



Taishin Holdings

# 2003 Annual Report



We bring to sight a better tomorrow.



Taishin Holdings

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Taishin Holdings



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- Taiwan Securities Co., Ltd.  
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886-2-5271-5100
- Taishin Bills Finance Co., Ltd.  
9Fl., No.162 Sung Chiang Road  
Taipei, Taiwan  
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- Taishin Asset Management Co., Ltd.  
6Fl., No. 46 Chung Shan North Road, Section 2  
Taipei, Taiwan  
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- Taishin Marketing Consultant Co., Ltd.  
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Taishin Holdings

With a far-sighted vision  
We bring to sight a better tomorrow.



## Chairman's Message to Shareholders I

With a far-sighted vision

We bring to sight a

better tomorrow.



# Chairman's Message to Shareholders



**Taiwan's** economy suffered a negative rate of growth in the second quarter of 2003 because of the impact of the U.S.-Iraq war, the SARS epidemic, and other factors, but fortunately the economy bottomed out and began to recover in the second half. For the year as a whole the economy managed to maintain a growth of 3.24%; with weakness afflicting domestic demand, however, consumer prices dropped 0.28% in 2003.

Looking at the economic environment for this year, we see a rise in U.S. macroeconomic indicators that will serve as a locomotive that powers increased global economic activity. The Asia-Pacific region will benefit from the high rate of growth in mainland China; this will stimulate the expansion of trade in neighboring countries, so that economic performance can be

expected to continue improving this year. According to forecasts by the Directorate General of Budget, Accounting and Statistics, Taiwan's economic growth rate will reach 4.74% this year. The global economic outlook report published by the IFM in April puts Taiwan's growth for 2004 at 3.70%. In the financial environment, by the end of December 2003 the non-performing-loan ratio of Taiwan banks had fallen to 4.33%, down by 3.71 percentage points from the high of 8.04% reached in the first quarter of 2002. When loans under observation are added, the broadly defined NPL ratio is 6.09%. With the implementation of The New Basel Capital Accord in 2006, the broadly defined NPL ratio will continue to be adjusted downward. Financial institutions with high NPL ratios will still face considerable pressure for the allocation of reserves, but the expected improvement of the overall economy this year means that there will be fewer new NPLs and that the room for profit growth is large.

For Taishin Holdings, 2003 was truly the first year of operation in the financial holding company mode. After taking in the subsidiaries under our banner and carrying out full integration, our operating team has not disappointed the expectations of our shareholders but has turned in a brilliant report card. After-tax earnings for the year were NT\$7.295 billion, reaching 101% of the target set at the beginning of the year, and after-tax earnings per share were NT\$2.16, ranking third among all of Taiwan's financial holding companies. This is the second consecutive year in which Taishin has achieved its preliminary financial target, and our overall performance has won a high degree of affirmation from the investing public and institutional investors as well. Our average share price during the first period of this year was 60% higher than the same period of 2003, and the ratio of shareholding by foreign institutions has been boosted to 34%.

The business scope of the Taishin Financial Holding Group is constantly expanding. Following the taking in of the Taiwan Securities Co., Ltd. and Taishin Bills Finance Co., Ltd. as subsidiaries at the end of 2002, the Taisin Venture Capital Co., Ltd. was established in September 2003, marking a major advance toward the formation of an investment bank. Together with Taishin Asset Management Co., Ltd. and Taishin Marketing Consultant Co., Ltd. there are now six subsidiaries operating under the financial holding company.

In addition, the full-service Hong Kong Branch began operating in mid-2003, and the planned capital increase of the Hong Kong Branch of Taiwan Securities along with the establishment of the Los Angeles branch (currently under planning) will form a multinational funding service platform that will strengthen business expansion between Taiwan and mainland China and provide customers with the finest of services. All of these activities show that not only have we sent down solid roots during our first year of operation, but have also actively carried out deployment for stable long-term business growth.

Thanks to the successful experience of the Taishin Bank in absorbing the First Credit Cooperative of Tainan and the Dah An Commercial Bank, the establishment of the financial holding company has been able to realize the synergies of combination. For this reason, even greater emphasis has been placed on integrating the operations of the subsidiaries. At the end of 2002 a customer orientation was followed in establishing three business groups-Wealth Management Group, Retail Banking Group, and Wholesale Banking Group-while at the same time integrating back-office operations, information technology and personnel. The synergies of this integration are steadily surfacing, and beginning in 2003 the holding company is going all-out to expand its business by using cross-marketing together with its subsidiaries. Thanks to the concerted efforts of all our staff, in just one short year the Taishin Financial Holding Co. has outdone the other holding companies in terms of business performance.

At the same time as we have pursued growth and profits, Taishin Financial Holding Co., Ltd. has placed strong emphasis on asset quality and, in line with the coming implementation of The New Basel Capital Accord in 2006, has intensified the establishment of risk control systems and has set up a special task force to reinforce risk management. In the various fields of management, therefore, Taishin Financial Holding stands out from its fellows. In 2003, for example, our broadly defined non-performing-loan ratio was 1.78%, our reserve coverage for bad debt was 43%, and our return on equity reached 14.06%. In addition, we are working hard to upgrade our capital efficiency and continuously lower our operating costs. The FPK investment bank, which operates under the banner of the Swiss Reinsurance Group, has pinpointed Taishin International Bank as "the best-managed bank in Taiwan," showing once again that we are advancing toward the vision of become the top brand in Taiwan's financial industry.

Something that merits mention even more is that the Financial Network System Company's B@ncs-24 program that the Taishin International Bank spent three years planning and setting up went on line on Feb. 16 this year. This is an engineering achievement that is worthy of pride; it gives us the lead over all other domestic banks, and in the future we will be able to use this outstanding foundation to break away from the competition and win victory in the market.



## Following are brief descriptions of the status and performance of our three business groups:

**The Wealth Management Group** is headed up by Dr. Keh-Hsiao Lin, president of Taiwan Securities. It provides customers with the most appropriate financial planning in accordance with different customer groups and with differences in return and risk. The Group uses a diverse range of innovative financial products and VIP services to help its customers realize their dreams of affluence and health.

During the year 2003 the Wealth Management Group set up top-end Mega Centers at numerous locations throughout Taiwan and, together with the vast banking and securities channels and customer bases, quickly built up a substantial scale of asset management. In 2003 the Security Brokerage Division boosted its market share from 3.83% to 4.42% and jumped from 6th to 4th place in the market and is now crowding in on the 3rd position.

We want to do more than just expand the scale of our customer assets; we also need to innovate and upgrade our products and services constantly so as to achieve a win-win situation for both customers and the company. In its most recent ranking of the best wealth management banks in Asia, Euromoney magazine placed Taishin International Bank second among all Taiwan banks in the categories of best wealth management bank and best customers relations management. This shows that our efforts have won the recognition of international financial institutions, and in the future we will charge ourselves with the task of maintaining a position of leadership in the market.

**The Retail Banking Group** is headed by Daniel Tsai, president of Taishin Bank. With its experience in the creation of a leading credit-card business together with its customer relations management (CRM) platform, this Group offers products and services that are tailored to its customers. Taishin Bank's credit card operation has been named an outstanding member of the American Express World Service Program for four years in a row. The number of valid cards in circulation broke through the 4 million mark in 2003. Taishin was also first in Asia to issue the top-class Infinite Card, offering prestigious services to elite customers.

A number of the Retail Banking Group's key businesses have taken a leadership position in Taiwan, including the biggest volume of deposits among all the new banks, an auto loan business that is No. 1 in the field, and a volume of credit card and bank card businesses that are No. 2 on the island. But we are not satisfied with our present achievements, and our goal is to continuously introduce innovative consumer financial products that will double our customer satisfaction. Taishin Bank took the lead in introducing offset home loans into the market; this business has grown quickly, leading to a flurry of emulation by other banks that proves the innovative power of our products.

**The Wholesale Banking Group** is under the leadership of Justin Tsai, president of the Taishin Bills Finance Co., Ltd. who is guiding the Group forward using his rich experience in commercial and investment banking. The strategy he adopts is to combine the advantages of the finance and securities businesses to bring out a complete set of brand-net integrated financial services for Taiwan small and medium enterprises, from financial consulting, risk management, and loans to the raising of funds in the capital market. The Group has even set up a cross-straits funding service net to meet the transnational operating needs of Taiwanese businesses by providing complete solutions for rapidly growing Taiwanese enterprises.

The Wholesale Banking Group turned in an outstanding performance in 2003, including second place in the factoring market, third in underwriting cases, and fifth in derivatives transaction volume in Taiwan, as well as being one of the first domestic companies to be qualified as a trader in major central government bonds. In the future, the Group will engage in the deep development of integrated marketing and will expand services to overseas companies and companies doing business across the Taiwan Straits, so as to advance in the business at a stable pace.

Looking to the future, Taishin Financial Holding Co., Ltd. will continuously promote growth in its core areas of business and reinforce its asset quality as it seeks constant enhancement of the scope of its business as well as its products and services. These efforts will include the ongoing integration of businesses and operations among subsidiaries, the continuing expansion of asset scale, the seizing of leadership in the introduction of innovative products and businesses, and the reinforcement of synergies. At the same time, it will pass up no opportunity to expand Taishin's economic scale and business scope and grasp opportunities for mergers that will reinforce competitiveness, so as to assure the maintenance of the Taishin Holding Company's leadership in the competitive environment.

Finally, I want to express our appreciation to the consistent support with which each of our shareholders has favored the Taishin Financial Holding Co., Ltd. and to solicit your ongoing care as you continue to give us your support and guidance. Our management team will exhaust all of its wisdom and energy and will strive harder than ever to secure the maximum long-term benefit for our shareholders, our employees, and our customers.

Chairman



May 2004





Taishin Holdings

Meticulous nurturing  
yields a fruitful harvest.



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yields a fruitful harvest.

Company Profile II



## I. Introduction

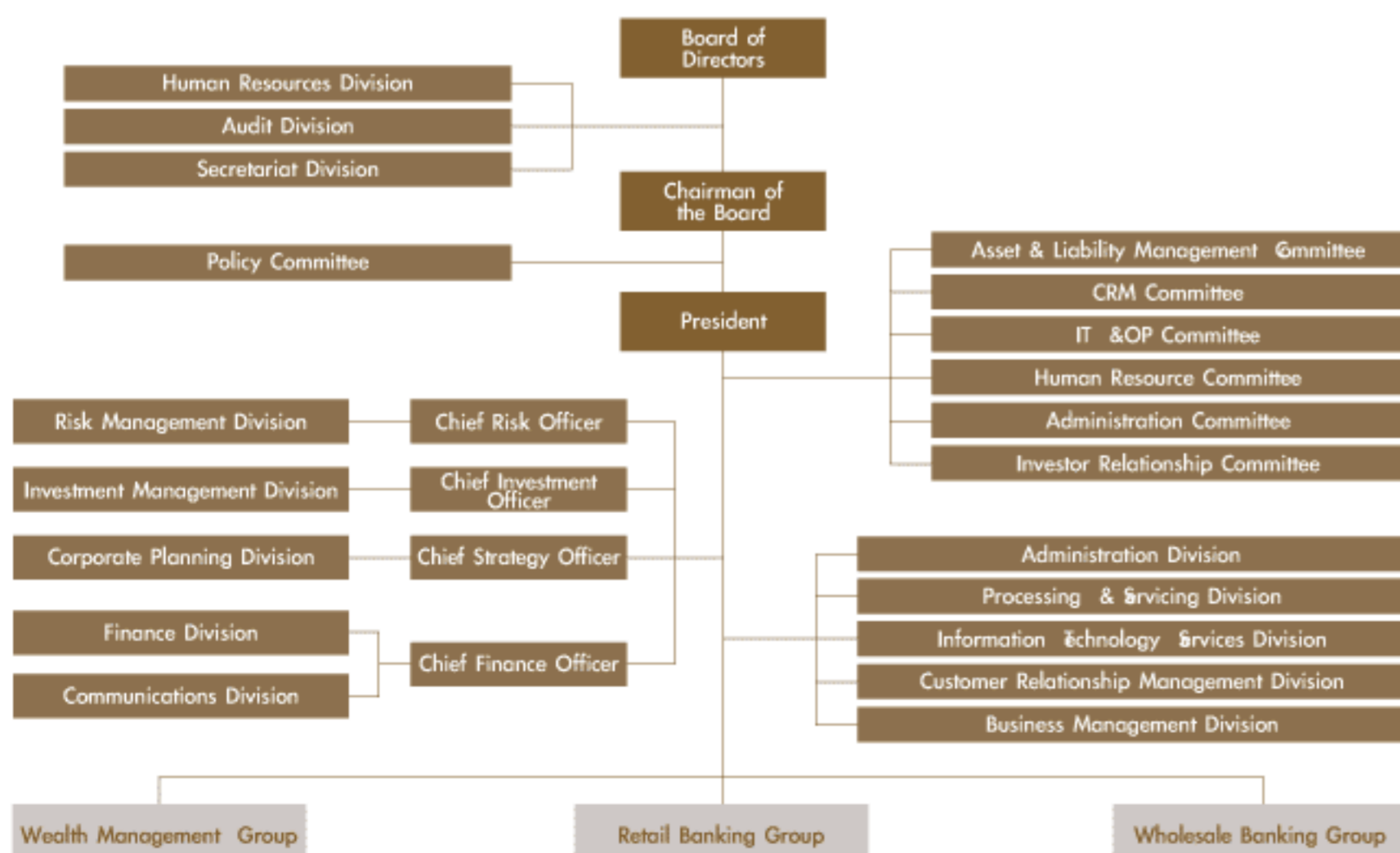
**Establishment Date:** February 18, 2002

**Head Office Location:** 44 Chung Shan N. Rd., Sec.2, Taipei, Taiwan

**Company history:** After the Law Governing Merger of Financial Institutions and the ROC Financial Holding Company Act were passed, the trend among financial institutions of cross-industry collaboration through the integration of financial products has emerged. Taishin International Bank Co., Ltd. (referred to as "Taishin Bank"), Dah An Commercial Bank Co., Ltd. (referred to as "Dah An Bank"), Taishin Bills Finance Co., Ltd. (referred to as "Taishin Bills Finance") and Taiwan Securities Company (referred to as "Taiwan Securities") shared a common goal and exchanged equity shares to establish the "Taishin Financial Holding Co., Ltd. The company was established in different stages. In the first stage, Taishin Bank merged with Dah An Bank through the exchange of equity shares on February 18 2002 to establish Taishin Financial Holdings. On December 31, 2002, Taiwan Securities and Taishin Bills Finance were incorporated into Taishin Financial Holdings as subsidiaries through the exchange of equity shares at the ratio of 1:1.2 and 1:1.3 respectively. In addition, Taishin Asset Management Co., Ltd. (referred to as Taishin Asset Management) was established in August 2002 by 100% direct investment of Taishin Financial Holdings in a purpose to relieve the pressure of high NPL ratio and the outstanding non-performing loans. In October, the company incorporated Taishin Marketing Consultant Co., Ltd. (referred to as Taishin Marketing) as a subsidiary at the approval of the Ministry of Finance to stimulate sales and save marketing cost. On September 25, 2003, we established Taisin Venture Capital Investment Co., Ltd. to engage in venture capital businesses.

## II. Organization Chart

(as of Dec. 31, 2002)



### Key functions and responsibilities:

- **Human Resources Division:**  
human resources policy planning, personnel administration, evaluation, recruitment, transference, training and education.
- **Audit Division:**  
establishing auditing system, internal control administration, internal audit, and evaluation.
- **Secretariat Division:**  
organizing shareholders' meetings, compiling board meeting records, meeting itinerary, meeting agendas, custody of seals for senior executives, stock registration, itinerary and meetings for senior executives and other ad hoc assignments.
- **Corporate Planning Division:**  
strategic planning, merger and acquisition, strategic alliances, evaluation and management of long-term equity investment, coordination and liaison of external consultants and relevant parties.
- **Risk Management Division:**  
monitoring credit, market and operational risks of Taishin FHC and its subsidiaries.
- **Finance Division:**  
administering financial planning, financing, credit rating, and financial accounting of Taishin FHC and its subsidiaries, and controlling assets and liabilities as well as cash flow of Taishin FHC and its subsidiaries.
- **Communications Division:**  
managing legal entities' relations with the media.
- **Investment Management Division:**  
analysis, consolidation, and management of subsidiaries' short-term equity and mutual fund investment.
- **Administration Division:**  
custody of corporate seal and stamps, document acceptance and delivery, transcription and collation, general administration, repair and maintenance.
- **Processing & Servicing Division:**  
process and system design for Taishin FHC and its subsidiaries, driving operational integration, and building a common platform.
- **Information Technology Services Division:**  
development of IT functionality, IT architecture, software and hardware integration of Taishin FHC, and technology-enabled applications based on banking requirements.
- **Customer Relations Management Division:**  
customer information analysis and application, data warehouse planning and installation.
- **Business Management Division:**  
business planning and review, defining annual budgeting guidelines and principles, tracking budget execution at all levels, and coordinating operational issues among subsidiaries.
- **Wealth Management Group:**  
wealth management program implementation and management, wealth management bank, securities brokerage service, trust and personal investment products R&D, domestic and overseas financial markets research.
- **Retail Banking Group:**  
consumer banking business implementation and management, credit cards, consumer finance, branch marketing, phone banking, and credit management of consumer finance.
- **Wholesale Banking Group:**  
corporate banking implementation and management, corporate financing, fund solicitation, public offering, listing of stocks in primary market, financial planning of merger and acquisition, foreign exchange, cash management, factoring service, fixed return products and derivatives R&D.







## III. Directors, Supervisors & Managers

### Directors & Supervisors

Title	Representative / Company
Chairman	Thomas T.L. Wu Representative of Bo Rei Co.,Ltd.
Vice Chairman	Eric T. Wu Representative of Ruey-Shin Enterprise Company Limited
Director	Long-Su Lin Representative of Shin Kong Wu Ho-Su Rescue Foundation
Director	Michelle R.N. Wu Representative of Tong Shin Co.
Director	Yu-Lon Chiao Representative of Chin Cherng Investment Co., Ltd.
Director	Chu Chan Wang Representative of Pan City Co., Ltd.
Director	Charles W. Y. Wang Representative of Jaw Heng Co., Ltd.
Supervisor	Hong Chung-Tung Representative of Master Advisor Management Consulting Co., Ltd.
Supervisor	Henry C.S. Kao Representative of Bo Rei Co., Ltd.
Supervisor	Cheng Ching Wu Representative of Excel Chemical Coporation

### Managers

Title	Name
President	Julius Chen
General Manager, Wholesale Banking Group	Justin Tsai
General Manager, Retail Banking Group	Daniel M. Tsai
General Manager, Wealth Management Group	Keh hsiao Lin
Chief Auditor	Diao-Li Lin
CFO & Spokesperson	Carol Lai
CRO	James Lin
CSO	Daniel Wu
CIO	Welch Lin
Senior Vice President, Information Technology Services Division	B. R. Ho
Senior Vice President, Processing & Servicing Division	Ena Swei
Senior Vice President, Business Management Division & CRM Division	Jim C. L. Jen
Senior Vice President, Risk Management Division	Bomin Wang
Senior Vice President, Corporate Planning Division	David Chang
Senior Vice President, Administration Division & Secretariat Division	Ming-Nan Lin
Senior Vice President, Human Resources Division	Kevin Huang



## IV. Status of capital and issuance of corporate shares (including preferred shares), corporate bonds (including overseas bonds), and GDR (as of February, 2003)

### ( I ) Capital Stock and Shares

#### Types of Shares

Type of Shares	Authorized Capital				
	Shares Issued ( 1,000 )			Unissued Shares ( 1,000 )	Total ( 1,000 )
	Listed	Unlisted	Total		
Common Shares	3,756,113	-	3,756,113	5,843,887	9,600,000
B-type Preferred Shares	-	400,000	400,000	-	400,000
Total	3,756,113	400,000	4,156,113	5,843,887	10,000,000

#### Note:

1. Taishin Bank and Dah An Bank jointly established "Taishin Financial Holdings" through exchange of equity shares, and merged during the course of establishment. Taishin Bank is the surviving company and Dah An Bank was dissolved after the merger.
2. 300 million registered A-type preferred shares issued by the Company reached maturity on September 20, 2002 and were recalled by the Company at a face value of NT\$10 per share in accordance with corporate charter and governing regulations.
3. Taiwan Securities and Taishin Bills Finance incorporated into Taishin FHC as subsidiaries through exchange of common equity shares at a ratio of 1.2:1 and 1.3:1 respectively. The share exchange day was set on December 31, 2002.

### ( II ) Preferred stocks:

1. The company reported the issuance of 400 million registered B-type preferred shares with a face value of NT\$10 per share and a total face value of NT\$4 billion, for a cash call, and was notified via Securities and Futures Commission, Ministry of Finance document (89) Tai Tsai Cheng (1) No. 43424, dated May 25, 2000, of the effectiveness of the report since May 24, 2000. The collection of payments for the shares was completed on June 30, 2000.
2. The stock dividend and bonus for this issuance of registered B-type preferred shares are capped at 6.05% per annum, to be paid in cash once a year. There is to be no cumulative disbursement and the shares may not be converted to common shares; they will reach maturity 6 years after the date of issuance, at which time they will be recalled by the company, using profits or the proceeds of new stock issues, at the actual issuing price.

### (III) Corporate Bonds

Type of Corporate Bond	2002 Domestic Unsecured Convertible Bond	2003 Euro Unsecured Convertible Bond	2003 Domestic Unsecured Subordinated Debt
Issued Date	Sep.13, 2002	April 17,2003	December 12-29,2003
Face Value	NT\$100,000	US\$1,000	NT\$10,000,000 ~ NT\$50,000,000
Issued and Listed Place	OTC, Taiwan	Luxembourg	OTC, Taiwan
Issued Price	Based on Face Value	Based on Face Value ; Over-allotment issues at 101%	Based on Face Value
Total Amount	NT\$3 Billion	US\$220mn (including over-allotment)	NT\$8 Billion
Coupon Rate	Coupon rate 0%	Coupon rate 0%	Type A coupon rate 3.5% ; Type B coupon rate 5.7%- 「Floating rate B」
Term	Five years, Maturity date: Sep. 13,2007	Five years, Maturity date: April 17,2008	7 years
Guarantor	None	None	None
Trustee	Bank SinoPac Co., Ltd. Trustee Division	Citibank, N.A.	Bank SinoPac Co., Ltd.
Underwriter	Hua Nan Securities Corp.	Citigroup Global Markets	None
Other Rights	Lawyer	Cheng & Lee Attorneys At Law	None
	Auditors	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu
Amortization Plan	Except conversion or redemption, others will be payback with cash until maturity.	Except conversion or redemption, others will be payback with cash until maturity.	According to terms and conditions, payback with cash



Type of Corporate Bond	2002 Domestic Unsecured Convertible Bond	2003 Euro Unsecured Convertible Bond	2003 Domestic Unsecured Subordinated Debt
Unamortized Principal	NT\$1,468,900,000	US\$193,993,000	NT\$8,000,000,000
Call or Pre-Liquidation Provisions	Note	Note	Note
Restricted Provisions	Note	Note	Note
Credit Rating Institution, Rating Date, Bond Rating	Note	Moody's Baa3 April 10, 2003	Moody's Baa2.tw December 17, 2003
Total Amount Converted to Common Stock Until Dec. 31, 2003	NT\$1,531,100,000	US\$26,007,000	None
Issuing and Conversion Provisions	Note	Note	Note
Effect To shareholders when converted	1. The maximum dilution rate is limited to 5.06%. 2. If CBs and ECBs were 100% converted, EPS would be reduced from NTD2.16 to NTD1.98 and book value per share would be increased from NT\$16.09 to NT\$16.27, with limited impact on shareholders.	1. The maximum dilution rate is limited to 8.99%. 2. If CBs and ECBs were 100% converted, EPS would be reduced from NTD2.16 to NTD1.98 and book value per share would be increased from NT\$16.09 to NT\$16.27, with limited impact on shareholders.	None
Exchange Objective Trustee Institution	Note	Note	Note

Note: Please refer to page 80.

### Content of Convertible Bond

Unit: NT\$

Type of Corporate Bond	2002 Domestic Unsecured Convertible Bond	2003 Euro Unsecured Convertible Bond
Market Price	Highest	171
	Lowest	118.2
	Average	134.9
Conversion Price	NT\$ 15.5	NT\$ 20.15
Issued Date	Sep. 13 2002	Apr. 17 2003
Conversion Price on Issuing Date	NT\$ 15.5	NT\$ 21.33
Obligations when Converted	Issue Common Stock	Issue Common Stock





Taishin Holdings

Team work and specialization leads  
optimum efficiency and performance.



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and performance.

Business Operations III



## I. Business Activities

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

#### Business Scope

Pursuant to Article 36, the ROC Financial Holding Company Act, the business of the Company is confined to investment and the management of invested businesses.

#### (1) The company may invest in the following businesses:

- A. Banking.
- B. Bills Finance.
- C. Credit Cards .
- D. Trust.
- E. Insurance.
- F. Securities .
- G. Futures.
- H. Venture Capital.
- I. Foreign financial institutions as approved by relevant authorities .
- J. Other finance-related businesses as approved by relevant authorities.

#### (2) Management of aforementioned invested businesses.

#### (3) The company may, at the approval of relevant authorities upon application, invest in businesses other than those specified in (1).

### 2. Taishin Internatoinal Bank Co., Ltd.

#### (1) Business Scope

- A. Acceptance of checking deposits.
- B. Acceptance of demand deposits.
- C. Acceptance of time deposits.
- D. Issuance of financial debentures.
- E. Extension of short-, medium-, and long-term loans.
- F. Discounting of bills.
- G. Investment in securities.
- H. Processing of domestic remittances.
  - I. Acceptance of commercial drafts.
  - J. Issuance of domestic letters of credit.
- K. Handling of domestic guarantees.
- L. Acting as agent for payments and collections.
- M. Underwriting of government bonds, treasury bills, corporate bonds, and corporate stocks.
- N. Sale of gold bullion and gold and silver coins.
- O. Handling of the credit card business.
- P. Handling of short-term bills brokerage, proprietary dealing, certification, and underwriting.
- Q. Handling of custodianship and warehousing.
- R. Rental of safe deposit boxes.
- S. Provision of agency services related to business items listed on the business license or approved by the central government authorities.

- T. Handling of export and import financing, general inward and outward remittances, foreign currency deposits and loans, and guarantees for foreign currency guaranteed payments.
- U. Trading in derivative financial products approved by the central government authority.
- V. Handling of factoring operations approved by the central government authorities.
- W. Provision of guarantees for the issuance of corporate bonds.
- X. Handling of businesses permitted by the Trust Business Law.
- Y. Proprietary dealing in government bonds.

### 3. Taiwan Securities Co. Ltd.

#### (1) Business Scope

The Company provides its clients with a complete spectrum of financial investment services, such as brokerage, underwriting, fixed income, and transfer agency. An overview introductions of the operations are:

- A. **Brokerage:**  
A service brokering securities (including electronic trading) and stock settlement.
- B. **Margin Trading:**  
Offering margin trading and short selling.
- C. **Proprietary Trading:**  
Trade TSE \ OTC securities and emerging stock to maximize profits under controllable risk.
- D. **Underwriting Service:**  
Assist corporations in initial public offerings on the TSE or OTC markets and render consulting services in overseas investment, tax planning, restructuring, etc.
- E. **Fixed Income Service:**  
Dealing with fixed-income related businesses such as proprietary trading, brokerage, and repo. Trading, underwriting in the primary market, and sales of bond funds. Besides, we also offer overall and diversified portfolio suggestions of long term and short term capital planning for the clients.
- F. **International Service:**  
Providing research reports, brokerage services, and consultation services for individual and institutional foreign investors.
- G. **Transfer Agency Service:**  
Render business services in stock transfer, shareholders' meeting, and consulting.
- H. **Derivatives Service:**  
Concentrate on spread arbitrage in domestic convertible bonds, warrants, and hedging.
- I. **Futures Service:**  
Support services for securities-related futures trading and dealing of proprietary securities-related futures trading.



## I. Business Activities

### (2) Development of New Products and Services

Since joining the Taishin Financial Holding Co., Ltd., TSC has espoused the goal of providing its customers with diversified products and a full range of money-management services through organizational and business integration. It has also worked continuously to develop various kinds of derivative products and expand new financial markets so as to provide customers with even more space for capital investment. In response to the opening of the OTC market to linked equity products, the company has obtained an issuing license and introduced a succession of structure products; in the future, it will continuously coordinate with the relaxation of laws and regulations and will apply for qualification to issue overseas-linked structure products and OTC warrants, and for a license to conduct self-dealing in futures. Approval is also expected in 2003 to operate the bills business. The company will closely follow the pace of deregulation and continuously introduce new products and services so as to provide customers with a full spectrum of money-management services.

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

#### (1) Business Scope

- A. Certification and underwriting of short-term bills.
- B. Brokerage and proprietary trading of short-term bills.
- C. Guarantee and endorsement of short-term bills.
- D. Interbank loans broker.
- E. Corporate finance consultation.
- F. Brokerage and proprietary trading of government bonds.
- G. Certification and underwriting of financial bonds.
- H. Brokerage and proprietary trading of financial bonds.
- I. Brokerage and Proprietary trading of corporate bonds.
- J. Derivatives-related business approved by relevant authorities.

#### (2) Development of New Products and Services

- A. Trading framework focused on fixed-rate commercial paper (FRCP) will be developed.
- B. An online price quotation and ordering business for bills and bonds will be developed.
- C. Certification, brokerage, and proprietary trading of corporate bonds and financial debentures will be developed.
- D. The corporate bond brokerage, proprietary trading, and related derivatives businesses will be developed.
- E. Business in interest rate derivatives (IRS, IRO, FRA, etc.) will be developed.
- F. The interest-rate-based composite commodity business will be developed.

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

#### (1) Business Scope

The primary activities of Taishin Asset Management include credit transfer, valuation or auction, management, and outstanding account receivables management for financial institutions.

#### (2) Development of New Products and Services

Securitization of select non-performing loans: asset securitization, one of the important means of asset management, could be driven by integrating resources of various affiliates.

### 6. Taishin Marketing Consultant Co., Ltd.

#### (1) Business Scope

Taishin Marketing sells consumer finance products of Taishin Bank, which include mortgage, personal loans, car loans and credit cards, providing financial planning and comprehensive professional services to the public.

#### (2) Development of New Products and Services

Products and services to be developed in the future will focus on selling Taishin Bank's innovative consumer products and services.

### 7. Taisin Venture Capital Co., Ltd.

#### (1) Business Scope

The Taishin Venture Capital Co., Ltd. engages in the venture capital business in accordance with the Scope and Guidelines for Venture Capital Industry. The Regulations stipulate that the scope of investment by venture capital firms is limited to technology industries, other venture capital enterprises, general manufacturing industries, and service industries.

The scope of technology industries as defined in the Regulations is as follows:

- A. Communications, information, consumer electronics, semiconductors, precision machinery and automation, aerospace, advanced materials, specialty chemicals and pharmaceuticals, medicine and health care, pollution prevention, biotechnology, technology services, resources and resource development, and advanced sensing.
- B. Science-based industries conforming to those listed in Article 3 of the Statute for the Establishment and Administration of Science Parks.
- C. Emerging, important, and strategic industries as listed in Article 8 of the Statute for Upgrading Industries.
- D. Other technology industries determined or announced by the Ministry of Finance in consultation with the competent authority.

Since the use of services for the knowledge economy is indispensable to future industrial development, at the beginning of 2004 the government broadened the scope of investment by venture capital enterprises to include service industries, and defined "service industries" to include R&D and technology services; information services; distribution and shipping; medical care; health and caregiver services, tourism, travel, and recreation; cultural and creative services; financial services; communication media services; manpower training and manpower services; engineering consulting; environmental protection services; and product design services.

#### (2) Development of New Products and Services

Venture capital may be termed the vanguard of the corporate financing industry. Venture capital firms first discover start-up companies with potential for development; commercial banks then provide financing, and following this securities underwriters offer guidance for listing on the OTC market. These operations allow a financial holding company to manifest the beneficial effects of integration.



## II. Market and Business Conditions

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

#### (1)Market Outlook

##### A. Establishment of Large Financial Holding Companies

The international financial industry is currently developing in the direction of consolidation and globalization, using consolidation to realize synergies that bring economies of scale and scope, business diversification, and risk diversification, and making use of mergers and strategic alliances to achieve product diversification and enlargement of scale. In general, financial holding companies utilize cross-industry operations and the integration of financial enterprises under their banner to provide a wider range of financial and money-management services as they advance along the road to enlargement and globalization.

##### B. The Rise of Consumer Financing

Capital and monetary markets are steadily maturing as the financial sector liberalizes, internationalizes, and deregulates; as a result, channels of corporate financing are diversifying by the day and the ratio of direct financing in the capital market is growing by the year, causing a steady narrowing of the interest-rate spread for banks. Bankers are striving to keep their business growing by aggressively developing products with relatively high profitability, and consumer financing products that offer stable profits and a low rate of default, such as home loans, credit-card credit, and auto loans, are drawing their attention.

##### C. The Budding Trend of Wealth Management

With the economy moving toward recovery and financial products toward diversification and globalization, the demand for asset management by the wealthy is growing by the day. The people of Taiwan and overseas Taiwanese business people, especially, have formed a customer group with strong potential, and financial holding companies are using their advantages of rich capital and huge resources to develop this wealth management market segment by offering more prestigious products and services. This not only satisfies the needs of wealthy customers but also allows financial holding companies to build up the scale of their asset management and increase their commission income.

##### D. Development of the Investment Banking Business

Among the most important elements in the strategy of income diversification that has been adopted in response to financial liberalization, internationalization, and the multiplication of corporate funding channels is the development of investment banking, which can provide companies with the issuance of bonds, assistance in the listing of shares, help in mergers and acquisitions, planning for debt-equity swaps, the issuance of commercial paper, interest rate swaps, and loan transfers; at the same time, it can assist with the issuance of local government bonds, the use of money-management professionals for the marketing of all kinds of financial products to customers, and the management of funds on behalf of clients. With the popularity of outward investment by Taiwanese enterprises, the steady increase in trading in domestic and overseas financial products, the growing internationalization of corporate operations, and the rapid accumulation of wealth by Taiwan's people, the diversification and depth of the demand for portfolio management are certain to expand rapidly.

