Shin Kong Financial Holding Co., Ltd.

(Incorporated as a company limited by shares in Taiwan, Republic of China)

42,088,000 Global Depositary Shares

Representing
1,052,200,000 Common Shares

We are offering 42,088,000 global depositary shares ("GDSs"), each of which represents 25 common shares, par value NT$10 per share ("Common Share") of our company in this offering. In addition, we offered, through SinoPac Securities (Asia) Limited, GDSs to certain of our existing shareholders pursuant to their rights to subscribe for GDSs (the "ROC Subscription"). See "Plan of Distribution." Concurrently with this offering, we are also selling, subject to further adjustments, 68,681,000 Common Shares to our employees and designated domestic investors.

Subject to certain restrictions described in this offering memorandum, you can withdraw interests in the underlying Common Shares represented by the GDSs from the fourth business day in the Republic of China (the "ROC") following the closing date of the offering of GDSs, subject to the listing approval of the Taiwan Stock Exchange (the "TSE") and the provisions of the deposit agreements in relation to the offering of the GDSs (the "Deposit Agreements"). See "Description of the Global Depositary Shares."

Our Common Shares are listed under the number "2888" on the TSE. On July 22, 2009, the closing price of our Common Shares on the TSE was NT$13.00 per share. Application has been made to admit the GDSs offered in reliance on Regulation S (the "International GDSs") to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the International Order Book of the London Stock Exchange. Prior to this offering, there has been no market anywhere for the GDSs.

See "Risk Factors" on page 17 for a discussion of certain factors to be considered in connection with an investment in the GDSs.

Offer Price: US$8.91 per GDS

The GDSs and the underlying Common Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States. The GDSs are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"), and within the United States to "Qualified Institutional Buyers" ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A"). Prospective purchasers are hereby notified that sellers of the Rule 144A GDSs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Except for the sale and delivery of any GDSs by us to our existing shareholders in the ROC pursuant to the ROC Subscription, the GDSs are not being offered in the ROC, directly or indirectly. For a description of these and certain further restrictions on offers and sales of the GDSs and the underlying Common Shares and distribution of this offering memorandum, see "Plan of Distribution" and "Transfer Restrictions."

Delivery of the GDSs is expected to be made through the facilities of The Depository Trust Company ("DTC"), Euroclear Bank S.A/N.V. ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream") on or about July 27, 2009 (the "Closing Date").

Joint Global Coordinators and Joint Bookrunners
(names in alphabetical order)

Goldman Sachs International **Morgan Stanley**

Co-Lead Manager

Barclays Capital

Co-Manager

SinoPac Securities (Asia)

Offering Memorandum dated July 22, 2009.

TABLE OF CONTENTS

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this offering memorandum. You must not rely on any unauthorized information or representations. This offering memorandum is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

No United States federal, state or foreign securities commission or regulatory authority has recommended the GDSs or reviewed, passed on, determined or confirmed the accuracy or adequacy of this offering memorandum. Any representation to the contrary may be a criminal offense.

We accept responsibility for the information contained in this offering memorandum. We, having made all reasonable enquiries, confirm that this offering memorandum contains all information with respect to us, our subsidiaries, the GDSs and our Common Shares that is material in the context of the issue and offering of the GDSs, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the GDSs, make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects and that all reasonable enquiries have been made by us to verify the accuracy of such information and that this offering memorandum does not contain any untrue statement of a material fact or omit to state a material fact required to be stated or necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading. We accept responsibility for and confirm that the information contained in each of the sections entitled “Appendix A: Foreign Investment and Exchange Controls in the ROC” and “Appendix B: The Securities Markets of the ROC” has been accurately extracted from the TSE Monthly Review and the laws and regulations of the ROC. However, such information has not been verified by us, the initial purchasers or any of our or the initial purchasers’ respective affiliates or advisors in connection with this offering.

The distribution of this offering memorandum and the offering and sale of the GDSs in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the GDSs and distribution of this offering memorandum, see “Plan of Distribution” and “Transfer Restrictions.” This offering memorandum does not constitute an offer of, or an invitation by or on behalf of us or the initial purchasers to subscribe for or purchase any of the GDSs in any jurisdiction in which such offer or invitation would be unlawful. This offering memorandum may be used only for the purposes for which it has been published.

Our current shareholders wishing to exercise their subscription rights to purchase our GDSs pursuant to notice Chin-Kuan-Cheng-Yi-Zi No. 0980005893 issued by the ROC Financial Supervisory Commission (the “FSC”) and notice Jung-Zhen-Shan-Dien No. 0980000267 issued by the Taiwan Securities Association (the “TSA”) should follow the instructions posted on the Market Observation Post System (“MOPS”) and the allocation procedures posted on our website. The ROC Subscription was being conducted through SinoPac Securities (Asia) Limited.

You are hereby notified that sellers of the Rule 144A GDSs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

FOR NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

If, at any time, we are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, we will furnish, upon request, to any person in whose name a GDS is registered on the books of the Depositary (as defined herein), any holder of any beneficial interest in any GDS or any prospective purchaser designated by a holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. Alternatively, a holder may obtain such information at the offices of our Luxembourg listing agent, Aerogolf Center-1A, Hoehenhof, L-1736, Senningerberg, Luxembourg, as such information will be provided free of charge to any person in Luxembourg who requests it.

CERTAIN DEFINITIONS, CONVENTIONS AND GENERAL INFORMATION

The terms “Shin Kong FHC,” “we,” “our company,” “us” and “our” refer to Shin Kong Financial Holding Co., Ltd. and our subsidiaries, unless the context otherwise requires. The term “Shin Kong Companies” refers to the consolidated subsidiaries of Shin Kong FHC as a group, unless the context otherwise requires. In addition, (i) “MasterLink” refers to MasterLink Securities Corporation, (ii) “Shin Kong Bank” refers to Taiwan Shin Kong Commercial Bank Co., Ltd., (iii) “Shin Kong Insurance Brokers” refers to Taiwan Shin Kong Insurance Brokers Co., Ltd., (iv) “Shin Kong Investment Trust” refers to Shin Kong Investment Trust Co., Ltd., (v) “Shin Kong Life” refers to Shin Kong Life Insurance Co., Ltd., (vi) “Shin Kong Securities” refers to Shin Kong Securities Co., Ltd., and, in each case, their respective consolidated subsidiaries, if any, unless the context otherwise requires.

In this offering memorandum, “ROC” or “Taiwan” refers to the island of Taiwan and other areas under the effective control of the Republic of China, the “ROC Company Law” refers to the Company Law of the ROC and the “ROC Financial Holding Company Act” refers to the Financial Holding Company Act of the ROC. “FSC” or “Financial Supervisory Commission” refers to the ROC Financial Supervisory Commission, “MOF” or “Ministry of Finance” refers to the ROC Ministry of Finance and “Banking Bureau” refers to the Banking Bureau of Financial Supervisory Commission of the ROC.

We publish our financial statements in New Taiwan dollars, the lawful currency of the ROC. All references to "United States dollars," "US dollars" and "US$" are to United States dollars, and all references to "New Taiwan dollars," "NT dollars" and "NT$" are to New Taiwan dollars.

The term "Noon Buying Rate" as used herein refers to the noon buying rate for cable transfers in NT dollars as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise specified, where financial information has been translated from NT dollars into US dollars, it has been translated, for your convenience only, at the rate of NT$33.87 = US$1.00, the Noon Buying Rate on March 31, 2009. The Noon Buying Rate on July 17, 2009 was NT$32.86 = US$1.00. See "Exchange Rates." Such translation amounts are unaudited and it should not be construed that the NT dollar amounts represent, or have been, or could be, converted into US dollars at that or any other rate.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

Our financial statements and those of the Shin Kong Companies are prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China, or ROC GAAP, 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 other countries and jurisdictions, including the United States. The material differences between ROC GAAP and generally accepted accounting principles in the United States, or U.S. GAAP, as applicable to us and the Shin Kong Companies are discussed under "Summary of Material Differences Between ROC GAAP and U.S. GAAP." Certain financial amounts presented herein may not correspond directly to our financial statements included elsewhere herein or may not add up due to rounding.

We have compiled all industry and market information and statistics contained in this offering memorandum from various published and private sources, which may be inconsistent with other information compiled elsewhere. Unless otherwise indicated, all industry and market information and statistics contained in this offering memorandum relate to Taiwan. We have reproduced such information correctly in this offering memorandum but neither we, nor the initial purchasers, have independently verified the accuracy of any of such information.

We have compiled information with regard to our market share and market size in this offering memorandum using statistics and other information made available largely in the Chinese language by the Banking Bureau at its website at *http://www.banking.gov.tw*. Information on this website was collected from filings made by reporting financial institutions to the Banking Bureau and may differ from any audited financial information of such financial institutions. We have not independently verified the accuracy and completeness of the information and we do not accept responsibility for such information.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this offering memorandum. Our forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. You can identify some of these forward-looking statements by terms such as "expect," "believe," "plan," "intend," "estimate," "anticipate," "may," "will," "would" and "could" or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- our ability to achieve or control future loan growth, non-performing loans, provisions, write-offs or collateral coverage;
- the intensely competitive financial services industries in which we operate;
- risks relating to the financial services industries and industry risks of our key clients;
- regulations (including the risk of deregulation and of new and untested regulations) to which our businesses are subject;
- general economic, political and social conditions and developments in Taiwan and other jurisdictions in which we operate our businesses;
- the actual amount of new and renewal businesses;
- our ability to cross sell products and services offered by our group subsidiaries;
- risks associated with the introduction of new products and services;
- the impact of mergers and acquisitions, competing demands for our capital, and the risk of undisclosed liabilities;
- the amount of dividends received from subsidiaries;
- legal proceedings; and
- other risks identified in the "Risk Factors" section of this offering memorandum.

The forward-looking statements made in this offering memorandum relate only to events or information as of the date on which the statements are made in this offering memorandum. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. You should not place undue reliance on these forward-looking statements. In light of the foregoing and the risks, uncertainties and assumptions discussed in "Risk Factors" and elsewhere in this offering memorandum, the forward-looking events discussed in this offering memorandum might not occur and our actual results could differ materially from those anticipated in those forward-looking statements.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

We are a company limited by shares and incorporated under the ROC Company Law and the ROC Financial Holding Company Act. Substantially all of our directors, supervisors and executive officers and certain of the experts named in this offering memorandum are residents of the ROC, and a significant portion of the assets of our company and these persons are located in the ROC. As a result, it may not be possible for you to effect service of process upon our company or any of these persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. Our ROC counsel has advised us that any final judgment obtained against us in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to our Common Shares or GDSs will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied with the following:

- the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- the judgment and the court procedure are not contrary to the public order or good morals of the ROC;
- the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken;
- if the judgment was rendered by default by the court rendering the judgment, we were served within the jurisdiction of such court or process was served on us with judicial assistance of the ROC; and
- judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. Judgments obtained in certain United States courts have been confirmed to be recognized and enforceable in the courts of the ROC on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of the Republic of China (Taiwan) ("CBC"), for the remittance out of the ROC of any amounts recovered in respect of the judgment denominated in a currency other than NT dollars. See "Annex A: Foreign Investment and Exchange Controls in the ROC."

SUMMARY

The following summary is qualified in its entirety by the information contained elsewhere in this offering memorandum.

Overview

We are the third-largest insurance-focused financial services holding company in Taiwan as measured by total assets. Through our operating subsidiaries, including Shin Kong Life, Shin Kong Bank, Shin Kong Securities and Shin Kong Investment Trust, we offer a broad range of financial products and services, including life insurance, health and accident insurance, personal and corporate banking, securities and asset management services, to over five million individual and corporate customers in Taiwan and abroad. As of July 17, 2009, our market capitalization was NT$85.2 billion based on the closing price of NT$13.70 per Common Share on the TSE on that date. We have a long-term rating of "twA+" and a short-term rating of "twA-1" from Taiwan Ratings Corporation. We also have a long-term rating of "BBB–" and a short-term rating of "A-3" from Standard & Poor's ("S&P").

Our principal subsidiary, Shin Kong Life, was founded in 1963. Shin Kong Life has built a base of approximately three million life insurance customers and is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life operates an insurance distribution network of approximately 13,000 sales agents that encompasses all age groups and geographic regions throughout Taiwan.

Our long history, market-leading products and strong brand make us one of Taiwan's premier financial services holding companies. We believe that our comprehensive product and service offerings have not only helped expand our customer base, but also contribute to customer retention. Our large customer base has in turn strengthened our ability to cross sell products and services offered by our operating subsidiaries.

Our experienced management team has actively pursued strategies to take advantage of growth opportunities and enhance our product and service offerings. We are one of the first Taiwanese insurance companies to enter into the fast growing PRC life insurance market through the establishment of our joint venture with Hainan Airlines Group, a leading aviation conglomerate in the PRC. In addition, we have formed a strategic alliance with Dai-ichi Mutual Life Insurance Company ("Dai-ichi"), the third largest life insurance group in Japan and one of our largest shareholders, to develop and design innovative life insurance products, to increase sales of group insurance products, and to improve asset and liability management.

Our main operating subsidiaries and their core products are:

Shin Kong Life

Founded in 1963, Shin Kong Life is Taiwan's third largest life insurance provider in terms of first-year premium income and total assets. It is also one of the largest life insurers in Asia, excluding Japan and Australia. The "Shin Kong" brand is widely recognized in Taiwan as representing stability and reliability, which we believe are important assets for a life insurance company. Through its extensive distribution network, Shin Kong Life markets and sells a wide range of life insurance products, including traditional whole and term life insurance products, health and accident insurance products, interest-sensitive annuities, and investment-linked products throughout Taiwan. Shin Kong Life's sales agents also cross sell financial products and property and casualty insurance products offered by our other subsidiaries and affiliates.

Shin Kong Life is a leader in Taiwan's life insurance industry based on virtually every key statistic by which insurance companies are evaluated. As of March 31, 2009, Shin Kong Life had approximately 5.9 million individual life insurance policies in force. For the three months ended March 31, 2009, Shin Kong Life had NT$41,230 million in total premium income. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life also has one of the largest sales and marketing forces in Taiwan with approximately 13,000 full-time sales agents. Further, Shin Kong Life is a market leader in most of its principal product lines, as evidenced by its 10.5% market share measured by first-year premiums written and 10.5% market share measured by total premium income in 2008. Shin Kong Life has a rating of "twAA-" from Taiwan Ratings Corporation and a rating of "BBB" from S&P. Shin Kong Life accounted for 75.5% of our total assets, as of March 31, 2009.

Shin Kong Bank

Shin Kong Bank provides personal banking services to individuals and corporate banking services to companies of all sizes located in Taiwan through its 108 geographically diversified branches, 619 proprietary ATMs and shared access to many more ATMs throughout Taiwan, as well as through telephone banking and online banking. Shin Kong Bank has a long-term rating of "twAA-" and a short-term rating of "twA-1+" from Taiwan Ratings Corporation. Shin Kong Bank also has a long-term rating of "BBB" and a short-term rating of "A-2" from S&P. As of March 31, 2009, Shin Kong Bank had approximately 3,000 employees, NT$147,336 million in personal loans outstanding, NT$131,391 million in corporate loans outstanding and 0.4 million active credit cards. As of March 31, 2009, Shin Kong Bank had approximately 2.4 million deposit accounts and approximately 140,000 customers with loan accounts outstanding. Shin Kong Bank accounted for 22.4% of our total assets, as of March 31, 2009.

Shin Kong Securities

Shin Kong Securities provides brokerage and securities products and services to individuals as well as to corporations and institutions. These products and services include securities brokerage, margin trading, underwriting and financial product sales. In addition, Shin Kong Securities is engaged in proprietary trading of equity and fixed-income securities. As of March 31, 2009, Shin Kong Securities had approximately 68,000 customer accounts and total assets of NT$12,567 million. Shin Kong Securities accounted for 0.7% of our total assets, as of March 31, 2009.

In April 2009, in order to consolidate our securities brokerage services, Shin Kong Securities entered into a sale agreement to transfer its brokerage business and properties to MasterLink, our 26.3% owned and consolidated subsidiary. The transaction is expected to be completed in the fourth quarter of 2009. Shin Kong Securities will then liquidate its securities holdings and cease its operations. Consummation of the sale is subject to approvals from governmental authorities and certain other customary conditions.

Shin Kong Investment Trust

Shin Kong Investment Trust contributes to the financial management services we offer to the approximately three million customers of Shin Kong Life, and cross sells products offered by our other subsidiaries. As of March 31, 2009, Shin Kong Investment Trust had approximately 35,000 customer accounts and NT$33,755 million of assets under management.

Shin Kong Insurance Brokers

Through a brokerage agreement with Shinkong Insurance Co., Ltd., an affiliate of our company, Shin Kong Insurance Brokers distributes a comprehensive range of property and casualty insurance products offered by Shinkong Insurance Co., Ltd. Shin Kong Insurance Brokers distributes these property and casualty insurance products through the sales agents of Shin Kong Life. The sales agents of Shin Kong Life also market these products as supplements to Shin Kong Life's own policies.

MasterLink

We own 26.3% of MasterLink's ownership interests. Under ROC regulations, MasterLink is considered our subsidiary and we fully consolidate its financials. MasterLink is a full-service securities brokerage firm, providing comprehensive, custom-tailored financial solutions for its institutional and individual clientele. Its primary areas of operations and service comprise of securities brokerage (including margin lending), principal transactions (including equity, bonds, commercial paper and hedging transactions), underwriting and financial products. Its brokerage practice accounted for 3.7% of market share, brokering NT$377.5 billion of securities for the three months ended March 31, 2009. MasterLink had 44 sales offices with more than 790 brokers serving over 743,000 customers as of March 31, 2009. As of March 31, 2009, MasterLink had a long-term rating of "twA" and a short-term rating of "twA-1" by Taiwan Ratings Corporation.

Competitive Strengths

We believe that the following key strengths contribute to our competitive position in the financial services industry in Taiwan:

- We are a diversified insurance-led financial services group with complementary product offerings and proven cross-selling capabilities;
- We are a leader in the attractive Taiwan life insurance market;
- We have a well recognized brand name and premier insurance franchise;
- We have an extensive agency network with deep product and service knowledge and a focus on productivity and revenue;
- We have an extensive banking network offering customers a comprehensive range of financial products and services; and

- Our management team is highly experienced and has proven its ability to plan strategy proactively.

Business Strategy

Our goal is to provide unparalleled services to our customers as one of the leading financial services holding companies in Taiwan. To achieve our goal, we intend to grow our business and enhance the quality of our product and service offerings through the following strategies:

- Focus on high-margin products, including traditional life insurance products, while seizing attractive growth opportunities in the Taiwan life insurance market;
- Further increase cross-selling efforts to improve market penetration of our products;
- Continue to strengthen our agency distribution force, in particular through higher productivity;
- Strengthen our investment performance through portfolio reallocation;
- Further enhance our risk management capabilities;
- Target profitable products and improve the loan quality in our banking business; and
- Drive overseas expansion to diversify our revenue base and drive incremental growth.

Rights Issuance

After obtaining board approval and all required regulatory approvals, we plan to launch an NT$3 billion to NT$8 billion domestic rights issue, or the Rights Issue, to be completed by the end of 2009. The details of the Rights Issue including the subscription price and number of shares to be issued will be finalized and announced by us close to the launch date of the Rights Issue. Our Chairman, Mr. Eugene T.C. Wu, has committed to fully subscribe to his pro-rata entitlement and also to use his best efforts to take up, or invite and require certain third parties to take up, all of the unsubscribed portion, if any, of the Rights Issue.

We expect that the proceeds from the Rights Issue, together with the proceeds from the offering of the GDSs and the concurrent offering of Common Shares to our employees, will be no less than NT$18 billion, which will strengthen our capital position during the period of economic uncertainty and support growth in our company's insurance franchise. In addition, to the extent that such proceeds do not meet our expectations and as otherwise necessary to strengthen our capital position or comply with regulatory requirements, we will dispose of additional real estate assets.

Corporate and Other Information

Our principal executive offices are located at No. 66, Section 1, Chung-Hsiao West Road, Taipei, Taiwan, Republic of China. Our telephone number at this address is (886) 2

2389-5858 and our fax number is (886) 2 2389-2868. Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is *www.skfh.com.tw*. The information contained on our website is not part of this offering memorandum.

Recent Developments

Proposed sale of Shin Kong Securities to MasterLink

In April 2009, in order to consolidate our securities brokerage services, Shin Kong Securities entered into a sale agreement to transfer its brokerage business and properties to MasterLink, our 26.3% owned and consolidated subsidiary. The transaction is expected to be completed in the fourth quarter of 2009. Shin Kong Securities will then liquidate its securities holdings and cease its operations. Consummation of the sale is subject to approvals from governmental authorities and certain other customary conditions.

Sale of Real Estate

In April 2009, Shin Kong Life sold a building in downtown Taipei and recognized a capital gain of NT$7.3 billion. We plan to increase our liquidity and maintain robust capital position by disposing of our real estate investments at attractive prices.

Joint Venture in the PRC

In April 2009, a PRC-based joint venture established by Shin Kong Life and Hainan Airlines Group, a leading aviation conglomerate in the PRC, commenced operations to market life insurance products developed for the fast growing PRC life insurance market. Headquartered in Beijing, we expect this joint venture will enjoy rapid development in the next several years, in part by taking advantage of Hainan Airlines Group's extensive customer base.

Net income (loss) for the six months ended June 30, 2009

As announced on the Market Observation Post System, our preliminary unaudited unconsolidated net loss for the six months ended June 30, 2009 to be NT$598 million, Shin Kong Life's preliminary unaudited unconsolidated net loss for the six months ended June 30, 2009 to be NT$1,342 million, and Shin Kong Bank's preliminary unaudited unconsolidated net income for the six months ended June 30, 2009 to be NT$266 million. Our, Shin Kong Life's and Shin Kong Bank's preliminary unconsolidated financial data for the six months ended June 30, 2009 are subject to adjustment based upon, among other things, completion of our, Shin Kong Life's and Shin Kong Bank's reporting processes. Actual results could differ materially from the estimates provided above. For additional information regarding the various risks and uncertainties inherent in such estimates, see "Special Note Regarding Forward-Looking Statements." Financial results for the six months ended June 30, 2009 may not be indicative of our full year results for the fiscal year ending December 31, 2009 or future quarterly periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding trends and other factors that may influence our, Shin Kong Life's and Shin Kong Bank's financial results.

THE OFFERING

The Issuer	Shin Kong Financial Holding Co., Ltd.
The Offering	We are offering 42,088,000 GDSs in this offering. The GDSs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. Concurrently with this offering, we are also selling Common Shares to our employees and designated domestic investors.
Common Shares Outstanding Immediately Before and After the Offering	As of the date of this offering memorandum, there were 6,246,906,644 Common Shares issued and outstanding. Immediately after this offering, there will be 7,367,787,644 Common Shares issued and outstanding, including 68,681,000 Common Shares subscribed by our employees and designated domestic investors in the concurrent offering to our employees and assuming that such subscription is not increased or decreased and is fully paid for although there can be no assurance of this.
Price per GDS	US$8.91
Closing Date	On or about July 27, 2009.
The GDSs	Each GDS represents 25 Common Shares, par value NT$10.00 per share. The GDSs will be issued pursuant to two deposit agreements (the "Deposit Agreements". We will deposit the Common Shares to be represented by GDSs with the custodian of Citibank, N.A., as the depositary, which in turn will issue and deliver the GDSs under the applicable deposit agreement. The GDSs offered in reliance on Rule 144A (the "Rule 144A GDSs") will be evidenced by a Master Rule 144A GDR referred to below. The GDSs offered in reliance on Regulation S (the "International GDSs") will be evidenced by a Master International GDR referred to below. Except where DTC ceases to make its book-entry settlement system available for the GDSs, separate definitive global depositary receipts will not be issued in exchange for beneficial interests in the Master Rule 144A GDR or the Master International GDR. See "Description of the Global Depositary Shares."
Use of Proceeds	The net proceeds to be received by us from this offering and the subscription by our employees and designated domestic investors in the concurrent offering of Common Shares to our employees, assuming that such subscription is not further increased or decreased and is fully paid for although there can be no assurance of this, after deducting underwriting discounts and commissions and other transaction expenses (including but not limited to legal and accounting advisory fees, roadshow related expenses and printing fees), will be approximately US$391.7 million. Pursuant to the regulatory approvals for this offering, we intend to use the net proceeds to enhance the capital position of Shin Kong Life.
Listing	Application has been made to admit the International GDSs to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the International Order Book of the London Stock Exchange. A filing will be made to list the newly issued Common Shares represented by the GDSs on the TSE.
Lock-up	Subject to the exceptions discussed below, we, each of our directors, supervisors and executive officers, and certain of our major shareholders,

with the exception of one director that, as of June 30, 2009, beneficially owned approximately 5.85% of our issued shares (each, a "locked-up person"), have agreed for a 90-day period following the date of the purchase agreement relating to this offering, without the prior written consent of the representatives of the initial purchasers, not to, directly or indirectly: (1) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, make any short sale, grant or agree to grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Shares, GDSs or securities convertible into or exercisable or exchangeable for or represent the right to receive Common Shares or GDSs, except for pledges of Common Shares existing as of June 30, 2009 and, subject to certain conditions, pledges of additional Common Shares required under applicable loan agreements as a result of declines in market value of such existing pledges: or (2) enter into any swap or other arrangement, or transfers to another, in whole or in part, any of the economic consequences of ownership of Common Shares or GDSs, whether any such transaction described in clauses (1) or (2) above is to be settled by delivery of Common Shares, GDSs or such other securities, in cash or otherwise or offer to or agree to do any of the foregoing or announce any intention to do so. In addition, such locked-up person (other than us) have agreed to procure its associates and the companies controlled by it and any nominee or trustee holding in trust for it to abide by the same restrictions described in clauses (1) and (2) above. The restrictions described in clauses (1) and (2) above shall not apply to: (1) this offering or sale of the GDSs by us, (2) transactions relating to Common Shares or other securities acquired in open market transactions after the completion of this offering, (3) the issuance, sale or transfer by us of Common Shares or options to purchase Common Shares pursuant to any of our employee stock option plans or employee share purchase plans in existence before this offering, (4) the distribution of share dividends or employee bonus shares by us after this offering and (5) the issuance by us of any Common Shares upon the conversion, exercise or exchange of a security outstanding on the date of the purchase agreement. In addition, the restrictions described in clauses (1) and (2) above shall not prohibit us from conducting the Rights Issuance.

Trading Market for Our Common Shares and the GDSs

The only trading market for our Common Shares is the TSE. Our Common Shares have been listed on the TSE since February 19, 2002 under the stock code "2888." Prior to this offering, there has been no market for the GDSs in or outside Taiwan.

Transfer Restrictions

Neither the GDSs nor the Common Shares have been registered under the Securities Act, and those securities are subject to restrictions on transfer. See "Transfer Restrictions."

Voting Rights

Subject to ROC law, the terms of the Common Shares and the provisions of the applicable Deposit Agreement, you will be entitled to instruct the depositary on how to vote the Common Shares underlying your GDSs. However, in the absence of instructions to vote in the same manner from the holders of at least 51% of our GDSs outstanding at the relevant time, the

	holders of our GDSs shall be deemed to have instructed the depositary to authorize and appoint the chairman of our board of directors (or such person as the chairman of our board of directors may nominate) as the proxy of the depositary to vote all the underlying Common Shares represented by the GDSs in any manner such person wishes. See "Description of the Global Depositary Shares — Voting Rights."
Withdrawal of Common Shares	Subject to the provisions of the applicable deposit agreement, you may surrender GDSs for the purpose of withdrawal of the underlying Common Shares or interests in the underlying certificates of payment at any time after the depositary receives notice that those Common Shares or interests are approved for listing on the TSE. We expect to receive that approval and notify the depositary on the same day on which the GDSs are delivered to you. Interests in the certificates of payment, without physical certificates and maintained in the book entry settlement system, carry the same rights as those attaching to the Common Shares in respect of dividends and are eligible for trading on the TSE in the same manner as Common Shares. Delivery of the irrevocable right to receive the underlying withdrawn Common Shares, evidenced by the individual certificates of payment will only be made by the custodian through the book-entry system maintained by Taiwan Depository & Clearing Corporation ("TDCC"). Under ROC market practice, that delivery will not be possible until two ROC business days after those Common Shares or interests in the underlying certificates of payment are listed on the TSE. Listing normally occurs on the ROC trading day following approval of that listing. Subject to these restrictions, we expect that you will be able to withdraw interests in Common Shares underlying surrendered GDSs from the fourth ROC business day after the closing date of this offering. See "Description of the Global Depositary Shares — Deposit and Withdrawal" and "Appendix A: Foreign Investment and Exchange Controls in the ROC — Depositary Receipts."
Additional Deposit of Shares and Issuance of Additional GDSs	Under current ROC law, no deposits of Common Shares may be made in the depositary receipt facility, and no GDSs may be issued after the closing of the offering against such deposits, without specific approval of the FSC, except for the offering and the issuance of additional GDSs in connection with (i) dividends on, or free distributions of, Common Shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of capital increases for cash, (iii) subject in each case to receipt of all applicable approvals in the ROC, to the extent we issue securities convertible for GDSs as approved by the FSC, the conversion of such securities into GDSs, or (iv) to the extent previously issued GDSs have been canceled and as permitted under the Deposit Agreements, the deposit of Common Shares owned or purchased directly by a person or through the depositary on the TSE for the deposit in the deposit receipt facility, but such that the total number of GDSs outstanding after an issuance described in this clause (iv) does not exceed the number of GDSs issued and previously approved by the FSC in connection with this offering plus any GDSs created under clauses (i),

(ii) and (iii) described above, and (v) upon the exchange of Rule 144A GDSs for International GDSs and vice versa, subject to any adjustment to the number of shares represented by each GDS.

Dividends	The interests in certificates of payment representing Common Shares and Common Shares represented by GDSs will rank *pari passu* with other outstanding Common Shares in respect of dividends. Cash dividends will be paid to the depositary in NT dollars. The Deposit Agreements provide that, except in certain circumstances, cash dividends received by the depositary will be converted by the depositary into U.S. dollars and distributed to the holders of the GDSs, less ROC withholding tax, other governmental charges and the depositary's fees and expenses. See "Dividends and Dividend Policy" and "Description of the Global Depositary Shares — Share Dividends and Other Distributions."
ROC Taxation	Dividends (whether in cash or Common Shares) distributed by us out of retained earnings and distributed to non-ROC holders in respect of Common Shares represented by GDSs are subject to ROC withholding tax. The current rate of withholding tax for non-ROC holders is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the Common Shares (in the case of stock dividends). Distributions of Common Shares declared by us out of capital surplus are not subject to ROC tax. Under ROC law, capital gains derived from sales of Common Shares are exempt from income tax. Capital gains derived from sales of GDSs are not subject to ROC income tax. The depositary is subject to either a securities transaction tax on the gross amount received upon sale of statutory subscription rights in a rights offering for cash, if such subscription rights are evidenced by securities, or a ROC withholding tax on the gains realized, if such subscription rights are not evidenced by securities. Holders of GDSs are responsible for such taxes and any fees, costs and expenses in connection therewith under the Deposit Agreements. See "Taxation — ROC Taxation."
Exchange Controls	Under existing ROC laws and regulations relating to foreign exchange controls, the depositary is not required to obtain foreign exchange approval from the CBC for the conversion into foreign currencies of (i) the proceeds received from the sale of Common Shares received as stock dividends in respect of such Common Shares and deposited into the depositary receipt facilities, or (ii) any cash dividends or cash distribution relating to the Common Shares. However, the depositary must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies in respect of the sale of subscription rights for new Common Shares. See "Appendix A: Foreign Investment and Exchange Controls in the ROC — Depositary Receipts."
Settlement	We have applied to DTC for acceptance of the GDSs being offered in its book-entry settlement system. The GDSs will be evidenced by a Master Rule 144A GDR or a Master International GDR, as applicable, in each case

	to be registered in the name of DTC or its nominee. Your interests in the book-entry GDSs will be represented by book-entry positions maintained through financial institutions acting on your behalf as direct and indirect participants in DTC. DTC settlement practices apply to the GDSs held in DTC. The International GDSs have been accepted for clearance and settlement through Euroclear and Clearstream, as participants in DTC, in each case on a book-entry basis. Transfers within DTC, Euroclear and Clearstream will be in accordance with the rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold GDSs through DTC and investors who hold or who will hold GDSs through Euroclear or Clearstream will be effected in DTC through the respective depositaries of Euroclear and Clearstream. See "Description of the Global Depositary Shares — Registered Holders and Book-Entry System."
Depositary	Citibank, N.A.
Custodian	Citibank, N.A. (Taipei Branch).
Governing Law	The Deposit Agreements and the GDSs will be governed by, and construed in accordance with, the laws of the State of New York.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following summary consolidated financial and other related data for Shin Kong FHC and the Shin Kong Companies should be read in conjunction with the financial statements of such entities included elsewhere in this offering memorandum and the sections entitled "Selected Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Each of Shin Kong FHC and the Shin Kong Companies prepares its financial statements using ROC GAAP, and such financial statements are not intended to present their financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the United States. The summary financial information for Shin Kong FHC and the Shin Kong Companies have been derived from their respective financial statements without material adjustment, which financial statements have been prepared and presented in accordance with reporting requirements of the "Regulations Governing the Preparation of Financial Statements of Issuers of Securities" and other applicable ROC laws and regulations and in accordance with ROC GAAP. Solely for your convenience, some of these summary data are presented in a different format from the financial statements. Neither such data nor the format in which they are presented should be viewed as comparable to information prepared in accordance with U.S. GAAP or generally accepted accounting principles elsewhere. The financial information set forth below is qualified by reference to, and should be read in conjunction with, the financial statements and related notes thereto.

Summary Consolidated Financial and Other Data Relating to Shin Kong FHC

The following table sets forth the summary consolidated financial and other data for Shin Kong FHC as of and for the years ended December 31, 2006, 2007 and 2008 and as of and for the three months ended March 31, 2008 and 2009.

Please see the financial statements of Shin Kong FHC included elsewhere in this offering memorandum, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong FHC" for more information concerning the financial results of Shin Kong FHC.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Interest income	NT$ 46,706	NT$ 51,045	NT$ 53,691	US$ 1,585	NT$ 13,284	NT$ 12,287	US$ 363
Interest expense	(4,996)	(6,154)	(7,578)	(224)	(1,788)	(1,295)	(38)
Net interest income	41,710	44,891	46,113	1,361	11,496	10,992	325
Premium income	149,421	150,284	152,323	4,497	31,664	41,227	1,217
Incomes on insurance products — separate account	42,254	107,465	145,493	4,296	45,377	19,990	590
Insurance payments	(66,731)	(90,528)	(94,758)	(2,798)	(18,259)	(14,863)	(439)
Disbursements on insurance products — separate account	(42,254)	(107,465)	(145,493)	(4,296)	(45,377)	(19,990)	(590)
Processing fee and commission income	4,386	5,400	9,064	268	3,022	1,249	37
Processing fee and commission expense	(7,868)	(8,743)	(5,892)	(174)	(1,829)	(1,322)	(39)
Total net income and gains	137,619	107,254	86,403	2,551	17,673	40,380	1,192
Bad debt expenses	(11,094)	(1,914)	(1,756)	(52)	(580)	(646)	(19)
(Provision of) recovered insurance reserve	(99,303)	(76,836)	(87,685)	(2,589)	(19,671)	(34,759)	(1,026)
Total operating expenses	(22,782)	(23,551)	(24,599)	(726)	(6,889)	(5,288)	(156)
Continuing operations' income (loss) before tax	4,440	4,953	(27,637)	(816)	(9,467)	(313)	(9)
Consolidated net income (loss)	6,045	5,086	(22,228)	(656)	(6,847)	(498)	(15)
Basic EPS (before tax)	1.11	0.93	(4.84)	(0.14)	(1.81)	(0.08)	(0.002)
Basic EPS (after tax)	1.21	0.96	(3.80)	(0.11)	(1.30)	(0.10)	(0.003)
Diluted EPS (before tax)	0.92	0.87	—	—	—	—	—
Diluted EPS (after tax)	1.09	0.89	—	—	—	—	—

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Balance sheet data:							
Loans	NT$ 406,582	NT$ 459,743	NT$ 471,295	US$13,915	NT$ 462,825	NT$ 462,505	US$13,655
Available-for-sale financial assets	153,199	156,338	363,925	10,745	161,228	298,579	8,815
Held-to-maturity investments	222,722	219,612	9,849	291	218,410	9,858	291
Debt securities without active market	306,901	311,641	340,169	10,043	295,743	385,144	11,371
Total assets	1,492,328	1,688,114	1,740,173	51,378	1,751,593	1,763,250	52,059
Deposits and remittances	281,779	313,544	327,637	9,673	322,272	336,023	9,921
Total liabilities	1,401,481	1,588,001	1,683,979	49,719	1,650,327	1,707,214	50,405
Total shareholders' equity	90,847	100,113	56,194	1,659	101,266	56,036	1,654
Other data:							
Book value per share(1)	18.84	16.81	7.16	0.21	15.9	7.1	0.21
Return on average assets	0.43%	0.32%	(1.30)%	(1.30)%	(1.59)%	(0.11)%	(0.11)%
Return on average equity(2)	7.60%	5.33%	(28.44)%	(28.44)%	(27.20)%	(3.55)%	(3.55)%
Shareholders' equity/ total assets	0.06%	0.06%	0.03%	0.03%	0.06%	0.03%	0.03%
Share data:							
Shares issued	46,996	50,254	62,542	62,542	53,939	62,469	62,469
Period end number of outstanding shares	4,690	4,991	6,216	6,216	5,355	6,216	6,216
Weighted average number of outstanding shares	4,878	5,202	5,536	5,536	5,259	6,216	6,216

(1) Defined as shareholders' equity divided by number of outstanding shares — actual.
(2) Calculated using the average year-end equity balances for the preceding and the current fiscal years.

Summary Financial and Other Data Relating to Shin Kong Life

The selected financial information has been derived from Shin Kong Life's audited consolidated statements of operations for the years ended December 31, 2006, 2007 and 2008 and its audited consolidated balance sheets as of December 31, 2006, 2007 and 2008 included elsewhere in this offering memorandum. These financial statements have been audited by Deloitte & Touche, independent auditors. The following selected unaudited unconsolidated financial information as of and for the three months ended March 31, 2008 and 2009 has been derived from Shin Kong Life's unaudited unconsolidated financial statements for the same period included elsewhere in this offering memorandum. Shin Kong Life has prepared the unaudited interim unconsolidated financial statements on the same basis as its audited unconsolidated financial statements. The unaudited interim unconsolidated financial statements include all adjustments, consisting of normal and recurring adjustments, which Shin Kong Life considers necessary for a fair presentation of its financial position and operating results for the periods presented. These unaudited interim financial statements have been reviewed by Deloitte & Touche, independent auditors. You should read the following selected financial information together with Shin Kong Life's financial statements included elsewhere in this offering memorandum and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong Life." The selected unconsolidated financial information for Shin Kong Life for the three months ended March 31, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any period thereafter.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Premium income	NT$ 149,421	NT$ 150,311	NT$ 152,347	US$ 4,498	NT$ 31,667	NT$ 41,230	US$ 1,217
Total operating income	305,448	388,951	439,648	12,980	118,297	99,034	2,924
Total operating costs	(278,894)	(366,296)	(445,007)	(13,139)	(121,051)	(96,764)	(2,857)
Total operating expenses	(15,895)	(15,870)	(15,004)	(443)	(4,438)	(3,099)	(92)
Operating income (loss)	10,659	6,785	(20,363)	(601)	(7,191)	(829)	(24)
Operating income (loss) before tax	11,172	2,807	(25,602)	(756)	(10,344)	(891)	(26)
Net income (loss)	11,784	2,428	(19,743)	(583)	(7,603)	(1,031)	(30)
Basic EPS (before tax)	5.69	0.79	(7.10)	(0.22)	(3.12)	(0.21)	(0.006)
Basic EPS (after tax)	5.46	0.69	(5.48)	(0.17)	(2.30)	(0.25)	(0.007)
Diluted EPS (before tax)	3.65	—	—	—	—	—	—
Diluted EPS (after tax)	3.50	—	—	—	—	—	—
Balance sheet data:							
Total loans	173,656	183,125	190,996	5,639	186,218	187,088	5,524
Fund and investments	629,012	621,930	639,456	18,880	610,652	648,804	19,156
Total assets	1,117,547	1,229,375	1,301,423	38,424	1,266,003	1,331,708	39,318
Total liabilities	1,047,573	1,169,287	1,276,572	37,690	1,212,698	1,307,733	38,610
Total shareholders' equity	69,974	60,088	24,851	734	53,305	23,975	708
Other data:							
Book value per share(1)	20.28	17.28	5.94	0.18	15.15	5.73	0.17
Return on average assets	1.13%	0.21%	(1.56)%	(1.56)%	(0.61)%	(0.08)%	(0.08)%
Return on average equity(2)	18.94	3.72%	(46.49)%	(46.49)%	(13.42)%	(4.23)%	(4.23)%
Shareholders' equity/total assets	6.26%	4.89%	1.91%	1.91%	4.21%	1.80%	1.80%
Persistency ratio — 13 month	89.8%	86.9%	88.5%	88.5%	87.5%	85.6%	85.6%
Risk-based capital ratio	404.54%	304.02%	227.39%	227.39%	—	—	—

(1) Defined as shareholders' equity divided by number of outstanding shares — actual.
(2) Calculated using the average year-end equity balances for the preceding and the current fiscal years.

Summary Financial and Other Data Relating to Shin Kong Bank

The selected financial information has been derived from Shin Kong Bank's audited consolidated statements of operations for the years ended December 31, 2006, 2007 and 2008 and its audited consolidated balance sheets as of December 31, 2006, 2007 and 2008 included elsewhere in this offering memorandum. These financial statements have been audited by Deloitte & Touche, independent auditors. The following selected unaudited unconsolidated financial information as of and for the three months ended March 31, 2008 and 2009 has been derived from Shin Kong Bank's unaudited unconsolidated financial statements for the same period included elsewhere in this offering memorandum. Shin Kong Bank has prepared the unaudited interim unconsolidated financial statements on the same basis as its audited unconsolidated financial statements. The unaudited interim unconsolidated financial statements include all adjustments, consisting of normal and recurring adjustments, which Shin Kong Bank considers necessary for a fair presentation of its financial position and operating results for the periods presented. These unaudited interim financial statements have been reviewed by Deloitte & Touche, independent auditors. You should read the following selected financial information together with Shin Kong Bank's financial statements included elsewhere in this offering memorandum and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong Bank." The selected unconsolidated financial information for Shin Kong Bank for the three months ended March 31, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any period thereafter.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Interest revenue	NT$ 7,051	NT$ 6,364	NT$ 6,239	US$ 184	NT$ 1,560	NT$ 1,006	US$ 30
Service fees	1,526	1,908	1,579	47	353	285	8
Gain (loss) on securities	470	(392)	(369)	(11)	252	581	17
Other net non-interest (loss) income	(943)	1,370	149	4	388	112	3
Net revenue	8,104	9,250	7,598	224	2,553	1,984	59
Bad debt expense	(9,753)	(1,861)	(1,930)	(57)	(499)	(541)	(16)
Operating expenses	(6,070)	(5,882)	(5,404)	(160)	(1,400)	(1,253)	(37)
Net (loss) income	(7,276)	1,423	227	7	607	172	5
Basic EPS (before tax)	(5.50)	0.75	0.11	0.0034	0.33	0.10	0.0030
Basic EPS (after tax)	(5.16)	0.73	0.12	0.0037	0.31	0.09	0.0027
Balance sheet data:							
Notes discounted and loans, net	232,926	276,618	280,299	8,276	275,922	275,341	8,129
Total assets	352,465	386,796	403,574	11,915	397,998	395,342	11,672
Deposits and remittances	286,746	325,764	356,027	10,512	335,217	354,618	10,470
Total liabilities	332,565	365,571	382,969	11,307	375,871	374,542	11,058
Total shareholders' equity	19,900	21,225	20,605	608	22,127	20,800	614
Other data:							
Net interest margin(1)	2.38%	1.92%	1.69%	1.69%	1.73%	1.12%	1.12%
Gains (loss) on securities/net non-interest (loss) income	44.63%	(13.58)%	(27.15)%	(27.15)%	25.38%	59.41%	59.41%
Net non-interest income/net revenue(2)	12.99%	31.20%	17.89%	17.89%	38.90%	49.29%	49.29%
Bad debt expense/net revenue	74.90%	63.59%	71.12%	71.12%	54.84%	63.16%	63.16%
Return on average equity(3)	(36.64)%	6.92%	1.08%	1.08%	2.80%	0.83%	0.83%
Return on average assets(4)	(2.11)%	0.39%	0.06%	0.06%	0.15%	0.04%	0.04%
NPL ratio(5)	1.70%	1.85%	1.87%	1.87%	1.89%	1.91%	1.91%
Coverage ratio(6)	84.12%	56.38%	66.42%	66.42%	63.94%	63.70%	63.70%
Capital adequacy ratio(7)	12.52%	10.72%	10.57%	10.57%	11.51%	10.88%	10.88%

(1) Calculated using average daily balances of interest earning assets; ratio annualized.
(2) Net non-interest income includes service fees, gains on securities and other non-interest income.
(3) Calculated by dividing net income for the period by the average ending shareholders' equity balances for the preceding and the current fiscal years.
(4) Calculated by dividing net income for the period by the average ending total assets balances for the preceding and the current fiscal years.
(5) Calculated by dividing non-performing loans by gross loans.
(6) Calculated by dividing total loan loss reserves by total amount of non-performing loans.
(7) Determined in accordance with the requirements of the FSC.

RISK FACTORS

An investment in our GDSs involves significant risks. You should carefully consider the risks described below and the other information in this offering memorandum, including our consolidated financial statements and related notes, before you decide to buy our GDSs. If any of the following risks actually occur, our business, prospects, financial condition and results of operations could be materially affected, the trading price of our GDSs could decline and you could lose all or part of your investment. In particular, purchasers of our GDSs should pay particular attention to the fact that we are governed in the ROC by a legal and regulatory environment that in some material respects may differ from that which prevails in other countries, including the United States.

RISKS RELATING TO SHIN KONG FHC AND THE SHIN KONG COMPANIES

Risks Relating to Shin Kong FHC and the Shin Kong Companies Generally

Credit risk exposes us to losses caused by financial or other problems experienced by third parties.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include trading counterparties, customers, clearing agents, exchanges, clearing houses and other financial intermediaries, as well as issuers whose securities we hold. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from:

- holding securities of third parties;
- entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments;
- executing securities, futures, currency or commodity trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and
- extending credit through margin loans or other arrangements.
- No assurances can be given that these arrangements will not have an adverse effect on our results of operations and financial condition.

Interest rate volatility could significantly affect our financial condition and results of operations.

A significant portion of our assets consists of, and a significant portion of our revenue is derived from, assets that are monetary in nature. We are therefore subject to significant risk from changes in interest rates. Our financial performance may be negatively affected by changes in interest rates.

Shin Kong Life. Shin Kong Life's insurance policies and fixed annuities generally carry the risk that changes in interest rates may reduce its "spread," or the difference between (i) the amount of investment return it is able to earn on its general account investments to support the obligations it is required to pay under its products and (ii) the actual amount it is required to pay under these products. A decline in spread from these or other products could have a material adverse effect on our life insurance operations.

Market interest rates in Taiwan have gradually decreased since the second half of 2008. In periods of declining interest rates, Shin Kong Life's average investment yield will decline as maturing investments, as well as bonds and loans that are redeemed or prepaid to take advantage of the lower interest rate environment, are replaced with new lower yielding investments. In particular, as Shin Kong Life's life insurance policies tend to have a longer duration than its investments, and because its life insurance premiums are calculated based on a fixed assumed investment yield, lower interest rates tend to reduce the yield on its investment portfolio while obligations on its outstanding policies remain unchanged, thereby reducing its profitability. A decline in market interest rates available on investments could also reduce returns from investments of capital that do not support particular policy obligations. In addition, certain of Shin Kong Life's insurance and investment products guarantee a minimum credited interest rate, and Shin Kong Life may become unable to earn its spread income should interest rates decrease significantly. As a result, during this period of declining interest rates, investment yields earned with respect to a significant portion of Shin Kong Life's outstanding life insurance policies fell below the assumed guaranteed interest rates used in its premium calculations, and in some cases below the guaranteed rates of return set forth in its policies.

In periods of increasing interest rates, while the increased investment yields will result in increased returns on Shin Kong Life's investment portfolio, surrenders of policies may increase as policyholders seek investments with higher perceived returns. A rise in interest rates could also result in a decrease in the market value of its fixed-income investments. In addition, in periods of rising interest rates, Shin Kong Life may not be able to replace assets in its general accounts with higher yielding assets needed to fund higher interest rates, which are in turn necessary to keep its life insurance and fixed annuity products competitive. As a result, it may have to accept a lower spread and thus lower profitability or face a decline in sales and loss of existing contracts and related assets.

Shin Kong Bank. Shin Kong Bank's profitability is dependent to a large extent on its net interest income. Changes in market interest rates, changes in relationships between short-term and long-term market interest rates, or changes in the relationships between different interest rate indices can affect the interest rate charged on interest-earning assets differently than the interest rate paid on interest-bearing liabilities. Shin Kong Bank may experience decreases or increases in net interest income in a decreasing interest rate environment.

Loan prepayments generally accelerate as interest rates fall. Prepayments in a declining interest rate environment will reduce Shin Kong Bank's net interest income and adversely affect its earnings because the income it receives on its reinvested funds would generally be lower.

Shin Kong Securities and MasterLink. Net interest income accounted for 8.9% and 11.9% of Shin Kong Securities' and MasterLink's total operating income, respectively, for the three months ended March 31, 2009. Net interest income is the difference between interest income on interest-earning assets, such as margin loans and fixed income securities, and interest expense on interest-bearing liabilities, such as bonds payable and bonds sold under agreements to repurchase. Fluctuations in interest rates are not predictable or controllable.

If a significant change in interest rates were to occur, Shin Kong Securities and MasterLink could suffer significant declines in net interest income, which could have an adverse effect on the earnings of Shin Kong Securities and MasterLink.

All of our businesses are highly regulated and we may be adversely affected by future regulatory changes.

Each of our principal business activities in insurance, banking and securities brokerage is highly regulated by various ROC governmental agencies, and particularly the FSC (which includes the Insurance Bureau, the Securities and Futures Bureau, the Banking Bureau, and the Financial Examination Bureau) and the CBC, as well as numerous other agencies. See "Regulation of the Taiwan Financial Services Industry." Compliance with all of the regulations that our businesses will continue to be subject to places a burden on our activities. In addition, these regulations may change from time to time and we cannot assure you that future legislative or regulatory changes, including deregulation, will not materially and adversely affect our businesses, financial performance and other results. Failure to comply with any of the laws, rules and regulations to which we are subject could result in fines, suspension or expulsion, which could have an adverse effect upon us. Additionally, deregulation could subject us to increased competitive pressures, which could have an adverse effect upon us.

Our cross-selling activities may be unsuccessful, in part due to the regulatory environment.

We intend to enhance our group synergies by further expanding cross-selling efforts among our operating subsidiaries. However, the regulations governing cross-selling allow us to use only a portion of the information we have available about our customers. Except for certain basic information, we are not allowed to use that information for cross-selling purposes unless our customers consent to such use. The vagueness of the regulations allows for a high level of discretion on the part of the regulators empowered to review our cross-selling activities. If we are deemed to violate any cross-selling regulations, we may be required to halt our cross-selling activities, which may have an adverse effect on our businesses and revenues.

We, Shin Kong Life and Shin Kong Bank have experienced ratings downgrades recently and may experience additional future downgrades in ratings. A downgrade in financial strength, claims-paying or credit ratings could limit our or their ability to market products, increase the number or value of policies being surrendered, increase borrowing costs and/or hurt our or their relationships with creditors or trading counterparties.

Our ratings, which are intended to measure our ability to meet our obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The interest rates we pay on our borrowings are largely dependent on our credit ratings.

Shin Kong FHC. In April 2009, Taiwan Ratings Corporation downgraded the long-term rating of Shin Kong FHC to "twA+." In addition, S&P downgraded the long-term rating of Shin Kong FHC to "BBB-." Downgrading of our credit ratings may be attributable to events that are beyond our control. A downgrade, or the potential for such a downgrade, of our ratings would potentially limit our ability to raise capital or conduct the businesses of our subsidiaries and would reduce our profitability. Downgrading of our credit ratings would also increase our cost of borrowing and reduce our profitability.

Shin Kong Life. Two important measures of financial strength that customers consider are an insurer's ratings by credit rating agencies and its solvency margin ratio. In April 2009, Taiwan Ratings Corporation downgraded the long-term rating of Shin Kong Life to "twAA-." In addition, S&P downgraded the long-term rating of Shin Kong Life to "BBB." A ratings downgrade, or the potential for such a downgrade, of Shin Kong Life or a significant reduction in its solvency margin ratio could, among other things, increase the number of policy surrenders, adversely affect Shin Kong Life's relationships with sales agents and other distributors of its products and services, and negatively impact new sales.

Shin Kong Bank. In April 2009, Taiwan Ratings Corporation downgraded the long-term rating of Shin Kong Bank to "twAA-." In addition, S&P downgraded the long-term rating of Shin Kong Bank to "BBB." A downgrade, or the potential for such a downgrade, of the rating of Shin Kong Bank could limit the ability to market products, increase borrowing costs and/or hurt relationships with creditors or trading counterparties. Downgrading of its credit ratings would also potentially limit its abilities to raise capital or conduct the businesses of its subsidiaries.

As a result of the recent difficulties experienced by many financial institutions, including insurance companies, rating organizations have heightened the level of scrutiny that they apply to such institutions, increased the frequency and scope of their credit reviews, requested additional information from the companies that they rate, and adjusted upward the capital and other requirements employed in the rating organization models for maintenance of certain ratings levels. It is possible that the outcome of such reviews of our company or our subsidiaries will have additional adverse ratings consequences, which could have a material adverse effect on our results of operations and financial condition.

All of our businesses operate in highly competitive markets, and we may be unable to compete successfully.

All of our businesses operate in highly competitive markets. Some of our competitors are better capitalized and have access to cheaper sources of funds. Some of our competitors are foreign, and in some cases, are able to provide products that we, as a domestic financial services company, cannot provide. We compete across all our businesses on the basis of price, product, compensation, geographic location and service.

Specifically, Shin Kong FHC faces competition from the 14 other financial holding companies approved to operate in Taiwan, overseas financial holding companies and monoline financial service providers. Although we are the seventh largest financial holding company in Taiwan as measured by total assets, some of our competitors are more integrated and experienced and have stronger business lines than we do, in each case making it difficult for us to compete with them on price, product range or product channeling.

Shin Kong Life. As of March 31, 2009, there were 30 life insurance companies in Taiwan. The Taiwan life insurance market can be segmented into three categories: incumbent firms, including Shin Kong Life, which were licensed prior to 1992, foreign companies that entered the market after 1987 and domestic insurers that were licensed after 1993. Unlike the Taiwan banking market, where the incumbent, state controlled banks and the new, privately owned firms compete for different segments of the market, all life insurance companies in Taiwan largely compete in the same market. While certain business practices may differ, our competitors have significant overlap in the range of products and services offered. The life insurance industry is also extremely concentrated, with the top four insurers accounting for approximately 52.6% of the industry's premiums in 2008. If Shin Kong Life is unable to compete successfully, its results of operations and financial condition would be materially and adversely affected.

Shin Kong Bank. As of March 31, 2009, there were 37 domestic commercial banks and 27 credit co-operatives operating in Taiwan. Shin Kong Bank competes principally with other commercial banks in the ROC as well as government-owned banks, specialized banks, and branches of foreign banks operating in Taiwan. Historically, the banking industry was largely dominated by government-owned banks. Following a change in the political environment in 1988, the ROC government initiated a deregulation and privatization program, and from 1990 to 1992, granted 16 new banking licenses to encourage competition in the private sector. Since then, the new banks have gained market share at the expense of government-owned banks. Branches of foreign banks also compete for market share. In April 2009, the five largest banks in Taiwan accounted for 39.9% of Taiwan's bank deposits. If Shin Kong Bank is unable to compete successfully, its results of operations and financial condition would be materially and adversely affected.

Shin Kong Securities and MasterLink. As of March 31, 2009, there were 50 full service securities firms and 39 stand-alone brokerage firms in Taiwan. Many of these securities firms are larger, have broader customer bases and more diversified product offerings than Shin Kong Securities and MasterLink. In addition, customers of brokerage services in Taiwan routinely maintain accounts at more than one firm. As a result, all aspects of Shin Kong Securities' and MasterLink's business are intensely competitive. Shin Kong Securities and MasterLink have also been affected by the entry of new and non-traditional competitors such as commercial banks and Internet broker-dealers. Shin Kong Securities and MasterLink compete for clients and talent in every aspect of their businesses. If Shin Kong Securities and MasterLink are unable to compete successfully, their results of operations and financial conditions would be materially adversely affected.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses or result in losses.

Our policies and procedures to identify, monitor and manage risks may not be fully effective. In particular, the Shin Kong Companies' hedging strategies and other risk management techniques may not be fully effective in mitigating their risk exposure in all market environments or against all types of risks, including risks that are unidentified or unanticipated. Many of their methods of managing risks and exposures are based upon the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to the Shin Kong Companies, which may not always be accurate, complete, up-to-date or properly evaluated. We plan to continue to implement enhanced risk management procedures for all our credit exposures, including credit evaluation and rating methodologies, credit risk pricing models and risk monitoring and control mechanisms, and to constantly monitor the ratings changes of our investments. However, management of operational, legal or regulatory risks requires, among other things, policies and procedures to record properly and verify on a timely basis a large number of transactions and events, and we cannot assure you that these policies and procedures are fully effective.

All of our businesses rely on data processing systems, the failure of which could materially affect these businesses.

All of our businesses — insurance, banking and securities — are highly dependent on the ability to timely process a large number of transactions across numerous and diverse markets and products, at a time when transaction processes have become increasingly complex and are increasing in volume. The proper functioning of financial control, accounting or other data processing systems is critical to our businesses and to our ability to compete effectively. Shin Kong FHC and the Shin Kong Companies maintain backup data centers or offsite communication networks that can be used in the event of catastrophe, failures of the primary systems or coordinated attack. There can be no assurance, however, that in the event of a partial or complete failure of any of primary systems, these backup systems would perform as planned and significant businesses of Shin Kong FHC and the Shin Kong Companies could be materially adversely affected, our reputation could suffer and our financial and other results could be materially and adversely affected.

Agent and employee misconduct is difficult to detect and deter and could harm our business, reputation, results of operations or financial condition.

Agent and employee misconduct could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm. Employee misconduct can occur in each of our businesses and could include:

- engaging in misrepresentation or fraudulent activities when marketing or selling insurance policies or annuities contracts to customers;
- failing to report or remit customer's payment of insurance premium in cash or cash equivalents;
- binding us to a transaction that exceeds authorized limits;
- hiding unauthorized or unsuccessful activities resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- recommending transactions that are not suitable;
- engaging in fraudulent or otherwise improper activity;
- engaging in unauthorized or excessive trading to the detriment of customers; and/or
- otherwise not complying with laws or our control procedures.

Shin Kong FHC or the Shin Kong Companies could be held in violation of civil and criminal law, or liable for damages, should a similar event occur. For example, as a result of statements made by a few of our sales agents, in March 2009, we were fined NT$2.4 million and were prohibited from selling investment-linked products for a period of three months starting from March 2009 by the FSC for misrepresentations when we marketed and sold certain investment-linked insurance policies. In addition, in April 2009, we were fined NT$7.2 million by the FSC for non-compliance with the ROC Insurance Act.

We cannot always deter employee misconduct, and the precautions we take to prevent and detect these activities may not be effective in all cases. We cannot assure you that employee misconduct and the resulting sanctions from the authorities will not lead to a material and adverse effect on our business, reputation, results of operations or financial condition.

ROC legal requirements and contractual obligations, including restrictions on beneficial ownership, could delay, deter or prevent a takeover attempt. An investor may not acquire beneficial ownership of significant amounts or our Common Shares without regulatory approval.

ROC regulatory and other restrictions may delay a potential merger or sale of Shin Kong FHC, even if Shin Kong FHC's board of directors decides that it is in the best interests of shareholders to merge or sell Shin Kong FHC. These restrictions may also delay sales or acquisitions of our subsidiaries and include the calling of special meetings by shareholders. In addition, under the ROC Financial Holding Company Act, any person wishing to hold more than 10%, 25% or 50% of the equity interest in a financial holding company must apply to the FSC for approval. The voting rights of the portions exceeding the above percentages will be restricted if such approval is not obtained. A shareholder holding more than 10% of a financial holding company must meet the fit and proper requirements promulgated by the FSC. See "Regulation of the Taiwan Financial Services Industry" and "Description of Share Capital."

Our ability to service our debt and pay dividends depends on dividends and other distributions from our subsidiaries, which are subject to regulatory and other limits.

We are a holding company, conduct no significant business operations on our own and expect to depend upon dividends and other distributions from our subsidiaries for almost all of our revenues. We currently conduct almost all of our operations through our subsidiaries. Most of our assets are held by, and almost all of our earnings and cash flows are attributable to, such subsidiaries. Our liquidity, ability to pay interest and expenses and meet obligations, and ability to pay cash dividends on our shares are dependent upon our ability to obtain a flow of funds from those subsidiaries. There can be no assurance that these subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to meet our obligations, pay interest and expenses or declare dividends.

Certain of our operating subsidiaries have a history of paying dividends in the past. Nevertheless, it is uncertain whether dividends will be paid to Shin Kong FHC from time to time, or at all. Whether or not dividends will be paid depends on various business considerations and regulatory limits. We are required by the ROC Financial Holding Company Act to provide support to Shin Kong Life, Shin Kong Bank and Shin Kong Securities if (i) their capital adequacy ratio falls below statutorily required levels or (ii) their business or financial condition deteriorates and therefore they cannot pay their debts or the interests of their depositors may be affected, which could in certain instances limit our ability to pay dividends. Generally, Taiwan corporations are required to set aside 10.0% of their annual income, less prior years' losses, if any, and applicable income tax, as a legal reserve. As a result, Taiwanese corporations may generally only declare up to 90.0% of their current earnings in any year as dividends to their shareholders. In addition, Taiwanese corporations have to set aside a special reserve from retained earnings equal to the net reduction of shareholders' equity as of the end of the previous year resulting from adjustments such as cumulative translation adjustments and unrealized loss on long-term investments. Further, our subsidiaries are governed by banking, insurance, brokerage and other regulations which further restrict their ability to pay dividends, including the following: (a) Shin Kong Life is restricted from paying a dividend unless (1) all losses from previous years have been covered, (2) a legal reserve of 20% has been appropriated and (3) a special reserve has been appropriated; (b) Shin Kong Bank is restricted from paying a dividend unless (1) it has established, for the current year, a legal reserve of 30% of its net income for the previous year, (2) the cash dividend portion of such dividend does not exceed 15% of its paid-in capital unless the legal reserve is 100% or more of its paid-in capital and (3) it maintains a capital adequacy ratio of at least 8%; and (c) Shin Kong Securities is restricted from paying a dividend unless it has paid taxes, offset accumulated losses and provided 10% of its net income as legal reserve and 20% of its net income as special reserve; provided, however, where existing legal reserve or special reserve exceeds paid-in capital, Shin Kong Securities is not required to provide a further reserve. There can be no assurance that dividends will be paid to us or that we will make any dividend payments on our Common Shares.

Our ability to service our debts and pay dividends may be further subject to restrictions under indentures and loan covenants under loan agreements governing, in each case, indebtedness we may incur. In addition, our subsidiaries may incur substantial indebtedness to third parties, the terms of which may restrict our ability to obtain funds from the applicable subsidiaries. For more details, see "Regulation of the Taiwan Financial Services Industry" and "Description of Share Capital — Dividends and Distributions."

We may need to raise additional capital in particular to increase the risk-based capital ratio of Shin Kong Life, and failure to comply with risk-based capital ratio requirements may result in regulatory actions by the FSC.

Pursuant to the ROC Insurance Act and Regulations Governing Capital Adequacy of Insurance Enterprises (together, the "Regulations"), the FSC introduced a risk-based capital standard on July 9, 2003 as a way to measure the financial soundness of life insurance companies and to provide for better policyholder protection under a system of prompt corrective action. The statutory risk-based capital standard is measured by the amount of capital an insurance company has to support the degree of risk associated with its operations and investments. Under the Regulations, different asset categories are assigned different weights in accordance with the amount of risk associated with the asset. The Regulations further provide that, among other risks, the risks for a life insurance company include (1) asset risks, (2) insurance risks, and (3) interest risks.

In October and November of 2008, FSC amended its rules on risk-based capital for insurance companies, in view of the global financial crisis and its impact on the domestic insurance market. The amendment lifted restrictions on the calculation of total adjusted net capital, which expanded funding channels available to insurance companies and reduced the pressure to raise additional capital when they suffer an investment loss. Shin Kong Life's risk-based capital ratio, after taking into account the policy changes, was 227.39% on December 31, 2008, which is greater than the minimum threshold. However, the amendment is only in effect until December 31, 2009, and we cannot assure you that FSC will extend such amendment and not revert to the previous formulae. In addition, if we cannot raise additional capital by the end of 2009 and the risk-based capital ratio of Shin Kong Life falls below the minimum threshold of 200%, the FSC may take certain actions, which range from increased information disclosure requirements to mandatory control of the company by the domiciliary insurance department.

We expect that the proceeds from the offering of the GDSs, the concurrent offering of Common Shares to our employees and the Rights Issue will be no less than NT$18 billion. In addition, to the extent that such proceeds do not meet our expectations and as otherwise necessary to strengthen our capital position or comply with regulatory requirements, we will dispose of additional real estate assets. However, there can be no assurance we will be able to raise such amount of additional capital. For example, subscribers of the offering of GDSs in the ROC Subscription may not pay for the full amount of subscribed number of GDSs or at all, or we may not be able to conduct the Rights Issuance or disposal of our real estate assets on favorable terms or at all. If we do not raise sufficient additional capital, our business condition could be adversely affected. In particular, if we cannot raise additional capital by the end of 2009 and the risk-based capital ratio of Shin Kong Life falls below the minimum threshold of 200%, the FSC may take certain actions, which range from increased information disclosure requirements to mandatory control of the company by the domiciliary insurance department.

We have substantial leverage, which could adversely affect our financial position and ability to service debt.

We issued unsecured bonds in Taiwan with an aggregate principal amount of NT$5.0 billion in May 2008, unsecured subordinated bonds in Taiwan with an aggregate principal amount of NT$4.7 billion in September 2008, and zero coupon convertible bonds due 2010 with an aggregate principal amount of US$250 million in December 2005.

We may incur additional indebtedness from time to time to finance acquisitions or capital expenditures or for other purposes. Our ability to pay interest on our outstanding bonds, and to satisfy our other debt obligations, will depend upon factors such as:

- our future operating performance, the operating performance of our subsidiaries and the amount of dividends we receive from our subsidiaries; and

- our ability to enter into new debt facilities or otherwise refinance our existing obligations as new business needs emerge.

These factors will be affected by prevailing economic conditions and financial, business and other matters, certain of which are beyond our control. If we are unable to service our indebtedness we will be forced to adopt an alternative strategy that may include reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking additional equity capital. There can be no assurance that any such strategy could be effected on satisfactory terms, if at all.

As long as we have a substantial amount of debt, the consequences on our business could, among other things:

- require us to dedicate a substantial portion of our income to payment of our existing debt, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate requirements;

- limit our ability to take advantage of significant new business opportunities;

- make it more difficult for us to satisfy our payment obligations if market or operational conditions deteriorate;

- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

We may not be able to attract and retain a sufficient number of highly skilled personnel.

Most aspects of our business are dependent on highly skilled individuals. We devote considerable resources to recruiting, training and compensating these individuals. Most of our employees, however, are not subject to long-term employment contracts or non-compete agreements. Individuals employed in our various businesses may choose to leave at any time to pursue other opportunities, and may seek to divert customer relationships that they have developed. Further, expansion of our operations will require us to retain our present personnel and attract additional qualified personnel. Our business could suffer if we lose the services of any of our highly skilled personnel and cannot adequately replace them.

The Wu family and Dai-ichi could exercise substantial control over us.

Our large shareholders include a number of holding companies, investment companies and other entities that are affiliated with the Wu family. These shareholders, which may be expected to act together, beneficially owned or controlled greater than 20.0% of our issued shares as of April 21, 2009, the most recent record date. In addition, except for the three independent directors, 11 of our 12 directors are appointed by four companies and three foundations that are affiliated with the Wu family, and, therefore, could give the Wu family the ability to control our affairs and operations through the actions of the board of directors. Furthermore, Dai-ichi owns 14.9% of our issued shares as of April 21, 2009.

As long as the Wu family and Dai-ichi continue to beneficially own a significant portion of our Common Shares, they could jointly or severally have substantial or controlling influence over our affairs and operation. The interests of the Wu family and Dai-ichi in deciding matters to be voted upon at our shareholders' meetings, and the factors that they consider in reaching those decisions, could be different from your interests.

Decisions made by senior management with respect to related party transactions may not be considered by shareholders to be in their best interests.

We have engaged from time to time in a variety of transactions with our affiliates. Our policy on transactions with affiliates is that such transactions are conducted on terms at least as favorable to us as could be obtainable by us in a comparable arm's length transaction with a person other than an affiliate. We believe that all transactions entered into with our affiliates have benefited us, reduced our operating costs and improved our financial performance. We may enter into additional transactions with any of our other affiliates in the future. No assurance can be given as to the terms of such transactions or that all of our transactions will benefit shareholders. See "Major Transactions with Related Parties."

Changes in relationships with or performance of strategic partners could harm our operations.

We have entered into a number of alliances with other companies to promote our business. These alliances include the following:

- Shin Kong Life established a 50/50 joint venture together with Hainan Airlines Group, a leading aviation conglomerate in the PRC, to market life insurance products developed for the fast growing life insurance market in the PRC;

- Shin Kong Life has formed a business alliance with Dai-ichi, the third largest life insurance group in Japan, to develop and design innovative life insurance products, to increase sales of group insurance products, and to share experiences in asset and liability management. Shin Kong Life also reinsures a portion of its risks through Dai-ichi and entrusts US$100 million to DIAM International Ltd., a joint venture of Dai-ichi, for management and investment; and

- Shin Kong Life has formed a business alliance with MasterLink, our 26.3% owned subsidiary, for sales of Shin Kong Life's insurance products.

Our ability to realize the benefits we seek from our business alliances is subject to a number of risks, including:

- the business objective of our strategic partners may change in a way that makes these alliances unattractive to them;

- our strategic partners may no longer perceive us as an attractive alliance partner;

- our strategic partners may perform poorly, or fail to perform at all, under our business alliances due to financial difficulties or other reasons outside of our control; and

- our strategic partners may suffer reputational damage as a result of misconduct or other reasons.

Because of these risks, we could face difficulty in implementing our business strategies, which could have a material and adverse effect on our financial condition and results of operations.

We may be unsuccessful in selling Shin Kong Securities to MasterLink.

In April 2009, in order to consolidate our securities brokerage services, Shin Kong Securities entered into a sale agreement to transfer its brokerage business and properties to MasterLink, our 26.3% owned and consolidated subsidiary. The transaction is expected to be completed in the fourth quarter of 2009. Consummation of the sale is subject to approvals from governmental authorities and certain other customary conditions. Therefore, we cannot assure you that the transaction will be completed as planned.

We may be unsuccessful in completing future acquisitions.

We may acquire companies in the financial services industries that can benefit from our competitive strengths and enhance our competitive advantages. Our ability to grow by acquisition is dependent upon, and may be limited by, the availability of suitable acquisition candidates, our ability to negotiate acceptable acquisition terms and our assessment of the characteristics of potential acquisition targets such as:

- financial condition and results of operations;
- attractiveness of products and services;
- suitability of distribution channels;
- management ability; and
- the degree to which the acquired operations can be integrated with our operations.

In addition, the completion of these acquisitions is subject to a number of risks, including the following:

- access to capital once the proceeds of this offering have been used;
- restrictions contained in our debt instruments; and
- the uncertainty of the legal environment relating to mergers and acquisitions.

Lastly, growth by acquisitions involves risks that could have a material and adverse effect on our results of operations, including difficulties in integrating the operations, hidden asset quality problems, personnel of the acquired companies, diversion of management attention from the operation of the existing businesses and the potential loss of key personnel and customers of acquired companies. We cannot assure you that we will be able to identify suitable acquisition candidates, complete the acquisitions on satisfactory terms or, if any such acquisitions are consummated, satisfactorily integrate acquired businesses.

Risks Relating to Our Life Insurance Operations

Our internally calculated embedded value and value of one year of new business are based on a variety of assumptions, including management's subjective beliefs, and should not be deemed to directly reflect our actual value or the value of our Common Shares.

On May 19, 2009, Shin Kong Life issued a press release disclosing that it had, for internal purposes, calculated its embedded value as of December 31, 2008 to be approximately NT$80.7 billion, and that its value of one year of new business was approximately NT$10.7 billion. The principal assumptions used to calculate the embedded value and the value of one year of new business included an investment return of 4.7% and a risk discount rate of 9.5%. The embedded value of a life insurance company reflects the value of the insurance business on its books and in force as of the date of the valuation. The value of one year of new business reflects the value added to an insurance company by the business sold in the most recent 12 months. As such, it is a measure of the profitability of the insurance company's current products, and its ability to sell and distribute these products effectively. For the purpose of the calculation of the value of one year of new business, Shin Kong Life's new business from January to December 2008 was used.

Shin Kong Life's embedded value and value of one year of new business were based on, among other things, a number of assumptions made by Shin Kong Life's management. These assumptions, which are inherently subjective in nature, include those with respect to industry performance, general business and economic conditions, investment return, discount rate, growth in new policies and other matters, many of which are beyond Shin Kong Life's control. As a result, Shin Kong Life's actual future experience may vary materially from that assumed in the calculations.

Furthermore, since our actual market value is determined by investors based on a variety of information available to them, and since Shin Kong Life is only one of our subsidiaries, Shin Kong Life's embedded value and value of one year of new business should not be deemed to be a direct reflection of our actual market value, and should not be construed to have any correlation with the price of our Common Shares. In addition, we may release updated embedded value calculations in the future. We cannot be sure whether the updated calculations will result in embedded value higher or lower than those reported in the announcement. The inclusion of Shin Kong Life's embedded value and value of one year of new business in this offering memorandum should not be regarded as a representation by us, the initial purchasers or any other person of Shin Kong Life's actual value or future profitability. For these reasons, you should only consider Shin Kong Life's embedded value and value of one year of new business after carefully evaluating all of the risks described in this offering memorandum, including the other risks described in this section of the offering memorandum.

The difference between actual claims experience and underwriting and reserve assumptions may require increased reserves.

The reserves established by Shin Kong Life for future life insurance and annuity policy benefits are based upon several assumptions and are further determined by formulae promulgated or approved by the FSC based on the FSC's analysis of industry-wide historical loss information.

The earnings of Shin Kong Life therefore depend on the extent to which its actual claims experiences are consistent with the assumptions used in setting the prices of its products and establishing the reserves for its obligations for future policy benefits and claims. Shin Kong Life's actual claims may differ materially from past experience. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such reserve liabilities, Shin Kong Life could be required to augment its reserves or incur a charge to earnings that in turn could have material adverse effects on our life insurance operations. If Shin Kong Life's provision for future policy benefits or claims proves inadequate, its future earnings may be adversely affected. In addition, any changes in regulatory guidelines or standards with respect to the required level of policy reserves may require that we establish policy reserves based on more stringent estimates or actuarial calculations. Such events could result in a need to increase provisions for policy reserves, which may have a significant adverse effect on our financial condition and results of operations.

Shin Kong Life may not be able to continue to grow rapidly in the Taiwan life insurance market.

Shin Kong Life is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. As of March 31, 2009, Shin Kong Life had approximately three million life insurance customers, excluding group insurance customers. As the Taiwan market for life insurance is relatively mature, future growth in our life insurance business will depend to a large extent on persuading our competitors' customers to switch to Shin Kong Life and selling additional products to our existing customer base. Shin Kong Life presently focuses on these goals by marketing through our extensive sales network throughout Taiwan and devising new products in responding to industry trends and customer demands. As the average age of the Taiwanese population increases, we anticipate that the needs for medical and long-term health insurance will continue to grow. To address the market demand, Shin Kong Life introduced several new medical and health insurance products in 2009. We cannot assure you, however, that Shin Kong Life's initiatives will be successful. If Shin Kong Life is not able to continue to grow its insurance revenues, its operations may suffer.

Shin Kong Life may incur significant losses on its guaranteed rate products.

A significant portion of Shin Kong Life's life insurance products provides guaranteed rates of return to policyholders. This exposes Shin Kong Life to the risk that changes in interest rates will reduce its interest rate spread. Since the assumed mortality and morbidity rates and administrative expenses used in calculating the premiums for Shin Kong Life's life insurance products are estimated conservatively and are more stable, the difference between actual and assumed mortality and morbidity rates and administrative expenses experience has, in the past, generally offset any shortfall in interest rates. If the shortfall is substantial, however, lower mortality and morbidity rates and administrative expenses may not be able to cover the shortfall, and the policies in question may result in a net loss. If Shin Kong Life is unable to earn a sufficient rate of return to cover the obligations under its guaranteed rate products, its profitability will be materially and adversely affected.

Shin Kong Life's lending business could be significantly affected by its asset quality and the ability of borrowers to repay their loans.

Shin Kong Life is a significant lender, particularly in the residential real estate market. As such, a significant portion of Shin Kong Life's loan portfolio consists of residential mortgage loans that are subject to non-payment risk. The risk of non-payment is affected by credit risks of a particular borrower, changes in economic and industry conditions, the duration of the loan and the value of the collateral. As of March 31, 2009, approximately 1.4% of Shin Kong Life's secured loans were classified as non-performing loans, or NPLs, in accordance with ROC bank regulations. This percentage could increase in future periods. The majority of NPLs are not collected in full and Shin Kong Life must write off a significant percentage of these loans.

There is no precise method of predicting loan losses. We cannot assure you that Shin Kong Life's allowance for loan and credit losses is or will be sufficient to absorb its actual losses. Any significant increase in Shin Kong Life's NPLs would likely have a material adverse effect on its financial condition and results of operations and may also impact its risk-based capital ratio.

A default by one or more of Shin Kong Life's reinsurers may reduce its profitability and adversely affect our life insurance operations.

Like other major insurance companies, Shin Kong Life transfers some of the risk it assumes under the insurance policies it underwrites to reinsurance companies in exchange for a portion of the premiums it receives in connection with the underwriting of these policies. Although reinsurance makes the reinsurer liable to Shin Kong Life for the risk transferred, it does not discharge Shin Kong Life's liability to its policyholders. As a result, Shin Kong Life is exposed to credit risk with respect to the reinsurers to whom it transfers risk. A default by one or more of its reinsurers under its existing reinsurance arrangements would increase its financial losses arising out of a risk it had insured, which would reduce its profitability and may adversely affect its liquidity position.

If Shin Kong Life is not able to obtain reinsurance on a timely basis or at all, it may be required to bear increased risks or reduce the level of its underwriting commitments.

Shin Kong Life's ability to obtain reinsurance on a timely basis and at a reasonable cost is subject to a number of factors, including prevailing market conditions, which are beyond its control. The availability and cost of reinsurance may affect the volume of its business as well as its profitability. Shin Kong Life may be unable to maintain its current reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at favorable rates. If it is unable to renew its expiring coverage or to obtain new reinsurance coverage, either its net risk exposure would increase or, if it is unwilling to bear an increase in net risk exposure, its overall underwriting capacity and the amount of risk it is able to underwrite would decrease, and its profitability would be adversely affected.

Risks Relating to Our Investments

Our investment portfolio is exposed to a number of market risks.

The performance of our investments will materially affect our financial condition and results of operations. Innovation, fluctuations in interest rates and changes in the investment environment can affect market prices and the income from our investments. No assurance can be given that our strategy of investing in a higher proportion of fixed-income securities and foreign currency denominated securities will continue, or that such investments will not result in capital losses (especially in a rising interest rate environment), which would materially and adversely affect our financial condition and results of operations.

A majority of our consolidated assets are held through Shin Kong Life. As of March 31, 2009, approximately 4.5% of Shin Kong Life's total cash and invested assets were invested in ROC equity securities, a majority of which were in common shares of companies that are listed on the TSE. The Taiwan securities market is smaller and more volatile than the securities markets in the United States and in certain European countries. Of Shin Kong Life's investments in ROC equity securities, 26.6% were in securities of financial services and insurance companies. As a result, we are particularly susceptible to events which adversely impact the securities of these companies.

We have increased the percentage of our invested assets that consist of foreign bonds and securities denominated in foreign currencies. As of March 31, 2009, approximately 36.9% of Shin Kong Life's invested assets consisted of such foreign investments. These investments are therefore subject to risks that foreign currencies will fluctuate in a manner that is adverse to us, as well to risks associated with the relevant foreign countries in which the bonds are issued or in whose currencies the securities are denominated.

Difficult conditions in the global credit and financial markets could adversely affect our results of operations and financial condition.

During the second half of 2007 and continuing through 2008 and 2009, the credit markets and sub-prime residential mortgage market in the United States experienced substantial deterioration, liquidity disruptions, and market corrections that in turn have affected the worldwide financial markets. Market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets, such as those for leveraged finance, collateralized debt obligations, or CDOs, and other structured products. As a result, Shin Kong Life recognized impairment losses of approximately NT$4.4 billion in 2008 and impairment losses of approximately NT$93 million in the three months ended March 31, 2009 with respect to its holdings of CDOs. In addition, in the three months ended March 31, 2009, Shin Kong Life recognized a loss of NT$1.0 billion from the sale of one commercial mortgage-backed security, or CMBS, CDO and a loss of NT$0.3 billion from the sale of one asset-backed security, or ABS, CDO. While Shin Kong Life has recorded losses representing 21.6% of the book value of its CDO portfolio from January 1, 2008 to March 31, 2009 and is continuing to deploy hedging strategies and other activities to manage its investment portfolio, continued adverse conditions in the U.S. mortgage and global credit markets could result in additional losses. Therefore, there can be no assurance that the underlying collateral of these investments will not perform worse than current market expectations, which may lead to adverse changes in the cash flows on Shin Kong Life's holdings of CDOs and additional impairments losses in Shin Kong Life's investment portfolio.

In addition, the current conditions in the global credit and financial markets have exerted significant downward pressure on prices of equity securities and virtually all other asset classes and have resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. These market conditions have affected and may continue to affect our results of operations and investment portfolio since we are exposed to significant financial and capital markets risks.

Our investment activities expose us to exchange rate risks.

In June 2008, Shin Kong Life obtained approval from the FSC to increase its portfolio of investments denominated in foreign currency to 40.0% of its total cash and invested assets. As of March 31, 2009, on a consolidated basis, foreign investments comprised approximately 36.9% of our total cash and invested assets. Income from foreign currency-denominated investments is subject to volatility caused by, among other things, changes in foreign currency exchange rates. To reduce the currency exposures for our foreign investments, we hedge most of these investments through foreign currency swaps and forward currency contracts to offset losses on our foreign investments resulting from foreign exchange fluctuations. Our costs of hedging increase with the difference between spot and forward rates caused by the interest differential between Taiwan and the country of the currency being hedged.

In addition, we may employ hedging instruments with less than complete hedging effectiveness from time to time. Any weakening of a foreign currency in which our investments are denominated would reduce the value of our investments in that foreign currency. We cannot assure you that our financial condition and results of operations would not be materially affected by the effect of exchange rate fluctuations on our foreign currency-denominated investments.

A decline in the real estate market may result in losses or decreased profitability.

Declines in real estate values could have a material adverse impact on the results of our operations and financial condition. As of March 31, 2009, 3.3% of our total cash and invested assets consisted of loans secured by real estate and 6.8% consisted of real estate investments. Further, consumer mortgage loans accounted for approximately 37.2% of Shin Kong Life's total loan portfolio. In a declining real estate market, we may experience increasing loan delinquencies and higher NPL ratios. The real property securing NPLs may also decrease in value, and as a result we may not be able to recover the full amount of the loans extended.

Applicable ROC regulations may limit our ability to diversify our investment portfolio.

Pursuant to the ROC Insurance Law, investments by insurance companies are restricted to deposits, certain securities, real estate, lending, special projects and public investments with the approval of the relevant regulatory authorities, certain types of foreign investments, insurance-related businesses, derivatives transactions for hedging purposes with the approval of the relevant regulatory authorities and other investments with the approval of the relevant regulatory authorities. Shin Kong Life's inability to more broadly diversify its investment portfolio exposes us to a significant level of risk associated with these types of investments. In particular, a decrease in the value of any of these types of investments may have a material and adverse effect on our financial condition and results of operations.

Risks Relating to Shin Kong Bank

Shin Kong Bank's large and concentrated positions in its credit portfolio may expose it to large losses.

As of March 31, 2009, Shin Kong Bank's ten largest credit exposures to single borrowers accounted for outstanding credits totaling NT$27.5 billion, representing 9.2% of its total outstanding credits as of that date. In addition, its largest single borrower as of March 31, 2009 accounted for outstanding credits of NT$6.9 billion. Concentration of risk in particular industries, for example, construction and electronics, and borrowers may result in significant credit losses. If loans to large borrowers become non-performing, the quality of Shin Kong Bank's loan portfolio would be adversely affected.

Shin Kong Bank may experience a decline in collateral values or be unable to realize collateral value.

A substantial portion of Shin Kong Bank's loans are secured by real estate or securities, the values of which may fluctuate or decline due to factors such as developments affecting the Taiwan economy. While Shin Kong Bank's general policy with respect to its secured lending has been to lend between 50% and 80% of the market or appraised value of collateral, downturns in the ROC real estate and securities markets have resulted in periodic declines in the value of collateral securing a number of loans to levels below the outstanding principal balance of such loans. See "Description of Assets and Liabilities of Shin Kong Bank — Credit Exposure — Secured Loans." Shin Kong Bank regularly and vigorously assesses the value of collateral, security and guarantees and in certain instances requests borrowers to provide additional collateral or to make loan repayments. Shin Kong Bank has tightened the loan-to-value ratio for mortgage loan products, as well as implemented a conservative internal appraisal process for collateral, and leveraged talent from the investment department of the life insurance business. In addition, Shin Kong Bank has actively monitored the profitability of its loan portfolio and regularly engaged its customers to replace their unprofitable loans. Despite these measures, portions of its outstanding secured loans may be under-collateralized at any given time. A future decline in the value of its collateral or its inability to obtain additional collateral may require Shin Kong Bank to take additional loan loss provisions.

In the ROC, foreclosure on collateral generally requires a written petition to a court. Foreclosure procedures may be subject to lengthy delays and administrative requirements that may result in lower levels of recovery on collateral compared to its value. In addition, other factors such as defects in the perfection of Shin Kong Bank's security interests and fraudulent transfers by borrowers may hinder its ability to recover on collateral. Accordingly, there can be no assurance that Shin Kong Bank will be able to realize the full value of its collateral.

Shin Kong Bank's results of operations are significantly affected by the ability of its borrowers to repay their loans and the adequacy of its allowance for loan losses.

Lending money is an essential part of the banking business. Borrowers do not always repay their loans. The risk of non-payment is affected by credit risks of a particular borrower, changes in economic and industry conditions, the duration of the loan and, in the case of a collateralized loan, uncertainties as to the future value of the collateral. As of March 31, 2009, 1.9% of the gross loans of Shin Kong Bank were classified as NPLs. See "Description of Assets and Liabilities of Shin Kong Bank — Asset Quality — Non-Performing Loans."

There is no precise method of predicting loan and credit losses. Therefore, we cannot assure you that Shin Kong Bank's allowance for credit losses is or will be sufficient to absorb actual losses. An increase in Shin Kong Bank's NPLs would have an adverse effect on its financial condition, results of operations and total capital adequacy ratio.

Restructured loans may become non-performing due to the way Shin Kong Bank has structured loan interest payments.

In the restructuring of a number of Shin Kong Bank's loans, in some cases under government mandated restructuring programs, Shin Kong Bank has agreed with borrowers to set interest payments at a relatively low rate for a certain period followed by larger payments of interest in later periods, or to delay the payments of principal. The relatively low interest and principal repayments in an early period increase the likelihood that a restructured loan will be categorized as performing during such period. However, future payments may cause the loan to become non-performing if the borrower is unable to make larger payments in later periods. For the three months ended March 31, 2009, Shin Kong Bank had a total of NT$1.7 billion in restructured loans. If a significant number of its customers are unable to pay higher interest payments for these restructured loans or the ROC government requires Shin Kong Bank to restructure loans for weakened borrowers, a large number of restructured loans may become non-performing, thereby requiring additional provisions and capital and having an adverse effect on Shin Kong Bank's financial condition and results of operations.

Guidelines for loan classification and provisioning in Taiwan may be less stringent than those in other countries.

The local practice in Taiwan with respect to loan classification and provisioning, in certain circumstances, may be less stringent than those applicable to banks in the United States and other countries. This may result in particular loans being classified in a category reflecting a lower degree of risk than in those other countries. Also, the amount of Shin Kong Bank's non-performing loans, as well as Shin Kong Bank's reserves, may be lower than would be reported if Shin Kong Bank were located in those other countries. See "Description of Assets and Liabilities of Shin Kong Bank — Asset Quality — Loan Classifications."

Our commercial banking operations are subject to delinquencies in credit card loans and credit card fraud.

As of March 31, 2009, Shin Kong Bank had a total of 0.4 million active credit cards, and revolving credit card debt accounted for approximately 3.1% of its consumer loans outstanding. In recent years, consumer debt has increased rapidly in Taiwan and has resulted in increases in the amount and rate of delinquencies. As of March 31, 2009, Shin Kong Bank had an aggregate 90-day delinquency rate of 2.1% for credit card receivables, and for the three months ended March 31, 2009, the bank recorded aggregate charge-offs of NT$144 million related to credit cards.

Any widespread occurrence of credit card fraud may have a material and adverse effect on our commercial banking operations. Banks in Taiwan have encountered an increase in the occurrence of credit card fraud as a result of certain organized criminal activities involving credit card forgery. Shin Kong Bank has not experienced any significant losses to credit card fraud in the past three years. Although Shin Kong Bank has implemented anti-fraud measures which we believe to be effective, we cannot assure you that these measures will continue to be effective in the prevention of future credit card forgery.

Our commercial banking operations may be materially and adversely affected if Shin Kong Bank is unable to attract sufficient deposits to fund its loan activities.

Most of the short-term funding requirements of Shin Kong Bank are met through short-term funding, principally in the form of deposits, including customer deposits and inter-bank deposits. As of March 31, 2009, approximately 85.6% of the combined deposits (including settlement deposits) of Shin Kong Bank had current maturities of one year or less or were payable on demand. In the past, a substantial portion of these deposits has been rolled over upon maturity, and over time these deposits have been a stable source of funding for its businesses. We cannot assure you, however, that this practice will continue. If a substantial portion of depositors do not roll over deposited funds upon maturity, liquidity of Shin Kong Bank could be materially and adversely affected, and more expensive sources of short-term or long-term funding may be required to finance our commercial banking operations.

Shin Kong Bank may experience difficulty in identifying and making suitable investments.

Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of such investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Although Shin Kong Bank strives to select attractive investment targets based on its internal risk management and regulatory requirements, no assurances can be given that Shin Kong Bank will be able to identify suitable investments either at all or in a sufficient number to enable investment of its funds at the desired level.

Amendment to the ROC Civil Code to limit the interest rates banks charge for outstanding loans may have a material adverse impact on our results of operations.

On March 19, 2009, the Legislative Yuan of the ROC passed the first reading of an amendment to Article 205 of the ROC Civil Code to limit the interest rates banks charge for outstanding loans, such as debt incurred on credit cards and cash cards, at the interest rate for accommodation without collateral charged by the CBC, which currently stands at 3.5%, plus a markup of 9% per annum. We cannot predict whether the Legislative Yuan will eventually adopt the amendment, and if so, what the terms and provisions of such amendment might ultimately be. Such amendment of the ROC Civil Code, if enacted, may limit the interest rates we charge our customers on outstanding loans, which may have a material adverse effect on our results of operations.

Local financial market lacks advanced risk management instruments.

As the Taiwan financial market lacks more advanced risk management instruments, active balance sheet management is difficult, and Shin Kong Bank can only change its pricing strategies and reshape its portfolios gradually in response to market conditions. To the extent that this lack of advanced risk management instruments in the local market hinders Shin Kong Bank in managing its risks, its results of operations may be adversely affected.

Risks Relating to Shin Kong Securities and MasterLink

Shin Kong Securities' and MasterLink's principal business activities are subject to volatility, which may have an adverse effect on their business.

Shin Kong Securities' and MasterLink's principal business activities — securities brokerage, securities trading and underwriting — are, by their nature, subject to volatility, primarily due to fluctuations in volumes and price levels of securities transactions generally, which, in turn, are affected by many national and international economic and political factors that cannot be predicted, including broad trends in business and finance, legislation and regulation affecting the Taiwan and international business and financial communities, currency values, market conditions and the level and volatility of interest rates. As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, Shin Kong Securities' and MasterLink's commission revenue are adversely affected and margin account balances may be reduced, particularly if accompanied by a decrease in securities prices. In such circumstances, because certain expenses remain relatively fixed, levels of profitability would be adversely affected.

Sudden sharp declines in market values of securities and the failure of issuers and counterparties to perform their obligations can result in illiquid markets. In such markets, Shin Kong Securities and MasterLink may not be able to sell securities and may have difficulty in hedging its securities positions. Such markets, if prolonged, may also lower Shin Kong Securities' and MasterLink's revenues because investors may respond to such market conditions by withdrawing entirely from the securities markets or investing in money market funds.

Unfavorable financial or economic conditions would likely reduce the number and size of transactions in which Shin Kong Securities and MasterLink provides underwriting and other related services. Shin Kong Securities' and MasterLink's underwriting commissions are directly related to the number and size of transactions in which it participates and would therefore be adversely affected by a sustained market downturn.

The value of the unsubscribed portion of securities in Shin Kong Securities' and MasterLink's underwriting portfolio is subject to market performance.

Shin Kong Securities and MasterLink are required under ROC law to take on underwriting obligations as principal, whereby the underwritten securities are entered directly to the accounts of Shin Kong Securities and MasterLink. These securities constitute a portion of Shin Kong Securities' assets until the securities are successfully sold to third-party investors. The ability of Shin Kong Securities and MasterLink to sell the underwritten securities is contingent on a number of factors, including the overall economic climate, the successful marketing of the securities and the reception by investors of the offered securities. Any unsubscribed or unsold securities remain on Shin Kong Securities' and MasterLink's own books and are consequently subject to the fluctuations of the stock exchanges on which they are listed. In the event of a decline in the market value of such securities, the book value of Shin Kong Securities' holdings — which are marked to market on a daily basis — will decline, with potentially adverse effects on its capital base and financial condition. We cannot assure you regarding either the stability of the capital markets on which Shin Kong Securities and MasterLink assist issuers to list securities or the ability of Shin Kong Securities and MasterLink to sell in full the issuances of securities they underwrite. If an issuance remains less than fully subscribed and if there is a precipitous drop in the market price of such securities, Shin Kong Securities' and MasterLink's financial conditions, profitability and abilities to conduct business could be adversely affected.

Shin Kong Securities and MasterLink have significant fixed expenses that may adversely affect their levels of profitability in periods when the volume of securities transactions is low.

In connection with their branch networks, their information processing systems, and other aspects of their businesses, Shin Kong Securities and MasterLink incur substantial expenses that do not vary directly with fluctuations in securities transaction volumes and revenues. In the event of a material reduction in revenues, Shin Kong Securities and MasterLink may be unable to reduce these expenses quickly and, as a result, Shin Kong Securities and MasterLink could experience reduced profitability or losses.

RISKS RELATING TO TAIWAN

Economic developments in Taiwan have a significant impact on the business of each of the Shin Kong Companies.

We are incorporated in Taiwan, and substantially all of our assets are located in, and revenues will continue to be derived from operations in, Taiwan. Accordingly, our financial condition and results of operations and the market price of the Common Shares and our GDSs may be affected by changes in ROC governmental policies, taxation, inflation, interest rates, social instability and other political, economic, diplomatic or social developments in or affecting Taiwan which are outside of our control. The currencies of many Eastern Asian countries, including Taiwan, have experienced considerable volatility and depreciation. The CBC has, from time to time, intervened to minimize the fluctuation of the US dollar/NT dollar exchange rate and to prevent significant decline in NT dollar value with respect to the US dollar.

A significant depreciation of the NT dollar could have a material and adverse effect on the performance of Taiwan's economy and industries including the financial industries the

Shin Kong Companies compete in, demands for which generally rise as the overall level of economic activity increases and fall as such activity decreases. Additionally, because the FSC requires that no more than 40% of Shin Kong Life's investment are made outside of Taiwan, a weakened economy in Taiwan can also negatively affect its investment returns. As a result, there can be no assurance that, if the value of the NT dollar depreciates significantly, such depreciation will not have an adverse effect on the financial condition or results of operations of Shin Kong FHC and the Shin Kong Companies.

Disruptions in the ROC's political environment could seriously harm our business.

Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The People's Republic of China claims that it is the sole government of China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, political relations have often been strained. The PRC government has refused to renounce the use of military force to gain control over Taiwan. Furthermore, the PRC government passed an Anti-Secession Law in March 2005, which authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Ties between Taiwan and China have improved rapidly since Taiwan President Ma Ying-jeou took office in May 2008, pledging to set aside longstanding political disputes and enhance exchanges. However, past developments in relations between Taiwan and the PRC have on occasion depressed the market prices of the securities of companies in Taiwan. Relations between Taiwan and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially and adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

The value of our GDSs and Common Shares may be adversely affected by the volatility of the Taiwan securities market.

The Taiwan securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The TSE has experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements on the TSE. From time to time, the ROC regulatory agencies have intervened in the Taiwan stock market during periods of extreme volatility. In the past decade, the TSE Weighted Index peaked at 10,393.59 in February 2000, and reached a low of 3,411.68 in September 2001. In 2008, the TSE Weighted Index ranged from a high of 9,295.20 on May 19, 2008 to a low of 4,089.93 on November 20, 2008. In 2009 through July 22, 2009, the TSE Weighted Index peaked at 6,985.32 on July 22, 2009 and reached a low of 4,242.61 on January 20, 2009. Similarly, the price of our Common Shares has experienced significant volatility. In addition, in the past, the TSE has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of Taiwan companies, including our Common Shares and GDSs. For more information, see "Market Price Information" and "Appendix B — The Securities Markets of the ROC."

Financial reporting requirements and accounting standards in the ROC differ from those of other countries, which may be material to investors' assessment of our results, prospects, financial condition and results of operations.

We are subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries including the United

States. In addition, our financial statements are prepared in accordance with ROC GAAP, which differ in certain material respects from U.S. GAAP. See "Summary of Material Differences between ROC GAAP and U.S. GAAP." Potential investors should consult their own professional advisers for an understanding of such differences and how they might affect the financial information contained herein.

Changes in estate and gift tax and income tax law could make some of Shin Kong Life's products less attractive to consumers and the amendment of the ROC Income Tax Law may affect our tax exemptions.

Changes in estate and gift tax and personal income tax law in Taiwan may reduce the attractiveness of certain of Shin Kong Life's products, hinder its sales and result in the increased surrender of insurance products. In addition, starting on January 1, 2010, offshore income of individuals will also be subject to alternative minimum tax ("ATM"). We cannot predict the overall effect on the sales of Shin Kong Life's products of any tax law changes.

According to the amendment of the ROC Income Tax Law, which was promulgated on May 27, 2009 and will become effective as of January 1, 2010, enterprise income tax rate will be reduced from 25% to 20%. We have recalculated deferred tax assets and liabilities according to the amendment and recorded the resulting differences as an one-off income tax expense in the second quarter of 2009. Such change may affect the tax benefits we enjoy on our deferred income tax assets. While we are unable to determine the future impact of the new enterprise income tax rate on our business operations, as such impact depends on our future financial condition, any such impact may be adverse to our financial condition.

Taiwan is susceptible to natural disasters that could disrupt the normal operations of our business and adversely affect earnings.

Almost all of our operations, and the majority of operations of our customers, are located in Taiwan, which is susceptible to earthquakes. On September 21 and October 22, 1999 and June 11, 2000, Taiwan experienced severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. These earthquakes also caused damage to manufacturing facilities and adversely affected the operations of many companies. Although we have not experienced significant structural damage to our facilities due to earthquakes, there can be no assurance that future earthquakes will not occur and result in major damages to our facilities, which could have a materially adverse effect on our results of operations and financial condition.

Taiwan is also susceptible to typhoons, which may cause damage and business interruption to companies with facilities located in Taiwan. In 2001, Taiwan experienced severe damage from typhoons, including a typhoon on September 10 that caused over 100 deaths, severe flooding and extensive damage to properties and businesses. Although we have not experienced any material damage or business interruption from typhoons in Taiwan, there can be no assurance that we will not suffer damage or business interruption due to typhoons, or that our results of operations or financial condition will not be adversely affected as a result.

You may not be able to enforce a judgment of a foreign court in the ROC.

We are a company limited by shares and incorporated under the ROC Company Law. Substantially all of our directors, executive officers and supervisors are residents of the

ROC, and substantially all of the assets of our company and such persons are located in the ROC. As a result, it may be difficult for investors to enforce judgments obtained outside the ROC against us or such persons in the ROC, including those predicated upon the civil liability provisions of the federal securities laws of the United States. Any final judgment obtained against us in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the GDSs or our Common Shares would be enforceable in the courts of the ROC without review of the merits, provided that the court of the ROC in which the enforcement is sought is satisfied that:

- the foreign court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;

- the judgment and the court procedures resulting in the judgment are not contrary to the public order or good morals of the ROC;

- if the judgment was rendered by default by the court rendering the judgment, (i) we were duly served within a reasonable period of time within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction, or (ii) process was served on us with judicial assistance of the ROC; and

- judgments of the courts of the ROC are recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the CBC for the remittance out of the ROC of any amounts recovered in respect of such judgment denominated in a currency other than NT dollars.

We face risks related to health epidemics and other outbreaks of contagious diseases, including swine flu, avian flu and SARS, which may have an adverse effect on the economies and financial markets of Taiwan and may adversely impact our operations and financial results.

Our business could be adversely affected by the effects of swine flu, avian flu, SARS or another epidemic or outbreak. Beginning in April 2009, there were outbreaks of highly pathogenic swine flu, caused by the H1N1 virus, in certain regions of the world, including Taiwan. In 2007 and early 2008, there were reports of outbreaks of a highly pathogenic avian flu, caused by the H5N1 virus, in certain regions of Asia and Europe. In 2005 and 2006, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. These outbreaks of contagious diseases, and other adverse public health developments in Taiwan, would have a material adverse effect on our business operations. These could include temporary closure of our facilities. Such closures would severely disrupt our business operations and adversely affect our financial condition and results of operations.

RISKS RELATING TO THE OFFERING

There may be no active market for the GDSs, which may cause the price of the GDSs to fall.

No assurance can be given as to the liquidity or sustainability of the trading market for the GDSs, the ability of holders of the GDSs to sell their GDSs or the price at which holders of the GDSs will be able to sell their GDSs. If a market for the GDSs fails to be sustained, the trading price of the GDSs could fall. In addition, it is possible that the GDSs could trade at prices that may be lower than the initial offer price of the GDSs. The initial purchasers have no obligation to make a market for the GDSs. The market for debt and equity securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the GDSs. There can be no assurance that the markets for the GDSs, if any, will not be subject to similar disruptions. Any disruptions in these markets may have an adverse effect on the market price of the GDSs.

We may be subject to shareholder litigation relating to the rights of our existing shareholders to subscribe for GDSs concurrently with this offering.

Pursuant to a notice issued by the ROC to the TSA, a notice issued by the TSA, the self-regulatory rules and regulations of the TSA and the offering plans and allocation procedures that were submitted by us to and approved by the FSC, each of our existing shareholders has the right to subscribe for and purchase from us through SinoPac Securities (Asia) Limited an amount of GDSs equivalent to up to 14% of his or her shareholdings in our company. In principle, the maximum number of GDSs each shareholder may subscribe for is 14% of our shares held by such shareholder, provided however, that if the total number of GDSs subscribed by existing shareholders is more than 50% of the total number of GDSs to be offered, SinoPac Securities (Asia) Limited, as the underwriter for the ROC Subscription, is entitled to reduce the maximum number of GDSs to be allocated to each shareholder on a pro-rata basis. See "Plan of Distribution." While our offering plans and allocation procedures have been approved by the FSC, such plans and procedures may subject us to shareholder litigation to the extent any of our existing shareholders decide to challenge them on grounds, for example, that they were not provided with an adequate opportunity to participate or that we otherwise failed to protect their subscription rights or their interests in the company. Defending such claims would be costly and may cause the trading price of the Common Shares or the value of the GDSs to decline. Furthermore, we cannot assure you that such claims would not ultimately be successful. Any successful claim could result in substantial damages and materially and adversely affect our business, financial condition and results of operations.

Holders of the GDSs will be required to register with the TSE and appoint several local agents in Taiwan if they withdraw Common Shares from our GDR facilities and become our shareholders, which may make ownership burdensome.

Under current ROC law, if holders of GDSs wish to withdraw and hold underlying common shares from a depositary receipt facility, they are required to register with the TSE for making investments in the ROC securities market prior to withdrawing shares. In addition, such holders of GDSs are required to appoint an eligible agent in the ROC to:

- open a securities trading account with a local brokerage firm and a bank account;
- pay ROC taxes;
- remit funds;
- exercise shareholders' rights; and
- perform such other functions as holders of GDSs may designate upon such withdrawal.

In addition, such holders of GDSs are required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the withdrawing holder would be unable to hold or subsequently sell the underlying common shares withdrawn from the depositary receipt facility on the TSE. Furthermore, these regulations may change from time to time. We cannot assure you that you will be able to register with the TSE and open the requisite accounts in a timely manner or that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw the Common Shares from our depositary receipt facility.

In addition, non-ROC holders of the GDSs who elect to withdraw Common Shares represented by their GDSs from our GDS program and register as our shareholders are required under current ROC laws and regulations to appoint an agent ("Tax Guarantor") in the ROC for filing tax returns and making tax payments on their behalf. A Tax Guarantor is required to meet the qualifications set by the ROC Ministry of Finance and would act as the guarantor of the holder's tax payment obligations. Evidence of the appointment of a Tax Guarantor and the approval of such appointment or tax clearance certification are required as conditions to repatriating the holder's profits derived from the sale of the Common Shares. There can be no assurance that holders will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

Under current ROC law and regulations, unless in accordance with the Regulations Governing PRC Investors in Conducting Securities Investment and Futures Transactions, citizens of the PRC are not permitted to hold the Common Shares or, accordingly, to withdraw Common Shares represented by GDSs from our depositary receipt facility. Nevertheless, those restrictions may be modified from time to time. See "Appendix A: Foreign Investment and Exchange Controls in the ROC — Depositary Receipts."

Restrictions on the ability to deposit the Common Shares into our depositary receipt facility may adversely affect the liquidity and price of the GDSs.

Under the laws and regulations of the ROC, as currently in effect, after the initial deposit, without obtaining regulatory approval from the FSC, no Common Shares may be accepted for deposit and no GDSs may be issued under the terms of the Deposit Agreements except in the following circumstances:

- upon a stock dividend on, or a free distribution of, Common Shares to existing shareholders;
- upon the exercise by existing shareholders of their pre-emptive rights in connection with capital increases for cash;
- subject in each case to receipt of all applicable approvals in the ROC, to the extent we issue securities convertible for GDSs as approved by the FSC, the conversion of such securities into GDSs;
- as permitted under the Deposit Agreements, the purchase directly by a person or through the depositary of Common Shares on the TSE or the delivery by any person of Common Shares held by such person for deposit in the depositary receipt facility provided that the total number of GDSs outstanding after an issuance described in this point does not exceed the number of GDSs issued and previously approved by the FSC in connection with the offering plus any GDSs created under the first, second and third points described above; and

- upon the exchange of Rule 144A GDSs for International GDSs and vice versa; provided that the deposit described in the fourth point above may only be made to the extent previously issued GDSs have been canceled; and provided, further, that the depositary will refuse to accept Common Shares for deposit under the fourth point above if such deposit is not permitted under any restriction notified by us to the depositary from time to time which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, minimum and maximum size and frequency of deposits.

Liquidity of the GDSs may be limited and there are restrictions on the transfer of the GDSs.

Prior to this offering, there has been no market for the GDSs being offered. The GDSs are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your GDSs in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. We have applied to admit the GDSs being offered on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the International Order Book of the London Stock Exchange. However, there can be no assurance that we will obtain or be able to maintain such listings or that, if listed, a trading market will develop on such exchanges.

The GDSs may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required or where doing so would violate applicable laws, rules or regulations. See “Transfer Restrictions.”

You will have limited voting rights as a holder of our GDSs.

Holders of our GDSs may exercise voting rights with respect to the underlying Common Shares in the manner described in “Description of the Global Depositary Shares — Voting Rights.” Subject to applicable laws, if so instructed by holders of at least 51% of our GDSs outstanding at the relevant record date specified by the depositary, the depositary will be required to cause the underlying Common Shares to be voted for or against resolutions at shareholders’ meetings in accordance with the instructions of such GDS holders subject to certain conditions. In the absence of instructions to vote in the same manner from the holders of at least 51% of our GDSs outstanding at the relevant time, the holders of our GDSs shall be deemed to have instructed the depositary to authorize and appoint the chairman of our board of directors (or such person as the chairman of our board of directors may nominate) as the proxy of the depositary to vote all the underlying Common Shares represented by the GDSs in any manner such person wishes, which may not be in the interests of the holders of our GDSs.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. If registration is required in any jurisdiction with respect to the offer to holders of GDSs, or sale by the depositary, of rights or the securities or other relevant property to which such rights relate, the depositary will not effect such offer or sale with respect to the relevant tranche of GDSs, unless we have obtained an exemption from or effected a registration, in accordance with the requirements of such jurisdiction. However, under the Deposit Agreements, we are under no obligation to register such rights, securities or other property. Accordingly, holders of GDSs may be unable to participate in rights offerings by us and may experience dilution of their holdings as a result.

The existence of securities eligible for future sale including our Common Shares, our GDSs and securities that are substantially similar to our Common Shares or GDSs, such as securities that may be convertible into or exchangeable for our Common Shares or GDSs, could adversely affect the market price and dilute the value of our Common Shares and GDSs.

As of the date of this offering memorandum, we had 6,246,906,644 Common Shares issued and outstanding. If we or the holders of our Common Shares or GDSs, including our principal shareholders or certain other shareholders, sell a large number of our Common Shares or GDSs or securities that are convertible into or exchangeable for, or that represent the right to receive, the Common Shares or GDSs, the market prices for our Common Shares and GDSs could be depressed. In connection with this offering, we, each of our directors, supervisors and executive officers, and certain of our major shareholders have agreed under written lock-up agreements, subject to certain exceptions, not to sell Common Shares or GDSs representing Common Shares for 90 days following the date of this offering memorandum. See "Plan of Distribution." The market prices of our Common Shares and GDSs could decline if substantial amounts of Common Shares or GDSs are sold after the closing of this offering, or if there is a perception that these sales could occur. In addition, this could make it more difficult for us to raise funds through future sales of the Common Shares or GDSs.

We may be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. federal income tax consequences to U.S. investors.

Based upon the projected composition of our income and valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2009, and we do not expect to become one in the future. However, given that the determination of PFIC status with respect to both 2009 and future years depends on future facts and circumstances, including the nature of our income and the composition and value of our assets in each year, we cannot provide assurance with respect to our expectation regarding our PFIC status. In addition, this determination is based in part upon certain proposed United States Treasury regulations that are not yet in effect (the "Proposed Regulations") and are subject to change in the future. The Proposed Regulations and other administrative pronouncements from the IRS provide special rules for determining the character of income and assets derived in the banking, insurance and securities businesses for purposes of the PFIC rules. Although we believe we have adopted a reasonable interpretation of the Proposed Regulations and administrative pronouncements, there can be no assurance that the IRS will follow the same interpretation. If we were or were to become a PFIC, such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. federal income tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. federal tax purposes if either (i) 75% or more of our gross income in a taxable year is passive income or (ii) 50% or more of the value of our assets in a taxable year (based on an average of the quarterly basis of our assets) is attributable to assets that produce or are held for the production of passive income (which includes cash). The calculation of the value of our assets will be based, in part, on the market price of our Common Shares and our GDSs, which is likely to fluctuate after this offering (and may fluctuate considerably given that the global capital markets have been experiencing extreme volatility). Accordingly, fluctuations in the market price of our Common Shares and GDSs may result in our becoming a PFIC in the current or any future taxable year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. See "Taxation — United States Federal Income Taxation — Passive Foreign Investment Company."

A holder of GDSs or its designee requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us or the depositary, and failure to provide such information may result in a delay of the withdrawal.

A holder of GDSs or its designee requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us, including the name and nationality of the person to be registered as the shareholder and the number of the Common Shares to be acquired by such person and the number of Common Shares acquired by such person in the past through the date of the withdrawal of the Common Shares underlying the GDSs. Under applicable ROC laws, we are required to report to the FSC if the person to be registered as a shareholder is a "related party" of ours as defined in the ROC Statement of Financial Accounting Standard No. 6 or will hold, immediately following such withdrawal, more than 10% of the Common Shares represented by GDSs. Failure to provide such information may cause the delay of such withdrawal of the Common Shares represented by the GDSs.

We are incorporated in the ROC and because the rights of shareholders under ROC law differ from those under the laws of some other jurisdictions, you may have more difficulties protecting your shareholder rights than shareholders in some other jurisdictions.

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the ROC. The rights of shareholders and the responsibilities of management and the members of the board of directors under ROC law are different from those applicable to a corporation incorporated in some other jurisdictions. Directors of ROC companies are required to conduct business faithfully and to act with the care of a good administrator. However, such duty of care as required of ROC companies' directors may not be the same as the fiduciary duty of directors of non-ROC companies. Therefore, public shareholders of ROC companies may have more difficulty in protecting their interest in connection with actions taken by management or members of the board of directors than they would as public shareholders in some other jurisdictions.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of GDSs may have an adverse effect on the value of your investment.

The imposition of foreign exchange controls may undermine your ability to convert proceeds received from your ownership of GDSs. Under current ROC law, the depositary, without obtaining further approval from the CBC, or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of Common Shares represented by GDSs or the proceeds of the sale of Common Shares received as stock dividends which have been deposited into the depositary receipt facilities; and

- any cash dividends or distributions received from our Common Shares.

In addition, the depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares. Although it is expected that the CBC will grant this approval as a routine matter, we cannot assure you that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a GDS holder, after withdrawing the underlying Common Shares from the depositary receipt facility and becoming a holder of Common Shares, without obtaining further approval from the CBC, may convert from NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of any underlying Common Shares withdrawn from the GDS facilities or the proceeds of the sale of Common Shares received as stock dividends which have been deposited into the depositary receipt facilities; and

- any cash dividends or distributions received from our Common Shares.

However, such holder may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares.

In addition, under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls for certain periods of time in the event of, among other things, a material change in international economic conditions. We cannot assure you that foreign exchange controls or other restrictions will not be introduced in the future.

USE OF PROCEEDS

The net proceeds to be received by us from this offering and the subscription by our employees and designated domestic investors in the concurrent offering of Common Shares to our employees, assuming that such subscription is not further increased or decreased and is fully paid for although there can be no assurance of this, after deducting underwriting discounts and commissions and other transaction expenses (including but not limited to legal and accounting advisory fees, roadshow related expenses and printing fees), will be approximately US$391.7 million. Pursuant to the regulatory approvals for this offering, we intend to use the net proceeds to enhance the capital position of Shin Kong Life.

EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of the Common Shares on the TSE and, as a result, may affect the market price of the Common Shares and GDSs. The following table shows the Noon Buying Rate for NT dollars expressed in NT dollars per US$1.00.

	Noon Buying Rate			
	Average(1)	High	Low	Period End
	(NT$ per US$)			
Period				
2005	32.13	33.77	30.65	32.80
2006	32.51	33.31	31.28	32.59
2007	32.85	33.41	32.26	32.43
2008	31.52	33.55	29.99	32.76
2009				
January	33.37	33.70	32.82	33.70
February	34.24	35.00	33.61	35.00
March	34.30	35.21	33.75	33.87
April	33.64	33.88	33.05	33.06
May	32.87	33.14	32.55	32.57
June	32.77	32.96	32.36	32.77
July (through July 17)	32.94	33.13	32.69	32.86

(1) Annual averages and monthly averages are calculated using the average of the daily rates during the relevant period.

Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For periods beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 statistical release of the Federal Reserve Board.

On July 17, 2009, the Noon Buying Rate was NT$32.86 = US$1.00.

DIVIDENDS

Pursuant to the ROC Company Law and our Articles of Incorporation, payment of any dividend is subject to approval by our shareholders. In accordance with our Articles of Incorporation, after paying tax, offsetting accumulated losses, providing legal reserve and special reserves, if applicable, and setting aside a certain portion for the business operation, if necessary, the remaining portion should be allocated as follows:

(i) remuneration of directors and supervisors, if any;

(ii) 0.01% to 0.05% as employee bonus; and

(iii) shareholder dividends.

In 2007, we issued 141,886,460 shares as share dividends (equaling NT$0.29 per Common Share) and a cash dividend of NT$0.97 per Common Share, both paid to our shareholders. In 2008, we issued 267,755,678 shares as share dividends (equaling NT$0.50 per Common Share) and a cash dividend of NT$0.50 per Common Share, both paid to our shareholders. While we may pay dividends in the future, there can be no assurance that we will do so.

Pursuant to the rules and regulations issued by the FSC under the ROC Financial Holding Company Act, we are required to maintain the group capital adequacy ratio of the financial holding company at not less than 100%. The definition of group capital adequacy ratio is complex. See "Regulation of the Taiwan Financial Services Industry — Regulation of the Company — Financial Requirements." As a result, we may be subject to limitations on the payment of dividends. In addition, our operating subsidiaries in the life insurance, banking and securities businesses are subject to numerous regulatory restrictions and legal limitations on the payment of dividends. See "Risk Factors — Risks Relating to Shin Kong FHC and the Shin Kong Companies — Our ability to service our debt and pay dividends depends on dividends and other distributions from our subsidiaries which are subject to regulatory and other limits." There can be no assurance that we will have the necessary capital, by virtue of receiving dividends from our operating subsidiaries or otherwise, to make dividend payments at any time, or from time to time.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2009 on a consolidated basis and as adjusted to reflect the issuance of the Common Shares represented by the GDSs in this offering and 68,681,000 Common Shares, fully-paid for, in the subscription by our employees and designated domestic investors in the concurrent offering of Common Shares to our employees, as if such GDSs and Common Shares had been issued on March 31, 2009 and as determined under ROC GAAP. This table should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this offering memorandum, which were prepared in accordance with ROC GAAP and which may differ in material respects from U.S. GAAP or the generally accepted accounting principles of certain other countries. See "Summary of Material Differences between ROC GAAP and U.S. GAAP."

	As of March 31, 2009			
	Actual		As Adjusted	
	(In millions)			
	NT$	US$	NT$	US$
Cash and cash-equivalents	71,321.9	2,105.8	84,197.4	2,485.9
Bonds payable (including current portion)	18,625.5	549.9	18,625.5	549.9
Debentures payable	8,800.0	259.8	8,800.0	259.8
Preferred stock liabilities	1,654.0	48.8	1,654.0	48.8
Other loans	3,416.0	100.9	3,416.0	100.9
Total debt	32,495.5	959.4	32,495.5	959.4
Common stock	62,469.1	1,844.4	73,677.9	2,175.3
Capital surplus	20,649.8	609.7	22,316.5	658.9
Legal reserve	2,960.9	87.4	2,960.9	87.4
Special reserve	71.4	2.1	71.4	2.1
Accumulated deficit	(18,824.2)	(555.8)	(18,824.2)	(555.8)
Unrealized revaluation increment	5,811.2	171.6	5,811.2	171.6
Cumulative translation adjustments	155.1	4.6	155.1	4.6
Unrealized valuation losses on financial instruments	(28,384.4)	(838.0)	(28,384.4)	(838.0)
Treasury stock	(778.1)	(23.0)	(778.1)	(23.0)
Minority interest	11,905.4	351.5	11,905.4	351.5
Total stockholders' equity	56,036.2	1,654.5	68,911.7	2,034.6
Total consolidated capitalization(1)	88,531.7	2,613.9	101,407.2	2,994.0

(1) Total consolidated capitalization is defined as total debt plus total stockholders' equity.

In June 2009, we borrowed NT$5 billion from Bank of Taiwan and pledged 500 million common shares we held in Shin Kong Bank to secure the loan. There has been no other material change in our capitalization since March 31, 2009.

As of March 31, 2009, except for the zero coupon convertible bonds due 2009 and 2010, we do not have any outstanding warrants or other securities convertible into our Common Shares.

MARKET PRICE INFORMATION

Our Common Shares have been listed on the TSE since February 19, 2002. The table below sets forth, for the periods indicated therein, the high and low closing prices and the average daily volume of trading activity on the TSE for our Common Shares and the highest and lowest of the daily closing values of the TSE Weighted Index.

	Closing price per Common Share(1)		Average daily trading volume	Closing of the TSE Weighted Index	
	High	Low		High	Low
			(in thousands of shares)		
2004	NT$ 25.3	NT$ 16.0	49,449	7,034	5,317
2005	27.3	20.0	18,210	6,576	5,633
2006	33.6	21.2	29,447	7,824	6,258
2007	39.4	20.9	32,959	9,810	7,345
First Quarter	32.3	26.8	19,708	7,936	7,345
Second Quarter	36.2	26.9	29,877	8,939	7,875
Third Quarter	39.4	27.2	40,663	9,744	8,090
Fourth Quarter	31.3	20.9	40,458	9,810	7,807
2008					
First Quarter	24.0	18.9	65,016	8,865	7,408
Second Quarter	27.6	19.3	51,181	9,295	7,524
Third Quarter	19.3	10.9	36,841	7,408	5,642
Fourth Quarter	11.0	6.8	37,528	5,764	4,090
2009					
First Quarter	10.4	6.7	32,693	5,391	4,243
January	9.0	7.6	18,366	4,790	4,243
February	8.2	7.2	17,924	4,593	4,260
March	10.4	6.7	55,888	5,391	4,426
Second Quarter	16.1	10.0	97,817	6,954	5,314
April	11.8	10.0	77,845	5,997	5,314
May	16.1	11.5	144,479	6,890	6,330
June	15.4	12.7	43,071	6,954	6,144
July (through July 22)	14.8	13.0	53,095	6,985	6,531

Source: *Bloomberg*

(1) Adjusted for stock or cash dividends.

On July 22, 2009, the reported closing price of our Common Shares was NT$13.00 per share and the TSE Weighted Index closed at 6,985.32.

EMBEDDED VALUE

The following disclosure contains forward looking statements with respect to Shin Kong Life, including its business operations and financial performance. Although Shin Kong Life's management believes that the expectations reflected in such forward looking statements are reasonable, such statements involve risks and uncertainties. Actual results may differ materially from those expressed or implied by such forward looking statements. Factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, including interest rates, business competition, changes in government regulation or in tax laws and other factors. See "Risk Factors."

Standards with respect to the calculation of embedded value and value of one year of new business are still evolving, and there is no single adopted standard for either the form, determination or presentation of the embedded value or value of one year of new business of an insurance company. Moreover, because of the technical complexity involved in the calculations and the fact that embedded value estimates vary materially as key assumptions are changed, you should read the discussion below, as well as the "Risk Factors" section of this offering memorandum, in their entirety. You should use special care when interpreting the results of embedded value and value of one year of new business and should not place undue reliance on them. See also the section headed "Special Note Regarding Forward-Looking Statements."

Shin Kong Life's financial statements have been prepared in accordance with ROC GAAP. An alternative method of measuring the value and profitability of a life insurance company is the embedded value method. Embedded values represent an assessment of the economic value of a life insurance company on a going concern basis using market-based assumptions excluding any value attributable from future new business. Embedded value is the sum of the life insurance company's net worth and the value of its in-force business. The net worth is the total of the shareholders' capital and the shareholders' interests in the life insurance company's surplus. The value of in-force business is the assessment of the present value of the shareholders' interest in future distributable profits from the in-force business, with allowance for actuarial reserves to support that business and tax in line with current regulations. Embedded values do not in themselves represent what the sale value of the life insurance company would necessarily be in the event of a transaction.

The value of one year of new business is calculated in a similar way to the value of the in-force business. However, it relates to the value arising from new life insurance business issued in the most recent year. It can be viewed as an indicator of the profitability of the new business the life insurance company is issuing.

The cost of maintaining the required statutory minimum solvency margin is known as the cost of capital. This capital, and any other solvency capital the company deems prudent to retain, are not available for immediate distribution, and has a holding cost associated with it in terms of lost earnings. There is an opportunity cost from holding the solvency margin. This has been valued as the difference between the present value of the net of tax investment return achieved on the assets notionally backing the solvency margin, and the return required by shareholders. This is referred to as the cost of "locking in" the solvency margin, and the calculated cost is shown separately.

The embedded value and the value of one year of new business should be interpreted with caution. These estimates can be highly sensitive to key assumptions, which, although reviewed by external actuaries, are at the discretion of the life insurance company. These assumptions reflect best estimates of the future experience of the life insurance company's business, are determined on the basis that the life insurance company will continue in operation (i.e., ongoing basis) and are based on an analysis of recent experience. Comments by external actuaries on the values used for the calculation of the embedded value can be found in Appendix C to this offering memorandum.

Embedded values do not represent a fairness valuation, and do not consider the value of future new business yet to be written.

In order to provide investors with an additional tool to understand our economic value and business results, we have disclosed information regarding our embedded value and value of one year of new business in a press release dated May 19, 2009 and as discussed below. These measures are based on a discounted cash flow valuation determined using commonly applied actuarial methodologies.

Shin Kong Life, for internal purposes, calculated its "embedded value" as of December 31, 2008, to be approximately NT$80.7 billion, and calculated its value of one year of new business to be approximately NT$10.7 billion. The major assumptions used to calculate the embedded value and value of one year of new business included an investment return of 4.7%, and a risk discount rate of 9.5 %.

The following tables set out the results of Shin Kong Life's calculation of its embedded value and value of one year of new business, as well as a range of results based on different assumed investment return and risk discount rates.

Embedded Value Results

Unit: NT$ in billions Valuation Date: December 31, 2008 Solvency Basis: 200% RBC	All else equal except: Investment Return 4.4%	All else equal except: Investment Return 4.9%	Base Case Scenario Investment Return 4.65 % p.a. Risk Discount Rate 9.5% p.a.	All else equal except: Risk Discount Rate 8.5%	All else equal except: Risk Discount Rate 10.5%
Adjusted Net Worth	70.2	70.2	70.2	70.2	70.2
Value of in-force Business	5.4	67.8	37.5	40.6	35.1
Embedded Value (before cost of capital)	75.6	138.0	107.7	110.8	105.3
Cost of Capital	29.2	24.9	27.0	24.6	28.8
Embedded Value (after cost of capital)	46.4	113.1	80.7	86.2	76.5

Results of the Value of One Year of New Business

Unit: NT$ in billions Valuation Date: January 2008 to December 2008 Solvency Basis: 200% RBC	All else equal except:		Base Case Scenario	All else equal except:	
			Investment Return 4.65 % p.a.		
	Investment Return 4.4%	Investment Return 4.9%	Risk Discount Rate 9.5% p.a.	Risk Discount Rate 8.5%	Risk Discount Rate 10.5%
Value of One Year of New Business (before cost of capital)	11.2	12.5	11.8	13.0	10.8
Cost of Capital	1.1	1.1	1.1	1.1	1.1
Value of One Year of New Business (after cost of capital)	10.1	11.4	10.7	11.9	9.7

We believe that reporting embedded values provides useful information to investors in that it reports the total value at the valuation date belonging to the shareholders plus their interest in the future distributable earnings expected to emerge over time from the existing insurance portfolio. In addition, we believe the value of one year of new business provides useful information as to the value being created for investors by new business activity and hence the future potential of the business.

Since actual market value is determined by investors based on a variety of information available to them and their own investment criteria, embedded value should not be construed to be a direct reflection of actual market value. In particular, embedded value does not include the potential contribution arising from new business to be issued in the future which will depend on, among other things, the prospects for the life insurance market in Taiwan, our future position in that market and the profitability of new business issued in the future. Further, in the current environment in Taiwan and worldwide markets, material uncertainty exists with respect to asset valuations, a key component of embedded value.

All aspects of the embedded value calculation were prepared and calculated by Shin Kong Life, and this statement is issued by Shin Kong Life only. An independent review of this calculation was carried out by external actuaries. A separate statement by the independent actuaries regarding their review is included in Appendix C to this offering memorandum.

RIGHTS ISSUANCE

After obtaining board approval and all required regulatory approvals, we plan to launch an NT$3 billion to NT$8 billion Rights Issue to be completed by the end of 2009. The details of the Rights Issue including the subscription price and number of shares to be issued will be finalized and announced by us close to the launch date of the Rights Issue. Our Chairman, Mr. Eugene T.C. Wu, has committed to fully subscribe to his pro-rata entitlement and also to use his best efforts to take up, or invite and require certain third parties to take up, all of the unsubscribed portion, if any, of the Rights Issue.

We expect that the proceeds from the Rights Issue, together with the proceeds from the offering of the GDSs and the concurrent offering of Common Shares to our employees, will be no less than NT$18 billion, which will strengthen our capital position during the period of economic uncertainty and support growth in our company's insurance franchise. In addition, to the extent that such proceeds do not meet our expectations and as otherwise necessary to strengthen our capital position or comply with regulatory requirements, we will dispose of additional real estate assets.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated financial and other related data for Shin Kong FHC and the Shin Kong Companies should be read in conjunction with the financial statements of such entities included elsewhere in this offering memorandum and the sections entitled "Summary Consolidated Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Each of Shin Kong FHC and the Shin Kong Companies prepares its financial statements using ROC GAAP, and such financial statements are not intended to present their financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions, including the United States. The selected financial information for Shin Kong FHC and the Shin Kong Companies have been derived from their respective financial statements without material adjustment, which financial statements have been prepared and presented in accordance with reporting requirements of the "Regulations Governing the Preparation of Financial Statements of Issuers of Securities" and other applicable ROC laws and regulations and in accordance with ROC GAAP. Solely for your convenience, some of these selected data are presented in a different format from the financial statements. Neither such data nor the format in which they are presented should be viewed as comparable to information prepared in accordance with U.S. GAAP or generally accepted accounting principles elsewhere. The financial information set forth below is qualified by reference to, and should be read in conjunction with, the financial statements and related notes thereto.

Selected Consolidated Financial and Other Data Relating to Shin Kong FHC

The following table sets forth the summary consolidated financial and other data for Shin Kong FHC as of and for the years ended December 31, 2006, 2007 and 2008 and as of and for the three months ended March 31, 2008 and 2009.

Please see the financial statements of Shin Kong FHC included elsewhere in this offering memorandum, and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong FHC" for more information concerning the financial results of Shin Kong FHC.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Interest income	NT$ 46,706	NT$ 51,045	NT$ 53,691	US$ 1,585	NT$ 13,284	NT$ 12,287	US$ 363
Interest expense	(4,996)	(6,154)	(7,578)	(224)	(1,788)	(1,295)	(38)
Net interest income	41,710	44,891	46,113	1,361	11,496	10,992	325
Premium income	149,421	150,284	152,323	4,497	31,664	41,227	1,217
Incomes on insurance products — separate account	42,254	107,465	145,493	4,296	45,377	19,990	590
Insurance payments	(66,731)	(90,528)	(94,758)	(2,798)	(18,259)	(14,863)	(439)
Disbursements on insurance products — separate account	(42,254)	(107,465)	(145,493)	(4,296)	(45,377)	(19,990)	(590)
Processing fee and commission income	4,386	5,400	9,064	268	3,022	1,249	37
Processing fee and commission expense	(7,868)	(8,743)	(5,892)	(174)	(1,829)	(1,322)	(39)
Total net income and gains	137,619	107,254	86,403	2,551	17,673	40,380	1,192
Bad debt expenses	(11,094)	(1,914)	(1,756)	(52)	(580)	(646)	(19)
(Provision of) recovered insurance reserve	(99,303)	(76,836)	(87,685)	(2,589)	(19,671)	(34,759)	(1,026)
Total operating expenses	(22,782)	(23,551)	(24,599)	(726)	(6,889)	(5,288)	(156)
Continuing operations' income (loss) before tax	4,440	4,953	(27,637)	(816)	(9,467)	(313)	(9)
Consolidated net income (loss)	6,045	5,086	(22,228)	(656)	(6,847)	(498)	(15)
Basic EPS (before tax)	1.11	0.93	(4.84)	(0.14)	(1.81)	(0.08)	(0.002)
Basic EPS (after tax)	1.21	0.96	(3.80)	(0.11)	(1.30)	(0.10)	(0.003)
Diluted EPS (before tax)	0.92	0.87	—	—	—	—	—
Diluted EPS (after tax)	1.09	0.89	—	—	—	—	—

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Balance sheet data:							
Loans	NT$ 406,582	NT$ 459,743	NT$ 471,295	US$13,915	NT$ 462,825	NT$ 462,505	US$13,655
Available-for-sale financial assets	153,199	156,338	363,925	10,745	161,228	298,579	8,815
Held-to-maturity investments	222,722	219,612	9,849	291	218,410	9,858	291
Debt securities without active market	306,901	311,641	340,169	10,043	295,743	385,144	11,371
Total assets	1,492,328	1,688,114	1,740,173	51,378	1,751,593	1,763,250	52,059
Deposits and remittances	281,779	313,544	327,637	9,673	322,272	336,023	9,921
Total liabilities	1,401,481	1,588,001	1,683,979	49,719	1,650,327	1,707,214	50,405
Total shareholders' equity	90,847	100,113	56,194	1,659	101,266	56,036	1,654
Other data:							
Book value per share	18.84	16.81	7.16	0.21	15.9	7.1	0.21
Return on average assets	0.43%	0.32%	(1.30)%	(1.30)%	(1.59)%	(0.11)%	(0.11)%
Return on average equity(3)	7.60%	5.33%	(28.44)%	(28.44)%	(27.20)%	(3.55)%	(3.55)%
Shareholders' equity/ total assets	0.06%	0.06%	0.03%	0.03%	0.06%	0.03%	0.03%
Share data:							
Shares issued	46,996	50,254	62,542	62,542	53,939	62,469	62,469
Period end number of outstanding shares	4,690	4,991	6,216	6,216	5,355	6,216	6,216
Weighted average number of outstanding shares	4,878	5,202	5,536	5,536	5,259	6,216	6,216

(1) Defined as shareholders' equity divided by number of outstanding shares — actual.
(2) Calculated using the average year-end equity balances for the preceding and the current fiscal years.

Selected Financial and Other Data Relating to Shin Kong Life

The selected financial information has been derived from Shin Kong Life's audited consolidated statements of operations for the years ended December 31, 2006, 2007 and 2008 and its audited consolidated balance sheets as of December 31, 2006, 2007 and 2008 included elsewhere in this offering memorandum. These financial statements have been audited by Deloitte & Touche, independent auditors. The following selected unaudited unconsolidated financial information as of and for the three months ended March 31, 2008 and 2009 has been derived from Shin Kong Life's unaudited unconsolidated financial statements for the same period included elsewhere in this offering memorandum. Shin Kong Life has prepared the unaudited interim unconsolidated financial statements on the same basis as its audited unconsolidated financial statements. The unaudited interim unconsolidated financial statements include all adjustments, consisting of normal and recurring adjustments, which Shin Kong Life considers necessary for a fair presentation of its financial position and operating results for the periods presented. These unaudited interim financial statements have been reviewed by Deloitte & Touche, independent auditors. You should read the following selected financial information together with Shin Kong Life's financial statements included elsewhere in this offering memorandum and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong Life." The selected unconsolidated financial information for Shin Kong Life for the three months ended March 31, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any period thereafter.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Premium income	NT$ 149,421	NT$ 150,311	NT$ 152,347	US$ 4,498	NT$ 31,667	NT$ 41,230	US$ 1,217
Total operating revenues	305,448	388,951	439,648	12,980	118,297	99,034	2,924
Total operating costs	(278,894)	(366,296)	(445,007)	(13,139)	(121,051)	(96,764)	(2,857)
Total operating expenses	(15,895)	(15,870)	(15,004)	(443)	(4,438)	(3,099)	(92)
Operating income (loss)	10,659	6,785	(20,363)	(601)	(7,191)	(829)	(24)
Operating income (loss) before tax	11,172	2,807	(25,602)	(756)	(10,344)	(891)	(26)
Net income (loss)	11,784	2,428	(19,743)	(583)	(7,603)	(1,031)	(30)
Basic EPS (before tax)	5.69	0.79	(7.10)	(0.22)	(3.12)	(0.21)	(0.006)
Basic EPS (after tax)	5.46	0.69	(5.48)	(0.17)	(2.30)	(0.25)	(0.007)
Diluted EPS (before tax)	3.65	—	—	—	—	—	—
Diluted EPS (after tax)	3.50	—	—	—	—	—	—
Balance sheet data:							
Total loans	173,656	183,125	190,996	5,639	186,218	187,088	5,524
Fund and investments	629,012	621,930	639,456	18,880	610,652	648,804	19,156
Total assets	1,117,547	1,229,375	1,301,423	38,424	1,266,003	1,331,708	39,318
Total liabilities	1,047,573	1,169,287	1,276,572	37,690	1,212,698	1,307,733	38,610
Total shareholders' equity	69,974	60,088	24,851	734	53,305	23,975	708
Other data:							
Book value per share[(1)]	20.28	17.28	5.94	0.18	15.15	5.73	0.17
Return on average assets	1.13%	0.21%	(1.56)%	(1.56)%	(0.61)%	(0.08)%	(0.08)%
Return on average equity[(2)]	18.94	3.72%	(46.49)%	(46.49)%	(13.42)%	(4.23)%	(4.23)%
Shareholders' equity/total assets	6.26%	4.89%	1.91%	1.91%	4.21%	1.80%	1.80%
Persistency ratio — 13 month	89.8%	86.9%	88.5%	88.5%	87.5%	85.6%	85.6%
Risk-based capital ratio	404.54%	304.02%	227.39%	227.39%	—	—	—

(1) Defined as shareholders' equity divided by number of outstanding shares — actual.
(2) Calculated using the average year-end equity balances for the preceding and the current fiscal years.

Selected Financial and Other Data Relating to Shin Kong Bank

The selected financial information has been derived from Shin Kong Bank's audited consolidated statements of operations for the years ended December 31, 2006, 2007 and 2008 and its audited consolidated balance sheets as of December 31, 2006, 2007 and 2008 included elsewhere in this offering memorandum. These financial statements have been audited by Deloitte & Touche, independent auditors. The following selected unaudited unconsolidated financial information as of and for the three months ended March 31, 2008 and 2009 has been derived from Shin Kong Bank's unaudited unconsolidated financial statements for the same period included elsewhere in this offering memorandum. Shin Kong Bank has prepared the unaudited interim unconsolidated financial statements on the same basis as its audited unconsolidated financial statements. The unaudited interim unconsolidated financial statements include all adjustments, consisting of normal and recurring adjustments, which Shin Kong Bank considers necessary for a fair presentation of its financial position and operating results for the periods presented. These unaudited interim financial statements have been reviewed by Deloitte & Touche, independent auditors. You should read the following selected financial information together with Shin Kong Bank's financial statements included elsewhere in this offering memorandum and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations — Shin Kong Bank." The selected unconsolidated financial information for Shin Kong Bank for the three months ended March 31, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any period thereafter.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Interest revenue	NT$ 7,051	NT$ 6,364	NT$ 6,239	US$ 184	NT$ 1,560	NT$ 1,006	US$ 30
Service fees	1,526	1,908	1,579	47	353	285	8
Gain (loss) on securities	470	(392)	(369)	(11)	252	581	17
Other net non-interest (loss) income	(943)	1,370	149	4	388	112	3
Net revenue	8,104	9,250	7,598	224	2,553	1,984	59
Bad debt expense	(9,753)	(1,861)	(1,930)	(57)	(499)	(541)	(16)
Operating expenses	(6,070)	(5,882)	(5,404)	(160)	(1,400)	(1,253)	(37)
Net (loss) income	(7,276)	1,423	227	7	607	172	5
Basic EPS (before tax)	(5.50)	0.75	0.11	0.0034	0.33	0.10	0.0030
Basic EPS (after tax)	(5.16)	0.73	0.12	0.0037	0.31	0.09	0.0027
Balance sheet data:							
Notes discounted and loans, net	232,926	276,618	280,299	8,276	275,922	275,341	8,129
Total assets	352,465	386,796	403,574	11,915	397,998	395,342	11,672
Deposits and remittances	286,746	325,764	356,027	10,512	335,217	354,618	10,470
Total liabilities	332,565	365,571	382,969	11,307	375,871	374,542	11,058
Total shareholders' equity	19,900	21,225	20,605	608	22,127	20,800	614
Other data:							
Net interest margin(1)	2.38%	1.92%	1.69%	1.69%	1.73%	1.12%	1.12%
Gain (loss) on securities/net non-interest income	44.63%	(13.58)%	(27.15)%	(27.15)%	25.38%	59.41%	59.41%
Net non-interest income/net revenue(2)	12.99%	31.20%	17.89%	17.89%	38.90%	49.29%	49.29%
Bad debt expense/net revenue	74.90%	63.59%	71.12%	71.12%	54.84%	63.16%	63.16%
Return on average equity(3)	(36.64)%	6.92%	1.08%	1.08%	2.80%	0.83%	0.83%
Return on average assets(4)	(2.11)%	0.39%	0.06%	0.06%	0.15%	0.04%	0.04%
NPL ratio(5)	1.70%	1.85%	1.87%	1.87%	1.89%	1.91%	1.91%
Coverage ratio(6)	84.12%	56.38%	66.42%	66.42%	63.94%	63.70%	63.70%
Capital adequacy ratio(7)	12.52%	10.72%	10.57%	10.57%	11.51%	10.88%	10.88%

(1) Calculated using average daily balances of interest earning assets; ratio annualized.
(2) Net non-interest income includes service fees, gains on securities and other non-interest income.
(3) Calculated by dividing net income for the period by the average ending shareholders' equity balances for the preceding and the current fiscal years.
(4) Calculated by dividing net income for the period by the average ending total assets balances for the preceding and the current fiscal years.
(5) Calculated by dividing non-performing loans by gross loans.
(6) Calculated by dividing total loan loss reserves by total amount of non-performing loans.
(7) Determined in accordance with the requirements of the FSC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We currently conduct almost all of our operations through our subsidiaries. A substantial amount of our consolidated assets are held by, and almost all of our consolidated earnings and cash flows are attributable to, our subsidiaries. Our liquidity and ability to pay expenses and meet obligations as well as our ability to pay cash dividends on our shares are dependent upon our ability to receive dividends from our subsidiaries. There can be no assurance that our subsidiaries will generate sufficient earnings and cash flows to pay dividends, or otherwise distribute funds to us.

