Same related enterprise	3,655	2.48
Taipei Financial Center Co.	Same related enterprise	3,569	2.42
ASUS and related parties	Same related enterprise	3,427	2.33
Shung Ye Group	Same related enterprise	3,409	2.32
Yosun Group	Same related enterprise	3,060	2.08
Kingtronics and related parties	Same related enterprise	3,029	2.06

# VI. Financial Status

## 38. FINANCIAL INFORMATION BY BUSINESS

The financial information by business for the years ended December 31, 2008 and 2007 were as follows:

Item	Business Type	Year Ended December 31, 2008				
		Bank Business	Securities Business	Bills Business	Other Business	Total
Net interest revenue (loss)		32,811,311	1,134,824	79,554	(1,450,127)	32,575,562
Net non-interest revenue (loss)		13,757,614	2,919,401	(1,379,460)	704,461	16,002,016
Net revenue (loss)		46,568,925	4,054,225	(1,299,906)	(745,666)	48,577,578
Bad debt expenses		(17,601,400)	-	(19,429)	-	(17,620,829)
Operating expenses		(27,671,256)	(3,941,253)	(133,637)	(437,808)	(32,183,954)
Income (loss) before income tax of continued operations		1,296,269	112,972	(1,452,972)	(1,183,474)	(1,227,205)
Income tax expense		(591,873)	(170,504)	403,148	(52,438)	(411,667)
Income (loss) after income tax of continued operations		704,396	(57,532)	(1,049,824)	(1,235,912)	(1,638,872)

Item	Business Type	Year Ended December 31, 2007 (As Restated)				
		Bank Business	Securities Business	Bills Business	Other Business	Total
Net interest revenue (loss)		35,517,973	1,402,254	207,591	(1,443,439)	35,684,379
Net non-interest revenue (loss)		19,127,858	5,802,938	(129,835)	75,045	24,876,006
Net revenue (loss)		54,645,831	7,205,192	77,756	(1,368,394)	60,560,385
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	(2,346,317)	15,817,234
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	(2,480,584)	10,855,783





## 39. FINANCIAL STATEMENTS OF TAISHIN FINANCIAL HOLDING

### TAISHIN FINANCIAL HOLDING CO., LTD. BALANCE SHEETS

DECEMBER 31, 2008 AND 2007 (RESTATED)  
(In Thousands of New Taiwan Dollars)

ASSETS	2008	2007 (As Restated)
Cash and cash equivalents	\$ 12,387,621	\$ 13,026,747
Financial assets at FVTPL	5,559	-
Bonds and securities purchased under resell agreements	3,494,048	3,595,104
Receivables	1,962,510	1,569,064
Prepaid expenses	8,065	1,441
Investments accounted for by the equity method	107,790,722	116,325,691
OTHER FINANCIAL ASSETS		
Financial assets carried at cost	33,034	33,034
PROPERTY AND EQUIPMENT		
Cost		
Machinery equipment	15,884	16,002
Transportation equipment	4,380	4,380
Miscellaneous equipment	3,828	3,809
	24,092	24,191
Accumulated depreciation	(16,310)	(12,507)
Property and equipment, net	7,782	11,684
OTHER ASSETS		
Deferred tax assets	336,479	336,014
Other deferred assets	16,662	25,839
Other miscellaneous assets	49,168	1,206
Other assets	402,309	363,059
TOTAL	\$ 126,091,650	\$ 134,925,824

## VI. Financial Status

LIABILITIES AND STOCKHOLDERS' EQUITY	2008	2007 (As Restated)
LIABILITIES		
Financial liabilities at FVTPL	\$ 279,635	\$ 650,903
Payables	1,496,155	1,487,093
Bonds payable	39,736,721	39,398,220
Other liabilities	11,465	14,882
Total liabilities	41,523,976	41,551,098
STOCKHOLDERS' EQUITY		
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	16,996,159	17,313,951
Others	2,075,475	2,075,475
Retained earnings		
Legal reserve	408,912	-
Special reserve	482,574	-
Accumulated (deficits) earnings	(4,729,617)	4,587,095
Other items of stockholders' equity		
Cumulative translation adjustments	51,369	(465)
Unrealized gains or losses of financial instruments	(597,977)	(459,903)
Net loss not recognized as pension cost	-	(22,206)
Total stockholders' equity	84,567,674	93,374,726
TOTAL	\$ 126,091,650	\$ 134,925,824

## TAISHIN FINANCIAL HOLDING CO., LTD. INCOME STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED)  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008	2007 (As Restated)
<b>INCOME</b>		
Investment income recognized under the equity method	\$ 1,246,970	\$ 6,464,319
Interest income	311,434	285,332
Others	415,483	774,224
Total income	1,973,887	7,523,875
<b>EXPENSES AND LOSSES</b>		
Investment loss recognized under the equity method	(5,269,349)	(13,471)
Loss on disposal of investments accounted for by the equity method	-	(953,350)
Operating expenses	(327,265)	(371,331)
Interest expenses	(1,558,134)	(1,516,647)
Others	-	(421)
Total expenses and losses	(7,154,748)	(2,855,220)
(LOSS) INCOME BEFORE INCOME TAX	(5,180,861)	4,668,655
INCOME TAX EXPENSE	(46,731)	(116,337)
NET (LOSS) INCOME	\$ (5,227,592)	\$ 4,552,318
<b>EARNINGS (LOSS) PER SHARE</b>		
Basic (loss) earnings per share	\$ (1.00)	\$ 0.57
Diluted (loss) earnings per share	\$ (1.00)	\$ 0.55

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED)  
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus	
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions
BALANCE, JANUARY 1, 2007 (As restated)	\$ 57,103,001	\$ 12,777,778	\$ 32,853,146	\$ 2,595,424
Loss appropriation	-	-	(15,528,983 )	(519,949 )
Adjustments accounted for under Interpretation 2009-046	-	-	-	-
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	-	-	-	-
Net income for the year ended December 31, 2007	-	-	-	-
BALANCE, DECEMBER 31, 2007	57,103,001	12,777,778	17,313,951	2,075,475
Appropriation of 2007 earnings				
Legal reserve	-	-	-	-
Special reserve	-	-	-	-
Dividend on preferred stock B	-	-	-	-
Dividend on preferred stock C	-	-	-	-
Dividend on preferred stock D	-	-	-	-
Bonus to employees	-	-	-	-
Bonus to directors and supervisors	-	-	-	-
Cash dividends	-	-	(317,792 )	-
Translation adjustments on investments accounted for by the equity method	-	-	-	-
Unrealized losses of available-for-sale financial assets	-	-	-	-
Net loss not recognized as pension cost	-	-	-	-
Net loss for the year ended December 31, 2008	-	-	-	-
BALANCE, DECEMBER 31, 2008	<u>\$ 57,103,001</u>	<u>\$ 12,777,778</u>	<u>\$ 16,996,159</u>	<u>\$ 2,075,475</u>



Stock Option	Retained Earnings			Equity Adjustments			Total
	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost	
\$ -	\$ -	\$ -	\$ (16,014,155)	\$ 12,848	\$ 1,101,111	\$ (6,353)	\$ 90,422,800
(99,608)	-	-	16,148,540	-	-	-	-
99,608	-	-	(99,608)	-	-	-	-
-	-	-	-	(13,313)	-	-	(13,313)
-	-	-	-	-	-	-	(10,212)
-	-	-	-	-	(1,561,014)	-	(1,561,014)
-	-	-	-	-	-	(15,853)	(15,853)
-	-	-	4,552,318	-	-	-	4,552,318
-	-	-	4,587,095	(465)	(459,903)	(22,206)	93,374,726
-	408,912	-	(408,912)	-	-	-	-
-	-	482,574	(482,574)	-	-	-	-
-	-	-	(361,342)	-	-	-	(361,342)
-	-	-	(1,186,644)	-	-	-	(1,186,644)
-	-	-	(910,000)	-	-	-	(910,000)
-	-	-	(7,396)	-	-	-	(7,396)
-	-	-	(22,189)	-	-	-	(22,189)
-	-	-	(710,063)	-	-	-	(1,027,855)
-	-	-	-	51,834	-	-	51,834
-	-	-	-	-	(138,074)	-	(138,074)
-	-	-	-	-	-	22,206	22,206
-	-	-	(5,227,592)	-	-	-	(5,227,592)
\$ -	\$ 408,912	\$ 482,574	\$ (4,729,617)	\$ 51,369	\$ (597,977)	\$ -	\$ 84,567,674

# VI. Financial Status

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

YEARS ENDED DECEMBER 31, 2008 AND 2007 (RESTATED)  
(In Thousands of New Taiwan Dollars)

	2008	2007 (As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (5,227,592)	\$ 4,552,318
Depreciation and amortization	11,631	12,316
Deferred income tax expense	45,048	110,532
Income tax expense (benefit) on linked-tax system	1,683	(1,031)
Gain on financial instruments valuation	(376,827)	(732,400)
Investment loss (income) recognized under equity method net of cash dividends received in current period	8,466,776	(3,718,084)
Loss on disposal of investments accounted for by the equity method	-	953,350
Amortization on discount of convertible bonds	338,501	308,806
Net changes in operating assets and liabilities		
Financial assets for trading purpose	421	-
Financial liabilities for trading purpose	(421)	-
Bonds and securities purchased under resell agreements	101,056	8,819,755
Receivables	562,567	220,032
Prepaid expenses	(6,624)	(232)
Other assets	(45,666)	(95,614)
Payables	(948,634)	(639,398)
Others	742	10,266
Net cash provided by operating activities	2,922,661	9,800,616
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds of sale of investments accounted for by the equity method	-	3,067,437
Increase in investments accounted for by the equity method	-	(11,700,000)
Purchase of property and equipment	(130)	(496)
(Increase) decrease in refundable deposits	(46,231)	221
Net cash used in investing activities	(46,361)	(8,632,838)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance cost of bonds payable	-	(500)
Remunerations to directors, supervisors and employee bonuses	(29,585)	-
Payment of cash dividends and bonus	(3,485,841)	-
Net cash used in financing activities	(3,515,426)	(500)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(639,126)	1,167,278
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	13,026,747	11,859,469
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 12,387,621	\$ 13,026,747
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest	\$ 1,219,197	\$ 1,208,262
Income tax	\$ -	\$ 6,835

## 40.PROFITABILITY OF TAISHIN FINANCIAL HOLDING (STAND-ALONE AND CONSOLIDATED)

### Stand-Alone

Item		December 31	
		2008	2007 (As Restated)
Return on total assets	Pretax	(3.97%)	3.49%
	After tax	(4.01%)	3.41%
Return on net equity	Pretax	(5.82%)	5.08%
	After tax	(5.88%)	4.95%
Profit margin		(264.84%)	60.50%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007, respectively.

### Consolidated

Item		December 31	
		2008	2007 (As Restated)
Return on total assets	Pretax	(0.05%)	0.68%
	After tax	(0.07%)	0.46%
Return on net equity	Pretax	(0.81%)	10.19%
	After tax	(1.08%)	7.00%
Profit margin		(3.37%)	17.93%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007, respectively.