##### E. The Rapid Development of Financial Automation

Financial automation is a product of the integration of financial businesses, operations, and management with computers, information, and related technologies. Globalization, securitization, and digitization have become trends in the financial industry, and the industry depends on computers and information technology for international financial quotations, trading contracts, securities settlements, and the payment of transaction funds as the only way to realize large increases in trading efficiency, liquidity, and security. Bank internal controls, human resources management, accounting operations, general business operations, and other terminal and peripheral equipment are in urgent need of computerization so as to facilitate the enhancement of operating efficiency, the reduction of manpower costs, and the strengthening of competitiveness.

#### (2)Development of Various Financial Products

Competition in the financial industry will grow steadily more intense in the future, and under the "user pays" customer orientation service-type operations that produce non-interest income will be emphasized. The ratio of income from such operations will increase gradually, and most of the new products offered will be brought in from abroad. The market will become more diversified, and the orientation will be toward market demand.

With the government's relaxation of financial controls, the increase in the number of operators, and the promotion of privatization in the financial industry, competition will focus not only on pricing factors but will also include service quality, manpower training, and product development. These trends will bring Taiwan's financial industry to greater maturity.

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

#### (1)Market Analysis

##### A. Economic Analysis

Despite the ravages of terrorist attacks and contagious diseases such as mad cow disease and avian flu, as well as the continued impact on the international economy of the structural unemployment problem brought on by global integration, thanks to the support of strong market demand the global economy maintained the strong force of recovery that began in 2004. According to an economic situation report issued by the U.S. Federal Reserve in early March, the current economic expansion will continue until the end of the year. In Europe, the consumer confidence index for the euro area in February, and the manufacturer confidence index as well, were on the rise; because of this, the European Central Bank optimistically forecast that if development continues under the current conditions, euro-area countries will exhibit stronger growth in the next few months even without a cut in interest rates to offset the negative economic influence of the strong euro. Overall, world economic performance this year is expected to be good.



## II. Market and Business Conditions

In Taiwan, the economy benefited from the rise in international economic activity, with greatly increased market demand leading exports, production, finance, and related industries. The growing effect of the stimulative programs that had been inaugurated earlier stimulated an expansion in domestic demand. Despite the dissension that resulted from the presidential election and gave rise to instability in the political situation, the economic situation can be expected to return to normality once the curtain falls on the political problems. Data from the Directorate General of Budget, Accounting and Statistics show that the economy grew at a rate of 3.24% in 2003, industrial production increased at an annual rate of 5.5%, and manufacturing production expanded by 5.4%. The economy is forecast to grow at a rate of 4.74% in 2004.

### B. Financial Conditions

Although Fed Chairman Greenspan stated publicly that interest rates should be hiked in order to maintain long-term economic stability, with economic growth effectively leading an increase in employment and with the American presidential election coming at the end of the year, outsiders expect that the U.S. monetary policymakers will maintain the current loose-money policy. In another aspect, it is generally felt that the European Central Bank, based on the improvement in confidence indicators, will adopt a stable monetary policy and wait for the economy to strengthen. For this reason it can be expected that the chance of a large increase in overall international interest rates is not very great.

In regard to Taiwan's domestic interest rates, with the United States maintaining present interest rate levels and with no appreciable inflationary pressure, the Central Bank will hold to a loose monetary policy; with the expectation of a continued warming up of the stock and real estate markets, however, there is a possibility that real interest rates in the market will rise.

In the area of foreign exchange rates, with the uncertainty of the Iraqi situation there is a high possibility that the U.S. dollar will continue its adjustment. The recent export boom has already put heavy pressure for appreciation on the NT Dollar, and it is expected that a rise is inevitable. With the Central Bank's entry into the market to maintain export competitiveness, however, the NT Dollar will likely continue strengthening at a slow pace.

### (2) Business Performance

#### A. Deposits

The amount of deposits in the Bank at the end of 2003 (excluding postal savings deposits) stood at NT\$384,493 million, up NT\$53,630 million over the end of 2002. In the structure of these deposits, checking deposits accounted for NT\$3,512 million, or 0.91% of the total; demand deposits amounted to NT\$128,132 million, making up 33.32%; time deposits were NT\$234,043 million, or 60.88%; and transferable deposits made up NT\$18,806 million, or 4.89% of the total.

#### B. Loans

The Bank's loans outstanding (excluding loans for collection and purchased remittances) at the end of 2003 totaled NT\$396,743 million; compared with the end of the previous year, this was an increase of NT\$59,131 million. Categorized by term, short-term loans at the end of the year amounted to NT\$120,903 million, or 30.47% of the total; medium-term loans stood at NT\$146,650 million, accounting for 36.96% of the overall amount; and long-term loans made up NT\$128,321 million, or 32.35% of the total. Overdrafts amounted to NT\$867 million, or 0.22%.

#### C. Guarantees

The Bank had NT\$23,272 million in guarantees outstanding at the end of 2003; this was a reduction of NT\$4,354 million from a year earlier, for a negative growth rate of 15.76%.

#### D. Foreign Exchange

The total value of foreign exchange transactions undertaken by the Bank during 2003 was US\$18,376 million. In this total, remittances amounted to US\$14,792 million, accounting for 80.50% of the total foreign exchange business; import transactions contributed US\$1,096 million, accounting for 5.96%; export transactions made up US\$840 million, or 4.57%; and foreign-currency loans and guarantees accounted for US\$1,648 million, or 8.97% of the total.

#### E. Short-term Bills Trading

The total value of short-term bills trading undertaken by the Bank in 2003 was NT\$626,440 million. Categorized by type of instrument, trading in bankers acceptances amounted to NT\$789 million, accounting for 0.13% of the total; commercial paper transactions accounted for NT\$243,680 million, or 38.90%; dealing in negotiable certificates of deposit made up NT\$168,475 million, or 26.89%; and dealing in treasury bills contributed NT\$213,499 million, or 34.08% of the total amount.

#### F. Credit Cards

A total of 4,117,437 valid credit cards issued by the Bank were in circulation at the end of 2003; this was an increase of 750,575 over the end of the previous year, for a growth of 22%. The amount of consumption using these cards in 2003 was NT\$115,112 million; this was an increase of NT\$14,345 million over 2002, for a growth of 14%.



## II. Market and Business Conditions

### 3. Taiwan Securities Co., Ltd.

#### (1) Main market and primary products (services)

This company is a consolidated securities house with a list of business items that includes brokerage channels, proprietary trading, underwriting, bonds, stock registration and transfer services, trust transactions, issuance of warrants, and provision of investors and capital consumers with professional and comprehensive securities investment services. Since the primary brokerage income of a securities house is determined by its market share, the larger its share of the brokerage market the larger will be its profits. Proprietary dealing is investment in securities dealing by the company itself in the purchase and sale of securities; there is no provision of services to customers, nor is there any delineation of service areas. Underwriting and stock registration and transfer services are provided to publicly issued companies and to all their investors, with a service area that covers all of Taiwan.

At the end of 2003 the company had 53 business locations throughout Taiwan, with customers concentrated mainly in the Greater Taipei (with 21 locations) and Taoyuan/Hsinchu/Miaoli (with 13 locations) areas.

#### (2) Future Status of Supply in the Financial Market

##### A. Supply side:

Major securities houses are constantly reorganizing and consolidating to facilitate a continuous enhancement of their market competitiveness, an increase in their usable resources, and the expansion of their business scope. They are also emphasizing the reinforcement of the diversified money-management services made available through the internal integration of products within financial holding companies. What confronts securities houses today is a continuous shrinkage of traditional profit niches in a market that features a constant enlargement of scale; for this reason, in the future the brokerage operating model will be used to develop markets for new financial products and the concept of integrated channel marketing will be used to move toward full-spectrum marketing and efficiency integration.

##### B. Demand side:

Following a long period of slumping investment, capital flows into the market in large amounts and the scope of investment by the public also becomes more diversified. Thanks to the opening up of new financial products in recent years, the investing public no longer puts its money into the traditional capital market alone but turns to a diversity of new products. With attention to both risk avoidance and new channels for diversified investment, investors strive to create maximized return that conforms to different stages and varying investment needs. The key to long-term development for securities houses, therefore, is to provide a full spectrum of money management and diversified product channels that meet consumer needs.

#### (3) Business Objective

Faced with the market changes brought on by a new wave of consolidation moves by financial holding companies, the main operating objectives of Taiwan Securities in the future will be to reinforce the cross-marketing of financial products, develop new financial products, and expand emerging markets. In the reinforcement of cross-marketing, since becoming a member of the TFH group the company has successfully utilized the benefits of internal synergy to provide customers with a full spectrum of money management services, giving them a diversity of products and comprehensive money management planning services to satisfy their needs. In the development of new financial products, Taiwan Securities is exerting constant efforts toward new product planning; in addition to acquiring licenses for the issuance of various products, it is also working aggressively toward the issuance of warrants and structure products, hoping to satisfy the market in terms of both product quality and quantity. In the area of market expansion, the company continuously adds new business locations that provide customers with a more convenient investment environment; and, in line with deregulation, a preparatory office for futures management has been set up, and planning for the development of this emerging market is being carried out. Another of the company's objectives is to enlarge its market share and strive for advancement in both the emerging and original markets by providing a full range of financial products and services.

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

#### (1) Main market and primary products (services)

Points of sales include the head office in Taipei, Tainan Branch and Taichung Branch.

#### (2) Future Status of Supply in the Financial Market

Even as the economic upturn remained weak under the lingering effects of the previous slump, the impact of the severe acute respiratory syndrome (SARS) epidemic early in the year sent the world into a near panic that plunged the global economy to the depths of recession before it bottomed out and turned upward again. With Taiwan's own economic recovery remaining uncertain, corporate investment willingness stayed at a low level and no improvement was recorded in the annual increase of bank loans and investments. The government moved to improve the structures of financial institutions by asking them to write off bad loans and reduce their non-performing-loan ratios in 2002. As a result, the NPL ratio dropped from 6.12% the previous year to 4.33% in 2003, thus throwing off a heavy burden in the operations of financial institutions.

In addition to the writing off of bad loans, another method of lowering the NPL ratio is to increase the amount of outstanding loans; and under a conservative style of operation, the switching from guarantees to the extension of short-term loans is a means that shows easy results. But this leads to a sharp reduction in sources of bills in the market, a situation which is made worse by the successive restrictions imposed on the guarantee business of bills finance companies. The result is to constrict the profits of such companies even more.



## II. Market and Business Conditions

Following several interest rate cuts during 2002 and 2001, the Central Bank once again lowered the rediscount rate and secured loan rate by 0.25% in June 2003, to 1.375% and 1.75%, respectively, and announced that the loose-money policy would be maintained. This forced the interest rate on short-term bills and the overnight call rate down to 1.03% and 1.025%, respectively. Such a low level of interest rates is not necessarily good news for companies that want to raise funds; with today's open financial system and diversified fund-raising channels, companies do not have to depend on short-term capital to supply their funding needs. Instead, they can go to the capital market for medium- and long-term low-interest funds. This situation has contracted the supply of bills available to bills finance companies even more; and with the vicious competition in the monetary market, profits for such companies are shaved paper-thin.

However, the authorities opened more types of business to bills finance companies during this year: New Taiwan Dollar interest rate swaps (IRSs) and NT Dollar forward rate agreements (FRAs), along with other financial products. This opens up another window of opportunity for bills finance companies; in today's environment of accelerated deregulation, diversified financial products will be important items of business for bills finance companies and major factors in the development of the monetary market.

In the bonds business, trading methods on the bond market have already changed from the traditional manual trading to electronic trading and this has, to a large extent, replaced the past opaque trading channels. The authorities have decreed that beginning next year, however, the undertaking of bond repurchase (RP) transactions by bills finance companies will switch to the financing method, the accounting system of which will have such a reforming influence that the RP trading as tax-avoidance channel of RP trading. The profit available to bills finance companies undertaking this business will be greatly affected. In addition, bills finance companies will have to assess the bonds they hold at market value each month, which will intensify profit fluctuations and bring about major changes in the bond business undertaken by bills finance companies.

With interest rates at such a low level, domestic bond funds have become an investment instrument that offers a relatively high rate of return. This has brought about a major expansion in the scale of bond funds-and, at the same time, has increased pressure to find suitable objects for investment. In addition to central government bonds, financial debentures issued by financial institutions, and corporate bonds issued by companies have become objects sought out for investment by bond funds, especially with the advantage offered by the cancellation of taxes on transactions in financial debentures and corporate bonds. For bills finance companies, this is a powerful factor in enlivening the secondary market. In terms of return and security, bonds are much better than bills, considering their insufficiency of supply and their paper-thin profits. Given the current recovery of the economy, however, interest rates will necessarily turn upward; and for bills finance companies and their operation in interest-rate instruments, the strengthening of the bond brokerage business will be a major factor in bond market operations in the future.

### (3) Business Objectives

The Company's short-, medium-, and long-term development plans, adopted to cope with market competition, to promote business, and to reinforce the corporate structure, are as follows:

#### A. Short-term goals:

- Continued upgrading of service quality and operating efficiency, and establishment of a good reputation.
- Reinforcement of loan extension and strict credit investigation, and carrying through with risk controls.
- Cultivation of blue-chip customers and vigorous solicitation of outstanding clients, and increased depth of business relations.
- Strengthened personnel training, development of financial personnel, and establishment of an image of corporate professionalism.

#### B. Medium-term goals:

- Inauguration of new types of business and provision of customers with a more diversified range of financial services.
- Assurance of the security and accuracy of transaction data, strict observance of secrecy rules, and heightening of service quality.
- Establishment of outstanding trust, participation in credit rating activities, and solicitation of a good credit rating.
- Implementation of the target management system and enhancement of management and operating efficiency.

#### C. Long-term goals:

- Enhancement of the reputation of the operating team, introduction of benevolent market competition, and increased influence in financial markets.
- Reinforcement of information service functions and upgrading of service efficiency so as to cope with the rapidly changing financial environment.
- Aggressive development and promotion of foreign-currency bills, bonds, mutual funds, and other financial instruments.
- Utilization of the financial holding company's resources to pursue growth in business performance and create reasonable profits.

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

### (1) Main market for primary products (services)

Taishin Asset Management offers a wide range of products, from debt transfer, valuation or auction, management, account receivables factoring, overdue account receivables management, and related business. Currently, the company purchases and restructures non-performing loans from financial institutions within a reasonable period of time for maximal value of recovery.



## II. Market and Business Conditions

### (2)Future Status of Supply in the Financial Market

To get rid of the long-term abuses that have plagued Taiwan's financial system, the government proposed a "Two-Five-Eight" financial reform program that was designed to run for two years and bring the NPL ratio in all financial institutions to below 5%. The program is already achieving concrete results. Statistics show that the NPL ratio in Taiwan banks was 4.33% at the end of 2003, with a total amount of NPLs of about NT\$630.6 billion. Of all banks on the island, 26% still had NPLs above 5%; if all of the banks can bring their NPL ratio below 6% by the end of 2004, then they will have to dispose of approximately NT\$400 billion in bad debt by that time. While the domestic market for bad assets is large, it is also inhabited by a large number of competitors. The American companies Cerberus, Merrill Lynch, Lehman Brothers, GE Capital, and Lonestar have all succeeded in buying bad bank debt in amounts of several billion to several dozen billion NT dollars each; among domestic companies, Taiwan Asset Management and China Development have purchased NT\$90.8 billion and NT\$70.7 billion, respectively. Competition in the domestic bad debt market is becoming more and more intense.

### (3)Business Objectives

The government has expended a lot of energy in recent years to reform the operating structures of Taiwan's financial institutions. Besides using the Financial Restructuring Fund to help community level financial institutions resolve their NPL problems, the government has also granted, in the Financial Institutions Merger Law, a legal basis for the disposition of the bad loans of financial institutions by asset management companies. The aim is to alleviate the increasingly serious problem of NPLs in the domestic banking system.

Although the asset management company system has only recently begun taking shape in Taiwan, the high level of bad assets on the island—NT\$400 billion—will surely attract the entry of more domestic and foreign institutions. The short-, medium- and long-term plans that the AMC has set to capture a foothold in this business are as follows:

#### A. Short-term goals:

To help the TFHC affiliate Taishin International Bank resolve its bad-loan problems, reduce the expense and time for the court auction process that the Bank would need to resolve the problem itself, permit it to recover cash at an early date, reduce the amount of its NPLs, and improve its financial structure.

#### B. Medium-term goals:

- Help the government resolve the bad-asset problem facing the overall domestic financial environment.
- Develop professional personnel and link with the international market.

#### C. Long-term goals:

- Develop other business items in line with the purchase of bad assets, such as value-assessment services, real estate investment consultancy, and the leasing business.
- To become a leader in Taiwan's bad-asset investment and management industry.

## 6. Taishin Marketing Consultant Co., Ltd.

### (1)Main market for primary products (services)

Taishin Marketing Consultant Company sets up its business locations across the northern, central and southern parts of Taiwan:

- A. North District (Panchiao, Tu Cheng, Chu Bei)
- B. Central District (Yuan Lin, Tou Liu, Tao Fung)
- C. South District (Tainan, Nan Tze, Wu Fu, Shin Ying)

### (2)Future Status of Supply in the Financial Market

Competition in the financial industry will become steadily more intense, and as a result of the vigorous promotion of consumer financing by different banks and the rise of consumer consciousness, banks will be faced with price competition and a shrinking interest rate spread. Under the "user pays" consumer orientation, the focus of business development in the future will be primarily on non-interest-producing service businesses.

With the marketing of products with a high interest-rate spread and the improvement of commission income as its primary objectives, the financial industry will need to adopt a market demand orientation and work vigorously to develop new types of financial products to meet the diversified needs of the market, as well as to enhance the quality of services.

### (3)Business Objectives

In coordination with the Taishin International Bank's development of the consumer financing business, the core business will be the marketing of personal loans and the key products will be subordinated loans, auto loans, credit-card credit, and cash cards.

## 7. Taisin Venture Capital Investment Co., Ltd.

### (1)Main market for primary products (services)

Divided by area of investment, venture capital funds will concentrate primarily on the Taiwan area and secondarily on areas with opportunities for strategic alliances and economic efficiencies with Taiwanese industries: the United States, Europe, and other Asian areas. In general, planning calls for the investment of 80% of venture capital funds in Taiwan and 20% overseas.

### (2)Future Status of Supply in the Financial Market

Viewed from the aspect of global industrial development, high-tech industries will continue to be the mainstream of development in the future. The slump that has shadowed markets in the past few years, however, has led to the under-estimation of the value of numerous enterprises with high growth potential. Only venture capital with long-term deployment will be able to take full advantage of these industries with their long-term growth opportunities.

In addition to this, the cluster effect in Taiwan can strengthen the island's overall competitiveness, and investment in Taiwanese companies at home or abroad, and stimulation of their growth and development in Taiwan, will bring a considerable return. The fields in which this VC company plans to invest are primarily in high-tech industries, with investment in such Taiwanese companies accounting for 80% of total investment.



## II. Market and Business Conditions

Judging from the current state of the venture capital industry in Taiwan, the poor economic performance at home and abroad in 2002 led to weak investment willingness and investment was low in both number of cases and in amounts that year. The expectation of continued economic recovery in 2003, however, provided the best opportunity for venture capital companies with their emphasis on medium-and long-term investment, and lucrative returns on this investment are expected over the next several years.

### (3) Business Objectives

In the overall planning for utilization of investment funds, this VC fund plans to put 30% of its investment in companies during their start-up stage, 20% during their expansion stage, and 50% during their mature stage. In terms of industries, the emphasis will be on investment in four major categories: communications and other IT industries, the IC industry, the opto-electronics industry, and the software and biochemical industries. Investment targets will be unlisted companies in Taiwan, and Taiwanese and American companies in the start-up and growth stages. The model of bringing new start-ups companies or teams from Europe and America to Taiwan for development will be adopted, with the aim of developing new technology enterprises in cooperation with Taiwanese companies. An estimated 80% of all available capital will be invested in Taiwan.

## III. Number, Average Seniority, Average age and Education of Employees for past two years

Fiscal Year		2003	2002	Education (%)	
No. Employees	Staff	8,508	6,850	Master's & Ph.D.	6.9%
	Workers	138	102		
	Total	8,646	6,952		
Average Seniority (Years)		3.2	3.6	University/College	80.4%
Average Age (Years)		30.8	30.6		
				Senior High	13.6%
				Under Senior High	0.2%

## IV. Risk Management

### Risk management policy for the financial holding company and its subsidiaries, and methods of risk control and assessment

All of the subsidiaries operating under the banner of the financial holding company are engaged in businesses related to finance. The risks that they face include credit risk, market risk, and other risks related to law and operations that go under the general title of operational risk. The scope of risk management is therefore relatively broad, encompassing the establishment and implementation of systems and measures adopted by each of the subsidiaries according to its own business characteristics, as well as the establishment of integrated risk management policies and risk management organizational frameworks at the holding company level. Overall risk in group operations is comprehensively and effectively controlled in this way.

## 1. Credit Risk Management

### (1) Corporate banking:

- A. Establishment of loan target customers, enhancement of profitability, and strengthened development of the business performance of low-risk businesses so as to heighten risk-bearing capability and lower overall risk.
- B. Reinforcement of the content of credit analysis and credit investigation, and evaluation of related personnel training.
- C. Reinforcement of the internal credit rating mechanism.
- D. Strengthening of post-loan management and the review system.
- E. Establishment of an individual and overall credit risk assessment mechanism for securities underwriting and investment positions.
- F. Establishment and control of sector risk limits.
- G. Establishment and control of business group risk limits.
- H. Individual control measures for special risks (ratio limits for loans secured by shares and total exposure quotas, follow-up of shareholding ratios, and items to watch for in land and building loans and post-loan management).
- I. Establishment of an early-warning system and reporting and control system for abnormally operating clients.
- J. Dedicated performance management for bad assets.

### (2) Retail banking:

- A. Establishment of control indicators for different products: profitability, NPL ratios for loans of different terms, bad debt forecasting, bad debt recovery, etc.
- B. Use of a points system.
- C. Continued strengthening of the review system.
- D. Regular review of loan condition risk.
- E. Regular follow-up and review of NPLs and loans for collection, and analysis of divergences from set indicators.
- F. Observation and analysis of non-performing and fraudulent cases.
- G. Continued strengthening of personnel of risk management units.
- H. Strengthening of the effectiveness of loan collection.
- I. Accelerated disposition of loan collateral.

## 2. Market Risk Management

Market risk is strictly controlled for the investment portfolios and trading positions of the financial products held by different subsidiaries, and for the risks associated with fluctuations in interest rates and exchanges rates, by using market to market and value at risk (VAR) calculations. For derivatives, exposure quotas (PSRs) are established for risks associated with the credit risk for counterparts arising from losses so as to control the risk of trading losses within a reasonable limit.

## 3. Operational Risk Management

Other risks due to losses caused by operating errors, legal risks, and the risk of loss of reputation are handled by minimizing the possibility of error through the concentration and standardization of business services. In addition, the effectiveness and independence of the internal control and auditing system are continuously strengthened so as to provide reasonable control of operating risk.





Taishin Holdings



Turning life's energy into zealousness to deliver an always-improving quality of service.

Turning energy  
into zealousness to  
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quality of service.

## Business and Funds Utilization Plans **IV**



# Business and Funds Utilization Plans

# Taishin Holdings

## I. Business Plans

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

#### (1) To integrate operation of all subsidiaries and group resources, the company has set up seven committees to coordinate operations and decision-making.

The committees and their respective functions are described as follows:

##### A. Policy Committee:

Responsible for long-term development planning and supervision of each business unit to maximize performance and execute strategic plans.

##### B. Customer Relationship Management Committee:

Responsible for the development and integration of relevant technologies and application of data warehouse, CRM, and data mining for each subsidiary to enhance their marketing efficiency.

##### C. Asset and Liability Management Committee:

Responsible for effective management of capital resource, maintenance of adequate liquidity to insure long-term earnings stability, and adjustment of business strategy if necessary.

##### D. Human Resource Committee:

Responsible for mapping out major human resources strategy and implementation of major human resources projects.

##### E. Administration Committee:

Responsible for management and utilization of administrative resources of all subsidiaries, improvement of overall administrative efficiency and minimization of administrative cost.

##### F. Information Technology and Operation Processing Committee:

Responsible for the integrating information and operation of all subsidiaries, enhancing operation automation and computerization, and defining strategy and direction for information and operation consolidation.

##### G. Investor Relationship Committee:

Responsible for gathering internal information to respond to investors' requested for information, collecting market research and analyses prepared by institutional investors on our company and monitoring foreign share ownership, share price fluctuation and our competitor's market position.

#### (2) To achieve the strategic goal of customer orientation, customers are divided into the following three business groups, in terms of operating framework and organizational deployment, according to their characteristics. Target customers are focused on the affluent customer group, consumer loans, branch operations, and medium-sized enterprises.

##### A. Wealth Management Group

- There are four division under this group: Investment & Research Division, Financial Product Division, Security Brokerage Division and Wealth Management Division.
- Special investment products that combine the professional advantages of Taishin Bank and Taiwan Securities will be introduced, and professional services will be provided to affluent, personal, and corporate securities customers.
- All outstanding investment products will be marketed through the channels of business entities under the holding company's banner, providing fast, convenient, and appropriate assistance to costumers so s to achieve the goal of wealth management.

- Full-spectrum services and the provision of tailor-made products will be used to enhance relations with customers. The issuance of the Infinite Card will be used, for example, to deepen relations with the affluent customer group.

##### B. Wholesale Banking Group

- There are six divisions under this group: Corporate Banking Market Division, Corporate Banking Asset Management Division, Finance Division, Capital Market Division, Corporate Banking Business Management Division and Overseas Branches Business Division.
- A customer relations management (CRM) platform will be set up to assure the provision of more customized services to existing and potential customers, so that all individual customers will have access to convenient, secure, low-cost, and considerate financial services.

##### C. Retail Banking Group

- There are seven divisions under this group: Branch Management Division, Credit Card Division, Consumer Lending Division, SME-EC Finance Division, Cash Card Division, Retail Banking Credit Division and Retail Banking Marketing & Product Development Division.
- Corporate banking, and securities and capital market services, will be combined for the development of a set of brand-new integrated financial services for Taiwan's small and medium enterprises.
- The Corporate Banking Business Division will provide integrated solutions, from consulting services, risk management, and loans to the raising of funds on the capital market.

#### (3) Key operating plans: To enhance the synergy effect and management quality, and to reduce costs, the following plans will be vigorously implemented during this year:

- A. Brand re-engineering and reinforcement of brand image.
- B. Full utilization of CRM and the creation of customer value.
- C. Installation of the Basel II and Sungard systems.
- D. Second-stage development of the FNS system.
- E. Completion of the isolated backup project to assure system stability and information safety.
- F. Financial holding group synergies will be heightened and resources will be integrated to reduce operating costs.
- G. A performance-oriented bonus system will be implemented to enhance employee productivity.

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

#### (1) Organizational Development Plans

The committees and their respective functions are described as follows:

##### A. Business Units

- In 2003 the Bank had a total of 93 business units.
- The number of wealth management banks through the island totaled 26, of which nine were flagship banks.
- One to five Personal Banking Centers are to be added in 2004.
- The number of Convenience Banking Service Points reached 275 in 2003.
- The number of Convenience Banking Service Points is projected to reach 1,200 in 2004.



# Business and Funds Utilization Plans

## I. Business Plans

### B. Management Units

- A Personal Loan Service Department, and under it a Basel Task Force, was set up in the Retail Banking Credit Division.
- The Chinese name of the Credit Card Business Credit Management Department of the Credit Card Division was changed.
- A Telephone Banking Department was set up in the Branch Management Division.
- The Finance Division was restructured, with the Funds Trading Department, Finance Markets Department, Financial Products Department, Financial Trading Department, and Bond Capital Market Department placed under it.
- A Trust Assets Operations Department was set up under the Wealth Management Division.
- The Information Technology Service Division was reorganized and the Systems Development Department 1, Systems Development Department 2, Systems Support Department, Management Section, Core Systems Business Section, Core Systems Information Section, and Knowledge Management Department placed under its jurisdiction.
- A Trust Assets Department was set up under the Wealth Management Division.
- A Cash Card Division, and under it a Cash Card Management Department and the business regions, was set up in the Retail Banking Group.
- A new Product Marketing Department was set up under the Corporate Banking business Management Division.

### (2) Business Development Plans

#### A. Retail Banking

##### Deposits and Remittances

- Branch channels will be standardized to reduce management and marketing costs and enhance profits for shareholders.
- Branch channels will be used to provide customers with professional banking services and consultation so as to increase the production value of marketing.
- The convenience banking business will be aggressively promoted.
- Branch personnel will be trained to become full-spectrum business managers and outstanding portfolio management specialists, thus achieving performance management and personal performance.
- The promotion of low-cost service platforms will be strengthened to realize the synergy effect.
- The incentive system will be made transparent to boost high-contribution personnel.
- The resources of the financial holding company will be used to reinforce cross-marketing.
- A plan for alliances with other industries will be developed to provide one-stop-shopping department-store banking services and create profits.
- Service products that produce commission income will be developed.
- Customer segmentation will be used to develop auxiliary functions for IC cards and customers will be attracted with different value-added products so as to take advantage of sales opportunities.

- An "Open Money Management Bank" will be developed to create new sales channels not subject to space limitations.
- E-commerce will be used to provide distant personal portfolio management consultation services.
- An ATM network platform mechanism will be developed to provide for the sale of fund, insurance, and other products.

##### Consumer Banking

- High-income products will be emphasized in the expansion of market share for key products and heighten return on assets.
- Direct marketing personnel will be increased and reinforced.
- New products will be introduced in line with market need so as to expand sales channels.
- The goal of marketing will be placed on the maintenance of long-term relations with customers.
- The CRM database will be used appropriately for marketing.

##### Credit Cards

- The number of valid cards in circulation, and the amount of consumption using them, will be greatly increased to consolidate the Bank's strategic position in the market.
- Income will be increased so as to achieve profit targets.
- Risk management will be thoroughly implemented.

#### B. Corporate Banking

##### Corporate Loans

- Relationships will be cultivated with a customer orientation, and the SRM/RM/PM models will be used to provide target customers with a complete range of financial solutions and consulting services.
- Key a/c and mid-corp medium-sized and large customer groups will be provided SRM/RM/PM integrated banking, securities, bills, and innovative products with the aim of satisfying customer demand with customized products.
- A selective service strategy will be adopted for other banks.
- For small enterprises, the emphasis will be placed on self-compensating financing.
- Taiwanese businesses overseas and in mainland China will be offered financial services in combination with the Hong Kong Branch and the Taipei OBU.

##### Foreign Exchange

- Development will continue of corporate and personal electronic banking foreign exchange products such as e-Trade import and export services.
- Foreign exchange operating procedures will be improved, and the Mis Fax/Mail Server will be used to provide customers with real-time transmission services.
- New foreign exchange products will continue to be introduced, and high-income products will be promoted.
- Cooperation with business units will be strengthened for the joint promotion of the foreign exchange business and produce the different units and customers with high-quality services.



# Business and Funds Utilization Plans

## I. Business Plans

- The promotion of self-compensating trade financing businesses will be continued.
- Existing overseas securities businesses will continue to be deepened.
- In coordination with the establishment of the Syndicated Loan Team, the Bank will strive for the right to act as head bank for international syndicated loans to emerging technology companies and blue-chip loan customers so as to increase commission and interest income.
- In line with business development, the Bank will pursue business relations with Taiwanese businesses operating in eastern and southern China.
- Strategic alliances and cooperation with mainland Chinese banks and foreign banks in China will be strengthened, and the promotion of cross-straits financial business will be stepped up.
- Preparations will be made for the establishment of a Los Angeles branch, and the extension of the Bank's customer services across the Pacific is expected to come by the end of 2004.
- Vietnam and other overseas locations will be evaluated for the establishment of branches so as to carry through with the Bank's policy of internationalization.

## C. Wealth Management and Trust Operations

### Wealth Management Banking

- The financial planning business model will continue to be developed and the customer-oriented "one-on-one intelligent money management" principle will be emphasized.
- The financial consultant certification system will continue to be promoted to effect a major strengthening of financial consulting capability.
- The number of financial advisors will be increased and outstanding portfolio managers with experience will be recruited.
- New demonstration centers will continue to be developed and will be fully utilized to organize activities so as to cement the loyalty of customers and increase the number of wealth management banking clients.
- The amount of assets entrusted to managers by customers will be increased.

### Trust Business

- The promotion of securities trust will be continued so as to maintain the Bank's leadership in the market and expand market share.
- The specific money trust function will be strengthened and the scale of trust assets expanded.
- Trust consultant functions will be developed and reinforced.
- A real estate securitization commissioning platform will be established and related businesses will be promoted.
- A newly established OBU account investment fund service will continue to satisfy customer demand for full-spectrum portfolio management services.
- Diversified outstanding fund products will be introduced to provide customers with a range of investment options.

- Customers will continue to be provided with information on fund products, and the latest market information and product quotations will be added at all times to strengthen services to customers.
- Various kinds of fund promotion activities will be designed to provide customers with all sorts of preferential investments with the aim of heightening interaction with customers.

### Utilization of Trust Assets

- The development and introduction of new structure bond products will be continued.
- All types of centralized management and utilization as well as individual management accounts will be increased so as to boost the completeness of product lines.
- Internal and external holding company partnership relations will be promoted so as to augment trust asset management capabilities.
- The efficiency of the settlement and clearing business will be reinforced and a real-time storage online information system will be established to strengthen customer services.
- Customer characteristics will be secured and target customers will be cultivated; channels of all kinds will be used to strengthen interchange with customers and provide them with the most suitable products.

## D. Assets and Liabilities Management, and Funds Utilization

The assets and liabilities management system will be strengthened to make management more effective.

Sources of funds will be diversified and used flexibly in line with business development.

The internal risk control mechanism will be strengthened in coordination with system establishment.

Diversified investment will be carried out within the limits of the law.

Deposit products will be diversified and customer groups will be cultivated.

Financial product innovation will be carried out vigorously so as to satisfy customers' diversified needs.

The market share of deposits and loans will be heightened.

## E. Service Quality and Human Resources

The management units, support operations, and information systems of the different subsidiaries will be integrated to establish a common platform that will improve efficiency, reduce costs, and reinforce competitiveness.