Recent Developments

Proposed sale of Shin Kong Securities to MasterLink

In April 2009, in order to consolidate our securities brokerage services, Shin Kong Securities entered into a sale agreement to transfer its brokerage business and properties to MasterLink, our 26.3% owned and consolidated subsidiary. The transaction is expected to be completed in the fourth quarter of 2009. Shin Kong Securities will then liquidate its securities holdings and cease its operations. Consummation of the sale is subject to approvals from governmental authorities and certain other customary conditions.

Sale of Real Estate

In April 2009, Shin Kong Life sold a building in downtown Taipei and recognized a capital gain of NT$7.3 billion. We plan to increase our liquidity and maintain robust capital position by disposing of our real estate investments at attractive prices.

Joint Venture in the PRC

In April 2009, a PRC-based joint venture established by Shin Kong Life and Hainan Airlines, a leading aviation conglomerate in the PRC, commenced operations to market life insurance products developed for the fast growing PRC life insurance market. Headquartered in Beijing, we expect this joint venture will enjoy rapid development in the next several years, in part by taking advantage of Hainan Airlines Group's extensive customer base.

Change in accounting policy to reclassify held-to-maturity securities to available-for-sale

In December 2008, we changed our holding purposes of certain financials assets, and reclassified NT$198,796.3 million of such assets from held-to-maturity securities to available-for-sale securities, pursuant to ROC SFAS No.34. As a result, we recognized gains that were recorded directly under shareholders' equity.

Net income (loss) for the six months ended June 30, 2009

As announced on the Market Observation Post System, our preliminary unaudited unconsolidated net loss for the six months ended June 30, 2009 to be NT$598 million, Shin Kong Life's preliminary unaudited unconsolidated net loss for the six months ended June 30, 2009 to be NT$1,342 million, and Shin Kong Bank's preliminary unaudited unconsolidated net income for the six months ended June 30, 2009 to be NT$266 million. Our, Shin Kong Life's and Shin Kong Bank's preliminary unconsolidated financial data for the six months ended June 30, 2009 are subject to adjustment based upon, among other things, completion of our, Shin Kong Life's and Shin Kong Bank's reporting processes. Actual results could differ materially from the estimates provided above. For additional information regarding the various risks and uncertainties inherent in such estimates, see "Special Note Regarding Forward-Looking Statements." Financial results for the six months ended June 30, 2009 may not be indicative of our full year results for the fiscal year ending December 31, 2009 or future quarterly periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding trends and other factors that may influence our, Shin Kong Life's and Shin Kong Bank's financial results.

Our Operations

We conduct substantially all of our operations through our subsidiaries. Moreover, substantially all of our assets are held by, and substantially all of our net income and cash flows are attributable to, our subsidiaries.

As of December 31, 2008 and March 31, 2009, on a consolidated basis:

- Shin Kong Life accounted for 74.8% and 75.5% of our assets, respectively.
- Shin Kong Bank accounted for 23.2% and 22.4% of our assets, respectively.
- Shin Kong Securities accounted for 0.8% and 0.7% of our assets, respectively.

Substantially all of our business is conducted in Taiwan. As a result, we will continue to be affected by factors such as regulation, competition, interest rates, taxes, foreign exchange rates, securities market conditions and general economic conditions in Taiwan as well as in the rest of Asia. In particular, recent amendments to the ROC Insurance Law and related regulations have changed the ways financial companies operate their businesses. These amendments include allowing the insurance company to conduct insurance claims trust business, easing the restrictions on loans borrowed by the insurance company to meet the capital needs of the insurance company, and raising maximum permitted foreign investment percentage.

The following discussion is based upon, and should be read in conjunction with:

- the audited consolidated financial statements of Shin Kong FHC as of and for the years ended December 31, 2006, 2007 and 2008;
- the unaudited consolidated financial statements of Shin Kong FHC as of and for the three months ended March 31, 2008 and 2009;
- the audited consolidated financial statements of Shin Kong Life as of and for the years ended December 31, 2006, 2007 and 2008;
- the unaudited unconsolidated financial statements of Shin Kong Life as of and for the three months ended March 31, 2008 and 2009;

- the audited consolidated financial statements of Shin Kong Bank as of and for the years ended December 31, 2006, 2007 and 2008; and

- the unaudited unconsolidated financial statements of Shin Kong Bank as of and for the three months ended March 31, 2008 and 2009.

These financial statements, together with the independent accountants' audit reports thereon, are included elsewhere in this offering memorandum.

Liquidity and Capital Resources

We currently conduct almost all of our operations through our subsidiaries. Substantially all of our assets are held by, and substantially all of our net income and cash flows are attributable to, our subsidiaries. As a result, our liquidity and ability to pay expenses and meet obligations, as well as our ability to pay cash dividends on our shares, are dependent upon our ability to receive dividends from our subsidiaries. See "Risk Factors — Risk Relating to Shin Kong FHC and the Shin Kong Companies — Our ability to service our debt and pay dividends depends on capital distributions from our subsidiaries, which are subject to regulatory and other limits."

We intend to finance our capital requirements and investments primarily through a combination of capital contributions and dividends from our subsidiaries, and from the proceeds from transactions in the international and domestic capital markets, including pursuant to this offering. We believe that our existing cash balance, together with the proceeds from this offering, as well as dividends provided by our subsidiaries and borrowings under committed credit lines from banks, will provide sufficient funds to (1) meet our operating and capital requirements and (2) implement our corporate strategy. We have a long-term rating of "twA+" and a short-term rating of "twA-1" from Taiwan Ratings Corporation.

As of March 31, 2009, we had outstanding long-term liabilities in the amount of NT$17.2 billion consisting partially of certain unsecured bonds issued by Shin Kong FHC in the aggregate principal amount of NT$5.0 billion issued in the domestic markets in May 2008, unsecured subordinated bonds issued by Shin Kong FHC in the aggregate principal amount of NT$4.7 billion issued in the domestic markets in September 2008 and zero coupon convertible bonds due 2009 in the principal amount of US$260 million issued in the global offering in 2004 and zero coupon convertible bonds due 2010 in the principal amount of US$250 million issued in global offering in 2005. As of March 31, 2009, we had outstanding short-term borrowing in the amount of NT$1.8 billion. We have no significant capital expenditure requirements.

We intend to manage our liquidity by balancing the needs for capital of each of our subsidiaries with the capital requirements of our strategy. While we expect that our subsidiaries will contribute cash to us from time to time, their ability to do so is not only dependent on their profitability but also governed by a number of different regulations that are subject to change.

Capital Adequacy Requirements

As a financial holding company organized under the ROC Financial Holding Company Act, we are currently subject to group capital adequacy requirements. The definition of group capital adequacy ratio is complex. See “Regulation of the Taiwan Financial Services Industry — Regulation of Shin Kong FHC — Financial Requirements.” Pursuant to the ROC Financial Holding Company Act, we are required to have a group capital adequacy ratio of not less than 100%. We expect to meet or exceed any capital requirements, including group capital adequacy requirements, that are applicable to us.

Inflation

We do not believe that inflation in Taiwan has materially affected our results of operations. According to the Directorate General of Budget, Accounting and Statistics in Taiwan, the change in the Consumer Price Index in Taiwan was approximately 0.6%, 1.8% and 2.3% in 2006, 2007 and 2008, respectively.

Factors Affecting Our Results of Operations

Market Risks

Market risk is usually defined as the risk of loss in a financial instrument from an adverse movement in market prices or rates. The broadly defined categories of market risks include exposures to interest rates, foreign exchange rates, equity prices, real estate value and credit risk. The nature of the market risks that we face varies depending on the nature of the business. For example, interest rate risk is a market risk to which Shin Kong Life, Shin Kong Bank, Shin Kong Securities and MasterLink are subject whereas foreign exchange risk is a market risk that principally affects Shin Kong Life and Shin Kong Bank and equity price risk is a market risk that principally affects Shin Kong Life and Shin Kong Securities. Set forth below is a brief overview of the types of market risks to which our subsidiaries are subject.

Interest Rate Risk. A significant portion of our assets consists of, and a significant portion of our revenue is derived from, monetary assets, which subjects us to significant risk from changes in interest rates. Changes in interest rates could significantly affect us across all our business lines. We may use interest rate swap contracts to exchange fixed interest rate obligations for floating rate obligations and vice versa for a portion of our total interest rate risk.

Foreign Exchange Risk. The primary currency to which we are exposed is the US dollar. We attempt to limit our foreign exchange risk exposure to various currencies by matching our foreign currency assets and liabilities. We plan to continue to enter into hedging arrangements to protect our investments against foreign exchange fluctuations.

Equity Price Risk. A portion of our assets consists of, and a portion of our revenue has been derived from, equity investments, including short-term investments, trading securities and long-term investments. The performance of these assets may affect our financial condition and results of operations. A portion of these investment assets comprises of common stock issued by listed Taiwan companies. Such stocks have experienced significant price volatility. As of March 31, 2009, the aggregate carrying value of these equity investments on our balance sheet was approximately NT$50.9 billion.

Real Estate Value and Rental Income. For real estate assets, we assign targeted investment return rates and occupancy levels for each property category. For properties that fall below these rates and levels, we minimize risk by implementing various measures to maintain rental income while considering the sale of the property.

Credit Risk. Credit risk relates to the possibility of the contractual counterparty's failure to perform its contractual obligations. To minimize credit risk, we generally only enter into financial instruments, such as interest rate swap agreements or forward exchange contracts, with trustworthy and high credit rating banking institutions. Therefore, we do not currently anticipate any material risk of non-performance by these counterparties.

Critical Accounting Policies

We prepare our financial statements in accordance with ROC GAAP. We make estimates that affect the reported amounts of assets, liabilities, operating income and expenses as well as the disclosure of contingent liabilities as of the date of the financial statements. Actual results may differ from those estimates. We have identified the following accounting policies as critical to an understanding of our business since the application of these policies requires significant management estimates that could result in the reporting of materially different amounts if such estimates prove to be unwarranted.

Classification of Asset and Liability Classified as Current and Noncurrent

Due to the characteristics of the banking industry, Shin Kong Bank's business cycle cannot be defined. Therefore, the assets and liabilities of Shin Kong Bank are not classified as current or noncurrent but are properly categorized according to the nature of each account and are stated in the order of their liquidity. For other subsidiaries, current assets are those that can be realized in cash within 12 months; property and equipment and others are classified as noncurrent asset. Current liabilities are obligations due within 12 months; others are noncurrent liabilities.

Because banking is our major industry, the assets and liabilities in the consolidated balance sheets were not classified as current or noncurrent but were properly categorized according to the nature of each account and were stated in the order of their liquidity.

Cash and Cash Equivalents

Cash and cash equivalents include cash (including foreign currencies) in banks, bank deposits, petty cash, certificates of deposits purchased, foreign-currency bank deposits, cash in transit and other short-term, highly liquid investments (such as government bonds, bankers' acceptances and commercial paper) with a maturity of three months or less on the date of acquisition.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial assets/liabilities at fair value through profit or loss (FVTPL) has two subcategories, including financial assets/liabilities held for trading and those designated as at FVTPL. We recognize a financial asset or a financial liability on our balance sheet when we become a party to the contractual provisions of the financial instrument. A financial asset is derecognized when we have lost control of our contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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

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

Financial assets/liabilities designated initially as measured at fair value which are mixed financial instruments. It has the unrealized gain (loss) recognized as current income (expense).

Financial assets/liabilities designated initially as measured at fair value for the reason of elimination of the difference in accounting practices can subsequently be measured at fair value with the changes in fair value recognized in profit or loss. Unrealized gain (loss) is recognized as current income (expense).

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Allowance for Doubtful Accounts

We make provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for the specific or general risks. Debts and guarantees with specific risk are evaluated internally for their collaterals, collectibility and customers' overall credits.

Shin Kong Life and Shin Kong Bank, in accordance with the "Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises" and "Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Bank Enterprises" issued by the Ministry of Finance, provide the allowances for doubtful accounts based on management's evaluation of the collectibility of individual accounts, the borrowers'/clients' financial condition and payment history.

Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowances are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

Bonds Purchased (Sold) under Resell (Repurchase) Agreements

Bonds purchased under resale agreements are actual payments made to the counterparty in transactions involving the purchase of bonds, subject to an agreement by the purchaser to resell the bonds. Notes issued under repurchase agreements are actual receipts from the counterparty in transactions involving the sale of bonds by one party, subject to an agreement by the seller to repurchase the bonds. These transactions are treated as margin trading. All related interest income or expense is recognized on an accrual basis.

Available-for-Sale Financial Assets

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Purchase on Margin and Short Sale

We recognize margin loans as loans to customers for purchases on margin while providing financing to investors who buy stocks. Margin loans made by us are generally collateralized by securities in the client's account. These collateralized securities are not entered in our books, but recorded using memorandum entries. After the security investors settle the margin loan, these pledged securities are returned to investors.

We require a deposit from security investors for short-sale services to investors. This deposit is recorded as deposit on short-sale transactions. The amount collected from selling of short-sale securities (net of securities transaction tax, brokerage fee and handling fee) is kept by us as collateral and recorded as payable for short-sale transactions. The securities lent to clients as short sale are recorded using memorandum entries. The deposit on short-sale transactions and payable for short sale are returned to security investors after investors settle the short-sale transactions.

Loans borrowed by us from other securities lenders when we have insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders", and the stocks purchased by the borrowers are held by the securities lenders as collateral.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (straight-line method can be used if there will be no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using settlement date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between the carrying amount and fair value shall be accounted for as unrealized gain (loss) on financial instrument under shareholders' equity. When the financial asset is derecognized, the cumulative gain or loss previously recognized in shareholders' equity is reclassified to profit or loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Debt Securities without Active Market

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Investments Accounted for by the Equity Method

Investments in which we hold 20 percent or more of the investee's voting shares or exercise significant influence over the investees' operating and financial policy decisions are accounted for by the equity method; we recognize our share in the investee's profits or losses according to our ownership percentage in the investee.

Upon acquisition of an equity investment or initial adoption of the equity method, the difference between cost and fair value of investment is amortized over 20 years by the straight-line method. However, from January 1, 2006, the costs of investments are required to be analyzed, any excess of the acquisition cost over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition is recorded as goodwill and should not be amortized according to SFAS No. 25 "Accounting Treatment for Merger under Purchasing Method." Since January 1, 2006, the unamortized balance of goodwill (investment cost over net equity acquired) on investments which were acquired before January 1, 2006 are no longer amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount is amortized over the remaining year.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to our percentage of ownership in the investee; however, if we have control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to our percentage of ownership in the investee.

Property and Equipment (Including Assets Leased to Others and Real Estate Investments)

Property and equipment are recorded at cost when acquired. However, land held by Shin Kong Life and held by Shin Kong Bank was revalued in 1998 and 2007, respectively, in accordance with appraisal value announced by the government.

Depreciation of property and equipment is calculated by the straight-line method based on estimated useful life or remaining useful years upon revaluation, plus one year salvage value.

Major additions, renewals, betterments and interest expenses incurred are capitalized, while maintenance and repairs are expensed currently.

Upon retirement, sale or other disposal of properties, any gain or loss is credited or charged to income.

Reserves for land revaluation increment tax required by law after revaluation are classified as reserve for land value increment tax.

Impairment of Assets

We adopted SFAS No. 35, Accounting for Impairment of Assets, effective on January 1, 2005. This SFAS requires the recognition of an impairment loss when there is indication that the carrying amount of an asset is not recoverable. An impairment loss shall be measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. If the impairment loss decreases, a gain on reversal of impairment loss is recognized to the extent of the impairment loss previously recognized. The recovered carrying amount of an impaired asset may not exceed the original carrying amount less depreciation or amortization. The impairment loss of goodwill may not be reversed.

Share-based Payment

Share options granted under the share-based payment agreements after January 1, 2008 are accounted for according to SFAS No. 39, Share-based Payment, and Interpretation

(96) No. 267 and (97) No. 017. The payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

Real Estate in Trust

The accounting for securitized real estate is based on SFAS Interpretation No. (93) 141, Accounting for Securitized Real Estate, issued by the Accounting Research and Development Foundation of ROC (“ARDF”).

When the sale of real estate is consummated and the risks and rewards of the ownership are transferred to the transferee, the transferor shall recognize profit by the full accrual method.

If the transferor sells a portion of the real estate, the carrying value of the real estate shall be allocated between the sold and retained real estate in proportion to their fair value when the transaction occurs. If the fair value of the retained real estate cannot be reasonably and reliably measured, the carrying value of the retained real estate is equal to zero and the carrying value of the real estate is allocated to the sold real estate in full.

The usufruct retained shall be accounted for in accordance with its attribute. If the usufruct is attributive to real estate, the usufruct is accounted for as real estate and stated at cost. If the usufruct is attributive to financial assets, the usufruct is accounted for as financial assets and stated at the lower of cost or market.

Goodwill

The accounting for goodwill (classified under intangible assets) is based on SFAS No. 25 “Business Combinations — Accounting Treatment under Purchase Method”. The excess of acquisition cost over the net fair value of tangible and identifiable intangible assets is recognized as goodwill. Goodwill is not amortized but is subject to an impairment test periodically.

Separate Accounts

Shin Kong Life sells investment type insurance policies. Based on agreements, the insurance premiums paid by policyholders are offset against various expenses of Shin Kong Life and invested in separate accounts at allocation ratios agreed on with or directed by the policyholder. The value of the separate-account assets is accounted for at market value on the valuation date and their net worth is computed in accordance with the related regulations and accounting principles generally accepted in the ROC.

The assets, liabilities, revenues and expenses of separate accounts represent the rights and obligations of the policyholders and are recorded, pursuant to the accounting principles governing investment type insurance policies, in Shin Kong Life’s “asset on insurance products — separate account”, “liabilities on insurance products — separate account”, “income on insurance products — separate account”, “disbursements on insurance products — separate account”.

Convertible Bonds

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

For convertible bonds issued on or after January 1, 2006, we first determine the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determine the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. If bondholders want to convert bonds to specific amounts of common stock with specific prices or amounts, the liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, we use the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

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

We can exercise the call option by buying the convertible bonds back from the market to redeem them before maturity. If the redemption gain or loss is material, it is recognized as extraordinary gain or loss and reported as a line item in the income statement.

Reserves for Operations

Reserves for operations and liabilities are stated pursuant to the Regulations Governing Calculation of Various Reserves for Operations promulgated by the Insurance Bureau on November 26, 2003. The figures for the reserves are provided by actuaries certified by the Ministry of Finance. On December 28, 2007, the regulations were revised, and became effective January 1, 2008. Each reserve basis is stated below:

Reserve for Life Insurance Liability

Reserve for life insurance liability of an insurance product is calculated according to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators. The calculation is based on a mortality table and projected interest rate at the time of approval of the insurance product by the Insurance Bureau.

Reserve for Unearned Premiums

Unearned premiums of effective policies with a term of less than one year are computed by policy type according to the actual risk (with recognition of reinsurance costs and benefits) assumed by Shin Kong Life for the remaining policy period in compliance with related regulations. Since January 1, 2008, unearned premiums are computed by the remaining policy type according to the actual risk.

Special Reserve

Special reserve for actual undertakings (with recognition of reinsurance costs and benefits) includes special reserve for catastrophe, special reserve for contingent claim and other special reserves.

Special reserves for catastrophe are provided by policy type, according to the rates set by regulatory authorities. The special reserve for catastrophe is used to offset the portion of net indemnities exceeding NT$30 million. The amount of reserve for catastrophe which was provisioned for more than 15 years can be measured by an appointed actuary and reversed to income after reporting to Insurance Bureau.

If actual indemnity on an insurance product exceeds the reserve for catastrophe, 15% (30% prior to January 1, 2008) of the difference is taken from the special reserve for contingent claim. Otherwise, the whole excess may be taken from the reserve for the contingent claim. If the reserve for contingent claim are insufficient for the excess, reserves for contingent claim of another insurance product may be used for that excess. When the accumulated amount of this special reserve for contingent claim exceeds 30% of the gross amount of net earned premium, the excess is recovered and treated as income.

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Claim Reserve

Claim reserves are reserves for indeterminate indemnities, whether or not reported. The provisions for the reserves for reported indeterminate indemnities are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance product. The provisions for the IBNR (incurred but not yet reported) reserve are at 1% of the net earned premium by policy type for policies with terms of less than one year from 2006, and the provisions for the accident insurance retention reserve are recognized according to the method approved by the related authority, and historical information.

Premiums Deficiency Reserve

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Other Reserve

Reserve for Trading Loss

Reserve for trading loss is at 10% of the monthly net gain on the sale of government bonds by Shin Kong Securities, Shin Kong Bank and MasterLink. This reserve cannot be used for any purpose other than to offset the trading loss in excess of the trading profit.

Reserve for Bad Debt

Allowance for doubtful accounts of Shin Kong Securities and MasterLink is provided by assessing the collectibility of the notes and accounts receivable at the period end. Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 82416 dated September 29, 1999, Shin Kong Securities and MasterLink increased allowance for doubtful accounts, which were equal to such increased income raised from reducing the rate of VAT tax. If each item of the account does not have bad debt risk, allowance for doubtful accounts is classified under another reserve according to the law.

Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 0920002964 dated July 17, 2003, effective from July 1, 2003, the aforementioned regulation is no longer applicable to securities firms. However, if there is an outstanding balance of the aforesaid allowance for doubtful accounts on June 30, 2003, such reserve would be retained to write off overdue accounts in the future.

Reserve for Trading Default

Reserve for trading default is calculated monthly by Shin Kong Securities and MasterLink at the rate of 0.28/10,000 based on the amount of consigned trading of marketable securities. This reserve cannot be used for any purpose except to offset the loss incurred on the trading default of the consigned trader of marketable securities or other purposes approved by the Securities and Futures Bureau of the Ministry of Finance.

Pension Cost

Defined benefit pension plan is accounted for based on SFAS No. 18, "Accounting for Pension." Defined contribution pension plan is accounted for based on contributions made for employees in their service years.

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

Treasury Stock

We use the cost method to account for treasury stock. If the stocks are donated, market price is used to account for treasury stock. Cost of treasury stock is determined on the basis of the weighted-average method.

On treasury stock disposal, if the disposal value is greater than the book value, the difference is recorded as "capital surplus — treasury stock transactions"; otherwise, the difference is used to offset capital surplus that resulted from similar treasury stock transactions. If the capital surplus is insufficient to cover the difference, retained earnings are used to cover the insufficiency.

Income Tax

We adopted SFAS No. 22, "Accounting for Income Taxes," which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to "Alternative Minimum Tax Act", we calculate the alternative minimum tax in addition to the regular income tax. If the regular income tax is lower than the alternative minimum tax, the difference is accrued as an additional income tax adjustment.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

We and our subsidiaries which we hold more than 90% of the outstanding shares adopt the accounting treatment of the consolidated income tax return. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as our income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Revenue Recognition

We follow SFAS No. 32, "Accounting for Revenue Recognition," to recognize revenue, except for insurance premium income.

Gain or loss on sales of securities and processing fee income are recognized on transaction completion. Income and expenses from agency business are recognized when the contract ends. Income from subscription is recognized when collected. Income from handling stock affairs is recognized on the basis of contract terms. Handling expenses for agency business and operation are recognized on transaction completion.

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection. Under Ministry of Finance regulations, the interest revenue on credits for which agreements have been reached to extend their maturities is recognized upon collection.

Service fees are recorded as income upon receipt or substantial completion of activities involved in the earnings process.

Insurance Premium Income and Expenses

Direct premiums are recognized on the date the policies become effective. Policy-related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At balance sheet date, adjustments are made based on past experience.

Foreign currency Transactions

Non-derivative foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are retranslated using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign currency nonmonetary assets and liabilities carried at fair value are retranslated at the rates prevailing on the date when the fair value was determined, with the exchange differences treated as follows:

a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;

b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into our reporting currency. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Contingent Liabilities and Commitment

As of March 31, 2009, contingent liabilities and commitments included NT$110.6 billion in trust liabilities, NT$61.5 billion in loan commitments and NT$18.1 billion in guarantees issued. We anticipate that not all of the above commitments will be utilized before the agreed-upon expiration or other termination clauses. The amount of unused commitments therefore does not necessarily represent future funding requirements. For the three months ended March 31, 2009, the majority of the credit commitments expired within one year. Further, Shin Kong Life's and Shin Kong Bank's guarantee agreements generally have expiration periods of up to one year.

Recent Accounting Pronouncements

Accounting for loans and receivables

ROC SFAS No. 34, Financial Instruments: Recognition and Measurement, was amended in December 2008 and would be effective for accounting period beginning on or after January 1, 2011. The main change from the previous version is inclusive of originated loans and receivables within the scope of SFAS No. 34, and the amended accounting treatment for renegotiation of a financial liability.

In accordance with amended SFAS 34, originated loans and receivables have to be measured at amortized cost and the related impairment will usually be assessed individually; thus, general provision for loan loss, such as aging method of estimating bad debts, is no longer permitted.

Also, under the amended SFAS No. 34, a financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled, or expired. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in the income statement.

Accounting for insurance contracts

ROC SFAS No. 40, Insurance Contracts, which will be effective for accounting period beginning on or after January 1, 2011, stipulates the financial reporting for insurance contracts by any entity that issues such contracts. The main provisions of SFAS No. 40 on the reporting for insurance contracts by the contract issuers are as follows:

- Insurers are exempted from applying the IASB Framework and certain existing IFRSs;

- Catastrophe reserves and equalization provisions are prohibited;

- Requires a test for the adequacy of recognized insurance liabilities and an impairment test for reinsurance assets;

- Insurance liabilities may not be offset against related reinsurance assets;

- Accounting policy changes are restricted; and

- New disclosures are required.

Operating Segments

SFAS No. 41, Operating Segments, which will be effective for accounting period beginning on or after January 1, 2011, stipulates the new disclosure requirements for operating segments and will replace SFAS No. 20 "*Segment Reporting*", the existing standard in this field.

Under SFAS No. 41, segment reporting must be based on the information used internally by management to identify operating segments and to evaluate their performance. Thus, it would align operating segmental reporting with segments reported to senior management. The standard does not change the recognition or measurement of specific transactions in the financial statements.

Selected Consolidated Financial and Other Data Relating to Shin Kong FHC

The following table sets forth the summary consolidated financial and other data for Shin Kong FHC as of and for the years ended December 31, 2006, 2007 and 2008 and as of and for the three months ended March 31, 2008 and 2009.

	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2006	2007	2008	2008	2008	2009	2009
	(in millions, except per share data and percentages)						
Income statement data:							
Interest income	NT$ 46,706	NT$ 51,045	NT$ 53,691	US$ 1,585	NT$ 13,284	NT$ 12,287	US$ 363
Interest expense	(4,996)	(6,154)	(7,578)	(224)	(1,788)	(1,295)	(38)
Net interest income	41,710	44,891	46,113	1,361	11,496	10,992	325
Premium income	149,421	150,284	152,323	4,497	31,664	41,227	1,217
Incomes on insurance products — separate account	42,254	107,465	145,493	4,296	45,377	19,990	590
Insurance payments	(66,731)	(90,528)	(94,758)	(2,798)	(18,259)	(14,863)	(439)
Disbursements on insurance products — separate account	(42,254)	(107,465)	(145,493)	(4,296)	(45,377)	(19,990)	(590)
Processing fee and commission income	4,386	5,400	9,064	268	3,022	1,249	37
Processing fee and commission expense	(7,868)	(8,743)	(5,892)	(174)	(1,829)	(1,322)	(39)
Total net income and gains	137,619	107,254	86,403	2,551	17,673	40,380	1,192
Bad debt expenses	(11,094)	(1,914)	(1,756)	(52)	(580)	(646)	(19)
(Provision of) recovered insurance reserve	(99,303)	(76,836)	(87,685)	(2,589)	(19,671)	(34,759)	(1,026)
Total operating expenses	(22,782)	(23,551)	(24,599)	(726)	(6,889)	(5,288)	(156)
Continuing operations' income (loss) before tax	4,440	4,953	(27,637)	(816)	(9,467)	(313)	(9)
Consolidated net income (loss)	6,045	5,086	(22,228)	(656)	(6,847)	(498)	(15)
Basic EPS (before tax)	1.11	0.93	(4.84)	(0.14)	(1.81)	(0.08)	(0.002)
Basic EPS (after tax)	1.21	0.96	(3.80)	(0.11)	(1.30)	(0.10)	(0.003)
Diluted EPS (before tax)	0.92	0.87	—	—	—	—	—
Diluted EPS (after tax)	1.09	0.89	—	—	—	—	—

Results of Operations of Shin Kong FHC

Three months Ended March 31, 2009 Compared with Three months Ended March 31, 2008

Operating Income

Net Interest income. Net Interest income decreased by 4.4% to NT$10,992.0 million in the three months ended March 31, 2009 from NT$11,495.5 million in the three months ended March 31, 2008. This decrease was primarily due to a decrease in net interest margin.

Premium income. Premium income increased by 30.2% to NT$41,227.1 million in the three months ended March 31, 2009 from NT$31,664.4 million in the three months ended March 31, 2008. This increase was primarily due to an increase in sales of endowment products and health insurance products, partially offset by a decrease in sales of annuity products.

Claims recovered from reinsurers. Claims recovered from reinsurers decreased by 25.5% to NT$201.5 million in the three months ended March 31, 2009 from NT$270.3 million in the three months ended March 31, 2008. This decrease was primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Incomes on insurance products — separate account. Incomes on insurance products — separate account decreased by 55.9% to NT$19,989.8 million in the three months ended March 31, 2009 from NT$45,377.3 million in the three months ended March 31, 2008. This decrease was due to a decrease in the sales of investment-linked products.

Reinsurance expenses. Reinsurance expenses decreased by 3.2% to NT$512.7 million in the three months ended March 31, 2009 from NT$529.9 million in the three months ended March 31, 2008. This decrease was primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Acquisition expenses. Acquisition expenses consist of background investigation and credit checking expenses relating to customers. Acquisition expenses decreased by 2.3% to NT$17.3 million in the three months ended March 31, 2009 from NT$17.7 million in the three months ended March 31, 2008, primarily due to a decrease in the number of the insured that we required to take physical examinations.

Insurance payments. Insurance payments decreased by 18.6% to NT$14,863.2 million in the three months ended March 31, 2009 from NT$18,259.4 million in the three months ended March 31, 2008, primarily due to a greater number of Shin Kong Life's term-life insurance products maturing in the three months ended March 31, 2008 as compared to the same period in 2009.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 34.2% to NT$41.2 million in the three months ended March 31, 2009 from NT$30.7 million in the three months ended March 31, 2008, primarily due to an increase in premium income.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account decreased by 55.9% to NT$19,989.8 million in the three months ended March 31, 2009 from NT$45,377.3 million in the three months ended March 31, 2008. The decrease corresponds to the change in separate account incomes.

Processing fee and commission income. Processing fees and commission income decreased by 58.7% to NT$1,249.2 million in the three months ended March 31, 2009 from NT$3,021.5 million in the three months ended March 31, 2008, primarily due to a decrease in sales of investment-linked products.

Processing fee and commission expense. Processing fees and commission expense decreased by 27.7% to NT$1,322.1 million in the three months ended March 31, 2009 from NT$1,828.6 million in the three months ended March 31, 2008, primarily due to a decrease in sales of investment-linked products.

Valuation gain on financial assets and liabilities at fair value through profit or loss. Valuation gain on financial assets and liabilities at fair value through profit or loss decreased by 78.1% to NT$2,236.8 million in the three months ended March 31, 2009 from NT$10,223.6 million in the three months ended March 31, 2008. The decrease was primarily due to a decrease in valuation gain on foreign exchange contracts, which in turn was mainly due to the appreciation of the NT dollar against the U.S. dollar in the first quarter of 2008.

Investment (loss) income recognized under equity method. We recognized investment income under equity method of NT$0.4 million in the three months ended March 31, 2009 and investment loss under equity method of NT$0.4 million in the three months ended March 31, 2008 based on the gains and losses of our investees.

Gain on real estate investments. Gain on real estate investments decreased by 2.4% to NT$700.0 million in the three months ended March 31, 2009 from NT$717.1 million in the three months ended March 31, 2008.

Exchange gains (losses). We recognized exchange gains of NT$11,119.3 million in the three months ended March 31, 2009 and exchange losses of NT$21,039.2 million in the three months ended March 31, 2008 because the NT dollar appreciated significantly against the U.S. dollar in the first quarter of 2008.

Impairment loss. Impairment loss decreased by 97.1% to NT$93.4 million in the three months ended March 31, 2009 from NT$3,275.2 million in the three months ended March 31, 2008, primarily due to the recognition by Shin Kong Life of impairment losses for its investments in CDOs and CBOs in the three months ended March 31, 2008.

Gains (losses) for market decline on collateral assumed. We recognized gain for market decline on collateral assumed of NT$27.9 million in the three months ended March 31, 2009 and loss for market decline on collateral assumed of NT$40.8 million in the three months ended March 31, 2008. We had a greater amount of collateral retained for more than four years for which we were required to recognize market decline in the three months ended March 31, 2008 than in the same period in 2009. In addition, we disposed of more collateral in the three months ended March 31, 2009 than in the same period in 2008.

Gains (losses) on investments. We recognized loss on disposal of investments of NT$10,824.4 million in the three months ended March 31, 2009 and gain on disposal of investments of NT$4,606.0 million in the three months ended March 31, 2008, because we recognized losses from equity, bond and derivative transactions in the first quarter of 2009 and gains from such transactions in the same period in 2008.

Operating Costs and Losses

Bad debt expenses. Bad debt expenses increased by 11.3% to NT$645.8 million in the three months ended March 31, 2009 from NT$580.0 million in the three months ended March 31, 2008. This increase in bad debt expenses was primarily due to an increase in non-performing loans from Shin Kong Bank.

Provision of insurance reserve. Provision of insurance reserve increased by 76.7% to NT$34,758.9 million in the three months ended March 31, 2009 from NT$19,671.2 million in the three months ended March 31, 2008. The increase was primarily attributable to an increase in premium income.

Operating Expenses

Operating expenses decreased by 23.2% to NT$5,288.1 million in the three months ended March 31, 2009 from NT$6,888.8 million in the three months ended March 31, 2008. The decrease was primarily due to a decrease in salaries and associated benefits paid to employees and agents.

Loss Before Taxes

As a result of the foregoing, loss before income taxes decreased by 96.7% to NT$313.2 million in the three months ended March 31, 2009 from NT$9,467.5 million in the three months ended March 31, 2008.

Income Tax Benefit (Expense)

We recognized an income tax expense of NT$184.9 million in the three months ended March 31, 2009 and an income tax benefit of NT$2,620.3 million in the three months ended March 31, 2008.

Net Loss

As a result of the foregoing, net loss decreased by 92.7% to NT$498.1 million in the three months ended March 31, 2009 from NT$6,847.2 million in the three months ended March 31, 2008.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Operating Income

Net Interest income. Net Interest income increased by 2.7% to NT$46,112.8 million in 2008 from NT$44,891.3 million in 2007, primarily due to an increase in our investment amount.

Premium income. Premium income increased by 1.4% to NT$152,322.8 million in 2008 from NT$150,283.9 million in 2007.

Claims recovered from reinsurers. Claims recovered from reinsurers increased by 11.4% to NT$1,267.8 million in 2008 from NT$1,138.0 million in 2007. The increase was primarily attributable to changes in an accounting treatment of claims recovered from reinsurers from a cash basis to an accrual basis.

Incomes on insurance products — separate account. Incomes on insurance products — separate account increased by 35.4% to NT$145,493.2 million in 2008 from NT$107,464.8 million in 2007, primarily due to an increase in sales of investment-linked products.

Reinsurance expenses. Reinsurance expenses decreased by 2.2% to NT$2,694.8 million in 2008 from NT$2,756.4 million in 2007. The decrease was primarily due to changes in an accounting treatment of reinsurance expenses from a cash basis to an accrual basis.

Acquisition expenses. Acquisition expenses decreased by 10.1% to NT$73.8 million in 2008 from NT$82.1 million in 2007, primarily due to a decrease in the number of the insured that we required to take physical examinations.

Insurance payments. Insurance payments increased by 4.7% to NT$94,758.2 million in 2008 from NT$90,528.2 million in 2007, primarily because more of Shin Kong Life's term-life insurance products matured in 2008 as compared to 2007.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 0.5% to NT$151.2 million in 2008 from NT$150.5 million in 2007, primarily due to an increase in premium income.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account increased by 35.4% to NT$145,493.2 million in 2008 from NT$107,464.8 million in 2007. The increase corresponds to the change in separate account incomes.

Processing fees and commission income. Processing fees and commission income increased by 67.9% to NT$9,064.3 million in 2008 from NT$5,400.0 million in 2007, primarily due to an increase in the sales of investment-linked products and an increase in brokerage fees from MasterLink because we consolidated MasterLink's financial statements from December 11, 2007.

Processing fees and commission expense. Processing fees and commission expense decreased by 32.6% to NT$5,892.4 million in 2008 from NT$8,742.8 million in 2007, primarily due to a decrease in commission expense to sales agent as a result of a change in our investment-linked product mix.

Valuation loss on financial assets and liabilities at fair value through profit or loss. Valuation loss on financial assets and liabilities at fair value through profit or loss increased by 835.8% to NT$14,529.5 million in 2008 from NT$1,552.6 million in 2007. The increase was primarily due to an increase in valuation loss on foreign exchange contracts, which in turn was mainly due to more significant fluctuations of the NT dollars against the U.S. dollars in 2008 as compared to 2007.

Investment income (loss) recognized under equity method. We recognized investment loss under equity method of NT$14.9 million in 2008 and investment income under equity method of NT$85.2 million in 2007 based on the gains and losses of our investees.

Gain on real estate investments. Gain on real estate investments increased by 89.4% to NT$5,737.5 million in 2008 from NT$3,029.4 million in 2007. This increase was primarily due to an increase in proceeds from disposals of our real estate investments.

Exchange (losses) gains. We recognized exchange losses of NT$1,431.6 million in 2008 and exchange gains of NT$643.0 million in 2007 because the exchange rate of NT dollars against the U.S. dollars fluctuated more significantly in 2008 as compared to 2007.

Impairment loss. Impairment loss increased by 0.6% to NT$7,125.7 million in 2008 from NT$7,081.9 million in 2007, primarily due to downgrades of some of our financial assets.

Gain for market decline on collateral assumed. Gain for market decline on collateral assumed decreased by 77.0% to NT$62.8 million in 2008 from NT$273.0 million in 2007. We had more collaterals retained for more than four years for which we were required to recognize market decline in 2008 than in 2007. In addition, we disposed of more collaterals in 2007 than in 2008.

Gain (loss) on investments. We recognized loss on investments of NT$4,091.2 million in 2008 and gain on investments of NT$6,807.2 million in 2007, primarily because Shin Kong Life recognized more losses from its investments in CBOs and CDOs in 2008.

Operating Costs and Losses

Bad debt expense. Bad debt expense decreased by 8.2% to NT$1,756.2 million in 2008 from NT$1,913.6 million in 2007, primarily due to an improvement in our asset quality.

Provision of insurance reserve. Provision of insurance reserve increased by 14.1% to NT$87,684.7 million in 2008 from NT$76,835.7 million in 2007. The increase was primarily attributable to an increase in provision of premium reserve, which in turn was mainly due to an increase in premium income.

Operating Expenses

Operating expenses increased by 4.4% to NT$24,598.9 million in 2008 from NT$23,550.9 million in 2007, because we consolidated MasterLink's financial statements from December 11, 2007.

Income (Loss) Before Taxes

As a result of the foregoing, we recognized loss before income taxes of NT$27,636.7 million in 2008 and income before income tax of NT$4,953.3 million in 2007.

Income Tax Benefit

Income tax benefit increased by 3,978.8% to NT$5,408.5 million in 2008 from NT$132.6 million in 2007. Income tax benefit increased due to an increase in deferred income tax asset.

Net Income (Loss)

As a result of the foregoing, we incurred net loss of NT$22,228.2 million in 2008 and net income of NT$5,086.0 million in 2007.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Operating Income

Net Interest income. Net Interest income increased by 7.6% to NT$44,891.3 million in 2007 from NT$41,710.2 million in 2006, primarily due to an increase in interest income from fixed-income investments by Shin Kong Life.

Premium income. Premium income increased by 0.6% to NT$150,283.9 million in 2007 from NT$149,421.3 million in 2006.

Claims recovered from reinsurers. Claims recovered from reinsurers decreased by 16.2% to NT$1,138.0 million in 2007 from NT$1,358.7 million in 2006. Claim recovered from reinsurers corresponds to payment of benefits by Shin Kong Life under Shin Kong Life's policies. The decrease in claim recovered from reinsurers was primarily a result of the decrease in insurance payments in 2007 compared to 2006.

Incomes on insurance products — separate account. Incomes on insurance products — separate account increased by 154.3% to NT$107,464.8 million in 2007 from NT$42,254.3 million in 2006, primarily due to an increase in the sale of investment-linked products in 2007 versus 2006.

Reinsurance expenses. Reinsurance expenses decreased by 21.4% to NT$2,756.4 million in 2007 from NT$3,505.3 million in 2006, primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Acquisition expenses. Acquisition expenses decreased by 10.8% to NT$82.1 million in 2007 from NT$92.0 million in 2006, primarily due to a decrease in the number of the insured that we required to take physical examinations.

Insurance payments. Insurance payments decreased by 35.7% to NT$90,528.2 million in 2007 from NT$66,731.3 million in 2006, primarily because more of Shin Kong Life's term-life insurance products matured in 2007 as compared to 2006.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 0.7% to NT$150.5 million in 2007 from NT$149.4 million in 2006, primarily due to an increase in premium income.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account increased by 154.3% to NT$107,464.8 million in 2007 from NT$42,254.3 million in 2006. This increase corresponds to the change in separate account incomes.

Processing fees and commission income. Processing fees and commission income increased by 23.1% to NT$5,400.0 million in 2007 from NT$4,386.1 million in 2006. This increase was primarily due to an increase in the sales of investment-linked products and wealth management services.

Processing fees and commission expense. Processing fees and commission expense increased by 11.1% to NT$8,742.8 million in 2007 from NT$7,868.4 million in 2006. This increase was primarily due to an increase in the sales of investment-linked products.

Valuation loss on financial assets and liabilities at fair value through profit or loss. Valuation loss on financial assets and liabilities at fair value through profit or loss decreased by 31.3% to NT$1,552.6 million in 2007 from NT$2,259.7 million in 2006. The decrease was primarily due to a decrease in valuation loss on foreign exchange contracts, which in turn was mainly due to more significant fluctuations of the NT dollars against the U.S. dollars in 2006 as compared to 2007.

Investment income recognized under equity method increased by 116.8% to NT$85.2 million in 2007 from NT$39.3 million in 2006, primarily due to an increase in gains of our investees.

Gain on real estate investments. Gain on real estate investments decreased by 41.8% to NT$3,029.4 million in 2007 from NT$5,206.5 million in 2006, primarily because Shin Kong Life recognized more gains from disposal of interests in buildings through real estate investment trusts in 2006 than through commercial mortgage backed securities in 2007.

Exchange gains (losses). We recognized exchange gains of NT$643.0 million in 2007 and exchange losses of NT$1,230.0 million in 2006 because the exchange rate of NT dollars against the U.S. dollars fluctuated more significantly in 2006 as compared to 2007.

Impairment loss. Impairment loss increased by 591.3% to NT$7,081.9 million in 2007 from NT$1,024.5 million in 2006, primarily because Shin Kong Life recognized impairment losses for its investments in CDOs and CBOs in 2007 and Shin Kong Life and Shin Kong Bank recognized impairment losses in 2007 for their investments in Cosmos Bank's bonds.

Gains (losses) for market decline on collateral assumed. We recognized gains for market decline on collateral assumed of NT$273.0 million in 2007 and losses for market decline on collateral assumed of NT$1,070.0 million in 2006. We had more collaterals retained for more than four years for which we were required to recognize market decline in 2006 than in 2007. In addition, we disposed of more collaterals in 2007 than in 2006.

Gain on investments. Gain on investments decreased by 56.8% to NT$6,807.2 million in 2007 from NT$15,765.0 million in 2006, mainly because we recognized losses from derivative transactions in 2007 and gains from derivative transactions in 2006.

Operating Costs and Losses

Bad debt expenses. Bad debt expenses decreased by 82.8% to NT$1,913.6 million in 2007 from NT$11,094.1 million in 2006, primarily due to an improvement in asset quality as Shin Kong Bank recognized significant write-offs to its credit card loans in 2006.

Provision of insurance reserve. Provision of insurance reserve decreased by 22.6% to NT$76,835.7 million in 2007 from NT$99,303.2 million in 2006. The decrease was primarily attributable to an increase in recovered premium reserve, primarily because more of Shin Kong Life's insurance products matured in 2007 as compared to 2006.

Operating Expenses

Operating expenses increased by 3.4% to NT$23,550.9 million in 2007 from NT$22,781.6 million in 2006, because we consolidated MasterLink's financial statements from December 11, 2007 and salaries and associated benefits paid to Shin Kong Life's agents increased from 2006 to 2007.

Income Before Tax

As a result of the foregoing, income before tax increased by 11.6% to NT$4,953.3 million in 2007 from NT$4,440.0 million in 2006.

Income Tax Benefit

Income tax benefit decreased by 80.3% to NT$132.6 million in 2007 from NT$672.1 million in 2006 as Shin Kong Bank recognized income tax expense in 2006.

Net Income

As a result of the foregoing, net income decreased by 15.9% to NT$5,086.0 million in 2007 from NT$6,044.6 million in 2006.

Shin Kong Life

Overview

Shin Kong Life is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. Shin Kong Life has approximately three million life insurance customers. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life is widely recognized in Taiwan as a well capitalized, stable and reliable provider of insurance products. It offers a broad range of insurance products, including individual and group life insurance, health and accident insurance, annuity insurance and investment-linked products. It had approximately 5.9 million individual life insurance policies in force as of March 31, 2009.

Revenues of Shin Kong Life are principally derived from two sources:

- *Income from Insurance Operations*. Shin Kong Life generates insurance premiums, or premium income, from the sale of life insurance policies and annuity contracts. These include whole and term-life policies, accident and health insurance policies, and various forms of investment-linked products. It also generates insurance income upon the expiration of a policy or when benefits under a contract are paid to the policyholder, and in such a case, the reserves set aside with respect to that policy or contract are credited to the income statement under the line item "Recovered premium and liability reserves". Income from insurance operations comprised 78.3% and 73.7%, respectively, of Shin Kong Life's total revenues in 2008 and for the three months ended March 31, 2009.

- *Investment Income*. Shin Kong Life earns investment income and realizes investment gains on the assets generated from its insurance operations. Investment income and realized investment gains comprised 21.7% and 26.3%, respectively, of its total revenues in 2008 and for the three months ended March 31, 2009.

Shin Kong Life's operating expenses primarily consist of the following:

- Establishing liability reserves and other reserves required by ROC regulations.

- Insurance benefits provided to policyholders, accident and health benefits and claim adjustment expenses.

- Underwriting expenses and reinsurance costs.

- Administrative and other ongoing expenses.

Shin Kong Life's profitability is determined by a number of factors, including:

- Its ability to assess and manage risks associated with its insurance and annuity products, and price these products accordingly.

- Its ability to achieve mortality, morbidity and expense gains within the statutory limitations to which it is subject.

- Its success at minimizing the administrative costs associated with insurance contracts and providing customer service.

- Its success at maintaining or improving the spread between the rate earned on investments and the rate paid on policyholder accounts.

- The amount of assets under management and its ability to maximize the returns earned on such investments.

- Its ability to manage liquidity and credit risk associated with invested assets and to manage duration risk in its asset and policy portfolios through asset-liability policy.

The following table sets forth selected income statement data derived from Shin Kong Life's financial statements.

	Consolidated			Unconsolidated	
	Year Ended December 31,			Three Months Ended March 31,	
	2006	2007	2008	2008	2009
	(NT$ in millions)				
Income statement data					
Operating income	305,448	388,951	439,648	118,297	99,034
Operating costs	(278,894)	(366,296)	(445,007)	(121,051)	(96,764)
Gross operating income (loss)	26,554	22,655	(5,359)	(2,754)	2,270
Operating expenses	(15,895)	(15,870)	(15,004)	(4,438)	(3,099)
Operating income (loss)	10,659	6,785	(20,363)	(7,191)	(829)
Net income (loss)	11,784	2,428	(19,743)	(7,603)	(1,031)

Factors Affecting Shin Kong Life's Results of Operations

Premium income

Premium income forms the core of Shin Kong Life's revenue. Historically, life insurance, including whole-life and term-life insurance, and endowment products have accounted for the majority of Shin Kong Life's premium income. In addition, Shin Kong Life also offers investment-linked products. Its investment-linked products include variable annuity products, variable universal life insurance products and principal-protected variable life insurance products.

For the periods on an unconsolidated basis indicated in the following table, Shin Kong Life's premium income was derived from the products shown:

	Year Ended December 31,			Three Months Ended March 31,	
	2006	2007	2008	2008	2009
	(NT$ in millions)				
Premiums and Product Mix[1]					
Premium Income:					
First-year premiums	65,871	98,764	89,794	32,106	17,689
Renewal premiums	115,598	117,138	112,112	25,809	24,521
Total premium income	181,469	215,902	201,906	57,915	42,210
In-Force Business:					
Number of policies (individual life)	5,664,524	5,835,220	5,931,044	5,880,828	5,913,369
First-Year Premiums by Product:					
Endowment	10,718	8,711	9,918	1,320	12,910
Whole life	1,422	1,805	2,005	561	252
Term life	516	456	332	81	84
Variable universal life	31,068	60,034	1,990	2,382	(372)
Principal-protected variable	9,008	8,677	42,920	23,396	(1)
Participating	510	465	365	90	132
Interest-sensitive annuities	9,450	16,011	27,465	3,775	3,154
Fixed annuities	33	9	7	3	2
Accident insurance	1,604	1,332	1,320	265	207
Health insurance	1,542	1,264	3,472	233	1,320
Sub-total	65,871	98,764	89,794	32,106	17,688
Renewal Premiums by Product:					
Endowment	65,847	60,433	56,643	12,124	11,741
Whole life	24,195	23,686	23,069	5,564	5,707
Term life	370	377	380	90	92
Variable universal life	5,397	11,780	10,595	2,979	1,894
Principal-protected variable	—	—	—	—	—
Participating	684	1,097	1,294	255	286
Interest-sensitive annuities	8	10	7	3	3
Fixed annuities	—	—	—	—	—
Accident insurance	7,549	7,414	7,341	1,656	1,631
Health insurance	11,548	12,341	12,783	3,138	3,168
Sub-total	115,598	117,138	112,112	25,809	24,522
Total Premiums by Product:					
Endowment	76,565	69,144	66,561	13,444	24,651
Whole life	25,617	25,491	25,074	6,125	5,959
Term life	886	833	712	171	176
Variable universal life	36,465	71,814	12,585	5,361	1,522
Principal-protected variable	9,008	8,677	42,920	23,396	(1)
Participating	1,194	1,562	1,659	345	418
Interest-sensitive annuities	9,458	16,021	27,472	3,778	3,157
Fixed annuities	33	9	7	3	2
Accident insurance	9,153	8,746	8,661	1,921	1,838
Health insurance	13,090	13,605	16,255	3,371	4,488
Total	181,469	215,902	201,906	57,915	42,210
Reinsurance premium received	315	278	281	95	24
Income from investment-linked products	(32,363)	(65,869)	(49,840)	(26,343)	(1,004)
Net premium income[2]	149,421	150,311	152,347	31,667	41,230

Notes:

(1) The FSC requires income from investment-linked products to be separated from premium income in the financial statements of life insurance companies. For purposes of presentation in this table, total premium income includes income from investment-linked products.

(2) We arrive at net premium income by adding reinsurance premium received and deducting income from investment-linked products.

Factors that affect the amount of Shin Kong Life's insurance premium income include:

- market interest rate levels and the attractiveness of Shin Kong Life's products relative to financial products offered by other companies;
- introduction of new products to its product portfolio;
- the number of experienced sales agents, as well as the efficiency and productivity of these agents;
- the overall improvement in living standards in Taiwan; and
- the general economic environment.

In calculating the premiums to be charged, Shin Kong Life attempts to project its expenses associated with creating and administering each policy. These expenses include commissions it pays to agents and the home office expenses incurred to underwrite, issue and service the policy. These expenses, however, could exceed the amounts projected if inflation is higher than was assumed during pricing, if the complexity of administering the product is greater than was expected or if Shin Kong Life does not adequately control expenses. In recent years, the economies of scale that Shin Kong Life enjoys and the restructuring of its agent compensation system have contributed to a reduction of expenses as a percentage of premiums received. Shin Kong Life had expenses as percentages of premiums received of 20.8%, 18.1%, 15.8% and 15.9%, respectively, for 2006, 2007, 2008 and the three months ended March 31, 2009, which we believe are among the lowest expense ratios in the industry in Taiwan. Shin Kong Life intends to further enhance its efficiency through integrating its existing operations and periodically reviewing its performance-linked commission structure. In addition, we believe that operating within a financial holding company structure will enable Shin Kong Life to further implement its cost-saving initiatives.

Investment-linked Products

Shin Kong Life also offers several investment-linked products, such as interest sensitive annuities, variable universal life insurance products and principal-protected variable life insurance products. Sales of these products have contributed significantly to the growth in premium income. Sales of investment-linked products fluctuate with financial market performances. For example, first-year premium income we receive from the sales of investment-linked insurance products decreased significantly in the first quarter of 2009 because of the volatile global economic turmoil. Shin Kong Life plans to continue monitoring market trends and consumer preferences closely in order to develop new investment-linked products and adapt our existing products that better suit the needs of our customers, increase our product penetration, and generate revenue growth.

Investment-linked products do not expose Shin Kong Life to market risk, as that risk is assumed by customers. However, as investment-linked products generally do not allow Shin Kong Life to retain profits earned on the underlying capital, they tend to be less profitable than long-term traditional products.

Shin Kong Life accounts for the payments received in connection with the sale of investment-linked products differently than the manner in which it accounts for the payments received in connection with the sale of traditional whole and term-life insurance policies. Specifically, it records these payments under the line item “separate account revenue” to facilitate payment of investment returns to the customers who purchase investment-linked products. The commission and processing fees earned on premiums from investment-linked products are accounted for on the income statement under the line item “processing fee income.”

Investment Income

The income earned on Shin Kong Life’s investment of the funds that it receives from policyholders is an important component of its total revenues. However, Shin Kong Life’s investment income is subject to many market risks, such as movements in interest rates, exchange rates and trading prices of equity securities. For example, during the second half of 2007 and continuing through 2008 and 2009, the credit markets and sub-prime residential mortgage market in the United States experienced substantial deterioration, liquidity disruptions, and market corrections that in turn have affected the worldwide financial markets. Market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets, such as those for leveraged finance, CDOs, and other structured products. As a result, Shin Kong Life has recorded cumulative losses that represent 21.6% of the book value of its CDO portfolio from January 1, 2008 to March 31, 2009.

Further, as an insurance company, Shin Kong Life is restricted by ROC laws and regulations in the types of assets in which it may invest using funds provided by policyholders. Historically, Shin Kong Life’s principal investments have consisted of real estate assets, secured loans, fixed income securities, and to a limited extent, equity securities. Shin Kong Life is also strictly limited in the amount of overseas investments that it may make using funds provided by policyholders. Currently, the Insurance Bureau permits Shin Kong Life to invest 40% of its investment funds in foreign currency denominated assets. As a result, Shin Kong Life is able to increase the average returns on its investments by investing in bonds issued by certain foreign governments and corporations that pay a higher rate of return than is paid by most Taiwanese debt issuers.

Interest Rates

For the majority of long-term life insurance and annuity products in force, Shin Kong Life is obligated to pay a fixed rate of interest or return to its policyholders. As a result, changes in interest rates may cause the rate that Shin Kong Life is able to earn on its investments to be less than the amounts that it is required to pay on the policies. We refer to the difference between the rate of return on investments and the rate at which policies are paid as “spread.”

Market interest rates in Taiwan have decreased since the second half of 2008, and the relatively low interest rates during these periods have resulted in a negative spread on a significant number of Shin Kong Life’s policies. We calculate the premiums charged for Shin Kong Life’s policies using mortality and morbidity rates and administration expense estimates that we believe are conservative and stable. As a result, our experience has been that actual mortality, morbidity and expense rates have been lower than the estimated amounts, which has allowed Shin Kong Life to be profitable despite the negative spread.

However, we cannot be sure that our lower mortality, morbidity and expense rates will continue to be sufficiently low to offset the losses caused by negative spread. If they are not, Shin Kong Life's profitability will be adversely affected.

Reserve Requirements

Shin Kong Life is required under the ROC Insurance Law to set aside prescribed amounts of reserves at the end of each fiscal year for its insurance business. Pursuant to the guidelines promulgated by the FSC, Shin Kong Life sets aside the following reserves:

- *Liability Reserve*. Liability reserve is calculated in accordance with the *Guidelines Governing Various Reserves of the Insurance Industry* (the "Guidelines"), based on the interest rate under relevant insurance policies and the statutory mortality table approved by the FSC.

- *Unearned Premium Reserve*. Unearned premium reserve generally contains the portion of premium for insurance with a policy term of one year or less for which provision has not yet been made. According to the Guidelines, unearned premium reserve is determined by multiplying total written premium income for each policy by a prescribed rate.

- *Special Reserve*. Special reserve for health and term life and group accident insurance policies with a term of one year or less must be provided for in an amount equal to 3% of total retained premiums in the current year plus 15% of the excess of the expected loss over actual loss. Special reserve for individual accident insurance policies with a term of one year or less must be provided for in an amount equal to 1% of total retained premiums in the current year plus 15% of the excess of the expected loss over the actual loss. Special reserve can be offset against the excess of the actual loss over the expected loss. If the special reserve is greater than 15% of the excess of the expected loss over the actual loss, such accumulated special reserve in excess of 30% of retained earned premiums must be offset against other income.

- *Claim Reserve*. Claim reserve includes reserves provided for with respect to (1) incurred but not reported claims, and (2) reported but not approved claims. For incurred but not reported claims, the required reserve for insurance policies with a term of one year or less must be 1% of written premiums in the current year. For reported but not approved claims, the required reserve is calculated on a per policy claims reported basis.

- *Insufficient Premium Reserve*. New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

The amount set aside as reserve in each of these categories must be certified by a valuation actuary approved by the FSC. Shin Kong Life's liability reserve, the largest of the five reserve categories set forth above, is based on actuarial assumptions that it establishes and maintains throughout the lives of the policies issued. These include assumptions regarding interest rates, mortality rates and morbidity rates. Assumptions regarding mortality rates must be based on mortality tables prescribed by the FSC. These tables provide expected mortality rates for the insured population broken down by gender and age. The mortality rates of various categories of insured persons are determined using conservative assumptions. The FSC revises the statutory mortality rates tables periodically, and the most recent revision became effective on January 1, 2004.

Shin Kong Life has historically achieved significant mortality gains based on the differences between the statutory mortality rates and Shin Kong Life's actual claims experience. We believe that Shin Kong Life has achieved these gains as a result of its underwriting process, which is designed to minimize mortality risks. The following chart shows the actual mortality rate for Shin Kong Life's individual insurance policies for the periods indicated:

	Year Ended December 31,			Three months Ended March 31,
Actual Mortality Rate	**2006**	**2007**	**2008**	**2009**
Actual Mortality Rate Based on Policy in-Force	62.3%	62.1%	62.2%	59.7%
Actual Mortality Rate Based on Policy in-Force inclusive of mortality dividends(1)	76.9%	76.9%	77.3%	75.0%

Note:

(1) The mortality dividends are calculated based on the differences between actual claim experiences and the mortality rates set forth in the mortality tables prescribed by the FSC in 1989.

The table below sets forth the reserve account of Shin Kong Life and the changes to the account resulting from the provisions and recoveries described above for the period from January 1, 2006 through March 31, 2009. The reserve account increased as a result of the increase in insurance in force throughout these periods, causing all elements of the reserve account to increase to support such growth.

	As of December 31,			As of March 31,
Reserve Breakout Table	**2006**	**2007**	**2008**	**2009**
	(NT$ in millions, unless otherwise noted)			
Reserves at Beginning of Period	872,540	971,843	1,048,679	1,136,364
Plus Provision for:				
Premium Reserve	150,893	153,503	169,202	45,558
Special Reserve	582	301	244	160
Claim Reserve	2,089	1,323	1,397	144
Insufficient Premium Reserve	—	44	—	78
Total Provision	153,564	155,171	170,843	45,940
Less Recovered Reserves:				
Premium Reserve	52,953	76,493	81,212	10,923
Special Reserve	20	—	73	1
Claim Reserve	1,288	1,520	1,262	235
Insufficient Premium Reserve	—	322	611	22
Total Recoveries	54,261	78,335	83,158	11,181
Reserves at End of Period	971,843	1,048,679	1,136,364	1,171,123

Principal Components of Shin Kong Life's Income Statement

Operating Income

Premium income. Premium income consists largely of income derived from new policies, which we refer to as first-year premiums, and outstanding insurance policies, which we refer to as renewal premiums.

Interest income. Some of the funds received from policyholders, which we refer to as "policyholder funds," are deposited in banks or invested in fixed-income instruments. Interest income consists largely of interest earned from such deposits and investments.

Reinsurance commission income. To minimize the risks associated with policies that provide for benefits in excess of Shin Kong Life's predetermined limit, Shin Kong Life enters into reinsurance contracts with third party reinsurance companies to cover all or a portion of its liability under such policies. Reinsurance commission income is the commission received from such third party reinsurance companies under the reinsurance contracts. Typically, the amount of commission received equals a percentage of the reinsurance premium payable by Shin Kong Life or a percentage of the profits earned by the reinsurer.

Claims recovered from reinsurers. In the event Shin Kong Life becomes liable under a reinsured policy to pay claim benefits to the policyholder, Shin Kong Life is entitled to a refund from the reinsurer under the relevant reinsurance contract. Reinsurance payment refund is the amount of refunds that Shin Kong Life collects from its reinsurers.

Recovered premium and reserve. In underwriting each policy, Shin Kong Life is required to set aside a liability reserve for such policy and, in some cases, an unearned premium reserve as well. See "— Factors Affecting Shin Kong Life's Results of Operations — Reserve Requirements." In the event a policy matures and the liability reserve previously set aside exceed the benefits paid under the policy, the difference is recognized as recovered premium and reserve.

Recovered special reserve. In underwriting a policy that falls within certain categories, Shin Kong Life is required to set aside a special reserve for such policy. See "— Factors Affecting Shin Kong Life's Results of Operations — Reserve Requirements." The circumstances under which a special reserve is recovered would depend on the category to which the policy belongs. For example, special reserve for a catastrophic insurance policy may be recovered as income if it has been provisioned for more than 15 years.

Recovered claim reserve. Shin Kong Life is required to set aside a special reserve for each policy to which it is exposed to an indemnity liability of indeterminate amount. See "— Factors Affecting Shin Kong Life's Results of Operations — Reserve Requirements." Claim reserve is recovered when the policy expires or the underlying claim is settled, as the case may be.

Separate account incomes. Separate account incomes consist of revenues generated from investment-linked products. Such revenue is recorded in an account separate from Shin Kong Life's other revenues because such revenue is paid to the policyholders of investment-linked products. Separate account revenue is offset in the income statement on a one-to-one basis under the line item "separate account expenses."

Gain on real estate investments. Gain on real estate investments primarily consists of gain realized from the disposal of real estate properties (on a book value basis) and rental income (net of maintenance costs and other expenses) generated by real estate properties.

Fee income. Fee income primarily consists of commissions and processing fees earned on the sale of investment-linked products.

Operating Costs and Losses

Interest expense. Interest expense primarily consists of interest payments made to policyholders. Generally, Shin Kong Life is obliged to pay interest to a policyholder if it fails to make the benefit payment to which the policyholder is entitled within 10 days of its receipt of the claim. The failure is usually caused by administrative difficulties encountered in the claim verification process.

Reinsurance expenses. Reinsurance expense primarily consists of premiums paid by Shin Kong Life to reinsurers under the reinsurance contracts described in the line item "reinsurance commission income" above. Generally, reinsurance expenses vary by product type because the portion of liability for which Shin Kong Life chooses to reinsure differs among products.

Acquisition expenses. Acquisition expenses consist of expenses incurred in background investigation and physical examinations.

Commission expenses. Commission expenses consist of payments made to sales agents, banks and financial institutions as compensation for the sales services rendered. Reinsurance commission expenses consist of payments made to reinsurance companies.

Insurance payments. Insurance payments are benefits paid to policyholders pursuant to the terms of their policies.

Provision of premium reserve. Provision of premium reserve consists of the amount Shin Kong Life is required to set aside as liability reserve for all policies during the relevant period.

Provision of special reserve. Provision of special reserve consists of the additional amount Shin Kong Life is required to set aside as special reserve for specific kinds of policies during the relevant period.

Disbursements to industry stability fund. Disbursements to industry stability fund consist of the amount of contribution that Shin Kong Life is required to make towards the insurance industry's stability fund. The amount equals 0.1% of the premium income recognized by Shin Kong Life in the relevant period.

Provision for claim reserve. Claim reserves are reserves for indeterminate indemnities, whether or not reported. The provisions for the reserves for reported indeterminate indemnities are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance product. The provisions for the incurred but not yet reported reserve are recognized according to the method approved by the related authority, and historical information.

Processing fees. Processing fees consist of payments paid to banks and financial institutions as compensation for administrative services rendered.

Separate account expenses. Separate account expenses consist of the deduction from operating revenue income generated by investment-linked products. Separate account expenses are offset in the income statement on a one-to-one basis under the line item "separate account incomes."

Operating Expenses

Operating expenses primarily consist of selling and distribution costs, such as salaries and commissions for sales and marketing personnel, advertising and promotional expenditures, and policyholder support costs.

Non-operating Income

Non-operating income primarily consists of discounts on the trading of securities, recovered bad debt and overdue receivables, and capital surplus from revaluation.

Non-operating Expenses

Non-operating expenses primarily consist of impairment losses on financial assets.

Results of Operations of Shin Kong Life

Three months Ended March 31, 2009 Compared with Three months Ended March 31, 2008

Operating Income

Premium income. Premium income increased by 30.2% to NT$41,230.0 million in the three months ended March 31, 2009 from NT$31,667.4 million in the three months ended March 31, 2008.

Of total premium income in the three months ended March 31, 2009, NT$17,688.8 million was attributable to first-year premiums and NT$24,520.8 million was attributable to renewal premiums. Of total premium income in the three months ended March 31, 2008, NT$32,105.8 million was attributable to first-year premiums and NT$25,808.9 million was attributable to renewal premiums.

- *Endowment products*. Income from first-year premiums of endowment products increased by 878.1% to NT$12,910.5 million in the three months ended March 31, 2009 from NT$1,320.0 million in the three months ended March 31, 2008, primarily due to a shift in customer demands from investment-linked products to fixed-rate products.

- *Whole-life insurance products*. Income from first-year premiums of individual whole-life insurance products decreased by 55.0% to NT$252.1 million in the three months ended March 31, 2009 from NT$560.4 million in the three months ended March 31, 2008, primarily because customers shifted their purchases to health insurance products from whole-life insurance products.

- *Term-life insurance products*. Income from first-year premiums from individual term-life insurance products increased by 3.5% to NT$84.3 million in the three months ended March 31, 2009 from NT$81.5 million in the three months ended March 31, 2008.

- *Variable universal life products*. Income from first-year premiums from variable universal life products decreased by 115.6% to NT$(371.9) million in the three months ended March 31, 2009 from NT$2,381.5 million in the three months ended March 31, 2008, primarily due to the volatilities in global equity markets in the first quarter of 2009.

- *Principal-protected variable products*. Income from first-year premiums from principal-protected variable products decreased by 100.0% to NT$(0.5) million in the three months ended March 31, 2009 from NT$23,396.1 million in the three months ended March 31, 2008, primarily due to the volatilities in global economic markets in the first quarter of 2009.

- *Participating products*. Income from first-year premiums from participating products increased by 47.2% to NT$131.8 million in the three months ended March 31, 2009 from NT$89.5 million in the three months ended March 31, 2008.

- *Interest-sensitive annuities products*. Income from first-year premiums from interest-sensitive annuities products decreased by 16.5% to NT$3,154.0 million in the three months ended March 31, 2009 from NT$3,775.4 million in the three months ended March 31, 2008, primarily due to a decrease in interest rates and volatile global economic turmoil.

- *Fixed annuities products*. Income from first-year premiums from fixed annuities products decreased by 35.1% to NT$2.1 million in the three months ended March 31, 2009 from NT$3.2 million in the three months ended March 31, 2008.

- *Accident insurance products*. Income from first-year premiums from accident insurance products decreased by 22.1% to NT$206.6 million in the three months ended March 31, 2009 from NT$265.1 million in the three months ended March 31, 2008. Competition within this market segment intensified as companies in the property and casualty industry continued their low price strategy to increase market share.

- *Health insurance products*. Income from first-year premiums from health insurance products increased by 465.8% to NT$1,319.8 million in the three months ended March 31, 2009 from NT$233.3 million in the three months ended March 31, 2008, primarily due to higher popularity of health insurance products as the average age of the Taiwanese population increases.

Reinsurance commission income. Reinsurance commission income decreased by 41.8% to NT$179.3 million in the three months ended March 31, 2009 from NT$308.3 million in the three months ended March 31, 2008. This decrease was primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Claims recovered from reinsurers. Claims recovered from reinsurers decreased by 25.5% to NT$201.5 million in the three months ended March 31, 2009 from NT$270.3 million in the three months ended March 31, 2008. This decrease was primarily due to a shift in demand for certain health insurance products with lower insured amounts and a correspondingly smaller reinsured component.

(Provision of) recovered claim reserve. Shin Kong Life recognized recovered claim reserve, net, of NT$90.9 million in the three months ended March 31, 2009 and provision for claim reserve, net, of NT$31.6 million in the three months ended March 31, 2008, primarily

due to a decrease in reported but not approved claims for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008.

Processing fee income. Processing fee income decreased by 86.4% to NT$192.9 million in the three months ended March 31, 2009 from NT$1,422.0 million in the three months ended March 31, 2008. This decrease was directly related to a decrease in sales of investment-linked products.

Interest income. Interest income increased by 2.7% to NT$9,817.9 million in the three months ended March 31, 2009 from NT$9,564.0 million in the three months ended March 31, 2008, primarily due to an increase in the investment amount.

Valuation gain on financial assets at fair value through profit or loss. Valuation gain on financial assets at fair value through profit or loss decreased to NT$4,238.9 million in the three months ended March 31, 2009 from NT$10,584.6 million in the three months ended March 31, 2008. The decrease was primarily due to a decrease in valuation gains on foreign exchange contracts, which in turn was mainly due to the appreciation of the NT dollar against the U.S. dollar in the first quarter of 2008.

Foreign exchange gains (losses). Shin Kong Life recognized foreign exchange gains of NT$11,186.0 million in the three months ended March 31, 2009 and foreign exchange losses of NT$21,567.5 million in the three months ended March 31, 2008 because the NT dollar appreciated significantly against the U.S. dollar in the first quarter of 2008.

Investment income recognized under equity method. Investment income recognized under equity method decreased by 12.0% to NT$23.3 million in the three months ended March 31, 2009 from NT$26.4 million in the three months ended March 31, 2008, primarily based on the gains of Shin Kong Life's subsidiaries and investees.

Gain (loss) on investments. Shin Kong Life recognized loss on investments of NT$11,342.9 million in the three months ended March 31, 2009 and gains on investments of NT$4,658.5 million in the three months ended March 31, 2008, because Shin Kong Life recognized losses from equity and derivative transactions in the first quarter of 2009 and gains from equity and derivative transactions in the same period in 2008.

Gain on real estate investments. Gain on real estate investments increased by 1.4% to NT$793.5 million in the three months ended March 31, 2009 from NT782.5 million in the three months ended March 31, 2008.

Incomes on insurance products — separate account. Incomes on insurance products — separate account decreased by 55.9% to NT$19,989.8 million in the three months ended March 31, 2009 from NT$45,377.3 million in the three months ended March 31, 2008, primarily due to a decrease in the sales of investment-linked products.

Operating Costs

Reinsurance expenses. Reinsurance expense decreased by 3.2% to NT$512.7 million in the three months ended March 31, 2009 from NT$529.9 million in the three months ended March 31, 2008. This decrease was primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Acquisition expenses. Acquisition expense decreased by 2.2% to NT$17.3 million in the three months ended March 31, 2009 from NT$17.7 million in the three months ended March 31, 2008, primarily due to a decrease in the number of the insured that we required to take physical examinations.

Commission expenses. Commission expenses decreased by 26.0% to NT$1,202.2 million in the three months ended March 31, 2009 from NT$1,625.3 million in the three months ended March 31, 2008, primarily due to a decrease in sales of investment-linked products.

Insurance payments. Insurance payments decreased by 18.6% to NT$14,863.2 million in the three months ended March 31, 2009 from NT$18,259.4 million in the three months ended March 31, 2008, primarily because more of Shin Kong Life's term-life insurance products matured for the three months ended March 31, 2008 as compared to the same period in 2009.

Provision of premium reserve. Provision of premium reserve increased by 37.1% to NT$34,634.6 million in the three months ended March 31, 2009 from NT$19,773.1 million in the three months ended March 31, 2008. The increase reflected an increase in premium income.

(Provision of) recovered special reserve, net. Shin Kong Life recognized provision of special reserve, net, of NT$158.7 million in the three months ended March 31, 2009 and recovered for special reserve of NT$1.2 million in the three months ended March 31, 2008, primarily due to the change in investment return for participating insurance products.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 34.2% to NT$41.2 million in the three months ended March 31, 2009 from NT$30.7 million in the three months ended March 31, 2008, primarily due to an increase in premium income.

(Provision of) recovered of insufficient premium reserve. Shin Kong Life recognized provision of insufficient premium reserve, net, of NT$56.5 million in the three months ended March 31, 2009 and recovered insufficient premium reserve, net, of NT$132.3 million in the three months ended March 31, 2008, primarily due to a change in our product mix.

Processing fees. Processing fees decreased by 53.8% to NT$1.2 million in the three months ended March 31, 2009 from NT$2.6 million in the three months ended March 31, 2008, primarily due to a decrease in sales of investment-linked products.

Interest expense. Interest expense decreased by 61.0% to NT$7.8 million in the three months ended March 31, 2009 from NT$20.0 million in the three months ended March 31, 2008. This decrease in interest expense was primarily due to the decrease in interest rates.

Valuation loss on financial liabilities at fair value through profit or loss. Valuation loss on financial liabilities at fair value through profit or loss increased significantly to NT$2,748.2 million in the three months ended March 31, 2009 from NT$313.5 million in the three months ended March 31, 2008. The increase was primarily due to an increase in valuation loss on foreign exchange contracts, which in turn was mainly due to the appreciation of the NT dollars against the U.S. dollars in the first quarter of 2008.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account decreased by 55.9% to NT$19,989.8 million in the three months ended March 31, 2009 from NT$45,377.3 million in the three months ended March 31, 2008. This line item correlates with the change in separate account incomes.

Operating Expenses

Operating expenses decreased by 30.2% to NT$3,099.4 million in the three months ended March 31, 2009 from NT$4,437.6 million in the three months ended March 31, 2008. The decrease was primarily due to a decrease in salaries and associated benefits paid to employees and agents as we introduced the balanced scorecard management method.

Non-operating Income and Gains

Non-operating income and gains decreased by 34.8% to NT$132.0 million in the three months ended March 31, 2009 from NT$202.5 million in the three months ended March 31, 2008.

Non-operating Expenses and Losses

Non-operating expenses and losses decreased by 94.2% to NT$193.9 million in the three months ended March 31, 2009 from NT$3,355.5 million in the three months ended March 31, 2008, primarily because Shin Kong Life recognized impairment losses for its investments in CDOs and CBOs in the three months ended March 31, 2008.

Operating Loss Before Tax

As a result of the foregoing, operating loss before tax decreased by 91.4% to NT$891.2 million in the three months ended March 31, 2009 from NT$10,344.1 million in the three months ended March 31, 2008.

Income Tax Benefit (Expense)

We recognized an income tax expense of NT$139.4 million in the three months ended March 31, 2009 and an income tax benefit of NT$2,741.1 million in the three months ended March 31, 2008.

Net Loss

As a result of the foregoing, net loss decreased by 86.4% to NT$1,030.6 million in the three months ended March 31, 2009 from NT$7,603.0 million in the three months ended March 31, 2008.

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Operating Income

Premium income. Premium income increased by 1.4% to NT$152,347.0 million in 2008 from NT$150,311.4 million in 2007.

Of total premium income in 2008, NT$89,793.9 million was attributable to first-year premiums and NT$112,112.6 million was attributable to renewal premiums. Of total premium income in 2007, NT$98,763.6 million was attributable to first-year premiums and NT$117,138.8 million was attributable to renewal premiums.

- *Endowment products*. Income from first-year premiums from endowment products increased by 13.9% to NT$9,918.0 million in 2008 from NT$8,710.9 million in 2007, primarily due to an increase in customer demands.

- *Whole-life insurance business*. Income from first-year premiums from Shin Kong Life's individual whole-life insurance business increased by 11.1% to NT$2,005.0 million in 2008 from NT$1,805.5 million in 2007, primarily due to an increase in sales of certain whole-life insurance products with critical illness protection and death-protection features.

- *Term-life insurance business*. Income from first-year premiums from Shin Kong Life's individual term-life insurance business decreased by 27.2% to NT$332.1 million in 2008 from NT$456.0 million in 2007 because customers shifted their purchases to health insurance products from term-life insurance products.

- *Variable universal life products*. Income from first-year premiums from variable universal life products decreased by 96.7% to NT$1,989.6 million in 2008 from NT$60,034.1 million in 2007, primarily due to the volatilities in global economic markets in 2008.

- *Principal-protected variable products*. Income from first-year premiums from principal-protected variable products increased by 394.7% to NT$42,920.3 million in 2008 from NT$8,676.8 million in 2007, primarily due to an increase in customers' interest in principal-protected variable products.

- *Participating products*. Income from first-year premiums from participating products decreased by 21.5% to NT$365.2 million in 2008 from NT$465.4 million in 2007, because customers shifted their purchases to health insurance products and whole-life insurance products with critical illness protection and death-protection features from participating products.

- *Interest-sensitive annuities products*. Income from first-year premiums from interest-sensitive annuities products increased by 71.5% to NT$27,463.7 million in 2008 from NT$16,010.8 million in 2007, primarily due to Shin Kong Life's more successful cooperation with its bancassurance distribution channels including Shin Kong Bank for sales of annuity products in 2008 than in 2007.

- *Fixed annuities products*. Income from first-year premiums from fixed annuities products decreased by 14.9% to NT$7.3 million in 2008 from NT$8.6 million in 2007.

- Accident insurance products. Income from first-year premiums from Shin Kong Life's accident insurance products decreased by 0.8% to NT$1,320.4 million in 2008 from NT$1,331.7 million in 2007. Competition within this market segment intensified as companies in the property and casualty industry continued their low price strategy to increase market share.

- *Health insurance products*. Income from first-year premiums from Shin Kong Life's health insurance products increased by 174.6% to NT$3,472.2 million in 2008 from NT$1,264.4 million in 2007, primarily due to higher popularity of health insurance products as the average age of the Taiwanese population increases.

Reinsurance commission income. Reinsurance commission income increased by 3.1% to NT$1,415.0 million in 2008 from NT$1,372.7 million in 2007. This increase was primarily due to changes in an accounting treatment of reinsurance commission income from a cash basis to an accrual basis.

Claims recovered from reinsurers. Claims recovered from reinsurers increased by 11.4% to NT$1,267.8 million in 2008 from NT$1,138.0 million in 2007. The increase was primarily attributable to changes in an accounting treatment of claims recovered from reinsurers from a cash basis to an accrual basis.

Recovered claim premium reserve, net. Recovered claim premium reserve, net, increased by 119.8% to NT$610.7 million in 2008 from NT$277.8 million in 2007.

Processing fee income. Processing fee income increased by 122.3% to NT$3,049.9 million in 2008 from NT$1,371.8 million in 2007. This increase was primarily due to increased sales of investment-linked products.

Interest income. Interest income increased by 1.2% to NT$38,703.8 million in 2008 from NT$38,259.2 million in 2007, primarily due to an increase in the investment amount.

Valuation gain on financial assets at fair value through profit or loss. Shin Kong Life recognized valuation gain on financial assets at fair value through profit or loss of NT$7,617.9 million in 2008 and valuation loss on financial assets at fair value through profit or loss of NT$838.1 million in 2007.

Foreign exchange gains (losses). Shin Kong Life recognized foreign exchange losses of NT$1,433.7 million in 2008 and foreign exchange gains of NT$608.6 million in 2007 because the NT dollars appreciated against the U.S. dollars in 2008.

Investment income (loss) recognized under equity method. Shin Kong Life recognized investment loss under equity method of NT$14.9 million in 2008 and investment income recognized under equity method. Investees of NT$106.0 million in 2007 based on the gains and losses of our investees.

Gains (losses) on disposal of investments. Shin Kong Life recognized loss on disposal of investments of NT$1,820.2 million in 2008 and gains on disposal of investments of NT$6,250.8 million in 2007.

Gain on real estate investments. Gain on real estate investments increased by 88.9% to NT$6,083.6 million in 2008 from NT$3,221.2 million in 2007. This increase was primarily due to an increase in disposals of our real estate investments and, to a lesser extent, rent incomes from these real estate investments. We recognized gains from disposal of interests in three buildings through commercial mortgage backed securities in 2007 and recognized gains from sales of a building and two parcels of lands in 2008.

Incomes on insurance products — separate account. Incomes on insurance products — separate account increased by 35.4% to NT$145,493.2 million in 2008 from NT$107,464.8 million in 2007, primarily due to an increase in sales of investment-linked products.

Operating Costs and Losses

Reinsurance expenses. Reinsurance expenses decreased by 2.2% to NT$2,694.8 million in 2008 from NT$2,756.4 million in 2007. The decrease was primarily due to changes in an accounting treatment of reinsurance expenses from a cash basis to an accrual basis.

Acquisition expenses. Acquisition expenses decreased by 10.1% to NT$73.8 million in 2008 from NT$82.1 million in 2007. This decrease was primarily due to a decrease in the number of the insured that we required to take physical examinations.

Commission expenses. Commission expenses decreased by 32.3% to NT$5,542.0 million in 2008 from NT$8,182.5 million in 2007. The decrease was primarily due to a change in product mix. There was an increase in sales of investment-linked products and interest-sensitive annuities, all of which command lower commissions in general.

Insurance payments. Insurance payments increased by 4.7% to NT$94,758.2 million in 2008 from NT$90,528.2 million in 2007, primarily because more of Shin Kong Life's endowment insurance products matured in 2008 as compared to 2007.

Provision of premium reserves. Provision of premium reserves increased by 14.3% to NT$87,989.4 million in 2008 from NT$77,009.1 million in 2007. The increase was primarily due to an increase in the policies underwritten and interest accrued on the balance of such reserves.

Provision of special reserve. Provision of special reserve decreased by 43.2% to NT$170.8 million in 2008 from NT$300.8 million in 2007, primarily due to regulatory changes, and reclassification of insufficient premium reserve as a separate line item.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 0.5% to NT$151.2 million in 2008 from NT$150.5 million in 2007, primarily due to an increase in premium income.

(*Provision for) recovered claim reserve*. Shin Kong Life recognized provision for claim reserve of NT$135.4 million in 2008 and recovered claim reserve of NT$196.4 million in 2007, primarily due to a regulatory change to calculate the claim reserve from a retained basis to a gross basis.

Processing fees. Processing fees decreased by 4.0% to NT$23.9 million in 2008 from NT$24.9 million in 2007.

Interest expense. Interest expense decreased by 45.2% to NT$35.3 million in 2008 from NT$64.4 million in 2007. This decrease in interest expense was due to the decrease in interest rates.

Valuation loss on financial liabilities at fair value through profit or loss. Valuation loss on financial liabilities at fair value through profit or loss increased significantly to NT$21,616.1 million in 2008 from NT$449.3 million in 2007. The increase was primarily due to an increase in valuation loss on foreign exchange contracts, which in turn was mainly due to more significant fluctuations of the NT dollars against the U.S. dollars in 2008 as compared to 2007.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account increased by 35.4% to NT$145,493.2 million in 2008 from NT$107,464.8 million in 2007. The increase corresponds to the change in separate account incomes.

Operating Expenses

Operating expenses decreased by 5.5% to NT$15,004.5 million in 2008 from NT$15,869.9 million in 2007, primarily due to a decrease in salaries and associated benefits paid to employees and agents as we introduced the balanced scorecard management method, partially offset by the expenses in relation to the employee share subscriptions in 2008.

Non-operating Income And Gains

Non-operating income and gains decreased by 34.9% to NT$906.9 million in 2008 from NT$1,393.3 million in 2007. This decrease is primarily due to a decrease in the considerations we received from leasing the buildings to Shin Kong Mitsukoshi Department Store.

Non-operating Expenses And Losses

Non-operating expenses and losses increased by 14.4% to NT$6,145.7 million in 2008 from NT$5,371.0 million in 2007. This increase is primarily due to an increase in impairment losses in CBOs and CDOs.

Operating Income (Loss) Before Tax

As a result of the foregoing, we recognized an operating loss before tax of NT$25,601.8 million in 2008 and an operating income before tax of NT$2,807.3 million in 2007.

Income Tax Benefit (Expense)

We recognized income tax benefit of NT$5,859.3 million in 2008 and an income tax expense of NT$378.8 million in 2007, because we recorded a substantial operating income before tax in 2007 and recorded an operating loss before tax in 2008.

Net Loss

As a result of the foregoing, we incurred net loss of NT$19,742.5 million in 2008 and net income of NT$2,428.5 million in 2007.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Operating Income

Premium income. Premium income increased by 0.6% to NT$150,311.4 million in 2007 from NT$149,421.3 million in 2006.

Of total premium income in 2007, NT$98,763.6 million was attributable to first-year premiums and NT$117,138.8 million was attributable to renewal premiums. Of total premium income in 2006, NT$65,871.0 million was attributable to first-year premiums and NT$115,598.4 million was attributable to renewal premiums.

- *Endowment products*. Income from first-year premiums from our endowment products decreased by 18.7% to NT$8,710.9 million in 2007 from NT$10,718.1 million in 2006, primarily due to a decrease in sales of universal life insurance products.

- *Whole-life insurance business*. Income from first-year premiums from Shin Kong Life's whole-life insurance business increased by 26.9% to NT$1,805.0 million in 2007 from NT$1,422.2 million in 2006, primarily due to an increase in sales of certain insurance products with health insurance features.

- *Term-life insurance business*. Income from first-year premiums from Shin Kong Life's term-life insurance business decreased by 11.7% to NT$456.0 million in 2007 from NT$516.3 million in 2006, because customers shifted their purchases to investment-linked products from term-life insurance products.

- *Variable universal life products*. Income from first-year premiums from variable universal life products increased by 93.2% to NT$60,034.1 million in 2007 from NT$31,067.7 million in 2006, primarily due to an increase in sales of insurance products linked to mutual funds.

- *Principal-protected variable products*. Income from first-year premiums from principal-protected variable products decreased by 3.7% to NT$8,676.8 million in 2007 from NT$9,008.3 million in 2006, primarily because customers shifted their purchases to variable universal life products from principal-protected variable products.

- *Participating products*. Income from first-year premiums from participating products decreased by 8.7% to NT$465.4 million in 2007 from NT$509.7 million in 2006.

- *Interest-sensitive annuities products*. Income from first-year premiums from interest-sensitive annuities products increased by 69.4% to NT$16,010.8 million in 2007 from NT$9,450.1 million in 2006, primarily due to Shin Kong Life's more successful cooperation with Shin Kong Bank and other financial institutions for sales of interest-sensitive annuities products in 2007 than in 2006.

- *Fixed annuities products*. Income from first-year premiums from fixed annuities products decreased by 73.5% to NT$8.6 million in 2007 from NT$32.6 million in 2006, primarily because customers shifted their purchases to interest-sensitive annuities products.

- *Accident insurance products*. Income from first-year premiums from Shin Kong Life's accident insurance products decreased by 17.0% to NT$1,331.7 million in 2007 from NT$1,604.2 million in 2006. The decrease was primarily due to the competition from property insurance companies with low premium strategies.

- *Health insurance products*. Income from first-year premiums from Shin Kong Life's health insurance products decreased by 18.0% to NT$1,264.4 million in 2007 from NT$1,541.7 million in 2006. This decrease was primarily due to the fact that we introduced and aggressively marketed a new long-term health insurance product in 2006, which significantly increased health insurance sales in 2006.

Reinsurance commission income. Reinsurance commission income decreased by 25.6% to NT$1,372.7 million in 2007 from NT$1,845.8 million in 2006, primarily due to a shift in demand for certain health insurance products with less insured amounts and a corresponding smaller reinsured component.

Claims recovered from reinsurers. Claims recovered from reinsurers decreased by 16.2% to NT$1,138.0 million in 2007 from NT$1,358.7 million in 2006, primarily due to a shift in demand for certain health insurance products with less insured amounts and a corresponding smaller reinsured component.

Recovered (provision of) indemnity reserve, net. Shin Kong Life recognized recovered indemnity reserve, net, of NT$196.4 million in 2007 and provision of indemnity reserve, net, of NT$801.6 million in 2006, primarily due to regulatory change.

Processing fee income. Processing fee income increased by 95.7% to NT$1,371.8 million in 2007 from NT$701.1 million in 2006. This increase was primarily due to increased sales of investment-linked products.

Interest income. Interest income increased by 11.1% to NT$38,259.2 million in 2007 from NT$34,424.6 million in 2006. This increase was primarily due to an increase in the investment amount.

Foreign exchange gains (losses). Shin Kong Life recognized foreign exchange gains of NT$608.6 million in 2007 and foreign exchange losses of NT$1,378.4 million in 2006 because the NT dollars appreciated against the U.S. dollars in 2006.

Investment income recognized under equity method. Investment income recognized under equity method increased to NT$106.0 million in 2007 from NT$39.4 million in 2006, primarily due to an increase in gains of our investees.

Gains on investments. Gains on investments decreased by 59.2% to NT$6,250.8 million in 2007 from NT$15,324.7 million in 2006, mainly because we recognized losses from derivative transactions in 2007 and gains from derivative transactions in 2006.

Gain on real estate investments. Gain on real estate investments decreased by 39.6% to NT$3,221.2 million in 2007 from NT$5,335.5 million in 2006, primarily because Shin Kong Life recognized more gains from disposal of interests in buildings through real estate investment trusts in 2006 than through commercial mortgage backed securities in 2007.

Incomes on insurance products — separate account increased by 154.3% to NT$107,464.8 million in 2007 from NT$42,254.3 million in 2006, primarily due to an increase in the sale of investment-linked products during 2007 versus 2006.

Operating Costs and Losses

Reinsurance expenses. Reinsurance expenses decreased by 21.4% to NT$2,756.4 million in 2007 from NT$3,505.3 million in 2006, primarily due to a shift in demand for certain health insurance products with less insured amounts and a correspondingly smaller reinsured component.

Acquisition expenses. Acquisition expenses decreased by 10.8% to NT$82.1 million in 2007 from NT$92.0 million in 2006. This decrease was primarily due to a decrease in the number of the insured that we required to take physical examinations.

Commission expenses. Commission expenses increased by 6.8% to NT$8,182.5 million in 2007 from NT$7,662.4 million in 2006.

Insurance payments. Insurance payments increased by 35.7% to NT$90,528.2 million in 2007 from NT$66,731.3 million in 2006, primarily because more of Shin Kong Life's endowment insurance products matured in 2007 as compared to 2006.

Provision of premiums reserve, net. Provision of premium reserve, net decreased by 21.4% to NT$77,009.1 million in 2007 from NT$97,939.5 million in 2006.

Provision of special reserve, net. Provision of special reserve, net decreased by 48.3% to NT$300.8 million in 2007 from NT$582.1 million in 2006, primarily due to the change in investment return for participating insurance products.

Disbursements to industry stability fund. Disbursements to industry stability fund increased by 0.7% to NT$150.5 million in 2007 from NT$149.4 million in 2006, primarily due to an increase in premium income.

Processing fees. Processing fees increased by 5.1% to NT$24.9 million in 2007 from NT$23.7 million in 2006. This increase was primarily due to an increase in the sales of investment-linked products.

Interest expense. Interest expense decreased by 43.3% to NT$64.4 million in 2007 from NT$113.5 million in 2006. This decrease in interest expense was due to the decrease in interest rates.

Valuation loss on financial assets at fair value through profit or loss. Valuation loss on financial assets at fair value through profit or loss decreased to NT$838.1 million in 2007 from NT$3,416.7 million in 2006.

Valuation loss on financial liabilities at fair value through profit or loss. Shin Kong Life recognized valuation loss on financial liabilities at fair value through profit or loss of NT$449.3 million in 2007, primarily due to a valuation loss on foreign exchange contracts, which in turn was mainly due to fluctuations of the NT dollars against the U.S. dollars.

Disbursements on insurance products — separate account. Disbursements on insurance products — separate account increased by 154.3% to NT$107,464.8 million in 2007 from NT$42,254.3 million in 2006. This increase corresponds to the change in separate account incomes.

Operating Expenses

Operating expenses decreased by 0.2% to NT$15,869.9 million in 2007 from NT$15,894.7 million in 2006.

Non-operating Income

Non-operating income decreased by 15.0% to NT$1,393.3 million in 2007 from NT$1,640.0 million in 2006, mainly due to a decrease in reverse of allowance for bad debt.

Non-operating Expenses

Non-operating expenses increased by 376.4% to NT$5,371.0 million in 2007 from NT$1,127.3 million in 2006, mainly due to a significant increase in impairment losses in connection with securities with no active market.

Operating Income Before Tax

As a result of the foregoing, income before income taxes decreased by 74.9% to NT$2,807.3 million in 2007 from NT$11,172.1 million in 2006.

Income Tax Expense

Income tax expense increased by 16.4% to NT$378.8 million in 2007 from NT$325.4 million in 2006 as Shin Kong Life's income in 2006 was mainly from the transactions of real estate properties, which are exempted from income tax expense.

Net Income

As a result of the foregoing, net income decreased by 79.4% to NT$2,428.5 million in 2007 from NT$11,784.0 million in 2006.

Liquidity and Capital Resources of Shin Kong Life

The principal sources of funds for Shin Kong Life are premiums from insurance policies, customers' payments on annuities and other investment-linked products, and investment income, including proceeds from maturing or sale of investment assets. With respect to the funds derived from premiums on life insurance and investment-linked products, Shin Kong Life estimates and balances the number and amount of early policyholder withdrawals against its other uses of cash. For investment income, the risks Shin Kong Life faces include changes in interest rates, market volatility and default by debtors.

Liquidity Requirements

As of March 31, 2009, Shin Kong Life had cash and cash equivalents of NT$78,536.6 million. Substantially all of Shin Kong Life's term deposits with banks allow it to withdraw the deposited funds, subject in most cases to an early withdrawal penalty. As of March 31, 2009, the amount of Shin Kong Life's term deposits was NT$54,900.9 million. In addition, its portfolio of investment securities may also be used for liquidity if necessary. As of March 31, 2009, Shin Kong Life's aggregate total of investment securities with active markets, including domestic government bonds and domestic and foreign stocks, had a fair value of NT$196,985.9 million. Under ROC law, insurance companies are not permitted to incur debt (other than debt for payment of significant amounts of claims that have been approved by the FSC).

Shin Kong Life's principal uses of funds include:

- meeting liabilities associated with its life insurance, accident and health insurance, annuity and structured investment products;

- funding investments in securities, real estate, policy loans and mortgage loans;
- paying operating costs and expenses;
- funding investments in new products, processes and technologies; and
- income taxes.

Shin Kong Life generates substantial cash flow from operations as a result of most premiums being received in advance of the time when policy benefits or claim payments are required. These positive cash flows, along with the portion of investment assets that are held in cash and liquid securities, have historically met Shin Kong Life's liquidity requirements. In addition, Shin Kong Life uses positive cash flows to increase its asset base to provide funds to meet future insurance obligations and other product-related payments, for writing and acquiring new businesses, and for dividend payments to Shin Kong FHC.

Matching the time horizons of assets and liabilities is often difficult in the Taiwan market, especially since domestic government bonds are rarely of sufficient duration to match Shin Kong Life's whole-life policies. However, in an effort to better match its assets and liabilities, Shin Kong Life develops and maintains investment programs to provide adequate funds to pay benefits to its policyholders when necessary. Products having liabilities with longer lives, such as life insurance and annuities, are matched with assets having similar estimated lives, such as mortgage loans, long-term bonds, and private placement bonds. Shorter-term liabilities are matched with investments such as short- and medium-term fixed maturities. In addition, highly liquid, high quality short-term government treasury securities and other liquid investment grade fixed maturities are held to fund normal operating expenses, surrenders, withdrawals and development and maintenance expenses associated with new products and technologies.

Risk Based Capital Requirements

Pursuant to the ROC Insurance Act and Regulations Governing Capital Adequacy of Insurance Enterprises (together, the "Regulations"), the FSC introduced a risk-based capital standard on July 9, 2003 as a way to measure the financial soundness of life insurance companies and to provide for better policyholder protection under a system of prompt corrective action. The statutory risk-based capital standard is measured by the amount of capital an insurance company has to support the degree of risk associated with its operations and investments. Under the Regulations, different asset categories are assigned different weights in accordance with the amount of risk associated with the asset. The Regulations further provide that, among other risks, the risks for a life insurance company include (1) asset risks, (2) insurance risks, and (3) interest risks. If the risk-based capital ratio falls below the minimum threshold of 200%, regulatory action may be taken, which may range from increased information disclosure requirements to mandatory control of the company by the domiciliary insurance department.

In October and November of 2008, FSC amended its rules on risk-based capital for insurance companies, in view of the global financial crisis and its impact on the domestic insurance market. The amendment lifted restrictions on the calculation of total adjusted net capital, which expanded funding channels available to insurance companies and reduced the pressure to raise additional capital when they suffer an investment loss. However, the amendment is only in effect until December 31, 2009, and we cannot assure you that FSC will extend such amendment and not revert to the previous formulae. Shin Kong Life's risk-based capital ratio, after taking into account the policy changes, was 227.39% on December 31, 2008, which is greater than the minimum threshold.

Shin Kong Life's risk-based capital ratio impacts the manner in which it invests its cash and investment assets. Specifically, beginning in 2004, the maximum percentage of investment assets that a ROC insurance company may invest in securities denominated in foreign currencies is limited based on the insurance company's risk-based capital ratio. As foreign securities often provide a higher rate of return than domestic investments, as of March 31, 2009, foreign investments represented 36.9% of Shin Kong Life's total cash and invested assets.

Cash Flows

The following sets forth information regarding cash flows for the periods indicated.

	Year ended December 31,				Three months ended March 31,		
	2006	2007	2008		2008	2009	
	NT$	NT$	NT$	US$	NT$	NT$	US$
				(in millions)			
Net cash (used in) provided by operating activities	66,860.3	91,048.9	77,675.1	2,293.3	(30,353.0)	(23,194.3)	(684.8)
Net cash (used in) provided by investing activities	(47,897.9)	(27,097.8)	(89,411.6)	(2,639.8)	8,305.4	(1,694.0)	(50.0)
Net cash (used in) provided by financing activities	(5,306.6)	(3,470.2)	18,808.6	555.3	8.9	0.9	—
Net increase (decrease) in cash and cash equivalents	13,655.8	60,480.9	7,072.1	208.8	(22,038.7)	(24,887.4)	(734.8)

Operating activities. Net cash used in operating activities decreased to NT$23,194.3 million in the three months ended March 31, 2009 from NT$30,353.0 million in the three months ended March 31, 2008. This decrease was primarily due to a decrease in net losses. Net cash provided by operating activities decreased to NT$77,675.1 million in 2008 from NT$91,048.9 million in 2007. The decrease was primarily due to a net loss in 2008. Net cash provided by operating activities amounted to NT$66,860.3 million in 2006.

Investing activities. Net cash used in investing activities amounted to NT$1,694.0 million in the three months ended March 31, 2009 while net cash provided by investing activities amounted to NT$8,305.4 million in the three months ended March 31, 2008. This increase in the net cash used in investing activities was caused by an increase in financial assets with no active markets. Net cash used in investing activities increased to NT$89,411.6 million in 2008 from NT$27,097.8 million in 2007. The increase was primarily due to an increase in investment in notes issued under resale agreements and an increase in available-for-sale financial assets. Net cash used in investing activities amounted to NT$47,897.9 million in 2006. The decrease was primarily due to a decrease in held-to-maturity financial assets.

Financing activities. Net cash provided by financing activities decreased to NT$0.9 million in the three months ended March 31, 2009 from NT$8.9 million in the three months ended March 31, 2008, primarily due to a decrease in received guarantee deposits. Net cash provided by financing activities amounted to NT$18,808.6 million in 2008 while net cash used in financing activities amounted to NT$3,470.2 million in 2007. The decrease was primarily due to a decrease in notes issued under repurchase agreements, which was partially offset by an increase in proceeds from disposal of treasury stock. Net cash used in financing activities amounted to NT$5,306.6 million in 2006.

Shin Kong Bank

Overview

Operating Environment

Shin Kong Bank currently operates 108 branches in Taiwan. We believe Shin Kong Bank maintains a strong network of high quality banking clients. We are able to utilize such network to offer wealth management and bancassurance products and services to our banking customers to meet their demand for diversified and quality financial products, thereby increasing lifetime value of the customer. Conversely, we also leverage Shin Kong Life's distribution network consisting of over three million customers to cross sell our banking products.

Shin Kong Bank's profitability and financial condition are affected by a number of factors that influence the business environment in which Shin Kong Bank operates. These factors include general economic conditions in Taiwan, interest rates, competition, conditions in Taiwan's securities markets, regulation, taxes and foreign exchange rates.

Shin Kong Bank expects that the following factors in particular could continue to affect its financial performance:

- **Taiwan and global economies.** The financial performance of Shin Kong Bank's consumer and corporate businesses are closely linked to the state of the global economy and the local economy in Taiwan. Although a general recovery appears to be underway in the local economy in Taiwan following the global economic crisis, many lingering effects from the global economic crisis may continue to impact Shin Kong Bank. Among other things, low economic growth rates, depreciation in the value of the New Taiwan dollar relative to the US dollar and other foreign currencies, a significant decline in Taiwan's equities securities markets or an increase in unemployment and bankruptcies may adversely affect Shin Kong Bank's corporate and individual borrowers, which in turn could adversely affect Shin Kong Bank's future results of operations and financial condition.

- **Interest rates.** Shin Kong Bank's recent financial performance has been impacted by the ROC government's actions to lower interest rates in an effort to revive Taiwan's general economy. Since the second half of 2008, the CBC has lowered discount rates seven times by a total of 2.375 basis points. We expect that the ROC Government will continue to maintain a low interest rate environment in the near future, and any future changes in this policy may affect Shin Kong Bank's financial performance.

- **Competition.** Due to Taiwan's crowded domestic banking industry and the increasing presence of foreign banks in Taiwan, Shin Kong Bank has experienced an increase in pricing competition for products and services, as other banks seek to build or maintain market share. Further price-based competition could adversely affect Shin Kong Bank's profitability, in particular in mortgage loans and lending to large corporations.

Selected Financial and Other Data

The following table sets forth the selected consolidated financial and other data for Shin Kong Bank as of and for the years ended December 31, 2006, 2007 and 2008 and unconsolidated financial and other data as of and for the three months ended March 31, 2008 and 2009.

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,	
	2006	2007	2008	2008	2009
	(NT$ in millions, except per share data and percentages)				
Income statement data:					
Interest revenue	7,051	6,364	6,239	1,560	1,006
Service fees	1,526	1,908	1,579	353	285
Gain (loss) on securities	470	(392)	(369)	252	581
Other net non-interest (loss) income	(943)	1,370	149	388	112
Net revenue	8,104	9,250	7,598	2,553	1,984
Bad debt expense	(9,753)	(1,861)	(1,930)	(499)	(541)
Operating expenses	(6,070)	(5,882)	(5,404)	(1,400)	(1,253)
Net (loss) income	(7,276)	1,423	227	607	172
Basic EPS (before tax)	(5.50)	0.75	0.11	0.33	0.10
Basic EPS (after tax)	(5.16)	0.73	0.12	0.31	0.09
Balance sheet data:					
Notes discounted and loans, net	232,926	276,618	280,299	275,922	275,341
Total assets	352,465	386,796	403,574	397,998	395,342
Deposits and remittances	286,746	325,764	356,027	335,217	354,618
Total liabilities	332,565	365,571	382,969	375,871	374,542
Total shareholders' equity	19,900	21,225	20,605	22,127	20,800
Other data:					
Net interest margin(1)	2.38%	1.92%	1.69%	1.73%	1.12%
Gain (loss) on securities/ net non-interest (loss) income	44.63%	(13.58)%	(27.15)%	25.38%	59.41%
Net non-interest income/ net revenue(2)	12.99%	31.20%	17.89%	38.90%	49.29%
Bad debt expense/net revenue	74.90%	63.59%	71.12%	54.84%	63.16%
Return on average equity(3)	(36.64)%	6.92%	1.08%	2.80%	0.83%
Return on average assets(4)	(2.11)%	0.39%	0.06%	0.5%	0.04%
NPL ratio(5)	1.70%	1.85%	1.87%	1.89%	1.91%
Coverage ratio(6)	84.12%	56.38%	66.42%	63.94%	63.70%
Capital adequacy ratio(7)	12.52%	10.72%	10.57%	11.51%	10.88%

Notes:

(1) Calculated using average daily balances of interest earning assets; ratio annualized.

(2) Net non-interest income includes service fees, gains on securities and other non-interest income.

(3) Calculated by dividing net income for the period by the average ending shareholders' equity balances for the preceding and the current fiscal years.

(4) Calculated by dividing net income for the period by the average ending total assets balances for the preceding and the current fiscal years.

(5) Calculated by dividing non-performing loans by gross loans.

(6) Calculated by dividing total loan loss reserves by total amount of non-performing loans.

(7) Determined in accordance with the requirements of the FSC.

Description of Income Statement Items

Shin Kong Bank derives its operating income primarily from interest income and also from service fee income, gains on marketable securities and gains on long-term investments it holds in investees and other companies. Its expenses consist primarily of interest expense, provision for credit losses, and operating expenses, such as personnel, marketing and occupancy expenses.

Operating Income Items

Shin Kong Bank generates its interest income principally from the following sources:

- *Loans and discounts.* Represents amounts Shin Kong Bank collects on loans it makes to corporate customers, including term loans, working capital loans, overdraft facilities and trade financing facilities, and to retail customers, including principally mortgage loans, personal loans, credit card loans and automobile loans. Interest on loans is accrued when due except on loans for which principal is overdue for more than 180 days.

- *Due from other banks.* Represents interest that Shin Kong Bank collects on funds lent to other banks in the interbank market.

- *Due from the CBC.* Represents interest that Shin Kong Bank collects on cash reserves that it maintains on deposit with the CBC in order to satisfy ROC regulatory requirements.

- *Securities purchased and bond investments.* Represents income received by Shin Kong Bank on fixed income and equity securities it holds in its portfolio for asset-liability management purposes, including listed stock, money market instruments, government bonds and corporate bonds.

Shin Kong Bank generates its non-interest income primarily from the following sources:

- *Service fees.* Represents commissions and fees from banking services, including principally fees paid by corporate customers for guarantees, letters of credit, cash management services, and investment banking services, and by individual customers in respect of loan applications; credit card services and trust services, including principally commissions on sales of non-discretionary trust funds and fees for custodial, transfer agency and other related services.

- *Foreign exchange gains.* Represents trading and valuation gains or losses on foreign currency denominated assets.

- *Gain (loss) on sale of securities purchased.* Represents gain (loss) from the sale of marketable fixed income and equity securities, minus unrealized losses (or plus recovery of unrealized losses) to reflect a decline in market value.

- *Investment income recognized under the equity method.* Represents gain derived from investee companies that are accounted for under the equity method, net of any losses.

Expense Items

Interest expense relates primarily to interest that Shin Kong Bank pays to retail and corporate customers on their deposits, including savings deposits, demand deposits and time deposits. Interest expense also includes interest paid to other banks in the interbank market.

Provisions for credit losses represent amounts that Shin Kong Bank expenses in anticipation of incurring possible losses on loans and other credit exposures, such as guarantees and credit card revolving balances.

Operating expenses represent various administrative expenses incurred by us, primarily relating to staff compensation, marketing, administration, occupancy, technology and advertising.

Taxes represent business, stamp and property taxes payable by Shin Kong Bank in its operations.

Comparison of Results of Operations for the Three months Ended March 31, 2009 with the Three months Ended March 31, 2008

The following table shows the components of Shin Kong Bank's interest income and expense on an unconsolidated basis for the periods indicated:

	For the Three Months Ended March 31,	
	2008	2009
	(NT$ in millions, except percentages)	
Interest income:		
Loans and discounts	2,470.7	1,684.8
Due from other banks and the CBC	215.4	83.3
Notes	273.0	207.7
Others	285.9	240.1
Total	3,245.0	2,215.9
Interest expense:		
Deposits	1,505.8	1,136.9
Due to other banks and the CBC	63.7	12.2
Others	115.6	61.3
Total	1,685.1	1,210.4
Net interest income	1,559.9	1,005.5
Interest yield(1)	3.6%	2.5%
Net interest margin(2)	1.7%	1.1%
Net interest spread(3)	2.1%	1.4%
Average interest-earning assets(4)	360,701.9	359,741.0
Average interest-bearing liabilities(5)	361,099.6	363,438.8

Notes:

(1) Represents gross total interest income divided by daily average interest-earning assets; ratio annualized.

(2) Represents net interest income divided by daily average interest-earning assets; ratio annualized.

(3) Represents the yield on average interest-earning assets minus the funding cost of average interest-bearing liabilities; ratio annualized.

(4) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-earning assets.

(5) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-bearing liabilities.

Interest Income

Interest income decreased by 31.7% to NT$2,215.9 million in the three months ended March 31, 2009 from NT$3,245.0 million in the three months ended March 31, 2008, mainly due to decreases in interest rates. Average interest earning assets decreased by 0.3% to NT$359,741.0 million in the three months ended March 31, 2009 from NT$360,701.9 million in the three months ended March 31, 2008.

Interest Expense

Interest expense decreased by 28.2% to NT$1,210.4 million in the three months ended March 31, 2009 from NT$1,685.1 million in the three months ended March 31, 2008, even as the overall size of the deposit base expanded, as Shin Kong Bank paid lower rates on deposits in light of a decline in market interest rates. The cost of interest-bearing liabilities decreased by 54 basis points to 1.3% in the three months ended March 31, 2009 from 1.9% in the three months ended March 31, 2008, due to the interest rate decline and a decrease in time deposit as a percentage of total deposit. Average interest-bearing liabilities increased by 0.6% to NT$363,438.8 million in the three months ended March 31, 2009 from NT$361,099.6 million in the three months ended March 31, 2008, as a result of an increase in total deposits.

Net Interest Income

Net interest income decreased by 35.5% to NT$1,005.5 million in the three months ended March 31, 2009 from NT$1,559.9 million in the three months ended March 31, 2008, as the decrease in interest expense was offset by a greater decrease in interest income.

Net Interest Margin

Shin Kong Bank's net interest margin decreased to 1.1% in the three months ended March 31, 2009 from 1.7% in the three months ended March 31, 2008 reflecting a decrease in interest rates.

Average Balance Sheets and Interest Rates

The following table shows Shin Kong Bank's daily average balances and average interest rates on an unconsolidated basis for the periods indicated.

	For the Three Months Ended March 31,			
	2008		2009	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
	(in millions, except percentages)			
Interest earning assets[(1)]:				
Due from other banks	4,233.9	1.9	1,226.0	0.2
Due from the CBC	37,575.4	2.1	42,746.4	0.8
Bonds purchased under resale agreements	377.6	2.0	—	—
Trading assets	—	—	352.6	0.6
Available-for-sale financial assets	16,384.3	2.2	13,427.9	2.4
Held-to-maturity financial assets	10,848.4	1.8	9,855.2	1.9
Debt securities without active market	8,003.4	6.7	6,259.5	5.0
Account receivable (credit card)	5,879.2	16.5	4,819.5	17.9
Account receivable (factoring and management)	1,063.4	4.3	656.2	2.8
Notes discounted and loans	276,336.3	3.6	280,397.7	2.4
Total average interest earning assets[(1)]	360,701.9		359,741.0	
Interest bearing liabilities:				
Note issued under repurchase agreement	1,971.3	2.6	2,948.7	0.2
Due to other banks	9,283.8	2.7	4,318.0	1.1
Deposits and remittances	105,070.4	0.5	104,295.3	0.2
Time deposits debentures	226,888.6	2.4	242,400.9	1.8
Bank debentures	17,800.0	2.3	9,394.0	2.5
Appropriated loan fund	85.5	1.5	81.9	1.5
Total average interest earning liabilities	361,099.6		363,438.8	
Average interest-earning assets[(1)]/average interest-bearing liabilities	99.9%		99.0%	
Net interest margin[(2)]	1.7%		1.1%	
Net interest spread[(3)]	2.1%		1.4%	

Notes:

(1) Includes assets on which gains from trading and dividend income may also be recognized.

(2) Represents net interest income divided by daily average interest-earning assets; ratio annualized.

(3) Represents the yield on average interest-earning assets minus the funding cost of average interest-bearing liabilities; ratio annualized.

Volume and Rate Analysis

Shin Kong Bank's interest income and expense are affected by fluctuations both in interest rates and in volume of activity. Shin Kong Bank's interest expense is also affected by the extent to which Shin Kong Bank funds its activities with low-interest or non-interest deposits (including the float on transactional services), and the extent to which it relies on borrowings in the interbank market.

The following table allocates changes in Shin Kong Bank's interest income and interest expense between changes in volume and changes in rate on an unconsolidated basis for the three months ended March 31, 2009 compared with the three months ended March 31, 2008. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on daily average interest-earning assets and interest-bearing liabilities.

	Increase/(Decrease) for Three Months Ended March 31, 2009/2008			
	Volume	Rate	Volume and Rate	Net Change
	(NT$ in millions)			
Interest income(1):				
Due from other banks	(1.6)	(5.1)	(12.5)	(19.2)
Due from the CBC	10.0	(139.8)	16.9	(112.9)
Bonds purchased under resale agreements	—	—	(1.9)	(1.9)
Financial assets for trading	0.5	0.5	(0.5)	0.5
Available-for-sale financial assets	(17.4)	6.3	1.4	(9.8)
Held-to-maturity financial assets	(4.8)	4.0	0.4	(0.4)
Debt securities without active market	(21.9)	(26.1)	(7.3)	(55.3)
Accounts receivable (credit card)	(47.5)	16.8	3.7	(26.9)
Accounts receivable (factoring and management)	(2.8)	(2.5)	(1.5)	(6.8)
Notes discounted and loans	24.6	(815.3)	11.8	(778.9)
Total	(60.9)	(961.2)	10.5	(1,011.6)
Interest expense(2):				
Notes issued under repurchase agreement	0.5	(17.4)	5.8	(11.2)
Due to other banks	(14.0)	(17.4)	(20.0)	(51.5)
Deposits and remittances	(0.4)	(59.5)	(0.4)	(60.4)
Time deposits	68.9	(403.3)	25.8	(308.6)
Bank debentures	(52.5)	5.3	4.7	(42.5)
Appropriated loan fund	—	—	—	—
Total	2.5	(492.3)	15.9	(474.2)

Notes:

(1) Excluding interest incomes from delinquent loans.

(2) Excluding interest expenses from leased properties.

Net Non-Interest Income

The following table shows certain information with respect to Shin Kong Bank's non-interest income on an unconsolidated basis for the periods indicated:

	For the Three Months Ended March 31,	
	2008	2009
	(NT$ in millions)	
Service fee, net	353.2	285.4
Service fee, income	474.4	404.8
Service fee expense	(121.2)	(119.4)
(Loss) gain on foreign exchange, net	(0.2)	167.8
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net	224.7	(16.3)
Realized gain on available-for-sale financial assets, net	26.3	596.9
Realized gain on held-to-maturity investments, net	0.8	—
Investment income recognized under the equity method, net	42.5	8.5
Loss on disposal of collateral assumed	(9.5)	(45.9)
(Loss) gain on market value increase (decline) on collateral assumed	(40.8)	27.9
Gain (loss) on disposal of property and equipment and deferred expense, net	378.5	(0.1)
Other gains (loss), net	17.7	(45.9)
Total	993.2	978.3

Net income excluding interest revenue decreased by 1.5% to NT$978.3 million in the three months ended March 31, 2009 from NT$993.2 million in the three months ended March 31, 2008, mainly due to a decrease in gain on disposal of fixed assets and a decrease of NT$67.8 million in service fee, net partially offset by an increase of NT$168.0 million in foreign exchange gains between these two periods. The 19.2% decrease in net service fee was mainly due to a decrease in service fee income from wealth management services.

Net income excluding interest revenue constituted 38.9% and 49.3% of net revenue in the three months ended March 31, 2008 and the three months ended March 31, 2009, respectively.

Bad debt expenses for Credit Losses

The following table shows information with respect to our provision for credit losses on an unconsolidated basis for the periods indicated:

	For the Three months Ended March 31,	
	2008	**2009**
	(NT$ in millions)	
Bad debt expenses for credit losses — loans	325.0	435.0
Bad debt expenses for credit losses — receivables	173.8	105.7
Total bad debt expenses	498.8	540.7

Bad debt expenses for credit losses increased by 8.4% to NT$540.7 million for the three months ended March 31, 2009 from NT$498.8 million for the three months ended March 31, 2008, primarily due to a slower rate of increase in NPLs as a result of overall improvement in the asset quality of Shin Kong Bank's loan portfolio and its improved credit policy in the three months ended March 31, 2009.

Operating Expenses

The following table shows information with respect to our operating expenses on an unconsolidated basis for the periods indicated:

	As of and for the Three Months Ended March 31,	
	2008	**2009**
	(NT$ in millions)	
Personnel expenses	680.4	618.1
Depreciation and amortization expenses	155.3	139.0
Business and general and administrative expenses	563.9	495.6
Total	1,399.6	1,252.7

Total operating expenses decreased by 10.5% to NT$1,252.7 million in the three months ended March 31, 2009 from NT$1,399.6 million in the three months ended March 31, 2008, principally due to a decrease in Shin Kong Bank's business and general and administrative expenses and personnel expenses. Personnel expense decreased by 9.1% to NT$618.1 million in the three months ended March 31, 2009 from NT$680.3 million in the three months ended March 31, 2008, mainly because Shin Kong Bank reduced the number of its employees in the three months ended March 31, 2009. Depreciation and amortization expenses decreased from NT$155.3 million in the three months ended March 31, 2008 to NT$139.0 million in the same period in 2009 principally due to a decrease in Shin Kong Bank's total assets.

Taxation

Income tax expenses was NT$18.1 million in the three months ended March 31, 2009 compared to NT$47.5 million in the three months ended March 31, 2008. The resulting effective tax rate was 9.5% and 7.3%, respectively, for the three months ended March 31, 2009 and the three months ended March 31, 2008. Shin Kong Bank has a higher effective tax rate in the three months ended March 31, 2009, because the gains in the three months ended March 31, 2008 were mainly from disposal of property and equipment, exempted from taxation, while the gains in the three months ended March 31, 2009 were mainly from disposal of government bonds.

Financial Condition as of March 31, 2009 Compared to March 31, 2008

Assets

Total Assets

Total assets decreased by 0.7% to NT$395,341.6 million as of March 31, 2009 from NT$397,998.1 million as of March 31, 2008. The decrease in total assets reflected decreases in liquid assets.

Total interest-earning assets averaged 90.6% and 91.0% of total assets as of March 31, 2008 and 2009, respectively.

Securities Purchased

Securities purchased decreased by 32.2% to NT$27,972.4 million as of March 31, 2009 from NT$41,283.0 million as of March 31, 2008. This decrease primarily reflected Shin Kong Bank's sale of domestic government bonds for the three months ended March 31, 2009.

Notes discounted and loans

Notes discounted and loans decreased by 0.2% to NT$275,341.2 million as of March 31, 2009 from NT$275,922.4 million as of March 31, 2008. This decrease was primarily because Shin Kong Bank marketed its loan products to corporate customers more prudently. Shin Kong Bank's write-offs of its loans increased from NT$363.4 million in the first three months ended March 31, 2008 to NT$827.6 million in the first three months ended March 31, 2009. Loan loss reserves increased by 0.3% to NT$3,385.4 million as of March 31, 2009 from NT$3,373.7 million as of March 31, 2008.

Liabilities

Total Liabilities

Total liabilities decreased by 0.4% to NT$374,541.6 million as of March 31, 2009 from NT$375,871.3 million as of March 31, 2008, primarily reflecting decreases in deposits, borrowed funds, bonds issued and due to the CBC.

Customer deposits and remittance

Customer deposits and remittance increased by 5.8% to NT$354,618.1 million as of March 31, 2009 from NT$335,217.4 million as of March 31, 2008, primarily reflecting an increase in demand deposits, which more than offset a decrease in fixed deposits.

The loan-to-deposit ratio for any period equals the gross loans ending balance for the period divided by the deposits and remittance ending balance for the period. The loan-to-deposit ratio was 83.3% and 78.6% for the three months ended March 31, 2008 and 2009, respectively.

Bonds Issued

Bonds issued decreased by NT$10,000 million from the three months ended March 31, 2008 to the three months ended March 31, 2009 due to the maturity of a bank debenture issued by Shin Kong Bank in the three months ended March 31, 2009.

Comparison of Results of Operations of the Year Ended December 31, 2008 with the Year Ended December 31, 2007

The following table shows the components of Shin Kong Bank's interest income and expense on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2007	**2008**
	(NT$ in millions, except percentages)	
Interest income:		
Loans and discounts	8,987.2	10,129.5
Due from other banks and the CBC	748.3	862.7
Notes	1,175.5	1,192.3
Others	1,441.7	1,100.4
Total	12,352.7	13,284.9
Interest expense:		
Deposits	5,035.7	6,308.0
Due to other banks and the CBC	431.5	290.6
Others	522.0	447.2
Total	5,989.2	7,045.8
Net interest income	6,363.5	6,239.1
Interest yield(1)	3.7%	3.6%
Net interest margin(2)	1.9%	1.7%
Net interest spread(3)	2.4%	2.0%
Average interest-earning assets(4)	330,740.7	367,887.1
Average interest-bearing liabilities(5)	338,736.6	368,674.8

Notes:

(1) Represents gross total interest income divided by daily average interest-earning assets.

(2) Represents net interest income divided by daily average interest-earning assets.

(3) Represents the yield on average interest-earning assets minus the funding cost of average interest-bearing liabilities.

(4) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-earning assets.

(5) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-bearing liabilities.

Interest Income

Interest income increased by 7.5% to NT$13,284.9 million in 2008 from NT$12,352.7 million in 2007, mainly due to an increase in interest income generated from loans and discounts. Average interest earning assets increased by 11.2% to NT$367,887.1 million in 2008 from NT$330,740.7 million in 2007. The average yield on interest-earning assets decreased by 12 basis points to 3.6% in 2008 from 3.7% in 2007.

Interest Expense

Interest expense increased by 17.6% to NT$7,045.8 million in 2008 from NT$5,989.2 million in 2007, as the overall size of the deposit base expanded and we paid higher rates on deposits in light of an increase in market interest rates in the first nine months of 2008. The cost of interest-bearing liabilities increased by 14 basis points to 1.9% in 2008 from 1.8% in 2007, due to declining interest rates in the market. Average interest-bearing liabilities increased by 8.8% to NT$368,674.8 million in 2008 from NT$338,736.6 million in 2007, as deposits increased.

Net Interest Income

Net interest income decreased by 2.0% to NT$6,239.1 million in 2008 as compared to NT$6,363.5 million in 2007. Net interest income constituted 68.8% and 82.1% of net revenue in 2007 and 2008, respectively. Gross operating profit equals total operating income minus total operating cost.

Net Interest Margin

Shin Kong Bank's net interest margin decreased to 1.7% in 2008 from 1.9% in 2007. The decrease in net interest margin in 2008 was primarily due to excess liquidity in the banking system and the resulting increase in market competition in lending, which resulted in the rate of decline in lending rates substantially outpacing the rate of decline in the interest rates of Shin Kong Bank's deposits. The average yield on our interest-earning assets decreased by 12 basis points to 3.6% in 2008 from 3.7% in 2007.

Average Balance Sheets and Interest Rates

The following table shows Shin Kong Bank's daily average balances and average interest rates on an unconsolidated basis for the periods indicated.

	For the Year Ended December 31,			
	2007		2008	
	Average Balance	Average Rate	Average Balance	Average Rate
	(NT$ in millions, except percentages)			
Interest earning assets:				
Due from other banks	1,153.9	1.4	2,632.3	1.4
Due from the CBC	39,474.2	1.9	39,237.3	2.1
Bonds purchased under resale agreements	1.9	1.7	94.4	2.0
Trading assets	616.7	0.7	270.7	2.5
Available-for-sale financial assets	10,043.5	2.8	19,448.5	2.3
Held-to-maturity financial assets	11,452.3	1.7	10,566.3	1.9
Debt securities without active market	10,573.3	6.3	7,666.3	6.5
Accounts receivable (credit card)	7,457.8	16.9	5,398.5	16.3
Accounts receivable (factoring and management)	1,065.5	3.6	922.1	3.4
Notes discounted and loans	248,901.6	3.6	281,650.7	3.6
Total average interest earning assets	330,740.7		367,887.1	
Interest earning liabilities:				
Notes issued under repurchase agreement	6,003.1	1.8	2,559.7	1.7
Due to other banks	10,482.6	3.5	9,411.8	2.6
Deposits and remittances	102,767.8	0.5	102,828.6	0.4
Time deposits	201,597.0	2.3	236,479.5	2.5
Bank debentures	17,800.0	2.3	17,311.1	2.3
Appropriated loan fund	86.1	1.5	84.1	1.5
Total average interest earning liabilities	338,736.6		368,674.8	
Average interest-earning assets/average interest-bearing liabilities	97.6%		99.8%	
Net interest margin(1)	1.9%		1.7%	
Net interest spread(2)	2.4%		2.0%	

Notes:

(1) Represents net interest income divided by daily average interest-earning assets.

(2) Represents the yield on average interest-earning assets minus the funding cost of average interest-earning liabilities.

Volume and Rate Analysis

Shin Kong Bank's interest income and expense are affected by fluctuations both in interest rates and in volume of activity. Shin Kong Bank's interest expense is also affected by the extent to which it funds its activities with low-interest or non-interest deposits (including the float on transactional services), and the extent to which Shin Kong Bank relies on borrowings in the interbank market.

The following table allocates changes in Shin Kong Bank's interest income and interest expense between changes in volume and changes in rate on an unconsolidated basis for 2008 compared with 2007. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on daily average interest-earning assets and interest-bearing liabilities.

	Increase/(Decrease) for 2008/2007			
	Volume	Rate	Volume and Rate	Net Change
	(NT$ in millions)			
Interest income(1):				
Due from other banks	20.7	0.7	(0.4)	21.0
Due from the CBC	(5.0)	97.9	0.6	93.6
Bonds purchased under resale agreements	1.8	0.3	(0.3)	1.8
Financial assets for trading	(8.6)	4.8	6.1	2.3
Available-for-sale financial assets	219.3	(85.3)	41.2	175.2
Held-to-maturity financial assets	(16.8)	22.2	1.9	7.2
Debt securities without active market	(190.2)	20.7	7.8	(161.7)
Accounts receivable (credit card)	(335.6)	(34.1)	(13.0)	(382.8)
Accounts receivable (factoring and management)	(4.9)	(1.5)	(0.2)	(6.6)
Discounts and loans	1,183.0	(33.1)	3.8	1,153.8
Total	863.7	(7.4)	47.5	903.8
Interest expense(2):				
Notes issued under repurchase agreement	(58.7)	(2.2)	(2.9)	(63.8)
Due to other banks	(27.7)	(85.9)	(9.8)	(123.4)
Deposits and remittances	0.3	(23.0)	—	(22.8)
Time deposits	864.0	507.3	(74.8)	1,296.4
Bank debentures	(11.2)	3.6	0.1	(7.5)
Appropriated loan fund	(0.1)	—	—	(0.1)
Total	766.6	399.8	(87.4)	1,078.8

Notes:

(1) Excluding interest incomes from delinquent loans.

(2) Excluding interest expenses from Shin Kong Finance (HK) Ltd.

Net Non-Interest Income

The following table shows certain information with respect to Shin Kong Bank's non-interest income on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2007	2008
	(NT$ in millions)	
Service fee, net	1,907.7	1,579.2
Service fee income	2,483.8	2,145.6
Service fee expense	(576.1)	(566.4)
Gain on foreign exchange, net	64.6	105.0
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net	(397.8)	(436.3)
Realized (loss) gain on available-for-sale financial assets, net	2.5	63.1
Realized gain on held-to-maturity investments, net	3.7	3.7
Loss on asset impairment	(1,812.5)	(601.3)
Gain on market value increase of collateral assumed	273.0	62.8
Gain on disposal of property and equipment and deferred expense, net	2,752.6	371.7
Other gains, net	92.8	210.6
Total	2,886.6	1,358.5

Net income excluding interest revenue decreased by 52.9% to NT$1,359 million in 2008 from NT$2,887 million in 2007, mainly due to a decrease in gain on disposal of fixed assets and a decrease in net commissions and fees. Service fee, net decreased by 17.2% in 2008 compared to 2007, largely due to a decrease in service fee income from wealth management services.

Net income excluding interest revenue constituted 31.2% and 17.9% of net revenue in 2007 and 2008, respectively.

Bad debt expenses for Credit Losses

The following table shows information with respect to our bad debt expenses for credit losses on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2007	2008
	(NT$ in millions)	
Bad debt expenses for credit losses — loans	752	1,427.2
Bad debt expenses for credit losses — receivables	1,109	502.5
Total Bad debt expense	1,861.0	1,929.7

Bad debt expense for credit losses increased by 3.7% to NT$1,930 million in 2008 from NT$1,861 million in 2007, reflecting the increase in outstanding loans. The ratio of allowance for loan losses to gross loans increased to 1.2% in 2008 from 1.0% in 2007.

For a description of Shin Kong Bank's provisioning policies, see "— Overview — Provisions of Possible Loan Losses" above and "Description of Assets and Liabilities of Shin Kong Bank — Asset Quality."

Operating Expenses

The following table shows information with respect to Shin Kong Bank's operating expenses on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2007	2008
	(NT$ in millions)	
Personnel expenses	2,890.8	2,604.6
Depreciation and amortization expenses	748.9	596.1
Other business and general and administrative expenses	2,242.1	2,203.3
Total	5,881.8	5,404.0

Total operating expenses decreased by 8.1% to NT$5,404.0 million in 2008 from NT$5,881.8 million in 2007. Personnel expenses decreased by 9.9% to NT$2,604.6 million in 2008 from NT$2,890.8 million in 2007, principally due to a significant reduction in the number of Shin Kong Bank's employees as Shin Kong Bank streamlined its back office in 2008. As a percentage of total operating expenses, personnel expenses decreased from 49.1% in 2007 to 48.2% in 2008. Depreciation and amortization expenses decreased by 20.4% in 2008 compared to 2007, mainly because Shin Kong Bank sold a building in December 2007.

Taxation

Income tax expenses was NT$37.3 million in 2008 compared to NT$84.0 million in 2007. The resulting effective tax rate was 14.1% and 5.6% for 2008 and 2007, respectively. The higher effective tax rate in 2008 was primarily due to a 10% income tax levied in 2008 on undistributed earnings derived from net income in 2007.

Financial Condition at December 31, 2008 Compared to December 31, 2007

Assets

Total Assets

Total assets increased by 4.3% to NT$403,573.9 million as of December 31, 2008 from NT$386,795.6 million as of December 31, 2007. The increase in total assets in 2008 reflected increases in liquid assets and net loans.

Total interest-earning assets averaged 85.5% and 91.2% of total assets for 2007 and 2008, respectively.

Securities Purchased

Securities purchased increased by 23.3% to NT$45,843.2 million as of December 31, 2008 from NT$37,189.3 million as of December 31, 2007. This increase primarily reflected Shin Kong Bank's purchase of domestic government bonds in 2008.

Notes discounted and loans

Notes discounted and loans increased by 1.3% to NT$280,299.0 million as of December 31, 2008 from NT$276,617.9 million as of December 31, 2007. This increase was primarily due to Shin Kong Bank's more aggressive efforts to market its loan products to corporate customers and a decrease in write-offs from NT$4,393.0 million in 2007 to NT$2,254.2 million in 2008. Loan loss reserves increased by 20.9% to NT$3,524.1 million as of December 31, 2008 from NT$2,915.3 million as of December 31, 2007, reflecting an improvement in asset quality.

Liabilities

Total Liabilities

Total liabilities increased by 4.8% to NT$382,969.0 million as of December 31, 2008 from NT$365,571.0 million as of December 31, 2007, primarily reflecting increases in repurchase agreements and deposits and remittances.

Customer deposits and remittance

Customer deposits and remittance increased by 9.3% to NT$356,026.9 million as of December 31, 2008 from NT$325,763.7 million as of December 31, 2007, primarily reflecting the flow of funds to the banking system from the securities markets due to the overall declined performance of the securities market.

The loan-to-deposit ratio for any period equals the gross loans ending balance for the period divided by the deposits and remittances ending balance for the period. The loan-to-deposit ratio was 85.8% and 79.7% for 2007 and 2008, respectively.

Bonds Issued

Bonds issued decreased by NT$8,700 million from the year ended December 31, 2007 to the year ended December 31, 2008 due to the maturity of a bank debenture issued by Shin Kong Bank in 2008.

Comparison of Results of Operations of the Year Ended December 31, 2007 with the Year Ended December 31, 2006

The following table shows the components of Shin Kong Bank's interest income and expense on a consolidated basis for the periods indicated:

	For the Year Ended December,	
	2006	2007
	(NT$ in millions, except percentages)	
Interest income:		
Loans and discounts	8,401.0	8,987.2
Due from other banks and the CBC	816.2	748.3
Notes	709.6	1,175.5
Others	1,866.8	1,441.7
Total	11,793.6	12,352.7
Interest expense:		
Deposits	3,918.2	5,035.7
Due to other banks and the CBC	401.2	431.5
Others	423.3	522.0
Total	4,742.7	5,989.2
Net interest income	7,050.9	6,363.5
Interest yield(1)	4.0%	3.7%
Net interest margin(2)	2.4%	1.9%
Net interest spread(3)	3.2%	2.4%
Average interest-earning assets(4)	296,997.9	330,740.7
Average interest-bearing liabilities(5)	307,726.9	338,736.6

Notes:

(1) Represents gross total interest income divided by daily average interest-earning assets.

(2) Represents net interest income divided by daily average interest-earning assets.

(3) Represents the yield on average interest-earning assets minus the funding cost of average interest-bearing liabilities.

(4) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-earning assets.

(5) See the "Average Balance Sheets and Interest Rates" table below for a breakdown of average interest-bearing liabilities.

Interest Income

Interest income increased by 4.7% to NT$12,352.7 million in 2007 from NT$11,793.6 million in 2006, primarily due to an increase in interest income generated from loans because of an increase in interest-earning assets. Average interest earning assets increased by 11.4% to NT$330,740.7 million in 2007 from NT$296,997.9 million in 2006.

Interest Expense

Interest expense increased by 26.3% to NT$5,989.2 million in 2007 from NT$4,742.7 million in 2006, as the overall size of the deposit base expanded and the cost of interest-bearing liabilities increased by 23 basis points to 1.8% in 2007 from 1.5% in 2006, due to increasing interest rates in the market. Average interest-bearing liabilities increased by 10.1% to NT$338,736.6 million in 2007 from NT$307,727.0 million in 2006, as a result of an increase in deposits.

Net Interest Income

Net interest income decreased by 9.7% to NT$6,363.5 million in 2007 from NT$7,050.9 million in 2006. Net interest income constituted 68.8% and 87.0% of Shin Kong Bank's net revenue in 2007 and 2006, respectively.

Net Interest Margin

Shin Kong Bank's net interest margin decreased to 1.9% in 2007 from 2.4% in 2006. The decrease in net interest margin was mainly due to the excess liquidity in the banking system which led to increased market competition in lending, which resulted in the rate of decline in lending rates substantially outpacing the rate of decline in the interest rates of Shin Kong Bank's deposits. The average yield on Shin Kong Bank's interest-earning assets decreased by 24 basis points to 3.7% in 2007 from 4.0% in 2006.

Average Balance Sheets and Interest Rates

The following table shows Shin Kong Bank's daily average balances and average interest rates on an unconsolidated basis for the periods indicated.

	For the Year Ended December 31,			
	2006		2007	
	Average Balance Interest	Average Rate (%)	Average Balance Interest	Average Rate (%)
	(NT$ in millions, except percentages)			
Interest earning assets:				
Due from other banks	3,772.4	1.5	1,153.9	1.4
Due from the CBC	46,879.9	1.6	39,474.2	1.9
Bond purchased under resale agreements	240.6	1.5	1.9	1.7
Trading assets	1,772.8	1.0	616.7	0.7
Available-for-sale financial assets	3,083.7	4.5	10,043.5	2.8
Held-to-maturity financial assets	14,045.8	2.0	11,452.3	1.7
Debt securities without active market	3,999.9	7.1	10,573.3	6.3
Accounts receivable (credit card)	10,678.1	16.1	7,457.8	16.9
Accounts receivable (factoring and management)	1,010.4	2.3	1,065.5	3.6
Discounts and loans	211,514.3	4.0	248,901.6	3.6
Total average interest earning assets	296,997.9		330,740.7	
Interest bearing liabilities:				
Notes issued under repurchase agreement	2,915.2	1.5	6,003.1	1.8
Due to other banks	11,773.7	3.1	10,482.6	3.5
Deposits and remittances	93,055.7	0.5	102,767.8	0.5
Time deposits	185,668.9	1.9	201,597.0	2.3
Bank debentures	14,128.1	2.6	17,800.0	2.3
Appropriated loan fund	185.3	1.1	86.1	1.5
Total average interest earning liabilities	307,726.9		338,736.6	
Average interest-earning assets/average interest-bearing liabilities	96.5%		97.6%	
Net interest margin(1)	2.4%		1.9%	
Net interest spread(2)	3.2%		2.4%	

Notes:

(1) Represents net interest income divided by daily average interest-earning assets.

(2) Represents the yield on average interest-earning assets minus the funding cost of average interest-bearing liabilities.

Volume and Rate Analysis

Shin Kong Bank's interest income and expense are affected by fluctuations both in interest rates and in volume of activity. Shin Kong Bank's interest expense is also affected by the extent to which it funds our activities with low-interest or non-interest deposits (including the float on transactional services), and the extent to which it relies on borrowings in the interbank market.

The following table allocates changes in Shin Kong Bank's interest income and interest expense between changes in volume and changes in rate on an unconsolidated basis for 2007 compared with 2006. Volume and rate variances have been calculated based on movements in average balances over the period indicated and changes in interest rates on daily average interest-earning assets and interest-bearing liabilities.

	Increase/(Decrease) for 2007/2006			
	Volume	Rate	Volume and Rate	Net Change
	(NT$ in millions)			
Interest income(1):				
Due from other banks	(36.0)	(1.2)	(2.7)	(39.9)
Due from the CBC	(137.4)	92.2	17.3	(27.9)
Bonds purchased under resale agreements	(3.9)	—	0.4	(3.6)
Financial assets for trading	(8.2)	(2.0)	(3.8)	(14.0)
Available-for-sale financial assets	192.8	(171.2)	118.7	140.2
Held-to-maturity financial assets	(43.8)	(35.9)	(8.1)	(87.9)
Debt securities without active market	412.4	(85.5)	53.1	380.1
Accounts receivable (credit card)	(545.2)	64.4	27.8	(453.0)
Accounts receivable (factoring and management)	2.0	14.3	(0.7)	15.5
Notes discounted and loans	1,355.0	(849.5)	127.6	633.1
Total	1,187.7	(974.4)	329.6	542.6
Interest expense(2):				
Notes issued under repurchase agreement	55.3	16.9	(8.7)	63.5
Due to other banks	(45.2)	46.0	5.7	6.5
Deposits and remittances	44.9	(1.5)	0.1	43.5
Time deposits	360.4	775.2	(61.2)	1,074.3
Bank debentures	83.4	(57.4)	11.8	37.9
Appropriated loan fund	(1.5)	0.4	0.4	(0.7)
Total	497.3	779.6	(51.9)	1,225.0

Notes:

(1) Excluding interest incomes from delinquent loans.

(2) Excluding interest expenses from Shin Kong Finance (HK) Ltd.

Net Non-Interest Income

The following table shows information with respect to Shin Kong Bank's non-interest income on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2006	2007
	(NT$ in millions)	
Service fee, net	1,525.9	1,907.7
Service fee income	2,086.6	2,483.8
Service fee expense	(560.7)	(576.1)
Gain on foreign exchange, net	19.9	64.6
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net	471.7	(397.8)
Realized (loss) gain on available-for-sale financial asset, net	(2.1)	2.5
Realized gain on held-to-maturity investments, net	—	3.7
Loss on assets impairment	—	(1,812.5)
Gain (loss) on market value increase of collateral assumed	(1,070.0)	273.0
Gain on disposal of property and equipment and deferred expense, net	1.8	2,752.6
Other gains, net	105.4	92.8
Total	1,052.6	2,886.6

Net income excluding interest income increased by 174.2% to NT$2,886.6 million in 2007 from NT$1,052.6 million in 2006, primarily due to a gain of NT$2,752.6 million on disposal of property and equipment and deferred expense in 2007. Service fee net increased by 25% in 2007 compared to 2006, largely due to an increase in commissions and fees from wealth management services.

Net income excluding interest revenue constituted 13.0% and 31.2% of net revenue in 2006 and 2007, respectively.