# VI. Financial Status

## 41. CONDENSED BALANCE SHEETS AND STATEMENTS OF INCOME AND IMPORTANT FINANCIAL NOTES OF SUBSIDIARIES

### Taishin Bank

#### Balance Sheet

	December 31	
	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 10,498,832	\$ 9,465,317
Due from Central Bank and call loans to banks	129,564,951	135,175,119
Financial assets at FVTPL	45,859,862	26,103,651
Receivables	79,128,739	78,814,545
Loans	514,045,040	558,713,701
Available-for-sale financial assets	25,124,530	23,610,956
Held-to-maturity financial assets	8,102,021	15,658,652
Investments accounted for by the equity method	1,440,756	2,227,146
Other financial assets	3,083,144	2,399,698
Property and equipment	16,226,923	16,752,240
Other assets	24,251,038	24,623,965
	<u>\$ 857,325,836</u>	<u>\$ 893,544,990</u>
<b>Liabilities</b>		
Due to banks and Central Bank	\$ 72,725,981	\$ 73,610,040
Financial liabilities at FVTPL	37,848,640	16,000,476
Bonds and securities sold under repurchase agreements	11,780,535	19,244,688
Payables	22,271,480	27,335,247
Deposits	633,654,632	667,548,327
Financial debentures	36,100,000	40,100,000
Other financial liabilities	167,285	178,476
Other liabilities	911,917	1,345,616
	<u>815,460,470</u>	<u>845,362,870</u>
<b>Stockholders' equity</b>		
Capital stock	41,750,118	41,750,118
Capital surplus	3,806,630	3,806,630
Retained earnings	(3,210,060)	2,709,441
Cumulative translation adjustments	(39)	(8,717)
Unrealized gains or losses of available-for-sale financial assets	(481,283)	(75,313)
Other items	-	(39)
	<u>41,865,366</u>	<u>48,182,120</u>
	<u>\$ 857,325,836</u>	<u>\$ 893,544,990</u>





## Income Statement

	Years Ended December 31	
	2008	2007
Net interest income	\$ 14,138,465	\$ 16,586,530
Net non-interest income	9,446,541	11,460,311
Gross income	23,585,006	28,046,841
Bad debt expenses	(15,584,932)	(11,496,635)
Operating expenses	(13,922,650)	(13,844,276)
(Loss) Income before income tax	(5,922,576)	2,705,930
Estimated income tax benefit	1,824,371	13,723
Net (loss) income	\$ (4,098,205)	\$ 2,719,653
Pre-tax basic (loss) earnings per share (dollar)	\$ (1.49)	\$ 0.68
After-tax basic (loss) earnings per share (dollar)	\$ (1.03)	\$ 0.68

## Key Financial and Business Highlights

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	(0.68%)	0.32%
	After tax	(0.47%)	0.32%
Return on net equity	Pretax	(13.15%)	6.52%
	After tax	(9.10%)	6.55%
Profit margin		(17.38%)	9.70%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007, respectively.

# VI. Financial Status

## Asset Quality

Business Type			Item	December 31, 2008					December 31, 2007				
				Non-Per- forming Loans (Note a)	Loans	Non- Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)	Non- Performing Loans (Note a)	Loans	Non- Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured		2,107,708	83,477,350	2.52%	1,417,356	67.25%	751,030	102,934,059	0.73%	347,381	46.25%	
	Unsecured		612,108	126,660,847	0.48%	2,040,908	333.42%	1,229,496	135,649,334	0.91%	1,254,544	102.04%	
Consumer finance	Mortgage loans (Note d)		870,793	207,701,502	0.42%	183,547	21.08%	1,167,594	206,317,243	0.57%	184,728	15.82%	
	Cash cards		923,838	20,180,252	4.58%	2,798,849	302.96%	3,233,975	32,699,343	9.89%	1,742,553	53.88%	
	Credit loans (Notee)		2,339,539	30,812,252	7.59%	3,122,833	133.48%	4,259,263	37,353,470	11.40%	2,493,251	58.54%	
	Others (Note f)	Secured	193,042	50,067,156	0.39%	93,577	48.47%	248,623	45,437,231	0.55%	39,276	15.80%	
		Unse- cured	200,738	4,938,505	4.06%	135,754	67.63%	352,567	4,537,551	7.77%	152,797	43.34%	
Total			7,247,766	523,837,864	1.38%	9,792,824	135.12%	11,242,548	564,928,231	1.99%	6,214,530	55.28%	
Negotiated loans performed in ac- cordance with the agreement and exempted from reporting as non- performing loans. (Note h)			5,891,654					9,176,272					
Negotiated accounts receivable performed in accordance with the agreement and exempted from reporting as non-performing receivables. (Note h)			2,481,769					3,750,582					
Loans performed in accordance with the debt clearance and renewal regulation and exempted from reporting as non-performing loans. (Note i)			349,841					NA					
Receivables performed in accor- dance with the debt clearance and renewal regulation and exempted from reporting as non-performing receivables. (Note i)			357,155					NA					

Business Type		Item	December 31, 2008					December 31, 2007				
			Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio	Non-Performing Loans	Receivables	Non-Performing Loans Ratio	Allowance For Loan Losses	Coverage Ratio
Credit card			718,768	27,789,461	2.59%	1,394,857	194.06%	568,731	22,169,934	2.57%	550,703	96.83%
Accounts receivable factoring with no recourse (Note g)			3,943	38,344,606	0.01%	5,308	134.62%	5,308	27,818,937	0.02%	5,308	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 loans ÷ 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 applicants to build or repair the buildings owned by the applicants, their spouses or their minor children. These applicants provide their buildings as collaterals 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), accounts receivable factoring with no recourse are defined as non-performing loans within three months from the date that factors or insurance companies ascertain not to compensate the loss.

Note h: Negotiated loans and accounts receivable performed in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note i: Loans and receivables performed in accordance with debt clearance and renewal regulation and exempted from reporting as non-performing loans or receivables are disclosed in accordance with the Letter issued by Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).



## Concentration of Credit Risk

December 31, 2008			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Chi Mei Group	6,062,836	14.48
2	Chinatrust Group	5,420,658	12.95
3	Qisda Group	5,289,822	12.64
4	Ya-Tong Group	4,455,994	10.64
5	Formosa Plastics Group	3,919,719	9.36
6	Fu Sheng Group	3,799,310	9.08
7	Tatung Group	3,758,188	8.98
8	Kinpo Group	3,704,094	8.85
9	Uni-President Group	3,364,043	8.04
10	ASE Group	3,174,808	7.58

December 31, 2007			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Formosa Plastics Group	10,628,991	22.06
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	4,757,592	9.87
6	Acer Group	4,474,988	9.29
7	Fu Sheng Group	4,144,010	8.60
8	First International Computer Group	4,101,924	8.51
9	Union Group	3,605,000	7.48
10	Pou Chen Group	3,585,848	7.44

Note a: Sort by the balance of loans on December 31, 2008 and 2007, excluding government or state-owned 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

	2008	
	Average Value	Average Interest Rate %
Assets		
Due from banks and call loans to banks	\$ 161,952,487	1.94
Financial assets at FVTPL	6,230,483	1.31
Bonds and securities purchased under resell agreements	399,193	1.44
Receivables	39,463,682	6.22
Loans	553,288,793	4.17
Available-for-sale financial assets	29,413,023	5.54
Held-to-maturity financial assets	11,340,902	2.50
Liabilities		
Due to banks and call loans from banks	78,822,446	2.63
Bonds and securities sold under repurchase agreements	18,083,982	1.89
Demand deposits	186,388,038	0.41
Time deposits	477,918,378	2.53
Other financial liabilities	39,860,507	3.00

## VI. Financial Status

	2007	
	Average Value	Average Interest Rate %
Assets		
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
Liabilities		
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

### Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	242,802,324	27,403,025	27,043,360	390,920,095	688,168,804
Interest-sensitive liabilities	199,099,411	88,687,184	184,777,927	171,633,731	644,198,253
Interest sensitivity gap	43,702,913	(61,284,159)	(157,734,567)	(219,286,364)	43,970,551
Net equity					41,870,458
Ratio of interest-sensitive assets to liabilities					106.83%
Ratio of interest sensitivity gap to net equity					105.02%

(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 equity					46,625,822
Ratio of interest-sensitive assets to liabilities					96.72%
Ratio of interest sensitivity gap to net equity					(51.49%)

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)

(In Thousands of U.S. Dollars)

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year	Total
Interest-sensitive assets	2,396,662	240,043	134,025	1,738,212	4,508,942
Interest-sensitive liabilities	2,419,966	1,315,858	324,841	1,014,412	5,075,077
Interest sensitivity gap	(23,304)	(1,075,815)	(190,816)	723,800	(566,135)
Net equity					3,685
Ratio of interest-sensitive assets to liabilities					88.84%
Ratio of interest sensitivity gap to net equity					(15,363.23%)

(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 equity					29,755
Ratio of interest-sensitive assets to liabilities					94.10%
Ratio of interest sensitivity gap to net equity					(1,083.40%)

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, 2008				
		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	695,497,841	154,350,106	75,286,035	24,526,987	26,764,671	414,570,042
Major maturity cash outflow	698,646,641	97,891,536	110,025,617	89,589,472	186,290,683	214,849,333
Gap	(3,148,800)	56,458,570	(34,739,582)	(65,062,485)	(159,526,012)	199,720,709

(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

Note: The amounts listed above include amounts in NT dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

(In Thousands of U.S. Dollars)

	Total	December 31, 2008				
		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	7,306,842	3,379,171	1,378,429	330,506	198,582	2,020,154
Major maturity cash outflow	7,276,417	2,217,549	999,964	1,366,338	415,188	2,277,378
Gap	30,425	1,161,622	378,465	(1,035,832)	(216,606)	(257,224)

(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)

Note: The amounts listed above include amounts in U.S. dollars for head office, domestic branches, and OBU.

# VI. Financial Status

## Capital Adequacy

Item			Year	Consolidated	Taishin Bank		
				December 31, 2008	December 31, 2008	December 31, 2007	
Self-owned capital	Tier I capital			41,598,542	40,956,737	44,896,726	
	Tier II capital			18,790,883	18,691,731	20,940,600	
	Tier III capital			-	-	-	
	Self-owned capital			60,389,425	59,648,468	65,837,326	
Risk-weighted assets	Credit risk	Standardized approach		535,855,636	536,789,786	565,797,663	
		IRB		-	-	-	
		Securitization		-	-	-	
	Operation risk	Basic indicator approach		-	-	-	
		Standardized approach / Alternative standardized approach		45,551,738	45,551,738	59,290,613	
		Advanced measurement approach			-	-	
	Market risk	Standardized approach		24,415,429	24,316,063	36,537,313	
		Internal model approach		-	-	-	
	Total			605,822,803	606,657,587	661,625,589	
	Capital Adequacy ratio				9.97%	9.83%	9.95%
Tier I capital to risk weighted assets ratio				6.87%	6.75%	6.79%	
Tier II capital to risk weighted assets ratio				3.10%	3.08%	3.16%	
Tier III capital to risk weighted assets ratio				-	-	-	
Common stock equity to total assets ratio				4.65%	4.65%	4.46%	

Note: 1. The ratios are calculated in accordance with the Letters issued by the MOF on January 4, 2007 and September 6, 2007 (Ref. No. Jin-Guan-Yin 0961000025 and 09620006290).

2. Formula:

a. Self-owned capital = Tier I capital + Tier II capital + Tier III capital.

b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk Capital + Market price risk Capital) × 12.5 °

c. Capital Adequacy = Self-owned capital / Risk-weighted assets

d. Tier I capital to risk weighted assets ratio = Tier I capital / Risk-weighted assets

e. Tier II capital to risk weighted assets ratio = Tier II capital / Risk-weighted assets

f. Tier III capital to risk weighted assets ratio = Tier III capital / Risk-weighted assets

g. Common stock equity to total assets ratio = Common stock equity / total assets

## 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, 2008 and 2007 were as follows:

	2008	2007
Special purpose trust accounts - foreign and domestic investments	\$ 142,914,465	\$ 166,699,593
Special purpose monetary fund - master	4,154,998	9,309,027
Special purpose monetary fund - stand-alone	257,271	782,651
Special purpose cover fund - stand-alone	2,799,934	532,167
Specific monetary fund - stand-alone	2,564,563	3,159,027
Specific cover fund - stand-alone	19,355,731	32,439,092
Real estate securitization	4,188,176	4,182,929
Real estate trust	1,022,540	642,400
Monetary mutual fund	1,433,404	2,204,805
Securities under custody	28,127,114	-
	<u>\$ 206,818,196</u>	<u>\$ 219,951,691</u>