Personnel with potential will continue to be discovered, evaluated, and trained so as to build up an operating team that has implementation capability, common values, and the pursuit of excellence.

A position evaluation system will be established to attract top people with a diversified, competitive, and performance-oriented system of rewards and punishments.



## I. Business Plans

### 3. Taiwan Securities Co., Ltd.

#### Business Plan for 2004

##### A. Brokerage business:

Island-wide deployment will be strengthened and business locations added, and suitable securities brokers with similar corporate cultures and backgrounds will be evaluated for merger with the aim of increasing brokerage market share and competitiveness, and of becoming one of Taiwan's top three securities brokers. At the same time, the Taishin Financial Holding Company's resources will be integrated to provide customers with a more diversified range of financial products and reach profit targets, and to advance toward the goals of internationalization and enlargement of scale.

##### B. Proprietary trading business:

Under the influence of an upward adjustment caused by the market's anticipation of economic conditions, the proprietary trading business is expected to have room for growth. Taiwan Securities will expand the scope of its proprietary trading business, with flexible operations in the capital and bond markets; besides active entry into the market, an independent professional risk control team and mechanism will be used to monitor trading positions and achieve reduced risk and stable profits. In addition, Taiwan Securities will respond to the constantly expanding derivatives market by working for the development of new financial products and the creation of greater market space.

##### C. Underwriting business:

The company has been developing Taiwan's capital market for a long time, and has achieved not only a top position in the number of underwriting cases handled but has also won a position of leadership among large securities houses as well as a strong reputation in the market. In the future the company will use a full-spectrum of professional know-how to help enterprises with solid industrial fundamentals to raise funds and enter the market, and will use a full range of professional underwriting consultancy to provide clients with long-term planning and services.

##### D. Stock registration and transfer services:

The market for stock registration and transfer services is now becoming mature, and the company will continue to make the best use of its underwriting and financial holding customer sources to develop this business and work toward the goals of increasing the number of agency customers and shareholders.

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

#### Business Plan for 2004

Following entry into the Taishin Financial Holding Co. at the end of 2002, the cross-marketing of the products of affiliated companies and the common operating platform have enhanced the company's competitive niche and will help to make customer services more diversified and efficient. The company's credit extension policy is to maintain a conservative and stable strategy, and to strengthen credit investigation and follow-up as well as risk management. Trading activities will be oriented toward increasing bonds dealing, primary and secondary bills trading, and the promotion of new businesses. Future business development plans are as follows:

##### A. Credit extension:

Target customers are mainly medium-sized and large blue-chip enterprises that are listed or preparing to list on the stock or over-the-counter market. The credit extension policy emphasizes industry diversification and quality over quantity, excessively large loans are avoided, and business group analysis and credit monitoring are strengthened so as to strictly control credit risk.

##### B. Trading:

Trading in bills and bonds will be reinforced, as well be the development and cultivation of potential customers. The company will actively participate in bidding for government bonds and treasury bills, seek to serve as NIF manager bank and to engage in certification and underwriting for affiliated enterprises, and use new financial products to expand its business scope. Faced with the steady shrinkage of bills in the monetary market, the company will strengthen customer development and expand the scope of its quotations so as to increase the volume of bills that are guaranteed by others, that are guarantee-exempt, and that carry fixed interest rates, and will boost purchases of NCDs of banks with good credit ratings as well as the buying of NIF instruments.

##### C. Information:

The company will accelerate the integration of information within the financial holding company, develop a centralized settlement clearing system, and participate in the development of financial product systems by affiliated enterprises; it will carry out online real-time risk monitoring of loans and transactions, reinforce capital deployment and bills-selection capabilities, and promote telephone and Internet bills and bonds trading in order to save manpower. It will also develop a customer management system so as to enhance the quality of customer services.

##### D. Management:

Training in professional and marketing skills will be strengthened, the digitization and paperless development of documentation and administrative procedures will be reinforced so as to enhance administrative efficiency, and the manpower of the financial holding group will be combined to manifest employee efficiency.

##### E. Others:

The company's professional image and team reputation will be established and an outstanding brand position will be built up in the market, and the market will be guided into benevolent competition with the aim of achieving stable improvement in asset growth, market share, and return on capital.



# Business and Funds Utilization Plans

# Taishin Holdings

## I. Business Plans

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

#### Business Plan for 2004

- A. The company's vision is to become the most outstanding and trustworthy asset management firm. Although the company is yet small in scale and its short-term goal is to dispose only of the Taishin International Bank's bad debt, the aspiration of its management is to become the most outstanding, most trustworthy AMC.
- B. The company's profit target for 2004 is the level of profit of other subsidiaries of the Taishin Financial Holding Co. The target for next year is to achieve the same level of profit as other major enterprises under the holding company.
- C. Key business tasks:
- Continued disposition of bad debt purchased from the Taishin International Bank.
  - The purchase or commissioned disposition model will be used depending on Taishin Bank's progress in disposing of its bad debt.
  - Disposition of collections for enterprises related to the Taishin Financial Holding Co. (outsourced collection).
  - Solicitation of management and disposition of the assets of asset management companies that have purchased bad debt.
  - Cooperation with other companies (primarily foreign companies, such as Merrill Lynch of the U.S.) in the joint purchase of the bad debt of other banks so as to increase sources of business on the one hand and gain an understanding of the valuation models, asset management know-how, and recovery planning of other companies on the other.
  - Purchase of part of the bad debt of other banks and, depending on the company's financial situation, participation in the purchase of bad debt on the market.
  - Selective promotion of asset securitization. Securitization will be one of the major methods of asset management in the future, and securitization can be carried out in combination with the resources of units related to the Taishin Holding Co.

### 6. Taishin Marketing Consultant Co., Ltd.

#### Business Plan for 2004

##### A. Organizational Development Plan

- Establishment of business units in secondary towns and cultivation of customers there.
- Establishment of a "police station" type of organization to make up for isolation from branches and carry out service work liked to local government administration offices.
- Strengthening of unit manager operating capability and personnel selection experience.

##### B. Repeat Customer Sales.

##### C. Cooperative sales with other industries.

##### D. Network system management to increase efficiency and reduce costs.

- E. Creation of innovative marketing methods to increase sales channels and expand market share.
- F. The marketing operations model for the second half of the year will be ATM plus teller system.
- G. Business units will be established in secondary towns where there are no branches, such as Touliu, Toufen, Lotung, Hsinying, and Nantse.

### 7. Taisin Venture Capital Investment Co., Ltd.

#### Business Plan for 2004

The company completed the establishment process at the end of September 2003, with an initial capitalization of NT\$1 billion and a plan to complete its investment portfolio within three years. The operating team's plan calls for the investment of NT\$600 million in the first year, NT\$200 million in the second year, and another NT\$200 million in the third year. In 2003 the company achieved 86.9% of its investment target. The 2004 plan is to work with sources provided by the Wholesale Banking Group to invest NT\$200 million at the rate of NT\$30 million per case. There was no property to dispose of in 2003 because the company was newly established and still needed to build up an investment portfolio; the disposition of the assets of invested companies, and the obtaining of profit thereby, is planned to begin in 2004.

## II. Research and Development

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

#### Research and Development

##### A. Research and Development Results

- Structure loans and project loans were developed.
- The development of renminbi receivables was planned.
- An Internet service platform for cross-straits corporate financing was developed.
- The customer online trade financing business was developed.
- "Offset" low-interest home loans was introduced.
- Securities trust was inaugurated.
- Securitized financial products was developed.
- The real estate securitization trust (asset trust) business was inaugurated.
- The balanced-type centralized management and utilization account/balanced-type individual management and utilization account business was developed.
- The investment of non-discretionary trust funds in domestic and overseas fund network/telephone trading business was inaugurated.
- "Five-minute" rapid issuance of cash cards was introduced.



# Business and Funds Utilization Plans

## II. Research and Development

### B. Research and Development Plans

- New cash trust products will be developed.
- New types of trust products (such as inheritance trust) will be developed.
- The real estate securitization trustee (investment trust) business will be developed.
- Active centralized and individual accounts will be developed.
- Fixed-income centralized and individual accounts will be developed.
- Retirement fund management accounts will be developed.
- The Taishin monetary mutual trust fund will be inaugurated.
- All magnetic-strip cards will be replaced with IC cards.

### 2. Taiwan Securities Co., Ltd.

#### (1) Research and Development Results

Research and Development Results

Permission was received in 2003 to operate the NT Dollar interest rate derivatives trading business, bond futures trading, and investment in equity-linked structure notes on the Taiwan stock market, and the company carried out a number of issuances of structure products.

#### (2) Research and Development Plans

Application will be made in 2004 for permission to issue equity-linked structure notes overseas and to issue OTC warrants, as well as for a license for proprietary dealing in futures. An application was submitted in December 2003 to operate the bills finance business along with securities, and approval is expected in 2004. Taiwan Securities will carry out full-spectrum financial planning and constantly introduce new products, and will provide investors with financial products with consideration to appropriate risk controls and to demand.

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

Taiwan's financial industry will face even more severe challenges this year following its accession to the World Trade Organization (WTO), since membership will bring more international financial institutions into the domestic market. With the increasing internationalization and liberalization of the market, financial products will necessarily become more diversified; and, under the principle of "one-stop" shopping for financial products, the professional skills of those in the industry will have to advance toward diversity in line with the pace of internationalization. Under today's excessive competition the room for financial institutions to make a profit is being squeezed smaller and smaller as the competition becomes hotter and hotter, bringing the even greater challenge of taking advantage of the opportunities presented by liberalization and developing new financial products. This will be the key to success or failure. For this reason, the company will hold firmly to its attitude of developing outstanding personnel by investing large amounts of money in training its people in professional skills and in beefing up their financial know-how. In addition to training provided by the company's own executives and by instructors hired from outside, employees are selected for training in courses organized by the Taiwan Academy of Banking and Finance, Taishin International Bank, the and the securities association with the aim of upgrading the professional know-how and capabilities of staff members.

### Research Development Result and Plan

- A. Fixed rate commercial paper (FRCP) certification, underwriting, brokerage, and proprietary dealing will be developed. This business was approved by the competent authority in December 2002, and has been listed among the key businesses for development. The company's engagement with this product not only provides it with a stable source of bills but will also provide a stable source of commission income and increase long-term fixed income. The company will provide products that are differentiated from those of its competitors, thereby strengthening its competitive niche and affording it even more solid development. Different operating frameworks will be developed around the theme of this product, thus helping the issuing companies to lock in capital costs through flexible operating methods.
- B. Internet trading in bills and bonds will be developed.
- C. The corporate bond and financial debenture certification, brokerage, and proprietary dealing business will be developed.
- D. Brokerage and proprietary dealing and derivatives products related to asset swaps will be developed.
- E. Brokerage and proprietary dealing in NT Dollar interest rate swaps (IRSs), forward rate agreements (FRAs), and interest rate options (IROs) will be developed. Taishin Bills Finance was given permission by the authority in January 2003 to undertake trading in financial derivatives as a risk hedger and operator; this will diversify the company's interest rate products, help to satisfy customer needs through product packaging, and increase the company's income.
- F. Fixed income and option composite products will be developed so as to increase customers' incomes and the company's profits.





Taishin Holdings

We listen carefully,  
to better anticipate your needs.



We listen carefully,  
to better anticipate  
your needs.

Financial Statements **v**



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

Consolidated Financial Statements for the Year Ended December 31, 2003 and for the Period from February 18, 2002  
(Date of Incorporation) through December 31, 2002 and Independent Auditors' Report

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Taishin Financial Holding Co., Ltd. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Taishin Financial Holding Co., Ltd. ("Taishin Financial") and its subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year ended December 31, 2003 and for the period from February 18, 2002 (date of incorporation) through December 31, 2002 (all expressed in New Taiwan dollars). These consolidated financial statements are the responsibility of Taishin Financial's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants", "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements of Financial Institutions", and generally accepted auditing standards in the Republic of China. Those guidelines 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taishin Financial and its subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the year ended December 31, 2003 and for the period from February 18, 2002 (date of incorporation) through December 31, 2002 in conformity with "Regulations Governing the Preparation of Financial Statements of Financial Holding Companies", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Criteria Governing the Preparation of Financial Reports by Securities Firms" and generally accepted accounting principles in the Republic of China.

(T N Soong & Co and Deloitte & Touche (Taiwan) Established Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan Republic of China  
February 16, 2004, except for Note 36 which is dated February 19, 2004

The above auditors' report and the following consolidated financial statements are English translations of the Chinese auditors' report and consolidated financial statements prepared for and used in the Republic of China. This English translation is for convenience of the readers and may present financial statements for periods not previously presented in a single document. Additionally, these consolidated financial statements do not include additional supplementary disclosures included in the original Chinese language version as required by the Guidelines for Securities Issuers' Financial Reporting in accordance with the Securities and Futures Commission regulations included in the original Chinese language version. The accompanying consolidated financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

### CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002  
(Expressed in Thousands of New Taiwan Dollars)

ASSETS	2003	2002
Cash and cash equivalents (Note 3)	\$ 8,284,058	\$ 5,519,213
Due from banks (Note 4)	6,979,977	1,208,398
Due from Central Bank (Note 5)	17,889,809	24,801,322
Short-term investments, net (Notes 2, 6 and 33)	54,685,990	38,283,506
Trading securities, net (Notes 2, 7 and 34)	12,349,236	22,042,839
Bonds purchased under agreements to resell (Notes 2 and 8)	8,969,731	9,236,423
Receivables, net (Notes 2, 9 and 33)	52,548,470	36,735,609
Receivable amount for margin loans (Notes 2 and 10)	13,843,656	9,150,747
Prepayments	1,901,646	1,518,720
Loans, net (Notes 2, 11 and 33)	392,511,393	334,583,424
<b>LONG-TERM INVESTMENTS (Notes 2 and 12):</b>		
Long-term investments under equity method	4,144,279	4,584,935
Long-term investments under cost method	3,961,067	2,752,127
	8,105,346	7,337,062
Allowance for valuation loss on long-term investments	( 44)	( 53,658)
Long-term investments, net	8,105,302	7,283,404
Other financial assets (Notes 2 and 13)	25,585,933	26,698,754
Property and equipment (Notes 2, 14 and 34):		
Cost:		
Land	11,688,361	10,403,534
Buildings	5,696,280	5,096,143
Machinery equipment	3,038,144	2,217,018
Transportation and communication equipment	348,759	363,800
Miscellaneous equipment	546,161	975,695
Leasehold improvement	940,902	834,383
Total cost	22,258,607	19,890,573
Accumulated depreciation	( 3,128,149)	( 2,973,256)
Prepayment for building and equipment	699,498	2,521,865
Property and equipment, net	19,829,956	19,439,182
Other assets (Notes 2, 15 and 31)	7,428,847	9,323,588
<b>TOTAL</b>	<b>\$ 630,914,004</b>	<b>\$ 545,825,129</b>

(Continued)



## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	2003	2002
<b>LIABILITIES:</b>		
Short-term borrowings (Note 16)	\$ 4,700,000	\$ 3,150,000
Commercial paper payable, net (Note 17)	6,480,387	4,013,021
Bonds sold under agreements to repurchase (Notes 2 and 18)	11,283,788	22,486,111
Current portion of long-term payables (Notes 2, 23 and 24)	1,527,247	294,000
Due to banks (Note 19)	51,805,387	34,091,187
Payables (Notes 2 and 20)	31,698,299	25,434,481
Advance receipts	664,358	490,781
Bank notes (Note 21)	18,750,000	14,750,000
Deposits and remittances (Notes 22 and 33)	419,955,248	381,801,639
Corporate bonds payable (Notes 2 and 23)	19,709,786	3,026,877
Appropriated loan fund	250,416	171,336
Long-term liabilities (Note 24)	498,011	150,000
Other liabilities (Notes 2 and 25)	6,051,829	5,201,351
<b>Total liabilities</b>	<b>573,374,756</b>	<b>495,060,784</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock:		
Common stock (Note 26)	36,769,788	36,316,236
Preferred stock (Note 26)	4,000,000	4,000,000
Advance receipts for capital stock	1,449,185	-
Capital surplus (Notes 27 and 29):		
Additional paid-in capital	12,285,358	12,455,489
Treasury stock transactions	576,011	-
Retained earnings (Notes 28 and 31):		
Legal reserve	404,436	-
Special reserve	10,508	-
Unappropriated earnings	7,295,139	4,044,359
Unrealized loss on valuation of long-term investments(Notes 2 and 12)	( 44)	( 53,658)
Cumulative translation adjustments	33,757	43,150
Treasury stock (Notes 2, 12 and 29)	( 5,284,890)	( 6,041,231)
<b>Total shareholders' equity</b>	<b>57,539,248</b>	<b>50,764,345</b>
<b>TOTAL</b>	<b>\$ 630,914,004</b>	<b>\$ 545,825,129</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31, 2003 AND PERIOD FROM FEBRUARY 18, 2002 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2002

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2003	2002
<b>OPERATING REVENUE:</b>		
Interest income (Note 2)	\$ 30,821,628	\$ 31,538,815
Fee income	8,097,034	6,297,109
Net gains on trading bills and securities	2,165,362	1,633,995
Investment income recognized under equity method (Note 2)	521,103	352,976
Other operating revenue	2,727,919	1,355,644
<b>Total operating revenue</b>	<b>44,333,046</b>	<b>41,178,539</b>
<b>OPERATING COSTS:</b>		
Interest expenses	8,028,718	11,650,918
Provision for loan and other loss (Note 2)	7,652,988	7,355,333
Service charges	4,175,930	2,785,536
Other operating costs	190,912	173,291
<b>Total operating costs</b>	<b>20,048,548</b>	<b>21,965,078</b>
<b>GROSS INCOME</b>	<b>24,284,498</b>	<b>19,213,461</b>
<b>OPERATING EXPENSES</b>	<b>( 16,694,432)</b>	<b>( 13,111,213)</b>
<b>OPERATING INCOME</b>	<b>7,590,066</b>	<b>6,102,248</b>
<b>NON-OPERATING INCOME</b>	<b>2,036,371</b>	<b>1,061,931</b>
<b>NON-OPERATING EXPENSES</b>	<b>( 325,804)</b>	<b>( 1,185,478)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>9,300,633</b>	<b>5,978,701</b>
<b>ESTIMATED INCOME TAX EXPENSE (Notes 2 and 31)</b>	<b>( 2,005,494)</b>	<b>( 1,227,289)</b>
<b>NET INCOME</b>	<b>7,295,139</b>	<b>4,751,412</b>
<b>LESS SUBSIDIARIES' NET INCOME PRIOR TO THE MERGER DATE</b>	<b>-</b>	<b>( 707,053)</b>
<b>CONSOLIDATED NET INCOME</b>	<b>\$ 7,295,139</b>	<b>\$ 4,044,359</b>
<b>EARNINGS PER SHARE (Note 32):</b>		
Pre-tax:		
Basic earnings per share	\$ 2.78	\$ 3.01
Diluted earnings per share	\$ 2.52	\$ 2.91
After-tax:		
Basic earnings per share	\$ 2.16	\$ 1.98
Diluted earnings per share	\$ 1.98	\$ 1.92
Pro forma information under assumptions that shares held by its subsidiaries were not treated as treasury stock:		
Pre-tax:		
Basic earnings per share	\$ 2.47	\$ 2.46
Diluted earnings per share	\$ 2.27	\$ 2.40
After-tax:		
Basic earnings per share	\$ 1.92	\$ 1.62
Diluted earnings per share	\$ 1.78	\$ 1.58

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2003 AND PERIOD FROM FEBRUARY 18, 2002 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2002

(Expressed in Thousands of New Taiwan Dollars)

	Capital Stock		Advance Receipts for Capital Stock	Capital Surplus		Retained Earnings			Unrealized Loss on Valuation of Long-Term Investments	Cumulative Translation Adjustments	Treasury Stock	Total
	Common Stock	Preferred Stock		Additional Paid-in Capital	Treasury Stock Transaction	Legal Reserve	Special Reserve	Unappropriated Earnings				
<b>BALANCE, FEBRUARY 18, 2002 (Date of Incorporation)</b>	\$ 23,000,000	\$ 7,000,000	\$ -	\$ 5,482,363	\$ -	\$ -	\$ -	\$ -	(\$ 189,374)	\$ -	(\$ 248,239)	\$35,044,750
Redemption of preferred stock - A		( 3,000,000)										( 3,000,000)
Dividends on Series A preferred stock - 5.75%				( 172,500)								( 172,500)
Dividends on Series B preferred stock - 6.05%				( 242,000)								( 242,000)
Shares swap with Taiwan Securities Co., Ltd. and Taishin Bills Finance Co., Ltd.	13,316,236			7,412,448					( 44)	43,150	( 5,792,992)	14,978,798
Adjustments for subsidiaries' employee bonuses and director compensation				( 21,712)								( 21,712)
Recovery of unrealized loss on valuation of long-term investments									135,760			135,760
Adjustments for changes in holding percentage in equity investee				( 3,110)								( 3,110)
Net income for the period from February 18, 2002 (date of incorporation) through December 31, 2002								4,044,359				4,044,359
<b>BALANCE, DECEMBER 31, 2002</b>	36,316,236	4,000,000	-	12,455,489	-	-	-	4,044,359	( 53,658)	43,150	( 6,041,231)	50,764,345
Convertible bonds converted to common stock	645,742		1,449,185	379,243								2,474,170
Adjustments for changes in holding percentage in equity investee											( 7,000)	( 7,000)
Cancellation of subsidiary's treasury stock	( 192,190)			( 63,955)	18,406						237,739	-
Subsidiaries' treasury stock subscribed by employees					( 13,062)						110,729	97,667
Net gain on Taishin Financial shares sold by subsidiary					225,125						414,873	639,998
Taishin Financial's cash dividends received by subsidiaries					345,542							345,542
Appropriation of 2002 earnings:												
Legal reserve						404,436		( 404,436)				-
Special reserve							10,508	( 10,508)				-
Dividends on Series A preferred stock - 5.75%								( 124,294)				( 124,294)
Dividends on Series B preferred stock - 6.05%								( 242,000)				( 242,000)
Cash bonuses to employees								( 32,631)				( 32,631)
Remunerations to directors and supervisors								( 97,894)				( 97,894)
Cash dividends				( 485,419)				( 3,132,596)				( 3,618,015)
Recovery of unrealized loss on valuation of long-term investments									53,614			53,614
Cumulative translation adjustments										( 9,393)		( 9,393)
Net income for 2003								7,295,139				7,295,139
<b>BALANCE, DECEMBER 31, 2003</b>	\$ 36,769,788	\$ 4,000,000	\$ 1,449,185	\$ 12,285,358	\$ 576,011	\$ 404,436	\$ 10,508	\$ 7,295,139	(\$ 44)	\$ 33,757	(\$5,284,890)	\$57,539,248

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOW

YEAR ENDED DECEMBER 31, 2003 AND PERIOD FROM FEBRUARY 18, 2002 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2002

(Expressed in Thousands of New Taiwan Dollars)

	2003	2002		2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Consolidated net income	\$ 7,295,139	\$ 4,044,359	Increase in short-term borrowings	\$ 857,000	\$ 674,000
Adjustments to reconcile net income to net cash provided by operating activities:			Increase in commercial paper payable	2,467,366	2,114,820
Subsidiaries' net income prior to the merger date	-	707,053	Decrease in long-term bank loans	( 150,000)	( 144,000)
Provision for loan and other loss	7,606,882	7,341,996	Increase in due to banks	17,414,200	3,124,820
(Recovery of) provision for foreclosed collaterals valuation loss	( 779,323)	666,913	Issuance of corporate bonds	13,000,000	3,000,000
Provision for (recovery of) decline in market value of trading securities	13,512	( 237,712)	Issuance of unsecured European Convertible Bond	7,482,396	-
Depreciation and amortization	1,966,399	1,554,802	Bond issuance costs	( 96,075)	( 5,816)
Loss on sale and disposal of property and equipment	104,227	54,144	Issuance of bank notes	3,750,000	9,750,000
Cash dividends distributed by investee under equity method	205,259	108,110	Increase in appropriated loan fund	79,080	21,496
Loss on sale of long-term investment	176,107	-	Increase (decrease) in deposits and remittances	37,953,609	( 24,248,719)
Investment income recognized under equity method	( 643,987)	( 352,976)	Increase (decrease) in guarantee and margins deposits received	17,980	( 31,462)
Deferred income tax expense	1,705,113	490,882	Increase in long-term commercial paper payable	498,011	-
Permanent loss on long-term investment	202,730	-	Redemption of Series A preferred stock	-	( 3,000,000)
Accrued interest compensation	198,981	53,968	Remunerations of directors, supervisors and bonuses to employees	( 130,525)	( 70,206)
(Gain) loss on valuation of trading securities	( 29,471)	35,442	Preferred stock dividends	( 366,294)	( 414,500)
Net changes in assets and liabilities provided (used) cash:			Common stock cash dividends	( 3,272,997)	( 289,931)
Short-term investments	1,282,751	( 1,723,527)	Treasury stocks subscribed by employees	97,666	81,017
Trading securities	10,127,078	( 8,344,958)	Increase in treasury stock	-	( 843,074)
Bonds purchased under agreements to resell	( 1,155,968)	6,267,570	Net cash provided by (used in) financing activities	79,601,417	( 10,281,555)
Receivable amount for margin loans	( 4,692,909)	( 1,314,828)			
Receivables and prepayments	( 16,073,417)	( 8,964,984)	<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,764,845	( 13,910,245)
Other current assets	( 142,027)	( 195,687)	<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR/PERIOD</b>	5,519,213	7,446,835
Other assets (excluding delinquent loans)	( 321,851)	7,881,821	<b>CASH AND CASH EQUIVALENTS FROM MERGER WITH DAH AN COMMERCIAL BANK CO., LTD.</b>	-	11,982,623
Pledged marketable securities	2,617,226	( 8,659,659)	<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR/PERIOD</b>	\$ 8,284,058	\$ 5,519,213
Guarantee deposits	( 1,334,635)	160,520			
Payables to and advances from customers	6,504,533	5,919,443	<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -</b>		
Long-term payable	66,778	-	Cash paid during the year/period for:		
(Credit) debit item for consigned trades	( 536,835)	437,964	Interest	\$ 8,502,164	\$ 13,681,676
Bonds sold under agreements to repurchase	( 12,042,397)	( 219,224)	Income tax	\$ 559,739	\$ 474,957
Securities financing guarantee deposits in	70,530	56,347			
Payable for securities financing guarantee	74,213	99,998	<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:</b>		
Other current liabilities	( 217,571)	437,422	Convertible bonds and interest compensation payable transferred to current liabilities	\$ 1,526,247	\$ -
Other liabilities	811,504	365,490	Convertible bonds converted to common stock	\$ 2,474,170	\$ -
Others	12,993	( 265,499)	Increase in long-term investment by a share swap	\$ -	\$ 56,211,047
Net cash provided by operating activities	3,071,564	6,405,190	Treasury stock	\$ 756,341	(\$ 6,041,231)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Decrease (increase) in reserve due from Central Bank	6,911,513	( 15,463,598)			
Increase in due from banks	( 5,471,579)	( 97,534)			
(Increase) decrease in trading securities	( 15,160,888)	19,988,234			
Increase in loans (including delinquent loans)	( 63,154,475)	( 7,119,018)			
Increase in long-term investments	( 758,577)	( 1,387,321)			
Proceeds from sale of property and equipment	72,107	6,644			
Purchase of property and equipment	( 1,401,460)	( 4,881,662)			
Decrease (increase) in refundable deposits	3,401	( 86,869)			
Increase in pledged securities	( 743,722)	( 958,710)			
Increase in operating deposits	( 144,340)	( 50,000)			
(Increase) decrease in settlement funds	( 86,947)	3,199			
Others	26,831	12,755			
Net cash used in investing activities	( 79,908,136)	( 10,033,880)			

See notes to consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2003 AND PERIOD FROM FEBRUARY 18, 2002 (DATE OF INCORPORATION) THROUGH DECEMBER 31, 2002  
(Amounts are Expressed in Thousands of New Taiwan Dollars or Other Specified Currency, Except Per Share Data)

**1. ORGANIZATION AND CONSOLIDATION POLICY**

Taishin Financial Holding Co., Ltd. ("Taishin Financial") was established by Taishin International Bank Co., Ltd. ("Taishin Bank") and Dah An Commercial Co., Ltd. ("Dah An Bank") pursuant to the ROC Financial Holding Company Act and other related regulations through a share swap on February 18, 2002. Taishin Financial is engaged in investing and managing the businesses related to the financial institutions.

According to Article 4 of the ROC Financial Holding Company Act, a financial holding company should have controlling interest on the bank, insurance company or securities house at the same time. Taishin Bank and Dah An Bank established Taishin Financial by means of a share swap. In forming the holding company, Taishin Bank merged with Dah An Bank, with Taishin Bank being the surviving company. In addition, Taiwan Securities Co., Ltd. ("Taiwan Securities") and Taishin Bills Finance Co., Ltd. ("Taishin Bills Finance") became wholly owned subsidiaries by means of a share swap effective on December 31, 2002.

On December 31, 2003 and 2002, there are 35 and 26 employees, respectively, in Taishin Financial.

Taishin Bank commenced the preparatory work relating to its formation as a commercial bank on October 4, 1990. Operations commenced when Taishin Bank opened for business on March 23, 1992. Taishin Bank is engaged in providing general commercial banking services to customers. Services provided include, among other things, commercial lending, letters of credit, bankers' acceptances, checking and savings accounts, installment and term loans, foreign exchange transactions, wire transfer services, marketable security investments, credit card issuing, derivative instruments transactions, receivable factoring and offshore banking business.

On December 31, 2003 and 2002, there are 6,303 and 4,788 employees, respectively, in Taishin Bank.

Taiwan Securities was incorporated in October 1988, merged with Hsinchu Science Park Securities Corp. in November 2000, and acquired the business of six branches of Grand Fortune Securities (originally named Sun Securities), under the approval of the Securities and Futures Commission ("SFC"). Taiwan Securities' operations include securities underwriting, brokerage, margin lending and securities transfer services, brokerage services related to futures, and other operations approved by the relevant authorities.

On December 31, 2003 and 2002, there are 2,048 and 2,083 employees, respectively, in Taiwan Securities.

Taishin Bills Finance commenced the preparatory work relating to its formation as a bills finance company on April 1, 1997 according to the ROC Company Law, the ROC Banking Law, Rules Governing Bills Finance Companies and other regulations. As of January 19, 1998, Taishin Bills Finance obtained a license to operate and commenced operations on March 5, 1998. Taishin Bills Finance is engaged in the following operations: 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").

On December 31, 2003 and 2002, there are 80 and 79 employees, respectively, in Taishin Bills Finance.

**Consolidation Policy**

According to the "Regulations Governing the Preparation of Financial Statements of Financial Holding Companies", a financial holding company has the responsibility to prepare annual and interim consolidated financial statements in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7, "Consolidated Financial Statements". According to the regulations, subsidiaries in which the ownership is over 50% are included in the consolidated financial statements, but a parent company is not required to consolidate the financial information of its subsidiary when (a) both total assets and total operating revenues of the subsidiary are less than 10% of that of the parent, and (b) both consolidated total assets and consolidated total operating revenues of these subsidiaries are less than 30% of that of the parent. However, all subsidiary, bank, insurance, and securities companies should be consolidated.

The financial statements of Taishin Financial's wholly owned subsidiaries, Taishin Bank, Taiwan Securities and Taishin Bills Finance have been included in the consolidated financial statements according to the regulation mentioned above. In preparing the consolidated financial statements, the material transactions between the consolidated parties are eliminated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of Preparation**

Taishin Financial and subsidiaries' consolidated financial statements are prepared in conformity with "Regulations Governing the Preparation of Financial Statements of Financial Holding Companies", "Guidelines Governing the Preparation of Financial Reports of Securities Issuers", and "Criteria Governing the Preparation of Financial Reports by Securities Firms", and generally accepted accounting principles in the Republic of China. In preparing these financial statements, management used reasonable estimates, for example, in the determination of the collectibility of loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities, pension costs, deferred income tax, etc. However, these estimates may differ from actual results because of changes in operating conditions and assumptions.

**Current and Non-Current Classification**

In conformity with SFAS No. 28, "Disclosures in the Financial Statement of Banks", Taishin Bank and Taishin Bills Finance need not classify current item and noncurrent item in assets and liabilities. Generally, except for the above description, current assets are assets expected to be converted into cash, sold, or consumed either in one year or in the normal operating cycle. Current liabilities are the obligations that will be liquidated in one year or in one operating cycle. Assets (liabilities) not classified as current are non-current assets (liabilities).

**Short-Term Investments**

Short-term investments consist of listed stocks and other kinds of securities and are recorded at acquisition cost and stated at the lower of cost or market value at the balance sheet date, if the market value is available. If the market price is lower than cost, an allowance for market decline is provided; on the contrary, such valuation allowance would be reversed. Upon sale of short-term investments, the moving average cost method is used in determining the cost of investments sold.

**Trading Securities**

Trading securities include investment in government bonds, corporate bonds, stocks listed or traded on TSE, GTSM and Taiwan Innovative Growing Entrepreneur ("TIGER"), securities purchased for hedging the position of warrants, convertible bonds asset swap, equity-linked notes, and hedged bonds for interest rate swap, which are recorded at acquisition cost. Government bonds, stocks and bonds listed or traded on TSE or GTSM are stated at the lower of acquisition cost or market price. Market price is determined based on the last trading day's closing price or the reference price quoted by the counter market; TIGER stocks are valued by the cost method. Upon the sale of trading securities, the moving average cost method is used in determining cost. The book value of convertible bonds and the related accounts will be written off upon exercise of the conversion rights. Newly Entitlement Certificates ("EC") are recorded at the market price of convertible bonds or common shares, whichever is more identifiable.

Government bonds and corporate bonds accrue interest income on accrue basis on balance sheet date.

**Bonds Purchased Under Agreements to Resell and Sold Under Agreements to Repurchase**

For Taishin Bank and Taishin Bills Finance, in conformity with Ministry of Finance ("MOF") regulations, bonds and other short-term securities under agreements to repurchase or resell are accounted for as outright sales and purchases. However, since 2004, repurchase and resell agreement are considered financing transaction to conform with "Guidelines Governing the Preparation of Financial Reports by Public Banks".