Bad debt expenses for Credit Losses

The following table shows information with respect to Shin Kong Bank's Bad debt expenses for credit losses on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2006	**2007**
	(NT$ in millions)	
Bad debt expenses for credit losses — loans	4,065.5	752.0
Bad debt expenses for credit losses — receivables	5,687.4	1,109.0
Total Bad debt expenses	9,752.9	1,861.0

Bad debt expenses for credit losses decreased by 80.9% to NT$1,861.0 million in 2007 from NT$9,752.9 million in 2006, primarily due to an improvement of asset quality. As a result, the allowance for loan losses to gross loans ratio decreased to 1.0% in 2007 from 1.4% in 2006.

Operating Expenses

The following table shows information with respect to Shin Kong Bank's operating expenses on a consolidated basis for the periods indicated:

	For the Year Ended December 31,	
	2006	**2007**
	(NT$ in millions)	
Personnel expenses	2,795.8	2,890.8
Depreciation and amortization expenses	758.9	748.9
Other business and general and administrative expenses	2,515.4	2,242.1
Total	6,070.1	5,881.8

Total operating expenses decreased by 3.1% to NT$5,881.8 million in 2007 from NT$6,070.1 million in 2006. Personnel expenses increased slightly by 3.4% as we established a wealth management department in 2007. Depreciation and amortization expenses decreased by 1.3% as we sold a building in December 2007.

Taxation

Shin Kong Bank recognized income tax expenses of NT$84.0 million in 2007 and income tax benefits of NT$418.8 million in 2006. The resulting effective tax rate was 5.6% and 5.4% for 2007 and 2006, respectively. Shin Kong Bank has a higher effective tax rate in 2007 because it recognized a loss before income tax in 2006.

Financial Condition at December 31, 2007 Compared to December 31, 2006

Assets

Total Assets

Total assets increased by 9.7% to NT$386,795.6 million as of December 31, 2007 from NT$352,464.6 million as of December 31, 2006. The increase in total assets in 2007 largely reflected increases in liquid assets.

Total interest-earning assets averaged 84.3% and 85.5% of our total assets for 2006 and 2007, respectively.

Securities Purchased

Securities purchased increased by 18.1% to NT$37,189.3 million as of December 31, 2007 from NT31,482.9 million as of December 31, 2006, primarily due to Shin Kong Bank's purchase of domestic convertible bonds in 2007.

Notes discounted and loans

Notes discounted and loans increased by 18.8% to NT$276,617.9 million as of December 31, 2007 from NT$232,925.8 million as of December 31, 2006, as Shin Kong Bank tightened its credit controls and decreased its write-offs from NT$8,275.0 million in 2006 to NT$4,393.0 million in 2007. Loan loss reserves decreased by 13.7% to NT$2,915.3 million as of December 31, 2007 from NT$3,379.2 million as of December 31, 2006, reflecting an improvement in asset quality.

Liabilities

Total Liabilities

Total liabilities increased by 9.9% to NT$365,571.0 million as of December 31, 2007 from NT$332,564.8 million as of December 31, 2006, primarily reflecting increases in deposits and remittances.

Customer deposit and remittance

Customer deposit and remittance increased by 13.6% to NT$325,763.7 million as of December 31, 2007 from NT$286,746.2 million as of December 31, 2006, primarily reflecting the flow of funds to the banking system from the equities market due to the overall declined performance of the equities market.

The loan-to-deposit ratio for any period equals the gross loans for the period divided by the deposits and remittances ending balance for the period. The loan-to-deposit ratio was 82.4% and 85.8% for 2006 and 2007, respectively.

DESCRIPTION OF ASSETS AND LIABILITIES OF SHIN KONG BANK

All the financial and other data in this section of the offering memorandum are presented on an unconsolidated basis, which is the basis upon which Shin Kong Bank has historically reported its financial and other data to the Banking Bureau and the CBC.

Credit Exposure

Shin Kong Bank's total credit exposure is comprised of funded credit exposure, consisting of loan receivables, and contingent liabilities in respect of other credit commitments, consisting principally of undrawn committed lines of credit and obligations to honor guarantees, letters of credit and the like.

The following table shows Shin Kong Bank's total funded credit exposure by product on an unconsolidated basis as of the dates indicated:

	As of December 31,			As of March 31,
	2006	2007	2008	2009
	(NT$ in millions)			
Domestic[1]	228,846	267,669	269,570	264,746
Corporate	88,823	115,336	112,356	108,159
Consumer	140,023	152,333	157,214	156,587
Overseas[1]	3,688	6,215	9,418	9,407
Outward documentary bills	322	324	92	86
Delinquent loans	2,831	4,575	4,507	4,488
Total Gross loans	235,687	278,783	283,587	278,727
Guarantees	6,044	10,284	15,332	18,115
Acceptance receivables	358	763	341	325
Others[2]	3,490	3,414	1,579	2,645
Total credit exposure	245,579	293,244	300,839	299,812

Notes:

(1) Loans exclude outward documentary bills.

(2) Includes remittance purchased and letter of credit receivables.

As of March 31, 2009, Shin Kong Bank's total contingent liabilities in respect of guarantees and letters of credit were NT$20,760 million.

Loans by Principal Amount

Shin Kong Bank extends loans of varying principal amounts. As of March 31, 2009, 50.7% of Shin Kong Bank's domestic loans (excluding documentary bills) comprised loans with principal amounts of less than NT$10 million and 8.7% were loans with principal amounts greater than NT$500 million.

The following table shows Shin Kong Bank's domestic loans (excluding resell transactions) by principal amount on an unconsolidated basis as of the dates indicated:

	As of December 31,				As of March 31, 2009	
	2007		2008			
	Amount	%	Amount	%	Amount	%
	(NT$ in millions, except percentages)					
Up to NT$1 million	34,891	13.0	32,512	12.1	31,550	11.9
NT$1 million — NT$5 million	66,998	25.0	71,836	26.6	71,806	27.1
NT$5 million — NT$10 million	30,566	11.4	32,169	11.9	31,062	11.7
NT$10 million — NT$50 million	46,710	17.5	47,160	17.5	45,258	17.1
NT$50 million — NT$100 million	24,043	9.0	20,431	7.6	20,132	7.6
NT$100 million — NT$500 million	39,794	14.9	41,999	15.6	42,026	15.9
Above NT$500 million	24,667	9.2	23,463	8.7	22,912	8.7
Total	267,669	100.0	269,570	100.0	264,746	100.0

Borrower Concentrations

Under the ROC Banking Law and related FSC guidelines, loans extended by a bank to any single borrower may not exceed certain prescribed percentages of its total net worth. A percentage limitation, based on a bank's total net worth, is also prescribed for the aggregate loans extended to a borrower and its connected parties. See "Regulation of the Taiwan Financial Services Industry — Regulation Shin Kong Bank — Asset Quality and Non-Performing Loans — Restrictions on Credit Exposure — Restrictions on Credit Exposure to Related Parties." As of March 31, 2009, none of Shin Kong Bank's loan exposures to a single borrower exceeded the percentage limitations prescribed by the FSC.

The following table shows information on Shin Kong Bank's ten gross loan exposures to single borrowers as of March 31, 2009:

	Gross Loans Outstanding	% of Gross Loans Outstanding
	(NT$ in millions)	
Customer A	6,853	2.3
Customer B	5,000	1.7
Customer C	2,899	1.0
Customer D	2,172	0.7
Customer E	2,172	0.7
Customer F	1,962	0.6
Customer G	1,900	0.6
Customer H	1,714	0.6
Customer I	1,415	0.5
Customer J	1,370	0.5
Total top ten	27,457	9.2
Total gross loans outstanding	299,812	100.00

Shin Kong Bank has adopted credit policies that impose additional concentration limits on credit exposures to borrower groups. Shin Kong Bank defines a "borrower group" as a non-government enterprise borrower and all of its related persons, as that term is used for ROC GAAP purposes.

The following table shows information on Shin Kong Bank's ten largest loan exposures to single borrower groups on an unconsolidated basis as of March 31, 2009:

	Gross Loans Outstanding	% of Gross Loans Outstanding
	(NT$ in millions)	
Group A	4,756	1.6
Group B	3,779	1.3
Group C	3,458	1.1
Group D	3,065	1.0
Group E	2,445	0.8
Group F	2,247	0.7
Group G	2,172	0.8
Group H	2,103	0.7
Group I	1,961	0.7
Group J	1,780	0.6
Total Top Ten	27,766	9.3
Total gross loans outstanding	278,727	100.0

Loans by Maturity

As of March 31, 2009, approximately 30.4% of Shin Kong Bank's total domestic loans (excluding outward documentary bills) had maturities of one year or less. Substantially all of Shin Kong Bank's short-term loans are renewed at maturity, subject to relevant loan review procedures. Shin Kong Bank actively manages the maturity profile of its loan portfolio as part of the management of its exposure to changes in market interest rates and its funding and liquidity requirements. Most of its loans are either floating rate loans or loans that re-price within a period of less than one year. See "— Risk Management — Interest Rate Risk Management" below.

The following table shows information on the maturity profile of Shin Kong Bank's loan portfolio in millions as of March 31, 2009:

	As of March 31, 2009	
	(NT$ in millions)	Percentage of total
Less than 1 month	14,712	5.3
1–3 months	17,780	6.4
3–6 months	20,613	7.4
6 months–1 year	31,163	11.2
Over 1 year	194,459	69.7
Total[1]	278,727	100.0

Note:

(1) Domestic loans excluding outward documentary bills.

Secured Loans

As of March 31, 2009, 70.1% of Shin Kong Bank's loan portfolio was fully-collateralized and 29.9% partially-collateralized and non-collateralized.

In accordance with the ROC Banking Law, Shin Kong Bank considers a loan to be fully secured only if the principal amount of the loan is (1) guaranteed by a government or government agency, bank or credit guarantee agency or (2) secured by real estate or chattel mortgage, pledge or notes receivable arising from or relating to the borrower's ordinary course of business. Shin Kong Bank does not consider any other loans, including loans secured by accounts receivable or guaranteed by a borrower's affiliates, officers, directors or shareholders, or loans that are only partially secured, as being made on a fully secured basis.

Shin Kong Bank typically obtains a first priority security interest in collateral securing loans, although in limited circumstances it may accept a junior ranked security interest. The types of collateral accepted by Shin Kong Bank include real estate, marketable securities, deposits and other appraisable items. Home mortgages are generally secured by a first priority security interest in the underlying property. Term loans for specific projects or developments are generally secured by the underlying project's assets and receivables, while additional guarantees are typically required to be provided by the sponsors or shareholders. Shin Kong Bank also receives guarantees in relation to certain of its other loans to cover, in the case of trade finance, any shortfall in security or, in the case of consumer loans to less creditworthy customers, to provide security for what are normally unsecured loans.

Loans secured by land are generally disbursed in principal amounts up to 80% of the appraised value of the collateral. In most cases, Shin Kong Bank's appraisal of land collateral is recorded at a discount to market value. Loans secured by both land and buildings are generally disbursed in principal amounts up to 80% of the lower of their appraised value or market value, in either case after deduction of land appreciation tax. When securities are used as collateral, the maximum loan-to-value ratio is 60% of the appraised value. Shin Kong Bank values its listed securities-based collateral at the lower of the closing price on the lending date and the average closing price over the sixty trading days prior to the lending date. Shin Kong Bank values its unlisted securities-based collateral at par value.

Shin Kong Bank monitors the value of its borrowers' collateral and performs appraisal valuations semi-annually. At any time when Shin Kong Bank believes there has been a significant drop in the value of the collateral, Shin Kong Bank will reassess and mark to market the value of the collateral. For all loans other than mortgage loans, Shin Kong Bank typically requires borrowers whose collateral value declines to a certain level to provide Shin Kong Bank with additional collateral or repay a portion or the entire amount of the loan.

The following table shows the breakdown of Shin Kong Bank's loans by collateral type on an unconsolidated basis as of the dates indicated. Loans that have no collateral are classified as unsecured credit in the following table.

	As of December		As of March 31, 2009
	2007	2008	
	(NT$ in millions)		
Unsecured credit	74,998	73, 312	71,162
Stock	7,446	6,901	6,954
CD	10,513	8,925	8,108
Government bond or financial debenture	464	420	393
Corporate bond	15	8	7
Real estate — land	20,712	21,541	20,143
Real estate — building and land	150,398	164,734	166,910
Other properties	14,536	15,632	15,525
Notes receivable	943	707	877
Checks receivable	3,054	2,184	2,160
Letter of guarantee	2,844	2,829	2,819
Others	7,321	3,646	4,754
Total credit exposure	293,244	300,839	299,812

Corporate Credit Exposure

Shin Kong Bank regularly reports its industry concentration exposure to the FSC and the CBC, using the industry classification guidelines prescribed by the CBC. As of March 31, 2009, Shin Kong Bank had NT$5.7 billion of credit exposure to the DRAM industry, representing 2% of Shin Kong Bank's total loan exposure.

The following table shows Shin Kong Bank's loan exposure on an unconsolidated basis as of the dates indicated:

	As of December 31,		As of March 31, 2009
	2007	2008	
	(NT$ in millions)		
Private enterprises:			
Agriculture, forestry, fishery and animal husbandry	882	847	427
Mining industry	5	12	19
Manufacturing	39,118	39,273	37,758
Electrical, oil and gas	201	539	595
Water and pollution prevention	242	269	285
Construction	3,815	3,929	3,756
Wholesale and retail business	14,548	13,870	13,528
Transportation and storing	4,490	5,581	5,779
Hotel and restaurant	1,145	1,104	1,583
Information and communication	978	610	1,652
Financial institutions and insurance	14,559	10,965	11,118
Real estate	20,650	21,097	19,082
Service industry	7,851	7,142	5,475
Subtotal	108,484	105,238	101,057
Government enterprises:			
Manufacturing	129	88	88
Construction	4,961	6,569	6,562
Subtotal	5,090	6,657	6,650
Nonprofit organization	502	461	452
Individual	152,333	157,214	156,587
Securities finance	1,260	—	—
Subtotal	154,095	157,675	157,039
Total(1)	267,669	269,570	264,746

(1) Domestic loans excluding outward documentary bills and delinquent loans.

Credit Administration and Policy

Consistent with its conservative financial management philosophy, Shin Kong Bank carefully maintains high credit standards. As of March 31, 2009, its NPL ratio was 1.9%. Shin Kong Bank believes that its superior asset quality is primarily attributable to its prudent lending criteria. Shin Kong Bank's credit risk management function is independent of our sales and marketing function.

Shin Kong Bank manages credit risk by lending to a diverse base of corporate and retail customers in various industrial and sectors.

The table below shows the loan concentration ratios of our available credit line with respect to the industries indicated below as of March 31, 2009.

Industry	Actual Ratio (%)	Maximum Ratio (%)
Electronics	6.0	28
Chemical	1.0	20
Automobile	1.0	10
Food and beverage	0.5	13
Machinery	0.5	11
Textile	0.8	12
Electrical and cable	0.6	10
Plastics	0.7	15
Steel	2.6	22
Cement	0.3	10
Paper and pulp	0.2	10
Rubber	0.1	8
Transportation	2.3	8
Construction	9.0	35
Financial leasing	3.9	15
Financial investment	2.4	10
Government entities	2.3	—
Tourism	0.6	10
Commerce	6.2	10
Government institutions	1.7	—
Others	4.4	30
Individual	52.9	—
Total	100.0%	

Limits are also set for Shin Kong Bank's country exposure by taking into account country rankings issued by S&P and Moody's. The table below shows certain information regarding country risk limits Shin Kong Bank establishes for its foreign lending.

Rating	Category	Limit as % of total net worth	
Level A	Includes countries ranked the 1st through the 18th	Total of Level A	<20%(1)
Level B	Includes countries ranked the 19th through the 34th	Total of Level B	<65% and less than US$0.2 billion
Level C	Includes countries ranked 35th through the 55th	Total of Level C	<50% and less than US$150 million
Level D	Includes countries ranked the 56th and lower	Total of Level D	<30% and less than US$100 million

Note:

(1) As of total assets.

The FSC has issued specific guidelines governing bank lending. Shin Kong Bank strictly follows these lending policies stipulated by the FSC. The table below shows selected lending ceilings (defined as loan size divided by a bank's net worth) specified by the FSC.

Borrower profile	Ceiling on Total Secured and Unsecured Credits to Net Worth of a Bank	Ceiling on Unsecured Credits to Net Worth of a Bank
Each individual	3%	1%
Each legal entity	15%	5%
Each government-owned enterprise	100%	—
Each individual, together with those credited extended to its spouse, relatives by blood within second degree, or a company in which such individual or its spouse is the responsible person (excluding government-owned enterprise)	40% (provided that the aggregate credits extended to such individual, his/her spouse and relatives by blood within second degree shall be no more than 6%)	10% (provided that the aggregate unsecured credits extended to such individual, his/her spouse and relatives by blood within second degree shall be no more than 2%)
Each legal entity, together with its affiliates defined under ROC Company Law (excluding government-owned enterprise)	40%	15%

See "Regulation of the Taiwan Financial Services Industry — Regulation of Shin Kong Bank — Restrictions on Credit Exposure — Restriction on Credit Exposure to Unrelated Parties."

Credit approval is overseen by Shin Kong Bank's Corporate Banking Department. The Corporate Banking Department of Shin Kong Bank reviews and investigates loan applicants and passes cases to the Credit Screening Committee of Shin Kong Bank for approval. The Credit Screening Committee of Shin Kong Bank, whose members consist of Shin Kong

Bank's senior managers in charge of credit extension, meets weekly to review and approve large credit applications and to review the status of its credit exposure. From time to time, Shin Kong Bank reviews credit policies to manage its exposure to different industries, groups and individual borrowers.

The application and approval procedures are generally undertaken in three stages. During the first stage, the applicant submits a standard loan application form and interviews with a loan officer. Shin Kong Bank then conducts pre-screening (for new clients), credit check and credit analysis during the second stage. Pending the outcome of such check and analysis, the application is submitted to the Credit Screening Committee of Shin Kong Bank for internal credit approval subject to the general approval thresholds set out below.

Shin Kong Bank's credit approval process involves the evaluation and analysis of loan applications to ensure a thorough understanding of the borrower, the purpose and structure of the loan and the borrower's sources of liquidity and financial condition principally on a projected cash flow analysis basis. Shin Kong Bank employs a multi-level credit approval system that requires loan approvals to be granted at successively higher levels of the organization, depending primarily on the principal amount of the proposed loan. The table below shows Shin Kong Bank's lending authority limits with respect to its domestic loans as of March 31, 2009:

	Credit Limit	
Levels	Secured	Unsecured
	(in NT$ millions)	
Executive Board	>200	>100
President	<200	<100
Executive vice president	<60	<30
Business department manager	<30	<10
Corporate branch manager (Corporate)	<15	<5
Corporate branch manager (Consumer)	<15	<3

Loans with principal amounts within the branch limits (mostly consumer and small SME loans) are reviewed and approved at the branch level. Approved cases are submitted to Shin Kong Bank's Corporate Banking Department for review on a monthly basis. Loans with principal amounts exceeding the branch limits are accordingly referred to the Corporate Banking Department at the executive vice president level, president level and the Executive Board for approval at Shin Kong Bank. All loans exceeding the president level are reported to the Executive Board on a two-week basis.

Shin Kong Bank has instituted a set of lending guidelines for use in the review of corporate loan applications. These guidelines require a review of several basic categories of information:

- the purpose;
- the background and experience of key members of the applicant's management team;
- the business prospects of the applicant and its industry;

- the applicant's ability to pay interest and repay principal based on an analysis of current and forecasted cash flow and other items; and

- in the case of secured loans, the value of proposed collateral.

Shin Kong Bank's credit policy is centrally formulated and managed by its Corporate Banking Department which (i) aggregates credit exposure information; (ii) analyzes credit trends (both internal and external with the help of research department) on an ongoing basis; and (iii) sets relevant credit limits and procedures to fine tune and steer Shin Kong Bank's overall portfolio exposure. Key focuses for the department includes the management of:

- client concentration (including group concentration);

- industry concentration;

- collateral concentration;

- geographic concentration; and

- NPL levels.

Shin Kong Bank also conducts ongoing monitoring and formal reviews of its outstanding loans. Special reviews are conducted immediately for loans to borrowers whose creditworthiness has deteriorated due to changes in the market or industry conditions or whose financial status or business condition has reportedly declined. Following a review, Shin Kong Bank may place certain performing loans on its watch list for monitoring purposes or other action. However, such monitoring and review does not apply to government borrowers.

Asset Quality

Loan Classifications

Under FSC's guidelines, the asset quality of the outstanding loans extended by a bank is classified into five categories. These classifications are used for reporting purposes and to calculate the minimum amount for loan loss provision. The five categories of loans and the criteria for each category are as follows:

Class I (Normal)	Normal loans without experiencing payment difficulties
Class II (Special Mention)	Loans experiencing initial payment difficulties but recoverable in full
Class III (Substandard)	Loans experiencing payment difficulties but recoverable in full
Class IV (Doubtful)	Loans experiencing payment difficulties and the recovery of the total amount due is doubtful
Class V (Unrecoverable)	Loans experiencing payment difficulties and the recovery of the total amount due is extremely unlikely

In classifying its loans, Shin Kong Bank considers relevant quantitative and qualitative factors, including the borrower's financial condition and earnings capabilities, the borrower's management and operation of business, the payment history of the loan, the status of any collateral or guarantees and the market conditions affecting the borrower.

Under FSC guidelines, Shin Kong Bank must set aside minimum specific allowance of 2% against loans of Class II, 10% against loans of Class III, 50% against loans of Class IV and 100% against loans of Class V. No specific allowance is required for loans of Class I. The following table shows, on an unconsolidated basis for the periods indicated, Shin Kong Bank's outstanding gross loans in each of its above Classes I, II, III, IV and V:

	As of December 31,						As of March 31, 2009	
	2006		2007		2008			
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ in millions, except percentages)							
Class I	227,672	96.6	270,923	97.2	274,992	97.0	270,018	96.8
Class II	4,006	1.7	2,973	1.1	3,616	1.3	3,889	1.4
Class III	2,781	1.2	1,577	0.6	1,669	0.6	1,640	0.6
Class IV	893	0.4	1,803	0.6	865	0.3	984	0.4
Class V	335	0.1	1,507	0.5	2,445	0.8	2,196	0.8
Total	235,687	100.0	278,783	100.0	283,587	100.0	278,727	100.0

As of March 31, 2009, 1.8% of Shin Kong Bank's loans were classified into Class III, Class IV and Class V loan categories. Shin Kong Bank's specific allowance increased to NT$3,385 million as of March 31, 2009 from NT$3,374 million as of March 31, 2008.

Non-Performing Loans

The FSC requires banks in Taiwan to report overdue loans on a monthly basis: (1) in case of short-term loans with bullet payments, loans with respect to which principal is three months or more overdue or interest is six months or more overdue; (2) in case of mid- and long-term installment loans, loans with respect to which principal or interest is six months or more overdue; and (3) loans with respect to which Shin Kong Bank has taken legal action for repayment or liquidation on collateral prior to the maturity of such loans. Shin Kong Bank classifies the foregoing loans as non-performing loans. As of March 31, 2009, Shin Kong Bank's NPLs totaled NT$5.3 billion, or 1.9% of gross loans.

Shin Kong Bank stops accruing interest on delinquent loans if they are (1) loans with respect to which the most recent payment is overdue by more than six months; or (2) loans with respect to which Shin Kong Bank has initiated legal proceedings to recover payment or liquidate collaterals. As of March 31, 2009, Shin Kong Bank's delinquent loans totaled NT$4.5 billion, or 1.6% of gross loans.

Generally, NPLs meeting the following criteria will, after deducting the recoverable portions, be written-off: (1) the loans cannot be fully recovered by the reason of disappearance, dissolution, composition, declaration of bankruptcy, or other reason of the creditors; (2) the appraised value of the collaterals of the loans or the properties of the borrowers or guarantors is too low, and Shin Kong Bank may not have actual benefit from foreclosure or compulsory execution of the collaterals or the properties; or (3) the collaterals of the loans or the properties of the borrowers or guarantors have been auctioned for several times without success and Shin Kong Bank has no actual benefit from assuming the auctioned collaterals and properties.

Shin Kong Bank continually evaluates the asset quality of its credit portfolio and periodically provides allowance for potential credit losses. The table below summarizes the changes in Shin Kong Bank's allowance for loan and other losses and certain credit quality ratios for the periods indicated:

	Consolidated			Unconsolidated
	As of the Year Ended December 31,			As of March 31,
	2006	2007	2008	2009
	(NT$ in millions, except percentages)			
Asset quality data:				
Allowance for loan losses[1] — beginning balance	2,331	3,379	2,917	3,524
Plus: bad debt expenses for loan losses	4,066	752	1,427	435
Plus: reversal of write offs	298	535	449	109
Less: write-offs	3,316	1,749	1,264	683
Allowance for loan losses — ending balance	3,379	2,917	3,529	3,385
Notes discounted and loans	235,687	278,783	283,587	278,727
Total credit exposure	242,089	289,830	299,260	297,167
Delinquent loans	2,829	4,574	4,507	4,488
NPLs	4,017	5,171	5,305	5,314
Asset quality ratios:				
Delinquent loan ratio[1]	1.2%	1.6%	1.6%	1.6%
NPL ratio[2]	1.7%	1.9%	1.9%	1.9%
Bad debt expenses for loan losses to gross loans	1.9%	0.5%	0.7%	0.2%
Write-off to notes discounted and loans	1.4%	0.6%	0.4%	0.2%
Write-off to NPLs[3]	45.2%	25.3%	19.2%	11.3%
Allowance for loan losses to gross loans[4]	1.4%	1.0%	1.2%	1.2%
Allowance for loan losses to NPLs	84.1%	56.4%	66.4%	63.7%

Notes:

(1) Defined as delinquent loans divided by notes discounted and loans.

(2) Defined as NPLs divided by notes discounted and loans.

(3) Defined as write-offs for the period divided by NPLs at the beginning of the period.

(4) Annualized ratios for provision for loan losses to notes discounted and loans, write-off to notes discounted and loans and write-off to NPLs.

The following table sets forth certain data on Shin Kong Bank's NPLs by customers as categorized by corporate and retail NPLs on an unconsolidated basis as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ in millions, except percentages)							
Corporate	1,477	36.8	2,529	48.9	3,095	58.3	2,984	56.2
Consumer	2,540	63.2	2,642	51.1	2,210	41.7	2,330	43.8
Total	4,017	100.0	5,171	100.0	5,305	100.0	5,314	100.0

The following table shows information on Shin Kong Bank's ten largest NPLs on an unconsolidated basis as of March 31, 2009:

	NPLs Outstanding (NT$ in millions)	% of NPLs Outstanding
Customer A	507	9.6
Customer B	307	5.8
Customer C	222	4.1
Customer D	139	2.6
Customer E	104	2.0
Customer F	99	1.9
Customer G	92	1.7
Customer H	82	1.5
Customer I	68	1.3
Customer J	65	1.2
Total Top 10 NPLs	1,685	31.7
Total NPL Outstanding	5,314	100.0

Aging Analysis of Overdue Loans

The following table sets forth an aging schedule of Shin Kong Bank's NPL portfolio, indicating the number of days that either an interest or principal payment was on an unconsolidated basis overdue as of the dates indicated:

	As of December 31,						As of March 31, 2009	
	2006		2007		2008			
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ in millions except percentages)							
Loans:								
1–3 months	2,158	35.0	1,269	19.7	1,920	26.6	2,302	30.2
3–6 months	1,415	22.9	757	11.8	953	13.2	964	12.7
6–12 months	1,012	16.4	2,080	32.3	1,217	16.8	1,367	17.9
12–24 months	637	10.3	1,721	26.7	2,111	29.2	1,912	25.1
>24 months	953	15.4	612	9.5	1,025	14.2	1,071	14.1
Total	6,175	100.0	6,439	100.0	7,226	100.0	7,616	100.0

Investment Portfolio

The following table shows Shin Kong Bank's investment portfolio as of the dates indicated.

	Consolidated			Unconsolidated
	As of December 31,			As of March 31,
	2006	2007	2008	2009
	(NT$ in millions)			
Financial assets held for trading:				
Government bonds	216	—	—	—
Corporate bonds	—	298	—	—
Listed securities	1,640	1,735	—	—
CBs	191	197	1,721	2,268
Beneficiary certificated	2,166	1,452	500	110
NCD	—	—	12	—
Currency swap contracts	—	166	1,048	954
Foreign exchange forward contracts	1	—	1,752	1,499
Credit default Swap	—	—	342	—
Subtotal	4,214	3,848	5,375	4,831
Financial assets designated as at fair value through profit or loss:				
Credit-linked loans	—	—	261	271
Available for sale:				
Government bonds	3,993	10,767	16,184	744
Corporate bonds	—	697	2,695	2,728
Real estate asset fund	—	359	1,412	2,153
Listed securities — private common stock	—	—	1,390	1,462
Foreign bonds	1,404	1,163	519	438
Domestic private common stocks	—	1,057	167	141
Subtotal	5,397	14,043	22,367	7,666
Total	9,611	17,891	27,742	12,497

	Consolidated		Unconsolidated
	As of December 31,		As of March 31,
	2007	2008	2009
	(NT$ in millions)		
Held to maturity:			
Government bonds	6,234	6,212	6,206
Corporate bonds	1,899	1,400	1,400
CBOs	2,083	2,125	2,136
Foreign bonds	734	112	116
Financial debentures	700	—	—
Subtotal	11,650	9,849	9,858
No active market:			
Bond investment without active market	7,202	7,409	4,765
Financial assets carried at cost	445	579	579
Subtotal	7,647	7,988	5,344
Total	19,297	17,837	15,202

The following table sets forth Shin Kong Bank's ten largest investments by issuers as of the date indicated:

	As of March 31, 2009	
	Book Value	Market Value
	(NT$ in millions)	
ROC government	5,790	5,933
SinoPac Bank	1,984	1,903
Goldman Sachs Group, Inc.	1,357	726
Bank of Scotland	1,187	1,067
Commonwealth Bank of Australia	795	765
Taiwan Power Company Ltd.	600	600
Banesto Financial Product plc	509	510
Fox Conn Electronics Inc.	500	500
UBS AG	499	448
China Development Financial Holdings Corp.	300	300
Total 10	13,521	12,752

Funding

Deposits have traditionally been the principal source of Shin Kong Bank's funds for use in lending and other general business purposes. Shin Kong Bank's other sources of funds include interbank borrowings in the domestic money market. As of March 31, 2009, Shin Kong Bank's gross loan to deposit ratio was 79.0%. Other sources of funding include bank debentures which totaled NT$8.8 billion, as of March 31, 2009.

Shin Kong Bank offers five basic types of deposit products:

- *Checking deposits.* Checking accounts do not bear interest and allow corporate and individual customers to deposit or withdraw funds at any time.

- *Demand deposits.* Demand deposits bear interest and allow corporate and individual customers to withdraw funds at any time without penalty. Demand deposits accrue interest at a floating rate.

- *Time deposits.* Time deposits require corporate and individual customers to maintain a deposit for a fixed term, during which interest accrues at a fixed or floating rate. Withdrawals are allowed prior to maturity only with deduction in interest payments. Currently, Shin Kong Bank offers time deposit products with maturities of up to three years.

- *Savings deposits.* Savings deposits are available to individual customers only. Shin Kong Bank offers two types of savings deposit products: "time" savings deposits and "demand" savings deposits. Time savings deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed or floating rate. Withdrawals are allowed prior to maturity only with deduction in interest payments. Demand savings deposits bear interest at a floating rate and accountholders may withdraw funds at any time without a penalty.

- *Foreign currency deposits.* Foreign currency deposits are maintained by corporate and individual customers and are denominated primarily in US dollars.

The following table shows the outstanding balances of Shin Kong Bank's deposits by type, excluding remittances, as of the dates indicated:

	Consolidated						Unconsolidated	
	As of December 31,						As of March 31, 2009	
	2006		2007		2008			
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ in millions, except percentages)							
Demand deposit	27,224	9.4	29,507	9.0	43,204	12.1	32,572	9.1
Demand savings deposit	74,797	25.7	74,770	22.7	69,458	19.3	77,837	21.8
Time deposits	43,510	14.9	75,648	23.0	97,980	27.3	105,216	29.4
Time savings deposits	141,391	48.6	146,019	44.3	145,538	40.5	138,985	38.9
Due to Chunghwa Post Co., Ltd.	4,200	1.4	3,140	1.0	3,038	0.8	3,063	0.8
Total deposits	291,122	100.0	329,084	100.0	359,218	100.0	357,673	100.0

Shin Kong Bank also has interbank deposits outstanding and deposits with the CBC. The following table shows the outstanding balances of Shin Kong Bank's deposits by type as of the dates indicated:

	Consolidated						Unconsolidated	
	As of December 31,						As of March 31, 2009	
	2006		2007		2008			
	Amount	%	Amount	%	Amount	%	Amount	%
	(NT$ in millions, except percentages)							
Due to CBC	15	1.3	38	3.7	6	3.0	9	7.0
Due to banks	1,151	98.7	985	96.3	192	97.0	119	93.0
Total deposits	1,166	100.0	1,023	100.0	198	100.0	128	100.0

As of March 31, 2009, substantially all of Shin Kong Bank's deposits had current maturities of one year or less or were payable on demand. However, a substantial portion of these deposits has been rolled over at maturity. Deposits have provided it with a stable source of long-term funding.

The following table shows the amount of our deposits by maturity as of March 31, 2009:

	Amount	%
	(NT$ in millions, except percentages)	
Due in 3 months or less	101,326	28.3
Due in 3 to 6 months	91,909	25.7
Due in 6 months to 1 year	115,608	32.3
Due over 1 year	48,830	13.7
Total deposits	357,673	100.0

Risk Management

Shin Kong Bank's risk management mechanism is cross-departmental, with policies and internal regulations set by the Board of Directors, subcommittees and teams familiar with business management and with various market and credit and operational risks. Shin Kong Bank's risk management is monitored and managed by five groups as follows:

Committee or Team	Responsibilities and Objectives
Board of Directors	● Responsible for reviewing and approving all risk management policies ● Ensures implementation of all internal policies and government regulations ● Determines division of risk management authority and reporting structure
Asset and Liability Management Committee	● Reviews and approves operation strategies and procedures relating to loans, deposits, foreign exchange and capital markets ● Reviews and determines liquidity positions, interest rate sensitivity and asset/liability structure ● Analyzes domestic and foreign political and economic situations, and trends in government policies to financial industries ● Predicts the trends in domestic funding, exchange rates, interest rates and other financial indicators
Risk Management Committee	● Responsible for reviewing: operational risk management policies, reporting structure and division of responsibility, distribution of risk levels and effective implementation of risk management policies by the planning department
Credit Screening Committee	● Reviews and implements loan policies approved by Board of Directors
Investment Screening Committee	● Reviews overall domestic and overseas investment strategies ● Reviews annual and monthly investment plans ● Reviews important domestic and overseas investment projects ● Reviews performances of domestic and overseas investment portfolios

Credit Risk Management

Credit risk represents the loss that Shin Kong Bank would incur if a counterparty fails to perform its contractual obligations. The objectives of Shin Kong Bank's credit risk management and to improve its asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. Shin Kong Bank's board of directors sets the counterparty credit limits, which are then implemented by its Credit Screening Committee. Shin Kong Bank's Credit Screening Committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates.

Asset and Liability Management

The primary objective of Shin Kong Bank's risk management policies and practices is to maximize earnings and return on capital with acceptable and controllable levels of interest rate risk, liquidity risk, foreign exchange risk, credit risk and operational risk. Currently, Shin Kong Bank's asset liability management process is overseen by its Asset and Liability Management Committee.

Shin Kong Bank allocates revenues to products through fund transfer pricing that measures the cost of funds. In addition, Shin Kong Bank aims to further strengthen its ability for risk-based pricing and risk-adjusted performance measurement.

Interest Rate Risk Management

Exposure to interest rate movements arises where there is a mismatch among rate sensitive assets, liabilities and off-balance sheet items. The resultant gap may cause net interest income to be affected by changes in the prevailing level of interest rates. The primary sources of structural interest rate risk are short-term re-pricing risk and basis risk.

Shin Kong Bank's Risk Management Committee and Asset and Liability Management Committee are responsible for measuring and managing the interest rate exposure of the treasury portfolio in accordance with the Shin Kong Bank Interest Rate Risk Management Policy Objectives and Adjustment Procedures approved by the board of directors. For structural interest rate risk, the primary focus is to achieve a desired overall interest rate profile, which may change over time based on its longer-term view of interest rates and economic conditions. Its Asset and Liability Management Committee reviews the composition of assets and liabilities, including interest rate mismatch positions (e.g., posted rate loans versus posted rate deposits, fixed rate applications versus fixed rate sources, and long-term applications versus long-term sources), and uses simulations to project net interest income in a range of interest rate scenarios. From these scenarios, its senior management can develop appropriate strategies to shape its risk-return profile.

Shin Kong Bank's primary means of measuring its exposure to fluctuations in interest rates is interest rate gap and sensitivity analysis, which provide a static view of the re-pricing characteristics of balance sheet positions. An asset or liability is considered to be interest rate sensitive if it needs to be re-priced within a specified period of time. The interest rate sensitivity gap is prepared by scheduling all assets and liabilities according to anticipated re-pricing. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities for that re-pricing period. A gap is considered negative where interest rate sensitive liabilities for a particular period exceed interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income; the opposite would be true during a period of falling interest rates.

Although a gap analysis is useful in identifying possible interest rate exposure, it is a static measurement as of a particular date that does not precisely quantify the potential impact of interest rate changes on our future earnings or cash flows.

The following table shows Shin Kong Bank's gap analysis for the portion of its NT dollar denominated assets and liabilities from its headquarters and domestic branches on an unconsolidated basis as of March 31, 2009:

	Interest-earning Assets	Interest-bearing Liabilities	Interest Gap	Cumulative Gap as a % of Total Interest-earning Assets
	(NT$ in millions, except percentages)			
3 months or less	223,818	111,482	112,336	35.1
More than 3 months and up to 6 months	5,379	153,262	(147,883)	(11.1)
More than 6 months and up to 1 year	7,417	65,199	(57,782)	(29.1)
Over 1 year	83,909	13,259	70,650	(7.1)
Total	320,523	343,202	(22,679)	(7.1)

Liquidity Risk Management

The purpose of liquidity risk management is to provide Shin Kong Bank with available funds to meet our present and future financial obligations and to take advantage of appropriate market opportunities as they arise. Liquidity obligations arise from withdrawals of deposits, repayments of borrowings at maturity, extensions of credit and working capital needs. Shin Kong Bank manages liquidity risk in accordance with the Shin Kong Bank Interest Rate Risk Management Policy Objectives and Adjustment Procedures.

Shin Kong Bank seeks to manage its liquidity risk across all classes of assets and liabilities with the goal that even under adverse conditions, Shin Kong Bank has access to necessary funds at reasonable cost. Liquidity is maintained by holding sufficient quantities of liquid assets with which to meet actual or potential demands for funds from depositors and borrowing customers. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount its funds can confidently generate within that period. As part of its liquidity risk management, Shin Kong Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

Shin Kong Bank's Asset and Liability Committee is responsible for overall liquidity risk management. Shin Kong Bank's liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The primary tool for monitoring liquidity is the maturity mismatch analysis. This analysis includes behavioral assumptions concerning, among other things, customer loans and advances, customer deposits and reserve assets.

In addition, Shin Kong Bank seeks to maintain an adequate level of liquid assets it can use in the event of a liquidity crisis. Banks in Taiwan are required to maintain a cash reserve fund based on the amount of deposits received from customers, as well as a reserve of non-cash current assets based on the total deposits of the bank. This reserve fund is placed on deposit with the CBC with a portion of the deposit receiving interest at a nominal interest rate. Borrowings from commercial banks and other financial institutions are made primarily at call rates in the interbank market for liquidity purposes. Liquid assets for this purpose include marketable securities, commercial paper and bank acceptances, treasury bills, government bonds, net short-term interbank placements and certificates of deposit with the CBC.

Shin Kong Bank has diverse funding sources available to it, including customer deposits, postal deposits, financial debentures, funds borrowed from the CBC, borrowings in the domestic and foreign interbank markets and borrowings through the swap and repurchase markets. Additional foreign currency liquidity is available through foreign currency deposits from Shin Kong Bank's branches.

Foreign Exchange Risk Management

Shin Kong Bank manages foreign exchange risk in accordance with the Shin Kong Bank Guidelines for Handling Foreign Exchange Markets, Foreign Currency Markets and Foreign Capital Markets approved by its board of directors and by the CBC. Shin Kong Bank manages its foreign exchange risk by matching its foreign currency assets and liabilities. Shin Kong Bank trades in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, as part of its management of its asset and liability positions. The principal goal of these trading activities is to minimize the impact of currency exchange fluctuations on its financial position. Traders are subject to counterparty, per trade, stop loss and total exposure limits. The accounting office of Shin Kong Bank's overseas banking unit issues daily reports and schedules detailing daily transactions by trader, foreign exchange position and available balance for trading. The treasury department of Shin Kong Bank also issues a daily report after trading has ceased detailing realized gain or loss and unrealized gain or loss. In addition, reports detailing Shin Kong Bank's foreign exchange position with regard to each currency are distributed to the Asset and Liability Committee on a monthly basis.

Shin Kong Bank's Asset and Liability Committee monitors changes in and matches of foreign currency assets and liabilities in order to reduce exposure to currency fluctuations. The effect of exchange rate changes on foreign currency assets and liabilities is regularly assessed. Risks relating to exchange rate fluctuations are also managed through its foreign exchange desk. Foreign exchange dealing is primarily in the NT dollar/US dollar market and other major currency markets such as the Euro and Yen.

Use of Derivative Instruments

Shin Kong Bank handles derivative transaction risk in accordance with the Shin Kong Bank Guidelines for Procedures and Operations Relating to Transactions Involving

Derivative Financial Products approved by its board of directors on February 20, 2008. Shin Kong Bank uses derivative instruments, primarily forward exchange contracts and currency swaps, as part of its management of asset and liability positions in connection with its overall goal of minimizing the impact of currency exchange rate fluctuations on its financial position and that of its customers. Shin Kong Bank's traders and other related personnel closely monitor its trading activity on a number of real-time financial information networks such as Bloomberg, Reuters and Telerate, enabling them to react quickly to changes in the market. Daily reports are issued within OBU and Shin Kong Bank's treasury department. Monthly reports are issued detailing operations, unrealized losses or gains and the transactions of its counterparties.

Investment Management

Shin Kong Bank sets strict trading limits on all front-office personnel, and compliance with these limits is checked on a continuous basis by Shin Kong Bank's middle office staff. In addition, trading is subject to prescribed "stop loss" limits, and Shin Kong Bank's middle office staff identify when the "stop loss" limits are reached. The "stop loss" limits for trading in government/corporate bonds are set for overnight factor sensitivity limits, outstanding limits and maximum monthly loss limits based on rank and experience. The "stop loss" limits for equity trading are set at 20% or more fluctuation in the share price of the equity traded. Shin Kong Bank's risk management software generates daily consolidated reports that are monitored by the middle office personnel and the head of Shin Kong Bank's treasury division on a continual basis, and at the end of each business day generates a detailed report of all market transactions executed during that day. This report, which includes information on its positions as well as the profitability of the day's transactions, is then forwarded to the front, middle and back office department managers as well as to the head of the department for review.

Capital Adequacy

Under current ROC Banking Law and the FSC regulations that became effective September 6, 2007, all banks in Taiwan are required to maintain a capital adequacy ratio of at least 8.0%. When a bank's capital adequacy ratio is between 6.0% and 8.0%, it will be prohibited from distributing cash dividends, conducting share repurchases, making payments other than salary to its legal responsible persons, and the FSC may also require the bank to take certain measures it considers appropriate. When the capital adequacy ratio is between 6.0% and 2.0%, depending on the seriousness of the situation, the FSC may take further steps such as dismissing the responsible person of the bank, ordering the bank to dispose of specific assets, forcing the bank to obtain the initial approval while acquiring or disposing of the specific assets, limiting the investments and deposit interest rate, and assigning officials to take conservership or receivership, etc. When the capital ratio is below 2.0%, the FSC is required to take over management and control of the bank. A fine of between NT$2 million and NT$10 million will be levied on banks with a capital adequacy ratio of below 8%. If a bank fails to correct its violations within the period specified by the FSC, the FSC may impose additional fines on a daily basis, remove responsible persons of the bank, or revoke the bank's banking license, depending on the seriousness of the violation.

Under the current FSC regulations, capital adequacy is measured by risk-weighted capital ratios. Risk weighted capital ratios are calculated as the percentage of the amount of Tier I and qualified Tier II and Tier III capital less the sum of the book value of the investment in other banks qualified as Tier I capital and qualified Tier II capital, divided by risk-weighted assets. The amount of the risk-weighted assets is the sum of (1) credit risk-weighted assets and (2) market risk-weighted assets. See “Regulation of the Taiwan Financial Services Industry — Regulation of Shin Kong Bank — Financial Requirements — Capital Adequacy” for a further discussion of the capital adequacy regulations affecting Shin Kong Bank.

Market risk-weighted assets are calculated by multiplying market risk-based capital by 12.5.

Operational risk-weighted assets are calculated by multiplying annual gross income in the pass three years by a fixed ratio.

The current credit risk-weighting assigned to various categories of Shin Kong Bank’s assets conforms to the regulations of the FSC, which are based on the requirements of Basel II.

Net eligible capital is the total amount of a bank’s eligible capital less (1) the book value of investment in certain financial products issued by other Taiwan banks if qualified as eligible capital held for more than one year, and (2) the book value of long-term investments in non-banking business.

Eligible capital of a bank is the sum of Tier I capital, eligible Tier II capital and eligible and used Tier III capital. For purposes of this calculation, the sum of eligible Tier II capital and eligible and used Tier III capital may not exceed Tier I capital.

Tier I capital, which represents core capital, is the sum of common stock, non-cumulative perpetual preferred stock, advanced capital surplus (excluding fixed asset revaluation reserves), legal and special reserves, retained earnings and losses less operating income and insufficient provision for non-performing loans, the sum of minority interests and adjusted equity minus goodwill and treasury stock.

Tier II capital is the sum of cumulative perpetual preferred stock, fixed asset revaluation reserves, 45.0% of unrealized long-term investment capital gains, convertible bonds, operating income and allowance for loan losses (for calculation purposes, limited to 1.25% of the total credit risk-weighted assets, excluding allowance for specific losses) and outstanding long-term subordinated debt (being not due within five years and meeting certain criteria set by the FSC).

Tier III capital is the sum of issued short-term subordinated debt (having a maturity of up to two years and meeting certain criteria set by the FSC) plus non-perpetual preferred stock.

The FSC requires banks to report their capital adequacy information on a quarterly basis. The table below summarizes Shin Kong Bank's capital base and capital adequacy ratio on an unconsolidated basis in accordance with ROC GAAP as of the dates indicated, as reported to, and in accordance with the regulations of, the FSC:

	As of December 31,			As of March 31,
	2006(1)	2007	2008	2009
	(NT$ in millions, except percentages)			
Tier I Capital:				
Paid-in capital	21,577	19,578	19,578	19,578
Premium on capital stock	5,642	366	366	366
Legal reserves	—	—	427	495
Special reserves	—	—	302	1,071
Unappropriated retained earnings	(7,276)	1,423	837	172
Other adjustments on stockholder's equity	(3)	—	—	—
Other items on stockholder's equity	—	(306)	(1,146)	(1,123)
Unrealized gain (loss) from cash flow hedge	(151)	—	—	—
Foreign exchange translation adjustments				
Goodwill	(1,243)	(1,243)	(1,243)	(1,243)
Reduction from Capital:				
Investments in insurance entities, banking and other financial entities	—	(1,010)	(460)	(419)
Subtotal	18,546	18,808	18,661	18,897
Tier II Capital:				
Unrealized revaluation increment	—	164	241	241
Unrealized loss from available-for-sale financial assets	50	—	—	—
Operating & loan loss reserves	2,889	545	709	697
Long-term subordinated debt	8,800	8,800	8,623	8,358
Reduction from Capital:				
Investments in insurance entities, banking and other financial entities	—	(1,010)	(460)	(419)
Subtotal	11,739	8,499	9,113	8,877
Reduction from Capital:				
Investments in insurance entities, banking and other financial entities	486	—	—	—
Total eligible capital	29,799	27,307	27,774	27,774
Total risk-weighted assets(2)	238,674	256,838	264,137	255,323
Capital adequacy ratio(3)	12.49%	10.63%	10.51%	10.88%
Tier I ratio(4)	7.77%	7.32%	7.06%	7.40%

Notes:

(1) The numbers and ratios of 2006 were calculated based on the requirements of Basel I.

(2) Determined in accordance with the requirements of the FSC, the relevant categories and risk-weightings are described in the preceding table.

(3) Calculated based on Shin Kong Bank's unconsolidated financial position under ROC GAAP, determined in accordance with the requirements of the FSC.

(4) Net of investments in subsidiaries.

BUSINESS OF SHIN KONG FHC AND THE SHIN KONG COMPANIES

Shin Kong FHC

Overview

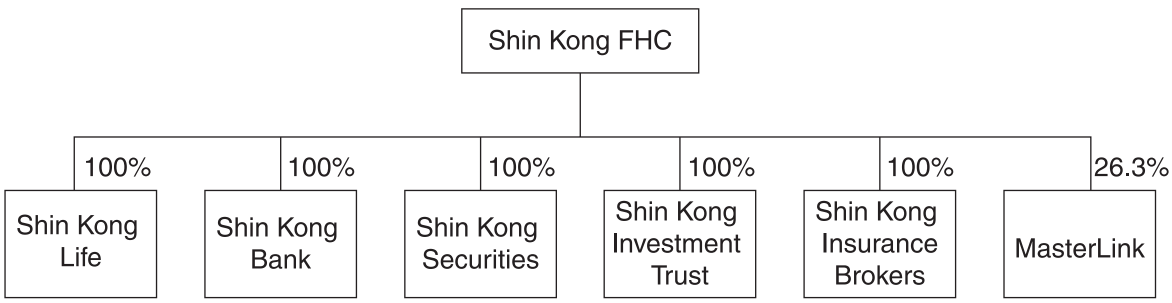
We are the third-largest insurance-focused financial services holding company in Taiwan as measured by total assets. Through our operating subsidiaries, including Shin Kong Life, Shin Kong Bank, Shin Kong Securities and Shin Kong Investment Trust, we offer a broad range of financial products and services, including life insurance, health and accident insurance, personal and corporate banking, securities and asset management services, to over five million individual and corporate customers in Taiwan and abroad. As of July 17, 2009, our market capitalization was NT$85.2 billion based on the closing price of NT$13.70 per Common Share on the TSE on that date. We have a long-term rating of "twA+" and a short-term rating of "twA-1" from Taiwan Ratings Corporation. We also have a long-term rating of "BBB–" and a short-term rating of "A-3" from S&P. In July 2009, we withdrew appointments with Fitch Ratings.

Our principal subsidiary, Shin Kong Life, was founded in 1963. Shin Kong Life has built a base of approximately three million life insurance customers and is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life operates an insurance distribution network of approximately 13,000 sales agents that encompasses all age groups and geographic regions throughout Taiwan.

Our long history, market-leading products and strong brand make us one of Taiwan's premier financial services holding companies. We believe that our comprehensive product and service offerings have not only helped expand our customer base, but also contribute to customer retention. Our large customer base has in turn strengthened our ability to cross sell products and services offered by our operating subsidiaries.

Our experienced management team has actively pursued strategies to take advantage of growth opportunities and enhance our product and service offerings. We are one of the first Taiwanese insurance companies to enter into the fast growing PRC life insurance market through the establishment of our joint venture with Hainan Airlines Group, a leading aviation conglomerate in the PRC. In addition, we have formed a strategic alliance with Dai-ichi, the third largest life insurance group in Japan and one of our largest shareholders, to develop and design innovative life insurance products, to increase sales of group insurance products, and to improve asset and liability management.

The following diagram shows our corporate structure and our principal subsidiaries as of the date of this offering memorandum:



Competitive Strengths

We believe that the following key strengths contribute to our competitive position in the financial services industry in Taiwan:

We are a diversified insurance-led financial services group with complementary product offerings and proven cross-selling capabilities.

We provide a wide range of financial products and services to address our customers' insurance, banking, securities investment and asset management needs. We believe our diversified product and service offerings have not only helped to expand our customer base, but also contribute to customer retention. Our large customer base has in turn strengthened our ability to cross sell products and services offered by our group companies. We have a proven track record of cross selling our insurance and other financial products and services to customers across different business lines by leveraging our combined database of approximately three million life insurance and 2.6 million banking customers.

Sales of Shin Kong Life's insurance policies sourced by Shin Kong Bank's employees have steadily increased, accounting for over 14.4% of first-year premium income generated by Shin Kong Life in 2008, compared to 11.4% in 2007. In addition, 31% of the new credit cards issued in 2008 were referred to Shin Kong Bank by Shin Kong Life's sales agents. We believe that our multi-channel distribution network, combined with our broad range of financial products and services, enables us to capture a greater portion of our customers' overall spending on financial products and services compared to many of our competitors.

We are a leader in the attractive Taiwan life insurance market.

Shin Kong Life is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. Leveraging this leading market position, Shin Kong Life has built a base of approximately three million life insurance customers. We are continuing to expand our sales force and product offerings to increase our premium income, expand into new market sectors and grow our customer base.

With premium exceeding US$56.7 billion in 2008, Taiwan's life insurance industry is the third largest life insurance market in Asia (excluding Japan). In addition, the industry has demonstrated consistent strong growth in recent years, with a compound annual growth rate of 11.1% from 2003 to 2008. We believe the market in Taiwan offers further growth potential based on the population's high savings rate and relatively low rate of insurance protection product purchases. With the aging of the Taiwanese population, we also anticipate the need for medical and long-term health insurance will continue to grow, and have already implemented a product strategy to capitalize on these opportunities.

We have a well recognized brand name and premier insurance franchise.

Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life today is widely recognized in Taiwan as a well capitalized, stable and reliable provider of insurance products. In addition, our brand is associated with both Shin Kong Mitsukoshi Department Stores and the Shin Kong Wu Ho-Su Memorial Hospital, two leading brands in their respective industries. We believe this association, combined with our financial strength and track record, has contributed to our strong brand awareness and continued growth. Our reputation is further enhanced by our strong commitment and devotion to local community, as evidenced by the National Public Service Award we received in 2007 from the Ministry of the Interior of the ROC. We believe the strength of our brand and of our reputation have enabled us to compete effectively against the aggressive pricing strategies of new market entrants.

We have an extensive agency network with deep product and service knowledge and a focus on productivity and revenue.

We operate one of the largest insurance distribution networks among Taiwan's financial services companies. As of March 31, 2009, we had over 360 branches, representative offices and service centers throughout Taiwan and approximately 13,000 full-time sales and marketing representatives. This broad geographic coverage is a key factor underlying our sales growth, as we are able to target new customers in less mature markets outside major cities while maintaining our strong market share in Taipei, Kaohsiung and other larger metropolitan markets. We invest significant resources to train our sales force in effective sales techniques and to educate them about our newest products, thereby maximizing their productivity and revenue. In addition, the average length of employment for Shin Kong Life's sales agents was over seven years as of March 31, 2009, which reflects our ability to retain high-performing, experienced sales agents over an extensive period of time. As a result, our sales agents also accumulate deep knowledge of our insurance products. We believe that due to their deep knowledge of our products and services, our sales agents are able to build longer-term personal relationships with our customers, which in turn leads to high recurring premium sales and high persistency rates.

We have an extensive banking network offering customers a comprehensive range of financial products and services.

Shin Kong Bank currently operates 108 branches in Taiwan, 61 of which are located in Taipei and Northern Taiwan, the country's primary centers of economic activity. Shin Kong Bank maintains an expansive network of banking clients. For example, Shin Kong Bank ranked number one by number of top end credit card issuances to high income individuals in Taiwan in 2008, with approximately 27,000 cards currently in circulation. We are able to utilize the bank network to offer a diversified range of wealth management and bancassurance products and services to our banking customers to meet their demand for diversified and quality financial products, thereby increasing the lifetime customer value. Conversely, we also leverage Shin Kong Life's distribution network consisting of over three million customers to cross sell our banking products. For example, an increasing number of credit cards issued by Shin Kong Bank are used by cardholders to pay insurance premiums to Shin Kong Life, which not only facilitates payments of premiums and contributes to Shin Kong Life's business, but also generates transaction fees for Shin Kong Bank.

Our management team is highly experienced and has proven its ability to plan strategy proactively.

We have a highly experienced team of senior managers who bring extensive industry knowledge to our operations. Our senior managers have an average of more than 20 years of experience working in the insurance and financial services industry. We also seek to supplement our existing management team by recruiting talented and experienced managers and have a proven track record of integrating outside talent into our operations. Our management is also vigilant in its efforts to strengthen our capital base and address the challenges brought by the recent economic downturn. Our management team's strategic vision is demonstrated by our alliance with Dai-ichi, the third largest life insurance group in Japan, as well as our early market entry into the PRC insurance market among Taiwanese insurance companies. In April 2009, Shin Kong Life established a PRC-based joint venture with Hainan Airlines Group, a leading aviation conglomerate in the PRC, to market life insurance products developed for the fast growing PRC life insurance market. Headquartered in Beijing, this joint venture is expected to enjoy rapid development in the next several years, in part by taking advantage of Hainan Airlines Group's extensive customer base.

Business Strategy

Our goal is to provide unparalleled services to our customers as one of the leading financial services holding companies in Taiwan. To achieve our goal, we intend to grow our business and enhance the quality of our product and service offerings through the following strategies:

Focus on high-margin products, including traditional life insurance products, while seizing attractive growth opportunities in the Taiwan life insurance market.

To minimize the impact of the recent global economic turmoil on sales of investment-linked insurance products, we plan to focus on traditional, personal accident, and health insurance products, which command higher margins than investment-linked insurance products and interest-sensitive insurance products, while maintaining our broad customer-demand driven product offering. In the three months ended March 31, 2009, the first-year premium attributable to traditional insurance product sales increased more than six-fold from the same period in 2008.

We also plan to continue closely monitoring market trends and consumer preferences, in order to develop new products and adapt existing products in line with our customers' needs. For example, Shin Kong Life recently introduced a series of U.S. dollar-denominated endowment insurance policies to leverage our customers' interest in U.S. dollar expenditures outside of Taiwan.

Further increase cross-selling efforts to improve market penetration of our products.

We plan to further expand cross-selling efforts among our operating subsidiaries. Currently, our cross-selling arrangements include:

- sales of Shin Kong Life insurance products by Shin Kong Bank and MasterLink employees, including investment-linked insurance products linked to funds managed by Shin Kong Investment Trust;

- issuance of Shin Kong Bank credit cards to Shin Kong Life and MasterLink customers;

- sales of property and casualty insurance products of Shinkong Insurance Co., Ltd. by Shin Kong Life and Shin Kong Bank employees; and

- establishment of cross-selling counters in some of our branches and service centers to provide convenient and timely services to our customers.

These cross-selling arrangements have contributed significantly to our revenue growth, particularly as they have allowed our individual subsidiaries to reach a broader base of potential customers. For example, Shin Kong Bank accounted for 14.4% of Shin Kong Life's total first-year premium in 2008, a significant increase from 2.7% in 2005. We plan to continue to take advantage of these existing arrangements and develop new cross-selling opportunities in the future. With the growth of each of our operating subsidiaries, we believe the cross-selling opportunities of Shin Kong FHC as a whole will be further improved.

Continue to strengthen our agency distribution force, in particular through higher productivity.

We plan to pursue profitable growth by enhancing the productivity of our sales force by:

- increasing our investment in the recruitment, training and retention of our sales and marketing agents;

- enhancing our information technology system to improve customer targeting and service; and

- aligning our sales agents' compensation plans to incenvitize sales of higher-margin insurance products.

Strengthen our investment performance through portfolio reallocation.

In order to mitigate market risks associated with the fluctuating global economic environment, we intend to further diversify the range of investment types included in our portfolio. We will also continue to proactively manage our investment portfolio to minimize investment risks. For example, we sold one ABS CDO in the first quarter of 2009 and recognized a loss of NT$0.3 billion. We will make investments based on the liability profile of the investment and our capital budget, and our investment criteria will be focused on the credit worthiness and financial strength of the subject entities of our potential investments. Therefore, we seek to allocate a higher percentage of our investment to foreign fixed income products that we expect to generate higher returns while at the same time meeting our investment risk criteria. For the three months ended March 31, 2009, our overseas fixed income portfolio comprised mainly of high credit quality and low risk investments, such as U.S. agency MBS and bonds and non-US agency bonds, which accounted for over 80% of the portfolio. In addition, we plan to increase the mix of high investment grade corporate bonds, which have not historically been our focus. We also plan to increase our liquidity and maintain robust capital position by monetizing our real estate investments at attractive prices. For example, we recognized a capital gain of NT$7.3 billion from the sale of a building in downtown Taipei in April 2009. Through the reallocation of our investment portfolio, we hope to further improve our financial performance.

Further enhance our risk management capabilities.

In April 2009, we completed the first phase implementation of the Algorithmics System from Algorithmics, a world leader in enterprise risk solutions in relation to fixed income and equities. In addition, we continue to enter into hedging arrangements to protect our investments against market fluctuations. We formulate risk management principles and guidelines and establish overall risk management policies that are implemented by our operating subsidiaries in the management of their investment portfolios. We plan to continue to implement enhanced risk management procedures for all our credit exposures, including credit evaluation and rating methodologies, credit risk pricing models and risk monitoring and control mechanisms, and to constantly monitor the ratings changes of our investments. We also intend to continue to cooperate with leading consulting firms to enhance our investment processes and investment risk management. We believe that these systems and processes will provide the requisite infrastructure for us to maintain our industry-leading asset quality position.

Target profitable products and improve the loan quality in our banking business.

We will continue to focus on creating products and services that fulfill the needs of more profitable customer segments. For example, we intend to leverage the customer base of our life insurance and bank network to develop and expand our fee-based wealth management business, such as introducing ETF funds to Shin Kong Bank's customers. We also plan to continue to grow the fee-based bancassurance business. We believe that both wealth management and bancassurance services can be further developed in Taiwan and will provide us with growth opportunities.

We also aim to increase our loan quality through regular assessment of the value of collateral, security and guarantees. For example, we have tightened the loan-to-value ratio of our mortgage loan products, as well as implemented a conservative internal appraisal process for collateral by leveraging tools used in Shin Kong Life's investment department. In addition, we intend to actively monitor the profitability of our loan portfolio and regularly engage our customers to replace any unprofitable loans. By developing and marketing our ability to effectively manage customer assets, we hope to increase our profitability and revenues.

Drive overseas expansion to diversify our revenue base and drive incremental growth.

We plan to extend our presence in high growth financial services markets outside Taiwan. To take advantage of growth opportunities in the PRC insurance market, a PRC-based joint venture was established by Shin Kong Life and Hainan Airlines Group, a leading aviation conglomerate in the PRC and commenced operations in April 2009. Shin Kong Bank is in the process of establishing a branch in Hong Kong to capture banking business opportunities in the Greater China region. Further, both Shin Kong Life and Shin Kong Bank have representative offices in Vietnam to explore opportunities locally.

Shin Kong Life

Shin Kong Life is Taiwan's third largest insurance company in terms of first-year premium income generated in 2008. Shin Kong Life has approximately three million life insurance customers. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life is widely recognized in Taiwan as a well capitalized, stable and reliable provider of insurance products. As of December 31, 2008 and the three months ended March 31, 2009, Shin Kong Life accounted for 74.8% and 75.5% of our assets. We expect that Shin Kong Life will continue to account for the majority of our assets and revenues in the foreseeable future.

Shin Kong Life provides a wide range of insurance products, including traditional, personal accident, health and group insurance, investment-linked and interest-sensitive insurance products. Shin Kong Life operates an insurance distribution network of approximately 13,000 sales agents that encompasses all age groups and geographic regions throughout Taiwan. In addition, Shin Kong Life leverages the distribution network of our other subsidiaries for sales of insurance policies.

Shin Kong Life achieved an annual investment return of 5.3% in 2006, 4.1% in 2007, 2.0% in 2008 and 3.9% (annualized) for the three months ended March 31, 2009. In order to mitigate market risks associated with the fluctuating global economic environment, Shin Kong Life intends to further diversify the range of investment types included in its portfolio, in order to achieve stable risk-adjusted returns.

Products

Shin Kong Life distributes a wide range of individual and group insurance products, including whole life and term life insurance, endowments, annuities, health insurance and accident insurance, across Taiwan through its sales agents. Shin Kong Life focuses on product development to ensure that its products meet the changing needs of its large and diverse customer base. Shin Kong Life also sells group insurance products to entities of more than five persons or companies that wish to purchase life, accident or health insurance for their employees.

Shin Kong Life's product mix has varied over the years as a result of changing regulatory policies, fluctuations in interest rates and customer preferences. In 2007, 11.0% of Shin Kong Life's first-year premium was sourced from traditional life insurance products, 19.4% from interest sensitive products and 69.6% from investment-linked products. The corresponding percentages were 18.6%, 31.4% and 50.0%, respectively, in 2008 and 83.2%, 18.9% and (2.1)%, respectively, in the three months ended March 31, 2009. Shin Kong Life plans to focus its sales on traditional insurance products, personal accident insurance, health insurance and group insurance products, which command higher margins than investment-linked insurance products and interest sensitive insurance products, while at the same time maintaining our broad product offering. In the three months ended March 31, 2009, the first-year premium attributable to the sales of our traditional insurance products increased by more than six times from the same period in 2008. Shin Kong Life has consistently been a leader in responding to industry trends and consumer demand for innovative products, as evidenced by its proven ability to introduce and sell new health insurance and surgery products in 2009.

The following table sets forth, for the periods indicated, the premium, product mix and other information for Shin Kong Life's product offerings on an unconsolidated basis:

	Year Ended December 31,			Three Months Ended March 31,	
	2006	2007	2008	2008	2009
	(NT$ in millions)				
Premiums and Product Mix(1)					
Premium Income:					
First-year premiums	65,871	98,764	89,794	32,106	17,689
Renewal premiums	115,598	117,138	112,112	25,809	24,521
Total premium income	181,469	215,902	201,906	57,915	42,210
In-Force Business:					
Number of policies (individual life)	5,664,524	5,835,220	5,931,044	5,880,828	5,913,369
First-Year Premiums by Product:					
Endowment	10,718	8,711	9,918	1,320	12,910
Whole life	1,422	1,805	2,005	561	252
Term life	516	456	332	81	84
Variable universal life	31,068	60,034	1,990	2,382	(372)
Principal-protected variable	9,008	8,677	42,920	23,396	(1)
Participating	510	465	365	90	132
Interest-sensitive annuities	9,450	16,011	27,465	3,775	3,154
Fixed annuities	33	9	7	3	2
Accident insurance	1,604	1,332	1,320	265	207
Health insurance	1,542	1,264	3,472	233	1,320
Sub-total	65,871	98,764	89,794	32,106	17,688
Renewal Premiums by Product:					
Endowment	65,847	60,433	56,643	12,124	11,741
Whole life	24,195	23,686	23,069	5,564	5,707
Term life	370	377	380	90	92
Variable universal life	5,397	11,780	10,595	2,979	1,894
Principal-protected variable	—	—	—	—	—
Participating	684	1,097	1,294	255	286
Interest-sensitive annuities	8	10	7	3	3
Fixed annuities	—	—	—	—	—
Accident insurance	7,549	7,414	7,341	1,656	1,631
Health insurance	11,548	12,341	12,783	3,138	3,168
Sub-total	115,598	117,138	112,112	25,809	24,522
Total Premiums by Product:					
Endowment	76,565	69,144	66,561	13,444	24,651
Whole life	25,617	25,491	25,074	6,125	5,959
Term life	886	833	712	171	176
Variable universal life	36,465	71,814	12,585	5,361	1,522
Principal-protected variable	9,008	8,677	42,920	23,396	(1)
Participating	1,194	1,562	1,659	345	418
Interest-sensitive annuities	9,458	16,021	27,472	3,778	3,157
Fixed annuities	33	9	7	3	2
Accident insurance	9,153	8,746	8,661	1,921	1,838
Health insurance	13,090	13,605	16,255	3,371	4,488
Total	181,469	215,902	201,906	57,915	42,210
Reinsurance premium received	315	278	281	95	24
Income from investment-linked products	(32,363)	(65,869)	(49,840)	(26,343)	(1,004)
Net premium income(2)	149,421	150,311	152,347	31,667	41,230

Notes:

(1) The FSC requires income from investment-linked products to be separated from premium income in the financial statements of life insurance companies. For purposes of presentation in this table, total premium income includes income from investment- linked products.

(2) We arrive at net premium income by adding reinsurance premium received and deducting income from investment-linked products.

Life Insurance Products

Endowment Products. Endowment products typically provide death protection over the policy period and maturity benefits at the end of the premium payment period. Shin Kong Life currently offers term endowment and endowment with whole life coverage features, sometimes bundled with additional tailored features selected by the consumer, which we refer to as "riders." In addition, Shin Kong Life recently introduced a series of new endowment insurance policies to leverage our customers' interest in U.S. dollar-denominated products. Whole life endowment, one of Shin Kong Life's most popular products, pays the beneficiary a pre-determined amount upon the death of the insured, regardless of the insured's time of death, as well as periodic policy installment payments during the life of the insured. Term endowment products provide payment to the insured if the policyholder survives the endowment period, and in the event of the death of the insured, pay the insured amount of the policy to a beneficiary. These products are targeted principally at children of wealthy parents who purchase such policies for estate-planning purposes, and for individuals who value the savings component of these products. Endowment policies are offered in several variations tailored to each individual customer's needs and include features such as increasing benefits, increasing death coverage, installment payments benefits and others. Shin Kong Life started selling endowment products in 1963. In 2008 and for the three months ended March 31, 2009, endowment products accounted for 33.0% and 58.4%, respectively, of Shin Kong Life's total premium income.

Whole Life Products. Whole-life insurance products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a pre-determined period. Policyholders may receive dividends in cash or apply them to increase death benefits, increase cash values available upon surrender or reduce the premiums required to maintain the policy in force. Because the use of dividends is specified by the policyholder, this group of products provides significant flexibility to individuals to tailor the product to suit their specific needs and circumstances, while at the same time providing guaranteed benefits. Shin Kong Life started selling whole-life insurance products in April 1971. In 2008 and for the three months ended March 31, 2009, whole life insurance products accounted for 12.4% and 14.1%, respectively, of Shin Kong Life's total premium income.

Term-life Products. Term-life insurance provides a guaranteed benefit upon the death of the insured within a specified time period in return for the periodic payment of premiums. Specified coverage periods range from six years to 30 years, but in no event last longer than the period over which premiums are paid. Premiums are generally guaranteed at a fixed amount for the coverage period. Term insurance products are sometimes referred to as pure protection products, as there are normally no savings or investment elements. Term contracts expire without value at the end of the coverage period if the insured party is still alive. Shin Kong Life started selling term-life insurance products in 1964. In 2008 and for the three months ended March 31, 2009, term-life insurance products accounted for approximately 0.4% and 0.4%, respectively, of Shin Kong Life's total premium income.

Variable Universal Life Insurance. Variable universal life insurance products allow the policyholder to invest its net premium (gross premium less expenses) in up to 95 different mutual funds, including mutual funds managed by Shin Kong Investment Trust. Death benefits provided by Shin Kong Life's variable universal life insurance coverage are generally equal to the aggregate of face amount of the policy and the policy cash value. Monthly mortality charges and management fees are deducted from the mutual fund values. There is no compulsory or regular premium required if the monthly mortality charges deducted from the mutual funds are sufficient to cover the premium payment. Investment risks with respect to the mutual funds are borne by policyholders as the mutual funds and policy values change daily. During the year ended December 31, 2008 and the three months ended March 31, 2009, variable universal life insurance products accounted for 6.2% and 3.6% of Shin Kong Life's total premium income, respectively.

Principal-protected Variable Life Insurance. Principal-protected variable life insurance products are investment products linked to structured notes. Both capital and interest are protected at the end of the accumulation period. Where applicable, foreign currency risks with respect to structured notes are borne by policyholders as foreign currency exchange rates fluctuate daily. With decreasing interest rates on bank deposits, these products are targeted at life insurance customers who value the savings component of these products. In 2008 and for the three months ended March 31, 2009, principal-protected variable life insurance products accounted for 21.3% and 0.0%, respectively, of Shin Kong Life's total premium income.

Participating Products. Shin Kong Life began to introduce a series of endowment and whole life products incorporating a participation feature in April 2006. In 2008 and for the three months ended March 31, 2009, participating products accounted for 0.8% and 1.0%, respectively, of Shin Kong Life's total premium income. The yearly policyholders' dividends on participating policies are calculated mainly based on investment yield margin.

Annuities

Annuities are specialized savings products that were introduced in Taiwan in 1997. Based on the experience in developed economies, Shin Kong Life believes that there are promising growth opportunities in the annuities market in Taiwan. At the end of an accumulation period, annuities provide the insured or the beneficiary annual installment payments of the policy value over the insured's lifetime, typically with a guaranteed payment up to 20 years. Annuities may also be offered with a death benefit payment equal to the aggregate principal amount of all net premiums paid plus interest. Currently, Shin Kong Life offers a variety of individual annuities, including interest-sensitive and fixed annuities.

Interest-sensitive Annuities. Interest-sensitive annuities are designed to meet the asset accumulation and asset distribution needs of customers. Interest-sensitive annuities provide the policyholder with the option to receive annual installment payments or a lump-sum payment at the end of the deferred period. Shin Kong Life announces, on a monthly basis, the interest rates that will be credited to policyholders. Such interest rates are based on market conditions and Shin Kong Life's results of operations. The applicable interest rate to each policyholder is the announced rate for the month in which a policy is issued, applicable for the following 12 months. In 2008 and for the three months ended March 31, 2009, interest-sensitive annuities accounted for 13.6% and 7.5%, respectively, of Shin Kong Life's total premium income.

Fixed Annuities. Fixed annuities are used for both customers' asset accumulation and asset distribution needs. Fixed annuities provide guarantees related to the preservation of principal and credited interest. Deposits made into these contracts are allocated to the general account of Shin Kong Life and are credited with interest at rates Shin Kong Life determines at the time of issuance of the policies. Shin Kong Life launched its first fixed annuities in December 1998. In 2008 and for the three months ended March 31, 2009, fixed annuities both accounted for less than 0.1% of Shin Kong Life's total premium income.

Accident and Health Insurance Products

Shin Kong Life is a market leader in individual accident and health insurance products, which are offered on both a long-term and short-term basis.

Accident Insurance Products. Accident insurance policies provide benefits that cover accidental death, accident-related medical costs and hospitalization allowances. Most products are relatively simple, affordable and short-term, and are often sold as bundled products or riders to other insurance products. Shin Kong Life principally offers two types of individual accident insurance policies. The first, personal accident stand-alone policies, are generally one-year contracts that cover death or specific disabilities resulting from an accident. Payment under this type of policy typically takes the form of an indemnity or a reimbursement. The second, travel accident policies, are short-term contracts covering death or specific disabilities resulting from accidents occurring during travel, with payment under such policies made in the form of a reimbursement. Shin Kong Life started selling accident insurance products in 1964. In 2008 and for the three months ended March 31, 2009, accident insurance products accounted for 4.3% and 4.4%, respectively, of Shin Kong Life's total premium income.

Health Insurance Products. The scope of coverage for health insurance typically includes hospital expenses, outpatient expenses, surgical expenses, cancer medical treatment expenses, daily payment for room rate and board during hospitalization, and daily payment for recovery at home. These policies are typically purchased by customers as supplementary insurance coverage to the mandatory national health insurance scheme. In addition, to cover a broader range of medical problems that the policyholder may experience, health insurance products offered by Shin Kong Life also differ from the accident insurance policies in that they provide long-term, or life time health coverage, which covers hospitalization in certain situations, surgery incidents and major diseases. Shin Kong Life started selling health insurance products in 1983. In 2008 and for the three months ended March 31, 2009, health insurance products accounted for 8.0% and 10.6%, respectively, of Shin Kong Life's total premium income.

Accident insurance and health insurance products are sold either as stand-alone products or as riders to other insurance products. In Taiwan, the role of riders attached to insurance policies is particularly important in driving profitability as they are typically higher margin products than traditional insurance products and therefore reduce the impact of direct price competition. Additional insurance products are sold to customers as riders to the base policy as a bundled product. Customers have a wide choice of riders and Shin Kong Life customizes packages to meet its customers' specific needs. Customers purchase riders as these products cover an insurance need that the customer may have and are available at a lower cost than if the coverage was purchased as a stand-alone product.

Distribution Channels

Shin Kong Life uses two primary distribution channels to market its products: (i) sales by agents to individual customers, and (ii) out-sourced sales channels through Shin Kong Bank and other financial institutions. We intend to improve the delivery of financial products and services to customer base of Shin Kong Life by leveraging its broad and diverse distribution network, expanding its platforms for cross sellings arrangements, and developing its comprehensive group-wide customer relationship management system.

Agency Sales Channel

We believe that Shin Kong Life's agency sales force is a valuable asset. It allows us to effectively control product distribution and build and maintain long-term relationships with customers. Drawing upon more than 40 years of history in the life insurance industry, Shin Kong Life operates an insurance distribution network of approximately 13,000 sales agents that encompasses all age groups and geographic regions throughout Taiwan. Its highly trained agency sales force was ranked second in life insurance premiums underwritten per full-time agent. The sales force generated first-year premium income of NT$59.8 billion, 66.6% of the first-year premium income of Shin Kong Life, in 2008.

The average length of employment for Shin Kong Life's sales agents was over seven years as of March 31, 2009, which reflects Shin Kong Life's ability to retain its high-performing, experienced sales agents over a prolonged period. Our sales agents also accumulate deep knowledge of our insurance products. As a result of the relatively low turnover rate and deep knowledge of our products and services, our sales agents are able to build longer-term personal relationships with many of our customers, which in turn leads to high recurring premium sales and high persistency rates. The sales force recorded a 13-month persistency ratio of approximately 88.5% and 85.6% in 2008 and for the three months ended March 31, 2009, respectively.

Shin Kong Life's training programs for sales agents are tailored to enhance their capabilities to sell different insurance products and cross sell the products and services offered by our other subsidiaries. In addition, Shin Kong Life provides subsidies to its agents to attend professional or certificate programs to obtain advanced professional licenses. Its full time agents also receive certain benefits, including group insurance coverage, pensions, year-end bonuses, and holiday gifts and gift certificates.

As of March 31, 2009, more than 8,000 of Shin Kong Life's sales agents were also licensed to distribute the property and casualty insurance products of Shinkong Insurance Co., Ltd., an affiliate of Shin Kong FHC. Shin Kong Life's sales agents are encouraged to cross sell the products and services of Shinkong Insurance Co., Ltd. by sales-based compensation formulae offered by Shin Kong Insurance Brokers.

To support its broad distribution network, as of March 31, 2009, Shin Kong Life had 22 corporate branch offices, one overseas branch offices, three overseas representative offices, 316 regional branch offices, six service centers and 12 service branches. The regional branch offices are full-fledged operating centers, approved by the FSC and authorized to underwrite policies. Service centers are established primarily for the use of sales staff, but can be used to receive customer calls and to perform administrative functions. Service branches provide claims services and emergency assistance to customers.

Shin Kong Life's sales agents are supported in their sales activities by a modern information technology infrastructure. Most full-time sales agents are equipped with either a notebook computer or personal digital assistant. With this equipment, sales agents are able to produce application forms, make standard benefit and inheritance tax calculations and access information regarding existing policies.

Shin Kong Bank and Other Financial Institutions

Shin Kong Life enjoys greater cross-selling capabilities among our subsidiaries and their customer base as a result of regulations that allow the subsidiaries of a financial holding company to share marketing information of their customers. See "Regulation of the Taiwan Financial Services Industry — Regulation of Cross-Selling". We currently engage in cross-selling, particularly sales of Shin Kong Life's insurance products by Shin Kong Bank's and MasterLink's employees. We plan to continue to promote cross selling activities both within Shin Kong FHC and with other affiliates. For example, Shin Kong Life has entered into an agreement with Shin Kong Bank, which provides that holders of credit cards issued by Shin Kong Bank may enjoy discounts on insurance policies provided by Shin Kong Life, as well as other promotional discounts. We expect the discount provided to Shin Kong Bank's cardholders will encourage more customers, including many current customers of Shin Kong Bank, to purchase products offered by Shin Kong Life.

Shin Kong Life has also entered into contracts with more than 32 banks and financial institutions, including Shin Kong Bank, to sell life insurance products. The branch offices of these banks and financial institutions are located throughout Taiwan. Currently, most life insurance products sold through these channels are interest sensitive annuities or endowments targeted at time deposit customers. Shin Kong Life also intends to develop other products that carry higher commissions and profits, like heath insurance products, for sale through bank and financial institution channels. We estimate that sales made through banks and financial institutions accounted for approximately 33.1% and 81.1% of our first-year premiums in 2008 and for the three months ended March 31, 2009, respectively.

Claims Management

Shin Kong Life manages the claims it receives from policyholders through claims management staff located in its headquarters and branch offices. Typically, claims are received by employees or agents, who make the preliminary examination and forward them to a claims settlement team for further verification. If the claim is verified, the amount payable is calculated and, once approved, is distributed to the beneficiary.

Shin Kong Life manages claims management risk through organizational controls and computer systems controls. Its organizational controls include specified authorization limits for various operating levels, periodic and *ad hoc* inspections at all levels of its organization, expense mechanisms linking payout ratios with expenses for short-term life insurance policies and requirements that each claims examination be performed by two staff members. Shin Kong Life also imposes stringent requirements on the qualification and employment of claims management staff. Its claims management control procedures are supported by a computer processing system which is used for the verification and processing of claims.

Pricing and Underwriting of Insurance Policies

Life Insurance

Pricing of life insurance and annuity products is based on expected mortality and morbidity rates, assumed interest rates and administrative expenses. The ROC government regulates, directly or indirectly, mortality rates and interest rates by regulating reserves. Increasing consumer sophistication has led to comparison shopping, placing severe pressure on companies to maintain low premiums and increase guaranteed returns. Low premiums and high guaranteed return rates, however, increase the risk that revenues will be inadequate to cover current expenses and fund future benefit payments. In order to compete successfully, Shin Kong Life continues to develop new products with different benefit features. Some of the more popular new features include whole-life surgery and health insurance.

From time to time, Shin Kong Life offers a number of discount programs on premiums for its products to increase its price competitiveness. Shin Kong Life also provides premium discounts for policies above a specified policy amount based on the total premium underwritten for the policy, reflecting expense-related savings. Individual life insurance policies entered into by groups of more than five individuals qualify for premium discounts, subject to certain requirements, which discount also reflects expense-related savings.

Shin Kong Life maintains underwriting policies and guidelines designed to prevent actual insurance payment events from occurring at a higher rate than the expected mortality rate. Shin Kong Life's Contract Administration Department includes approximately 22 underwriters (three in the head office and the remaining in policyholder service centers) who are responsible for reviewing and approving the underwriting process for each insurance policy underwritten. Shin Kong Life's insurance underwriting process is decentralized in order to promote administrative efficiency in determining whether the risk related to an insurance applicant is within guidelines for the amount of risk Shin Kong Life is willing to accept.

Shin Kong Life's underwriters undergo extensive training to maximize their ability to assess the insurability of potential customers. Customers with an average or below-average likelihood of loss are considered standard risk. Customers who are more likely than average to sustain loss, and are accordingly considered to be a substandard risk, are charged a higher premium rate. Customers who are deemed uninsurable by its underwriters are rejected. The assessment process considers several risk characteristics of the potential customers to be insured, including medical condition, occupation and financial profile. Shin Kong Life maintains strict guidelines regarding the exact type of review to which a potential customer is subject depending on the type and amount of policy. Depending on both the age and total amount insured, certain insurance applicants must undergo medical examinations performed by physicians under contract with Shin Kong Life prior to policy approval.

Reinsurance

Shin Kong Life reinsures a portion of the risks it assumes under its individual life, group life and health insurance products. As of March 31, 2009, the current net amount at risk that Shin Kong Life ceded to reinsurers was NT$62.2 billion, and the reinsurance expenses were NT$0.5 billion, which represented 1.2% of its total premium income for the three months ended March 31, 2009. As of March 31, 2009, approximately 26.7% of Shin Kong Life's reinsurance capacity was ceded to Central Reinsurance Corporation, which is currently rated "A–" by S&P. The other major reinsurers used by Shin Kong Life are generally rated "A" or higher by S&P, which include Munich Re (rated "AA–" by S&P), Swiss Re (rated "A+" by S&P), Reinsurance Group of America (rated "AA–"by S&P), Transamerica Re (rated "AA–" by S&P), General Cologne Re (rated "AAA" by S&P) and Dai-ichi Mutual Life Insurance Company (rated "A" by S&P).

Insurance Reserves

ROC laws require that a life insurance company maintain certain reserves to meet the obligations under its insurance policies and contracts. The reserves are calculated based on a set of conservative actuarial assumptions, including assumptions of mortality, morbidity and interest rates. As of March 31, 2009, Shin Kong Life's statutory reserves were NT$1,257.7 billion (inclusive of reserves for investment-linked accounts valued at NT$86.6 billion).

The reserves fall into five major categories: unearned premium reserve, policy reserve, special reserve, claim reserve, and insufficient premium reserve. The provisions for different reserves are calculated according to the Guidelines Governing Various Reserves of the Insurance Industry.

Investments

Management of Investments

Shin Kong Life's objective in managing its investments is to pursue optimal investment yield while considering macroeconomic factors, risk control, liability profile and regulatory requirements. Shin Kong Life has established certain principles to achieve return maximization and risk minimization within the strategic asset allocation framework determined by the Asset and Liability Management Department, including maintaining a diversified portfolio, properly managing its liquidity position, maximizing efficiencies on asset allocation and reviewing the implementation of such strategies monthly. In April, we completed the first phase implementation of the Algorithmics System from Algorithmics, a world leader in enterprise risk solutions in relation to fixed income and equities with liquid markets. Shin Kong Life achieved an annual investment return of 5.3% in 2006, 4.1% in 2007, 2.0% in 2008 and 3.9% (annualized) for the three months ended March 31, 2009.

Asset Allocation. Shin Kong Life has established two levels of asset allocation management. On a quarterly basis, the Asset Liability Committee, consisting of members of Shin Kong Life's senior management, review or establish the strategic asset allocation and ranges for each investment product. On a monthly basis, chief investment officer or deputy chief investment officer would convene a meeting to determine the tactical asset allocation under the ranges approved by the Asset Liability Committee.

In order to mitigate the market risks associated with the fluctuating global economic environment, we intend to further diversify our investments to achieve a wider range of investment types and uncorrelated sources of value. Our investments will be made based on our liability profile and capital budget. We also plan to strengthen the performance of our investment portfolio by reducing the amount of investments with higher investment risk. For example, we sold one ABS CDO in the first quarter of 2009 and recognized a loss of NT$0.3 billion. Our investment in the near future will be focused on products with risk that are well understood, instead of products of a highly complex structure, such as CDO, although such products may promise high investment returns in the short term. Therefore, we seek to allocate a higher percentage of our investment to foreign fixed income products that we expect to generate higher returns while at the same time meeting our investment risk criteria. For the three months ended March 31, 2009, our overseas fixed income portfolio comprised mainly low risk investments, such as U.S. agency MBS and bonds and non-US agency bonds, which accounted for over 80% of the portfolio. In addition, we plan to increase the mix of corporate bonds, which have not historically been our focus.

Risk Management. Shin Kong Life is subject to two primary sources of investment risk: market risk associated with changes in equity prices, interest rates and foreign currency exchange rates; and credit risk arising from the uncertainty related to the ability of a given obligor to continue to make timely payments of principal and interest.

Market risks. Shin Kong Life manages market risk by quantifying its exposure to various investment types and periodically setting an optimal portion of its investments in stocks and short-term investments to ensure the best returns with minimal risk.

- *Foreign currency risk*. Shin Kong Life manages foreign currency risk through hedging and limiting unhedged exposure. As of March 31, 2009, Shin Kong Life had hedged 74.9% of its foreign investments denominated in foreign currencies against foreign currency risk through currency swaps, non-delivery forwards and proxy hedges. Shin Kong Life plans to continue to enter into hedging arrangements to protect its investments against market fluctuations.

- *Interest rate risk*. Shin Kong Life manages interest rate risk by matching its assets with its liabilities to the extent practicable, as well as through the use of derivative instruments such as interest rate swaps.

- *Stock*. Shin Kong Life manages its stock exposures in three ways: (i) prudent and conservative stock selection guidelines, (ii) a well-diversified portfolio and (iii) a risk management process that includes value-at-risk methodology and stress testing. Shin Kong Life adopts both top-down and bottom-up methods to evaluate and invest in stocks. A dedicated and experienced investment team at Shin Kong Life closely monitors the performance of its stock portfolio.

- *Real estate*. Shin Kong Life sets investment return and occupancy target levels for each category of real estate assets. For properties that fall below these levels, Shin Kong Life manages risk by implementing various measures to maintain rental income while considering the sale of the property.

Credit risks. Shin Kong Life manages credit risk by assigning credit ratings to its individual and corporate obligors based on internal fundamental analysis and credit ratings assigned by rating agencies and through diversification of the industries to which obligors belong. Credit ratings of obligors are reviewed on an on-going basis. Shin Kong Life sets the standard interest rates applicable for investments in specific credit ratings categories.

For further information on Shin Kong Life's management of market risk, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Our Results of Operations — Market Risks."

Regulatory Restrictions on Investments

Pursuant to the ROC Insurance Law, insurance companies' investments are restricted to deposits, certain marketable securities, real estate, lending, special projects and public investments with the approval of the relevant authorities, foreign investments, insurance-related businesses, derivatives transactions for hedging purposes with the special approval of the relevant government authorities and other investments with the approval of the relevant government authorities.

Different limitations apply to each of the above investments. For example, an insurance company may only purchase and hold publicly-issued stocks and corporate bonds in an amount not to exceed 35% of its investment funds (which is defined as the sum of shareholders' equity and reserves for operation) and an investment into any one publicly-issued company may not exceed 5% of its investment funds nor more than 10% of the paid-in capital of the invested company. Investment in real estate is limited to real estate that can be used immediately and from which profits may be derived, and the total amount invested in real estate cannot exceed 30% of its investment funds. Loans are restricted to loans guaranteed by banks, real or personal property, qualified appraisable securities and insurance policies. Special projects and public investments are limited to industries approved by the relevant government authorities. In addition to the above-mentioned limits, investments in insurance-related businesses are subject to the approval of the FSC and the aggregate investment amount may not exceed 40% of the paid-in capital of the insurance company less accumulated losses exceeding the minimum capital required by the ROC Insurance Law.

Set out below are the current ROC regulatory restrictions on the percentage of Shin Kong Life's assets that may be allocated to specified classes of investments:

Type of Investment	Maximum percentage of allocation within general account assets	Actual as of March 31, 2009[(1)]
Domestic financial institution debentures & securities	35%	7.1%
Domestic stocks and corporate bonds	35%	7.5%
Beneficiary certificates	10%	5.5%
Domestic mortgage and other loans	35%	15.0%
Real estate investment	30%	6.6%
Self-used	The upper limit of owners' equity	39.0[(2)]%
Foreign currency-denominated assets	45%	35.8%
Special projects and public investments	10%	1.1%

Note:

(1) The percentages set above in the column entitled "Actual as of March 31, 2009" are classified under the ROC Insurance Law, and may vary from the numbers calculated by the relevant accounting principles.

(2) As of total shareholders' equity as of March 31, 2009.

Recent changes in insurance related legislation have relaxed certain restrictions on investments in stocks and bonds, increased the ceiling on real estate holdings, revised capital adequacy and solvency requirements, increased the limitation on overseas investment, and introduced appointed actuaries and a "risk based capital" system similar to those adopted in the United States and other developed countries. In addition, Shin Kong Life's risk-based capital ratio impacts the manner in which it invests its cash and investment assets. Specifically, beginning in 2008, the maximum percentage of investment assets that a ROC insurance company may invest in securities denominated in foreign currencies is limited by, among other things, the insurance company's risk-based capital ratio. In June 2008, Shin Kong Life received approval from the FSC to increase its foreign investment limit to 40%.

Overall Composition of Investments

The following table sets forth Shin Kong Life's total cash and invested assets on an unconsolidated basis at the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book value	% of total	Book value	% of total	Book value	% of total	Book value	% of total
	(NT$ in millions, except percentages)							
Investment:								
Common stock	54,391	5.3	51,211	4.7	47,844	4.2	52,063	4.5
Beneficiary certificates[(1)]	13,938	1.4	8,344	0.8	31,366	2.8	65,368	5.6
Domestic bonds	327,355	31.8	304,635	27.7	307,375	27.2	250,258	21.5
Foreign investments								
Cash	11,638	1.1	16,866	1.5	28,930	2.6	10,161	0.9
Stocks	43,944	4.3	46,883	4.3	32,802	2.9	39,321	3.4
Bonds	301,720	29.3	319,736	29.1	323,186	28.6	393,470	33.8
Others[(2)]	(3,448)	(0.3)	1,042	0.1	(6,430)	(0.6)	(13,985)	(1.2)
Sub-Total	353,854	34.4	384,527	35.0	378,488	33.5	428,967	36.9
Policy loans for life insurers	105,227	10.2	112,989	10.3	119,453	10.5	117,796	10.1
Secured loans	69,341	6.7	71,053	6.5	72,253	6.4	70,097	6.0
Real estate[(3)]	82,442	8.0	87,348	8.0	88,217	7.8	79,480	6.8
Cash and cash equivalents	22,414	2.2	77,515	7.0	85,726	7.6	99,458	8.6
Total cash and invested assets	1,028,962	100.0	1,097,622	100.0	1,130,722	100.0	1,163,487	100.0

Notes:

(1) Beneficiary certificates include mainly domestic stock funds and bond funds.

(2) Others mainly include receivable (payable) arising from investment, derivative assets (liabilities) and interest receivable.

(3) Real estate includes properties held for investment and self-used purposes.

Domestic Fixed Income Securities. Shin Kong Life's domestic fixed income securities consist mainly of publicly-traded domestic bonds. Domestic bonds represented 31.8%, 27.7%, 27.2%, 21.5% of total cash and invested assets, as of December 31, 2006, 2007 and 2008 and March 31, 2009, respectively. As of March 31, 2009, the bonds owned by Shin Kong Life were either listed on a Taiwan securities exchange or were not listed but could reasonably be assigned a fair value.

The following table sets forth the amount of domestic bonds owned by Shin Kong Life as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book value	% of total	Book value	% of total	Book value	% of total	Book value	% of total
	(NT$ in millions, except percentages)							
Government Bonds	180,858	56.2	154,740	51.7	160,778	53.5	115,095	48.8
Financial Debentures	119,266	37.0	126,411	42.2	113,011	37.6	92,775	39.3
Corporate Bonds	27,191	8.5	23,563	7.9	33,611	11.2	42,411	18.0
Interest Swaps	40	—	(79)	—	(25)	—	(23)	—
Sub-total	327,355	101.7	304,635	101.8	307,375	102.3	250,258	106.1
Less: guarantee deposits paid	(5,432)	(1.7)	(5,432)	(1.8)	(6,932)	(2.3)	(14,464)	(6.1)
Total Domestic Bonds, net	321,923	100.0	299,203	100.0	300,443	100.0	235,794	100.0

Shin Kong Life believes that its portfolio of governments bonds, financial debentures, and corporate bonds is well diversified with respect to the issuing corporation's industry.

The following table sets forth the contractual maturity dates for Shin Kong Life's domestic bonds as of the date indicated:

	As of March 31, 2009:					
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years	Total
	(NT$ in millions)					
Government Bonds	10	821	13,522	23,939	76,803	115,095
Financial Debentures[(1)]	2,215	28,112	22,773	24,510	15,165	92,775
Corporate Bonds	3,098	15,069	10,582	10,934	2,728	42,411
Total	5,323	44,002	46,877	59,383	94,696	250,281

Note:

(1) Including CBOs and structured notes

Over 80% of Shin Kong Life's total domestic bond portfolio is rated investment grade (excluding government bonds). The following table sets forth Shin Kong Life's domestic bonds investments according to the rating assigned to the borrower by the Taiwan Ratings Corporation and Moody's:

	As of December 31,				As of March 31,	
	2007		2008		2009	
	Book Value	% of Total	Book value	% of Total	Book Value	% of Total
	(NT$ in millions, except percentages)					
Taiwan Ratings Corporation's assigned rating						
twAAA+, twAAA, twAAA-	28,906	19.3	28,144	19.2	28,538	21.1
twAA+, twAA, twAA-	54,712	36.5	54,538	37.2	48,459	35.9
twA+, twA, twA-	22,239	14.8	26,880	18.3	17,736	13.1
twBBB+, twBBB, twBBB-	10,120	6.8	11,544	7.9	13,668	10.1
twBB+ and below	406	0.3	—	—	—	—
Unrated domestic bonds	11,893	7.9	14,540	9.9	15,589	11.5
Moody's assigned rating						
AA+, AA, AA-	21,698	14.5	—	—	—	—
A+, A, A-	—	—	10,976	7.5	11,196	8.3
Total	149,974	100.0	146,622	100.0	135,186	100.0

Domestic Policy Loans, Mortgages and Other Loans. Loans (including secured loans and policy loans) represented 16.9%, 16.8%, 16.9% and 16.1% of Shin Kong Life's total cash and invested assets as of December 31, 2006, December 31, 2007, December 31, 2008 and March 31, 2009, respectively. Shin Kong Life is a significant lender in the private retail mortgage market in Taiwan based on its total outstanding loans as of March 31, 2009.

The following table sets forth the amounts of secured loans based on the type of loan as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book Value	% of total	Book Value	% of total	Book Value	% of total	Book Value	% of total
	(NT$ in millions, except percentages)							
Loans to Corporations	15,128	21.8	12,062	17.0	13,773	19.1	13,558	19.3
Mortgage Loans	54,213	78.2	58,991	83.0	58,480	80.9	56,539	80.7
Total Secured Loans	69,341	100.0	71,053	100.0	72,253	100.0	70,097	100.0

The following table sets forth amounts of secured loans based on the type of collateral as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book Value	% of total	Book Value	% of total	Book Value	% of total	Book Value	% of total
	(NT$ in millions, except percentages)							
Real Property	60,649	87.5	60,038	84.5	63,158	87.4	61,344	87.5
Stocks and Other Securities	7,389	10.7	9,850	13.9	8,213	11.4	7,935	11.3
Guarantees	1,303	1.8	1,165	1.6	882	1.2	818	1.2
Total Secured Loans	69,341	100.0	71,053	100.0	72,253	100.0	70,097	100.0

The following table sets forth the numbers and amounts of secured loans based on interest type and contractual maturity dates as of the dates indicated:

	As of March 31, 2009:					
	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years through 7 years	Due after 7 years	Total
	(NT$ in millions)					
Floating-rate Loans	—	303	2,251	7,546	53,344	63,444
Fixed-rate Loans	—	113	375	253	5,912	6,653
Total	—	416	2,626	7,799	59,256	70,097

Domestic Stocks. Shin Kong Life has historically sought low volatility in its investment portfolio and therefore has maintained relatively low percentages of equity securities among its investments. Domestic stocks represented 5.3%, 4.7%, 4.2% and 4.5% of its total cash and invested assets as of December 31, 2006, 2007, 2008, and March 31, 2009, respectively, and primarily consisted of investments in securities of financial institutions and other large corporations in Taiwan. 90.1% of Shin Kong Life's domestic securities as of

March 31, 2009, by book value, were listed on the TSE and GreTai Securities Market and 9.9% were not publicly- traded but could reasonably be assigned a fair value. We believe Shin Kong Life has maintained a conservative investment strategy in order to achieve consistent returns on its investments.

Shin Kong Life owns securities of domestic corporations across a range of industries, with concentration in the financial services industry and information technology companies with substantial market capitalization. Approximately 26.6% and 53.2% of domestic securities owned by Shin Kong Life as of March 31, 2009, by book value, were invested in the financial and information technology sectors, respectively.

Foreign Investments. Foreign investments represented 34.4%, 35.0%, 33.5% and 36.9% of Shin Kong Life's total cash and invested assets as of December 31, 2006, December 31, 2007, December 31, 2008 and March 31, 2009, respectively, and consisted mainly of investments in long and short term bonds and other securities issued by foreign issuers and on foreign exchanges. Of the foreign bonds, stocks and other securities owned by Shin Kong Life as of March 31, 2009, all were listed on one or more securities exchanges.

Shin Kong Life has significantly increased its investments in foreign assets since 2006. The major objective in this increase has been to improve its return on investment, and lengthen the average duration of its asset portfolio. The following table sets forth Shin Kong Life's foreign investments based on types of assets as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book Value	% of total	Book Value	% of total	Book Value	% of total	Book Value	% of total
	(NT$ in millions, except percentages)							
Cash	11,638	3.3	16,866	4.4	28,930	7.6	10,161	2.4
Stocks	43,944	12.4	46,883	12.2	32,802	8.7	39,321	9.2
Bonds	301,720	85.3	319,736	83.2	323,186	85.4	393,470	91.7
Others(1)	(3,448)	(1.0)	1,042	0.2	(6,430)	(1.7)	(13,985)	(3.3)
Total	353,854	100.0	384,527	100.0	378,488	100.0	428,967	100.0

Note:

(1) Others mainly include receivable (payable) arising from investment, derivative assets (liabilities) and interest receivable.

The following table sets forth the amounts and percentages of Shin Kong Life's foreign fixed income investments as of the date indicated:

	As of March 31,	
	2009	
	Book Value	% of total
	(NT$ in millions, except percentages)	
US Agency MBS/Bond	206,597	51.1
Non-US Agency	127,254	31.5
Government Bonds	18,456	4.6
CDOs	25,066	6.2
Corporate Bonds	17,527	4.3
Others	9,158	2.3
Total	404,058	100.0

The following table sets forth the contractual maturity dates for Shin Kong Life's foreign bonds as of the dates indicated:

	Due in 7 years or less	Due after 7 years	Total
		(NT$ in millions)	
As of December 31, 2008	34,956	288,230	323,186
As of March 31, 2009	32,562	360,908	393,470

Collateralized Debt Obligations

Shin Kong Life's portfolio of CDOs consist mainly of corporate bond-backed CDOs, CMBS CDOs and ABS CDOs. During the second half of 2007 and continuing through 2008 and 2009, the credit markets and sub-prime residential mortgage market in the United States experienced substantial deterioration, liquidity disruptions, and market corrections that in turn have affected the worldwide financial markets. Market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets, such as those for leveraged finance, CDOs and other structured products. While Shin Kong Life has recorded losses representing 21.6% of the book value of its CDO portfolio from January 1, 2008 to March 31, 2009 and is continuing to deploy hedging strategies and other activities to manage the portfolio, continued adverse conditions in the U.S. mortgage and global credit markets could result in additional losses on Shin Kong Life's CDO portfolio. See "Risk Factors — Difficult conditions in the global credit and financial markets could adversely affect our results of operations and financial condition."

The following table sets forth the amounts of our CDO portfolio by type of securitization as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book Value	% of total	Book Value	% of total	Book Value	% of total	Book Value	% of total
	(NT$ in millions, except percentages)							
ABS	7,263	22.0	8,188	25.9	4,206	16.6	4,194	16.7
CMBS	1,369	4.2	1,363	4.3	1,249	4.9	339	1.4
Corporate	24,374	73.8	22,033	69.8	19,931	78.5	20,533	81.9
Total	33,006	100.0	31,584	100.0	25,386	100.0	25,066	100.0

The following table sets forth the amounts of our corporate CDO portfolio by the rating assigned by S&P and Moody's to the corporate CDO:

	As of March 31, 2009	
	Book Value	% of total
	(NT$ in millions, except percentages)	
AAA	912	4.4
AA	4,409	21.5
A	2,200	10.7
BBB	7,096	34.6
BB and below	5,916	28.8
Total	20,533	100.0

Real Estate. Real estate investments represented 8.0%, 8.0%, 7.8% and 6.8% of Shin Kong Life's total cash and invested assets as of December 31, 2006, 2007, 2008, and March 31, 2009, respectively. Shin Kong Life manages its real estate investments to maximize rental and other income. Investments in real estate are concentrated in the commercial market, but are geographically diversified throughout Taiwan.

The following table sets forth the amounts of real estate owned by Shin Kong Life, as of the dates indicated:

	As of December 31,						As of March 31,	
	2006		2007		2008		2009	
	Book Value	% of total	Book Value	% of total	Book Value	% of total	Book Value	% of total
	(NT$ in millions, except percentages)							
Investment in Real Estate	71,979	87.3	77,749	89.0	78,880	89.4	70,132	88.2
Self-used Real Estate	10,463	12.7	9,599	11.0	9,337	10.6	9,348	11.8
Total Real Estate	82,442	100.0	87,348	100.0	88,217	100.0	79,480	100.0

Shin Kong Life has commissioned an independent appraisal on the valuation of its real estate portfolio as of December 31, 2008. Based on the report of the independent appraisal, its real estate portfolio has an unrealized revaluation gain of approximately NT$39.8 billion.

Bank Deposits. Time deposits in banks comprise a large portion of Shin Kong Life's cash and cash equivalents portfolio, representing 1.2%, 3.7%, 4.9% and 4.7% of Shin Kong Life's total cash and invested assets as of December 31, 2006, 2007, 2008, and March 31, 2009, respectively. With sufficient cash inflows coming from its operations, Shin Kong Life intends to continue to reduce its cash balance.

Derivative Instruments. Shin Kong Life uses derivative instruments, primarily consisting of interest rate swaps and currency swaps, to hedge the fluctuations in market value of its investments. Shin Kong Life is permitted by regulation to use derivative instruments solely for hedging purposes. However as a result of our investment in certain funds, we may be exposed to the use of derivative instruments for other purposes. We only conduct derivative transactions with creditworthy financial institutions.

The following table sets forth the notional amount or contract amount and credit risk amounts of derivatives held by Shin Kong Life as of the dates indicated:

	As of December 31,			As of March 31,
	2006	2007	2008	2009
	(NT$ in millions)			
Contract value or notional or principal amount:				
Interest Rate Swaps, Other	198,798	156,932	217,174	247,647
Foreign Exchange Forward Contracts	172,189	141,378	78,647	124,805
Total	370,987	298,310	295,821	372,452

Asset and Liability Management

We believe Shin Kong Life has implemented an effective asset and liability management program to avoid the possible loss from volatility in interest rates. Since January 1, 2004, Shin Kong Life's Asset and Liability Management Department has provided analysis in relation to key asset creating and liability incurring activities. In addition, Shin Kong Life's Asset and Liability Committee, which is comprised of its chairman, chief financial officer and other senior management officers, meets on a quarterly basis to review scenario analyses and profit projections for making final decisions. As part of the asset and liability management program, Shin Kong Life has pursued several product adjustments, such as reducing the guaranteed rate on new products, issuing floating single premium deferred annuity policies with monthly published interest rates and traditional life insurance products with shorter terms. In addition, Shin Kong Life has attempted to pursue high yield investments, such as policy loans, and increased its investment in foreign fixed income vehicles, within its risk management policies. One of the goals of its asset and liability management program is to determine the types of products offered by Shin Kong Life by optimizing its matching of asset creating and liability incurring activities.

Asset Quality Information

Credit Policies and Approval Procedures

Shin Kong Life's lending policies have been formulated on the basis of its experience in the insurance and secured lending industries, and in accordance with relevant FSC regulations and other regulatory requirements. The company has a history of, and a sound reputation for, prudent lending practices. All of its loans are extended on a secured basis, and strict loan-to-value lending limits have been established based on the appraised market value of the relevant collateral.

Shin Kong Life has decentralized its credit approval process in order to provide better customer service. There are four policyholder service centers staffed with authorized loan officers who may approve loans that do not exceed certain threshold limits. These centers are responsible for reviewing most credit applications. The applicable threshold limits, which vary depending primarily on the rank of the authorized loan officer, are determined by the type and amount of the proposed loan and the risk rating of the borrower. Prior to submission of a loan or other credit application for approval by an authorized loan officer, an internal credit investigation is performed on the borrower, which includes interviews with the borrower, review of business or project plans and audited financial statements of the borrower (if an entity) and a detailed credit analysis.

The internal credit investigation is conducted by the respective policyholder service centers. The credit analysis includes due diligence investigations and searches of bankruptcy or other court records for judgments. As part of the credit investigation process, the loan officers also conduct an appraisal of the value of any collateral being provided, as described below. Following the internal credit investigation, the application is submitted to the relevant authority for approval. An internal risk rating system is also implemented as part of the internal credit investigation, which is based on the evaluation of the borrower's intention and ability to repay its debt. The borrower is presumed to have the intention to repay unless there is evidence to the contrary, such as a default on a prior loan. In evaluating the borrower's ability to repay, the focus is on the borrower's cash flow and ability to generate sufficient cash to repay its loan.

All assets taken as collateral for secured loans are subject to appraisal and loan-to-net value limits. Collateral appraisal is conducted by a loan officer or an independent appraisal institute depending on the amount and type of loan. Shin Kong Life's lending policies are based upon loan-to-net value limits applying to loans secured by a fixed charge over an asset or property. Loan-to-net value ratios on home mortgages are limited to 85% of the recent market price of comparable properties or the independently appraised value of the property, depending on the location of the property and purpose for the loan. For commercial mortgage loans, Shin Kong Life's policy is to limit the loan to 85% of the lower of the recent market price of comparable properties or independently appraised value of the property. If the home mortgage loan amount exceeds NT$20 million or the commercial loan amount exceeds NT$30 million, a responsible account officer will continue to monitor the financial and operating status of the borrower and its compliance with the terms and conditions of the loan.

Loan Classification

Shin Kong Life generally classifies loans into the following five categories based upon FSC guidelines:

Classification	Applicable conditions
Normal	Loan in normal conditions
Special Mention	Secured Loan is overdue for up to 12 months; (in the case of a secured loan) or for up to 2 months (in other cases)
Substandard	Loan is overdue, but is expected to be recovered
Doubtful	Loan is overdue, and it is doubtful that the loan can be recovered
Unrecoverable	Loan is overdue and unrecoverable

Under the FSC guidelines, an insurance company must set aside a minimum specific allowance of 50% against doubtful loans and 100% against unrecoverable loans.

In determining the categorization of mortgage and corporate loans, Shin Kong Life considers a number of factors including, among other things:

- the payment history of the loan;
- the borrower's financial condition and earning capabilities;
- the management and operation of a borrower corporation;
- the status of any collateral or guarantees; and
- the market conditions affecting the borrower.

Based on the FSC guidelines, which differ from the global standard that generally consider any loan past due by more than 90 days to be non-performing, Shin Kong Life's non-performing loans include the following:

- loans for which the most recent principal payment is overdue by more than three months or in the case of medium or long-term installment loans, such payment is overdue by more than six months; or
- loans for which the most recent interest payment is overdue by more than six months.

The following table sets forth Shin Kong Life's loans and other credits (exclusive of policy loans) according to asset quality category for the dates indicated, as well as information regarding coverage ratios and sales and write-offs of non-performing credits for the periods then ended on an unconsolidated basis.

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,
	2006	2007	2008	2009
	(NT$ in millions, except percentages)			
Asset Quality Data				
Allowance for Loan Losses:				
Beginning Balance	795	953	985	722
Plus: Provision for Loan Losses	263	76	(179)	98
Plus: Recovery	1	2	—	—
Plus: Reclassification	—	—	5	—
Less: Gross Write-offs	(106)	(46)	(89)	—
Allowance for Loan-ending Balance	953	985	722	820
Gross Loans	174,568	184,042	191,706	187,893
NPLs	842	867	939	950
Net Write-offs	(106)	(46)	(89)	—
Asset Quality Ratio				
NPL Ratio	0.5%	0.5%	0.5%	0.5%
Provision for Loan Losses to Gross Loans	0.2%	0.0%	(0.1)%	0.1%
Net Write-offs to Gross Loans	(0.1)%	0.0%	(0.1)%	—
Net Write-offs to NPLs	(12.6)%	5.3%	(9.5)%	—
Allowance for Loan Losses to Gross Loans	0.6%	0.5%	0.4%	0.4%

Information Technology

Our "Data Mart System" and enterprise architecture integration practices enable us to deliver critical data, such as policyholders'/account customers' status and household data, from our holding company's administration system to authorized agents' notebook computers at any of Shin Kong Life's customer contact points, including its branches and representative offices. This system also provides Shin Kong Life's sales agents with accurate information regarding a particular customer's current pricing, risk profile and claims handling experience.

We believe Shin Kong Life has maintained one of the most advanced information technologies systems in the insurance industry in Taiwan. To boost Shin Kong Life's operating efficiency, we have created a business collaboration system that incorporates information on Shin Kong Life's products and services, operating guidelines and claim processes. This real time financial content is delivered to Shin Kong Life's sales agents continuously via their notebook computers and personal digital assistants, which enables them to access critical intelligence information and adapt to market dynamics.

We have also implemented a cross-sell information system to support cross selling distribution channels for Shin Kong Life and our other subsidiaries. Designed in compliance with relevant ROC privacy and consumer protection laws, this system provides each of our subsidiaries with current information on their customers' financial needs, thereby enabling each subsidiary company to gain a better understanding of such customers. It also facilitates our ability to target and track the sales of products across the different distribution channels.

Competition

There are currently 30 life insurance companies in Taiwan, 23 of which are domestic. The market can be segmented into three categories: incumbent firms that were licensed prior to 1992, foreign companies that entered the market after 1987 and domestic players that were licensed after 1993. Unlike the Taiwan banking market, where the incumbent, state-controlled banks and the new, privately-owned firms compete for different segments of the market, all life insurance companies in Taiwan largely compete for the same market. While certain business practices may differ, our competitors have significant overlap in the range of products and services offered. The leading insurers, which are sizeable, mostly privately-owned companies, enjoy significant competitive advantages in terms of economies of scale, distribution network, experience and brand image. In 2008, the largest four insurers accounted for more than 52.6% of the industry's total premiums.

The following table sets forth the ten largest life insurance companies in Taiwan by total premium in 2008:

	Year Ended December 31, 2008				
	Total Premium		First Year Premium		
	Amount	Market Share	Amount	Market Share	Year Established
	(NT$ in millions, except percentages)				
Life insurers:					
Cathay Life	439,071	22.9%	205,976	24.1%	1962
Nan Shan Life(1)	219,019	11.4%	36,181	4.2%	1963
Shin Kong Life	201,906	10.5%	89,794	10.5%	1963
Fubon Life(2)	149,695	7.8%	128,069	15.0%	1993
Chunghwa Post Life	140,117	7.3%	36,531	4.3%	2003
ING Antai Life(2)	126,304	6.6%	34,495	4.0%	1987
MassMutual Mercuries Life(3)	79,044	4.1%	27,659	3.2%	1993
China Life(4)	76,407	4.0%	52,014	6.1%	1963
Far Glory Life	64,759	3.4%	46,818	5.5%	1993
PCA Life(4)	52,947	2.8%	19,453	2.3%	1962
Total Top 10	1,549,269	80.8%	676,990	79.2%	

Source: Taiwan Insurance Institute

Notes:

(1) Controlled by AIG.

(2) ING Antai Life merged with Fubon Life on June 1, 2009.

(3) A joint venture between MassMutual and Mercuries Group.

(4) PCA Life completed the transfer of its agency distribution business and agency force to China Life on June 19, 2009.

Among the four largest insurers by total premium, Shin Kong Life, Fubon Life and Cathay Life are principally controlled by Taiwanese shareholders, while Nan Shan Life is a foreign-controlled firm.

Employees

As of March 31, 2009, Shin Kong Life had approximately 15,000 employees, consisting of 2,383 administrative employees and more than 12,979 sales and marketing agents. Shin Kong Life's management team consists of 16 senior managers with an average experience in the life insurance industry of more than 20 years. 59.4% of its managers are university graduates and 40.6% have a masters degree. In addition, as of March 31, 2009, more than 11,000 of Shin Kong Life's sales and marketing agents (including part-time sales agents) were qualified to sell and market investment-linked products.

Shin Kong Bank

Overview

Shin Kong Bank is a leading domestic commercial bank engaged primarily in short- and medium-term corporate lending as well as consumer lending, mortgages and credit card businesses. Shin Kong Bank currently operates 108 branches in Taiwan. We believe Shin Kong Bank maintains a strong network of high quality banking clients. We are able to utilize such network to offer wealth management and bancassurance products and services to our banking customers to meet their demand for diversified and quality financial products, thereby increasing lifetime value of the customer. Conversely, we also leverage Shin Kong Life's distribution network consisting of over three million customers to cross sell our banking products.

Domestic Banking Business

Corporate Banking

Shin Kong Bank provides a full range of corporate banking services primarily to large publicly-traded companies and middle-market companies in Taiwan, across a diversified range of industries. The types of credit available include long-term and short-term loans, trade financing facilities, working capital facilities and overdraft facilities. Shin Kong Bank also provides a variety of fee-based services, including securities underwriting, loan syndications, trust and custodian services, foreign exchange, guarantees and treasury services.

Lending

Shin Kong Bank had NT$131.4 billion in corporate loans outstanding as of March 31, 2009, representing 47.1% of its total loans as of that date.

Consistent with its focus on credit quality and diversification, Shin Kong Bank lends to corporate borrowers in a wide range of industry sectors and across all geographic regions of Taiwan. Shin Kong Bank offers loans to companies in all industry sectors. See "Description of Assets and Liabilities of Shin Kong Bank — Credit Exposure — Corporate Credit Exposure." While Shin Kong Bank has traditionally focused its lending on larger corporations, Shin Kong Bank is now increasingly targeting the capital needs of medium-sized enterprises.

Shin Kong Bank's loans are principally priced on the following two bases:

- *NT Dollar Loans.* Shin Kong Bank's NT dollar loans principally consist of two types: prime rate-linked products and short-term fixed rate indexed products. Prime rate-linked loans bear an interest rate based on a floating "prime rate," which is based on the average inter-bank overnight rate for the past 90 days plus a spread and are typically offered to small and medium companies for general corporate purposes. Indexed loans bear interest at a rate linked to the average one year time deposit rate charged by five other major domestic banks plus a spread, and are offered principally to Shin Kong Bank's most creditworthy corporate customers. These loans are usually unsecured and are typically used by customers to fund working capital needs. These loans have maturities of one year or less and they are repriced quarterly pursuant to fluctuation in the average time deposit rate.

- *Foreign Currency Loans.* Foreign currency loans bear interest at a rate based on LIBOR or SIBOR, plus a spread.

As of March 31, 2009, 0.8% of Shin Kong Bank's total domestic loans were foreign currency loans. Of that amount, 95.4% were denominated in US dollars. As of March 31, 2009, NT$11,423 million in total foreign currency loans were outstanding. Of that total loan amount, 80.7% were classified as mid-to-long-term facilities and 19.3% were classified as short-term facilities.

Loan Syndications and Securities Underwriting

Shin Kong Bank arranges syndicated loans and underwrites debt securities for its corporate customers in the domestic and offshore markets.

Trade Financing Services

Shin Kong Bank provides a variety of trade financing services on a fee basis to its domestic corporate customers. These services include issuance of letters of credit, guarantees and domestic import loans and purchase of export bills. Shin Kong Bank's fee and commission income from its domestic trade financing services amounted to NT$25 million for the three months ended March 31, 2009 and the fee and commission income from its overseas trade financing services amounted to NT$7 million for the three months ended March 31, 2009.

Guarantees

Shin Kong Bank acts as a surety for its corporate customers by issuing guarantees for commercial paper, corporate bonds and deferred payment of customs duties on imported raw materials and machinery. Shin Kong Bank also issues guarantees for bid bonds, performance bonds, down payment bonds and standby letters of credit. Its customers for these products are usually publicly-traded companies in Taiwan with which Shin Kong Bank has an existing business relationship. Guarantees are treated as off-balance sheet liabilities. As of March 31, 2009, Shin Kong Bank had a total of NT$18 billion in outstanding domestic guarantees.

Deposits

Shin Kong Bank offers four basic types of deposit products to customers: checking, demand, time and savings deposits. Consistent with its business and risk management strategy, Shin Kong Bank has succeeded in maintaining an appropriate loan-to-deposit ratio to meet profitability and asset-liability matching targets. Finally, 5.4% of Shin Kong Bank's total domestic deposits were foreign currency deposits as of March 31, 2009. Of that amount, 77.6% were denominated in US dollars. As of March 31, 2009, Shin Kong Bank held NT$19.2 billion in total foreign currency deposits.

Consumer Banking

Shin Kong Bank provides a full range of products and services to individual customers, consisting principally of mortgage loans, consumer loans, automobile loans, credit-debit cards, savings and time deposits, checking accounts, insurance products, ATM services, electronic and Internet banking, phone banking and wealth management.

As of March 31, 2009, Shin Kong Bank had NT$147 billion (including NPLs but excluding credit card loans) in consumer loans outstanding, representing 52.9% of its total domestic loans as of that date. As of March 31, 2009, 81.7% of its outstanding consumer loans were mortgage loans.

Mortgage Loans

Shin Kong Bank offers mortgage loans to finance the purchase and maintenance of residential premises. Mortgage loans are typically secured by the property being purchased, which Shin Kong Bank typically requires to be occupied by the owner. For mortgage loans, Shin Kong Bank generally lends up to 80% of the appraised value of the property. These products carry a floating rate of interest based on a variety of indices. The typical initial interest rate charged on mortgage loans for the three months ended March 31, 2009 ranged between 1.86% and 3.01% per annum. Monthly payments are typically based on a 20-year amortization and maturity schedule. Shin Kong Bank charges an origination fee on mortgage loans. In addition, Shin Kong Bank generally charges a pre-payment penalty on loans that are paid in full within one year of initial drawdown. As of March 31, 2009, Shin Kong Bank had NT$120.3 billion of mortgage loans (including NPLs) outstanding, which represented 45% of its total domestic loans as of that date.

Most of Shin Kong Bank's mortgage loans are adjustable rate mortgage loans. The adjustable rate is typically based on the average of time deposit rates quoted by five major banks in Taiwan as the base index with an interest rate spread added, the size of which depends on the risk profile of the borrower and the property. The base index is adjusted every three months. Shin Kong Bank believes that adjustable rate mortgage loans have proven particularly attractive to its affluent customers, since they are able to borrow at lower interest rates as a result of the risk-based pricing feature.

As a part of its loan application evaluation process, Shin Kong Bank considers factors relating to a borrower's debt servicing capabilities and sets a guideline that monthly mortgage payments not exceed one-third of the borrower's monthly income.

The following table shows information on the geographical breakdown of outstanding domestic mortgage loans as of March 31, 2009:

Location	**Outstanding domestic loan amount(1)**	**Percentage**
	(NT$ in millions, except percentages)	
Northern Taiwan	64,600	53.7
Central Taiwan	33,456	27.8
Southern Taiwan	20,392	16.9
Eastern Taiwan	1,883	1.6
Total	120,331	100.0

Note:

(1) Including NPLs

Consumer Loans

Shin Kong Bank offers various kinds of personal loans to consumers, on both a secured and unsecured basis. Personal loan products include the following:

- *Credit Loans.* All credit loans are unsecured high margin loans. These products target proprietors of small businesses and individuals. The typical initial interest rate charged on credit loans for the three months ended March 31, 2009 ranged between 4.5% and 10.0% per annum. Credit loans have maturities ranging from one to seven years and are made at a floating interest rate.

- *Automobile Loans.* Most automobile loans are used in the financing of new automobile purchases. Shin Kong Bank generally lends up to 80% of the value of the automobile. Automobile loans are typically secured by the automobiles being purchased. The typical initial interest rate charged on automobile loans for the three months ended March 31, 2009 was approximately 5.6% per annum. Automobile loans have maturities ranging from 13 to 60 months and are made at a fixed interest rate.

As of March 31, 2009, Shin Kong Bank had NT$22,407 million of personal unsecured loans, including credit loans and cash card loans, and NT$4,391 million of personal secured loans outstanding, representing 83.6% and 16.4% of its total consumer loans, respectively.

Credit Cards

Shin Kong Bank offers credit cards to cardholders who may elect to pay a fixed minimum payment on the monthly payment due date and allow the balance on their accounts to revolve. The debt is unsecured, and interest on the revolving amount accrues from the date that the merchant is paid by the National Card Center for the cardholder’s purchase. The average interest rate charged on credit card debt for the three months ended March 31, 2009 was 15.2%. As of March 31, 2009, Shin Kong Bank was the 10th ranked credit card provider in Taiwan in terms of the number of cards in circulation, with over 920,000 credit cards, representing 2.8% of the total credit cards issued in Taiwan. Shin Kong Bank also ranked number one in top end credit card issuances to high income individuals in Taiwan with approximately 27,000 cards in circulation. For 2008, Shin Kong Bank also had a market share of 2.7% in terms of total credit card spending. Shin Kong Bank monitors the delinquency of credit card accounts by the number of days each account is overdue and seeks repayment with the outside collection agencies when necessary. The 90-day delinquency rate on its credit card debt was 2.1% as of March 31, 2009, and its charge-off rate was 1.05% for the three months ended March 31, 2009.

Increases in Shin Kong Bank card sales are partly attributable to the additional sales channels provided by the other Shin Kong Companies. Over 20% of the new card accounts created in the three months ended March 31, 2009 were obtained by Shin Kong Companies other than Shin Kong Bank. Shin Kong Bank plans to continue to build its credit-card business and offer new products to its cardholders. For example, Shin Kong Bank offers several co-branding cards with partners such as Miramar Entertainment Park, Japan Airlines, Leofoo Tourism Group and N.Y. Bagels Cafe.

Wealth Management

Shin Kong Bank's wealth management business provides high net worth individuals with a full range of financial products and services, including deposit, mutual fund, fixed income, structured investment products, insurance products, trust fund, loans, securities brokering and related financial services. In 2008, Shin Kong Bank generated NT$0.5 billion from wealth management, including NT$80 million from insurance products, NT$170 million from mutual funds and NT$270 million from structured products, respectively.

Foreign Operating Units and Offshore Banking Unit

In 2002, Shin Kong Bank established its Offshore Banking Unit, or OBU, to extend its service capacity abroad. Currently, Shin Kong Bank's OBU provides services to its domestic and foreign operations involving transactions in countries where it has no current overseas operations. Shin Kong Bank's two main sources of income through its OBU are loan income and investment income, comprising of 41.9% and 56.5% respectively of Shin Kong Bank's OBU's total income for the three months ended March 31, 2009.

Shin Kong Bank has a representative office in Ho Chi Minh City, Vietnam. Shin Kong Bank has also recently applied to set up a branch in Hong Kong. In addition to operations through its foreign units, Shin Kong Bank provides international trade and banking services through its domestic branches, as discussed in more detail in "— Domestic Banking Business — Corporate Banking" above.

For the three months ended March 31, 2009, loans from its foreign units and OBU represented 4.2% of its total loans outstanding, and deposits in its foreign units and OBU represented 5.4% of its total deposits.

Distribution

Shin Kong Bank aims to provide its customers with the most innovative, convenient and cost-effective mix of distribution channels available. Its distribution network consists of full branches, mini-branches, automatic service machines (including ATMs and deposit machines), phone banking and Internet-banking service. As part of its long-term strategy for developing and integrating both its traditional and electronic channels, Shin Kong Bank aims to offer customers convenient access while enhancing the overall operating efficiency of its distribution channels.

The following table shows information on the number of Shin Kong Bank's domestic branches as of March 31, 2009:

	As of March 31, 2009	
	Number of units, except percentages	
Northern Taiwan	61	56.5
Central Taiwan	27	25.0
Southern Taiwan	18	16.7
Eastern Taiwan	2	1.8
Total	108	100.0

Domestic Branches

Shin Kong Bank currently has 92 full function branches in Taiwan, 55 of which are located in Taipei and Northern Taiwan, the country's primary centers of economic activity.

In addition, Shin Kong Bank had 16 mini-branches in selected locations, as of March 31, 2009. Mini-branches are smaller in location size and staff numbers compared to regular branches, and are only equipped to perform less complex and less time-intensive transactions. They primarily cater to retail consumers and can also be used as marketing offices and service centers. Shin Kong Bank views mini-branches as a cost-effective way of providing services to customers and expanding its distribution network.

As part of Shin Kong Bank's distribution strategy, branches are focused on cross-selling Shin Kong Bank's products as well as those of other Shin Kong Companies to the most profitable customers, while less profitable customers are being steered toward lower-cost channels such as automatic service machines. In particular, Shin Kong Bank is actively expanding its wealth management services business in order to its services to its most profitable customers.

Remote Channels

Shin Kong Bank believes that its remote distribution channels are one of the core strengths of its distribution network. These remote channels include a call center for credit cards, automatic service machines and automated telephone banking.

Call Center. Shin Kong Bank operates a centralized call center that it uses for credit card and banking customer services and customer relationship management. The call center, which operates 24 hours per day and seven days per week, has 48 customer service representatives and handles more than 90,000 incoming calls per month.

Automatic Service Machines. Shin Kong Bank had 619 ATMs and 30 cash deposit machines as of March 31, 2009. Shin Kong Bank expects that the migration of transactions from traditional branches to automatic channels such as ATMs and web-based channels will continue. With ATMs, Shin Kong Bank believes it can provide customers with a simple, speedy, private and safe consumer finance application process. Shin Kong Bank is also focused on enhancing the capability and usage of its ATM network.

Internet Banking Service. Shin Kong Bank also provides Internet-banking service. We believe that the prevalence and familiarity of Taiwanese individuals with the Internet will help to sustain growth in the market for online banking and asset management services, and we believe that Shin Kong Bank's increasing scale and the efficiencies possible with Internet banking provide a foundation for long-term profitability.

Derivative Products

Shin Kong Bank offers financial derivative instruments to its corporate customers for hedging purposes, including foreign exchange forward contracts.

Treasury Operations

The principal functions of Shin Kong Bank's Treasury Department are to manage Shin Kong Bank's liquidity and foreign exchange positions through the domestic, international and interbank markets. In addition, the Treasury Department monitors Shin Kong Bank's daily local and foreign currency cash flows and liquidity positions and makes weekly reports of these positions, as well as money market conditions and interest and exchange rate movements and forecasts, directly to an Executive Vice President, who then reports to the President of Shin Kong Bank.

The Treasury Department of Shin Kong Bank is comprised of approximately 14 professionals and is divided into three teams:

- *Funding Desk.* The funding desk is principally responsible for managing Shin Kong Bank's short-term funding needs. When necessary, Shin Kong Bank raises foreign currency, mainly US dollars, through interbank borrowings. The funding desk also recommends Shin Kong Bank's deposit rates based on market conditions and Shin Kong Bank's own funding requirements.

- *Debt Trading Desk.* The debt trading desk's activities principally involve trading for Shin Kong Bank's own account using the portion of Shin Kong Bank's liquid reserves in excess of the minimum regulatory requirement. The purpose of this trading is to realize trading gains and to provide liquidity for Shin Kong Bank's reserve position. This desk typically trades in short-term debt securities, such as commercial paper, stocks, funds, government bonds, government bond repurchase agreements, and convertible bonds. Traders are subject to counterparty, per trade, stop loss and total exposure limits.

- *Foreign Exchange Desk.* The foreign exchange desk manages Shin Kong Bank's foreign exchange exposure and offers foreign exchange products to Shin Kong Bank's customers. The desk trades in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, as part of Shin Kong Bank's management of Shin Kong Bank's asset and liability positions. The principal goal of these trading activities is to minimize the impact of currency exchange fluctuations on its financial position. Traders are subject to counterparty, per trade, stop loss and total exposure limits.

Credit Rating

Shin Kong Bank has a long-term rating of "twAA-" and a short-term rating of "twA-1+" from Taiwan Ratings Corporation. Shin Kong Bank also has a long-term rating of "BBB" and a short-term rating of "A-2" from S&P. Shin Kong Bank believes these ratings are based on its above-average financial strength relative to its peers in the Taiwan banking sector, its track record of stable earnings, its conservative funding policy and its favorable asset quality compared to other local banks.

Competition

Shin Kong Bank faces substantial competition in each of its product and service lines. Shin Kong Bank competes principally with other domestic commercial banks in Taiwan, but also faces competition from a number of other financial institutions including foreign banks, and, to a lesser extent, various other types of domestic banking institutions.

The Taiwan banking industry has grown rapidly over the last decade, fueled primarily by economic growth and the ongoing liberalization of the financial system. The total assets of financial institutions operating in Taiwan increased to NT$32.4 trillion as of March 31, 2009 from NT$31.5 trillion as of March 31, 2008. Taiwan is now the fourth largest banking market in Asia (excluding Japan) in terms of loan volume.

The Taiwan banking industry comprises banking institutions of various sizes and functions, including domestic commercial banks, domestic specialized banks, domestic medium business banks, foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations and bills finance companies. As of March 31, 2009, there were over 69 banking institutions in Taiwan. Despite this highly fragmented market structure, domestic commercial banks control approximately 89.5% of the assets of Taiwan banking institutions. As of March 31, 2009, there were 37 domestic commercial banks in Taiwan.

Certain factors may significantly change the competitive landscape in the Taiwan banking industry. These factors include existing and future strategic alliances between domestic and foreign financial institutions and the ROC government's policy of encouraging cross-border mergers and acquisitions in the banking industry and further opening up of the market for foreign competition. The ROC government has enacted laws to allow mergers of financial institutions and the establishment of financial holding companies to broaden the business scope and strengthen the competitiveness of local banks.

The following table shows a comparison of selected information for the top 20 Taiwan domestic private banks in terms of shareholders' equity as of March 31, 2009:

	Shareholders' equity	Assets	Loans	Deposits		
Private Bank(1)	Amount	Amount	Amount	Amount	Number of Branches(2)	Number of ATMs
	(NT$ in billions, except percentages, branch and ATM numbers)					
Mega International Commercial Bank	143.9	2,254.7	1,297.2	1,469.2	106	503
China Development Industrial Bank	125.7	241.7	76.5	38.9	3	—
Chinatrust Commercial Bank	118.2	1,590.7	851.7	1,185.6	129	4,397
First Commercial Bank	91.5	1,802.3	1,123.2	1,459.7	190	789
Cathay United Bank	84.7	1,347.7	782.1	1.147.5	162	1,742
Taipei Fubon Commercial Bank Co., Ltd.	83.1	1,255.2	796.6	1,016.2	125	1,308
Chang Hwa Commercial Bank	81.4	1,420.4	953.8	1.180.1	177	622
Hua Nan Commercial Bank	78.7	1,655.1	1.087.4	1,422.6	182	766
The Shanghai Commercial & Savings Bank	65.1	618.5	314.7	460.9	60	275
Bank Sinopac Company Limited	56.7	980.3	606.2	811.5	129	411
E.Sun Commercial Bank	47.1	869.0	531.5	700.4	117	435
Taishin International Bank	42.3	850.3	501.4	702.8	98	2,611
Taiwan Business Bank	40.0	1,149.0	837.0	998.7	125	448
Industrial Bank of Taiwan	24.0	119.1	63.4	66.9	4	—
Yuanta Commercial Bank	23.2	334.7	229.9	281.2	70	301
Ta Chong Bank	22.3	316.1	213.9	253.5	53	128
Cosmos Bank, Taiwan	21.3	160.7	87.1	132.0	61	155
Shin Kong Bank	20.1	394.6	274.2	357.7	108	619
Far Eastern International Bank	19.6	344.1	199.2	286.5	36	135
Entie Commercial Bank	18.5	294.6	183.1	231.0	53	127
Total					1,988	15,772

Source: Banking Bureau, FSC

Notes:

(1) Private banks defined as domestic commercial and industrial banks in Taiwan that are less than majority-owned by the ROC Government.

(2) Does not include business department of each bank that performs the same function as a branch.

Employees

As of December 31, 2006, 2007 and 2008 and March 31, 2009, Shin Kong Bank had 3,516, 3,391, 3,328 and 3,007 employees, respectively. As of March 31, 2009, 78.9% and 6.3% of its employees had college/university degrees and post-graduate degrees, respectively.

Shin Kong Bank places great emphasis on employee training programs, which are divided equally between classroom and on-the-job learning. Training is held within its bank and at outside training centers both in Taiwan and abroad. Shin Kong Bank provides benefits including staff loans and medical, educational and other allowances. Shin Kong Bank believes that it has created an attractive work environment for its employees. Shin Kong Bank's average annual staff attrition rate is approximately 14.7%. None of Shin Kong Bank's employees are represented by labor unions, and there is no collective bargaining agreement in place. Shin Kong Bank has never experienced a work stoppage or strike, and Shin Kong Bank believes its labor relations are good.

Subsidiaries

Shin Kong Bank conducts a portion of its operations through subsidiaries. The following table shows certain information as of March 31, 2009 regarding these subsidiaries in which Shin Kong Bank directly held 10% or more of the respective outstanding common shares:

Name	Carrying Value	Percentage Interest Held by Shin Kong Bank	Principal Business
	(NT$ in millions)		
Shin Kong Marketing Consultant Co., Ltd.	113.0	100.0%	Consulting services for loan market
Shin Kong Life Insurance Agency Co., Ltd.	169.1	100.0%	Life insurance agency business
Shin Kong Property Insurance Agency Co., Ltd, ...	10.0	100.0%	Property insurance agency business
Shin Kong Finance (HK) Ltd.	—	100.0%	Loan business in Hong Kong

Legal Proceedings

Shin Kong Bank and its subsidiaries are subject to legal actions in the ordinary course of their business. These legal actions include routine disputes incidental to their businesses, such as defaults on loan payments. Neither Shin Kong Bank, nor Shin Kong Bank and its subsidiaries taken as a whole, are or have been involved in any litigation, arbitration or administrative proceedings, whether pending or threatened, which may have or have had, during the previous 12 months, a significant effect on its financial position or the financial position of Shin Kong Bank and its subsidiaries taken as a whole.

Shin Kong Securities

Shin Kong Securities provides brokerage and securities products and services to individuals as well as to corporations and institutions. These products and services include securities brokerage, margin trading, underwriting and financial product sales. In addition, Shin Kong Securities is engaged in proprietary trading of equity and fixed-income securities.

As of March 31, 2009, Shin Kong Securities had approximately 68,000 customer accounts and total assets of NT$12,567 million. Shin Kong Securities accounted for 0.71% of our total assets, as of March 31, 2009.

In April 2009, in order to consolidate our securities brokerage services, Shin Kong Securities entered into a sale agreement to transfer its brokerage business and properties to MasterLink, our 26.3% owned and consolidated subsidiary. Shin Kong Securities will then liquidate its securities holdings and cease its operations. The transaction is expected to be completed in the fourth quarter of 2009. Consummation of the sale is subject to approvals from governmental authorities and certain other customary conditions.

Shin Kong Investment Trust

Shin Kong Investment Trust contributes to the financial management services we offer to the approximately three million customers of Shin Kong Life, and cross sells products offered by our other subsidiaries. As of March 31, 2009, Shin Kong Investment Trust had approximately 35,000 customer accounts and NT$33,755 million of assets under management.

Shin Kong Insurance Brokers

Through a brokerage agreement with Shinkong Insurance Co., Ltd., an affiliate of our company, Shin Kong Insurance Brokers distributes a comprehensive range of property and casualty insurance products offered by Shinkong Insurance Co., Ltd. Shin Kong Insurance Brokers distributes these property and casualty insurance products through the sales agents of Shin Kong Life. The sales agents of Shin Kong Life also market these products as supplements to Shin Kong Life’s own policies.

MasterLink

We own 26.3% of MasterLink’s ownership interests. Under ROC regulations, MasterLink is considered our subsidiary and we fully consolidate its financials. MasterLink is a full-service securities brokerage firm, providing comprehensive, custom-tailored financial solutions for its institutional and individual clientele. Its primary areas of operations and service comprise of securities brokerage (including margin lending), principal transactions (including equity, bonds, commercial paper and hedging transactions), underwriting and financial products. Its brokerage practice accounted for 3.7% of market share, brokering NT$377.5 billion of securities for the three months ended March 31, 2009. MasterLink had 44 sales offices with more than 790 brokers serving over 743,000 customers as of March 31, 2009. As of March 31, 2009, MasterLink had a long-term rating of “twA” and a short-term rating of “twA-1” by Taiwan Ratings Corporation.

Principal Subsidiaries

As of December 31, 2006, 2007 and 2008 and March 31, 2009, we had a total of 22,921, 22,451, 21,932 and 21,015 employees. The information set forth below reflects our direct and indirect equity interests in our subsidiaries as of March 31, 2009. All issued shares in these subsidiaries are fully paid and non-assessable. As of the date of this offering memorandum, we do not have any outstanding loans to or from any of these subsidiaries with respect to their shares.

Shin Kong Life. Its registered office is at No. 66, Sec. 1, Chung-Hsiao West Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$41,832,423 thousand.

Shin Kong Bank. Its registered office is at No. 66, Sec. 1, Chung-Hsiao West Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$19,577,665 thousand.

Shin Kong Securities. Its registered office is at No. 458, Sec. 4, Shin-Yi Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$4,163,005 thousand.

Shin Kong Investment Trust. Its registered office is at No. 123, Sec. 2, Nanjing East Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$400,000 thousand.

Shin Kong Insurance Brokers. Its registered office is at No. 66, Sec. 1, Chung-Hsiao West Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$6,000 thousand.

MasterLink. Its registered office is at No. 209, Sec. 1, Fu-Shin South Road, Taipei, Taiwan. As of March 31, 2009, its paid-in capital was NT$13,988,726 thousand.

DIRECTORS, MANAGEMENT AND ORGANIZATION

General

The ROC Company Law and our articles of incorporation provide that our board of directors is to be elected by our shareholders in a shareholders' meeting at which a quorum, consisting of a majority of all the issued shares having voting rights, is present. Our directors and supervisors are elected at the same time for a three-year term unless one-third or more of the directorships are vacant at which time a shareholders' meeting is convened to elect directors to fill the vacancies. The current term of our directors and supervisors expires on June 12, 2011. Directors may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a meeting of shareholders. The chairman is a director elected by the directors. The chairman of our board of directors presides at meetings of our shareholders, meetings of our board of directors and also represents us in connection with external matters. The board of directors is responsible for the management of our business and the members of the board of directors have fiduciary duties to us and our shareholders. The board of directors meets once per month.

Our articles of incorporation provide for five supervisors. In accordance with the ROC Company Law, our supervisors are elected by our shareholders and cannot concurrently serve as our directors, officers or have any staff position with us. Their duty is to oversee our activities and the activities of the board of directors and they have the power to, among other things, investigate our business and financial condition, inspect corporate records, verify statements prepared by the board of directors prior to the annual general shareholders' meeting, call shareholders meetings if they deem necessary, represent us in negotiations with directors and notify, when appropriate, the board of directors to cease acting in contravention of applicable law or regulation or in contravention of our articles of incorporation or any resolution adopted by our shareholders. When conducting investigations, supervisors may engage independent experts at our cost.