## Chang Hwa Bank

### Balance Sheet

	December 31	
	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 25,594,624	\$ 25,904,032
Due from Central Bank and call loans to banks	88,843,996	111,995,804
Financial assets at FVTPL	14,839,363	9,594,198
Bonds and securities purchased under resell agreements	1,113,614	6,460,770
Receivables	15,049,058	15,494,884
Loans	978,028,617	908,124,870
Available-for-sale financial assets	32,381,982	67,596,193
Held-to-maturity financial assets	174,255,975	111,881,124
Investments accounted for by the equity method	119,106	110,046
Other financial assets	21,100,272	7,581,452
Property and equipment	24,800,231	25,025,676
Other assets and intangible assets	20,805,671	21,863,339
	<u>\$ 1,396,932,509</u>	<u>\$ 1,311,632,388</u>
<b>Liabilities</b>		
Due to banks and Central Bank	\$ 107,683,370	\$ 131,975,991
Financial liabilities at FVTPL	1,019,663	1,115,761
Bonds and securities sold under repurchase agreements	16,798,494	15,367,505
Payables	27,925,299	28,168,061
Deposits	1,115,608,800	1,018,918,551
Financial debentures	36,568,059	23,000,000
Accrued pension liabilities	2,503,996	2,468,404
Other financial liabilities	503,753	346,750
Other liabilities	7,715,935	8,459,200
	<u>1,316,327,369</u>	<u>1,229,820,223</u>
<b>Stockholders' equity</b>		
Capital stock	\$ 62,094,756	\$ 62,094,756
Retained earnings	11,225,557	12,383,294
Other items	7,284,827	7,334,115
	<u>80,605,140</u>	<u>81,812,165</u>
	<u>\$ 1,396,932,509</u>	<u>\$ 1,311,632,388</u>

# VI. Financial Status

## Income Statement

	Years Ended December 31	
	2008	2007
Net interest income	\$ 18,331,808	\$ 18,635,067
Net non-interest income	7,535,993	12,304,078
Gross income	25,867,801	30,939,145
Bad debt expense	(6,902,098)	(7,149,656)
Operating expenses	(11,897,455)	(11,561,517)
Income before income tax	7,068,248	12,227,972
Estimated income tax expense	(2,215,052)	(3,744,691)
Net income	\$ 4,853,196	\$ 8,483,281
Pre-tax basic earnings per share (dollar)	\$ 1.14	\$ 2.41
After-tax basic earnings per share (dollar)	\$ 0.78	\$ 1.63

## Key Financial and Business Highlights

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	0.52%	0.92%
	After tax	0.36%	0.64%
Return on net equity	Pretax	8.70%	14.91%
	After tax	5.98%	10.35%
Profit margin		18.76%	27.42%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.



## Asset Quality

Business Type \ Item		December 31, 2008					December 31, 2007				
		Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)	Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured	9,957,472	258,672,785	3.85%	6,983,022	70.13%	9,191,784	237,021,553	3.88%	7,231,320	78.67%
	Unsecured	2,039,380	426,414,804	0.48%	2,039,380	100.00%	2,680,760	395,190,777	0.68%	2,680,760	100.00%
Consumer finance	Mortgage loans (Note d)	3,238,560	237,736,115	1.36%	3,202,316	98.88%	3,277,663	225,401,287	1.45%	1,975,290	60.27%
	Cash cards (Note i)	-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)	30,600	3,311,373	0.92%	30,600	100.00%	38,460	4,230,702	0.91%	38,460	100.00%
	Others (Note f)	1,198,877	59,401,846	2.02%	1,198,877	100.00%	1,211,008	53,087,914	2.28%	927,617	76.60%
	Unsecured	112,082	6,057,971	1.85%	112,082	100.00%	67,569	6,113,653	1.11%	67,569	100.00%
Total		16,576,971	991,594,894	1.67%	13,566,277	81.84%	16,467,244	921,045,886	1.79%	12,921,016	78.46%
Negotiated loans performed in accordance with the agreement and exempted from reporting as non-performing loans. (Note h)		1,857					3,309				
Negotiated accounts receivable performed in accordance with the agreement and exempted from reporting as non-performing loans. (Note h)		3,346					7,459				

Business Type \ Item		December 31, 2008					December 31, 2007				
		Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)	Non-Performing Loans (Note a)	Loans	Non-Performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)
Credit card		2,569	682,449	0.38%	17,336	674.82%	4,596	796,225	0.58%	9,874	214.84%
Accounts receivable factoring with no recourse (Note g)		-	3,794,127	-	-	-	-	690,802	-	-	-

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 loans ÷ 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 applicants to build or repair the buildings owned by the applicants, their spouses or their minor children. These applicants provide their buildings as collaterals 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), accounts receivable factoring with no recourse are defined as non-performing loans within three months from the date that factors or insurance companies ascertain not to compensate the loss.

Note h: Negotiated loans and accounts receivable performed in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note i: Chang Hwa Bank does not engage in cash card business.

## VI. Financial Status

### Concentration of Credit Risk

December 31, 2008			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	Formosa Plastics Co., and related parties	35,674,735	44.26
2	Chi Mei Group	16,510,843	20.48
3	Evergreen Group	13,326,183	16.53
4	Foxconn Electronics Inc.	8,827,900	10.95
5	E-United Group	8,059,300	10.00
6	Uni-President Co., and related parties	7,956,791	9.87
7	Qisda Group	7,516,112	9.32
8	China Steel Corporation	6,546,919	8.12
9	Tatung Group	6,271,239	7.78
10	China Airlines Ltd., and related parties	5,687,500	7.06

Note a: Sort by the balance of loans on December 31, 2008, excluding government or state-owned 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, 2008 and 2007 were as follows:

	2008		2007	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets				
Due from and call loans to banks	\$ 117,426,203	3.72	\$ 137,810,469	4.80
Due from Central Bank	45,494,140	0.85	44,160,352	0.98
Financial assets - bonds and bills	202,561,935	2.45	220,960,876	2.55
Loans	930,702,609	3.39	868,149,123	3.56
Liabilities				
Due to banks and call loans from banks	166,741,602	3.28	162,436,817	4.82
Deposits transferred from the Postal Bureau	30,712,367	2.60	35,489,931	2.41
Demand deposits	499,033,677	0.58	519,284,883	0.67
Time deposits	528,517,821	2.51	493,345,206	2.55
Negotiable certificates of deposits	5,906,877	1.53	6,356,914	1.37
Financial debentures	26,533,052	3.37	19,728,767	3.40

## Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	819,421,668	141,329,889	24,891,983	69,878,702	1,055,522,242
Interest-sensitive liabilities	374,169,320	465,683,719	106,110,606	38,822,677	984,786,322
Interest sensitivity gap	445,252,348	(324,353,830)	(81,218,623)	31,056,025	70,735,920
Net equity					84,104,433
Ratio of interest-sensitive assets to liabilities					107.18%
Ratio of interest sensitivity gap to net equity					84.10%

(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 equity					83,762,207
Ratio of interest-sensitive assets to liabilities					104.96%
Ratio of interest sensitivity gap to net equity					54.69%

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 =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$ 

(In Thousands of U.S. Dollars)

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	6,642,497	759,878	407,415	235,195	8,044,985
Interest-sensitive liabilities	7,584,077	372,331	922,202	5,554	8,884,164
Interest sensitivity gap	(941,580)	387,547	(514,787)	229,641	(839,179)
Net equity					(34,087)
Ratio of interest-sensitive assets to liabilities					90.55%
Ratio of interest sensitivity gap to net equity					2,461.87%

(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 equity					7,954
Ratio of interest-sensitive assets to liabilities					94.00%
Ratio of interest sensitivity gap to net equity					(5,431.56%)

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 =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

# VI. Financial Status

## Maturity Analysis of Assets and Liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2008				
		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	1,159,536,577	222,582,613	138,225,262	106,061,300	98,985,189	593,682,213
Major Maturity cash outflow	1,318,975,423	176,613,136	178,034,666	143,127,602	279,396,175	541,803,844
Gap	(159,438,846)	45,969,477	(39,809,404)	(37,066,302)	(180,410,986)	51,878,369

(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

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, 2008				
		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	5,920,986	2,492,606	1,481,700	665,363	395,007	886,310
Major Maturity cash outflow	7,004,425	3,011,125	1,251,681	447,466	1,150,653	1,143,500
Gap	(1,083,439)	(518,519)	230,019	217,897	(755,646)	(257,190)

(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

Note: This table includes amounts denominated in U.S. dollars for head office, domestic branches and OBU.

## Special Recorded Items

	Cases and Amount
Management or any employee being involved in lawsuit for any fault in business in one year	None
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, 2008 to December 31, 2008.

## Transferring Ownership of Loans

	Year Ended December 31, 2008						
	Transferring Date	Book Value	Transferring Price	Gain on Disposal	Composition of NPLs	Relationship	Agreement with Added Terms
Mega Asset Management Co., Ltd.	2008.12.26	\$81,000 (Note)	\$280,000	\$199,000	Corporate loans - secured and nonsecured	None	None

Note: The original amount is \$569,187 thousand with write-off amount \$479,187 thousand.

## Capital Adequacy

Item			Period	December 31, 2008	June 30, 2008	December 31, 2007
Self-owned capital	Tier I capital			70,361,034	63,156,263	67,958,851
	Tier II capital			29,740,630	28,434,793	23,272,620
	Tier III capital			-	-	-
	Self-owned capital			100,101,064	91,591,056	91,231,471
Risk-weighted assets	Credit risk	Standardized approach		897,892,981	852,075,686	832,939,491
		IRB		-	-	-
		Real estate securitization		359,280	352,978	389,569
	Operation risk	Basic indicator approach		-	-	40,408,697
		Standardized approach/optional standard		41,443,950	41,443,950	-
		Advanced internal-rating based approach		-	-	-
	Market price risk	Standardized approach		4,074,075	6,753,150	6,726,464
		Internal model approach		-	-	-
	Total			943,770,286	900,625,764	880,464,221
Capital adequacy ratio				10.61%	10.17%	10.36%
Tier I capital to risk weighted assets ratio				7.46%	7.01%	7.72%
Tier II capital to risk weighted assets ratio				3.15%	3.16%	2.64%
Tier III capital to risk weighted assets ratio				-	-	-
Common stock equity to total assets ratio				4.45%	3.69%	3.67%

Note: 1. The ratios are calculated in accordance with the Letters issued by the MOF on January 4, 2007 (Ref. No. Jin-Guan-Yin 09610000020 and 09610000025).

2. Formula:

a. Self-owned capital = Tier I capital + Tier II capital + Tier III capital.

b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk Capital + Market price risk Capital) × 12.5

c. Capital Adequacy = Self-owned capital / Risk-weighted assets

d. Tier I capital to risk weighted assets ratio = Tier I capital / Risk-weighted assets

e. Tier II capital to risk weighted assets ratio = Tier II capital / Risk-weighted assets

f. Tier III capital to risk weighted assets ratio = Tier III capital / Risk-weighted assets

g. Common stock equity to total assets ratio = Common stock equity / total assets

## VI. Financial Status

### Trust Accounts

Under Article 3 of the Trust Law, Chang Hwa Bank can offer trust services. The details of trust accounts were as follows:

	December 31	
	2008	2007
Special purpose trust accounts - domestic	\$ 32,995,454	\$ 45,769,804
Special purpose trust accounts - foreign	47,526,949	55,567,305
Insurance trust	970	1,137
Retirement and breeds trust	118,280	51,543
Umbilical-cord-blood trust	435,546	373,357
Money claim and guarantee trust	350,003	328,348
Marketable securities trust	181,940	192,141
Real estate trust	1,648,761	1,267,888
Marketable securities custody	141,737,064	190,434,629
	<u>\$ 224,994,967</u>	<u>\$ 293,986,152</u>

### Reclassification Information

Chang Hwa Bank reclassified parts of financial assets based on the fair value traced back to July 1, 2008, according to the amended Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement". The fair values on the reclassification date were as follows:

	Before Reclassification	After Reclassification
Available-for-sale financial assets	\$ 14,246,193	\$ -
Bonds without active market	-	14,246,193
	<u>\$ 14,246,193</u>	<u>\$ 14,246,193</u>

During the third quarter of 2008, the international economic condition changed a lot and resulted in global financial crisis which caused the value of financial assets to collapse, Chang Hwa Bank decided not to sell parts of the available-for-sale financial assets in the short time, and reclassified them to bonds without active market.

The effective interest rate of those financial assets reclassified from available-for-sale to bonds without active market 3.57%, and the expected cash flow from those financial assets will be \$14,182,241 thousand.