For Taishin Financial and Taiwan Securities, repurchase and resell agreements are considered a financing transaction if the risk and reward are attributed to the seller. Otherwise it will be considered a trading transaction. Under the financing criterion, the transaction under a repurchase agreement is recorded at its sales price and is listed as a liability while under a resell agreement is recorded at its purchase price and is listed as an asset. On the repurchase (resell) date, the difference between the sales price (repurchase price) is accounted for as interest expense or income.



**Provision for Bad Debts and Loss on Guarantees**

Provisions for bad debts and loss on guarantees are accrued in consideration of management's estimates of collectibility of loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities. The management assesses the collectibility of its credit portfolio based on factors such as the borrowers'/clients' payment history, delinquent status, and financial condition and provides for loss, taking into account the value of collateralized assets, in accordance with regulations issued by the MOF. According to the rules, at a minimum, if the loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities are deemed unrecoverable, they should be provided in full and loss should be recognized as an expense currently, and if the possibility of recovery is deemed low, no less than 50% of the loan amount should be provided with allowance and the loss should be recognized as an expense currently.

Accounts deemed uncollectible are written off with the approval of the Board of Directors.

**Income Recognition and Bad-Debt Write-Off**

Loans are recorded at principal amounts outstanding. 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 into non-accrual loan accounts, where the accrual of interest income ceases. A gain will be recognized when such delinquent interest is collected.

Taiwan Securities' revenue recognition policies are as follows:

- (a) Brokerage commission and gain on sale of securities: recognized on trading day.
- (b) Interest of margin loans and bonds purchased under agreements to resell: recognized based on accrual basis in the term of financing and trading.
- (c) Underwriting commission: recognized when the underwriting contracts finished.
- (d) Transfer agent fees: recognized according to the contracts by month.

**Long-Term Investments**

Long-term investments are recorded at acquisition cost. For investments acquired by means of a share swap, the book value of the investees is defined as assets (net of permanent devaluation, if any) less liabilities. Upon sale of long-term investments, the moving average cost is used in determining the cost of investments sold. Investee in which the investor's ownership is less than 20% or does not have significant influence, are carried at cost and permanent devaluation is recognized as loss for the current period for investments in non-publicly listed companies. For public listed companies, investments are stated at lower of cost or market value and any unrealized loss is recognized as a deduction in shareholders' equity. Investee in which the investor's ownership interest is 20% or more or on which investor does have significant influence are valued using the equity method. Any excess of investment costs to acquired net assets of investees are amortized on a straight-line method over five years as investment income or loss. If the investee is a non-listed or non-over-counter company and there is evidence indicating that the value of investment is deemed impaired, a loss will be provided and charged to current expense.

Under the equity method, if the investor sells a portion of the investment so that its portion of ownership decreases or the investor may lose significant influence on the investee, the investor stops using equity method and then the cost method is used. The long-term investment accounts are recorded at the lower of book value and market value as its new cost. In addition, the investor should realize the unrealized gain (loss) from the down-stream transactions.

Taishin Financial's shares, which were transferred from investments in other companies, held by subsidiaries which joined the share swap, remained as investment under MOF Letter No. 6. (91) Tai-Tsai-Cheng-111467.

**Property and Equipment**

Property and equipment are recorded at acquisition cost and stated at cost less accumulated depreciation. Interest incurred for the expenditure of purchasing or constructing property and equipment before completion is capitalized and included as part of the acquisition cost. Improvements extending the assets' useful life are capitalized; otherwise they are expensed currently. When assets are retired or sold, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain (loss) is credited (charged) to non-operating income (expense).

Depreciation is calculated using the straight-line method over the useful-life guidelines prescribed by the government whilst the leasehold improvements are depreciated over the lease terms.

**Deferred Charges and Goodwill**

Deferred charges include installation charges for security equipment, phone lines, electric power lines and computer program design fees and are amortized on a straight-line basis over the related service lives.

Goodwill as a result of a merger is amortized over 5 years on a straight-line basis.

**Collateral and Residuals Taken Over**

Collateral and residuals taken over are recorded at cost, and are stated at lower of cost or realizable value at the balance sheet date.

**Reserve for Loss on Trading Securities**

According to "Rules Governing Securities Companies" ("RGSC"), 10% of net gain on sale of government bonds purchased is provided monthly as reserve, until the balance of the reserve reaches \$200 million, for loss on the sale of government bonds purchased in the future.

**Stock Warrant Liabilities**

Warrants issued are accounted for as a liability at issue price before maturity date or exercising. When warrants are repurchased after they are issued, the repurchase price is recorded as "repurchased warrants" and as a reduction of the warrant issued. Warrants issued (including repurchased warrants) are measured at fair market value at the balance sheet date. Unrealized gains resulting from the excess of gain on changes in value of warrants issued over the increase market value of the hedged securities is deferred while loss is recognized as current period expense.

**Corporate Bonds Payable**

Issuer issued convertible bonds, some at par value and the others at premium, and recognized interest expense at its yield rate through the outstanding period. The direct and necessary cost of such bond issuance was charged to "Deferred bond issuance cost" and amortized during the period from the issuance date to the expiration date of redemption. If the holder of convertible bonds with a put option does not exercise the put option by the expiry date, interest premium is amortized, which has been recognized as a liability, over the period from the expiry date to the maturity date by using the interest method. Taishin Financial and its subsidiaries adopt book-value approach in case the holder of convertible bonds exercises the conversion option.

**Pensions**

The accounting for pensions of Taishin Financial and its subsidiaries is based on the provisions of SFAS No. 18. All the subsidiaries have funded employee pension plans at 2% to 6% of total salaries, except for Taishin Financial, while Taishin Financial's application for employee pension account is under review by the authority.

**Treasury Stock**

The acquisition of treasury stock is accounted for at cost, while the fair value will be adopted if such shares are donated. Treasury stock is reported as a deduction in shareholders' equity.

The value of treasury stock used in the execution of a stock warrant is the total of the strike price and book value of the stock warrant. Any difference from the treasury stock reissuance transaction is recorded under stockholders' equity.

The value of treasury stock used upon the exercise of conversion rights by a holder of a convertible bond is the book value of the convertible bond.

When disposing treasury stock, if the disposal value is higher than the book value, the difference is recorded as "capital surplus-treasury stock transactions" and if the disposal value is lower than the book value, the difference is used to offset capital surplus that resulted from the other same kind of treasury stock transactions, then to the retained earnings, if needed.

When treasury stock is written off, its value is reversed to offset capital stock and additional paid-in capital by the percentage of shares. 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 which resulted from the prior treasury stock transactions, then to the retained earnings, if needed. On the other hand, 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 resulted from prior treasury stock transactions.

According to SFAS No. 30, the shares of Taishin Financial held by its subsidiaries should be regarded as treasury stocks when the financial holding company is recognizing investment income and when preparing financial statements (including consolidated financial statements).



# Financial Statements

# Taishin Holdings

## Foreign Currency Transactions

Transactions negotiated in foreign currencies (other than forward exchange contracts) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gain or loss, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited or charged to income. Assets and liabilities denominated in foreign currencies are restated by using the balance sheet date exchange rates, and resulting gain or loss are credited or charged to current income. Long-term investments denominated in foreign currencies are restated at the balance sheet date exchange rate. The related translation adjustments are reported as a separate component of stockholders' equity.

## Derivative Financial Instruments

Under forward exchange contracts for trading purposes, foreign currency-determined assets and liabilities are recorded in New Taiwan dollar based on the specified future rate (the "forward rate") on the contract date. As the contracts matured, the difference between the spot rate and the forward rate is recognized as a gain or loss in the period the contracts settled. For the outstanding contracts, a gain or loss is computed according to the difference between the various forward exchange rates available for the remaining contracts periods and the specified forward rates; the related gain or loss is recognized in the current period. The net amount of receivables and payables related to these contracts on the balance sheet date is recognized as an asset or liability.

Interest rate swaps ("IRSs") involve no exchange of principal either at inception or upon maturity, rather, they involve the periodic exchange of interest payments, between the floating and the fixed interest rates, arising from an underlying notional principal amount. The exchanged interest for non-trading IRSs is computed on the accrual basis and is recognized as income in current period. Apart from non-trading IRSs, the gain or loss is computed by evaluating its fair value and is recognized as income in current period.

The premiums paid or received on currency option contracts are recorded as assets or liabilities. The gain or loss from exercising the contracts is recorded in the current period. The premiums of the outstanding contracts are evaluated at the balance sheet date. Changes of the premium value are recognized as a gain or loss in the current period.

The principal of currency swap contracts entered into for non-trading purposes are recorded based on the contracted exchange rate on the contract date. The amount resulting from different exchange rates is recognized as assets or liabilities. Those assets or liabilities will be amortized as an interest expense or income during the contract period.

The principal of cross currency swap contracts entered into for non-trading purposes are recorded based on the contracted exchange rate on the contract date. The exchanged interest during the contract period, on an accrual basis, is recognized as a gain or loss in the current period.

The difference between discounted value of future interest and the principal of cross currency swap contracts and fair value based on transaction purposes is recognized as a gain or loss in the current period.

A futures transaction is recorded at the notional amount or contract amount as a memo entry on transaction date and pay-out guarantee deposit and broker commission. The gain or loss is computed by evaluating its fair value and is recognized as income or expense in the current period. At the maturity date, the memo entry will be reversed and the settlement gain or loss is recognized as income or expense in the current period.

## Income Tax

Taishin Financial and its subsidiaries adopt intra-period tax allocation under the provisions of SFAS No. 22, "Accounting for Income Tax". Under SFAS No. 22, an entity's deferred tax asset or liability is estimated for future tax effects attributable to temporary differences, prior years' loss carryforwards and tax credits. An allowance is provided under the assessment of the realizability of deferred tax assets. Adjustments of prior years' income tax payable are included in current income tax expense.

Under the amended ROC Income Tax Law effective from 1998, an additional 10% income tax is levied on distributable earnings earned in the current year that remain unappropriated after the shareholders' meeting held in the following year. The levied income tax should be recorded as current period income tax expense in the following year.

Pursuant to Article 49 of the ROC Financial Holding Company Act, Taishin Financial and the qualified subsidiaries (the "Group") adopt the linked tax system for the tax filings. Accordingly, the net benefit that may arise from the consolidation of the Group with respect to the 10% additional tax on unappropriated earnings will be recognized as income tax benefit of the parent company in the current period.

## Reclassifications

Certain accounts of 2002 consolidated financial statements have been reclassified to conform to the 2003 presentation.

## 3. CASH AND CASH EQUIVALENTS

	December 31	
	2003	2002
Cash in vault and working funds	\$ 2,961,280	\$ 2,729,514
Checks for clearing	2,053,539	1,671,794
Demand deposits	172,794	121,742
Checking deposits	2,087,670	98,728
Time deposits	698,300	712,012
Others	310,475	185,423
Total	\$ 8,284,058	\$ 5,519,213

As of December 31, 2003 and 2002, the interest rates of time deposits ranged from 0.975% to 4.10% and from 1.65% to 4.10% per annum.

## 4. DUE FROM BANKS

	December 31	
	2003	2002
Due from other banks	\$ 1,814,997	\$ 703,949
Call loans to banks	5,164,980	504,449
Total	\$ 6,979,977	\$ 1,208,398

## 5. DUE FROM CENTRAL BANK

	December 31	
	2003	2002
Reserve - checking account	\$ 5,003,746	\$ 3,768,681
Reserve - demand account	8,910,926	8,240,368
Reserve - foreign deposit	33,980	292
Normal account	3,740,000	12,490,000
Interbank clearing account	201,157	301,981
Total	\$ 17,889,809	\$ 24,801,322

Taishin Bank is required to maintain reserve balances deposited in the Central Bank. Such reserves amounted to \$13,948,652 thousand and \$12,009,341 thousand as of December 31, 2003 and 2002, respectively.

## 6. SHORT-TERM INVESTMENTS

	December 31	
	2003	2002
Commercial papers	\$ 2,850,591	\$ 8,135,450
Negotiable certificate of deposits	32,196,871	8,525,002
Treasury bills	109,107	7,214,596
Bonds	14,427,634	8,344,925
Stocks and funds	4,937,656	6,016,172
Others	183,003	65,342
Less allowance for decline in market value	( 18,872)	( 17,981)
Net	\$ 54,685,990	\$ 38,283,506



## 7. TRADING SECURITIES

	December 31	
	2003	2002
Dealing:		
TSE stocks	\$ 3,457,313	\$ 988,484
GTSM stocks	417,677	84,573
TIGER stocks	239,984	316,544
Bonds	5,017,518	19,803,227
Others	301,604	-
Less allowance for devaluation of trading securities	-	( 54,149)
Subtotal	9,434,096	21,138,679
Underwriting:		
TSE stocks	119,356	3,528
GTSM stocks	75,847	99,509
Bonds	1,365,000	1,107,200
Others	59,526	-
Less allowance for devaluation of trading securities	-	( 402,032)
Subtotal	1,619,729	808,205
Hedge position for the issuance of stock warrants:		
TSE stocks	1,189,898	105,317
GTSM stocks	71,336	-
Less allowance for devaluation of trading securities	( 32,024)	( 9,362)
Subtotal	1,229,210	95,955
Custodian account:		
Fixed income products - short-term notes	66,201	-
Less allowance for devaluation of trading securities	-	-
Subtotal	66,201	-
Total	\$ 12,349,236	\$ 22,042,839

Securities held for operations were pledged as collaterals (Note 34); the allowance for devaluation is provided for the excess of cost over market value at the balance sheet date.

Of the trading securities, bonds with face value amounting to \$2,530,000 thousand are under agreements to repurchase on December 31, 2003.

As of December 31, 2003, the interest rates of notes - custodian accounts ranged from 0.725% to 0.875%.

## 8. BONDS PURCHASED UNDER AGREEMENTS TO RESELL

As of December 31, 2003 and 2002, Taishin Financial and Taiwan Securities had bonds purchased under agreements to resell of \$8,969,731 thousand and \$9,236,423 thousand, with interest rates ranging from 0.775% to 3.25% and 1.00% to 6.00% per annum, respectively.

## 9. RECEIVABLES, NET

	December 31	
	2003	2002
Accounts receivable	\$ 46,740,093	\$ 30,825,898
Less unrealized interest revenue	( 16,939)	( 66,321)
Interest receivable	1,828,760	2,880,028
Tax refund receivable	695,128	98,388
Forward exchange contracts receivable-net	-	800,489
Other receivables	4,036,162	2,367,028
Less:		
Allowance for valuation-tax refund receivable	( 112,374)	( 28,860)
Allowance for receivables	( 622,360)	( 141,041)
Net	\$ 52,548,470	\$ 36,735,609

## 10. RECEIVABLE AMOUNT FOR MARGIN LOANS

Taiwan Securities has engaged in the activity of margin lending since 1991. As of December 31, 2003 and 2002, receivables for margin loans were as follows:

	December 31	
	2003	2002
Receivable amount for margin loans	\$ 13,843,656	\$ 9,272,096
Less allowance for loss on bad loans	-	( 121,349)
Net	\$ 13,843,656	\$ 9,150,747

## 11. LOANS (INCLUDING DELINQUENT LOANS) AND ALLOWANCE FOR LOAN LOSS

	December 31	
	2003	2002
Short-term loans	\$ 118,803,288	\$ 97,358,699
Medium-term loans	146,650,555	138,473,005
Long-term loans	128,321,772	99,895,534
Overdrafts	867,288	1,484,228
Delinquent loans	4,596,856	7,050,036
Bills discounted	417,445	351,903
Gross loans	399,657,204	344,613,405
Less:		
Allowance for loan losses	( 3,113,470)	( 4,194,763)
Delinquent loans transferred to other assets, net(Note 14)	( 4,032,341)	( 5,835,218)
Loans, net	\$ 392,511,393	\$ 334,583,424

### Allowance for Loan Losses

	Year Ended December 31, 2003			
	Receivables	For Losses on Particular Loans	Losses on the Overall Loan Portfolio (Excluding Particular Loans)	Total
Balance, January 1, 2003	\$ 141,041	\$ 1,214,818	\$ 2,979,945	\$ 4,335,804
Provision for loan losses	20,913	7,806,203	( 376,820)	7,450,296
Write-off	-	( 9,089,100)	( 54,170)	( 9,143,270)
Recovery from loans written off	-	632,594	-	632,594
Balance, December 31, 2003	\$ 161,954	\$ 564,515	\$ 2,548,955	\$ 3,275,424

(Continued)



# Financial Statements

# Taishin Holdings

	Year Ended December 31, 2002			
	Receivables	For Losses on Particular Loans	Losses on the Overall Loan Portfolio (Excluding Particular Loans)	Total
Balance, January 1, 2002	\$ 88,957	\$ 600,852	\$ 903,332	\$ 1,593,141
Additions from the Dah An Bank merger	306,513	11,669,646	5,204,903	17,181,062
Provision for loan losses	( 254,429)	10,495,403	(3,046,080)	7,194,894
Sale of bad debt	-	( 2,010,735)	-	( 2,010,735)
Write-off	-	( 20,902,965)	( 82,210)	( 20,985,175)
Recovery from loans written off	-	1,362,617	-	1,362,617
Balance, December 31, 2002	\$ 141,041	\$ 1,214,818	\$ 2,979,945	\$ 4,335,804

## 12. LONG-TERM INVESTMENTS

	December 31				
	2003			2002	
	Original Investment	Carrying Value	Ownership Interest(%)	Carrying Value	Ownership Interest(%)
Equity method:					
Taishin Asset Management Co., Ltd.	\$ 750,000	\$ 865,482	100.00	\$ 751,009	100.00
Taishin Marketing Consultant Co., Ltd.	2,000	3,459	100.00	2,105	100.00
Taisin Venture Capital Investment Co., Ltd.	1,000,000	991,611	100.00	-	-
Anew Holdings Ltd.	457,351	615,443	100.00	519,809	100.00
Taishin International Finance Co., Ltd.	127,314	149,293	99.99	136,319	99.99
Taiwan Futures Co., Ltd.	399,950	520,669	99.99	486,417	99.99
Dah An Leasing Co., Ltd.	198,000	127,717	99.00	132,050	99.99
Taiwan Securities Investment Advisory Co., Ltd.	335,270	363,477	91.18	358,039	91.18
PayEasy Digital Integration Co., Ltd.	34,000	60,424	66.67	33,705	66.67
Taishin Real-Estate Management Co., Ltd.	30,000	60,109	60.00	47,717	60.00
Taishin Insurance Agency Co., Ltd.	1,500	247,869	60.00	183,377	60.00
Shin Ze AMC Co., Ltd.	25,500	73,710	51.00	-	-
An Hsin Real-Estate Management Inc.	15,000	25,874	30.00	25,272	30.00
Taishin Venture Capital Investment Co., Ltd.	60,000	56,642	5.00	-	-
Taishin Securities Investment Consulting Inc	-	-	-	11,300	100.00
Taishin Leasing and Financing Co., Ltd.	-	-	-	918,927	49.95
Dah Chung Bill Finance Corp.	-	-	-	989,389	18.80
Subtotal		4,161,779		4,595,435	
Cost method:					
Taishin Leasing and Financing Co., Ltd.	247,399	247,399	19.95	-	-
Dah Chung Bill Finance Corp.	671,611	939,026	18.80	-	-
Noble Tech Venture Capital Co., Ltd.	36,000	36,000	10.00	36,000	10.00
Shin Kong Investment Trust Corporation	99,400	99,400	7.67	99,400	7.31
Concord IV Venture Capital Co., Ltd.	95,000	95,000	6.25	95,000	6.25
Debt Investments Depository and Clearing Co. Taiwan	100,000	100,000	5.00	-	-
Grand Pacific Venture Capital Co., Ltd.	30,000	30,000	5.00	30,000	5.00
Jihsun Venture Capital Investment Co., Ltd.	30,000	30,000	5.00	30,000	5.00
Lien An Co., Ltd.	1,250	1,250	5.00	1,250	5.00
TKS Venture Capital Co., Ltd.	39,216	39,216	4.90	39,216	4.90

	December 31				
	2003			2002	
	Original Investment	Carrying Value	Ownership Interest(%)	Carrying Value	Ownership Interest(%)
Concord VII Venture Capital Co., Ltd.	\$ 35,000	\$ 35,000	4.73	\$ 35,000	4.73
Apex Venture Capital Corporation	50,000	50,000	4.67	50,000	4.67
United Venture Capital Co., Ltd.	40,000	40,000	4.52	40,000	4.52
Concord III Venture Capital Co., Ltd.	44,640	44,640	4.46	44,640	4.46
Da Chiang, Inc.	125,000	125,000	4.31	125,000	4.31
Hwan Hwa Security Finance Co., Ltd.	271,810	271,810	4.11	271,810	4.11
Systrust@com Corporation	16,500	16,500	3.69	16,500	3.69
Harbinger Ventures Capital Investment Co., Ltd.	67,000	67,000	3.35	67,000	3.35
T.K. Venture Capital Corp.	50,000	50,000	3.33	50,000	3.33
Taipei Smart Card Co., Ltd.	16,000	16,000	3.20	16,000	3.20
Broad Casters Market Research Co., Ltd.	5,000	5,000	3.00	-	-
Taiwan Financial Asset Service Corporation	50,000	50,000	2.94	50,000	2.94
Pacific Securities	180,410	180,410	2.77	180,410	2.77
Financial Information Service Co., Ltd.	91,000	91,000	2.28	91,000	2.28
Taipei Financial Center Corporation	356,009	356,009	2.09	356,009	2.09
Universal Venture Fund, Inc.	25,000	25,000	1.49	25,000	1.49
Taiwan Futures Exchange, Inc.	27,050	27,050	1.35	27,050	1.35
Taipei Forex Inc.	1,600	1,600	0.81	1,600	0.81
Taiwan Asset Management Corporation	100,000	100,000	0.57	100,000	0.57
Kaohsiung Mass Rapid Transit Co.	50,000	50,000	0.50	50,000	0.50
Eastern Broadband Telecommunications	300,000	300,000	0.46	300,000	0.46
Taiwan Security Central Depository Co., Ltd.	18,582	18,582	0.45	18,582	0.45
KST Education Co., Ltd.	9,258	9,258	0.30	-	-
Taiwan Cooperative Bank	199,584	199,584	0.24	199,584	0.24
Taiwan Fixed Network Co., Ltd.	200,000	200,000	0.22	200,000	0.22
Entie Securities Finance Co.	6,222	6,222	0.12	6,222	0.12
Fubon Security Finance Co., Ltd.	6,500	6,500	0.08	6,500	0.08
Infopro Co., Ltd.	1,608	1,608	0.74	-	-
Chinese Automobile Co., Ltd.	3	3	-	-	-
Linko Entertainments Co., Ltd.	18,354	-	-	18,354	0.30
Taishin Venture Capital Investment Co., Ltd.	-	-	-	75,000	5.00
Subtotal		3,961,067		2,752,127	
Less:					
Treasury stock		( 17,500)		( 10,500)	
Allowance for valuation loss on long-term investments		( 44)		( 53,658)	
Total		\$ 8,105,302		\$ 7,283,404	

As of December 31, 2003, Taiwan Securities reported an unrealized loss on long-term investments resulted from the valuation loss on stocks of Anew Holdings Ltd. accounted by the equity method and amounted to \$44 thousand. Taishin Financial proportionally recognized the amount of \$44 thousand.



# Financial Statements

Based on their audited financial statements for the years ended December 31, 2003 and 2002, the equity in net income (loss) of investee companies accounted for under the equity method are as follows:

	For the Years Ended December 31	
	2003	2002
Taishin Asset Management Co., Ltd.	\$ 113,950	\$ 1,009
Taishin Insurance Agency Co., Ltd.	186,892	133,801
Dah Chung Bills Finance Corp.	113,507	102,274
Taishin Leasing and Financing Co., Ltd.	(6,310)	30,646
Taishin Marketing Consultant Co., Ltd.	1,354	105
PayEasy Digital Integration Co., Ltd.	26,719	22,829
Anew Holdings Ltd.	105,027	9,756
Taiwan Futures Co., Ltd.	34,252	35,040
Taiwan Securities Investment Advisory Co., Ltd.	5,361	7,440
Shin Ze AMC Co., Ltd.	48,210	-
Others	15,025	10,076
Total	\$ 643,987	\$ 352,976

A total of 1,310 thousand shares of Taishin Financial were held by the subsidiary of Taishin Bank, Taishin Real-Estate Management Co., Ltd., with a carrying value of \$17,500 thousand as of December 31, 2003 and 2002. According to SFAS No. 30, common shares of Taishin Financial acquired by its subsidiary were recorded as treasury stock, and amounted to \$17,500 thousand and \$10,500 thousand, calculated on the basis of ownership interest as of December 31, 2003 and 2002, respectively.

On April 25, 2003, Taishin Bank sold 60,000 thousand shares of Taishin Leasing and Financing Co., Ltd., which was valued by equity method, and recognized a loss on sale of long-term investment amounted to \$176,107 thousand. Due to a decrease of Bank's ownership interest from 49.95% to 19.95%, Taishin Bank turned to adopt the cost method, and thus the value is determined by the lower of cost or market. Taishin Financial recognized a permanent loss on decline in value of \$117,111 thousand resulted from recording cost to fair market value. As of December 31, 2002, the unrealized loss on long-term equity investments resulted from, at the percentage of ownership, the market value decline of listed stocks held by Taishin Leasing & Financing Co., Ltd. accounted for by the equity method and amounted to \$53,614 thousand.

Because of the changes in shareholders' structure of Dah Chung Bill Finance Corp., Taishin Bank does not have influence on the investee, Taishin Bank turned to adopt the cost method and thus the value is determined by the lower of cost or market. Taishin Bank recognized a permanent loss on decline in value of \$85,619 thousand resulted from recording cost to fair market value.

Taishin Financial's wholly owned subsidiary, Taisin Venture Capital Investment Co., Ltd. increased its interest in Taishin Venture Capital Investment Co., Ltd., valued under cost method by Taishin Bank, so the Taishin group consolidated ownership interest is over 20%; thus, the Bank valued the Taishin Venture Capital Investment by equity method.

Under generally accepted accounting principles in the Republic of China, a parent company is not required to consolidate the financial information of its subsidiary when (a) both total assets and total operating revenues of the subsidiary are less than 10% of that of the parent, and (b) both consolidated total assets and total operating revenues of these subsidiaries are less than 30% of that of the parent. Consequently, financial information for all of the above-listed subsidiaries in which the parent company's ownership interest is more than 50% is not consolidated into the presented financial statements.

## 13. OTHER FINANCIAL ASSETS

	December 31	
	2003	2002
Other financial assets:	\$ 4,032,341	\$ 5,835,218
Delinquent loans (Note 11)	3,074,770	1,454,488
Guarantee deposits paid (Note 34)	13,138,656	14,812,163
Refundable collaterals (Note 34)	394,713	1,247,228
Collaterals and residuals taken over	1,199,340	1,144,044
Operating deposits (Note 34)	357,955	271,008
Settlement funds	2,392,034	1,019,052
Buy option premium	996,124	915,553
Others	\$ 25,585,933	\$ 26,698,754

According to the "Rules Governing the Administration of Securities Companies", as amended in September 1996:

- In the first year of commencing trading, all brokers are required to deposit NT\$15 million of settlement funds with the Taiwan Stock Exchange before commencing trading, and contribute certain percentage of the trading amounts to the fund within 10 days after end of each quarter. In the second year, the settlement funds will be decreased to NT\$7 million including the previous year's contribution amounts. If the accumulated funds from the previous year exceed or are less than NT\$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 originally deposit NT\$10 million in a settlement fund to the Taiwan Stock Exchange before commencing trading.
- Securities firms are required to deposit NT\$3 million in a settlement fund to the Taiwan Stock Exchange before commencement of trading for each additional branch operations, and such amount will be reduced to NT\$2 million from the second year.
- As of December 31, 2003 and 2002, the balance of such settlement funds amounted to NT\$357,955 thousand and NT\$271,008 thousand, respectively.

## 14. PROPERTY AND EQUIPMENT

	December 31			
	2003		2002	
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 11,688,361	\$ -	\$ 11,688,361	\$ 10,403,534
Buildings	5,696,280	571,273	5,125,007	4,625,429
Machinery equipment	3,038,144	1,334,903	1,703,241	1,110,932
Transportation and communication equipment	348,759	147,000	201,759	226,394
Miscellaneous equipment	546,161	381,040	165,121	359,855
Leasehold improvement	940,902	693,933	246,969	191,173
Prepayments for building and equipment	699,498	-	699,498	2,521,865
Total	\$ 22,958,105	\$ 3,128,149	\$ 19,829,956	\$ 19,439,182

As of December 31, 2003 and 2002, total insurance coverage for property and equipment amounted to \$8,014,540 thousand and \$7,464,285 thousand, respectively. Property and equipment were pledged as collaterals (Note 34). Interest capitalization by Taiwan Securities for the years ended December 31, 2003 and 2002 amounted to \$15,421 thousand and \$28,726 thousand, respectively.



## 15. OTHER ASSETS

	December 31	
	2003	2002
Deferred income tax assets (Note 31)	\$ 2,618,903	\$ 4,297,759
Deferred charges	1,926,195	1,325,891
Goodwill from merger	2,401,973	3,160,741
Rental assets, net	330,597	334,882
Debit item for consigned trades, net	147,380	-
Others	3,799	204,315
Total	\$ 7,428,847	\$ 9,323,588

As of December 31, 2003 and 2002, the rental assets of Taiwan Securities consist of the following:

	December 31	
	2003	2002
Land	\$ 200,070	\$ 200,070
Buildings	164,461	164,461
Less accumulated depreciation	( 33,934)	( 29,649)
Total	\$ 330,597	\$ 334,882

As of December 31, 2003 and 2002, Taiwan Securities had casualty insurance coverage for rental assets totaling \$85,366 thousand. Rental assets were pledged as collaterals (Note 34).

Details of security brokerage accounts with a debit (credit) balance as of December 31, 2003 and 2002 were as follows:

	2003	2002
<b>Debits:</b>		
Settlement accounts receivable	\$ 2,448,166	\$ 1,317,272
Receivable securities purchased for customers	6,833,689	3,658,212
Receivable price of securities purchased for customers	3,228,652	1,557,209
Receivable securities sold through consignment	3,214,196	1,528,297
Settlements price	( 158,804)	191,351
Cash in bank settlements	24,508	67,642
Subtotal	15,590,407	8,319,983
<b>Credits:</b>		
Securities deliverable purchased for customers	6,833,689	3,658,212
Price payable of securities sold for customers	3,212,737	1,527,950
Settlement accounts payable	3,214,196	1,528,297
Other accounts payable	2,167,581	1,682,525
Marginal and securities borrowers payable	14,824	312,454
Subtotal	15,443,027	8,709,438
Net	\$ 147,380	(\$ 389,455)

## 16. SHORT-TERM BORROWINGS

As of December 31, 2003 and 2002, interest rates on short-term unsecured loans of Taiwan Securities ranged from 1.20% to 1.40% and 1.60% to 5.25% per annum, respectively.

## 17. COMMERCIAL PAPER PAYABLE

	December 31	
	2003	2002
Guarantee and acceptance institution:		
International Bills Finance Co.	\$ 350,000	\$ 350,000
Chung Hsing Bills Finance Co.	500,000	500,000
Chinatrust Bills Finance Co.	160,000	-
Hua Nan Bills Finance Co.	150,000	-
Polyvest Bills Finance Co.	-	100,000
China Bill Finance Co.	500,000	340,000
E. Sun Bills Finance Co.	250,000	100,000
Ta Ching Bills Finance Co.	150,000	150,000
United Bills Finance Co.	-	150,000
Hsinchu International Bank	200,000	-
Taishin Bills Finance Co.	300,000	600,000
Fubon Bills Finance Co.	1,650,000	425,000
Grand Bills Finance Co.	1,125,000	700,000
Central Bills Finance Co.	-	400,000
Taiwan Bills Finance Co.	900,000	200,000
Subtotal	6,235,000	4,015,000
Unguaranteed	250,000	-
Less discounts on short-term bills payable	( 4,613)	( 1,979)
Total	\$ 6,480,387	\$ 4,013,021

As of December 31, 2003 and 2002, interest rates for commercial paper payable ranged from 0.68% to 1.10% and 1.06% to 1.58% per annum, respectively. Please refer to Note 34 for pledged assets.

## 18. BONDS SOLD UNDER AGREEMENTS TO REPURCHASE

As of December 31, 2003 and 2002, bonds sold under agreements to repurchase amounted to \$11,283,788 thousand and \$22,486,111 thousand with interest rates ranging from 0.65% to 1.60% and 1.05% to 2.50%, respectively.