Most of our directors and supervisors serve in their capacity as representatives of the corporate entities who hold the board or supervisor seats and do not serve in their individual capacity. Consequently, if any of the individuals withdraws, dies or otherwise becomes unable to serve, the corporate entity he or she represents has the ability to replace that person with a different representative of their choice.

Shin Kong FHC's board of directors is currently comprised of 15 directors, of which three are independent directors, and five supervisors. Directors and supervisors are deemed "independent" under ROC laws and regulations if they have five years of experience in business, legal or financial matters or do not serve as independent directors or supervisors on the boards of directors of three or more other companies. In addition, directors and supervisors will be deemed "independent" only if, for at least two years prior to their election, they (1) are not employed by our company or our affiliates and are not directors or supervisors (other than as independent directors or supervisors) of company affiliates, (2) do not directly or indirectly hold over 1% of our shares and are not ranked among the top ten individual shareholders of our company, (3) are not married or related within the second degree of employees of our company or our affiliates, directors and supervisors of our company's affiliates, holders (directly or indirectly) of over 1% of our shares or shareholders who are ranked among the top ten individual shareholders of our company, (4) are not directors, supervisors or employees of corporate shareholders which directly or indirectly hold more than 5% of our shares or ranked among the top five corporate shareholders of our company, (5) are not directors or supervisors, managers or holders of more than 5% of shares of a company or institution with which our company has a financial or business relationship and (6) are not a (or a spouse of a) partner, director, supervisor or manager of providers of financial, commercial or legal services to our company or our affiliates. In addition, to be deemed as "independent" under ROC laws and regulations, directors and supervisors must be elected in their individual capacities.

Directors and Supervisors

The following table sets forth information regarding our directors and supervisors as of the date of this offering memorandum:

Name	Position	Age
Wu, Tung Chin Eugene(1)	Chairman	64
Wu, Chia Lu(2)	Director	81
Yeh, Yun Wan(3)	Director	62
Lin, Teng Shan(4)	Director	96
Hung, Wen Ton(5)	Director	72
Wu, Tung Sheng(6)	Director	63
Wu, Hsing En(7)	Director	32
Wu, Kuei Lan(8)	Director	88
Wu, Cynthia(9)	Director	31
Wu, Sin Jay(10)	Director	29
Hung, Shih Chiun(11)	Director	44
Huang, Chun Ren(12)	Director	60
Tsuji, Masao	Independent Director	64
Wu, Wen Chi	Independent Director	70
Cheng, Chi Shih	Independent Director	65
Lee, Feng Yau(13)	Supervisor	75
Su, Chi Ming(14)	Supervisor	78
Chen, Shih Fei(15)	Supervisor	47
Huang, Yuan Chu(16)	Supervisor	80
Huang, He Cheng(17)	Supervisor	73

Notes:

(1) As a representative of Shin Kong Wu Ho Su Culture and Education Foundation.
(2) As a representative of Wu Chia Lu Insurance Culture and Education Foundation.
(3) As a representative of Shin Kong Mitsukoshi Department Store Co., Ltd.
(4) As a representative of Shin Sheng Co., Ltd.
(5) As a representative of Shin Sheng Co., Ltd.
(6) As a representative of Shin Sheng Co., Ltd.
(7) As a representative of Chin Shan Investment Co., Ltd.
(8) As a representative of Shin Sheng Co., Ltd.
(9) As a representative of Jui Chin Enterprise Co., Ltd.
(10) As a representative of Te Fu Culture and Education Foundation.
(11) As a representative of Shin Sheng Co., Ltd.
(12) As a representative of Li-Hsin Investment Co., Ltd.
(13) As a representative of Wang Tien Woolen Textile Co., Ltd.
(14) As a representative of Hui Feng Investment Co., Ltd.
(15) As a representative of Shin He Investment Co., Ltd.
(16) As a representative of Shin Kong Wu Foundation.
(17) As a representative of Men Hao Industrial Co., Ltd.

The business address of our directors and supervisors is c/o Shin Kong Financial Holding Co., Ltd., 66 Chung-Hsiao West Road, Section 1, Taipei, Taiwan.

Wu, Tung Chin Eugene has been chairman of our board of directors since December 2001. He is also the chairman of the board of directors of Shin Kong Life. Mr. Wu received a bachelor's degree from Waseda University.

Wu, Chia Lu joined us in December 2001 and has served as our Vice Chairman since then. He is also the vice chairman and a director of Shin Kong Life.

Yeh, Yun Wan joined us in June 2005 and has served as our director since then. He is also a director of Shin Kong Life. Mr. Yeh received a bachelor's degree from Soochow University.

Lin, Teng Shan joined us in December 2001 and has served as our director since then. He is also a managing director of Shin Kong Life and the vice chairman of Taiwan Shin Kong Co., Ltd.

Hung, Wen Ton joined us in December 2001 and has served as our director since then. He is also a managing director of Shin Kong Life. He was previously the Superintendent of Gian Chen Hospital. Mr. Hung received a bachelor's degree from Kaohsiung Medical School.

Wu, Tung Sheng joined us in December 2001 and has served as our director since then. He is also a managing director of Shin Kong Life. Mr. Wu received a bachelor's degree from Tamkang University.

Wu, Hsing En joined us in June 2009 and has served as our director since then. Mr. Wu received a master's degree from the University of California, Los Angeles.

Wu, Kuei Lan joined us in December 2001 and has served as our director since then. She is also a director of Shin Kong Life and the chairman of Shin Sheng Co., Ltd.

Wu, Cynthia joined us in June 2005 and has served as our director since then. She is also a supervisor of Shin Kong Investment Trust. Ms. Wu received a bachelor's degree from Wellesley College.

Wu, Sin Jay joined us in December 2001 and has served as our director since then. He is also a director of Shin Kong Life. Mr. Wu received a bachelor's degree from Columbia University.

Hung, Shih Chiun joined us in December 2001 and has served as our director since then. He is also a director of Shin Kong Life. Mr. Hung received a master's degree from the School of Business at Case Western Reserve University.

Huang, Chun Ren joined us in December 2001 and has served as our director since then. He is also the chairman of the board of directors of Powerchip Semiconductor Corp. Mr. Huang received a PhD degree from the City University of New York.

Tsuji, Masao joined us in June 2008 and has served as our independent director since then. Mr. Tsuji received a bachelor's degree from the University of Tokyo.

Wu, Wen Chi joined us in June 2008 and has served as our independent director since then. Mr. Wu received a bachelor's degree from National Taiwan University.

Cheng, Chi Shih joined us in June 2005 and has served as our independent director since then. He received a master's degree from National Taiwan University.

Lee, Feng Yau joined us in December 2001 and has served as our supervisor since then. He is also a supervisor of Shin Kong Life. Mr. Lee received a bachelor's degree from Soochow University.

Su, Chi Ming joined us in December 2001 and has served as our supervisor since June 2005. He is also a director of Shin Kong Life. He was previously the President of Shin Kong Life. Mr. Su graduated from Taipei Commercial Vocational Senior High School.

Chen, Shih Fei joined us in June 2005 and has served as our supervisor since then. Mr. Chen received a bachelor's degree from Soochow University.

Huang, Yuan Chu joined us in December 2001 and has served as our supervisor since then. Mr. Huang graduated from Chia Hwa Commercial Vocational Senior High School.

Huang, He Cheng joined us in December 2001 and has served as our supervisor since then. He is also a supervisor of Shin Kong Life. Mr. Huang graduated from Hsin Chu Commercial & Vocational High School.

Executive Officers

The following table sets forth information regarding our executive officers as of the date of this offering memorandum:

Name	Position	Age
Hsu, Victor	President	62
Huang, Edward	Chief Auditor	62
Yung, Winston	Chief Financial Officer	41
Chu, Grace	Chief Risk Officer	51
Chen, Dennis	Chief Information Officer	43
Lu, Amanda	Chief Human Resource Officer	43

Hsu, Victor joined Shin Kong Life in 1971 and has served as our president since 2008. Mr. Hsu received a master's degree from University of Georgia.

Huang, Edward joined Shin Kong Life in 1972 and has served as our chief auditor since June 2009. He received a bachelor's degree from Fu Jen Catholic University.

Yung, Winston joined us in 2005 and has served as our chief financial officer since 2007. He received a master's degree from the Wharton School of the University of Pennsylvania.

Chu, Grace joined us in 2008 and has served as our chief risk officer since then. She received a Ph.D. degree in finance from the University of Warwick.

Chen, Dennis joined us in 2004 and has served as our chief information officer since then. He received a master's degree from the State University of New York.

Lu, Amanda joined us in 2007 and has served as our chief human resource officer since then. She received a master's degree from Soochow University.

Shares held by directors, supervisors and executive officers

As of June 30, 2009, the total number of our Common Shares held by our directors and supervisors was 943,226,846 shares, which represented 15.2% of the issued and outstanding Common Shares on that date.

Compensation of directors, supervisors and executive officers

In 2008, our directors and supervisors received aggregate remuneration of NT$72 million. In 2008, our executive officers received aggregate remuneration of NT$52 million. Aggregate remuneration includes all salaries, benefits in kind and annual profit-sharing paid in cash and stock, with stock being valued at par value.

Interests of Management in Certain Transactions

Our directors, supervisors and executive officers do not have any interests, other than in the ordinary course of business, in our business transactions. In 2008 and for the three months ended March 31, 2009, we did not enter into any transactions with our directors, supervisors or executive officers or any other companies or entities on which they serve which are unusual in their nature or conditions.

SHARE OWNERSHIP

ROC Securities and Exchange Law requires our directors, supervisors, managers and any shareholders holding more than 10% of our outstanding shares (including shares held through such person's spouse, minor children and nominees) to report their shareholdings to us. Similarly, the ROC Financial Holding Company Act requires any such person or group of related persons (as defined in the ROC Financial Holding Company Act) to report changes in their shareholdings to us on a monthly basis.

The following table shows certain share ownership information as of April 21, 2009, the most recent record date with respect to (1) the ten largest beneficial holders of our Common Shares and (2) our board of directors, supervisors and executive officers each as a group.

	As of April 21, 2009	
Name of Shareholder	**Number of Outstanding Common Shares**	**Percentage of Total Issued and Outstanding Common Shares[(1)]**
JP Morgan Chase Bank as trustee for the Dai-ichi Mutual Life Insurance Co. Investment Account	931,873,810	14.9
Shin Kong Mitsukoshi Department Store Co., Ltd.	373,724,679	6.0
Shin Sheng Co., Ltd.	341,320,133	5.5
Taiwan Shin Kong Company Ltd.	227,544,581	3.6
Shin Kong Wu Ho Su Memorial Hospital	210,285,667	3.4
Chunghwa Post Co., Ltd.	164,359,971	2.6
Wangtien Woolen Textile Co., Ltd.	111,475,720	1.8
Chia-Ban Investment Co., Ltd.	79,819,301	1.3
Chinatrust Commercial Bank as trustee	59,430,356	0.9
Taiwan-Sok Shin Kong Security Co., Ltd.	49,789,745	0.8
Subtotal top 10	2,549,623,963	40.8
Directors, supervisors and executive officers as a group[(2)]	944,447,610	15.2

Notes:

(1) Based on 6,246,906,644 issued and outstanding Common Shares as of the date of this offering memorandum.

(2) As of June 30, 2009.

None of our major shareholders has different voting rights from those of the other holders of our Common Shares.

CHANGES IN ISSUED SHARE CAPITAL

The following table shows the increases in our issued share capital since incorporation:

Month of Issue	Type of Issue	Number of Shares Issued	Total Number of Issued Shares after the Issue
December 2001 . . .	Initial issuance of shares through share exchange	2,427,015,350	2,427,015,350
December 2003 . . .	Cancellation of treasury shares	(49,860,000)	2,377,155,350
March 2004	Cancellation of treasury shares	(10,367,000)	2,366,788,350
May 2004	Conversion of Domestic Convertible Bond	39,536,556	2,406,324,906
June 2004	Conversion of Domestic Convertible Bond	118,843,782	2,525,168,688
July 2004	Capital Increase by Earnings Recapitalization	182,006,776	2,707,175,464
September 2004 . . .	Acquisition of United Credit Commercial Bank	208,504,273	2,915,679,737
September 2004 . . .	Conversion of Domestic Convertible Bond	32,336,605	2,948,016,342
February 2005	Conversion of Domestic Convertible Bond	24,895,792	2,972,912,134
March 2005	Rights offering	208,333,333	3,181,245,467
April 2005	Conversion of Domestic Convertible Bond	22,956,805	3,204,202,272
August 2005	Capital Increase by Earnings Recapitalization	208,273,148	3,412,475,420
October 2005	Acquisition of Macoto Bank	661,849,901	4,074,325,321
November 2005 . . .	Conversion of European Convertible Bond	48,580	4,074,373,901
August 2006	Conversion of European Convertible Bond	36,268,450	4,110,642,351
August 2006	Capital Increase by Earnings Recapitalization	264,184,303	4,374,826,654
October 2006	Private placement	238,663,484	4,613,490,138
November 2006 . . .	Conversion of European Convertible Bond	76,088,045	4,689,578,183
February 2007	Conversion of European Convertible Bond	10,063,678	4,699,641,861
June 2007	Conversion of European Convertible Bond	29,906,831	4,729,548,692
August 2007	Conversion of European Convertible Bond	30,353,174	4,759,901,866
September 2007 . . .	Capital Increase by Earnings Recapitalization	141,886,460	4,901,788,326
November 2007 . . .	Conversion of European Convertible Bond	123,584,186	5,025,372,512
April 2008	Rights offering	368,421,052	5,393,793,564
May 2008	Conversion of European Convertible Bond	70,041	5,393,863,605
August 2008	Capital Increase by Earnings Recapitalization	267,755,678	5,661,619,283
November 2008 . . .	Private placement	592,567,361	6,254,186,644
January 2009	Cancellation of treasury shares	(7,280,000)	6,246,906,644

TRANSACTIONS WITH RELATED PARTIES

General

We have from time to time engaged in a variety of transactions with our related parties (as defined under ROC GAAP). Under ROC GAAP, if one party, whether an organization or individual, can exercise control or significant influence over the operations or financing policies of another party, then these two parties are considered related parties. Entities under common ownership or control of the same organization or individual are also deemed to be related parties. In addition, any entity or person will be deemed to be a related party of a company (except where there is a showing that there is no control or significant influence) if:

- that entity is an investee of the company, accounted for by the equity method;
- that entity or person is an investor in the company, using the equity method to account for the investment in the company;
- the chairman of the board of directors or the president of that entity is also the chairman of the board of directors or the president of the company, or is the spouse or a second degree family member of the chairman of the board of directors or the president of the company;
- that entity is a non-profit organization of which the funds donated from the company exceeds one-third of the entity's total funds;
- that person is the director, supervisor, president, vice-president, assistant vice-president or departmental head reporting to the president of the company;
- that person is the spouse of a director, a supervisor or the president of the company; or
- that person is a second degree family member of the company's chairman or president.

According to the ROC Financial Holding Company Act, the terms and conditions of the non credit-extension transactions entered into by a financial holding company (and/or its subsidiary) shall be approved by a board meeting at which at least two-thirds of the directors are present and not less than three-fourths of the directors present vote in favor of and shall not be more favorable than the transactions entered into with other customers of the same kind if entered into with the following persons:

- the responsible persons and major shareholders of the financial holding company;
- an enterprise in which the responsible person or the major shareholders of the financial holding company is the sole investor, a partner, or responsible person, or a group that the responsible person or the major shareholders of the financial holding company is the representative of such group;
- affiliates of the financial holding company and the responsible persons and major shareholders of such affiliates; and
- the banking, insurance and securities subsidiaries of the financial holding company, and the responsible persons of such subsidiaries.

Non credit-extension transactions, according to the definition under the ROC Financial Holding Company Act, include:

- investing in or purchasing the securities issued by the persons described above;
- purchasing real properties or other assets from the persons described above;
- selling securities, real properties or other assets to the persons described above;
- signing agreements of paying money or providing labor service with the persons described above;
- engaging the persons described above to be the agent or broker of the financial holding company or its subsidiaries, or to provide any services to the financial holding company or its subsidiaries on a commission or fee basis; and
- entering into the above-mentioned transactions with any third party who is an interested party to the person described above, or entering into the above-mentioned transactions to which the person described above is a party.

We believe that the transactions entered into with our related parties have benefited our subsidiaries as well as us and reduced our respective operating costs and improved our financial performance. We may enter into additional transactions with our related parties in the future. No assurance can be given as to the terms of such transactions or that all of such transactions with our related parties will benefit us.

Related Party Transactions

The list of related parties of Shin Kong FHC, and the summary of Shin Kong FHC's related party transactions with amounts over NT$100 million are summarized as follows.

The table below sets forth the names of the related parties and their relationship with Shin Kong FHC.

Names of Related Parties	Nature of Relationship
Kuo Wu, Ru-Yue	She is a second-degree relative of our chairman
Chia-Ban Investment Co., Ltd.	Its chairman is our vice chairman
Shin Sheng Co., Ltd.	Its chairman is a second-degree relative of our chairman
Ruey-Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of our chairman
Tong Shan Co.	Its chairman is a second-degree relative of our chairman
Taishin International Bank Co., Ltd.	Its chairman is a second-degree relative of our chairman
Hou Sheng Chemical Co.	Its director is a second-degree relative of our chairman
Shin Kong Synthetic Fiber Corp.	Its chairman is a second-degree relative of our chairman
Auto21 Co., Ltd.	Its chairman is a second-degree relative of our chairman
Cosmos Commercial Bank Co., Ltd.	Its chairman is a second-degree relative of our chairman
Jui Chin Enterprise Co., Ltd.	Its director is a second-degree relative of our chairman
Taiwan Securities Co., Ltd.	The chairman of one of such company's directors is a second-degree relative of our chairman
Taishin Investment Trust Co., Ltd.	Its chairman is a second-degree relative of our chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of our chairman
Shin Kong Wu Ho-Su Memorial Hospital	The hospital's chairman is our chairman
Shin Kong Fire & Marine Insurance Company	Its chairman is a second-degree relative of our chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman and supervisor are a second-degree relative of our chairman

Names of Related Parties	Nature of Relationship
The Great Taipei Gas Corp.	Its major directors are our directors or second-degree relative of our director
Chang Hwa Bank	A director of the company is a second-degree relative of our chairman
Shin Kong Chao-Feng Co., Ltd.	Its chairman is our vice chairman
Shin Kong Hae Yang Co., Ltd.	Its chairman is a second-degree relative of our chairman
Wang Tien Woolen Textile Co., Ltd.	Its chairman is our chairman
Shin Kong Mitsukoshi Department Store Co., Ltd.	Its executive director is our chairman
Tung Yin Investment Co., Ltd.	A director is our chairman
Hsin Ching Investment Co., Ltd.	A Shin Kong Life's supervisor is its director
Yeng Tseng Enterprise Co., Ltd.	Its chairman is a second-degree relative of one of our supervisors

Deposits and Remittances

The table below sets forth the details of related parties deposits placed with Shin Kong Bank and recorded as Shin Kong FHC's deposits and remittances for the period indicated.

Names of Related Companies	As of December 31			As of March 31	
	2006	2007	2008	2008	2009
	(NT$ in millions)				
Shin Kong Wu Ho-Su Memorial Hospital	146	465	693	297	259
Shin Kong Fire & Marine Insurance Company	—	264	292	269	302
Shing Kong Construction and Development Co., Ltd	—	—	204	—	393
The Great Taipei Gas Corp.	—	—	127	—	129
Shing Kong Sythetic Fiber Corp.	—	—	102	—	—
	146	729	1,418	566	1,083

Loans

The table below sets forth the details of loans granted to related parties by Shin Kong FHC and recorded as Shin Kong FHC's bills, discounts and loans for the period indicated.

	For the Three Months Ended March 31, 2009		
	Highest Balance	Period-End Balance	Interest Income
	(NT$ in thousands)		
Auto 21 Co., Ltd.	1,991,850	1,989,300	13,759
Wang Tien Woolen Textile Co., Ltd.	1,205,000	1,205,000	9,491
Hou Sheng Chemical Co.	990,000	990,000	4,999
Shin Kong Chao-Feng Co., Ltd.	450,000	450,000	2,927
Shin Kong Synthetic Fiber Corp.	350,000	350,000	587
Chia-Ban Investment Co., Ltd.	283,100	283,100	2,035
Shin Kong Hac Yang Co., Ltd.	250,000	250,000	2,369
Kuo Wu, Ru-Yue	200,000	200,000	991
Hung Shin Enterprise Co., Ltd.	150,000	150,000	1,523
Tong Shan Co.	245,000	100,000	1,059
First International Telecom	100,112	99,338	348
Ruey-Shin Enterprise Co., Ltd.	256,000	76,000	1,585
		6,142,738	41,673

	For the year ended December 31, 2008		
	Highest Balance	Year Ended Balance	Interest Income
		(NT$ in thousands)	
Auto 21 Co., Ltd.	2,807,300	1,991,850	93,725
Wang Tien Woolen Textile Co., Ltd.	1,145,000	1,145,000	22,060
Hou Sheng Chemical Co.	1,000,000	990,000	32,396
Shin Kong Chao-Feng Co., Ltd.	660,000	450,000	12,336
Chia-Ban Investment Co., Ltd.	283,100	283,100	5,476
Ruey-Shin Enterprise Co., Ltd.	300,000	256,000	7,818
Shin Kong Hac Yang Co., Ltd.	320,000	250,000	2,886
Tong Shan Co.	270,000	245,000	7,584
Hung Shin Enterprise Co., Ltd.	150,000	150,000	5,962
Kuo Wu, Ru-Yue	200,000	200,000	3,361
First International Telecom	126,087	99,676	3,299
		6,060,626	196,903

	For the year ended December 31, 2007		
	Highest Balance	Year Ended Balance	Interest Income
		(NT$ in thousands)	
Auto 21 Co., Ltd.	3,349,800	2,777,050	74,824
Hou Sheng Chemical Co.	1,000,000	1,000,000	10,931
Shin Kong Synthetic Fiber Corp.	895,443	590,966	15,387
Shin Kong Chao-Feng Co., Ltd.	450,000	450,000	3,995
Ruey-Shin Enterprise Co., Ltd.	300,000	300,000	2,511
Shin Sheng Co., Ltd.	312,200	270,200	8,654
Tong Shan Co.	200,000	200,000	3,792
Chia-Ban Investment Co., Ltd.	175,000	175,000	5,115
First International Telecom	191,360	126,087	5,803
Hung Shin Enterprise Co., Ltd.	150,000	150,000	5,377
Yeng Tseng Enterprise Co., Ltd.	200,000	50,000	3,928
Hsin Ching Investment Co., Ltd.	300,000	—	9,905
Tung Yin Investment Co., Ltd.	100,000	—	313
		6,089,303	150,535

	For the year ended December 31, 2006		
	Highest Balance	Year Ended Balance	Interest Income
		(NT$ in thousands)	
Auto 21 Co., Ltd.	1,620,000	1,570,000	53,375
Shin Kong Synthetic Fiber Corp.	672,534	422,451	684
Shin Sheng Co., Ltd.	259,000	259,000	659
Hsin Ching Investment Co., Ltd.	280,000	235,000	8,705
Yeng Tseng Enterprise Co., Ltd.	200,000	200,000	1,893
Chia-Ban Investment Co., Ltd.	195,000	175,000	3,917
Hung Shin Enterprise Co., Ltd.	150,000	150,000	5,325
Tong Shan Co.	100,000	100,000	187
Ruey-Shin Enterprise Co., Ltd.	210,000	60,000	101
Jui Chin Enterprise Co., Ltd.	120,000	55,000	3,108
		3,226,451	77,954

Lease of Real Estate to Related Parties

A significant percentage of our cash and invested assets are comprised of commercial real estate properties that are leased to commercial tenants, some of whom are affiliates of Shin Kong FHC. The rental terms generally require periodic payment of rent, but as is common in the ROC property market, tenants are sometimes required to provide a deposit on the rental property which is then returned without interest to the tenant at the end of the lease period. Lease terms with our affiliates are negotiated on an arm's length basis and contain terms comparable to those given to unrelated third parties.

The following table provides a summary of rental income received from the lease of major real estate to related parties for the periods indicated:

	December 31,			March 31,
	2006	2007	2008	2009
		(NT$ in thousands)		
Shin Kong Mitsukoshi Department Store Co., Ltd.	898,613	892,812	878,764	224,048

The following table provides a summary of the deposits received for the lease of real estate to related parties, for the periods indicated:

	December 31,			March 31,
	2006	2007	2008	2009
		(NT$ in thousands)		
Shin Kong Mitsukoshi Department Store Co., Ltd	160,000	160,000	160,000	160,000

Notes Issued under Resale Agreement

	For the Year Ended December 31, 2008				
	Highest Balance	Month of Highest Balance	Year-end Balance	Interest Rate (%)	Interest Expense
	(NT$ in thousands, except percentages)				
Taishin International Bank Co., Ltd.	2,940,000	Sep. 2008	—	1.74~1.78	5,145
Chang Hwa Bank	100,026	Sep. 2008	100,026	1.73~1.95	5

Notes Issued under Repurchase Agreement

	For the Year Ended December 31, 2008				
	Highest Balance	Month of Highest Balance	Year-end Balance	Interest Rate (%)	Interest Expense
	(NT$ in thousands, except percentages)				
Taishin Investment Trust Co., Ltd.	394,259	May 2008	5,900	0.90~2.17	1,646
Chang Hwa Bank	296,276	Dec. 2008	296,276	(8.25)~1.41	(8)

	For the Year Ended December 31, 2007				
	Highest Balance	Month of Highest Balance	Year-end Balance	Interest Rate (%)	Interest Expense
	(NT$ in thousands, except percentages)				
Taishin Investment Trust Co., Ltd.	340,340	Dec. 2007	340,340	0.90~2.17	1,316
Huang, Guo-shuo	228,375	Dec. 2007	228,375	1.58~2.15	180

Long-Term Investment in Bonds

	2006		2007		2008		2009	
	Purchase	Sell	Purchase	Sell	Purchase	Sell	Purchase	Sell
	(NT$ in thousands)							
Taiwan Securities Co., Ltd	—	252,297	—	1,709,559	—	—	—	—
Cosmos Commercial Bank Co., Ltd.	699,996	—	—	—	—	—	—	—
Chang Hwa Bank	—	—	3,166,595	2,894,292	5,762,148	7,332,164	657,746	298,629
	699,996	252,297	3,166,595	4,603,851	5,762,148	7,332,164	657,746	298,629

Derivative Transactions

	For the Three Months Ended March 31, 2009			
	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain
			(NT$ in thousands)	
Taishin International Bank Co., Ltd.	Currency swap contracts	August 15, 2008~ August 19, 2009	678,340	(23,962)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	November 30, 2006~ June 18, 2011	250,000	(5,062)

	For the Year Ended December 31, 2008			
	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain
			(NT$ in thousands)	
Taishin International Bank Co., Ltd.	Currency swap contracts	August 15, 2008~ August 19, 2009	657,200	(8,205)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	November 30, 2006~ June 18, 2011	250,000	(68)

	For the Year Ended December 31, 2007			
	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain
			(NT$ in thousands)	
Taishin International Bank Co., Ltd.	Currency swap contracts	February 9, 2007~ September 8, 2008	5,515,310	92,298
Taishin International Bank Co., Ltd.	Interest rate swap contracts	January 5, 2006~ September 17, 2008	500,000	(2,034)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	November 30, 2006~ June 18, 2011	250,000	(7,840)

Investments in Beneficiary Certificates

As of December 31, 2006, 2007 and 2008 and March 31, 2009, investments in mutual funds managed by Taishin Investment Trust Co., Ltd. amounted to NT$323.8 million, NT$300.2 million, NT$105.7 million and NT$105.9 million.

Property Transactions

In 2008, Shin Kong Life entered into an agreement with First International Telecom Company ("First International") for acquisition of land and structures, amounting to NT$396.0 million. As of December 31, 2008, Shin Kong Life paid NT$118.8 million as a down payment.

Although the ownership of land and structures has been transferred to Shin Kong Life, First International breached the purchase agreement and, therefore, Shin Kong life did not pay the remaining portion as of December 31, 2008. First International filed a petition and was in a restructuring period from September 10, 2008 to March 9, 2009. Management of Shin Kong Life considered that First International may negotiate with Shin Kong Life to nullify the purchase agreement. In addition, before the court forecloses the building, Shin Kong Life may negotiate with the creditors who possess mortgage over the land and structures. Shin Kong Life considered that the down payment paid is recoverable and, accordingly, no impairment loss has been recognized.

Conversion of Bonds to Stocks

On September 7, 2007, Shin Kong Life, Shin Kong Bank and other debtors of Cosmos Commercial Bank ("Cosmos") entered into a capital restructure memorandum, under which Shin Kong Life and Shin Kong Bank received NT$339.5 million in cash and 633,507 thousand shares of Cosmos as the consideration of their holdings of Cosmos' subordinate financial bonds with a face value of NT$3,825.0 million.

DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

Citibank has agreed to act as the Depositary for the Global Depositary Shares, or GDSs. Citibank's depositary offices are located at 388 Greenwich Street, 14th Floor, New York, 14Y 10013. Rule 144A and International Global Depositary Shares are referred to as "Rule 144A GDSs" and "International GDSs," respectively. In this summary, we intend to use the term "GDSs" to refer to the Rule 144A GDSs and to the International GDSs. Unless we otherwise state, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and International GDSs. GDSs are evidenced by Global Depositary Receipt, or GDR, certificates. The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDSs and the GDSs we are selling outside the United States are referred to and will be issued as International GDSs. GDSs represent ownership interests in securities that are on deposit with the Depositary.

The Depositary has appointed a Custodian to hold the securities on deposit in safekeeping. In this case, the Custodian is Citibank, N.A. (Taipei Branch), having its principal office at 9F, 16 Nan-King East Road, Section A, Taipei, Taiwan, Republic of China.

We have appointed Citibank as Depositary pursuant to two separate Deposit Agreements, one for the Rule 144A GDSs, or the Rule 144A Deposit Agreement, and one for the International GDSs, or the International Deposit Agreement. A copy of the Deposit Agreements and any supplements or amendments thereto may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary. We urge you to review the Deposit Agreements in their entirety. Statements printed in italics in this description are provided for your information but may not be contained in the Deposit Agreements.

Each GDS represents the right to receive 25 shares, or evidence of the right to receive 25 shares, on deposit with the Custodian. A GDS will also represent the right to receive any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owner of the GDSs because of legal restrictions or practical considerations. *On the date that we receive proceeds from this offering, or the Closing Date, we will deliver to the Custodian a certificate of payment evidencing the irrevocable right to receive the underlying shares until the Master Certificate of Payment (as defined herein) is listed on the TSE. No later than the second ROC Business Day (as defined herein) following the Closing Date, we will apply to the TSE for listing of a master certificate of payment in scripless form or in physical form, or the Master Certificate of Payment, evidencing the irrevocable right to receive the underlying shares offered by us evidenced by individual certificates of payments in scripless form, or the Individual Scripless Certificates of Payment. It is expected that the TSE will approve the listing of the Master Certificate of Payment on the fourth ROC Business Day following the Closing Date. Immediately upon the listing of the Master Certificate of Payment on the TSE, the Certificate of Payment we deliver to the Custodian on the Closing Date will be replaced by the Master Certificate of Payment. As used herein, "ROC Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Taipei, ROC.*

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound to its terms and to the terms of the GDR certificate that evidences your GDSs. The Deposit Agreements and the GDR certificates specify our rights and obligations as well as your rights and obligations as an owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary to act on your behalf for the shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, distribute an elective dividend or make a rights offering, or (2) the specific terms of the applicable Deposit Agreement to receive any dividends we distribute in NT dollars or shares and to convert the NT dollars received. The Deposit Agreements are governed by New York law. However, our obligations to the holders of shares will continue to be governed by ROC laws, which may be different from the laws in the United States. In addition, we note that ROC law and regulations may restrict the deposit and withdrawal of the shares into or from the depositary receipt facilities.

Under the laws and regulations of the Republic of China, as currently in effect, after the Initial Deposit (as defined below), without obtaining regulatory approval from the FSC, no shares may be accepted for deposit and no GDSs may be issued under the terms of the Deposit Agreements except in the following circumstances:

(1) upon a stock dividend on, or a free distribution of, shares to existing shareholders;

(2) upon the exercise by existing shareholders of their pre-emptive rights in connection with capital increases for cash;

(3) subject in each case to receipt of all applicable approvals in the ROC, the issuance of shares by us to holders of bonds in connection with the exercise of conversion rights of such bond holders;

(4) as permitted under the Deposit Agreements, the purchase directly by a person or through the Depositary of shares on the TSE or the delivery by any person of shares held by such person for deposit in the depositary receipt facility; and

(5) upon the exchange of Rule 144A GDSs for International GDSs and vice versa;

provided that the total number of GDSs outstanding after an issuance described in clause (4) does not exceed the number of GDSs issued and previously approved by the FSC in connection with the offering plus any GDSs created under clauses (1), (2) and (3) described above and subject to any adjustment on the number of shares represented by each GDS; provided that the deposit described in clause (4) may only be made to the extent previously issued GDSs have been canceled; and provided, further, that the Depositary will refuse to accept shares for deposit under clause (4) if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, minimum and maximum size and frequency of deposits.

Under the laws and regulations of the ROC, the shares deposited under the Deposit Agreements may be withdrawn upon cancellation of the corresponding GDSs pursuant to the respective Deposit Agreement subject to the following conditions:

- the appointment of an eligible agent in the ROC to open (1) a securities trading account with an ROC brokerage firm with ROC approval and (2) a bank account to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal;

- the appointment of a tax guarantor in the ROC; and

- the appointment of a custodian bank to hold the securities in safekeeping, make confirmations, settle trades and report relevant information.

In addition, you will be required to register with the TSE for making investments in the ROC securities market prior to withdrawing shares.

For a more complete description of these deposit or withdrawal restrictions see "Appendix A — Foreign Investment and Exchange Controls in the ROC — Depositary Receipts."

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDSs and will own GDSs at the relevant time. When we refer to a "holder," we assume the person owns GDSs and such person's agent, which may be a broker, custodian, bank or trust company, is the holder of the applicable GDR certificate.

Distinctions Between Rule 144A GDSs and International GDSs

The Rule 144A GDSs and the International GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The International GDSs are not per se "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the International GDSs in an effort to prevent the transfer of International GDSs in violation of the U.S. securities laws. The restrictions we impose on the International GDSs will be in place for a period of 40 days after the later of the commencement of the offering and the Closing Date described in this offering memorandum. We will refer to this 40-day period as the "restricted period."

The differences between the Rule 144A GDSs and the International GDSs and the restrictions imposed on the Rule 144A GDSs and the International GDSs cover primarily the following:

- The persons who may own and trade the GDSs:

  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons located outside of the United States other than "U.S. persons" (as defined in Regulation S) may own and trade Rule 144A GDSs;

  - during the "restricted period" applicable to this offering only persons other than "U.S. persons" (as defined in Regulation S) may own and trade the International GDSs offered herein and only outside the United States; and

  - upon the expiration of the "restricted period" applicable to this offering any person may own and trade International GDSs offered herein.

- The persons who may create additional GDSs:

  – only persons located outside of the United States other than "U.S. persons" (as defined in Regulation S) may deposit shares to receive International GDSs, and

  – only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons located outside of the United States other than "U.S. persons" may deposit shares to receive Rule 144A GDSs.

- The persons to whom you may transfer the GDSs, upon sale or otherwise:

  – you may transfer Rule 144A GDSs only to "Qualified Institutional Buyers" (as defined in Rule 144A) or to persons located outside of the United States other than "U.S. persons" (as defined in Regulation S), and

  – during the "restricted period" applicable to this offering you may transfer the International GDSs offered herein only outside the United States (in compliance with Regulation S) and to persons other than "U.S. persons" (as defined in Regulation S) or to "Qualified Institutional Buyers" (as defined in Rule 144A) but in this latter case only after "converting" the International GDSs into Rule 144A GDSs.

- The restrictions on the transfers and withdrawal of the shares represented by the GDSs.

  – Please refer to "— Legends" below.

- The eligibility for book-entry transfer.

  – Please refer to "— Clearance, Settlement and Safekeeping" below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the International GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of International GDSs and vice versa.

Clearance, Settlement and Safekeeping

Rule 144A GDSs

The Depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co., DTC's nominee. One Master Rule 144A GDR certificate will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive physical certificates evidencing their ownership interests in the Rule 144A GDSs, except in the event that DTC no longer acts as securities depository and a successor securities depository cannot be appointed. *The laws of some jurisdictions require* *that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to such persons may be limited. Because DTC can only act on behalf of direct participants ("Direct Participants"), who in turn act on behalf of indirect participants ("Indirect Participants"), the ability of a person owning Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

So long as DTC, or its nominee, is the registered holder of the Master Rule 144A GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the Rule 144A GDSs evidenced thereby for all purposes under the Rule 144A Deposit Agreement and the Rule 144A GDSs.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, Rule 144A GDR certificates will be printed and delivered to the applicable Rule 144A GDS owners.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that the Direct Participants deposit and facilitates the clearance and settlement of securities transactions among Direct Participants in such securities through electronic computerized book-entry changes in accounts of Direct Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the initial purchasers (and/or their affiliates). Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, or the Indirect Participants. Transfers of ownership or other interests in DTC are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of beneficial owners of GDSs. In addition, beneficial owners of GDSs in DTC will receive all distributions of dividends, GDSs, shares, rights and other distributions, if any, on the GDSs from the Depositary through Direct Participants and Indirect Participants.

International GDSs

Arrangements have been made with DTC, Clearstream and Euroclear to act as securities depositories for the International GDSs. All International GDSs issued in this offering will be registered in the name of Cede & Co., DTC's nominee. One Master International GDR certificate will represent all International GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in International GDSs are to be accomplished by entries made on the books of Clearstream and Euroclear and participants in Clearstream and Euroclear and on the books of DTC and of the participants in DTC, acting on behalf of International GDS owners. Owners of International GDSs will not receive physical certificates representing their ownership interests in the International GDSs, except in the event that use of the DTC book-entry system for the International GDSs is discontinued. *The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer International*

GDSs evidenced by the Master International GDR certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person owning International GDSs evidenced by the Master International GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.

So long as DTC, or its nominee, is the registered holder of the Master International GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the International GDSs evidenced thereby for all purposes under the International Deposit Agreement and the International GDSs.

DTC may discontinue providing its services as securities depository with respect to the International GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, International GDR certificates will be printed and delivered to the applicable International GDS owners.

If at any time Clearstream, Euroclear or DTC, as the case may be, cease to make its respective book-entry settlement systems available for the International GDSs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available International GDSs in physical certificated form.

Settlement

Settlement for the GDSs will be made by the initial purchasers in immediately available funds. So long as the GDSs are evidenced by Master GDR certificates registered in the name of DTC or its nominee, the GDSs will settle in DTC's Same-Day Funds Settlement System and secondary market trading activity in the GDSs will be required by DTC to settle in immediately available funds.

Subject to compliance with the transfer restrictions applicable to the GDSs described below, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Clearstream or Euroclear account-holders, on the other, will be effected through DTC in accordance with DTC rules on behalf of Clearstream or Euroclear, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Clearstream or Euroclear, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Clearstream or Euroclear, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the GDSs, as the case may be, and making or receiving payment in accordance with normal procedures for settlement applicable to DTC. Clearstream and Euroclear account-holders may not deliver instructions directly to the depositories for Clearstream or Euroclear.

Because of time zone differences, the securities of a Clearstream or Euroclear account-holder purchasing an interest in a security from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Clearstream or Euroclear, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in such securities settled during such processing day will be reported to the relevant Clearstream or Euroclear account-holder on such day. Cash received by Clearstream or Euroclear as a result of sales of interests in securities by or *through a Clearstream or Euroclear account-holder to a DTC participant will be received for value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.*

DTC will take any action permitted to be taken by an owner of GDSs only at the direction of one or more DTC participants to whose account or accounts with DTC interests in the GDSs evidenced by the Master GDR certificates are credited and only in respect of such portion of the number of GDSs as to which such DTC participant or DTC participants has or have given such direction. Owners of indirect interests in securities evidenced by the Master GDR certificates through DTC participants have no direct rights to enforce such interests while the securities are in global form.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate the transfer of interests in the Master GDR certificates among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of us, the Depositary, the Custodian or any of their agents will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.

Transfer Restrictions

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Rule 144A GDSs	**International GDSs**
The Rule 144A GDSs may be resold, pledged or otherwise transferred only:	During the "restricted period" applicable to this offering International GDSs offered herein may be resold, pledged or otherwise transferred only
(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;	(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;
or	or
(ii) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;	(ii) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;
or	or
(iii) pursuant to Rule 144 under the Securities Act, if available;	(iii) pursuant to Rule 144 under the Securities Act, if available;
or	or
(iv) pursuant to an effective registration statement under the Securities Act.	(iv) pursuant to an effective registration statement under the Securities Act.
	If the International GDSs are transferred to a "Qualified Institutional Buyer" in a transaction meeting the requirements of Rule 144A, the transferor is required to convert the International GDSs into Rule 144A GDSs and make delivery of the Rule 144A GDSs to the transferee.

Rule 144A GDSs	International GDSs
	After the “restricted period” applicable to this offering, the International GDSs offered herein shall be freely transferable.
Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:	Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:
(a) not us or our affiliate or a person acting on behalf of us or our affiliate,	(a) not us or our affiliate or a person acting on behalf of us or our affiliate,
(b) is (i) a “Qualified Institutional Buyer” (as defined in Rule 144A), or (ii) a person other than a “U.S. Person” (as defined in Regulation S) and located outside the United States.	(b) is a person other than a “U.S. Person” (as defined in Regulation S) and located outside the United States.
Shares may be withdrawn from the Rule 144A Deposit agreement only by:	During the “restricted period” applicable to this offering, shares may be withdrawn under the International Deposit Agreement only by:
(i) a person other than a “U.S. Person” (as defined in Regulation S) located outside of the United States who will be the beneficial owner of the shares upon withdrawal;	(i) a person other than a “U.S. Person” (as defined in Regulation S) located outside of the United States (x) who will be the beneficial owner of the shares upon withdrawal and agrees prior to the expiration of the “restricted period” to observe the transfer restrictions applicable to the International GDSs in respect of the shares so withdrawn or (y) who has sold the shares to a person other than a U.S. Person or to a “Qualified Institutional Buyer” (as defined in Rule 144A), in which case shares will be deposited under the Rule 144A Deposit Agreement and delivered to the purchaser in the form of Rule 144A GDSs,
or	or
(ii) a “Qualified Institutional Buyer” (as defined in Rule 144A) who:	(ii) a “Qualified Institutional Buyer” (as defined in Rule 144A) who will take all action necessary to deposit the shares withdrawn under the Rule 144A Deposit Agreement and to take delivery in the form of Rule 144A GDSs.
(x) has sold the Rule 144A GDSs to another “Qualified Institutional Buyer” (as defined in Rule 144A), in a transaction meeting the requirements of Rule 144A, or to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S,	After the “restricted period” applicable to this offering, shares may be withdrawn by any person and are freely transferable.
or	
(y) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the shares so withdrawn.	

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Subject always to the laws and regulations of the ROC, whenever we make a cash distribution for the securities on deposit with the Custodian, we will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws and regulations of the ROC.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Distributions of Shares

Subject always to the laws and regulations of the ROC, whenever we make a free distribution of shares for the securities on deposit with the Custodian, we will notify the Depositary and deposit the applicable number of shares with the Custodian. Upon receipt of notice of such deposit, the Depositary will either distribute to holders new GDSs representing the shares deposited or modify the GDS-to-shares ratio, in which case each GDS you hold will represent rights and interests in the additional shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-shares ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law, including the U.S. securities laws, or if it is not operationally practicable. If the Depositary does not distribute new GDSs as described above, it will use its best efforts to sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Subject always to the laws and regulations of the ROC, whenever we intend to distribute rights to purchase additional shares, we will give prior notice to the Depositary and will indicate whether we wish the distribution of rights to be made available to you. In such case, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary, with our assistance, will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if we provide all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or
- We fail to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

If registration of the rights or the securities to which such rights relate may be required under the Securities Act or any other applicable law in order for us to offer such rights or such securities to holders and to sell the securities represented by such rights, the Depositary will not distribute rights to holders of GDSs unless and until a registration statement under the Securities Act covering such offering is in effect. We have no obligation under the Deposit Agreements to prepare and file a registration statement for any purpose.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Subject always to the laws and regulations of the ROC, whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it is reasonably practicable and if we have provided all of the documentation contemplated in the Deposit Agreements. In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will receive either cash or additional GDSs, depending on what a shareholder in the ROC would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

Other Distributions

Subject always to the laws and regulations of the ROC, whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or

- We do not deliver satisfactory documents to the Depositary; or

- The Depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems practicable under the circumstances.

Redemption

To the extent permitted by applicable laws, whenever we decide to redeem any of the securities on deposit with the Custodian, we will notify the Depositary. If it is reasonably practicable and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will mail notice of the redemption to the holders.

The Custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your GDSs. If less than all GDSs are being redeemed, the GDSs to be retired will be selected by lot or on a pro rata basis, as the Depositary may determine.

Changes Affecting Shares

The shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the shares held on deposit. The Depositary may in such circumstances deliver new GDR certificates to you or call for the exchange of your existing GDR certificates for new GDR certificates. If the Depositary may not lawfully distribute such property to you, the Depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of GDSs Upon Deposit of Shares

In connection with the issuance by a ROC company of new shares for cash, such as the shares underlying the GDSs, settlement is initially made by delivery to the persons purchasing the new shares of a Certificate of Payment evidencing the right to receive the definitive share certificates evidencing the shares. The initial deposit of shares offered by us in connection with this offering will be made by the delivery to the Custodian of a Certificate of Payment evidencing the right to receive the definitive share certificates evidencing the shares offered by us, which shares will be registered in the name of the Depositary or its nominee, as representatives of the holders of the GDSs. No later than the second ROC Business Day following the Closing Date, we will apply to the TSE for listing of a Master Certificate of Payment. It is expected that the TSE will approve the listing of the Master Certificate of Payment on the fourth ROC Business Day following the Closing Date. Immediately upon such listing, the Certificates of Payment we deliver to the Depositary's custodian on the Closing Date will be replaced by the Master Certificates of Payment. The initial deposit of the Certificate of Payment and the subsequent deposit of shares in exchange therefor by us in connection with this offering are collectively referred to herein as the "Initial Deposit."

Under the ROC Securities and Exchange Law and applicable regulations, we are required to deliver the underlying shares in physical certificate form or scripless form to the Custodian within 30 days after receiving approval from the relevant governmental authority of our corporate amendment registration. We are required under the ROC Company Law to file an amendment to our corporate registration within 15 days after receiving the proceeds from this offering. Prior to the issue of the underlying shares in physical certificate form or scripless form, we will apply for and obtain approval to list the underlying shares on the TSE. We have agreed to issue and deliver the underlying shares in physical certificate form or scripless form in respect of the Master Certificate of Payment in connection with this offering on or about 60–80 days after the Closing Date subject to obtaining approvals from the relevant governmental authority and the TSE. Until the underlying shares have been so issued and delivered, the GDSs will represent shares evidenced by the Certificate of Payment (from the Closing Date to the date immediately prior to the listing of the Master Certificate of Payment) or the Master Certificate of Payment on or after the date of listing of the Master Certificate of Payment. In case of a withdrawal of the underlying shares, such holders will be entitled to the same rights as if the Depositary were holding the underlying shares in physical certificate form or scripless form. The Individual Scripless Certificates of Payment, which are without physical form and are issued only in book-entry form through

Taiwan Depository & Clearing Corporation, the book-entry settlement system of the ROC, carry the same rights as those attaching to the shares in respect of dividends and are eligible for trading on the TSE in the same manner as the shares.

Subject to limitations set forth in the Deposit Agreements and the GDR certificates, after the Initial Deposit, the Depositary may create GDSs on your behalf if you or your broker deposit shares with the Custodian. The Depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit shares and receive GDSs may be limited by U.S. and ROC legal considerations applicable at the time of deposit.

Under current ROC law, after the Initial Deposit, no deposits of shares may be made in a depositary receipt facility, and no GDSs may be issued against such deposits, without specific approval of the FSC, except in connection with the offering and the issuance of additional GDSs in connection with (i) dividends on, or free distributions of, shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of capital increases for cash, (iii) subject in each case to receipt of all applicable approvals in the ROC, the issuance of shares by the Company to holders of bonds in connection with the exercise of conversion rights of such bond holders, (iv) to the extent that previously issued GDSs have been canceled, reissuances of GDSs up to an aggregate amount of outstanding GDSs equal to the total number of GDSs (subject to adjustment for the issuances described in clauses (i), (ii) and (iii)) that were originally approved by the FSC and issued in connection with the offering or (v) the exchange of Rule 144A GDSs for International GDSs and vice versa; provided, that the Depositary will refuse to accept shares for deposit under clause (iv) if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The Depositary and the Custodian will refuse to accept shares for deposit whenever they are notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under the laws of the ROC. The Depositary will also refuse (i) to accept certain shares for deposit under the Rule 144A Deposit Agreement if notified in writing that such shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any shares presented for deposit are eligible for resale pursuant to Rule 144A, or (ii) to issue GDSs representing the new shares that are separate and distinct from GDSs representing the existing shares. In addition, the Depositary will refuse to accept shares for deposit under clause (iv) of the immediately preceding paragraph if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The issuance of GDSs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only issue GDSs in whole numbers.

When you make a deposit of shares, you will be responsible for transferring good and valid title to the Depositary. As such, you will be deemed to represent and warrant that:

- Such shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised.
- You are duly authorized to deposit such shares.
- The shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and, in the case of International GDSs, are not, and the International GDSs issuable upon such deposit will not be, "restricted securities" (as defined in the International Deposit Agreement).
- The shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties is incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit shares to receive Rule 144A GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an "affiliate" of ours and you are not acting on behalf of us or one of our "affiliates"; and
- you certify that you are, or are acting on behalf of, (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a U.S. Person (as defined in Regulation S) and are located outside the United States and will acquire the shares to be deposited outside the United States; and
- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:

  (a) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144 under the Securities Act, if available, or

  (d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit shares to receive International GDSs, you will be required to provide the Depositary with a deposit certificate stating, inter alia, that:

- you acknowledge that the shares and the International GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you are not an "affiliate" of ours and you are not acting on behalf of us or one of our "affiliates"; and

- you certify that you are, or are acting on behalf of, (i) a person other than a U.S. Person (as defined in Regulation S) and are located outside the United States and (ii) a person that is not in the business of buying and selling securities, or, if you or such person is in such business, you or such person did not acquire the shares to be deposited from us or any affiliate in the initial distribution of International GDSs, shares and Rule 144A GDSs; and

- you agree, as the owner of the International GDSs (or the person you are acting on behalf of has confirmed its agreement to you), to offer, sell, pledge and otherwise transfer the International GDSs or the shares represented by the International GDSs in accordance with the applicable U.S. state securities laws and during the applicable "restricted period" only:

  (a) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case you or such person are required to "convert" the International GDSs into Rule 144A GDSs prior to making delivery to the transferee, or

  (b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144 under the Securities Act, if available, or

  (d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for International GDSs is attached to the International Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Shares Upon Cancellation of GDSs

On or after approximately the fourth ROC Business Day (as defined herein) from the Closing Date, subject to the approval from the TSE of the listing of the Master Certificate of Payment and the relevant provisions of the Deposit Agreement, a holder may withdraw and hold the underlying shares or, as the case may be, the Individual Scripless Certificates of Payment, or request Citibank, N.A., as Depositary, acting pursuant to the Deposit Agreement, to sell or cause to be sold on behalf of such holders of the underlying shares or, as the case may be, the Individual Scripless Certificates of Payment. The Individual Scripless Certificates of Payment, which are without physical form and settle through the *book-entry system, carry the same rights as those attaching to the underlying shares in respect of dividends and are eligible for trading on the TSE in the same manner as the underlying shares. Your ability to withdraw the shares may be limited by U.S. and ROC law considerations applicable at the time of withdrawal.*

Under current ROC law, if you (other than PRC persons except for qualified domestic institutional investors in the PRC) wish to withdraw and hold underlying shares from a depositary receipt facility, you will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm (after receiving an approval from the TSE) and a bank account (the securities trading account and the bank account collectively, the "Accounts"), to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without the opening of such Accounts, the withdrawing owner would be unable to hold or subsequently sell the underlying shares withdrawn from the depositary receipt facility on the TSE or otherwise. In addition, you will be required to register with the TSE for making investments in the ROC securities market prior to withdrawing shares. These laws may change from time to time. We cannot assure you that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw our shares from the applicable GDS facility.

Holders of GDSs withdrawing shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the ROC Financial Supervisory Commission and, upon appointment, becomes a guarantor of such withdrawing owner's ROC tax obligations. Evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Subject to the withdrawal of deposited property being permitted under ROC law and regulations, you may also request that our shares or Individual Scripless Certificates of Payment represented by your GDSs be sold on your behalf. The Depositary may require that you deliver your request for sale in writing. Any sale of our shares will be conducted according to applicable ROC law through a securities company in the ROC on the TSE or in another manner as is permitted under applicable ROC law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our shares or Individual Scripless Certificates of Payment.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by ROC law and regulations, the Depositary shall convert the proceeds into U.S. dollars and distribute the proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any ROC and U.S. taxes) incurred in connection with the sale. Although sales of GDSs by a non-resident individual or a corporation that has no fixed place of business or other permanent establishment or business agent in the territory of the ROC are not currently subject to ROC taxation on capital gains, sales of our shares or Individual Scripless Certificates of Payment by such individual or corporation may in the future be subject to ROC taxation on capital gains and will be subject to a securities transaction tax in the ROC.

In order to withdraw or instruct the sale of the shares or Individual Scripless Certificates of Payment represented by your GDSs, you will be required to pay to the Depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the shares or Individual Scripless Certificates of Payment being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR certificate registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the shares or Individual Scripless Certificates of Payment represented by your GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

We have reporting obligations under ROC law in respect of the GDS facilities. In order to enable us to gather the information necessary for these reporting obligations, you will be asked to complete and sign a certification upon withdrawal of shares or Individual Scripless Certificates of Payment from the applicable GDS facility. In this certification you will be asked to disclose, among other information, the name, nationality and address of the beneficial owner of the GDSs presented for cancellation, the number of shares owned by the beneficial owner and whether certain affiliations exist between the beneficial owner and us. The Depositary will refuse to release shares or Individual Scripless Certificates of Payment to you until you deliver a completed and signed certification to it.

If the shares or Individual Scripless Certificates of Payment are withdrawn from the depositary facility, such holder will be required to provide information to enable our compliance with our obligations set forth under the laws and regulations of the ROC, including a certification that:

- the holder is or is not a “related person,” as such term is defined in the applicable Deposit Agreement, to us;
- the holder will own a certain number of our shares after cancellation of the GDSs surrendered thereby, as well as a certain number of GDSs representing our shares after cancellation of the GDSs surrendered thereby;
- the holder, or the person on whose account he acts, is the beneficial owner of the GDSs surrendered to the Depositary thereby;
- the name, address and nationality of the beneficial owner of the GDSs, as included upon presentation of GDSs for cancellation, is true and correct;
- the number of GDSs surrendered and the number of shares withdrawn, as included upon presentation of GDSs for cancellation, is true and correct; and
- if the presenter is a broker-dealer, the owner of the account for which he is acting has confirmed the accuracy of the above representations.

In addition, such holder may be required to certify as to other information that we or the Depositary may deem necessary or desirable to comply with any ROC disclosure or reporting requirement.

- You will have the right to withdraw the shares represented by the GDSs unless there are:

- temporary delays because (1) the transfer books for our shares or GDSs are closed, or (2) our shares are frozen due to a shareholders' meeting or a payment of dividends;

- obligations to pay fees, taxes and similar charges; and

- restrictions imposed by law or regulation.

When you request the withdrawal of the shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the shares represented by your Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that either:

  (X) you are a "Qualified Institutional Buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, or you are acting on behalf of a Qualified Institutional Buyer who is the beneficial owner of the Rule 144A GDSs presented for cancellation and

    (i) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

    (ii) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to another "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

    (iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) (x) will not deposit the shares in any depositary receipt facility that is not a "restricted" depositary receipt facility and (y) will sell the shares only

      (a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

      (b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 (if available), or

(d) pursuant to an effective registration statement under the Securities Act; OR

(Y) you are a person other than a "U.S. Person" (as defined in Regulation S) and are located outside the United States and you acquired or agreed to acquire the Rule 144A GDSs or shares outside the United States and will be the beneficial owner of the Rule 144A GDSs or shares upon withdrawal.

When you request the withdrawal of the shares represented by your International GDSs at any time during the "restricted period," you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the shares represented by your International GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that either:

(X) you are a person other than a "U.S. Person" (as defined in Regulation S) who is the beneficial owner of the International GDSs presented for cancellation and you are located outside the United States, and either

(i) you have sold or agreed to sell the International GDSs or shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(ii) you have sold or agreed to sell the International GDSs or shares to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or

(iii) in accordance with Rule 144 (if available), or

(iv) pursuant to an effective registration statement under the Securities Act, or

(v) you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) will at any time during the "restricted period" sell the shares only

(a) to a Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 (if available), or

(d) pursuant to an effective registration statement under the Securities Act; OR

(Y) you are a "Qualified Institutional Buyer" (as defined in Rule 144A), acting on your own behalf or on behalf of Qualified Institutional Buyers, and you (or the person on whose behalf you are acting) have agreed to acquire the International GDSs or the shares in a transaction made in reliance on Rule 144A and you (or the person on whose behalf you are acting) will take all action necessary to cause the shares to be withdrawn and deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

Voting Rights

Except as described below, you generally have no right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by your GDSs. Instead, by accepting GDSs or any beneficial interest in GDSs, you will be deemed to have authorized and directed the Depositary to appoint our chairman or a person designated by our board of directors for a particular meeting of shareholders as representative (the "Voting Representative") to represent you at our shareholders' meeting and to vote the shares deposited with the Custodian according to the terms of the GDSs. The voting rights of holders of shares are described in "Description of the Shares — Voting Rights."

The Depositary will mail to you any notice of shareholders' meeting received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the securities represented by GDSs.

If we fail to provide in a timely manner the Depositary with an English language translation of our notice of meeting or other materials related to any meeting of owners of shares, the Depositary will endeavor to cause all the deposited securities represented by GDSs to be present at the applicable meeting, insofar as practicable and permitted under applicable law, but will not cause those securities to be voted. *According to the ROC Company Law, a shareholder's voting rights must, as to all matters brought to a vote of shareholders, be exercised as to all shares held by the shareholder in the same manner, except in the case of an election of directors and supervisors, which may be conducted by means of cumulative voting or other mechanisms adopted in our Articles of Incorporation. Pursuant to ROC Company Law and our Articles of Incorporation, the election of directors and supervisors is by means of cumulative voting.*

If the Depositary receives in a timely manner voting instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding one or more resolutions to be considered at the meeting, including the election of directors and supervisors, the Depositary will notify the board of directors and the Voting Representative, if any, of the instructions and appoint the Voting Representative (or, in the event no Voting Representative is appointed by our board of directors for such shareholders' meeting, our chairman), as the representative of the Depositary and such holders to attend the meeting and vote all the securities represented by the holders' GDSs, in accordance with the direction received from holders of at least 51.0% of the outstanding GDSs.

If we have provided in a timely manner the Depositary with the materials described in the applicable Deposit Agreement and the Depositary has not timely received instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding any resolution to be considered at the meeting, including the election of directors and supervisors, then you will be deemed to have authorized and directed the Depositary to give a discretionary proxy to the Voting Representative to attend and vote at the meeting all the securities represented by your GDSs in any manner the Voting Representative may wish, which may not be in the interests of GDS holders. If no Voting Representative is appointed by our board of directors, the Depositary will endeavor to cause all the securities represented by your GDSs to be present but not cause the securities to be voted.

If we have not timely provided the Depositary with the materials described in the applicable Deposit Agreement, the Depositary shall endeavor to cause all shares represented by GDSs to be present at the relevant shareholders' meeting but will not cause the shares represented by the GDSs to be voted.

As a GDS holder, you will not be able to exercise cumulative voting rights on an individual basis in the elections of directors and supervisors under the Deposit Agreements. Instead, if at least 51.0% of the votes represented by outstanding GDSs are cast for particular directors or supervisors in an election, the Depositary shall, subject to the terms of the Deposit Agreements, instruct all of the shares underlying the outstanding GDSs to be voted in favor of such directors and supervisors. If less than 51.0% of all votes represented by outstanding GDSs are cast for particular directors or supervisors, the Depositary shall, subject to the terms of the Deposit Agreements, authorize the Voting Representative to vote all the shares on deposit at his or her discretion.

By accepting and continuing to hold GDSs or any interest therein, a holder will be deemed to have agreed to the voting provisions set forth in the applicable Deposit Agreement, as such provisions may be amended from time to time to comply with applicable ROC law.

Please note that the ability of the Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner.

Fees and Charges

As a GDS holder, you will be required to pay the following service fees to the Depositary:

Service	Fees
Issuance of GDSs	Up to US$0.05 per GDS issued
Cancellation of GDSs	Up to US$0.05 per GDS canceled
Distribution of GDSs pursuant to securities dividends, free securities distributions or exercise of rights	Up to US$0.05 per GDS issued
Distribution of cash dividends or other cash distributions	Up to US$0.05 per GDS held

Service	Fees
Distribution of securities other than GDSs or rights to purchase additional GDSs	Up to US$0.05 per share (or share equivalent) distributed
Depositary services fee	US$0.05 per GDS held as of any record date established by the Depositary
Transfer of GDR certificates	US$1.50 per certificate presented for transfer

As a GDS holder you will also be responsible to pay certain fees and expenses incurred by the Depositary and certain taxes and governmental charges such as:

- fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in the ROC upon deposits and withdrawals of shares;
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities when shares are deposited or withdrawn from deposit.

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. You will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your consent. We undertake to give GDS holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the (i) GDSs to be registered under the Securities Act, and (ii) GDSs to be settled in electronic book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreements become effective. The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDSs (except as mandated by law).

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the applicable Deposit Agreement:

- For a period of six months after termination, you will be able to request the cancellation of your GDSs and the withdrawal of the shares represented by your

GDSs and the delivery of all other property held by the Depositary in respect of those shares on the same terms as prior to the termination. During such six-month period the Depositary will continue to collect all distributions received on the shares on deposit, including dividends, but will not distribute any such property to you until you request the cancellation of your GDSs.

- After the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding.

Books of the Depositary

The Depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDSs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.

The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.

The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in shares, for the validity or worth of the shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any of our notices or for our failure to give notice or for our failure of the Company to exchange the Certificate of Payment into shares.

The Depositary will not be obligated in any way to maintain or enforce our obligations, including, without limitation, in respect of the Certificate of Payment or the conversion of the Certificate of Payment into shares.

- We and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.

- We and the Depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or terrorism or other circumstances beyond our control.

- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our Articles of Incorporation or in any provisions of securities on deposit.

- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to you.

- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

- We and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreements.

Pre-Release Transactions

To the extent permitted by applicable laws and regulations, the Depositary may, in certain circumstances, issue GDSs before receiving a deposit of shares. These transactions are commonly referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions, including the need to receive collateral, the type of collateral required and the representations required from brokers. The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDR certificates or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations. You are required to indemnify us, the Depositary and the Custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

Subject to ROC law, the Depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable;

- distribute the foreign currency to holders for whom the distribution is lawful and practicable; or

- hold the foreign currency (without liability for interest) for the applicable holders.

Legends

The Rule 144A GDR certificate(s) issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY, HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES

REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

The International GDR certificate(s) issued to represent the International GDSs offered for sale herein shall contain, and all owners of International GDSs shall be bound by the terms of, the following legend:

NEITHER THIS INTERNATIONAL GDR CERTIFICATE, NOR THE INTERNATIONAL GDSs EVIDENCED HEREBY, NOR THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS INTERNATIONAL GDR CERTIFICATE AND THE INTERNATIONAL GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL

GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) INTERNATIONAL GDSs OUTSIDE THE UNITED STATES AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON REGULATION S AND (II) THE LATEST CLOSING DATE WITH RESPECT TO THE INTERNATIONAL GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED BY SUCH INTERNATIONAL GDSs IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE INTERNATIONAL DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH INTERNATIONAL DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND; PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of information relating to Shin Kong FHC's share capital including brief summaries of the relevant provisions of the articles of incorporation of Shin Kong FHC, the ROC Securities and Exchange Law and the ROC Company Law.

General

Shin Kong FHC's authorized share capital is NT$80 billion divided into 8 billion shares. In June 2009, the shareholders' meeting of Shin Kong FHC approved to increase its authorized share capital to NT$100 billion, and Shin Kong FHC is in the process to complete registration with Ministry of Economic Affairs. In addition, as of the date of this offering memorandum, Shin Kong FHC's paid-in share capital is NT$62,469,066,440 divided into 6,246,906,644 shares. The paid-in share capital is issued and outstanding and is held by the public shareholders and other investors in Taiwan and elsewhere in the world. As of the date of this offering memorandum, Shin Kong FHC has US$64.5 million convertible bonds outstanding. Shin Kong FHC does not have any equity in the form of preferred shares or otherwise outstanding as of the date of this offering memorandum.

Dividends and Distributions

Dividend payments and distributions are generally governed by ROC Company Law as well as the articles of incorporation of the company in question.

Shin Kong FHC is not permitted to distribute dividends or make other distributions to shareholders for any year in which Shin Kong FHC does not record net income. However, provided that the legal reserve exceeds 50% of the paid-in capital, Shin Kong FHC may distribute the exceeding portion as dividends or extra bonus to its shareholders. The ROC Company Law requires that after offsetting accumulated losses and providing outstanding tax, if any, 10% of the remaining portion of Shin Kong FHC's net income should be set aside as a legal reserve until the accumulated legal reserve equals to Shin Kong FHC's paid-in capital.

In addition, Shin Kong FHC's articles of incorporation provide that after offsetting accumulated losses, and providing outstanding tax, any legal or special reserve, and certain portion for the operation of business, if necessary, any remaining net income could be distributed as dividends, employee bonuses and remuneration of directors and supervisors after approval at a shareholder's meeting. As such, at each annual general shareholders' meeting, Shin Kong FHC's board of directors must submit to the shareholders for their approval a plan for the distribution of dividends or the making of any other distribution to shareholders from the preceding fiscal year's net income. Any such approved distribution of dividends is subject to the requirement that 0.01% to 0.05% must be distributed as employee bonuses (for Shin Kong FHC and, only with respect to employee bonus shares, for its affiliates, each subject to further regulations promulgated by our board of directors). All shares outstanding as of the relevant record date are entitled to any dividend of dividends approved by the shareholders. Dividends may be distributed in the form of cash, shares, or a combination of the two, as determined by the shareholders.

In addition to permitting dividends to be paid out of net income, Shin Kong FHC may make distributions to its shareholders of additional shares by capitalizing reserves (including the legal reserve, any special reserve and capital surplus). However, the capitalized portion payable out of Shin Kong FHC's legal reserve is limited to 50% of the total accumulated legal reserve. Such capitalization can only be undertaken when the accumulated legal reserve exceeds 50% of the paid-in capital of Shin Kong FHC but only to the extent that there is no accumulated loss. The capital surplus that can be so capitalized is limited to premium from offering shares and any donated surplus.

Changes in Share Capital

Any change in the authorized share capital of a financial holding company, such as Shin Kong FHC, requires an amendment to its articles of incorporation (which requires approval at a shareholders' meeting) and the approval of the FSC and the ROC Ministry of Economic Affairs.

Authorized but unissued shares may be issued, subject to the provisions of the applicable laws, upon such terms as the board of directors of the company may determine.

Preemptive Rights

With some exceptions, under ROC Company Law when Shin Kong FHC issues new shares for cash, existing shareholders who are listed in the shareholder's register as of the record date have preemptive rights to subscribe to the new shares in proportion to their existing shareholdings. In addition, the employees of Shin Kong FHC and employees of those affiliates whose business is intended to benefit from the proceeds of the subscriptions, whether or not those employees are current Shin Kong FHC shareholders, have a right to subscribe to between 10% and 15% of the new issue. Any new shares that the shareholders and the employees have not subscribed to at the expiration of the subscription period may be offered to the public or privately placed by the company.

In addition, subject to some exceptions, when a public company such as Shin Kong FHC intends to offer new shares for cash, it must offer to the public at least 10% of the shares to be sold. This percentage may be increased by a resolution passed at a shareholder's meeting, which would diminish the number of new shares subject to the pre-emptive rights of existing shareholders.

Meetings of Shareholders

Meetings of Shin Kong FHC shareholders may be ordinary or extraordinary. Ordinary meetings of Shin Kong FHC's shareholders will generally be held in Taipei, Taiwan, within six months following the end of each year in operation.

In contrast, special shareholders' meetings may be convened by resolution of the board of directors or by the board of directors upon the written request of any shareholder who holds three percent or more of the outstanding shares for more than one year. Special shareholders' meetings may also be convened by a supervisor under certain conditions.

Notice in writing of meetings of shareholders, stating the place, time, date and agenda must be dispatched to each shareholder at least 30 days, in the case of ordinary meetings, and 15 days, in the case of special meetings, before the date set for each meeting. Except in certain circumstances described below, a majority of the holders of all issued and outstanding shares present at a shareholders' meeting constitutes a quorum.

Voting Rights

Shin Kong FHC's articles of incorporation provide that holders of shares have one vote for each share. There is cumulative voting for the election of directors and supervisors. Ballots for the election of directors are cast separately from those for the election of supervisors.

Except as otherwise provided by the applicable laws, a resolution can be adopted by the holders of at least a majority of our shares represented at a shareholder's meeting at which the holders of a majority of all issued and outstanding shares are present.

In order for Shin Kong FHC to approve certain major corporate actions, including any amendment to its articles of incorporation, the relieving of any director or supervisor from his or her position, corporate division, the dissolution or amalgamation of the company, the transfer of the whole or an important part of its business, the taking over of a whole of the business of any other company, or the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding shares at which the holders of at least a majority of our shares represented at the meeting vote in favor of the resolution.

Alternatively, in the case of a public company, such as Shin Kong FHC, such a resolution may be adopted by the holders of at least two-thirds of our shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding shares are present.

A shareholder may be represented at an ordinary or special meeting by proxy if a valid proxy form is delivered to Shin Kong FHC five days before the ordinary or special shareholder's meeting.

Register of Shareholders Record Dates and Publication of Information

Shin Kong FHC's share registrar, Shin Kong Securities, maintains the register of Shin Kong FHC's shareholders at its offices located at B-1/F, No. 35, Lane 11, Guangfu N. Rd., Taipei, Taiwan, ROC, and enters transfers of shares in such register upon presentation of, among other documents, certificates representing our shares transferred.

Shin Kong FHC may, by giving advance public notice, set a record date and close the register of shareholders for a specified period (60 days, 30 days and 5 days immediately before each ordinary meeting of the shareholders, special meeting of shareholders and relevant record date, respectively) in order for Shin Kong FHC to determine the shareholders and pledgees that are entitled to rights pertaining to our shares.

Shin Kong FHC publishes financial information and other notices by making electronic filings with the TSE and the Securities and Futures Bureau.

Annual Financial Statements

At least ten days before the annual ordinary shareholder's meeting, Shin Kong FHC's annual financial statements will be made available at its principal office in Taipei, Taiwan and at Shin Kong FHC's share registrar for inspection by the shareholders.

Transfer of Shares

Transfer of our shares in registered form is effected by endorsement and delivery of the related share certificates. However, in order to assert shareholder's rights against our company, the transferee must have their name and address registered on our company's register of shareholders. Shareholders are required to file their respective specimen seals, also known as chops, with the company. Chops are official stamps widely used in Taiwan by individuals and entities to authenticate the execution of official and commercial documents.

Repurchase of Shares by Shin Kong FHC

Shin Kong FHC cannot acquire its own shares under the ROC Company Law except:

- from dissenting shareholders in the context of a proposed merger or corporate division;
- from dissenting shareholders in the context of the acquisition of all or substantially all of its business or properties or the acquisition of the business or properties of another company which would have a significant impact on Shin Kong FHC's operations;
- from shareholders which are liquidated or are bankrupt and are unable to repay their debts owed to Shin Kong FHC; or
- in open market purchases for the purposes of transferring shares to employees.

The shares purchased in the second and third instance must be sold at market price within nine months from the purchase, failing which they will be cancelled.

Under the ROC Securities and Exchange Law, Shin Kong FHC may, in accordance with the Securities and Futures Bureau procedures and a resolution adopted by a majority of the company's board of directors at a meeting where more than two-thirds of the directors are present, purchase its shares:

- for delivery upon conversion of bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares and warrants;
- to transfer to its employees or those of the Shin Kong FHC Companies; or
- if necessary, to maintain our credit and our shareholders' equity; provided that our shares so purchased shall be cancelled thereafter.

Under these circumstances, Shin Kong FHC may purchase these shares on the TSE or by a tender offer. The total shares purchased by the company may not exceed 10% of the company's total issued and outstanding shares. In addition, the total cost of the purchased shares may not exceed the aggregate amount of the company's retained earnings, any premium from share issuance and the realized portion of its capital reserve. Shares purchased in the first two instances are to be transferred within three years from the purchase failing which they will be cancelled and the company is required to complete an amended registration for the cancellation within nine months after the purchase. In the third instance, our shares purchased by the company must be cancelled within six months after the purchase. The shares purchased by the company may not be pledged or hypothecated. In addition, the company may not exercise any of the shareholder's rights attached to these shares. The company's affiliates, as defined in Article 369-1 of the ROC Company Law, directors, supervisors, managers and their respective spouses and minor children and nominees are prohibited from selling the shares of the company until the company's purchase period has lapsed.

Liquidation Rights

In the event of Shin Kong FHC's liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the shareholders in accordance with the relevant provisions of applicable laws and Shin Kong FHC's articles of incorporation.

Substantial Shareholders and Transfer Restrictions

The Securities and Exchange Law currently requires that (1) each director, supervisor, manager, as well as their respective spouses, minor children and nominees, and any substantial shareholder (i.e., any shareholder who together with his or her spouse, minor children or nominees holds more than 10% of a public company) to report any change in that person's shareholding to the Company and (2) each director, supervisor, manager or substantial shareholder holding such shares for more than a six month period should report his or her intent to transfer any shares on the TSE or on the GreTai Securities Market to the Securities and Futures Bureau at least three days before the intended transfer, unless the number of shares to be transferred is less than 10,000 shares.

In addition, the number of shares that can be sold or transferred on the TSE by any person subject to the restrictions described above on any given day may not exceed (1) 0.2% of the outstanding shares of the company in the case of a company with no more than 30 million outstanding shares; or (2) 0.2% of 30 million shares plus 0.1% of the outstanding shares exceeding 30 million shares in the case of a company with more than 30 million outstanding shares; or (3) in any case, 5% of the average trading volume (number of shares) on the TSE or GreTai Securities Market for the ten consecutive trading days preceding the reporting day on which day the director, supervisor, manager or substantial shareholder or their respective spouse, minor child or nominee reports the intended share transfer to the Securities and Futures Bureau.

These transfer restrictions do not apply to auction sale, purchase by auction, after-hour trading and sales.

Shareholding Restrictions

Under the ROC Financial Holding Company Act, any person or related persons wishing to hold more than 10%, 25% or 50% of a financial holding company must apply for approval. The voting rights of the portions exceeding the above percentages will be restricted if such approval is not obtained. A shareholder holding more than 10% of a financial holding company must meet the fit and proper requirements promulgated by the FSC. A shareholder may not increase his or her shareholdings unless he or she has been determined to be fit and proper by the competent authority. In addition, the applicant has to disclose the source of funds to be used to purchase shares of the financial holding company. Anyone who purchases shares of a financial holding company to exceed the thresholds without obtaining the prior approval from the FSC will be fined in an amount from NT$2 million to NT$10 million.

Any party who individually or, together with its related parties, collectively acquires 5% or more of a financial holding company's voting shares is required to file a report with the FSC within 10 days of the date of acquisition. Thereafter, any change in the percentage of voting shares of the financial holding company held by such party and/or its related parties which exceeds 1% must also be reported.

REGULATION OF THE TAIWAN FINANCIAL SERVICES INDUSTRY

Regulation of the Company

Regulatory Authority

We are regulated as a financial holding company under the ROC Financial Holding Company Act.

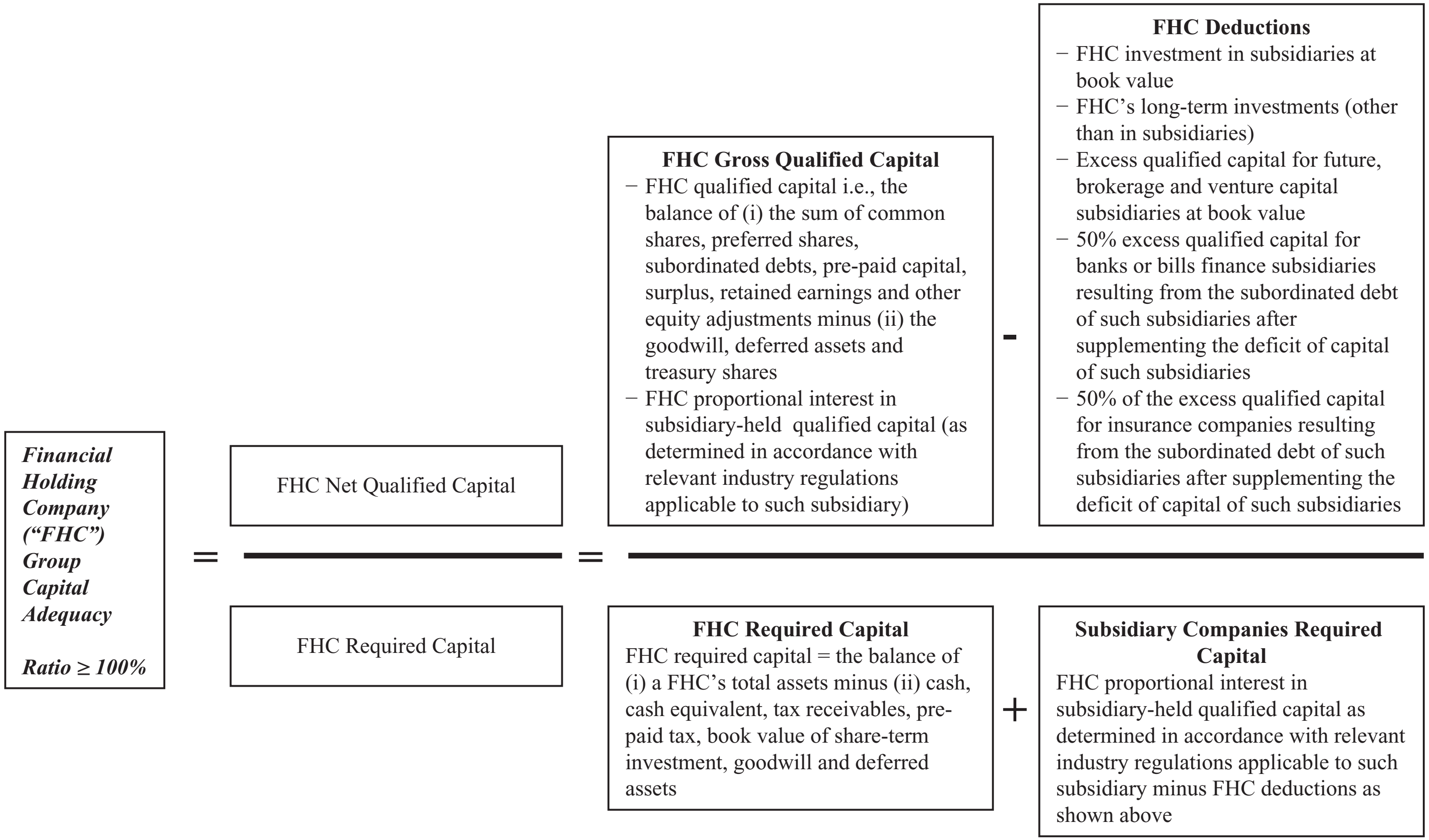
Prior to July 1, 2004, the Ministry of Finance was responsible for supervising and regulating Taiwan's banking, securities, insurance and bills finance industries, including financial holding companies. Different subordinated agencies under the MOF, including the Banking Bureau, the Securities and Future Commission and the Department of Insurance, undertake the responsibility of regulating banking, securities, insurance and bills finance industries separately. In addition, on-site examinations of banks were also carried out by three different agencies — the CBC, the MOF and the Central Deposit Insurance Corporation.

In order to resolve the problem of overlapping authority due to the multiple supervisory systems for insurance, securities, and banking, the MOF designated the "Organization Act of Establishing the Financial Supervisory Commission, Executive Yuan" as the foundation of a single vertically integrated system so as to solidify the business operation of financial institutions, maintain financial stability, and facilitate the development of financial markets. This Act was passed by the Legislative Yuan and promulgated by the President on July 23, 2003. The Financial Supervisory Commission was established on July 1, 2004 as a single financial regulator that consolidates the functions of monitoring and rule-setting for the banking, securities, futures, and insurance industries, and also carries out cross-sector financial examination performed by its subordinated departments (the Banking Bureau, the Securities and Futures Bureau, the Insurance Bureau, and the Financial Examination Bureau).

The FSC is a governmental authority at the cabinet level. The Chairperson and commissioners of the FSC are nominated by the premier and appointed by the ROC President. All the commissioners are required to have expertise and experience in different areas of the financial industry, and serve a fixed tenure of four years. In addition, commissioners belonging to the same political party cannot exceed one-third of the total number of commissioners and are not allowed to participate in any political activities during their tenures. Because the FSC has quasi-judicial power, it is able to conduct the law enforcement and comprehensive supervision. The Financial Examination Bureau under the FSC is granted power to question people and to search the premises of organizations, provided that appropriate procedures are followed. The FSC may impose sanctions, fines or suspend our business license for violations of the ROC Financial Holding Company Act.

Financial Requirements

The ROC Financial Holding Company Act and the regulations promulgated thereunder require that a financial holding company has paid-in capital of at least NT$60 billion or more and that the group capital adequacy ratio of each financial holding company be not less than 100%. The group capital adequacy ratio is determined by dividing the group net qualified capital by the group required capital. The definitions of group net qualified capital and group required capital are complex, but in principle represent the sum of the qualified capital of the holding company and its subsidiaries, divided by the sum of the required capital of the holding company and its subsidiaries. The required capital is calculated separately for each of the subsidiaries, depending on whether they operate as insurance, securities, banking, bills finance companies or other companies. A diagram of the calculation of group capital adequacy appears below.



Each subsidiary of a financial holding company has to fulfill the capital adequacy ratio required by the specific law and regulation applicable to its industry.

If a financial holding company does not meet the minimum group capital adequacy ratio of 100%, the FSC may fine the financial holding company an amount ranging from NT$2 million to NT$10 million and may prohibit the distribution of dividends either in cash or in kind. In addition, the FSC may impose any of the following sanctions on the financial holding company depending on the seriousness of the violation:

- request the financial holding company to submit an improvement plan to increase its capital adequacy through capital infusion or decrease in risk-based assets;
- restrict the payment of directors' and supervisors' remunerations and other compensation;
- restrict any further investments by the financial holding company;
- restrict the financial holding company's ability to submit applications to open new branches;
- request the financial holding company to dispose of shares in invested companies within a certain period;
- discharge the directors and supervisors of their duties and request that new directors and supervisors be elected within a certain period; or
- replace the managers.

Business Scope and Investment Limitation

The business of a financial holding company is limited to investment in, and management of, its subsidiaries. A financial holding company may only invest in companies operating in the financial industry, including banking, bills finance, insurance, credit card, trust, securities, futures, venture capital, foreign financial institutions and other financial industry-related enterprises recognized by the FSC. In addition, a financial holding company may apply to invest in non-financial industry-related companies but may not participate in the management of such companies.

Regulations Relating to Merger and Acquisition Activity of Financial Holding Companies and Their Financial Institution Subsidiaries

The ROC government has enacted a number of laws relating to mergers and acquisitions to encourage such activities in Taiwan. The main changes applicable to us are set forth below and are derived from the ROC Financial Institutions Merger Law, the ROC Corporate Merger and Acquisition Law and the amended ROC Securities and Exchange Law.

The ROC Financial Institutions Merger Law, effective since December 15, 2000, and the ROC Corporate Merger and Acquisition Law, effective since February 8, 2002, are both applicable to financial holding companies engaged in merger and acquisition activities.

The ROC Financial Institutions Merger Law applies to “financial institutions”, which include institutions engaged in banking (including bills finance), securities, futures, insurance and other industries as designated by the FSC. Pursuant to the ROC Financial Holding Company Act, certain provisions of the ROC Financial Institutions Merger Law are applicable to us and our subsidiaries. In addition, it also applies to us in the event that we engage in merger and acquisition activities. The ROC Financial Institutions Merger Law provides that once two financial institutions have obtained shareholders’ approval (or board of directors’ approval if shareholders’ approval is not required), 30 days’ notice must be provided to creditors and regulatory approval is to be sought from the FSC for the proposed merger. In addition, if the proposed merger or acquisition would result in a financial holding company being in violation of applicable regulations, such violation must be ratified within a certain period prescribed by the FSC not to exceed two years. The ROC Financial Institutions Merger Law has the following provisions, some of which are different from those applicable to non-financial institution mergers:

- goodwill arising from the merger may be amortized over five years;
- merger expenses may be amortized over ten years;
- losses on the sale of NPLs may be amortized over fifteen years;
- five-year tax loss carry forwards of the merged entity can be used by the surviving entity or the newly created entity following the merger;
- stamp and deed taxes are not payable;
- land value incremental tax is deferred until the land subject to the tax is transferred after the merger; and
- no duty is owed by the surviving entity or the newly created entity with respect to the registration of title transfers for properties, liens or collateral.

Lastly, financial institutions in Taiwan may merge with financial institutions outside of Taiwan in a transaction in which either party may survive, provided that the tax loss carry forwards of the non-Taiwan financial institution may not be used by the surviving Taiwan entity or the newly created Taiwan entity.

The ROC Corporate Merger and Acquisition Law first came into effect on February 6, 2002 and applies to all corporations in Taiwan. However, mergers between financial institutions should first apply the ROC Financial Institutions Merger Law and the ROC Financial Holding Company Act and then apply the ROC Corporate Merger and Acquisition Law to the extent that the ROC Financial Institutions Merger Law and the ROC Financial Holding Company Act do not provide otherwise. Prior to February 6, 2002, mergers and acquisitions were governed by the ROC Company Law. The provisions of the ROC Company Law are now supplemental to those of the ROC Corporate Merger and Acquisition Law with respect to mergers and acquisitions.

The ROC Corporate Merger and Acquisition Law also provides for cross-border mergers and acquisitions.

The ROC Securities and Exchange Law and the regulations promulgated thereunder provide for tender offer procedures and private placement exemptions. A person or a group of persons acquiring more than 20% of shares of a public company in Taiwan in fifty consecutive days is required to tender for the shares of that public company. The ROC Securities and Exchange Law further provides that the offeror is free to set the terms within the scope of the tender offer set by the FSC, but in the event the tender offer fails or the offeror is ordered to cease by the FSC, the offeror is prohibited from engaging in a tender offer for the same target within one year of the failed or ceased tender offer unless with due cause and approval is obtained from the FSC.

Merger and acquisition activity in Taiwan is also expected to be stimulated by allowing public companies to privately place their securities with investors. Prior to the recent changes in the ROC Securities and Exchange Law which allow for such placements, public companies wishing to issue new shares had to reserve at least 10% of the amount of shares to be offered to the public and between 10% and 15% of such amount to their employees. In addition, the non-public portion of a new issuance was required to be first offered to existing shareholders. Under the new provisions of the ROC Securities and Exchange Law, a company, after obtaining shareholders' approval, may privately place new shares to investors in the following categories, provided that the aggregate number of the investors in categories (2) and (3) does not exceed 35:

1. companies engaged in banking, bills finance, trust, insurance, securities business and other institutions designated by the FSC;

2. individuals, legal persons or funds which meet the criteria set by the FSC; and

3. directors, supervisors and managers of the company or its affiliates.

Shares issued in a private placement are restricted shares and may only be transferred as follows:

- if the owner is a company as described in (1) above, it may transfer the restricted shares to another company engaged in any of those activities provided that the same class of securities is not also traded on the TSE or the GreTai Securities Market;

- after a one-year holding period and prior to the end of the third year, any holder may transfer the restricted shares subject to volume limitations with respect to transfers of shares to the persons or entities described in (1) and (2) above;

- after a three-year holding period, any holder may transfer the restricted shares freely;

- in a direct private transfer between the parties where the amount is less than 1,000 shares and three months have passed since the last such transfer;

- in transfers by operation of law; and

- in other transfers approved by the FSC.

Taxation of Financial Holding Companies

Generally, ROC corporations do not file consolidated income tax returns. However, financial holding companies may file consolidated income tax returns once they hold more than 90% of the share capital of their ROC subsidiaries for more than one tax year. Filing of a consolidated income tax return allows us and our subsidiaries to reduce our overall tax burden by:

- offsetting our net operating loss against current and future gain of our subsidiaries; and
- offsetting retained earnings of one subsidiary against potential losses of other subsidiaries for purposes of the undistributed retained earnings tax.

Financial Holding Company Share Purchase Restrictions

Financial holding company shares may not be purchased by:

- any of the subsidiaries of the financial holding company; or
- companies in which its subsidiaries either own more than 20% of the capital or have the right to directly or indirectly elect or appoint more than half of the directors.

Companies violating these purchase prohibitions may be fined an amount ranging from NT$2 million to NT$10 million.

Shareholding Restriction

Any person or group of related persons (as defined in the ROC Financial Holding Company Act) proposing to hold more than 10%, 25% or 50% of the shares of a financial holding company must apply to the FSC for approval. The FSC will review whether the applicant is "fit and proper" to hold a certain amount of shares of a financial holding company. To fulfill the fit and proper requirement, the applicant must not have violated ROC laws or committed any criminal acts that relate to the credit of the person or have other occurrences which, in the view of the FSC, will not meet the fit and proper requirement. In addition, the applicant must disclose the source of funds to be used to purchase the shares of the financial holding company. Any person who purchases shares of a financial holding company exceeding the thresholds without obtaining prior approval from the FSC may be subject to restrictions on its voting rights with respect to the shares in excess of such thresholds and may be fined an amount ranging from NT$2 million to NT$10 million.

Any party who individually or, together with its related parties, collectively acquires 5% or more of a financial holding company's voting shares is required to file a report with the FSC within 10 days of the date of acquisition. Thereafter, any change in the percentage of voting shares of the financial holding company held by such party and/or its related parties which exceeds 1% must also be reported.

Regulation of Cross-Selling

Cross-selling and sharing of customer information within a financial holding company is subject to the ROC Financial Holding Company Act and the regulations promulgated by the applicable self-regulatory organization on cross-selling and disclosure of the customer's information. These regulations require that a financial holding company and its subsidiaries follow the laws and regulations on confidentiality of information or enter into agreements with customers in this regard. In addition, a financial holding company and its subsidiaries have to disclose to their customers the methods by which they will protect the confidentiality of customer information.

A financial holding company is authorized to create and maintain a central data collection and management system. This system may contain the names, dates of birth, telephone numbers, addresses, identification numbers and other basic information of all the customers of the financial holding company's subsidiaries. In addition, once customers have provided consent, information relating to account activity, credit history, investment activity and insurance records may also be contained in this system. The exact use of this information is not provided for in the regulations and there is uncertainty as to the limitations financial holding companies face in using this data in cross-selling activities.

Cross-selling may also take place in branches of the subsidiaries of financial holding companies. Regulations stipulate that a branch may have counters selling insurance, banking and securities products of each of the subsidiaries provided that they are staffed by employees holding the required licenses and having the necessary expertise.

Regulation of Shin Kong Life

Regulatory Authorities

The life-insurance industry is heavily regulated in Taiwan. The current authority supervising the insurance industry is the Insurance Bureau. In addition to governmental regulation, the Life Insurance Association of the ROC, a self-regulatory authority, may also promulgate standard articles of insurance policies.

At the end of each fiscal year in accordance with ROC law, an insurance company must prepare reports on its business condition and utilization of funds accompanied by inventory of properties audited financial reports, all of which must be submitted to its shareholders' meeting for acknowledgment and then to the FSC for audit and examination.

Recent Product Developments in the Life Insurance Industry

In the past, the development of insurance products, including rate formulae, terms of policies, their design and provisions relating to their future amendment, usually require prior approval from the Insurance Bureau. Starting from December of 2008, the Insurance Bureau has loosened the review mechanism for insurance products and adopted the "*Use and File*" mechanism as the principle of insurance product review. That is, only products specified by the Insurance Bureau require prior approval from the competent authority. Otherwise, simple notification with required documents to be provided to the Insurance Bureau within 15 days after issuance will be the only requirement for offering insurance products. The Insurance Bureau has two different product development procedures depending on the type of product. The two procedures are as follows:

- *Prior Approval:* refers to the review procedure applied to an insurance product to be submitted for Insurance Bureau's approval before offering such product to the public. With respect to the life insurance products, the following types of products must obtain prior approval:
    - annuity policies provided under the ROC Labor Pension Act;

- investment-linked products which require the allocation of the reserves as guaranty for payment; and

- new types of insurance products.

- *Use and File:* refers to the review procedure applied to insurance products for which a prior approval is not required before the offering of such product to the public. Simple notification with required documents to be provided to the Insurance Bureau within 15 days after issuance of product is the only requirement.

All new life insurance products require signature by an authorized underwriter, claims adjuster, actuary, staff of security and investment departments, and in-house legal counsel. The last two procedures are new to the life insurance industry and are evidence of deregulation. Those products that require prior approval will receive approval or rejection after a 90-day review period.

Liberalization of the Insurance Market

In addition to the deregulation of the product approval process, the Legislative Yuan and the FSC have adopted several measures to liberalize the insurance market. For example, insurance companies are now allowed to issue and invest in subdebts of capital nature in order to reinforce the financial structure of an insurance company.

Recent changes in insurance related legislation include relaxed restrictions on investments in stocks and bonds, an increased ceiling on real estate holdings, revisions to capital adequacy and solvency requirements, an increased ceiling on overseas investment, the introduction of appointed actuaries and the introduction of a “risk based capital” system for insurers similar to those adopted in the United States and other developed countries. An insurance company must also hire actuaries and appoint one of the actuaries as the appointed actuary to be responsible for the decision of insurance premium, verification and audit of various reserves and other matters set forth by the FSC. The appointed actuary must be approved by the board of the insurance company and reported to the FSC. The capital adequacy requirement that shareholders’ equity plus other such accounts designated at the discretion of Insurance Bureau be equal to 200% of the risk based capital became effective on July 9, 2003. The aggregate amount of overseas investment by a life insurance company is, subject to the approval of the FSC, up to 35% of its investment fund (as defined in the ROC Insurance Law).

In October and November of 2008, FSC amended its rules on risk-based capital for insurance companies, in view of the global financial crisis and its impact on the domestic insurance market. The amendment lifted restrictions on the calculation of total adjusted net capital, which expanded funding channels available to insurance companies and reduced the pressure to raise additional capital when they suffer an investment loss. However, the amendment is only in effect until December 31, 2009, and we cannot assure you that FSC will extend such amendment and not revert to the previous formulae. The amendment includes the following highlights:

- Except in the case where 2 or more insurance companies essentially invest in each other and all amount of such mutual investment shall be deducted from the adjusted net capital since the first year, funds from preferred shares having the characteristics of liabilities and funds from bonds with capital characteristics issued by an insurance company before the end of 2009 are not required to be deducted from the adjusted net capital.

- If an insurance company invests in preferred shares having the characteristics of liabilities and bonds with capital characteristics issued by other insurance related companies, they need not deduct such investments from the total adjusted net capital within the first year after the issuance. However, from the second year, such investments must be deducted from the total adjusted net capital for the next five years at an annual rate of 20%.

- By the end of 2009, the material accident special reserves provided by a life insurance company may be added as the total adjusted net capital.

- By the end of 2009, the gain or loss of stocks invested by an insurance company can only be recognized at 20%.

Furthermore, the amendments to the Insurance Act in 2008 also liberalize the insurance market by allowing the insurance company to conduct insurance claims trust business and easing the restriction on loans borrowed by the insurance company to meet the capital needs of the insurance company.

Regulation of Shin Kong Bank

Regulatory Authorities

The banking industry in Taiwan is primarily subject to the legal framework under the ROC Banking Law. The ROC Banking Law sets forth the general regulations that govern the banking business, provides protection to depositors, facilitates the development of productive enterprises and coordinates the operation of bank credit with the national financial policy of Taiwan.

The Banking Bureau and the CBC supervise the banking industry under the ROC Banking Law, as follows:

The Banking Bureau

The Banking Bureau is the primary regulatory authority regulating banks and is responsible for the development, regulation and supervision of the banks in Taiwan. It is also responsible for bank licensing and establishing and enforcing rules on lending, investment and other banking practices.

The CBC

The CBC regulates monetary and credit policy via open market operations, reserve ratios, and certain credit controls that are used to channel funds to particular economic sectors. The CBC also manages official foreign exchange reserves, issues currency, and acts as the fiscal agent of the government. Support can be extended to banks through a lender-of-last-resort facility provided by the CBC. The Governor of the CBC is appointed for a term of five years.

Licensing of Taiwan’s Commercial Banks

Under the ROC Banking Law, in order to commence a commercial banking business, an applicant must first obtain a special permit from the FSC. After obtaining that special permit, an applicant must then incorporate as a company limited by shares and register with the ROC Ministry of Economic Affairs.

Subsequently, the applicant must apply to the FSC for a commercial banking license, and finally the applicant must apply to the local government for a Certificate of Registration as a Profit-Seeking Enterprise. The Standards for the Establishment of Commercial Banks issued by the FSC provide that commercial banks must have a minimum paid-in capital of NT$10 billion.

Restrictions on Scope of Business

Under the ROC Banking Law, a bank may only engage in banking activities specifically permitted within its approved scope of business. In order to engage in other activities, such as foreign exchange business, offshore banking, trust business and securities business (as described below), the bank must obtain separate licenses or approval from the FSC or the CBC, as the case may be. Pursuant to the Banking Law, the businesses and accounts of a bank's trust department and securities department must be segregated from those of its commercial banking business.

A commercial bank is authorized to invest in non-financial related businesses but may not engage in the operations of non-financial related businesses in which it invests. The aggregate amount of a commercial bank's investment in financial related and non-financial related businesses is restricted to a maximum of 40% of its paid-in capital less cumulative losses, of which, the investment amount in non-financial related businesses is restricted to a maximum of 10% of the commercial bank's paid-in capital, less cumulative losses.

However, if a financial holding company is converted from a bank, the ROC Financial Holding Company Act provides that the investment to be made by the bank shall therefore be made by the financial holding company. The bank may still hold the investment portfolios made before the establishment of the financial holding company but may not increase the investment portfolios.

Financial Requirements

Minimum Capital Requirement

The minimum capital requirement for commercial banks is NT$10 billion.

Capital Adequacy

Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, all banks in Taiwan are required to maintain a capital adequacy ratio of a least 8.0%. In order to strengthen the financial structure of banks, the ROC Banking Law was amended on December 30, 2008 and provides a clearer grading for banks in accordance with their capital adequacy. Recently the FSC also proposed to amend the Regulations Governing the Management of a Bank's Capital Adequacy to correspond with the recent amendments to the Banking Law. Pursuant to the Banking Law and the draft regulations, banks are divided into the following grades:

- capital adequate, i.e. the capital adequacy is higher 8% (inclusive) and in compliance with the minimum capital adequacy requirement required by FSC;

- capital inadequate, i.e. the capital adequacy is higher than 6% (inclusive) but lower than 8%, or not in compliance with the minimum capital adequacy requirement required by FSC;

- capital obviously inadequate, i.e. the capital adequacy is higher than 2% (inclusive) but lower than 6% ; and

- capital severely inadequate, i.e. the capital adequacy is lower than 2%, or the net worth of a bank divided by the aggregate assets of the bank is lower than 2%.

A fine of between NT$2 million and NT$10 million will be levied on banks with a capital adequacy ratio of below 8.0%.

For banks graded as capital inadequate, obviously inadequate or severely inadequate*:*

First, the bank is prohibited from distributing cash dividends or from conducting share repurchases. It should also be noted that this same restriction applies to a bank which is graded "capital adequate" but which might lose such grading following a proposed cash dividend or share repurchase.

Second, the FSC may prohibit the bank from making payment to its legal responsible persons (such as Chairman, President, General Manager, etc.) receiving remuneration other than their base salary. This would prevent the bank from paying bonuses or granting stock options to its legal responsible persons.

Third, the FSC may require the bank to undertake such other measures as the FSC considers appropriate, such as conducting a capital raising or restructuring or otherwise improving its financial position.

For banks graded as capital obviously inadequate or severely inadequate*:*

For the bank graded as capital obviously inadequate or severely inadequate, FSC may order the bank to submit the capital restoration plan or other financial improvement plans within a certain period, and at its discretion, take the measures against those who fail to plan as ordered or fail to execute those plans, such as: limiting the increase of the risk-weighted assets or other necessary measures, and depending on the seriousness of the situation, FSC may further:

- Dismissing the responsible person and informing the Competent Authority in charge of corporate registration to revoke such registration.

- Obtaining the initial approval of the Competent Authority when acquiring or disposing of the specific assets.

- Ordering the bank to dispose of specific assets.

- Limiting or forbidding loans or other transactions with the relevant parties.

- Limiting the investments, partial business or ordering to close the subsidiaries or departments.

- Limiting the deposit interest rate not to exceed the interest rate of other comparable or similar deposits.

- Reducing the compensation of the responsible person which also shall not exceed the average compensation for such responsible person during the twelve months preceding the month in which the bank's capital adequacy ratio is lower than 6%.

- Assigning the officials to take conservatorship or receivership over operations or taking other necessary actions.

For banks graded as capital severely inadequate:

The FSC is required to take over management and control of the bank by appointing an administrator within 90 days of the bank being determined to be graded "capital severely inadequate" or, where the FSC has required the bank to undertake a capital raising or restructuring by a specified date and the bank has failed to do so, the FSC is required to take over management and control of the bank by appointing an administrator within 90 days of the expiry of the specified date The administrator shall then manage and control the bank.

While the bank is under administration, certain other laws providing for temporary managers, inspectors, reorganization procedures and bankruptcy, which might otherwise be of potential application, shall not apply. Necessary costs incurred by the administrator in performing his/her administration of the bank shall rank in priority with respect to general creditors in liquidation.

Deposit Reserve

Reserves against deposits must be established in accordance with the ratios prescribed by the CBC. As of March 31, 2009, the reserve ratios of deposits are as follows:

- Checking deposits: 10.8%

- Demand deposits: 9.8%

- Demand savings deposits: 5.5%

- Time savings deposits: 4.0%

- Time deposits: 5.0%

- Foreign currency deposits: 0.1%

Legal Reserve

Under the ROC Banking Law, a bank must set aside at least 30% of its earnings (less losses of the previous years and taxes) to a legal reserve, and may not distribute cash dividends in excess of 15% of its paid-in capital until such time as the legal reserve equals or exceeds its paid-in capital. As of March 31, 2009, Shin Kong Bank's legal reserve represented 2.5% of our paid-in capital. Where a bank has a trust department, the bank must set aside separate legal reserves for each of its banking and trust departments.

Liquidity Reserve

Under the ROC Banking Law, the CBC is empowered, after consultation with the FSC, to fix a minimum ratio of a bank's current assets to total liabilities. The current minimum liquidity reserve ratio set by the CBC is 7%. As of March 31, 2009, Shin Kong Bank's liquidity reserve ratio were 16.7%.

Solvency Ratio

Under the ROC Banking Law, the FSC may, when it deems necessary, consult with the CBC to prescribe a minimum ratio of a bank's major assets to major liabilities as well as a minimum ratio of a bank's major liabilities to net worth. To date, the FSC has not prescribed such ratios for commercial banks.

Interest Rates

Under the ROC legal framework, commercial banks are free to set and adjust their own prime interest rates. However, pursuant to the ROC Civil Code, a creditor may not enforce payment of interest in excess of 20% and such creditor may also be subject to criminal liability under the ROC Criminal Code.

Asset Quality and Non-Performing Loans

Asset Quality

The asset quality of financial institutions is of great concern to the supervisory authorities. Generally, the evaluation process involves identifying and classifying problem assets and then assessing possible losses.

In January 2004, the FSC issued new guidelines regarding loan classification and provisioning. Under the new guidelines, after July 1, 2005 banks would be required to reclassify their loans into five categories (from the current four categories) based on asset quality. Banks would also be required to set aside a minimum specific allowance of 2% for "special mention" loans, 10% for "substandard" loans, 50% for "doubtful" loans and 100% for "unrecoverable" loans. The new categories of loans and the criteria for each category are as follows:

Classification	Category	Applicable Conditions
Class I	Normal	Normal loans with no payment difficulties.
Class II	Special Mention	Fully-secured loans with respect to which principal or interest payments are overdue for more than one month but less than 12 months (inclusive); unsecured loans with respect to which principal or interest payments are overdue for more than one month but less than 3 months (inclusive); or loans not yet matured with the counterparty defaulting in other credits.
Class III	Substandard	Fully-secured loans with respect to which principal or interest payments are overdue for more than 12 months; unsecured loans with respect to which principal or interest payment are overdue for more than 3 months but less than 6 months (inclusive).

Classification	Category	Applicable Conditions
Class IV	Doubtful	Unsecured loans with respect to which principal or interest payments are overdue for more than 6 months but less than 12 months (inclusive).
Class V	Unrecoverable	Unsecured loans with respect to which principal or interest payments are overdue for more than 12 months; or the recovery of which is extremely unlikely.

Source: Banking Bureau of the FSC

Definition of Non-Performing Loans

Overdue loans as defined by, and which must be reported to, the FSC are loans with respect to which:

- in the case of short-term loans with bullet maturity payments, loans with respect to which principal is three months or more overdue or interest is six months or more overdue;

- in the case of medium and long-term installment loans with respect to which interim payments of principal or interest are six months or more overdue or the final payment is three months or more overdue; or

- loans with respect to which the bank has taken legal action for repayment or liquidation of collateral prior to the maturity of such loans.

We define NPLs as overdue loans required to be reported to the FSC.

Under the FSC's guidelines of January 2004, starting from July 1, 2005, NPLs will include (i) loans for which the most recent payment of principal or interest is overdue for three months and (ii) loans with respect to which the banks have initiated legal proceedings to recover payment or liquidate collaterals.

The NPL ratio is defined as the value of a banking institution's NPLs divided by gross loans:

$$\text{NPL ratio} = \frac{\text{NPLs}}{\text{Gross loans outstanding}}$$

Under the FSC's guidelines, starting from June 2003, banks with NPL ratios of 5% or below will be entitled to more favorable treatment when applying to the FSC to move domestic branches, for approval of new business lines or setting up new ATMs or bank offices, for approval to move or remove existing ATMs and bank offices or to conduct business activities in the PRC. In addition to the foregoing, banks with NPL ratios of 2.5% or below will be entitled to more favorable treatment when applying to the FSC to set up new overseas and PRC branches, to switch existing branches to sub-branches, to invest in financial institution related businesses and to conduct restricted mutual funds businesses.

Starting from year-end 2003, banks with NPL ratios above 5% will be subject to certain requirements and disciplinary actions, including orders by the FSC to improve their NPL ratios within a certain period, prohibitions from establishing new domestic or overseas branches and restrictions from paying remuneration to directors and supervisors, distributing earnings, investing in non-financially related businesses and extending additional credit to interested parties or extension of credit for which interested parties act as guarantor or provide collateral. In addition to the foregoing, banks with NPL ratios of or above 15% will be subject to further requirements and disciplinary actions, including restrictions from engaging in high-risk businesses or taking deposits and borrowing money with high interest rates and being ordered to dissolve one or more branches.

In July 2005, the FSC announced a guideline titled "Classification rules regarding overdue loans derived from credit cards and cash cards." According to this guideline, banks with a cash card and credit card NPL ratio of more than 3% but less than 5% should take improvement action immediately; banks with a cash card and credit card NPL ratio of more than 5% but less than 8% will receive warning letters from the FSC specifying a limited time period for improvement; and banks with a cash card and credit card NPL ratio of more than 8% will be temporarily suspended from promoting its cash card and credit card businesses.

As of March 31, 2009, NPLs of Shin Kong Bank totaled NT$5,314 million, and the aggregate NPLs ratio was 1.9%.

Allowance for Possible Losses

Under the FSC's guidelines, banks must set aside a minimum specific allowance of 50% against doubtful loans and 100% against unrecoverable loans.

Restrictions on Credit Exposure

Under the ROC Banking Law, the "credit" extended by a bank includes loans, overdrafts, discounts, guarantees, bank acceptances and other business activities specified by the FSC.

Restrictions on Credit Exposure to Related Parties

In order to ensure the transparency of lending practices of Taiwan banks, the ROC Banking Law regulates the extension of credit by banks to their related parties. Subject to the exceptions described below, a bank may not extend unsecured credit to a company in which the bank holds 3% or more of such company's paid-in capital or to its responsible person, staff members, major shareholders, or any person who is an interested party of the responsible person or a credit officer of the bank.

Under the ROC Banking Law, the term "major shareholders" means any shareholder holding 1% or more of a bank's outstanding shares. When such shareholder is an individual, then any shares held by his or her spouse and minor children are considered shares held by that shareholder. In addition, the "responsible person" means the responsible person as defined under the ROC Company Law, including but not limited to the directors, supervisors and managerial staff members. Finally, under the ROC Banking Law, the term "interested party" denotes one of the following categories of persons:

1. spouse, a relative by blood within the third degree or a relative by marriage within the second degree of the responsible person or a credit officer of the bank;

2. a sole proprietorship or partnership which is managed by the responsible person or by a credit officer of the bank or by an interested party referred to in (1) above;

3. an enterprise of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above, individually or in aggregate holds or owns 10% or more of its outstanding shares or its capital;

4. an enterprise of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above is a director, supervisor or manager, unless such office was acquired by virtue of an investment by the bank with the approval of the FSC; or

5. a corporate entity or other form of organization of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above serves as a legal representative or administrator.

Consumer loans and loans to government enterprises are exempt from this rule. The FSC prescribes a maximum amount under which a consumer loan and credit card revolving debt will be exempted. Currently, such maximum amount is NT$1.0 million. Under the ROC Banking Law, when applying the 3% rule described above, the shares owned by a bank's affiliated companies, which include companies with mutual investment with the bank, companies under the bank's control and companies in control of the bank, as defined under the ROC Company Law, will be taken into consideration.

Where a bank extends secured credit to its responsible person, staff members, major shareholders, any person considered to be an interested party in relation to its responsible person or credit officer or a company in which the bank holds 5% or more of the paid-in capital, the credit must be secured in full and in a total outstanding amount of not more than 150% of its net worth, and the terms and conditions of the credit may not be more favorable to the borrower than those extended to other customers under similar conditions. In addition, among the above secured credits to related parties, the secured credits to each legal entity may not exceed 10% of its net worth and to each individual may not exceed 2% of its net worth. Where the bank plans to extend to any of the above related parties a secured credit which would cause the aggregate credits to such person to equal or exceed the lower of NT$100 million or 1% of its net worth, then the bank must first obtain super-majority approval at a meeting of its board of directors attended by more than two-thirds of all directors and at which at least three-fourths of the votes held by the directors present are cast in favor of such proposed loan. Under the ROC Banking Law, when applying this 5% rule, the shares owned by its affiliated companies, which include companies with mutual investment with the bank, companies under the bank's control and companies in control of the bank, as defined under the ROC Company Law, will be included in the calculation.

Where a bank breaches the above restrictions on the extension of credit to related persons, the person responsible for the breaching act shall be subject to imprisonment of up to three years and/or a fine ranging from NT$5 million to NT$25 million.

Restrictions on Credit Exposure to Unrelated Parties

In addition to provisions restricting bank loans to related parties, the ROC Banking Law, also provides restrictions on credits to unrelated parties.

The aggregate outstanding balance of credit extended by a bank to any single individual may not exceed 3% of its net worth, of which unsecured credit may not exceed 1% of its net worth. The aggregate outstanding balance of credit extended by a bank to any single legal entity may not exceed 15% of its net worth, of which unsecured credit may not exceed 5% of its net worth. Credit extended by a bank to a government-owned enterprise is exempt from the above restriction, provided that such credit does not exceed that bank's net worth. The aggregate outstanding balance of total credit extended by a bank to a single individual, together with that extended to the borrower's spouse, relative by blood within the second degree, or a company in which the borrower or the borrower's spouse is the responsible person, may not exceed 40% of bank's net worth, of which the aggregate credits extended to such individual, its spouse and relative by blood within the second degree may not exceed 6% of its net worth. Credit extended to government-owned enterprises is exempt from its restrictions.

The aggregate outstanding balance of total unsecured credit extended by a bank to a single individual, together with that extended to the individual's spouse, relative within the second degree, or a company in which the borrower or the borrower's spouse is the responsible person, may not exceed 10% of its net worth, of which the aggregate credits extended to such individual, its spouse and relative by blood within second degree may not exceed 2% of its net worth. The aggregate outstanding balance of the total credits extended by a bank to a group of affiliated companies as defined under the ROC Company Law may not exceed 40% of its net worth, of which the unsecured credit may not exceed 15% of its net worth. Credit extended to government-owned enterprises is exempt from these restrictions.

A bank that violates the rules described above will be subject to a fine ranging from NT$2 million to NT$10 million. When the bank fails to comply with a period specified by the FSC, the FSC may impose an additional daily fine, remove the responsible person of the bank, or revoke its banking license, depending on the seriousness of the violation.

The above restrictions do not apply to credit extended to government agencies, government-owned enterprises, special loan projects of the government and loans specifically approved by the FSC or the CBC.

The above ceilings for credit to non-connected parties are outlined as follows:

Borrower Profile	Ceiling on Total Secured and Unsecured Credits to Net Worth of a Bank	Ceiling on Unsecured Credits to Net Worth of a Bank
Each individual	3%	1%
Each legal entity	15%	5%
Each government-owned enterprise	100%	—
Each individual, together with those credited extended to his/her spouse, relatives by blood within second degree, or a company in which such individual or his/her spouse is the responsible person (excluding government-owned enterprise)	40% (provided that the aggregate credits extended to such individual, his/her spouse and relatives by blood within second degree shall be no more than 6%)	10% (provided that the aggregate unsecured credits extended to such individual, his/her spouse and relatives by blood within the second degree shall be no more than 2%)
Each legal entity, together with its affiliates defined under ROC Company Law (excluding government-owned enterprise)	40%	15%

Other Requirements

Restrictions on Investments in Property

Under the ROC Banking Law, a bank may not invest in real property, except where the real property is to be used for its own business (with certain limited exceptions) and where the value of real properties (other than warehouses) does not exceed its net worth (its total assets less total liabilities) at the time of the investment. In addition, due to the wide use of warehouses by Taiwan banks for storage purposes, the ROC Banking Law specifically stipulates that a bank may invest in warehouses, provided that the total investment value does not exceed 5% of the total deposits of such bank at the time of the investment.

Under the ROC Banking Law, any real property acquired by a bank through foreclosures pursuant to mortgages must be disposed of within four years from the date of such acquisition unless otherwise approved by the FSC.

Issuance of Preferred Shares and Debentures

Issuance of preferred stock by a bank must be approved by its shareholders at a shareholders' meeting and be permitted under its Articles of Incorporation. Issuance of debentures by a bank must be approved by its board of directors. The period of the debenture shall be not less than two years, and subordinated debentures are allowed. The proposed issuance must then be approved by the FSC.

Disclosure of Management Performance and Inspections

The ROC Bank disclosure regime consists mainly of compulsory periodic reporting requirements. These requirements are mandated by various rules issued by the FSC and the CBC pursuant to the ROC Banking Law. Under these rules, a bank must issue reports relating to various aspects of its operation at daily, weekly, monthly, quarterly and annual intervals to allow the FSC and the CBC to monitor the operation and financial soundness of the bank.

The ROC Banking Law and the Financial Supervisory Commission Organization Act authorizes the FSC, or its designate, to inspect a bank from time to time to examine the business operations and financial condition of the bank or its related parties, and to require the bank or its related parties to disclose financial statements and other information requested by the FSC.

In addition, a bank is required to disclose material information to the Securities and Futures Bureau of the FSC.

Deposit Insurance Requirement

The ROC Deposit Insurance Act stipulates that banks must obtain insurance for all deposits through a deposit insurance system. Under this system, banks are required to pay an insurance premium to the Central Deposit Insurance Company ("CDIC") every six months at a rate determined by the CDIC in accordance with certain criteria. Currently, the annual rates range from 0.3% to 0.7% of a bank's insurable deposits. The maximum insurance coverage for each depositor is NT$1 million. To weather the current global financial crisis and stabilize the investment environment in Taiwan, on October 28, 2008, the Ministry of Finance, the FSC and the CBC announced the launch of the "Full Guarantee Policy on Deposits" policy to guarantee all deposits of bank depositors until December 31, 2009, which may be extended upon the authorities' later decision.

Laws and Regulations Governing Other Business Activities

Foreign Exchange Activities

Under the Guidelines Governing the Handling of Foreign Exchange Business by Designated Foreign Exchange Banks issued by the CBC for conducting foreign exchange businesses, a bank must obtain a foreign exchange license from the CBC in addition to its banking license. Upon obtaining the foreign exchange license, the bank may, subject to other CBC regulations, conduct businesses involving the outward and inward remittance of foreign exchange, foreign deposits and foreign lending.

Banking Branches

Under rules issued by the FSC, a commercial bank may establish up to two branches per year (including sub-branches, as mentioned below) within Taiwan. For each branch, a bank must obtain a special permit from the FSC, a branch license from the ROC Ministry of Economic Affairs, a banking license from the FSC and a Registration Certificate as a Profit-Seeking Enterprise from the local government of the region in which the branch is located. A third branch may be established subject to special approval from the FSC.

In order to relocate any of its branches, a commercial bank must submit an application to, and obtain approval from, the FSC. In the application, the bank must specify the purpose for its proposed relocation, the business plan of the branch and financial statements of the branch. Unless otherwise approved by the FSC, a Bank may relocate only in the same city or county where it was previously located.

Under the rule issued by the FSC on May 19, 2000, a bank may apply to establish sub-branches which have no more than eight persons on their business staff. Under this rule, the quota of new branches to be established by a bank in each year outlined above applies to both new branches and sub-branches. A bank may also apply with the FSC to combine two of its sub-branches into one branch or convert a sub-branch into a branch provided it complies with the requirement in relation to the extension of loans to small and medium businesses. The application for the establishment and relocation of sub-branches will be the same as those provided for branches.

In order to establish an offshore banking unit, a bank must first establish a foreign department by obtaining a special permit from the FSC. Two years after the establishment of the foreign department, the bank may then apply to the FSC, which will consult with the CBC, for the establishment of an offshore banking unit. Approval from the FSC is required for each offshore banking unit.

Derivatives Transactions

Under the Banking Law and the Guidelines Governing Derivatives Transactions by Financial Institutions issued by the FSC, a bank may conduct derivatives transactions to the extent that such activities are within the business scope of that bank's banking license, provided that the bank also obtains separate approval from the FSC for each derivatives product. The bank must also obtain approval from the CBC for each type of foreign currency-related derivatives product.

Electronic Banking

Currently, the principal rule regarding Internet banking is the Safe Administration of Electronic Banking Business by Financial Institutions issued by the ROC Bankers' Association, which provides for the monitoring of Internet banking operations. An approval from the FSC is required for any proposed banking services offered over the Internet.

ATMs

Under rules issued by the FSC, a bank must apply to the FSC to install new ATMs for any given year. The application must state the number of ATMs the bank plans to set up within that year and must be submitted to the FSC by the end of November of the previous year. There is no quota on the number of ATMs which a bank may apply to set up.

In the event that the bank seeks to set up ATMs in addition to the number approved in its application of the previous November, the bank may apply to the FSC for an approval for such additional ATMs. However, such application for additional ATMs may be made only once per year. There is no quota on the number of additional ATMs.

Prevention of Money Laundering

Banks are required to adopt anti-money laundering measures and keep records of transactions that the bank suspects may be money laundering transactions. In addition, the bank must have proof of identification of any customer that enters into a cash transaction of more than NT$1.0 million in any one business day, and make a record of such transaction.

Significant Deregulation Programs

In the past decade the government has adopted several measures to deregulate the banking sector. The most relevant measures, other than the ROC Financial Holding Company Act, are outlined below.

Ownership Restrictions

Shareholding Restrictions

Any party who individually or, together with its related parties, collectively acquires 5% or more of a bank's voting shares is required to file a report with the FSC within 10 days of the date of acquisition. Thereafter, any change in the percentage of voting shares of the bank held by such party and/or its related parties which exceeds 1% must also be reported.

Any party who individually, or together with its related parties collectively, wishes to acquire more than 10%, 25% or 50% (each threshold applying independently) of a bank's voting shares must first obtain prior approval from the FSC.

This requirement replaces the previous restriction that, except for a Financial Holding Company, a party and its related parties could not acquire more than 25% of the voting shares of a bank and was required to obtain prior approval from the FSC before acquiring 15% or more of the voting shares of the bank.

For the purposes of these requirements, the term "Related Party" means:

- In the case of a natural person,

  (i) the spouse and relatives by blood within two degrees of the natural person;

  (ii) enterprises in which at least 1/3 of the voting shares or 1/3 of the capital is owned by such person, his/her spouse or relatives by blood within two degrees of the natural person; and

  (iii) enterprises whose chairman, general manager or more than one-half of the directors are comprised of persons described mentioned in item (i).

- In the case of a juristic person,

  (i) the chairman and general manager of the juristic person and the spouses and relatives by blood within two degrees of the chairman or general manager;

  (ii) any enterprise in which at least 1/3 of the voting shares or 1/3 of the capital is owned by the legal person and the persons described in item (i) or any enterprise whose chairman, general manager or more than one-half of the directors are persons described in item (i);

  (iii) the affiliated companies of the same juristic person.

Furthermore, the term "Related Party" includes third persons who hold shares on behalf of a party by means of a trust or mandate arrangement or pursuant to an agreement or authorization.

In the event that a party fails to comply with the reporting or prior approval requirements, the party will be deemed to have no right to vote on, and the FSC may require the party to dispose of, such of the shares held by the party which exceed the applicable percentage reporting or approval limit breached. In addition, the FSC may impose a fine of between NT$2 million and NT$10 million.

Foreign Investor Participation

Except as described above and except for the general regulations on foreign investments, there are no restrictions on foreign shareholdings of Taiwan banks.

Regulation of Shin Kong Securities and MasterLink

Regulatory Authorities

The Taiwan securities market is primarily subject to the legal framework under the ROC Securities and Exchange Law. The ROC Securities and Exchange Law sets forth the general regulations that govern the offering, issuance and sale of securities, the securities firms (including securities underwriters, proprietary traders and brokers), the securities associations and the stock exchanges. There are four regulatory authorities for the securities industry, three statutory and one self-regulatory, as described below:

Financial Supervisory Commission

The primary regulatory authority of the Taiwan securities market is the FSC. The FSC is responsible for the development, regulation, and supervision of the capital markets and the futures industries. The FSC is also responsible for licensing and inspection of securities firms, and may suspend the licenses of securities firms in breach of ROC laws.

Taiwan Stock Exchange Corporation

The Taiwan Stock Exchange Corporation is the primary regulatory authority of the TSE. It reviews companies applying for Taiwan Stock Exchange listing, oversees trading activities and regulates listed companies and securities firms. To maintain an orderly market, the Taiwan Stock Exchange Corporation regularly dispatches inspectors to examine whether securities firms and the Taiwan Stock Exchange listed companies' operations and financial status are in compliance with all applicable regulations.

GreTai Securities Market

The GreTai Securities Market is the primary authority that reviews applications for companies seeking to trade their shares on the GreTai Securities Market, oversees the trading activities and regulates GreTai Securities Market traded companies and securities firms. To maintain an orderly market, the GreTai Securities Market regularly dispatches inspectors to examine whether securities firms and the GreTai Securities Market traded companies' operations and financial status are in compliance with all applicable regulations.

Taiwan Securities Association

All securities firms are required to be members of the Taiwan Securities Association. The Taiwan Securities Association is not a statutory body, but establishes and enforces the self-regulatory rules applicable to proprietary trading, underwriting and brokerage activities.

Capital Adequacy Ratio Requirement

Unless concurrently operated by a financial institution and subject to the ROC Banking Law and unless the FSC otherwise permits, all securities firms in Taiwan are required to maintain an appropriate capital adequacy ratio which is the ratio of the qualified net amount of self-owned capital to estimated operational risk amount. If the qualified net amount of self-owned capital maintained by a securities firm is less than 150%, 120% or 100% of the estimated operational risk amount, the FSC may impose varying degrees of restrictions on the firm's business.

Business Scope and Commission

Under the ROC Securities and Exchange Law, securities businesses can be categorized into underwriting, proprietary trading, and brokerage, each of which requires a separate license.

Underwriting

Underwriting can be conducted either on a firm commitment basis or on a best efforts basis. In the case of firm commitment underwriting, the total underwriting amount shall not exceed 15 times the balance of a securities firm's current assets less current liabilities. If the capital adequacy ratio of a securities firm is less than 120% or 100%, the multiple shall be adjusted to 10 times or 5 times, respectively.

The maximum compensation for firm commitment underwriting and the maximum commission for best efforts underwriting shall not exceed 5% and 2%, respectively, of the total underwriting amount.

Proprietary Trading

A securities firm may buy and sell securities for the firm's own account in the market. Unless concurrently operated by a financial institution and subject to the ROC Banking Law, a securities firm shall not hold more than 10% of the total issued and outstanding shares of any domestic company and shall not hold more than 5% of the total issued and outstanding shares of any foreign company for its own account. In addition, the total value of its investment in a domestic company shall not exceed 20% of the firm's net worth and the total value of its investment in a foreign company shall not exceed 10% of the firm's net worth. If the aggregate amount of the securities acquired by a securities firm through underwriting and those traded for its own account exceeds the limit, the portion in excess shall be sold within one year of its acquisition.

A securities firm is not permitted to conduct short selling for proprietary trading purposes unless otherwise provided by laws or regulations.

Brokerage

A securities firm may place a customer's buy or sell orders but it may not engage in discretionary securities trading on its customer's account. The only financial companies that can engage in discretionary trading are securities investment consulting enterprises and securities investment trust enterprises with licenses from the FSC.

A securities firm may charge up to 0.1425% of the transaction value as commission subject to certain reporting requirements of the TSE.

Warrants Issuance

After obtaining an adequate credit rating from a credit rating agency as specified by the FSC and a qualification certificate from the FSC, an integrated securities firm (i.e., a securities firm conducting brokerage, underwriting and proprietary trading businesses) may issue warrants on the underlying securities of listed companies other than that securities firm's own shares.

Margin Trading

The two types of margin trading include margin lending and short selling. A securities firm conducting margin trading must be approved by the FSC and is required to state such approval in the firm's license. For margin trading, a NT$50 million deposit is required. A securities firm is required to sign a margin trading agreement with the client, open a credit account for the client, and collect the margin based on the rate prescribed by the FSC. Securities purchased with a margin loan must be retained as collateral. Proceeds from short sales must also be retained as collateral, in addition to a margin to be paid by the customer for the short sale.

Regulation of Shin Kong Investment Trust

Regulatory Authorities

The securities investment trust companies in Taiwan and related businesses are primarily subject to the legal framework under the Securities Investment Trust and Consulting Act and relevant administrative rules, including the Management Rules for the Securities Investment Trust Enterprises, promulgated by the FSC ("Management Rules"). The Management Rules set forth the general regulations that govern the establishment and management of securities investment trust companies. Recently, the Legislative Yuan passed the Securities Investment Trust Enterprise and Securities Investment Consulting Enterprise Law ("SITE and SICE Law"), which became effective on November 1, 2004. There are two regulatory authorities for the securities investment trust industry, one statutory and one self-regulatory, as described below:

Financial Supervisory Commission

The primary regulatory authority of the Taiwan securities market is the FSC. The FSC is responsible for the development, regulation, and supervision of the capital markets and the futures industries. The FSC is also responsible for licensing and inspection of securities investment trust companies, and may suspend such companies' application for establishment of securities investment trust funds for two years in the event of their breach of the Management Rules.

Securities Investment Trust and Consulting Association of ROC

All securities investment trust companies are required to be members of the Securities Investment Trust and Consulting Association. The Securities Investment Trust and Consulting Association is not a statutory body but has the authority, from the delegation of relevant laws and regulations, to promulgate and enforce self-regulatory rules applicable to the business activities of its member companies.

Business Scope

Under the Management Rules, securities investment trust companies may engage in the businesses of: (1) raising securities investment trust funds by way of issuing beneficiary certificates; (2) using securities investment trust funds to invest in securities and relevant products; (3) accepting delegation from customers for the discretionary investment of entrusted money; (4) consulting in securities investment; and (5) getting other business approved by the FSC. The minimum paid-in capital of a securities investment trust company must be NT$300 million.

Fund Raising

A securities investment trust company shall, within one month after obtaining the business license granted by the FSC, file an application to the FSC for the establishment of a securities investment trust fund, and shall begin the fund-raising activities within six months after obtaining the approval for such fund from the FSC. Each fund raised by a securities investment trust company shall be segregated from the company's self-owned capital and shall be separately recorded in accordance with the rules of the FSC.

Liquidity

Under the ROC Rules Governing Securities Investment Trust Funds, a securities investment trust company shall maintain a certain percentage of the assets of each of its securities investment trust funds in any of the following forms:

- deposits in domestic banks;
- purchase of domestic government bonds or financial bonds;
- purchase of domestic treasury bills, negotiable certificates of deposit, or commercial bills;
- purchase, in a specified ratio, of securities investment trust fund beneficial interest certificates that meet the conditions of FSC regulations;
- other uses approved by the FSC.

As of March 31, 2009, FSC rules regarding such percentages were as follows:

- with regard to an open-ended securities investment trust fund raised within the ROC, not less than 5% of its net asset value;
- with regard to a securities investment trust fund, whose beneficial certificates are traded on a stock exchange, zero; and
- with regard to a securities investment trust fund raised outside the ROC and making investments in the ROC securities market, not less than 5% of its net asset value; provided, however, that if such percentage is otherwise prescribed in the territory where the fund is raised, the securities investment trust company may file an application with the FSC for approval of such foreign prescription.

Investment

Under the Management Rules, a securities investment trust company may only invest its self-owned capital in the following: (1) domestic bank deposits; (2) domestic government bonds or domestic financial debentures; (3) domestic treasury bills, domestic negotiable certificates of time deposit or domestic commercial papers; (4) beneficiary certificates of a securities investment trust fund permitted by the FSC; and (5) other categories approved by the FSC.

Permitted Investment Concentration

Under the ROC Rules Governing Securities Investment Trust Funds ("SITEs"), when making investments by using funds of a securities investment fund, a securities investment trust company shall comply with, among others, the following concentration restrictions, unless otherwise provided for by the FSC:

A SITE offering a fund shall utilize the fund's assets in accordance with these Regulations and the provisions of the trust agreement, and except where otherwise provided by the FSC, shall comply with the following provisions:

- The SITE may not invest in non-listed or non-OTC-listed stocks or privately-placed securities.

- The SITE may not make loans or provide security.

- The SITE may not engage in securities margin transactions.

- The SITE may not engage in trading of securities or securities-related products between the various other funds, collective trust funds, discretionary accounts, or accounts for trading of securities with self-owned funds under the common management of the SITE, provided that this shall not apply in the case of cross-trades unintentionally occurring on a centralized securities exchange market or on Over-the-Counter Markets.

- The SITE may not invest in its own securities or in securities issued by any company that is an interested company relative to the SITE.

- The SITE may not use a fund to purchase the certificates of beneficial interest of that same fund, provided that this restriction shall not apply in the case of beneficiaries' requests for redemption of certificates of beneficial interest, or when certificates of beneficial interest are redeemed because of the discontinuance of all or some part of the fund.

- The SITE may not invest in structured interest rate products, provided that this restriction shall not apply when such products are a fund's principal investment vehicle and are so designated by the fund's name.

- The total amount invested by any fund in the stocks, corporate bonds, or financial bonds of any single listed or OTC-listed company may not exceed ten percent of the net asset value of the fund.

- The total amount invested by any fund in the shares of any single listed or OTC-listed company may not exceed ten percent of the total issued and outstanding shares of that company; the total amount invested by all funds under the common management of a SITE in the shares of any one listed or OTC-listed company may also not exceed ten percent of the total issued and outstanding shares of that company.

- The total amount invested by any fund in an underwriting of shares of any single listed or OTC-listed company may not exceed one percent of the total shares underwritten; the total amount invested by all funds under the common management of a SITE in any single underwriting may not exceed three percent of the total of underwritten shares being.

- The total amount invested by a fund in the certificates of beneficial interest of other funds may not exceed 10 percent of the first fund's total asset value, provided that this restriction shall not apply in the case of a fund of funds or exchange-traded funds under Article 37, paragraph 4.

- The total number of beneficial units of any single fund, with the exception of exchange-trade funds under Article 37, paragraph 4, that may be invested in by all funds under the common management of a SITE may not exceed ten percent of the issued beneficial units of the fund being invested in.

- The total amount invested by a fund in the unsecured corporate bonds of any single company may not exceed ten percent of the unsecured corporate bonds issued by that company.

- The securities held by a fund may not be loaned to another person, provided that this restriction shall not apply given compliance with Article 14.

- Proxy forms for shareholders' meetings of an issuing company whose shares are purchased by a fund may not be sold or transferred.

- No fund may authorize stock trades by any one securities firm that exceed 30 percent of the total monetary value of the fund's stock trades in the given month. This provision shall not apply, however, to funds that have been established for less than one full fiscal year.

- The total amount any fund may invest in a bills finance company's guaranteed bills may not exceed ten percent of the fund's total asset value, and may also not exceed 500 million New Taiwan Dollars.

- The total amount invested by a fund in the international financial institution bonds issued by any single international financial institution with FSC approval to issue such bonds within Taiwan may not exceed ten percent of the fund's net asset value, and may not exceed ten percent of the international financial institution bonds issued within Taiwan by the given international financial institution.

- The SITE may not engage in any improper trading activity and thereby affect the net asset value of a fund under its management.

- The SITE may not engage in any other act prohibited by the FSC.

In addition, the ceiling on the ratio of a SITE's use of a fund for investment in an underwritten stock shall be calculated by combining the amount of investment with the shares of listed and OTC-listed companies of a similar type held to arrive at the total number of shares or total monetary amount, the investment in depositary receipts shall be combined with the shares held in the issuing company of the depositary receipts, and the ceiling on the ratio of investment in that company shall be similarly based on the combined figures, for either monetary values or numbers of shares.

Redemption of Beneficiary Certificates

A beneficiary of a securities investment trust fund may request the securities investment trust company to redeem all or part of the beneficiary certificates held by it if the relevant contract provides the beneficiary with such authority. The securities investment trust company shall pay the beneficiary the amount based on the net worth of such fund after the beneficiary's request for the redemption, according to the fund trust agreement.

Insider Trading Restrictions

Responsible persons, department chiefs, managers of the branches and the fund managers of a securities investment trust company, except as otherwise approved by the FSC, are prohibited from engaging in buying or selling the listed shares that the trust funds of the same company invest in, starting from the day that the funds decide to invest to the day that the funds decide not to hold such listed shares.

Dissolution of a Securities Investment Trust Company

If a securities investment trust company may not continue its business due to the voluntary resolution or abolishment or revocation of the special permit, the securities investment trust company in question shall seek another securities investment trust company approved by the FSC to assume its business. The FSC also has the authority to order a poorly managed securities investment trust company to transfer its funds to another securities investment trust company for further management.

New Regulations Governing Offshore Funds

On August 2, 2005, the FSC promulgated the "Regulations Governing Offshore Funds," a new regulation governing the offering of overseas funds in Taiwan. The Regulations Governing Offshore Funds took immediate effect and significantly changed the then existing rules and landscape for overseas funds being offered in Taiwan.

Previously, overseas funds were available to Taiwanese investors as a form of foreign securities approved by the FSC. Offshore funds were passively distributed to potential investors through banks or securities companies under separate distribution arrangements. The Regulations Governing Offshore Funds introduced a "two-tier" regime for all offshore funds that requires the appointment of a general agent as the key point of contact and as representative for the offshore funds in Taiwan. The general agent will then appoint sub-distributors, such as banks, securities brokers, securities investment trust enterprises, securities investment consulting enterprises, and other institutions approved by FSC, who may now actively promote, advertise and sell offshore funds. This will significantly broaden the sales channels for offshore funds and potentially increase sales substantially.

The role and responsibilities of the general agent include preparing a set of prescribed information required for investors and the Chinese translation of the offering document of the offshore fund, acting as the Taiwan process agent to accept the service of process and documents on behalf of the Offshore Fund Manager, and assisting investors on matters relating to protection of investors' interests. The general agent is also subject to extensive reporting requirements to the FSC in relation to dealings of and material changes to the offshore funds for which it acts as agent.

All distribution of an offshore fund in Taiwan must be handled through the general agent. The general agent and the relevant Offshore Fund Manager will enter into distribution agreements with sub-distributors, such as SICE, SITE, securities brokers, banks, trust enterprises, and other institutions approved by FSC for the distribution of the offshore fund. The required qualifications of the sub-distributors are less stringent than those of the general agent.

The Regulations Governing Offshore Funds also establish a regime for the private placement of overseas funds. Private placement may be made to specific targets such as (i) banks, bills companies, securities companies, trust companies, insurance companies, financial holding companies or other legal entities or organizations approved by the FSC, and (ii) to individuals, legal entities or funds not exceeding 35 in number, that meet requirements prescribed by the FSC.

TAXATION

Prospective investors should consult their own adviser concerning the tax consequences of an investment in our Common Shares or GDSs.

ROC Taxation of Non-Residents

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of the Common Shares or GDSs by or to a Non-ROC Resident Individual or Non-ROC Resident Entity (each a "Non-ROC Holder"). As used in the preceding sentence, a "Non-ROC Resident Individual" is a foreign national individual who owns Common Shares or GDSs and is not physically present in the ROC for 183 days or more during any calendar year and a "Non-ROC Resident Entity" is a corporation or a non-corporate body that owns Common Shares or GDSs and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or business agent in the ROC.

You should consult your tax advisors concerning the ROC tax consequences of owning the GDSs or Common Shares and the laws of any relevant taxing jurisdiction to which you are subject.

Dividends on the Common Shares

Dividends (whether in cash or Common Shares) distributed by us out of retained earnings and paid out to Non-ROC Holders of Common Shares or GDSs are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders of Common Shares or GDSs is 20% of the amount of the distribution in the case of cash dividends or the par value of the Common Shares distributed in the case of stock dividends. Distributions of stock dividends declared by us out of capital reserves are not subject to withholding tax. In accordance with the ROC Income Tax Law, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When we distributed dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends may be credited against the 20% withholding tax imposed on the Non-ROC Holder.

Preemptive Rights

Distributions of statutory subscription rights for the Common Shares in compliance with the ROC Company Law are not subject to ROC Tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transactions tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to income tax at the rate of 20% of the gains realized. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights shall be evidenced by the issuances of securities.

Capital Gains

Under current ROC law, gain realized upon the sale or other disposition of securities issued by ROC companies is exempt from ROC income tax. This exemption will apply to a sale or other disposition of Common Shares.

Sales of GDSs by Non-ROC Holders are not regarded as sales of ROC securities and thus any gain generated therefrom is not subject to ROC income tax.

Securities Transaction Tax

The ROC Government imposes a securities transaction tax that will apply to sales of the Common Shares. The transaction tax, which is payable by the seller, is levied on sales of Common Shares at the rate of 0.3% of the gross amount received.

A transfer of GDSs, however, is not subject to this tax, nor is a withdrawal of the Common Shares from the deposit facility.

Estate Tax and Gift Tax

ROC estate tax is payable on any property within the ROC of a deceased Non-ROC Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-ROC Resident Individual. Estate tax is currently imposed at a flat rate of 10% on the estate amount in excess of NT$12,000,000. Gift tax is imposed at a flat rate of 10% of the donated amount in excess of NT$2,200,000. Under ROC estate and gift tax laws, shares issued by ROC companies are deemed located in the ROC without regard to the location of the owner. It is unclear whether a non-ROC Resident Individual Holder of GDSs will be considered to own Common Shares for this purpose.

Tax Treaties

At present, the ROC has double tax treaties with Indonesia, Singapore, New Zealand, Australia, South Africa, Gambia, Senegal, Sweden, Swaziland, Malaysia, Macedonia, The Netherlands, Belgium, Denmark, the United Kingdom and Vietnam that may limit the rate of ROC withholding tax on dividends paid with respect to shares in ROC companies. It is unclear whether a Non-ROC Holder of GDSs will be considered to own Common Shares for the purposes of such treaties. Accordingly, a holder of the GDSs who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to the GDSs.

United States Federal Income Taxation

To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that any discussion of tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The following discussion describes certain United States federal income tax consequences of the ownership of our Common Shares or GDSs as of the date hereof. The discussion is applicable to United States Holders (as defined below) who hold our Common Shares or GDSs as capital assets, who do not have a fixed place of business or other permanent establishment in the ROC, who are not citizens of the ROC and who are not physically present in the ROC for 183 days or more within a calendar year. As used herein, the term "United States Holder" means a beneficial owner of a Common Share or GDS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a bank;
- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our Common Shares or GDSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose "functional currency" is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary to us and assumes that the Deposit Agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds Common Shares or GDSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Common Shares or GDSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-United States tax laws. **If you are considering the purchase, ownership or disposition of our Common Shares or GDSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

The United States Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of a GDS and the issuer of the security underlying the GDS may be taking actions that are inconsistent with the claiming of foreign tax credits for United States holders of GDSs. Accordingly, the analysis of the creditability of ROC taxes described herein could be affected by actions taken by intermediaries in the chain of ownership between the holder of a GDS and our company.

GDSs

If you hold GDSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying Common Shares that are represented by such GDSs. Accordingly, deposits or withdrawals of Common Shares for GDSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the "Passive Foreign Investment Company" discussion below, the gross amount of distributions you receive on your Common Shares or GDSs, including net amounts withheld in respect of ROC withholding taxes, will generally be treated as dividend income to you, to the extent the distributions are paid out of our current and accumulated earnings and profits as determined under United States federal income tax principles. In determining the net amounts withheld in respect of ROC taxes, any reduction in the amount withheld on account of an ROC credit in respect of the 10% retained earnings tax imposed on us is not considered a withholding tax and will not be treated as distributed to you or creditable by you against your United States federal income tax. Such income (including withheld taxes) will be includible in your gross income as ordinary income on the day you actually or constructively receive it, which in the case of a GDS will be the date actually or constructively received by the depositary. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code.