The carrying value and fair value after reclassification as of December 31, 2008, were as follows:

	Carrying Value	Fair Value
Bonds without active market	\$ 13,572,761	\$ 12,563,429



For the year ended December 31, 2008, the investment income and stockholders' equity adjustment recognized of the reclassified financial assets were as follows:

	Year Ended December 31, 2008			
	Before Reclassification		After Reclassification	
	Investment Income Recognized	Stockholders' Equity Adjustment	Investment Income Recognized	Stockholders' Equity Adjustment
Available-for-sale financial assets	\$ 367,408	\$ (714,511)	\$ -	\$ -
Bonds without active market	-	-	(1,442,376)	-

The investment income and stockholders' equity adjustment recognized of the reclassified financial assets and the pro forma information if the reclassification had not been taken were as follows:

After Reclassification	Carrying Value		Pro Forma Information	
	Investment Income Recognized	Before Reclassification	Investment Income Recognized	Stockholders' Equity Adjustment
Bonds without active market	\$ (1,442,376)	Available-for-sale financial assets	\$ 333,131	\$ (1,682,764)

## Taishin Securities

### Balance Sheet

	December 31	
	2008	2007
<b>Assets</b>		
Current assets	\$ 28,868,785	\$ 39,136,587
Funds and investments	4,089,055	3,496,151
Property and equipment	2,492,746	2,594,665
Other assets	2,913,330	2,871,009
Client's position - debit	20,659	318,310
	<u>\$ 38,384,575</u>	<u>\$ 48,416,722</u>
<b>Liabilities</b>		
Current liabilities	\$ 18,585,964	\$ 24,158,235
Long-term liabilities	-	3,300,000
Other liabilities	527,211	529,459
	<u>19,113,175</u>	<u>27,987,694</u>
<b>Stockholders' equity</b>		
Capital stock	13,255,044	13,255,044
Capital surplus	2,082,283	2,082,283
Retained earnings	3,868,243	5,127,709
Other items	65,830	(36,008)
	<u>19,271,400</u>	<u>20,429,028</u>
	<u>\$ 38,384,575</u>	<u>\$ 48,416,722</u>

# VI. Financial Status

## Income Statement

	Years Ended December 31	
	2008	2007
Revenue	\$ 4,958,076	\$ 8,775,512
Expense	(4,809,150)	(6,315,808)
Income before income tax	148,926	2,459,704
Income tax expense	(142,495)	(651,280)
Net income	\$ 6,431	\$ 1,808,424
Pre-tax basic earnings per share (dollar)	\$ 0.11	\$ 1.86
After-tax basic earnings per share (dollar)	\$ -	\$ 1.36

## Key Financial and Business Highlights

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	0.34%	4.84%
	After tax	0.01%	3.56%
Return on net equity	Pretax	0.75%	12.32%
	After tax	0.03%	9.06%
Profit margin		0.13%	20.61%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.

## Balance Sheet of Futures-Dealing Department

Please refer to Table 5.

## Income statement of Futures-Dealing Department

Please refer to Table 6.

Please refer to Table 8~14 for the business of investees established in countries or areas that have no securities and futures commission.



## 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 Taishin Securities and Taiwan Futures as of December 31, 2008 and 2007 are disclosed as follows to show financial status, operating results and cash flow information:

### Taishin Securities

Items	December 31, 2008		
	Calculation	Ratio	Benchmark
Stockholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	$\frac{500,733}{90}$	5,563.70	$\geq 1$
Current assets/ Current liabilities	$\frac{485,421}{90}$	5,393.57	$\geq 1$
Stockholders' equity/ Minimum issued capital	$\frac{500,733}{400,000}$	125.18%	$\geq 60\%$ $\geq 40\%$
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	$\frac{492,774}{843}$	58,454.80%	$\geq 20\%$ $\geq 15\%$

Items	December 31, 2007		
	Calculation	Ratio	Benchmark
Stockholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	$\frac{404,954}{574}$	705.49	$\geq 1$
Current assets/ Current liabilities	$\frac{390,344}{574}$	680.04	$\geq 1$
Stockholders' equity/ Minimum issued capital	$\frac{404,954}{400,000}$	101.24%	$\geq 60\%$ $\geq 40\%$
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	$\frac{393,864}{148}$	266,124.32%	$\geq 20\%$ $\geq 15\%$

## VI. Financial Status

### Taiwan Futures

December 31, 2008			
Items	Calculation	Ratio	Benchmark
Stockholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	1,014,717 147,820	6.86	≥ 1
Current assets/ Current liabilities	8,442,327 7,534,647	1.12	≥ 1
Stockholders' equity/ Minimum issued capital	1,014,717 630,000	161.07%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	1,042,093 800,970	130.10%	≥ 20% ≥ 15%

December 31, 2007			
Items	Calculation	Ratio	Benchmark
Stockholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	918,490 147,773	6.22	≥ 1
Current assets/ Current liabilities	7,019,081 6,202,351	1.13	≥ 1
Stockholders' equity/ Minimum issued capital	918,490 630,000	145.79%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	917,737 674,393	136.08%	≥ 20% ≥ 15%



## Taishin Bills Finance

### Balance Sheet

	December 31	
	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 13,194	\$ 1,321,920
Due from Central Bank and call loans to banks	493	46
Financial assets at FVTPL	17,168,936	35,225,716
Bonds and securities purchased under resell agreements	266,634	-
Receivables	1,761,885	410,664
Available-for-sale financial assets	8,867,039	14,270,881
Property and equipment	352,951	360,246
Other assets	3,094,702	4,721,937
	<u>\$ 31,525,834</u>	<u>\$ 56,311,410</u>
<b>Liabilities</b>		
Call loans from banks	\$ 4,195,000	\$ 4,185,000
Financial liabilities at FVTPL	287,085	398,205
Bonds and securities sold under repurchase agreements	21,053,428	39,867,699
Accrued expenses	112,829	129,801
Bonds payable	-	5,000,000
Other liabilities	301,759	291,738
	<u>25,950,101</u>	<u>49,872,443</u>
<b>Stockholders' equity</b>		
Capital stock	5,140,000	5,140,000
Retained earnings	307,427	1,422,699
Other items	128,306	(123,732)
	<u>5,575,733</u>	<u>6,438,967</u>
	<u>\$ 31,525,834</u>	<u>\$ 56,311,410</u>

# VI. Financial Status

## Income Statement

	Years Ended December 31	
	2008	2007
Net interest income	\$ 86,071	\$ 205,924
Net non-interest (loss) income	(1,449,796)	104,662
Gross (loss) income	(1,363,725)	310,586
Bad debt expenses	(21,058)	(7,450)
Operating expenses	(133,637)	(143,521)
(Loss) income before income tax	(1,518,420)	159,615
Income tax benefit (expense)	403,148	(155,800)
Net (loss) income	\$ (1,115,272)	\$ 3,815
Pre-tax basic (loss) earnings per share (dollar)	\$ (2.95)	\$ 0.31
After-tax basic (loss) earnings per share (dollar)	\$ (2.17)	\$ 0.01

## Key Financial and Business Highlights

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	(3.46%)	0.27%
	After tax	(2.54%)	0.01%
Return on net equity	Pretax	(25.28%)	2.40%
	After tax	(18.57%)	0.06%
Profit margin		81.78%	1.23%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.



## Asset Quality

	December 31	
	2008	2007
Guarantees and endorsed credit amount not exceeding payment date three months	\$ -	\$ -
Nonperforming loans (NPLs, including delinquent loans)	-	-
Surveillance loans	179,300	184,700
Delinquent loans	-	-
NPL ratio	-	-
NPL ratio plus surveillance loan ratio	2.25%	1.38%
Allowance for bad debts and guarantees based on rules	176,122	203,107
Allowance for bad debts and guarantees in actual	269,687	250,258

Note: The above items 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	
	2008	2007
Self-owned capital	\$ 5,699,465	\$ 6,615,945
Risk-weighted assets	25,892,344	43,473,032
Capital adequacy ratio	22.01%	15.22%
Tier I capital to risk weighted assets ratio	21.02%	14.81%
Tier II capital to risk weighted assets ratio	0.99%	0.41%
Tier III capital to risk weighted assets ratio	-	-
Common stock equity to total assets ratio	17.68%	11.43%

Note a: Capital adequacy ratio = Self-owned capital ÷ Risk weighted assets.

Note b: Total assets are the total assets amount of balance sheet.

Note c: The ratio is calculated on June 30 and December 31. The ratios disclosed in the first and the third quarters are those as of the preceding December 31 and June 30.

# VI. Financial Status

## Management Information

### a. Business Highlights

	December 31	
	2008	2007
Ratio of guarantees and endorsed notes to net equity (after appropriation of last year's earnings)	1.24	2.04
Short-term securities sold under repurchase agreements	21,053,428	39,867,699
Ratio of short-term securities sold under repurchase agreements to net assets (after appropriation of last year's earnings)	3.27	6.07

### b. Concentration of Credit Risks

	December 31	
	2008	2007
Loans to parties with common interests	\$ 80,000	\$ 121,000
Percentage of loans to parties with common interests	1.01%	0.90%
Percentage of loans secured by stocks	19.33%	19.64%

Item	Industry	December 31	
		2008 (%)	2007 (%)
Approved credit concentration	Agriculture, forestry, fishery and animal husbandry	-	-
	Mining	-	-
	Manufacturing	18.39	12.46
	Utilities	-	-
	Construction	0.50	0.82
	Wholesale and retailing, food and beverage	12.62	9.56
	Transportation, warehousing and communications	3.77	1.87
	Finance and insurance	26.42	14.71
	Securities brokerage and futures	3.09	19.68
	Real estate	17.62	15.25
	Investment	15.69	23.49
	Industrial and commercial society and individual service industry	1.90	2.16
	Others	-	-
		100.00	100.00

Note a: Percentage of loans to parties with common interests = Loans to parties with common interests ÷ Total loans.

Note b: Percentage of loans secured by stocks = Loans secured by stocks ÷ Total loans.

Note c: Loans include guarantees, endorsed notes and delinquent loans.



### c.Special Recorded Items

	Reason and Amount
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 January 1, 2008 to December 31, 2008.

### *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, 2008 and 2007 are as follows:

	2008		2007	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
<b>Assets</b>				
Cash and cash equivalents	\$ 5,777,387	2.5241	\$ 9,018,486	2.3479
Due from Central Bank and call loans to banks	38,894	0.0266	121,350	2.3416
Financial assets at FVTPL	28,998,507	1.3294	36,013,765	2.1748
Bonds and securities purchased under resell agreements	596,000	0.5757	494,968	0.8596
Available-for-sale financial assets	10,039,512	2.4224	17,389,994	1.9164
<b>Liabilities</b>				
Call loans from banks	3,954,016	0.5576	5,928,704	2.0448
Bonds and securities sold under repurchase agreements	31,499,916	0.9216	45,387,712	1.9916
Bonds payable	3,752,732	2.0645	5,000,000	2.0645

## VI. Financial Status

### Liquidity

	December 31, 2008				
	1~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year
Cash used in					
Bills	\$ 4,544,690	\$ 6,711,934	\$ 1,425,617	\$ 98,276	\$ -
Bonds	393,533	91,280	200,068	1,737,197	10,833,380
Deposits	13,194	-	-	-	-
Call loans to banks	493	-	-	-	-
Bonds and securities purchased under resell agreements	266,634	-	-	-	-
Others (Note)	<u>1,037,233</u>	<u>800,000</u>	<u>700,000</u>	<u>-</u>	<u>1,622,011</u>
	<u>6,255,777</u>	<u>7,603,214</u>	<u>2,325,685</u>	<u>1,835,473</u>	<u>12,455,391</u>
Cash provided by					
Call loans from banks	4,195,000	-	-	-	-
Bonds and securities sold under repurchase agreements	17,963,630	3,083,609	3,488	2,701	-
Self-owned capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,575,733</u>
	<u>22,158,630</u>	<u>3,083,609</u>	<u>3,488</u>	<u>2,701</u>	<u>5,575,733</u>
Net flow	<u>\$ (15,902,853)</u>	<u>\$ 4,519,605</u>	<u>\$ 2,322,197</u>	<u>\$ 1,832,772</u>	<u>\$ 6,879,658</u>
Accumulated net flow	<u>\$ (15,902,853)</u>	<u>\$ (11,383,248)</u>	<u>\$ (9,061,051)</u>	<u>\$ (7,228,279)</u>	<u>\$ (348,621)</u>

Note: Others refer to other receivables, refundable deposits, refundable collaterals and other assets.