## 19. DUE TO BANKS

	December 31	
	2003	2002
Due to the Central Bank	\$ 32,971	\$ 49,787
Due to banks	872,149	1,973,971
Call loans from banks	49,342,238	31,641,903
Bank overdrafts	1,558,029	425,526
Total	\$ 51,805,387	\$ 34,091,187

## 20. PAYABLES

	December 31	
	2003	2002
Interest payable	\$ 1,784,581	\$ 2,613,940
Accrued expenses	2,335,749	1,795,110
Accounts payable	22,187,966	16,775,601
Forward exchange contracts payable, net	689,024	-
Warrants issued liability	180,456	35,825
Others	4,520,523	4,214,005
Total	\$ 31,698,299	\$ 25,434,481



Details of warrants issued by Taiwan Securities are as follows:

	December 31	
	2003	2002
Warrants issued	\$ 1,739,005	\$ 691,200
Gain on change in fair value	( 910,805)	( 583,200)
Market value	828,200	108,000
Repurchased warrants	916,018	104,443
Loss (gain) on change in value	( 268,274)	( 32,268)
Market value	647,744	72,175
Net of warrants issued liability	\$ 180,456	\$ 35,825

Taiwan Securities issues American warrants, which are effective one or half year after listing on market and will be settled by cash or securities under the option of Taiwan Securities. As of December 31, 2003, the details of warrants issued and repurchased warrants are as follows, exclusive of those un-exercisable warrants:

Warrants	Name of Warrants	Number of Warrants	Exercisable at December 31, 2003	Issued Date	Issued Price Per Share	Exercise Price Per Share	Number of Repurchase	Market Value Per Share
TS10	Foxconn	65,000,000	46,272,000	Sept.05, 2003	\$ 2.20	\$ 160.60	11,058,000	\$ 0.35
TS11	GWO Chang Multi Products Co.	70,000,000	49,036,000	Sept.15, 2003	2.15	107.00	1,591,000	0.40
TS12	CMC	70,000,000	50,063,000	Sept.19, 2003	2.20	36.12	17,644,000	0.50
TS13	Nanya Technology Co.	70,000,000	50,463,000	Sept.26, 2003	2.20	57.12	64,928,000	1.50
TS14	Mega Holdings	70,000,000	49,726,000	Oct.03, 2003	2.20	20.70	35,686,000	1.80
TS15	China Steel Co.	70,000,000	49,001,000	Oct.13, 2003	2.20	33.88	60,321,000	1.05
TS16	Media Tek Inc.	48,000,000	33,664,000	Oct.15, 2003	3.275	549.00	33,773,000	0.65
TS17	UMC	55,000,000	38,510,000	Oct.23, 2003	2.977	39.13	50,422,000	1.15
TS18	Real Tek	100,000,000	70,009,000	Oct.31, 2003	1.588	69.00	90,555,000	0.75
TS19	Quanta Co.	70,000,000	49,174,000	Nov.07, 2003	1.985	89.00	65,835,000	1.00
TS20	ASE Inc.	35,000,000	24,551,000	Dec.03, 2003	3.076	44.55	34,163,000	2.90
TS21	Acer	60,000,000	42,047,000	Dec.05, 2003	0.992	56.65	58,574,000	0.85
TS22	Waterland Financial Holdings	40,000,000	28,050,000	Dec.11, 2003	1.091	12.74	39,652,000	1.15

## 21. BANK NOTES

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

- (a) Taishin Bank issued a 10-year bank notes in the amount of \$5,000,000 thousand at par value on October 2, 2001. The interest rates for years one to five and years six to ten are 4.05% and 4.45%, respectively. The interest will be paid annually. Taishin Bank has redemption right on such bank notes at par value plus accrued interest payable starting from the sixth year onward.
- (b) Taishin Bank issued a 7-year bank notes in the amount of \$4,800,000 thousand at par value on January 30, 2002. The interest rate for years one to seven is 4.00%. The interest will be paid annually. The principal should be paid back at once when due.

(c) Taishin Bank issued a \$3,050 million subordinated bank notes on July 10, 2002. Terms are as follows:

Bond Item	A	B	C	D	E	F	G	H	I	
Issue Amount	200,000	600,000	500,000	500,000	500,000	200,000	200,000	150,000	200,000	
Face Value	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Issue Price	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	
Duration	2002.07.10 ~ 2005.07.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2007.10.10	2002.07.10 ~ 2005.07.10
Interest Payment	From the issuance date, the interest will be accrued quarterly and paid semi-annually	From the issuance date, the interest will be accrued quarterly and paid semi-annually. The interest of the three months before maturity will be paid at maturity date.							From the issuance date the interest will be accrued every year and paid annually.	
Interest Accrual	The interest will be accrued on single and floating coupon rate: the first interest-determined date is on 2nd day before the issuance date. From the issuance date, the interest rate should be adjusted quarterly in accordance with the floating rate on the 2nd day before interest-determined date and be accrued on single rate; in addition, the interest rate should not be lower than 0.00% and the interest will be accrued on the basis of actual days.									
Interest Rate	1st Year		(6.35% - Floating Rate)	(6.35% - Floating Rate)	(6.70% - Floating Rate)	4.63%	The first 18 months: (8.00% - Floating Rate)	(11.00%-2× Floating Rate)	4.15%	3.65% - fixed rate
	2nd Year	(6.50% - Floating Rate)	(6.75% - Floating Rate)	(6.75% - Floating Rate)	(7.00% - Floating Rate)			(10.50%-2× Floating Rate)	4.15%	
	3rd Year		(7.15% - Floating Rate)	(7.15% - Floating Rate)	(7.30% - Floating Rate)	From the 19th month: (6.70% - Floating Rate)	(10.00%-2× Floating Rate)	If the floating rate is lower than 4.70% - the coupon rate is 4.15% -	N/A	
	4th Year	N/A	(7.55% - Floating Rate)	(7.55% - Floating Rate)	(7.60% - Floating Rate)		(7.05% - Floating Rate)	(9.50%-2× Floating Rate)		Otherwise, (8.85% - Floating Rate)
	5th Year - Maturity date	N/A	(7.95% - Floating Rate)	(7.95% - Floating Rate)				(9.00%-2× Floating Rate)		
Redemption on the Maturity Date	The bonds will be redeemed at the maturity date in cash at par value									
Other Agreements	1. The interest payments rely on the amount Taishin Bank accrued. Overrun interest will not be paid. 2. The bonds are bearer, but could be converted into registered upon holders' request									

The floating rate is determined by the 90-day commercial paper fixed rate in the secondary market, provided by the Money Line Telerate at 11:00 am on the interest-determined day.

- (d) Taishin Bank issued a 5-year bank notes in the amount of \$1,900 million at par value on November 15, 2002. The interest rate for years one to five is 5.02% per annum minus the current interest rates of 180-day commercial paper, but should not be less than 0%. The interest will be paid semi-annually, and the principal will be paid back at once when due.



(e) Taishin Bank was authorized to issue \$15 billion bank notes under the approval of MOF on May 6, 2003 and partially issued \$4 billion bank notes as follows:

Taishin Bank issued first \$1,000 million bank notes in 2003:

Bond	Issued Date	Maturity Date	Duration	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.10.08	2008.10.08	5-year	\$200 million each	4.2% minus 6-month USD LIBOR except for the first year fixed at 4.1%. In addition, the interest rate should not be less than 0%. From the second year, the interest rate is recalculated semi-annually in accordance with 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 AM.	\$10,000 thousand	Bonds will be redeemed on the maturity date at par value in cash. Interest will be accrued on simple rate and paid semi-annually from the issuance date.
B	2003.10.08	2008.10.08					
C	2003.10.08	2008.10.08					
D	2003.10.08	2008.10.08					
E	2003.10.08	2008.10.08					

Taishin Bank issued second \$900 million bank notes in 2003:

Bond	Issued Date	Maturity Date	Duration	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.11.28	2008.11.28	5-year	\$300 million	4.9% minus 6-month USD LIBOR and the interest rate should not be less than 0%. The first interest-determined date is November 28, 2003. The following interest rate, from 2 <sup>nd</sup> year to 5 <sup>th</sup> year, is recalculated in accordance with the floating rate on 2 <sup>nd</sup> day prior to interest payment date, the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the re-set day at 11:00 AM.	\$10,000 thousand	Bonds will be redeemed on the maturity date at par value in cash. Interest will be accrued on simple rate and paid semi-annually from the issuance date.
B	2003.11.28	2008.11.28		\$200 million each			
C	2003.11.28	2008.11.28		\$200 million each			
D	2003.11.28	2008.11.28		\$200 million each			

Taishin Bank issued third \$2,100 million bank notes in 2003:

Bond	Issued Date	Maturity Date	Duration	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2003.12.16	2008.12.16	5-year	\$200 million each	4.9% minus 6-month LIBOR. The 6-month LIBOR is recalculated in accordance with the floating rate on 2 <sup>nd</sup> day prior to interest payment date, the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the re-set day at 11:00 AM. In addition, the interest rate should not be less than 0%.	\$10,000 thousand	Bonds will be redeemed on the maturity date at par value in cash. Interest will be accrued on simple rate and paid semi-annually from the issuance date.
B	2003.12.16	2008.12.16		\$200 million each			
C	2003.12.16	2008.12.16		\$300 million each			
D	2003.12.16	2008.12.16		\$300 million each			
E	2003.12.16	2008.12.16		\$200 million each			
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 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 re-set day at 11:00 AM. In addition, the interest rate should not be less than 0%.	\$10,000 thousand	Bonds will be redeemed on the maturity date at par value in cash. Interest will be accrued on simple rate and paid quarterly from the issuance date.
G	2003.12.16	2008.12.16					

(Continued)

Bond	Issued Date	Maturity Date	Duration	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
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 "3-month USD LIBOR" is greater than 2.0%, the interest rate is 5.0% minus 3-month USD LIBOR. "3-month USD LIBOR" is determined by 3-month USD LIBOR on the 2 <sup>nd</sup> day before interest payment date, provided by the Moneyline Telerate on the re-set day at 11:00 AM. In addition, the interest rate should be not less than 0%.	\$10,000 thousand	Bonds will be redeemed on the maturity date at par value in cash. Interest will be accrued on simple rate and paid quarterly from the issuance date.
I	2003.12.16	2008.12.16					

## 22. DEPOSITS AND REMITTANCES

	December 31	
	2003	2002
Checking account deposits	\$ 3,429,324	\$ 3,507,860
Demand deposits	36,144,861	25,064,644
Time deposits	114,013,882	113,678,874
Time certificates of deposit	18,805,500	2,837,400
Savings deposits	198,942,786	184,296,118
Deposits transferred from the Postal Bureau	48,354,667	52,301,776
Remittances and drafts issued	264,228	114,967
Total	\$ 419,955,248	\$ 381,801,639

## 22. DEPOSITS AND REMITTANCES

	December 31	
	2003	2002
Unsecured convertible bonds - par	\$ 1,468,900	\$ 3,000,000
Unsecured European Convertible Bonds - par	6,591,882	-
Unsecured European Convertible Bonds - premiums	5,446	-
Unsecured subordinated corporate bonds	8,000,000	-
Unsecured bonds - par	5,000,000	-
	21,066,228	3,000,000
Add:		
Interest compensation payables - unsecured convertible bonds	57,347	26,877
Interest compensation payables - unsecured European Convertible Bonds	112,458	-
Less transferred to current portion of corporate bonds	(\$ 1,526,247)	\$ -
Total	19,709,786	3,026,877



# Financial Statements

# Taishin Holdings

In order to expand business operation and increase recognized income from investees, Taishin Financial issued unsecured convertible bonds, unsecured European Convertible Bonds and unsecured subordinated corporate bonds, and Taishin Bills Finance issued unsecured bonds approved by the Bureau of Monetary Affairs ("BOMA") and the SFC. Indicative terms and conditions for the bonds were as follows:

## Unsecured Convertible Bonds

- A. Issue amount: \$3,000,000 thousand at par value.
- B. Denomination: Unsecured convertible bonds in denomination of \$100 thousand.
- C. Issue date: September 13, 2002.
- D. Issue price: Coupon value.
- E. Maturity date: 5 years from the issue date.
- F. Coupon rate: 0%.
- G. Conversion period: Except for the closed period (determined by ROC Law applicable from time to time), bonds may be converted 120 days after the issue date and 10 days prior to the maturity date.
- H. Conversion item: The issuer's common shares.
- I. Pricing:
- (a) Conversion price per share of \$15.50 is determined on the pricing date.
- (b) The conversion price per share shall be adjusted in accordance to anti-dilution principles when the issuer raises new capital, distributes stock dividends or issues employee bonus shares, or in any other dilutive events specified in the Trust Deed.
- J. Redemption at the option of the bondholders: Put option of the convertible bonds give bondholders the right to demand from the issuer the redemption of the bonds at par value plus the interest compensation after the second to fourth anniversary.
- K. Redemption at the option of the issuer:
- (a) The issuer may call back all of the bonds 2 years after the issue date and 40 days prior to the maturity date, at a price to yield margin, in the event that the closing prices of the common shares of Taishin Financial traded on TSE for the 30 consecutive trading days exceeds 50% of the conversion price; or
- (b) The issuer may redeem the outstanding bonds in the whole, but not in part, at a price to yield a margin, in the event that over 95% of the bonds have been redeemed or converted.
- (c) The yield-to-maturity rates of the bonds are as follows:

Holding Period	Annual Yield Rate
The second anniversary to third anniversary	2.50%
The third anniversary to fourth anniversary	3.00%
Fourth anniversary 40 days prior to the maturity date	Denomination of \$100 thousand

- L. Redemption on the maturity date: Unless previously converted or redeemed, the bonds will be redeemed on the maturity date in cash at par value.
- M. Interest compensation payable: The difference between the redemption price and face value of a bond is amortized by the effective interest (3% per annum) method and is credited to the reserve for bonds redemption accounts from the issue date to the exercise date. The interest compensation payable balance is \$57,347 thousand as of December 31, 2003.
- As of December 31, 2003, convertible bonds exercised amounted to \$1,531,100 thousand. Because bondholders can execute the put option from September 13, 2004, the balance of convertible bonds \$1,468,900 thousand, and its interest compensation payable \$57,347 thousand are transferred to current liabilities.

## Unsecured European Convertible Bonds

- A. Issue amount: US\$220,000 thousand granted (including further issue of US\$20,000 thousand).
- B. Denomination: Unsecured convertible bond in denomination of US\$1 thousand.
- C. Issue date: April 17, 2003.
- D. Issue price: 100% of the principal amount of the bonds; the further issue at 101% of par value.

- E. Maturity date: 5 years from the issue date (April 17, 2008).
- F. Coupon rate: 0% per annum.
- G. Conversion period: Except for the closed period (determined by ROC Law applicable from time to time), bonds may be converted after 90 days from the issue date and 30 days prior to the maturity date.
- H. Conversion item: the issuer's common shares.
- I. Pricing:
- (a) Conversion price per share of \$21.33 is determined on the pricing date (based on the fixed rate of NT\$34.81 to US\$1).
- (b) Taishin Financial shall change the conversion price in accordance with any events specified in the Trust Deed.
- (c) After July 31, 2003, conversion price per share is modified to \$20.15, in accordance with events specified in the Trust Deed, under the approval of board of directors.
- J. Redemption at the option of the bondholders: After April 17, 2006, the bondholders may demand from Taishin Financial the redemption of the bonds at par value plus interest compensation, calculated on a semi-annual basis at 2.4% per annum when:
- the issuer's common shares ceased to be listed or admitted to trading on the Taiwan Stock Exchange, or
  - the occurrence of a change in control power, or
  - other, the third anniversary
- K. Redemption at the option of the issuer:
- (a) At maturity: Unless the bonds were previously redeemed, repurchased and cancelled or converted, the issuer will redeem the bonds on the maturity date at 112.69% of the outstanding principal amount.
- (b) Prior to maturity: At any time on or after April 17, 2006, Taishin Financial may redeem the bonds totally or partly at par value plus interest compensation, calculated on a semi-annual basis at 2.4% per annum when:
- the closing prices of the common shares of Taishin Financial traded on Taiwan Stock Exchange for 30 consecutive trading days exceed 130% of the conversion price; or
  - over 95% of the bonds have been redeemed or converted; or
  - as a result of certain changes in the tax laws in the ROC or in other jurisdiction where the issuer is governed, the issuer becomes obligated to pay additional taxation.
- L. Redemption on the maturity date: Unless previously converted or redeemed, the bonds will be redeemed on the maturity date in cash at a price of par value.
- M. Interest compensation payable: The difference between the redemption price and face value of the bonds is amortized by effective interest (2.40%) method and is credited to the reserve for bonds redemption accounts. Interest compensation payable balance was \$112,458 thousand on December 31, 2003. As of December 31, 2003, unsecured European Convertible Bonds exercised amounted to US\$26,007 thousand.
- N. Trading market: Luxembourg Stock Exchange



## Unsecured Subordinated Corporate Bonds

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

Item	Bond	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												
Issue price		Par value												
Duration		92.12.12 99.12.12	92.12.15 99.12.15	92.12.16 99.12.16	92.12.17 99.12.17	92.12.18 99.12.18	92.12.19 99.12.19	92.12.22 99.12.22	92.12.23 99.12.23	92.12.24 99.12.24	92.12.25 99.12.25	92.12.26 99.12.26	92.12.29 99.12.29	92.12.12 99.12.12
Interest payment		From the issuance date, the interest will be paid annually.												
Interest accrual		From the issuance date, the interest will be fixed and simple interest rate.												
Coupon rate		3.5%												
Redemption on the maturity date		The bonds will be redeemed on the maturity date in cash at par value.												
Other		1.The interest payments rely on the amount Taishin Financial accrued. 2.The bonds are bearer, but could be converted into registered upon holders' request. 3.If Taishin Financial's consolidated Capital Adequacy Ratio ("CAR") is less than the authorities' requirements, Taishin Financial should stop paying interest and redeeming of the bonds until the consolidated CAR conforms to the requirements.												

Note: "Floating Rate" is determined by the 90-day commercial paper fixing rate in the secondary market, provided by the Money Line Telerate at 11.00 AM on the interest-determined day.

In order to raise working capital and enhance financial structure, Taishin Bills Finance issued unsecured convertible bonds approved by the Bureau of Monetary Affairs ("BOMA") and the SFC. Indicative terms and conditions for the bonds were as follows:

	2003	2002
The First issuance of unsecured convertible bonds (I)	\$ 1,200,000	\$ -
The second issuance of unsecured convertible bonds (II)	1,300,000	-
The third issuance of unsecured convertible bonds (III)	1,000,000	-
The fourth issuance of unsecured convertible 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	
Redemption date	Every June 25	Every June 26	Every June 27	
Issue period	5-year	5-year	5-year	
Redemption on the maturity date	In cash at a price of par value	In cash at a price of par value	In cash at a price of 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	
Redemption date	Every August 25	Every August 25	Every August 26	Every August 26	Every August 27	Every August 27	
Issue period	5-year	5-year	5-year	5-year	5-year	5-year	
Redemption on the maturity date	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	

## Unsecured Bonds (III)

Item	A Bond	B Bond	C Bond	D Bond	E Bond	Total
Denomination	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,000,000
Issue amount	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000	\$1,000,000
Rate	2.3000%	2.3000%	2.3000%	2.3000%	2.3000%	
Issue date	November 10, 2003	November 11, 2003	November 12, 2003	November 13, 2003	November 14, 2003	
Redemption 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	
Issue period	5-year	5-year	5-year	5-year	5-year	
Redemption on the maturity date	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of 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	
Redemption 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	
Issue period	5-year	5-year	5-year	5-year	5-year	5-year	
Redemption on the maturity date	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	In cash at a price of par value	



## 24. LONG-TERM BORROWINGS

As of December 31, 2003 and 2002 Taiwan Securities' long-term borrowings were as follows:

	2003	2002
Long-term loan	\$ 1,000	\$ 444,000
Less current portion	( 1,000)	( 294,000)
Long-term commercial paper payables	500,000	-
Less discounts	( 1,989)	-
Total	\$ 498,011	\$ 150,000

Long-term loan of Taiwan Securities at December 31, 2003 and 2002 consists of the following:

Bank	Due dates and rates	Original Amount	2003	2002
Shin Kong Life Insurance Co., Ltd.	The principal balance is due at maturity on March 3, 2003 and interest at 5.25% payable each month.	\$ 294,000	\$ -	\$ 294,000
China Limited Trust & Investment Corporation	The principal balance is due at maturity on September 30, 2004 and interest at 3.50% payable each month.	150,000	1,000	150,000
Subtotal			1,000	444,000
Less current portion			( 1,000)	( 294,000)
Total			\$ -	\$ 150,000

Taiwan Securities' long-term commercial paper payables at December 31, 2003 and 2002 consist of the following:

	2003	2002
Grand Bills Finance Co.	\$ 500,000	\$ -
Less discounts	( 1,989)	-
Total	\$ 498,011	\$ -

As of December 31, 2003 and 2002 interest rates on long-term loans listed above ranged from 1.10% to 3.50% and 3.50%, respectively. Please refer to Note 34 for pledged assets.

## 25. OTHER LIABILITIES

	December 31	
	2003	2002
Payable for securities financing guarantee	\$ 1,162,572	\$ 1,088,359
Sell option premium	1,860,957	1,029,620
Securities financing guarantee deposits in	905,177	834,647
Reserve for guarantee liabilities	714,831	700,798
Deferred income	375,227	586,028
Client's position - credit (Note 15)	-	389,455
Accrued pension liability	259,388	227,156
Reserve for trading losses	286,420	184,208
Reserve for default losses	21,282	48,181
Deferred income tax liabilities	29,371	3,114
Others	436,604	109,785
Total	\$ 6,051,829	\$ 5,201,351

## Reserve for Contract Losses

As of December 31, 2003 and 2002 reserve for contract losses was \$21,282 thousand and \$48,181 thousand, respectively. According to the RGSC, effective from July 1, 2000, Securities Brokers' reserve for contract loss was reduced from 2% to 0.0028% of their monthly commission income; such reserve is only allowed to be used to offset loss arising from brokerage trading or items which have been approved by the Securities and Futures Commission.

## Accrued Pension Liabilities

Reconciliations of pension fund contributions and accrued pension liabilities of Taishin Financial and subsidiaries are as follows:

	December 31, 2003				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Actuarial present value of benefit obligation:					
Vested benefits obligation	\$ -	(\$ 276)	(\$ 4,298)	(\$ 673)	(\$ 5,247)
Non-vested benefits obligation	( 2,869)	( 433,590)	( 176,859)	( 9,572)	( 622,890)
Accumulated benefits obligation	( 2,869)	( 433,866)	( 181,157)	( 10,245)	( 628,137)
Additional benefits based on future salaries	( 2,245)	( 343,795)	( 97,681)	( 8,831)	( 452,552)
Projected benefits obligation	( 5,114)	( 777,661)	( 278,838)	( 19,076)	( 1,080,689)
Plan assets at fair value	-	731,547	65,703	18,104	815,354
Projected benefits obligation in excess of plan assets	( 5,114)	( 46,114)	( 213,135)	( 972)	( 265,335)
Unrecognized transition assets	2,155	44,900	3,537	2,639	53,231
Unrecognized pension gain (loss)	470	70,893	( 41,069)	( 7,519)	22,775
Deferred pension cost	( 380)	-	-	-	( 380)
Prepaid pension expense (accrued pension liabilities)	(\$ 2,869)	\$ 69,679	(\$ 250,667)	(\$ 5,852)	(\$ 189,709)

	December 31, 2002				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Actuarial present value of benefit obligation:					
Vested benefits obligation	\$ -	(\$ 5,937)	(\$ 3,988)	(\$ 8,447)	(\$ 18,372)
Non-vested benefits obligation	( 2,882)	( 324,111)	( 144,030)	( 7,853)	( 478,876)
Accumulated benefits obligation	( 2,882)	( 330,048)	( 148,018)	( 16,300)	( 497,248)
Additional benefits based on future salaries	( 1,969)	( 271,095)	( 110,552)	( 8,261)	( 391,877)
Projected benefits obligation	( 4,851)	( 601,143)	( 258,570)	( 24,561)	( 889,125)
Plan assets at fair value	-	438,493	49,914	14,255	502,662
Projected benefits obligation in excess of plan assets	( 4,851)	( 162,650)	( 208,656)	( 10,306)	( 386,463)
Unrecognized transition assets	2,268	47,893	3,970	2,786	56,917
Unrecognized pension gain (loss)	1,900	142,262	( 15,542)	3,474	132,094
Deferred pension cost	( 2,199)	-	-	-	( 2,199)
Prepaid pension expense (accrued pension liabilities)	(\$ 2,882)	\$ 27,505	(\$ 220,228)	(\$ 4,046)	(\$ 199,651)

As of December 31, 2003 and 2002, vested benefits according to the employee pension regulations were as follows:

	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
December 31, 2003	\$ -	(\$ 326)	\$ 5,066	\$ 804	\$ 5,544
December 31, 2002	-	( 6,268)	4,217	8,885	6,834



The assumptions used in the actuarial computations were as follows:

	Year Ended December 31, 2003			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Discount rate	3.25%	3.25%	3.25%	3.25%
Rate of increase in future compensation levels	3.25%	3.25%	2.50%	3.50%
Expected rates of return on plan assets	3.25%	3.25%	3.25%	3.25%

	Period from February 18, 2002 to December 31, 2002			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Discount rate	3.75%	3.75%	3.75%	3.75%
Rate of increase in future compensation levels	3.25%	3.50%	3.00%	3.50%
Expected rates of return on plan assets	3.75%	3.75%	3.75%	3.75%

Net periodic pension cost for the years ended December 31, 2003 and 2002 consists of the following:

	Year Ended December 31, 2003				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Service cost	\$ 1,432	\$ 109,764	\$ 39,625	\$ 4,920	\$ 155,741
Interest cost	182	22,425	9,604	921	33,132
Expected return on plan assets	-	( 18,821)	( 2,055)	( 606)	( 21,482)
Amortization of net transition obligations	113	2,993	432	147	3,685
Amortization of unrecognized gain or loss	79	3,423	-	46	3,548
Total periodic pension cost	\$ 1,806	\$ 119,784	\$ 47,606	\$ 5,428	\$ 174,624

	Period from February 18, 2002 to December 31, 2002				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Service cost	\$ 456	\$ 92,281	\$ 30,442	\$ 4,794	\$ 127,973
Interest cost	114	20,620	9,303	652	30,689
Expected return on plan assets	-	( 17,486)	( 2,009)	( 477)	( 19,972)
Amortization of net transition obligations	113	2,993	432	147	3,685
Amortization of unrecognized gain or loss	-	1,172	( 1,389)	-	( 217)
Total periodic pension cost	\$ 683	\$ 99,580	\$ 36,779	\$ 5,116	\$ 142,158

The status of plan assets for the years ended December 31, 2003 and 2002 were as follows:

	Year Ended December 31, 2003				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Beginning balance	\$ -	\$ 438,493	\$ 49,914	\$ 14,255	\$ 502,662
Contribution	-	161,959	16,474	3,622	182,055
Payment	-	-	( 1,491)	-	( 1,491)
Return on assets	-	8,193	806	227	9,226
Merger with Dah-An Commercial Bank	-	122,902	-	-	122,902
Ending balance	\$ -	\$ 731,547	\$ 65,703	\$ 18,104	\$ 815,354

	Period from February 18, 2002 to December 31, 2002				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Beginning balance	\$ -	\$ 313,941	\$ 37,249	\$ 10,286	\$ 361,476
Contribution	-	128,577	14,264	3,696	146,537
Payment	-	( 12,278)	( 2,577)	-	( 14,855)
Return on assets	-	8,253	978	273	9,504
Ending balance	\$ -	\$ 438,493	\$ 49,914	\$ 14,255	\$ 502,662

## 26. CAPITAL STOCK

As of December 31, 2003, Taishin Financial's authorized capital is \$100,000,000 thousand with 10,000,000 thousand shares; registered capital stock was \$40,769,788 thousand, divided into 3,676,979 thousand common shares and 400,000 thousand preferred shares at \$10 par value per share.

Details of outstanding capital stock as of December 31, 2003 were as follows:

	Common Stock	Preferred Stock	Total
The first share swap	\$ 23,000,000	\$ 7,000,000	\$ 30,000,000
Less cancellation of series A preferred shares	-	( 3,000,000)	( 3,000,000)
The second share swap	13,316,236	-	13,316,236
Add convertible bonds converted to common shares	645,742	-	645,742
Less cancellation of treasury stock	( 192,190)	-	( 192,190)
Total	\$ 36,769,788	\$ 4,000,000	\$ 40,769,788

On February 18, 2002, Taishin Financial issued 2,300,000 thousand shares of common stock, 300,000 thousand shares of Series A Preferred Shares and 400,000 thousand shares of Series B Preferred Shares to acquire all the issued shares, common shares and Series A Preferred Shares and Series B Preferred Shares, respectively, of Taishin Bank by means of a share swap at the ratio of 1 to 1.

On December 31, 2002, Taishin Financial issued 1,331,624 thousand shares to acquire all the issued common shares of Taiwan Securities and Taishin Bills Finance by means of a share swap at ratios of 1 to 1.2 and 1 to 1.3, respectively.

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

Taishin Financial's consolidated BIS is 128.28% for the year ended December 31, 2003.

The Series A Preferred Shares of \$3,000,000 thousand with a cumulative, non-participating, non-convertible, dividend yield at 5.75% per annum, and rights to dividends preferred to the common share, was redeemed on September 20, 2002 at par value, and cancelled under the approval of MOF.

Taishin Financial's Articles of Incorporation provide that the cash dividends of Series A Preferred Shares shall be distributed to preferred shareholders according to the resolution on distribution of 2002 earnings.

The Series B Preferred Shares of \$4,000,000 thousand with a cumulative, non-participating, non-convertible, dividend yield at 6.05% per annum, and the rights to dividends preferred to the common share is to be redeemed on June 30, 2006 at \$10 par value per share.

Some bondholders of unsecured convertible bond and unsecured European Convertible Bonds exercised conversion right and increased Taishin Financial's common shares by \$645,742 thousand and advance receipts for capital stock by \$1,449,185 thousand, the effective date being January 8, 2004, and capital surplus by \$379,243 thousand.



## 27. CAPITAL SURPLUS

Taishin Financial's capital surplus as of December 31, 2003 was \$12,861,369 thousand and in compliance with Article 47-4 of the ROC Financial Holding Company Act, the portion of additional paid-in capital from the share swap, amounted to \$1,198,402 thousand, which came from the original financial institutions' unappropriated earnings, is allowed to be distributed as cash dividends.

## 28. DISTRIBUTION OF EARNINGS AND DIVIDEND POLICY

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

- A. payment of income taxes.
- B. deduct prior year's losses, if any;
- C. set aside any legal and special reserve;
- D. pay dividends to holders of Series B preferred Shares at 6.05% per annum based on the par value of \$10 and accumulated unpaid dividends for the previous years to holders of Series B Preferred Shares;
- E. pay dividends to holders of Series C Preferred Shares, if and when issued, at up to 7% per annum based on the par value of such shares and accumulated unpaid dividends for the previous years to holders of Series C Preferred Shares;
- F. the remaining balance, 1%-8% as bonuses to employees and 3% as remuneration to directors and supervisors;
- G. the remainder, together with the retained earnings of the previous years, is to be appropriated as dividends to shareholders based on proportionate interest in shares;

Items (E) and (G) above are to be proposed by Taishin Financial's board of directors and distributed upon approval in the shareholders' regular annual meeting.

However, cash distributions in any given year must not exceed 15% of Taishin Financial's actual paid-in capital. In the case where Taishin Financial's legal reserve equals to 50% of paid-in capital, the above-mentioned restrictions do not apply. Whereas if the group capital adequacy ratio is less than 100%, as stipulated by the MOF, distributions of dividends may also be restricted.

The board of directors and shareholders resolved to distribute cash dividend (\$1 per share) and bonuses to employees of \$32,631 thousand in cash and remunerations to directors and supervisors of \$97,893 thousand on June 6, 2003. The basic earnings per share of 2002 was \$1.98 which would have been \$1.91 in case the bonuses to employees and remunerations to directors and supervisors were treated as current expenses.

Under Article 28-2 of the ROC Securities and Exchange Law, rights related to shares bought and owned by a company for re-issuance to employees are suspended until transferred out. As of December 31, 2003, 42,173 thousand shares were bought and held by Taishin Financial's subsidiaries and the rights of those shares are suspended, and the shares shall not be pledged.

The appropriation of 2003 earnings has not been approved by the Board of Directors at the date of auditors' report. The information regarding the resolved 2003 earnings appropriation can be obtained later from the SEC Market Observation Post System ( "MOPS" ) website when the resolution is made.

## 29. TREASURY STOCK

Reasons	Shares (In Thousand)	Original Cost
Re-issuance to employees -Taiwan Securities	42,173	14.51
Investment:		
Taishin Bank (on February 18, 2002)	271,259	14.49
Taiwan Securities (on December 31, 2002)	19,731	14.51
Taishin Real-Estate Management Co., Ltd.-Taishin Bank's subsidiary (on February 18, 2002)	1,310	13.36
Proprietary trading securities-Taiwan Securities	30,242	14.51

Pursuant to Article 31 of the ROC Financial Holding Company Act and other rules, these treasury shares are held by Taishin Financial's subsidiaries by means of share swap. And the motions for disposal of these treasury shares had been carried by Taishin Bank's and Taiwan Securities' Boards of Directors on October 21, 2003 and October 27, 2003, respectively. The average per share market price of Taishin Financial shares in December 2003 was \$25.70.

According to SFAS No. 30, the shares of Taishin Financial held by its subsidiaries are regarded as treasury stock.

Pursuant to Article 38 and Article 31 of the ROC Financial Holding Company Act, subsidiaries and investees in which a subsidiary's ownership is over 20%, and investees in which a financial holding company has a controlling interest are not allowed to hold shares of the financial holding company except the holdings of shares resulting from conversion (which are needed to be disposed of or transferred within three years.) Controlling interest shall mean holding voting-right-shares or capital stock of a bank, insurance company or securities house more than 25%, or otherwise having the direct or indirect ability to designate the majority of the directors of a bank, insurance company or securities house.

Securities and Exchange Law Article 28.2 stipulates that the number of treasury stock held by a company shall not exceed 10% of the outstanding shares and the amount shall be no more than the total of retained earnings and realized capital surplus and additional paid-in capital. As of December 31, 2003, the aggregate treasury stock purchased was 19,219 thousand shares for \$237,739 thousand, both of which are in conformity to the related regulations. In 2003, the maximum of treasury stocks Taiwan Securities held was 50,506 thousand shares valued at NT\$663,363 thousand, which is within limit of the law.

In compliance with Article 31 of the ROC Financial Holding Company Act, the Subsidiaries of Taishin Financial, Taishin Bank and Taiwan Security would release Taishin Financial's shares held by themselves under the approval of Board of Director of subsidiaries' dated on October 21 and on October 27, 2003, respectively.

## 30. PERSONNEL EXPENSE, DEPRECIATION, DEPLETION AND AMORTIZATION

Personnel expense, depreciation, depletion and amortization for the years ended December 31, 2003 and 2002 are summarized as follows:

Classification	2003		2002	
	Operating Cost	Operating Expense	Operating Cost	Operating Expense
Personnel expense:				
Salary	\$ -	\$ 6,463,337	\$ -	\$ 4,972,917
Labor/health insurance	-	357,136	-	287,511
Pension	-	174,624	-	101,596
Others	-	245,793	-	218,052
Depreciation	-	724,138	-	603,261
Depletion and amortization	-	1,242,262	-	951,541



## 31. INCOME TAX

Since 2003, Taishin Financial, Taishin Bank, Taishin Bills Finance, Taiwan Securities, Taishin Asset Management Co., Ltd., and Taishin Marketing Consultant Co., Ltd. adopted the linked tax system for the tax filings (see Note 2).