Under current law, dividends received in taxable years beginning before January 1, 2011 by non-corporate United States investors on shares (or GDSs backed by such shares) of certain foreign corporations may be subject to United States federal income tax at lower rates than other types of ordinary income if certain conditions are met. We do not believe that dividends that we pay currently meet these conditions. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

The amount of any dividend paid in a currency other than the United States dollar, such as NT dollars, which we refer to as “foreign currency,” will equal the United States dollar value of the foreign currency you receive, calculated by reference to the exchange rate in effect on the date you actually or constructively receive the dividend, which in the case of a GDS will be the date actually or constructively received by the depositary, regardless of whether the foreign currency is actually converted into United States dollars. If the foreign currency received as a dividend is converted into United States dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the foreign currency received as a dividend is not converted into United States dollars on the date of receipt, you will have a basis in the foreign currency equal to its United States dollar value on the date of receipt. Any gain or loss you realize on a subsequent conversion or other disposition of the foreign currency will be ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to certain limitations under the Code, you may be entitled to a credit or deduction against your United States federal income taxes for the net amount of any ROC taxes that are withheld from dividend distributions made to you. For purposes of calculating the foreign tax credit, dividends we pay with respect to Common Shares or GDSs will generally be considered passive income from sources outside the United States. Furthermore, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on Common Shares or GDSs if you (1) have held Common Shares or GDSs for less than a specified minimum period during which you are not protected from risk of loss, or (2) are obligated to make payments related to the dividends. The rules governing the foreign tax credit are complex. We therefore urge you to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Common Shares or GDSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the Common Shares or GDSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any ROC withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions of Common Shares, GDSs or rights to subscribe for Common Shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income tax.

As discussed above under the caption "ROC Taxation of Non-Residents — Dividends on the Common Shares," the ROC imposes a 20% withholding tax on the par value of any Common Shares distributed by us as a stock dividend to a United States Holder of Common Shares or GDSs. However, the amount of ROC taxes withheld on a distribution is determined based on the 20% withholding tax reduced by a credit for any retained earnings tax paid by us. Subject to certain significant conditions and limitations set forth in the Code, actual ROC taxes withheld on such stock dividends may be treated as foreign taxes eligible for credit against a United States Holder's United States federal income tax liability. However, as discussed above, such stock dividends may not be subject to United States federal income tax (provided such stock dividends are pro rata). Consequently, a United States Holder may not be able to use the credit attributable to such ROC taxes unless it can be applied to other foreign source income in the appropriate limitation category.

Passive Foreign Investment Company

Based on the projected composition of our income and valuation of our assets, including goodwill, we do not expect to be a passive foreign investment company (a "PFIC") for our taxable year ending December 31, 2009, and we do not expect to become one in the future, although there can be no assurance in this regard. Our actual PFIC status for the current taxable year ending December 31, 2009 will not be determinable until the close of the current taxable year, and, accordingly, there is no guarantee that we will not be a PFIC for 2009. Given that the determination of PFIC status with respect to both 2009 and future years depends on future facts and circumstances, including the nature of our income and the composition and value of our assets in each year, we cannot provide assurance with respect to our expectation regarding our PFIC status. In addition, this determination is based in part upon certain proposed United States Treasury regulations that are not yet in effect (the "Proposed Regulations") and are subject to change in the future. The Proposed Regulations and other administrative pronouncements from the IRS provide special rules for determining the character of income and assets derived in the banking, insurance and securities businesses for purposes of the PFIC rules. Although we believe we have adopted a reasonable interpretation of the Proposed Regulations and administrative pronouncements, there can be no assurance that the IRS will follow the same interpretation.

In general, we will be a PFIC for any taxable year in which:

- at least 75.0% of our gross income is passive income; or

- at least 50.0% of the value of our assets (based on an average of the quarterly basis of our assets) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our Common Shares or GDSs may also result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of Common Shares or GDSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the Common Shares or GDSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Common Shares or GDSs;

- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and

- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation, if applicable, on any dividends received from us in taxable years beginning prior to January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our Common Shares or GDSs in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold our Common Shares or GDSs and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. It is intended that the Common Shares will be listed on the Taiwan Stock Exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the Common Shares will be "regularly traded" for purposes of the mark-to-market election. It should also be noted that we do not expect that the GDSs will be listed on a qualified exchange. Consequently, if you are a holder of GDSs, it is unclear whether you will be eligible to make a mark-to-market election.

If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your Common Shares or GDSs at the end of the year over your adjusted tax basis in the Common Shares or GDSs. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the

Common Shares or GDSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of your Common Shares or GDSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the Common Shares or GDSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Common Shares or GDSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Alternatively, you can sometimes avoid the rules described above by electing to treat us as a “qualified electing fund” under Section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding Common Shares or GDSs if we are considered a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes and subject to the discussion under “Passive Foreign Investment Company” above, you will recognize taxable gain or loss on any sale or exchange of Common Shares or GDSs in an amount equal to the difference between the amount realized for the Common Shares or GDSs and your tax basis in the Common Shares or GDSs. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss.

You should note that any ROC securities transaction tax will not be treated as a creditable foreign tax for United States federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our Common Shares or GDSs and the proceeds from the sale, exchange or redemption of our Common Shares or GDSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

TRANSFER RESTRICTIONS

Neither the GDSs, nor the Common Shares have been or will be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Other than Rule 144A GDSs offered by the company through SinoPac Securities (Asia) Limited only in the ROC Subscription, the GDSs are not being offered or sold in the United States except through the U.S. selling agents of certain of the initial purchasers only to qualified institutional buyers, as defined in Rule 144A, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

The GDSs sold outside the United States and the ROC will be offered by the initial purchasers to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

Except where DTC ceases to make its book-entry settlement system available for the GDSs, interests in the GDSs may only be held through owning beneficial interests in the master global depositary receipts, or master GDRs. Such interests in the master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the restrictions described below will not be recognized by us or the depositary, as the case may be.

TRANSFER RESTRICTIONS ON THE RULE 144A GDSs

Each owner of an interest in a Rule 144A GDS, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the depositary and the initial purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the Rule 144A GDSs and the Common Shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

2. such owner is purchasing the Rule 144A GDSs for:

   - its own account or an account and it is a QIB; or

   - an account with respect to which it exercises sole investment discretion or for transfer to an account as it may lawfully direct the depositary and that such account is a QIB;

3. such owner is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer;

4. such owner will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDSs or Common Shares represented thereby except as permitted by the applicable legend set forth in paragraph (5) below;

5. the Rule 144A GDRs will bear legends to the following effect, unless we and the depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

   NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY, HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

   THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

   EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

TRANSFER RESTRICTIONS ON THE INTERNATIONAL GDSs

Each owner of an interest in an international GDS, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the depositary and the initial purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the International GDSs and the Common Shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

2. each owner purchasing during the 40-day period commencing on the later of the commencement of the offering and the last related closing (the "Restricted Period") is purchasing the international GDSs in an offshore transaction meeting the requirements of Regulation S;

3. such owner will not offer, sell, pledge or otherwise transfer any interest in the International GDSs or Common Shares represented thereby except as permitted by the applicable legend set forth in paragraph (4) below;

4. the International GDRs will bear legends to the following effect, unless we and the depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

   NEITHER THIS INTERNATIONAL GDR CERTIFICATE, NOR THE INTERNATIONAL GDSs EVIDENCED HEREBY, NOR THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS INTERNATIONAL GDR CERTIFICATE AND THE INTERNATIONAL GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) INTERNATIONAL GDSs OUTSIDE THE UNITED STATES AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE

SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON REGULATION S AND (II) THE LATEST CLOSING DATE WITH RESPECT TO THE INTERNATIONAL GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED BY SUCH INTERNATIONAL GDSs IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE INTERNATIONAL DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH INTERNATIONAL DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND; PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement (the "Purchase Agreement"), the initial purchasers named below, for whom Goldman Sachs International and Morgan Stanley Services Limited are acting as representatives (the "Representatives"), have severally but not jointly agreed to purchase from us the number of GDSs set forth opposite the initial purchaser's name:

Initial Purchaser	Number of GDSs
Goldman Sachs International	19,991,800
Morgan Stanley Services Limited	19,991,800
Barclays Bank PLC	2,104,400
Total	42,088,000

In addition, we offered, through SinoPac Securities (Asia) Limited, GDSs to certain of our existing shareholders in the ROC Subscription. Pursuant to (i) notice Chin-Kuan-Cheng-Yi-Zi No. 098005893 issued by the FSC to the TSA on February 16, 2009, (ii) notice Jung-Zhen-Shan- Dien No. 0980000267 issued by the TSA, (iii) the self-regulatory rules and regulations of the TSA and (iv) the offering plans and allocation procedures that were submitted by us to and approved by the FSC, each of our existing shareholders has the right to subscribe for and purchase from us through SinoPac Securities (Asia) Limited an amount of GDSs equivalent to up to 14% of his or her shareholdings in our company. In principle, the maximum number of GDSs each shareholder may subscribe for is 14% of our shares held by such shareholder, provided however, that if the total number of GDSs subscribed by existing shareholders is more than 50% of the total number of GDSs to be offered, SinoPac Securities (Asia) Limited, as the underwriter for the ROC Subscription, is entitled to reduce the maximum number of GDSs to be allocated to each shareholder on a pro-rata basis.

Subject to the satisfaction or waiver of certain conditions precedent set out therein, the Purchase Agreement provides that the initial purchasers are severally obligated to purchase all of the GDSs they have agreed to purchase, if any are purchased. The Purchase Agreement also provides that if an initial purchaser defaults, in certain circumstances, the purchase commitments of non-defaulting purchasers may be increased or this offering may be terminated.

The initial purchasers propose to offer the GDSs initially at the issue price on the cover page of this offering memorandum. After the initial offering, the offering price of the GDSs may be changed.

Subject to the exceptions discussed below, we, each of our directors, supervisors and executive officers, and certain of our major shareholders, with the exception of one director that, as of June 30, 2009, beneficially owned approximately 5.85% of our issued shares (each, a "locked-up person"), have agreed for a 90-day period following the date of Purchase Agreement, without the prior written consent of the Representatives, not to, directly or indirectly: (1) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, make any short sale, grant or agree to grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of directly or indirectly, any Common Shares, GDSs or securities convertible into or exercisable or exchangeable for or represent the right to receive Common Shares or GDSs, except for pledges of Common Shares existing as of June 30, 2009 and subject to certain conditions, pledges of additional Common Shares required under applicable loan agreements as a result of declines in market value of such existing pledges; the foregoing restriction described in clause (1) above is expressly agreed to preclude such locked-up person, from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of such locked-up person's Common Shares or GDSs even if such Common Shares or GDSs would be disposed of by someone other than the lock-up persons. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of such locked-up person's Common Shares or GDSs or with respect to any security that includes, relates to, or derives any significant part of its value from such Common Shares or GDSs or (2) enter into any swap or other arrangement, or transfers to another, in whole or in part, any of the economic consequences of ownership of Common Shares or GDSs, whether any such transaction described in clauses (1) or (2) above is to be settled by delivery of Common Shares, GDSs or such other securities, in cash or otherwise or offer to or agree to do any of the foregoing or announce any intention to do so. In addition, such locked-up person (other than us) have agreed to procure its associates and the companies controlled by it and any nominee or trustee holding in trust for it to abide by the same restrictions described in clauses (1) and (2) above.

The restrictions described in clauses (1) and (2) above shall not apply to:

- this offering or sale of the GDSs by us;
- transactions relating to Common Shares or other securities acquired in open market transactions after the completion of this offering;
- the issuance, sale or transfer by us of Common Shares or options to purchase Common Shares pursuant to any of our employee stock option plans or employee share purchase plans in existence before this offering;
- the distribution of share dividends or employee bonus shares by us after this offering; and
- the issuance by us of any Common Shares upon the conversion, exercise or exchange of a security outstanding on the date of the Purchase Agreement.

In addition, the restrictions described in clauses (1) and (2) above shall not prohibit us from conducting the Rights Issuance.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments they may be required to make in that respect.

Application has been made to admit the International GDSs to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market and the International Order Book of the London Stock Exchange. A filing will be made to list the newly issued Common Shares represented by the GDSs on the Taiwan Stock Exchange.

The GDSs are expected to be issued and delivered against payment therefor on or about the Closing Date, which is expected to be July 27, 2009.

We have agreed to grant the initial purchasers a commission of US$0.1515 per GDS sold in this offering.

We have agreed to pay or caused to be paid all expenses of the initial purchasers in connection with the issue and sale of the GDSs.

The Representatives, initial purchasers, and their respective affiliates may from time to time engage in investment banking and corporate finance and lending activities for us and our affiliates in the ordinary course of business for which have received, and may in the future receive, customary compensation. In connection with this offering, the initial purchasers (or its affiliates) may, for their own accounts, enter into derivative transactions relating to the GDSs and/or the shares represented thereby at the same time as the offer and sale of the GDSs or in secondary market transactions. As a result of such transactions, the initial purchasers (or their affiliates) may hold long or short positions in such GDSs or derivatives or in the shares. These transactions may comprise a substantial portion of this offering and no disclosure will be made of such positions. Each of the initial purchasers (or its respective affiliates) may have purchased GDSs and been allocated GDSs for asset management and/or proprietary purposes and not with a view to distribution.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDSs or the Common Shares, or the possession, circulation or distribution of this offering memorandum or any other material relating to us, the GDSs or the Common Shares, in any jurisdiction where action for the purpose is required. Accordingly, neither the GDSs nor any Common Shares may be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the GDSs or any Common Shares, may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

United States

Each of the initial purchasers has severally represented and agreed that the GDSs and the Common Shares represented thereby, have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except to QIBs in reliance on Rule 144A under the Securities Act and may be offered or sold to persons who are not U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the GDSs (i) as part of their distribution at any time or (ii) otherwise until 40 calendar days after the later of the commencement of this offering and the last closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells GDSs in reliance on Regulation S during such 40 calendar day period, a confirmation or other notice detailing the restrictions on offers and sales of the GDSs within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the GDSs and the Common Shares represented thereby are restricted as described under “Transfer restrictions”.

In addition, until 40 days after the commencement of this offering, an offer or sale of GDSs or the Common Shares represented thereby within the United States by a broker/dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The initial purchasers propose to offer the GDSs to persons who are not U.S. persons in offshore transactions in reliance on Regulation S and in accordance with applicable law, and the initial purchasers propose to offer the GDSs to QIBs in the United States pursuant to Rule 144A.

European Economic Area

Each of the initial purchasers has severally represented and agreed that in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), the GDSs and the Common Shares represented thereby will not be offered or sold to the public in that Relevant Member State prior to the publication of a prospectus in relation to the GDSs and the Common Shares represented thereby which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the GDSs and the Common Shares represented thereby to the public in that Relevant Member State at any time:

1. to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

2. to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

3. to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Representatives; or

4. in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the GDSs and the Common Shares represented thereby to the public" in relation to any of the GDSs and the Common Shares represented thereby in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDSs and the Common Shares represented thereby to be offered so as to enable an investor to decide to purchase or subscribe for the GDSs and the Common Shares represented thereby, as the same may be varied in that Relevant Member State, by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

This offering memorandum does not constitute a prospectus for the purposes of and as defined in section 85 of the Financial Services and Markets Act 2000 (as amended) ("FSMA"), has not been prepared in accordance with the prospectus rules issued by the UK Financial Services Authority ("FSA") pursuant to section 73A of the FSMA and has not been approved by or filed with the FSA or by any other authority which would be a competent authority for the purposes of the Prospectus Directive (Directive 2003/71/EC). The GDSs may not be offered or sold and will not be offered or sold to the public in the UK (within the meaning of sections 85 and 102B of the FSMA) save in the circumstances where it is lawful to do so without an approved prospectus (within the meaning of the section 85 of the FSMA) being made available to the public before the offer is made. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale or any GDSs except in circumstances in which section 21(1) of the FSMA does not apply to the Company.

This offering memorandum is directed only at (i) persons outside the UK; (ii) qualified investors within that meaning of FSMA and any relevant implementing measures; (iii) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order"); (iv) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in article 49(2) of the FPO; (v) high net worth individuals falling within article 48 of the Order, or are sophisticated investors falling within article 50 of the Order or, are self-certificated sophisticated investors falling within article 50A of the Order, or fall within another exemption to the Order (all such persons referred to in (i) to (v) above together being referred to as "Relevant Persons"). This offering memorandum is exempt from the general restriction on the communication of invitations or inducements to enter into investment activity and has therefore not been approved by an authorized person, as would otherwise be required by section 21 of FSMA. Reliance on this document for the purpose of engaging in any investment activity may expose and individual to a significant risk of losing all of the property or other assets invested. Any investment to which this document relates is available only to (and any investment activity to which it relates) will be engaged in only with Relevant Persons. In particular, if you are a person within articles 48 or 50A of the Order you must have signed within the period of 12 months ending on the date of this document, a statement complying with either Part I or Part II (as applicable) of Schedule 5 to the Order. Persons who are not Relevant Persons should not take any action based upon this document and should not rely on it. Persons who are not Relevant Persons should not rely on or act upon this communication.

Each initial purchaser has severally represented and agreed that:

1. it is a person who is a qualified investor within the meaning of Section 86(7) of the FSMA, being an investor whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;

2. it has not offered or sold and will not offer or sell the GDSs and the Common Shares represented thereby the GDSs other than to persons who are qualified investors within the meaning of Section 86(7) of the FSMA or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the GDSs and the Common Shares represented thereby would otherwise constitute a contravention of Section 19 of the FSMA by our company;

3. it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the GDSs and the Common Shares represented thereby circumstances in which Section 21(1) of the FSMA does not apply to our company; and

4. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDSs and the Common Shares represented thereby in, from or otherwise involving the United Kingdom.

Italy

Each initial purchaser has severally represented and agreed that the offering of the GDSs and the Common Shares underlying the GDSs has not been registered with the Commissione Nazionale per le Societa e la Borsa, or CONSOB, in accordance with Italian securities legislation. Accordingly, each initial purchaser represents and agrees that:

1. sales of the GDSs and the shares underlying the GDSs in the Republic of Italy shall be effected in accordance with all Italian securities, tax and other applicable laws and regulations; and

2. it has not offered, sold or delivered, and will not offer, sell or deliver the GDSs and the Common Shares represented thereby, and have not distributed and will not distribute copies of this offering memorandum or any other document relating to the GDSs and the Common Shares represented thereby in the Republic of Italy unless such offer, sale or delivery of the GDSs and the Common Shares represented thereby or distribution of copies of this offering memorandum or other documents relating to the GDSs and the Common Shares represented thereby in the Republic of Italy is to qualified investors (operatori qualificati), as defined by Articles 25 and 31(2) of CONSOB Regulation no. 11522 of 1 July 1998 as subsequently modified (Regulation 11522), except for individuals referred to in Article 31(2) of Regulation 11522 who exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a Societa di Intermediazione Mobiliare, or SIM), management companies (societa di gestione del risparmio) authorized to manage individual portfolios on behalf of third parties and fiduciary companies authorized to manage individual portfolios pursuant to Article 60(4) of Legislative Decree no. 415 of 23 July 1996, and copies of this offering memorandum may not be reproduced or redistributed or passed on, directly or indirectly, to any other person or published in whole or in part. Each initial purchaser understands and agrees that any offer, sale or delivery of the GDSs and the Common Shares represented thereby or distribution of copies of this offering memorandum in Italy must be made solely by entities which are duly authorized to conduct such activities in Italy and must be in full compliance with the provisions contained in Legislative Decree no. 58 of 24 February 1998, Legislative Decree no. 385 of 1 September 1993 and any other applicable laws and regulations and possible requirements or limitations which may be imposed by the Italian competent authorities.

The ROC

Each initial purchaser has severally, represented and agreed that it has not offered, sold or delivered the GDSs, directly or indirectly, in the ROC, as part of this offering or to, or for the account or benefit of, any resident of the ROC. However, we offered through SinoPac Securities (Asia) Limited, GDSs to our existing shareholders in the ROC pursuant to the ROC Subscription.

Hong Kong

Each initial purchaser has severally represented and agreed that:

1. it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the GDSs, other than (a) to "professional investor" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

2. it has not issued or does not have in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the GDSs, which is directed at or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect of the GDSs which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Japan

Each initial purchaser has severally represented and agreed that the GDSs have not been and will not be registered under the Financial Instruments and Exchange Law of Japan and that the GDSs which it subscribes will be subscribed by it as principal. Each initial purchaser has also represented and agreed that, in connection with the initial offering of the GDSs, it will not directly or indirectly offer or sell any GDSs in Japan, or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Law of Japan and other applicable laws and regulations of Japan.

Singapore

Each initial purchaser has severally represented and agreed that it has acknowledged that this offering memorandum has not been and will not be lodged with or registered by the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or the invitation for subscription or purchase of the GDSs may not be issued, circulated or distributed, nor may the GDSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person as defined under Section 275(2) and pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of any other applicable provision of the SFA.

Where the GDSs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor as defined under Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (however described) in that trust shall not be transferred for six months after that corporation or that trust has acquired the GDSs under Section 275 of the SFA except:

(a) to an institutional investor under Section 274 of the SFA or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

(b) where no consideration is given for the transfer; or

(c) where the transfer is by operation of law.

Canada

The GDSs may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file an offering memorandum in the province or territory of Canada in which such offer or sale is made, and only by a dealer duly registered under the applicable securities laws of that province or territory in circumstances where any exemption from the applicable registered dealer requirements is available.

Luxembourg

Each initial purchaser has severally represented and agreed that it has acknowledged that the GDSs may not be offered to the public in Luxembourg and no steps may be undertaken which would constitute the offering of the GDSs to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer may not be announced to the public and offering material may not be made available to the public.

GENERAL INFORMATION

1. We are a company limited by shares and incorporated under the laws of the ROC on February 19, 2002. As of the date of this offering memorandum, our authorized share capital was 8,000,000,000 common shares, NT$10 par value, with an issued and fully paid-up share capital of 6,246,906,644 common shares. We are not the subsidiary of any entity. Our registered and principal executive office is located at 66 Chung-Hsiao West Road, Section 1, Taipei, Taiwan, ROC, and our telephone number at the above address is +886 (2) 2389-5858. Shin Kong Securities currently acts as our Common Share registrar and maintains our register of shareholders at its offices in Taipei, Taiwan, and enters transfers of Common Shares in such register upon presentation of, among other documents, certificates in respect of the transferred Shares. The registered office of our Share registrar is at B-1/F, No. 35, Lane 11, Guangfu N. Rd., Taipei, Taiwan, ROC. The uniform number assigned to us is 80328219. According to Article 7-1 of our Articles, our business scope is to engage in investment and management of banking bills finance, credit card, trust, insurance, securities, futures and venture capital sectors as well as in foreign financial institutions and other related businesses approved by the competent authority and in accordance with relevant laws and regulations.

2. The GDSs have been accepted for clearance and settlement through the facilities of DTC (and its direct and indirect participants, including Euroclear and Clearstream). Relevant trading information is set forth below.

GDSs	ISIN	CUSIP	Common Code
International GDSs	US8245542033	82455T 203	044050480
Rule 144A GDSs	US8245571043	82455T 104	044050510

Trades on the Luxembourg Stock Exchange will be settled and cleared through Euroclear or Clearstream. Euroclear and Clearstream have only accepted for settlement and clearance those GDSs represented by the Master International GDR. Owners of Rule 144A GDSs represented by the Master Rule 144A GDR wishing to effect trades on the Luxembourg Stock Exchange will first have to exchange their relevant holding from the Master Rule 144A GDR to the Master International GDR in accordance with the Deposit Agreements.

3. Application has been made to admit the International GDSs being offered on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market.

4. The offering of the GDSs was authorized by resolutions of our shareholders dated June 19, 2009 and by resolutions of our directors dated April 28, 2009. We have obtained all necessary consents, approvals and authorizations as may be required in connection with the offer and sale of the GDSs.

5. Neither we nor our subsidiaries are involved in any material litigation or arbitration proceedings that may have, or have had during the 12 months preceding the date of this document, a material adverse effect on our financial position or the financial position of our company and our subsidiaries, taken as a whole, nor, so far as we or our subsidiaries are aware, are there any such proceedings pending or threatened. See "Business — Legal Proceedings" for additional information.

6. For so long as the International GDSs are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market, The Bank of New York Mellon

(Luxembourg) S.A. will, in its capacity as listing agent, serve as the intermediary among the Luxembourg Stock Exchange, any party having an interest in the issuance and listing of the GDSs, including holders thereof, and us. The Depositary is Citibank, N.A. The Depositary is a national banking association and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the U.S. Office of the Comptroller of the Currency. It is an indirect wholly owned subsidiary of Citigroup, Inc., a Delaware corporation.

The principal executive office of the Depositary is located at 399 Park Avenue, New York, New York 10043. The office at which the GDSs will be administered is located at 388 Greenwich Street, New York, New York 10013, New York, New York 10286. For so long as the GDSs are listed on the Euro MTF Market, a copy of our Articles, a copy of the Depositary's certificate of incorporation, as amended, together with the Deposit Agreements and the purchase agreement, copies of Citibank, N.A.'s most recent quarterly financial statements and annual report will be available for inspection, free of charge, during usual business hours on any weekday (except public holidays) at the Depositary's principal executive office and at The Bank of New York Mellon (Luxembourg) S.A. at Aerogolf Center-1A, Hoehenhof, L-1736 Senningerberg, Luxembourg, as listing agent. As long as any of the GDSs remain outstanding, copies of our annual report in English containing our audited consolidated financial statements and copies of our semi-annual unaudited consolidated financial statements in English will be delivered to and be obtainable free of charge, and copies of this offering memorandum will be obtainable free of charge from the specified offices of The Bank of New York Mellon (Luxembourg) S.A. We are not statutorily required to prepare, and accordingly do not prepare or make available to investors, unconsolidated financial statements and consolidated interim quarterly reports in English. For so long as the GDSs are listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF market, we will publish all notices to holders of the GDSs on the Internet site of the Luxembourg Stock Exchange, which is "www.bourse.lu."

7. Except as disclosed in "Capitalization" included in this offering memorandum, there has been no material adverse change in our financial position since March 31, 2009, the date of our last reviewed financial statements, and there has been no significant change in our financial condition, capitalization or prospects since March 31, 2009.

8. The consolidated financial statements of Shin Kong FHC, the consolidated financial statements of Shin Kong Life, and the consolidated financial statements of Shin Kong Bank have been prepared and are presented, as of and for the years ended December 31, 2006, 2007 and 2008 and as of and for the three months ended March 31, 2008 and 2009, on a consolidated basis, in accordance with generally accepted accounting principles in the ROC.

9. There is no public takeover or exchange offers by third parties in respect of the Company's Common Shares and there is no public exchange offers made by the Company in respect of other companies' shares.

10. As of the date of this offering memorandum, we do not have any employee share option plans.

LEGAL MATTERS

The validity of the Common Shares underlying the GDS offered by this offering memorandum will be passed upon for us by Baker & McKenzie, Taipei, Taiwan. Certain legal matters in connection with the offering as to New York state and United States federal law will be passed upon for the initial purchasers by Simpson Thacher & Bartlett LLP.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Shin Kong FHC as at and for the years ended December 31, 2006, 2007 and 2008, the consolidated financial statements of Shin Kong Life as at and for the years ended December 31, 2006, 2007 and 2008, and the consolidated financial statements of Shin Kong Bank as at and for the years ended December 31, 2006, 2007 and 2008 included in this offering memorandum have been audited by Deloitte & Touche, independent auditors, as indicated in their report with respect thereto included herein. Such report expressed a modified unqualified opinion on the consolidated financial statements and includes explanatory paragraphs referring to adoption of new accounting standards. In addition, the consolidated financial statements of Shin Kong FHC states that the financial statements of one of the company's subsidiary were audited by other auditors and that its reports, insofar as they relate to the amounts of this subsidiary included in the consolidated financial statements, are based solely on the report of the other auditors.

With respect to the unaudited consolidated financial statements of Shin Kong FHC as of and for the three months ended March 31, 2008 and 2009, the unaudited unconsolidated financial statements of Shin Kong Life as of and for the three months ended March 31, 2008 and 2009, and the unaudited unconsolidated financial statements of Shin Kong Bank as of and for the three months ended March 31, 2008 and 2009 included in this offering memorandum, Deloitte & Touche have reported that they have applied limited procedures in accordance with professional standards for a review of such information in accordance with ROC Statement on Auditing Standards No. 36, "Review of Financial Statements." Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Such report includes explanatory paragraphs referring to adoption of new accounting standards. In addition, the consolidated financial statements of Shin Kong FHC states that the financial statements of one of the company's subsidiary were reviewed by other auditors and that its reports, insofar as they relate to the amounts of this subsidiary included in the consolidated financial statements, are based solely on the report of the other auditors.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

The consolidated financial statements of Shin Kong FHC and each of the Shin Kong Companies are prepared and presented in accordance with ROC GAAP, which differs in certain significant respects from U.S. GAAP. A brief description of certain material differences between ROC GAAP and U.S. GAAP is set forth below. The regulatory organizations that promulgate ROC GAAP and U.S. GAAP have projects ongoing that could affect future comparisons such as the comparison below. The summary does not and is not intended to provide a comprehensive listing of all existing or future differences between ROC GAAP and U.S. GAAP including those specifically related to Shin Kong FHC and the Shin Kong Companies, or to the industries in which we operate. No attempt has been made to identify (a) future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards, or (b) disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the financial statements of Shin Kong FHC or any of the Shin Kong Companies, or the notes thereto. Further, had we undertaken to identify the differences specifically affecting the financial statements presented in this offering memorandum, other potentially material differences which are not in the following summary may have come to our attention. Accordingly, there can be no assurance that this summary provides a complete description of all differences which may have a significant impact on our financial statements. U.S. GAAP is generally more restrictive and comprehensive than ROC GAAP regarding the recognition and measurement of transactions, account, classifications and disclosure requirements.

Management has not quantified the effects of the differences between ROC GAAP and U.S. GAAP on any of the financial results of Shin Kong FHC or any of the Shin Kong Companies.

(1) GENERAL

Subject	ROC GAAP	U.S. GAAP
1. Presentation of Non-Consolidated Financial Statements	Under ROC GAAP requirements, non-consolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements for any period.
2. Consolidation	Effective from January 1, 2005, all investees in which we have more than 50% of their voting stock or over which we can exercise control should be consolidated. Besides annual and semi-annual consolidated financial statements, effectively form January 1, 2008, we are required to prepare quarterly consolidated financial statements.	Under U.S. GAAP, the parent company's consolidated financial statements generally include the financial statements of the variable interest entities ("VIE") and majority-owned subsidiaries, unless (i) control is considered temporary or (ii) control does not rest with the majority owner. Further, U.S. GAAP requires that the accounting principles and

Subject	ROC GAAP	U.S. GAAP
		practices used by an enterprise in the preparation of its interim statements be based on those used in its latest annual financial statements unless a change of accounting practice or policy has been adopted in the current year. Thus, if the enterprise's latest annual financial statements were prepared on a consolidated basis, the interim financial statements shall also be prepared on a consolidated basis accordingly, except for the exceptions as discussed above.
3. Acquisition of Business	Under ROC GAAP, both pooling of interests method (pooling method) and purchase method were permissible for business acquisition made before January 1, 2007. Use of pooling method is required whenever 12 criteria were met; otherwise, the purchase method was to be used. Under the purchase method, goodwill was previously amortized over a maximum period of 20 years. However, effective January 1, 2006 goodwill is not amortized but tested for impairment at least annually. As stipulated in an Interpretation issued by Accounting Research and Development Foundation (the "ARDF") in June 2006, business combinations made after January 1, 2007 should be accounted for using the purchase method, and the pooling of interests is prohibited thereafter.	Under U.S. GAAP, business combinations subsequent to July 1, 2001, should be accounted for based on the "purchase" method. Under purchase method, purchased research and development costs would be expensed upon consummation of the acquisition. The guidance also requires that all intangible and tangible assets be recorded at their fair values and gives specific guidance on the types of intangible assets that might exist. Furthermore, goodwill is not subject to amortization but rather be tested for impairment under U.S. GAAP (see Goodwill and Other Intangible Assets). If the purchase consideration is measured by the fair value of the equity securities, the fair value of stock is the average share price from two days before the announcement to two days after the announcement. For private companies reporting in U.S. GAAP, equity securities would normally be evaluated to determine the fair value.

Subject	ROC GAAP	U.S. GAAP
4. Formation of a Holding Company	Under ROC GAAP, the formation of a holding company that includes the combination of individual companies is recorded at historical cost, so that the aggregate book value of each individual company's net assets become the historical cost of the new holding company.	Under U.S. GAAP, formation of a holding company that combines subsidiary companies that were previously under common control is recorded at historical cost, except for the acquisitions of minority interests, which would be recorded at fair value similar to a purchase accounting transaction, including the recognition of any goodwill.
5. Equity Securities of Less than 20% Voting Rights or Debt Instruments/ Short-term Investment	Effective January 1, 2006, we adopted ROC SFAS No. 34, "Financial Instruments: Recognition and Measurement", and No. 36, "Financial Instruments: Disclosure and Presentation". Financial instrument including debt securities and equity securities are categorized as financial assets or liabilities at fair value through profit or loss (FVTPL), available-for-sale (AFS) or held-to-maturity (HTM) securities. FVTPL has two subcategories, financial assets designated on initial recognition as one to be measured at fair value, and those that are classified as held for trading, which are also measured at fair value with fair value changes recognized in profit and loss. These classifications are similar to those required by U.S. GAAP Statement of Financial Accounting Standard (U.S. SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities".	Equity investments of less than 20% voting rights that have readily determinable fair value and debt investments are classified in three categories and accounted for as follows: a) Debt and equity securities classified as trading securities are marked to market at the end of the accounting period with unrealized gains or losses taken to current earnings. b) Debt securities classified as held to maturity are reported at amortized cost, with any premium or discount amortized over the period of the investment. c) Debt and equity securities classified as available-for-sale are marked to market at the end of the accounting period with unrealized gains or losses taken to a separate component of stockholders' equity, unless there is a permanent decline in the value of such investment in which case it is recorded against income.

Subject	ROC GAAP	U.S. GAAP
6. Equity Investments of at Least 20%	Under ROC GAAP, equity investments where a company has voting rights of at least 20% or significant influence, or where the company controls, are generally required to be accounted for under the equity method. Under ROC GAAP, when an investee issues additional shares and the investor's ownership interest changes as a result, any resulting difference between the investor's investment balance and its proportionate share of the investee's net equity is adjusted to investment account with an offsetting entry in investor's capital reserve or retained earnings. Upon subsequent disposition of the investment, amounts previously recorded to capital reserve or retained earnings relating to the respective will be reversed and recorded as part of the gain or loss recorded on disposal. With respect to intercompany transactions between an investor company and an unconsolidated investee affiliate, ROC GAAP provides that any resulting profit on such transactions be eliminated in the investor company's financial statements. In general, net intercompany profit on such transactions is deferred and offset against the long-term investment account, with the deferred net intercompany profit amortized to income over future periods based on the nature of the transaction which give rise to the deferred intercompany profit.	Under U.S. GAAP, the equity method of accounting is generally required for investments with an ownership percentage of greater than 20% but less than 50%, unless (i) the investment is considered temporary, or (ii) the investor does not possess the ability to exercise significant influence over the investee. There are no provisions which allow the investor company to delay recognition of its equity in the investee company's income (loss). Under U.S. GAAP, when an investee issues additional shares at amount over/under the carrying value of the shares held by the investor, and the investor's ownership interest decreases as a result of not fully subscribing to the issue, the resulting difference between the investor's investment balance and its proportionate share of the investee's net equity is adjusted to its investment account with an offsetting entry either to (i) gain or loss to record the deemed disposition of shares or (ii) paid-in capital. If an adjustment has been made to paid-in-capital transactions, U.S. GAAP would not permit the adjustment of such amounts on the subsequent disposition of all or a part of the adjustment. Under U.S. GAAP, the gross impact as well as the net intercompany transactions between an investor company and an unconsolidated investee affiliate are generally eliminated in the investor company's financial statement. This elimination is either complete or partial to the extent of the investee affiliate.

Subject	ROC GAAP	U.S. GAAP
7. Bonuses to Employees, Directors and Supervisors/ Earnings Per Share	For earnings of 2007 and before, it is a statutory requirement that a portion of distributable earnings should be appropriated as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash, while bonuses to employees may be granted in cash or shares or both. All of these appropriations, including stock bonuses, which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year. The stock bonus to employees is given retroactive effect in the computation of earnings per share. In March 2007, the ARDF issued an Interpretation which requires companies to recognize as compensation expenses for bonuses paid to employees, directors and supervisors beginning January 1, 2008.	Under U.S. GAAP, such bonuses and remuneration are charged against income. Shares issued as part of those bonuses are recorded at fair market value. However, since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of such bonuses is initially accrued based on management's estimate of the number of shares to be issued, valued at par value. Any difference between the initially accrued amount and the fair market value of the bonuses upon the issuance of shares is recognized in the year of shareholder approval. Under U.S. GAAP, stock bonus to employees is given only prospective effect in the computation of earnings per share.
8. Stock Dividends	Stock dividends are recorded as a reduction to retained earnings for the par value of the stock issued, and a like amount is recorded to the capital stock account.	Under U.S. GAAP, when the ratio of distribution is less than 25% of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in the capital stock account and the excess of fair value over the par value recorded as additional paid-in capital. Distribution in excess of 25% is generally considered as stock split.

Subject	ROC GAAP	U.S. GAAP
9. Capital Surplus	Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of common stock; (b) prior to 2001, gain, net of applicable income tax, on disposal of properties; (c) donations in relation to capital transactions; (d) revaluation increment on properties; and (e) the value of the assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition.	Under U.S. GAAP, items (a) and (c) are the same as in ROC GAAP; item (b) is recorded as part of net income, which is then included as a component of retained earnings and items (d) and (e) are not permitted.
10. Accounting for Pensions	We adopted ROC SFAS No. 18 “Accounting for Pensions” as of December 31, 1995 and effective in January 1, 1996. ROC SFAS No. 18 is substantially similar to U.S. SFAS No. 87, except for the effect of the adoption of ROC SFAS No. 18 in relation to amortization of unrecognized net transitional obligations. Starting from July 1, 2005, employees are required to choose between the two pension plans available to them. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees’ individual pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.	Under U.S. GAAP, the annual pension provision is recognized as a charge to results of operations over the employees’ service period in accordance with SFAS No. 87. U.S. SFAS No. 87 focuses on the plan’s benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. After adoption of SAFS 158, the overfunded/ underfunded status of defined benefit and other postretirement plans are presented on the face of balance sheet.

Subject	ROC GAAP	U.S. GAAP
11. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of	ROC SFAS No. 35, which requires a provision for impairment loss equal to the excess of a long-lived asset's book value over the higher of (1) value in use or (2) fair value less costs to sell, took effect on January 1, 2005. Subsequent reversal of an impairment loss is required for all assets, other than goodwill, if certain criteria are met.	U.S. SFAS 144 requires that long-lived assets held for use by an entity be reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized for the difference between the carrying value and the fair value of the asset. Subsequent reversal of an impairment loss is prohibited.
12. Goodwill and Other Intangible Assets	Starting from January 1, 2006, goodwill is not amortized but tested for impairment at least annually. Before January 1, 2006, acquired goodwill and other intangible assets, such as patents, technology transfer fees, licenses fees and the like, should be amortized by systematic charges to income over the estimated benefit period. The period of amortization for goodwill should not, however, exceed twenty years.	Under U.S. GAAP, SFAS No. 142 "Goodwill and Other Intangible Assets," effective on December 15, 2001, requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested for impairment at least annually by comparing the fair value of those assets with their recorded amounts (a two-step process). Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of an arbitrary ceiling. Also, this statement requires disclosure of information about goodwill and other intangible assets in the years subsequent to their acquisition, which was not previously required.
13. Zero Coupon Bonds Issued	Before SFAS No. 34 was effective, there were no specific rules requiring the imputation of interest costs on non-interest bearing debt. After SFAS No. 34 was effective since January 1, 2006, the treatment of zero coupons issued is the same as U.S. GAAP.	Under U.S. GAAP, when debt is noninterest bearing or carries an unreasonable rate of interest, or when the cash value of the consideration received is different from the face amount of the debt, interest should be imputed at an appropriate rate and the debt recorded at its fair value.

Subject	ROC GAAP	U.S. GAAP
14. Derivative Financial Instrument Transactions	ROC SFAS No. 34, which requires accounting treatments or derivative instruments similar to those required under U.S. SFAS 133 and 138, took effect on January 1, 2006. Derivatives that do not qualify for hedge accounting are recorded as financial assets or liabilities at fair value through profit or loss (FVTPL) and measured at fair value.	Under U.S. GAAP, accounting for derivative instruments is covered under U.S. SFAS 133, as amended by U.S. SFAS 138, which requires that all entities recognize derivative instruments as assets and liabilities in the statement of financial position and subsequently measure them at fair value. If certain conditions are met, entities may elect to designate a derivative instrument as one of the following: Fair value hedge — a hedge of the exposures to changes (that are attributable to a particular risk) in the fair value of (1) a recognized asset or liability or (2) an unrecognized firm commitment; Cash-flow hedge — a hedge of the exposure to variability that is attributable to a particular risk) in the cash flows of a forecasted transaction; and Foreign-currency hedge — a hedge of the foreign-currency exposure of (1) an unrecognized firm commitment, (2) an available-for- sale security, (3) a forecasted transaction, or (4) a net investment in a foreign operation.

Subject	ROC GAAP	U.S. GAAP
15. Income Tax	Under ROC GAAP, a valuation allowance determined and the accounting for uncertainty in income taxes is less stringent as compared to U.S. GAAP. Under U.S. GAAP, if a company has experienced cumulative losses in recent years, it is not generally able to consider projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets.	Under U.S. GAAP, current tax liabilities are recognized for estimated taxes payable for the current period. U.S. SFAS 109 requires that all material temporary differences between the carrying values of assets and liabilities and their respective tax bases be recognized as deferred tax liabilities or assets. A valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred tax assets and liabilities in the period of enactment, and is reported as a part of results of operations. FIN 48 clarifies the accounting for uncertainty in income taxes in accordance with SFAS 109. This interpretation is a two-step process: recognition and measurement. The enterprise determines whether tax position is more likely than not to be sustained upon examination based on the technical merits. A tax position meets the more-likely- than-not threshold is measured to determine at the largest amount that is greater than 50% of being realized.
16. Retained Earnings Tax	Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, the surtax can be avoided. Under ROC GAAP, surtax is recorded in the statement of income in the following fiscal year if the earnings are not distributed to the shareholders.	Under U.S. GAAP, income tax expense relating to the 10% retained profit tax is recorded on the statement of income in the year that the profits were earned.

Subject	ROC GAAP	U.S. GAAP
17. Comprehensive Income	There is no requirement to present comprehensive income.	Comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under U.S. GAAP. Comprehensive income includes all changes in stockholders' equity during a period, except changes resulting from investments by or distributions to owners, including certain items not included in the current results of operations.
18. Stock Options	Pursuant to an Interpretation issued by the ARDF, for employee stock options granted after January 1, 2004, similar provisions as those prescribed in U.S. SFAS 123 (before amendment in December 2004) apply. SFAS No. 39, which stipulates the accounting for share-based payment, was effective for accounting period beginning January 1, 2008. SFAS No. 39 requires that expenses related to share-based payment be recognized on the basis of fair value of equity instruments granted on the grant date. The use of the intrinsic value is permitted only in rare cases in which the fair value of the equity instruments cannot be reliably measured.	Under U.S. GAAP, as prescribed in U.S. SFAS 123, compensation cost is recognized over the service period for employee stock options using the fair value based method of accounting or the intrinsic value based method of accounting. If the intrinsic value based method is used, pro forma disclosures of net income and earnings per share are required, as if the fair value based method had been applied. However, under U.S. SFAS 123 as amended in December 2004, employee stock options granted after the required effective date can only be accounted for using the fair value based method of accounting, the required effective date refers to the beginning of the first interim or annual reporting period that begins after Jan. 1, 2006 for public entities that do not file as small business issuers.
19. Compensated Absences	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences must be accrued based on the liability for employees' rights to receive compensation for future absences when the benefits can be accumulated or vested over the service period.

Subject	ROC GAAP	U.S. GAAP
20. Classification	Under ROC GAAP, there are no specific rules with respect to account presentation on the statement of income, operating expenses and non-operating expenses restructuring expenses, impairment loss of fixed assets and earthquake losses.	Under U.S. GAAP, the presentation of scrap, inventory allowance, restructuring expenses, impairment loss of fixed assets and earthquake losses are generally recorded under income from continuing operations, not as nonoperating expenses. Also, under U.S. GAAP, the unrealized gross profit generated from downstream transactions is generally charged against cost of sales and credited the investment account.
21. Revaluation of Assets	ROC GAAP permits property, plant and equipment to be recorded at cost plus appreciation in respect of assets revalued in accordance with ROC government regulations. For land revaluation, an estimated land value increment tax equal to between 40% and 60% of the appreciation amount must be recorded as long-term land value incremental tax payable. The remainder of the appreciation amount is either credited to capital surplus (only to offset a deficit) or transferred to capital. For revaluation of properties other than land, a new basis of such assets for depreciation purposes is established.	Revaluation of assets is not permitted.
22. Proposed Dividends	Dividends are charged against retained earnings when they are formally approved by stockholders.	Dividends are charged against retained earnings when they are formally approved by the board of directors.

Subject	ROC GAAP	U.S. GAAP
23. Treasury Stock Issued to Employees	Prior to January 1, 2008, treasury stock purchased and reissued to employees is recorded at the price sold to employees. If the price paid by the employee is less than the purchase price, the difference is recorded to capital surplus generated from previous treasury stock transactions if sufficient. If capital surplus is not sufficient for the entire difference, the remaining is recorded to retained earnings. Effective January 1, 2008, as stipulated in an Interpretation issued by ARDF, treasury shares granted to employees should be recognized as expenses on the basis of fair value determined by using option valuation model.	Under U.S. GAAP, shares of treasury stock may be sold to employees at a discount up to 5% from the market price on date of issue with no compensation expense required to be recorded. If the discount is greater than 5% of the market price and can not justify the discount is equivalent to the share issuance costs, the company is required to record the entire discount amount as compensation expense and amortize over the holding period, if any. A company that justifies a purchase discount in excess of 5 % shall reassess at least annually, and no later than the first share purchase offer during the fiscal year, whether it can continue to justify that discount.
24. Depreciation Lives of Fixed Assets	In practice, depreciation is generally provided using the guideline service lived as prescribed by ROC Internal Revenue Code plus one additional year as salvage value. ROC Securities and Futures Bureau regulations applicable to public companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e., the salvage value portion) is depreciated over the asset's remaining economic life. The estimated life of buildings under ROC GAAP can be depreciated over a period of 55 years.	Depreciation is provided over the asset's estimated useful life which is based on economic and operational consideration, rather than tax or legal consideration. No additional depreciation is provided on fully depreciated assets which continue to be used in the business. In general, 55 years would be considered too long a period over which to depreciate fixed assets.

Subject	ROC GAAP	U.S. GAAP
25. Segment Reporting	ROC GAAP requires disclosure of segment information in the footnotes information to the financial statements according to industry and geographic information, which need not necessarily be the same as the management's internal report to company decision-makers.	Under U.S. SFAS 131, a public business enterprise is required to present segment information based on operating segments. Several operating segments may, provided aggregation criteria are met, be aggregated to reportable segments for which the required information is disclosed. Disclosure is based on the management's approach for reporting segments information to the company's chief operating decision-makers.

(2) ACCOUNTING FOR BANKS

Subject	ROC GAAP	U.S. GAAP
1. Methodology for Calculation of the Allowance For Loan Losses	In determining the allowance for credit losses, the collectability of the loan portfolio and credit guarantees must be evaluated based on borrowers'/clients' payment history and the related loan classification as non-performing, in accordance with "The Rules for Bank Overdue Receivables and Bad Debts" issued by the MOF. Under the MOF rules, an allowance for loan losses of at least a minimum of (i) 50% must be set aside against doubtful loans and (ii) 100% must be set aside against loss loans. No specific allowance is required for substandard loans. Write-offs of specific loans under MOF guidelines are first offset against the recorded allowance for loan losses. If the allowance is insufficient to cover write-offs, additional losses are recognized on loans in the statement of income for the current period. Amounts of bad debts recovered are accounted for as non-operating income in the statement of income.	Under U.S. GAAP recognition of loan losses is provided by Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS No. 5) and No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114). An estimated loss from a loss contingency, such as the collectibility of receivables, should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Loan loss allowance methodology generally should: • include a detailed analysis of the loan portfolio, performed on a regular basis; • consider all loans (whether on an individual or group basis);

Subject	ROC GAAP	U.S. GAAP
		• identify loans to be evaluated for impairment on an individual basis under SFAS No. 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under SFAS No. 5; • consider all known relevant internal and external factors that may affect loan collectibility; • be applied consistently but, when appropriate, be modified for new factors affecting collectibility; • consider the particular risks inherent in different kinds of lending; Consider current collateral values (less costs to sell), where applicable; • require that analyses, estimates, reviews and other loan loss allowance methodology functions be performed by competent and well-trained personnel; • be based on current and reliable data; • be well documented, in writing, with clear explanations of the supporting analyses and rationale; and

Subject	ROC GAAP	U.S. GAAP
		• include a systematic and logical method to consolidate the loss estimates and ensure the loan loss allowance balance is recorded in accordance with U.S. GAAP.
2. Recognition of Interest Income	Under ROC GAAP, interest income on loans is recognized on an accrual basis. However, when the management believes that the principal or interest payments of a loan are unlikely to be received, or where interest or principal payments are more than 180 days overdue, interest income is recognized only when cash is received and the loans are reclassified as non-performing loans. The interest income on accounts with loan extension agreements is not recognized until cash is received in accordance with the regulations of the MOF.	Under U.S. GAAP, loans are generally placed on non-accrual when the principal and/or interest are delinquent 90 days or more and are not both well-secured and in the process of collection. Accrued but uncollected interest receivable is reversed and charged against interest income when placed on non-accrual status. Cash interest payments received are recognized either as interest income or as a reduction of principal when collection or principal is doubtful.
3. Reserves for Default and Securities Trading Losses	In accordance with the MOF rules, a company is required to provide reserves for default and for securities trading losses when trading securities for its customers and for its own account, respectively. Reserve for default is 0.0028% of the transaction price of traded securities on a monthly basis and it shall be used for the purpose of covering the losses caused by defaults for trading on customers' accounts or for other uses as approved by the Securities and Futures Commission ("SFC"). When the accumulated reserve balance reaches NT$200 million, no further reserve is required.	Under U.S. GAAP, such statutory reserve accounts would not be appropriated unless the decline in value is determined to be other-than-temporary.

Subject	ROC GAAP	U.S. GAAP
	Reserve for trading securities losses is 10% of the excess of monthly gains over losses until the reserve balance reaches NT$200 million. Such reserve can only be used to offset losses or gains arising from securities trading.	
4. Investments with Repurchase or Resale Agreements	Before January 1, 2005, there are no specific accounting statements for investments with repurchase or resale agreements under ROC GAAP. However, based on accounting practice in the ROC, investments in bonds or commercial papers under resale and repurchase agreements are normally accounted for using the sale/purchase method, and are booked under the relevant memo accounts. Effective January 1, 2004, the accounting treatments are similar to those required under U.S. GAAP.	Under U.S. GAAP, sale/purchase accounting is achieved if an entity has surrendered control over all or a portion of a financial asset sold/purchased. One of the criteria is that there are no repurchase or resale clauses; otherwise the transaction is accounted for as a financing activity.

(3) ACCOUNTING FOR LIFE INSURANCE COMPANIES

Subject	ROC GAAP	U.S. GAAP
1. Policy Reserve	For pure endowment and annuity policies, the reserve for future policy benefits is set aside in accordance with the level policy reserve method. For life insurance contracts with a term of more than one year, except for pure endowment, the reserve for future policy benefits is computed by the net level premium method using the interest rate of the respective insurance contract and the statutory mortality table approved by the MOF.	For annuity and other investment type policies, the reserve for future policy benefits represents the policyholders' account balances before any applicable surrender charges. For traditional insurance products the reserve for future policy benefits is computed by the net level premium method using interest, withdrawal, mortality and morbidity assumptions appropriate at the time the policies were issued. When the policyholder benefit liability plus the present value of expected future gross premiums are insufficient to provide for expected future policy benefits and expenses, using current best estimate assumptions, deferred acquisition costs are written down and/or a deficiency liability is established by a charge to earnings.
2. Claims Reserve	Provision of reported but unpaid claims reserves is estimated by each insurance company based on several factors, including historical information and circumstances surrounding each claim for each type of insurance. Provision of IBNR reserves is determined according to earned premium for each type of insurance in accordance with regulations issued by the MOF.	The liability for unpaid claims shall be based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.

Subject	ROC GAAP	U.S. GAAP
3. Special Claim Reserve	Special claim reserves in the ROC are similar to reserves for equalization in several European countries, which are set aside to minimize volatility in underwriting profit. A ROC life insurance company is required to set aside a fixed percentage of the net earned premiums for each particular type of insurance as special reserves.	Not applicable.
4. Premium Income	Premium income is recognized over the contract term in proportion to the amount of insurance provided.	Long-duration contracts, principally life insurance, are earned when due. Premiums from short-duration insurance contracts are earned over the related contract period. Short-duration contracts include primarily property and casualty, including estimated ultimate premiums on retrospectively rated policies, and credit life and accident and health policies.
5. Acquisition Cost	Acquisition costs are expensed as incurred.	Deferred policy acquisition costs, included in other assets, for the life business represent the costs of acquiring new business, principally commissions, certain underwriting and agency expenses and the cost of issuing policies. Deferred policy acquisition costs for traditional life business are amortized over the premium-paying periods of the related policies, in proportion to the ratio of the annual premium revenue to the total anticipated premium revenue. Deferred policy acquisition costs of other business lines are generally amortized over the life of the insurance contract or at a constant rate based upon the present value of estimated gross profits expected to be

Subject	ROC GAAP	U.S. GAAP
		realized. For certain property and casualty lines, acquisition costs (primarily commissions and premium taxes) have been deferred to the extent recoverable from future earned premiums and are amortized ratably over the terms of the related policies. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future income, including investment income, and, if not recoverable, are charged to expense. All other acquisition expenses are charged to operations as incurred.
6. Reinsurance	Premiums received from reinsurance transactions are recorded as current income.	Proceeds from reinsurance transactions that represent recovery of acquisition costs reduce applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized.

Management has not quantified the effects of the aforementioned differences between ROC GAAP and U.S. GAAP. Accordingly, there can be no assurance on the effects on balance sheet, net income and stockholders' equity reported in accordance with ROC GAAP if determined in accordance with U.S. GAAP.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Shin Kong Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin Kong Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") as of December 31, 2006, 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of MasterLink Securities Co. and its subsidiaries, a consolidated subsidiary, which statements reflect total assets constituting 3.68% ($62,098,953 thousand) and 2.93% ($50,943,783 thousand) of the consolidated total assets as of December 31, 2007 and 2008, net income and gains constituting 0.34% ($361,589 thousand for the period from December 11, 2007 (date of effective control) to December 31, 2007) and 1.68% ($1,455,189 thousand for the year ended December 2008) of the consolidated total net income and gains, and net loss constituting (0.97%) ($49,361 thousand for the period from December 11, 2007 (date of effective control) to December 31, 2007) and 7.77% ($1,728,240 thousand for the year ended December 2008) of the consolidated net (loss) income for the years ended December 31, 2007 and 2008, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MasterLink Securities Co. and its subsidiaries is based solely on the report of such other auditors.

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

In our opinion, based on the results of our audits and the audit report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin Kong Financial Holding Co., Ltd. and subsidiaries as of December 31, 2006, 2007 and 2008, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, effective January 1, 2008, the Group adopted Statement of Financial Accounting Standards (SFAS) No. 39, “Share-based Payment” and Interpretation 96-052 “Accounting for Bonuses to Employees, Directors and Supervisors” issued by the Accounting Research and Development Foundation of the ROC.

As stated in Note 3, effective July 1, 2008, the Group adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 5 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

February 26, 2009 (except as to Note 5 which is as of March 31, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Par Value)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
ASSETS				
Cash and cash equivalents (Notes 2 and 6)	$ 50,238,640	$ 98,443,372	$ 87,378,035	$ 2,579,806
Due from Central Bank and other banks (Note 7)	38,261,232	34,191,241	46,159,280	1,362,837
Financial assets at fair value through profit or loss (Notes 2, 8, 41 and 42)	86,121,257	93,015,024	93,980,159	2,774,731
Bonds purchased under resale agreements (Notes 2, 9 and 41)	5,690,307	11,994,931	41,932,170	1,238,033
Accounts receivable (Notes 2 and 10)	39,254,863	58,175,232	43,595,627	1,287,146
Loans (Notes 2, 11 and 41)	406,582,306	459,743,179	471,295,366	13,914,832
Available-for-sale financial assets (Notes 2, 12 and 42)	153,199,270	156,337,727	363,925,482	10,744,774
Held-to-maturity investments (Notes 2, 13 and 42)	222,722,018	219,611,895	9,848,572	290,776
Investments accounted for by the equity method (Notes 2 and 14)	419,849	433,379	1,430,930	42,248
Financial assets carried at cost (Notes 2, 15 and 42)	6,123,565	6,782,987	6,719,766	198,399
Debt securities without active market (Notes 2 and 16)	306,900,536	311,641,242	340,169,082	10,043,374
Asset on insurance products — separate account (Notes 2 and 31)	53,490,110	104,409,050	88,009,382	2,598,446
Miscellaneous financial assets (Note 20)	3,573	4,688,156	4,516,222	133,340
Real estate investments, net (Notes 2, 17 and 42)	73,022,342	78,951,755	80,317,594	2,371,349
Property and equipment (Notes 2, 18 and 42)				
Cost				
Land	12,148,293	10,512,260	9,562,880	282,341
Buildings and structures	11,028,388	9,528,793	9,225,240	272,372
Transportation and communication equipment	118,028	113,247	98,696	2,914
Other equipment	4,698,544	7,037,582	6,501,163	191,944
Revaluation increment	1,514,725	1,608,702	1,671,541	49,351
Cost and revaluation increment	29,507,978	28,800,584	27,059,520	798,922
Less accumulated depreciation	(4,809,639)	(7,408,019)	(7,104,413)	(209,755)
Less accumulated impairment	—	(378,769)	(378,769)	(11,183)
Construction in progress	128,605	65,658	61,937	1,829
Property and equipment, net	24,826,944	21,079,454	19,638,275	579,813
Goodwill and intangible assets, net (Notes 2 and 19)	2,722,673	2,884,640	2,335,046	68,941
Other assets				
Sinking fund (Note 20)	1,000,000	1,000,000	—	—
Miscellaneous assets, others (Notes 21, 30, 40 and 42)	21,748,384	24,731,002	38,922,314	1,149,168
Total other assets	22,748,384	25,731,002	38,922,314	1,149,168
TOTAL	$1,492,327,869	$1,688,114,266	$1,740,173,302	$51,378,013

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Par Value)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Due to Central Bank and other banks (Note 22)	$ 11,991,137	$ 6,736,345	$ 3,727,779	$ 110,061
Commercial paper payable (Note 23)	449,598	8,693,475	—	—
Financial liabilities at fair value through profit or loss (Notes 2, 8 and 41)	5,287,791	5,196,476	25,373,852	749,154
Notes issued under repurchase agreements (Notes 2, 24 and 41)	11,924,080	30,454,485	32,522,665	960,220
Accrued expenses (Note 25)	4,958,555	5,023,563	4,362,841	128,811
Bonds payable — current portion (Note 28)	—	5,000,000	5,457,756	161,138
Other payables	10,617,514	13,609,314	10,007,516	295,469
Deposits and remittances (Notes 26 and 41)	281,779,318	313,544,496	327,636,749	9,673,361
Debentures payable (Note 27)	17,800,000	17,800,000	10,100,000	298,199
Bonds payable, net (Notes 2 and 28)	18,255,131	8,407,766	13,240,073	390,909
Other loans (Notes 29 and 42)	—	6,818,324	3,655,328	107,922
Preferred stock liabilities (Note 33)	—	—	1,654,000	48,834
Liabilities on insurance products — separate account (Note 2 and 31)	53,490,110	104,409,050	88,009,382	2,598,446
Miscellaneous financial liabilities (Note 2)	827,847	4,580,361	3,847,995	113,611
Reserve for operations and liabilities				
Reserve for unearned premiums	5,537,962	5,746,716	6,811,312	201,102
Reserve for life insurance liability	955,257,331	1,032,057,692	1,118,982,455	33,037,569
Special reserve for life insurance	7,591,914	7,892,753	8,063,506	238,072
Reserve for claim payments	1,237,434	1,040,998	1,176,371	34,732
Reserve for insufficient premiums	2,218,853	1,941,037	1,330,288	39,276
Other reserves (Note 2)	99,470	386,075	410,724	12,126
Other advance receipts (Note 32)	7,482,313	4,269,193	13,468,236	397,645
Reserve for land value increment tax (Note 2)	2,466,408	2,301,949	2,300,094	67,910
Other liabilities	2,208,090	2,091,253	1,839,943	54,324
Total liabilities	1,401,480,856	1,588,001,321	1,683,978,865	49,718,891
STOCKHOLDERS' EQUITY (Notes 2, 34 and 35)				
Equity attributable to stockholders of the parent				
Common stock (par value: $10, authorized — 8,000,000 thousand shares and issued — 6,254,187 thousand shares)	46,996,419	50,253,725	62,541,866	1,846,527
Capital surplus	13,625,924	16,625,146	20,674,538	610,409
Retained earnings				
Legal reserve	1,867,270	2,460,094	2,960,863	87,418
Special reserve	7,513	154,014	71,465	2,110
(Accumulated deficit) unappropriated retained earnings	10,642,569	8,727,517	(18,094,971)	(534,248)
Unrealized revaluation increment	6,007,232	5,812,940	5,811,211	171,574
Cumulative translation adjustments	(2,581)	22,455	122,239	3,609
Unrealized valuation gains (losses) on financial instruments	9,604,317	788,684	(28,646,717)	(845,784)
Unrealized loss on cash flow hedges taken to equity	(151,292)	(71,465)	944	28
Treasury stock	(248,485)	(881,568)	(967,970)	(28,579)
Net loss not recognized as pension cost	(142)	—	—	—
	88,348,744	83,891,542	44,473,468	1,313,064
Minority interest	2,498,269	16,221,403	11,720,969	346,058
Total stockholders' equity	90,847,013	100,112,945	56,194,437	1,659,122
TOTAL	$1,492,327,869	$1,688,114,266	$1,740,173,302	$51,378,013

(Concluded)

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

(With Deloitte & Touche audit report dated February 26, 2009, except as to Note 5 which is as of March 31, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
NET INCOME AND GAINS				
Interest income (Note 41)	$ 46,705,740	$ 51,045,110	$ 53,691,203	$ 1,585,214
Interest expense (Note 41)	(4,995,569)	(6,153,833)	(7,578,453)	(223,751)
Net interest income	41,710,171	44,891,277	46,112,750	1,361,463
Premium income	149,421,263	150,283,932	152,322,756	4,497,277
Claims recovered from reinsures	1,358,739	1,138,049	1,267,758	37,430
Incomes on insurance products — separate account (Notes 2 and 31)	42,254,277	107,464,772	145,493,238	4,295,637
Reinsurance expenses	(3,505,337)	(2,756,404)	(2,694,839)	(79,564)
Acquisition expenses	(91,963)	(82,097)	(73,769)	(2,178)
Insurance payments	(66,731,326)	(90,528,241)	(94,758,155)	(2,797,702)
Disbursements to industry stability fund	(149,375)	(150,515)	(151,150)	(4,463)
Disbursements on insurance products — separate account (Notes 2 and 31)	(42,254,277)	(107,464,772)	(145,493,238)	(4,295,637)
Processing fee and commission income (Notes 31 and 41)	4,386,066	5,399,981	9,064,340	267,622
Processing fee and commission expense	(7,868,441)	(8,742,770)	(5,892,396)	(173,971)
Valuation loss on financial assets and liabilities at fair value through profit or loss	(2,259,684)	(1,552,611)	(14,529,475)	(428,978)
Investment income (loss) recognized under equity method (Notes 2 and 14)	39,283	85,211	(14,888)	(440)
Gains on real estate investments (Notes 38 and 41)	5,206,504	3,029,369	5,737,467	169,397
Exchange (losses) gains	(1,229,965)	643,049	(1,431,637)	(42,269)
Impairment loss (Notes 2, 12, 13, 15, 16, 18, 19 and 34)	(1,024,505)	(7,081,939)	(7,125,723)	(210,384)
(Losses) gains for market decline on collateral assumed (Note 21)	(1,070,000)	272,989	62,835	1,855
Gain (loss) on investments (Note 37)	15,764,953	6,807,192	(4,091,162)	(120,790)
Other income, net (Notes 12, 28 and 41)	3,662,492	5,597,076	2,598,407	76,717
Total net income and gains	137,618,875	107,253,548	86,403,119	2,551,022
BAD DEBT EXPENSES	(11,094,114)	(1,913,617)	(1,756,225)	(51,852)

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
(PROVISION OF) RECOVERED INSURANCE RESERVE				
Provision of premium reserve	$(150,892,662)	$(153,502,714)	$(169,202,021)	$(4,995,631)
Provision of special reserve	(582,130)	(300,839)	(244,296)	(7,213)
Provision of claim reserve	(2,089,181)	(1,323,280)	(1,397,018)	(41,246)
Provision for insufficient premium reserve	—	(43,923)	(243)	(7)
Recovered premium reserve	52,953,126	76,493,599	81,212,662	2,397,776
Recovered special reserve	—	—	73,543	2,171
Recovered claim reserve	1,287,595	1,519,716	1,261,645	37,250
Recovered insufficient premium reserve	20,065	321,739	610,992	18,039
	(99,303,187)	(76,835,702)	(87,684,736)	(2,588,861)
OPERATING EXPENSES (Notes 39 and 41)				
Personnel expenses	13,715,205	13,675,710	14,762,525	435,859
Depreciation and amortization expenses	1,702,141	1,722,886	1,861,372	54,956
Other selling and administrative expenses	7,364,269	8,152,315	7,975,008	235,459
Total operating expenses	22,781,615	23,550,911	24,598,905	726,274
CONTINUING OPERATIONS' INCOME (LOSS) BEFORE TAX	4,439,959	4,953,318	(27,636,747)	(815,965)
INCOME TAX BENEFIT (Notes 2 and 40)	672,114	132,633	5,408,525	159,685
CONTINUING OPERATIONS' INCOME (LOSS) AFTER TAX	5,112,073	5,085,951	(22,228,222)	(656,280)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE (After deducting estimated income tax expense of $173,580 thousand) (Note 3)	932,571	—	—	—
CONSOLIDATED NET INCOME (LOSS)	$ 6,044,644	$ 5,085,951	$ (22,228,222)	$ (656,280)
ATTRIBUTABLE TO				
Stockholders of the parent	$ 5,928,246	$ 5,007,690	$ (21,022,278)	$ (620,675)
Minority interest	116,398	78,261	(1,205,944)	(35,605)
	$ 6,044,644	$ 5,085,951	$ (22,228,222)	$ (656,280)

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006		2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 5)	NT$	US$ (Note 5)
BASIC EARNINGS (LOSS) PER SHARE (Note 36)								
Continuing operations' income (loss)	$0.88	$1.02	$0.93	$0.96	$(4.84)	$(0.14)	$(3.80)	$(0.11)
Cumulative effect of changes in accounting principle	0.23	0.19	—	—	—	—	—	—
Total basic earnings (loss) per share	$1.11	$1.21	$0.93	$0.96	$(4.84)	$(0.14)	$(3.80)	$(0.11)
DILUTED EARNINGS PER SHARE (Note 36)								
Continuing operations' income	$0.72	$0.92	$0.87	$0.89				
Cumulative effect of changes in accounting principle	0.20	0.17	—	—				
Total diluted earnings per share	$0.92	$1.09	$0.87	$0.89				

(Concluded)

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

(With Deloitte & Touche audit report dated February 26, 2009, except as to Note 5 which is as of March 31, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others							
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Minority Interest	Total
BALANCE, JANUARY 1, 2006 . . .	$40,743,739	$7,378,897	$1,505,691	$ 802,626	$ 9,081,429	$6,566,548	$(1,917)	$ (5,596)	$ —	$(260,738)	$ —	$2,490,106	$68,300,785
Effect of initial adoption of Statement of Financial Accounting Standards No. 34 (Note 3)	—	—	—	—	—	—	—	7,972,777	(197,563)	—	—	—	7,775,214
Appropriation of 2005 consolidated net income													
Legal reserve	—	—	705,562	—	(705,562)	—	—	—	—	—	—	—	—
Special reserve	—	—	—	7,513	(7,513)	—	—	—	—	—	—	—	—
Stock dividends	2,641,843	—	—	—	(2,641,843)	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(2,641,843)	—	—	—	—	—	—	—	(2,641,843)
Remuneration to directors and supervisors	—	—	—	—	(30,660)	—	—	—	—	—	—	—	(30,660)
Employee bonus	—	—	—	—	(1,063)	—	—	—	—	—	—	—	(1,063)
Offsetting accumulated deficit by subsidiary	—	(515,532)	(343,983)	(802,626)	1,662,141	—	—	—	—	—	—	—	—
Sale of treasury stock	—	—	—	—	(763)	—	—	—	—	12,253	—	—	11,490
Common stock issued by cash . .	2,386,635	4,613,365	—	—	—	—	—	—	—	—	—	—	7,000,000
Convertible bonds converted to common stocks	1,224,202	2,149,194	—	—	—	—	—	—	—	—	—	—	3,373,396
Loss on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	46,271	—	—	—	46,271
Loss on available-for-sale taken to equity	—	—	—	—	—	—	—	1,580,524	—	—	—	—	1,580,524
Effect of changes in ownership interests in equity-method investments	—	—	—	—	—	—	(664)	56,612	—	—	—	—	55,948
Transfer property and equipment revaluation increment to other income from subsidiaries to disposal of property and equipment	—	—	—	—	—	(559,316)	—	—	—	—	—	—	(559,316)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	—	(108,235)	(108,235)
Loss not recognized as pension cost	—	—	—	—	—	—	—	—	—	—	(142)	—	(142)
Consolidated net income for the year ended December 31, 2006	—	—	—	—	5,928,246	—	—	—	—	—	—	116,398	6,044,644

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others							
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Minority Interest	Total
BALANCE, DECEMBER 31, 2006	$46,996,419	$13,625,924	$1,867,270	$ 7,513	$10,642,569	$6,007,232	$ (2,581)	$ 9,604,317	$(151,292)	$(248,485)	$(142)	$ 2,498,269	$90,847,013
	—	—	—	—	—	—	—	—	—	—	—	—	—
Appropriation of 2006 consolidated net income													
Legal reserve	—	—	592,824	—	(592,824)	—	—	—	—	—	—	—	—
Special reserve	—	—	—	146,501	(146,501)	—	—	—	—	—	—	—	—
Stock dividends	1,418,865	—	—	—	(1,418,865)	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(4,729,549)	—	—	—	—	—	—	—	(4,729,549)
Remuneration to directors and supervisors	—	—	—	—	(30,100)	—	—	—	—	—	—	—	(30,100)
Employee bonus	—	—	—	—	(1,250)	—	—	—	—	—	—	—	(1,250)
Unrealized revaluation increment recognized by a subsidiary	—	—	—	—	—	(194,292)	—	—	—	—	—	—	(194,292)
Gain on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	79,827	—	—	—	79,827
Loss on available-for-sale financial assets taken to equity	—	—	—	—	—	—	—	(8,800,353)	—	—	—	—	(8,800,353)
Convertible bonds converted to common stocks	1,838,441	2,999,222	—	—	—	—	—	—	—	—	—	—	4,837,663
Effect of changes in ownership interests in equity-method investees, net	—	—	—	—	—	—	25,036	(15,280)	—	—	142	—	9,898
Sale of treasury stock	—	—	—	—	(3,653)	—	—	—	—	58,658	—	—	55,005
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(691,741)	—	—	(691,741)
Increase in minority interest	—	—	—	—	—	—	—	—	—	—	—	13,644,873	13,644,873
Consolidated net income for the year ended December 31, 2007	—	—	—	—	5,007,690	—	—	—	—	—	—	78,261	5,085,951

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others							
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Minority Interest	Total
BALANCE, DECEMBER 31, 2007	$50,253,725	$16,625,146	$2,460,094	$154,014	$ 8,727,517	$5,812,940	$ 22,455	$ 788,684	$(71,465)	$(881,568)	$—	$16,221,403	$100,112,945
Appropriation of 2007 consolidated net income													
Legal reserve	—	—	500,769	—	(500,769)	—	—	—	—	—	—	—	—
Special reserve	—	—	—	(82,549)	82,549	—	—	—	—	—	—	—	—
Stock dividends	2,677,557	—	—	—	(2,677,557)	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(2,677,557)	—	—	—	—	—	—	—	(2,677,557)
Remuneration to directors and supervisors	—	—	—	—	(25,800)	—	—	—	—	—	—	—	(25,800)
Employee bonus	—	—	—	—	(1,076)	—	—	—	—	—	—	—	(1,076)
Issuance of common stock for cash	9,609,884	3,695,033	—	—	—	—	—	—	—	—	—	—	13,304,917
Compensation cost-share-based payment	—	353,551	—	—	—	—	—	—	—	—	—	—	353,551
Unrealized revaluation increment recognized by a subsidiary	—	—	—	—	—	(1,729)	—	—	—	—	—	—	(1,729)
Gain on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	72,409	—	—	—	72,409
Loss on available-for-sale financial assets taken to equity	—	—	—	—	—	—	—	(29,316,233)	—	—	—	—	(29,316,233)
Convertible bonds converted to common stocks	700	808	—	—	—	—	—	—	—	—	—	—	1,508
Effect of changes in ownership interests in equity-method investees, net	—	—	—	—	—	—	99,784	(119,168)	—	—	—	—	(19,384)
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(86,402)	—	—	(86,402)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	—	(3,294,490)	(3,294,490)
Consolidated net loss for the year ended December 31, 2008	—	—	—	—	(21,022,278)	—	—	—	—	—	—	(1,205,944)	(22,228,222)
BALANCE, DECEMBER 31, 2008	$62,541,866	$20,674,538	$2,960,863	$ 71,465	$(18,094,971)	$5,811,211	$122,239	$(28,646,717)	$ 944	$(967,970)	$—	$11,720,969	$ 56,194,437

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008
(In Thousands of U.S. Dollars)

			Retained Earnings			Others							
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Minority Interest	Total
BALANCE, JANUARY 1, 2008	$1,483,724	$490,852	$72,633	$ 4,547	$ 257,677	$171,625	$ 663	$ 23,286	$(2,110)	$(26,028)	$—	$478,931	$2,955,800
Appropriation of 2007 consolidated net income													
Legal reserve	—	—	14,785	—	(14,785)	—	—	—	—	—	—	—	—
Special reserve	—	—	—	(2,437)	2,437	—	—	—	—	—	—	—	—
Stock dividends	79,054	—	—	—	(79,054)	—	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(79,054)	—	—	—	—	—	—	—	(79,054)
Remuneration to directors and supervisors	—	—	—	—	(762)	—	—	—	—	—	—	—	(762)
Employee bonus	—	—	—	—	(32)	—	—	—	—	—	—	—	(32)
Issuance of common stock for cash	283,728	109,095	—	—	—	—	—	—	—	—	—	—	392,823
Compensation cost-share-based payment	—	10,438	—	—	—	—	—	—	—	—	—	—	10,438
Unrealized revaluation increment recognized by a subsidiary	—	—	—	—	—	(51)	—	—	—	—	—	—	(51)
Gain on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	2,138	—	—	—	2,138
Loss on available-for-sale financial assets taken to equity	—	—	—	—	—	—	—	(865,552)	—	—	—	—	(865,552)
Convertible bonds converted to common stocks	21	24	—	—	—	—	—	—	—	—	—	—	45
Effect of changes in ownership interests in equity-method investees, net	—	—	—	—	—	—	2,946	(3,518)	—	—	—	—	(572)
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(2,551)	—	—	(2,551)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	—	(97,268)	(97,268)
Consolidated net loss for the year ended December 31, 2008	—	—	—	—	(620,675)	—	—	—	—	—	—	(35,605)	(656,280)
BALANCE, DECEMBER 31, 2008 . .	$1,846,527	$610,409	$87,418	$ 2,110	$(534,248)	$171,574	$3,609	$(845,784)	$ 28	$(28,579)	$—	$346,058	$1,659,122

(Concluded)

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

(With Deloitte & Touche audit report dated February 26, 2009, except as to Note 5 which is as of March 31, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income (loss)	$ 6,044,644	$ 5,085,951	$(22,228,222)	$ (656,280)
Cumulative effect of changes in accounting principle	(932,571)	—	—	—
Consolidated net income before cumulative effect of changes in accounting principle	5,112,073	5,085,951	(22,228,222)	(656,280)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Provision for doubtful accounts	11,094,114	1,913,617	1,756,225	51,852
Depreciation and amortization	1,702,141	1,722,886	1,861,372	54,956
Share-based payment	—	—	356,057	10,512
Gain on early redemption of bonds payable	—	—	(74,480)	(2,199)
Transfer of property and equipment revaluation increment to other income	(559,316)	(249,553)	(1,729)	(51)
Amortization of held-to-maturity investments	(62,539)	(342,878)	417,016	12,312
Provision and recovery of various insurance reserves, net	99,303,187	76,835,702	87,684,736	2,588,861
Investment (income) loss recognized under equity method	(39,283)	(85,211)	14,888	440
Impairment loss	1,024,505	7,081,939	7,125,723	210,384
Valuation loss on financial assets, net	2,259,684	1,552,611	14,529,475	428,978
Loss (gain) on disposal of property and equipment, net	44,327	(2,752,417)	(379,385)	(11,201)
Gain on sale of real estate investment, net	(3,048,969)	(739,589)	(3,284,975)	(96,988)
Loss on disposal of collaterals	38,242	104,558	111,591	3,295
Loss (gain) for market decline on collateral assumed	1,070,000	(272,989)	(62,835)	(1,855)
Provision of other reserves	35,037	234,407	24,649	728
Recovery of receivable previously written-off	486,858	815,742	700,128	20,671
Written-off of nonperforming loan	(9,454,773)	(4,438,594)	(2,343,732)	(69,198)
Deferred income tax benefit	(1,099,008)	(453,127)	(6,652,676)	(196,418)
Cash dividends received from investments accounted for by the equity method	8,160	66,021	43,920	1,297
Gain on construction-in-progress	—	(7,638)	(186,683)	(5,512)
Net changes in operating assets and liabilities				
Financial assets and liabilities at fair value through profit or loss	(42,772,896)	8,939,689	(12,791,563)	(377,666)
Bonds purchased under resale agreements	148,526	1,567,145	(29,937,239)	(883,887)
Accounts receivable	7,796,768	2,700,754	14,850,087	438,444
Miscellaneous financial assets	1,795	(128,828)	571,934	16,886
Warrant payable	819,545	246,869	(507,480)	(14,983)
Repurchase of warrants	(727,036)	(112,162)	486,854	14,374
Prepaid pension expenses	(231,013)	(156,158)	41,036	1,212
Other assets	(71,892)	(56,232)	(5,196)	(153)
(Debit) credit item for consigned trades	(12,873)	(19,388)	174,193	5,143
Notes issued under repurchase agreement	6,653,687	(2,403,744)	2,068,180	61,062
Accrued expenses	478,170	65,008	(660,722)	(19,508)
Other payables	(3,513,562)	58,746	(3,629,374)	(107,156)
Advance receipts	(187,696)	(3,253,134)	9,199,043	271,599
Other liabilities	(12,409)	73,563	(181,693)	(5,365)
Miscellaneous financial liabilities	—	—	464,877	13,725
Others	(162)	78,981	—	—
Net cash provided by operating activities	76,283,392	93,672,547	59,554,000	1,758,311

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in due from the Central Bank and other banks	$ 10,807,966	$ 4,069,991	$(11,968,039)	$ (353,352)
Increase in available-for-sale financial assets	(12,039,747)	(14,296,198)	(27,228,290)	(803,906)
(Increase) decrease in held-to-maturity financial assets	(54,094,816)	3,125,275	9,512,912	280,866
Increase in loans	(30,816,121)	(52,701,779)	(11,959,168)	(353,090)
Decrease (increase) in financial assets carried at cost	892,773	589,749	(130,359)	(3,849)
Decrease (increase) in debt securities without active market	11,611,640	(10,444,440)	(34,539,235)	(1,019,759)
Increase in goodwill	(1,478,750)	(161,967)	—	—
Payment for acquisition of real estate investments	(7,072,105)	(8,031,286)	(8,829,933)	(260,701)
Proceeds from disposal of real estate investments	6,715,414	1,936,261	10,235,730	302,206
Payment for acquisition of property and equipment	(1,244,645)	(637,986)	(527,680)	(15,580)
Payment for acquisition of collateral assumed assets	—	—	(298)	(9)
Proceeds from disposal of property and equipment and collaterals	1,270,852	8,729,884	2,215,746	65,419
Proceeds from sale of deferred expenses	—	7,999	18,680	552
(Increase) decrease in guarantee deposits paid	(1,235,630)	2,328,783	51,346	1,516
Increase in deferred expenses	(158,890)	(517,183)	(584,464)	(17,256)
Decrease in restricted assets	196,541	60,000	115,541	3,411
Proceeds from capital return of equity method investees	43,340	2,761	96,000	2,834
Increase in investments accounted for by the equity method	—	—	(1,095,950)	(32,357)
Sinking fund	—	—	(600,000)	(17,715)
Cash and cash equivalents acquired from consolidating entities	57,758	2,277,565	—	—
Acquisition of MasterLink Securities Co.	—	(4,720,474)	—	—
Net cash used in investing activities	(76,544,420)	(68,383,045)	(75,217,461)	(2,220,770)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in accrued commercial paper	—	50,284	(8,693,475)	(256,672)
(Decrease) increase in deposits and remittances	(73,424)	32,112,178	14,092,253	416,069
Increase (decrease) in due to Central Bank and other banks	545,714	(4,477,630)	(3,008,566)	(88,827)
(Decrease) increase in other loans	(512,139)	620,000	(3,162,996)	(93,386)
Proceeds from bond issue	4,805,700	—	11,112,262	328,086
Decrease in subordinated debt	—	—	(5,000,000)	(147,623)
Decrease in bonds payable	(123,330)	(9,702)	(746,211)	(22,032)
Decrease in financial debt	—	—	(8,701,100)	(256,897)
Proceeds from issue of preferred stock liabilities	—	—	1,654,000	48,834
(Decrease) increase in guarantee deposits received	(4,268)	249,010	(69,617)	(2,055)
Capital contribution in cash	7,000,000	—	13,304,917	392,823
Proceeds from sale of treasury stock to employees	11,490	55,005	—	—
Purchase of treasury stock	—	(691,741)	(86,402)	(2,551)
Decrease in lease payable	(41,201)	(115,781)	(120,134)	(3,547)
Cash dividends paid	(2,641,843)	(4,729,549)	(2,677,557)	(79,054)
Employee bonus and remuneration to directors and supervisors	(32,570)	(31,328)	(26,886)	(794)
Decrease in minority interest	—	—	(2,920,716)	(86,233)
Decrease in appropriated loan fund	(100,900)	(900)	(3,600)	(106)
Cash dividends paid — minority interest	(108,235)	(114,616)	(348,048)	(10,276)
Net cash provided by financing activities	8,724,994	22,915,230	4,598,124	135,759

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 5)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 8,463,966	$48,204,732	$ (11,065,337)	$ (326,700)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,774,674	50,238,640	98,443,372	2,906,506
CASH AND CASH EQUIVALENTS, END OF YEAR	$50,238,640	$98,443,372	$ 87,378,035	$2,579,806
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year				
Interest	$ 4,922,794	$ 6,061,873	$ 7,954,930	$ 234,867
Income tax	$ 1,068,738	$ 917,493	$ 1,967,373	$ 58,086
NONCASH INVESTING AND FINANCING ACTIVITIES				
Transfer of overseas convertible bonds to capital stock	$ 3,373,396	$ 4,837,663	$ 1,508	$ 45
Capital contribution by stock	$ 2,641,843	$ 1,418,865	$ 2,677,557	$ 79,054
APPROPRIATION OF BONUS TO EMPLOYEES AND REMUNERATION TO DIRECTORS AND SUPERVISORS				
Appropriation of bonus to employees and directors' remuneration	$ 31,723	$ 31,350	$ 26,876	$ 794
Add accrued expenses and dividends payable, beginning of year	847	—	22	1
Less accrued expenses and dividends payable, end of year	—	(22)	(12)	—
Net payment for employees' bonus and directors' remuneration	$ 32,570	$ 31,328	$ 26,886	$ 795
CASH RECEIVED FROM DISPOSAL OF REAL ESTATE INVESTMENTS				
Total selling price	$11,184,823	$ 2,407,014	$ 10,236,369	$ 302,225
Payment for land incremental value tax	(442,657)	(168,883)	(639)	(19)
Transfer of real estate investments to available-for-sale financial assets	(1,488,743)	(301,870)	—	—
Advance real estate receipts	(2,538,009)	—	—	—
Net cash received from disposal of real estate investments	$ 6,715,414	$ 1,936,261	$ 10,235,730	$ 302,206
CASH PAID FOR ACQUISITION OF REAL ESTATE				
Increase in real estate investments	$ 7,104,664	$ 6,836,085	$ 9,016,616	$ 266,212
Add payables for acquisition of real estate investments, beginning of year	1,170,280	1,202,839	—	—
Less payables for acquisition of real estate investments, end of year	(1,202,839)	—	—	—
Gain on construction-in-progress	—	(7,638)	(186,683)	(5,512)
Net payment for acquisition of real estate investments	$ 7,072,105	$ 8,031,286	$ 8,829,933	$ 260,700
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS RECLASSIFIED TO AVAILABLE-FOR-SALE FINANCIAL ASSETS	$ —	$ —	$ 17,494,955	$ 516,532
HELD-TO-MATURITY INVESTMENTS RECLASSIFIED TO AVAILABLE-FOR-SALE FINANCIAL ASSETS	$ —	$ —	$198,796,273	$5,869,391

(Concluded)

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

(With Deloitte & Touche audit report dated February 26, 2009, except as to Note 5 which is as of March 31, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Shin Kong Financial Holding Co., Ltd. (the "Company" or SKFHC) is a financial holding company established by Shin Kong Life Insurance Co., Ltd. (SKLIC) and Shin Kong Securities Co., Ltd. (SKSC, originally named Li Shih Securities Co., Ltd.) through a share swap and was listed on the Taiwan Stock Exchange Corporation ("TSEC") on February 19, 2002. The Company is mainly engaged in managing its subsidiaries and investing in companies approved by relevant authorities.

To expand its operating areas and enhance its operational efficiency and competitiveness, the Company issued 208,504 thousand shares to acquire Taiwan Shin Kong Commercial Bank Co., Ltd. (TSKCB, formerly known as United-Credit Commercial Bank Co., Ltd.) as a wholly owned subsidiary.

The Company issued 661,850 thousand shares to acquire 100% equity interest of Macoto Bank Co., Ltd. (Macoto Bank) on October 3, 2005 through share swap and accounted for the acquisition by the pooling of interests method. On December 31, 2005, Macoto Bank merged with Taiwan Shin Kong Commercial Bank Co. Ltd., a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd., by means of share swap, and Macoto Bank was the surviving company. At the same time, Macoto Bank was renamed into TSKCB.

To expand its asset management areas and enhance synergy and resources sharing benefit, in July 2006 the Company acquired Shin Kong Investment Trust Co., Ltd. (SKITC) through share purchase.

On December 11, 2007, the Company acquired more than 25% equity interest of MasterLink Securities Co. (MLSC) and MLSC became a controlled subsidiary of SKFHC in conformity with the Law of Financial Holding Company. SKFHC, in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, included in the consolidation MLSC and subsidiaries' consolidated balance sheets as of December 31, 2007 and 2008 and the consolidated statements of income for the years ended December 31, 2008 and for the period from December 11, 2007 (date of effective control) to December 31, 2007.

SKLIC was established in July 1963 and its stock was listed on TSEC in December 1993. SKLIC's business is mainly in life insurance—individual and group life, accident, health, and so on. Its headquarters are in the City of Taipei, with 22 branch offices located in various counties throughout the country.

TSKCB obtained approval to become a commercial bank from the Ministry of Finance on September 23, 1996 under Letter Tai-Tsai-Rong No. 85546025. TSKCB received its company license from the Ministry of Economic Affairs on December 31, 1996 and operating permit from the Ministry of Finance on January 1, 1997. TSKCB is engaged in banking businesses allowed under the Banking Law of the ROC. As of December 31, 2008, TSKCB had 108 branches including a business department, a trust department, a foreign exchange transaction department and an offshore banking branch in Taiwan.

The establishment of Shin Kong Securities Co., Ltd. (SKSC) was approved by the Ministry of Economic Affairs on October 28, 1997 and it started operations on March 21, 1998. Its operations are mainly securities brokering, underwriting, processing share registration matters, and futures brokering. SKSC was approved to operate dealing service related to futures from March, 2005 and security transfer services from November, 2005 and in September, 2007 acquired membership in the Futures Settlement and Clearing and in December, started operating dealing service related to futures.

SKITC's operations include negotiable securities investment trust, carte blanche investment and other businesses approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan. On October 9, 2006, SKITC merged with New Light Asset Management Co., Ltd. and SKITC was the surviving company.

Shin Kong Securities Investment Consulting Co., Ltd. (SKSIC) mainly operates securities investment consulting services for securities investments, and had been liquidated in the first quarter, 2007.

Shin Kong Life Real Estate Service Company (SKLRESC) was established on July 12, 1988 and obtained operating permit on August 17, 1988. SKLRESC is mainly engaged in management services, sanitary services, repair and maintenance of utilities equipment, commerce and installation of water-proof, burglarproof, and fire alarm equipment, commerce and installation of car parking equipment, operation of parking lots, and housing brokerage.

New Light International Co., Ltd (NLIC) is engaged in real estate leasing business.

Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC), formerly known as Shin Kong Insurance Brokerage Co., Ltd. (SKIBC) is engaged in property and casualty insurance and life insurance brokerage business. On August 31, 2006, SKIBC merged with TSKIBC, and SKIBC was the surviving company and was renamed into TSKIBC.

Shin Kong Life Insurance Agency Co., Ltd. (SKLIAC) and Shin Kong Property Insurance Agency Co., Ltd. (SKPIAC) are engaged in life insurance and property and casualty insurance agency business.

Shin Kong Marketing Consultant Co., Ltd. (SKCC) mainly operates in consulting services for loan market.

Shin Kong Finance (HK) Ltd. (SFHK) mainly operates in loan business in Hong Kong.

The establishment of MLSC was approved by the Ministry of Economic Affairs on March 23, 1989, and it started operations on May 29, 1989 and was listed on TSEC on September 16, 2002. Its operations are mainly securities brokering, underwriting, processing share registration matters, futures brokering, dealing service related to futures, security transfer services and other services approved by the government. As of December 31, 2008, MLSC had 45 branch offices.

As of December 31, 2006, 2007 and 2008, the Company and subsidiaries (collectively, the "Group") had 22,921, 22,451 and 21,932 employees.

Consolidation Profile

Subsidiaries in the Group as of December 31, 2006, 2007 and 2008 include:

Name of Investment Company	Name of Subsidiary	Type of Business	% of Ownership as of December 31, 2006	Included in the Consolidated Financial Statements as of December 31, 2006	% of Ownership as of December 31, 2007	Included in the Consolidated Financial Statements as of December 31, 2007	% of Ownership as of December 31, 2008	Included in the Consolidated Financial Statements as of December 31, 2008
SKFHC	SKLIC	Insurance	100%	Yes	100%	Yes	100%	Yes
SKFHC	SKSC	Securities	100%	Yes	100%	Yes	100%	Yes
SKFHC	TSKCB	Banking	100%	Yes	100%	Yes	100%	Yes
SKFHC	TSKIBC	Insurance brokerage	100%	Yes	100%	Yes	100%	Yes
SKFHC	NLAMC	Entrusted investments	100%	Yes	—	No (Note 1)	—	No (Note 1)
SKFHC	SKITC	Entrusted investments	100%	Yes	100%	Yes	100%	Yes
SKFHC	MLSC	Securities	1.82%	No	25.32% (Note 2)	Yes	26.13%	Yes
SKLIC	SKLRESC	Building management	90.01%	Yes	90.01%	Yes	90.01%	Yes
TSKCB	TSKIBC	Insurance brokerage	—	No (Note 3)	—	No (Note 3)	—	No (Note 3)
TSKCB	SKLIAC	Insurance agency	100%	Yes	100%	Yes	100%	Yes
TSKCB	SKPIAC	Insurance agency	100%	Yes	100%	Yes	100%	Yes
TSKCB	SKCC	Loan market consulting	100% (Note 4)	Yes	100% (Note 4)	Yes	100% (Note 4)	Yes
TSKCB	SFHK	Loan business	100%	Yes	100%	Yes	100%	Yes
SKSC	SKSIC	Investment consulting	94.66%	Yes	—	No (Note 5)	—	No (Note 5)
SKLIC	NLIC	Real estate leasing	58% (Note 6)	Yes	58% (Note 6)	Yes	58% (Note 6)	Yes
MLSC	MasterLink Futures Co., Ltd.	Futures brokerage and trading	Note 7	No	100%	Yes	100%	Yes
MLSC	MasterLink Securities Investment Advisory Corp.	Research and analysis about securities investment, publication of investment research reports, securities investment consulting services and discretionary investment services	Note 7	No	100%	Yes	100%	Yes
MLSC	MasterLink Securities (B.V.I.) Corporation (MLSBC)	Securities underwriting and brokerage	Note 7	No	100%	Yes	100%	Yes

Name of Investment Company	Name of Subsidiary	Type of Business	% of Ownership as of December 31, 2006	Included in the Consolidated Financial Statements as of December 31, 2006	% of Ownership as of December 31, 2007	Included in the Consolidated Financial Statements as of December 31, 2007	% of Ownership as of December 31, 2008	Included in the Consolidated Financial Statements as of December 31, 2008
MLSC	MasterLink Insurance Agency Co., Ltd.	Life insurance agency	Note 7	No	100%	Yes	100%	Yes
MLSC	MasterLink Managed Futures	Futures operating	Note 7	No	100%	Yes	Note 8	Yes
MLSBC	MasterLink (Hong Kong)	Consulting services, industry report and research	Note 7	No	100%	Yes	100%	Yes
MLSBC	Shanghai MasterLink Investment Advisory Corp.	Securities investment consulting and training services	Note 7	No	100%	Yes	100%	Yes
MLSBC	MasterLink Agency (Hong Kong)	Agency of securities	Note 7	No	99.99%	Yes	100%	Yes

Note 1: On October 9, 2006, SKITC merged with NLAMC, and SKITC was the surviving company.

Note 2: MLSC and subsidiaries' consolidated financial statements for the period from December 11, 2007 to December 31, 2007 were included in the consolidated financial statements.

Note 3: On August 30, 2006, TSKIBC, wholly owned by TSKCB, merged with SKIBC, a subsidiary of SKFHC, and SKIBC was the surviving company.

Note 4: The ownership percentage includes the indirect equity interest owned by SKLIAC, a subsidiary of TSKCB.

Note 5: SKSIC was liquidated in first quarter, 2007.

Note 6: The ownership percentage includes the indirect equity interest owned by SKLRESC, a subsidiary of SKLIC.

Note 7: MLSC and subsidiaries' consolidated financial statements for the period from December 11, 2007 to December 31, 2007 were included in the consolidated financial statements.

Note 8: Master Link Managed Futures was closed on August 30, 2007, and liquidated in first quarter, 2008.

All of the subsidiaries are included in the consolidated financial statements except for Shin-Kong Hainan Insurance Co., Ltd. (preparatory organization) as of and for the years ended December 31, 2008, because it was still at arranged stage.

SKFHC adopted SFAS No. 7, “Consolidated Financial Statements”, this Statement requires consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. All material transactions and balances among consolidated entities are eliminated in the consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the amounts and valuation of financial assets, allowance for doubtful accounts, deferred income tax, reserve for operations and liabilities, depreciation, pension cost, accrued litigation loss and bonuses to employees, directors and supervisors. Actual results could differ from these estimates.

The significant accounting policies of the Group are summarized as follows:

Classification of Asset and Liability Classified as Current and Noncurrent

Due to the characteristics of the banking industry, the TSKCB’s business cycle cannot be defined. Therefore, the assets and liabilities of TSKCB were not classified as current or noncurrent but were properly categorized according to the nature of each account and were stated in the order of their liquidity. For other subsidiaries, current assets are those that can be realized in cash within 12 months; property and equipment and others are classified as noncurrent asset. Current liabilities are obligations due within 12 months; others are noncurrent liabilities.

Because banking is the Group’s major industry, the assets and liabilities in the consolidated balance sheets were not classified as current or noncurrent but were properly categorized according to the nature of each account and were stated in the order of their liquidity.

Cash and Cash Equivalents

Cash and cash equivalents include cash (including foreign currencies) in banks, bank deposits, petty cash, certificates of deposits purchased, foreign-currency bank deposits, cash in transit and other short-term, highly liquid investments (such as government bonds, bankers’ acceptances and commercial paper) with a maturity of three months or less on the date of acquisition.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial assets/liabilities at fair value through profit or loss (FVTPL) has two subcategories, including financial assets/liabilities held for trading and those designated as at FVTPL. The Group recognizes a financial asset or a financial liability on its balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Group has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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

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

Financial assets/liabilities designated initially measured at fair value which are mixed financial instruments. It has the unrealized gains (loss) recognized as current income (expense).

Financial assets/liabilities designated initially as measured at fair value for the reason of elimination of the difference in accounting practices, can subsequently be measured at fair value with the changes in fair value recognized in profit or loss. Unrealized gain (loss) is recognized as current income (expense).

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Allowance for Doubtful Accounts

The Group makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for the specific or general risks. Debts and guarantees with specific risk are evaluated internally for their collaterals, collectibility and customers' overall credits.

SKLIC and TSKCB, in accordance with the “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises” and “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Bank Enterprises” issued by the Ministry of Finance, provide the allowances for doubtful accounts based on management’s evaluation of the collectibility of individual accounts, the borrower’s/clients’ financial condition and payment history.

Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowances are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

Bonds Purchased (Sold) under Resell (Repurchase) Agreements

Bonds purchased under resale agreements are actual payment made to the counterparty in transactions involving the purchase of bonds, subject to an agreement by the purchaser to resell the bonds. Notes issued under repurchase agreements are actual receipts from the counterparty in transactions involving the sale of bonds by one party, subject to an agreement by the seller to repurchase the bonds. These transactions are treated as margin trading. All related interest income or expense is recognized on accrual basis.

Available-for-Sale Financial Assets

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Purchase on Margin and Short Sale

The Group recognizes margin loans as loans to customers for purchases on margin while providing financing to investors who buy stocks. Margin loans made by the Group are generally collateralized by securities in the client’s account. These collateralized securities are not entered in the Group’ books, but recorded using memorandum entries. After the security investors settle the margin loan, these pledged securities are returned to investors.

The Group requires a deposit from security investors for short sale services to investors. This deposit is recorded as deposit on short-sale transactions. The amount collected from selling of short sale securities (net of securities transaction tax, brokerage fee and handling fee) is kept by the Group as collateral and recorded as payable for short-sale transactions. The securities lent to clients as short sale are recorded using memorandum entries. The deposit on short-sale transactions and payable for short sale are returned to security investors after investors settle the short-sale transactions.

Loans borrowed by the Group from other securities lenders when the Group has insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders", and the stocks purchased by the borrowers are held by the securities lenders as collaterals.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (straight-line method can be used if there will be no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using settlement date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between the carrying amount and fair value shall be accounted for as unrealized gain (loss) on financial instrument under shareholders' equity. When the financial asset is derecognized, the cumulative gain or loss previously recognized in shareholders' equity shall be reclassified to profit and loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Debt Securities without Active Market

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Investments Accounted for by the Equity Method

Investments in which the Group holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method; the Group recognizes its share in the investee's profits or losses according to its ownership percentage in the investee.

Upon acquiring of equity investment or initial adoption of equity method, the difference between cost and fair value of investment is amortized over twenty years by the straight-line method. However, from January 1, 2006, the costs of investments are required to be analyzed, any excess of the acquisition cost over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition is recorded as goodwill and should not be amortized according to SFAS No. 25 "Accounting Treatment for Merger under Purchasing Method." Since January 1, 2006, the unamortized balance of goodwill (investment cost over net equity acquired) on investments which were acquired before January 1, 2006 are no longer amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount should be amortized over the remaining year.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Group's percentage of ownership in the investee; however, if the Group has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Group's percentage of ownership in the investee.

Property and Equipment (Including Assets Leased to Others and Real Estate Investments)

Property and equipment are recorded at cost when acquired. However, the land of SKLIC and TSKCB was revalued in accordance with valuation guidelines announced by the government.

Depreciation of property and equipment is calculated by the straight-line method based on estimated useful life or remaining useful years upon revaluation, plus one year salvage value.

Major additions, renewals, betterments and interest expenses incurred are capitalized, while maintenance and repairs are expensed currently.

Upon retirement, sale or other disposal of properties, any gain or loss is credited or charged to income.

Reserves for land revaluation increment tax required by law after revaluation are classified as reserve for land value increment tax.

Long-Term Contracts

The Group adopts the percentage-of-completion method to recognize profit of long term construction contracts when all of the following conditions are met. Otherwise, the Group adopts completed contract method.

a. The construction has completed its planning stage with the engineering and design work, site clearance and preparation, excavation, and the building foundation completed and construction work can commence anytime.

b. Total estimated contract prices exceeds total estimated contract cost.

c. Percentage-of-completion method is required when billings on construction-in-process exceed 15% of the contract price for each contract. Completed contract method is required when payment does not exceed 15% of the contract price.

d. Dependable estimates can be made as to total accounts receivable.

e. Contract costs to complete the contract and the degree of its completion at the end of the period can be reasonably estimated.

f. Related costs of the sales contract can reasonably identified.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as a current asset. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as current liabilities.

Impairment of Assets

The Group adopted SFAS No. 35, “Accounting for Impairment of Assets” effective on January 1, 2005. This SFAS requires the recognition of an impairment loss when there is indication that the carrying amount of an asset is not recoverable. An impairment loss shall be measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. If the impairment loss decreases, a gain on reversal of impairment loss is recognized to the extent of the impairment loss previously recognized. The recovered carrying amount of an impaired asset shall not exceed the original carrying amount less depreciation or amortization. The impairment loss of goodwill shall not be reversed.

Share-based Payment

Share options granted under the share-based payment agreements after January 1, 2008 are accounted for according to SFAS No. 39 “Share-based Payment” and Interpretation (96) No. 267 and (97) No. 017. The payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

Real Estate in Trust

The accounting for securitized real estate is based on SFAS Interpretation No. (93) 141, “Accounting for Securitized Real Estate” issued by the Accounting Research and Development Foundation of ROC (“ARDF”).

When the sale of real estate is consummated and the risks and rewards of the ownership are transferred to the transferee, the transferor shall recognize profit by the full accrual method.

If the transferor sells portion of the real estate, the carrying value of the real estate shall be allocated between the sold and retained real estate in proportion to their fair value when the transaction occurs. If the fair value of the retained real estate cannot be reasonably and reliably measured, the carrying value of the retained real estate shall equal to zero and the carrying value of the real estate shall be allocated to the sold real estate in full.

The usufruct retained shall be accounted in accordance with its attribute. If the usufruct is attributive to real estate, the usufruct is accounted for as real estate and stated at cost. If the usufruct is attributive to financial asset, the usufruct is accounted as financial assets and stated at the lower of cost or market.

Rights of Superficies on Land

The cost of rights of superficies on land is amortized on the straight-line basis over 50 years, the term of the related land lease.

Goodwill

The accounting for goodwill (classified under intangible assets) is based on SFAS No. 25 "Business Combinations — Accounting Treatment under Purchase Method". The excess of acquisition cost over the net fair value of tangible and identifiable intangible assets is recognized as goodwill. Goodwill is no longer amortized but is subject to an impairment test periodically.

Deferred Expenses

Deferred expenses refer to power line allowances, leasehold improvements, computer programs and so forth, which are amortized on the straight-line basis over 3 to 10 years starting from the year when benefit was received or payments were made.

Separate Accounts

SKLIC sells investment type insurance policies. Based on agreements, the insurance premiums paid by policyholders are offset against various expenses of SKLIC and invested in separate accounts at allocation ratios agreed on with or directed by the policyholder. The value of the separate-account assets is accounted for at market value on the valuation date and their net worth is computed in accordance with the related regulations and accounting principles generally accepted in the ROC.

The assets, liabilities, revenues and expenses of separate accounts represent the rights and obligations of the policyholders and are recorded, pursuant to the accounting principles governing investment type insurance policies, in SKLIC's "asset on insurance products — separate account", "liabilities on insurance products — separate account", "income on insurance products — separate account", "disbursements on insurance products — separate account".

Convertible Bonds

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

For convertible bonds issued on or after January 1, 2006, the Group first determines the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determine the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. If bondholders want to convert bonds to specific amount of common stock with specific price or amount, the liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Group uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

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

The Group can exercise the call option by buying the convertible bonds back from the market to redeem them before maturity. If the redemption gain or loss is material, it should be recognized as extraordinary gain or loss and reported as a line item in the income statement.

Reserves for Operations

Reserves for operations and liabilities are stated pursuant to the Regulations Governing Calculation of Various Reserves for Operations promulgated by the Insurance Bureau on November 26, 2003. The figures for the reserves are provided by actuaries certified by the Ministry of Finance. On December 28, 2007, the regulations have been revised, and enforced on January 1, 2008. Each reserve basis is stated below:

Reserve for Life Insurance Liability

Reserve for life insurance liability of an insurance product is calculated according to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators. Calculation is based on a mortality table and projected interest rate at the time of approval of the insurance product by the Insurance Bureau.

Reserve for Unearned Premiums

Unearned premiums of effective policies with a term of less than one year are computed by policy type according to the actual risk (with recognition of reinsurance costs and benefits) assumed by SKLIC for the remaining policy period in compliance with related regulations. Since January 1, 2008, unearned premiums are computed by the remaining policy type according to the actual risk.

Special Reserve

Special reserve for actual undertakings (with recognition of reinsurance costs and benefits) includes special reserve for catastrophe, special reserve for contingent claim and other special reserves.

Special reserves for catastrophe are provided, by policy type, according to the rates set by regulatory authorities. The special reserve for catastrophe is used to offset the portion of net indemnities exceeding $30 million. The amount of reserve for catastrophe which was provisioned for more than 15 years can be measured by appointed actuary and reversed to income after reporting to Insurance Bureau.

If actual claim on an insurance product exceeds the reserve for catastrophe, 15% (30% used before January 1, 2008) of the difference should be taken from the special reserve for contingent claim. Otherwise, the whole excess may be taken from the reserve for the contingent claim. If the reserve for contingent claim is insufficient for the excess, another insurance product reserves for contingent claim may be used for that excess. When the accumulated amount of this special reserve for contingent claim exceeds 30% of the gross amount of net earned premium, the excess is recovered and treated as income.

Claim Reserve

This is a reserve for indeterminate claim, whether or not it is reported. The provisions for the reserves for reported indeterminate claim are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance. The provisions for the IBNR (incurred but not yet reported) reserve are at 1% of the net earned premium by policy type for policies with terms of less than one year from 2006, the provisions for the accident insurance retention reserve are recognized according to the method approved by the related authority, and historical information.

Premiums Deficiency Reserve

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Other Reserve

Reserve for Trading Loss

Reserve for trading loss is at 10% of the monthly net gain on the sale of government bonds by SKSC, TSKCB and MLSC. This reserve cannot be used for any purpose other than to offset the trading loss in excess of the trading profit.

Reserve for Bad debt

Allowance for doubtful accounts of SKSC and MLSC is provided by assessing the collectibility of the notes and accounts receivable at the period end. Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 82416 dated September 29, 1999, the Company increased allowance for doubtful accounts, which were equal to such increased income raised from reducing the rate of VAT tax. If each item of the account does not have bad debt risk, allowance for doubtful accounts is classified under other reserve according to the law.

Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 0920002964 dated July 17, 2003, effective from July 1, 2003, the aforementioned regulation is no longer applicable to securities firms. However, if there is an outstanding balance of the aforesaid allowance for doubtful accounts on June 30, 2003, such reserve would be retained to write off overdue accounts in the future.

Reserve for Trading Default

Reserve for trading default is calculated monthly by SKSC and MLSC at the rate of 0.28/10,000 based on the amount of consigned trading of marketable securities. This reserve cannot be used for any purpose except to offset the loss incurred on the trading default of the consigned trader of marketable securities or other purposes approved by the Securities and Futures Bureau of the Ministry of Finance.

Pension Cost

Defined benefit pension plan is accounted for based on SFAS No. 18, "Accounting for Pension." Defined contribution pension plan is accounted for based on contributions made for employees in their service years.

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

Treasury Stock

The Group uses the cost method to account for treasury stock. If the stocks are donated, market price is used to account for treasury stock. Cost of treasury stock is determined on the basis of the weighted-average method.

On treasury stock disposal, if the disposal value is greater than the book value, the difference is recorded as "capital surplus — treasury stock transactions"; otherwise, the difference is used to offset capital surplus that resulted from similar treasury stock transactions. If the capital surplus is insufficient to cover the difference, retained earnings are used to cover the insufficiency.

Income Tax

The Group adopted SFAS No. 22, “Accounting for Income Taxes,” which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to “Alternative Minimum Tax Act”, the Group calculates the alternative minimum tax in addition to the regular income tax. If the regular income tax is lower than the alternative minimum tax, the difference is accrued as an additional income tax adjustment.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

The Company and its subsidiaries which the Company holds more than 90% of the outstanding shares adopt the accounting treatment of the consolidated income tax return. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as the company’s income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Revenue Recognition

The Group follows SFAS No. 32, “Accounting for Revenue Recognition,” to recognize revenue, except for insurance premium income.

Gain or loss on sales of securities and processing fee income are recognized on transaction completion. Income and expenses from agency business are recognized when the contract ends. Income from subscription is recognized when collected. Income from handling stock affairs is recognized on the basis of contract terms. Handling expenses for agency business and operation are recognized on transaction completion.

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection. Under Ministry of Finance regulations, the interest revenue on credits for which agreements have been reached to extend their maturities is recognized upon collection.

Service fees are recorded as income upon receipt or substantial completion of activities involved in the earnings process.

Insurance Premium Income and Expenses

Direct premiums are recognized on the date the policies become effective. Policy-related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At balance sheet date, adjustments are made based on past experience.

Foreign currency Transactions

Non-derivative foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are retranslated using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign currency nonmonetary assets and liabilities carried at fair value are retranslated at the rates prevailing on the date when the fair value was determined, with the exchange differences treated as follows:

a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Hedge Accounting

The Group designates certain derivatives instruments, which are in order to manage interest risk, foreign currency risk and credit risk arising from the Group's assets and liabilities, as either fair value hedges or cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy for undertaking hedge transactions and evaluation method of hedge efficiency.

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

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

b. Cash Flow Hedge: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

c. Hedges of Net Investment in Foreign Operation: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss on disposal of the foreign operation.

   The Group, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities. The main focus of cash flow hedge is to minimize the change of future cash flow arising from the fluctuation of the interest rates and foreign currency of assets and liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2006 and 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

Initial adoption of the newly released SFASs and related revisions of previously released SFASs:

SFAS No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Disclosure and Presentation for Financial Instruments"

On January 1, 2006, the Group adopted the newly released SFAS No. 34, "Financial Instruments: Recognition and Measurement" and No. 36, "Disclosure and Presentation for Financial Instruments" and related revisions of previously released SFASs.

The Group had properly categorized its financial assets and liabilities upon the initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs for the year ended December 31, 2006 is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders' Equity (Net of Tax)
Financial assets or liabilities at fair value through profit or loss	$932,571	$ —
Available-for-sale financial assets	—	7,972,777
Derivative financial liabilities for hedge	—	(197,563)
	$932,571	$7,775,214

The above accounting changes increased net income by $932,571 thousand and earnings per share by $0.20 dollar for the year ended December 31, 2006.

Effective January 1, 2006, pursuant to the newly amended SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements" (4th amendment), No. 5, "Long-term Investments in Equity Securities" (5th amendment) and No. 25, "Business Combinations — Accounting Treatment under Purchase Method" (1st amendment), goodwill is no longer amortized. For the year ended December 31, 2006, the amortization expenses decreased by $104,256 thousand.

SFAS No. 38 "Noncurrent Assets Held for Sale and Discontinued Operations"

Effective January 1, 2007, the Group adopted the newly released SFAS No. 38 "Noncurrent Assets Held for Sale and Discontinued Operations." This accounting change had no material effect on the Group's financial statements as of and for the year ended December 31, 2007.

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, ARDF issued Interpretation 96-052 that requires companies to recognize remunerations to directors and supervisors and employee bonuses as compensation expenses since January 1, 2008. These remunerations and bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in an increase of $2,166 thousand in net loss but did not have effect on the basic and diluted loss per share for the year ended December 31, 2008.

Accounting for Employee Stock Options

On January 1, 2008, the Group adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption resulted in an increase of $267,669 thousand in net loss and a decrease in after income tax basic earnings per share of $0.05 for the year ended December 31, 2008.

Reclassification for Financial Instruments

On July 1, 2008, the Group adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 49 for relevant information regarding reclassifications of financial instruments.

4. PRO FORMA FINANCIAL INFORMATION

As of December 31, 2006, SKFHC acquired 100% equity interests of SKITC by share purchase and SKITC became wholly owned subsidiary of SKFHC. According to SFAS No. 25, "Business Combinations — Accounting Treatment under Purchase Method," assuming that SKFHC acquired controlling ownership in SKITC on January 1, 2006 the pro forma financial information of the consolidated entity for the year ended December 31, 2006 would be as follows:

	December 31
	2006
	Units: In thousands of New Taiwan dollars, except earnings per share
Gross income	$31,834,344
Net income before tax	4,466,491
Net income after tax	6,071,176
Earnings per share (in dollars)	1.32

The above pro forma consolidated financial information is for reference only. It does not indicate the real or future financial conditions and operating results if SKFHC had acquired ownership in SKITC as of January 1, 2006.

As of December 11, 2007, SKFHC acquired 25.32% equity interests of MLSC by share purchase and MLSC became a subsidiary of SKFHC. According to SFAS No. 25, "Business Combinations — Accounting Treatment under Purchase Method," assuming that SKFHC acquired controlling ownership in MLSC on January 1, 2007 the pro forma financial information of the consolidated entity for the years ended December 31, 2006 and 2007 would be as follows:

	December 31	
	2006	2007
	Units: In thousands of New Taiwan dollars, except earnings per share	
Total net income and gains	$35,578,275	$31,262,459
Net income before tax	5,521,646	5,836,112
Net income after tax	6,792,488	5,511,322
After income tax basic earnings per share (in dollars)	1.35	1.05

The above pro forma consolidated financial information is for reference only. It does not indicate the real or future financial conditions and operating results if SKFHC had acquired ownership in MLSC as of January 1, 2007.

5. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal

Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

6. CASH AND CASH EQUIVALENTS

	December 31		
	2006	2007	2008
Cash in banks	$ 3,463,064	$ 5,843,886	$ 3,665,010
Petty cash	132,393	174,273	251,599
Checking account	286,600	566,256	61,562
Demand	12,044,279	17,891,091	31,795,738
Time deposit	14,919,098	32,759,130	48,188,630
Checks for clearance	4,391,513	1,769,776	2,117,765
Cash equivalents	15,036,657	39,464,914	1,351,741
Less guarantee deposits paid	(34,964)	(25,954)	(54,010)
	$50,238,640	$98,443,372	$87,378,035

For the years ended December 31, 2006, 2007 and 2008, negotiable certificates of deposits, accrued commercial paper payable and government bonds mature to three months, respectively, with interest rates ranging from 1.08%~2.00%, 1.19%~2.50% and 0.24%~2.89%.

7. DUE FROM THE CENTRAL BANK OF CHINA AND OTHER BANKS

	December 31		
	2006	2007	2008
Reserve — checking account	$ 3,029,199	$ 2,863,116	$ 8,129,466
Reserve — demand account	7,370,591	8,349,737	9,006,765
Inter bank clearing account	203,052	200,740	200,276
Reserve — foreign currency deposit	15,320	989,512	37,789
Certificates of deposit	20,300,000	19,200,000	24,700,000
Deposits in other banks	7,343,070	2,588,136	4,084,984
	$38,261,232	$34,191,241	$46,159,280

The deposit reserves, which are calculated by multiplying the average monthly balances of all deposit accounts by the legally required ratio, are kept in the Central Bank of China. The demand account reserve can be used only for the monthly adjustment of the deposit reserve; others can be used at any time.

8. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31		
	2006	2007	2008
Financial assets held for trading			
Domestic investments			
Listed securities	$19,129,858	$15,639,996	$ 237,877
Beneficiary certificates	9,616,898	4,194,213	25,464,528
Bonds and financial bills	32,308,859	42,293,940	36,432,994
Government bonds	429,752	2,393,482	5,093,614
Currency swap contracts	—	367,591	1,497,541
Cross-currency swap contracts	—	93,585	135,768
Interest rate swap contracts	40,378	29,724	18,230
Derivative financial assets — counter	108	183,347	75,288
Currency options contracts	791,249	—	—
Others	60,142	176,142	207,579
	62,377,244	65,372,020	69,163,419
Foreign investments			
Stocks	8,626,793	6,239,480	2,458,944
Beneficiary certificates	512,896	1,475,378	485,003
Bonds	13,296,408	18,725,264	10,933,891
Credit default swaps	—	—	341,771
Foreign exchange forward contracts	1,307,916	1,113,602	10,336,244
Interest rate swap contracts	—	89,280	—
	23,744,013	27,643,004	24,555,853
	$86,121,257	$93,015,024	$93,719,272
Financial assets designated upon initial recognition at fair value through profit or loss			
Credit-linked loans	$ —	$ —	$ 260,887
Financial liabilities held for trading			
Domestic investments			
Bonds purchased under resale agreements — securities financing	$ —	$ 49,424	$ —
Issuing of stock warrants liabilities, net	167,547	144,475	31,330
Short options liabilities	2,802	3,118	13,443
Interest rate swap contracts	4,106,051	1,466,464	12,224,314
Foreign exchange forward contracts	—	86,604	42,672
Derivative financial liabilities — counter	—	755,835	317,941
Bonds borrowing payment — hedge	—	26,520	20,946
Bonds borrowing payment — non-hedge	—	—	5,854
Convertible bonds (Note 28)	—	—	307,495
Equity-linked notes	4,495	—	—
Stock index futures	15,902	—	—
	4,296,797	2,532,440	12,963,995
Foreign investments			
Foreign exchange forward contracts	—	1,557,800	12,409,857
Interest rate swap contracts	—	124,858	—
	—	1,682,658	12,409,857
	$ 4,296,797	$ 4,215,098	$25,373,852
Assigned financial liabilities measured at fair value through profit or loss			
Financial bonds payable	$ 965,228	$ 981,378	$ —
Interest rate swap contracts	25,766	—	—
	$ 990,994	$ 981,378	$ —

SKLIC entered into trust agreements with The Mega International Commercial Bank, JF Asset Management (Taiwan) Limited and FX Concepts entrusting the bank with funds to invest in foreign securities in a prescribed manner and consigning these companies to hedge the foreign currency risk by engaging in forward exchange derivative contracts.

As of December 31, 2006, 2007 and 2008, transactions of SKLIC were as follows:

	Consigning Amount	Advanced to Its Consignee
2006		
The Mega International Commercial Bank	US$1.6 billion	NT$48,432,719 thousand (Note)
JF Asset Management (Taiwan) Limited	US$0.5 billion	NT$10,255,380 thousand
BNP Paribas Asset Management U.K. Limited	US$0.5 billion	NT$5,339,890 thousand
FX Concepts	US$0.2 billion	NT$1,600,879 thousand
2007		
The Mega International Commercial Bank	US$2 billion	NT$53,006,815 thousand (Note)
JF Asset Management (Taiwan) Limited	US$0.5 billion	NT$3,891,883 thousand
BNP Paribas Asset Management U.K. Limited	US$0.5 billion	NT$4,240,500 thousand
FX Concepts	US$0.2 billion	NT$4,239,345 thousand
Credit Agricole Asset Management	US$1.5 billion	NT$50,653 thousand
2008		
The Mega International Commercial Bank	US$2 billion	NT$42,582,818 thousand (Note)
JF Asset Management (Taiwan) Limited	US$0.3 billion	NT$21,603 thousand
FX Concepts	US$0.4 billion	NT$2,751,850 thousand

Note: As of December 31 2006, 2007 and 2008, the original investment cost of $6,609,482 thousand, $2,687,312 thousand and $2,006,033 thousand, respectively, is in trust fund held for trading; the original investment cost of $3,259,600 thousand, $11,755,867 thousand and $5,946,573 thousand, respectively, is in trust fund available-for sale, the original investment cost of 38,563,636 thousand, 38,563,636 thousand and $34,630,212 thousand, respectively, is in debt securities without active market.

SKLIC entered into derivative contracts during the years ended December 31, 2006, 2007 and 2008 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of SKLIC is to minimize risks due to changes in fair value or cash flows. SKLIC's derivatives did not adopt hedge accounting during the years ended December 31, 2006, 2007 and 2008.

TSKCB used forward exchange contracts as hedging instruments for exchange rate exposures primarily related to its clients' import obligations and export receipts and remittances. It also used these contracts to hedge the risk from the operation mentioned above and cover the exposure of foreign currency demand. TSKCB enters into foreign-currency derivative contracts for hedging the risk of exchange rate fluctuations on its foreign assets (liabilities); it enters into interest rate swap contracts without exchange of notional principals for nontrading purpose to hedge the risk of interest rate fluctuations on its issuing of financial bonds. TSKCB's hedging strategy is to hedge the great part of market price or cash flow risks, and uses hedging instruments having high negative correlation with fair value of the hedged items and periodically evaluates the effectiveness of these instruments.

SKSC and MLSC issued stock warrants under trading purpose, and held underlying instruments for non-trading purpose to hedge against the exercise risk arising from investors who held the stock warrants and to hedge the fluctuations in market value of these stock warrants, SKSC owns securities for hedging purposes and hedges with high negative correlation with fair value of the hedged items and periodically evaluates the effectiveness of these instruments.

SKSC has Taiwan stock index futures contracts, options contracts and stock option rate index futures contracts held for non-trading purpose to hedge the risk from SKSC's marketable securities trading in the open market. SKSC invests in derivative instruments which market prices are in inverse relationship with the hedged items and evaluated on a regular basis.

SKSC had been engaged in the equity-linked notes for trading purpose and held underlying instruments for nontrading purpose to hedge against market price risk. The fair value and the financial instrument hedged are highly negatively correlated and evaluated on a regular basis. SKSC did not adopt hedge accounting for the years ended December 31, 2006, 2007 and 2008.

MLSC's subsidiaries made futures proprietary trading business, and the main risk was market price risk. The market prices of futures and options were influenced by investments. MLSC had set up a loss-stop point to control the loss when the market price of futures and options changes opposite to price of investments.

MLSC used derivatives to obtain profit, including futures contract transactions, option transactions, interest rate swap contract, cross currency asset swap, options asset swap, structured notes, and bond option.

MLSC made derivative transactions from stock exchange market; therefore, there will not be a substantial risk, and MLSC made derivative transactions by business premises, because MLSC is the main market markers, the liquidity risk can be controlled within an expected range.

As of December 31, 2006, 2007 and 2008, the Group's outstanding derivative contracts are summarized as follows: (In Thousands)

	Contract Amount	
December 31, 2006		
Forward exchange contracts	US$	5,283,258
	JP¥	18,147
	NT$	28,684
Currency swap contracts	US$	5,713,000
Interest rate swap contracts	NT$	25,342,000
Currency option contracts	US$	600,000
Stock index futures	NT$	518,362

	Contract Amount	
December 31, 2007		
Forward exchange contracts	US$	4,359,603
	JP¥	286,240
Currency swap contracts	US$	5,021,942
	NT$	21,176,422
Interest rate swap contracts	NT$	25,567,437
Cross-currency swap contacts	US$	285,000
Stock index futures	NT$	313,770
Stock index options	NT$	5,960

		Contract Amount
December 31, 2008		
Forward exchange contracts	JP¥	200,000
	US$	3,053,402
	NT$	10,127
Currency swap contracts	US$	7,890,842
	NT$	45,939,695
	JP¥	180,314
	ZAR	115,000
	AUD	47,000
	NZD	35,000
	CAD	2,000
	GBP	1,800
Credit default swaps	US$	17,000
Interest rate swap contracts	NT$	7,740,000
Cross-currency swap contacts	US$	232,000
Stock index futures	NT$	3,829,107
Stock index options	NT$	18,246
	US$	3,800

As of December 31, 2008, the Group held futures contracts, stock warrants liabilities and stock option contracts, which are shown in Note 49.

Financial assets held for trading used as guarantee are shown in Note 42.

9. BONDS PURCHASED UNDER RESALE AGREEMENTS

Bonds purchased under resale agreements on December 31, 2006, 2007 and 2008 are maturing within one year, and the annual rate is 1.60%~1.65%, 1.88%~2.17% and 0.35%~1.76%, respectively.

10. ACCOUNTS RECEIVABLE

	December 31		
	2006	2007	2008
Notes receivable	$ 6,512,794	$ 4,558,347	$ 4,248,247
Accounts receivable	15,145,106	13,434,047	9,620,786
Bank acceptance receivable	357,910	763,040	341,281
Interest receivable	10,528,200	12,844,369	14,491,538
Accrued income	406,472	411,501	22,479
Tax refund receivable	2,388,293	3,137,217	3,831,609
Receivables of proceeds from disposal of securities	2,991,959	111,395	1,370,551
Receivables — separate accounts	786,529	1,013,736	869,601
Margin loans receivable	1,298,785	21,927,992	7,676,751
Others	872,450	630,853	1,509,567
	41,288,498	58,832,497	43,982,410
Less allowance for doubtful accounts (Note 11)	(2,033,635)	(657,265)	(386,783)
	$39,254,863	$58,175,232	$43,595,627

11. LOANS, NET

	December 31		
	2006	2007	2008
Policy loans	$105,226,549	$112,989,129	$119,453,387
Loans	302,222,589	345,471,895	351,064,221
Overdue loans	3,423,952	5,113,845	5,016,429
	410,873,090	463,574,869	475,534,037
Less allowance for doubtful accounts	(4,290,784)	(3,831,690)	(4,238,671)
	$406,582,306	$459,743,179	$471,295,366

Under Ministry of Finance regulations, insurance applicants who have paid premiums for more than one year and whose insurance policy includes termination value may apply for the Life Insurance Policy Secured Loan at an amount not exceeding the termination value. In addition, upon default on premium payment, policyholders have the option to elect for automatic reimbursement of premium from the accumulated policy value reserve. SKLIC records related transactions as “Policy Loans.”

A policy loan is limited to the amount of the termination fee or the accumulated policy value reserve. If the loan or the sum of the reimbursement with accrued interest exceeds the life insurance liability reserve, the policy is automatically terminated without bad debts expected to occur; thus, no allowance for bad debt is provided.

According to the Group’s policy, SKLIC will record any loans unpaid for over six months as overdue loans and provide appropriate allowance. Pursuant to the “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts” promulgated by the Ministry of Finance, loans and other credit facilities which are approved by the Board of Directors or are not paid at maturity within six months will be reclassified to overdue receivable with the amount of accrued interest.

Allowance for Loans and Accounts Receivable

	2006		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio	Total
Balance, January 1, 2006	$ 2,106,483	$ 2,209,271	$ 4,315,754
Provision for loan losses and doubtful receivable	3,219,757	7,874,357	11,094,114
Write offs	(4,812,943)	(4,641,830)	(9,454,773)
Recovery of write offs	486,858	—	486,858
Balance, December 31, 2006	$ 1,000,155	$ 5,441,798	$ 6,441,953

	2007		
	Specific Risk	General Risk	Total
Balance, January 1, 2007	$ 1,000,155	$ 5,441,798	$ 6,441,953
The effect of MLSC combination	—	18,255	18,255
Provision	1,188,839	724,778	1,913,617
Write-off	(1,238,444)	(3,200,150)	(4,438,594)
Recovery of write-off	755,817	59,925	815,742
Balance, December 31, 2007	$ 1,706,367	$ 3,044,606	$ 4,750,973

	2008		
	Specific Risk	General Risk	Total
Balance, January 1, 2008	$ 1,706,367	$3,044,606	$ 4,750,973
Provision	1,534,755	221,470	1,756,225
Write offs	(1,376,028)	(967,704)	(2,343,732)
Recovery of write offs	656,052	44,076	700,128
Balance, December 31, 2008	$ 2,521,146	$2,342,448	$ 4,863,594

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31		
	2006	2007	2008
Domestic investments			
Listed securities	$ 31,417,690	$ 34,546,954	$ 44,640,641
Beneficiary certificates	2,302,755	3,025,776	3,016,353
Real estate investment trust fund beneficiary certificates	5,409,587	5,412,880	6,046,981
Real estate asset trust fund beneficiary certificates	3,958,193	4,633,991	5,560,943
Government bonds	50,326,446	35,080,141	249,389,244
Beneficiary certificates of financial assets	1,780,041	2,562,494	25,269,460
Negotiable certificates of deposits	2,300	—	—
Less guarantee deposits paid (Note 21)	—	—	(6,932,000)
	95,197,012	85,262,236	326,991,622
Foreign investments			
Stocks	26,521,271	24,701,756	26,052,931
Funds and beneficiary certificates	8,283,049	14,662,750	2,539,788
Bonds	23,197,938	31,710,985	8,341,141
	58,002,258	71,075,491	36,933,860
	$153,199,270	$156,337,727	$363,925,482

Due to the downgrade in investment rating of financial bonds and beneficiary certificates and the drop in net value of listed securities in 2007 and 2008, SKLIC considered other related factors such as issuers' information on payment of interest and repayment of principal, etc., and the Group decided to recognize impairment loss of $1,794,979 thousand and $371,154 thousand for the years ended December 31, 2007 and 2008, respectively.

SKLIC securitized Zhong-Shang Building and Dun-Nan Building. These transactions were accounted for in conformity with SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF. The relevant information is disclosed as follows:

SKLIC purposely acquired beneficiary certificates of $1,608,788 thousand for securitized real estate transactions and the right to the distribution of the ultimate cash flow of these two buildings in the future. Terms and conditions of these transactions were made in conformity with the stipulations of SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF. The total of revaluation increment adjustment recognized under shareholders' equity amounted to $236,127 thousand.

For the year ended December 31, 2006, SKLIC securitized Shin Kong International Building, Taiwan Securities Financial Buildings, Tainan Shin Kong Mitsukoshi Building, and Shin Kong Tien Mu Jasper Villa and entrusted these real estate investments to a trustee for issuance of beneficiary certificates (Shin Kong No. 1) according to SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF, the relevant information is disclosed as follows:

In January, 2006, SKLIC sold Shin Kong No. 1 real estate to obtain Shin Kong No. 1 beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of the real estate investments of $3,004,826 thousand are recognized as gains on real estate investments. The related revaluation increment recognized under shareholder's equity amounted to $559,316 thousand are adjusted to other income.

Shin Kong No. 1 beneficiary certificates that arose from the transaction mentioned above amounted to $1,488,743 thousand. The amount was based on the carrying value of the real estate minus the carrying value of the securitized portion. The beneficiary certificates are recognized as available-for-sale financial assets — domestic beneficiary certificates.

For the year ended December 31, 2007, SKLIC securitized Song-Jiang Building, Cheng-De Building and Ban-Ciao Building and entrusted these real estate investment to a trustee for issuance of beneficiary certificates (Song-Jiang case) according to SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF. In January 2007, SKLIC sold real estate to obtain beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of real estate investments of $118,278 thousand are recognized as gains on real estate investments. The related revaluation increment recognized under shareholders' equity amounted to $261,869 thousand, net of unrealized gain on sale and leaseback of $97,029 thousand, amounted to $164,840 thousand are adjusted to other income.

SKLIC estimated the expected lease term of Song-Jiang case as the amortization term of deferred credit to recognize gain in the current year and future years. As of December 31, 2008, deferred credit realized of $30,612 thousand is recognized as other income.

Song-Jiang case beneficiary certificates mentioned above amounted to $301,870 thousand based on the carrying value of the real estate minus the carrying amount of the securitized portion. The beneficiary certificates are recognized as available-for-sale financial assets — domestic beneficiary certificates.

SKLIC's transacted the issuing years of real estate investment trust fund beneficiary certificates and real estate asset trust fund beneficiary certificates, and the issuing year and cost of acquisition are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building	Shin-Kong No. 1
Certificate category	Real estate asset trust	Real estate asset trust	Real estate asset trust	Real estate investment trust
Issuing year	2007	2005	2005	2005
Cost of acquisition	$301,870	$691,980	$916,808	$1,488,743

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the time of securitization are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building
Discount rate	5.18%	5.68%	5.06%
Vacancy rate	0.00%~10.42%	0.08%	3.96%
Market average vacancy rate	7.00%~13.00%	3.30%	6.63%
Percentage of issuance	60.00%	44.00%	54.00%
Equity coverage	1.38	1.24	1.11

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the balance sheet date are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building
Carrying value of beneficiary certificates	$ 592,114	$2,578,856	$2,389,973
Estimated percentage of issuance	60.00%	44.00%	54.00%
Estimated market vacancy rate	6.88%~11.30%	2.86%	5.70%
Estimated discount rate	5.18%	4.75%	4.75%
Effect on carrying value — 10% unfavorable fluctuation	561,950	2,477,960	2,309,090
Effect on carrying value — 20% unfavorable fluctuation	531,660	2,419,090	2,231,760
Estimated vacancy rate	3.07%	5.20%	3.80%
Effect on carrying value — 10% unfavorable fluctuation	602,720	2,531,420	2,381,260
Effect on carrying value — 20% unfavorable fluctuation	599,270	2,528,500	2,378,370

The available-for-sale financial assets used as guarantee are shown in Note 42.

13. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31		
	2006	2007	2008
Government bonds	$152,744,430	$152,635,254	$6,212,168
Corporate bonds	20,363,140	17,918,779	1,399,570
Bank debentures	32,859,507	26,200,875	—
Beneficiary certificates	21,260,230	27,555,034	2,124,731
Foreign bonds	926,711	733,953	112,103
Less guarantee deposits paid (Note 21)	(5,432,000)	(5,432,000)	—
	$222,722,018	$219,611,895	$9,848,572

Credit ratings of some investment financial bonds have been downgraded substantially in 2007. In consideration of other related factors such as information on payment of interest and repayment of principal, the Group recognized impairment loss of $327,726 thousand for the year ended December 31, 2007.

Due to the current tumultuous global financial environment and in order to strengthen the capital structure, SKLIC changed its intention of holding held-to-maturity financial assets, and reclassified $198,796,273 thousand from held-to-maturity investments to available-for-sale financial assets in accordance with SFAS No. 34, “Financial Instruments: Recognition and Measurement” in 2008, and measured at fair value. Related information of reclassifications is shown in Note 49.

The held-to maturity financial assets used as guarantee are shown in Note 42.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31								
	2006			2007			2008		
	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%
Mercury Venture Capital Co., Ltd.	$120,000	$132,928	20.00	$120,000	$130,517	20.00	$ 120,000	$ 21,646	20.00
Centillion Venture Capital Co., Ltd.	216,660	286,921	21.67	216,660	302,862	21.67	216,660	213,694	21.67
	336,660	419,849		336,660	433,379		336,660	235,340	
Prepaid investment									
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization) . .	—	—	—	—	—	—	1,095,950	1,195,590	50.00
	$336,660	$419,849		$336,660	$433,379		$ 1,432,610	$ 1,430,930	

a. Equity in (loss) earnings of equity method investments for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006		2007		2008	
	Investee's Loss	Investment Loss	Investee's Income	Investment Income	Investee's Income	Investment Income
Mercury Venture Capital Co., Ltd.	$ 29,824	$ 5,965	$ 27,326	$ 5,465	$(12,969)	$ (2,594)
Centillion Venture Capital Corp.	121,829	33,318	199,731	43,130	(18,881)	(4,130)
MLSC	—	—	490,190	36,616	—	—
Shin-Kong Hainan Insurance Co., Ltd. (Arranged Organization)	—	—	—	—	(16,328)	(8,164)
	$151,653	$39,283	$717,247	$85,211	$(48,178)	$(14,888)

b. Financial statements of the investee companies as of and for the years ended December 31, 2006, 2007 and 2008 were audited except for Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization).

c. In 2006, shareholders' meeting of Centillion Venture Capital Corp. approved the declaration of capital reduction and the reduction rate is 16.6%. According to the equity interest ratio held by the Group, the Group received $43,340 thousand cash return from this capital reduction.

d. In 2007, equity in earnings of equity method investments of $36,616 thousand from MLSC was recognized by the Group and SKLIC under equity method before combination.

e. In June 2008, SKLIC and China Hainan Group set up a joint-venture, Shin-Kong Hainan Insurance Co., Ltd., to operate the relevant business of life insurance in China area (as of December 31, 2008, it was still processing as preparatory organization). This investment has been approved by the Investment Commission, MOEA for the amount of $1,095,950 thousand (50% of ownership).

f. Marketable securities held as of December 31, 2006, 2007 and 2008 are shown in Note 49.

15. FINANCIAL ASSETS CARRIED AT COST

	December 31		
	2006	2007	2008
Emerging market stocks	$ 120,533	$ 878,069	$ 731,429
Unlisted stocks	6,003,032	5,904,918	5,851,439
Limited foreign listed security	—	—	136,898
	$6,123,565	$6,782,987	$6,719,766

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

For the years ended December 31, 2006, 2007 and 2008, the Group recognized impairment loss of $934,241 thousand, $200,595 thousand and $193,580 thousand, respectively.

16. DEBT SECURITIES WITHOUT ACTIVE MARKET

	December 31		
	2006	2007	2008
Preferred stock	$ 897,649	$ 897,649	$ 897,649
Corporate bonds and beneficiary certificates	104,227,531	8,028,935	7,032,477
Structure notes	22,900,000	25,050,000	20,400,000
Foreign bonds	178,875,356	277,664,658	311,838,956
	$306,900,536	$311,641,242	$340,169,082

Foreign investments in trust funds entrusted to financial institutions are shown in Note 8.

As affected by subprime mortgage crisis and global financial crisis, the credit ratings of the Group's financial instruments, foreign corporate bonds, foreign beneficiary certificates and mortgage bond, have been downgraded significantly. After the Group reviewed other related factors such as information on payment of interest and repayment of principal, etc., the Group recognized impairment loss of $4,391,234 thousand and $6,011,395 thousand (representing impairment loss of $6,775,797 thousand and reversal of impairment loss of $764,402 thousand on disposal), respectively, for the years ended December 2007 and 2008.

17. REAL ESTATE INVESTMENTS, NET

	Year Ended December 31, 2006				
	Land	Buildings	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2006	$36,956,184	$33,318,172	$361,344	$3,366,070	$74,001,770
Increase	6,931,889	104,308	68,467	—	7,104,664
Disposal	(1,661,929)	(5,221,134)	—	—	(6,883,063)
Reclassification	(1,767,581)	(841,980)	69,867	(70,248)	(2,609,942)
Balance, December 31, 2006	40,458,563	27,359,366	499,678	3,295,822	71,613,429
Revaluation increment					
Balance, January 1, 2006	6,545,915	39,962	—	—	6,585,877
Increase	—	—	—	—	—
Disposal	(1,047,306)	—	—	—	(1,047,306)
Reclassification	767,561	2,169	—	—	769,730
Balance, December 31, 2006	6,266,170	42,131	—	—	6,308,301
Accumulated depreciation					
Balance, January 1, 2006	—	5,018,445	—	—	5,018,445
Depreciation expense	—	460,746	—	—	460,746
Disposal	—	(854,575)	—	—	(854,575)
Reclassification	—	184,508	—	—	184,508
Balance, December 31, 2006	—	4,809,124	—	—	4,809,124
Accumulated impairment					
Balance, January 1, 2006	335,075	—	—	—	335,075
Increase	90,264	—	—	—	90,264
Disposal	(335,075)	—	—	—	(335,075)
Balance, December 31, 2006	90,264	—	—	—	90,264
Carrying amount	$46,634,469	$22,592,373	$499,678	$3,295,822	$73,022,342

	Year Ended December 31, 2007				
	Land	Buildings	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2007	$40,458,563	$27,359,366	$ 499,678	$3,295,822	$71,613,429
The effect of MLSC combination	94,981	26,288	—	—	121,269
Increase	5,127,949	1,197,167	510,969	—	6,836,085
Disposal	(152,551)	(308,553)	—	—	(461,104)
Reclassification	219,029	46,771	70,248	(70,248)	265,800
Balance, December 31, 2007	45,747,971	28,321,039	1,080,895	3,225,574	78,375,479
Revaluation increment					
Balance, January 1, 2007	6,266,170	42,131	—	—	6,308,301
Increase	—	—	—	—	—
Disposal	(652,238)	(34,756)	—	—	(686,994)
Reclassification	284,483	11,426	—	—	295,909
Balance, December 31, 2007	5,898,415	18,801	—	—	5,917,216
Accumulated depreciation					
Balance, January 1, 2007	—	4,809,124	—	—	4,809,124
The effect of MLSC combination		7,221			7,221
Depreciation expense	—	520,886	—	—	520,886
Disposal	—	(126,560)	—	—	(126,560)
Reclassification	—	41,985	—	—	41,985
Balance, December 31, 2007	—	5,252,656	—	—	5,252,656
Accumulated impairment					
Balance, January 1, 2007	90,264	—	—	—	90,264
Increase	—	—	—	—	—
Disposal	(1,980)	—	—	—	(1,980)
Balance, December 31, 2007	88,284	—	—	—	88,284
Carrying amount	$51,558,102	$23,087,184	$1,080,895	$3,225,574	$78,951,755

	Year Ended December 31, 2008				
	Land	Buildings	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2008	$45,747,971	$28,321,039	$1,080,895	$3,225,574	$78,375,479
Increase	5,512,369	1,250,111	2,254,136	—	9,016,616
Disposal	(6,846,899)	(12,505)	(83,056)	—	(6,942,460)
Reclassification	279,328	338,226	(713,341)	(70,248)	(166,035)
Balance, December 31, 2008	44,692,769	29,896,871	2,538,634	3,155,326	80,283,600
Revaluation increment					
Balance, January 1, 2008	5,898,415	18,801	—	—	5,917,216
Increase	—	—	—	—	—
Disposal	(3,189)	—	—	—	(3,189)
Reclassification	(63,929)	19	—	—	(63,910)
Balance, December 31, 2008	5,831,297	18,820	—	—	5,850,117
Accumulated depreciation					
Balance, January 1, 2008	—	5,252,656	—	—	5,252,656
Depreciation expense	—	476,112	—	—	476,112
Disposal	—	(5,148)	—	—	(5,148)
Reclassification	—	6,035	—	—	6,035
Balance, December 31, 2008	—	5,729,655	—	—	5,729,655
Accumulated impairment					
Balance, January 1, 2008	88,284	—	—	—	88,284
Increase	—	—	—	—	—
Disposal	(1,816)	—	—	—	(1,816)
Balance, December 31, 2008	86,468	—	—	—	86,468
Carrying amount	$50,437,598	$24,186,036	$2,538,634	$3,155,326	$80,317,594

Through an auction in November 2003, SKLIC received 50-year rights of superficies on lot A12, located in the Hsin Yi district. The rights acquisition cost was recognized as “rights of superficies on land.” The rights, which are considered special because the Hsin Yi land is not for public use, will be terminated in November 2053. Under the related contract, SKLIC’s monthly rental fee throughout the life of the rights is $3,875 thousand, payable quarterly. As of December 31, 2008, the Company has paid out all payable. Upon termination of the contract, SKLIC should transfer gratuitously the completed structures on the land to the city of Taipei.