## Interest Rate Sensitivity

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	14,002,865	2,325,685	1,835,473	12,455,391	30,619,414
Interest-sensitive liabilities	25,642,153	3,488	2,701	-	25,648,342
Interest sensitivity gap	(11,639,288)	2,322,197	1,832,772	12,455,391	4,971,072
Net equity					5,575,733
Ratio of interest-sensitive assets to liabilities					119.38%
Ratio of interest sensitivity gap to net equity					89.16%

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

## Taishin AMC

### Balance Sheet

	December 31	
	2008	2007
<b>Assets</b>		
Current assets	\$ 839,688	\$ 579,791
Investments accounted for by the equity method	141,440	134,934
Financial assets carried at cost	528,336	374,486
Held-to-maturity financial assets	-	99,578
Property and equipment	2,629	3,057
Other assets	12,528	335,428
	<u>\$ 1,524,621</u>	<u>\$ 1,527,274</u>
<b>Liabilities</b>		
Current liabilities	\$ 40,804	\$ 206,011
Other liabilities	8,853	8,797
	<u>49,657</u>	<u>214,808</u>
<b>Stockholders' equity</b>		
Capital stock	1,100,000	1,100,000
Retained earnings	374,964	212,466
	<u>1,474,964</u>	<u>1,312,466</u>
	<u>\$ 1,524,621</u>	<u>\$ 1,527,274</u>

# VI. Financial Status

## Income Statement

	Years Ended December 31	
	2008	2007
Operating revenue	\$ 168,373	\$ 303,026
Operating cost and expenses	(159,757)	(169,410)
Operating income	8,616	133,616
Nonoperating income and gains	273,180	114,602
Nonoperating expenses and losses	(3,470)	(109,056)
Income before income tax	278,326	139,162
Income tax expense	(5,817)	(18,028)
Net income	\$ 272,509	\$ 121,134
Pre-tax basic earnings per share (dollar)	\$ 2.53	\$ 1.27
After-tax basic earnings per share (dollar)	\$ 2.48	\$ 1.10

## Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	18.24%	8.77%
	After tax	17.86%	7.63%
Return on net equity	Pretax	19.97%	10.22%
	After tax	19.55%	8.89%
Profit margin		61.72%	29.01%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.



## Taishin Marketing

### Balance Sheet

	December 31	
	2008	2007
Assets		
Current assets	\$ 5,518	\$ 6,292
Property and equipment	49	333
Other assets	35	35
	<u>\$ 5,602</u>	<u>\$ 6,660</u>
Liabilities		
Current liabilities	\$ 375	\$ 820
Other liabilities	221	41
	<u>596</u>	<u>861</u>
Stockholders' equity		
Capital stock	1,000	1,000
Retained earnings	4,006	4,799
	<u>5,006</u>	<u>5,799</u>
	<u>\$ 5,602</u>	<u>\$ 6,660</u>

### Income Statement

	Years Ended December 31	
	2008	2007
Revenue	\$ 4,213	\$ 17,094
Expenses	<u>(5,116)</u>	<u>(17,893)</u>
Loss before income tax	(903)	(799)
Income tax benefit	<u>110</u>	<u>127</u>
Net loss	<u>\$ (793)</u>	<u>\$ (672)</u>
Pre-tax basic loss per share (dollar)	<u>\$ (9.03)</u>	<u>\$ (7.99)</u>
After-tax basic loss per share (dollar)	<u>\$ (7.93)</u>	<u>\$ (6.72)</u>

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	(14.73%)	(9.70%)
	After tax	(12.93%)	(8.16%)
Return on net equity	Pretax	(16.71%)	(13.02%)
	After tax	(14.68%)	(10.95%)
Profit margin		(18.82%)	(3.93%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.

# VI. Financial Status

## Taishin Venture Capital

### Balance Sheet

	December 31	
	2008	2007
Assets		
Current assets	\$ 167,056	\$ 198,623
Available-for-sale financial assets	4,433	18,360
Financial assets carried at cost	624,226	642,312
	<u>\$ 795,715</u>	<u>\$ 859,295</u>
Liabilities		
Current liabilities	\$ 314	\$ 110
Stockholders' equity		
Capital stock	1,000,000	1,000,000
Retained earnings	(189,032)	(139,175)
Unrealized loss for financial assets	(15,567)	(1,640)
	<u>795,401</u>	<u>859,185</u>
	<u>\$ 795,715</u>	<u>\$ 859,295</u>

### Income Statement

	Years Ended December 31	
	2008	2007
Revenue	\$ 17,513	\$ 30,896
Expenses	(67,370)	(43,667)
Loss before income tax	(49,857)	(12,771)
Income tax expense	-	(28)
Net loss	<u>\$ (49,857)</u>	<u>\$ (12,799)</u>
Pre-tax basic loss per share (dollar)	<u>\$ (0.50)</u>	<u>\$ (0.13)</u>
After-tax basic loss per share (dollar)	<u>\$ (0.50)</u>	<u>\$ (0.13)</u>

### Profitability

Item		December 31	
		2008	2007
Return on total assets	Pretax	(6.02%)	(1.47%)
	After tax	(6.02%)	(1.48%)
Return on net equity	Pretax	(6.03%)	(1.47%)
	After tax	(6.03%)	(1.48%)
Profit margin		(284.69%)	(41.43%)

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

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 2008 and 2007.



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**D. Any Financing Problems Encountered by the Company or Its Affiliates Which Might Affect the Company's Financial Status : Nil.**

# VII

I II III IV V VI VIII IX



## Financial Status, Review of Business Performance, and Risk Management



## 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	13,026,747	12,387,621	(639,126)	(4.91)
Financial assets from changes in fair value included in income statement	0	5,559	5,559	-
Financial assets ready for sale	0	0	0	-
Accounts receivable	1,569,064	1,962,510	393,446	25.08
Financial assets held until maturity	0	0	0	-
Equity investments on equity method	116,325,691	107,790,722	(8,534,969)	(7.34)
Fixed assets	11,684	7,782	(3,902)	(33.40)
Intangible assets	0	0	0	-
Other financial assets	3,628,138	3,527,082	(101,056)	(2.79)
Other assets	364,500	410,374	45,874	12.59
Total assets	134,925,824	126,091,650	(8,834,174)	(6.55)
Financial liabilities from changes in fair value included in income statement	650,903	279,635	(371,268)	(57.04)
Accounts payable	1,487,093	1,496,155	9,062	0.61
Corporate bonds payable	39,398,220	39,736,721	338,501	0.86
Preferred-share liabilities	0	0	0	-
Other financial liabilities	0	0	0	-
Other liabilities	14,882	11,465	(3,417)	(22.96)
Total liabilities	41,551,098	41,523,976	(27,122)	(0.07)
Equity capital	69,880,779	69,880,779	0	-
Capital surplus	19,389,426	19,071,634	(317,792)	(1.64)
Retained earnings	4,587,095	(3,838,131)	(8,425,226)	(183.67)
Other items of shareholders' equity	(482,574)	(546,608)	(64,034)	13.27
Total value of shareholders' equity	93,374,726	84,567,674	(8,807,052)	(9.43)

Note: For reason for the re-compilation, please refer to the checking report of certified public accountant.

Explanation for changes and variations

- (1) Account receivable on Dec. 31, 2008 was higher than that on Dec. 31, 2007, due mainly to the increase of NT\$388,391,000 of collectible tax rebate.
- (2) Fixed assets on December 31, 2008 was less than that on Dec. 31, 2007, due to amortization for fixed-assets depreciation.
- (3) Financial liabilities resulting from change in fair value and included in income statement on Dec. 31, 2008 was less than that on Dec. 31, 2007, due to decrease in the fair value of the derivatives embedded in the convertible corporate bonds issued by the company.
- (4) The amount of other liabilities on December 31, 2008 was less than that on Dec. 31, 2007, due to decrease in the liabilities for pension fund.
- (5) Retained earnings on Dec. 31, 2008 were less than that on Dec. 31, 2007, due to loss incurred by the company in 2008.

## VII. Financial Status, Review of Business Performance, and Risk Management

### B. Business Performance

Unit: NT\$1,000

Item	2007	2008	Change	
			Value	Percentage(%)
Investment income calculated according to equity method	6,464,319	1,246,970	(5,217,349)	(80.71)
Other incomes	1,059,556	726,917	(332,639)	(31.39)
Investment loss calculated according to equity method	(13,471)	(5,269,349)	(5,255,878)	-
Operating expense	(371,331)	(327,265)	44,066	(11.87)
Other expenses and loss	(2,470,418)	(1,558,134)	912,284	(36.93)
Pre-tax income (loss)	4,668,655	(5,180,861)	(9,849,516)	(210.97)
After-tax income (loss)	4,552,318	(5,227,592)	(9,779,910)	(214.83)
Note: For reason for the re-compilation, please refer to the checking report of certified public accountant.				

Explanation for changes and variations:

- (1) Net investment income/loss listed according to equity method in 2008 decreased from 2007, due mainly to investment loss of subsidiaries in 2008.
- (2) The amount of other incomes in 2008 decreased from 2007, due to the reduction in the fair value-evaluated benefit of derivatives embedded in the convertible corporate bonds issued by the company.
- (3) The amount of other expenses and loss in 2008 decreased from 2007, mainly due to the listing of loss of NT\$953,350,000, on the basis of equity method, from the disposal of the stakes in invested companies.

### 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) 1+2-3	Remedies for expected cash shortage	
				Investment plan	Financing plan
12,387,621	(511,810)	(2,480,000)	14,355,811	Nil	Nil



## D. Influence on finance of major capital outlays in the recent one year

Items of plans	Actual or expected funding source	Actual or expected date of completion	Total fund needed	Actual or expected fund utilization				
				2005	2006	2007	2008	2009
Equity investment on equity method	Own fund or corporate-bond issuance	2005	36,568,000					
		2006	9,333,096					
		2007	11,700,000	36,568,000	36,568,000	11,700,000	0	1,020,000
		2008	0					
		2009	1,020,000					

## 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. Influence on finance of major capital outlays in the recent 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.