Taishin Financial and its subsidiaries' income tax expense for the year ended December 31, 2003 and for the period from February 18, 2002 to December 31, 2002 were as follows:

	Year Ended December 31, 2003				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Income before income tax	\$7,275,065	\$7,768,682	\$1,542,457	\$ 899,518	\$17,485,722
Permanent differences:					
Investment income recognized under equity method	( 7,224,777)	( 344,223)	-	-	( 7,569,000)
Gain on trading securities	( 10,939)	( 962,241)	( 1,553,693)	-	( 2,526,873)
Provision for trading securities	-	148,319	-	( 139,966)	8,353
Interest on short-term negotiable instruments, separately taxed at 20%	( 3,290)	( 644,124)	-	( 296,950)	( 944,364)
Permanent loss on long-term investment	-	202,730	-	-	202,730
Non-taxable offshore banking unit's loss	-	( 129,214)	-	-	( 129,214)
Dividend income	( 366,294)	( 339,895)	( 128,213)	-	( 834,402)
Non-deductible expenses on sales of trading securities	-	-	195,332	-	195,332
Loss on exchange of warrants	-	-	925,424	-	925,424
Gain on trading of tax-exempted bonds	-	-	-	( 394,004)	( 394,004)
Operating expenses related to tax-exempted bonds transactions	-	-	-	51,019	51,019
Recovery of unrealized loss or short-term investments and trading securities	-	-	( 42,092)	-	( 42,092)
Pension cost in excess of tax limitation	1,806	-	-	-	1,806
Gain on conversion of convertible bonds	-	-	( 197,737)	-	( 197,737)
Others	28,154	94,934	141,669	167	264,924
Subtotal	( 7,575,340)	( 1,973,714)	( 659,310)	( 779,734)	( 10,988,098)
Temporary differences:					
Deferred provision for organization cost	( 6,020)	-	-	-	( 6,020)
Deferred provision for organization cost and employee's benefits	-	-	-	( 74)	( 74)
Pension cost	-	-	-	1,806	1,806
Reversed decline in market value of collaterals and residuals taken over	-	( 779,323)	-	-	( 779,323)
(Reversed) provision deferred provision for loan loss	-	( 707,011)	187,616	-	( 519,395)
Provision for guarantee loss exceeding the tax limit	-	43,198	-	9,283	52,481
Investment income recognized under equity method - foreign investee	-	-	( 105,027)	-	( 105,027)
Unrealized derivative instrument gain	-	-	( 83,635)	( 2,153)	( 85,788)
Others	-	-	( 28,061)	-	( 28,061)
Subtotal	( 6,020)	( 1,443,136)	( 29,107)	8,862	( 1,469,401)
Taxable income after permanent and temporary differences	( 306,295)	4,351,832	854,040	128,646	5,028,223
Deduct loss carryforwards	-	( 4,351,832)	-	-	( 4,351,832)
Taxable income	( 306,295)	-	854,040	128,646	676,391
Tax rate	25%	25%	25%	25%	-
Current income tax payable	-	-	213,500	32,152	245,652
Add:					
Deferred income tax expense (benefit)	3,534	1,657,545	47,456	( 3,422)	1,705,113
Tax on interest income from short-term negotiable instruments, separately taxed at 20%	619	128,719	-	61,172	190,510
Income tax expense transferred from withholding tax on bond interest income carried over from prior holders	-	-	5,115	81,169	86,284
Adjustment for prior years' tax estimates	-	( 183,809)	( 42,193)	5,142	( 220,860)
Additional 10% income tax paid on unappropriated earnings	-	-	17,379	5,643	23,022
Income tax benefit on linked tax system	( 24,227)	-	-	-	( 24,227)
Reported income tax (benefit) expense	(\$ 20,074)	\$1,602,455	\$ 241,257	\$ 181,856	\$ 2,005,494

	Period from February 18, 2002 to December 31, 2002				
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Total
Income before income tax	\$4,037,159	\$4,824,665	\$ 723,685	\$ 871,106	\$10,456,615
Permanent differences:					
Investment income recognized under equity method	( 4,227,219)	( 551,435)	-	-	( 4,778,654)
Gain on trading securities	-	( 607,609)	( 135,185)	-	( 742,794)
Provision for trading securities	-	12,914	-	53,794	66,708
Interest on short-term negotiable instruments, separately taxed at 20%	( 5,188)	( 1,146,759)	-	( 348,277)	( 1,500,224)
(Recovery of) provision for decline in market value of trading securities	-	( 237,712)	53,423	-	( 184,289)
Loss on sale of lands	-	19,537	-	-	19,537
Exchange loss of unit's capital	-	8,750	-	-	8,750
Non-taxable offshore banking unit's loss	-	204,016	-	-	204,016
Dividend income	-	( 89,836)	-	-	( 89,836)
Non-deductible expenses on sales of trading securities	-	-	257,020	-	257,020
Loss on exchange of warrants	-	-	25,223	-	25,223
Gain on conversion of convertible bonds	-	-	( 9,650)	-	( 9,650)
Gain on trading of tax-exempted bonds	-	-	-	( 553,070)	( 553,070)
Operating expenses related to tax-exempted bonds transactions	-	-	-	40,688	40,688
Exemption from income tax on operating expense	138,478	-	-	-	138,478
Exemption from income tax on interest expense	23,136	-	-	-	23,136
Others	683	60	( 90,096)	57	( 89,296)
Subtotal	( 4,070,110)	( 2,388,074)	100,735	( 806,808)	( 7,164,257)
Temporary differences:					
Deferred provision for organization cost and employee's benefits	24,835	-	-	( 9,948)	14,887
Provision for decline in market value of collateral and residuals taken over	-	666,913	-	-	666,913
Reversed deferred provision for loan loss	-	(15,659,692)	-	-	( 15,659,692)
Provision for guarantee loss exceeding the tax limit	-	14,929	-	83,095	98,024
Interest income recognized under equity method - foreign investee	-	-	( 9,756)	-	( 9,756)
Bad debt provision in excess of tax limitation	-	-	12,135	-	12,135
Others	-	-	45,609	1,420	47,029
Subtotal	24,835	(14,977,850)	47,988	74,567	( 14,830,460)
Taxable income after permanent and temporary differences	( 8,116)	(12,541,259)	872,408	138,865	( 11,538,102)
Deduct loss carryforwards	-	-	-	( 75,026)	( 75,026)
Taxable income	( 8,116)	(12,541,259)	872,408	63,839	( 11,613,128)
Tax rate	25%	25%	25%	25%	-
Income tax currently payable	-	-	218,093	15,950	234,043
Add:					
Deferred income tax (benefit) expense	( 8,238)	486,155	12,157	808	490,882
Tax on interest income from short-term negotiable instruments, separately taxed at 20%	1,038	229,352	-	71,206	301,596
Income tax expense transferred from withholding tax on bond interest income carried over from prior holders	-	-	7,952	-	7,952
Adjustment for prior years' tax estimates	-	32,189	( 13,120)	( 317)	18,752
Additional income tax assessed for prior years	-	-	97,507	-	97,507
Additional 10% income tax paid on unappropriated earnings	-	-	69,856	6,701	76,557
Reported income tax expense	(\$ 7,200)	\$ 747,696	\$ 392,445	\$ 94,348	\$ 1,227,289



The details of deferred income tax assets (liabilities) as of December 31, 2003 and 2002 are as follows:

	December 31, 2003				Total
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	
Bad debt loss exceeding the tax limit	\$ -	\$ -	\$ 309,277	\$ -	\$ 309,277
Provision for guarantee loss exceeding the tax limit	-	29,995	-	55,564	85,559
Provision for decline in market value of foreclosed collaterals and residuals taken over	-	33,956	-	-	33,956
Deferred provision for organization cost	4,704	-	-	-	4,704
Loss carryforwards	-	2,294,820	-	-	2,294,820
Investment credit	-	45,028	-	-	45,028
Investment gain recognized under equity method - foreign investee	-	-	( 33,647)	-	( 33,647)
Pension cost exceeding the tax limit	-	-	3,986	807	4,793
Valuation of unrealized derivative instrument	-	-	( 20,909)	538	( 20,371)
Provision for contract loss	-	-	5,321	-	5,321
Others	-	-	291	-	291
Less allowance	-	-	( 140,199)	-	( 140,199)
<b>Total</b>	<b>\$ 4,704</b>	<b>\$ 2,403,799</b>	<b>\$ 124,120</b>	<b>\$ 56,909</b>	<b>\$ 2,589,532</b>

	December 31, 2002				Total
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance	
Bad debt loss exceeding the limit	\$ -	\$ 207,665	\$ 262,374	\$ -	\$ 470,039
Provision for guarantee loss exceeding the limit	-	19,195	-	53,132	72,327
Provision for decline in market value of collaterals and residuals taken over	-	228,786	-	-	228,786
Provision for organization cost	6,209	-	-	-	6,209
Loss carryforwards	2,029	3,543,206	-	-	3,545,235
Investment credit	-	62,492	-	-	62,492
Investment (gain) recognized by equity method - foreign investee	-	-	( 7,391)	-	( 7,391)
Pension cost exceeding the tax limits	-	-	3,986	355	4,341
Provision for contract loss	-	-	12,045	-	12,045
Others	-	-	581	-	581
Less allowance	-	-	( 100,019)	-	( 100,019)
<b>Total</b>	<b>\$ 8,238</b>	<b>\$ 4,061,344</b>	<b>\$ 171,576</b>	<b>\$ 53,487</b>	<b>\$ 4,294,645</b>

According to the amendment in the ROC Income Tax Law, the information of imputation credit account ("ICA") was as follows:

	December 31, 2003			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Balance of ICA	\$ 134,302	\$ 80,702	\$ 564,204	\$ 46,073

	December 31, 2002			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Balance of ICA	\$ 184,948	\$ 153,852	\$ 587,098	\$ 50,476

The estimated imputed tax credit rate was as follows:

	December 31, 2003			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
2003 (expected)	1.61%	1.31%	33.33%	6.13%
2002	12.07%	10.79%	43.24%	7.79%

### Examination of Subsidiaries' Income Tax

The 2002 income tax returns of Taishin Financial have not been examined by the tax authorities yet.

The income tax returns of Taishin Bank up to 2000, have been examined by the tax authorities. The tax authorities denied tax payable deductions and tax refundable additions taken by Taishin Bank for the years of 1994, 1995 and 1998 through 2000 in the amount of \$64,586 thousand and \$38,646 thousand. Taishin Bank appealed the court decision and First Court canceled the determination by the tax authorities and penalty of Taishin Bank. Nevertheless, the amount of tax refundable is not paid back yet. Taishin Bank recorded the tax payable of \$64,586 thousand, tax refundable of \$38,646 and accrued an additional tax payable of \$59,612 thousand for the years of 1999, 2000 and 2001 as current income tax expense for 2001.

The income tax returns of Taiwan Securities through 2000, have been examined by the tax authorities.

The income tax returns of Taishin Bills Finance up to 1999 have been examined by the tax authorities. The tax authorities denied the tax credit deductions taken by Taishin Bills Finance for the years of 1998 and 1999 in the total amount of \$56,885. Taishin Bills Finance appealed the court decision and won the lawsuit, nevertheless, the amount of tax refundable is not paid back yet.

After appraising the withholding tax accounting policy of other companies in the same business, Taishin Bills Finance concluded that a natural person is less possible to take the tax credit deduction. By December 31, 2001, Taishin Bills Finance recorded withholding taxes as income tax expense. The withholding taxes of 2003 and 2002 were all debited to the cost of bonds and tax refundable, with the equal amount of allowance; on the contrary, a corporation is more possible to take the tax credit deductions. By December 31, 2003, the withholding taxes of natural persons and corporations were \$249,730 thousand and \$31,205 thousand, respectively. Regardless of whether natural person or corporation, the refund could be 60% of the total withholding taxes, the ratio specified in the tax authorities proposal dated on October 2003. Consequently, Taishin Bills Finance records the remainder of 40% of withholding taxes as income tax expense in the amount of \$81,169 thousand in 2003.

The following table sets forth the relevant data about retained earnings:

	December 31, 2003			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Unappropriated earnings:				
Prior to 1997	\$ -	\$ -	\$ 26,098	\$ -
Post 1998	7,295,139	6,183,349	1,288,137	751,956
<b>Total</b>	<b>\$ 7,295,139</b>	<b>\$ 6,183,349</b>	<b>\$ 1,314,235</b>	<b>\$ 751,956</b>

	December 31, 2002			
	Taishin Financial	Taishin Bank	Taiwan Securities	Taishin Bills Finance
Unappropriated earnings:				
Prior to 1997	\$ -	\$ 32,405	\$ 105,798	\$ -
Post 1998	4,044,359	3,562,511	561,492	820,044
<b>Total</b>	<b>\$ 4,044,359</b>	<b>\$ 3,594,916</b>	<b>\$ 667,290</b>	<b>\$ 820,044</b>

As stipulated in the Letter (91) Tai-Tsai-Tax 0910454466, the estimated imputed tax credit rate should include unappropriated earnings of 1998 and subsequent years, credited to the capital surplus of the financial holding company, of the former financial institutions. As of December 31, 2003, capital surplus of Taishin Financial contained \$1,060,199 thousand of such earnings.



## 32. EARNINGS PER SHARE

	Year Ended December 31, 2003											
	Income (Numerator)		Shares in Thousands (Denominator)		Earnings Per Share (Dollars)							
					Including Subsidiaries' Treasury Stock		Excluding Subsidiaries' Treasury Stock (Note)					
	Pre-Tax	Post-Tax	Including Subsidiaries' Treasury Stock	Excluding Subsidiaries' Treasury Stock (Note)	Pre-Tax	Post-Tax	Pre-Tax	Post-Tax				
Net income	\$9,300,633	\$7,295,139										
Less dividends on preferred stock	( 242,000)	( 242,000)										
Basic earnings per share:												
Net income for common stock	9,058,633	7,053,139	3,260,698	3,667,722	\$2.78	\$2.16	\$2.47	\$1.92				
Influence on diluted common stock - convertible bonds	227,135	227,135	421,878	421,878								
Diluted earnings per share -												
Net income for common shares and influence on diluted common shares	\$9,285,768	\$7,280,274	3,682,576	4,089,600	\$2.52	\$1.98	\$2.27	\$1.78				

### February 18, 2002 (Date of Incorporation) through December 31, 2002

	Earnings Per Share (Dollars)											
	Income (Numerator)		Shares in Thousands (Denominator)		Earnings Per Share (Dollars)							
					Including Subsidiaries' Treasury Stock		Excluding Subsidiaries' Treasury Stock (Note)					
	Pre-Tax	Post-Tax	Including Subsidiaries' Treasury Stock	Excluding Subsidiaries' Treasury Stock (Note)	Pre-Tax	Post-Tax	Pre-Tax	Post-Tax				
Net income	\$5,978,701	\$4,044,359										
Less net income for preferred shares	( 311,785)	( 311,785)										
Basic earnings per share:												
Net income for common shares	5,666,916	3,732,574	1,884,939	2,303,648	\$3.01	\$1.98	\$2.46	\$1.62				
Influence on diluted common shares - convertible bonds	26,877	26,877	69,124	69,124								
Diluted earnings per share -												
Net income for common shares and influence on diluted common shares	\$5,693,793	\$3,759,451	1,954,063	2,372,772	\$2.91	\$1.92	\$2.40	\$1.58				

Note: Pro forma information under assumptions that shares held by its subsidiaries were not treated as treasury stock.

## 33. RELATED PARTY TRANSACTIONS

### Names and Relationships of Related Parties

Name	Relationship
Shin Kong Life Insurance Co., Ltd.	Its chairman is a member of the immediate family of Taishin Financial's chairman
Taiwan Leasing and Financing Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd.	Same as above
Wang Tien Woolen Textile Co., Ltd.	Same as above
Jupiter Venture Capital Co., Ltd.	Same as above
Mercury Venture Capital Co., Ltd.	Same as above
Shin Ze Asset Management Co., Ltd.	Same as above

Name	Relationship
Tan Asian Plastics	Its president is Taishin Financial's chairman
Taishin International Investment Development Co., Ltd.	Same as above
Shin Kong Synthetic Fibers Corp.	Same as above
Taishin Non-Life Insurance Agency Co., Ltd.	Same as above
Taishin Insurance Brokers Co., Ltd.	Same as above
Start-up Office of You Bright Optron Corporation	Its founder is Taishin Financial's chairman
Shin Kong Co., Ltd.	Its chairman is a member of the immediate family of Taishin Financial's chairman
Shinshen Co., Ltd.	Same as above
Taishin Asset Management Co. Ltd.	Taishin Financial's wholly owned subsidiary
Taishin Venture Capital Investment Co., Ltd.	Same as above
Taishin Insurance Agency Co., Ltd.	An investee under equity method
Taishin Real-Estate Management Co. Ltd.	Same as above
Taiwan Futures Co., Ltd.	Same as above
PayEasy Digital Integration Co., Ltd.	Same as above
Dah An Leasing Co., Ltd.	Same as above
Taishin International Finance Co., Ltd.	Same as above
Taiwan Securities Investment Advisory Co., Ltd.	Same as above
ShinKong Life Real Estate Service Company	Related party in substance
International Bank of Taipei Co., Ltd.	Same as above
Taishin Leasing and Financing Co., Ltd.	The supervisor is the spouse of Taiwan Securities' vice chairman

## Material Transactions with Related Parties

### Loans, Deposits and Guarantees

Item	2003			
	Ending Balance	Highest Amount During 2003	Interest and Service Charge Rate Per Annum(%)	Interest and Service Revenue (Expense)
Loans to related parties:				
Shinshen Co., Ltd.	\$ 1,425,000	\$ 1,500,000	3.750-4.250	\$ 57,083
Shin Kong Synthetic Fibers Corp.	1,380,769	1,868,000	1.550-3.900	38,661
Wang Tien Woolen Textile Co., Ltd.	580,000	800,000	3.000-4.300	21,812
Shin Kong Co., Ltd.	550,000	600,000	1.550-2.700	736
Taiwan Leasing and Financing Co., Ltd.	110,000	180,000	2.800-4.250	4,995
Tan Asian Plastics	354,600	424,200	1.600-6.3403	7,350
Others	219,914			7,055
Total	\$ 4,620,283			\$ 137,692
Guarantees loans for related parties:				
Shin Kong Synthetic Fibers Corp.	\$ 603,422	\$ 1,044,857	0.500-0.600	\$ 2,732
Others	1,563			4,222
Total	\$ 604,985			\$ 6,954
Deposits from related parties:				
Shin Kong Life Insurance Co., Ltd.	\$ 4,261,795		0-4.900	( \$ 60,534)
Shin Kong Fire & Marine Insurance Co., Ltd.	223,658		0-4.000	( 2,025)
Taishin Insurance Agency Co., Ltd.	250,242		0-2.300	( 508)
Jupiter Venture Capital Co., Ltd.	138,802		0.150-1.050	( 356)
Mercury Venture Capital Co., Ltd.	137,378		0-1.850	( 550)
Shin Ze Asset Management Co., Ltd.	135,190		0-0.350	( 147)
Start-up Office of You Bright Optron Corporation	120,004		0-150	( 3,748)
Taiwan Futures Co., Ltd.	145,120		0-1.200	( 872)
Others	91,387			( 5,723)
Total	\$ 5,503,576			( \$ 74,463)



Item	2002			
	Ending Balance	Highest Amount During 2002	Interest and Service Charge Rate Per Annum(%)	Interest and Service Revenue (Expense)
<b>Loans to related parties:</b>				
Shin Kong Synthetic Fibers Corp.	\$ 1,428,000	\$ 1,998,000	3.200~5.000	\$ 50,467
Shinshen Co., Ltd.	1,500,000	1,500,000	4.250~5.000	50,141
Shin Kong Co., Ltd.	600,000	600,000	2.700~5.000	2,179
Wang Tien Woollen Textile Co., Ltd.	560,000	560,000	3.700~5.000	13,802
Tan Asian Plastics	177,800	224,000	3.300~5.888	6,005
Taiwan Leasing and Financing Co., Ltd.	177,000	177,000	4.250~5.500	7,333
Others	205,129			15,193
<b>Total</b>	<b>\$ 4,647,929</b>			<b>\$ 145,120</b>
<b>Guarantee loans for related parties:</b>				
Shin Kong Synthetic Fibers Corp.	\$ 544,857	\$ 544,857	0.300~0.500	\$ 1,327
Others	91,562			9,610
<b>Total</b>	<b>\$ 636,419</b>			<b>\$ 10,937</b>
<b>Deposits from related parties:</b>				
Shin Kong Life Insurance Co., Ltd.	\$ 5,706,813		0~5.300	(\$ 199,835)
Shin Kong Fire & Marine Insurance Co., Ltd.	187,847		0~4.700	( 3,912)
Taishin Insurance Agency Co., Ltd.	324,373		0~0.500	( 1,163)
Shin Kong Synthetic Fibers Corp.	138,192		0~4.000	( 94)
Wang Tien Woollen Textile Co., Ltd.	110,927		0~2.800	( 238)
Taiwan Futures Co., Ltd.	202,262		0~6.450	( 355)
Others	1,547,588			( 19,179)
<b>Total</b>	<b>\$ 8,217,802</b>			<b>(\$ 224,776)</b>

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

Short-term loans to related parties:

Item	2003			
	Highest Amount During 2003	Ending Balance	Interest and Service Charge Rate Per Annum(%)	Interest Expense
Shin Kong Life Insurance Co., Ltd.	\$ 294,000	\$ -	-	\$ 3,859

Item	2002			
	Highest Amount During 2003	Ending Balance	Interest and Service Charge Rate Per Annum(%)	Interest Expense
Shin Kong Life Insurance Co., Ltd.	\$ 294,000	\$ 294,000	5.25	\$ 15,435

Related Parties	2003					
	Purchase Price (Cumulative Amount)	Sales Price (Cumulative Amount)	Repurchase Price		Resale Price	
			Ending Balance	Interest Rate Per Annum%	Ending Balance	Interest Rate Per Annum%
Shin Kong Life Insurance Co., Ltd.	\$ -	\$ -	\$ 1,250,963	0.650~1.375	\$ -	-
Shin Kong Fire & Marine Insurance Co., Ltd.	-	-	426,372	0.675~1.300	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,677,335</b>		<b>\$ -</b>	

Related Parties	2002					
	Purchase Price (Cumulative Amount)	Sales Price (Cumulative Amount)	Repurchase Price		Resale Price	
			Ending Balance	Interest Rate Per Annum%	Ending Balance	Interest Rate Per Annum%
Shin Kong Life Insurance Co., Ltd.	\$ -	\$ 1,735,699	\$ 2,155,226	1.375~2.350	\$ -	-
Shin Kong Fire & Marine Insurance Co., Ltd.	-	-	155,278	1.400~2.200	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,735,699</b>	<b>\$ 2,310,504</b>		<b>\$ -</b>	

### Transferring Ownership of the Loans

The loans transferred to Taishin Real-Estate Management Co., Ltd. and Taishin Assets Management Co., Ltd. in the year of 2002 are as follows:

Related Parties	Original Amount	Transferring Price	Receivable Ending Balances	
			December 31, 2003	December 31, 2002
Taishin Real-Estate Management Co., Ltd.	\$ 2,855,709	\$ 952,928	\$ 571,757	\$ 857,635
Taishin Assets Management Co., Ltd.	7,524,413	1,913,129	1,178,259	1,767,389
<b>Total</b>	<b>\$ 10,380,122</b>	<b>\$ 2,866,057</b>	<b>\$ 1,750,016</b>	<b>\$ 2,625,024</b>

As of December 31, 2003, balance of receivable from transferred loans was as follows:

Period	Receivable Balance	Unrealized Interest Income
December 31, 2003~December 31, 2004	\$ 1,750,016	\$ 16,939
December 31, 2002~December 31, 2003	\$ 2,625,024	\$ 59,280

### Other Material Transactions and Liability Contracts with Related Parties

Item	Related Party	December 31			
		2003		2002	
		Amount	Percentage of Item (%)	Amount	Percentage of Item (%)
Other operating income	Taiwan Futures Co., Ltd.	\$ 114,345	6	\$ 70,768	6
Future deposits	Taiwan Futures Co., Ltd.	77,491	100	149,937	100
Bonds purchased under agreements to resell	Taishin International Investment Development Co., Ltd.	1,268,595	15	116,452	2
	Taishin Leasing and Financing Co., Ltd.	763,419	9	200,426	3

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



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## 34. PLEDGED ASSETS

As of December 31, 2003 and 2002 the assets pledged are as follows:

Pledged Assets	Description	2003	2002
Refundable collaterals	Bonds, bills, certificates of time deposit	\$ 13,138,656	\$ 14,812,163
Guarantee deposits paid	Cash, bonds	3,074,770	1,454,488
Operating deposits	Bonds, cash	1,199,340	1,144,044
Settlement funds	Cash	357,955	271,008
Trading securities - dealing	Bonds, marketable equity security	66,900	969,600
Certificates of time deposit pledged		736,693	128,752
Property and equipment - net	Land and buildings	1,324,963	1,260,918
Rental assets	Land and buildings	303,560	307,135

## 35. CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2003 and 2002, Taishin Financial and subsidiaries had the following contingent liabilities and commitments:

Pledged Assets	2003			2002		
	Taishin Bank	Taishin Bills Finance	Total	Taishin Bank	Taishin Bills Finance	Total
Bills for collection	\$ 22,066,248	\$ -	\$ 22,066,248	\$ 25,338,111	\$ -	\$ 25,338,111
Custody of marketable securities	104,809,771	-	104,809,771	87,082,363	-	87,082,363
Travellers' checks for sale	248,029	-	248,029	284,331	-	284,311
Payables on underwritten securities	-	4,977,500	4,977,500	-	1,816,500	1,816,500
Acceptance	1,952,377	-	1,952,377	525,687	-	525,687
Guarantees	23,271,637	13,987,800	37,259,437	27,625,481	13,478,700	41,104,181
Letters of credit	4,778,707	-	4,778,707	3,387,749	-	3,387,749
Commercial paper or bonds sold under repurchase agreements	27,899,820	54,743,412	82,643,232	27,539,620	52,647,834	80,187,454
Commercial paper or bonds purchased under resale agreements	4,020,256	5,498,435	9,518,691	2,919,000	10,522,379	13,441,379
Trust assets	81,250,654	-	81,250,654	50,521,604	-	50,521,604
Unpaid equipment purchase contracts	2,260,502	-	2,260,502	1,332,551	-	1,332,551
Guarantee notes received	-	304,055	304,055	-	279,634	279,634
Payable on collateral received	-	9,357,811	9,357,811	-	8,253,079	8,253,079
Unused loan commitments	64,439,810	-	64,439,810	57,033,675	-	57,033,675
Forward exchange contracts	225,642,069	-	225,642,069	149,771,159	-	149,771,159
Derivatives related to interest rate contracts in notional amount	270,157,148	1,700,000	271,857,148	32,484,000	-	32,484,000
Derivatives related to foreign exchange contracts in notional amount	398,297,695	-	398,297,695	155,631,042	-	155,631,042
Derivatives related to equity securities and merchandise	268,686	-	268,686	674,300	-	674,300
Derivatives related to asset swap contracts in notional amount	-	50,000	50,000	-	-	-
Derivatives related to interest rate cap in notional amount	-	2,500,000	2,500,000	-	-	-

According to Article 17 of the implementation rules of Trust Law, Taishin Bank should disclose its balance sheet of trust account and its asset items, which were as follows:

Trust Accounts Balance Sheet at December 31, 2003			
Trust assets:		Trust liabilities -	
Cash in banks	\$ 1,305,412	Accrued management fee	\$ 3,373
Short-term investments:		Trust capital:	
Common stocks	6,271,008	Monetary trust*	74,932,844
Mutual funds	73,588,963	Security trust	6,314,437
Short-term notes and bills	84,558	Total	\$ 81,250,654
Receivables	713		
Total	\$ 81,250,654		

## Trust Assets Summary

Items	Amount
Cash in banks	\$ 1,305,412
Short-term investments:	
Common stocks	6,271,008
Mutual funds	73,588,963
Short-term notes and bills	84,558
Receivables	713
Total	\$ 81,250,654

## 36. SUBSEQUENT EVENTS

To promote joint marketing and provide more products and service, the proposal to get 6,000 shares of Taishin Insurance Agency Co., Ltd. has been resolved by the Board of Directors dated on February 19, 2004. The deal will become effective after approval by the Board of Monetary Affairs ("BOMA") and shareholders of Taishin Insurance Agency Co., Ltd.

Pursuant to Article 31 of ROC Financial Holding Act, Taishin Bank and Taiwan Securities sold 12,750 thousand and 18,500 thousand shares of Taishin Financial in 2004, respectively. Details are summarized as follows:

	Cumulative Amount (Thousand)	Cumulative Volume (Thousand)	Gain on Sales (Thousand)	Duration of Transaction
Taishin Bank	\$ 379,480	12,750	\$ 193,128	For the period from January 1, 2004 through February 19, 2004
Taiwan Securities	495,895	18,500	205,632	For the period from January 1, 2004 through February 19, 2004

Taiwan Securities acquired one branch of Fushan Securities Co., Ltd. under the approval of the Securities and Futures Commission ("SFC") in January 2004.



### 37. DERIVATIVE INSTRUMENT

Taishin Financial engages in non-trading cross currency swaps and interest rate swaps to manage its foreign capital risk.

#### Contract Amount or Nominal Principal Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Cross currency swaps	\$4,941,938	-	\$ -	-
Interest rate swaps	\$ 250,000	-	-	-

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of Taishin Financial's instrument contracts when due. The amount for credit risk listed above pertains to contracts with a positive fair value on balance sheet date. It represents Taishin Financial's potential loss, considering potential exposures and credit risk factors, if the liable party breaches the contract.

Taishin Financial entered into financial instruments with Taishin Bank, Taishin Financial's wholly owned subsidiary, therefore, Taishin Financial does not anticipate nonperformance by the counterparty.

#### Market Price Risk

The market price risk refers to the risk arising from fluctuations in exchange rates and interest rates in the market. Taishin Financial estimates its risk value for financial instruments in accordance with capital positions of various currencies. The risk value refers to a potential loss of a financial instrument or investment portfolio for a specific period and at a confidence level, as a result of unfavorable changes in the market.

	December 31	
	2003	2002
Interest rate risk	\$ 88,451	\$ -

#### Liquidity Risk, Cash Flow Risk and Uncertainty in Future Cash Demand

Taishin Financial's expected cash inflows and outflows as a result of engaging in non-transaction-based derivative financial instruments are as follows:

Financial Instrument	Period	Amount
Cross currency swaps	Year ended December 31, 2004	\$ 24
Interest rate swaps	Year ended December 31, 2004	3,334

The expected cash flows listed above are forecast amounts. Such forecasts are influenced by exchange rates and interest rates. The longer the period, the higher the uncertainty. Taishin Financial uses its working capital to engage in the derivative financial instruments and therefore does not require material additional cash inflows.

#### Presentation of Derivative Financial Instruments in Financial Statements

Taishin Financial classifies gain or loss as a result of engaging in cross currency swaps and interest rate swaps as interest revenues or interest expenses in the income statement. The net gain or loss as a result of engaging in the contracts described above is listed below:

	December 31	
	2003	2002
Cross currency swaps	\$ 1,314	\$ -
Interest rate swaps	182	-

#### Fair Value of Financial Instruments

Financial Instrument	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>				
Financial assets in which fair value is equal to carrying value	\$ 73,801,035	\$ 73,801,035	\$ 53,797,502	\$ 53,797,502
Non-trading financial assets - interest rate swaps	182	182	-	-
	<u>\$ 73,801,217</u>	<u>\$ 73,801,217</u>	<u>\$ 53,797,502</u>	<u>\$ 53,797,502</u>
<b>Financial liabilities:</b>				
Financial liabilities in which fair value is equal to carrying value	\$ 16,312,388	\$ 16,312,388	\$ 3,050,605	\$ 3,050,605
Non-trading financial assets - cross currency swaps	37,334	37,334	-	-
	<u>\$ 16,349,722</u>	<u>\$ 16,349,722</u>	<u>\$ 3,050,605</u>	<u>\$ 3,050,605</u>

Taishin Financial uses the following methods and assumptions to determine the fair value of the financial instruments:

The fair value of the short-term financial instruments is determined by their carrying values on the balance sheet dates. As the due dates of these financial instruments are current, the carrying values approximate the fair values. The method applies to cash and cash equivalents, short-term investments, receivables and refundable deposits.

The fair values of the long-term investments are determined by their carrying values on the balance sheet date if the long-term investments have no market price.

If Taishin Financial canceled derivative instrument contracts on balance sheet date, the fair values of the financial instruments refer to the amounts that Taishin Financial expects to obtain or pay on such day, the amounts generally including unrealized gain or loss.

#### SUBSIDIARY - TAISHIN BANK

##### Transaction-Based Derivative Instrument

#### Contract Amount or Nominal Principal Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Forward exchange contracts	\$ 45,201,412	\$ 335,085	\$ 24,746,492	\$ 574,775
Interest rate swaps	240,058,956	771,500	14,761,125	30,390
Cross currency swaps	12,713,941	250,375	-	-
Currency options	78,088,788	135,658	-	-
Interest options	2,600,000	-	-	-
Index futures	268,686	-	-	-

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of Taishin Bank's financial instrument contracts when due. The amount for credit risk listed above pertains to contracts with a positive fair value on balance sheet date. It represents Taishin Bank's potential loss, considering potential exposures and credit risk factors, if the liable party breaches the contract. It is Taishin Bank's policy to enter into financial instruments with creditworthy financial institutions and trade within given credit limits. Therefore, Taishin Bank does not anticipate non-performance by the counterparties.



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# Taishin Holdings

## Market Price Risk

The market price risk refers to the risk arising from fluctuations in exchange rates and interest rates in the market. Taishin Bank estimates its risk value for financial instruments such as forward exchange contracts in accordance with capital positions of various currencies. The risk value refers to a potential loss of a financial instrument or investment portfolio for a specific period and at a confidence level, as a result of unfavorable changes in the market.

	December 31	
	2003	2002
Exchange rate risk	\$ 1,042,047	\$ 147,687
Interest rate risk	888,968	458,290
	\$ 1,931,015	\$ 605,977

## Liquidity Risk, Cash Flow Risk and Uncertainty in Future Cash Demand

Taishin Bank's expected cash inflows and outflows as a result of engaging in transaction-based derivative financial instruments are as follows:

Financial Instrument	Period	Amount
Forward exchange contracts	Year ended December 31, 2004	\$ -
Interest rate swaps	Year ended December 31, 2004	77,000
Cross currency swaps	Year ended December 31, 2004	260,000
Currency options	Year ended December 31, 2004	18,000
Interest rate options	Year ended December 31, 2004	2,000
Index futures	Year ended December 31, 2004	1,000

The expected cash flows listed above are forecast amounts. Such forecasts are influenced by exchange rates, interest rates and stock index. The longer the period, the higher the uncertainty. Taishin Bank uses its working capital to engage in the derivative financial instruments and therefore does not require material additional cash inflows.