Revaluation of real estate investments are shown in Note 2.

Real estate investments used as guarantees are shown in Note 42.

18. PROPERTY AND EQUIPMENT

	Year Ended December 31, 2006					
	Land	Buildings	Transportation and Communication Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2006	$13,077,305	$10,327,405	$127,961	$3,988,702	$ 2,041,463	$29,562,836
Increase	287,843	272,751	20,403	423,523	240,125	1,244,645
Disposal	(25,939)	(3,255)	(37,723)	(232,850)	—	(299,767)
Reclassification	(1,190,916)	431,487	7,387	519,169	(2,152,983)	(2,385,856)
Balance, December 31, 2006	12,148,293	11,028,388	118,028	4,698,544	128,605	28,121,858
Revaluation increment						
Balance, January 1, 2006	2,257,902	26,553	—	—	—	2,284,455
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(767,562)	(2,168)	—	—	—	(769,730)
Balance, December 31, 2006	1,490,340	24,385	—	—	—	1,514,725
Accumulated depreciation						
Balance, January 1, 2006	—	1,947,729	48,624	2,564,606	—	4,560,959
Depreciation expense	—	300,725	16,114	554,162	—	871,001
Disposal	—	(1,744)	(22,294)	(183,094)	—	(207,132)
Reclassification	—	(237,899)	2,504	(179,794)	—	(415,189)
Balance, December 31, 2006	—	2,008,811	44,948	2,755,880	—	4,809,639
Carrying amount	$13,638,633	$ 9,043,962	$ 73,080	$1,942,664	$ 128,605	$24,826,944

	Year Ended December 31, 2007					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2007	$12,148,293	$11,028,388	$118,028	$4,698,544	$ 128,605	$28,121,858
The effect of MLSC combination	1,299,966	904,134	—	1,916,592	—	4,120,692
Increase	71,152	1,244	13,027	494,895	57,668	637,986
Disposal	(2,922,345)	(2,286,603)	(17,808)	(176,200)	—	(5,402,956)
Reclassification	(84,806)	(118,370)	—	103,751	(120,615)	(220,040)
Balance, December 31, 2007	10,512,260	9,528,793	113,247	7,037,582	65,658	27,257,540
Revaluation increment						
Balance, January 1, 2007	1,490,340	24,385	—	—	—	1,514,725
Increase	247,235	—	—	—	—	247,235
Disposal	—	—	—	—	—	—
Reclassification	(150,009)	(3,249)	—	—	—	(153,258)
Balance, December 31, 2007	1,587,566	21,136	—	—	—	1,608,702
Accumulated depreciation						
Balance, January 1, 2007	—	2,008,811	44,948	2,755,880	—	4,809,639
The effect of MLSC combination		2,120,550	—	—	—	2,120,550
Depreciation expense	—	230,029	15,536	556,744	—	802,309
Disposal	—	(127,894)	(10,813)	(165,027)	—	(303,734)
Reclassification	—	(20,745)	—	—	—	(20,745)
Balance, December 31, 2007	—	4,210,751	49,671	3,147,597	—	7,408,019
Accumulated impairment						
Balance, January 1, 2007	—	—	—	—	—	—
Increase	378,769	—	—	—	—	378,769
Disposal	—	—	—	—	—	—
Balance, December 31, 2007	378,769	—	—	—	—	378,769
Carrying amount	$11,721,057	$ 5,339,178	$ 63,576	$3,889,985	$ 65,658	$21,079,454

	Year Ended December 31, 2008					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2008	$10,512,260	$9,528,793	$113,247	$ 7,037,582	$ 65,658	$27,257,540
Increase	46,759	9,295	18,803	399,684	53,139	527,680
Disposal	(737,843)	(524,571)	(33,354)	(1,015,413)	—	(2,311,181)
Reclassification	(258,296)	211,723	—	79,310	(56,860)	(24,123)
Balance, December 31, 2008	9,562,880	9,225,240	98,696	6,501,163	61,937	25,449,916
Revaluation increment						
Balance, January 1, 2008	1,587,566	21,136	—	—	—	1,608,702
Increase	—	—	—	—	—	—
Disposal	(1,070)	—	—	—	—	(1,070)
Reclassification	63,929	(20)	—	—	—	63,909
Balance, December 31, 2008	1,650,425	21,116	—	—	—	1,671,541
Accumulated depreciation						
Balance, January 1, 2008	—	4,210,751	49,671	3,147,597	—	7,408,019
Depreciation expense	—	324,696	15,778	583,287	—	923,761
Disposal	—	(217,200)	(23,382)	(980,750)	—	(1,221,332)
Reclassification	—	(6,035)	—	—	—	(6,035)
Balance, December 31, 2008	—	4,312,212	42,067	2,750,134	—	7,104,413
Accumulated impairment						
Balance, January 1, 2008	378,769	—	—	—	—	378,769
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, December 31, 2008	378,769	—	—	—	—	378,769
Carrying amount	$10,834,536	$4,934,144	$ 56,629	$ 3,751,029	$ 61,937	$19,638,275

Revaluation of property and equipment is shown in Note 2.

Property and equipment used as guarantees are shown in Note 42.

19. GOODWILL AND INTANGIBLE ASSETS, NET

	December 31		
	2006	2007	2008
Goodwill	$2,722,673	$2,884,640	$2,884,640
Accumulated impairment	—	—	(549,594)
	$2,722,673	$2,884,640	$2,335,046

TSKCB's acquisition of other financial institutions was measured according to the provisions of SFAS No. 25 — "Business Combinations — Accounting Treatment under Purchase Method". The excess of purchase price (cash) over net asset amounting to $2,082,113 thousand, the difference of $817 thousand between cost and fair value is recognized as goodwill and amortized on a straight-line basis over 20 and 5 years previously. Effective January 1, 2006, pursuant to the newly revised SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", goodwill is no longer amortized; as of December 31, 2008, the carrying value of goodwill is $1,243,923 thousand.

The Company acquired 100% equity interest of SKITC in 2006. The excess of purchase price over net asset amounting to $1,478,750 thousand is recognized as goodwill.

The Company acquired 25.32% equity interest of MLSC in batches in 2007. The excess of purchase price over net asset amounting to $161,967 thousand is recognized as goodwill.

The Group enforced impairment test and recognized impairment loss $549,594 thousand for the year ended December 31, 2008.

20. SINKING FUND

In June 2004, the Company issued US$260 million of European Convertible Bonds. The bondholders may request the Company to redeem the bonds at the second anniversary date (June 17, 2006) at 99.50% of the face amount of the bonds. In addition, unless previously redeemed or converted and canceled, the Company will redeem each ECB at 98.76% of its principal amount in U.S. dollars on June 17, 2009. Hence, in order to prepare for cash demand, the Company set up a sinking fund.

In 2008, the Company used the sinking fund of $600 million in order to redeem European Convertible Bonds ahead of time. As of December 31, 2008, the balance of sinking fund of $400 million was recorded as miscellaneous financial assets.

21. MISCELLANEOUS ASSETS, OTHERS

	December 31		
	2006	**2007**	**2008**
Prepaid expenses	$ 237,599	$ 258,066	$ 454,211
Insurance Industry Stability Fund	1,406,848	1,557,363	1,708,514
Less reserve for Insurance Industry Stability Fund	(1,406,848)	(1,557,363)	(1,708,514)
Guarantee deposits paid (Note 42)	12,522,603	12,014,409	13,463,063
Restricted assets — time deposit and compensate deposit (Note 42)	367,000	3,003,105	2,887,564
Deferred expenses	877,599	1,240,577	1,535,021
Debit items for consigned trades, net	12,873	270,605	96,412
Prepaid pension expenses (Note 30)	2,084,876	2,241,034	2,199,998
Deferred income tax assets (Note 40)	3,327,635	3,951,536	17,495,254
Collaterals assumed, net	1,837,026	1,084,456	290,556
Idle assets (Note 42)	376,693	—	—
Overdue receivable	135,216	262,018	238,232
Less allowance for doubtful accounts (Note 11)	(117,534)	(262,018)	(238,140)
Others	86,798	667,214	500,143
	$21,748,384	$24,731,002	$38,922,314

Under the Ministry of Finance's Approval Documents Tai-Tsai-Bao No. 811769212 dated June 30, 1992, starting from January 1, 1993, an insurance company should contribute one thousandth of premiums received to the Industry Stability Fund. The credit account "Reserve for Insurance Industry Stability Fund" is a contra account of the Industry Stability Fund.

Guarantee deposits paid as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Insurance operation guarantee deposit	$ 5,432,000	$ 5,432,000	$ 6,932,000
Securities operation guarantee deposit	382,487	1,450,000	1,342,000
Banking operation guarantee deposit	186,540	157,813	107,943
Clearing and settlement fund	71,831	532,939	534,190
Guarantee deposit for issuing bank debentures	5,325,000	3,159,935	—
Office leasing guarantee deposit	248,507	288,851	244,430
Guarantee deposit for provisional seizure of assets	385,240	286,631	205,183
Deposit for stock index futures	170,998	99,935	3,459,330
Other guarantee deposits	320,000	606,305	637,987
	$12,522,603	$12,014,409	$13,463,063

Based on Article 141 of the ROC Insurance Law ("Insurance Law"), an amount equal to 15% of SKLIC's paid-in capital should be deposited in the Central Bank as "Insurance operation Guarantee Deposit." Article 142 of the same law further stipulates that this deposit can only be refunded if SKLIC ceases its business operations and completes the required liquidation process. As of December 31, 2006, 2007 and 2008, SKLIC deposited government bonds (carrying value) to the special treasury account as operating guarantee deposit.

The provision of operating guarantee deposit and the settlement fund by SKSC and MLSC; NLAMC and SKITC is based on the securities and Exchange Act and Rules Governing Securities Firms.

The provisions of guarantee deposit for issuing bank debentures received to the guarantees provided banks by TSKCB are based on the bank debenture contracts. Bank debentures issued are shown in Note 27.

When engaged in futures transactions, both parties, buyer and seller, must pay certain guarantee deposits which are calculated based on the value of the contract. It is guarantee deposits for performance in the future or principal lost in liquidation.

Debit (credit) items for consigned trades, net as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Debits			
Bank deposit — settlement fund	$ 12,036	$ 13,954	$ 23,342
Receivable on securities purchased for customers	604,016	17,661,036	9,923,304
Settlement price	—	120,551	420,176
Sold securities	—	5,298,546	2,350,342
Settlement accounts receivable	588,099	5,120,220	2,148,581
Credit transaction	—	—	1,904
	1,204,151	28,214,307	14,867,649
Credits			
Payable on securities sold for customers	(578,995)	(22,690,279)	(12,345,717)
Settlement accounts payable	(385,788)	(4,951,842)	(2,425,520)
Settlement price	(226,437)	(301,242)	—
Credit transaction	(58)	(339)	—
	(1,191,278)	(27,943,702)	(14,771,237)
	$ 12,873	$ 270,605	$ 96,412

The above accounts were generated through consignment buying and selling of marketable securities.

Debit balance is recorded as miscellaneous assets; credit balance is recorded as other liabilities.

Collaterals assumed, net as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Land	$ 2,151,529	$ 1,581,663	$ 882,169
Building	1,090,295	634,584	477,390
Other Equipment	277	295	248
Less accumulated impairment	(1,405,075)	(1,132,086)	(1,069,251)
	$ 1,837,026	$ 1,084,456	$ 290,556

As of December 31, 2006, 2007 and 2008, TSKCB reversed impairment loss of $1,070,989 thousand, $272,989 thousand and $62,835 thousand, respectively, due to sale of collaterals assumed.

Idle assets were as follows:

	For the Years Ended December 31					
	2006			2007		
	Land	Buildings	Total	Land	Buildings	Total
Cost						
Balance, January 1	$ —	$ —	$ —	$ 268,697	$127,996	$ 396,693
Reclassify to real estate investments	—	—	—	(131,811)	(62,790)	(194,601)
Reclassify to property and equipment	—	—	—	(136,886)	(65,206)	(202,092)
Reclassify as idle assets	268,697	127,996	396,693	—	—	—
Balance, December 31	268,697	127,996	396,693	—	—	—
Accumulated depreciation						
Balance, January 1	—	—	—	—	20,000	20,000
Increase	—	—	—	—	1,240	1,240
Reclassify to real estate investments	—	—	—	—	(10,371)	(10,371)
Reclassify to property and equipment	—	—	—	—	(10,869)	(10,869)
Reclassify as idle assets	—	20,000	20,000	—	—	—
Balance, December 31	—	20,000	20,000	—	—	—
Carrying amount	$268,697	$107,996	$376,693	$ —	$ —	$ —

SKSC moved in new business location in December 2006 and reclassified its land and building as idle assets.

Deferred expenses for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Balance, January 1	$ 783,768	$ 877,599	$1,240,577
The effect of MLSC combination	—	83,670	—
Increase	171,957	519,661	584,464
Disposal	—	(7,999)	(18,680)
Amortization	(370,394)	(398,451)	(461,499)
Reclassification	309,094	172,855	190,159
Charge to Song-Jiang REAT's cost	(13,067)	(2,478)	—
Charge to other loss	(3,759)	(4,280)	—
Balance, December 31	$ 877,599	$1,240,577	$1,535,021

22. DUE TO CENTRAL BANK AND OTHER BANKS

	December 31		
	2006	2007	2008
Due to Central Bank	$ 14,777	$ 38,485	$ 5,635
Due to other banks	1,150,683	1,332,193	191,701
Due to Chunghwa Post Co., Ltd.	4,200,446	3,140,472	3,037,543
Call loans from banks	6,625,231	2,225,195	492,900
	$11,991,137	$6,736,345	$3,727,779

23. COMMERCIAL PAPER PAYABLE

As of December 31, 2006 and 2007 the balances of commercial paper payable were $449,598 thousand and $8,693,475 thousand, respectively, with interest rates ranging from 1.44%~1.57% and 1.70%~4.65%, respectively.

24. NOTES ISSUED UNDER REPURCHASE AGREEMENTS

The Group engages in financing activities through notes trading based on certain conditions. As of December 31, 2006, 2007 and 2008, the balances of notes issued under repurchase agreements were $11,924,080 thousand, $30,454,485 thousand and $32,522,665 thousand, respectively, with interest rates ranging from 1.47%~1.80%, 1.70%~2.20% and 0.37%~2.30%, respectively.

25. ACCRUED EXPENSES

	December 31		
	2006	2007	2008
Salaries	$3,062,644	$2,553,765	$1,880,859
Others	1,895,911	2,469,798	2,481,982
	$4,958,555	$5,023,563	$4,362,841

Accrued expenses — others include taxes, insurance premiums, building administration expenses, advertising expenses and common office expenditures of each department.

26. DEPOSITS AND REMITTANCES

	December 31		
	2006	2007	2008
Savings account deposits	$216,187,835	$220,788,290	$214,995,998
Time deposits	40,689,820	61,504,822	84,111,897
Negotiable certificates of deposits	1,950,700	3,697,600	890,100
Demand deposits	17,560,334	22,378,606	23,766,965
Checking deposits	5,378,905	5,107,085	3,859,289
Remittances outstanding	11,724	68,093	12,500
	$281,779,318	$313,544,496	$327,636,749

27. DEBENTURES PAYABLE

	December 31		
	2006	2007	2008
First dominant bank debenture	$10,000,000	$10,000,000	$ 1,300,000
Second dominant bank debenture	8,800,000	8,800,000	8,800,000
	18,800,000	18,800,000	10,100,000
Less item reclassified as financial liabilities designated at fair value through profit or loss	(1,000,000)	(1,000,000)	—
	$17,800,000	$17,800,000	$10,100,000

TSKCB issued first secondary financial debenture and second secondary financial debenture on November 26, 2001 and November 30, 2001, respectively, which was approved by the Ministry of Finance in its ruling reference No. 0900006000 issued on October 25, 2001. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $10,000,000 thousand

(b) Principal issued: $4,514,300 thousand

(c) Denomination: $100 thousand, $1,000 thousand, $5,000 thousand, and $10,000 thousand, issued at par

(d) Period: 10 years, maturity on November 26, 2011 and November 30, 2011, respectively. However, TSKCB has the option to call redemption of the financial debenture after five years from the issuance date

(e) Nominal interest rate: 4.00%, per annum. If TSKCB does not redeem the financial debenture at its option after five years from the issuance date, the nominal interest rate becomes 4.50% per annum.

(f) Repayment: The financial debenture will be paid on the maturity date, except for TSKCB's option of redemption.

(g) The interest will be paid semi-annually from the issuance date.

(h) TSKCB had called redemption of the secondary financial debenture in November 2006. As of December 31, 2007, these financial debentures are fully repurchased by TSKCB.

TSKCB issued from first to sixth first financial debenture of 2003 on November 25, 2003, December 3, 2003, December 5, 2003, December 8, 2003, December 10, 2003 and December 16, 2003, respectively, and issued first and second first financial debenture of 2004 on February 4, 2004 and February 16, 2004, respectively. Those issuances of financial debenture were approved by the Ministry of Finance in its ruling reference No. 0920032691 issued by the Ministry of Finance on July 14, 2003. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $10,000,000 thousand

(b) Principal issued: $10,000,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: 5 years, with maturities on November 25, 2008, December 3, 2008, December 5, 2008, December 8, 2008, December 10, 2008, December 16, 2008, February 4, 2009 and February 16, 2009, respectively.

(e) Nominal interest rate: Fixed or floating interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid as follows:

   (i) Paid seasonally from the issuance date: A, B, C, D and F items of fifth first financial debenture of 2003.

   (ii) Paid semi-annually from the issuance date: First, third, fourth, sixth first financial debenture and E item of the fifth first financial debenture of 2003 and first and second first financial debenture of 2004.

   (iii) Paid annually from the issuance date: Second first financial debenture of 2003.

(h) As of December 31, 2008, the first to sixth first financial debenture in the amount of $8,700,000 thousand had already been paid on maturity date.

TSKCB issued first secondary financial debenture and second secondary financial debenture on November 13, 2006 and November 27, 2006, respectively, which was approved by the Banking Bureau, Financial Supervisory Commission, Executive Yuan, ROC, ruling reference No. 09500376520 issued by Banking Bureau, Financial Supervisory Commission, Executive Yuan, ROC on September 8, 2006. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $8,800,000 thousand

(b) Principal issued: $8,800,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: I debenture, 7 years with maturities on November 13, 2013 and November 27, 2013. II debenture, 10 years with maturities on November 13, 2016 and November 27, 2016.

(e) Nominal interest rate: Fixed interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid annually from the issuance date.

As of December 31, 2007, to offset the influence of the inconsistency in accounting for interest payment on the settlement date for the third and fourth primary financial debenture of 2003 amounting $1,000,000 thousand and for the interest swap contract which is taking a position that is equal and opposite to the ultimate position of the first financial debenture, TSKCB designated those financial liabilities at fair value through profit or loss. The financial debenture was redeemed in December 2008. Please see Note 8.

28. BONDS PAYABLE, NET

	December 31		
	2006	2007	2008
Domestic unsecured corporate bond — first issue	$ —	$ —	$ 5,000,000
Domestic unsecured subordinate corporate bond — second issue	—	—	4,700,000
Domestic unsecured convertible bond — first issue	—	—	1,900,700
Domestic secured subordinate bond — first issue	5,000,000	5,000,000	—
Overseas convertible bond	13,255,131	8,407,766	7,585,567
	18,255,131	13,407,766	19,186,267
Less discount balance of Domestic first period unsecured convertible bond	—	—	(488,438)
	18,255,131	13,407,766	18,697,829
Less convertible bond with a maturity of one year	—	(5,000,000)	(5,457,756)
	$18,255,131	$ 8,407,766	$13,240,073

To improve the capital structure of its investees, the Company made a first issue — with the approval of the Securities and Futures Bureau, Ministry of Finance, in their letter of June 16, 2003, with reference No. (92)-Tai-Tsai-Cheng (1) No. 0920124581 — of secured domestic subordinate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $5,000,000 thousand, divided into 18 coupons — A1, A2, A3, A4, A5, A6, A7, A8, A9 and B1, B2, B3, B4, B5, B6, B7, B8, B9. Issue amounts per coupon are as follows: (a) series A — $200 million; (b) B1 to B5 — $300 million; (c) B6 — $500 million; and B7, B8 and B9 — $400 million.

(b) Face value: $10,000 thousand each, issued in full.

(c) Term: five years from June 16, 2003 to June 26, 2008.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: A1 to A9 — 1.60%; and B1 to B9 — 1.5937%.

(f) Interest payments: A1 to A9 — payable annually; and B1 to B9, compounded semiannually and payable annually. (The bond interest should be paid the actual amount stated on the bond interest coupon.)

(g) The secured junior bond is guaranteed by Hua Nan Commercial Bank. The Company provided 1,018,000 thousand shares of SKLIC as collateral. As of December 31, 2006 and 2007, the net value of collateral amounted to $20,145,675 thousand and $17,471,762 thousand, respectively.

(h) The bond matured on June 26, 2008 and was fully repaid. The guarantee was terminated in June 30, 2008.

To improve the capital structure of the Company's investees, the Company issued — with the approval of the Securities and Futures Commission, Ministry of Finance in their letter of June 17, 2004, with reference No. (93)-Tai-Tsai-Cheng (1) No. 0930123581 — the Company issued European convertible bonds (ECBs). The main issue terms are as follows:

(a) Issue amount: US$260,000 thousand

(b) Interest rate: 0%.

(c) Term: Five years from June 17, 2004 to June 17, 2009.

(d) Redemption at the option of the Company:

(i) Final redemption:

Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each ECB at 98.76% of its principal amount in U.S. dollars on June 17, 2009.

(ii) Redemption at the Company's option:

At any time on or after June 17, 2007 and before June 17, 2009, the Company may redeem the ECBs in whole or in part from time to time (at US$10,000 or an integral multiple thereof), at 98.76% of their principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate for 20 consecutive trading days immediately preceding the date of the Company's redemption notice is at least 130% of the conversion price then in effect, translated into U.S. dollars at a fixed exchange rate of $33.53=US$1.00.

The Company may also redeem the ECBs in whole, but not in part, at 100% of their principal amount if at least 90% of the principal amount of the ECBs has already been redeemed, repurchased, or converted. Alternatively, the Company may at any time redeem the ECBs in whole, but not in part, at 100% of their principal amount if certain changes in ROC taxation would require the Company to gross up the payment of any interest or premium at a rate greater than 20% or to gross up the repayment of principal.

(e) Redemption at the bondholders' option:

(i) Each holder has the right to require the Company to redeem all or a portion of the ECBs at 99.50% of their principal amount on June 17, 2006.

(ii) Each holder has the right to require the Company to redeem the ECBs in whole, but not in part, at 100% of their principal amount if the Company's shares cease to be listed on the Taiwan Stock Exchange for at least five consecutive trading days.

(iii) Each holder has the right to require the Company to repurchase all or a portion of the ECBs at 100% of their principal amount on the change of control put date if there is change of control (as defined herein).

(f) Conversion:

(i) Conversion period: July 18, 2004 to June 2, 2009

(ii) Conversion price and its adjustment:

The initial price at which shares will be issued upon conversion is $39.13 per share on the issue date (the fixed exchange rate of U.S. dollar to NT dollar is $33.53 to US$1.00). This conversion price will be adjusted accordingly if there is an increase in cash or dividend distribution by the Company. As of December 31, 2008, the conversion price has been adjusted to be $25.83 per share due to stock dividend and common stock issued for cash subscription.

(g) Location of listing: Luxembourg Stock Exchange.

(h) During 2008, there were no bondholders who applied for conversion of ECBs.

(i) At December 11, 2008, the Company retired US$28,260 thousand ECBs which were purchased from the active market. As a result, gain on early redemption of bonds payable of $74,480 thousand was recorded under other income.

(j) As of December 31, 2008, the ECBs issued by the Company had been converted by bondholders amounting to US$65,345 thousand equal to NT$2,140,293 thousand at the conversion price, as well as 71,826 thousand shares.

To improve the capital structure of the Company's investees, the Company issued — with the approval of Financial Supervisory Commission, Executive Yuan in their letter of December 8, 2005, with reference No. (93) Cheng-Guang (1) No. 0940126182 — the Company issued European convertible bonds (ECBs). The main issue terms are as follows:

(a) Issue amount: US$250,000 thousand

(b) Interest rate: 0%.

(c) Term: Five years from December 15, 2005 to December 15, 2010.

(d) Redemption at the option of the Company:

(i) Final redemption:

Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each ECB at 100% of its principal amount in U.S. dollars.

(ii) Redemption at the Company's option:

At any time on or after December 15, 2008 and before December 15, 2010, the Company may redeem the ECBs in whole or in part from time to time (at US$10,000 or an integral multiple thereof), at 100% of their principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate for 30 consecutive trading days of 20 business days immediately preceding the date of the Company's redemption notice is at least 130% of the conversion price then in effect, translated into U.S. dollars at a fixed exchange rate of $33.48=US$1.00.

The Company may also redeem the ECBs in whole, but not in part, at 100% of their principal amount if at least 90% of the principal amount of the ECBs has already been redeemed, repurchased and canceled, or converted. Alternatively, the Company may at any time redeem the ECBs in whole, but not in part, at 100% of their principal amount if certain changes in ROC taxation would require the Company to gross up the payment of any interest or premium or to gross up the repayment of principal.

(e) Redemption at the bondholders' option:

(i) Each holder has the right to require the Company to redeem all or a portion of the ECBs at 100% of their principal amount on December 15, 2007.

(ii) Each holder has the right to require the Company to redeem the ECBs in whole, but not in part, at 100% of their principal amount if the Company's shares cease to be listed on the Taiwan Stock Exchange for at least five consecutive trading days.

(iii) Each holder has the right to require the Company to repurchase all or a portion (at US$10,000 or an integral multiple thereof) of the ECBs at 100% of their principal amount on the change of control put date if there is change of control (as defined herein).

(f) Conversion:

(i) Conversion period: from January 15, 2006 to December 5, 2010.

(ii) Conversion price and its adjustment:

The initial price at which shares will be issued upon conversion is $27.75 per share on the issue date (the fixed exchange rate of U.S. dollar to NT dollar is $33.48 to US$1.00). This conversion price will be adjusted accordingly if there is an increase in cash or dividend distribution by the Company. As of December 31, 2008, the conversion price was $17.70 adjusted on the basis of a certain formula due to conversion price resetting, stock dividend and common stock issued for cash subscription.

(g) Location of listing: Singapore Stock Exchange.

(h) For the year ended December 31, 2008, the ECBs issued by the Company had been converted by bondholders amounting to US$50 thousand equal to NT$1,508 thousand at the conversion price, as well as 70 thousand shares.

(i) As of December 31, 2008, the ECBs issued by the Company had been converted by bondholders amounting to US$185,550 thousand equal to NT$6,073,950 thousand at the conversion price, as well as 234,557 thousand shares.

SKFHC made a first issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of May 22, 2008, with reference No. (97) -Jin-Guan- Cheng-(1)-No. 0970018931 — of domestic unsecured corporate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $5,000,000 thousand.

(b) Face value and issue price: $1,000 thousand each, issue in full.

(c) Term: five years from May 22, 2008 to May 22, 2013.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: 2.83%.

(f) Interest payments: Simple interest per annum from the issue date.

(g) Bond form: Incorporeally issued.

SKFHC made a second issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of September 29, 2008, with reference No. (97)-Jin-Guan- Cheng-(1)-No. 0970048058 — of domestic unsecured subordinate corporate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $4,700,000 thousand, and divided into Bond A and Bond B. The total issue amount for Bond A and Bond B was $1,200,000 thousand and $3,500,000 thousand, respectively.

(b) Face value and issue price: $1,000 thousand each, issue in full.

(c) Term: seven years from September 29, 2008 to September 29, 2015.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: Bond A- 3.65%; and Bond B- interest rate indexes+ 1.00%. Interest rate indexes are the fixing rate of NTD 90-day short-term notes and bills in secondary market provided by Reuters. If the rate couldn't be obtained on standard date, use the fixing rate of one business day before standard date.

(f) Interest payments: Bond A- payable annually; and Bond B, compounded quarterly and payable annually.

(g) Bond form: Incorporeally issued.

To improve the capital structure of MLSC, it made a first issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of July 25, 2008, with reference No. (97)-Jin-Guan-Cheng-(2)-No. 0970030580 — of domestic unsecured convertible bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $2,000,000 thousand.

(b) Face value and issue price: $100 thousand each, issue in full.

(c) Coupon rates per annum: 0%.

(d) Term: five years from July 25, 2008 to July 25, 2013.

(e) Redemption at the MLSC's option:

   (i) Final redemption:

   Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each bond at par value.

   (ii) Redemption at MLSC's option:

   At any time on or after three months of the issue date until the 40th day before the maturity date, MLSC may redeem the whole bonds at par value if the closing price for 30 consecutive trading days exceeds 50% of the conversion price.

   At any time on or after three months of the issue date until the 40th day before the maturity date, MLSC may redeem the whole bonds at par value if the unredeemed bonds are less than $200,000 thousand (10% of aggregate issue amount).

(f) Redemption at the bondholders' option:

The bondholders could request MLSC to redeem their bonds at par value plus interest compensation (substance profitability is 1%) in cash after two and three years of the issue date.

(g) Conversion method:

   (i) Conversion period:

   Any time after three months of the issue date until the 10th day before the maturity date.

   (ii) Conversion pricing:

   The formula is the conversion premium rate from 103% to 110% multiplied by the standard price, which is the average value calculated simply at the closing price of one, three or five business days before conversion price deciding date.

   (iii) Adjustment of conversion pricing:

   1. MLSC adopted the rules of anti-dilution (ex-right, ex-dividend and common stock issued for cash etc.)

   2. MLSC revised the conversion pricing down if the price of the conversion pricing was down (no adjustment if it was up), which follows the model of the above-mentioned on the ex-dividend date after second to five years. But it couldn't be below 80% of conversion pricing on the issue date (or when the common stock changed.)

(h) MLSC adopted SFAS No. 36 — "Presentation and disclosure for financial Instruments", and separated the conversion option from the liabilities. The liabilities were made up of embedded derivatives and non- derivatives. The fair value of the embedded derivatives was $307,495 thousand as of December 31, 2008; and the book value of bond payable measured by cost after amortizing was $1,412,262 thousand.

(i) MLSC made a first issue of unsecured convertible bonds, and adopted SFAS No. 34 — "Financial Instruments: Recognition and Measurement" and No. 36 — "Presentation and disclosure for financial instruments". MLSC recognized amortization of the bonds of $41,499 thousand and valuation gain on financial liabilities of $221,203 thousand for the year ended December 2008, as "Interest expense" and "Financial liabilities at fair value through profit or loss- noncurrent", respectively.

(j) There was no unsecured convertible bond converted as of December 31, 2008.

29. OTHER LOANS

	December 31					
	2006		2007		2008	
	Interest Rate %	Ending Balance	Interest Rate %	Ending Balance	Interest Rate %	Ending Balance
Pledged loans	—	$—	1.82~3.70	$1,880,000	—	$ —
Credit loans	—	—	1.69~5.78	4,938,324	1.31~2.91	3,655,328
		$—		$6,818,324		$3,655,328

For the year ended December 31, 2008, the Company provided 208,800 thousand shares of SKLIC for credit quotas.

Guarantee of pledged assets is shown in Note 42.

30. PENSION FUND

Under the Labor Pension Act, Employee Retirement Plan and Retirement Fund Custody and Distribution Plan, the consolidated entities have both defined benefit pension plan and defined contribution pension plan. The consolidated entities contribute amounts equal to 2% ~ 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee for the defined benefit pension plan. The pension fund is deposited in the Bank of Taiwan in the committee's name. For the defined contribution pension plan the consolidated entities make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

For the years ended December 31, 2006, 2007 and 2008, net periodic pension cost under defined contribution plan amounted to $270,021 thousand, $313,645 thousand and $372,537 thousand, respectively; and under defined benefit plan amounted to $385,782 thousand, $412,647 thousand and $489,535 thousand, respectively.

Pension cost under a defined benefit plan is determined by actuarial valuations and accounted for in accordance with SFAS No. 18, "Accounting for Pension". Information about the defined benefit plan was as follows:

	2006	2007	2008
Service cost — benefits earned during the period	$ 232,873	$ 245,128	$ 205,051
Interest cost on projected benefit obligation	246,866	256,659	286,972
Expected return on plan assets	(272,951)	(282,677)	(256,921)
Amortization of unrecognized transition obligation, net	9,036	9,992	9,358
Amortization of prior service cost	35,953	35,652	35,652
Amortization of pension service cost	135,150	148,652	221,065
Amortization of net transition obligations	(1,393)	(1,613)	1,873
Amortization of unrecognized pension loss	1,961	329	4,967
Curtailment benefit	(1,251)	(405)	(18,482)
Influence on merging subsidiaries	(462)	930	—
Net periodic pension cost	$ 385,782	$ 412,647	$ 489,535

The following table sets forth the Plan's funded status and the amounts under defined benefit plan which have been recognized in the balance sheets at December 31, 2006, 2007 and 2008:

	2006	2007	2008
Actuarial present value of benefit obligation			
Vested benefits	$(2,195,449)	$(2,461,744)	$(2,491,193)
Nonvested benefits	(3,438,141)	(3,860,625)	(3,175,584)
Accumulated benefit obligation	(5,633,590)	(6,322,369)	(5,666,777)
Effect of projected future salary increases	(802,658)	(843,978)	(1,024,831)
Projected benefit obligation	(6,436,248)	(7,166,347)	(6,691,608)
Pension assets at fair value	6,288,374	6,358,528	5,677,082
Projected benefit obligation in excess of plan assets	(147,874)	(807,819)	(1,014,526)
Unrecognized net obligations at transition	88,913	84,486	74,650
Unrecognized prior service cost	76,428	40,475	39,480
Unrecognized pension loss	2,068,682	2,936,014	3,100,982
Accrued pension liability	(1,273)	(12,122)	(588)
Projected pension cost recognized in the balance sheet (included in miscellaneous assets, others)	$ 2,084,876	$ 2,241,034	$ 2,199,998
Vested benefits — undiscounted	$ 2,679,083	$ 2,972,314	$ 3,245,940

Relevant rates used in determining the actuarial present value of the projected benefit obligation under the defined benefit plan as of December 31, 2006, 2007 and 2008 are as follows:

	2006	2007	2008
Weighted-average discount rate	2.75%~4.50%	2.75%~4.50%	2.75%~4.50%
Assumed rate of increase in future compensation levels	2.00%~3.25%	2.00%~3.75%	1.50%~3.75%
Expected long-term rate of return on plan assets	2.75%~5.00%	2.75%~4.50%	2.00%~4.50%

Stocks and bonds of the consolidated entities and affiliates held by the pension trust fund in the custody of the Committee of Pension Trust Funds are summarized as follows:

Name	Category	December 31 2006	2007	2008
			Unit: Share/Units	
Stock				
SKFHC	Listed stock	10,999,026	11,574,892	15,706,881
Shin Kong Synthetic Fiber Co., Ltd.	Listed stock	9,760,616	9,037,739	9,087,739
Taiwan-Sok Shin Kong Security Co., Ltd.	Listed stock	10,606,207	10,732,269	12,043,934
Shin Kong Fire & Marine Insurance Company . .	Listed stock	—	—	26,812,100
		31,365,849	31,344,900	63,650,654
Fund				
SKITC	SKITC Strategy Balanced Fund II / SKITC Fortune Balanced Fund / SKITC Global Champion Fund / SKITC Great China Fund / SKIT Strategy Balanced Fund II / SKITC ECB Balanced Fund / SKITC OTC Market Fund	14,077,720.12	14,112,695.36	5,700,403.30

31. INSURANCE PRODUCTS — SEPARATE ACCOUNT

The related accounts of SKLIC as of December 31, 2006, 2007 and 2008 were summarized as follows:

	December 31		
	2006	2007	2008
Separate account assets			
Beneficiary certificates	$34,287,410	$ 83,728,455	$ 40,919,077
Bonds	17,361,842	19,303,255	46,936,829
Accounts receivable	1,840,858	1,377,340	153,476
	$53,490,110	$104,409,050	$ 88,009,382
Separate account liabilities			
Reserves	$53,490,108	$104,371,346	$ 88,009,382
Accounts Payable	2	37,704	—
	$53,490,110	$104,409,050	$ 88,009,382
Separate account benefits			
Premium income	$33,096,761	$ 67,203,494	$ 51,731,417
Recovered reserve	1,570,925	20,438,622	67,669,478
Interest income	1,002,813	2,042,822	580,034
Unrealized gain on financial instruments	3,360,550	10,763,454	19,053,967
Gain on disposal of financial instruments	169,257	1,625,253	607,522
Exchange gain	2,948,277	5,378,413	5,805,698
Other income	105,694	12,714	45,122
	$42,254,277	$107,464,772	$145,493,238
Separate account expenses			
Insurance payment	$ 33,255	$ 84,291	$ 97,487
Cash surrender value	1,452,641	17,959,016	19,810,147
Provision of insurance reserves	36,166,542	71,319,860	51,307,514
Unrealized loss on financial instruments	1,715,101	12,576,323	40,473,445
Loss on disposal of financial instruments	7,403	725,621	12,883,017
Management fee	732,552	1,330,034	1,882,538
Service charge and redeemed expense	319,935	569,613	708,531
Exchange loss	1,826,814	2,792,023	17,976,098
Other expense	34	107,991	354,461
	$42,254,277	$107,464,772	$145,493,238

In 2006, 2007 and 2008, SKLIC managed separate account and received from dealers sales rebates of $335,125 thousand, $750,583 thousand and $2,284,828 thousand, respectively.

32. OTHER ADVANCE RECEIPTS

	December 31		
	2006	2007	2008
Separate account	$5,606,188	$1,089,243	$ 86,949
Others	1,876,125	3,179,950	13,381,287
	$7,482,313	$4,269,193	$13,468,236

As of December 31, 2006, 2007 and 2008, other advance receipts mainly represent cash received from customers but not recognized as premium income.

33. PREFERRED STOCK LIABILITIES

SKLIC selected December 26, 2008 as the basis date for the issuance of 165,400 thousand shares of Class E preferred stock, with par value of NT$10 per share, for a total of NT$1,654,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of SKLIC's Class E preferred stock is fixed at a rate of 7.71% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class E preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If SKLIC does not have any earnings or the earnings are insufficient to suffice for the dividends for Class E preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class E preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class E preferred stock of SKLIC have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of SKLIC's residual assets, for a sum up to and not exceeding the total proceeds received by SKLIC upon issuance.

(e) Class E preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class E preferred stockholders have voting rights in the Class E preferred stockholders' meeting.

(f) When SKLIC issues new shares, the Class E preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B and a Class D preferred stockholder.

(g) Class E preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, SKLIC may repurchase all Class E preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, SKLIC is unable to repurchase part or all of the Class E preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 7.71% and computed for the actual extension of the term. The rights of the Class E preferred stock written in SKLIC's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class E preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class E preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

34. STOCKHOLDERS' EQUITY OF PARENT

Capital Stock

As of January 1, 2006, the Company's paid-in capital amounted to $40,743,739 thousand, divided into 4,074,374 thousand common shares with par value of $10.00 per share.

At June 9, 2006, the stockholders approved the transfer of retained earnings amounted to $2,641,843 thousand to increase capital stock.

At June 9, 2006, the stockholders approved to issue 238,663 thousand shares of common stock with $10.00 par value at $29.33 as private placement that amounted to $7,000,000 thousand (included capital stock $2,386,635 thousand and additional paid-in capital $4,613,365 thousand).

For the year ended December 31, 2006, the Company issued 122,420 thousand shares of common stock to convert Overseas Convertible Bonds. The converted capital amounted to $1,224,202 thousand.

For the year ended December 31, 2007, the Company issued 183,844 thousand shares of common stock for converted Overseas Convertible Bonds. The bonds converted to capital amounted to $1,838,441 thousand.

At June 15, 2007, the stockholders approved the transfer of retained earnings amounted to $1,418,865 thousand to increase capital stock.

In 2008, the Company issued 70 thousand shares of common stock for converted Overseas Convertible Bonds. The bonds converted to capital amounted to $700 thousand.

At March 31, 2008, the Company issued 368,421 thousand shares of common stock with $10.00 par value at $19 that amounted to $7,000,000 thousand (included capital stock $3,684,211 thousand and additional paid-in capital $3,315,789 thousand).

At June 13, 2008 the stockholders approved the transfer of retained earnings of $2,677,557 thousand as stock dividends by issuing 267,756 thousand shares with par value of $10.00 per share.

According to the resolution of stockholders on October 31, 2008, issued with the approval of the Securities and Futures Commission, Ministry of Finance in their letter with reference (6)-No.09700478190, the Company issued 592,567 thousand shares of common stock with $10.00 par value at $10.64 as private placement that amounted to $6,304,917 thousand (included capital stock $5,925,673 thousand and additional paid-in capital $379,244 thousand).

As of December 31, 2008, the Company's authorized capital was $80,000,000 thousand, outstanding common stock was $62,541,866 thousand, and par value of common shares was $10.00 per share.

Capital Surplus

As of December 31, 2006, 2007 and 2008, the Company's capital surplus consisted of the following:

	December 31		
	2006	2007	2008
Additional paid-in capital	$13,577,366	$16,576,588	$20,625,980
Treasury stock	43,109	43,109	43,109
Other capital surplus — subsidiaries	5,449	5,449	5,449
	$13,625,924	$16,625,146	$20,674,538

As of December 31, 2006, 2007 and 2008, the source and utilization of additional paid-in capital are summarized as follows:

	December 31		
	2006	2007	2008
Balance during establishment	$ 11,376,186	$ 11,376,186	$ 11,376,186
Capital surplus source — subsidiaries			
Capital surplus	$ 42,260	$ 42,260	$ 42,260
Legal surplus	5,407,818	5,407,818	5,407,818
Special surplus	2,134,509	2,134,509	2,134,509
Retained earnings	1,207,446	1,207,446	1,207,446
	8,792,033	8,792,033	8,792,033
Total capital stock of subsidiaries that exceeds the Company's paid-in capital	2,584,153	2,584,153	2,584,153
	$ 11,376,186	$ 11,376,186	$ 11,376,186
Change of establishment			
Long-term equity investment net value change	$ (276,912)	$ (276,912)	$ (276,912)
Conversion of convertible bonds	4,819,319	7,818,541	7,819,349
Issuing common stock and share swap	13,967,417	13,967,417	18,016,001
Offset of accumulated deficit against capital surplus	(16,308,644)	(16,308,644)	(16,308,644)
	$ 2,201,180	$ 5,200,402	$ 9,249,794

The capital surplus of financial holding company recorded during the conversion of financial institution shares may be distributed as cash dividends and be provided as capital during the year of conversion if the surplus comes from the retained earnings before the financial institution conversion. In addition, the ratio for capitalization of capital surplus is not restricted by Article 41-2 of Securities and Exchange Act and Article 8 of Securities and Exchange Act Enforcement Rules. The retained earnings of the original financial institution mean the amount after the appropriation of legal surplus or special surplus as required by law.

The Company approved to issue common stock for cash in 2008 and reserved 15% of the shares for distributing to persons who were employed by the Company or SKLIC as share-based payment. According to ARDF Interpretation (96) No. 267 and (97) No. 017, the Company recognized this compensation cost as expenses and capital surplus amounted to $353,551 thousand in 2008

Distribution of Earnings

a. The Company's Articles of Incorporation provide that annual earnings, net of tax and any deficit, should be appropriated in the following order:

   1) 10% as legal reserve and, if required by regulations, a special reserve;

   2) 0.01% to 0.05% of the remainder as bonuses to employees; and

   3) Final remainder, to be appropriated on the basis of the board of directors' proposal to be submitted to the stockholders' regular annual meeting for approval.

b. Special reserve

   To improve the capital structure of its investees, the Company made a first issue — with the approval of the Securities and Futures Bureau, Ministry of Finance, in their letter of January 3, 2000, with reference No. (89)-Tai-Tsai-Cheng-(1)-No. 100116.

   To distribute distributable earnings, except for legal reserve, the Company should take into consideration the improvement of the capital structure of its investees. Thus, except for appropriating legal reserve, if the current year-end contra accounts in the stockholders' equity have negative/debit balances, it is required to appropriate an additional special reserve equaling such negative/debit balances before distributing the undistributed earnings.

   Such appropriation of the special reserve should be according to the following limits to meet the aforesaid regulation. If the amounts of the contra accounts in the stockholders' equity resulted from the current year, the amount of the special reserve to be set aside should not exceed the current net income after income taxes plus the accumulated undistributed earnings of the prior years. If the amounts of the contra accounts in the stockholders' equity resulted from the prior years, the amount of the special reserve to be set aside should not exceed the accumulated undistributed earnings that have been set aside. In subsequent years, if there is reversal of the special reserve when the negative/debit balances of the contra accounts in the stockholders' equity have decreased, the portion of the reversal of the special reserve can be used for earnings distribution.

   Beginning in 2007, in deciding the use of prior years' earnings, except for appropriating legal reserve, "unrealized gain or loss on financial instruments" in stockholders' equity should be provided with the same amount of special reserve — with the approval of the

Securities and Futures Bureau, Ministry of Finance, in their letter of January 27, 2006, with reference — Financial Supervisory Commission-(1)-No. 0950000507. In subsequent years, the Company is required to continue to appropriate or reverse special reserve to the extent of the difference between the amount of the current year and the prior year. In addition, the reversal of the special reserve can be used for earnings distribution.

c. Dividend policies

The Company is in the stage of stable growth. In framing a proposal for the distribution of annual earnings, the board of directors must balance the Company's long-term financial strategy and future demand for capital against the stockholders' demand for cash inflow. Thus, dividends and bonuses for common stockholders are declared pursuant to a balanced dividend policy. Accordingly, stock dividends declared must not exceed 50% of total dividends declared for the year. The percentages of stock and cash dividends declared are further adjusted according to the following considerations: capital needed for business operations and capital demand for investments, state of the stock market, major legislative reform; and so forth.

The bonus to employees and to directors and supervisors, representing 1% of net income (net of the bonus to employees and bonus to directors and supervisors), was calculated based on the Company's Article of Incorporation and past experiences. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

The Company's board of directors and stockholders resolved to distribute the 2006 earnings as follows: legal reserve of $592,824 thousand; special reserve of $146,501 thousand; stock dividends $1,418,865 thousand; cash dividends of $4,729,549 thousand; employee bonus of $1,250 thousand; and remunerations to directors and supervisors of $30,100 thousand. For 2006, basic earnings per share after tax was $1.33. Had employee bonus and remunerations to directors and supervisors been recorded as expenses, earnings per share after tax would have been $1.32.

The proposal for distribution of 2007 earnings was approved by the shareholder's meeting on June 13, 2008, to distribute stock dividends of $2,677,557 thousand, cash dividends of $2,677,557 thousand, employee bonuses of $1,076 thousand and remunerations to directors and supervisors of $25,800 thousand. Earnings per share after tax for the year ended was $0.96. If bonus to employees and remunerations to directors and supervisors recognized as expense, pro forma information of earnings per share after tax of the years ended was $0.96. The information on the result of the proposal can be accessed on the Market Observation Post System of the Taiwan Stock Exchange Corporation.

The Company's 2008 earnings distribution was not passed as of the date of auditors' report. Information on the status of earnings distribution can be accessed at the website of Market Observation Post System provided by Taiwan Stock Exchange Corporation (TSEC).

Unrealized Gain (Loss) on Financial Instruments

Unrealized gain or loss for the years ended December 31, 2006, 2007 and 2008 as follows:

	Available-for-Sale	Long-Term Equity Investment	Total
2006			
Balance, January 1, 2006	$ —	$ (5,596)	$ (5,596)
Adjustment taken directly to equity	9,553,061	56,852	9,609,913
Balance, December 31, 2006	$ 9,553,061	$ 51,256	$ 9,604,317
2007			
Balance, January 1, 2007	$ 9,553,061	$ 51,256	$ 9,604,317
Adjustment taken directly to equity	(8,800,353)	(15,280)	(8,815,633)
Balance, December 31, 2007	$ 752,708	$ 35,976	$ 788,684
2008			
Balance, January 1, 2008	$ 752,708	$ 35,976	$ 788,684
Adjustment taken directly to equity	(29,316,233)	(119,168)	(29,435,401)
Balance, December 31, 2008	$(28,563,525)	$ (83,192)	$(28,646,717)

Unrealized Revaluation Increment

	December 31		
	2006	2007	2008
Revaluation increment-land	$5,949,870	$5,755,578	$5,753,849
Revaluation increment — other fixed asset	208,396	208,396	208,396
Less earning transfer raising capital	(151,034)	(151,034)	(151,034)
	$6,007,232	$5,812,940	$5,811,211

Before 2005, according to the Company law 238th, additional paid-in capital can only be used to recover accumulated deficit and transfer to capital. If the company recovered accumulated deficit by using unrealized revaluation increment which was included in additional paid-in capital, then the used unrealized revaluation should be recovered at the earning year. Before the used unrealized revaluation increment had been fully recovered, the company could not distribute earning or resolve any other use of accumulated earnings. However, after the revision of the Company law, the Company law 238th was cancelled, and unrealized revaluation increment was separated as one line in the statement of changes of stockholders' equity following Generally Accepted Accounting Principles and Preparation of Financial Statements by Financial Holding Companies. Also, unrealized revaluation increment can only be utilized when the revalued properties were disposed.

As of December 31, 2006, 2007 and 2008, the unrealized revaluation increment changes are as follows:

	2006	2007	2008
The asset revaluation increment — TSKCB	$ —	$ 163,653	$ (275)
Revaluation increment of asset revaluation increment — SKLIC	(559,316)	(346,581)	(1,454)
Reverse unrealized gain or loss of asset impairment — SKLIC	—	(11,364)	—
	$(559,316)	$(194,292)	$(1,729)

35. TREASURY STOCK

Related treasury stock information was as follows:

	Shares at Beginning of 2008	Increase	Decrease	Shares at End of 2008
		Unit: '000 shares		
Reacquisition of issued stock				
For transfer of stock to employees	34,680	4,000	—	38,680

Based on the ROC Securities and Exchange Act, the issued shares acquired by a company as treasury stock should not exceed 10% of the total shares issued. The total reacquisition cost cannot exceed the sum of the retained earnings, additional paid-in capital in excess of par, and realized capital surplus. In January 2008, the Company had already repurchased 4,000 thousand treasury shares for $86,402 thousand.

Based on the original purpose of acquisition of treasury stock and as approved by the Financial Supervisory Commission, Executive Yuan, ruling reference No. 0950145337 issued by the Financial Supervisory Commission, Executive Yuan, the Company reissued 2,720 thousand shares to the Company's employees at $24.52 each share. As of December 31, 2008, the Company's treasury stock is 38,680 thousand shares.

The balance of treasury stock on December 31, 2008 amounted to $967,970 thousand was for the purpose of reissuing to employees.

36. (LOSS) EARNINGS PER SHARE

	Year Ended December 31, 2006				
	Amount		Weighted Average Number of	Earnings Per Share (Dollar)	
	Income Before Tax	Income After Tax	Outstanding Shares ('000)	Income Before Tax	Income After Tax
Basic earnings per share	$5,429,712	$5,928,246	4,877,982	$1.11	$1.21
Dilutive effect of potential common shares					
Convertible bond	—	—	554,682		
Diluted earnings per share					
Net income with dilutive effect of potential common shares	$5,429,712	$5,928,246	5,432,664	$0.92	$1.09

	Year Ended December 31, 2007				
	Amount		Weighted Average Number of	Earnings Per Share (Dollar)	
	Income Before Tax	Income After Tax	Outstanding Shares ('000)	Income Before Tax	Income After Tax
Basic earnings per share	$4,851,313	$5,007,690	5,201,869	$0.93	$0.96
Dilutive effect of potential common shares					
Convertible bond	—	—	401,732		
Diluted earnings per share					
Net income with dilutive effect of potential common shares	$4,851,313	$5,007,690	5,603,601	$0.87	$0.89

	Year Ended December 31, 2008				
	Amount		Weighted Average Number of Outstanding Shares ('000)	Losses Per Share (Dollar)	
	Loss Before Tax	Loss After Tax		Loss Before Tax	Loss After Tax
Basic loss per share	$(26,767,346)	$(21,022,278)	5,535,642	$(4.84)	$(3.80)

The potential common shares generated anti-dilutive effect in 2008 due to net loss. Hence, the Group did not calculate diluted earnings per share.

The number of shares outstanding was retroactively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation. As the result of the adjustment, basic and diluted earnings per share decreased in 2006 from $1.29 and $1.15 to $1.21 and $1.09, respectively, and in 2007 decreased from $1.02 and $0.94 to $0.96 and $0.89, respectively.

37. (LOSSES) GAINS ON INVESTMENTS

The Group's (losses) gains on investments for the years ended December 31, 2006, 2007 and 2008 consisted of the following:

	2006	2007	2008
Dividend income	$ 2,564,514	$ 3,213,978	$ 4,429,783
Foreign investments in trust funds — distributable income	709,506	149,236	2,513,315
Gains (losses) on disposal of investments, net	7,098,885	7,996,779	(11,641,464)
Gains (losses) on settlement of derivatives, net	5,392,048	(4,552,801)	607,204
	$15,764,953	$ 6,807,192	$ (4,091,162)

38. INCOME FROM REAL ESTATE INVESTMENTS

	2006	2007	2008
Rental income (Note 41)	$2,195,777	$2,282,142	$2,265,809
Gains on disposal of real estate investments, net	3,010,727	739,589	3,284,975
Gains on construction (Note 2)	—	7,638	186,683
	$5,206,504	$3,029,369	$5,737,467

SKLIC disposed of Chao-Yang Building and land in Jianguo S. Rd., Da-An District, Taipei City in 2008. The proceeds of disposal and the cost were $10,149,330 thousand and $6,938,684 thousand (including other costs of $7,649 thousand), respectively. The disposal gain (including land value increment tax of $639 thousand), was $3,202,997 thousand, recognized as gains on disposal of real estate investments.

SKLIC sold real estate to obtain beneficiary certificates in 2007. The transaction amount was $1,134,811 thousand (including cash $832,941 thousand and subordinated securities $301,870 thousand). The transaction cost was $784,845 thousand (including real estate investment $782,367 thousand and deferred expenses $2,478 thousand). The disposal gain, net of transaction costs and unrealized gain on sale and leaseback $495,689 thousand, was $16,771 thousand (recognized as advance receipts). SKLIC estimated the expected lease term of Song-Jiang case as amortization term of unrealized gain on sale and leaseback. As of December 31, 2007 and 2008, realized gains on sale and leaseback were $118,278 thousand and $81,978 thousand, respectively, recognized as gains on disposal of real estate investments.

According to the provisions of SFAS No. 11, “Long-term Construction Contracts”, SKLIC calculated gains (losses) on construction in process of Shin-Kong Ruei-An JASPER by percentage-of-completion method. As of December 31, 2008, accumulated profit on construction was $194,321 thousand with $7,638 thousand recognized in 2007 and $186,683 thousand recognized in 2008.

39. PERSONNEL, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES

	Category								
	Years Ended December 31								
	2006			2007			2008		
Item	Operation Costs	Operation Expenses	Total	Operation Costs	Operation Expenses	Total	Operation Costs	Operation Expenses	Total
Personnel expenses									
Salary	3,924,963	11,604,166	15,529,129	4,321,406	11,143,781	15,465,187	2,297,637	12,272,317	14,569,954
Labor and health insurance	1,658	879,391	881,049	10,476	920,129	930,605	11,067	960,723	971,790
Pension	788	655,015	655,803	8,855	717,437	726,292	(6,333)	868,405	862,072
Others	1,729	576,633	578,362	7,929	894,363	902,292	8,027	661,080	669,107
Depreciation	—	1,331,747	1,331,747	—	1,324,435	1,324,435	—	1,399,873	1,399,873
Amortization	—	370,394	370,394	—	398,451	398,451	—	461,499	461,499

40. INCOME TAX

Income tax expense (benefit) and deferred income tax asset (liability) of each consolidated entity for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006		
	Income Tax Expense (Benefit)	Deferred Income Tax Asset	Deferred Income Tax Liabilities
The Company	$(705,692)	$ —	$ —
SKLIC	300,764	1,240,777	1,744,730
SKSC	99,403	19,739	—
TSKCB	(488,149)	1,981,992	—
SKLRESC	22,524	2,980	—
SKIBC	17,064	—	—
TSKIBC	402	—	—
SKCC	49,890	77,901	—
SKIAC	17,983	83	—
SKPIAC	1,178	—	—
NLIC	2,117	—	—
SFHK	(134)	64	—
SKITC	10,536	4,099	—
	$(672,114)	$3,327,635	$1,744,730

	2007		
	Income Tax Expense (Benefit)	Deferred Income Tax Asset	Deferred Income Tax Liabilities
The Company	$(794,957)	$ —	$ —
SKLIC	353,187	1,817,839	—
SKSC	107,808	39,430	—
TSKCB	38,073	1,925,280	—
SKLRESC	22,575	2,980	—
TSKIBC	14,907	—	—
SKCC	24,944	68,167	—
SKIAC	18,102	—	—
SKPIAC	1,264	—	—
NLIC	3,074	—	—
SFHK	1,655	197	—
SKIT	49,690	3,771	—
MLSC and subsidiaries	27,045	93,872	—
	$(132,633)	$3,951,536	$ —

	2008		
	Income Tax Expense (Benefit)	Deferred Income Tax Asset	Deferred Income Tax Liabilities
The Company	$ (34,143)	$ —	$ —
SKLIC	(5,891,828)	15,306,711	—
SKSC	(634)	23,262	—
TSKCB	(4,784)	1,972,412	—
SKLRESC	28,167	2,980	—
TSKIBC	16,947	—	—
SKCC	15,359	52,190	—
SKIAC	25,273	—	—
SKPIAC	1,530	61	—
NLIC	4,381	—	—
SFHK	(38)	292	—
SKIT	(18,043)	32,412	—
MLSC and subsidiaries	449,288	104,934	—
	$(5,408,525)	$17,495,254	$ —

The details of deferred income tax assets and liabilities as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Deferred income tax assets (liabilities)			
Pension expense not contributed	$ 26,255	$ 20,520	$ 12,374
Pension expense exceeding contributed	5,996	9,401	13,381
Operating loss carryforward	7,219,387	3,185,679	5,571,057
Allowance for doubtful accounts exceeding tax limit	757,711	242,757	334,141
Investment credit	329,482	—	100,668
Impairment loss	275,338	500,933	2,187,314
Unrealized loss on disposal of nonperforming loans	217,291	66,954	—
Unrealized exchange (gain) loss, net	(17,451)	25,695	(195,378)
Loss on collaterals assumed	213,436	145,188	188,331
Unrealized loss on available-for-sale financial assets	(1,727,219)	94,413	6,985,455
Loss on financial assets held for trading	1,059,653	1,176,360	3,866,536
Loss on valuation of stock warrants	—	25,534	2,827
Others	60,092	57,565	32,235
	8,419,971	5,550,999	19,098,941
Less valuation allowance	(6,837,066)	(1,599,463)	(1,603,687)
Less deferred income tax assets (included in miscellaneous assets)	$ 1,582,905	$ 3,951,536	$17,495,254

On January 6, 2009, the Legislative Yuan of the Republic of China passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Group recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

For the years ended December 31, 2006, 2007 and 2008, tax expense (benefit) as follows:

	2006	2007	2008
Current income tax expense	$ 162,770	$ 226,877	$ 908,759
Separate taxation levied for interest income arising from short-term notes and bills and securitization	84,791	179,094	93,133
Deferred tax income	(1,099,008)	(453,127)	(6,652,676)
Adjustment of prior year's tax	179,333	(85,477)	242,259
Tax benefit	$ (672,114)	$(132,633)	$(5,408,525)

The income tax returns of the Group examined by authorities were as follows:

	Examined Year
The Company	2003
SKLIC	2003
SKSC	2003
TSKCB	2005
SKLRESC	2006
TSKIBC	2003
SKCC	2006
SKIAC	2006
SKPIAC	2006
NLIC	2006
SKIT	2006
MLSC	2003

Loss carryforwards as of December 31, 2008 comprised of:

Expiry Year	Unused Amount
2013	$ 996,869
2015	1,773,586
2016	6,953,560
2017	2,497,403
2018	10,062,811
	$22,284,229

Information related to imputation credit account:

	December 31		
	2006	2007	2008
The Company	$166,022	$100,387	$ 79,025
SKLIC	364,025	575,895	1,136,372
SKSC	37,160	17,246	38,984
TSKCB	116,338	198,599	184,433
SKLRESC	78,402	63,221	90,644
TSKIBC	791	(67)	(67)
SKCC	130,202	126,375	98,295
SKIAC	21,991	17,704	9,143
SKPIAC	796	591	607
NLIC	1	1,125	4,409
SKIT	56,859	63,312	54,188
MLSC	5,170	183,530	445,820

Ratio of Imputation Credit Account	December 31		
	2006	2007	2008
The Company	1.56%	1.15%	—
SKLIC	6.25%	6.86%	—
SKSC	3.92%	2.29%	24.27%
TSKCB	—	13.95%	22.04%
SKLRESC	33.33%	33.33%	—
TSKIBC	1.40%	—	—
SKCC	33.15%	33.33%	33.33%
SKIAC	32.04%	24.76%	33.36%
SKPIAC	31.98%	33.33%	33.33%
NLIC	30.35%	12.80%	33.50%
SKIT	—	33.33%	48.15%
MLSC	34.21%	33.75%	—

Imputation credit for stockholders is calculated on the ending balance of imputation credit account as of the earnings distribution date. Therefore, imputation credit ratio of 2008 may be different from actual imputation credit ratio when earnings are distributed.

MLSC's income tax returns from 1999 to 2001 and 2003 have been assessed by the tax authority. The tax authority has recalculated MLSC's income tax expense due to the nondeductibility of the operating expenses and interest expenditure arising from security income and the premium revenue from issuing warrants during 1999 to 2001 and 2003 which is taxable. MLSC has provided for the additional income tax of $573,038 thousand assessed by the tax authority. MLSC has filed for administrative remedy and paid half of the assessed additional income tax of $254,024 thousand.

As of December 31, 2008, TSKCB's income tax returns through 2005 had been assessed and approved by the tax authority. However, in the assessment result of TSKBC's 2004 income tax return, the amortization of bond investment amounting to $64,840 thousand and the amortization amount of goodwill, arising from acquisition of Credit Cooperatives amounting $8,778 thousand were not recognized by tax authority. TSKBC did not agree with the assessed result and is in the process of litigation with the authority.

As of December 31, 2008, SKCC's income tax returns through 2006 had been assessed and approved by the tax authority. Although SKCC's 2003-2006 income tax returns had been assessed, it did not agree with the assessed result and is in the process of litigation with the authority. According to management's estimation, an additional tax of $19,369 thousand has been provided for as of December 31, 2008, of which $12,242 thousand has been paid for in advance.

41. RELATED-PARTY TRANSACTIONS

The related parties and their relationships with the Group are as follows:

Related Party	Relationship
Wu, Tung-Chin	Chairman of the Company
Wu, Anthony T.S.	Second-degree relative of the Company's chairman
Wu, Thomas T.L.	Second-degree relative of the Company's chairman
Wu, Eric T.S.	Second-degree relative of the Company's chairman
Kuo Wu, Ru-Yue	Second-degree relative of the Company's chairman
Wu, Cha-Lu	Vice chairman of the Company
Wu, Ben-Sen	Second-degree relative of the Company's vice chairman
Wu, Ing-Ing	Second-degree relative of the Company's vice chairman
Huang, Chong-Ren	The Company's director
Hong, Shih-Jyun	The Company's director
Chia-Ban Investment Co., Ltd.	Its chairman is the Company's vice-chairman
Sin-Sin Foods Co., Ltd.	Its chairman is the Company's vice-chairman
Shin Kong Tower Tourism Co., Ltd.	Its chairman is the Company's vice-chairman
Yung Kwang Co., Ltd.	Its chairman is the Company's vice-chairman
Pei-Tou Hotel Co., Ltd.	Its chairman is the Company's vice-chairman
Wu Cha-Lu Insurance Culture Foundation	Its chairman is the Company's vice-chairman
Shin Kong Farm Co., Ltd.	Its chairman and director are the Company's vice-chairman and chairman
Shin Kong Company Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Sheng Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ruey-Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tong Shan Co.	Its chairman is a second-degree relative of the Company's chairman
Taishin International Bank Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Fire & Marine Insurance Company	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Hou Sheng Chemical Co.	Its director is a second-degree relative of the Company's chairman
Chin Shan Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin Financial Holding Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Accessorize Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman

Related Party	Relationship
Waibel Enterprises, Inc.	Its chairman is a second-degree relative of the Company's chairman
Mercury Venture Capital Co., Ltd. (Note 5)	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Engineering Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Synthetic Fiber Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Recreation Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Auto21 Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Cosmos Commercial Bank Co., Ltd. (Note 1)	Its chairman is a second-degree relative of the Company's chairman
An Long Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Hae Yang Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tung Yin Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Konig Foods Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ennead Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Leasing Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
UBright Optronics Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Mian Hao Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Jui Chin Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Rue-Ying Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Leasing Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Inc.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Taishin Investment Trust Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Ru Ying Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Shin Kong Spinning Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman and its director is the Company's chairman
Ten Outstanding Young Persons' Foundation	Its director is a second-degree relative of the Company's chairman

Related Party	Relationship
TacBright Optronics Co., Ltd.	Its chairman is the Company’s chairman
SBright Optronics Co., Ltd.	Its chairman is the Company’s chairman
The Shin Kong Life Charity Foundation	Its chairman is the Company’s chairman
Wu Tung-Chin Charity Foundation	Its chairman is the Company’s chairman
Shin Kong Life Scholarship Foundation	Its chairman is the Company’s chairman
Shin Kong Wu Ho-Su Cultural Foundation	Its chairman is the Company’s chairman
Shin Kong Wu Ho-Su Rescue Foundation	Its chairman is the Company’s chairman
Lian Sin Cultural Foundation	Its chairman is the Company’s chairman
Taiwan Finance Industry Co., Ltd. (Note 2)	Its chairman is the Company’s vice-chairman
Shin Kong Chao-Feng Co., Ltd.	Its chairman is the Company’s vice-chairman
Shin Quan Enterprise Co.	Its chairman is the Company’s chairman
Wang Tien Woolen Textile Co., Ltd.	Its chairman is the Company’s chairman
Shin Kong Wu Foundation	Its chairman is the Company’s chairman
Sian Shun Enterprise Co.	A director is the Company’s chairman
Shin Kong Wu Ho-Su Memorial Hospital	The hospital’s chairman is the Company’s chairman
Tai Li Dyehouse Co., Ltd.	Its chairman is the Company’s chairman
The Great Taipei Gas Corp.	Its major directors are the Company’s directors or second-degree relative of the Company’s director
Great Taipei Broadband Co., Ltd.	A director is the Company’s chairman
Shin Kong Mitsukoshi Department Store Co., Ltd.	Executive director is the Company’s chairman
Taiwan Fuhbic Corp.	A director is the Company’s chairman
Shin Kong Computer Service Co., Ltd. (Note 3)	A director is the Company’s chairman
National Cultural Association	Its director is the Company’s chairman
First International Telecom Co., Ltd. (Note 4)	Its representative of legal person director is the Company’s chairman
Da Chung Venture Capital Co., Ltd. (Note 5)	A director is the Company’s chairman
Jupiter Venture Capital Co., Ltd. (Note 5)	A director is the Company’s chairman
Chi-Ye Chemical Engineering Co., Ltd.	A director is the Company’s chairman
Hsin Ching Investment Co., Ltd.	A second-degree relative of supervisor is SKLIC’s supervisor
Cuei Yuan Investment Co., Ltd.	A director is the Company’s vice-chairman
Taiwan Securities Co., Ltd.	The director of company second-degree relative and so on its legal person chairman
Chang Hwa Bank	The director of company second-degree relative and so on its legal person chairman
Yeng Tseng Enterprise Co., Ltd.	Its chairman is a second-degree relative of Company’s supervisor
Taiwan Institute Sustainable Energy Foundation	The foundation’s chairman is SKLIC’s director
Hong, Wen-Dong	SKLIC’s executive director
Wu, Min-Wei	SKLIC’s supervisor
Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate
Shinhai Gas Corporation	Affiliate
Cyun He Venture Capital Co., Ltd.	Affiliate
Hong, Shi-Qi	A director of TSKB
Huang, Ming-Ren	An ex-director of TSKB
Yi Kong Security Co., Ltd.	Its chairman is the SKLIC’s supervisor
Shin Bao Telecon Co., Ltd.	Its chairman is the SKLIC’s supervisor
Century Development Corp.	Related party in substance
Huang, Guo-Shuo	A manager of MLSC’s Song Shan branch
Li, Chin	A representative of MLSC’s director Ze Yi Investment Co., Ltd.

Note 1: Its directors and supervisors have been reelected in September 2007. The current directors or supervisors have no relationship with the Company anymore.
Note 2: Liquidated on January 3, 2007.
Note 3: Liquidated on February 27, 2007
Note 4: The Company ceased to be the representative of legal person director since September 2008.
Note 5: Under liquidation as of December 31, 2008.

Major transactions with related parties were as follows:

Secured Loans

a. The related parties with secured loans from SKLIC are as follows:

Loans

	December 31		Annual Interest	Interest Income	
Year	Amount	%	Rate %	Amount	%
2006	$2,354,229	1	2.96~3.77	$76,857	—
2007	1,377,086	—	2.60~4.00	70,101	—
2008	1,643,939	—	2.96~4.06	58,225	—

	Year Ended December 31, 2006						
				Delivered Status			
Classification	Related Parties' Name	Highest Balance	Period-End Balance	Loans	Non-Performing Loans	Content of Guarantee	The Conditions of Third Parties Whether or Not
Other loans	Auto 21 Co., Ltd.	1,620,000	1,570,000	1,570,000	—	Real estate	None
	Hsin Ching Investment Co., Ltd.	280,000	235,000	235,000	—	Real estate	None
	Yeng Tseng Enterprise Co., Ltd.	200,000	200,000	200,000	—	Real estate	None
	Hung Shin Enterprise Co., Ltd.	150,000	150,000	150,000	—	Real estate	None
	Jui Chin Enterprise Co., Ltd.	120,000	55,000	55,000	—	Real estate	None
	Shin Kong Hac Yang Co., Ltd.	91,000	50,000	50,000	—	Real estate	None
	Rue-Ying Enterprise Co., Ltd.	50,000	35,000	35,000	—	Real estate	None
	Tung Yin Investment Co., Ltd.	30,000	10,000	10,000	—	Real estate	None
	Others		49,229	49,229	—	Real estate	None

	Year Ended December 31, 2007							
				Delivered Status				
Classification	**Related Parties' Name**	**Highest Balance**	**Period-End Balance**	**Loans**	**Non-Performing Loans**	**Content of Guarantee**	**Interest Revenue**	**The Conditions of Third Parties Whether or Not**
Other loans	Auto 21 Co., Ltd.	1,570,000	1,050,000	1,050,000	—	Real estate	45,350	None
	Hsin Ching Investment Co., Ltd.	300,000	—	—	—	Real estate	9,905	None
	Yeng Tseng Enterprise Co., Ltd.	200,000	50,000	50,000	—	Real estate	3,928	None
	Hung Shin Enterprise Co., Ltd.	150,000	150,000	150,000	—	Real estate	5,377	None
	Tung Yin Investment Co., Ltd.	100,000	—	—	—	Real estate	313	None
	Jui Chin Enterprise Co., Ltd.	68,000	68,000	68,000	—	Real estate	2,543	None
	Shin Kong Hac Yang Co., Ltd.	40,000	—	—	—	Real estate	410	None
	Rue-Ying Enterprise Co., Ltd.	35,000	—	—	—	Real estate	568	None
	Others		59,086	59,086	—	Real estate	1,707	None

	Year Ended December 31, 2008							
				Delivered Status				
Classification	**Related Parties' Name**	**Highest Balance**	**Period-End Balance**	**Loans**	**Non-Performing Loans**	**Content of Guarantee**	**Interest Revenue**	**The Conditions of Third Parties Whether or Not**
Other loans	Auto 21 Co., Ltd.	1,050,000	275,000	275,000	—	Real estate	23,758	None
	Wang Tien Woolen Textile Co., Ltd.	745,000	745,000	745,000	—	Real estate	18,752	None
	Shin Kong Hac Yang Co., Ltd.	320,000	250,000	250,000	—	Real estate	2,886	None
	Hsin Ching Investment Co., Ltd.	150,000	150,000	150,000	—	Real estate	5,962	None
	Jui Chin Enterprise Co., Ltd.	68,000	68,000	68,000	—	Real estate	2,664	None
	Hsin Ching Investment Co., Ltd.	55,000	8,000	8,000	—	Real estate	214	None
	Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	50,000	—	Real estate	1,971	None
	Tung Yin Investment Co., Ltd.	39,000	5,000	5,000	—	Real estate	60	None
	Rue-Ying Enterprise Co., Ltd.	38,000	5,000	5,000	—	Real estate	56	None
	Cuei Yuan Investment Co., Ltd.	29,000	29,000	29,000	—	Real estate	103	None
	Others	—	58,939	58,939	—	Real estate	1,799	None

The terms and conditions of the above secured loans to related parties were on an arm's length basis.

b. The related parties with secured loans from TSKCB are shown as follows:

Loans

Year	December 31 Amount	December 31 %	Annual Interest Rate %	Interest Income Amount	Interest Income %
2006	$1,475,071	—	1.68~7.00	$ 30,827	—
2007	5,389,102	1	1.84~4.50	96,485	—
2008	5,262,137	1	0.50~5.62	171,553	—

Year Ended December 31, 2006

Classification	Related Parties' Name	Highest Balance	Period-End Balance	Delivered Status: Loans	Delivered Status: Non-Performing Loans	Content of Guarantee	The Conditions of Third Parties Whether or Not
Consuming loans	22	39,605	15,675	15,675	—	Cars, deposit	None
Residential mortgage loans	67	711,399	371,360	371,360	—	Real estate	None
Other loans	Shin Kong Synthetic Fiber Corp.	672,534	422,451	422,451	—	Listed securities, machinery equipment	None
	Shin Sheng Co., Ltd.	259,000	259,000	259,000	—	Real estate	None
	Chia-Ban Investment Co., Ltd.	195,000	175,000	175,000	—	Real estate, listed securities	None
	Tong Shan Co	100,000	100,000	100,000	—	Real estate	None
	Ruey-Shin Enterprise Co., Ltd.	210,000	60,000	60,000	—	Real estate, listed securities	None
	Konig Foods Co., Ltd.	65,084	30,000	30,000	—	Real estate	None
	Hong, Wen-Dong	20,000	20,000	20,000	—	Real estate	None
	Shin Kong Wu Ho-Su Memorial Hospital	50,000	10,000	10,000	—	Listed securities	None
	Taiwan-Sok Shin Kong Security Co., Ltd.	22,658	10,000	10,000	—	Real estate	None
	Shin Kong Spinning Co., Ltd.	2,798	1,585	1,585	—	Listed securities	None
	Yung Kwang Co., Ltd.	85,000	—	—	—	Listed securities	None
	Tung Yin Investment Co., Ltd.	5,000	—	—	—	Listed securities	None
	Great Taipei Gas Corp.	1,586	—	—	—	Real estate	None

	Year Ended December 31, 2007							
				Delivered Status				
Classification	**Related Parties' Name**	**Highest Balance**	**Period-End Balance**	**Loans**	**Non-Performing Loans**	**Content of Guarantee**	**Interest Revenue**	**The Conditions of Third Parties Whether or Not**
Consuming loans	24	72,825	11,342	11,342	—	Cars, deposit	773	None
Residential mortgage loans	69	789,737	438,457	438,457	—	Real estate	7,806	None
Other loans	Auto 21 Co., Ltd.	1,779,800	1,727,050	1,727,050	—	Real estate, listed securities	29,474	None
	Hou Sheng Chemical Co.	1,000,000	1,000,000	1,000,000	—	Real estate, listed securities	10,931	None
	Shin Kong Synthetic Fiber Corp.	895,443	590,966	590,966	—	Listed securities, machinery equipment	15,387	None
	Shin Kong Chao-Feng Co., Ltd.	450,000	450,000	450,000	—	Real estate	3,995	None
	Ruey-Shin Enterprise Co., Ltd.	300,000	300,000	300,000	—	Real estate, listed securities	2,511	None
	Shin Sheng Co., Ltd.	312,200	270,200	270,200	—	Real estate	8,654	None
	Tong Shan Investment Co., Ltd.	200,000	200,000	200,000	—	Real estate	3,792	None
	Chia-Ban Investment Co., Ltd.	175,000	175,000	175,000	—	Real estate	5,115	None
	First International Telecom Co., Ltd.	191,360	126,087	126,087	—	Real estate, machinery equipment	5,803	None
	Taiwan-Sok Shin Kong Security Co., Ltd.	43,458	40,000	40,000	—	Real estate	259	None
	Chia-Ye Chemical Engineering Co., Ltd.	30,000	30,000	30,000	—	Listed securities	506	None
	Hong, Wen-Dong	20,000	20,000	20,000	—	Real estate	535	None
	Shin Kong Wu Ho-Su Memorial Hospital	10,000	10,000	10,000	—	Listed securities	213	None
	Shin Kong Spinning Co., Ltd.	93,765	—	—	—	Listed securities	325	None
	Konig Foods Co., Ltd.	30,000	—	—	—	Real estate	402	None
	Great Taipei Gas Corp.	9,443	—	—	—	Real estate	—	None

	Year Ended December 31, 2008							
				Delivered Status				
Classification	Related Parties' Name	Highest Balance	Period-End Balance	Loans	Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
Consuming loans	29	46,664	12,401	12,401	—	Deposit, cars	517	None
Residential mortgage loans	73	688,445	291,084	291,084	—	Real estate	9,387	None
Other loans	Auto 21 Co., Ltd.	1,757,300	1,716,850	1,716,850	—	Real estate, machinery equipment	69,967	None
	Hou Sheng Chemical Co.	1,000,000	990,000	990,000	—	Real estate, deposit	32,396	None
	Shin Kong Chao-Feng Co., Ltd.	660,000	450,000	450,000	—	Real estate	12,336	None
	Wang Tien Woolen Textile Co., Ltd.	400,000	400,000	400,000		Real estate	3,308	None
	Chia-Ban Investment Co., Ltd.	283,100	283,100	283,100	—	Real estate	5,476	None
	Ruey-Shin Enterprise Co., Ltd.	300,000	256,000	256,000	—	Real estate, listed securities	7,818	None
	Tong Shan Investment Co., Ltd.	270,000	245,000	245,000	—	Real estate, listed securities	7,584	None
	Kuo Wu,Ru-Yue	200,000	200,000	200,000	—	Real estate	3,361	None
	First International Telecom Co., Ltd.	126,087	99,676	—	99,676	Real estate, machinery equipment	3,299	None
	UBright Optronics Co., Ltd.	95,000	95,000	95,000	—	Machinery equipment	867	None
	Shin Kong Synthetic Fiber Corp.	646,302	71,726	71,726	—	Listed securities, machinery equipment	6,629	None
	Mian Hao Enterprise Co., Ltd.	50,000	50,000	50,000	—	Listed securities, real estate	98	None
	Wu,Ben-Sen	31,300	31,300	31,300	—	Real estate	—	None
	Chia-Ye Chemical Engineering Co., Ltd.	30,000	30,000	30,000	—	Listed securities	504	None
	Hong, Wen-Dong	20,000	20,000	20,000	—	Real estate	557	None

Classification	Year Ended December 31, 2008							
				Delivered Status				
	Related Parties' Name	Highest Balance	Period-End Balance	Loans	Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
	Taiwan-Sok Shin Kong Security Co., Ltd.	46,073	10,000	10,000	—	Real estate	335	None
	Pei-Tou Hotel Co., Ltd.	10,000	10,000	10,000	—	Listed securities	73	None
	Shin Sheng Co., Ltd.	270,200	—	—	—	Real estate	6,795	None
	Shin Kong Wu Ho-Su Memorial Hospital	20,000	—	—	—	Listed securities	244	None
	SBright Optronics Co., Ltd.	10,115	—	—	—	None	—	None
	Great Taipei Gas Corp.	4,985	—	—	—	Real estate	—	None
	Shin Kong Spinning Co., Ltd.	3,252	—	—	—	Listed securities	—	None
	Yung Kwang Co., Ltd.	1,000	—	—	—	Listed securities	1	None
	Tung Yin Investment Co., Ltd.	1,000			—	Listed securities	1	None

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

Guarantee

Related Parties' Name	Year Ended December 31, 2006				
	Highest Balance	Period-End Balance	Guarantee Reserve Balance	Interest Rate	Content of Guarantee
Shin Kong Synthetic Fiber Corp.	$90,000	$—	$—	0.30%	Listed securities

Related Parties' Name	Year Ended December 31, 2007				
	Highest Balance	Period-End Balance	Guarantee Reserve Balance	Interest Rate	Content of Guarantee
Shin Kong Synthetic fiber Corp.	$43,270	$43,270	$—	0.50%	Machinery equipment
Shin Kong Wu Ho-Su Memorial Hospital . . .	6,759	6,759	—	0.45%	Listed securities
Shin Kong Spinning Co., Ltd.	500	500	—	0.50%	Listed securities
		$50,529			

Related Parties' Name	Year Ended December 31, 2008				
	Highest Balance	Period-End Balance	Guarantee Reserve Balance	Interest Rate	Content of Guarantee
Shin Kong Synthetic fiber Corp.	$86,540	$ 43,270	$—	0.50	Machinery equipment
Tac Bright Optronics Co., Ltd.	29,900	29,900	—	0.50	Deposit
SBright Optronics Co., Ltd.	28,305	18,190	—	0.50	Deposit
Shin Kong Wu Ho-Su Memorial Hospital	11,000	11,000	—	0.45	Listed securities
Taiwan-Sok Shin Kong Security Co., Ltd.	7,000	7,000	—	0.75	Real estate
Shin Kong Spinning Co., Ltd.	5,801	5,422	—	0.50	Listed securities
		$114,782			

Deposits

	Year Ended December 31, 2006		
	Year-End Balance	Interest Rate	Interest Income
Shin Kong Wu Ho-Su Memorial Hospital	$ 146,071	0.00%~1.32%	$ 179
Ruei-Shin Enterprise Co., Ltd.	52,751	0.00%~0.10%	19
Shin Kong Spinning Co., Ltd.	51,825	0.00%~0.10%	11
The Great Taipei Gas Corp.	42,098	0.00%~0.10%	19
Yung Kwang Co., Ltd.	30,510	0.00%~0.10%	17
Shin Kong Synthetic Fiber Corp.	15,679	0.00%~0.10%	1
Taiwan-Sok Shin Kong Security Co., Ltd.	11,282	0.00%~0.20%	15
Chia-Ye Chemical Engineering Co., Ltd.	10,076	0.00%~0.10%	11
Others	1,825,816		32,507
	$2,186,108		$32,779

	Year Ended December 31, 2007		
	Year-End Balance	Interest Rate	Interest Income
Shin Kong Wu Ho-Su Memorial Hospital	$ 464,787	0.00%~1.71%	$ 243
Shin Kong Fire & Marine Insurance Company	264,040	0.00%~2.48%	3,509
Ruei-Shin Enterprise Co., Ltd.	81,868	0.00%~0.10%	13
Shin Qnau Enterprise Co.	51,113	0.10%~0.10%	20
The Great Taipei Gas Corp.	37,872	0.00%~0.10%	11
Shin Kong Synthetic Fiber Corp.	29,923	0.00%~0.10%	168
Wu Cha-Lu Insurance Culture Foundation	27,190	0.00%~2.46%	428
Hou Sheng Chemical Co.	24,112	0.10%~2.03%	221
Taiwan-Sok Shin Kong Security Co., Ltd.	20,469	0.00%~2.36%	270
Shin Kong Spinning Co., Ltd.	16,423	0.00%~0.10%	14
Chia-Ye Chemical Engineering Co., Ltd.	15,532	0.00%~0.10%	18
Others	1,879,495		33,293
	$2,912,824		$38,208

	Year Ended December 31, 2008		
	Year-End Balance	Interest Rate	Interest Income
Shin Kong Wu Ho-Su Memorial Hospital	$ 692,602	0.00%~1.90%	$ 337
Shin Kong Fire & Marine Insurance Company	291,743	0.00%~2.67%	6,507
Shin Kong Construction and Development	203,516	0.00%~2.48%	857
The Great Taipei Gas Corp.	127,393	0.00%~0.01%	28
Shin Kong Synthetic Fiber Corp.	101,619	0.00%~0.01%	7
Wu Tung-Chin Charity Foundation	52,959	0.00%~2.71%	547
Shin Kong Wu Ho-Su Cultural Foundation	50,043	0.00%~2.76%	730
Jui Chin Enterprise Co., Ltd.	46,388	0.00%~0.01%	3
Lian Sin Cultural Foundation	40,217	0.03%~2.68%	935
Shin Kong Wu Foundation	22,075	0.00%~2.71%	454
Others	1,329,047		20,909
	$2,957,602		$31,314

All the above deposit transactions were made under an arm's length terms, except for the annual interest rate on deposits from employees at 9.75% as of December 31, 2006, 2007 and 2008.

Derivative Transactions

a. The related parties with derivative transactions from SKLIC are as follows:

Classification	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain	Balance Subject	Balance Amount
		Year Ended December 31, 2006				
Taishin International Bank Co., Ltd.	Currency swap contracts	2006.01.02~ 2007.05.31	NT$6,845,160	NT$ (117,023)	Financial liabilities at fair value through profit or loss	NT$ 117,023
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.01.05~ 2008.09.17	NT$ 500,000	NT$ 16,778	Financial assets at fair value through profit or loss	NT$ 16,778
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.04.18~ 2010.10.14	NT$ 500,000	NT$3,109,845	Financial assets at fair value through profit or loss	NT$3,109,845
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.05.04~ 2013.04.24	NT$ 200,000	NT$5,800,249	Financial assets at fair value through profit or loss	NT$5,800,249
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.11.30~ 2021.06.18	NT$ 250,000	NT$ 541,819	Financial assets at fair value through profit or loss	NT$ 541,819
Comos Commercial Bank Co., Ltd.	Credit Linked product	2006.11.30~ 2010.09	NT$3,125,000	NT$ —	Bond investments without active market	NT$3,125,000

Classification	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain	Balance Subject	Balance Amount
		Year Ended December 31, 2007				
Taishin International Bank Co., Ltd.	Currency swap contracts	2007.02.09~ 2008.09.08	NT$5,515,310	NT$ 92,298	Financial liabilities at fair value through profit or loss	NT$ 24,725
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.01.05~ 2008.09.17	NT$ 500,000	NT$ (2,034)	Financial liabilities at fair value through profit or loss	NT$ (2,017)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.11.30~ 2011.06.18	NT$ 250,000	NT$ (7,840)	Financial assets at fair value through profit or loss	NT$ (7,298)

Classification	Derivatives' Name	Contract Period	Notional Principles	Valuation (Loss) Gain	Balance Subject	Balance Amount
		Year Ended December 31, 2008				
Taishin International Bank Co., Ltd.	Currency swap contracts	2008.08.15~ 2009.08.19	NT$657,200	NT$(8,205)	Financial liabilities at fair value through profit or loss	NT$(32,929)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.11.30~ 2011.06.18	NT$250,000	NT$ (68)	Financial liabilities at fair value through profit or loss	NT$ (7,367)

b. Shin Kong Fire & Marine Insurance Company entered into interest rate-linked notes with SKSC for $100,000 thousand. The interest rate is 3.025%, and the duration is from June 26, 2007 to June 26, 2012, but the contract has been settled in September 2007.

For the year ended December 31, 2006, SKSC did not have any derivative transactions with related parties.

Lease of Real Estate to Related Parties

Rentals received from lease of major real estate to related parties for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006 Amount	2006 %	2007 Amount	2007 %	2008 Amount	2008 %
Shin Kong Mitsukoshi Department Store Co., Ltd.	$ 898,613	41	$ 892,812	39	$ 878,764	39
Shin Kong Wu Ho-Su Memorial Hospital	38,793	2	35,103	1	36,429	1
Taiwan-Sok Shin Kong Security Co., Ltd.	18,579	1	16,480	1	16,995	1
Shin Kong Synthetic Fiber Corp.	14,363	1	15,348	1	13,942	1
Chang Hwa Bank	—	—	4,672	—	4,919	—
Taiwan Securities Co., Ltd.	15,082	1	3,583	—	2,404	—
Taishin International Bank	6,348	—	2,712	—	2,101	—
Others	47,145	2	43,293	2	58,820	3
	$1,038,923	48	$1,014,003	44	$1,014,374	45

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

Since some of the agreements on the lease of real estate by Shin Kong Mitsukoshi Department Store Co., Ltd from SKLIC had expired. The two parties are still negotiating the new lease agreement and the terms of the agreements are still uncertain. For the years ended December 31, 2006, 2007 and 2008, the lease of real estate to Shin Kong Mitsukoshi Department Store Co., Ltd. amounted to $523,617 thousand, $460,000 thousand and $489,440 thousand, respectively, which SKLIC recognized as other income.

As of December 31, 2006, 2007 and 2008, deposits received for the lease of real estate to related parties were as follows:

	2006	2007	2008
Shin Kong Mitsukoshi Department Store Co., Ltd.	$160,000	$160,000	$160,000
Others	20,638	65,988	74,727
	$180,638	$225,988	$234,727

Stock Management Income

	2006		2007		2008	
	Amount	%	Amount	%	Amount	%
Great Taipei Gas Corp.	$2,160	13	$ 2,070	13	$2,070	5
Taiwan-Sok Shin Kong Security Co., Ltd.	1,038	6	1,340	9	1,320	3
Shinhai Gas Corporation	696	4	660	4	656	1
Shin Kong Synthetic Fiber Corp.	4,325	25	4,409	28	371	1
Cosmos Commercial Bank Co., Ltd.	—	—	1,920	12	—	—
	$8,219	48	$10,399	66	$4,417	10

SKSC entered into stock management agreements with the above and received the payment monthly as specified in the agreements.

Other Miscellaneous Income (Loss)

	2006		2007		2008	
	Other Income	Building Management Cost	Other Income	Building Management Cost	Other Income	Building Management Cost
Shin Kong Wu Ho-Su Memorial Hospital	$ 6,087	$ —	$41,193	$ —	$39,092	$ —
Taishin International Bank	23,214	—	19,669	—	18,819	—
Yi-Kong Security Co., Ltd.	8,386	121,615	6,484	111,221	5,824	107,125
Others	5	—	—	—	—	—
	$37,692	$121,615	$67,346	$111,221	$63,735	$107,125

Lease of Real Estate from Related Parties

As of December 31, 2006, 2007 and 2008, deposits paid for the lease of real estate from related parties were as follows:

	2006	2007	2008
Great Taipei Gas Corp.	$11,061	$10,405	$ 7,701
Wu, Ben-Sen	7,500	7,500	7,500
Chang Hwa Bank	—	600	924
Enned Leasing Co., Ltd.	1,127	—	—
	$19,688	$18,505	$16,125

During the term of the lease, the consolidated entities are not required to pay additional rent. Upon termination of the lease contract and the return of the leased property, the consolidated entities will get a deposit refund, free of interest.

Operating Expense

a. Insurance expense

	2006	2007	2008
Shin Kong Fire and Marine Insurance Co., Ltd.	$21,428	$20,070	$19,881

b. Donations

	2006	2007	2008
Shin Kong Life Charity Foundation	$ —	$20,000	$17,000
Ten Outstanding Young Persons' Foundation	—	500	—
National Cultural Association	—	1,000	—
Taiwan Institute Sustainable Energy Foundation	—	30,000	—
Shin Kong Wu Ho-Su Memorial Hospital	60,000	—	—
Shin Kong Life Scholarship Foundation	5,500	—	—
Shin Kong Wu Foundation	3,000	—	—
	$68,500	$51,500	$17,000

c. Rent expense

	2006	2007	2008
Great Taipei Gas Corp.	$42,033	$39,920	$38,557
Chang Hwa Bank	—	2,400	3,155
Ennead Leasing Co., Ltd.	4,366	3,226	—
Others	419	437	433
	$46,818	$45,983	$42,145

The consolidated entities and related parties agreed to a monthly rental based on the quotation in the neighborhood.

Investments in Beneficiary Certificates

As of December 31, 2006, 2007 and 2008, investments in mutual funds from Taishin Investment Trust Co., Ltd. amounted to $323,812 thousand, $300,164 thousand and $105,710 thousand, respectively.

Investments in Bonds

	2006		2007		2008	
	Buy	Sell	Buy	Sell	Buy	Sell
Chang Hwa Bank	$ —	$ —	$3,166,595	$2,894,292	$5,762,148	$7,332,164
Taiwan Securities Co., Ltd.	—	252,297	—	1,709,559	—	—
Cosmos Commercial Bank Co., Ltd.	699,996	—	—	—	—	—
	$699,996	$252,297	$3,166,595	$4,603,851	$5,762,148	$7,332,164

Notes Issued Under Resale Agreement

	Year Ended December 31, 2006			
	Highest Balance	Ending Balance	Interest Rate %	Interest income
Chang Hwa Bank	$49,003	$—	—	$19

2007: None

	Year Ended December 31, 2008				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
Chang Hwa Bank	$ 100,026	September 2008	$100,026	1.73~1.95	$ 5
Taishin International Bank	2,940,000	September 2008	—	1.74~1.78	5,145
			$100,026		$5,150

Notes Issued Under Repurchase Agreement

	Year Ended December 31, 2006			
	Highest Balance	Ending Balance	Interest Rate %	Interest Expense
Taishin Investment Trust Co., Ltd.	$60,018	$—	1.53~1.55	$96

	Year Ended December 31, 2007				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Expense
Taishin Investment Trust Co., Ltd.	$340,340	December 2007	$340,340	0.90~2.17	$1,316
Huang, Guo-Shuo	228,375	December 2007	228,375	1.58~2.15	180
Lee Chin	20,004	December 2007	20,004	1.58~2.15	10
			$588,719		$1,506

	Year Ended December 31, 2008				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Expense
Taishin Investment Trust Co., Ltd.	$394,259	May 2008	$ 5,900	0.90~2.17	$1,646
Chang Hwa Bank	296,276	December 2008	296,276	(8.25)~1.41	(8)
			$302,176		$1,638

Leasing Agreement

In December 2004, TSKCB entered into an automation equipment lease agreement with Taiwan-Sok Shin Kong Security Co., Ltd. Terms and conditions of the agreement are summarized as follows:

(a) Subject: automated teller machines

(b) Term: Five years from the next day of inspection. Upon expiry, TSKCB has a priority right to lease these ATMs. Once the lease term reaches seven years, the ownership of these ATMs will be transferred to TSKCB.

(c) Lease payment: Monthly rental of $30 thousand each; total rental expenses for five year lease amounted to $1,800 thousand.

(d) During the lease term, TSKCB is obliged to pay full rentals for any installed but later withdrawn ATM.

(e) As of December 31, 2008, 434 ATMs had been installed and are accounted for as capital lease.

SKFHC's and TSKCB's Chairman Who Acted as TSKCB's Guarantee for Loan Transactions

	Year Ended December 31, 2006		
	Loan Account	Highest Balance	Ending Balance
Huang, Chong-Ren	Veutron Corporation	$210,000	$210,000

	Year Ended December 31, 2007		
	Loan Account	Highest Balance	Ending Balance
Huang, Chong-Ren	Veutron Co.	$210,000	$ —
Hong, Shi-Qi	Chuan Wun Investment Co.	10,000	10,000
		$220,000	$ 10,000

	Year Ended December 31, 2008		
	Loan Account	Highest Balance	Ending Balance
Huang, Chong-Ren	Power Semiconductor Co.	$360,000	$240,000
Wu, Cha-Lu	Chia-Ban Investment Co., Ltd.	283,100	283,100
Hong, Shih-Jyun	Hong Chen, Shu Ying	140,000	140,000
Hong, Shih-Qi	Whu Shih Consulting Company Co., Ltd.	34,000	34,000
Hong, Shih-Qi	Chuan Wun Investment Co.	10,000	3,880
Wu, Ben-Sen	New Chia-Ban	1,493	1,411
		$828,593	$702,391

Property Transactions

In 2008, SKLIC entered into an agreement with First International Telecom Company ("FITC") for acquisition of land and structures, amounting $396,000 thousand. As of December 31, 2008, SKLIC paid $118,800 thousand as a down payment. Though the ownership of land and structures has been transferred to SKLIC, FITC default to execute the purchase agreement and therefore, SKLIC did not pay off the remaining payment as of December 31, 2008. As FITC is anticipating to file a petition for restructuring, it is in urgent to take action from September 10, 2008 to March 9, 2009 for disposal of its assets prior to the petition. Management of SKLIC considered that FITC may negotiate with SKLIC to nullify the purchase agreement. In addition, before the court enforces to sell the building by auction, SKLIC has a chance to negotiate with the creditors who own the mortgage right of the land and structures. SKLIC considered that the down payment paid is recoverable and accordingly, no impairment loss has been recognized.

As of December 31, 2006, 2007 and 2008, linked income tax receivable (payable) from (to) subsidiaries:

	2006	2007	2008
SKLIC	$(1,559,072)	$(1,371,660)	$(2,002,865)
SKSC	174,784	299,243	282,441
TSKCB	(97,455)	(204,106)	(256,495)
SKIBC	27,165	15,179	16,794
SKITC	—	44,115	8,973
NLITC	(506)	(506)	(506)
	$(1,455,084)	$(1,217,735)	$(1,951,658)

Convert Bond to Stocks

On September 7, 2007, SKLIC, TSKCB and other debtors of Cosmos Commercial Bank signed the Capital Restructure Memorandum of Cosmos Commercial Bank. On October 9, 2007, the board of directors of the Company decided to take back cash of $339,487 thousand and private-raised common stocks of 633,507 thousand shares, with per share value $2 of Cosmos Commercial Bank as the price for writing off the subordinate financial bonds with face value $3,825,000 thousand. The Company recognized investment loss for $2,218,496 thousand under conservative principle. SKLIC and TSKCB took the common stocks on December 28, 2007.

Compensation of Directors, Supervisors and Management Personnel

	2006	2007	2008
Salaries, Incentives and Special compensation	$152,690	$396,613	$373,404
Directors' remuneration	25,347	42,051	40,865
Bonus	1,080	2,218	40
	$179,117	$440,882	$414,309

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

42. PLEDGED ASSETS

Financial Statement Account	Pledged Assets	2006	2007	2008
Financial assets at fair value through profit or loss	Securities	$ 260,912	$ 146,518	$ —
Available-for-sale financial assets	Stocks and beneficiary certificates	—	—	341,129
Available-for-sale financial assets (including guarantee deposits paid)	Government bonds	—	2,278,000	6,932,000
Held-to-maturity financial assets	Government bonds	5,646,100	5,610,500	1,904,000
Financial assets at cost	Stocks	98,098	112,697	108,356
Property and equipment	Land and buildings	142,450	1,921,367	1,913,853
Real estate investments	Land and buildings	—	297,717	296,126
Miscellaneous assets	Restricted assets — time deposit and compensative deposit	367,000	3,003,105	2,887,564
Miscellaneous assets	Guarantee deposits	335,825	1,607,813	1,449,943
Idle assets (included in other assets)	Land, structures and buildings	376,693	—	—

43. COMMITMENT AND CONTINGENCY

As of December 31, 2008, SKLIC's real estate investments included six open construction contracts with total contract price of $3.97 billion to be paid in 2009.

As of December 31, 2008, MLSC had the following commitments and contingent liabilities:

(a) MLSC issued notes with face value $10 million to Taiwan Stock Exchange Co. and Taiwan Securities Over-the-counter as a deposit for filing corrective securities settlement.

(b) MLSC issued warrants with performance bonds written by financial institutions for $284,000 thousand totally.

As of December 31, 2006, 2007 and 2008, TSKCB had the following commitments and contingent liabilities:

	2006	2007	2008
Guarantees	$ 6,043,261	$10,284,327	$ 15,331,427
Letters of credit	3,486,272	3,413,887	1,578,314
Trust liabilities	20,976,644	81,490,366	113,194,429
Loan commitments (excluding credit card)	41,390,180	58,034,403	64,261,266

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

Trust Balance Sheet
December 31, 2006, 2007 and 2008
(In Thousands of New Taiwan Dollars)

Trust Asset	2006	2007	2008
Cash in banks	$ 70,213	$ 479,610	$ 1,886,123
Short-term investments			
Mutual fund	10,544,866	56,537,747	44,414,201
Bond investments	7,368,612	18,207,164	59,340,366
Common stocks	34,468	34,357	6,354
Short-term notes and repurchase investment	—	71,051	33,369
Securities under custody			
Securities under custody	—	—	1,192,336
Real estate			
Land	1,042,268	3,950,840	5,120,057
Building	1,713,861	100,211	145,213
Construction in process	202,356	432,322	483,074
Intangible assets			
Creditor's right capital	—	1,677,064	573,336
	$20,976,644	$81,490,366	$113,194,429

Trust Liability	2006	2007	2008
Securities under custody payable	$ —	$ —	$ 1,192,336
Trust capital			
Trust by cash	18,066,254	75,512,023	105,309,725
Trust by creditor's right and trust by collateral	1,628,078	1,677,064	573,336
Trust by securities investment trust funds	34,468	34,360	30,402
Trust by real estate	1,330,407	4,551,179	6,377,665
Reserve and accumulated deficit			
Accumulated deficit	(426,708)	(1,891,354)	10,608,909
Exchange gains (loss)	—	41	(1,675)
Net income (loss)	344,145	1,607,053	(10,896,269)
	$20,976,644	$81,490,366	$113,194,429

Trust Account Income Statement
Years Ended December 31, 2006, 2007 and 2008

	2006	2007	2008
Trust income			
Interest revenue	$ —	$ 3,135	$ 7,080
Preferred stock dividend income	95,945	362,453	413,319
Unrealized capital gain on common stock	3	—	—
Common stock dividend income	—	2,100	1,266
Gain on disposal of assets	156,537	1,534,097	790,779
Realized capital gain	152,422	786,627	1,008,362
Realized exchange gain	—	—	205
Distributable income of beneficiary certificates	—	184	—
	404,907	2,688,596	2,221,011
Trust expense			
Management fee	(41,878)	(142,579)	(15,070)
Storage fee	—	(1)	(5)
Insurance expense	—	(12,037)	(1,010)
Processing expense	—	(8)	(40)
Realized capital loss	—	—	(290)
Loss on disposal of assets	(16,844)	(924,434)	(13,098,050)
Unrealized capital loss on common stock	(3)	—	—
Realized exchange loss	—	—	(15)
Other expense	—	(9)	(5)
	(58,725)	(1,079,068)	(13,114,485)
Income (loss) before tax	346,182	1,609,528	(10,893,474)
Income tax expense	(2,037)	(2,475)	(2,795)
Net income (loss)	$344,145	$ 1,607,053	$(10,896,269)

Trust Assets
December 31 2006, 2007 and 2008

	2006	2007	2008
Cash in banks	$ 70,213	$ 479,610	$ 1,886,123
Short-term investments			
Mutual fund	10,544,866	56,537,747	44,414,201
Bond investments	7,368,612	18,207,164	59,340,366
Common stocks	34,468	34,357	6,354
Short-term agreement and repurchase investment	—	71,051	33,369
Securities under custody			
Securities under custody	—	—	1,192,336
Real estate			
Land	1,042,268	3,950,840	5,120,057
Building	1,713,861	100,211	145,213
Construction in process	202,356	432,322	483,074
Intangible assets			
Creditor's right capital	—	1,677,064	573,336
	$20,976,644	$81,490,366	$113,194,429

The trust-related items shown above were the status of TSKBC's trust management. However, these items were not included in TSKBC's financial statement.

44. INFORMATION FOR BUSINESS SEGMENTS

	Year Ended December 31, 2006				
	Insurance	Security	Banking	Others	Consolidations
Net interest income	34,311,089	43,894	7,030,179	325,009	41,710,171
Net income (loss) excluding net interest income	91,660,002	1,113,004	(4,811,072)	1,188,503	89,150,437
Recovery of write offs (provision for loan losses and doubtful receivable)	(270,279)	—	(4,065,568)	—	(4,335,847)
Provision of insurance reserve, net	(99,303,187)	—	—	—	(99,303,187)
Operating expense (excluding bad debt)	(15,259,740)	(495,257)	(5,934,739)	(1,091,879)	(22,781,615)
Continuing operations' income (loss) before tax	11,137,885	661,641	(7,781,200)	4,421,633	4,439,959
Income tax (expense) benefit	(300,764)	(99,403)	488,149	584,132	672,114
Continuing operations' income (loss) after tax	10,837,121	562,238	(7,293,051)	1,005,765	5,112,073

	Year Ended December 31, 2007				
	Insurance	Security	Banking	Others	Consolidations
Net interest income	38,194,838	228,675	6,341,411	126,353	44,891,277
Net income excluding net interest income	57,472,747	844,843	2,897,293	1,147,388	62,362,271
Recovery of write offs (provision for loan losses and doubtful receivable)	(52,629)	—	(2,000,787)	139,799	(1,913,617)
Provision of insurance reserve, net	(76,835,702)	—	—	—	(76,835,702)
Operating expense (excluding bad debt)	(16,009,247)	(787,186)	(5,776,483)	(977,995)	(23,550,911)
Continuing operations' income before tax	2,770,007	286,332	1,461,434	435,545	4,953,318
Income tax (expense) benefit	(353,187)	(134,853)	(38,073)	658,746	132,633
Continuing operations' income after tax	2,416,820	151,479	1,423,361	1,094,291	5,085,951

	Year Ended December 31, 2008				
	Insurance	Security	Banking	Others	Consolidations
Net interest income (expense)	38,668,226	1,246,209	6,219,342	(21,027)	46,112,750
Net income excluding net interest income	38,359,243	126,252	1,260,171	544,703	40,290,369
Recovery of write offs (provision for loan losses and doubtful receivable)	174,964	(1,473)	(1,995,505)	65,789	(1,756,225)
Provision of insurance reserve, net	(87,684,736)	—	—	—	(87,684,736)
Operating expense (excluding bad debt)	(15,147,051)	(3,068,814)	(5,262,188)	(1,120,852)	(24,598,905)
Continuing operations' (loss) income before tax	(25,629,354)	(1,697,826)	221,820	(531,387)	(27,636,747)
Income tax benefit (expense)	5,891,828	(410,534)	4,784	(77,553)	5,408,525
Continuing operations' (loss) income after tax	(19,737,526)	(2,108,360)	226,604	(608,940)	(22,228,222)

45. OTHERS

Financial Statements of the Company

Shin Kong Financial Holding Co., Ltd.
Balance Sheets

	December 31		
	2006	2007	2008
	Unit: In Thousands		
Assets			
Cash and cash equivalents	$ 9,761,196	$ 3,565,963	$ 1,103,057
Financial assets at fair value through profit or loss	55,380	93,585	135,768
Debt securities without active market — noncurrent	—	—	4,700,000
Available-for-sale financial assets	327,075	—	—
Other financial assets	410,419	3,542	468
Sinking fund	1,000,000	1,000,000	400,000
Investment accounted for by the equity method	94,709,766	91,059,141	55,702,539
Property and equipment, net	10,744	9,902	30,094
Other assets	2,109,316	3,233,665	3,907,943
Total assets	$108,383,896	$98,965,798	$ 65,979,869
Liabilities			
Short-term loans	$ —	$ —	$ 1,800,000
Accrued expense	116,822	86,522	157,321
Other payables	1,662,732	1,579,451	2,262,836
Bonds payable	18,255,131	13,407,766	17,285,567
Other liabilities	467	517	677
Total liabilities	20,035,152	15,074,256	21,506,401
Stockholders' equity			
Common stock	46,996,419	50,253,725	62,541,866
Capital surplus	16,325,905	16,625,146	20,674,538
Retained earnings			
Legal reserve	1,867,270	2,460,094	2,960,863
Special reserve	7,513	154,014	71,465
Unappropriated retained earnings (accumulated deficit)	10,642,569	8,727,517	(18,094,971)
Unrealized revaluation increment	6,007,232	5,812,940	5,811,211
Cumulative translation adjustments	4,118	22,455	122,239
Unrealized gains (losses) on financial instruments	7,521,939	788,684	(28,646,717)
Unrealized (losses) gains on cash flow hedges taken to equity	(151,292)	(71,465)	944
Treasury stock	(248,485)	(881,568)	(967,970)
Net loss not recognized as pension cost	(624,444)	—	—
Total stockholders' equity	88,348,744	83,891,542	44,473,468
Total liabilities and stockholders' equity	$108,383,896	$98,965,798	$ 65,979,869

Shin Kong Financial Holding Co., Ltd.
Statements of Income

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except (Loss) Earnings Per Share		
Revenue			
Investment income recognized under equity method	$4,900,588	$3,914,910	$ —
Other income	809,736	686,395	476,475
Total revenue	5,710,324	4,601,305	476,475
Expenses and losses			
Investment losses recognized under equity method	—	—	(20,417,752)
Operating expenses	(320,319)	(282,229)	(285,068)
Impairment loss on assets	—	—	(549,594)
Other expenses and losses	(104,217)	(106,343)	(280,482)
Total expenses and losses	(424,536)	(388,572)	(21,532,896)
Income (loss) before tax	$5,285,788	$4,212,733	$(21,056,421)
Income (loss) after tax	$5,928,246	$5,007,690	$(21,022,278)

	2006		2007		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic earnings (loss) per share	$1.08	$1.21	$0.81	$0.96	$(3.80)	$(3.80)
Diluted earnings per share	$0.97	$1.09	$0.75	$0.89		

SHIN KONG FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 and 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others						
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Unrealized Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Total
BALANCE, JANUARY 1, 2006	$40,743,739	$7,378,897	$1,505,691	$ 802,626	$ 9,081,429	$6,566,548	$(1,917)	$ (5,596)	$ —	$(260,738)	$ —	$65,810,679
Effect of initial adoption of Statement of Financial Accounting Standards No. 34 (Note 3)	—	—	—	—	—	—	—	7,972,777	(197,563)	—	—	7,775,214
Appropriation of 2005 net income												
Legal reserve	—	—	705,562	—	(705,562)	—	—	—	—	—	—	—
Special reserve	—	—	—	7,513	(7,513)	—	—	—	—	—	—	—
Stock dividends	2,641,843	—	—	—	(2,641,843)	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(2,641,843)	—	—	—	—	—	—	(2,641,843)
Remuneration to directors and supervisors	—	—	—	—	(30,660)	—	—	—	—	—	—	(30,660)
Employee bonus	—	—	—	—	(1,063)	—	—	—	—	—	—	(1,063)
Offsetting accumulated deficit by subsidiary	—	(515,532)	(343,983)	(802,626)	1,662,141	—	—	—	—	—	—	—
Sale of treasury stock	—	—	—	—	(763)	—	—	—	—	12,253	—	11,490
Cash capital increase	2,386,635	4,613,365	—	—	—	—	—	—	—	—	—	7,000,000
Convertible bonds converted to common stocks	1,224,202	2,149,194	—	—	—	—	—	—	—	—	—	3,373,396
Loss on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	46,271	—	—	46,271
Loss on available-for-sale financial instruments taken to equity	—	—	—	—	—	—	—	1,580,526	—	—	—	1,580,526
Effect of changes in ownership interests in equity-method investments, net	—	—	—	—	—	—	(664)	56,610	—	—	—	55,946
Transfer of property and equipment unrealized revaluation increment to other income upon subsidiaries' disposal of property and equipment	—	—	—	—	—	(559,316)	—	—	—	—	—	(559,316)
Net loss not recognized as pension cost	—	—	—	—	—	—	—	—	—	—	(142)	(142)
Net income for the year ended December 31, 2006	—	—	—	—	5,928,246	—	—	—	—	—	—	5,928,246

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 and 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others						
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Unrealized Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Total
BALANCE, DECEMBER 31, 2006	46,996,419	16,325,924	1,867,270	7,513	10,642,569	6,007,232	(2,581)	9,604,317	(151,292)	(248,485)	(142)	88,348,744
Appropriation of 2006 net income												
Legal reserve	—	—	592,824	—	(592,824)	—	—	—	—	—	—	—
Special reserve	—	—	—	146,501	(146,501)	—	—	—	—	—	—	—
Stock dividends	1,418,865	—	—	—	(1,418,865)	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(4,729,549)	—	—	—	—	—	—	(4,729,549)
Remuneration to directors and supervisors	—	—	—	—	(30,100)	—	—	—	—	—	—	(30,100)
Employee bonus	—	—	—	—	(1,250)	—	—	—	—	—	—	(1,250)
Unrealized revaluation increment	—	—	—	—	—	(194,292)	—	—	—	—	—	(194,292)
Gain on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	79,827	—	—	79,827
Loss on available-for-sale taken to equity	—	—	—	—	—	—	—	(8,800,353)	—	—	—	(8,800,353)
Convertible bonds converted to common stocks	1,838,441	2,999,222	—	—	—	—	—	—	—	—	—	4,837,663
Effect of changes in ownership interests in equity-method investments, net	—	—	—	—	—	—	25,036	(15,280)	—	—	142	9,898
Sale of treasury stock	—	—	—	—	(3,653)	—	—	—	—	58,658	—	55,005
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(691,741)	—	(691,741)
Net income for the year ended December 31, 2007	—	—	—	—	5,007,690	—	—	—	—	—	—	5,007,690

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 and 2008
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Others						
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Valuation Gains (Losses) of Financial Instruments	Unrealized Loss on Cash Flow Hedges Taken to Equity	Treasury Stock	Net Loss Not Recognized As Pension Cost	Total
BALANCE, DECEMBER 31, 2007	50,253,725	16,625,146	2,460,094	154,014	8,727,517	5,812,940	22,455	788,684	(71,465)	(881,568)	—	83,891,542
Appropriation of 2007 net income												
Legal reserve	—	—	500,769	—	(500,769)	—	—	—	—	—	—	—
Special reserve	—	—	—	(82,549)	82,549	—	—	—	—	—	—	—
Stock dividends	2,677,557	—	—	—	(2,677,557)	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	(2,677,557)	—	—	—	—	—	—	(2,677,557)
Remuneration to directors and supervisors	—	—	—	—	(25,800)	—	—	—	—	—	—	(25,800)
Employee bonus	—	—	—	—	(1,076)	—	—	—	—	—	—	(1,076)
Issuance of common stock for cash	9,609,884	3,695,033	—	—	—	—	—	—	—	—	—	13,304,917
Compensation cost-share-based payment	—	353,551	—	—	—	—	—	—	—	—	—	353,551
Unrealized revaluation increment recognized by subsidiary	—	—	—	—	—	(1,729)	—	—	—	—	—	(1,729)
Gain on cash flow hedges taken to equity	—	—	—	—	—	—	—	—	72,409	—	—	72,409
Loss on available-for-sale taken to equity	—	—	—	—	—	—	—	(29,316,233)	—	—	—	(29,316,233)
Convertible bonds converted to common stocks	700	808	—	—	—	—	—	—	—	—	—	1,508
Effect of changes in ownership interests in equity-method investees, net	—	—	—	—	—	—	99,784	(119,168)	—	—	—	(19,384)
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	(86,402)	—	(86,402)
Net loss for the year ended December 31, 2008	—	—	—	—	(21,022,278)	—	—	—	—	—	—	(21,022,278)
BALANCE, DECEMBER 31, 2008	$62,541,866	$20,674,538	$2,960,863	$ 71,465	$(18,094,971)	$5,811,211	$122,239	$(28,646,717)	$ 944	$(967,970)	$ —	$ 44,473,468

(Concluded)

Shin Kong Financial Holding Co., Ltd.
Statements of Cash Flows

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands		
Cash flows from operating activities			
Net income (loss)	$ 5,928,246	$ 5,007,690	$(21,022,278)
Cumulative effect of changes in accounting principle	63,234	—	—
Net income (loss) before cumulative effect of changes in accounting principle	5,991,480	5,007,690	(21,022,278)
Depreciation and amortization	1,840	2,690	4,254
Gains on disposal of property and equipment	—	(2)	—
Valuation gain on financial assets at fair value through profit or loss	(298,195)	(38,205)	(42,183)
Investment (income) losses recognized under equity method	(4,900,588)	(3,914,910)	20,417,752
Gains on early redemption of bonds payable	—	—	(74,480)
Compensation cost — share-based payment	—	—	10,153
Impairment loss	—	—	549,594
Cash dividends received from subsidiaries	5,078,892	3,660,220	1,072,630
Net changes in operating assets and liabilities			
Available-for-sale financial assets	(313,845)	—	—
Other financial assets	(309,623)	2,515	3,074
Other assets	(643,587)	(719,986)	(669,358)
Accrued expense	(24,234)	(30,300)	70,799
Other payables	217,938	(83,303)	683,395
Other liabilities	267	51	160
Net cash provided by operating activities	4,800,345	3,886,460	1,003,512
Cash flows from investing activities			
Increase in debt securities without active market	—	—	(4,700,000)
Acquisition of property and equipment	(5,484)	(2,472)	(23,766)
Sale of property and equipment	—	624	—
Increase in investment accounted for by the equity method	(9,175,862)	(4,672,530)	(15,604,916)
Increase in guarantee deposits paid	(3,743)	—	(5,600)
Sinking fund	—	—	600,000
Net cash used in investing activities	(9,185,089)	(4,674,378)	(19,734,282)
Cash flows from financing activities			
Increase of short-term loans	—	—	1,800,000
Decrease in bonds payable	(123,330)	(9,702)	(746,208)
Proceeds from bond issue	—	—	9,700,000
Decrease in subordinated debt	—	—	(5,000,000)
Capital contribution in cash	7,000,000	—	13,304,917
Proceeds from sale of treasury stock to employees	11,490	55,005	—
Purchase of treasury stock	—	(691,741)	(86,402)
Cash dividend paid	(2,641,843)	(4,729,549)	(2,677,557)
Employee bonus and remuneration to directors and supervisors	(31,723)	(31,328)	(26,886)
Increase in guarantee deposits received	200	—	—
Net cash provided by (used in) financing activities	4,214,794	(5,407,315)	16,267,864
Net decrease in cash and cash equivalents	(169,950)	(6,195,233)	(2,462,906)
Cash and cash equivalents, beginning of year	9,931,146	9,761,196	3,565,963
Cash and cash equivalents, end of year	$ 9,761,196	$ 3,565,963	$ 1,103,057
Supplementary disclosure of cash flow information			
Interest	$ 83,704	$ 80,000	$ 89,663
Income tax	$ —	$ —	$ 8,995
Appropriation of earnings			
Cash dividends	$ 2,641,843	$ 4,729,549	$ 2,677,557
Appropriation of bonus to employees and directors' remuneration	31,723	31,350	26,876
Add accrued expenses and dividends payable, beginning of year	847	—	22
Less accrued expenses and dividends payable, end of year	—	(22)	(12)
Net payment	$ 2,674,413	$ 4,760,877	$ 2,704,443

Condensed Balance Sheets and Statements of Operations of Subsidiaries

a. Condensed balance sheets of subsidiaries:

Shin Kong Life Insurance Company
Condensed Balance Sheets

	December 31		
	2006	2007	2008
		Unit: In Thousands	
Assets			
Current assets	$ 239,934,035	$ 298,900,587	$ 354,774,171
Loans	173,656,457	183,125,254	190,996,439
Funds and investments	629,317,308	622,100,714	639,622,243
Property and equipment	11,141,679	10,137,273	10,348,590
Other assets	63,318,472	114,910,279	105,509,980
Total assets	$1,117,367,951	$1,229,174,107	$1,301,251,423
Liabilities			
Current liabilities	$ 18,040,996	$ 13,091,769	$ 42,788,809
Long-term liabilities	2,323,488	2,075,448	8,428,388
Reserve for operations	971,843,494	1,048,679,196	1,136,363,932
Other liabilities	55,277,769	105,331,988	88,891,069
Total liabilities	1,047,485,747	1,169,178,401	1,276,472,198
Stockholders' equity			
Common stock	33,208,802	33,208,802	41,832,423
Preferred stock	3,000,000	3,000,000	—
Capital surplus	46,959	46,959	8,071,652
Retained earnings (accumulated deficit)	18,215,941	17,141,881	(3,503,448)
Unrealized valuation gains (losses) on financial instruments	9,480,566	1,026,073	(27,299,743)
Cumulative translation adjustments	—	—	107,804
Unrealized revaluation increment	5,929,936	5,571,991	5,570,537
Total stockholders' equity	69,882,204	59,995,706	24,779,225
Total liabilities and stockholders' equity	$1,117,367,951	$1,229,174,107	$1,301,251,423

Shin Kong Securities Co., Ltd.
Condensed Balance Sheets

	December 31		
	2006	2007	2008
	Unit: In Thousands		
Assets			
Current assets	$12,538,066	$12,638,480	$12,714,828
Funds and investments	206,691	154,880	154,880
Property and equipment	217,525	431,542	440,163
Other assets	861,203	743,745	714,594
Debit items for securities consignment trading	12,873	32,261	21,761
Total assets	$13,836,358	$14,000,908	$14,046,226
Liabilities			
Current liabilities	$ 8,477,315	$ 8,696,771	$ 9,349,174
Other liabilities	94,981	55,735	71,336
Total liabilities	8,572,296	8,752,506	9,420,510
Stockholders' equity			
Common stock	4,163,005	4,163,005	4,163,005
Capital surplus	2,005	2,005	2,005
Retained earnings	1,099,052	1,083,392	550,592
Unrealized loss on financial instruments	—	—	(89,886)
Total stockholders' equity	5,264,062	5,248,402	4,625,716
Total liabilities and stockholders' equity	$13,836,358	$14,000,908	$14,046,226

Taiwan Shin Kong Commercial Bank Co., Ltd.
Condensed Balance Sheets

	December 31		
	2006	2007	2008
		Unit: In Thousands	
Assets			
Cash and cash equivalents	$ 8,384,401	$ 6,164,529	$ 6,832,641
Due from Central Bank of China and other banks	38,261,232	34,191,241	46,159,280
Financial assets at fair value through profit or loss	4,214,320	3,848,399	5,294,418
Accounts receivable, net	14,930,136	14,597,253	11,483,735
Notes discounted and loans, net	232,307,432	275,867,496	280,062,997
Bond purchased under resell agreements	241,018	—	—
Available-for-sale financial assets	5,396,330	14,043,205	22,368,541
Held-to-maturity financial assets	11,603,846	11,228,648	9,848,572
Investments accounted for by the equity method	240,862	359,608	279,780
Other financial assets	9,571,004	7,647,586	7,989,877
Property and equipment	13,431,339	8,488,058	6,877,788
Intangible assets	1,243,107	1,243,107	1,243,107
Other assets	11,706,837	8,149,737	4,415,635
Total assets	$351,531,864	$385,828,867	$402,856,371
Liabilities			
Due to Central Bank of China and other banks	$ 10,962,101	$ 6,736,345	$ 3,727,779
Financial liabilities at fair value through profit or loss	990,994	1,166,557	2,763,152
Notes issued under repurchase agreements	4,540,484	3,699,313	2,594,597
Accounts payables	8,724,299	7,846,926	5,545,751
Deposits and remittances	286,933,975	326,011,843	356,192,581
Debentures payables	17,800,000	17,800,000	10,100,000
Accrued pension liability	105,018	15,877	19,845
Miscellaneous financial liabilities	827,847	604,730	385,709
Other liabilities	747,375	722,747	922,068
Total liabilities	331,632,093	364,604,338	382,251,482
Stockholders' equity			
Common stock	21,577,665	19,577,665	19,577,665
Capital surplus	5,641,989	365,754	365,754
Retained earnings	(7,276,235)	1,423,361	1,566,509
Unrealized revaluation increment	—	163,653	240,671
Cumulative translation adjustments	(2,580)	(3,189)	(14,303)
Unrealized gains (losses) on financial instruments	110,366	(231,250)	(1,132,351)
Unrealized loss on cash flow hedges taken to equity	(151,292)	(71,465)	944
Net loss not recognized as pension cost	(142)	—	—
Total stockholders' equity	19,899,771	21,224,529	20,604,889
Total liabilities and stockholders' equity	$351,531,864	$385,828,867	$402,856,371

Shin Kong Insurance Brokerage Co., Ltd.
Condensed Balance Sheets

	December 31		
	2006	2007	2008
	Unit: In Thousands		
Assets			
Current assets	$105,595	$113,861	$129,965
Property and equipment	1,167	1,332	915
Other assets	93	99	2,246
Total assets	$106,855	$115,292	$133,126
Liabilities	$ 39,232	$ 40,925	$ 54,645
Stockholders' equity			
Common stock	6,000	6,000	6,000
Legal reserve	4,987	9,354	9,354
Unappropriated retained earnings	56,636	59,013	63,127
Total stockholders' equity	67,623	74,367	78,481
Total liabilities and stockholders' equity	$106,855	$115,292	$133,126

Shin Kong Investment Trust Co., Ltd.
Condensed Balance Sheet

	December 31		
	2006	2007	2008
	Unit: In Thousands		
Assets			
Current assets	$508,974	$643,131	$557,789
Property and equipment	10,468	9,666	7,750
Other assets	59,578	91,210	86,230
Total assets	$579,020	$744,007	$651,769
Liabilities	$ 55,782	$115,437	$ 60,681
Stockholders' equity			
Common stock	400,000	400,000	400,000
Capital surplus	169,073	123,082	123,082
Retained earnings	(45,990)	112,278	109,933
Unrealized loss on financial instruments	155	(6,790)	(41,927)
Total stockholders' equity	523,238	628,570	591,088
Total liabilities and stockholders' equity	$579,020	$744,007	$651,769

MasterLink Securities Co., Ltd.
Condensed Balance Sheet

	December 31		
	2006	2007	2008
	Unit: In Thousands		
Assets			
Current assets	$67,713,679	$50,275,206	$40,111,842
Fund and investments	2,837,698	2,785,956	3,132,658
Property and equipment	2,031,086	1,931,198	1,866,189
Intangible assets, net	139,185	62,168	39,340
Other assets	1,689,263	1,686,532	1,596,433
Debit items for securities consignment trading	162,165	238,344	74,651
Total assets	$74,573,076	$56,979,404	$46,821,113
Liabilities			
Current liabilities	$56,029,045	$35,958,376	$29,226,932
Long-term liabilities	200,000	2,300,000	1,719,757
Other liabilities	295,854	345,303	240,263
Total liabilities	56,524,899	38,603,679	31,186,952
Stockholders' equity			
Common stock	13,782,095	13,988,726	13,988,726
Capital surplus	223,437	16,806	18,629
Retained earnings	4,373,825	4,308,445	2,231,618
Others	(331,180)	61,748	(604,812)
Total stockholders' equity	18,048,177	18,375,725	15,634,161
Total liabilities and stockholders' equity	$74,573,076	$56,979,404	$46,821,113

b. Condensed statements of operations of subsidiaries

Shin Kong Life Insurance Company
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except (Loss) Earnings Per Share		
Operating income	$305,037,862	$388,505,955	$439,182,729
Operating costs	278,946,203	365,765,233	444,599,217
Gross income (loss)	26,091,659	22,740,722	(5,416,488)
Operating expenses	15,525,477	16,009,247	15,147,051
Income (loss) from operations	10,566,182	6,731,475	(20,563,539)
Nonoperating income	1,637,448	1,392,386	905,643
Nonoperating expenses	(1,065,745)	(5,353,854)	(5,971,458)
Net income (loss) before tax	11,137,885	2,770,007	(25,629,354)
Income tax (expense) benefit	(300,764)	(353,187)	5,891,828
Cumulative effect of changes in accounting principle, after tax	933,969	—	—
Net income (loss)	$ 11,771,090	$ 2,416,820	$ (19,737,526)
Earnings (loss) per share before tax	$ 5.69	$ 0.79	$ (7.10)
Earnings (loss) per share after tax	$ 5.46	$ 0.69	$ (5.48)

Shin Kong Securities Co., Ltd.
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except (Loss) Earnings Per Share		
Income	$1,292,208	$1,785,871	$1,124,767
Cost	630,567	1,477,223	1,505,521
Net income (loss) before tax	661,641	308,648	(380,754)
Income tax (expense) benefit	(99,403)	(107,808)	634
Cumulative effect of changes in accounting principle, net of tax	34,110	—	—
Net income (loss)	$ 596,348	$ 200,840	$ (380,120)
Earnings (loss) per share before tax	$ 1.67	$ 0.74	$ (0.91)
Earnings (loss) per share after tax	$ 1.43	$ 0.48	$ (0.91)

Taiwan Shin Kong Commercial Bank Co., Ltd.
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except Earnings (Loss) Per Share		
Net interest income	$ 7,030,179	$ 6,341,411	$ 6,219,342
Net income excluding net interest income	797,084	2,897,292	1,260,171
Net income and gain	7,827,263	9,238,703	7,479,513
Bad debt	(9,673,724)	(2,000,787)	(1,995,505)
Operating expense	(5,934,739)	(5,776,482)	(5,262,188)
(Loss) income before income tax	(7,781,200)	1,461,434	221,820
Income tax benefit (expense)	488,149	(38,073)	4,784
Cumulative effect of changes in accounting principle, net of tax	16,816	—	—
Net (loss) income	$(7,276,235)	$ 1,423,361	$ 226,604
(Loss) earnings per share before tax	$ (5.50)	$ 0.75	$ 0.11
(Loss) earnings per share after tax	$ (5.16)	$ 0.73	$ 0.12

Shin Kong Insurance Brokerage Co., Ltd.
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except Earnings Per Share		
Operating income	$272,720	$304,595	$331,469
Operating expenses	210,873	244,710	265,621
Operating net income	61,847	59,885	65,848
Nonoperating income	1,145	1,375	1,889
Nonoperating expenses	(2,257)	(215)	(10)
Net income before tax	60,735	61,045	67,727
Income tax expenses	(17,063)	(14,907)	(16,947)
Net income	$ 43,672	$ 46,138	$ 50,780
Earnings per share before tax	$ 101.23	$ 101.74	$ 112.88
Earnings per share after tax	$ 72.79	$ 76.90	$ 84.63

Shin Kong Investment Trust Co., Ltd.
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except Earnings (Loss) Per Share		
Operating income	$ 284,820	$ 493,979	$ 355,202
Operating costs and expenses	(227,466)	(304,168)	(266,030)
Operating income	57,354	189,811	89,172
Nonoperating income	5,540	13,079	11,870
Nonoperating expense	(83,530)	(40,922)	(121,328)
(Loss) income before income tax	(20,636)	161,968	(20,286)
Income tax (expense) benefit	(10,536)	(49,690)	18,043
Net (loss) income	$ (31,172)	$ 112,278	$ (2,243)
(Loss) earnings per share before tax	$ (1.49)	$ 4.05	$ (0.51)
(Loss) earnings per share after tax	$ (2.25)	$ 2.81	$ (0.06)

MasterLink Securities Co., Ltd.
Condensed Statements of Operations

	Years Ended December 31		
	2006	2007	2008
	Unit: In Thousands, Except (Loss) Earnings Per Share		
Operating income	$ 6,416,463	$ 8,286,938	$ 12,153,520
Operating expenses	(5,368,765)	(7,345,843)	(13,470,592)
Net income (loss) before tax	1,047,698	941,095	(1,317,072)
Income tax expense	(321,612)	(450,905)	(411,168)
Cumulative effect of changes in accounting principle, net of tax	21,758	—	—
Net income (loss)	$ 747,844	$ 490,190	$ (1,728,240)
Earnings (loss) per share before tax	$ 0.79	$ 0.68	$ (0.95)
Earnings (loss) per share after tax	$ 0.55	$ 0.35	$ (1.25)

The above condensed balance sheets and statements of operations of the subsidiaries have been audited by auditors based on auditing standards generally accepted in the Republic of China.

c. Allocation of revenue, cost, expense resulting from intercompany sharing of resources:

To increase the scale of economies and develop intersecting selling benefits, the subsidiary of the Company, SKSC and TSKCB, processed this plan. Use of the subsidiary's, SKLIC, service center as the common selling field and use of the common business equipment open up securities' economies of scale and expand the financial service limits of SKLIC. So far, Taipei and Ban Qiao service centers were formally approved to carry on business. Rent paid by SKSC to SKLIC in 2006, 2007 and 2008 were $15,398 thousand, $37,624 thousand and $43,350 thousand, respectively. Rent by TSKCB to SKLIC in 2007 and 2008 were $121,499 thousand and $133,535 thousand, respectively.

SKLIC and SKSC share common trading platform to trade securities and bonds. The processing fees and terms of payment for both related and third parties are similar. Processing fee paid by SKLIC to SKSC in 2006, 2007 and 2008 were $30,056 thousand, $30,066 thousand and $88,448 thousand, respectively.

d. To provide the Company with long-term strategic investor, increase equity, and strengthen the financial structure, according to the resolution of SKFHC's board of directors and stockholders at September 9, 2008 and October 31, 2008, Dai-Ichi Mutual Life Insurance Company (Dai-Ichi Mutual Life) invested in SKFHC less than $8 billion to acquire the common stocks issued privately. The acquisition price was calculated by the average price of the five-day price of SKFHC's market price before the price settlement date reduced by dividend distribution ex-rights, and adding the price after capital return.

e. Capital adequacy information specified in the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies:

1) SKFHC's Group Capital Adequacy Ratio as of December 31, 2006, 2007 and 2008:

2006

	Item		
Company	**% Owned by SKFHC**	**Qualified Capital**	**Statutory Capital**
		Unit: In Thousands; %	
Financial holding company	—	$ 88,348,744	$ 96,373,273
Banking subsidiary	100%	29,799,316	19,093,897
Bills Finance subsidiary	—	—	—
Security subsidiary	100%	4,339,598	1,229,438
Insurance subsidiary	100%	66,929,497	33,089,332
Trust subsidiary	—	—	—
Futures subsidiary	—	—	—
Venture capital subsidiary	—	—	—
Others	100%	590,861	339,304
Deduction		(103,761,323)	(94,709,766)
Total		(A) 86,246,693	(B) 55,415,478
Group capital adequacy ratio (C)=(A)÷(B)			(C) 155.64%

2007

Company	% Owned by SKFHC	Item: Qualified Capital	Item: Statutory Capital
Financial holding company	—	$ 83,891,542	$ 92,549,302
Banking subsidiary	100%	27,306,768	20,547,012
Bills Finance subsidiary	—	—	—
Security subsidiary	100%	7,573,421	2,558,116
Insurance subsidiary	100%	57,117,651	37,575,512
Trust subsidiary	—	—	—
Futures subsidiary	—	—	—
Venture capital subsidiary	—	—	—
Others	100%	702,937	426,393
Deduction		(98,095,441)	(91,059,141)
Total		(A) 78,496,878	(B) 62,597,194
Group capital adequacy ratio (C)=(A)÷(B)			(C) 125.40%

2008

Company	% Owned by SKFHC	Item: Qualified Capital	Item: Statutory Capital
		Unit: In Thousands; %	
Financial holding company	—	$ 49,173,468	$ 60,958,966
Banking subsidiary	100%	27,773,836	21,130,906
Bills Finance subsidiary	—	—	—
Security subsidiary	Note	6,193,863	2,052,586
Insurance subsidiary	100%	54,078,102	47,564,984
Trust subsidiary	—	—	—
Futures subsidiary	—	—	—
Venture capital subsidiary	—	—	—
Others	100%	669,570	392,448
Deduction		(59,301,126)	(55,702,539)
Total		(A) 78,587,713	(B) 76,397,351
Group capital adequacy ratio (C)=(A)÷(B)			(C) 102.87%

Note: The security subsidiary includes 100% ownership of SKSC and 26.13% ownership of MLSC.

2) SKFHC's Eligible Capital as of December 31, 2006, 2007 and 2008:

2006

Items	Amount Unit: In Thousands
Common stock	$46,996,419
The aggregate of non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity which accorded with Tier 1 capital rules and quota of bank	—
Other preferred stock and subordinated debt	—
Common stock advance	—
Capital surplus	13,625,924
Legal reserve	1,867,270
Special reserve	7,513
Unappropriated retained earnings	10,642,569
Equity adjustments	15,457,534
Less goodwill	—
Less deferred assets	—
Less treasury stock	248,485
Total eligible capital	88,348,744

2007

Items	Amount Unit: In Thousands
Common stock	$50,253,725
The aggregate of non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without a maturity which accorded with Tier 1 capital rules and quota of bank	—
Other preferred stock and subordinated debt	—
Common stock advance	—
Capital surplus	19,325,127
Legal reserve	2,460,094
Special reserve	154,014
Unappropriated retained earnings	8,727,517
Equity adjustments	3,852,633
Less goodwill	—
Less deferred assets	—
Less treasury stock	881,568
Total eligible capital	83,891,542

2008

Items		Amount Unit: In Thousands
Common stock		$ 62,541,866
Common stock advance		—
Capital surplus		20,674,538
Legal reserve		2,960,863
Special reserve		71,465
Accumulated deficit		(18,094,971)
Equity adjustments		(22,712,323)
Preferred stock	According with Tier 1 capital rules and quota	—
	Other preferred stocks	—
Subordinated debt	According with Tier 1 capital rules and quota	4,700,000
	Other subordinated debt	—
Less goodwill		—
Less deferred assets		—
Less treasury stock		967,970
Total eligible capital		49,173,468

46. INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES OF TSKCB

The average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	2006		2007		2008	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets						
Due from other banks	$ 3,772,393	1.48	$ 1,153,887	1.37	$ 2,632,280	1.40
Due from Central Bank of China	46,879,883	1.62	39,474,190	1.85	39,237,291	2.10
Bond purchased under resale agreements	240,569	1.49	1,869	1.65	94,394	1.98
Trading assets	1,772,788	1.04	616,662	0.71	270,740	2.47
Available-for-sale financial assets	3,083,725	4.47	10,043,496	2.77	19,448,488	2.33
Held-to-maturity financial assets	14,045,847	2.00	11,452,276	1.69	10,566,324	1.90
Debt securities without active market	3,999,862	7.08	10,573,275	6.27	7,666,251	6.54
Accounts receivable (credit card)	10,678,070	16.07	7,457,753	16.93	5,398,543	16.30
Accounts receivable (factoring and management)	1,010,420	2.26	1,065,456	3.60	922,149	3.44
Notes discounts and loans	211,514,296	3.97	248,901,572	3.62	281,650,660	3.61
Liabilities						
Notes issued under repurchase agreement	2,915,198	1.51	6,003,144	1.79	2,559,734	1.71
Due to other banks	11,773,692	3.06	10,482,635	3.50	9,411,812	2.59
Deposits and remittances	93,055,695	0.46	102,767,815	0.46	102,828,629	0.44
Term deposits	185,668,929	1.88	201,597,039	2.26	236,479,486	2.47
Debentures payables	14,128,142	2.59	17,800,000	2.27	17,311,129	2.29
Appropriated loan fund	185,315	1.09	86,084	1.50	84,082	1.51

47. ASSET QUALITY OF TSKCB — NONPERFORMING LOAN AND OVERDUE ACCOUNTS

a. Asset quality

Affair			December 31, 2006 Non-Performing Loans (Note 1)	December 31, 2006 Loans	December 31, 2006 Non-Performing Loan Ratio (Note 2)	December 31, 2006 Allowance for Doubtful Accounts	December 31, 2006 Coverage Ratio (Note 3)	December 31, 2007 Non-Performing Loans (Note 1)	December 31, 2007 Loans	December 31, 2007 Non-Performing loan ratio (Note 2)	December 31, 2007 Allowance for Doubtful Accounts	December 31, 2007 Coverage Ratio (Note 3)
Business finance	Guarantee		590,042	47,128,224	1.25%	286,220	48.51%	402,779	64,885,941	0.62%	79,427	19.72%
	Non-guarantee		886,615	53,008,244	1.67%	898,535	101.34%	2,126,096	67,291,860	3.16%	1,439,156	67.69%
Consumer finance	Residential mortgage loan (Note 4)		183,020	46,983,671	0.39%	234,801	128.29%	199,430	54,553,583	0.37%	38,975	19.54%
	Cash card		786	113,347	0.69%	21,442	2,727.99%	41	56,326	0.07%	19,840	48,390.24%
	Credit loans (Note 5)		791,164	24,800,530	3.19%	1,041,082	131.59%	1,115,581	21,903,550	5.09%	928,508	83.23%
	Others (Note 6)	Guarantee	1,210,676	58,662,026	2.06%	372,283	30.75%	1,174,450	67,295,610	1.75%	285,760	24.33%
		Non-guarantee	354,827	4,990,631	7.11%	524,878	147.93%	152,315	2,795,916	5.45%	123,624	81.16%
Total loans			4,017,130	235,686,673	1.70%	3,379,241	84.12%	5,170,692	278,782,786	1.85%	2,915,290	56.38%

Affair			December 31, 2008 Non-Performing Loans (Note 1)	December 31, 2008 Loans	December 31, 2008 Non-Performing Loan Ratio (Note 2)	December 31, 2008 Allowance for Doubtful Accounts	December 31, 2008 Coverage Ratio (Note 3)
Business finance	Guarantee		460,172	71,664,595	0.64%	85,767	18.64%
	Non-guarantee		2,634,514	63,048,680	4.18%	2,279,514	86.53%
Consumer finance	Residential mortgage loan (Note 4)		120,050	57,518,214	0.21%	8,733	7.27%
	Cash card		—	37,657	—	13,645	—
	Credit loans (Note 5)		825,812	19,228,696	4.29%	795,198	96.29%
	Others (Note 6)	Guarantee	1,138,923	70,189,130	1.62%	257,355	22.60%
		Non-guarantee	126,024	1,900,104	6.63%	83,867	66.55%
Total loans			5,305,495	283,587,076	1.87%	3,524,079	66.42%

Affair	December 31, 2006 Non-Performing Accounts	December 31, 2006 Accounts Receivable	December 31, 2006 Non-Performing Accounts Ratio	December 31, 2006 Allowance for Doubtful Accounts	December 31, 2006 Coverage Ratio	December 31, 2007 Non-Performing Accounts	December 31, 2007 Accounts Receivable	December 31, 2007 Non-Performing Accounts Ratio	December 31, 2007 Allowance for Doubtful Accounts	December 31, 2007 Coverage Ratio
Credit card	342,296	13,807,156	2.48%	1,684,906	492.24%	174,342	11,505,982	1.52%	449,461	257.80%
Factoring without recourse (Note 7)	—	779,813	—	—	—	—	652,496	—	—	—

Affair	December 31, 2008 Non-Performing Accounts	December 31, 2008 Accounts Receivable	December 31, 2008 Non-Performing Accounts Ratio	December 31, 2008 Allowance for Doubtful Accounts	December 31, 2008 Coverage Ratio
Credit card	180,129	9,296,529	1.94%	233,769	129.78%
Factoring without recourse (Note 7)	—	331,539	—	—	—

Note 1: The amount recognized as non-performing loans (NPLs) is in compliance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans." The amount recognized as non-performing accounts (NPAs) of credit card was disclosed in accordance with the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Non-performing loan ratio = Non-performing loans ÷ Outstanding loan balance. Non-performing accounts of credit card ratio = Non-performing accounts ÷ Accounts receivable.