## VII. Financial Status, Review of Business Performance, and Risk Management

### 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

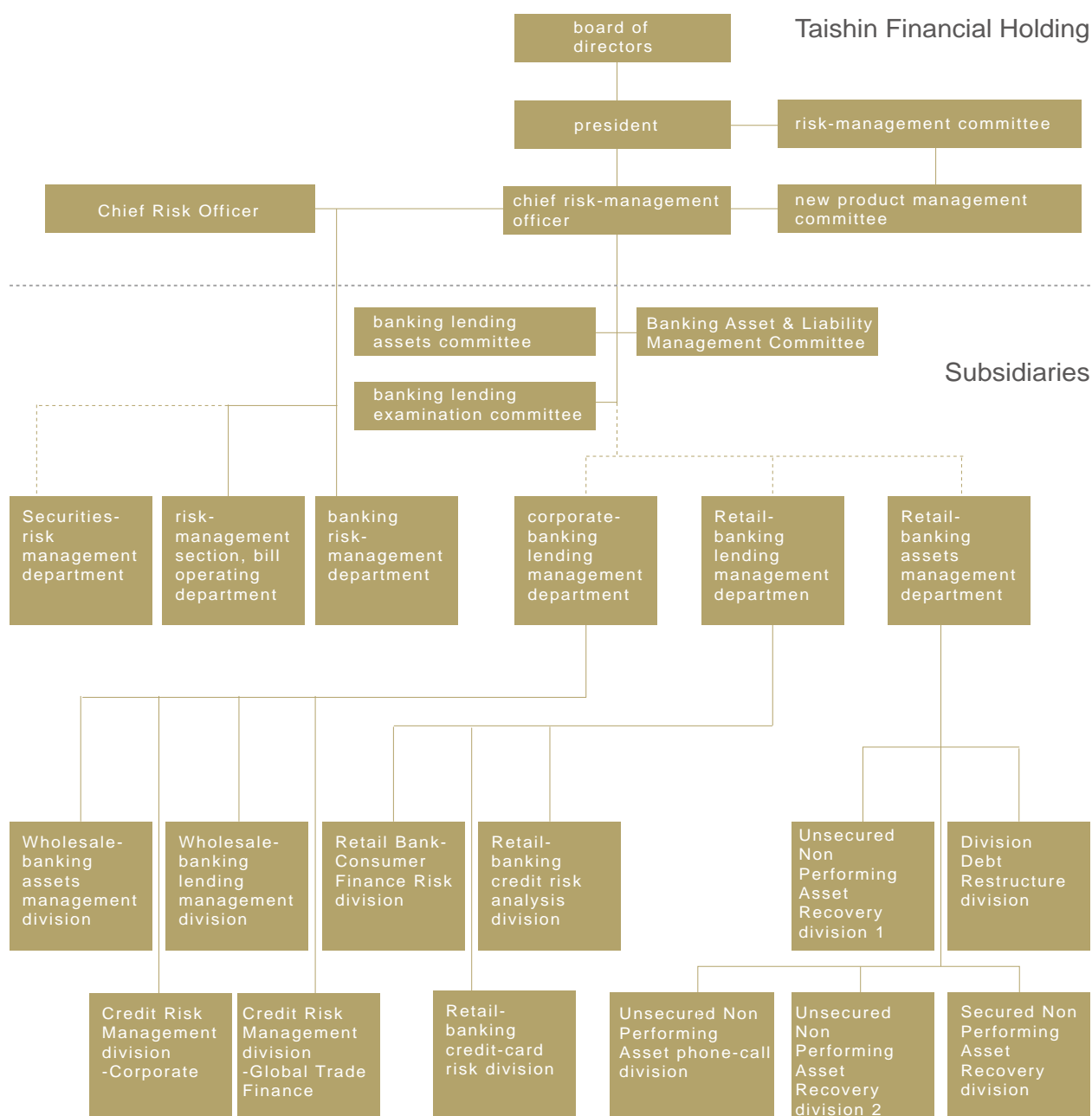
#### a. Risk-management framework and policy of the financial holding company and subsidiaries

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	1.Approval of risk-management policy and procedure 2.Approval of overall market risk, credit risk, and operational risk ceilings of the financial holding company
Risk Management Committee	1.The president of the financial holding company serves as the convener of the committee. 2.Review of the risk-management policy and procedure of the financial holding company 3.Ratification of the policy, measures, and guidelines for the market risk, credit risk, and operating risk of subsidiaries 4.Supervising the institution of market-risk, credit-risk, and operating-risk management mechanism 5.Reviewing performance report of the risk-management units of subsidiaries and the overall risk analytical report of the financial holding company 6.Reviewing and finalizing risk model, risk parameters and indicators, and pressure-test plan 7.The committee oversees a new product management committee, responsible for reviewing risks involving new products and complicated trading of subsidiaries' trading units. 8.Monitoring various risks undertaken by the company, adopting necessary measures for controlling large risk exposure 9.Report of other risk-related projects 10.Execution of risk management-related resolutions of the board of director
Chief Risk-Management Officer	1.Vice convener of the Risk-Management Committee 2.Implementing risk-management strategy and instituting risk-management framework approved by the board of directors 3.Supervising Risk-Management Department and risk-management units of subsidiaries in executing related policy 4.Assuring effective cross-department communication and coordination for risk-management functions
Risk-Management Department	1.Formulation and institution of risk-management mechanism 2.Disclosure of risk-management implementation 3.Producing overall risk analytical report for the financial holding company 4.Coordination and contact for risk-management affairs with subsidiaries 5.Instituting integrated risk-management information system 6.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	1.Provision of risk management-related information 2.Implementing the financial holding company's risk-management policy

## Risk-Management Functional Organization Chart of Taishin Financial Holding

Base date: March 31, 2009



## VII. Financial Status, Review of Business Performance, and Risk Management

### 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

- Further enhancement of risk-management technique: Further introduction and deep-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.
- The credit-extension strategy based on integrated single-client 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.

## VII. Financial Status, Review of Business Performance, and Risk Management

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### ■ 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) Regarding the risk management strategy for corporate banking, the company focuses its attention on sources for repayment and the obtain of adequate risk premium. The credit-extension risk management of the Corporate Banking Business Group is handled by the corporate banking credit-extension division, which oversees under its jurisdiction corporate banking credit-extension management department, corporate-banking screening department, global-trade screening department, and corporate banking assets management department. The corporate banking screening department and the global trade screening department take charge of the management of normal credit-extension cases, while the corporate-banking assets management department is responsible for NPL (non-performing loan) collection.
- (2) The evaluation and management of credit risk is undertaken via the use of internal credit rating system. In addition to credit rating undertaken upon application, all credit-extension cases are subject to follow-up tracking and management. The internal credit rating system consists of two aspects, one is the credit rating of borrowers, mainly for the evaluation of their capability to fulfill financial commitment, which is undertaken via the use of statistical model and an evaluation table as assistant tools. The second aspect is credit-line rating, which is undertaken according to the factors of the existence

of collateral, the order of lien, and type of products. The level of risk is reduced in sync with the provision of collateral, which is appraised in different manners for different kinds of collateral, including real estate, chattel, and securities, so as to effectively cut risks.

- (3) Regular analysis of rating migration is carried out every year, to ascertain the stability of the existing rating system. Migration risk analysis and stress/scenario testing is also undertaken, in order to delineate risk exposure with more sensitive risk analysis and ascertain capital adequacy.

### 3) Quantified information on risk exposure

#### (1) Taishin Bank

Dec. 31, 2008 (note): Unit: NT\$1,000

Kinds of risk exposure	Risk exposure after deduction	Risk-based capital requirement
Sovereign state	131,355,429	80,363
non-central government public sector	139,202	2,227
Bank (including multilateral development bank)	74,346,980	1,663,641
Enterprise (including securities and insurance companies)	279,525,602	22,218,429
Retail debt claim	136,588,086	8,626,456
Housing realty	216,044,656	7,814,213
Equity investment	1,493,433	477,899
Other assets	45,794,890	1,995,488
Total	885,288,278	42,878,716

Note: Fill in information up to the end of the previous quarter of the date for the publication of the annual report.

#### (2) Taishin Bank

##### Items in the Table-Credit Risk-Based Assets

Dec. 31, 2008 : Unit: NT\$1,000

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%	393
Debt claims for domestic banks and guarantees for them	20%	106,324
Capital items and other assets other than common shares of other financial institutions	100%	2,610,783
Minus: 1.provision for possible loss from loaning assets	-	(98,569)
2. 1% of outstanding guarantee	-	(79,552)
Total	-	2,579,379

Note: Fill in according to the data in the recent report submitted to the Financial Supervisory Commission

## VII. Financial Status, Review of Business Performance, and Risk Management

### Items Outside the Table—Credit Risk-Based Assets

Dec. 31, 2008 : Unit: NT\$1,000

Item	Risk-based Assets
Common trading outside the table	7,955,200
Derivatives	304,730
Liabilities of commercial paper/bond with repurchase agreement	240,160
Investment in commercial paper/bond with resale agreement	0
Total	8,500,090

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

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	695,497,841	154,350,106	75,286,035	24,526,987	26,764,671	414,570,042
Main fund outflow due	698,646,641	97,891,536	110,025,617	89,589,472	186,290,683	214,849,333
Expected gap	(3,148,800)	56,458,570	(34,739,582)	(65,062,485)	(159,526,012)	199,720,709

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

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	7,306,842	3,379,171	1,378,429	330,506	198,582	2,020,154
Main fund outflow due	7,276,417	2,217,549	999,964	1,366,338	415,188	2,277,378
Expected gap	30,425	1,161,622	378,465	(1,035,832)	(216,606)	(257,224)

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 180 days	181 days to one year	Over one year
Assets	30,619	6,400	9,929	1,835	12,455
Liabilities	25,649	22,559	3,087	3	0
Gap	4,970	(16,159)	6,842	1,832	12,455
Accumulated gap	4,970	(16,159)	(9,317)	(7,485)	4,970

## ■ Market risk

### 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

## VII. Financial Status, Review of Business Performance, and Risk Management

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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

#### 1) 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 reporting system, 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

- 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.
- The financial holding company formulated operating-risk ceilings for the various units of Taishin Bank, Taishin Bills Finance, and Taishin 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 2008, Taishin 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

## VII. Financial Status, Review of Business Performance, and Risk Management

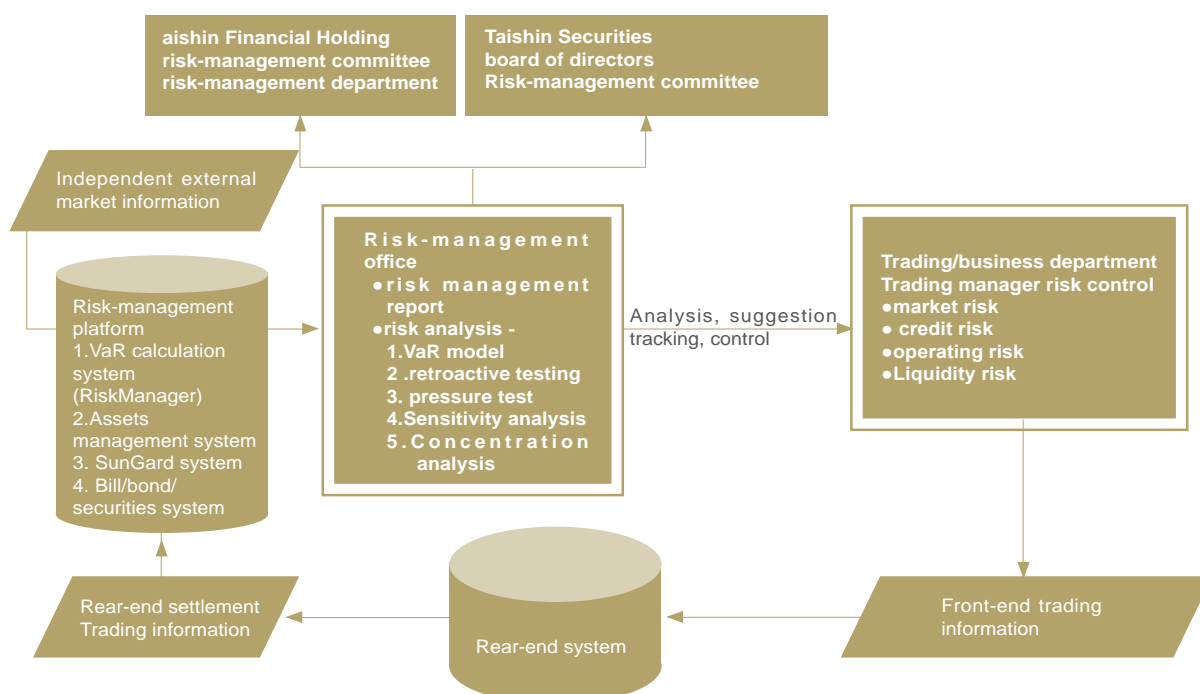
- Augment the efficacy of capital allocation and maximize risk-adjusted returns.

### (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 Taishin 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.

### 3) Scope and features of risk report and assessment system

#### (1) Assessment methods for the management of various risks

Kind 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. Set stress scenarios for various financial products for the calculation of stress loss. Calculate the amount of necessary provisions for liquid reserve for spot financial products (such as CB) with insufficient liquidity.
Credit risk	Credit trading: Assessment of the keeping rate of clients' collaterals and internal credit rating OTC derivatives ; Calculate PSR (pre-settlement risk) daily Bill/bond trading: credit risk exposure Internal rating for credit grading system
Operating risk	1. Consigned trading ; Calculation of the percentage of erroneous accounts 2. Calculate loss amount of Operating risk by the defined of Basel II

#### (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.

### 4) Risk hedging policy and Strategy and flow for maintaining the effectiveness of risk monitoring/inspection, avoidance, and offsetting tools.