Taishin Bank has recorded exchange loss of \$335,426 thousand and \$876,707 thousand for the years ended December 31, 2003 and 2002, respectively.

Taishin Bank has recorded net gain (loss) on derivative financial instruments in amount of \$596,433 thousand and \$(38,587) thousand as a result of engaging in interest rate swaps for the years ended December 31, 2003 and 2002, respectively.

Taishin Bank has recorded net gain (loss) on derivative financial instruments in amount of \$(16,341) thousand, \$323,813 thousand, \$(2,096) thousand, \$(1,084) thousand and \$(1,863) thousand as a result of engaging in cross currency swaps, currency options, interest rate options, interest futures and index futures, respectively, for the year ended December 31, 2003.

## Non-Transaction-Based Derivative Financial Instrument

### Contract Amount or Nominal Principal Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract Amount	Credit Risk	Contract Amount	Credit Risk
Foreign exchange swaps	\$ 136,884,808	\$ 726,071	\$ 65,929,479	\$ 553,394
Cross currency swaps	30,841,907	912,436	19,409,583	265,263
Interest rate swaps	27,498,193	89,574	17,722,875	85,039
Currency options	94,566,839	2,145,215	45,545,488	1,198,341
Equity securities options	-	-	674,300	-

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of Taishin Bank's financial instrument contracts when due. The amount for credit risk listed above pertains to contracts with a positive fair value on balance sheet date. It represents Taishin Bank's potential loss, considering potential exposures and credit risk factors, if the liable party breaches the contract. It is Taishin Bank's policy to enter into financial instruments with creditworthy financial institutions and trade within given credit limits. Therefore, Taishin Bank does not anticipate nonperformance by the counterparties.

## Market Price Risk

The market price risk refers to the risk arising from fluctuations in exchange rates and interest rates in the market. Taishin Bank engages in the derivative financial instruments described above with a diversity of other international financial institutions to minimize the specified risk. Therefore, the market price risk is not expected to be significant.

## Liquidity Risk, Cash Flow Risk and Uncertainty in Future Cash Demand

The Bank's expected cash inflows and outflows as a result of engaging in non-transaction-based derivative financial instruments are as follows:

Financial Instrument	Period	Amount
FX swaps	Year ended December 31, 2004	\$ 65,000
Cross currency swaps	Year ended December 31, 2004	-
Interest rate swaps	Year ended December 31, 2004	15,000
Currency options	Year ended December 31, 2004	-

The expected cash flows listed above are forecast amounts. Such forecasts are influenced by exchange rates and interest rates. The longer the period, the higher the uncertainty.

Taishin Bank uses its working capital to engage in the derivative financial instruments and therefore does not require material additional cash inflows.

## Presentation of Derivative Financial Instruments in Financial Statements

Taishin Bank classifies gain or loss as a result of engaging in foreign exchange swap, cross currency swap and interest rate swap contracts as interest revenues or interest expenses in the income statement. The net gain or loss as a result of engaging in the contracts described above is listed below:

	December 31	
	2003	2002
FX swaps	\$ 126,930	\$ 19,810
Cross currency swaps	( 6,819)	( 72,052)
Interest rate swaps	15,979	78,983

Taishin Bank classifies the gain or loss as a result of engaging in currency options and equity securities options as "gain or loss on derivatives" included in other operating income in the income statement. Taishin Bank's trading gain (loss) as a result of engaging in currency options and equity securities options were \$310,124 thousand and \$(134,704) thousand for the years ended December 31, 2003 and 2002, respectively.



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## Fair Value of Financial Instruments

Financial Instrument	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Financial assets in which fair value is equal to carrying value	\$ 140,171,198	\$ 140,171,198	\$ 96,988,989	\$ 96,988,989
<b>Trading financial assets:</b>				
Forward exchange	90,275	90,275	591,479	591,479
Currency options	2,110,431	2,110,431	-	-
Cross currency swaps	14,020	14,020	-	-
Interest rate swaps	49,773	49,773	-	-
Interest rate options	3,015	3,015	-	-
<b>Non-trading financial assets:</b>				
FX swaps	141,966	141,966	12,917,699	12,917,699
Interest rate swaps	-	-	355,000	358,850
Currency options	278,589	278,589	1,019,052	1,019,052
Trading securities - Marketable equity securities	4,030,835	4,425,137	4,821,628	4,996,250
Long-term investments - Marketable equity securities	3,930,677	6,971,363	3,930,677	4,686,546
Loans	398,643,734	398,643,734	340,818,642	340,818,642
<b>Total</b>	<b>\$ 549,464,513</b>	<b>\$ 552,899,501</b>	<b>\$ 461,443,166</b>	<b>\$ 462,377,507</b>
<b>Liabilities:</b>				
Financial liabilities in which fair value is equal to carrying value	\$ 94,660,566	\$ 94,660,566	\$ 53,783,166	\$ 53,783,166
<b>Trading Liabilities:</b>				
Forward exchange	306,108	306,108	-	-
Currency options	981,115	981,115	-	-
Interest rate options	2,560	2,560	-	-
<b>Non-trading liabilities:</b>				
FX swaps	843,849	843,849	12,818,727	12,818,727
Cross currency swaps	-	-	63,790	63,790
Currency options	877,282	877,282	989,528	989,528
Equity securities options	-	-	40,092	40,092
Deposits and remittances	433,112,146	433,112,146	383,279,204	383,279,204
<b>Total</b>	<b>\$ 530,783,626</b>	<b>\$ 530,783,626</b>	<b>\$ 450,974,507</b>	<b>\$ 450,974,507</b>

The Bank uses the following methods and assumptions to determine the fair values of the financial instruments:

The fair values of the short-term financial instruments are determined by their carrying values on the balance sheet dates. As the due dates of these financial instruments are current, the carrying values approximate the fair values. The method applies to cash, due from banks, due from Central Bank, receivables, payables, prepayments, advances receipts, and due to banks.

The carrying values of loans, bills discounted, and deposits, which are interest-bearing financial assets and liabilities, approximate their fair values.

Trading securities and long-term investments are measured based on quoted market prices for these instruments. If market prices are not available, the fair values are determined in accordance with financial theory, market practices or other reliable financial information.

The book values of trading securities and long-term investments are the amounts before deductions of allowance for decline in market value.

The fair values of financial instruments are the amounts that Taishin Bank expects to obtain or has to pay, if Taishin Bank closes these contracts on balance sheet date. And ordinarily the fair values of the financial instruments include unrealized gain or loss. Most financial instruments of Taishin Bank were quoted from financial institution.

## SUBSIDIARY - TAIWAN SECURITIES CO., LTD

### Financial Instruments

Derivative financial instruments:

### Warrants

#### Information about Issued Warrants

See Note 20.

### Credit Risk

Since the Company has collected sufficient amounts for the issuing of warrants, it is assumed that there is no significant credit risk.

### Market Price Risk

According to Delta risk hedge operating approach, Taiwan Securities bought certain securities upon issuing warrants to avoid market price risks. According to the change of Delta value, Taiwan Securities will sell or buy securities dynamically. However, due to the cost of transactions, liquidity of objective securities, and avoiding to buy at high level and sell at low level, Taiwan Securities is allowed to buy in or sell out in a fixed range.

### Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

Since Taiwan Securities has options to settle warrants issued liability by cash or securities, it is assumed to have no significant liquidity risk, cash flow risk, future cash need, and period uncertainty.

### The Category, Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

Taiwan Securities owned American options of derivative financial instruments under trading purpose due to the present lower interest rates. To avoid the fall in the currency purchasing power, Taiwan Securities made investment with return higher than the interest rate of fixed deposit. Taiwan Securities has assessed the present domestic capital market and the future securities market before issuing Acer Computer warrants to increase the flexibility of liquidity and be free from the decrease of purchasing power caused by price inflation, interest rate, etc.

### Presentation of Derivative Financial Instruments in Financial Statements

	2003	2002
Gain for issuing of warrants	\$ 871,091	\$ 563,664
Gain (loss) on sell trading - hedge - TSE	131,586	( 327,751)
Gain on sell trading - hedge - GTSM stocks and bonds	47,645	-
Loss on change in value - repurchased warrant	( 823,994)	( 148,613)
Expense for issuing of warrants	( 700)	( 957)
Loss on valuation of securities - hedge	( 22,661)	( 9,362)

### Futures Contracts

#### Contract Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
Trading - TAIEX Futures Contracts	\$ 41,013	\$ -	\$ 80,366	\$ -

Taiwan Securities has Futures Contracts traded in Taiwan Futures Market. The counter parties of the contracts shall be obligated to maintain sufficient Contract deposits if the market price fluctuates. Therefore, the risk of not fulfilling the contract is not significant.



# Financial Statements

# Taishin Holdings

## Market Price Risk

Currently, the Futures market in Taiwan has Taiwan stock index futures openly traded. Since the stock index will not fluctuate significant in each trading day, the risk arising from market price fluctuation is not significant.

## Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

Taiwan Securities's unsettled futures can be settled under reasonable price, therefore, fluctuate liquidity risk is not significant.

Taiwan Securities's futures transactions are deposit transactions, in which the deposits has already been paid before trading, then Taiwan Securities values the unsettled parts of future contracts each trading day; if it needs to be supplemented, Taiwan Securities has sufficient working capital to cover, thus, the risk of raising money and liquidity are not significant.

Taiwan Securities's futures brokers have sufficient operating capital. Therefore, the risk of violating the contract is not significant. Each futures contract has its market value and can be traded in the Taiwan futures market. Therefore, liquidity risk is not significant.

Taiwan Securities's futures brokers have sufficient operating capital. Therefore, the risk of violating the contract is not significant. Each futures contract has its market value and can be traded in the Taiwan futures market. Therefore, liquidity risk is not significant.

## The Category, Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

Taiwan Securities has Taiwan stock index futures contracts held for non-trading purpose to hedge the risk from Taiwan Securities's marketable securities trading in the open market. Taiwan Securities invests in the derivative instruments which market price are in inverse relationships with the hedged items.

## Reporting of Derivative Instrument in the Financial Statements

Taiwan Securities recorded the deposits paid for Taiwan Stock index futures contract under current assets-self-owned capital. The settled contract has its realized gains or losses reflected in current period.

For the years ended December 31, 2003 and 2002, the net gain (loss) from stock index future was \$(70,287) thousand and \$30,950 thousand, of which \$3,146 thousand and \$9,018 thousand were unrealized loss, respectively. At December 31, 2003 and 2002, futures deposits-self-owned capital was \$77,491 thousand and \$149,937 thousand, respectively.

## Interest Swap Agreement

### Contract Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
Non-trading- Interest swap agreement	\$ -	\$ -	\$ 3,100,000	\$ -

Since the agreement was made for 1-5 years with a reputable bank, it is assumed that there is no significant credit risk.

## Market Price Risk

Market price risk refers to the risk of market rate changes. Taiwan Securities has an interest rate swap futures contract for non-trading purpose outstanding to hedge bonds interest risks. The gain (loss) from the rate changes will almost cancel to the hedged item, therefore the market price risk is not significant.

Taiwan Securities has an interest rate swap under trading purpose with estimated market price risk according to PVBP (present value of basis point), the loss from the interest rate changes is expected, therefore the market price risk is not significant.

## Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

The interest rate swap contract involves the exchange of fixed rate payments of obligations without the exchange of notional amounts. The gain (loss) from the contract is \$0 since Taiwan Securities didn't own any IRS on December 31, 2003. Therefore, there is no cash flow risk.

## The Category, Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

The derivative financial instrument is held for non-trading purpose. The purpose of the fixed-rate interest swap contract is to hedge bond interest risk; or manage cash flows to match operating needs, and growing bond business. Therefore, the hedge strategy is to achieve the purpose of avoiding market price risks. Taiwan Securities has selected hedging instruments having high negative correlation with fair value of the hedged items and periodically evaluates the effectiveness of these instruments.

The purpose for Taiwan Securities owning interest rate swap under trading purpose is earning the difference of the interest rate judging by its trend.

## Reporting of Derivative Financial Instrument in the Financial Statement

No formal entry was made for interest swap contract when the contract was entered. The interest receivable and payable will be reflected in the current period. For the years ended December 31, 2003 and 2002, the interest swap contract was recorded as follows:

	2003	2002
IRS Interest expenses	\$ 1,251	\$ 56,226
Trading purpose -		
Other operating expenses - loss on valuation	8,022	-
Non-trading purpose -		
Other operating expenses - loss on valuation	108,490	-

## Convertible Bond Swap

### Contract Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
TAIEX Futures Contracts	\$ 335,600	\$ -	\$ -	\$ -

Taiwan Securities made the agreement with a reputable corporation or bank. The asset swap contract involves interest income and interest compensation under committed interest; option gives the trader the right to buy convertible bonds for a fixed price.

Since Taiwan Securities has collected sufficient premium, it is assumed that there is the minimum credit risk.

## Market Price Risk

Taiwan Securities engages in IRS and Option of asset swap trades. Interest rates swap is the swapping of contracted interest return with interest expense and interest compensation to traders so there is no significant market price risk; traders have the right to purchase convertible bonds with fixed price in the contracted term. Because Taiwan Securities has acquired convertible bonds, it does not have significant market price risk.

## Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

Taiwan Securities engages in IRS and Option of asset swap trades in which the underlying asset is convertible bond by underwriter or holder. Taiwan Securities receives payment for trading. Furthermore the term of contracts provide swapping contracted interest return with interest expense and interest compensation to traders, and Taiwan Securities has the right to purchase convertible bonds from traders before the due date, so Taiwan Securities does not have significant cash flow risk and additional finance need. According to above, engaging in option trades, Taiwan Securities has convertible bonds which were purchased from asset swapping traders, underwriter or holder to settle, therefore there is no significant cash flow risk and additional finance need.



# Financial Statements

# Taishin Holdings

## The Category, Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

When Taiwan Securities engages in IRS of asset swap trades and receives payment from selling convertible bonds, gain (loss) from selling convertible bonds to traders and contracting to swap contracted interest return with interest expense and interest compensation to traders in the contracted term are presented in the current period; Taiwan Securities sells convertible bonds swap option and receives premium, and traders have the right to purchase convertible bonds with fixed price in the contracted term. Gain (loss) from valuing an option and premium realized are presented in the current period.

## Reporting of Derivative Financial Instrument in the Financial Statement

	2003	2002
Other current assets:		
Option of asset swap	\$ 136,979	\$ -
IRS of asset swap	2,694	-
Deferred loss on options	3,820	-
Other current liabilities:		
IRS of asset swap	15,130	-
Option of asset swap	34,069	-
Other operating income:		
Gain on valuation	75,158	-
Gain on exercise	242	-
Other operating expense -		
Loss on valuation	1,249	-

## Structured Notes Transactions

### Contract Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
Equity-linked notes -				
Fixed-income transactions and options transactions	\$ 65,400	\$ -	\$ -	\$ -

Taiwan Securities engages in Equity-linked notes and invests in fixed-income products by receiving payment from traders. Traders sell the asset options of equity to Taiwan Securities at the same time. Since Taiwan Securities has collected sufficient payment, it is assumed that there is minimum credit risk.

### Market Price Risk

Taiwan Securities engages in Equity-linked notes and buys the embedded stocks at the same time for hedging. Because the transactions of buying and selling above embedded stocks were made by following the strategy for hedging, Taiwan Securities does not have significant market price risk.

### Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

With traders' need of capacity, the contracts could be settled before the due day. No matter settling in advance or not, Taiwan Securities' working capital is sufficient. According to the above, Taiwan Securities does not have significant cash flow risk and no additional finance is needed.

## The Category, Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

Equity-linked notes liability - fixed-income products are the balance of option premium deducted from discounted contract principal equaling to the amount received from traders on contract day. Implicit interest expenses amortized on an interest or straight-line method are presented as loss on equity-linked notes. Equity-linked notes asset - options are presented in market value and the gains or losses of valuing are presented in the current period. Interest income of fixed-income products is recognized according to term of holding on accrual-basis; fixed-income products are valued at the lower of cost or market value. Discount or premium on the cost of purchasing fixed-income products are amortized every period. The realized gains or losses are calculated based on the result of disposing of fixed-income products.

Taiwan Securities engages in equity-linked notes and based on a certain extent of understanding of trend of embedded assets price, buys linked stocks to hedge market price risk.

## Reporting of Derivative Financial Instrument in the Financial Statement

	2003	2002
Current assets:		
Deposits - custodian account	\$ 7	\$ -
Marketable securities - custodian account	66,201	-
Equity-linked notes assets - option	4,546	-
Deferred loss on equity-linked notes assets	253	-
Current liabilities:		
Equity-linked notes liabilities - fixed-income products	65,225	-
Equity-linked notes liabilities - premium	4,291	-
Other operating income:		
Gain on valuation	508	-
Gain on equity-linked notes	214	-
Other operating expenses -		
Loss on settled of equity-linked notes in advance	66	-

## Fair Value of Financial Instruments

The methods and basis to value financial instruments:

The fair value of short-term financial instruments is the carrying amount on balance sheet.

Cash and cash equivalents, short-term investments, marketable securities, bonds purchased under agreements to resell, margin loans, accounts receivable, operating deposits, settlement funds, short-term loans, commercial paper obligations, bonds sold under agreements to repurchase, deposits for margin loans and short-sale proceeds withheld as collateral for margin loans are included.

The fair value of securities is market price.

## SUBSIDIARY - TAISHIN BILLS FINANCE CO., LTD.

Taishin Bills Finance engages in various derivative instruments to manage asset and liability positions and credit risk.

## Transaction-Based Derivative Financial Instrument

### Contract Amount or Nominal Principal Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
Assets swap	\$ 50,000	\$ 576	\$ -	\$ -
Interest rate swaps	800,000	8,254	-	-



# Financial Statements

# Taishin Holdings

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of Taishin Bills Finance's financial instrument contracts when due. The amount of credit risk listed above pertains to contracts with a positive fair value on balance sheet date. It represents Taishin Bills Finance's potential loss, considering potential expenses and credit risk factors, if the counterparty breaches the contract.

Taishin Bills' policy is to enter into financial instruments with credit worthy financial institutions and trade within given credit limits. Therefore, Taishin Bills Finance does not anticipate nonperformance by the counterparties.

## Market Price Risk

The market price risk refers to the risk arising from fluctuations in interest rates in the market. Taishin Bills Finance estimates its risk value for financial instruments such as interest rate swaps contracts in accordance with capital positions. The risk value refers to a potential loss of a financial instrument or investment portfolio for a specific period and at a confidence level as a result of unfavorable changes in the market.

	December 31	
	2003	2002
Interest rate risk	\$ 831	\$ -

## Liquidity Risk, Cash Flow Risk and Uncertainty in Future Cash Demand

Taishin Bills Finance's expected cash inflow and outflow as a result of engaging in transaction-based derivative financial instruments is as follows:

Financial Instrument	Period	Amount
Assets swap	Year ended December 31, 2004	\$ 1,323
Interest rate swaps	Year ended December 31, 2004	4,338

The expected cash flows listed above are forecast amounts. Such forecasts are influenced by exchange rates and interest rates. The longer the period, the higher the uncertainty.

Taishin Bills Finance uses its working capital to engage in the derivative financial instruments and therefore does not require material additional cash inflows.

## Non-Transaction-Based Derivative Financial Instruments

### Contract Amount or Nominal Principal Amount and Credit Risk

Financial Instrument	December 31			
	2003		2002	
	Contract or Notional Amount	Credit Risk	Contract or Notional Amount	Credit Risk
Interest rate swaps	\$ 900,000	\$ 9,616	\$ -	\$ -
Interest rate cap	2,500,000	12,500	-	-

Credit risk refers to the risk arising from the inability of counterparties to meet the terms of Taishin Bills Finance's financial instrument contracts when due. The amount for credit risk listed above pertains to contracts with a positive fair value on the balance sheet date. It represents Taishin Bills Finance's potential loss, considering potential exposures and credit risk factors.

## Market Price Risk

The market price risk refers to the risk arising from fluctuations in interest rates in the market. Taishin Bills Finance engages in the derivative financial instruments described above with a diversity of other financial institutions or clients to minimize the specified risk. Therefore, the market price risk is not expected to be significant.

## Liquidity Risk, Cash Flow Risk, Future Cash Need and Period Uncertainty

Taishin Bills Finance's expected cash inflows as a result of engaging in non-transaction-based derivative financial instruments are as follows:

Financial Instrument	Period	Amount
Interest rate swaps	Year Ended December 31, 2004	\$ 3,249
Interest rate cap	Year Ended December 31, 2004	13,100

The expected cash flows listed above are forecast amounts. Such forecasts are influenced by interest rates. The longer the period, the higher the uncertainty.

Taishin Bills Finance uses its working capital to engage in the derivative financial instruments and therefore does not require material additional cash inflows.

## Presentation of Derivative Financial Instruments in Financial Statements

Taishin Bills Finance classifies the gain or loss as a result of engaging in interest rate swap and interest rate cap based on non-transaction purpose as interest revenues or interest expenses in the income statement. The net gain as a result of engaging in the contracts were \$183 thousand and \$698 thousand for the year ended December 31, 2003.

Taishin Bills Finance classifies the gain or loss as a result of engaging in interest rate swap and assets swap contracts based on transaction purpose as other income or expense in the income statement. The net gains (loss) as a result of engaging in these contracts were \$(925) thousand and \$807 thousand for the year ended December 31, 2003.

## Fair Value of Financial Instruments

	December 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Financial assets in which fair value is equal to carrying value	\$ 12,575,420	\$ 12,575,420	\$ 8,388,957	\$ 8,388,957
Trading financial assets:				
Interest swaps	4,254	4,254	-	-
Assets swaps	50,000	50,392	-	-
Non-trading financial assets -				
Interest swaps	5,616	5,616	-	-
Trading securities	6,514,737	6,541,552	5,269,651	5,310,720
	\$ 19,150,027	\$ 19,177,234	\$ 13,658,608	\$ 13,699,677
Financial liabilities:				
Financial liabilities in which fair value is equal to carrying value	\$ 12,625,312	\$ 12,625,312	\$ 7,235,801	\$ 7,235,801
Non-trading financial liabilities -				
Interest swaps	13,294	13,294	-	-
	\$ 12,638,606	\$ 12,638,606	\$ 7,235,801	\$ 7,235,801

Taishin Bills Finance uses the following methods and assumptions to determine the fair value of the financial instruments:

The fair value of the short-term financial instruments is determined by their carrying values on the balance sheet dates. As the due dates of these financial instruments are current, the carrying values approximate the fair values.

The method applies to cash and deposits, receivables, restricted assets, guarantee deposits and pledged marketable securities, short-term borrowings, commercial papers payable, call loans from banks and payables.

Trading securities are measured based on quoted market prices for these instruments. If market prices are not available, the fair values are determined in accordance with financial theory, market practices or other reliable financial information.

If Taishin Bills Finance canceled these contracts on balance sheet date, the fair values of the financial instruments refer to the amounts that Taishin Bills Finance expects to obtain or pay on such day, the amounts generally including unrealized gain or loss.



## 38. CONDENSED BALANCE SHEETS AND STATEMENTS OF INCOME OF SUBSIDIARIES

### Taishin Bank

#### Balance Sheet

	December 31	
	2003	2002
<b>Assets:</b>		
Cash	\$ 5,318,548	\$ 4,580,551
Due from the Central Bank and other banks	25,019,786	25,809,720
Bills and securities purchased	48,060,113	32,687,612
Receivables, net	51,553,251	35,330,347
Loans, net	394,611,393	334,983,424
Long-term investments, net	8,328,817	8,913,906
Property and equipment, net	16,381,254	16,261,730
Other assets	25,083,322	29,236,313
<b>Total assets</b>	<b>\$ 574,356,484</b>	<b>\$ 487,803,603</b>
<b>Liabilities:</b>		
Due to Central Bank and other banks	\$ 905,120	\$ 2,023,758
Payables	30,764,720	24,303,160
Deposits and remittances	433,112,146	383,279,204
Call loans from Central Bank and other banks	44,890,267	25,167,429
Bank notes	19,000,000	15,000,000
Other liabilities	3,734,837	2,691,124
<b>Total liabilities</b>	<b>532,407,090</b>	<b>452,464,675</b>
<b>Shareholders' equity:</b>		
<b>Capital stock:</b>		
Common stock	24,467,810	23,000,000
Preferred stock	4,000,000	4,000,000
Capital surplus	3,099,793	1,738,525
Retained earnings	10,381,791	6,891,756
Unrealized loss on long-term investments	-	( 53,614)
Treasury stock	-	( 237,739)
<b>Total shareholders' equity</b>	<b>41,949,394</b>	<b>35,338,928</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 574,356,484</b>	<b>\$ 487,803,603</b>

The balance of demand deposits, time deposits and foreign currency deposits and their ratio to total deposits.

	December 31	
	2003	2002
Demand deposits	\$ 131,644,593	\$ 98,101,317
Ratio (%)	34.24	29.65
Time deposits	252,848,658	232,761,144
Ratio (%)	65.76	70.35
Foreign currency deposits	58,436,941	30,331,143
Ratio (%)	15.20	9.17

Note: Deposits listed above do not include deposits transferred from the Postal Bureau.

The balance of the loans to small and medium enterprise and consumer loan and their ratio to total loans.

	December 31	
	2003	2002
The loan to small and medium enterprise	\$ 37,529,984	\$ 21,016,117
Ratio (%)	9.34	6.09
Consumer loan	203,784,480	152,197,560
Ratio (%)	50.72	44.11

#### Income Statement

Income statement for the years ended December 31, 2003 and 2002:

	2003	2002
<b>Operating revenue:</b>		
Interest income	\$ 29,387,315	\$ 29,866,191
Fees income	5,870,304	4,010,693
Net gain on trading securities	1,216,131	545,278
Investment income under equity method	141,493	551,435
Foreign exchange gains	360,629	611,837
Other operating revenue	1,243,658	358,305
<b>Subtotal</b>	<b>38,219,530</b>	<b>35,943,739</b>
<b>Operating cost and expenses:</b>		
Interest expense	( 7,520,702)	( 11,033,134)
Fee expense	( 4,013,634)	( 2,636,962)
Provision for loan and other loss	( 7,598,614)	( 7,207,808)
Other operating cost	( 48,578)	( 206,651)
<b>Operating expense</b>	<b>( 12,846,198)</b>	<b>( 9,927,979)</b>
<b>Subtotal</b>	<b>( 32,027,726)</b>	<b>( 31,012,534)</b>
<b>Operating income</b>	<b>6,191,804</b>	<b>4,931,205</b>
Non-operating income	1,745,588	778,009
Non-operating expense	( 168,710)	( 884,549)
<b>Non-operating income (expense), net</b>	<b>1,576,878</b>	<b>( 106,540)</b>
<b>Income before income tax</b>	<b>7,768,682</b>	<b>4,824,665</b>
Income tax expense	( 1,602,455)	( 747,696)
<b>Net income</b>	<b>\$ 6,166,227</b>	<b>\$ 4,076,969</b>
<b>Earnings per share (dollars):</b>		
Pre-tax	\$ 3.14	\$ 1.92
After-tax	\$ 2.47	\$ 1.60

#### Key Financial and Business Highlights

##### Capital Adequacy

	December 31	
	2003	2002
The Tier I capital	\$ 35,530,300	\$ 28,415,926
The Tier II capital	18,266,334	19,357,313
Less items	8,328,817	8,913,907
<b>Capital</b>	<b>45,467,817</b>	<b>38,859,332</b>
Risky assets	449,486,303	378,032,601
Capital adequacy ratio	10.12%	10.28%
Liability to net assets ratio	1,269.17%	1,280.36%

Note: Capital adequacy ratio = Capital ÷ Risk weighted assets, stipulated by BOMA.



## Asset Quality

	December 31	
	2003	2002
NPL (including non-accrual loans) (Note a)	\$ 6,395,498	\$ 8,438,915
Delinquent loans	4,596,856	7,050,036
NPL ratio (Note b)	1.59%	2.45%
Surveillance loans (Note c)	757,778	2,004,326
Surveillance loan ratio	0.19%	0.58%
Allowance for loans and delinquent loans	3,113,470	4,194,763
Bad debt written off (Note d)	9,143,270	20,985,175

Note a: NPL does not include loans allowed to be excluded which were stipulated by BOMA.

Note b: NPL ratio = NPL (including non-accrual loans) ÷ (Loans+Non-accrual loans).

Note c: Surveillance loans include (a) the long-term investment, overdue more than three months but less than six months, (b) the principal of other loans overdue less than three months but interests of such loans overdue more than three months but less than six months, (c) delinquent loans allowed to be excluded from NPL, which were stipulated by BOMA.

Note d: The amounts of bad debts written off were cumulative from January 1 to December 31 of 2003 and 2002, respectively.

## Management Information

### Prominent Aggregation of Credit Risk

	December 31	
	2003	2002
Loans to parties with common interests (Note a)	\$ 16,518,000	\$ 15,856,000
Ratio to total loans (Note b)	3.87%	4.25%
Stock pledged ratio	5.82%	7.20%

Item	2003		2002	
	Industry	%	Industry	%
Approved credit centralization (Top 3)	Manufacturing	11.77	Manufacturing	12.90
	Finance and insurance	6.72	Finance and insurance	5.61
	Wholesale and retailing	3.63	Construction	3.64

Note a: Loans include bills purchased, loans, bills, discounted, acceptances and guarantees.

Note b: Ratio to Total loans = The loans to parties with common interest ÷ Total loans.

Note c: Stock pledged ratio = The loans secured by stock ÷ Total loans.

Note d: Loans to parties with common interest is defined by the Bank Law.

## Summary of Reinvestment Institution

Name of Reinvestment Institution	2003	
	Investment Cost (Book Value)	Percentage of Share Holding
Taishin Real Estate Management Co.	\$ 60,109	\$ 60.00
Taishin International Finance Co.	149,293	99.99
Taishin Insurance Agency Co.	247,869	60.00
PayEasy Digital Integration Co., Ltd.	60,424	66.67
Dah Chung Bills Finance Corp.	939,026	18.80
Dah An Leasing Co., Ltd.	127,717	99.00
An Hsin Real-Estate Management Inc.	25,874	30.00
Taishin Financial Holding Co., Ltd.	3,930,677	7.22
Taishin Leasing & Financing Co., Ltd.	247,399	19.95
Grand Pacific Venture Capital Co., Ltd.	30,000	5.00
Taiwan Futures Co.	40,000	10.00
Concord IV Venture Capital Co., Ltd.	95,000	6.25
Jihsun Venture Capital Investment	30,000	5.00
Lien An Co., Ltd.	1,250	5.00
Taishin Venture Capital Investment Co., Ltd.	56,642	5.00

Note: Reinvestment refers to investment with share holding of 5% and above.

### Policy of Allowance for Loans, Non-Accrual Loans and Loss of Investment

**Provision for Bad Debts and Losses on Guarantees** - Provisions for bad debts and losses on guarantees are accrued in consideration of Taishin Bank's estimates of collectibility of loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities. Taishin Bank assesses the collectibility of its credit portfolio based on factors such as the borrowers'/clients' payment history, delinquent status, and financial condition and provides for loss, taking into account the value of collateralized assets, in accordance with "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts" issued by the MOF. According to the rules, if the loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities are deemed unrecoverable, they should be provided in full and a loss should be recognized as an expense currently, and if the recovery possibility is deemed low, no less than 50% of the loan amount should be provided and the loss should also be recognized as an expense in the current period.

**Bills and Securities Purchased - Trading securities**, including listed stocks, mutual funds, and the other kinds of securities, are recorded at acquisition cost and carried at the lower of cost or market value. If the market value is lower than cost, an allowance for market decline is provided; on the contrary, such valuation allowance would be reversed. Changes in such valuation allowance are recognized as income or loss in the current period. Upon sale of trading securities, the moving average method is used in determining the cost of securities sold.

**Long-Term Equity Investments**-Long-term investments are recorded at acquisition cost. Long-term investments are accounted for by using the equity method of accounting where Taishin Bank holds an ownership interest of 20% or more and by use of the cost method of accounting where Taishin Bank holds an ownership interest of less than 20%, except in cases where Taishin Bank has influence on the investee and the equity method is used. Under the cost method, if the investee has shares listed on the Taiwan Stock Exchange ("TSE") or traded on the GreTai Securities Market ("GTSM"), the investment is stated at the lower of cost or market value and the related unrealized loss on valuation is charged to the shareholders' equity. If the investee is a non-listed or non-GTSM company and there is evidence indicating that the value of investment is deemed impaired, a loss will be provided and charged to current expense.

Under the equity method, if the investor sells a portion of the investment so that its portion of ownership decreases or the investor may lose significant influence over the investee, the investor stops using equity method and then the cost method is used. The long-term investment accounts are recorded at the lower of book value and market value as its new cost. In addition, Taishin Bank should realize the unrealized profit (loss) from down-stream transactions.



## Special Recorded Items

	Reason and Amount
The person in charge or employee who violated the law in the course of business operations and was sued by the public prosecutor in the recent year. (Note a and b)	None
People who violated the bank law and was fined in the recent year. (Note a and b)	None
The deficiency that was rectified by Ministry of Finance in the recent year. (Note a and b)	None
The actual loss amounted to more than \$50,000,000 in the recent year as a result of major employee fraud or workplace accidents not in compliance with financial institutions' guidelines on workplace security. (Note a and b)	None
Others	None

Note a: The recent year refers to the period, from December 31, 2002 to December 31, 2003.

Note b: The authorities refer to the Bureau of Monetary Affairs, Securities and Futures Commission and Department of Insurance of MOF.