Note 3: Coverage of loan ratio = Allowance for doubtful accounts of loans ÷ Non-performing loans. Coverage of credit card ratio = Allowance for doubtful accounts of credit card ÷ Non-performing accounts.

Note 4: Residential mortgage loan is taken by a borrower who constructs or repairs his own house or under age children's house which is 100% secured and gives mortgage right to financial institution.

Note 5: The credit loans are other than credit card and cash card, and disclosed in accordance with the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950).

Note 6: The consumer finance's "Others" are other than "Residential mortgage loan", "Cash card" and "Credit loans" of guarantee or non-guarantee.

Note 7: The factoring without recourse is disclosed in accordance with the Banking Bureau's letter dated July 19, 2005 (Ref. No. 094000494). The accounts not confirmed by factors or insurance company for three months are labeled as non-performing loans.

b. Concentration of credit extensions:

December 31, 2006

Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
		(In Thousands of New Taiwan Dollars, %)	
1	Continental Engineering	3,776,700	18.98
2	Formosa Plastics	2,565,385	12.89
3	Yieh Phui	2,166,195	10.89
4	Tang Eng	1,500,021	7.54
5	Shin Kong	1,499,308	7.53
6	Hontai	1,376,500	6.92
7	BenQ	1,351,327	6.79
8	Far Glory	1,322,615	6.65
9	Powerchip	1,267,500	6.37
10	Chinfon	1,218,659	6.12

December 31, 2007

Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
		(In Thousands of New Taiwan Dollars, %)	
1	Tcentral	4,995,753	23.54
2	Continental Engineering	3,824,843	18.02
3	Formosa Plastics	3,238,042	15.26
4	Shin Kong	2,682,160	12.64
5	TFMI Asset Management	2,171,750	10.23
6	Yieh Phui	2,094,212	9.87
7	Taiwan Railways Administration	2,000,000	9.42
8	Powerchip Semiconductor	1,828,250	8.61
9	Orix	1,801,450	8.49
10	Hontai	1,749,077	8.24

December 31, 2008

Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
		(In Thousands of New Taiwan Dollars, %)	
1	Tcentral	4,795,178	23.27
2	Continental Engineering	3,790,317	18.40
3	Powerchip Semiconductor	3,458,196	16.78
4	Formosa Plastics	3,048,428	14.79
5	Uni-President	2,272,269	11.03
6	Hontai	2,265,749	11.00
7	TFMI Asset Management	2,217,250	10.76
8	Yieh Phui	2,144,692	10.41
9	Shin Kong	2,072,608	10.06
10	Orix	1,919,025	9.31

Note 1: The group business is sorted by credit amount, and did not list government or public enterprise in the top 10 global group business.

Note 2: The group business is disclosed in accordance with the sixth “Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings”.

Note 3: Total credit included import bill negotiated, bill purchased, discounts, overdraft, short-term loans, short-term secured loans, margin loans receivable, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, delinquent receivable, bills purchased, factoring without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

Analysis of assets and liabilities sensitivity (N.T. Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands US$; %				
Interest-rate-sensitive assets	47,817,000	17,986,000	23,594,000	194,641,000	284,038,000
Interest-rate-sensitive liabilities	48,002,000	113,664,000	114,466,000	28,406,000	304,538,000
Interest-rate-sensitive gap	(185,000)	(95,678,000)	(90,872,000)	166,235,000	(20,500,000)
Net worth					19,899,771
Assets to liabilities ratio					93.27
Gap to net worth ratio					(103.02)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands; %				
Interest-rate-sensitive assets	200,406,000	7,337,000	3,834,000	105,747,000	317,324,000
Interest-rate-sensitive liabilities	135,766,000	128,580,000	49,592,000	14,577,000	328,515,000
Interest-rate-sensitive gap	64,640,000	(121,243,000)	(45,758,000)	91,170,000	(11,191,000)
Net worth					21,224,529
Assets to liabilities ratio					96.59
Gap to net worth ratio					(52.73)

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands; %				
Interest-rate-sensitive assets	208,429,633	4,451,922	7,434,406	111,651,886	331,967,847
Interest-rate-sensitive liabilities	134,080,613	136,987,378	62,721,977	12,483,308	346,273,276
Interest-rate-sensitive gap	74,349,020	(132,535,456)	(55,287,571)	99,168,578	(14,305,429)
Net worth					20,604,889
Assets to liabilities ratio					95.87
Gap to net worth ratio					(69.43)

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

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

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

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

Analysis of assets and liabilities sensitivity (U.S. Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands US$; %				
Interest-rate-sensitive assets	84,426	52,517	8,129	330,125	475,197
Interest-rate-sensitive liabilities	402,968	22,809	49,922	—	475,699
Interest-rate-sensitive gap	(318,542)	29,708	(41,793)	330,125	(502)
Net worth					610,497
Assets to liabilities ratio					99.89
Gap to net worth ratio					(0.08)

Item	December 31, 2007				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands US$; %				
Interest-rate-sensitive assets	93,818	80,178	13,250	421,999	609,245
Interest-rate-sensitive liabilities	471,488	60,699	58,029	—	590,216
Interest-rate-sensitive gap	(377,670)	19,479	(44,779)	421,999	19,029
Net worth					654,210
Assets to liabilities ratio					103.22
Gap to net worth ratio					2.91

Item	December 31, 2008				
	1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
	Unit: In Thousands US$; %				
Interest-rate-sensitive assets	89,748	18,092	22,439	522,669	652,948
Interest-rate-sensitive liabilities	457,702	32,390	57,522	—	547,614
Interest-rate-sensitive gap	(367,954)	(14,298)	(35,083)	522,669	105,334
Net worth					627,051
Assets to liabilities ratio					119.24
Gap to net worth ratio					16.80

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

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

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

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

d. Maturity analysis of assets and liabilities

Maturity analysis of assets and liabilities (N.T. Dollars)

	Amount Due to December 31, 2006					
	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
	Unit: In Thousands NT$					
Main capital inflow upon maturity	371,737,000	61,121,000	20,670,000	17,750,000	21,775,000	250,421,000
Main capital outflow upon maturity	397,161,000	64,548,000	15,990,000	28,910,000	197,543,000	90,170,000
Gap	(25,424,000)	(3,427,000)	4,680,000	(11,160,000)	(175,768,000)	160,251,000

	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Amount Due to December 31, 2007			
			Unit: In Thousands NT$			
Main capital inflow upon maturity	396,095,000	69,339,000	22,260,000	22,185,000	28,669,000	253,642,000
Main capital outflow upon maturity	435,251,000	51,606,000	53,954,000	65,277,000	129,893,000	134,521,000
Gap	(39,156,000)	17,733,000	(31,694,000)	(43,092,000)	(101,224,000)	119,121,000

	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Amount Due to December 31, 2008			
			Unit: In Thousands			
Main capital inflow upon maturity	416,393,700	65,285,324	35,964,701	42,362,391	40,441,914	232,339,370
Main capital outflow upon maturity	471,267,373	60,495,765	83,546,647	92,247,939	124,518,543	110,458,479
Gap	(54,873,673)	4,789,559	(47,581,946)	(49,885,548)	(84,076,629)	121,880,891

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

Maturity analysis of assets and liabilities (U.S. Dollars)

	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Amount Due to December 31, 2006			
			Unit: In Thousands US$			
Main capital inflow upon maturity	485,272	53,784	44,359	50,828	8,129	328,172
Main capital outflow upon maturity	475,355	341,438	64,492	20,954	48,471	—
Gap	9,917	(287,654)	(20,133)	29,874	(40,342)	328,172

	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Amount Due to December 31, 2007			
			Unit: In Thousands US$			
Main capital inflow upon maturity	633,408	77,413	40,568	80,178	13,250	421,999
Main capital outflow upon maturity	654,212	412,383	123,101	60,699	58,029	—
Gap	(20,804)	(334,970)	(82,533)	19,479	(44,779)	421,999

	Total	1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Amount Due to December 31, 2008			
			Unit: In Thousands US$			
Main capital inflow upon maturity	669,809	52,631	53,978	18,092	22,439	522,669
Main capital outflow upon maturity	565,965	400,169	75,884	32,390	57,522	—
Gap	103,844	(347,538)	(21,906)	(14,298)	(35,083)	522,669

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

48. THE PROFITABILITY OF THE COMPANY, THE GROUP AND THE INVESTEE

2006	Return on Assets Before Tax	Return on Assets After Tax	Return on Equity Before Tax	Return on Equity After Tax	Net Income Ratio
			Unit: %		
The Group	0.31	0.43	5.58	7.60	4.39
The Company	5.35	6.00	6.86	7.69	105.75
SKLIC	1.07	1.13	18.37	19.41	9.34
TSKCB	(2.26)	(2.11)	(39.18)	(36.64)	(92.96)
SKSC	5.66	5.10	13.32	12.01	51.55

2007	Return on Assets Before Tax	Return on Assets After Tax	Return on Equity Before Tax	Return on Equity After Tax	Net Income Ratio
			Unit: %		
The Group	0.31	0.32	5.19	5.33	4.74
The Company	4.06	4.83	4.89	5.81	111.41
SKLIC	0.24	0.21	4.37	3.81	2.52
TSKCB	0.40	0.39	7.11	6.92	15.41
SKSC	2.22	1.44	5.87	3.82	24.85
MLSC	1.43	0.75	5.17	2.69	12.25

2008	Return on Assets Before Tax	Return on Assets After Tax	Return on Equity Before Tax	Return on Equity After Tax	Net (Loss) Income Ratio
			Unit: %		
The Group	(1.61)	(1.30)	(35.36)	(28.44)	(25.73)
The Company	(25.53)	(25.49)	(32.81)	(32.75)	(Note)
SKLIC	(2.03)	(1.56)	(60.46)	(46.56)	(25.62)
TSKCB	0.06	0.06	1.06	1.08	3.03
SKSC	(2.72)	(2.71)	(7.71)	(7.70)	(176.85)
MLSC	(2.54)	(3.33)	(7.75)	(10.16)	(149.50)

Note: Net income is negative.

49. SUPPLEMENTAL DISCLOSURES

Material Contracts and Related Information

Information on material transactions is as follows:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over $300 million or 10% of issued capital stock	Table 2
2	Acquisition or disposal of individual real estate at cost or prices over $300 million or 10% of issued capital stock	None
3	Discount on processing fee for the transactions with related parties over $5 million	None
4	Receivables from related parties over $300 million or 10% of issued capital stock	None
5	Disposal of nonperforming loans by subsidiaries over $5 billion	Table 1
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

Information of Investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	Table 5
2	Acquisition and disposal of real estate at cost or prices over $300 million or 10% of issued capital stock	Table 3 and 4
3	Discount on processing fee for the transactions with related parties over $5 million	Table 6
4	Receivables from related parties over $300 million or 10% of issued capital stock	None
5	Disposal of nonperforming loans by investee over $5 billion	None
6	Related information of financial assets securitization or real estate securitization by investee	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided	Note
9	Endorsement/guarantee provided	None
10	Marketable securities held as of December 31, 2008	Table 7 and Note
11	Marketable securities acquired or disposed of at costs or prices over $300 million or 10% of issued capital stock	None
12	Derivative transactions	Note 49 and Table 11

Note: Disclosure requirement is not applicable to SKLIC, TSKCB, SKIT, SKSC and MLSC.

Investment in Mainland China

Please see Table 9 attached.

Disclosure of Financial Instruments

a. Fair value of financial instruments

	December 31					
	2006		2007		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
Cash and cash equivalents	$ 50,238,640	$ 50,238,640	$ 98,443,372	$ 98,443,372	$ 87,378,035	$ 87,378,035
Due from Central Bank and other banks	38,261,232	38,261,232	34,191,241	34,191,241	46,159,280	46,159,280
Financial assets at fair value through profit or loss	86,121,257	86,121,257	93,015,024	93,015,024	93,980,159	93,980,159
Bond purchased under resale agreements	5,690,307	5,690,307	11,994,931	11,994,931	41,932,170	41,932,170
Accounts receivable	39,254,863	39,254,863	58,175,232	58,175,232	43,595,627	43,595,627
Loans, net	406,582,306	406,582,306	459,743,179	459,743,179	471,295,366	471,295,366
Available-for-sale financial assets	153,199,270	153,199,270	156,337,727	156,337,727	363,925,482	363,925,482
Held-to-maturity financial assets	222,722,018	226,675,277	219,611,895	213,886,427	9,848,572	9,867,070
Investments accounted for by the equity method	419,849	419,849	433,379	433,379	1,430,930	1,430,930
Financial assets at cost	6,123,565	6,123,565	6,782,987	6,782,987	6,719,766	6,719,766
Debt securities without active market	306,900,536	306,708,685	311,641,242	310,743,593	340,169,082	339,035,183
Miscellaneous financial assets	3,573	3,573	4,688,156	4,688,156	4,516,222	4,516,222
Guarantee deposits paid	12,522,603	12,436,787	12,014,409	11,870,108	13,463,063	13,457,511
Financial liabilities						
Due to Central Bank and other banks	11,911,137	11,911,137	6,736,345	6,736,345	3,727,779	3,727,779
Commercial paper payable	449,598	449,598	8,693,475	8,693,475	—	—
Financial liabilities at fair value through profit or loss	5,287,791	5,287,791	5,196,476	5,196,476	25,373,852	25,373,852
Notes issued under repurchase agreements	11,924,080	11,924,080	30,454,485	30,454,485	32,522,665	32,522,665
Accrued expenses	4,958,555	4,958,555	5,023,563	5,023,563	4,362,841	4,362,841
Bonds payable — current portions	—	—	5,000,000	5,000,000	5,457,756	5,457,756
Other payables	9,730,012	9,730,012	13,607,862	13,607,862	9,964,682	9,964,682
Deposits and remittances	281,779,318	281,779,318	313,544,496	313,544,496	327,636,749	327,636,749
Bonds payable	17,800,000	17,598,277	17,800,000	17,704,714	10,100,000	10,101,258
Corporate bonds payable	18,255,131	18,255,131	8,407,766	8,407,766	13,240,073	13,240,073
Other borrowings	—	—	6,818,324	6,818,324	3,655,328	3,655,328
Miscellaneous financial liabilities	—	—	4,580,361	4,580,361	3,847,995	3,847,995
Guarantee deposits received	323,728	307,328	593,042	578,668	639,727	618,532

b. The methods and assumptions used by the Group to estimate the fair values of financial instruments are summarized as follows:

1) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash and cash equivalents, due from Central Bank of China and other banks, accounts receivable, other financial

assets, bond investments with resale agreements, due to Central Bank and other banks, commercial paper payable, notes issued under repurchase agreements, accrued expenses and other payables.

2) If there is a quoted price from active market for financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, and derivative financial instruments for hedge, the fair value of these financial assets should be based on market price. Otherwise, valuation method should be used for estimation. The assumptions of the valuation method for estimation used by the Group are the same as those of the market participants.

   Cash flow discount method should be used towards debt securities without active market. The Group's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These conditions and characteristics include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. The Group's discount rate for domestic financial commodities is 1.04% to 1.40%, and the discount rate for international financial commodities is 4.01% to 4.96%.

   The fair values of the interest rate swap contracts, forward exchange contracts, stock index futures contracts, currency swap contracts, cross currency swap contract and debentures payable are based on the quoted price provided by the transaction counterparties.

3) Deposits and remittances, loans and overdue receivable are interest-bearing financial assets. Their carrying values approximate fair values.

4) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

5) If there is market price for investments accounted for by the equity method, the market prices should be the fair value. Otherwise, the fair value should be estimated by other financial information.

6) The fair value of guarantee deposits paid and received — except for deposits paid by the insurance company and deposits placed with courts for settlement of cases, which are in the form of government bonds, certificates of deposits and negotiable certificates of deposits — are estimated on the basis of the discounted value of the future cash flows. The discount rate used to discount future cash flows from guarantee deposits paid is the average interest rate of time deposits in banks while the rate used to discount guarantee deposits received is the average midterm loan interest rate.

7) Cash flow discount method should be used for financial debenture. The discount rate is equal to the remuneration rate of similar financial commodities under realistic conditions and characteristics. The discount rate used is 1.045%.

8) Cash flow discount method should be used for other borrowings. The discount rate is equal to the other remuneration rate of similar financial commodities under realistic conditions and characteristics.

c. Fair values of financial assets/liabilities represented by quoted price in active markets, or calculated by valuation method are listed as follows:

	Quoted Price in Active Markets			Amounts Calculated by Valuation Method		
	2006	2007	2008	2006	2007	2008
Financial assets						
Financial assets at fair value through profit or loss	$ 83,936,152	$ 49,239,041	$ 58,933,165	$ 2,185,105	$ 43,775,983	$ 35,046,994
Available-for-sale financial assets	149,241,077	151,703,736	358,364,539	3,958,193	4,633,991	5,560,943
Debt securities without active market	—	—	—	306,002,887	310,743,593	339,035,183
Financial liabilities						
Financial liabilities at fair value through profit or loss	1,132,775	1,367,992	699,210	4,155,016	3,828,484	24,674,642

d. The Group's financial assets at fair value through profit or loss with interest rate changes as of December 31, 2006, 2007 and 2008 amounted to $619,562,438 thousand, $654,783,462 thousand and $670,267,794 thousand, respectively, and financial liabilities of $119,993,435 thousand, $135,270,896 thousand and $145,006,724 thousand, respectively; financial assets with cash flow risk of interest rate changes amounted to $310,348,476 thousand, $358,256,322 thousand and $357,736,207 thousand, respectively, and financial liabilities of $207,834,528 thousand, $253,947,925 thousand and $264,240,766 thousand, respectively.

e. For the years ended December 31, 2006, 2007 and 2008, the interest income associated with financial assets (liabilities) other than those at fair value through profit or loss were $32,783,733 thousand, $36,097,327 thousand and $33,748,857 thousand, respectively; interest expenses amounted to $4,278,115 thousand, $5,834,354 thousand and $7,723,218 thousand, respectively.

f. The Company's financial risk information

1) Market risk

For the year ended December 31, 2006, 2007 and 2008 the Company did not engage in any bonds investment; therefore, there were no interest rate fluctuation risks. Cross-currency swap contracts engaged by the Company do not have substantial currency risks because the risks of those contracts are almost netted off with the hedged items.

2) Credit risk

The Company's financial assets are influenced by the Company's transaction counterparties. The influences include the Company's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. The credit risk value as of December 31, 2006, 2007 and 2008 are $0, $0 and $42,183 thousand, respectively, of whose fair values are positive at the balance date.

3) Liquidity risk

Liquidity risk refers to the risk that sums of money cannot be settled at the anticipated maturity date. The Company's forward exchange contracts are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

g. SKLIC's financial risk information

1) Market risk

SKLIC's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change. When the market interest rate increases by 1%, fair value of the securities investment would decrease by $27,223,000 thousand. SKLIC's currency swap contracts, forward exchange contracts and currency option contracts would also be influenced by the change in market foreign exchange rate: when United States dollars increase by one cent, fair value would decrease by $81,470 thousand.

2) Credit risk

The SKLIC's financial assets are influenced by the SKLIC's transaction counterparties. The influences include the SKLIC's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. Book values of the financial assets held by SKLIC represent fair values, except as mentioned in Note 49.

3) Liquidity risk

SKLIC has sufficient operation capital; therefore, SKLIC does not have liquidity risk.

SKLIC's investments in bonds and stocks are quoted in active markets. Financial assets could be easily sold according to the anticipated fair value price in the markets. The currency swap contracts, forward exchange contracts and currency option contracts held by SKLIC are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

4) Cash flow risk of interest rate fluctuation

Cash flow risk of interest rate fluctuation on debt securities refers to the risk of future repayment fluctuation of short-term/long-term loans arising from interest rate fluctuation. SKLIC does not engage in loans from others, so the risk mentioned above does not exist.

To avoid the risk of interest rate fluctuation on assets with floating-rate risk, SKLIC entered into interest rate swap contracts to manage the risk.

h. SKLIC's risk management and hedge strategies

Risk management of SKLIC is shown as follows:

1) Credit risk management

Credit risk may be caused by the events of counterparties failing to perform their obligations. SKLIC established regulations by relevant acts according to the financial and operational condition risk management, ability to refund and other credit rating factor of transaction counterparties.

2) Market risk management

Market risk is considered the risk of loss resulting from changes in market price. SKLIC sets up the limit for market risk and other relevant regulations by various market risk factors.

3) Operation risk management

Operation risk indicates the unexpected loss caused by the failure of the internal control. SKLIC sets up regulations for each operation to list operation procedures, limit of authority and responsibility, and other stipulations.

4) Liquidity risk management

Liquidity risks are the risks of encountering difficulty in raising funds to meet the commitments; or finding the counterparties to settle financial instruments at a reasonable price.

SKLIC's basic policy on liquidity risk management is to establish regulations taking into consideration the security, profitability and liquidity factors and by setting an appropriate current ratio and emergency plan according to the business nature.

5) Concentration risk management

To avoid the risks of concentration, SKLIC sets up the limitation of credit risk with same person or same affiliate and relevant control procedures.

6) The following table summarizes the maturities of SKLIC's financial instruments as of December 31, 2008:

Non-derivative financial instruments with fixed interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$1,074,002	$1,507,469	$17,649,532	$ 758,944	$ 1,434,193	$ 4,579,284	$ 27,003,424
Available-for-sale financial assets	3,181,708	5,874,980	7,628,651	7,952,130	18,717,809	184,437,109	227,792,387
Debt securities without active market	9,990,204	2,708,034	2,100,000	2,737,221	8,011,972	258,966,596	284,514,027

Non-derivative financial instruments with floating interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 2,492,687	$ —	$ —	$ —	$ —	$ —	$ 2,492,687
Available-for-sale financial assets	35,392,951	—	—	—	—	—	35,392,951
Debt securities without active market	47,925,814	—	—	—	—	—	47,925,814

Derivative financial instruments

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 18,230	$ —	$ —	$ —	$ —	$ —	$ 18,230
Financial liabilities at fair value through profit or loss	(42,672)	—	—	—	—	—	(42,672)

Information of reclassifications is shown as follows:

On July 1, 2008, SKLIC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$12,520,818	$ —
Available-for-sale financial assets	—	12,520,818
	$12,520,818	$12,520,818

In view of SKLIC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLIC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$9,048,688	$9,048,688

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Profit and Loss	Recognized in Shareholders' Equity
Financial assets held for trading	$(2,031,965)	$ —	$(161,510)	$ —
Available-for-sale financial assets	—	—	(64,788)	(5,458,160)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Amount Recorded		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$ —	$(5,458,160)	$(6,290,920)

Due to changing international economic environment and in order to enhance its capital structure, SKLIC changed its intention of investing in held-to-maturity financial assets. As of December 31, 2008, SKLIC adopted SFAS No. 34, "Financial Instruments: Recognition and Measurement" and reclassified portfolio of held-to-maturity financial assets to available-for-sale financial assets. The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Held-to-maturity financial assets	$198,796,273	$ —
Available-for-sale financial assets	—	208,440,463
	$198,796,273	$208,440,463

In view of SKLIC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLIC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008, were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$208,440,463	$208,440,463

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Held-to-maturity financial assets	$ —	$ —	$ —	$ —
Available-for-sale financial assets	—	—	—	8,679,771

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Value		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$ —	$8,679,771	$ —

Reclassified information of SKLIC's subsidiaries is shown as follows

On July 1, 2008, SKLRESC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$184,807	$ —
Available-for-sale financial assets	—	184,807
	$184,807	$184,807

In view of SKLRESC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLRESC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying value and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$108,337	$108,337

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Financial assets held for trading	$(15,275)	$ —	$ —	$ —
Available-for-sale financial assets	—	—	—	(76,470)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Amount		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$ —	$(76,470)	$(76,470)

i. Financial risk information of TSKCB

1) Market risk

Fair value of bonds and bills investments, loans and other financial instruments engaged by TSKCB will change when the interest rate fluctuates.

2) Credit risk

Credit risk may be caused by the events of counterparties failing to perform their obligation associated with financial assets held by TSKCB. TSKCB follows a strict credit policy to assess and approve all credit lines and guarantees. Certain customers were requested to provide collaterals. The secured loans were 69% of the total loans for the year ended December 31, 2008. The percentage of guarantees and issuance of letters of credit secured by collaterals were 9%. The collaterals for loans, financing guarantees and letters of credit guarantees are cash, inventories, securities, plants and other assets. If the customers default, TSKCB will execute its rights on the collateral in accordance with the terms of the contracts. There is no collateral required for credit card transactions. However, TSKCB assesses its customers' credit ratings periodically. Based on these assessments, customers' credit limits will be adjusted if necessary.

The credit risk amounts pertain to contracts with a fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except those held by TSKCB as follows:

Items	2008 Carry Value	2008 Maximum Exposure of Credit Risk
Guarantee	$ —	$15,331,427
Letters of credit	—	1,578,314
Loan commitments (excluding credit card)	—	64,261,266

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics for concentration of credit risks include the nature of business activities engaged by debtors. TSKCB has not engaged in transactions that involved a prominent concentration in one client or one transaction party, but have transaction parties of similar industry type or from similar region.

As of December 31, 2008, TSKCB's credit exposure related to loans was classified as follows:

Industry	Contract Amount	Maximum Credit Exposure
Natural persons	$157,405,998	$157,405,998
Banking and insurance	129,134,645	129,134,645
Manufacturing	43,290,185	43,290,185
Real estate leasing	21,219,973	21,219,973
Wholesale and retail	14,184,377	14,184,377
Servicing	8,114,225	8,114,225
Others	25,155,077	25,155,077
	$398,504,480	$398,504,480

Region	Contract Amount	Maximum Credit Exposure
Domestic	$380,455,571	$380,455,571
England	4,198,199	4,198,199
Asian regions	2,147,816	2,147,816
Others	11,702,894	11,702,894
	$398,504,480	$398,504,480

3) Liquidity risk

Ratios of liquidity reserves are 11.15%, 10% and 13% as of December 31, 2006, 2007 and 2008, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Since derivatives have very little probabilities of failing to be sold at reasonable prices in the market, there will be very low liquidity risks.

The basic management policies of the TSKCB are matching due dates with interest rates of assets and liabilities and controlling unmatched gaps. The nature of uncertainty in those interest rates of assets and liabilities causes some unmatched gaps on the due day and could bring contingent profit or loss, thus the TSKCB adopts suitable allocation method to evaluate TSKCB's liquidity and liquidity analysis as follows:

	December 31, 2006			
	0 ~ 1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 8,400,285	$ —	$ —	$ 8,400,285
Due from Central Bank of China and other banks	38,261,232	—	—	38,261,232
Financial assets at fair value through profit or loss	4,214,320	—	—	4,214,320
Bond purchased under resale agreements	241,018	—	—	241,018
Accounts receivable	16,866,404	—	—	16,866,404
Loans, bill and discounts	36,768,725	96,586,919	102,949,446	236,305,090
Available-for-sale financial assets	—	4,155,742	1,240,588	5,396,330
Held-to-maturity investments	685,557	10,046,478	1,328,205	12,060,240
Debt securities without active market	—	3,776,662	5,345,744	9,122,406
	$105,437,541	$114,565,801	$110,863,983	$330,867,325
Liabilities				
Due to Central Bank of China and other banks	$ 11,699,501	$ 291,637	$ —	$ 11,991,138
Financial liabilities at fair value through profit or loss	—	990,994	—	990,994
Notes issued under repurchase agreements	4,540,484	—	—	4,540,484
Payables	8,815,508	—	—	8,815,508
Deposits and remittances	271,761,665	14,984,576	—	286,746,241
Financial debenture	—	14,300,000	3,500,000	17,800,000
Lease payable	161,466	378,258	—	539,724
Hedge derivative	—	201,723	—	201,723
Appropriated loan fund	—	86,400	—	86,400
	$296,978,624	$ 31,233,588	$ 3,500,000	$331,712,212

	December 31, 2007			
	0 ~ 1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,191,127	$ —	$ —	$ 6,191,127
Due from Central Bank of China and other banks	34,193,186	—	—	34,193,186
Financial assets at fair value through profit or loss	3,848,399	—	—	3,848,399
Accounts receivable	15,234,423	—	—	15,234,423
Discounts and loans	49,735,967	98,118,291	131,678,957	279,533,215
Available-for-sale financial assets	—	9,025,442	5,017,763	14,043,205
Held-to-maturity financial assets	1,621,506	9,563,416	465,232	11,650,154
Other overdue receivable	178,350	—	—	178,350
Debt securities without active market	—	324,430	6,877,916	7,202,346
	$111,002,958	$117,031,579	$144,039,868	$372,074,405
Liabilities				
Due to Central Bank of China and other banks	$ 7,860,507	$ —	$ —	$ 7,860,507
Financial liabilities at fair value through profit or loss	1,166,557	—	—	1,166,557
Notes issued under repurchase agreements	3,699,313	—	—	3,699,313
Payables	7,937,428	—	—	7,937,428
Deposits and remittances	309,045,000	16,718,735	—	325,763,735
Financial debenture	7,700,000	6,600,000	3,500,000	17,800,000
Lease payable	197,160	226,783	—	423,943
Appropriated loan fund	—	85,500	—	85,500
Hedge derivative	—	95,287	—	95,287
	$337,605,965	$ 23,726,305	$ 3,500,000	$364,832,270

	December 31, 2008			
	0 ~ 1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,858,244	$ —	$ —	$ 6,858,244
Due from Central Bank of China and other banks	46,159,280	—	—	46,159,280
Financial assets at fair value through profit or loss	5,636,189	—	—	5,636,189
Accounts receivable	12,129,412	—	—	12,129,412
Discounts and loans	41,138,053	103,849,698	138,839,986	283,827,737
Available-for-sale financial assets	—	15,860,534	6,508,007	22,368,541
Held-to-maturity financial assets	1,974,249	7,690,700	183,623	9,848,572
Debt securities without active market	—	—	7,409,241	7,409,241
Hedge derivative	1,258	—	—	1,258
Other overdue receivable	210,225	—	—	210,225
	$114,106,910	$127,400,932	$152,940,857	$394,448,699
Liabilities				
Due to Central Bank of China and other banks	$ 4,553,045	$ —	$ —	$ 4,553,045
Financial liabilities at fair value through profit or loss	2,763,152	—	—	2,763,152
Notes issued under repurchase agreements	2,594,597	—	—	2,594,597
Payables	5,889,687	—	—	5,889,687
Deposits and remittances	337,762,149	18,264,714	—	356,026,863
Financial debenture	1,300,000	5,300,000	3,500,000	10,100,000
Lease payable	156,353	147,456	—	303,809
Appropriated loan fund	—	81,900	—	81,900
	$355,018,983	$ 23,794,070	$ 3,500,000	$382,313,053

4) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by TSKCB may take risks of future cash inflow/outflow. The risk is considered substantial and hedged by TSKCB.

5) Cash flow hedges

Cash flow risk may be caused by the floating-rate assets/liabilities held by TSKCB, so TSKCB had entered into interest-rate swap contracts to hedge the risk.

Hedged Item	Assigned Financial Assets for Hedging	December 31, 2008 Contract Amount	December 31, 2008 Fair Value	Anticipated Cash Flows	Period in which the Relevant Gains or Losses are Recognized
Primary financial debenture	Interest rate swap contract	$1,300,000	$1,258	2004~2009	2004~2009

Fair value of the hedging instrument	$ 1,258
Add the apportioned income tax	(314)
Adjustment amount of stockholders' equity	$ 944

j. TSKCB's hedge strategy

1) The activities of risk control and hedge strategy of TSKCB are affected by the industry nature of service and the restrictions of law, thus the overall risk management and control system has been applied to recognize, measure and control all risks of TSKCB.

The objective of market risk management of TSKCB is to achieve optimal risk position, maintain adequate liquidity position, and manage all market risk centralized by considering the economic environment, competition condition, market value risk, and impact on net interest income. In order to achieve this goal, TSKCB's hedging activities concentrate on two main control factors: net future cash flow and market risk.

TSKCB use two types of hedging relationship to manage these two factors: cash flow hedge and fair value hedge. Cash flow hedge is to avoid interest rate exposure and fair value hedge is to minimize market value risk.

Fair value hedge is to transfer fixed income or structure transaction to be floating income. TSKCB uses fair value hedge to transfer non-monetary linking bonds to become monetary linking bond following the current policy. According to the fund transfer, TSKCB set up the strategy of fair value hedge of interest rate exposure to hedge part of loans, deposit and structure liabilities which bear with fixed interest rate. TSKCB primarily uses interest rate swaps to hedge fair value risk. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as hedging instruments.

There are two main goals of TSKCB's cash flow hedge: transferring monetary linking transaction to be fixed interest transaction to minimize interest rate risk and avoid exchange rate risk arising from forecast transaction. TSKCB primarily uses interest swap as a cash flow hedging instrument and forward exchange contract to avoid risk arising from exchange rate. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as cash flow hedging instruments.

2) Information of reclassifications

On July 1, 2008, TSKCB reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$ 3,498,350	$ 3,034,435
Available-for-sale financial assets	20,794,295	21,258,210
	$24,292,645	$24,292,645

In view of TSKCB's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, TSKCB reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair value
Available-for-sale financial assets	$244,304	$244,304

The changes in fair value of the reclassified financial assets recognized in income statement or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Investment Loss Recognized	Stockholders' Equity Adjustment	Investment Income Recognized	Stockholders' Equity Adjustment
Financial assets held for trading	$(79,321)	$ —	$ —	$ —
Available-for-sale financial assets	$ —	$ —	$ —	$(219,611)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Amount		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Profit and Loss
Available-for-sale financial assets	$ —	$(219,611)	$(219,611)

k. Financial risk information of SKSC

1) Market risk

Equity securities, commodity contracts and structure notes engaged by SKSC are measured at fair value, which changes with the evaluation factors like target price, interest rate, date of maturity, etc. SKSC also takes its hedge strategies to decrease the exposure of risk.

2) Credit risk

The credit risks of SKSC come from margin loan brokerage business, bonds issued under terms, derivatives and consigned trading of marketable securities. To manage the risk, SKSC reviews the credit condition and credit rating of counterparties before entering into any contracts with them. And the maximum limit on contractual amount is approved by SKSC to avoid the loss in an extreme condition.

3) Liquidity risk

The financial instruments held by SKSC are with a strong liquidity, thus the risk is expected to be extremely low. And SKSC has a holding limit on its investment in marketable securities.

4) Cash flow risk of interest rate fluctuation

SKSC's bond investments are with fixed rate, so the effective rate will not change when market interest rate changes to make fluctuations of future cash inflows.

5) Concentration of credit risk

SKSC's counterparties to financial transactions are not individuals or groups engaged in similar activities. SKSC sets up the regulation for the limit of concentrative transaction besides the stipulation of the authority concerned.

l. Derivative financial instruments for the years ended December 31, 2006, 2007 and 2008 of SKSC, a subsidiary, were as follows:

1) Stock warrants

i) Except that SKSC 23 and 24 issued in 2006, SKSC 46, 53, 61 and 91 issued in 2007 and SKSC L9 and M2 issued in 2008 are Europe stock warrants, all other warrants that SKSC issued are American stock warrants which are effective six or seven months after listing on the market and will be settled by cash or securities at the options of SKSC. As of December 31, 2006, 2007 and 2008, the details of warrants issued and repurchase are as follows:

	December 31, 2006							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities 15	AU Optronics Corp.	80,000,000	2006/06/06	0.31	67.50	1:0.1	46,268,000	0.16
Shin Kong Securities 16	China Development Financial Holding Corp.	25,000,000	2006/06/06	0.70	16.73	1:1	19,441,000	2.02
Shin Kong Securities 17	Wistron Corporation	20,000,000	2006/06/07	2.50	54.75	1:1	17,190,000	8.60
Shin Kong Securities 18	Formosa Chemicals & Fibre Corp.	50,000,000	2006/06/09	0.65	72.30	1:0.1	46,057,000	0.85
Shin Kong Securities 19	Media Tek Inc.	25,000,000	2006/06/19	2.87	462.00	1:0.1	20,269,000	3.82
Shin Kong Securities 21	AU Optronics Corp.	50,000,000	2006/06/29	0.51	66.45	1:0.1	36,411,000	0.14
Shin Kong Securities 22	Cheng Shin Rubber Ind., Co., Ltd.	20,000,000	2006/08/08	2.12	37.65	1:1	16,247,000	1.98
Shin Kong Securities 23	AU Optronics Corp.	20,000,000	2006/09/05	0.28	24.60	1:0.1	9,177,000	0.08
Shin Kong Securities 24	High Tech Computer Corp.	20,000,000	2006/09/22	7.50	472.50	1:0.1	18,703,000	11.10
Shin Kong Securities 25	Compal Communications Inc.	20,000,000	2006/10/26	1.60	178.50	1:0.1	6,857,000	0.98
Shin Kong Securities P2	Wellypower Optronics Corp.	15,000,000	2006/11/17	1.83	211.50	1:0.1	8,605,000	1.12
Shin Kong Securities 26	High Tech Computer Corp.	20,000,000	2006/11/22	7.70	1,129.50	1:0.1	11,012,000	3.07
Shin Kong Securities 27	AU Optronics Corp.	35,000,000	2006/11/30	0.35	64.65	1:0.1	17,656,000	0.34
Shin Kong Securities 28	Compal Communications Inc.	20,000,000	2006/12/08	1.20	162.00	1:0.1	14,668,000	1.19
Shin Kong Securities 29	Silitech Technology Corp.	20,000,000	2006/12/08	1.50	209.25	1:0.1	17,674,000	1.56
Shin Kong Securities 30	High Tech Computer Corp.	20,000,000	2006/12/13	7.00	901.50	1:0.1	17,138,000	8.45

	December 31, 2007							
Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
Shin Kong Securities 44	Lite-on Technology Corp.	20,000,000	2007/06/07	0.85	60.83	1:0.5	15,248,000	0.28
Shin Kong Securities 45	Compeq Manufacturing Co., Ltd.	20,000,000	2007/06/23	1.00	22.35	1:1	3,044,000	0.01
Shin Kong Securities 46	Cathay Financial Holding Co., Ltd.	20,000,000	2007/06/27	0.50	40.55	1:0.1	18,230,000	0.09
Shin Kong Securities 47	Yageo Corporation	25,000,000	2007/06/29	0.40	23.78	1:0.2	18,227,000	0.01
Shin Kong Securities 48	Mega Financial Holding Co., Ltd.	20,000,000	2007/06/29	0.69	33.45	1:0.5	9,520,000	0.02
Shin Kong Securities 49	Elan Microelectronics Corp.	20,000,000	2007/07/12	0.99	99.00	1:0.1	5,348,000	0.03
Shin Kong Securities 50	Mitac International Corp.	20,000,000	2007/07/16	0.82	66.23	1:0.2	15,612,000	0.01
Shin Kong Securities 51	Formosa Chemicals & Fibre Corporation	20,000,000	2007/07/18	0.94	116.55	1:0.1	15,860,000	0.06
Shin Kong Securities 52	Gemtek Technology Co., Ltd.	20,000,000	2007/07/20	0.88	128.25	1:0.1	17,434,000	0.01
Shin Kong Securities 53	Cathay Financial Holding Co., Ltd.	20,000,000	2007/07/26	0.75	46.00	1:0.1	19,014,000	0.65
Shin Kong Securities 54	Kye Systems Corp.	20,000,000	2007/07/26	1.60	98.25	1:0.2	17,852,000	0.01
Shin Kong Securities 55	Hung Sheng Construction Ltd.	20,000,000	2007/07/26	0.70	41.18	1:0.2	6,067,000	0.04
Shin Kong Securities 56	China Steel Chemical Co.,	20,000,000	2007/07/27	0.96	139.20	1:0.1	17,207,000	0.18
Shin Kong Securities 57	Pihsiang Machinery Mfg. Co., Ltd.	30,000,000	2007/07/27	0.96	132.75	1:0.1	28,682,000	0.03
Shin Kong Securities 58	Lien Hwa Industrial Corporation	20,000,000	2007/07/30	1.10	28.72	1:0.5	16,501,000	0.42
Shin Kong Securities 59	Chin-Poon Industrial Co., Ltd.	20,000,000	2007/07/30	1.50	43.72	1:0.5	12,996,000	0.03
Shin Kong Securities 60	Elan Microelectronics Corp.	20,000,000	2007/08/01	1.50	126.75	1:0.1	11,651,000	0.02
Shin Kong Securities 61	Compeq Manufacturing Co., Ltd.	20,000,000	2007/08/01	1.80	8.50	1:1	18,712,000	2.56
Shin Kong Securities 62	Yulon Motor Co., Ltd.	20,000,000	2007/08/07	0.76	60.90	1:0.2	19,493,000	0.01
Shin Kong Securities 63	Holtek Semiconductor Inc.	20,000,000	2007/08/10	1.19	128.70	1:0.1	11,160,000	0.02

Warrants	December 31, 2007 Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
Shin Kong Securities 64	Tatung Co.	25,000,000	2007/08/14	0.95	24.37	1:0.5	16,567,000	0.20
Shin Kong Securities 65	Catcher Technology Co., Ltd.	20,000,000	2007/08/17	3.00	348.75	1:0.1	16,336,000	0.38
Shin Kong Securities 66	Pan-International Industrial Corp.	20,000,000	2007/08/20	1.55	144.90	1:0.1	14,410,000	0.01
Shin Kong Securities 67	Wpg Holdings Limited	20,000,000	2007/08/22	0.98	56.25	1:0.2	15,738,000	0.15
Shin Kong Securities 68	Faraday Technology Corp.	20,000,000	2007/08/28	1.50	160.50	1:0.1	17,606,000	0.04
Shin Kong Securities 69	Elan Microelectronics Corp.	20,000,000	2007/08/30	1.19	90.00	1:0.1	18,112,000	0.14
Shin Kong Securities 70	L & K Engineering Co., Ltd.	20,000,000	2007/10/01	1.03	70.27	1:0.2	18,836,000	0.13
Shin Kong Securities 71	Meiloon Industrial Co., Ltd.	20,000,000	2007/10/02	1.08	59.55	1:0.2	19,274,000	0.20
Shin Kong Securities 72	Pan Jit International Inc.	20,000,000	2007/10/02	1.58	76.95	1:0.2	19,970,000	0.22
Shin Kong Securities 73	Tyntek Corporation	20,000,000	2007/10/03	0.75	68.55	1:0.1	19,701,000	0.13
Shin Kong Securities 74	Fortune Electric Co., Ltd.	20,000,000	2007/10/09	1.80	79.20	1:0.2	19,464,000	1.18
Shin Kong Securities 75	Chung Hwa Pulp Corp.	20,000,000	2007/10/09	1.61	34.87	1:0.5	19,955,000	0.20
Shin Kong Securities 76	Inotera Memories, Inc.	25,000,000	2007/10/19	0.29	49.27	1:0.1	24,579,000	0.10
Shin Kong Securities 77	Merida Industry Co., Ltd.	20,000,000	2007/10/24	0.68	93.75	1:0.1	19,579,000	0.30
Shin Kong Securities 78	Tsrc Corporation	25,000,000	2007/10/25	0.59	71.55	1:0.1	24,676,000	0.26
Shin Kong Securities 79	Mitac Technology Corp.	25,000,000	2007/10/26	0.62	62.25	1:0.1	24,381,000	0.07
Shin Kong Securities 80	Sinopac Financial Holdings Company	20,000,000	2007/10/31	0.69	22.65	1:0.5	19,645,000	0.19
Shin Kong Securities 81	Tung Ho Steel Enterprise Corp.	20,000,000	2007/11/01	2.19	72.00	1:0.5	19,771,000	2.48
Shin Kong Securities 82	Cheng Uei Precision Industry Co., Ltd.	20,000,000	2007/11/01	0.83	134.85	1:0.1	19,636,000	0.23
Shin Kong Securities 83	Taiwan Navigation Co., Ltd.	20,000,000	2007/11/05	1.01	101.70	1:0.1	19,638,000	0.53
Shin Kong Securities 84	Amtran Technology Co., Ltd.	20,000,000	2007/11/05	1.06	65.25	1:0.2	18,970,000	0.51
Shin Kong Securities 85	Nanya Technology Corporation	20,000,000	2007/11/08	0.36	30.00	1:0.2	16,394,000	0.22
Shin Kong Securities 86	Zinwell Corporation	20,000,000	2007/11/12	1.83	177.00	1:0.1	19,526,000	0.88

	December 31, 2007							
Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
Shin Kong Securities 87	Ya Guang Corporation	20,000,000	2007/11/12	0.89	141.75	1:0.1	16,985,000	0.40
Shin Kong Securities 88	Media Tek Inc.	30,000,000	2007/11/15	0.63	790.50	1:0.01	28,554,000	0.27
Shin Kong Securities 89	Innolux Display Corporation	20,000,000	2007/11/20	1.57	183.00	1:0.1	19,827,000	1.20
Shin Kong Securities 90	Au Optronics Corp.	20,000,000	2007/11/26	2.52	91.50	1:0.5	18,848,000	2.13
Shin Kong Securities 91	Au Optronics Corp.	20,000,000	2007/11/26	0.78	30.50	1:0.2	18,864,000	0.59
Shin Kong Securities 92	Pan Jit International Inc.	25,000,000	2007/11/27	0.50	47.40	1:0.1	23,610,000	0.48
Shin Kong Securities 93	Epistar Corporation	20,000,000	2007/11/29	1.45	178.50	1:0.1	19,672,000	1.25
Shin Kong Securities 94	Foxconn Technology Co., Ltd.	20,000,000	2007/11/29	3.98	442.50	1:0.1	19,455,000	1.05
Shin Kong Securities 95	Upc Technology Corporation	20,000,000	2007/12/07	1.01	28.20	1:0.5	19,963,000	1.18
Shin Kong Securities 96	Micro — Star International Co., Ltd.	20,000,000	2007/12/14	0.57	39.22	1:0.2	19,811,000	0.74
Shin Kong Securities 97	Hon Hai Precision Ind. Co., Ltd.	20,000,000	2007/12/17	1.89	265.50	1:0.1	19,925,000	2.35
Shin Kong Securities 98	Mitac International Corp.	20,000,000	2007/12/17	0.64	45.30	1:0.2	19,797,000	0.79
Shin Kong Securities 99	Wei Chuan Foods Corp.	20,000,000	2007/12/18	0.32	23.77	1:0.2	19,514,000	0.58
Shin Kong Securities A1	Foxconn Technology	20,000,000	2007/12/18	3.16	333.00	1:0.1	19,990,000	3.78
Shin Kong Securities A2	Altek Corporation	20,000,000	2007/12/18	0.92	60.37	1:0.2	19,940,000	1.02
Shin Kong Securities Q1	Everskill Technology Co., Ltd.	20,000,000	2007/07/06	0.54	33.37	1:0.2	11,533,000	0.01
Shin Kong Securities Q2	Pixart Imaging Inc.	7,500,000	2007/08/08	6.00	587.25	1:0.1	3,703,000	0.14
Shin Kong Securities Q3	Chipbond Technology Corporation	10,000,000	2007/08/10	0.88	67.20	1:0.2	6,161,000	0.02
Shin Kong Securities Q4	Taiwan Chi Cheng Enterprise Co., Ltd.	25,000,000	2007/08/14	1.02	117.00	1:0.1	24,014,000	0.04
Shin Kong Securities Q5	Motech Industries Inc	20,000,000	2007/09/04	4.27	428.25	1:0.1	18,809,000	0.96
Shin Kong Securities Q6	Solar Applied Materials Technology Corp.	10,000,000	2007/09/21	3.38	236.25	1:0.1	7,648,000	0.20
Shin Kong Securities Q7	Advanced — Connectek Inc.	5,000,000	2007/10/01	2.44	42.97	1:0.5	4,770,000	0.22
Shin Kong Securities Q8	Advanced — Connectek Inc	5,000,000	2007/10/01	0.58	14.32	1:0.2	4,848,000	1.22

	December 31, 2007							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities Q9	Taiwan Hopax Chems. Mfg. Co., Ltd.	7,000,000	2007/10/16	1.07	48.37	1:0.2	5,293,000	0.10
Shin Kong Securities R1	Phison Electronics Corp.	7,500,000	2007/11/05	4.94	435.00	1:0.1	5,742,000	1.63
Shin Kong Securities R2	Sino-America Silicon Products Inc.	10,000,000	2007/11/14	3.57	324.75	1:0.1	9,826,000	3.60
Shin Kong Securities R3	Firich Enterprises Co., Ltd.	5,000,000	2007/11/15	5.59	517.50	1:0.1	4,545,000	2.80

	December 31, 2008							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities J8	ZyXEL Communication Corp.	20,000,000	2008/06/20	0.716	38.25	1:0.2	18,589,000	0.06
Shin Kong Securities J9	Synnex Technology International Corp.	20,000,000	2008/06/25	8.750	108.00	1:1	16,049,000	0.01
Shin Kong Securities K1	Hsin Kuang Steel Co., Ltd.	20,000,000	2008/06/30	0.875	53.77	1:0.2	18,808,000	0.01
Shin Kong Securities K2	Mercuries & Associates., Ltd.	25,000,000	2008/06/30	0.856	20.92	1:0.5	19,791,000	0.01
Shin Kong Securities K3	Elite Semiconductor Memory Technology Inc.	20,000,000	2008/06/30	0.895	57.00	1:0.2	19,458,000	0.01
Shin Kong Securities K4	Ite Tech. Inc.	20,000,000	2008/06/30	1.214	109.95	1:0.1	14,780,000	0.01
Shin Kong Securities K5	Huaku Development Co., Ltd.	20,000,000	2008/07/04	1.801	124.35	1:0.1	16,364,000	0.01
Shin Kong Securities K6	Innolux Display Corp.	20,000,000	2008/07/04	1.831	92.85	1:0.2	19,421,000	0.01
Shin Kong Securities K7	TXC Corporation	20,000,000	2008/07/09	0.945	76.80	1:0.1	18,175,000	0.02
Shin Kong Securities K8	Sintek Photronic Corp.	20,000,000	2008/07/09	1.055	17.47	1:0.5	17,122,000	0.01
Shin Kong Securities K9	Lee Chang Yung Chemical Industry Corp.	20,000,000	2008/07/11	0.736	45.30	1:0.2	17,333,000	0.01
Shin Kong Securities L1	Cheng Uei Precision Industry Co., Ltd.	20,000,000	2008/07/11	0.796	78.00	1:0.1	19,820,000	0.01
Shin Kong Securities L2	Prince Housing & Development Corp.	20,000,000	2008/08/01	0.596	22.57	1:0.2	18,780,000	0.01
Shin Kong Securities L3	Altek Corporation	20,000,000	2008/08/11	1.254	70.80	1:0.2	17,654,000	0.03

Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
	December 31, 2008							
Shin Kong Securities L4	Mankang Pubber Tire Corp., Ltd.	20,000,000	2008/08/14	0.935	40.12	1:0.2	19,738,000	0.01
Shin Kong Securities L5	Kinsus Interconnect Technology Corp.	20,000,000	2008/08/19	1.791	88.35	1:0.2	19,535,000	0.06
Shin Kong Securities L6	Usi Corporation	20,000,000	2008/08/27	1.035	21.30	1:0.5	19,607,000	0.11
Shin Kong Securities L7	Sunplus Technology Co., Ltd.	20,000,000	2008/08/28	0.865	43.12	1:0.2	19,422,000	0.01
Shin Kong Securities L8	Yang Ming Marine Transport Corp.	20,000,000	2008/09/01	0.806	23.10	1:0.5	15,403,000	0.16
Shin Kong Securities L9	Synnex Technology International Corp.	20,000,000	2008/09/01	2.140	30.80	1:0.2	19,731,000	5.20
Shin Kong Securities M1	Oriental Union Chemical Corp.	20,000,000	2008/09/03	1.373	35.40	1:0.5	18,279,000	0.06
Shin Kong Securities M2	Taiwan Semiconductor Manufacturing Co., Ltd.	20,000,000	2008/09/03	0.626	27.15	1:0.2	15,723,000	1.20
Shin Kong Securities M3	Mitac Technology Corp.	20,000,000	2008/09/05	0.457	22.35	1:0.2	16,529,000	0.40
Shin Kong Securities M4	Gemtek Technology Co., Ltd.	20,000,000	2008/09/05	0.955	88.05	1:0.1	18,398,000	0.02
Shin Kong Securities M5	HTC Corporation	20,000,000	2008/09/11	0.905	837.00	1:0.01	17,810,000	0.04
Shin Kong Securities M6	China Development Financial Holding Co.,	20,000,000	2008/09/25	1.223	14.10	1:1	18,371,000	1.57
Shin Kong Securities M7	U-Ming Marine Transport Corp.	20,000,000	2008/09/26	1.462	75.75	1:0.2	19,712,000	1.57
Shin Kong Securities M8	Inventec Corporation	20,000,000	2008/10/09	0.825	20.77	1:0.5	19,167,000	1.57
Shin Kong Securities M9	Ton Yi Industrial Corp.	20,000,000	2008/10/09	1.024	17.47	1:0.5	18,045,000	1.57
Shin Kong Securities U3	Sino-American Silicon Products Inc.	5,000,000	2008/06/24	1.602	252.75	1:0.1	1,536,000	0.24
Shin Kong Securities U4	Soft Pack Enterprise Ltd.	7,500,000	2008/06/24	0.616	41.62	1:0.2	6,000,000	0.03
Shin Kong Securities U5	Taiwan Semiconductor Co., Ltd.	7,000,000	2008/06/25	0.875	45.30	1:0.2	6,573,000	0.06
Shin Kong Securities U6	Taiwan Semiconductor Co., Ltd.	5,000,000	2008/07/04	0.925	42.15	1:0.2	1,452,000	0.04
Shin Kong Securities U7	E-Ton Solar Tech. Co., Ltd.	5,000,000	2008/08/04	5.574	498.00	1:0.1	988,000	1.57
Shin Kong Securities U8	Soft Pack Enterprise Ltd.	7,000,000	2008/09/25	0.935	21.90	1:0.5	6,678,000	1.57

	December 31, 2008							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities U9	Taiwan Semiconductor Co., Ltd.	5,000,000	2008/09/26	1.313	26.25	1:0.5	2,124,000	1.57
Shin Kong Securities N1	Taiwan Top 50	20,000,000	2008/12/08	1.631	45.27	1:0.5	19,857,000	1.57
Shin Kong Securities N2	Wistron Corporation	20,000,000	2008/12/08	0.865	31.72	1:0.2	19,929,000	1.57

ii) Credit risk

SKSC collects premiums from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

iii) Market price risk

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

According to Vega risk hedge operating approach, SKSC bought the same securities as the warrants. Convertible bonds can be used to hedge against Vega risk; however, the effect of use of convertible bonds to hedge against Vega risk will be compromised by low liquidity, long maturity and uncertainty in respect to the redemption.

iv) Liquidity risk, cash flow risk, future cash needed and period uncertainty

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

v) The category and purpose of the derivative financial instrument

SKSC owned options of derivative financial instruments under trading purpose. In order to avoid the fluctuations in market value, SKSC owns securities for non-trading purposes and securities with high negative correlation.

vi) Reporting of derivative financial instruments in the consolidated financial statements for the year ended December 31, 2006:

	Amount	Account
Valuation (loss) gain		
Stock warrants issued liability	$ (132,780)	Loss on valuation of warrants issued liability
Repurchasing of warrants	75,833	Gain on valuation of repurchased warrants issued
Operating securities — hedge	3,565	Gain on valuation recovery
Disposal (loss) gain		
Stock warrants issued liability	276,652	Gain on valuation of warrants issued liability
Repurchasing of warrants	(150,355)	Loss on valuation of repurchased warrants issued
Before due, guaranteed benefit of warrants	6,218	Gain on valuation of warrants issued
Operating securities — hedge	(2,723)	Loss on disposal of securities — hedge

Reporting of derivative financial instrument in the consolidated financial statements for the year ended December 31, 2007:

	Amount	Account
Valuation (loss) gain		
Stock warrants issued liability	$ 999,549	Gain on valuation of warrants issued liability
Repurchasing of warrants	(344,334)	Loss on valuation of repurchased warrants issued
Operating securities — hedge	(22,588)	Loss on valuation recovery
Disposal (loss) gain		
Stock warrants issued liability	1,136,811	Gain on valuation of warrants issued liability
Repurchasing of warrants	(1,404,471)	Loss on valuation of repurchased warrants issued
Before due, guaranteed benefit of warrants	52,187	Gain on valuation of warrants issued
Operating securities — hedge	(283,265)	Loss on disposal of securities — hedge

Reporting of derivative financial instrument in the consolidated financial statements for the year ended December 31, 2008:

	Amount	Account
Valuation (loss) gain		
Stock warrants issued liability	$ 673,225	Gain on valuation of warrants issued liability
Repurchasing of warrants	(136,031)	Loss on valuation of repurchased warrants issued
Operating securities — hedge	(8,737)	Loss on valuation recovery
Disposal (loss) gain		
Stock warrants issued liability	2,368,831	Gain on valuation of warrants issued liability
Repurchasing of warrants	(2,806,198)	Loss on valuation of repurchased warrants issued
Before due, guaranteed benefit of warrants	286	Gain on valuation of warrants issued
Operating securities — hedge	(130,853)	Loss on disposal of securities — hedge

2) Futures and options

i) Contract amount and credit risk

	December 31											
	2006				2007				2008			
	Unsettled Contracts				Unsettled Contracts				Unsettled Contracts			
Financial Instrument	Buy/Sell		Contract or Notional Amount	Fair Value	Buy/Sell		Contract or Notional Amount	Fair Value	Buy/Sell		Contract or Notional Amount	Fair Value
TAIEX Options Contracts . . .	Buy	30	$ 279	$ 151	Buy	224	$ 1,865	$ 2,446	Buy	17	$ 51	$ 22
TAIEX Options Contracts . . .	Sell	230	(2,355)	(2,802)	Sell	65	(1,063)	(342)	Sell	560	(5,603)	(2,829)
NYMEX Options Contracts . . .	Sell	—	—	—	Sell	—	—	—	Sell	3	(432)	(611)
TAIEX Futures	Buy	18	27,648	28,368	Buy	—	—	—	Buy	—	—	—
TAIEX Futures	Sell	—	—	—	Sell	1	(5,130)	(5,147)	Sell	—	—	—
Mini-TAIEX Futures	Buy	7	2,650	2,758	Buy	—	—	—	Buy	—	—	—
Government Bonds Futures	Buy	—	—	—	Buy	—	—	—	Buy	2	466	466
Government Bonds Futures	Sell	—	—	—	Sell	19	(30,807)	(32,235)	Sell	14	(7,834)	(7,959)

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of SKSC's financial instrument contracts when due. SKSC had dealt with reputable futures brokers with good credit ratings and 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 contact is not significant.

ii) Market price risk

Market price risk of TAIEX futures and options refers to the risk of market rate changes. Market price risk of interest rate index futures refers to the interest rate changes in the open market. SKSC evaluates its unsettled futures and options contracts by using the price quoted by brokers. As of December 31, 2006, unrealized gain on futures contracts and options contracts amounted to $828 thousand and $575 thousand. As of December 31, 2007, unsettled unrealized gain on futures contracts and options contracts amounted to $1,445 thousand and $1,302 thousand. As of December 31, 2008, unsettled unrealized gain on futures contracts and loss on options contacts amounted to $145 thousand and $2,566 thousand, respectively.

iii) Liquidity risk, cash flow risk, future cash need and period uncertainty

SKSC has been engaged in futures and options transactions to hedge against price fluctuations on stock and bonds with operating capital; therefore, the risk of raising additional capital is not significant.

From the balance sheet date to February 6, 2008, the futures contracts of 14 units and options contracts of 558 units have been settled, resulting in loss on futures contracts of $340 thousand and gain on options contracts of $3,653 thousand, respectively. The futures contract of 2 units and 22 units option contracts were unsettled, resulting in loss on futures contracts of $27 thousand and gain on option contracts of $156 thousand.

iv) The category and purpose of the derivative financial instrument

SKSC has Taiwan stock index futures contracts, options contracts and interest rate index futures contracts held for non-trading purpose to hedge the risk from SKSC's marketable securities trading in the open market. SKSC invests in the derivative instruments which market price are in inverse relationship with the hedged items.

v) Reporting of derivative in the consolidated financial statements as of and for the years ended December 31, 2006, 2007 and 2008

	2006	2007	2008
Assets			
Deposits paid — self-own capital	$45,303	$48,841	$ 50,502
Options — nonhedging	151	2,446	22
Liabilities			
Options — futures	2,802	342	3,440
Trading Purposes			
(Loss) gain on futures contracts — realized and nonhedging	(1,616)	(3,924)	15,860
Gain (loss) on futures contracts — unrealized and nonhedging	828	(1,445)	(145)
Gain (loss) on options contracts — realized and nonhedging	15,153	2,892	(23,826)
Loss (gain) on options contracts — unrealized and nonhedging	(575)	1,302	2,566
Nontrading purposes			
Loss on options contracts — realized and hedging	(360)	—	—

As of December 31, 2006, 2007 and 2008, the guarantee deposits for futures contracts amounted to $45,303 thousand, $48,841 thousand and $50,502 thousand, respectively; the long options amounted to $151 thousand $2,446 thousand and $22 thousand, respectively; and the short options amounted to $2,802 thousand, $342 thousand and $3,440 thousand, respectively.

For the years ended December 31, 2006, 2007 and 2008, SKSC incurred gains (losses) of $(788) thousand, $(5,369) thousand and $15,715 thousand for TAIEX futures contracts; (losses) gains of $14,218 thousand, $4,194 thousand and $(21,260) thousand for TAIEX options contracts.

3) Convertible corporate bond asset swap contracts

i) Objective and strategies

SKSC enters into convertible corporate bond asset swap contracts in a dealing capacity, i.e., it provides them to clients to enhance the liquidity of the convertible corporate bonds as well as minimize the risk of the residual position from underwriting.

ii) The nominal, fair value and credit risk of asset swap IRS contact and asset swap options are as follows:

	2006			2007			2008		
Financial Instrument	**Nominal Amount**	**Fair Value**	**Credit Risk**	**Nominal Amount**	**Fair Value**	**Credit Risk**	**Nominal Amount**	**Fair Value**	**Credit Risk**
Asset swap IRS contracts	$ —	$ —	$ —	$ —	$ —	$ —	$ 50,000	$ (1,884)	$ —
Asset swap options	—	—	—	181,200	(18,441)	—	692,100	65,230	65,230

All the counter-parties of Asset swap IRS contact and Asset swap options were domestic companies as of December 31, 2008.

SKSC reviews each counter-party’s assets, profitability, capital structure and industrial prospect to determine the client’s credit standing. The transactions are then made within each credit limit. Thus, the credit risk is insignificant.

iii) Market risk

The interest rate risk from asset swap contracts and the exposure of the other interest rate-related assets are used to evaluate market risk. In addition, SKSC evaluates the theoretical price and exercise price of options periodically.

SKSC uses “equivalent amount of market risk” to measure the market risk of convertible corporate bond asset swap contracts. It is determined in the same way as calculating the Capital Adequacy Ratio as regulated by the authorities. Market risk equivalent amount represents the maximum loss SKSC may incur and SKSC uses equivalent amount of market risk as the upper limit of its derivative instruments trading.

	December 31	
	2007	2008
Equivalent amount	$12,748	$62,057

iv) Liquidity risk

Net interest, equal to the notional amount of the Asset swap IRS contracts multiplied by the difference in the interest rate bases received or paid upon each settlement date, is not material. The notional amounts are not exchanged on the final settlement date. Thus, the cash demand is not significant.

SKSC's working capital is assessed to be adequate to support the periodic payment of the specified interest on the asset swap transaction during the contract period. Hence, no significant funding risk is expected.

v) The loss on convertible corporate bond asset swap contracts was $55,946 thousand for the years ended December 31, 2008.

4) Structured-note contracts

i) Objectives

SKSC issued structured-note contracts for trading purposes.

Structured-note contracts consist of equity-linked notes (ELN) contracts, principal guaranteed notes (PGN) contracts and credit-linked notes (CLN) contracts. These contracts have two components: Fixed-income instrument transactions and option transactions. SKSC sells fixed-income instruments to the counter-parties and buys or sells related securities options.

SKSC sets up hedge accounts for structured-note contract transactions.

ii) Nominal amount, fair value and credit risk are as follows:

	December 31								
	2006			2007			2008		
Financial Instruments	Nominal or Premium	Fair Value	Credit Risk	Nominal or Premium	Fair Value	Credit Risk	Nominal or Premium	Fair Value	Credit Risk
PGN Contract									
Fixed-income instrument transactions	$ —	$ —	$ —	$601,000	$(603,035)	$ —	$269,101	$(272,211)	$ —

All the counter-parties of structured-note contracts were domestic companies as of December 31, 2007 and 2008.

SKSC reviews each counter-party's assets, profitability, capital structure and industrial prospect to determine their credit standing. The transactions are then made within each client's credit limit. Thus, the credit risk is insignificant.

iii) Market risk

SKSC uses “equivalent amount of market risk” to measure the market risk of structured-note contracts. It is determined in the same way as calculating the Capital Adequacy Ratio as regulated by the authorities. Market risk equivalent amount represents the maximum losses SKSC may incur and SKSC uses equivalent amount of market risk as the upper limit of its derivative instruments trading.

	December 31	
	2007	2008
Equivalent amount		
ELN and PGN	$6,482	$1,700

iv) Liquidity risk

The amount received from counter-parties for structured-notes transactions is used in investing fixed-income instruments and linked securities, and SKSC will repay the principal and the fixed income to the counter-parties on contract maturity. Thus, no significant cash demand is expected.

5) Information of reclassifications is shown as follows:

On July 1, 2008, SKSC reclassified its financial assets in accordance with the newly amended SFAS No. 34, “Financial Instruments: Recognition and Measurement”. The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Operating securities — brokering	$366,800	$ —
Operating securities — under writing	122,935	—
Available-for-sale financial assets	—	489,735
	$489,735	$489,735

In view of SKSC’s intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world’s financial markets that has occurred during 2008, SKSC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$399,849	$399,849

The changes in fair value of the reclassified financial assets recognized in income statement or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Financial assets held for trading	$(52,692)	$(37,194)	$ —	$ —
Available-for-sale financial assets — current	—	—	—	(89,886)

The changes in fair value recognized in income statement or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Amount Recorded		Pro Forma Information Assuming No Reclassification
	Investment (Loss) Income Recognized	Stockholders' Equity Adjustment	Investment (Loss) Income Recognized
Available-for-sale financial assets — current	$ —	$(89,886)	$(89,886)

6) Other disclosures

According to Futures Trading Act and other relevant acts, the standard of financial ratios are listed as follows:

		Regulations Governing Futures Commission Merchants							
		December 31, 2006		December 31, 2007		December 31, 2008			
Article	Formula	Calculation	Ratios	Calculation	Ratios	Calculation	Ratios	Standard	Remarks
17	Shareholder' equity	404,038	95.90	587,440	167.31	588,535	44.19	≥ 1	Conforming to relevant act
	(Total liabilities-futures traders' equity-reserve for trading losses-reserve for breach of contract losses)	4,213		3,511		13,319			
17	Current assets	396,474	94.11	499,053	9.40	586,193	4.14	≥ 1	”
	Current liabilities	4,213		53,074		141,737			
22	Shareholder' equity	404,038	101.01%	587,440	99.57%	588,535	99.75%	≥60%	”
	Minimum paid-in capital	400,000		590,000		590,000		≥40%	
22	Adjusted net capital	393,513	4,684.68%	576,246	7,312.77%	578,910	5,950.35%	≥20%	”
	Total amount of customer margins required for the open positions of futures traders	8,400		7,880		9,729		≥15%	

The characteristic risk of futures commission merchants

Futures transactions have a financial leverage character that low guarantee deposits are required. SKSC's risk of proprietary futures trading is the market price risk of targets. SKSC had set up a loss-stop point and the losses can be controlled within an expected range.

m. Financial risk information of SKITC

1) Market risk

SKITC's transactions of foreign exchange instruments are for trading purpose. Thus, such instruments are measured at balance sheet date using the market rate. As the market interest rate increase 1%, the market price of financial assets will decrease $4,425,743 and $4,499,010, respectively.

2) Credit risk

Credit risk represents the potential loss that would be incurred by SKITC if the counter-parties or third-parties breached contracts. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes its exposure to default by those parties is low.

3) Liquidity risk

SKITC has sufficient working capital to settle derivative contracts and cash flows are not expected to fluctuate significantly due to changes in market exchange rates.

n. MLSC's financial risk information

1) Market risk

i) MLSC's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change.

ii) MLSC's equity securities investments were carried at fair value. Therefore, MLSC was exposed to the market price risk of the change of the equity securities.

iii) According to Delta risk hedge operating approach, MLSC bought certain securities upon issuing warrants to avoid market price risk.

According to Delta value, MLSC will sell or buy securities dynamically. According to Vega risk hedge operating approach, MLSC bought the same securities as the warrants to oppose the risk of issuing securities as the warrants.

iv) MLSC made futures and option contracts, and the main risk was market price risk, which the market price of futures and option were influenced by investments. MLSC had set up a loss-stop point and standard of Greek to control the loss when the market price is opposite to investments. Under the Ministry of Finance's Approval Documents (87) Tai-Tsai-Zheng No. 01761, Securities and Futures Bureau allowed the securities which have proprietary trading department and underwriter department for having a futures hedge as requirement. The total market price of spot must not exceed the total market price of unsettled futures contracts, and must not exceed 20% of net value. Consequently, market price risk is not significant.

v) MLSC made convertible bond swap, and purchased option on transaction date. The market risk could be controlled as the option risk of buyer is limited. Otherwise, MLSC had option of selling convertible bond swap, but held convertible bond swap for premium to hedge; consequently, market risk is not significant.

vi) MLSC made structured-note contracts, and the amount received from investors on transaction date is invested in the linked products and fixed income products which have been approved by Securities and Futures Bureau. In addition, MLSC have a hedge for derivatives, and had set up a loss-stop point and the losses can be controlled within an expected range; consequently, market risk is not significant.

vii) MLSC made interest rate swap contracts, and the main risk is the change of contracts and option value by the exchange of market rate. In addition, MLSC had a hedge for contracts and options, and had set up a loss-stop point and the losses can be controlled within an expected range.

2) Credit risk

i) The main potential credit risk of MLSC results from cash and cash equivalent, financial assets at fair value through profit or loss, accounts receivable and accounts receivable from client position. MLSC deposits cash in different banks to control risk exposure to each bank. Debt security investments at fair value through profit or loss are composed of high credit rating listed corporate bonds. Besides, MLSC measured the credit of the counterparty before and after transaction periodically. MLSC will put the credit cap on different investment targets and counterparties to control credit risk, therefore, there's no material concern about credit risk highly condensed.

ii) MLSC received amount when it issued stock warrants; therefore, credit risk is not significant.

iii) MLSC has been engaged in futures and options transactions, and the transactions are with futures brokers and financial institutions, whose credit are excellent; therefore, credit risk is not significant.

iv) The main risk that MLSC engaged in convertible bond transactions comes from the counterparties who won't perform the presented terms at maturity. MLSC measured the credit of the counterparties before each transaction and set the limit based on the result, and evaluated periodically. Therefore, there's no material concern about the credit risk.

v) MLSC made structured — note contracts, and the amount received from investors on transaction date; therefore, credit risk is not significant.

3) Liquidity risk

i) MLSC's capital and working capital are sufficient to perform all the contracts. There's no liquidity risk MLSC can't raise capital to meet the engagements.

ii) MLSC can perform its own unsettled or unperformed futures and option contracts at a reasonable market price, therefore, risk of nondisposal is quite low.

iii) The main liquidity risk of warrants is the cash flow risk when the holders perform the warrants. MLSC has the choice to settle the warrants by cash or securities, and it has sufficient working capital that there's no material risk concern.

iv) MLSC will receive or pay the gap between the nominals multiplied by the interest rate which was set at contract date and maturity date. The amount of interest rate swap contracts is not material and there's no cash inflow or outflow of principal at maturity, so, there's no additional material cash request.

v) MLSC engaged in asset swap transactions that it paid contracted periodic interest to obtain an option during the transaction contract. MLSC has sufficient working capital that there's no material risk.

vi) MLSC engaged in structured instrument vehicles that it received premium at the contract date. This account is separate from its own assets and made by contracts, including the ratio to invest in the fixed-income instrument. Therefore, there's no additional material cash requirement when the contracts are at maturity.

4) Cash flow risk from interest rate fluctuations

MLSC's short-term debt and long-term debt are floating rate liabilities. The effective rate of short-term debt and long-term debt is changed by market rate. Therefore, the cash flow in the future is also affected.

o. MLSC made derivatives and other transactions in 2006, 2007 and 2008 as follows:

1) MLSC made derivatives at December 31, 2006, 2007 and 2008 as follows:

	December 31					
	2006		2007		2008	
	Carrying Value	Nominal Value	Carrying Value	Nominal Value	Carrying Value	Nominal Value
Derivatives assets						
TAIEX futures	$563,881	$ 563,289	$ —	$ —	$ 92,178	$ 90,200
Long option — futures	1,613	—	169	310	5,127	3,892
Interest rate swap contracts	100,257	20,450,000	—	—	—	—
Asset swap options	283,500	225,000	14,822	285,000	—	130,000
Bond options	4,745	11,600,000	2,058	4,600,000	104	900,000
Long option — others	—	—	—	—	7,225	—
Structured — note contracts	731	631	—	—	—	—
Derivatives liabilities						
TAIEX futures	—	—	295,208	277,833	80,045	80,212
Short option — futures	1,151	996	2,777	2,722	10,003	8,268
Interest rate swap contracts	6,011	600,000	2,363	44,050,000	13,308	40,250,000
Forward bond contracts	29,794	4,650,000	—	—	—	—
Currency swap contract	149	US$ 8,760,000	—	—	—	—
Asset swap options	464,754	389,900	130,419	649,400	27,707	556,500
Bond options	3,044	7,700,000	1,028	2,100,000	102	900,000
Equity options	347	20,000	—	—	—	—
Structured — note contracts	828	218,000	183	130,000	—	—
Financial liabilities at fair value through profit or loss — noncurrent.	—	—	—	—	307,495	—

Derivative assets are recorded as "Financial assets at fair value through profits or loss"; derivative liabilities are recorded as "Financial liabilities at fair value through profits or loss".

2) As of December 31, 2006, 2007 and 2008, the guarantee deposits for futures contracts amounted to $11,352 thousand, $750,948 thousand and $568,649 thousand, respectively. And the unsettled contract of futures and options contracts are as follows:

	December 31, 2006			
	Unsettled Contracts			
Financial Instrument	Buy/Sell		Contract or Notional Amount	Fair Value
Electronics futures	Buy	21	$ 27,637	$ 27,913
Financial futures	Buy	25	26,920	26,920
TAIEX futures	Buy	323	508,732	509,048
Single Target options	Buy	12	71	38
Financial index options	Buy	10	18	8
Electronics index options	Sell	30	(696)	1,085
TAIEX options contracts	Sell	180	(300)	66
TAIEX options contracts	Buy	370	1,486	1,481
TAIEX options contracts	Buy	100	38	38

	December 31, 2007			
	Unsettled Contracts			
Financial Instrument	Buy/Sell	Number of Contracts	Contract or Notional Amount	Fair Value
TAIEX futures	Sell	174	$(277,833)	$295,208
TAIEX options contracts	Buy	20	269	107
Buy		10	41	62
TAIEX options contracts	Sell	384	(2,722)	2,777

	December 31, 2008			
	Unsettled Contracts			
Financial Instrument	Buy/Sell	Number of Contracts	Contract or Notional Amount	Fair Value
TAIEX futures	Sell	88	$ 80,212	$ 80,045
TE futures contract	Buy	11	7,590	7,619
TF options contract	Buy	15	8,956	8,946
TAIEX futures	Buy	119	72,637	74,587
Smaller TAIEX futures	Buy	2	456	455
XI futures contract	Buy	1	561	571
TAIEX options contracts	Buy	2,190	2,695	4,109
TAIEX options contracts	Buy	778	1,143	944
TAIEX options contracts	Sell	2,659	(6,518)	8,453
TAIEX options contracts	Sell	296	(1,627)	1,427
TE futures contract	Sell	1	(5)	3
GT futures contract	Buy	10	—	—
XI futures contract	Sell	10	(46)	40
Foreign TE futures contract	Buy	10	54	74
			US$ (1,620)	US$ (2,240)
Foreign TE futures contract	Sell	10	(72)	98
			US$ (2,180)	US$ (2,990)

3) Gain (loss) on futures and options contracts, which are recorded as "gain (loss) of derivative-futures" are as follows:

	2006	2007	2008
Loss on futures contracts			
Gain on futures contracts — realized	$ 456,830	$ 698,490	$ 917,435
Gain on futures contracts — unrealized	—	—	19,520
	456,830	698,490	936,955
Loss on futures contracts — realized	(417,801)	(599,722)	(919,193)
Loss on futures contracts — unrealized	(437)	(17,968)	—
	(418,238)	(617,690)	(919,193)
	$ 38,592	$ 80,800	$ 17,762
Loss on options contracts			
Gain on options — realized	$ 300,914	$ 128,832	$ 254,881
Gain on options — unrealized	—	33	—
	300,914	128,865	254,881
Loss on options — realized	(315,416)	(155,395)	(191,648)
Loss on options — unrealized	(4,500)	(26)	(303)
	(319,916)	(155,421)	(191,951)
	$ (19,002)	$ (26,556)	$ 62,930

4) Gain (loss) on derivative financial assets — counter, which are made from interest rate swap contract, options asset swap, structured notes, forward bond contracts, and bond option by MLSC are as follows:

	2006	2007	2008
Gain on interest rate swap contracts	$ 97,536	$ 1,291	$ 69,010
Loss on interest rate swap contracts	(96,413)	(67,501)	(76,948)
	$ 1,123	$ (66,210)	$ (7,938)
Gain on asset swap — interest rate swap contracts	$ 9,277	$ —	$ —
Loss on asset swap — interest rate swap contracts	—	—	—
	$ 9,277	$ —	$ —
Gain on options — asset swap	$ 273,545	$ 323,881	$ 13,307
Loss on options — asset swap	(486,602)	(250,468)	(4,995)
	$(213,057)	$ 73,413	$ 8,312
Gain on structured notes	$ 12,167	$ 2,343	$ —
Loss on structured notes	(16,160)	(6,602)	(5,827)
	$ (3,993)	$ (4,259)	$ (5,827)
Gain on forward bond contracts	$ —	$ 18,545	$ —
Loss on bond options	(29,794)	—	—
	$ (29,794)	$ 18,545	$ —
Gain on bond options	$ 289,410	$ 177,364	$ 162,584
Loss on bond options	(280,591)	(194,230)	(168,292)
	$ 8,819	$ (16,866)	$ (5,708)
Gain on equity derivatives	$ 126	$ 2,383	$ —
Loss on equity derivatives	—	(283)	—
	$ 126	$ 2,100	$ —
Gain on selling options — others	$ —	$ —	$ 221,203
Loss on selling options — others	—	—	(10,755)
	$ —	$ —	$ 210,448

5) Information on MLSC Reclassification of financial assets:

i) The amount and reasons for reclassified financial assets

	2008		
	Categories After Reclassification		
	Available-for-sale Assets	Held-to-maturity Financial Assets	Debt Securities Without Active Market
Before Reclassification			
Financial assets held for trading	$801,245	$ —	$ —

Based on the guidance issued by the IASB, Futures Bureau of the Financial Supervisory Commission, and Accounting Research and Development Foundation, the recent turmoil in the global and domestic financial markets is an example of the 'rare circumstances' required by SFAS No. 34 before reclassification could be made. As such, MLSC has reclassified certain held for trading stocks investments as available-for-sale financial assets.

ii) The carrying amount and fair value of available-for-sale financial assets

	December 31, 2008	
	Carrying Amount	Fair Value
Available-for-sale financial assets — current	$368,204	$368,204
Available-for-sale financial assets — noncurrent	415,714	415,714
	$783,918	$783,918

iii) For the financial assets reclassified during the year ended December 31, 2008, the movements in fair value recognized in stockholders' equity for those assets are $317,664 thousand for the year ended December 31, 2008.

iv) The amount of reclassified financial assets before and after reclassification.

	Financial Assets Originally Classified as Held For Trading Before Reclassification	
	Amounts Recognized in Profit or Loss Before Reclassification	Amount Recognized in Profit or Loss After Reclassification (Note)
For the year ended December 2008	$(317,664)	$ —

Note: The amounts recognized in profit and loss after reclassification include interest expense and impairment loss.

v) The effective interest rate for the financial assets reclassified on the reclassification date was 4.05% and 4.61%, respectively. The expected recoverable cash flow amounted to $300,000 thousand and $301,000 thousand.

6) According to Futures Trading Act and other relevant acts, the standards of financial ratios are listed as follows:

i) MLSC's Futures Proprietary Trading Business

		Regulations Governing Futures Commission Merchants							
		December 31, 2006		December 31, 2007		December 31, 2008			
Article	Formula	Calculation	Ratios	Calculation	Ratios	Calculation	Ratios	Standard	Remarks
17	Shareholder' equity	828,679	356.11	819,277	236.44	847,588	72.69	≥ 1	Conforming to relevant act
	(Total liabilities - futures traders' equity-reserve for trading losses-reserve for breach of contract losses)	2,327		3,465		11,661			
17	Current assets	821,642	353.09	811,505	234.20	848,463	72.76	≥ 1	"
	Current liabilities	2,327		3,465		11,661			
22	Shareholder' equity	828,679	207.17%	819,277	204.82%	847,588	211.90%	≥60%	"
	Minimum paid-in capital	400,000		400,000		400,000		≥40%	
22	Adjusted net capital	757,153	2,351.92%	753,860	6,889.60%	826,490	3,093.04%	≥20%	"
	Total amount of customer margins required for the open positions of futures traders	32,193		7,880		26,721		≥15%	

7) The characteristic risk of futures commission merchants

Futures dealing department of MLSC has a high financial leverage risk in engaging in futures contract transactions and TAIEX option transactions. The maximum loss of longing futures options is the premium paid, so market price risk is not material. The market price risk is price change of TAIEX in short position. MLSC has established risk control mechanism and sets up a stop-loss point to monitor the carrying position and price variation. When the market price fluctuates substantially, MLSC will long options or TAIEX to manage the market price risk and control probable loss in the expected range.

50. RISK MANAGEMENT AND HEDGE STRATEGIES

Risk Management Mechanism

Finance-related business is the Group's main business, so its risk management and hedge strategies should adhere to the relevant regulations and acts. To meet the authorities' requirements, the Group adopted the overall risk management system to identify, measure, monitor and control the market risk, credit risk (including risk of concentration), liquidity risk and other risks.

The Group established the position of chief risk-management officer to execute the Group's risk management policy and integrate the Group's risk management resources to increase the efficiency. The chief risk-management officer prepares a management report to the board of directors periodically to enable them to make clear the Group's circumstances of risk management.

The Group has its risk-management committee and convenes meetings quarterly to understand the assessment made by its subsidiaries, as well as the report of modified acts and current news made by the risk-management department. The committee makes its consensus and policy for the exposure of subsidiaries, and the risk-management department will transact it.

The risk-management department of the Company is in charge of the Group's risk control and executes varied risk management mechanism. Risk-management department is also the executive organization to implement the risk-management committee's consensus and policy.

The Group firmly believes that the key factor of building risk-management culture and popularizing risk-management system is from the support of administration. Therefore, the risk-management committee is composed of high-level managers of subsidiaries to make the risk exposures known by the high-level administration.

Hedge Strategies

The Group's main business is finance-related business, so the investing targets held by the Group are under the regulation of authorities concerned. As a result, the Group makes its hedge strategies with sustaining appropriate liquidity in consideration of relevant acts, economic circumstances, competitive conditions and market prices.

The Group's hedge activities are mainly for the avoidance of market risk and cash flow risk, and the main risk factors are interest rate and currency fluctuations.

To hedge interest rate risk, a great part of the Group's financial instruments are fixed-interest-rate instruments. The Group also transferred the transaction linking to monetary market to that with fixed rate. Interest rate swap contracts are the prime hedging instruments against interest rate fluctuations. In addition, cross currency swaps, swap options, interest rate caps and floors, and other derivatives may be used by the Group as hedging instruments.

51. NOTES TO FINANCIAL STATEMENTS OF RELATED COMPANIES ARE DISCLOSED AS REQUIRED BY THE CONSOLIDATED REPORT ON OPERATIONS AND THE STANDARDS GOVERNING THE COMPILATION OF THE REPORT ON AFFILIATION AND OF THE CONSOLIDATED FINANCIAL STATEMENTS OF RELATED CORPORATIONS

a. Summary of subsidiaries: Please refer to Note 1.

b. Changes in the subsidiaries in the consolidated financial statements in this period: Please refer to Note 1.

c. Subsidiaries excluded from the consolidated financial statement of this period: None.

d. Adjustments for and provisions dealing with different accounting fiscal year between the subsidiary and the controlling company: None.

e. Adjustments for and provisions dealing with different accounting policies between the subsidiary and the controlling company: None.

f. Particular risks for the operation of foreign subsidiaries: None.

g. Legal or contractual limitations imposed on the distribution of retained earnings of various affiliates:

1) SKLIC

Based on the Company Law of ROC and the Articles of Incorporation of SKLIC, SKLIC's annual earnings, net of tax and any deficit, should be appropriated in the following order:

(i) 10% as legal reserve and, if required, a special reserve based on relevant regulations;

(ii) Annual dividends to SKLIC's Classes A and B preferred stockholders;

(iii) 1% as bonuses to employees.

The Board of Directors prepares an earnings distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of stockholders for approval.

Further, based on a ruling issued by the Department of Insurance of the Ministry of Finance (ref. No. [91] Tai-Tsai-Bao No. 0910074195), any revenue arising from the contingent claim reserves in excess of 30% of the current year's retained premium should not be distributed as dividends or be used for any other purposes, unless there is prior approval by the authorities concerned. The restricted amount should be appropriated as special reserve according to the resolution of the stockholders in the following year.

2) SKSC

Based on the Company Law and the Articles of Incorporation of SKSC, 10% of SKSC's annual earnings, net of tax and any deficit, should be appropriated as legal reserve and 20% as special reserve until the legal reserve equals paid-in capital. From any remaining balance, at least 1% should be appropriated as employee bonuses. The board of directors will prepare a plan on the distribution of the remaining distributable earnings and submit the plan to the stockholders for their approval at their regular annual meeting.

3) TSKCB

The TSKCB's Articles of Incorporation provide that the Bank's annual earnings shall be appropriated in the following order:

(i) Payment of taxes;

(ii) offset accumulated deficit, if any;

(iii) 30% thereafter, if any, as legal reserve;

(iv) Special reserve to be distributed after deliberation;

(v) The remainder plus the beginning balance of unappropriated earnings is to be distributed 1% as bonuses to employees and 99% as dividend to the shareholder.

The appropriation of item (v) will be proposed and approved by the Board of Directors. However, the Board of Directors may consider the Bank's actual condition and decide not to distribute any or part of earnings.

According to the ROC Banking Law, the maximum cash dividends may not exceed 15% of the amount of capital until such reserve equals the amount of capital. Cash or assets distribution should be restricted if the capital adequacy ratio doesn't reach the authority's requirement.

4) MLSC

Based on the Articles of Incorporation of MLSC, 10% of MLSC's annual earnings, net of tax and any deficit, should be appropriated as legal reserve, and other reserve to be distributed after deliberation. From any remaining balance, 3% should be appropriated as employee bonuses. The board of directors will prepare a plan on the distribution of the remaining distributable earnings in the following order:

(i) Special reserve;

(ii) 3% of MLSC's annual earnings, net of tax should be appropriated as board and supervisor bonuses;

(iii) dividend to the shareholder;

(iv) Retained earnings.

The employee bonuses should be appropriated by the board of directors. The target of stock dividend includes the employee of the subsidiaries who conformed to certain conditions.

h. Amortization Method and Period of Consolidated Debits (Credits): None

i. Individual disclosure items (total assets of subsidiary/operating income exceeding 10% of those of the parent company)

1) Eliminated transactions: Please see Table 10.

2) Capital financing: Not applicable.

3) Endorsement/guarantee: None.

4) Derivative financial instruments: Note 49.

5) Major contingent events: None.

6) Major subsequent events: None.

7) Holding of securities and marketable securities.

Holding Company	Type / Name	Quantity	Cost	Market Price/ Net Worth	Ownership Interest	Collateral	Highest Number of Shares Held During the Period
	(In Thousands of New Taiwan Dollars, Except for Number of Shares)						
Shin Kong Holding Co., Ltd.	Common stock:						
	SKLIC	4,183,242	60,016,410	24,679,410	100.00	Collateral 208,800 thousand shares	
	SKSC.	416,300	4,841,721	4,625,716	100.00		
	TSKIBC	600	6,000	78,481	100.00		
	SKITC	40,000	2,075,862	1,520,244	100.00		
	TSKCB	1,957,767	27,278,880	20,604,889	100.00		
	MLSC	353,300	4,882,441	4,193,797	26.13		
	Preferred stock:						
	SKLIC	470,000	4,700,000	4,700,000	73.97		

Note: The subsidiaries are in the insurance and securities business only; thus, no additional disclosure on industry type is required.

j. Others: None.

TABLE 1

TSKCB'S INFORMATION ON NPL DISPOSAL TRANSACTION:

a. Summary table of NPL disposal:

Year Ended December 31, 2008

Trade Date	Name Of Transaction Party	Debt Component (Note 1)	Book Value (Note 2)	Selling Price	Gain (Loss) (Note 3)	Additional Term (Note 4)	Relationship (Note 5)
			Unit: In Thousands of New Taiwan Dollars				
2008.01.25	SKCC	Credit card receivable	—	$98,080	$23,663	None	Investments in equity securities

Note 1: The creditor's rights composition content, please explain the concrete creditor's rights type, like the creditor's rights and so on "Credit card", "Cash card" , "Residential mortgage loan" and "Accounts receivable.

Note 2: The book value is the primitive creditor's rights amount less allowance for doubtful accounts.

Note 3: Disposal of NPL to subsidiaries, the cash received is classified as advance receipts or recognized as income according to the subsidiaries' collection progress.

Note 4: Disclosure of the supplementary agreement content, e.g. the profit sharing condition, repurchase and resale agreements etc, if applicable.

Note 5: Types of related party in accordance with SFAS No. 6 and disclosure of the determination basis for related party in substance.

b. Disposal of one single batch of NPL up to $1,000,000 thousand (excluding sales to related parties) and information on each transaction: None.

TABLE 2

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2008

Holding Company	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units (in Thousands)	Amount	Shares/Units (in Thousands)	Amount	Shares/Units (in Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares/Units (in Thousands)	Amount
							(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
	Listed securities													
TSKCB	Private placement of common stock Cosmos Bank	Available-for-sale financial assets	SKLIC	Subsidiary of SKFHC	517,571	$1,035,142	—	$—	250,000	500,000	$500,000	$—	88,106 (Note 1)	$166,629 (Note 2)

Note 1: Cosmos Bank finished capital reduction for the nine months ended September 30, 2008. The number of shares held at year end was 88,106 thousand shares which was calculated by the percentage of capital reduction.

Note 2: Holding cost $535,142 thousand minus valuation allowances $368,513 thousand.

TABLE 3

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST OVER $300 MILLION OR 10% OF ISSUED CAPITAL STOCK
YEAR ENDED DECEMBER 31, 2008

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

						The Prior Transaction Information (If the Transaction Party Is Related Party)						
Buyer	Property Name	Transaction Date	Transaction Amount	Payment	Transaction Party	Other	Relationship	Taiwan Date	Amount	Pricing Reference	Acquisition Purpose	Other Agreement
SKLIC	No. 115 120 Wunde Section 5, Neihu District, Taipei City (Rueihu Building)	2007.07.11	$1,638,255	Paid $1,636,994 (Note 2)	Individual	—	—	—	$ —	Appraiser's report	Plan for rent	None
	5F, NO.87 Songjiang Rd., Zhongshan District, Taipei City (Empire Building)	2008.03.14	225,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	9F, NO.80, Sec. 1, Jianguo N. Rd., Zhongshan District, Taipei City (Mobil Petroleum Co. Inc. Trade Building)	2008.03.14	130,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	3F~5F, NO.80, Sec. 1, Jianguo N. Rd., Zhongshan District, Taipei City (Mobil Petroleum Co. Inc. Trade Building)	2008.03.14	396,000	Paid $118,800	Relationship	Meifu Property Development Co., Ltd., Chang, Fong-Ming	None	1997.03.21 and 2000.12.11	396,050	Appraiser's report	Rent	None
	No. 218, Chongyang Rd., Nangang District, Taipei City (Nangang Century Plaza)	2008.06.25	102,500	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.58, Zhouzi St., Neihu District, Taipei City (Asec Technology Building)	2008.07.14	1,300,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.669, Ruiguang Rd., Neihu District, Taipei City (Primax Electronics Building)	2008.12.12	2,000,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.296, Yangguang St., Neihu District, Taipei City (First International Computer Building)	2008.12.16	3,033,000	Paid off	Individual					Appraiser's report	Rent	None

Note 1: The transaction amount exclude intermediary fee and rule fee, etc.
Note 2: The trading was paid $1,348,000 thousand on the year of 2007.

TABLE 4

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
DISPOSAL OF INDIVIDUAL REAL ESTATE AT COST OVER $300 MILLION OR 10% OF ISSUED CAPITAL STOCK
YEAR ENDED DECEMBER 31, 2008

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

Disposing Company	Type of Asset	Transaction Date	Acquisition Date	Book Value	Transaction Amount	Collection	Disposal Gain (Loss)	Counter Parties	Relationship	Purpose for Disposal	Price Reference	Other Undertaking
TSKCB	Land, building and structures	2008.01.16	2005.08.29	985,137	1,220,000	Received	234,863	Cheng-Jiou Investment Corporation	None	Enhance the turnover of property	Appraiser's report	None
	Collaterals assumed	2008.05.07	2004.12.24	369,681	310,000	Received	(59,681)	Chen, Ming-Han	None	Laws and regulations	Appraiser's report	None
SKLIC	No. 219-1, Ruian Section 1, Da-an District, Taipei City (Total 11 lands)	2008.07.25	2006.03.02	$3,409,980	$4,800,000	Received	$1,382,638	Lin, Min-Syong and Tsai, Jien-Yi	None	Improve the benefit of assets' application	Appraiser's report	None
	No. 220-2, Ruian Section 1, Da-an District, Taipei City (Total 23 lands)	2008.07.30	2006.03.02	3,515,825	5,340,330	Received	1,823,423	Lin, Min-Syong and Tsai, Jien-Yi	None	Improve the benefit of assets' application	Appraiser's report	None

Note: Disposal gain (loss) is net of transaction costs and unrealized gain on sale and leaseback.

TABLE 5

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
INFORMATION REGARDING INVESTEE COMPANIES
YEAR ENDED DECEMBER 31, 2008

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

							Number of Shares Held by the Company and Related Parties (Note 1)				
Investor Company	Name of Investee (Note 1)	Location	Principal Business Activity	Ownership Interest (%), End of Period	Carrying Value, End of Period	Investment Gain (Loss)	Number of Shares (Note 2)	Potential Number of Shares	Number of Shares	Ownership Interest (%)	Remarks
SKFHC	SKLIC	F-31, No. 66, Sec. 1, Chung Hsiao West Road, Taipei	Insurance	100.00	$24,679,410	$(19,843,956)	4,183,242	—	4,183,242	100.00	Note 3
	SKSIC	F-4, No. 456, Sec. 4, Sin Yi Road, Taipei	Security	100.00	4,625,716	(382,932)	416,300	—	416,300	100.00	Note 3
	TSKIBC	F-21, No. 66, Sec. 1, Chung Hsiao West Road, Taipei	Insurance brokerage	100.00	78,481	50,315	600	—	600	100.00	Note 3
	TSKCB	F-27, No. 66, Sec. 1, Chung Hsiao West Road, Taipei	Banking	100.00	20,604,889	220,440	1,957,767	—	1,957,767	100.00	Note 3
	SKITC	F-12, No. 123, Sec. 2, Nan Chin East Road, Taipei	Entrusted investments	100.00	1,520,244	(2,345)	40,000	—	40,000	100.00	Note 3
	MLSC	F-11, No. 97, Sec. 2, Dunhua South Road, Taipei	Security	26.13	4,193,797	(459,274)	353,300	—	353,300	26.13	Note 3

Note 1: All the owned shares and potential shares of investee company held by the Company, director, supervisors, general manager, vice general manager, and its related parties defined under the R.O.C. Company Law shall be included.

Note 2:

(a) The potential shares are those shares obtained through a transfer, on the assumption of share transfer, from equity securities purchased or derivative instrument contracts signed linked to investee company's equity based on agreed transaction terms and undertaking intention, and for the purpose of investing in company under the provisions of Article 36, Item 2 and Article 37 of the R.O.C. Company Law.

(b) The equity securities mentioned above are referred to as those securities under the provision of Article 11, Item 1 of the bylaws to the R.O.C. Securities and Exchange Act, for example, convertible bond and warrant.

(c) The derivative instrument contracts mentioned above are specified as those derivative instruments defined by the R.O.C. SFAS No. 34, for example, stock option.

Note 3: The carrying amount and investment gain (loss) have been eliminated for the consolidation purpose.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
ALLOWANCE FOR HANDING EXPENSE WITH RELATED PARTY OVER $5 MILLION
YEAR ENDED DECEMBER 31, 2008

Related Party Name	Account	Amount (In Thousands of New Taiwan Dollars, Unless Specified Otherwise)	Note
SKLIC	Allowance for handling expenses for agency business	$85,490	

Note: The amount was eliminated in consolidation.

TABLE 7

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2008

Holding Company	Type of Marketable Securities and Name	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Period				Note
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)				
SKLRESC	Common shares — with quoted market prices							
	The Great Taipei Gas Corp.	Affiliate	Available-for-sale financial assets — current	3,080	$36,964	—	$36,964	
	Shin Kong Synthetic Fibers Corp.	Affiliate	”	6,739	30,325	—	30,325	
	Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate	”	2,355	38,146	—	38,146	
	Taishin Financial Holding Co., Ltd.	Affiliate	”	502	2,902	—	2,902	
	Beneficiary certificates							
	Skinkong NT$ High Yield Fund	Affiliate	Financial assets at fair value through profit or loss — current	1,496	25,661	—	25,661	
	SKIT Global Top Fund	Affiliate	”	2,753	19,960	—	19,960	
	Shin Kong Multiple	Affiliate	”	2,000	14,140	—	14,140	
	Common shares — without quoted market prices							
	Yie-Kong Security	Affiliate	Financial assets at cost — noncurrent	4,673	57,125	15	57,125	
	First International Telecom	None	”	20,673	—	5	—	
	Industrial Bank of Taiwan	None	”	5,000	50,000	—	50,000	
	Simple Telecommunications	Affiliate	”	300	1,899	2	1,899	
	Lian An Co., Ltd.	None	”	5	50	—	50	
	New Century InfoComm Tech	None	”	4,211	29,474	—	29,474	
	Great Taipei Broadband Co., Ltd.	None	”	10,000	59,000	7	59,000	
	PK II Venture Capital Group	None	”	3,000	30,000	4	30,000	
	Centillion Venture Capital Corp.	Affiliate	Investments accounted for by the equity method	5,000	49,314	5	49,314	
	NLIC	Affiliate	”	1,500	19,441	30	19,441	
NLIC	ProMOS Technologies Inc.							
	Shin-Kong Chi-Shin Fund	Affiliate	Financial assets at fair value through profit or loss — current	2,653	39,192	—	39,192	

TABLE 8

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
PUBLIC ANNOUNCEMENTS IN COMPLIANCE WITH ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT
DECEMBER 31, 2008

Name	Amount of Credit, Endorsement or Other Transactions	Percentage of the Holding Company's Net Worth
	(In Millions of New Taiwan Dollars, Unless Specified Otherwise)	
Public Bonds of Central Government	$194,900	438.24%
HSBC	16,543	37.20%
Chunghwa Telecom Co., Ltd.	11,065	24.88%
Taiwan Power Company	10,489	23.59%
Land Bank of Taiwan	10,096	22.70%
Deutsche Bank	8,806	19.80%
Taiwan Cooperative Bank	7,756	17.44%
Public Bonds of Taipei City	7,007	15.76%
Rsea Engineering Corp.	6,861	15.43%
Li, Min-Sying	6,660	14.98%
UBS AG Taiwan	6,500	14.62%
Capital Securities Investment Trust Co., Ltd.	5,973	13.43%
Fuh Hwa Securities Investment Trust Co., Ltd.	5,048	11.35%
ABN AMRO Taiwan	5,000	11.24%
Media Tek Inc.	4,127	9.28%
Taiwan Railway Administration	4,050	9.11%
Hon Hai Precision Ind. Co., Ltd.	3,852	8.66%
First International Telecom Co., Ltd.	3,033	6.82%
HTC Co., Ltd.	3,021	6.79%
Prudential Securities Investment Trust Co., Ltd.	2,952	6.64%
Pca Securities Investment Trust Co., Ltd.	2,746	6.17%
Total	326,487	734.12%
Cathay Financial Holding Co., Ltd. and Affiliate	20,666	46.47%
SKFHC and Affiliate	19,234	43.25%
First Financial Holding Co. and Affiliate	18,975	42.67%
Formosa Plastics Corporation and Affiliate	15,125	34.01%
Hua Nan Financial Holding Co., Ltd. and Affiliate	12,527	28.17%
Chinatrust Financial Holding Co. and Affiliate	8,860	19.92%
Mega Financial Holding Co., Ltd. and Affiliate	8,330	18.73%
Taishin Financial Holding Co., Ltd. and Affiliate	7,949	17.87%
China Development Financial Holding Co. and Affiliate	7,800	17.54%
Powerchip Semiconductor Corp. and Affiliate	7,739	17.40%
Fubon Financial Holding Co., Ltd. and Affiliate	6,978	15.69%
Polaris Securities Co., Ltd. and Affiliate	6,024	13.55%
Sinopac Financial Holding Co., Ltd. and Affiliate	6,024	13.55%
Durban Group and Affiliate	4,781	10.75%
Taiwan High Speed Rail Corp. and Affiliate	4,591	10.32%
China Steel Co., Ltd. and Affiliate	3,972	8.93%
AU Optronics Corp. and Affiliate	3,597	8.09%
MiTAC Inc. and Affiliate	3,197	7.19%
Yuanta Financial Holdings and Affiliate	3,030	6.81%
Total	169,399	380.90%

TABLE 9

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
INVESTMENTS IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2008

1. SKLIC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008
					Outflow	Inflow					
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
Shin-Kong Hainan Insurance Co., Ltd. (Note)	Insurance	$2,191,900 (RMB $500,000)	Invest China directly	—	$1,095,950	—	$1,095,950	50%	$(8,164)	$1,195,590	N/A

Accumulated Investment in Mainland China as of December 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 1,095,950	US$40,000	$16,842,827

Note: SKLIC was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in Mainland China in its letter in 2003. SKLIC obtained approval of the China Insurance Regulatory Commission (ref. No. (96) Bao-Jian-Guo-Ji No.1254), and SKLIC and HNA Group prepare to establish the Chinese and foreign joint venture life insurance company. SKLIC remittance of the investment fund amount of RMB 500 million was on June 6, 2008. As of the report date, Shin-Kong Hainan Insurance Co., Ltd. is still on preparatory status.

2. MLSC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008
					Outflow (US$ in Thousand)	Inflow					
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
MLSC (HK) Shanghai Representative (Note 1)	Consulting services industry report and research	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MLSC (HK) Shenzhen Representative (Note 2)	Consulting services industry report and research	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shanghai MasterLink Investment Advisory Corp.	Securities investment consulting and training services	US$500	(Note 3)	US$500	—	—	US$500	100%	US$ 3	US$626	—

Accumulated Investment in Mainland China as of December 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
US$ 500	US$ 500	NT$ 9,380,497

Note 1: MLSC Shanghai Representative Office was approved by China Securities Regulatory Commission on October 22, 1998 and registered on January 11, 1999.

Note 2: MLSC Shenzhen Representative Office was approved by China Securities Regulatory Commission on May, 2003 and registered on May 8, 2003.

Note 3: The investment was approved by the Investment Commission, MOEA (ref. No. (85) No 85020739) on December 30, 1996. MLSC established MasterLink Securities B.V.I.) — MasterLink Investment Advisory Corp. which was approved on May 30, 1997, and the main business was securities investment consulting and training services. MLSC was altered as Shanghai MasterLink Investment Advisory Corp. through MOEA on June 27, 1997, and it was approved by MOEA which increased its paid-in capital to US$500 thousand.

TABLE 10

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
SUMMARY OF INTERCOMPANY TRANSACTIONS

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5) Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
	Year Ended December 31, 2006						
2	SKLIC	TSKCB	3	Cash and cash equivalents	$3,936,703	Note 4	—
3	TSKCB	SKLIC	3	Deposits and remittances	3,936,703	”	—
0	SKFHC	SKLIC	1	Income tax payable for linked-tax	1,451,934	”	—
1	SKLIC	SKFHC	2	Income tax receivable for linked-tax	1,451,934	”	—
	Year Ended December 31, 2007						
0	SKFHC	TSKCB	1	Cash and cash equivalents	1,939,121	”	—
0	SKFHC	SKLIC	1	Gain on disposal of Investments	103,934	”	—
1	SKLIC	SKFHC	2	Investments accounted for by the equity method	103,934	”	—
1	SKLIC	TSKCB	3	Cash and cash equivalents	9,219,414	”	1
1	SKLIC	TSKCB	3	Rent of real estate investments	121,499	”	—
1	SKLIC	TSKCB	3	Financial assets at fair value through profit or loss	132,824	Note 4	—
1	SKLIC	TSKCB	3	Valuation loss on financial assets	132,824	”	—
2	TSKCB	SKFHC	1	Deposits and remittances	1,939,121		—
2	TSKCB	SKLIC	3	Deposits and remittances	9,219,414	”	1
2	TSKCB	SKLIC	3	Management expenses	121,499	”	—

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5) Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
2	TSKCB	SKLIC	3	Financial liabilities at fair value through profit or loss	132,824	”	—
2	TSKCB	SKLIC	3	Valuation gain on financial liabilities	132,824	”	—
2	TSKCB	SKSC	3	Deposits and remittances	479,492	”	—
3	SKSC	TSKCB	3	Cash and cash equivalents	526,506	”	—
	Year Ended December 31, 2008						
0	SKFHC	SKLIC	1	Income tax payable for linked-tax	$ 2,002,865	Note 4	—
0	SKFHC	TSKCB	1	Income tax payable for linked-tax	256,495	”	—
0	SKFHC	SKSC	1	Income tax receivable for linked-tax	282,441	”	—
1	SKLIC	SKFHC	2	Income tax receivable for linked-tax	2,002,865	”	—
1	SKLIC	TSKCB	3	Cash and cash equivalents	25,873,137	”	1
1	SKLIC	TSKCB	3	Financial assets at fair value through profit or loss	2,760,951	”	3
1	SKLIC	TSKCB	3	Valuation gain on financial assets	2,760,951	”	—
1	SKLIC	TSKCB	3	Rent Revenue	133,535	”	—
2	TSKCB	SKFHC	2	Income tax receivable for linked-tax	256,495	”	—
2	TSKCB	SKLIC	3	Deposits and remittances	25,873,137	”	1
2	TSKCB	SKLIC	3	Financial liabilities at fair value through profit or loss	2,760,951	”	—
2	TSKCB	SKLIC	3	Valuation loss on financial liabilities	2,760,951	Note 4	3

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5) Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
2	TSKCB	SKSC	3	Deposits and remittances	479,492	”	—
2	TSKCB	SKLIC	3	Rent Expense	133,535	”	—
3	SKSC	SKFHC	2	Income tax payable for linked-tax	282,441	”	—
3	SKSC	TSKCB	3	Cash and cash equivalents	479,492	”	—
4	MLSC	Master Link Futures Co., Ltd.	3	Deposits paid-self	568,649	”	—
5	Master Link Futures Co., Ltd.	MLSC	3	Futures traders’ equity	568,649	”	—

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:
For balance sheet accounts – transaction amount ÷ total consolidated assets
For income statement accounts – accumulated transaction amount ÷ total consolidated operating income.

Note 4: Terms and conditions of related party transactions are made on arm’s length basis.

Note 5: Minimum transaction amount of $100 million.

TABLE 11

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
DERIVATIVE INSTRUMENT
YEAR ENDED DECEMBER 31, 2008

Company	Nature of Contract	December 31, 2008 Contract Amount (Notional Principal)	December 31, 2008 Credit Risk	December 31, 2008 Fair Value
		(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)		
Shin Kong Finance (HK) Ltd.	Credit Default Swap Contracts	US$17,000	US$17,000	$341,771

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Shin Kong Financial Holding Co., Ltd. and subsidiaries

We have reviewed the accompanying consolidated balance sheets of Shin Kong Financial Holding Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") as of March 31, 2008 and 2009, and the related consolidated statements of income, and of cash flows for the three months then ended (all expressed in New Taiwan dollars). These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue our report on these financial statements based on our reviews. We did not review the financial statements of MasterLink Securities Co., which statements reflect total assets constituting 3.67% ($64,321,165 thousand) and 1.99% ($35,056,349 thousand) of the consolidated total assets as of March 31, 2008 and 2009, net income and gains constituting 3.78% ($668,073 thousand) and 1.83% ($739,247 thousand) of the consolidated total net income and gains, and net (loss) income constituting 0.30% ($(20,375) thousand) and (36.82%) ($183,384 thousand) of the consolidated net loss for the three months ended March 31, 2008 and 2009. Those statements were reviewed by other auditors whose report has been furnished to us, and our report, insofar as it relates to the amounts included for MasterLink Securities Co. is based solely on the report of such other auditors.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 — "Review of Financial Statements" of the Republic of China ("ROC"). A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews and the review report of other auditors, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, effective January 1, 2008, the Group adopted Statement of Financial Accounting Standards (SFAS) No. 39, "Share-based Payment" and Interpretation 96-052 "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation of the ROC.

As stated in Note 3, effective July 1, 2008, the Group adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our reviews also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

May 7, 2009

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
ASSETS			
Cash and cash equivalents (Notes 2 and 5)	$ 83,747,934	$ 71,321,935	$ 2,105,755
Due from Central Bank and other banks (Note 6)	43,353,021	63,080,175	1,862,420
Financial assets at fair value through profit or loss (Notes 2, 7, 41 and 42)	147,390,348	143,929,588	4,249,471
Bonds purchased under resale agreements (Notes 2, 8 and 41)	20,057,014	39,394,680	1,163,114
Accounts receivable (Notes 2, 9 and 41)	61,343,682	43,092,169	1,272,281
Noncurrent assets held for sale (Notes 2, 10 and 44)	—	8,692,516	256,644
Loans, net (Notes 2, 11 and 41)	462,825,349	462,504,860	13,655,296
Available-for-sale financial assets (Notes 2, 12 and 42)	161,227,637	298,578,649	8,815,431
Held-to-maturity financial assets (Notes 2, 13 and 42)	218,410,314	9,857,602	291,042
Investments accounted for by the equity method (Notes 2 and 14)	430,570	1,475,410	43,561
Financial assets carried at cost (Notes 2, 15 and 42)	7,331,795	6,524,447	192,632
Debt securities without active market (Notes 2 and 16)	295,742,652	385,143,688	11,371,234
Asset on insurance products — separate account (Notes 2 and 31)	112,802,355	86,573,014	2,556,038
Miscellaneous financial assets (Note 20)	4,152,254	4,794,033	141,542
Real estate investments, net (Notes 2, 17 and 42)	79,804,242	71,761,941	2,118,746
Property and equipment (Notes 2, 18 and 42)			
Cost			
Land	9,791,615	9,587,045	283,054
Buildings and structures	9,113,282	9,037,149	266,819
Transportation and communication equipment	114,559	97,213	2,870
Other equipment	6,581,962	6,473,350	191,123
Revaluation increment	1,607,519	1,654,215	48,840
Cost and revaluation increment	27,208,937	26,848,972	792,706
Less: accumulated depreciation	(7,061,713)	(7,104,142)	(209,747)
Less: accumulated impairment	(378,769)	(378,769)	(11,183)
Construction in progress	82,291	59,384	1,753
Property and equipment, net	19,850,746	19,425,445	573,529
Goodwill and intangible assets, net (Notes 2 and 19)	2,884,640	2,335,046	68,941
Other assets, net			
Sinking fund (Note 20)	1,000,000	—	—
Miscellaneous assets, others (Notes 21, 30, 40 and 42)	29,238,439	44,764,603	1,321,662
Total other assets, net	30,238,439	44,764,603	1,321,662
TOTAL	$1,751,592,992	$1,763,249,801	$52,059,339

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands, Except Par Value)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Due to Central Bank and other banks (Note 22)	$ 10,919,986	$ 3,377,118	$ 99,708
Commercial paper payable (Note 23)	10,546,605	399,867	11,806
Financial liabilities at fair value through profit or loss (Notes 2 and 7)	6,347,250	28,132,507	830,603
Notes issued under repurchase agreements (Notes 2, 24 and 41)	34,208,372	17,216,630	508,315
Accrued expenses (Note 25)	4,588,319	3,788,546	111,856
Bonds payable — current portion (Note 28)	—	5,304,449	156,612
Other payables	19,755,006	16,793,588	495,825
Deposits and remittances (Notes 26 and 41)	322,271,718	336,022,860	9,920,958
Debentures payable (Note 27)	17,800,000	8,800,000	259,817
Bonds payable, net (Notes 2 and 28)	12,878,088	13,321,002	393,298
Other loans (Note 29)	5,544,193	3,416,025	100,857
Preferred stock liabilities (Note 33)	—	1,654,000	48,834
Liabilities on insurance products — separate account (Notes 2 and 31)	112,802,355	86,573,014	2,556,038
Miscellaneous financial liabilities	5,166,077	4,256,688	125,677
Reserve for operations and liabilities (Note 2)			
Reserve for unearned premiums	6,234,255	6,264,976	184,971
Reserve for life insurance liability	1,051,343,291	1,154,163,385	34,076,274
Special reserve for life insurance	7,891,532	8,222,217	242,758
Reserve for claim payments	1,072,579	1,085,443	32,047
Reserve for insufficient premiums	1,808,756	1,386,800	40,945
Other reserves	72,302	481,439	14,214
Other advance receipts (Note 32)	13,637,177	2,043,926	60,346
Reserve for land value increment tax (Note 2)	2,300,889	2,300,094	67,909
Other liabilities (Notes 21 and 40)	3,138,504	2,208,985	65,221
Total liabilities	1,650,327,254	1,707,213,559	50,404,889
STOCKHOLDERS' EQUITY (Notes 2, 34 and 35)			
Equity attributable to stockholders of the parent			
Common stock (par value: $10, authorized — 8,000,000 thousand shares and issued — 6,246,907 thousand shares)	53,938,636	62,469,066	1,844,378
Capital surplus	20,295,294	20,649,837	609,679
Retained earnings			
Legal reserve	2,460,094	2,960,863	87,418
Special reserve	154,014	71,465	2,110
Unappropriated retained earnings (accumulated deficit)	1,865,780	(18,824,199)	(555,778)
Unrealized revaluation increment	5,811,486	5,811,211	171,574
Cumulative translation adjustments	11,464	155,158	4,581
Unrealized valuation gains (losses) on financial instruments	1,576,082	(28,384,432)	(838,041)
Unrealized gain on cash flow hedges taken to equity	8,891	—	—
Treasury stock	(967,970)	(778,143)	(22,974)
	85,153,771	44,130,826	1,302,947
Minority interest	16,111,967	11,905,416	351,503
Total stockholders' equity	101,265,738	56,036,242	1,654,450
TOTAL	$1,751,592,992	$1,763,249,801	$52,059,339

(Concluded)

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

(With Deloitte & Touche review report dated May 7, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands, Except Loss Per Share)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
NET INCOME AND GAINS			
Interest income (Note 41)	$ 13,283,569	$ 12,286,617	$ 362,758
Interest expense (Note 41)	(1,788,037)	(1,294,568)	(38,222)
Net interest income	11,495,532	10,992,049	324,536
Premium income	31,664,370	41,227,102	1,217,216
Claims recovered from reinsurers	270,325	201,514	5,950
Incomes on insurance products — separate account (Notes 2 and 31)	45,377,275	19,989,782	590,191
Reinsurance expenses	(529,910)	(512,712)	(15,138)
Acquisition expenses	(17,653)	(17,272)	(510)
Insurance payments	(18,259,354)	(14,863,214)	(438,831)
Disbursements to industry stability fund	(30,684)	(41,218)	(1,217)
Disbursements on insurance products — separate account (Notes 2 and 31)	(45,377,275)	(19,989,782)	(590,191)
Processing fee and commission income (Notes 31 and 41)	3,021,506	1,249,181	36,882
Processing fee and commission expense	(1,828,591)	(1,322,104)	(39,035)
Valuation gains on financial assets and liabilities at fair value through profit or loss	10,223,602	2,236,754	66,039
Investment (loss) income recognized under equity method (Notes 2 and 14)	(428)	407	12
Gains on real estate investments (Notes 38 and 41)	717,120	699,985	20,667
Exchange (losses) gains	(21,039,198)	11,119,324	328,294
Impairment loss (Notes 13 and 16)	(3,275,166)	(93,440)	(2,759)
(Losses) gains for market decline on collateral assumed (Note 21)	(40,755)	27,933	825
Gains (losses) on investments, net (Note 37)	4,605,955	(10,824,379)	(319,586)
Other income, net (Notes 12, 28 and 41)	695,878	382,400	11,290
Liability — oriented preferred stock dividends	—	(82,727)	(2,442)
Total net income and gains	17,672,549	40,379,583	1,192,193
BAD DEBT EXPENSES	(579,997)	(645,824)	(19,068)

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands, Except Loss Per Share)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
(PROVISION OF) RECOVERED INSURANCE RESERVE (Note 2)			
Provision of premium reserve	(33,231,104)	(45,557,891)	(1,345,081)
Provision of special reserve	(23,636)	(159,790)	(4,718)
Provision of claim reserve	(52,321)	(144,311)	(4,261)
Provision for insufficient premium reserve	(154)	(78,276)	(2,311)
Recovered premium reserve	13,457,965	10,923,297	322,507
Recovered special reserve	24,856	1,079	32
Recovered claim reserve	20,740	235,240	6,945
Recovered insufficient premium reserve	132,435	21,764	643
	(19,671,219)	(34,758,888)	(1,026,244)
OPERATING EXPENSES (Notes 39 and 41)			
Personnel expenses	$ 4,018,261	$ 3,006,550	$ 88,767
Depreciation and amortization expenses	474,582	487,481	14,393
Other selling and administrative expenses	2,395,948	1,794,029	52,968
Total operating expenses	6,888,791	5,288,060	156,128
CONTINUING OPERATIONS' LOSS BEFORE TAX	(9,467,458)	(313,189)	(9,247)
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 40)	2,620,272	(184,861)	(5,458)
CONSOLIDATED NET LOSS	$ (6,847,186)	$ (498,050)	(14,705)
ATTRIBUTABLE TO			
Stockholders of the parent	$ (6,861,737)	$ (636,902)	(18,804)
Minority interest	14,551	138,852	4,099
	$ (6,847,186)	$ (498,050)	$ (14,705)

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 4)	NT$	US$ (Note 4)
BASIC CONSOLIDATED NET LOSS PER SHARE (Note 36)	$(1.81)	$(1.30)	$(0.08)	$(0.002)	$(0.10)	$(0.003)

(Concluded)

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

(With Deloitte & Touche review report dated May 7, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net loss	$ (6,847,186)	$ (498,050)	$ (14,705)
Adjustments to reconcile net loss to net cash used in operating activities			
Provision for doubtful accounts	579,997	645,824	19,068
Depreciation	359,948	354,402	10,464
Amortization	114,634	133,079	3,929
Share-based payment	353,551	—	—
Gains on early redemption of bonds payable	—	(14,805)	(437)
Amortization of held-to-maturity investments	(74,663)	12,090	357
Provision and recovery of various insurance reserves, net	19,671,217	34,758,889	1,026,244
Investment loss (income) recognized under equity method	428	(407)	(12)
Impairment loss	3,275,166	93,440	2,759
Valuation income on financial instruments, net	(10,223,602)	(2,236,754)	(66,039)
(Gains) losses on disposal of property and equipment, net	(376,993)	1,090	32
Gains on sale of real estate investment, net	(28,312)	(21,868)	(646)
Transfer of property and equipment revaluation increment to other income	(1,454)	—	—
Loss on disposal of collaterals	9,482	45,854	1,354
Losses (gains) for market decline on collateral assumed	40,755	(27,933)	(825)
(Reversal) provision of other reserves	(313,773)	70,715	2,088
Recovery of receivable previously written-off	206,365	160,158	4,729
Written-off nonperforming loan	(423,373)	(822,375)	(24,280)
Gains on construction-in-progress	(118,254)	(40,469)	(1,195)
Deferred income tax (benefit) expense	(2,953,977)	91,529	2,702
Net changes in operating assets and liabilities			
Financial assets and liabilities at fair value through profit or loss	(43,157,574)	(44,962,444)	(1,327,501)
Accounts receivable	(3,011,793)	495,598	14,632
Bonds purchased under resale agreements	(8,062,083)	2,537,490	74,919
Miscellaneous financial assets	535,902	(277,811)	(8,202)
Miscellaneous financial liabilities	789,769	437,995	12,932
Warrant payable	371,020	(257,595)	(7,605)
Repurchase of warrants	(332,829)	266,019	7,854
Other assets	131,048	(723,817)	(21,370)
Notes issued under repurchase agreement	3,753,887	(15,306,035)	(451,905)
Accrued expenses	(435,244)	(574,295)	(16,956)
Other payables	6,098,476	6,761,705	199,637
Advance receipts	9,367,984	(11,424,310)	(337,299)
Prepaid pension expenses	18,389	93,485	2,760
Credit item for consigned trades	443,477	96,412	2,847
Other liabilities	409,615	465,826	13,753
Net cash used in operating activities	(29,830,000)	(29,667,368)	(875,917)

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in due from the Central Bank and other banks	$ (9,161,780)	$(16,920,895)	$ (499,584)
(Increase) decrease in available-for-sale financial assets	(4,823,846)	65,749,805	1,941,236
Decrease in held-to-maturity financial assets	904,915	—	—
(Increase) decrease in loans	(3,592,333)	8,834,360	260,831
(Increase) decrease in financial assets carried at cost	(548,808)	195,319	5,767
Decrease (increase) in debt securities without active market	12,994,753	(45,068,046)	(1,330,618)
Payment for acquisition of real estate investments	(814,654)	(313,509)	(9,256)
Proceeds from disposal of real estate investments	9,171	—	—
Payment for acquisition of property and equipment	(65,525)	(64,571)	(1,906)
Payment for acquisition of collateral assumed assets	—	(515)	(15)
Proceeds from disposal of property and equipment and collaterals	1,409,845	40,155	1,186
Proceeds from sale of deferred expenses	2,642	—	—
Increase in guarantee deposits paid	(723,902)	(5,590,494)	(165,057)
Increase in deferred expenses	(77,930)	(134,411)	(3,968)
Decrease in restricted assets	55,540	105,196	3,106
Net cash (used in) provided by investing activities	(4,431,912)	6,832,394	201,722
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in deposits and remittances	8,380,222	8,386,111	247,597
Increase (decrease) in due to Central Bank and other banks	3,406,479	(350,661)	(10,353)
Increase in accrued commercial paper	1,853,130	399,867	11,806
Decrease in subordinated debt	—	(1,300,000)	(38,382)
Decrease in bonds payable	(528,170)	(57,573)	(1,700)
Decrease in other loans	(149,969)	(239,303)	(7,065)
Decrease in guarantee deposits received	(156,419)	(74,916)	(2,212)
Purchase of treasury stock	(86,402)	—	—
Capital contribution in cash	7,000,000	—	—
Decrease in lease payable	(28,410)	(30,246)	(893)
Cash dividends paid — minority interest	(123,987)	45,595	1,346
Net cash provided by financing activities	19,566,474	6,778,874	200,144
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,695,438)	(16,056,100)	(474,051)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	98,443,372	87,378,035	2,579,806
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 83,747,934	$ 71,321,935	$ 2,105,755
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period			
Interest	$ 1,651,407	$ 1,357,044	$ 40,066
Income tax	$ 334,786	$ 996,073	$ 29,409

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
NONCASH INVESTING AND FINANCING ACTIVITIES			
Transfer of convertible bonds to capital stock	$ 700	$ —	$ —
CASH RECEIVED FROM DISPOSAL OF REAL ESTATE INVESTMENTS			
Total selling price	$ 9,810	$ —	$ —
Payment for land incremental value tax	(639)	—	—
Transfer of real estate investments to available-for-sale financial assets	—	—	—
Net cash received from disposal of real estate investments	$ 9,171	$ —	$ —
CASH PAID FOR ACQUISITION OF REAL ESTATE			
Increase in real estate investments	$ 932,908	$353,978	$10,451
Add payables for acquisition of real estate investments, beginning of period	—	—	—
Less payables for acquisition of real estate investments, end of period	—	—	—
Less gain on construction-in-progress	(118,254)	(40,469)	(1,195)
Net payment for acquisition of real estate investments	$ 814,654	$313,509	$ 9,256

(Concluded)

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

(With Deloitte & Touche review report dated May 7, 2009)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

Shin Kong Financial Holding Co., Ltd. (the "Company" or SKFHC) is a financial holding company established by Shin Kong Life Insurance Co., Ltd. (SKLIC) and Shin Kong Securities Co., Ltd. (SKSC, originally named Li Shih Securities Co., Ltd.) through a share swap and was listed on the Taiwan Stock Exchange Corporation ("TSEC") on February 19, 2002. The Company is mainly engaged in managing its subsidiaries and investing in companies approved by relevant authorities.

To expand its operating areas and enhance its operational efficiency and competitiveness, the Company issued 208,504 thousand shares to acquire Taiwan Shin Kong Commercial Bank Co., Ltd. (TSKCB, formerly known as United-Credit Commercial Bank Co., Ltd.) as a wholly owned subsidiary.

The Company issued 661,850 thousand shares to acquire 100% equity interest of Macoto Bank Co., Ltd. (Macoto Bank) on October 3, 2005 through share swap and accounted for the acquisition by the pooling of interests method. On December 31, 2005, Macoto Bank merged with Taiwan Shin Kong Commercial Bank Co. Ltd., a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd., by means of share swap, and Macoto Bank was the surviving company. At the same time, Macoto Bank was renamed into TSKCB.

To expand its asset management areas and enhance synergy and resources sharing benefit, in July 2006 the Company acquired Shin Kong Investment Trust Co., Ltd. (SKITC) through share purchase.

SKLIC was established in July 1963 and its stock was listed on TSEC in December 1993. SKLIC's business is mainly in life insurance — individual and group life, accident, health, and so on. Its headquarters are in the City of Taipei, with 22 branch offices located in various counties throughout the country.

TSKCB obtained approval to become a commercial bank from the Ministry of Finance on September 23, 1996 under Letter Tai-Tsai-Rong No. 85546025. TSKCB received its company license from the Ministry of Economic Affairs on December 31, 1996 and operating permit from the Ministry of Finance on January 1, 1997. TSKCB is engaged in banking businesses allowed under the Banking Law of the ROC. As of March 31, 2009, TSKCB had 108 branches including a business department, a trust department, a foreign exchange transaction department and an offshore banking branch in Taiwan.

The establishment of Shin Kong Securities Co., Ltd. (SKSC) was approved by the Ministry of Economic Affairs on October 28, 1997 and it started operations on March 21, 1998. Its operations are mainly securities brokering, underwriting, processing share registration matters, and futures brokering. SKSC was approved to operate dealing service related to futures from March, 2005 and security transfer services from November, 2005 and in September, 2007 acquired membership in the Futures Settlement and Clearing and in December, started operating dealing service related to futures.

SKITC's operations include negotiable securities investment trust, carte blanche investment and other businesses approved by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan. On October 9, 2006, SKITC merged with New Light Asset Management Co., Ltd. and SKITC was the surviving company.

Shin Kong Life Real Estate Service Company (SKLRESC) was established on July 12, 1988 and obtained operating permit on August 17, 1988. SKLRESC is mainly engaged in management services, sanitary services, repair and maintenance of utilities equipment, commerce and installation of water-proof, burglarproof, and fire alarm equipment, commerce and installation of car parking equipment, operation of parking lots, and housing brokerage.

New Light International Co., Ltd (NLIC) is engaged in real estate leasing business.

Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC), formerly known as Shin Kong Insurance Brokerage Co., Ltd. (SKIBC) is engaged in property and casualty insurance and life insurance brokerage business. On August 31, 2006, SKIBC merged with TSKIBC, and SKIBC was the surviving company and was renamed into TSKIBC.

Shin Kong Life Insurance Agency Co., Ltd. (SKLIAC) and Shin Kong Property Insurance Agency Co., Ltd. (SKPIAC) are engaged in life insurance and property and casualty insurance agency business.

Shin Kong Marketing Consultant Co., Ltd. (SKMC) mainly operates in consulting services for loan market.

Shin Kong Finance (HK) Ltd. (SFHK) mainly operates in loan business in Hong Kong.

The establishment of MLSC was approved by the Ministry of Economic Affairs on March 23, 1989, and it started operations on May 29, 1989 and was listed on TSEC on September 16, 2002. Its operations are mainly securities brokering, underwriting, processing share registration matters, futures brokering, dealing service related to futures, security transfer services and other services approved by the government. As of March 31, 2009, MLSC had 44 branch offices.

As of March 31, 2008 and 2009, the Company and subsidiaries (collectively, the "Group") had 22,138 and 21,015 employees.

Consolidation Profile

Subsidiaries in the Group as of March 31, 2008 and 2009 include:

Name of Investment Company	Name of Subsidiary	Type of Business	% of Ownership as of March 31, 2008	% of Ownership as of March 31, 2008	% of Ownership as of March 31, 2009	% of Ownership as of March 31, 2009
SKFHC	SKLIC	Insurance	100%	Yes	100%	Yes
SKFHC	SKSC	Securities	100%	Yes	100%	Yes
SKFHC	TSKCB	Banking	100%	Yes	100%	Yes
SKFHC	TSKIBC	Insurance Brokerage	100%	Yes	100%	Yes
SKFHC	SKITC	Entrusted Investments	100%	Yes	100%	Yes
SKFHC	MLSC	Securities	25.47%	Yes	26.28%	Yes
SKLIC	SKLRESC	Building Management	90.01%	Yes	90.01%	Yes
TSKCB	SKLIAC	Insurance Agency	100%	Yes	100%	Yes
TSKCB	SKPIAC	Insurance Agency	100%	Yes	100%	Yes
TSKCB	SKCC	Loan market consulting	100% (Note 1)	Yes	100% (Note 1)	Yes
TSKCB	SFHK	Loan business	100%	Yes	100%	Yes
SKLIC	NLIC	Real Estate Leasing	58% (Note 2)	Yes	58% (Note 2)	Yes
MLSC	MasterLink Futures Co., Ltd.	Futures brokerage and trading	100%	Yes	100%	Yes
MLSC	MasterLink Securities Investment Advisory Corp.	Research and analysis about securities investment, publication of investment research reports, securities investment consulting services and discretionary investment services	100%	Yes	100%	Yes
MLSC	MasterLink Securities (B.V.I.) Corporation (MLSBC)	Securities underwriting and brokerage	100%	Yes	100%	Yes
MLSC	MasterLink Insurance Agency Co., Ltd.	Life insurance agency	100%	Yes	100%	Yes
MLSC	MasterLink Managed Futures	Futures operating	Note 3	Yes	Note 3	Yes
MLSBC	MasterLink (Hong Kong)	Consulting services, industry report and research	100%	Yes	100%	Yes
MLSBC	Shanghai MasterLink Investment Advisory Corp.	Securities investment consulting and training services	100%	Yes	100%	Yes
MLSBC	MasterLink Agency (Hong Kong)	Agency of securities	99.99%	Yes	100%	Yes

Note 1: The ownership percentage includes the indirect equity interest owned by SKLIAC, a subsidiary of TSKCB.
Note 2: The ownership percentage includes the indirect equity interest owned by SKLRESC, a subsidiary of SKLIC.
Note 3: Master Link Managed Futures was closed on August 30, 2007, and liquidated in first quarter, 2008.

All of the subsidiaries are included in the consolidated financial statements except for Shin-Kong Hainan Insurance Co., Ltd. (preparatory organization) as of and for the three months ended March 31, 2009, because it was still at arranged stage.

SKFHC adopted SFAS No. 7, "Consolidated Financial Statements", this Statement requires consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. All material transactions and balances among consolidated entities are eliminated in the consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the amounts and valuation of financial assets, allowance for doubtful accounts, deferred income tax, reserve for operations and liabilities, depreciation, pension cost, accrued litigation loss and bonuses to employees, directors and supervisors. Actual results could differ from these estimates.

The significant accounting policies of the Group are summarized as follows:

Classification of Asset and Liability Classified as Current and Noncurrent

Due to the characteristics of the banking industry, the TSKCB's business cycle cannot be defined. Therefore, the assets and liabilities of TSKCB were not classified as current or noncurrent but were properly categorized according to the nature of each account and were stated in the order of their liquidity. For other subsidiaries, current assets are those that can be realized in cash within 12 months; property and equipment and others are classified as noncurrent asset. Current liabilities are obligations due within 12 months; others are noncurrent liabilities.

Because banking is the Group's major industry, the assets and liabilities in the consolidated balance sheets were not classified as current or noncurrent but were properly categorized according to the nature of each account and were stated in the order of their liquidity.

Cash and Cash Equivalents

Cash and cash equivalents include cash (including foreign currencies) in banks, bank deposits, petty cash, certificates of deposits purchased, foreign-currency bank deposits, cash in transit and other short-term, highly liquid investments (such as government bonds, bankers' acceptances and commercial paper) with a maturity of three months or less on the date of acquisition.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial assets/liabilities at fair value through profit or loss (FVTPL) have two subcategories, including financial assets/liabilities held for trading and those designated as at FVTPL. The Group recognizes a financial asset or a financial liability on its balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Group has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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

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

Financial assets/liabilities designated initially as measured at fair value are mixed financial instruments. It has the unrealized gains (losses) recognized as current income (expense).

Financial assets/liabilities designated initially as measured at fair value for the reason of elimination of the difference in accounting practices, can subsequently be measured at fair value with the changes in fair value recognized in profit or loss. Unrealized gain (loss) is recognized as current income (expense).

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Allowance for Doubtful Accounts

Balance of loans notes discounted, remittance purchase, accounts receivable, interests receivable, other receivables, delinquent loans, and customers liabilities under acceptances, separately is unable on the specific creditor's rights to take back the risk and all credit's rights combination the latent risk assessment is possible to lose, raises the row allowance bad debt.

SKLIC and TSKCB in accordance with the "Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises" and

“Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Bank Enterprises” issued by the Ministry of Finance, the allowances for doubtful accounts are determined based on management’s evaluation of the collectibility of individual accounts, the borrower’s/clients’ financial condition and payment history.

Such doubtful accounts are classified into: need attention, less likely to be collectible in full, difficult to collect, and uncollectible accounts and the allowance are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Accounts deemed uncollectible are written off with the approval of the Board of Directors.

Bonds Purchased (Sold) under Resell (Repurchase) Agreements

Bonds purchased under resale agreements are the actual payment made to the counterparty in transactions involving the purchase of bonds, subject to an agreement by the purchaser to resell the bonds. Notes issued under repurchase agreements are the actual receipts from the counterparty in transactions involving the sale of bonds by one party, subject to an agreement by the seller to repurchase the bonds. These transactions are treated as margin trading. All related interest income or expense is recognized on accrual basis.

Noncurrent Assets Classified as Held for Sale

Noncurrent assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Noncurrent assets classified as held for sale are initially measured at the assets’ previous carrying amount and not depreciated, depleted or amortized. At each balance sheet date, noncurrent assets held for sale are measured at the lower of carrying amount and fair value. If the fair value of a noncurrent asset classified as held for sale is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its fair value. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment been recognized for the asset in prior periods.

Assets classified as held for sale and liabilities classified as held for sale are presented separately in the balance sheet. Interest expenses and other costs related to liabilities classified as held for sale are recognized when incurred.

Available-for-Sale Financial Assets

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Purchase on Margin and Short Sale

The Group recognizes margin loans as loans to customers for purchases on margin while providing financing to investors who buy stocks. Margin loans made by the Group are generally collateralized by securities in the client's account. These collateralized securities are not entered in the Group' books, but recorded using memorandum entries. After the security investors settle the margin loan, these pledged securities are returned to investors.

The Group requires a deposit from security investors for short sale services to investors. This deposit is recorded as deposit on short-sale transactions. The amount collected from selling of short sale securities (net of securities transaction tax, brokerage fee and handling fee) is kept by the Group as collateral and recorded as payable for short-sale transactions. The securities lent to clients as short sale are recorded using memorandum entries. The deposit on short-sale transactions and payable for short sale are returned to security investors after investors settle the short-sale transactions.

Loans borrowed by the Group from other securities lenders when the Group has insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders", and the stocks purchased by the borrowers are held by the securities lenders as collaterals.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (straight-line method can be used if there will be no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a settlement date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior periods.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between the carrying amount and fair value shall be accounted for as unrealized gain (loss) on financial instrument under shareholders' equity. When the financial asset is derecognized, the cumulative gain or loss previously recognized in shareholders' equity shall be reclassified to profit and loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Debt Securities without Active Market

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior periods.

Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method, and recognized the investee's profits or losses according to stockholders ratio of shares.

Upon acquiring of equity investment or initial adoption of equity method, the difference between cost and fair value of investment is amortized over twenty years by the straight-line method. However, from January 1, 2006, the costs of investments are required to be analyzed, any excess of the acquisition cost over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition is recorded as goodwill and should not be amortized according to SFAS No. 25 "Accounting Treatment for Merger under Purchasing Method." Since January 1, 2006, the unamortized balance of goodwill (investment cost over net equity acquired) on investments which were acquired before January 1, 2006 are no longer amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount should be amortized over the remaining year.

Gains (losses) resulting from downstream transactions with the investees accounted for under the equity method are eliminated based on the Company's percentage of shareholding. Where the Company has controlling power over the investees, the gains (losses) are fully eliminated. Gains (losses) resulting from upstream transactions with the investees accounted for by the equity method are eliminated based on the Company's percentage of shareholding.

Property and Equipment (Including Assets Leased to Others and Real Estate Investments)

Property and equipment are recorded at cost when acquired. However, the land of SKLIC and TSKCB was revalued in accordance with valuation guidelines announced by the government.

Depreciation of property and equipment is calculated by the straight-line method based on their estimated useful life or remaining useful years upon revaluation, plus one year salvage value.

Major additions, renewals, betterments and interest expenses incurred are capitalized, while maintenance and repairs are expensed currently.

Upon retirement, sale or other disposal of properties, any gain or loss is credited or charged to income.

Reserves for land revaluation increment tax required by law after revaluation are classified as reserve for land value increment tax.

Long-Term Contracts

The Group adopts the percentage-of-completion method to recognize profit of long term construction contracts when all of the following conditions are met. Otherwise, the Group adopts completed contract method.

a. The construction has completed its planning stage with the engineering and design work, site clearance and preparation, excavation, and the building foundation completed and construction work can commence anytime.

b. Total estimated contract prices exceeds total estimated contract cost.

c. Percentage-of-completion method is required when billings on construction-in-process exceed 15% of the contract price for each contract. Completed contract method is required when payment does not exceed 15% of the contract price.

d. Dependable estimates can be made as to total accounts receivable.

e. Contract costs to complete the contract and the degree of its completion at the end of the period can be reasonably estimated.

f. Related costs of the sales contract can reasonably identified.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as a current asset. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as current liabilities.

Impairment of Assets

The Group adopted SFAS No. 35, “Accounting for Impairment of Assets” effective on January 1, 2005. This SFAS requires the recognition of an impairment loss when there is indication that the carrying amount of an asset is not recoverable. An impairment loss shall be measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. If the impairment loss decreases, a gain on reversal of impairment loss is recognized to the extent of the impairment loss previously recognized. The recovered carrying amount of an impaired asset shall not exceed the original carrying amount less the depreciation or amortization. The impairment loss of goodwill shall not be reversed.

Share-based Payment

Share options granted under the share-based payment agreements after January 1, 2008 are accounted for according to SFAS No. 39 “Share-based Payment” and Interpretation (96) No. 267 and (97) No. 017. The payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

Real Estate in Trust

The accounting for securitized real estate is based on SFAS Interpretation No. (93) 141, “Accounting for Securitized Real Estate” issued by the Accounting Research and Development Foundation of ROC (“ARDF”).

When the sale of real estate is consummated and the risks and rewards of the ownership are transferred to the transferee, the transferor shall recognize profit by the full accrual method.