Products	Risk hedging policy	Strategy and flow for maintaining the effectiveness of risk monitoring/inspection, avoidance, and offsetting tools
Mutual fund	The use of index futures products, when necessary, to avoid systematic risks in investing in domestic non-bond mutual funds.	Treat mutual funds and risk-hedging tools as an investment portfolio, monitor net-delta position and income changes daily, and handle excessive quota according to set procedure.
warrants	Allow mutual offsetting among various risk-hedging positions for the same securities, including domestic call/put warrants, structured notes, securities derivatives, and overseas call/put warrants, as well as calculate the value of risk exposure on the basis of the risk-hedging position after the offsetting.	Manage the deviation and exposure value of risk-hedging position and treat the exceeding of the authorization scope for responsible persons as the exceeding of limit, which should be reported to superiors according to the set procedure. Monitor and inspect the variations in the overall net risk exposure for warrants and variation in incomes, and handling the exceeding of limits according to set procedure.

## VII. Financial Status, Review of Business Performance, and Risk Management

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

#### ■ Various risk assessment and management methods and quantified information on risk exposure

##### 1. Credit risk

###### (1) 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

###### (2) Flow

- (A) We have established credit policies to serve as the guiding principles for our loan business and have imposed credit risk limits on same affiliated person, same enterprise group or same industry.
- (B) To highlight credit risk management as an independent function, we set up the Credit Management Division at the head quarter and the Corporate(Consumer)Risk Management Section at the CRC to be responsible for approving loan applications. The Loan Review Committee at the head quarter has to review all cases that fall within the purview of the Presidential mandate; and the Credit Review Committee at the CRC will approve by consensus those applications that are under the jurisdiction of the CRC.
- (C) In order to strengthen the Bank's process for managing the creditors' credit risk through such a comprehensive information management system with a high degree of automation
- (D) Reasonably reflect collateral value/loan ratio via regular appraisal mechanism for housing-loan realty collaterals, so as to effectively identify risk-bearing status.
- (E) 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.
- (F) 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.

- (G) 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.
- (H) 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.
- (I) By using the system for assessing the value of real estate collaterals on a regular basis to reflect the variation of collateral valuation and risk exposure, so as to effectively identify the risk taking situation.
- (J) Develop and create mortgage loan application scorecards, behavior scorecards, and related Probability of Default (PD) model so as to provide objective parameters and references for approval and pricing. This could effectively lower the probability of bad loans and improve the asset quality of the Bank's mortgage loan assets.
- (K) Continuously sponsor risk-management seminars and training, so as to forge the bank's risk-management culture.

## 2. Risk of financial-trading partner

### Strategy and flow

- (A) The bank embraces external credit rating for financial-trading partners, as the basis for internal credit-risk classification and rating
- (B) Based on the category and rating of each counterparty, the net worth of the company is used for the calculation of its total risk limit, or the consolidated net worth is used for the calculation of its business group's total risk limit as the ceiling of the total risk exposure to this counterparty. In addition, the counterparty's credit risk, pre-settlement risk and settlement risk are included in the calculation of its various risk limits and quotas.
- (C) 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.
- (D) Effectively manage the risks of the bank's financial-trading partners via monitoring and reporting procedure.

## VII. Financial Status, Review of Business Performance, and Risk Management

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### 3. Market risk

#### (1) Strategy and flow

On the basis of the bank's regulations for market-risk management, strengthen market-risk management function and comply with the regulations of Basel Capital Accord and establish the bank's market-risk management structure according to the risk-value concept, so as to recognize, evaluate, manage, and monitor/report the bank's market risk, in addition to reporting the finding to the board of directors and top management, thereby conforming the requirements of domestic and overseas regulators.

#### (2) The organization and framework of market-risk management system

- (A) Risk Management Division makes daily report on market risk for the provision of sufficient information to authorized top managers.
- (B) Make timely report on the exceeding of limits and exceptional situations (market crisis and abnormal changes) to management at proper level and adopt proper countermeasures to offset risks.
- (C) Report the risk status for assets portfolio, the location of risks, and the allocation of capital to the board of directors and risk management committee, in order to help them evaluate the bank's risk concentration and risk-enduring capability, so that they formulate necessary strategy.
- (D) Disclose the market risk confronting the bank fully, facilitating the evaluation of the bank's market-risk management by market participants.

### 4. Operating risk

#### (1) 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.

#### (2) The organization and framework of risk-management system



- (A) The Bank collects operational risk loss events through systems, and then categorizes the risks according to regulator regulations and type of loss. This helps the Bank to understand the loss situation internally.
- (B) The risk control and self-assessment(RCSA) system of the Bank begin at the business management units at the headquarter, where they conduct self-assessment according to the risks and controls of their respective businesses, compile and edit their self-assessment tables, and review the rules and regulations of their respective businesses. Execution units then conduct self-assessments and register the results in the system for the bank to analysis potential operation risk exposures.
- (C) The Bank establishes Key Risk Indicators (KRIs) and their respective limit or threshold values for the Bank's major risk exposures. Continuous monitoring and management provides red flags.
- (D) The Bank integrates risk related items and compile them into operational risk management reports for the board of directors, senior management, and divisions of management so that they fully understand the situation and can make decisions accordingly.

## 5. National risk

### Strategy and flow

- (A) Use country credit rating information from Moody's, S&P, and Fitch to develop the Bank's own country risk ratings.
- (B) To use the net worth figure disclosed in our latest annual financial report for the calculation of the total country risk limit that will serve as the ceiling of our bank's exposure to country risk.
- (C) Within the total country risk limit, the individual limits for various countries for the next year are determined based on each country's political and economic situations, as well as the actual needs of relevant business units.
- (D) Risk exposure is constantly measured and monitored. For countries that are experiencing political and economic instability, or whose ratings have been downgraded due to defaults, their country risk limits will be either frozen or eliminated.
- (E) On a monthly basis, country risk exposure data will be gathered, analyzed and compiled into a Country Risk Management Report.

## VII. Financial Status, Review of Business Performance, and Risk Management

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### **c. Influence of important domestic and foreign policy and legal changes on the finance of the financial holding company and countermeasures : Nil**

### **d. Effects of technological and industrial changes on the finance of the financial holding firm and countermeasures**

Along with the progress of communications and data-processing technologies, financial institutions have resorted to massive use of the Internet in communication with clients, offering them various product information and services, a move which not only enhances the potential competitiveness but also diversifies the services of banks. The trend, though, has also resulted in some side effects, notably the deliberate or unintentional interference, sabotage, and information stealth of online operation.

Taishin Bank is aware that information is an assets of the bank, including information assets, physical assets, software assets, service assets, document, personnel, and corporate image and honor. Therefore, the bank has formulated various measures for strict information management, to avoid interference of clients' trading activities.

#### **1. Anti-virus :**

The bank is capable of warding off 95% of garbage mails and the system constantly upgrades its anti-virus software and strictly monitors various suspicious viruses.

#### **2. Anti-hacking :**

Establish high-tier firewall, upgrade SSL encryption technology, and develop various technologies to prevent illegal acts, including online verification codes, instant alarm service, dynamic keyboard, dynamic trading-verification window, the showing of the recent 10 entries for online banking, and chip card encryption mechanism.

#### **3. Disaster prevention :**

In addition to the effort for central-office environment (such as air, temperature, humidity, and power) and fault-olerant design for system (high usable plan such as RAID reconstructor, fault-tolerant components, and mainframe clustering), establish complete back-up mechanism at a different site.

#### 4. Anti-theft :

Along with the popularity of information systems, abusive and improper information usage has become prevalent, making internal security a new issue for information security. Therefore, the bank carries out strict inspection and management of the use of USB, IE printing, Internet browsing, and e-mail sending, to prevent theft and leakage of various information.

To avoid the risks of human error, deliberate sabotage, and natural disasters, the bank embraces complete management measures, covering policy, execution, steps, organizational structure, and software functions, to assure adequacy protection of the bank's assets.

Technology brings new hope but changes in the global economic climate have also posed rigorous challenges for the financial industry. Via the improvement of internal work flow, BPM (business process management), and innovative reform, the bank has managed to lower cost and cut expenses, thereby entrenching the foundation of the bank amid the adverse climate. Meanwhile the constant rollout of new financial products and the integration of businesses have paved the way for the bank to have a fresh start. How to provide clients overall tailor-made solutions to facilitate their investments under the premise of manageable risk is the direction and goal of the bank's effort at the moment.

#### d. Effect of change in the corporate images of the financial holding company and its subsidiaries on the company and countermeasures

In 2005, Taishin Financial Holding bought into Chang Hwa Bank and took part in the latter's board of directors by winning out in the public bidding for Chang Hwa's preferred shares. In 2008, some people implied the engagement of the company in dubious practices in the case, which, via the exaggerated report of media, impaired the company's image among the public. Some people even spread in market rumors concerning instability of the bank's operation and refusal of peers to provide the bank call loans, to the impediment of the company's reputation, clients' confidence, and the performance of the company's share price.

In response to the incorrect implications and rumors, in addition to the explanation and clarification made by the company's top management, including chairman and president, in a press conference held at Taiwan Stock Exchange and statement of the company run

## VII. Financial Status, Review of Business Performance, and Risk Management

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in print media, the company also entrusted lawyers to sue those responsible for defaming the company's reputation with unfounded claims, so as to protect the basic benefits of the company and shareholders.

Meanwhile, to counter the effect of the rumors on the company's image and reputation, the company actively communicated with various related parties (including shareholders, clients, regulator, media, and the employees of subsidiaries) and continued to push various social-welfare activities, enhancing the company's positive brand image via the provision of substantiated paybacks and contributions to the society.

In addition to dedication to its core business, winning clients' trust via continuing provision of good products and services, the company has also continued to take part in various social-welfare payback events for the fulfillment of its social responsibilities, such as the sponsorship of the annual Taishin Art Award and various artistic/cultural performances by Taishin Bank Art Foundation; the continuous execution of the "care-for-Taiwan" series events, including the assistance to the development of indigenous industries in 921 earthquake-stricken regions; and joint organization of various academic/practical affairs seminars. Those efforts have substantially contributed to the improvement of the overall corporate image of the financial holding company.

### e. Anticipated benefits and possible risks from acquisition and countermeasures

#### 1. Anticipated benefits:

- (1) Expand financial scope, enhance the scale of assets and market-share ranking, and boost business competitiveness.
- (2) Expand marketing-channel network and provide clients more convenient and pluralized service channels.
- (3) Create the business synergy of acquisition and maximize the profits for shareholders.
- (4) Provide all-round services and deep-cultivate the relationship with clients.
- (5) Diversify business risks and expand the scope of business development.

#### 2. Possible risks:

- (1) Inadequate business integration can lead to business loss, affecting the company's business and profit performance.

- (2) Inadequate integration of information systems may affect business operation, deferring the appearance of merger synergy.
- (3) Inadequate integration of human resources may lead to loss of talents, indirectly affecting business and management performance.
- (4) Mistake in the judgment of acquisition strategy will affect the overall prospects of the company.
- (5) The effect of misjudgment in acquisition strategy on the overall development outlook of the company

#### **f. Possible risks from business concentration and countermeasures**

The company's subsidiaries have businesses covering the financial fields of banking, securities, and commercial papers and their business units operate under the principle of stable management and diversified development with full authorization, minimizing the risks of business concentration. Meanwhile, the company also make full provisions for assets appraisal and possible risks in compliance with the requirements of laws/regulations and risk-management mechanism, assuring the company's risk-endurance capability.

#### **g. 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.

#### **h. 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

## VII. Financial Status, Review of Business Performance, and Risk Management

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 affects 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 strategy may affects company's business development and Shareholder rights
- (4) Change in management right may trigger concern among investors over company's management stability, driving down stock price.