## Profitability

Item	December 31	
	2003	2002
Return on total assets	1.46%	1.22%
Return on net worth	20.10%	15.23%
Profit margin	20.33%	13.42%

Note:

$$1. \text{Return on total assets} = \frac{\text{Income before tax}}{\text{Average assets}}$$

$$2. \text{Return on net worth} = \frac{\text{Income before Tax}}{\text{Average net worth}}$$

$$3. \text{Profit margin} = \frac{\text{Income before Tax}}{\text{Operating income}}$$

4. Profitability is calculated on annual basis.

## Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rate for the years ended December 31, 2003 and 2002 were as follows:

	2003		2002	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
<b>Assets:</b>				
Due from Central Bank	\$ 20,196,630	1.43	\$ 12,194,605	2.83
Trading securities bills	40,772,948	1.79	49,347,356	2.32
Trading securities bonds	9,439,418	3.50	7,112,760	4.63
Due from banks	5,938,279	1.04	4,005,674	0.71
Loans	346,700,345	7.40	305,765,330	8.59
<b>Liabilities:</b>				
Due to banks	33,469,009	1.08	24,179,751	1.86
Demand deposits	108,585,542	0.57	88,586,183	1.42
Time deposits (including NCD)	233,234,053	1.65	222,767,664	2.78
Deposits transferred from the Postal Bureau	51,256,798	1.69	49,401,054	2.68
Bank notes	15,408,767	4.26	-	-

## Liquidity

Maturity analysis of assets and liabilities at December 31, 2003:

	Total	Amount Due				
		0~30 Days	31~90 Days	91~180 Days	181 Days ~1 Year	More Than 1 year
Asset	\$ 625,148,000	\$ 172,057,000	\$ 66,610,000	\$ 42,412,000	\$ 113,214,000	\$ 230,855,000
Liability	581,450,000	142,430,000	122,360,000	95,915,000	161,066,000	59,679,000
Gap	43,698,000	29,627,000	( 55,750,000)	( 53,503,000)	( 47,852,000)	171,176,000
Accumulated gap	-	29,627,000	( 26,123,000)	( 79,626,000)	( 127,478,000)	43,698,000

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

## Market Risk Sensitivity

	December 31	
	2003	2002
Ratio of interest sensitive assets to liabilities	89.73%	84.07%
Ratio of interest sensitive gap to interest sensitive net assets	( 92.35%)	( 156.99%)

Note:

$$1. \text{Ratio of interest sensitive assets to interest sensitive liabilities} = \frac{\text{Interest sensitive assets}}{\text{Interest sensitive liabilities}}$$

(Assets and liabilities will be due within one year)

$$2. \text{Interest sensitive gap} = \text{Interest sensitive assets} - \text{Interest sensitive liabilities}$$

## Main Foreign Currency Position

	2003		2002	
	Original Currency	New Taiwan Dollars	Original Currency	New Taiwan Dollars
The main foreign currency net position (market risk)	USD 233,238	\$ 7,925,428	EUR 13,778	\$ 499,037
	EUR 17,111	733,704	GBP 6,458	360,148
	GBP 9,169	554,933	JPY 1,134,421	331,818
	JPY 1,569,673	498,842	USD 6,322	219,694
	CAD 10,238	268,857	NZD 9,267	168,578

Note a: The main foreign currency refers to the first five currency in position, after converted into a common unit.

Note b: The main foreign net position was absolute value of themselves.



# Financial Statements

# Taishin Holdings

## Other

The professional knowledge and independence of directors and supervisors

Title	Name	Appointed Date	Educational Background	Past Experience	Remark
Chairman	T.L. Wu	2002.01.28	University of California L.A., MBA	Chairman of Shin Kong Synthetic Fibers Corp.	Professional director
Vice chairman	Eric T.S. Wu	2002.01.28	Harvard University, S.J.D.	Chairman of Taiwan Securities Co., Ltd.	
Director	Long-Su Lin	2002.01.28	University of Virginia, Ph.D. in chemistry	Chairman of Ennead Inc.	
Director	Michelle R.N. Sun	2002.01.28	Tamkang University, French Language & Literature Department	Supervisor of Waibel Enterprise Inc.	
Director	Chu Chan Wang	2002.01.28	Kaohsiung Medical College, Pharmacy	Director of The Taipei Gas Co.	
Director	Thomas K.K. Lin	2002.01.28	National Taiwan University, Economics	Executive VP of Taishin Bank	Professional director
Director	Charles W.Y. Wang	2002.01.28	National Taiwan University, Economics	President of Taishin Bank & Taishin Bills Finance Corp.	Professional director
Supervisor	Hong Chung-Tung	2002.10.24	National Taiwan University, Politics	Chief Auditor of Taishin Bank & Taishin Bills Finance Corp.	Professional supervisor
Supervisor	Henry C.S. Kao	2002.01.28	University of San Francisco, Master	Chairman of Dah An Commercial Bank	Professional supervisor
Supervisor	Shang-Pin Wu	2002.01.28	Keio University, Japan Ph.D. in Chemistry-Material Science	Chief assistant to President of Tasco Chemical Corp.	

Note: Everyone listed above is Taishin Financial's representative.

## Transportation Fee of Directors and Supervisor

Title	Name	Amounts
Chairman	T.L. Wu	\$ 520
Vice chairman	Eric T.S. Wu	520
Supervisor	Hong Chung-Tung	520
Supervisor	Shang-Pin Wu	520
Supervisor	Henry C.S. Kao	520
Director	Michelle R.N. Sun	520
Director	Thomas K.K. Lin	520
Director	Long-Su Lin	520
Director	Chu Chan Wang	520
Director	Charles W.Y. Wang	520

## Names of the Top Ten Shareholders

Taishin Bank is wholly held by Taishin Financial.

## Material Acquisition and Disposal of Assets

None.

## Operation Condition

Not applied.

## The Information about New Financial Products

As of December 31, 2003, the new financial products are all structured product, including Credit linked product - Mega financial holding, Target redemption structured product, Credit linked product - (Hon Hai Precision Industry Co., Ltd.; Delta Electronic Corp.; SinoPac Holdings), Dual currency product, Target redemption structured product, Callable high yield structured product, NT target redemption structured product, FX reverse knockout structured product, Credit linked product - EVA Air Corp., Credit linked product - Taiwan Cellular Corp., Credit linked product - Yang Ming Marine Transport Corp., 6 Year USD Index Linked Redemption with a Contingent, 10 Year SG Multi-strategy Index 110% Notes, 5 Year structured Notes Linked to the Performance of an Alternative Investment Portfolio Managed by Citigroup Alternative Investment, 10 Year Man Global Strategies Diversified Limited, Taiwan Securities Formosa 168 Equity Linked Contract, Taiwan Securities Lucky Seven 10% Equity Linked Contract, and 7 Year Allianz High Yield Locked Coupon Insurance Investment Certificate. Target Redemption Rainbow Note on Basket of Taiwan Stocks, 10-year Target Redemption Corridor Linked to 6 months LIBOR Note, Quadruple Look High Yield Equity-Linked Notes on Intel Corp., SG Target Coupon Notes (Series 3), U.S. Sector Leasers Basker "Smart-Bull" EMTN, 5-year 106% guaranteed Return Note on nasdaq-100 Index, Dow Jones Eurostoxx Financial Service Index, Dow Jones Eurostoxx Energy Index, Dow Jones Eurostoxx Food & Beverage Index and The Pharmaceutical Holders Contract Note, High Efficiency Trust Account, Global Efficient Portfolio Collective Investment Trust Fund, Rose Master Card Platinum, Home Card, Mercedes-Benz Platinum, Smart Card, 5 years USD callable daily range accrual structure product, 7 years USD equity link structure product, 10 years USD target redemption structure product, 7 years USD callable daily range accrual structure product.

## Taishin Bills Finance

### Balance Sheet

	December 31	
	2003	2002
<b>Assets:</b>		
Cash and deposits	\$ 1,312,445	\$ 979,641
Due from banks	1,850,000	500,000
Trading securities	6,514,737	5,269,651
Receivables, net	345,788	378,510
Property and equipment, net	465,770	468,574
Miscellaneous assets	9,128,879	6,590,579
<b>Total assets</b>	<b>\$ 19,617,619</b>	<b>\$ 14,186,955</b>
<b>Liabilities:</b>		
Short-term borrowings	\$ 1,300,000	\$ -
Commercial papers payable	249,564	-
Due to banks	6,010,000	7,200,000
Payables	65,748	35,801
Bonds payable	5,000,000	-
Other liabilities	393,401	517,187
<b>Total liabilities</b>	<b>13,018,713</b>	<b>7,752,988</b>
<b>Shareholders' equity:</b>		
Capital stock - common stock	5,140,000	5,140,000
Retained earnings	1,458,906	1,293,967
<b>Total shareholders' equity</b>	<b>6,598,906</b>	<b>6,433,967</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 19,617,619</b>	<b>\$ 14,186,955</b>



## Income Statement

	Years Ended December 31	
	2003	2002
Total operating revenue	\$ 1,246,051	\$ 1,321,433
Total operating expenses	( 346,533)	( 450,327)
Income before income tax	899,518	871,106
Income tax expense	( 181,856)	( 94,348)
Net income	\$ 717,662	\$ 776,758
Pre-tax earnings per share (dollar)	\$ 1.75	\$ 1.69
After-tax earnings per share (dollar)	\$ 1.40	\$ 1.51

## Important Financial and Business Overview

### Capital Adequacy

	December 31	
	2003 (%)	2002 (%)
Capital adequacy ratio	18.03	20.76
Liabilities to net assets ratio	197.29	120.50

### Asset Quality

	December 31	
	2003	2002
Payment for overdue approved credit	None	None
Non-accrual loans	None	None
Payment for overdue approved credit ratio	None	None
Allowance for non-accrual loans and account receivables	None	None

## Management Information

### Business Highlights

	December 31	
	2003	2002
Guarantees	\$ 13,987,800	\$ 13,478,700
The ratio of guarantees to net assets (after appropriation of last year's earnings)	238%	238%
Short-term securities under agreement to repurchase	30,735,046	30,807,345
The ratio of short-term securities under agreement to repurchase to net assets (after appropriation of last year's earnings)	523%	545%

### Prominent Aggregation of Credit Risks

	December 31	
	2003	2002
Loans to parties with common interests	\$ 1,070,000	\$ 1,043,000
Percentage of loans to parties with common interests	7.65%	7.74%
Stock pledged and approved credit ratio	31.47%	23.01%

### Approved Credit Aggregation

	December 31	
	2003 (%)	2002 (%)
Finance and insurance	58.34	54.54
Manufacturing	26.69	22.30
Wholesale and retailing boarding, food and beverage	11.58	12.70
Others	3.39	10.46

## Summary of Reinvestments

None.

## Policy of Allowance for Loans, Non-Accrual Loans and Investment

Provisions for bad debts and loss on guarantees are accrued in consideration of Taishin Bills Finance's estimates of collectibility of account receivables, interest receivables and guarantees on commercial papers.

Taishin Bills Finance assesses the collectibility of its credit portfolio based on factors such as the borrowers'/clients' financial condition, payment history, and delinquent status and provides for loss, taking into account the value of collateralized assets, in accordance with "The Rules for Bills Finance Company Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts" issued by the MOF.

The credit facilities that are deemed unrecoverable are written off with the approval of the Board of Directors.

Trading securities are recorded as cost and stated at the lower of cost or market price. Upon sale of trading securities, the moving average cost method is used in determining the cost of trading securities sold.

For a securities firm trading securities for its own account, if the profit for trading securities for its own account exceeds the amount of loss, it shall allocate 10% of the portion in excess on a monthly basis as the trading loss reserve. When the accumulated amount of the trading loss reserve reaches \$200 million, allocation may be suspended, in accordance with "Rules Governing Securities Firms" issued by the MOF.

## Special Recorded Items

None.

## Profitability

	December 31	
	2003 (%)	2002 (%)
Return on total assets	5.32	6.12
Return on net assets	13.80	14.35
Profit margin	72.19	65.92

## Liquidity

Analysis of maturities assets and liabilities at December 31, 2003:

	Amount Due				
	1~30 Days	31~90 Days	91~180 Days	181 Days ~1 Year	More Than 1 year
Cash used in:					
Bills	\$ 3,045,031	\$ 19,058,071	\$ 7,320,136	\$ 9,578,169	\$ 200,000
Bonds	909,000	503,890	2,021,281	3,235,045	15,022,078
Deposits	146,500	900,000	410,000	465,800	2,803,000
Call loans to banks	1,850,000	-	-	-	-
Resale agreements	4,796,008	702,427	-	-	-
Total	10,746,539	21,164,388	9,751,417	13,279,014	18,025,078
Cash provided by:					
Call loans from banks	7,310,000	249,564	-	-	5,000,000
Repurchase agreements	46,862,004	6,270,137	420,271	1,191,000	-
Owned capital	-	-	-	-	6,598,907
Total	54,172,004	6,519,701	420,271	1,191,000	11,598,907
Net flow	( 43,425,465)	14,644,687	9,331,146	12,088,014	6,426,171
Accumulated net flow	(\$ 43,425,465)	(\$ 28,780,778)	(\$ 19,449,632)	(\$ 7,361,618)	(\$ 935,447)



## Market Risk Sensitivity

	December 31	
	2003 (%)	2002 (%)
Interest-sensitive assets to liabilities ratio	88.18	83.17
Interest-sensitive assets to net assets ratio	( 111.56)	( 156.53)

## Taiwan Securities

### Balance Sheet

	December 31	
	2003	2002
<b>Assets:</b>		
Cash and deposits	\$ 289,706	\$ 254,502
Short-term investments	361,140	716,717
Trading securities	13,133,315	23,241,791
Bonds purchased under agreements to resell	8,229,174	7,073,206
Marginal receivables	13,843,656	9,150,747
Other current assets	1,230,651	1,410,619
Long-term investments	1,759,110	1,557,561
Property and equipment	2,980,133	2,707,294
Other assets	2,757,740	2,687,044
Debit item for consigned trades	147,380	-
<b>Total assets</b>	<b>\$ 44,732,005</b>	<b>\$ 48,799,481</b>
<b>Liabilities:</b>		
Short-term borrowings	\$ 5,501,000	\$ 3,844,000
Commercial paper obligations	6,230,823	4,013,021
Bonds sold under agreements to repurchase	11,283,788	23,326,185
Securities financing guarantee deposit in	905,177	834,647
Payable for securities financing guarantee	1,162,572	1,088,359
Other current liabilities	1,156,484	1,135,195
Long-term commercial paper obligations	498,011	150,000
Credit item for consigned trades	-	389,455
Other liabilities	411,734	280,296
<b>Total liabilities</b>	<b>27,149,589</b>	<b>35,061,158</b>
<b>Shareholders' equity:</b>		
Capital stock - common stock	12,999,574	11,234,868
Capital surplus	2,076,860	841,566
Retained earnings	3,024,903	2,282,146
Unrealized loss on valuation of long-term investments	( 44)	( 44)
Cumulative translation adjustments	33,757	43,150
Treasury stock	( 552,634)	( 663,363)
<b>Total shareholders' equity</b>	<b>17,582,416</b>	<b>13,738,323</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 44,732,005</b>	<b>\$ 48,799,481</b>

## Income Statement

	Years Ended December 31	
	2003	2002
Total operating revenue	\$ 6,635,715	\$ 5,450,423
Total operating expense	( 5,093,258)	( 4,726,738)
Income before income tax	1,542,457	723,685
Income tax expense	( 241,257)	( 392,445)
<b>Net income</b>	<b>\$ 1,301,200</b>	<b>\$ 331,240</b>
Pre-tax basic earnings per share (dollar)	\$ 1.35	\$ 0.70
After-tax basic earnings per share (dollar)	\$ 1.13	\$ 0.32

## Capital Adequacy

	Years Ended December 31	
	2003 (%)	2002 (%)
Capital adequacy ratio	368.25	315.79

## Taiwan Futures

As of December 31, 2003 and 2002, major financial ratios of Taiwan Futures were disclosed as follows:

Items	2003		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity-loss on trading securities-reserve of penalty)	534,151 2,104,429-1,995,176-4,743	5.11	≥ 1
Current assets/ Current liabilities	2,459,108 2,029,956	1.21	≥ 1
Shareholders' equity/ Minimum issued capital	534,151 400,000	133.54%	≥ 60%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	510,989 350,414	145.82%	≥ 25%
Items	2002		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity-loss on trading securities-reserve of penalty)	496,088 806,409-729,836-937	6.56	≥ 1
Current assets/ Current liabilities	1,154,842 748,065	1.54	≥ 1
Shareholders' equity/ Minimum issued capital	496,088 400,000	124.02%	≥ 60%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	476,077 89,780	530.27%	≥ 25%



## Method of Sharing and Amounts of Expenditure Shared among Subsidiaries

For the year ended December 31, 2003, subsidiaries, Taishin Bank, Taiwan Securities and Taishin Bills Finance, bought information system jointly for business use, and made an agreement about expenditure share which is on the basis of individual used time. For the year ended December 31, 2003, expenditure share amount were as follows:

Taishin Bank	\$ 3,965
Taiwan Securities	2,235
Taishin Bills Finance	300
	<u>\$ 6,500</u>

According to Article 46 of the ROC Financial Holding Company Act, the company should disclose the credit, endorsement or the other transactions of the same person, affiliated party or enterprise.

December 31, 2003				
Name	ID Number	Relationship	Amount of Credit Endorsement or Other Transactions	Percentage of Taishin Financial's Net Worth
Chunghwa Post Co., Ltd.	03741302	The same related parties	\$ 48,945,000	85.06%
Shin Kong Life Insurance Co., Ltd.	03458902	The same related parties	47,239,000	82.10%
Fubon Financial Holding Co., Ltd.	03374805	The same related parties	19,762,000	34.35%
Cathay Financial Holdings Co., Ltd.	03374707	The same related parties	15,124,000	26.28%
United Microelectronics Corp.	47217677	The same related parties	8,285,000	14.40%
KGI Securities Co., Ltd.	23111915	The same related parties	8,086,000	14.05%
Uni-President Enterprises Corp.	73251209	The same related parties	7,995,000	13.89%
Formosa Plastics Corporation	75708007	The same related parties	7,014,000	12.19%
Capital Securities Corp.	22956035	The same related parties	6,479,000	11.26%
KG Telecommunication Co., Ltd.	16085840	The same related parties	4,598,000	7.99%
Veterans Affairs Committee	92019890	The same related parties	4,006,000	6.96%
Continental Engineering Corp.	33020007	The same related parties	3,944,000	6.85%
First International Computer, Inc.	20840777	The same related parties	3,938,000	6.84%
Taiwan International Securities Corp.	23167781	The same related parties	3,764,000	6.54%
Hontai Life Insurance Co., Ltd.	84894313	The same related parties	3,333,000	5.79%
Core Pacific Group	01075324	The same related parties	3,134,000	5.45%
Far Eastern Textile Ltd.	03522600	The same related parties	3,075,000	5.34%
Union Finance & Leasing International Corp.	97169587	The same related parties	2,996,000	5.21%
Eva Airways Corp.	23225229	The same related parties	2,771,000	4.83%
Kuo Hua Life Insurance Co., Ltd.	03380200	The same related parties	2,694,000	4.69%
Total			<u>\$ 207,182,000</u>	

## 39. Taishin Financial's trading securities held as of December 31, 2003

(Expressed in Thousands, Except for Percentage and Shares)

Owner	Type and Name of Marketable Security	Issuer's Relationship to the Owner	Accounts Recorded	December 31, 2003			Market Value	Note
				Shares (Units)	Carrying Value	%		
Taishin Financial	Bonds under agreements to resell:							
	Government bond	-	Short-term investments	268,300	\$ 292,731			
	Traffic bond	-	Short-term investments	35,000	38,500			
	Short-term securities under agreements to resell:							
	Yosun	-	Short-term investments	70,000	69,845			
	Quoda	-	Short-term investments	130,000	129,887			
	Sing Harvest	-	Short-term investments	10,000	9,980			
	Marbo Textile	-	Short-term investments	40,000	39,868			
	Zenitron	-	Short-term investments	30,000	29,963			
	Fast Fame	-	Short-term investments	30,000	29,959			
	Sirtec	-	Short-term investments	60,000	59,909			
	Royal Coca	-	Short-term investments	10,000	9,982			
	Pouchun	-	Short-term investments	30,000	29,933			
	Stock:							
	Taishin Bank:							
	Common stock	Parent and subsidiary	Long-term investments	2,446,781,000	34,008,217	100.00		
	Preferred stock	Parent and subsidiary	Long-term investments	400,000,000	4,000,000	100.00		
Taishin AMC	Parent and subsidiary	Long-term investments	75,000,000	858,482	100.00			
Taishin Marketing Consultant	Parent and subsidiary	Long-term investments	100,000	3,459	100.00			
Taiwan Securities	Parent and subsidiary	Long-term investments	1,299,957,399	16,790,433	100.00			
Taishin Bills Finance	Parent and subsidiary	Long-term investments	514,000,000	6,598,907	100.00			
Taisin Venture Capital Investment Co., Ltd.	Parent and subsidiary	Long-term investments	100,000,000	991,611	100.00			
Debt Instruments								
Depository and Clearing Co. Taiwan	Investee under cost method	Long-term investments	10,000,000	100,000	4.99			
Broadcasters Market Research Co., Ltd.	Investee under cost method	Long-term investments	500,000	5,000	3.00			
Subtotal				<u>\$63,356,109</u>				



## 40. Related information of investees' names, locations, etc. as of and for the year ended December 31, 2003.

1 of 2 (Expressed in Thousands, Except for Percentage and Shares)

Investor	Investees' Names	Investees' Location	Principal Business Activities	Original Investment Amount		Ending Balance Shares			Net Income (Loss) of Current Period	Recognized Income (Loss) of Current Period	Note
				End of Current Period	End of Last Period	Shares	Ownership Interest (%)	Book Value			
Taishin Financial Holding Co., Ltd.	Taishin International Bank	1Fl., No. 44, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Commercial bank business, trust, and bills discounting	37,482,363	35,482,363	Common Stock 2,446,781,000 Preferred stock 400,000,000	100.00	34,008,217	6,166,227	5,434,807	Subsidiary
	Taishin Asset Management Co. Ltd.	3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Consumption on delinquent loans, evaluation, auction, and management	750,000	750,000	75,000,000	100.00	4,000,000 858,482	74,379	113,950	Subsidiary
	Taishin Marketing Consultant Ltd.	11Fl., No. 300, Sec. 4, Chunghsiao E. Rd., Taipei, Taiwan	Investment and enterprise operating consultant and agency	2,000	2,000	100,000	100.00	3,459	76	1,353	Subsidiary
	Taiwan Securities	1Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei, Taiwan	Securities brokerage, margin lending, and underwriting financial products	17,400,824	14,400,824	1,299,957,399	100.00	16,790,433	1,301,200	988,696	Subsidiary
	Taishin Bills Finance	9-10Fl., No. 162, Sungjiang Rd., Taipei, Taiwan	Bills finance	6,371,010	6,371,010	514,000,000	100.00	6,598,907	717,662	694,360	Subsidiary
Taishin Assets Management Ltd.	Taishin Venture Capital Investment Co., Ltd.	12Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Starting-up investment	1,000,000	-	100,000,000	100.00	991,611	(8,389)	(8,389)	Subsidiary
	Taishin Real-Estate Management Ltd.	3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Audit and consulting of construction plan, contract witness	39,600	-	2,640,000	40.00	47,848	30,206	9,304	Subsidiary
	Cheun Chang Development Ltd.	4Fl., No. 21, Sec. 3, Nanjing E. Rd., Taipei, Taiwan	Management, consulting and lease of real estate	27,000	-	2,700,000	45.00	26,666	(741)	(334)	Subsidiary
Taishin Bank	Taishin Real-Estate Management Co., Ltd.	3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Audit and consulting of construction plan, contract witness	30,000	30,000	3,960,000	60.00	60,109	30,206	13,976	Subsidiary
	Taishin Insurance Agency Co., Ltd.	6Fl., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Life insurance agency	1,500	1,500	3,600,000	60.00	247,869	309,842	186,892	Subsidiary
Taishin Insurance Agency Co., Ltd.	Taishin International Finance Co., Ltd.	Room 1501, 15Fl., Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong	Import and export of foreign exchange, trade financing, guarantee and acceptance	127,314	127,314	29,999,700	99.99	149,293	12,975	12,974	Subsidiary
	PayEasy Digital Integration Co., Ltd.	13Fl., No. 11, Sec. 1, Jungshan N. Rd., Taipei, Taiwan	Investment and enterprise operating consultant, information software and data processing, advertising, international trade, agency and network services	34,000	34,000	3,400,000	66.67	60,424	40,079	26,719	Subsidiary
	Dah An Leasing Co., Ltd.	3Fl., No. 222, Sec. 2, Nanjing E. Rd., Taipei, Taiwan	Leasing and retailing of machinery, mobile, aircraft, marine and components	198,000	198,000	19,800,000	99.00	127,717	(4,376)	(4,333)	Subsidiary
	An Hsin Real-Estate Management Co., Ltd.	14Fl., No. 27, Sec. 1, Anhe Rd., Taipei, Taiwan	Construction consultation, real estate appraisal	15,000	15,000	2,100,000	30.00	25,874	11,999	3,624	Investee on which Taishin Bank has significant influence
	Taishin Venture Capital Co., Ltd.	10Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Investment	60,000	75,000	6,000,000	5.00	56,642	1,136	(3,358)	Investee on which Taishin Bank has significant influence
An Hsin Real-Estate Management Co., Ltd.	Taishin Non-Life Insurance Agency Co., Ltd.	6Fl., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Non-Life Insurance Agency	2,440	2,440	439,200	97.60	34,232	28,919	28,127	Subsidiary
	Taishin Insurance Brokers Co., Ltd.	6Fl., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Insurance brokers	2,000	2,000	200,000	100.00	4,439	3,506	3,506	Subsidiary
An Hsin Real-Estate Management Co., Ltd.	Riches Asset Management Service Company	10Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan	Consumption on delinquent loans, evaluation, auction, and management	5,500	5,500	550,000	55.00	6,787	2,340	1,287	Subsidiary
	Jsaijin Advanced Optical Technology	2F, No. 28, 54 Alley, Jangjam Rd, Sindian City Taipei Country, Taiwan.	Precise instrument wholesale, traffic sign construction	9000	9,000	900,000	25.00	6,000	(1,862)	(3,000)	Investee on which An Hsin Real-Estate Management Limited has significant influence
Taishin Venture Capital Co., Ltd.	HD. Strategic Partner Co.	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Investment	76,201	76,201	4,620,000	30.93	76,201	-	-	Investee on which Taishin Venture Capital has significant influence
Taiwan Securities Co., Ltd.	Anew Holdings Ltd.	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Management of the overseas investment business	457,351	457,351	14,114,691	100.00	615,399	105,027	105,027	Subsidiary
	Taiwan Futures Co., Ltd.	2Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei	Brokers of futures transactions	359,950	359,950	35,995,000	89.99	480,669	38,063	34,252	Subsidiary
	Taiwan Securities Investment Advisory Co., Ltd.	6Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei	Securities investment consultant and publications of investment	335,270	335,193	27,358,115	91.18	363,477	5,586	5,361	Subsidiary
Anew Holdings Ltd.	Shin Ze AMC	4Fl., No. 100, Sec. 3, Minsheng E. Rd., Song Shan Dis., Taipei, Taiwan	Consumption on delinquent loans, evaluation, auction, and management. Management on late posting payment, investment, business management consultant	25,500	-	2,550,000	51.00	73,710	96,124	48,210	Subsidiary
	Tai Chen (BVI) Co., Ltd.	Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands	Underwriters and business advisory	USD10,000	USD10,000	USD10,000	100.00	69,257	-	-	Subsidiary
	Taiwan Securities (Hong Kong) Co., Ltd.	Hong Kong	Brokers, under-writers, and investment consultant	HKD108,600	HKD57,900	HKD108,600	100.00	544,869	-	-	Subsidiary
	Taiwan Securities (Hong Kong) Co., Ltd. Nominee United	Hong Kong	Trust agent business	-	-	3	100.00	-	-	-	Subsidiary

Note: Anew Holdings Ltd.'s gain (loss) on investment contains the gain (loss) on investment of Tai Chen (BVI) Co., Ltd. and Taiwan Securities (Hong Kong) Co., Ltd.





Taishin Holdings

We think beyond the limitations,  
and take a multifaceted approach in assessing  
a variety of new paths.



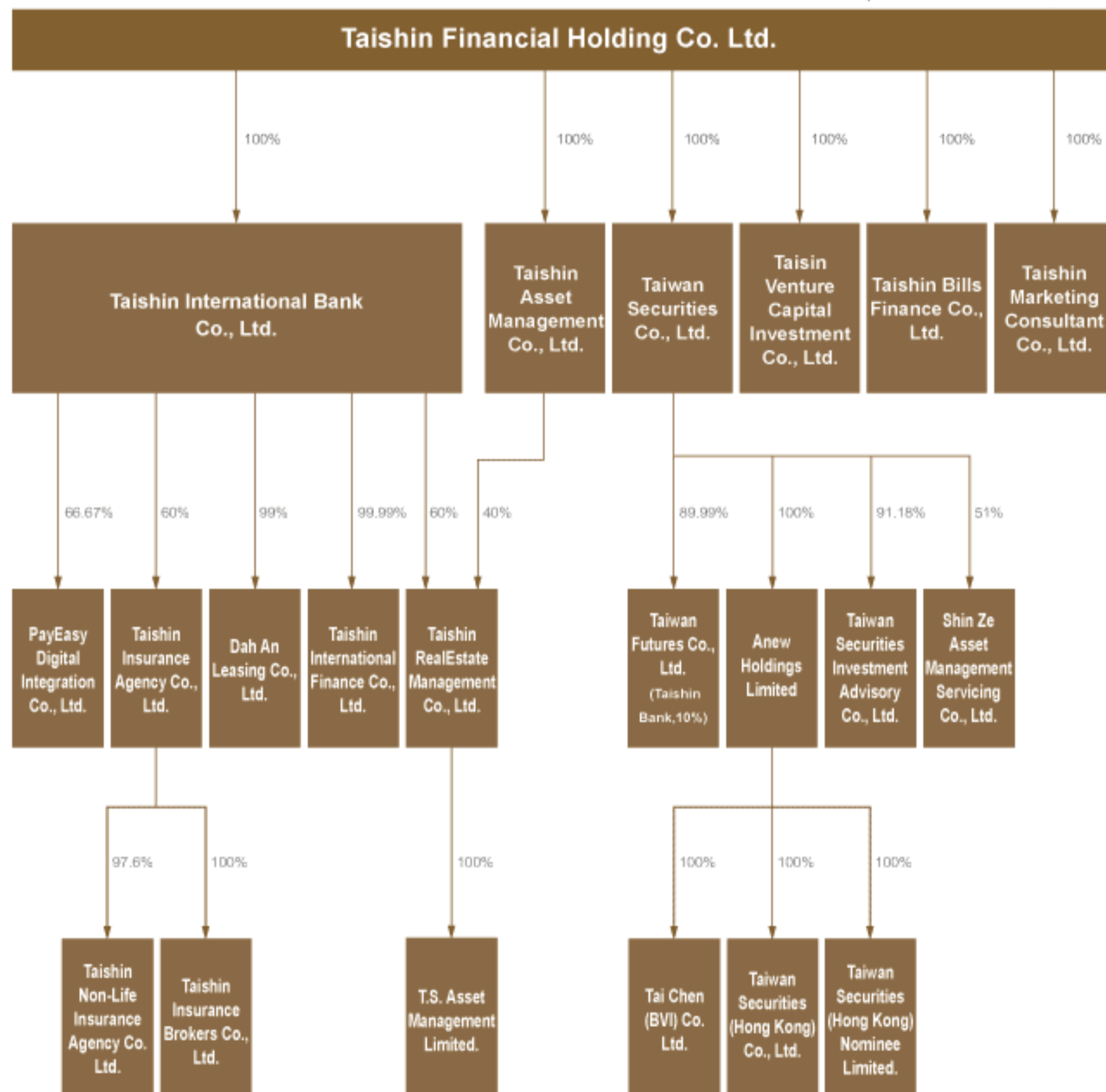
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Special Items of Record **VI**



## I. Organization Chart of Taishin Financial Holding Co., Ltd.

(as of December 31, 2003)



## II. Statement of Internal Controls

Date: Apr. 1, 2004

### Internal Controls

Taishin Financial Holding Co., Ltd.

#### Statement of Internal Controls

Taishin Financial Holding Co., Ltd. carried out a self-investigation of its internal control system for the period of Jan. 1, 2003 through Dec. 31, 2003, and the results were as follows:

1. The Company fully realizes that the establishment, implementation, and maintenance of a system of internal controls are the responsibility of its Board of Directors and its managers, and such a system has in fact been established. The goal of this system is to provide reasonable assurance of the achievement of targets in the areas of operating effectiveness and efficiency (including profits, performance, and the protection of asset security), the reliability of financial reports, and compliance with relevant laws.
2. A system of internal controls has inherent limitations; and however comprehensive its planning may be, an effective internal control system can provide only reasonable assurance that the three targets listed above will be achieved. Furthermore, the effectiveness of an internal control system may change along with changes in the environment or other conditions. The Company's internal control system contains a self-monitoring mechanism, however, and action is taken to rectify deficiencies as soon as they are identified.
3. The Company judges the effectiveness of the design and implementation of its internal control system in accordance with the stipulations of the internal control judgment items contained in the Regulations for the Establishment of Internal Control Systems by Public Companies (hereinafter "the Regulations") promulgated by the Securities and Futures Commission of the Ministry of Finance. The internal control judgment items contained in the Regulations divide internal controls into five constituent elements according to the management control process: (1) the control environment, (2) evaluation of risk, (3) control operations, (4) information and communication, and (5) monitoring. Each of these constituent items itself contains a number of items. For details regarding these items, please refer to the stipulations in the Regulations.
4. The Company uses the internal control judgment items listed above to evaluate the effectiveness of the design and implementation of its internal control system.
5. Based on the results of the evaluation described in the previous paragraph, the Company feels that during the period given above its internal control system (including the monitoring of its subsidiaries), including the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with related laws, were effective and able to assure the achievement of the above-described targets.
6. This Statement will become a major content of the Company's Annual Report and public announcements, and will be made public. Any falsehood, omission, or other illegality will incur legal responsibility under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement was passed by the Board of Directors of the Company on Apr. 1, 2004, with no dissenting opinions among the six directors present. The contents of the Statement were therefore unanimously approved.

*Julius Chen*

President, Taishin Financial Holding Co., Ltd.

*Thomas Wu*

Chairman, Taishin Financial Holding Co., Ltd.