## i. Litigation and non-litigation incidents

### 1. Taishin Financial Holding

**Related parties :** Trustwell Investment Trust (plaintiff), Taishin Financial Holding (defendant)

**Case :** the request for the payment of NT\$46,130,000 for default compensation

**Requested value :** NT\$46,130,000

**Description of the case :** The financial holding company signed a contract with Lin Weitung of Trustwell Investment Trust for buying 82.01% stake in Trustwell after obtaining the approval of the regulator. Due to the inability to obtain the approval, the financial holding company informed Trustwell on Sept. 2, 2005 to revoke the contract. In May 2006, Trustwell filed a suit with court requesting NT\$46.13 million of default compensation from Taishin Financial Holding, which won the first trial. Trustwell, though, has appealed the case. Lin Wei-

tung won the second trial, as the high court ruled on Sept. 10, 2008 demanding payment of NT\$46,130,625 by the financial holding firm to Truswell for default compensation, for which the latter appealed to the third trial. On March 20, 2009, the company received the verdict of the supreme court invalidating the ruling of the high court and asking the latter to try the case again.

## 2. Taishin Securities Co., Ltd.

### 1).The case of Ms. Tseng

Ms. Tseng, a former client of the company's Yungli branch, filed a suit against two former employees of the company for a financial dispute on Dec. 25, 2006 and demanded NT\$60 million of compensation from the company for associated responsibility for her loss.

Taoyuan district court refuted Ms. Tseng's request of NT\$60 million compensation from the company but the latter appealed the ruling, which was upheld by Taiwan high court on March 5, 2008. The company received the formal verdict on July 21, 2008, which concluded the case.

### 2).The case of Ms. Wu and Ms. Wujiang

Ms. Wu and Ms. Wujiang, both former clients of the company's Yungli branch, filed suit against the company on Jan. 16, 2008, demanding NT\$21 million of compensation for the company's responsibility associated with their financial dispute with Ms. Tseng, a former employee of the branch.

Taoyuan district court refuted the request in the first trial but the company had yet to receive verification document for the final verdict as of March 31, 2009.

### 3).The case of Ms. Hung

Ms. Hung and three other former clients of the company's Sanduo branch filed a suit against Ms. Tsai, a former employee of the branch, for a financial dispute on Jan. 23, 2007 and demanded NT\$21.5 million of compensation from the company for associated responsibility for their loss.

Kaohsiung district ruled demanding the company to give the plaintiffs NT\$21.5 million of compensation, for which the company appealed on December 9, 2008 and is waiting for the verdict of Taiwan high court's Kaohsiung branch.

## 3. Chang Hwa Bank

The bank engaged in a law suit with the ministry of defense of Iran involving US\$15 million of "requested wired payment" in 1991, which was won by bank according to the verdict of the supreme court on Aug. 1, 2002. The Iran party filed another suit for "surrogate request for the

## VII. Financial Status, Review of Business Performance, and Risk Management

return of the wired payment” in 1997, which was also won by the bank according to the ruling of the Taipei district court on Sept. 10, 2004. The Iran party, though, appealed the court with Taiwan high court on Oct. 6, 2004 and the case is still being tried.

### 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)

### j. 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



# VII



## Special Events on Record

## VIII. Special Events on Record

### A. FBasic information on affiliates

Dec. 31, 2008; Unit: NT\$1,000

Name of enterprise	Date of establishment	Address	Paid-in capital	Major business or production items
Taishin Bank	81.02.25	1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> fl. and 1 <sup>st</sup> basement, No. 44, Zhongshan N. Rd. Sec. 2, Taipei	41,750,118	<ol style="list-style-type: none"> <li>1. Deposit reception (reception of check deposit, demand deposit, time deposit, and savings deposit originally listed in its business license are included in the item)</li> <li>2. Issuance of financial bonds.</li> <li>3. Loan extension (short-, medium- and long-term loan extension, loan mortgaged by certificates of time deposit, consumption loan originally listed in its business license are included in the item.</li> <li>4. Securities investment (investments in government bonds, short-term bills, corporate bonds, financial bond, and company stocks originally listed in its business license are included in this item)</li> <li>5. Currency conversion</li> <li>6. Cashing of banker's acceptance</li> <li>7. Issuance of domestic L/C</li> <li>8. Guarantee for corporate-bond issuance</li> <li>9. Provision of domestic guarantee (guarantee business originally listed in the business license is included in the item)</li> <li>10. Surrogate collection/payment</li> <li>11. Underwriting securities (The undertaking of government bonds, treasury notes, corporate bonds, and corporate stocks originally listed in the business license is included in the item)</li> <li>12. Custody and warehouse business</li> <li>13. Lease of safe</li> <li>14. Agency services related to the various businesses listed in the business license and approved by the regulator</li> <li>15. Credit card (credit card and cash advance businesses originally listed in the businesses license is included in the item)</li> <li>16. Trading in gold ingots, gold coins, and silver coins</li> <li>17. Export/import forex, common outward and inward remittance, foreign-currency deposit, foreign-currency loan, and guarantee for secured foreign-currency payment</li> <li>18. Derivatives approved by the regulator</li> <li>19. Businesses permitted by Trust Industry La</li> <li>20. Dealer business in government bonds</li> <li>21. Brokerage, dealing, certification, and underwriting of short-term bills</li> </ol>
Taishin Securities	77.10.29	4 <sup>th</sup> fl., 4 <sup>th</sup> -1 fl., No. 137, Nanjing E. Road, Sec. 2, Taipei	13,255,044	<ol style="list-style-type: none"> <li>1. Consignment trading in securities at the centralized market</li> <li>2. Accept consignment for securities trading at its business units</li> <li>3. Deal in securities at the centralized market</li> <li>4. Deal in securities at its business units</li> <li>5. Securities underwriting</li> <li>6. Agency for stock affairs</li> <li>7. Margin trading and short sale business for securities</li> <li>8. Consigned trading in foreign securities</li> <li>9. Brokerage for short-term bills</li> <li>10. Deal in short-term bills</li> <li>11. Introducing brokerage for futures</li> <li>12. Securities-related loan extension</li> <li>13. Securities loan (except central book-entry bonds)</li> <li>14. Other businesses approved by the regulator</li> </ol>

Name of enterprise	Date of establishment	Address	Paid-in capital	Major business or production items
Taishin Bills Financial	87.01.19	10 <sup>th</sup> fl., No. 118, Jenai Rd. Sec. 4, Taipei City	5,140,000	1.Certification and underwriting of short-term bills 2.Brokerage of and dealing in short-term bills 3.Guarantee and endorsement of short-term bills 4.Brokerage for inter-peer call loans 5.Corporate financial consulting 6.Brokerage of and dealing in government bonds 7.Certification and underwriting of financial bonds 8.Brokerage of and dealing in financial bonds 9.Brokerage of and dealing in corporate bonds 10.Derivatives approved by the regulator
Taishin Assets Management	91.08.19	2 <sup>nd</sup> -3 fl., No. 9, Dehui Street, Taipei City	1,100,000	Purchase, appraisal, auction of bad-debt claims of financial institutions
Taishin Marketing	87.11.20	2 <sup>nd</sup> fl., No. 111, Bade Rd., Sec. 4, Taipei City	1,000	Provision of temporary help service
Taishin Venture capital	92.09.30	2 <sup>nd</sup> -3 fl., No. 9, Dehui Street, Taipei City	1,000,000	Ventral capital
Payeasy Digital Integration Co.,Ltd	89.04.27	13 <sup>th</sup> fl., No. 11, Zhongshan N. Road, Sec. 1, Taipei City	300,000	1. Investment consulting, 2. Management consulting, 3. Information software, 4. Information processing, 5. Provision of e-information, 6. Common advertisement service, 7. Other general retail, 8. Department store, 9. Brokerage, 10. Online certification, 11, wholesale of medical instrument, 12. Retail of medical instrument, 13. Storeless retail.
Taishin Insurance Agency	85.09.19	3 <sup>rd</sup> fl. No. 236 and 3 <sup>rd</sup> fl., No. 238, Jianguo N. Road, Sec. 2, Zhongshan district, Taipei City.	3,000	Agency for personal insurance
Taishin Insurance Borkers	91.07.24	3 <sup>rd</sup> fl., No. 238, Jianguo N. Road, Sec. 2, Zhongshan district, Taipei City	60,000	Agency for property insurance
Dah An Leasing	86.10.13	2 <sup>nd</sup> -2 fl., No. 9, Dehui Street, Taipei City	200,000	Leasing
Taishin International Finance	88.01.06	15 <sup>th</sup> fl., Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	125,760 (HK\$ 30,000,000)	1. Export/import forex, 2. Export/import funding, 3. Credit extension, guarantee, and acceptance, 4. Trading in financial market, 5. Trade and investment consulting
Taishin Real Estate Management	84.08.17	2 <sup>nd</sup> fl., No. 9, Dehui Street, Taipei City	200,000	1. Review of and consulting for realty development plan, 2, Contract inspection, 3, realty appraisal and credit investigation, 4, financial auditing, 5. Inspection of project progress and construction management, 6. Agency for performance guarantee, 7. Realty trading or liquidation, 8. Consulting and advisory service for other affairs
PayEasy Travel Service	94.06.06	13 <sup>th</sup> -1 fl., No. 11, Zhongshan N. Road, Sec. 1, Taipei City	10,000	Travel service
Contect Digital Integration Co., Ltd.	97.12.29	12 <sup>th</sup> fl., No. 11, Sec. 1, Zhongshan N. Road, Taipei City	3,000	1.Investment consulting; 2. Management consulting; 3. Information software service; 4. Information processing service; 5. Electronic information supply service; 6. Common advertisement service; 7. Internet certification service; 8. Department store; 9. Storeless retailing; 10. Other general retailing business; 11. Brokerage service.
Taishin Futures	86.09.01	11 <sup>th</sup> fl., No. 96, Jianguo N. Road, Sec. 1, Taipei City	730,000	1.Brokerage for domestic and foreign futures 2.Dealing in futures 3.Futures consulting 4.Consulting for securities investment 5.Futures management

## VIII. Special Events on Record

Name of enterprise	Date of establishment	Address	Paid-in capital	Major business or production items
Taishin Securities Investment Advisory	78.03.21	16 <sup>th</sup> fl., No. 118, Jenai Road, Sec. 4, Taipei City	300,000	1. Acceptance of consigned study on securities investment 2. Publishing of securities-investment publications 3. Organization of workshops on securities investment 4. Other securities consulting services approved by the regulator
Anew Holdings Ltd	85.11.06	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	US\$ 55,924,000	Financial management for overseas equity investment
Taishin Securities(Hong Kong)	81.12.10	Room 2803, 2805, 2803A, 28/F., Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong	HK\$ 413,450,000	Overseas securities brokerage, IPO, and investment consulting
Taishin Securities (Hong Kong) Nominee Limited	83.07.19	Room 2803, 2805, 2803A, 28/F., Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong	HK\$3	Agency for trust in overseas markets
Taishin Securities (BVI) Co. Ltd.	86.07.08	Omar Hodge Building, Wickhams Cay 1, P.O.Box 362, Road Town, Tortola, British Virgin Islands	US\$ 10,000	Assistance, underwriting, and sale agency for securities and related consulting
TSC Capital Limited	93.04.01	Room 2803, 2805, 2803A, 28/F., Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong	HK\$ 20,000,000	Financial consulting, funding, and underwriting
CHB Life Insurance Agency	90.06.28	6 <sup>th</sup> fl., No. 57, Zhongshan N. Road, Taipei City	5,000	Agency for personal insurance
CHB Life Insurance Brokerage	92.04.01	6 <sup>th</sup> fl., No. 57, Zhongshan N. Road, Taipei City	5,000	Agency for property insurance
Chang Hwa Bank	39.07.01	No. 38, Ziyou Road, Taichung City	62,094,756	Deposit/loan, guarantee, acceptance, Forex, bills dealing, and credit card

Note 1: Taishin International Finance was already liquidated in November 2008 and dissolved in April 2009.

Note 2: The board of directors of Taishin Managed Futures has passed the proposal of its liquidation and dissolution, the latter of which took effect on Dec. 29, 2008.

# IX

I II III IV V VI VII VIII



**Items with major effect on shareholders' benefits or securities prices in 2008 and as of the date for the publication of the annual report**

## **IX.Items with major effect on shareholders' benefits or securities prices in 2008 and as of the date for the publication of the annual report**

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**A.The company signed a letter of intent with KGI Securities on May 14, 2009 for the merger of Taishin Securities and KGI, which will engage in talk for the details and sign a merger contract according to the principles and scope of the letter of the intent.**



**Taishin Holdings**

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