If the transferor sells portion of the real estate, the carrying value of the real estate shall be allocated between the sold and retained real estate in proportion to their fair value when the transaction occurs. If the fair value of the retained real estate cannot be reasonably and reliably measured, the carrying value of the retained real estate shall equal to zero and the carrying value of the real estate shall be allocated to the sold real estate in full.

The usufruct retained shall be accounted in accordance with its attribute. If the usufruct is attributive to real estate, the usufruct is accounted for as real estate and stated at cost. If the usufruct is attributive to financial asset, the usufruct is accounted as financial assets and stated at the lower of cost or market.

Rights of Superficies on Land

The cost of rights of superficies on land is amortized on the straight-line basis over 50 years, the term of the related land lease.

Goodwill

The accounting for goodwill (classified under intangible assets) is based on SFAS No. 25 “Business Combinations — Accounting Treatment under Purchase Method”. The excess of acquisition cost over the net fair value of tangible and identifiable intangible assets is recognized as goodwill. Goodwill is no longer amortized but is subject to an impairment test periodically.

Deferred Expenses

Deferred expenses refer to power line allowances, leasehold improvements, computer programs and so forth, which are amortized on the straight-line basis over 3 to 10 years starting from the year when benefit was received or payments were made.

Separate Accounts

SKLIC sells investment type insurance policies. Based on agreements, the insurance premiums paid by policyholders are offset against various expenses of SKLIC and invested in separate accounts at allocation ratios agreed on with or directed by the policyholder. The value of the separate-account assets is accounted for at market value on the valuation date and their net worth is computed in accordance with the related regulations and accounting principles generally accepted in the ROC.

The assets, liabilities, income and expenses of separate accounts represent the rights and obligations of the policyholders and are recorded, pursuant to the accounting principles governing investment type insurance policies, in SKLIC's "asset on insurance products — separate account", "liabilities on insurance products — separate accounts", "income on insurance products — separate accounts", "disbursements on insurance products — separate account".

Convertible Bonds

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

For convertible bonds issued on or after January 1, 2006, the Group first determine the carrying amount of the liability component by measuring the fair value of a similar liability (including any embedded non-equity derivatives) that does not have an associated equity component, then determine the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. If bondholders want to convert bonds to specific amount of common stock with specific price or amount, the liability component (excluding the embedded non-equity derivatives) is measured at amortized cost using the effective interest method, while the embedded non-equity derivatives are measured at fair value. Upon conversion, the Group uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

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

The Group can exercise the call option by buying the convertible bonds back from the market to redeem them before maturity. If the redemption gain or loss is material, it should be recognized as extraordinary gain or loss and reported as a line item in the income statement.

Reserves for Operations

Reserves for operations and liabilities are stated pursuant to the Regulations Governing Calculation of Various Reserves for Operations promulgated by the Insurance Bureau on November 26, 2003. The figures for the reserves are provided by actuaries certified by the Ministry of Finance. On December 28, 2007, the regulations have been revised, and enforced on January 1, 2008. Each reserve basis is stated below:

Reserve for Life Insurance Liability

Reserve for life insurance liability of an insurance product is calculated according to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators. Calculation is based on a mortality table and projected interest rate at the time of approval of the insurance product by the Insurance Bureau.

Reserve for Unearned Premiums

Unearned premiums of effective policies with a term of less than one year are computed by policy type according to the actual risk (with recognition of reinsurance costs and benefits) assumed by SKLIC for the remaining policy period in compliance with related regulations. Since January 1, 2008, unearned premiums are computed by the remaining policy type according to the actual risk.

Special Reserve

Special reserve for actual undertakings (with recognition of reinsurance costs and benefits) includes special reserve for catastrophe, special reserve for contingent claim and other special reserves.

Special reserves for catastrophe are provided, by policy type, according to the rates set by regulatory authorities. The special reserve for catastrophe is used to offset the portion of net indemnities exceeding $30 million. The amount of reserve for catastrophe which was provisioned for more than 15 years can be measured by appointed actuary and reversed to income after reporting to Insurance Bureau.

If actual claim on an insurance product exceeds the reserve for catastrophe, 15% of the difference should be taken from the special reserve for contingent claim. Otherwise, the whole excess may be taken from the reserve for the contingent claim. If the reserve for contingent claim is insufficient for the excess, another insurance product reserves for contingent claim may be used for that excess. When the accumulated amount of this special reserve for contingent claim exceeds 30% of the gross amount of net earned premium, the excess is recovered and treated as income.

Claim Reserve

This is a reserve for indeterminate claim, whether or not it is reported. The provisions for the reserves for reported indeterminate claim are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance. The provisions for the IBNR (incurred but not yet reported) reserve are at 1% of the net earned premium by policy type for policies with terms of less than one year from 2006, the provisions for the accident insurance retention reserve are recognized according to the method approved by the related authority, and historical information.

Premiums Deficiency Reserve

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Other Reserve

Reserve for Trading Loss

Reserve for trading loss is at 10% of the monthly net gain on the sale of government bonds by SKSC, TSKCB and MLSC. This reserve cannot be used for any purpose other than to offset the trading loss in excess of the trading profit.

Reserve for Bad debt

Allowance for doubtful accounts of SKSC and MLSC is provided by assessing the collectibility of the notes and accounts receivable at the period end. Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 82416 dated September 29, 1999, the Company increased allowance for doubtful accounts, which were equal to such increased income raised from reducing the rate of VAT tax. If each item of the account does not have bad debt risk, allowance for doubtful accounts is classified under other reserve according to the law.

Under the Ministry of Finance's Approval Documents Tai-Tsai-Jen (2) No. 0920002964 dated July 17, 2003, effective from July 1, 2003, the aforementioned regulation is no longer applicable to securities firms. However, if there is an outstanding balance of the aforesaid allowance for doubtful accounts on June 30, 2003, such reserve would be retained to write off overdue accounts in the future.

Reserve for Trading Default

Reserve for trading default is calculated monthly by SKSC and MLSC at the rate of 0.28/10,000 based on the amount of consigned trading of marketable securities. This reserve cannot be used for any purpose except to offset the loss incurred on the trading default of the consigned trader of marketable securities or other purposes approved by the Securities and Futures Bureau of the Ministry of Finance.

Pension Cost

Defined benefit pension plan is accounted for based on SFAS No. 18, “Accounting for Pension.” Defined contribution pension plan is accounted for based on contributions made for employees in their service years.

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

According to SFAS No. 23, “Presentation and Disclosures for Interim Financial Statements”, minimum pension liabilities (prepaid pension expenses) for defined benefit pension plan are not revalued; however, minimum pension liabilities (prepaid pension expenses) are equal to beginning balance of minimum pension liabilities (prepaid pension expenses) adjusted to current pension costs and contributions made.

Treasury Stock

The Group uses the cost method to account for treasury stock. If the stocks are donated, market price is used to account for treasury stock. Cost of treasury stock is determined on the basis of the weighted-average method.

On treasury stock disposal, if the disposal value is greater than the book value, the difference is recorded as “capital surplus — treasury stock transactions”; otherwise, the difference is used to offset capital surplus that resulted from similar treasury stock transactions. If the capital surplus is insufficient to cover the difference, retained earnings are used to cover the insufficiency.

Income Tax

The Group adopted SFAS No. 22, “Accounting for Income Taxes,” which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to “Alternative Minimum Tax Act”, the Group calculates the alternative minimum tax in addition to the regular income tax. If the regular income tax is lower than the alternative minimum tax, the difference is accrued as an additional income tax adjustment.

Adjustments of prior periods’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

The Company and its subsidiaries which the Company holds more than 90% of outstanding shares adopt the accounting treatment of the consolidated income tax return. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as the company's income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Revenue Recognition

The Group follows SFAS No. 32, "Accounting for Revenue Recognition," to recognize revenue, except for insurance premium income.

Gain or loss on sales of securities and processing fee income are recognized on transaction completion. Income and expenses from agency business are recognized when the contract ends. Income from subscription is recognized when collected. Income from handling stock affairs is recognized on the basis of contract terms. Handling expenses for agency business and operation are recognized on transaction completion.

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/ credits is recognized upon collection. Under Ministry of Finance regulations, the interest revenue on credits for which agreements have been reached to extend their maturities is recognized upon collection.

Service fees are recorded as income upon receipt or substantial completion of activities involved in the earnings process.

Insurance Premium Income and Expenses

Direct premiums are recognized on the date the policies become effective. Policy-related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At balance sheet date, adjustments are made based on past experience.

Foreign currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are retranslated using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign currency nonmonetary assets and liabilities carried at fair value are retranslated at the rates prevailing on the date when the fair value was determined, with the exchange differences treated as follows:

a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Hedge Accounting

The Group designates certain derivatives instruments, which are in order to manage interest risk, foreign currency risk and credit risk arising from the Group's assets and liabilities, as either fair value hedges or cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy for undertaking hedge transactions and evaluation method of hedge efficiency.

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

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

b. Cash Flow Hedge: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same period or periods during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

c. Hedges of Net Investment in Foreign Operation: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss on disposal of the foreign operation.

   The Group, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities. The main focus of cash flow hedge is to minimize the change of future cash flow arising from the fluctuation of the interest rates and foreign currency of assets and liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2009.

3. ACCOUNTING CHANGES

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, ARDF issued Interpretation 2007-052 that requires companies to recognize remunerations to directors and supervisors and employee bonuses as compensation expenses since January 1, 2008. These remunerations and bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in an increase of $7,881 thousand in net loss and an increase in basic and diluted loss per share of $0.001 for the three months ended March 31, 2008.

Accounting for Employee Stock Options

On January 1, 2008, the Group adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption resulted in an increase of $265,163 thousand expense in net loss and an increase in after income tax basic loss per share of $0.05 for the three months ended March 31, 2008.

Reclassification for Financial Instruments

On July 1, 2008, the Group adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 50 for relevant information regarding reclassifications of financial instruments.

4. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

5. CASH AND CASH EQUIVALENTS

	March 31	
	2008	2009
Cash in banks	$ 4,451,750	$ 3,590,582
Petty cash	195,032	124,240
Checking account	8,326	585,810
Demand	27,604,416	12,055,928
Time deposit	31,705,430	41,147,563
Checks for clearance	1,689,148	742,841
Cash equivalents	18,119,786	13,131,981
Less guarantee deposits paid	(25,954)	(57,010)
	$83,747,934	$71,321,935

For the three months ended March 31, 2008 and 2009, certificates of deposits, negotiable certificates of deposits, commercial papers, bankers' acceptances and treasury bills, respectively, with interest rates ranging from 1.20%~2.575% and 0.10%~2.685%.

6. DUE FROM THE CENTRAL BANK OF CHINA AND OTHER BANKS

	March 31	
	2008	2009
Reserve — checking account	$ 1,999,261	$16,456,531
Reserve — demand account	8,607,518	9,097,920
Interbank clearing account	200,708	200,309
Reserve — foreign currency deposit	790,530	39,005
Certificates of deposit	29,300,000	34,750,000
Deposits in other banks	2,455,004	2,536,410
	$43,353,021	$63,080,175

The deposit reserves, which are calculated by multiplying the average monthly balances of all deposit accounts by the legally required ratio, are kept in the Central Bank of China. The demand account reserve can be used only for the monthly adjustment of the deposit reserve; others can be used at any time.

7. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31	
	2008	2009
Financial assets held for trading		
Domestic investments		
Listed securities	$ 22,745,298	$ 4,204,995
Beneficiary certificates	35,734,719	56,588,431
Bonds and financial bills	47,746,341	34,649,509
Government bonds	315,824	329,854
Currency swap contracts	6,974,054	1,133,917
Cross-currency swap contracts	—	450,526
Interest rate swap contracts	22,415	20,644
Derivative financial assets — counter	27,665	33,185
Others	712,192	156,585
	114,278,508	97,567,646
Foreign investments		
Stocks	4,587,238	2,670,661
Beneficiary certificates	2,491,040	9,301,441
Bonds	19,293,308	20,042,353
Foreign exchange forward contracts	6,568,298	13,723,712
Credit default swaps	—	352,370
Interest rate swap contracts	171,956	—
	33,111,840	46,090,537
	$147,390,348	$143,658,183
Financial assets designated upon initial recognition at fair value through profit or loss		
Credit-linked loans	$ —	$ 271,405
Financial liabilities held for trading		
Domestic investments		
Interest rate swap contracts	$ 967,012	$ 12,356,022
Derivative financial liabilities — counter	742,309	663,689
Convertible bonds (Note 28)	—	297,003
Bonds borrowing payment — non-hedge	—	219,011
TAIEX futures	—	49,401
Foreign exchange forward contracts	88,165	44,246
Issuing of stock warrants liabilities, net	202,041	36,952
Short options liabilities	6,013	24,408
Bonds borrowing payment — hedge	15,389	1,118
Bonds purchased under resale agreements — securities financing	299,109	—
Cross-currency swap contracts	282,178	—
TAIEX options	770	—
	2,602,986	13,691,850
Foreign investments		
Foreign exchange forward contracts	2,565,516	14,440,657
Interest rate swap contracts	178,716	—
	2,744,232	14,440,657
	$ 5,347,218	$ 28,132,507
Assigned financial liabilities measured at fair value through profit or loss		
Financial bonds payable	$ 1,000,032	$ —

SKLIC entered into trust agreements with The Mega International Commercial Bank and FX Concepts entrusting the banks with funds to invest in foreign securities in a prescribed manner and consigning these banks to hedge the foreign currency risk by engaging in forward exchange derivative contracts.

As of March 31, 2009, transactions of SKLIC were as follows:

	Consigning Amount	Advanced to Its Consignee
The Mega International Commercial Bank	US$2 billion	NT$42,582,819 thousand (Note)
FX Concepts	US$0.4 billion	NT$4,232,186 thousand

Note: Entrusted assets included foreign investments held for trading available-for-sale foreign investments and foreign bond investments with no active market.

SKLIC entered into derivative contracts during the three months ended March 31, 2008 and 2009 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of SKLIC is to minimize risks due to changes in fair value or cash flows. SKLIC did not adopt hedge accounting for derivatives for the three months ended March 31, 2008 and 2009.

TSKCB used forward exchange contracts as hedging instruments for exchange rate exposures primarily related to its clients' import obligations and export receipts and remittances. It also used these contracts to hedge the risk from the operation mentioned above and cover the exposure of foreign currency demand. TSKCB enters into foreign-currency derivative contracts for hedging the risk of exchange rate fluctuations on its foreign assets (liabilities); it enters into interest rate swap contracts without exchange of notional principals for nontrading purpose to hedge the risk of interest rate fluctuations on its issuing of financial bonds. TSKCB's hedging strategy is to hedge the great part of market price or cash flow risks, and uses hedging instruments having high negative correlation with fair value of the hedged items and periodically evaluates the effectiveness of these instruments.

SKSC and MLSC issued stock warrants under trading purpose, and held underlying instruments for non-trading purpose to hedge against the exercise risk arising from investors who held the stock warrants and to hedge the fluctuations in market value of these stock warrants, SKSC owns securities for hedging purposes and hedges with high negative correlation with fair value of the hedged items and periodically evaluates the effectiveness of these instruments.

SKSC has Taiwan stock index futures contracts, options contracts and stock option rate index futures contracts held for non-trading purpose to hedge the risk from SKSC's marketable securities trading in the open market. SKSC invests in derivative instruments which market prices are in inverse relationship with the hedged items and evaluated on a regular basis.

SKSC had been engaged in the equity-linked notes for trading purpose and held underlying instruments for nontrading purpose to hedge against market price risk. The fair value and the financial instrument hedged are highly negatively correlated and evaluated on a regular basis. SKSC did not adopt hedge accounting for the three months ended March 31, 2008 and 2009.

MLSC's subsidiaries made futures proprietary trading business, and the main risk was market price risk. The market prices of futures and options were influenced by investments. MLSC had set up a loss-stop point to control the loss when the market price of futures and options changes opposite to price of investments.

MLSC used derivatives to obtain profit, including futures contract transactions, option transactions, interest rate swap contract, cross currency asset swap, options asset swap, structured notes, and bond option.

MLSC made derivative transactions from stock exchange market; therefore, there will not be a substantial risk, and MLSC made derivative transactions by business premises, because MLSC is the main market markers, the liquidity risk can be controlled within an expected range.

As of March 31, 2008 and 2009, the Group's outstanding derivative contracts are summarized as follows: (In Thousands)

	Contract Amount	
March 31, 2008		
Forward exchange contracts	USD	5,167,764
	JPY	976,900
Currency swap contracts	USD	5,134,000
	NTD	18,593,880
	ZAR	48,000
	NZD	19,000
	CAD	2,000
	HKD	46,000
	AUD	30,000
Interest rate swap contracts	NTD	25,845,675
Stock index futures	NTD	490,745
Stock index options	NTD	10,001
TAIEX options	NTD	288,750

	Contract Amount	
March 31, 2009		
Forward exchange contracts	USD	4,196,305
Currency swap contracts	USD	9,099,600
	NZD	34,600
	ZAR	217,000
	AUD	55,800
	EUR	6,000
Credit default swaps	NTD	2,850,000
Interest rate swap contracts	USD	222,000
Cross-currency swap contacts	NTD	1,713,586
Stock index futures	NTD	41,405

As of March 31, 2009, the Group held futures contracts, stock warrants liabilities and stock option contracts, which are shown in Note 50.

Financial assets held for trading used as guarantee are shown in Note 42.

8. BONDS PURCHASED UNDER RESALE AGREEMENTS

Bonds purchased under resale agreements on March 31, 2008 and 2009 are $20,057,014 thousand and $39,394,680 thousand, respectively, which are maturing within one year, and the annual rate is 1.60%~2.40% and 0.11%~0.16%, respectively.

9. ACCOUNTS RECEIVABLE

	March 31	
	2008	2009
Notes receivable	$ 3,763,375	$ 3,096,639
Accounts receivable	13,534,186	9,020,790
Bank acceptance receivable	539,359	325,255
Interest receivable	12,102,484	13,237,025
Accrued income	18,740	22,311
Tax refund receivable	3,266,792	4,211,257
Receivables of proceeds from disposal of securities	1,372,686	928,238
Receivables — separate accounts	3,692,608	1,051,948
Margin loans receivable	22,021,103	9,118,396
Others	1,580,812	2,474,953
	61,892,145	43,486,812
Less allowance for doubtful accounts (Note 11)	(548,463)	(394,643)
	$61,343,682	$43,092,169

10. NONCURRENT ASSETS HELD FOR SALE

	March 31					
	2008			2009		
	Land	Building	Total	Land	Building	Total
Hsin-Yi A11	$—	$—	$—	$4,020,960	$1,312,590	$5,333,550
Hanover Technology Building	—	—	—	1,205,227	1,445,724	2,650,951
Yang-Guang Technology Building	—	—	—	425,362	282,653	708,015
	$—	$—	$—	$5,651,549	$3,040,967	$8,692,516

On March 31, 2009, the Board of SKLIC resolved to sell the land and building located in Hsin-Yi A11; the transaction was completed on April 30, 2009 (see Note 44). The Board also resolved to securitize Hanover Technology Building and Yang-Guang Technology Building; the transactions are estimated to be consummated in one year.

11. LOANS, NET

	March 31	
	2008	2009
Policy loans	$116,176,501	$117,795,543
Loans	345,689,766	343,845,958
Overdue loans	5,300,935	5,058,176
	467,167,202	466,699,677
Less allowance for doubtful accounts	(4,341,853)	(4,194,817)
	$462,825,349	$462,504,860

Under the Ministry of Finance regulations, insurance applicants who have paid premiums for more than one year and whose insurance policy includes termination value may apply for Life Insurance Policy Secured Loan at an amount not exceeding the termination value. In addition, upon default on premium payment, policyholders have the option to elect for automatic reimbursement of premium from the accumulated policy value reserve. SKLIC records related transactions as “Policy Loans.”

A policy loan is limited to the amount of the termination fee or the accumulated policy value reserve. If the loan or the sum of the reimbursement with accrued interest exceeds the life insurance liability reserve, the policy is automatically terminated without bad debts expected to occur; thus, no allowance for bad debt is provided.

According to the Group’s policy, SKLIC will record any loans unpaid for over six months as overdue loans and provide appropriate allowance. Pursuant to the “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts” promulgated by the Ministry of Finance, loans and other credit facilities which are approved by the Board of Directors or are not paid at maturity within six months will be reclassified to overdue receivable with the amount of accrued interest.

Allowance for Loans and Accounts Receivable

	2008		
	Specific Risk	General Risk	Total
Balance, January 1, 2008	$1,706,367	$3,044,606	$4,750,973
Provision	421,324	158,673	579,997
Write offs	(48,910)	(374,463)	(423,373)
Recovery of write offs	194,013	12,352	206,365
Balance, March 31, 2008	$2,272,794	$2,841,168	$5,113,962

	2009		
	Specific Risk	General Risk	Total
Balance, January 1, 2009	$2,521,146	$2,342,448	$4,863,594
Provision	293,159	352,665	645,824
Write-off	(690,626)	(131,749)	(822,375)
Recovery of write-off	160,158	—	160,158
Balance, March 31, 2009	$2,283,837	$2,563,364	$4,847,201

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2008	2009
Domestic investments		
Listed securities	$ 33,659,547	$ 46,702,535
Beneficiary certificates	3,003,137	3,319,355
Real estate investment trust fund beneficiary certificates	6,849,852	8,621,402
Real estate asset trust fund beneficiary certificates	5,385,136	5,673,629
Government bonds	44,602,340	192,163,943
Beneficiary certificates of financial assets	2,358,066	24,781,928
Less guarantee deposits paid (Note 21)	—	(14,464,000)
	95,858,078	266,798,792
Foreign investments		
Stocks	30,272,580	23,632,001
Funds and beneficiary certificates	11,668,595	2,530,001
Bonds	23,428,384	5,617,855
	65,369,559	31,779,857
	$161,227,637	$298,578,649

In the first quarter of year 2007 SKLIC securitized Song-Jiang Building, Cheng-De Building and Ban-Ciao Building and entrusted these real estate investments to a trustee for issuance of beneficiary certificates (Song-Jiang case) according to SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF. In January 2007, SKLIC sold real estate to obtain beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of real estate investments of $16,771 thousand are recognized for the three months ended March 31, 2007 based on the real estate sold.

SKLIC estimated the expected lease term of Song-Jiang case as the amortization term of deferred credit to recognize gain in the current year and future years. For the three months ended March 31, 2008 and 2009, deferred credit realized of $10,981 thousand and $7,970 thousand are recorded as other income, respectively.

SKLIC's issuing years of the real estate investment trust fund beneficiary certificates and the cost of acquisition are summarized as follows

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building	Shin-Kong No. 1
Certificate category	Real estate asset trust	Real estate asset trust	Real estate asset trust	Real estate investment trust
Issuing year	2007	2005	2005	2005
Cost of acquisition	301,870	691,980	916,808	1,488,743

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the time of securitization are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building
Discount rate	5.18%	5.68%	5.06%
Vacancy rate	0.00%~10.42%	0.08%	3.96%
Market average vacancy rate	7.00%~13.00%	3.30%	6.63%
Percentage of issuance	60.00%	44.00%	54.00%
Equity coverage	1.38	1.24	1.11

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the balance sheet date are summarized as follows:

	Song-Jiang Building	Dun-Nan Building	Zhong-Shang Building
Carrying value of beneficiary certificates	$ 603,614	$2,243,143	$2,826,872
Estimated percentage of issuance	60.00%	54.00%	44.00%
Estimated market vacancy rate	7.46%~11.44%	9.60%	—
Estimated discount rate	5.35%	4.13%	—
Effect on carrying value — 10% unfavorable fluctuation	573,580	2,309,090	—
Effect on carrying value — 20% unfavorable fluctuation	543,290	2,231,760	—
Estimated vacancy rate	14.35%	6.23%	—
Effect on carrying value — 10% unfavorable fluctuation	600,970	2,376,670	—
Effect on carrying value — 20% unfavorable fluctuation	603,710	2,373,370	—

On March 30, 2009, land and building of Zhong-Shang real estate trust fund, which will expire in 5 years on January 11, 2010, was sold to Shin Kong No. 1 trust fund managed by Mega International Commercial Bank.

The available-for-sale financial assets used as guarantee are shown in Note 42.

13. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31	
	2008	2009
Government bonds	$152,632,564	$6,206,220
Corporate bonds	17,627,974	1,399,641
Bank debentures	25,700,952	—
Beneficiary certificates	27,166,607	2,135,975
Foreign bonds	714,217	115,766
Less guarantee deposits paid (Note 21)	(5,432,000)	—
	$218,410,314	$9,857,602

Due to the current tumultuous global financial environment and in order to strengthen the capital structure, SKLIC changed its intention of holding held-to-maturity financial assets, and reclassified $198,796,273 thousand from held-to-maturity investments to available-for-sale financial assets in accordance with SFAS No. 34, “Accounting for Financial Instrument” in 2008, and measured at fair value.

Credit ratings of some investment financial bonds have been downgraded substantially in the first quarter of 2008. In consideration of other related factors such as information on payment of interest and repayment of principal, the Group recognized impairment loss of $371,329 thousand for the three months ended March 31, 2008.

The held-to maturity financial assets used as guarantee are shown in Note 42.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31					
	2008			2009		
	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%
Mercury Venture Capital Co., Ltd.	$120,000	$129,360	20.00	$ 120,000	$ 21,646	20.00
Centillion Venture Capital Co., Ltd.	216,660	301,210	21.67	216,660	220,875	21.67
	336,660	430,570		336,660	242,521	
Prepaid investment						
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization)	—	—	—	1,095,950	1,232,889	50.00
	$336,660	$430,570		$1,432,610	$1,475,410	

a. Equity in (loss) earnings of equity method investments for the three months ended March 31, 2008 and 2009 was as follows:

	For the Three Months Ended March 31			
	2008		2009	
	Investee's Loss	Investment Loss	Investee's (Loss) Income	Investment (Loss) Income
Mercury Venture Capital Co., Ltd.	$(1,457)	$(356)	$(3,354)	$ (727)
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization)	—	—	2,267	1,134
Centillion Venture Capital Corp.	(358)	(72)	—	—
	$(1,815)	$(428)	$(1,087)	$ 407

b. Financial statements of the investee companies as of and for the three months ended March 31, 2008 and 2009 were reviewed except for Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization).

c. Mercury Venture Capital Corp. was liquidated on October 1, 2008. As of March 31, 2009, the liquidation has not been completed. According to ARDF Interpretation (88) No. 233, in accounting for equity investment accounted under equity method during liquidation, SKLIC did not recognize gain or loss since SKLIC expected to recover all of the investment.

d. In June 2008, SKLIC and China Hainan Group set up a joint-venture, Shin-Kong Hainan Insurance Co., Ltd., to operate the relevant business of life insurance in China area (as of December 31, 2008, it was still processing as preparatory organization). This investment has been approved by the Investment Commission, MOEA for the amount of $1,095,950 thousand (50% of ownership).

e. Marketable securities held as of March 31, 2008 and 2009 are shown in Note 50.

15. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2008	2009
Emerging market stocks	$1,058,415	$ 539,256
Unlisted stocks	5,873,380	5,851,308
Limited foreign listed security	—	133,883
Prepaid investment	400,000	—
	$7,331,795	$6,524,447

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

The financial assets carried at cost used as guarantee are shown in Note 42.

16. DEBT SECURITIES WITHOUT ACTIVE MARKET

	March 31	
	2008	2009
Preferred stock	$ 897,649	$ 897,648
Corporate bonds and beneficiary certificates	102,872,511	7,032,477
Structure notes	24,050,000	4,200,000
Foreign bonds	167,922,492	373,013,563
	$295,742,652	$385,143,688

Foreign investments in trust funds entrusted to financial institutions are shown in Note 7.

As affected by subprime mortgage crisis, the credit ratings of the Group's financial instruments, foreign corporate bonds, foreign beneficiary certificates and mortgage bond, have been downgraded significantly for the three months ended March 31, 2008 and 2009. In consideration of other related factors such as information on payment of interest and repayment of principal, the Group recognized impairment loss of $2,903,837 thousand and $93,440 thousand for the three months ended March 31, 2008 and 2009.

17. REAL ESTATE INVESTMENTS, NET

	For the Three Months Ended March 31, 2008				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2008	$45,747,971	$28,321,039	$1,080,895	$3,225,574	$78,375,479
Increase	11	—	932,897	—	932,908
Disposal	(4,150)	(12,505)	—	—	(16,655)
Reclassification	56,143	4,791	17,562	(17,562)	60,934
Balance, March 31, 2008	45,799,975	28,313,325	2,031,354	3,208,012	79,352,666
Revaluation increment					
Balance, January 1,2008	$ 5,898,415	$ 18,801	$ —	$ —	$ 5,917,216
Increase	—	—	—	—	—
Disposal	(3,189)	—	—	—	(3,189)
Reclassification	1,183	—	—	—	1,183
Balance, March 31, 2008	5,896,409	18,801	—	—	5,915,210
Accumulated depreciation					
Balance, January 1, 2008	—	5,252,656	—	—	5,252,656
Depreciation expense	—	130,793	—	—	130,793
Disposal	—	(5,148)	—	—	(5,148)
Reclassification	—	(1,135)	—	—	(1,135)
Balance, March 31, 2008	—	5,377,166	—	—	5,377,166
Accumulated impairment					
Balance, January 1, 2008	88,284	—	—	—	88,284
Increase	—	—	—	—	—
Disposal	(1,816)	—	—	—	(1,816)
Balance, March 31, 2008	86,468	—	—	—	86,468
Carrying amount	$51,609,916	$22,954,960	$2,031,354	$3,208,012	$79,804,242

	For the Three Months Ended March 31, 2009				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2009	$44,692,769	$29,896,871	$2,538,634	$3,155,326	$80,283,600
Increase	32	3,683	350,263	—	353,978
Disposal	—	—	—	—	—
Reclassification	(5,675,714)	(3,680,913)	17,562	(17,562)	(9,356,627)
Balance, March 31, 2009	39,017,087	26,219,641	2,906,459	3,137,764	71,280,951
Revaluation increment					
Balance, January 1, 2009	5,831,297	18,820	—	—	5,850,117
Increase	—	—	—	—	—
Disposal	—	—	—	—	—
Reclassification	17,326	—	—	—	17,326
Balance, March 31, 2009	5,848,623	18,820	—	—	5,867,443
Accumulated depreciation					
Balance, January 1, 2009	—	5,729,655	—	—	5,729,655
Depreciation expense	—	151,078	—	—	151,078
Disposal	—	—	—	—	—
Reclassification	—	(580,748)	—	—	(580,748)
Balance, March 31, 2009	—	5,299,985	—	—	5,299,985
Accumulated impairment					
Balance, January 1, 2009	86,468	—	—	—	86,468
Increase	—	—	—	—	—
Disposal	—	—	—	—	—
Balance, March 31, 2009	86,468	—	—	—	86,468
Carrying amount	$44,779,242	$20,938,476	$2,906,459	$3,137,764	$71,761,941

Through an auction in November 2003, SKLIC received 50-year rights of superficies on lot A12, located in the Hsin Yi district. The rights acquisition cost was recognized as “rights of superficies on land.” The rights, which are considered special because the Hsin Yi land is not for public use, will be terminated in November 2053. Under the related contract, SKLIC’s monthly rental fee throughout the life of the rights is $3,875 thousand, payable quarterly. As of December 31, 2008, SKLIC has paid out all payable. Upon termination of the contract, SKLIC should transfer gratuitously the completed structures on the land to the city of Taipei.

On March 31, 2009, the Board of SKLIC resolved to sell the land and building located in Hsin-Yi A11; the transaction was completed on March 30, 2009. The Board also resolved to securitize Hanover Technology Building and Yang-Guang Technology Building. Land valued at $5,651,549 thousand and buildings valued at $3,040,967 thousand were classified as noncurrent assets held for sale (see Note 9).

Revaluation of real estate investments are shown in Note 2.

Real estate investments used as guarantees are shown in Note 42.

18. PROPERTY AND EQUIPMENT

	For the Three Months Ended March 31, 2008					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2008	$10,512,260	$9,528,793	$113,247	$7,037,582	$65,658	$27,257,540
Increase	—	2,668	9,970	36,254	16,633	65,525
Disposal	(664,502)	(413,388)	(8,658)	(491,570)	—	(1,578,118)
Reclassification	(56,143)	(4,791)	—	(304)	—	(61,238)
Balance, March 31, 2008	9,791,615	9,113,282	114,559	6,581,962	82,291	25,683,709
Revaluation increment						
Balance, January 1, 2008	1,587,566	21,136	—	—	—	1,608,702
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(1,183)	—	—	—	—	(1,183)
Balance, March 31, 2008	1,586,383	21,136	—	—	—	1,607,519
Accumulated depreciation						
Balance, January 1, 2008	—	4,210,751	49,671	3,147,597	—	7,408,019
Depreciation expense	—	76,940	4,589	147,626	—	229,155
Disposal	—	(97,337)	(3,970)	(475,289)	—	(576,596)
Reclassification	—	1,135	—	—	—	1,135
Balance, March 31, 2008	—	4,191,489	50,290	2,819,934	—	7,061,713
Accumulated impairment						
Balance, January 1, 2008	378,769	—	—	—	—	378,769
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, March 31, 2008	378,769	—	—	—	—	378,769
Carrying amount	$10,999,229	$4,942,929	$ 64,269	$3,762,028	$82,291	$19,850,746

	For the Three Months Ended March 31, 2009					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2009	$ 9,562,880	$9,225,240	$98,696	$6,501,163	$61,937	$25,449,916
Increase	—	1,801	1,133	56,902	4,735	64,571
Disposal	—	(1,848)	(2,616)	(193,682)	—	(198,146)
Reclassification	24,165	(188,044)	—	108,967	(7,288)	(62,200)
Balance, March 31, 2009	9,587,045	9,037,149	97,213	6,473,350	59,384	25,254,141
Revaluation increment						
Balance, January 1, 2009	1,650,425	21,116	—	—	—	1,671,541
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(17,326)	—	—	—	—	(17,326)
Balance, March 31, 2009	1,633,099	21,116	—	—	—	1,654,215
Accumulated depreciation						
Balance, January 1, 2009	—	4,312,212	42,067	2,750,134	—	7,104,413
Depreciation expense	—	52,961	3,731	146,632	—	203,324
Disposal	—	(1,848)	(483)	(192,490)	—	(194,821)
Reclassification	—	(8,774)	—	—	—	(8,774)
Balance, March 31, 2009	—	4,354,551	45,315	2,704,276	—	7,104,142
Accumulated impairment						
	378,769	—	—	—	—	378,769
Balance, January 1, 2009	—	—	—	—	—	—
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, March 31, 2009	378,769	—	—	—	—	378,769
Carrying amount	$10,841,375	$4,703,714	$51,898	$3,769,074	$59,384	$19,425,445

Revaluation of property and equipment is shown in Note 2.

Property and equipment used as guarantees are shown in Note 42.

19. GOODWILL AND INTANGIBLE ASSETS, NET

	March 31	
	2008	2009
Goodwill	$2,884,640	$2,884,640
Accumulated impairment	—	(549,594)
	$2,884,640	$2,335,046

TSKCB's acquisition of other financial institutions is measured according to the provisions of SFAS No. 25 — "Business Combinations — Accounting Treatment under Purchase Method". The excess of purchase price (cash) over net asset on acquisition of $2,082,113 thousand and the difference between acquisition cost and the Company's proportionate share in the investee's equity of $817 thousand is recognized as goodwill and is previously amortized on a straight-line basis over 20 and 5 years, respectively. Effective January 1, 2006, pursuant to the newly revised SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", goodwill is no longer amortized; as of March 31, 2009, the carrying value of goodwill is $1,243,923 thousand.

The Company acquired 100% equity interest of SKITC in 2006. The excess of purchase price over net asset amounting to $1,478,750 thousand is recognized as goodwill.

The Company acquired 25.32% equity interest of MLSC in batches in 2007. The excess of purchase price over net asset amounting to $161,967 thousand is recognized as goodwill.

As of March 31, 2009, the Group has recognized accumulated impairment $549,594 thousand.

20. SINKING FUND

In June 2004, the Company issued US$260 million of European Convertible Bonds. The bondholders may request the Company to redeem the bonds at the second anniversary date (June 17, 2006) at 99.50% of the face amount of the bonds. In addition, unless previously redeemed or converted and canceled, the Company will redeem each ECB at 98.76% of its principal amount in U.S. dollars on June 17, 2009. Hence, in order to prepare for cash demand, the Company set up a sinking fund.

In 2008, the Company used the sinking fund of $600 million in order to redeem European Convertible Bonds ahead of time. As of March 31, 2009, the balance of sinking fund $400 million was recorded as miscellaneous financial assets.

21. MISCELLANEOUS ASSETS, OTHERS

	March 31	
	2008	2009
Prepaid expenses	$ 574,426	$ 1,168,021
Insurance Industry Stability Fund	1,588,039	1,749,732
Less reserve for Insurance Industry Stability Fund	(1,588,039)	(1,749,732)
Guarantee deposits paid	12,738,311	19,053,557
Restricted assets — time deposit and compensate deposit (Note 42)	2,947,565	2,782,368
Deferred expenses	1,200,513	1,673,142
Prepaid pension expenses (Note 30)	2,222,645	2,106,513
Deferred income tax assets (Note 40)	8,295,228	17,255,131
Collaterals assumed, net	1,002,889	235,230
Overdue receivable	230,582	279,036
Less allowance for doubtful accounts (Note 11)	(223,646)	(257,741)
Others	249,926	469,346
	$29,238,439	$44,764,603

Under the Ministry of Finance's Approval Documents Tai-Tsai-Bao No. 811769212 dated June 30, 1992, starting from January 1, 1993, an insurance company should contribute one thousandth of premiums received to the Industry Stability Fund. The credit account "Reserve for Insurance Industry Stability Fund" is a contra account of the Industry Stability Fund.

Guarantee deposits paid as of March 31, 2008 and 2009 were as follows:

	2008	2009
Insurance operation guarantee deposit	$ 5,432,000	$14,464,000
Deposit for stock index futures	1,009,834	1,536,851
Securities operation guarantee deposit	1,375,000	1,402,000
Clearing and settlement fund	533,590	531,860
Office leasing guarantee deposit	239,034	280,179
Guarantee deposit for provisional seizure of assets	517,699	145,612
Banking operation guarantee deposit	417,943	106,336
Guarantee deposit for issuing bank debentures	2,622,182	—
Other guarantee deposits	591,029	586,719
	$12,738,311	$19,053,557

Based on Article 141 of the ROC Insurance Law ("Insurance Law"), an amount equal to 15% of SKLIC's paid-in capital should be deposited in the Central Bank as "Insurance operation Guarantee Deposit." Article 142 of the same law further stipulates that this deposit can only be refunded if SKLIC ceases its business operations and completes the required liquidation process. As of March 31, 2008 and 2009, SKLIC deposited government bonds (carrying value) to the special treasury account as operating guarantee deposit. In order to switch the original deposit of government bonds from the special treasury account, on March 31, 2009, the Company pledged additional $7,232,000 thousand of government bonds as required for the deposits on March 31, 2009 and redeemed $7,232,000 thousand of the original government bonds on April 14, 2009.

The provision of operating guarantee deposit and the settlement fund by SKSC and MLSC; NLAMC and SKITC is based on the securities and Exchange Act and Rules Governing Securities Firms.

The provisions of guarantee deposit for issuing bank debentures received to the guarantees provided banks by TSKCB are based on the bank debenture contracts. Bank debentures issued are shown in Note 27.

When engaged in futures transactions, both parties, buyer and seller, must pay certain guarantee deposits which are calculated based on the value of the contract. It is guarantee deposits for performance in the future or for principal lost in liquidation.

Deferred expenses for the three months ended March 31, 2008 and 2009 were as follows:

	2008	2009
Balance, January 1	$1,240,577	$1,535,021
Increase	77,930	134,411
Disposal	(2,642)	—
Amortization	(114,634)	(133,079)
Reclassification	(718)	136,789
Balance, March 31	$1,200,513	$1,673,142

Collaterals assumed, net as of March 31, 2008 and 2009 were as follows:

	2008	2009
Land	$ 1,555,517	$ 864,142
Building	619,965	412,158
Other Equipment	248	248
Less accumulated impairment	(1,172,841)	(1,041,318)
	$ 1,002,889	$ 235,230

For the three months ended March 31, 2008 and 2009, TSKCB's recognized impairment loss of $40,755 thousand and reversed impairment loss of $27,933 thousand, respectively, due to sale of collaterals assumed.

Debit (credit) items for consigned trades, net as of March 31, 2008 and 2009 were as follows:

	2008	2009
Debits		
Bank deposit — settlement fund	$ 54,286	$ 22,263
Receivable on securities purchased for customers	22,382,403	17,155,990
Sold securities	5,331,371	—
Settlement accounts receivable	7,005,164	8,439,119
	34,773,224	25,617,372
Credits		
Payable on securities sold for customers	(25,960,724)	(17,164,629)
Settlement accounts payable	(5,002,920)	(8,401,143)
Settlement price	(3,982,431)	(524,649)
Credit transaction	(21)	(913)
	(34,946,096)	(26,091,334)
	$ (172,872)	$ (473,962)

The above accounts were generated through consignment buying and selling of marketable securities.

Debit balance is recorded as miscellaneous assets; credit balance is recorded as other liabilities.

22. DUE TO CENTRAL BANK AND OTHER BANKS

	March 31	
	2008	2009
Due to Central Bank	$ 67,842	$ 8,779
Due to other banks	326,962	119,249
Due to Chunghwa Post Co., Ltd.	3,022,572	3,063,543
Call loans from banks	7,502,610	185,547
	$10,919,986	$3,377,118

23. COMMERCIAL PAPER PAYABLE

As of March 31, 2008 and 2009, the balances of commercial paper payable were $10,546,605 thousand and $399,867 thousand, with interest rates ranging from 1.70%~2.99% and 0.40%~1.40%, respectively.

24. NOTES ISSUED UNDER REPURCHASE AGREEMENTS

The Group engages in financing activities through notes trading based on certain conditions. As of March 31, 2008 and 2009, the balances of notes issued under repurchase agreements were $34,208,372 thousand and $17,216,630 thousand, respectively, with interest rates ranging from 1.60%~2.17% and 0.11%~2.30%, respectively.

25. ACCRUED EXPENSES

	March 31	
	2008	2009
Salaries	$1,346,562	$1,089,598
Others	3,241,757	2,698,948
	$4,588,319	$3,788,546

Accrued expenses — others include taxes, insurance premiums, building administration expenses, advertising expenses and common office expenditures of each department.

26. DEPOSITS AND REMITTANCES

	March 31	
	2008	2009
Savings account deposits	$219,355,372	$216,821,550
Time deposits	72,453,082	88,633,701
Negotiable certificates of deposits	3,591,700	684,500
Demand deposits	22,089,770	26,397,910
Checking deposits	4,756,386	3,476,808
Remittances outstanding	25,408	8,391
	$322,271,718	$336,022,860

27. DEBENTURES PAYABLE

	March 31	
	2008	2009
First dominant bank debenture	$10,000,000	$ —
Second dominant bank debenture	8,800,000	8,800,000
	18,800,000	8,800,000
Less item reclassified as financial liabilities designated at fair value through profit or loss (Note 7)	(1,000,000)	—
	$17,800,000	$8,800,000

TSKCB issued from first to sixth first financial debenture of 2003 on November 25, 2003, December 3, 2003, December 5, 2003, December 8, 2003, December 10, 2003 and December 16, 2003, respectively, and issued first and second first financial debenture of 2004 on February 4, 2004 and February 16, 2004, respectively. Those issuances of financial debenture were approved by the Ministry of Finance in its ruling reference No. 0920032691 issued by the Ministry of Finance on July 14, 2003. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $10,000,000 thousand

(b) Principal issued: $10,000,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: 5 years, with maturities on November 25, 2008, December 3, 2008, December 5, 2008, December 8, 2008, December 10, 2008, December 16, 2008, February 4, 2009 and February 16, 2009, respectively.

(e) Nominal interest rate: Fixed or floating interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid as follows:

  (i) Paid seasonally from the issuance date: A, B, C, D and F items of fifth first financial debenture of 2003.

  (ii) Paid semi-annually from the issuance date: First, third, fourth, sixth first financial debenture and E item of the fifth first financial debenture of 2003 and first and second first financial debenture of 2004.

  (iii) Paid annually from the issuance date: Second first financial debenture of 2003.

(h) $8,700,000 thousand and $1,300,000 thousand of financial debentures became due on December 2008 and February 2009, respectively, and were repaid.

TSKCB issued first secondary financial debenture and second secondary financial debenture on November 13, 2006 and November 27, 2006, respectively, which was approved by the Banking Bureau, Financial Supervisory Commission, Executive Yuan, ROC, ruling reference No. 09500376520 issued by Banking Bureau, Financial Supervisory Commission, Executive Yuan, ROC on September 8, 2006. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $8,800,000 thousand

(b) Principal issued: $8,800,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: I debenture, 7 years with maturities on November 13, 2013 and November 27, 2013. II debenture, 10 years with maturities on November 13, 2016 and November 27, 2016.

(e) Nominal interest rate: Fixed interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid annually from the issuance date.

As of March 31, 2008, to offset the influence of the inconsistency in accounting for interest payment on the settlement date for the third and fourth primary financial debenture of 2003 amounting $1,000,000 thousand and for the interest swap contract which is taking a position that is equal and opposite to the ultimate position of the first financial debenture, TSKCB designated those financial liabilities at fair value through profit or loss. The financial debenture was redeemed in December 2008. Please see Note 7.

28. BONDS PAYABLE, NET

	March 31	
	2008	2009
Domestic unsecured corporate bond — first issue	$ —	$ 5,000,000
Domestic unsecured subordinate corporate bond — second issue	—	4,700,000
Domestic unsecured convertible bond — first issue	—	1,900,700
Domestic secured subordinate bond — first issue	5,000,000	—
Overseas convertible bond	7,878,088	7,490,400
	12,878,088	19,091,100
Less discount balance of Domestic first period unsecured convertible bond	—	(465,649)
	12,878,088	18,625,451
Less convertible bond with a maturity of one year	—	(5,304,449)
	$12,878,088	$13,321,002

SKFHC made a first issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of May 22, 2008, with reference No. (97)-Jin-Guan-Cheng-(1)-No. 0970018931 — of domestic unsecured corporate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $5,000,000 thousand.

(b) Face value and issue price: $1,000 thousand each, issue in full.

(c) Term: five years from May 22, 2008 to May 22, 2013.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: 2.83%.

(f) Interest payments: Simple interest per annum from the issue date.

(g) Bond form: Incorporeally issued.

SKFHC made a second issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of September 29, 2008, with reference No. (97)-Jin- Guan-Cheng-(1)-No. 0970048058 — of domestic unsecured subordinate corporate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $4,700,000 thousand, and divided into Bond A and Bond B. The total issue amount for Bond A and Bond B was $1,200,000 thousand and $3,500,000 thousand, respectively.

(b) Face value and issue price: $1,000 thousand each, issue in full.

(c) Term: seven years from September 29, 2008 to September 29, 2015.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: Bond A- 3.65%; and Bond B- interest rate indexes+ 1.00%. Interest rate indexes are the fixing rate of NTD 90-day short-term notes and bills in secondary market provided by Reuters. If the rate could not be obtained on standard date, use the fixing rate of one business day standard date.

(f) Interest payments: Bond A- payable annually; and Bond B, compounded quarterly and payable annually.

(g) Bond form: Incorporeally issued.

To improve the capital structure of MLSC, it made a first issue- with the approval of the Financial Supervisory Commission, Executive Yuan, in their letter of July 25, 2008, with reference No. (97)-Jin-Guan-Cheng-(2)-No. 0970030580 — of domestic unsecured convertible bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $2,000,000 thousand.

(b) Face value and issue price: $100 thousand each, issue in full.

(c) Coupon rates per annum: 0%.

(d) Term: five years from July 25, 2008 to July 25, 2013.

(e) Redemption at the MLSC's option:

(i) Final redemption:

Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each bond at par value.

(ii) Redemption at MLSC's option:

At any time on or after three month of the issue date until the 40th day before the maturity date, MLSC may redeem the whole bonds at par value if the closing price for 30 consecutive trading days exceeds 50% of the conversion price.

At any time on or after three month of the issue date until the 40th day before the maturity date, MLSC may redeem the whole bonds at par value if the unredeemed bonds less than $200,000 thousand (10% of aggregate issue amount).

(f) Redemption at the bondholders' option:

The bondholders could request MLSC to redeem their bonds at par value plus interest compensation (substance profitability is 1%) in cash after two and three years of the issue date.

(g) Conversion method:

(i) Conversion period:

Any time after three months of the issue date until the 10th day before the maturity date.

(ii) Conversion pricing:

The formula is the conversion premium rate from 105% multiplied by the standard price, which is the average value calculated simply at the closing price of one, three or five business days before conversion price deciding date.

(iii) Adjustment of conversion pricing:

1. MLSC adopted the rules of anti-dilution (ex-right, ex-dividend and common stock issued for cash etc.)

2. MLSC revised the conversion pricing down if the price of the conversion pricing was down (no adjustment if it was up), which follows the model of the above-mentioned on the ex-dividend date after second to five years. But it couldn't be below 80% of conversion pricing on the issue date (or when the common stock changed.)

(h) MLSC adopted SFAS No. 36 — "Presentation and Disclosure for Financial Instruments" and separated the conversion option from the liabilities. The liabilities were made up of embedded derivatives and non-derivatives. The fair value of the embedded derivatives was $297,003 thousand as of March 31, 2009; and the book value of bond payable measured by cost after amortization was $1,435,051 thousand as of March 31, 2009.

(i) MLSC made a first issue of unsecured convertible bonds, and adopted SFAS No. 34 — "Accounting for Financial Instruments" and No. 36 — "Presentation and Disclosure for Financial Instruments". MLSC recognized amortization of the bonds of $22,789 thousand and valuation gain on financial liabilities of $231,695 thousand for the three month ended March 31, 2009 as "Interest expense" and "Valuation gain of financial liabilities at fair value through profit or loss", respectively.

(j) There was no unsecured convertible bond converted as of March 31, 2009.

To improve the capital structure of its investees, the Company made a first issue — with the approval of the Securities and Futures Bureau, Ministry of Finance, in their letter of June 16, 2003, with reference no. (92)-Tai-Tsai-Cheng (1) No. 0920124581 — of secured domestic subordinate bonds. The main issue terms are as follows:

(a) Aggregate issue amount: $5,000,000 thousand, divided into 18 coupons — A1, A2, A3, A4, A5, A6, A7, A8, A9 and B1, B2, B3, B4, B5, B6, B7, B8, B9. Issue amounts per coupon are as follows: (a) series A — $200 million; (b) B1 to B5 — $300 million; (c) B6 — $500 million; and B7, B8 and B9 — $400 million.

(b) Face value: $10,000 thousand each, issued in full.

(c) Term: five years from June 16, 2003 to June 26, 2008.

(d) Principal repayment: On maturity.

(e) Coupon rates per annum: A1 to A9 — 1.60%; and B1 to B9 — 1.5937%.

(f) Interest payments: A1 to A9 — payable annually; and B1 to B9, compounded semiannually and payable annually. (The bond interest paid should be the actual amount stated on the bond interest coupon.)

(g) The secured junior bond is guaranteed by Hua Nan Commercial Bank. The Company provided 1,018,000 thousand shares of SKLIC as collateral. As of December 31, 2007, the net value of collateral amounted to $17,471,762 thousand.

(h) The bond matured on June 26, 2008 and was fully repaid. The guarantee was terminated on June 30, 2008.

To improve the capital structure of the Company's investees, the Company issued — with the approval of the Securities and Futures Commission, Ministry of Finance in their letter of June 17, 2004, with reference no. (93)-Tai-Tsai-Cheng (1) No. 0930123581 — the Company issued European convertible bonds ("ECBs"). The main issue terms are as follows:

(a) Issue amount: US$260,000 thousand

(b) Interest rate: 0%.

(c) Term: Five years from June 17, 2004 to June 17, 2009.

(d) Redemption at the option of the Company:

  (i) Final redemption:

  Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each ECB at 98.76% of its principal amount in U.S. dollars on June 17, 2009.

  (ii) Redemption at the Company's option:

  At any time on or after June 17, 2007 and before June 17, 2009, the Company may redeem the ECBs in whole or in part from time to time (at US$10,000 or an integral multiple thereof), at 98.76% of their principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate for 20 consecutive trading days immediately preceding the date of the Company's redemption notice is at least 130% of the conversion price then in effect, translated into U.S. dollars at a fixed exchange rate of $33.53=US$1.00.

  The Company may also redeem the ECBs in whole, but not in part, at 100% of their principal amount if at least 90% of the principal amount of the ECBs has already been redeemed, repurchased, or converted. Alternatively, the Company may at any time redeem the ECBs in whole, but not in part, at 100% of their principal amount if certain changes in ROC taxation would require the Company to gross up the payment of any interest or premium at a rate greater than 20% or to gross up the repayment of principal.

(e) Redemption at the bondholders' option:

(i) Each holder has the right to require the Company to redeem all or a portion of the ECBs at 99.50% of their principal amount on June 17, 2006.

(ii) Each holder has the right to require the Company to redeem the ECBs in whole, but not in part, at 100% of their principal amount if the Company's shares cease to be listed on TSEC for at least five consecutive trading days.

(iii) Each holder has the right to require the Company to repurchase all or a portion of the ECBs at 100% of their principal amount on the change of control put date if there is change of control (as defined herein).

(f) Conversion:

(i) Conversion period: July 18, 2004 to June 2, 2009

(ii) Conversion price and its adjustment:

The initial price at which shares will be issued upon conversion is \$39.13 per share on the issue date (the fixed exchange rate of U.S. dollar to NT dollar is \$33.53 to US\$1.00). This conversion price will be adjusted accordingly if there is an increase in cash or dividend distribution by the Company. As of March 31, 2009, the conversion price has been adjusted to \$25.83 per share due to stock dividend and common stock issued for cash subscription.

(g) Location of listing: Luxembourg Stock Exchange.

(h) For the three months ended March 31, 2009, there were no bondholders who applied for ECBs.

(i) At January 7, 2009, the Company retired US\$10,000 thousand ECBs which were purchased from the active market. As a result, gain on early redemption of bonds payable of \$14,805 thousand was recorded under other income.

(j) As of March 31, 2009, the ECBs issued by the Company had been converted by bondholders amounting to US\$65,345 thousand equal to NT\$2,140,293 thousand at the conversion price, as well as 71,826 thousand shares. And the ECBs issued by the Company had been retired which were purchased from the active market amounting to US\$38,260 thousand.

To improve the capital structure of the Company's investees, the Company issued — with the approval of Financial Supervisory Commission, Executive Yuan in their letter of December 8, 2005, with reference no. (93) Cheng-Guang (1) No. 0940126182 — the Company issued European convertible bonds ("ECBs"). The main issue terms are as follows:

(a) Issue amount: US$250,000 thousand

(b) Interest rate: 0%.

(c) Term: Five years from December 15, 2005 to December 15, 2010.

(d) Redemption at the option of the Company:

  (i) Final redemption:

  Unless previously redeemed or converted and canceled as herein provided, the Company will redeem each ECB at 100% of its principal amount in U.S. dollars.

  (ii) Redemption at the Company's option:

  At any time on or after December 15, 2008 and before December 15, 2010, the Company may redeem the ECBs in whole or in part from time to time (at US$10,000 or an integral multiple thereof), at 100% of their principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate for 30 consecutive trading days of 20 business days immediately preceding the date of the Company's redemption notice is at least 130% of the conversion price then in effect, translated into U.S. dollars at a fixed exchange rate of $33.48=US$1.00.

  The Company may also redeem the ECBs in whole, but not in part, at 100% of their principal amount if at least 90% of the principal amount of the ECBs has already been redeemed, repurchased and canceled, or converted. Alternatively, the Company may at any time redeem the ECBs in whole, but not in part, at 100% of their principal amount if certain changes in ROC taxation would require the Company to gross up the payment of any interest or premium or to gross up the repayment of principal.

(e) Redemption at the bondholders' option:

  (i) Each holder has the right to require the Company to redeem all or a portion of the ECBs at 100% of their principal amount on December 15, 2007.

  (ii) Each holder has the right to require the Company to redeem the ECBs in whole, but not in part, at 100% of their principal amount if the Company's shares cease to be listed on TSEC for at least five consecutive trading days.

  (iii) Each holder has the right to require the Company to repurchase all or a portion (at US$10,000 or an integral multiple thereof) of the ECBs at 100% of their principal amount on the change of control put date if there is change of control (as defined herein).

(f) Conversion:

(i) Conversion period: from January 15, 2006 to December 5, 2010.

(ii) Conversion price and its adjustment:

The initial price at which shares will be issued upon conversion is $27.75 per share on the issue date (the fixed exchange rate of U.S. dollar to NT dollar is $33.48 to US$1.00). This conversion price will be adjusted accordingly if there is an increase in cash or dividend distribution by the Company. As of March 31, 2009, the conversion price was $17.70 adjusted on the basis of a certain formula due to stock dividend and common stock issued for cash subscription.

(g) Location of listing: Singapore Stock Exchange.

(h) For the three months ended March 31, 2009, there were no bondholders applying to covert ECBs.

(i) As of March 31, 2009, the ECBs issued by the Company had been converted by bondholders amounting to US$185,550 thousand equal to NT$6,073,950 thousand at the conversion price, as well as 234,557 thousand shares.

29. OTHER LOANS

	March 31			
	2008		2009	
	Interest Rate %	Ending Balance	Interest Rate %	Ending Balance
Pledged loans	2.44~5.34	$2,764,193	0.90~2.30	$ 495,329
Credit loans	2.10~2.90	2,780,000	1.96~2.35	2,920,696
		$5,544,193		$3,416,025

The Company provided 208,800 thousand shares of SKLIC for credit quotas.

Guarantee of pledged assets is shown in Note 42.

30. PENSION FUND

Under the Labor Pension Act, Employee Retirement Plan and Retirement Fund Custody and Distribution Plan, the consolidated entities have both defined benefit pension plan and defined contribution pension plan. The consolidated entities contribute amounts equal to 2% ~ 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee for the defined benefit pension plan. The pension fund is deposited in the Bank of Taiwan in the committee's name. For the defined contribution pension plan the consolidated entities make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

For the three months ended March 31, 2008 and 2009, net periodic pension cost under defined contribution plan amounted to $94,889 thousand and $86,121 thousand, respectively; and under defined benefit plan amounted to $135,381 thousand and $179,534 thousand, respectively.

Pension cost under a defined benefit plan is determined by actuarial valuations and accounted for in accordance with SFAS No. 18, "Accounting for Pension". Information about the defined benefit plan was as follows:

Movements in prepaid pension were as follows:

	2008	2009
Balance of prepaid pension expenses, January 1	$(2,241,034)	$(2,199,998)
Pension expenses	135,381	179,534
Contributions to the fund	(116,992)	(86,049)
Balance of prepaid pension expenses, March 31	$(2,222,645)	$(2,106,513)

Stocks and bonds of the consolidated entities and affiliates held by the pension trust fund in the custody of the Committee of Pension Trust Funds are summarized as follows:

Name	Category	March 31 2008	March 31 2009
		Unit: Share/Units	
Stock			
SKFHC	Listed stock	14,377,991	16,786,881
Shin Kong Synthetic Fiber Co., Ltd.	Listed stock	9,037,739	9,087,739
Taiwan-Sok Shin Kong Security Co., Ltd.	Listed stock	10,982,269	12,707,934
Shin Kong Fire & Marine Insurance Company	Listed stock	—	27,034,100
		34,397,999	65,616,654
Fund			
SKITC	SKITC Strategy Balanced Fund II/SKITC Fortune Balanced Fund/SKITC Global Champion Fund/ SKITC Great China Fund/ SKITC Strategy Balanced Fund II/SKITC ECB Balanced Fund/SKITC OTC Market Fund	10,180,308.27	5,700,403.30

31. INSURANCE PRODUCTS — SEPARATE ACCOUNT

The related accounts of SKLIC on March 31, 2008 and 2009 were summarized as follows:

	March 31	
	2008	2009
Separate account assets		
Beneficiary certificates	$ 74,298,227	$40,217,352
Bonds	31,250,626	46,246,880
Accounts receivable	7,253,502	108,782
	$112,802,355	$86,573,014
Separate account liabilities		
Reserves	$112,727,777	$86,552,079
Accounts Payable	74,578	20,935
	$112,802,355	$86,573,014

	March 31	
	2008	2009
Separate account benefits		
Premium income	$26,862,883	$ 1,353,740
Recovered reserve	14,289,274	5,560,485
Interest income	60,219	25,213
Unrealized gain on financial instruments	3,941,505	5,022,729
Gains on disposal of financial instruments	104,358	114,003
Exchange gain	24,606	7,505,224
Other income	94,430	408,388
	$45,377,275	$19,989,782

	March 31	
	2008	2009
Separate account expenses		
Insurance payment	$ 16,460	$ 53,684
Cash surrender value	5,123,220	1,903,958
Provision of Insurance reserves	22,645,704	4,103,181
Unrealized loss on financial instruments	11,670,900	5,133,641
Loss on disposal of financial instruments	738,882	2,279,756
Management fee	518,740	350,307
Service charge and redeemed expense	226,395	141,575
Exchange loss	4,400,256	5,622,950
Other expense	36,718	400,730
	$45,377,275	$19,989,782

For the three months ended March 31, 2008 and 2009, SKLIC managed separate account and received the sales rebate from dealers sales rebates of $1,189,486 thousand and $34,801 thousand, respectively.

32. OTHER ADVANCE RECEIPTS

	March 31	
	2008	2009
Separate account	$10,646,857	$ —
Others	2,990,320	2,043,926
	$13,637,177	$2,043,926

For the three months ended March 31, 2008 and 2009, other advance receipts mainly represent cash received from customers but not recognized as premium income.

33. PREFERRED STOCK LIABILITIES

SKLIC selected December 26, 2008 as the basis date for the issuance of 165,400 thousand shares of Class E preferred stock, with par value of NT$10 per share, for a total of NT$1,654,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of SKLIC's Class E preferred stock is fixed at a rate of 7.71% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class E preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If SKLIC does not have any earnings or the earnings are insufficient to suffice for the dividends for Class E preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class E preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class E preferred stock of SKLIC have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of SKLIC's residual assets, for a sum up to and not exceeding the total proceeds received by SKLIC upon issuance.

(e) Class E preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class E preferred stockholders have voting rights in the Class E preferred stockholders' meeting.

(f) When SKLIC issues new shares, the Class E preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B preferred stockholder.

(g) Class E preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, SKLIC may repurchase all Class E preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, SKLIC is unable to repurchase part or all of the Class E preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 7.71% and computed for the actual extension of the term. The rights of the Class E preferred stock written in SKLIC's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class E preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class E preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

34. STOCKHOLDERS' EQUITY OF PARENT

Capital Stock

As of January 1, 2008, the Company's paid-in capital amounted to $50,253,725 thousand, divided into 5,025,373 thousand common shares with par value of $10.00 per share.

In 2008, the Company issued 70 thousand shares of common stock for converted Overseas Convertible Bonds. The bonds converted to capital amounted to $700 thousand.

At March 31, 2008, the Company issued 368,421 thousand shares of common stock with $10.00 par value at $19.00 that amounted to $7,000,000 thousand (included capital stock $3,684,211 thousand and additional paid-in capital $3,315,789 thousand).

At June 13, 2008 the stockholders approved the transfer of retained earnings of $2,677,557 thousand as stock dividends by issuing 267,756 thousand shares with par value of $10.00 per share.

According to the resolution of stockholders on October 31, 2008, issued with the approval of the Securities and Futures Commission, Ministry of Finance in their letter with reference no. (6)-No.09700478190, the Company issued 592,567 thousand shares of common stock with $10.00 par value at $10.64 as private placement that amounted to $6,304,917 thousand (included capital stock $5,925,673 thousand and additional paid-in capital $379,244 thousand).

On January 22, 2009, the Board of the Company resolved to retire 7,280 thousand shares with par value $10 each.

As of March 31, 2009, the Company's authorized capital was $80,000,000 thousand, outstanding common stock was $62,469,066 thousand, divided into 6,246,907 thousand and par value of common shares was $10.00 per share.

Capital Surplus

As of March 31, 2008 and 2009, the Company's capital surplus consisted of the following:

	2008	2009
Additional paid-in capital	$20,246,736	$20,625,980
Treasury stock	43,109	18,408
Other capital surplus — subsidiaries	5,449	5,449
	$20,295,294	$20,649,837

As of March 31, 2008 and 2009, the source and utilization of additional paid-in capital are summarized as follows:

	2008	2009
Balance during establishment	$ 11,376,186	$ 11,376,186
Capital surplus source — subsidiaries		
Capital surplus	42,260	42,260
Legal surplus	5,407,818	5,407,818
Special surplus	2,134,509	2,134,509
Retained earnings	1,207,446	1,207,446
	8,792,033	8,792,033
Total capital stock of subsidiaries that exceeds the Company's paid-in capital	2,584,153	2,584,153
	$ 11,376,186	$ 11,376,186
Change of establishment		
Long-term equity investment net value change	$ (276,912)	$ (276,912)
Conversion of convertible bonds	7,819,349	7,819,349
Issuing common stock and share swap	17,636,757	18,016,001
Offset of accumulated deficit against capital surplus	(16,308,644)	(16,308,644)
	$ 8,870,550	$ 9,249,794

The capital surplus of financial holding company recorded during the conversion of financial institution shares may be distributed as cash dividends and be provided as capital during the year of conversion if the surplus comes from the retained earnings before the financial institution conversion. In addition, the ratio for capitalization of capital surplus is not restricted by Article 41-2 of Securities and Exchange Act and Article 8 of Securities and Exchange Act Enforcement Rules. The retained earnings of the original financial institution mean the amount after the appropriation of legal surplus or special surplus as required by law.

The Company approved to issue common stock for cash in 2008 and reserved 15% of the shares for distributing to persons who were employed by the Company or SKLIC as share-based payment. According to ARDF Interpretation (96) No. 267 and (97) No. 017, the Company recognized this compensation cost as expenses and capital surplus amounted to $353,551 thousand in first quarter, 2008.

Distribution of Earnings

a. The Company's Articles of Incorporation provide that annual earnings, net of tax and any deficit, should be appropriated in the following order:

   1) 10% as legal reserve and, if required by regulations, a special reserve;

   2) 0.01% to 0.05% of the remainder as bonuses to employees; and

   3) Final remainder, to be appropriated on the basis of the board of directors' proposal to be submitted to the stockholders' regular annual meeting for approval.

b. Special reserve

   To improve the capital structure of its investees, the Company made a first issue — with the approval of the Securities and Futures Bureau, Ministry of Finance, in their letter of January 3, 2000, with reference No. (89)-Tai-Tsai-Cheng-(1)-No. 100116.

   To distribute distributable earnings, except for legal reserve, the Company should take into consideration the improvement of the capital structure of its investees. Thus, except for appropriating legal reserve, if the current year-end contra accounts in the stockholders' equity have negative/debit balances, it is required to appropriate an additional special reserve equaling such negative/debit balances before distributing the undistributed earnings.

   Such appropriation of the special reserve should be according to the following limits to meet the aforesaid regulation. If the amounts of the contra accounts in the stockholders' equity resulted from the current year, the amount of the special reserve to be set aside should not exceed the current net income after income taxes plus the accumulated undistributed earnings of the prior years. If the amounts of the contra accounts in the stockholders' equity resulted from the prior years, the amount of the special reserve to be set aside should not exceed the accumulated undistributed earnings that have been set aside. In subsequent years, if there is reversal of the special reserve when the negative/debit balances of the contra accounts in the stockholders' equity have decreased, the portion of the reversal of the special reserve can be used for earnings distribution.

   Beginning in 2007, in deciding the use of prior years' earnings, except for appropriating legal reserve, "unrealized gain or loss on financial instruments" in stockholders' equity should be provided with the same amount of special reserve — with the approval of the Securities and Futures Bureau, Ministry of Finance, in their letter of January 27, 2006, with reference — Financial Supervisory Commission-(1)-No. 0950000507. In subsequent years, the Company is required to continue to appropriate or reverse special reserve to the extent of the difference between the amount of the current year and the prior year. In addition, the reversal of the special reserve can be used for earnings distribution.

c. Dividend policies

The Company is in the stage of stable growth. In framing a proposal for the distribution of annual earnings, the board of directors must balance the Company's long-term financial strategy and future demand for capital against the stockholders' demand for cash inflow. Thus, dividends and bonuses for common stockholders are declared pursuant to a balanced dividend policy. Accordingly, stock dividends declared must not exceed 50% of total dividends declared for the year. The percentages of stock and cash dividends declared are further adjusted according to the following considerations: capital needed for business operations and capital demand for investments, state of the stock market, major legislative reform; and so forth.

The bonus to employees and to directors and supervisors, representing 1% of net income (net of the bonus to employees and bonus to directors and supervisors), was calculated based on the Company's Article of Incorporation and past experiences. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

The proposal for distribution of 2007 earnings was approved by the shareholder's meeting on June 13, 2008, to distribute stock dividends of $2,677,557 thousand, cash dividends of $2,677,557 thousand, employee bonuses of $1,067 thousand and remunerations to directors and supervisors of $25,800 thousand. For 2007, basic earnings per share after tax was $0.96. If bonus to employees and remunerations to directors and supervisors are recognized as expense, pro forma information of earnings per share after tax for the year ended 2007 was $0.96. The information on the result of the proposal can be accessed on the Market Observation Post System of TSEC.

On April 28, 2009, the Board resolved not to make up deficit. Related information on the status of earnings distribution can be accessed at the website of Market Observation Post System provided by TSEC.

Unrealized Gain (Loss) on Financial Instruments

Unrealized gain or loss for the three months ended March 31, 2008 and 2009 follows:

	Available-for-Sale	Long-Term Equity Investment	Total
2008			
Balance, January 1 , 2008	$ 752,708	$ 35,976	$ 788,684
Adjustment taken directly to equity	789,750	(2,352)	787,398
Balance, March 31, 2008	$ 1,542,458	$ 33,624	$ 1,576,082
2009			
Balance, January 1 , 2009	$(28,563,525)	$(83,192)	$(28,646,717)
Adjustment taken directly to equity	251,772	10,513	262,285
Balance, March 31, 2009	$(28,311,753)	$(72,679)	$(28,384,432)

Unrealized Revaluation Increment

	March 31	
	2008	2009
Revaluation increment-land	$5,754,124	$5,753,849
Revaluation increment — other fixed asset	208,396	208,396
Less earning transfer raising capital	(151,034)	(151,034)
	$5,811,486	$5,811,211

Before 2005, according to the Company law 238th, additional paid-in capital can only be used to recover accumulated deficit and transfer to capital. If the company recovered accumulated deficit by using unrealized revaluation increment which was included in additional paid-in capital, then the used unrealized revaluation should be recovered at the earning year. Before the used unrealized revaluation increment had been fully recovered, the company could not distribute earning or resolve any other use of accumulated earnings. However, after the revision of the Company law, the Company law 238th was cancelled, and unrealized revaluation increment was separated as one line in the statement of changes of stockholders' equity following Generally Accepted Accounting Principles and Preparation of Financial Statements by Financial Holding Companies. Also, unrealized revaluation increment can only be utilized when the revalued properties were disposed.

35. TREASURY STOCK

Related treasury stock information was as follows:

	Shares at Beginning of 2009	Increase	Decrease	Shares at End of March 31, 2009
		Unit: '000 shares		
Reacquisition of issued stock				
For transfer of stock to employees	38,680	—	7,280	31,400

Based on the ROC Securities and Exchange Act, the issued shares acquired by a company as treasury stock should not exceed 10% of the total shares issued. The total reacquisition cost cannot exceed the sum of the retained earnings, additional paid-in capital in excess of par, and realized capital surplus. In first quarter, 2009, the Company had not repurchased any treasury shares.

Based on the original purpose of acquisition of treasury stock and as approved by the Financial Supervisory Commission, Executive Yuan, ruling reference No. 0950145337 issued by the Financial Supervisory Commission, Executive Yuan, the Company reissued 2,720 thousand shares to the Company's employees at $24.52 each share.

According to the ROC Securities and Exchange Act Article 28-2, treasury stock not transferred in a specific time is treated as unissued shares and shall be retired. In the quarter ended March 31, 2009, the Company retired 7,280 thousand shares with costs of $189,827 thousand.

The balance of treasury stock on March 31, 2009 amounted to $778,143 thousand was for the purpose of reissuing to employees, as well as 31,400 thousand shares.

36. LOSS PER SHARE

	Three Months Ended March 31, 2008				
	Amount		Weighted Average Number of Outstanding Shares ('000)	Loss Per Share (Dollar)	
	Loss before Tax	Loss after Tax		Loss before Tax	Loss after Tax
Basic loss per share	$(9,533,949)	$(6,861,737)	5,258,809	$(1.81)	$(1.30)

	Three Months Ended March 31, 2009				
	Amount		Weighted Average Number of Outstanding Shares ('000)	Loss Per Share (Dollar)	
	Loss before Tax	Loss after Tax		Loss before Tax	Loss after Tax
Basic loss per share	$(468,540)	$(636,902)	6,215,507	$(0.08)	$(0.10)

The potential common shares generated anti-dilutive effect in first quarter, 2008 and 2009 due to net loss. Hence, the Group did not calculate diluted earnings per share.

37. GAINS (LOSSES) ON INVESTMENTS

The Group's gains (losses) on investments for the three months ended March 31, 2008 and 2009 consisted of the following:

	2008	2009
Gains (losses) on disposal of investments, net	$3,642,781	$ (956,544)
Dividend income	135,246	25,118
Foreign investments in trust funds — distributable income	275,596	170,166
Gains (losses) on settlement of derivatives, net	552,332	(10,063,119)
	$4,605,955	$(10,824,379)

38. INCOME FROM REAL ESTATE INVESTMENTS

The Group's income from real estate investments for the three months ended March 31, 2008 and 2009 consisted of the following:

	2008	2009
Rental income (Note 41)	$570,554	$637,648
Gains on disposal of real estate investments, net	28,312	21,868
Gains on construction (Note 2)	118,254	40,469
	$717,120	$699,985

SKLIC estimated the expected lease term of Song-Jiang case as amortization term of unrealized gains on sale and leaseback. As of March 31, 2008 and 2009, realized gains on sale and leaseback were $33,836 thousand and $21,868 thousand, respectively, recognized as gains on disposal of real estate investments.

According to the provisions of SFAS No. 11, “Long-term Construction Contracts”, SKLIC calculated gains (losses) on construction in process of Shin-Kong Ruei-An JASPER by percentage-of-completion method. As of March 31, 2008 and 2009, accumulated profit on construction was as follows:

	2008	2009
Cumulative construction profit to date	$125,891	$ 234,790
Deduct: Cumulative construction profit recognized in prior periods	(7,637)	(194,321)
Construction profit in current period	$118,254	$ 40,469

39. PERSONNEL, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES

	Category					
	Three Months Ended March 31					
	2008			2009		
Item	Operation Costs	Operation Expenses	Total	Operation Costs	Operation Expenses	Total
Personnel expenses						
Salary	732,232	3,412,693	4,144,925	444,710	2,390,833	2,835,543
Labor and health insurance	414	255,140	255,554	3,155	265,836	268,991
Pension	2,764	227,506	230,270	2,362	263,293	265,655
Others	1,975	122,922	124,897	2,224	86,588	88,812
Depreciation	—	359,948	359,948	—	354,402	354,402
Amortization	—	114,634	114,634	—	133,079	133,079

40. INCOME TAX

Income tax expense (benefit) and deferred income tax asset (liability) of each consolidated entity for the three months ended March 31, 2008 and 2009 were as follows:

	2008		
	Income Tax Expense (Benefit)	Deferred Income Tax Assets	Deferred Income Tax Liabilities
The Company	$ (41,243)	$ —	$ —
SKLIC	(2,741,110)	6,213,290	666,000
SKSC	30,777	14,286	—
TSKCB	47,518	1,858,520	—
SKLRESC	5,311	2,981	—
TSKIBC	5,643	—	—
SKMCC	(10,560)	78,728	—
SKIAC	6,413	—	—
SKPIAC	425	—	—
NLIC	903	—	—
SFHK	—	219	—
SKIT	7,182	3,696	—
MLSC and subsidiaries	68,469	123,508	—
	$(2,620,272)	$8,295,228	$666,000

	2009		
	Income Tax Expense (Benefit)	Deferred Income Tax Assets	Deferred Income Tax Liabilities
The Company	$ (34,876)	$ —	$ —
SKLIC	139,426	15,085,849	—
SKSC	19,217	4,045	—
TSKCB	18,097	1,967,154	—
SKLRESC	8,017	2,980	—
TSKIBC	6,030	—	—
SKMCC	2,041	50,955	—
SKIAC	5,382	—	—
SKPIAC	228	62	—
NLIC	1,067	—	—
SFHK	186	301	—
SKIT	(641)	33,053	—
MLSC and subsidiaries	20,687	110,732	—
	$184,861	$17,255,131	$ —

The details of deferred income tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

	2008	2009
Deferred income tax assets		
Pension expense not contributed	$ 21,229	$ 12,416
Default loss exceeding contributed	10,588	13,955
Operating loss carryforward	3,487,755	9,710,169
Allowance for doubtful accounts exceeding tax limit	347,820	260,129
Trading loss contributed	693	1,895
Investment credit	—	100,668
Impairment loss	947,036	1,959,152
Unrealized loss on disposal of nonperforming loans	29,370	—
Unrealized loss on available-for-sale financial assets	818,128	6,836,861
Unrealized exchange losses (gains), net	5,073,365	(2,894,649)
(Gains) losses on financial assets held for trading	(1,394,077)	3,489,378
Loss on collaterals assumed	145,188	122,496
Gains on valuation of stock warrants	(1,430)	(18,352)
Others	84,823	96,114
	9,570,488	19,690,232
Less valuation allowance	(1,941,260)	(2,435,101)
	7,629,228	17,255,131
Less deferred income tax assets (included in miscellaneous assets)	(8,295,228)	(17,255,131)
Deferred income tax liabilities (included in miscellaneous liabilities)	$ (666,000)	$ —

On January 6, 2009, the Legislative Yuan of the Republic of China passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Group recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

For the three months ended March 31, 2008 and 2009, tax (benefit) expense was as follows:

	2008	2009
Current income tax expense	$ 342,863	$ 52,498
Separate taxation levied for interest income arising from short-term notes and bills and securitization	17,628	4,286
Deferred tax (benefit) expense	(2,953,977)	91,529
Adjustment of prior year's tax	—	36,234
Intra-period tax allocation — adjustment of stockholder's equity	(26,786)	314
Tax (benefit) expense	$(2,620,272)	$184,861

The income tax returns of the Group which had been examined by authorities were as follows:

	Examined Year
The Company	2004
SKLIC	2004
SKSC	2004
TSKCB	2005
SKLRESC	2006
TSKIBC	2004
SKMCC	2006
SKIAC	2006
SKPIAC	2006
NLIC	2006
SKIT	2006
MLSC	2003

Loss carryforwards as of March 31, 2009 comprised of:

Expiry Year	Unused Amount
2013	$ 996,869
2015	1,773,586
2016	6,953,560
2017	2,497,403
2018	10,030,478
2019	16,588,780
	$38,840,676

Information related to imputation credit account:

Balance of Imputation Credit Account	March 31 2008	March 31 2009
The Company	$102,123	$ 79,025
SKLIC	622,954	1,145,121
SKSC	17,408	39,460
TSKCB	209,020	13,654
SKLRESC	63,221	90,644
TSKIBC	(67)	(67)
SKMCC	134,120	98,295
SKIAC	33,216	9,147
SKPIAC	1,016	608
NLIC	1,125	4,419
SKIT	112,490	54,188
MLSC	220,141	455,793

Ratio of Imputation Credit Account	March 31 2008	March 31 2009
The Company	5.47%	—
SKLIC	3.33%	—
SKSC	2.28%	16.55%
TSKCB	10.29%	7.92%
SKLRESC	33.33%	—
TSKIBC	—	—
SKMCC	45.94%	33.33%
SKIAC	24.23%	34.26%
SKPIAC	22.19%	34.61%
NLIC	9.60%	26.97%
SKIT	47.40%	48.15%
MLSC	33.74%	—

Imputation credit for stockholders is calculated on the ending balance of imputation credit account as of the earnings distribution date. Therefore, imputation credit ratio of 2009 may be different from actual imputation credit ratio when earnings are distributed.

MLSC's tax returns through 2003 have been assessed by the tax authority. MLSC disagreed with the tax authorities' assessment of its 1999, 2001, 2002, and 2003 tax return and had applied for tax relief.

The Group's consolidated tax returns through 2004 have been assessed by the tax authority. The Company disagreed with the tax authorities' assessment of its 2004 tax return and had applied for tax relief.

As of March 31, 2009, TSKCB's income tax returns through 2005 had been assessed and approved by the tax authority. However, in the assessment result of TSKBC's 2004 income tax return, the amortization of bond investment amounting to $64,840 thousand and the amortization amount of goodwill, arising from acquisition of Credit Cooperatives amounting $8,778 thousand were not recognized by tax authority. TSKBC did not agree with the assessed result and is in the process of litigation with the authority.

As of March 31, 2009, SKCC's income tax returns through 2006 had been assessed and approved by the tax authority. Although SKCC's 2003-2006 income tax returns had been assessed, it did not agree with the assessed result and is in the process of litigation with the authority. According to management's estimation, an additional tax of $19,369 thousand has been provided for as of December 31, 2008, of which $12,242 thousand has been paid for in advance.

41. RELATED-PARTY TRANSACTIONS

The related parties and their relationships with the Group are as follows:

Related Party	Relationship
Wu, Tung-Chin	Chairman of the Company
Wu, Anthony T.S.	Second-degree relative of the Company's chairman
Wu, Thomas T.L.	Second-degree relative of the Company's chairman
Wu, Eric T.S.	Second-degree relative of the Company's chairman
Kuo Wu, Ru-Yue	Second-degree relative of the Company's chairman
Wu, Cha-Lu	Vice chairman of the Company
Wu, Ben-Sen	Second-degree relative of the Company's vice chairman
Wu, Ing-Ing	Second-degree relative of the Company's vice chairman
Huang, Chong-Ren	The Company's director
Hong, Shih-Jyun	The Company's director
Chia-Ban Investment Co., Ltd.	Its chairman is the Company's vice-chairman
Sin-Sin Foods Co., Ltd.	Its chairman is the Company's vice-chairman
Shin Kong Tower Tourism Co., Ltd.	Its chairman is the Company's vice-chairman
Yung Kwang Co., Ltd.	Its chairman is the Company's vice-chairman
Pei-Tou Hotel Co., Ltd.	Its chairman is the Company's vice-chairman
Wu Cha-Lu Insurance Culture Foundation	Its chairman is the Company's vice-chairman
Shin Kong Farm Co., Ltd.	Its chairman and director are the Company's vice-chairman and chairman
Shin Kong Company Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Sheng Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ruey-Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tong Shan Co.	Its chairman is a second-degree relative of the Company's chairman
Taishin International Bank Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Fire & Marine Insurance Company	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Hou Sheng Chemical Co.	Its director is a second-degree relative of the Company's chairman

Related Party	Relationship
Chin Shan Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin Financial Holding Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Accessorize Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Waibel Enterprises, Inc.	Its chairman is a second-degree relative of the Company's chairman
Mercury Venture Capital Co., Ltd. (Note 1)	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Engineering Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Synthetic Fiber Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Recreation Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Auto21 Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
An Long Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Hae Yang Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tung Yin Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Konig Foods Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ennead Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Leasing Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
UBright Optronics Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Mian Hao Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Shien Ya International Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Jui Chin Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Rue-Ying Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Leasing Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Inc.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Taishin Investment Trust Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company's chairman

Related Party	Relationship
Ru Ying Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Shian-Da Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Spinning Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman and its director is the Company's chairman
Ten Outstanding Young Persons' Foundation	Its director is a second-degree relative of the Company's chairman
TacBright Optronics Co., Ltd.	Its chairman is the Company's chairman
SBright Optronics Co., Ltd.	Its chairman is the Company's chairman
The Shin Kong Life Charity Foundation	Its chairman is the Company's chairman
Wu Tung-Chin Charity Foundation	Its chairman is the Company's chairman
Shin Kong Life Scholarship Foundation	Its chairman is the Company's chairman
Shin Kong Wu Ho-Su Cultural Foundation	Its chairman is the Company's chairman
Shin Kong Wu Ho-Su Rescue Foundation	Its chairman is the Company's chairman
Lian Sin Cultural Foundation	Its chairman is the Company's chairman
Shin Kong Chao-Feng Co., Ltd.	Its chairman is the Company's vice-chairman
Shin Quan Enterprise Co.	Its chairman is the Company's chairman
Wang Tien Woolen Textile Co., Ltd.	Its chairman is the Company's chairman
Shin Kong Wu Foundation	Its chairman is the Company's chairman
Sian Shun Enterprise Co.	A director is the Company's chairman
Shin Kong Wu Ho-Su Memorial Hospital	The hospital's chairman is the Company's chairman
Tai Li Dyehouse Co., Ltd.	Its chairman is the Company's chairman
The Great Taipei Gas Corp.	Its major directors are the Company's directors or second-degree relative of the Company's director
Great Taipei Broadband Co., Ltd.	A director is the Company's chairman
Shin Kong Mitsukoshi Department Store Co., Ltd.	Executive director is the Company's chairman
Taiwan Fuhbic Corp.	A director is the Company's chairman
National Cultural Association	Its director is the Company's chairman
First International Telecom Co., Ltd. (Note 2)	Its representative of legal person director is the Company's chairman
Da Chung Venture Capital Co., Ltd. (Note 1)	A director is the Company's chairman
Jupiter Venture Capital Co., Ltd. (Note 1)	A director is the Company's chairman
Chi-Ye Chemical Engineering Co., Ltd.	A director is the Company's chairman
Hsin Ching Investment Co., Ltd.	A second-degree relative of supervisor is SKLIC's supervisor
Cuei Yuan Investment Co., Ltd.	A director is the Company's vice-chairman
Taiwan Securities Co., Ltd.	The director of company second-degree relative and so on its legal person chairman
Chang Hwa Bank	The director of company second-degree relative and so on its legal person chairman
Yeng Tseng Enterprise Co., Ltd.	Its chairman is a second-degree relative of Company's supervisor
Taiwan Institute Sustainable Energy Foundation	The foundation's chairman is SKLIC's director
Hong, Wen-Dong	SKLIC's executive director
Wu, Min-Wei	SKLIC's supervisor
Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate

Related Party	Relationship
Shinhai Gas Corporation	Affiliate
Cyun He Venture Capital Co., Ltd.	Affiliate
Hong, Shi-Qi	A director of TSKB
Huang,Ming-Ren	An ex-director of TSKB
Yi Kong Security Co., Ltd.	Its chairman is the SKLIC's supervisor
Shin Bao Telecon Co., Ltd.	Its chairman is the SKLIC's supervisor
Century Development Corp.	Related party in substance
Huang, Guo-Shuo	A manager of MLSC's Song Shan branch
Li, Chin	A representative of MLSC's director Ze Yi Investment Co., Ltd.

Note 1: Under liquidation as of March 31, 2009.
Note 2: The Company ceased to be the representative of legal person director since September 2008.

Major transactions with related parties were as follows:

Secured Loans

a. The related parties with secured loans from SKLIC are as follows:

Loans

Year	March 31 Amount	March 31 %	Annual Interest Rate %	Interest Income Amount	Interest Income %
2008	$1,377,050	—	2.96~3.95	$12,336	—
2009	1,614,901	—	2.41~4.06	14,573	—

	Three Months Ended March 31, 2008							
				Delivered Status				
Classification	Related Parties' Name	Highest Balance	Period-End Balance	Loans	Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
Other loans	Auto 21 Co., Ltd.	1,050,000	1,050,000	1,050,000	—	Real estate	9,319	None
	Hung Shin Enterprise Co., Ltd.	150,000	150,000	150,000	—	Real estate	1,481	None
	Jui Chin Enterprise Co., Ltd.	68,000	68,000	68,000	—	Real estate	672	None
	Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	50,000	—	Real estate	494	None
	Others	—	59,050	59,050	—	Real estate	370	None

Classification	Three Months Ended March 31, 2009 Related Parties' Name	Highest Balance	Period-End Balance	Delivered Status Loans	Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
Other loans	Wang Tien Woolen Textile Co., Ltd.	745,000	745,000	745,000	—	Real estate	6,444	None
	Auto 21 Co., Ltd.	275,000	275,000	275,000	—	Real estate	2,448	None
	Shin Kong Hac Yang Co., Ltd.	250,000	250,000	250,000	—	Real estate	2,369	None
	Hung Shin Enterprise Co., Ltd.	150,000	150,000	150,000	—	Real estate	1,523	None
	Jui Chin Enterprise Co., Ltd.	68,000	68,000	68,000	—	Real estate	605	None
	Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	50,000	—	Real estate	445	None
	Cuei Yuan Investment Co., Ltd.	29,000	—	—	—	Real estate	141	None
	Hsin Ching Investment Co., Ltd.	13,000	13,000	13,000	—	Real estate	122	None
	Tung Yin Investment Co., Ltd.	5,000	5,000	5,000	—	Real estate	45	None
	Others	—	58,901	58,901	—	Real estate	431	None

The terms and conditions of the above secured loans to related parties were on an arm's length basis.

b. The related parties with secured loans from TSKCB are shown as follows:

Loans

Year	March 31 Amount	%	Annual Interest Rate %	Interest Income Amount	%
2008	$5,139,080	2	1.93~5.60	$44,602	—
2009	5,459,538	1	0.95~4.86	32,895	—

	Three Months Ended March 31, 2008							
				Delivered Status				
Classification	Related Parties' Name	Highest Balance	Period-End Balance	Loans	Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
Consuming loans	20	14,805	11,735	11,735	—	Cars, deposit	102	None
Residential mortgage loans	53	485,203	413,501	413,501	—	Real estate	2,959	None
Other loans	Auto 21 Co., Ltd.	1,757,300	1,724,500	1,724,500	—	Real estate, listed securities	17,378	None
	Hou Sheng Chemical Co.	1,000,000	1,000,000	1,000,000	—	Real estate, listed securities	8,323	None
	Shin Kong Chao-Feng Co., Ltd.	450,000	450,000	450,000	—	Real estate	2,998	None
	Shin Kong Synthetic Fiber Corp.	646,302	283,621	283,621	—	Listed securities, machinery equipment	3,463	None
	Shin Sheng Co., Ltd.	270,200	270,200	270,200	—	Real estate	2,621	None
	Tong Shan Investment Co., Ltd.	250,000	250,000	250,000	—	Real estate	1,484	None
	Ruey-Shin Enterprise Co., Ltd.	300,000	230,000	230,000	—	Real estate, listed securities	1,756	None
	Kuo Wu-Ru-Yuew	200,000	200,000	200,000	—	Real estate	1,403	None
	Chia-Ban Investment Co., Ltd.	175,000	175,000	175,000	—	Real estate	1,592	None
	Wang Tien Woolen Textile Co., Ltd.	100,000	100,000	100,000	—	Real estate	—	None
	Hong, Wen-Dong	20,000	20,000	20,000	—	Real estate	137	None
	Shin Kong Wu Ho-Su Memorial Hospital	20,000	10,000	10,000	—	Listed securities	72	None
	Shin Kong Spinning Co., Ltd.	532	523	523	—	Listed securities	—	None
	Taiwan-Sok Shin Kong Security Co., Ltd.	46,073	—	—	—	Real estate	241	None
	Chia-Ye Chemical Engineering Co., Ltd.	30,000	—	—	—	Listed securities	70	None
	Pei-Tou Hotel Co., Ltd.	1,000	—	—	—	Real estate, machinery equipment	1	None
	Tung Yin Investment Co., Ltd.	1,000	—	—	—	Real estate	1	None
	Yung Kwang Co., Ltd.	1,000	—	—	—	Real estate	1	None

Classification	Related Parties' Name	Highest Balance	Period-End Balance	Delivered Status: Loans	Delivered Status: Non-Performing Loans	Content of Guarantee	Interest Revenue	The Conditions of Third Parties Whether or Not
	Three Months Ended March 31, 2009							
Consuming loans	19	12,146	10,703	10,703	—	Deposit, cars	82	None
Residential mortgage loans	64	551,451	509,797	509,797	—	Real estate	2,468	None
Other loans	Auto 21 Co., Ltd.	1,716,850	1,714,300	1,714,300	—	Real estate, machinery equipment	11,311	None
	Hou Sheng Chemical Co.	990,000	990,000	990,000	—	Real estate, deposit	4,999	None
	Wang Tien Woolen Textile Co., Ltd.	460,000	460,000	460,000	—	Real estate	3,047	None
	Shin Kong Chao-Feng Co., Ltd.	450,000	450,000	450,000	—	Real estate	2,927	None
	Shin Kong Synthetic Fiber Corp.	350,000	350,000	350,000	—	Listed securities, machinery equipment	587	None
	Chia-Ban Investment Co., Ltd.	283,100	283,100	283,100	—	Real estate	2,035	None
	Kuo Wu, Ru-Yue	200,000	200,000	200,000	—	Real estate	991	None
	Tong Shan Investment Co., Ltd.	245,000	100,000	100,000	—	Real estate	1,059	None
	First International Telecom Co., Ltd.	100,112	99,338	—	99,338	Real estate, machinery equipment	348	None
	UBright Optronics Co., Ltd.	95,000	95,000	95,000	—	Machinery equipment	429	None
	Ruey-Shin Enterprise Co., Ltd.	256,000	76,000	76,000	—	Real estate, listed securities	1,585	None
	Mian Hao Enterprise Co., Ltd.	50,000	40,000	40,000	—	Listed securities, real estate	389	None
	Wu,Ben-Sen	31,300	31,300	31,300	—	Real estate	211	None
	Chia-Ye Chemical Engineering Co., Ltd.	30,000	30,000	30,000	—	Listed securities	254	None
	Hong, Wen-Dong	20,000	20,000	20,000	—	Real estate	69	None
	Pei-Tou Hotel Co., Ltd.	10,000	—	—	—	Listed securities	38	None
	Taiwan-Sok Shin Kong Security Co., Ltd.	10,000	—	—	—	Real estate	46	None
	Shin Kong Wu Ho-Su Memorial Hospital	10,000	—	—	—	Listed securities	20	None

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

Guarantee

Related Parties' Name	For the Three Months Ended March 31, 2008 Highest Balance	Period-End Balance	Guarantee Reserve Balance	Interest Rate	Content of Guarantee
Shin Kong Synthetic fiber Corp.	$43,270	$43,270	$—	0.50	Machinery equipment
Shin Kong Wu Ho-Su Memorial Hospital	6,759	6,759	—	0.45	Listed securities
Shin Kong Spinning Co., Ltd.	5,607	5,017	—	0.50	Listed securities
		$55,046			

Related Parties' Name	For the Three Months Ended March 31, 2009 Highest Balance	Period-End Balance	Guarantee Reserve Balance	Interest Rate	Content of Guarantee
Ruey-Shin Enterprise Co., Ltd.	$180,000	$180,000	$—	1.00	Real estate
Tung Shan Investment Co., Ltd.	145,000	145,000	—	1.00	Real estate
Shin Kong Synthetic fiber Corp.	43,270	43,270	—	0.50	Machinery equipment
SBright Optronics Co., Ltd.	18,190	18,190	—	0.50	Deposit
Taiwan-Sok Shin Kong Security Co., Ltd.	15,197	15,197	—	0.75	Real estate
Shin Kong Spinning Co., Ltd.	5,767	5,596	—	0.50	Listed securities
Shin Kong Wu Ho-Su Memorial Hospital	11,000	—	—	0.45	Listed securities
		$407,253			

Deposits

	For the Three Months Ended March 31, 2008 Year-End Balance	Interest Rate	Interest Income
Shin Kong Wu Ho-Su Memorial Hospital	$ 297,457	0.00%~1.79%	$ 73
Shin Kong Fire & Marine Insurance Company	269,081	0.00%~2.56%	1,676
Chia-Ye Chemical Engineering Co., Ltd.	69,834	0.00%~0.10%	10
The Great Taipei Gas Corp.	36,055	0.00%~0.10%	4
Shin Sheng Co., Ltd.	29,238	0.00%~0.10%	2
Wu Tung-Chin Charity Foundation	24,022	0.00%~2.58%	615
Shin Kong Spinning Co., Ltd.	20,689	0.00%~0.10%	3
Shin Quan Enterprise Co.	10,314	0.10%~0.10%	14
Shin Kong Synthetic Fiber Corp.	9,953	0.00%~0.10%	2
Raey-Shin Enterprise Co., Ltd.	9,847	0.00%~0.10%	5
Others	1,479,172		9,120
	$2,255,662		$11,524

	For the Three Months Ended March 31, 2009		
	Year-End Balance	Interest Rate	Interest Income
Shin Kong Construction and Development	$ 393,093	0.00%~2.29%	$ 294
Shin Kong Fire & Marine Insurance Company	302,417	0.00%~2.67%	1,769
Shin Kong Wu Ho-Su Memorial Hospital	259,110	0.00%~0.67%	87
Great Taipei Gas Corp.	129,499	0.00%~1.00%	13
Shin Kong Recreation Co., Ltd.	60,449	0.00%~0.10%	3
Wu-Tung-Chin Charity Foundation	52,526	0.00%~2.58%	158
Shin Kong Ku Ho-Su Cultural Foundation	49,342	0.00%~2.76%	165
Shin Kong Wu-Ho-Su Rescue Foundation	46,521	0.00%~2.02%	147
Sian Sheng Co., Ltd.	44,473	0.00%~0.10%	9
Lia Sin Cultural Foundation	40,379	0.15%~2.68%	188
Shin Kong Synthetic Fiber Corp.	37,039	0.00%~0.10%	1
Shin Kong Wu Foundation	35,427	0.08%~2.67%	196
First International Telecom Co., Ltd.	2,048	0.10%~0.10%	1
Others	1,317,274		3,750
	$2,769,597		$6,781

All the above deposit transactions were made under an arm's length terms, except for the annual interest rate on deposits from employees at 9.75% and 5.95% for the three months ended March 31, 2008 and 2009, respectively.

Derivative Transactions

The related parties with derivative transactions from SKLIC are as follows:

	For the Three Months Ended March 31, 2008					
					Balance	
Classification	Derivatives' Name	Contract Period	Notional Principal	Valuation (Loss) Gain	Subject	Amount
Taishin International Bank Co., Ltd.	Currency swap contracts	2007.09.04~ 2008.09.08	NT$ 3,648,600	NT$ 151,155	Financial assets at fair value through profit or loss	NT$ 126,431
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.01.05~ 2008.09.17	NT$ 500,000	NT$ 642	Financial liabilities at fair value through profit or loss	NT$ (1,375)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.11.30~ 2011.06.18	NT$ 250,000	NT$ (5,078)	Financial liabilities at fair value through profit or loss	NT$ (12,376)

	For the Three Months Ended March 31, 2009					
					Balance	
Classification	Derivatives' Name	Contract Period	Notional Principal	Valuation (Loss) Gain	Subject	Amount
Taishin International Bank Co., Ltd.	Currency swap contracts	2008.08.15~ 2009.08.19	NT$ 678,340	NT$(23,962)	Financial liabilities at fair value through profit or loss	NT$(56,891)
Taishin International Bank Co., Ltd.	Interest rate swap contracts	2006.11.30~ 2011.06.18	NT$ 250,000	NT$ (5,062)	Financial liabilities at fair value through profit or loss	NT$(12,429)

Lease of Real Estate to Related Parties

Rentals received from lease of major real estate to related parties for the three months ended March 31, 2008 and 2009 were as follows:

	2008		2009	
	Amount	%	Amount	%
Shin Kong Mitsukoshi Department Store Co., Ltd.	$223,279	39	$224,048	35
Shin Kong Wu Ho-Su Memorial Hospital	9,138	1	9,439	1
Taiwan-Sok Shin Kong Security Co., Ltd.	4,166	1	4,244	1
Shin Kong Synthetic Fiber Corp.	3,423	1	3,625	1
Chang Hwa Bank	1,063	—	1,308	—
Taiwan Securities Co., Ltd.	608	—	1,604	—
Taishin International Bank	665	—	455	—
Others	12,880	2	9,680	2
	$255,222	44	$254,403	40

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

Since some of the agreements on the lease of real estate by Shin Kong Mitsukoshi Department Store Co., Ltd from SKLIC had expired. The two parties are still negotiating the new lease agreement and the terms of the agreements are still uncertain. As of March 31, 2009, the two parties were still negotiating the new lease agreement and the terms of the agreement were still uncertain. For the three months ended March 31, 2008 and 2009, the lease of real estate to Shin Kong Mitsukoshi Department Store Co., Ltd. amounted to $107,500 thousand, which SKLIC recognized as other income.

As of March 31, 2008 and 2009, deposits received for the lease of real estate to related parties were as follows:

	2008	2009
Shin Kong Mitsukoshi Department Store Co., Ltd.	$160,000	$160,000
Others	18,170	18,141
	$178,170	$178,141

Stock Management Income

	2008		2009	
	Amount	%	Amount	%
Great Taipei Gas Corp.	$ 510	5	$525	5
Taiwan-Sok Shin Kong Security Co., Ltd.	330	3	220	2
Shinhai Gas Corporation	162	2	162	2
Shin Kong Synthetic Fiber Corp.	371	3	—	—
	$1,373	13	$907	9

SKSC entered into stock management agreements with the abovenamed companies and received the payment monthly as specified in the agreements.

Other Miscellaneous Income (Loss)

	2008		2009	
	Other Income	Building Management Cost	Other Income	Building Management Cost
Taishin International Bank	$ 4,766	$ —	$4,370	$ —
Shin Kong Wu Ho-Su Memorial Hospital	9,759	—	1,613	—
Yi-Kong Security Co., Ltd.	1,486	27,028	1,444	26,376
	$16,011	$27,028	$7,427	$26,376

Lease of Real Estate from Related Parties

As of March 31, 2008 and 2009, deposits paid for the lease of real estate from related parties were as follows:

	2008	2009
Great Taipei Gas Corp.	$ 9,068	$ 7,701
Wu, Ben-Sen	7,500	7,500
Chang Hwa Bank	600	924
	$17,168	$16,125

During the term of the lease, the consolidated entities are not required to pay additional rent. Upon termination of the lease contract and the return of the leased property, the consolidated entities will get a deposit refund, free of interest.

Operating Expense

a. Insurance expense

	2008	2009
Shin Kong Fire and Marine Insurance Co., Ltd.	$4,899	$4,950

b. Rent expense

	2008	2009
Great Taipei Gas Corp.	$ 9,483	$ 9,732
Chang Hwa Bank	600	885
	$10,083	$10,617

The consolidated entities and related parties agreed to a monthly rental based on the quotation in the neighborhood.

Investments in Beneficiary Certificates

As of March 31, 2008 and 2009, investments in mutual funds from Taishin Investment Trust Co., Ltd. amounted to $160,257 thousand and $105,881 thousand, respectively.

Investments in Bonds

	Three Months Ended March 31			
	2008		2009	
	Buy	Sell	Buy	Sell
Chang Hwa Bank	$547,065	$696,977	$657,746	$298,629

Notes Issued under Resale Agreement

	Three Months Ended March 31, 2008				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
Chang Hwa Bank	$50,052	March 2009	$50,052	1.60~1.95	$3

2009: None

Notes Issued under Repurchase Agreement

	Three Months Ended March 31, 2008				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
Taishin Investment Trust Co., Ltd.	$340,340	January 2008	$98,170	1.80~2.17	$692

	Three Months Ended March 31, 2009				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
Taishin Investment Trust Co., Ltd.	$37,900	February 2009	$27,900	0.25~0.90	$25

Leasing Agreement

In December 2004, TSKCB entered into an automation equipment lease agreement with Taiwan-Sok Shin Kong Security Co., Ltd. Terms and conditions of the agreement are summarized as follows:

(a) Subject: automated teller machines

(b) Term: Five years from the next day of inspection. Upon expiry, TSKCB has a priority right to lease these ATMs. Once the lease term reaches seven years, the ownership of these ATMs will be transferred to TSKCB.

(c) Lease payment: Monthly rental of $30 thousand each; total rental expenses for five year lease amounted to $1,800 thousand.

(d) During the lease term, TSKCB is obliged to pay full rentals for any installed but later withdrawn ATM.

(e) As of March 31, 2009, 434 ATMs had been installed and are accounted for as capital lease.

SKFHC's and TSKCB's Chairman Who Acted as TSKCB's Guarantee for Loan Transactions

	Three Months Ended March 31, 2008		
	Loan Account	Highest Balance	Ending Balance
Wu, Ben-Sen	New Chia-Ban	$ 1,486	$ 1,473
Wu, Cha-Lu	Chia-Ban Investment Co., Ltd.	175,000	175,000
Hong, Shih-Jyun	Hong Chen, Shu Ying	140,000	140,000
Hong, Shih-Qi	Chuan Wun Investment Co.	10,000	10,000
Hong, Shih-Qi	Whu Shih Consulting Company Co., Ltd.	34,000	34,000
		$360,486	$360,473

	Three Months Ended March 31, 2009		
	Loan Account	Highest Balance	Ending Balance
Huang, Chong-Ren	Power Semiconductor Co.	$360,000	$240,000
Wu, Cha-Lu	Chia-Ban Investment Co., Ltd.	283,100	283,100
Hong, Shih-Jyun	Hong Chen, Shu Ying	140,000	140,000
Hong, Shih-Qi	Whu Shih Consulting Company Co., Ltd.	34,000	34,000
Hong, Shih-Qi	Chuan Wun Investment Co.	3,880	3,880
Wu, Ben-Sen	New Chia-Ban	1,493	1,387
		$822,473	$702,367

Property Transactions

In the first quarter 2008, SKLIC entered into an agreement with First International Telecom Company ("FITC") for acquisition of land and structures, amounting $396,000 thousand. As of March 31, 2008, SKLIC paid $118,800 thousand as a down payment. Though the ownership of land and structures has been transferred to SKLIC, FITC default to execute the purchase agreement and therefore, SKLIC did not pay off the remaining payment as of March 31, 2009. Before the court enforces to sell the building by auction, SKLIC has a chance to negotiate with the creditors who own the mortgage right of the land and structures. SKLIC considered that the down payment paid is recoverable and accordingly, no impairment loss has been recognized.

As of March 31, 2008 and 2009, linked income tax receivable (payable) from (to) subsidiaries:

	2008	2009
SKLIC	$(1,412,892)	$(2,262,294)
SKSC	304,071	281,785
TSKCB	(224,725)	(289,986)
SKIBC	20,788	22,780
SKITC	51,009	8,467
NLITC	(506)	—
	$(1,262,255)	$(2,239,248)

42. PLEDGED ASSETS

Financial Statement Account	Pledged Assets	2008	2009
Financial assets at fair value through profit or loss	Securities	$ 164,928	$ —
Available-for-sale financial assets	Stocks and beneficiary certificates	112,697	345,480
Available-for-sale financial assets (including guarantee deposits paid)	Government bonds	2,278,000	14,464,000
Held-to-maturity financial assets	Government bonds	5,600,800	581,700
Financial assets at cost	Stocks	112,697	112,697
Real estate investments	Land and buildings	297,319	295,728
Property and equipment	Land and buildings	1,918,476	1,906,905
Miscellaneous assets	Guarantee deposits	325,000	1,508,336
Miscellaneous assets	Restricted assets — time deposit and compensative deposit	2,947,565	2,782,368

43. COMMITMENT AND CONTINGENCY

As of March 31, 2009, SKLIC's real estate investments included four open construction contracts, the contract price will be paid in future were as follows:

	Amount
Nine months ended December 31, 2009	$1,800,580
After 2009	1,966,260
	$3,766,840

As of March 31, 2008 and 2009, TSKCB had the following commitments and contingent liabilities:

	2008	2009
Guarantees	$ 13,914,164	$ 18,115,399
Letters of credit	4,004,640	2,644,655
Trust liabilities	105,922,411	110,613,051
Loan commitments (excluding credit card)	64,610,590	61,506,622

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

Trust Balance Sheet
March 31, 2008 and 2009
(In Thousands of New Taiwan Dollars)

Trust Asset	2008	2009
Cash in banks	$ 610,131	$ 1,794,646
Short-term investments		
Mutual fund	58,680,872	42,281,037
Bond investments	35,980,042	57,882,877
Common stocks	31,484	6,353
Short-term notes and repurchase investment	41,183	14,000
Securities under custody		
Securities under custody	3,378,906	2,102,615
Real estate		
Land	5,292,976	5,121,131
Building	100,211	146,015
Construction in process	263,528	691,041
Intangible assets		
Creditor’s right capital	1,543,078	573,336
	$105,922,411	$110,613,051

Trust Liability	2008	2009
Securities under custody payable		
Securities under custody payable	$ 3,378,906	$ 2,102,615
Trust capital		
Trust by cash	95,453,371	101,689,485
Trust by creditor’s right and trust by collateral	1,543,078	573,336
Trust by securities investment trust funds	31,484	27,886
Trust by real estate	5,808,375	6,512,920
Reserve and accumulated Deficit		
Accumulated deficit	(117,586)	1,775,870
Exchange losses	(369)	(1,429)
Net loss	(174,848)	(2,067,632)
	$105,922,411	$110,613,051

Trust Account Income Statement
Three Months Ended March 31, 2008 and 2009

	2008	2009
Trust income		
Interest revenue	$ 1,184	$ 2,461
Preferred stock dividend income	104,397	84,740
Common stock dividend income	—	103,161
Gains on disposal of assets	250,337	—
Realized capital gain	331,654	213,793
	687,572	404,155
Trust expense		
Management fee	(13,449)	(8,724)
Insurance expense	(10)	—
Processing expense	(6)	(5)
Loss on disposal of assets	(848,209)	(2,462,449)
Other expense	(1)	(2)
	(861,675)	(2,471,180)
Loss before tax	(174,103)	(2,067,025)
Income tax expense	(745)	(607)
Net loss	$(174,848)	$(2,067,632)

Trust Assets
March 31 2008 and 2009

	2008	2009
Cash in banks	$ 610,131	$ 1,794,646
Short-term investments		
Mutual fund	58,680,872	42,281,037
Bond investments	35,980,042	57,882,877
Common stocks	31,484	6,353
Short-term agreement and repurchase investment	41,183	14,000
Securities under custody		
Securities under custody	3,378,906	2,102,615
Real estate		
Land	5,292,976	5,121,131
Building	100,211	146,015
Construction in process	263,528	691,041
Intangible assets		
Creditor's right capital	1,543,078	573,336
	$105,922,411	$110,613,051

The trust-related items shown above were the status of TSKCB's trust management. However, these items were not included in TSKCB's financial statement.

As of March 31, 2008 and 2009, MLSC had the following commitments and contingent liabilities:

(a) MLSC issued notes with face value $10 million to TSEC and Taiwan Securities Over-the-counter as a deposit for filing corrective securities settlement.

(b) MLSC issued warrants with performance bonds written by financial institutions for $101,000 thousand totally.

44. SUBSEQUENT EVENTS

On March 3, 2009, the Board of SKLIC resolved to sell the land and building of Hsin-Yih A11 by tender. On April 30, 2009, the land and building sold for $11.6 billion. The transaction was completed on April 30, 2009.

On April 28, 2009, the Board of the Company agreed MLSC to purchase brokerage business and equipment from SKSC and its six branches for $110 million and $430 million, respectively. SKSC will be liquidated subsequent to the aforementioned transaction.

In order to replenish capital, enhance financial structure, invest and advance risk-based capital in SKLIC, on April 28, 2009, the Board of the Company resolved to issue upmost $2 billion common shares for cash by either overseas depositary receipts or private equity.

In order to enhance financial structure and advance risk-based capital, on April 29, 2009, the Board of TSKCB resolved to issue $3 billion subordinated financial bonds.

45. INFORMATION FOR BUSINESS SEGMENTS

	Three Months Ended March 31, 2009				
	Insurance	Security	Banking	Others	Consolidations
Net interest income (loss)	9,810,133	193,564	1,005,518	(17,166)	10,992,049
Net income excluding net interest income	27,254,580	805,879	978,279	348,796	29,387,534
(provision for loan losses and doubtful receivable) recovery of write offs	(97,654)	(19,810)	(540,711)	12,351	(645,824)
Provision of insurance reserve, net	(34,758,888)	—	—	—	(34,758,888)
Operating expense (excluding bad debt)	(3,099,373)	(686,181)	(1,252,677)	(249,829)	(5,288,060)
Continuing operations'(loss) income before tax	(891,202)	293,452	190,409	94,152	(313,189)
Income tax (expense) benefit	(139,426)	(32,247)	(18,097)	4,909	(184,861)
Continuing operations'(loss) income after tax	(1,030,628)	261,205	172,312	99,061	(498,050)

46. OTHERS

Financial Statements of the Company

Shin Kong Financial Holding Co., Ltd.
Balance Sheets

	March 31 2008	March 31 2009
	Unit: In Thousands	
Assets		
Cash and cash equivalents	$ 10,409,143	$ 734,346
Financial assets at fair value through profit or loss	—	450,526
Debt securities without active market—noncurrent	—	4,700,000
Other financial assets	3,783	50,975
Sinking fund	1,000,000	400,000
Investment accounted for by the equity method	85,279,047	55,280,712
Property and equipment, net	9,522	28,400
Other assets	3,330,976	4,235,932
Total assets	$100,032,471	$ 65,880,891
Liabilities		
Financial liabilities at fair value through profit or loss	$ 282,177	$ —
Short-term loans	—	1,800,000
Accrued expense	76,092	203,483
Other payables	1,641,791	2,555,463
Bonds payable	12,878,088	17,190,400
Other liabilities	552	719
Total liabilities	14,878,700	21,750,065
Stockholders' equity		
Common stock	53,938,636	62,469,066
Capital surplus	20,295,294	20,649,837
Retained earnings		
Legal reserve	2,460,094	2,960,863
Special reserve	154,014	71,465
Unappropriated retained earnings (accumulated deficit)	1,865,780	(18,824,199)
Unrealized revaluation increment	5,811,486	5,811,211
Cumulative translation adjustments	11,464	155,158
Unrealized valuation gains (losses) on financial instruments	1,576,082	(28,384,432)
Unrealized gain on cash flow hedges taken to equity	8,891	—
Treasury stock	(967,970)	(778,143)
Total stockholders' equity	85,153,771	44,130,826
Total liabilities and stockholders' equity	$100,032,471	$ 65,880,891

Shin Kong Financial Holding Co., Ltd.
Statements of Income

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except Loss Per Share	
Revenue		
Investment income recognized under equity method	$ 551,472	$ 405,295
Expenses and losses		
Investment losses recognized under equity method	(6,978,799)	(716,087)
Operating expenses	(79,945)	(50,883)
Other expenses and losses	(395,708)	(310,103)
Total expenses and losses	(7,454,452)	(1,077,073)
Loss before tax	$(6,902,980)	$ (671,778)
Loss after tax	$(6,861,737)	$ (636,902)

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic loss per share	$(1.31)	$(1.30)	$(0.11)	$(0.10)

Shin Kong Financial Holding Co., Ltd.
Statements of Cash Flows

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands	
Cash flows from operating activities		
Net loss	$ (6,861,737)	$ (636,902)
Depreciation and amortization	799	2,497
Compensation cost — share-based payment	10,153	—
Valuation (loss) gain on financial assets at fair value through profit or loss	375,763	(314,758)
Investment losses recognized under equity method	6,978,799	716,087
Gains on early redemption of bonds payable	—	(14,805)
Loss on disposal of property and equipment	—	11
Net changes in operating assets and liabilities		
Other financial assets	(241)	(50,507)
Other assets	(97,311)	(328,471)
Accrued expense	(10,428)	46,162
Other payables	62,340	292,627
Other liabilities	35	42
Net cash provided by (used in) operating activities	458,172	(288,017)
Cash flows from investing activities		
Acquisition of property and equipment	(420)	(332)
Cash flows from financing activities		
Decrease in bonds payable	(528,170)	(80,362)
Capital contribution in cash	7,000,000	—
Purchase of treasury stock	(86,402)	—
Net cash provided by (used in) financing activities	6,385,428	(80,362)
Net increase (decrease) in cash and cash equivalents	6,843,180	(368,711)
Cash and cash equivalents, beginning of period	3,565,963	1,103,057
Cash and cash equivalents, end of period	$10,409,143	$ 734,346
Supplementary disclosure of cash flow information		
Interest	$ —	$ 11,322
Income tax	$ 1,731	$ 1,172

Condensed Balance Sheets and Statements of Operations of Subsidiaries

a. Condensed balance sheets of subsidiaries:

Shin Kong Life Insurance Company
Condensed Balance Sheets

	March 31	
	2008	2009
	Unit: In Thousands	
Assets		
Current assets	$ 336,307,896	$ 373,370,701
Loans	186,217,902	187,087,770
Funds and investments	610,652,387	648,803,925
Property and equipment	10,076,927	10,434,722
Other assets	122,747,639	112,010,622
Total assets	$1,266,002,751	$1,331,707,740
Liabilities		
Current liabilities	$ 27,917,632	$ 40,755,999
Long-term liabilities	2,074,388	8,428,388
Reserve for operations	1,068,350,413	1,171,122,821
Other liabilities	114,355,405	87,425,776
Total liabilities	1,212,697,838	1,307,732,984
Stockholders' equity		
Common stock	33,208,802	41,832,423
Preferred stock	3,000,000	—
Capital surplus	390,357	8,071,652
Unappropriated retained earnings (accumulated deficit)	9,538,854	(4,534,076)
Unrealized valuation gain (loss) on financial instruments	1,596,363	(27,109,750)
Unrealized revaluation increment	5,570,537	5,570,537
Cumulative translation adjustments	—	143,970
Total stockholders' equity	53,304,913	23,974,756
Total liabilities and stockholders' equity	$1,266,002,751	$1,331,707,740

Shin Kong Securities Co., Ltd.
Condensed Balance Sheets

	March 31 2008	March 31 2009
	Unit: In Thousands	
Assets		
Current assets	$13,110,893	$11,262,741
Funds and investments	154,880	154,880
Property and equipment	427,885	431,103
Other assets	863,397	718,446
Debit item for securities consignment trading	5,662	—
Total assets	$14,562,717	$12,567,170
Liabilities		
Current liabilities	$ 9,089,762	$ 7,688,219
Other liabilities	216,182	81,209
Credit item for securities consignment trading	—	88,490
Total liabilities	9,305,944	7,857,918
Stockholders' equity		
Common stock	4,163,005	4,163,005
Capital surplus	2,005	2,005
Retained earnings	1,091,763	628,413
Unrealized loss on financial instruments	—	(84,171)
Total stockholders' equity	5,256,773	4,709,252
Total liabilities and stockholders' equity	$14,562,717	$12,567,170

Taiwan Shin Kong Commercial Bank Co., Ltd.
Condensed Balance Sheets

	March 31 2008	March 31 2009
	Unit: In Thousands	
Assets		
Cash and cash equivalents	$ 6,460,819	$ 6,221,993
Due from Central Bank of China and other banks	43,353,021	63,077,103
Financial assets at fair value through profit or loss	4,103,046	5,103,534
Accounts receivable, net	13,926,383	10,042,505
Notes discounted and loans, net	275,922,362	275,341,244
Available-for-sale financial assets	17,907,613	7,666,938
Held-to-maturity financial assets	10,849,339	9,857,602
Investments accounted for by the equity method	397,817	292,112
Other financial assets	8,422,992	5,344,339
Property and equipment	7,347,656	6,600,441
Intangible assets	1,243,107	1,243,107
Other assets	8,063,895	4,550,646
Total assets	$397,998,050	$395,341,564
Liabilities		
Due to Central Bank of China and other banks	$ 10,148,568	$ 3,377,118
Financial liabilities at fair value through profit or loss	2,114,873	2,496,957
Notes issued under repurchase agreements	2,337,636	50,012
Accounts payables	6,892,992	3,800,570
Deposits and remittances	335,217,396	354,618,066
Debentures payables	17,800,000	8,800,000
Accrued pension liability	20,284	26,277
Miscellaneous financial liabilities	481,033	355,463
Other liabilities	858,542	1,017,136
Total liabilities	375,871,324	374,541,599
Stockholders' equity		
Common stock	19,577,665	19,577,665
Capital surplus	365,754	365,754
Retained earnings	2,030,530	1,738,821
Unrealized revaluation increment	163,653	240,671
Cumulative translation adjustments	(7,483)	(21,578)
Unrealized loss on financial instruments	(12,284)	(1,101,368)
Unrealized loss on cash flow hedges taken to equity	8,891	—
Total stockholders' equity	22,126,726	20,799,965
Total liabilities and stockholders' equity	$397,998,050	$395,341,564

Shin Kong Insurance Brokerage Co., Ltd.
Condensed Balance Sheets

	March 31 2008	March 31 2009
	Unit: In Thousands	
Assets		
Current assets	$134,886	$140,571
Property and equipment	1,158	848
Other assets	99	2,246
Total assets	$136,143	$143,665
Liabilities	$ 44,803	$ 47,115
Stockholders' equity		
Common stock	6,000	6,000
Legal reserve	9,354	9,354
Unappropriated retained earnings	75,986	81,196
Total stockholders' equity	91,340	96,550
Total liabilities and stockholders' equity	$136,143	$143,665

Shin Kong Investment Trust Co., Ltd.
Condensed Balance Sheet

	March 31 2008	March 31 2009
	Unit: In Thousands	
Assets		
Current assets	$638,621	$521,227
Property and equipment	10,589	7,265
Other assets	94,236	106,259
Total assets	$743,446	$634,751
Liabilities	$ 94,033	$ 41,198
Stockholders' equity		
Common stock	400,000	400,000
Capital surplus	123,083	123,083
Retained earnings	134,983	108,080
Unrealized loss on financial instruments	(8,653)	(37,610)
Total stockholders' equity	649,413	593,553
Total liabilities and stockholders' equity	$743,446	$634,751

MasterLink Securities Co., Ltd.
Condensed Balance Sheet

	March 31	
	2008	2009
	Unit: In Thousands	
Assets		
Current assets	$58,121,078	$28,420,683
Fund and investments	2,633,070	3,134,045
Property and equipment	1,906,124	1,853,473
Intangible assets, net	54,676	38,258
Other assets	1,606,217	1,609,890
Total assets	$64,321,165	$35,056,349
Liabilities		
Current liabilities	$44,740,066	$16,789,762
Long-term liabilities	900,000	1,732,054
Other liabilities	276,549	238,522
Credit items for securities consignment trading	178,534	385,472
Total liabilities	46,095,149	19,145,810
Stockholders' equity		
Common stock	13,988,726	13,988,726
Capital surplus	16,806	33,355
Retained earnings	4,288,070	2,415,002
Others	(67,586)	(526,544)
Total stockholders' equity	18,226,016	15,910,539
Total liabilities and stockholders' equity	$64,321,165	$35,056,349

b. Condensed statements of operations of subsidiaries

Shin Kong Life Insurance Company
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except Loss Per Share	
Operating income	$118,297,341	$99,034,488
Operating costs	121,050,936	96,764,369
Gross (loss) income	(2,753,595)	2,270,119
Operating expenses	4,437,631	3,099,373
Loss from operations	(7,191,226)	(829,254)
Nonoperating income	202,542	131,984
Nonoperating expenses	(3,355,453)	(193,932)
Net loss before tax	(10,344,137)	(891,202)
Income tax benefit (expense)	2,741,110	(139,426)
Net loss	$ (7,603,027)	$ (1,030,628)
Loss per share before tax	$ (3.12)	$ (0.02)
Loss per share after tax	$ (2.30)	$ (0.02)

Shin Kong Securities Co., Ltd.
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except Earnings Per Share	
Income	$320,396	$350,590
Cost	281,248	253,552
Net income before tax	39,148	97,038
Income tax expense	(30,777)	(19,217)
Net income	$ 8,371	$ 77,821
Earnings per share before tax	$ 0.09	$ 0.23
Earnings per share after tax	$ 0.02	$ 0.19

Taiwan Shin Kong Commercial Bank Co., Ltd.
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except Earnings Per share	
Net interest income	$1,559,891	$1,005,518
Net income excluding net interest income	993,204	978,279
Net income and gain	2,553,095	1,983,797
Bad debt	498,833	540,711
Operating expense	1,399,575	1,252,677
Income before income tax	654,687	190,409
Income tax expense	(47,518)	(18,097)
Net income	$ 607,169	$ 172,312
Earnings per share before tax	$ 0.33	$ 0.10
Earnings per share after tax	$ 0.31	$ 0.09

Shin Kong Insurance Brokerage Co., Ltd.
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except Earnings Per Share	
Operating income	$85,485	$83,545
Operating expenses	63,222	59,814
Operating net income	22,263	23,731
Nonoperating income	457	367
Nonoperating expenses	(104)	—
Net income before tax	22,616	24,098
Income tax expenses	(5,643)	(6,030)
Net income	$16,973	$18,068
Earnings per share before tax	$ 37.69	$ 40.17
Earnings per share after tax	$ 28.29	$ 30.11

Shin Kong Investment Trust Co., Ltd.
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except (Loss) Earnings Per Share	
Operating income	$104,791	$ 46,031
Operating costs and expenses	(78,100)	(50,744)
Operating income (loss)	26,691	(4,713)
Nonoperating income	3,197	2,219
Income (loss) before income tax	29,888	(2,494)
Income tax (expense) benefit	(7,182)	641
Net income (loss)	$ 22,706	$ (1,853)
Earnings (loss) per share before tax	$ 0.75	$ (0.06)
Earnings (loss) per share after tax	$ 0.57	$ (0.05)

MasterLink Securities Co., Ltd.
Condensed Statements of Operations

	Three Months Ended March 31	
	2008	2009
	Unit: In Thousands, Except (Loss) Earnings Per Share	
Operating income	$ 2,462,779	$ 1,725,377
Operating expenses	(2,423,574)	(1,528,963)
Net income before tax	39,205	196,414
Income tax expense	(59,580)	(13,030)
Net (loss) income	$ (20,375)	$ 183,384
Earnings per share before tax	$ 0.03	$ 0.15
(Loss) earnings per share after tax	$ (0.01)	$ 0.14

The above condensed balance sheets and statements of operations of the subsidiaries have been reviewed by accountants.

c. Allocation of revenue, cost, expense resulting from intercompany sharing of resources:

To increase the scale of economies and develop intersecting selling benefits, the subsidiary of the Company, SKSC and TSKCB, processed this plan. Use of the subsidiary's, SKLIC, service center as the common selling field and use of the common business equipment open up securities' economies of scale and expand the financial service limits of SKLIC. So far, Taipei and Ban Qiao service centers were formally approved to carry on business. Rent paid by SKSC to SKLIC for three months ended March 31, 2008 and 2009 were $35,291 thousand and $32,422 thousand, respectively. Rent paid by TSKCB to SKLIC for three months ended March 31, 2008 and 2009 were $11,339 thousand and $10,488 thousand, respectively.

SKLIC and SKSC share common trading platform to trade securities and bonds. The processing fees and terms of payment for both related and third parties are similar. Processing fee paid by SKLIC to SKSC for the three months ended March 31, 2008 and 2009 were $32,214 thousand and $689 thousand, respectively.

d. To provide the Company with long-term strategic investor, increase equity, and strengthen the financial structure, according to the resolution of SKFHC's board of directors and stockholders at September 9, 2008 and October 31, 2008, Dai-Ichi Mutual Life Insurance Company (Dai-Ichi Mutual Life) invested in SKFHC less than $8 billion to acquire the common stocks issued privately. The acquisition price was calculated by the average price of the five-day price of SKFHC's market price before the price settlement date reduced by dividend distribution ex-rights, and adding the price (November 26, 2008) after capital return.

47. INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES OF TSKCB

The average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	2008		2009	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets				
Due from other banks	$ 4,233,863	1.88	$ 1,225,991	0.22
Due from Central Bank of China	37,575,435	2.08	42,746,367	0.77
Bond purchased under resale agreements	377,576	1.98	—	—
Trading assets	—	—	352,581	0.62
Available-for-sale financial assets	16,384,267	2.17	13,427,900	2.36
Held-to-maturity financial assets	10,848,429	1.78	9,855,199	1.94
Debt securities without active market	8,003,385	6.69	6,259,539	5.02
Accounts receivable (credit card)	5,879,253	16.52	4,819,489	17.91
Accounts receivable (factoring and management)	1,063,375	4.27	656,218	2.77
Notes discounts and loans	276,336,323	3.58	280,397,730	2.42
Liabilities				
Notes issued under repurchase agreement	1,971,285	2.56	2,948,744	0.20
Due to other banks	9,283,777	2.74	4,317,950	1.13
Deposits and remittances	105,070,434	0.46	104,295,325	0.23
Term deposits	226,888,649	2.44	242,400,863	1.77
Debentures payables	17,800,000	2.27	9,394,048	2.50
Appropriated loan fund	85,500	1.50	81,900	1.48

48. ASSET QUALITY OF TSKCB — NONPERFORMING LOAN AND OVERDUE ACCOUNTS

a. Asset quality

Affair			March 31, 2008 Non-Performing Loans (Note 1)	March 31, 2008 Loans	March 31, 2008 Non-Performing loan ratio (Note 2)	March 31, 2008 Allowance for Doubtful Accounts	March 31, 2008 Coverage Ratio (Note 3)	March 31, 2009 Non-Performing Loans (Note 1)	March 31, 2009 Loans	March 31, 2009 Non-Performing loan ratio (Note 2)	March 31, 2009 Allowance for Doubtful Accounts	March 31, 2009 Coverage Ratio (Note 3)
Business finance . .	Guarantee		377,838	67,168,594	0.56%	50,024	13.24%	585,849	71,406,858	0.82%	79,592	13.59%
	Non-guarantee		2,078,038	64,478,563	3.22%	1,802,205	86.73%	2,398,522	59,983,739	4.00%	2,117,669	88.29%
Consumer finance	Residential mortgage loan (Note 4)		191,314	55,765,134	0.34%	10,039	5.25%	171,641	57,260,379	0.30%	10,637	6.20%
	Cash card		—	50,462	—	18,166	—	—	34,976	—	12,772	—
	Credit loans (Note 5)		1,227,536	21,046,582	5.83%	1,092,439	88.99%	797,889	18,098,860	4.41%	811,465	101.70%
	Others (Note 6)	Guarantee	1,249,602	68,250,278	1.83%	308,700	24.70%	1,237,326	70,148,475	1.76%	265,212	21.43%
		Non-guarantee	151,718	2,536,413	5.98%	92,091	60.70%	123,236	1,793,352	6.87%	88,048	71.45%
Total loans			5,276,046	279,296,026	1.89%	3,373,664	63.94%	5,314,463	278,726,639	1.91%	3,385,395	63.70%

Affair	March 31, 2008 Non-Performing Accounts	March 31, 2008 Accounts Receivable	March 31, 2008 Non-Performing Accounts Ratio	March 31, 2008 Allowance for Doubtful Accounts	March 31, 2008 Coverage Ratio	March 31, 2009 Non-Performing Accounts	March 31, 2009 Accounts Receivable	March 31, 2009 Non-Performing Accounts Ratio	March 31, 2009 Allowance for Doubtful Accounts	March 31, 2009 Coverage Ratio
Credit card	132,093	10,999,715	1.20%	317,037	240.01%	176,714	8,368,496	2.11%	245,925	139.17%
Factoring without recourse (Note 7)	—	626,038	—	—	—	—	265,314	—	—	—

	March 31, 2008	March 31, 2009
Non-performing loans of debt negotiation performed according to contract (Note 8) . . .	391,551	306,636
Non-performing receivables of debt negotiation performed according to contract (Note 8)	1,629,315	1,124,840
Non-performing loans of debt discharged and regenerated (Note 9)		144,261
Non-performing receivables of debt discharged and regenerated (Note 9)		117,863

Note 1: The amount recognized as non-performing loans (NPLs) is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans.” The amount recognized as non-performing accounts (NPAs) of credit card was disclosed in accordance with the Banking Bureau’s letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Non-performing loan ratio = Non-performing loans ÷ Outstanding loan balance. Non-performing accounts of credit card ratio = Non-performing accounts ÷ Accounts receivable.

Note 3: Coverage of loan ratio = Allowance for doubtful accounts of loans ÷ Non-performing loans. Coverage of credit card ratio = Allowance for doubtful accounts of credit card ÷ Non-performing accounts.

Note 4: Residential mortgage loan is taken by a borrower who constructs or repairs his own house or under age children's house which is 100% secured and gives mortgage right to financial institution.

Note 5: The credit loans are other than credit card and cash card, and disclosed in accordance with the Banking Bureau's letter dated December 29, 2005 (Ref. No. 09440010950).

Note 6: The consumer finance's "Others" are other than "Residential mortgage loan", "Cash card" and "Credit loans" of guarantee or non-guarantee.

Note 7: The factoring without recourse is disclosed in accordance with the Banking Bureau's letter dated July 19, 2005 (Ref. No. 094000494). The accounts not confirmed by factors or insurance company for three months are labeled as non-performing loans.

Note 8: Overdue loans and receivables by means of debt negotiation are disclosed in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: Overdue loans and receivables by means of debt negotiation are disclosed in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

b. Concentration of credit extensions:

March 31, 2008

Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
		(In Thousands of New Taiwan Dollars, %)	
1	Tcentral	4,950,544	22.37%
2	Taiwan Railways	4,000,000	18.08%
3	Continental Engineering	3,718,843	16.81%
4	Formosa Plastics	3,066,522	13.86%
5	Powerchip Semiconductor	2,508,760	11.34%
6	Shin Kong	2,307,760	10.43%
7	Yieh Phui	2,180,420	9.85%
8	TFMI Asset Management	2,171,750	9.82%
9	Uni-President	1,966,208	8.89%
10	Hontai	1,905,919	8.61%

March 31, 2009

Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
		(In Thousands of New Taiwan Dollars, %)	
1	Tcentral	4,756,218	22.87%
2	Continental Engineering	3,779,317	18.17%
3	Powerchip Semiconductor	3,457,781	16.62%
4	Formosa Plastics	3,064,540	14.73%
5	Shin Kong	2,444,959	11.75%
6	Hontai	2,246,582	10.80%
7	TFMI Asset Management	2,171,750	10.44%
8	Uni-President	2,103,266	10.11%
9	Yieh Phui	1,960,635	9.43%
10	Auto21 Co., Ltd.	1,779,620	8.56%

Note 1: The group business is sorted by credit amount, and did not list government or public enterprise in the top 10 global group business.

Note 2: The group business is disclosed in accordance with the sixth "Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings".

Note 3: Total credit included import bill negotiated, bill purchased, discounts, overdraft, short-term loans, short-term secured loans, margin loans receivable, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, delinquent receivable, bills purchased, factoring without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

Analysis of assets and liabilities sensitivity (N.T. Dollars)

Item	March 31, 2008 1~90 Days	91~180 Days	181 Days~ 1 Years	More than 1 Year	Total
	Unit: In Thousands; %				
Interest-rate-sensitive assets	212,069,987	5,878,621	3,680,309	110,588,326	332,217,243
Interest-rate-sensitive liabilities	141,820,876	123,954,905	62,395,166	12,706,453	340,877,400
Interest-rate-sensitive gap	70,249,111	(118,076,284)	(58,714,857)	97,881,873	(8,660,157)
Net worth					22,126,726
Assets to liabilities ratio					97.46
Gap to net worth ratio					(39.14)

Item	March 31, 2009 1~90 Days	91~180 Days	181 Days~ 1 Years	More than 1 Year	Total
	Unit: In Thousands; %				
Interest-rate-sensitive assets	223,818,509	5,379,131	7,416,797	83,908,772	320,523,209
Interest-rate-sensitive liabilities	111,481,747	153,262,484	65,199,203	13,258,558	343,201,992
Interest-rate-sensitive gap	112,336,762	(147,883,353)	(57,782,406)	70,650,214	(22,678,783)
Net worth					20,799,965
Assets to liabilities ratio					93.39
Gap to net worth ratio					(109.03)

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

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

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

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

Analysis of assets and liabilities sensitivity (U.S. Dollars)

Item	March 31, 2008 1~90 Days	91~180 Days	181 Days~ 1 Years	More than 1 Year	Total
	Unit: In Thousands US$; %				
Interest-rate-sensitive assets	101,380	68,093	16,095	457,691	643,259
Interest-rate-sensitive liabilities	449,709	68,982	51,071	—	569,762
Interest-rate-sensitive gap	(348,329)	(889)	(34,976)	457,691	73,497
Net worth					727,733
Assets to liabilities ratio					112.90
Gap to net worth ratio					10.10

Item	March 31, 2009 1~90 Days	91~180 Days	181 Days ~ 1 Years	More than 1 Year	Total
Interest-rate-sensitive assets	92,657	20,775	21,517	435,098	570,047
Interest-rate-sensitive liabilities	268,719	56,312	118,369	—	443,400
Interest-rate-sensitive gap	(176,062)	(35,537)	(96,852)	435,098	126,647
Net worth					613,261
Assets to liabilities ratio					128.56
Gap to net worth ratio					20.65

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

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

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

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

d. Maturity analysis of assets and liabilities

Maturity analysis of assets and liabilities (N.T. Dollars)

	Total	Amount Due to March 31, 2008 1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Unit: In Thousands NT$			
Main capital inflow upon maturity	426,365,464	67,227,787	32,509,410	22,224,103	27,860,265	276,543,899
Main capital outflow upon maturity	469,779,324	53,122,482	59,669,837	78,237,192	129,784,132	148,965,681
Gap	(43,413,860)	14,105,305	(27,160,427)	(56,013,089)	(101,923,867)	127,578,218

	Total	Amount Due to March 31, 2009 1~30 Days	31~90 Days	91~180 Days	181 Days ~ 1 Year	More Than 1 Year
			Unit: In Thousands			
Main capital inflow upon maturity	425,505,442	88,762,769	37,446,178	31,812,096	44,158,183	223,326,216
Main capital outflow upon maturity	468,769,717	51,844,721	76,935,036	99,879,970	132,256,694	107,853,296
Gap	(43,264,275)	36,918,048	(39,488,858)	(68,067,874)	(88,098,511)	115,472,920

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

Maturity analysis of assets and liabilities (U.S. Dollars)

	Total	Amount Due to March 31, 2008				
		1~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year
		Unit: In Thousands US$				
Main capital inflow upon maturity	664,386	75,675	46,832	68,093	16,095	457,691
Main capital outflow upon maturity	601,888	398,654	83,181	68,982	51,071	—
Gap	62,498	(322,979)	(36,349)	(889)	(34,976)	457,691

	Total	Amount Due to March 31, 2009				
		1~30 Days	31~90 Days	91~180 Days	181 Days~ 1 Year	More Than 1 Year
		Unit: In Thousands US$				
Main capital inflow upon maturity	581,271	71,623	32,258	20,775	21,517	435,098
Main capital outflow upon maturity	454,591	234,498	45,412	56,312	118,369	—
Gap	126,680	(162,875)	(13,154)	(35,537)	(96,852)	435,098

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

49. THE PROFITABILITY OF THE COMPANY, THE GROUP AND THE INVESTEE

2008	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
			Unit: %		
The Group	(0.55)	(0.40)	(9.40)	(6.80)	(38.74)
The Company	(6.94)	(6.90)	(8.17)	(8.12)	100.57
SKLIC	(0.83)	(0.61)	(18.26)	(13.42)	(45.75)
TSKCB	0.17	0.15	3.02	2.80	23.78
SKSC	0.27	0.06	0.75	0.16	4.22
MLSC	0.06	(0.03)	0.21	(0.11)	(3.05)

2009	Return on Assets		Return on Equity		Net (Loss) Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
			Unit: %		
The Group	(0.02)	(0.03)	(0.56)	(0.89)	(1.24)
The Company	(1.02)	(0.97)	(1.52)	(1.44)	102.58
SKLIC	(0.07)	(0.08)	(3.66)	(4.23)	(2.78)
TSKCB	0.05	0.04	0.92	0.83	8.69
SKSC	0.73	0.58	2.08	1.67	32.37
MLSC	0.48	0.45	1.25	1.16	24.81

50. SUPPLEMENTAL DISCLOSURES

Material Contracts and Related Information

Information on material transactions is as follows:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over $300 million or 10% of issued capital stock	None
2	Acquisition or disposal of individual real estate at cost or prices over $300 million or 10% of issued capital stock	None
3	Discount on processing fee for the transactions with related parties over $5 million	None
4	Receivables from related parties over $300 million or 10% of issued capital stock	None
5	Disposal of nonperforming loans by subsidiaries over $5 billion	None
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

Information of Investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	Quality none
2	Acquisition and disposal of real estate at cost or prices over $300 million or 10% of issued capital stock	None
3	Discount on processing fee for the transactions with related parties over $5 million	None
4	Receivables from related parties over $300 million or 10% of issued capital stock	None
5	Disposal of nonperforming loans by investee over $5 billion	None
6	Related information of financial assets securitization or real estate securitization by investee	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided	Note
9	Endorsement/guarantee provided	None
10	Marketable securities held as of December 31, 2008	Table 1 and Note
11	Marketable securities acquired or disposed of at costs or prices over $300 million or 10% of issued capital stock	None
12	Derivative transactions	Note 50(5) and Table 5

Note: Disclosure requirement is not applicable to SKLIC, TSKCB, SKIT, SKSC and MLSC.

Investment in Mainland China

Please see Table 3 attached.

Disclosure of Financial Instruments

a. Fair value of financial instruments

	March 31			
	2008		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 83,747,934	$ 83,747,934	$ 71,321,935	$ 71,321,935
Due from Central Bank and other banks	43,353,021	43,353,021	63,080,175	63,080,175
Financial assets at fair value through profit or loss	147,390,348	147,390,348	143,929,588	143,929,588
Bond purchased under resale agreements	20,057,014	20,057,014	39,394,680	39,394,680
Accounts receivable	61,343,682	61,343,682	43,092,169	43,092,169
Loans, net	462,825,349	462,825,349	462,504,860	462,504,860
Available-for-sale financial assets	161,227,637	161,227,637	298,578,649	298,578,649
Held-to-maturity financial assets	218,410,314	215,182,147	9,857,602	9,913,164
Financial assets at cost	7,331,795	7,331,795	6,524,447	6,524,447
Debt securities without active market	295,742,652	295,188,050	385,143,688	383,882,668
Investments accounted for by the equity method	430,570	430,570	1,475,410	1,475,410
Miscellaneous financial assets	4,152,254	4,152,254	4,794,033	4,794,033
Guarantee deposits paid	12,738,311	12,500,333	19,053,557	19,049,779
Financial liabilities				
Due to Central Bank and other banks	10,919,986	10,919,986	3,377,118	3,377,118
Commercial paper payable	10,546,605	10,546,605	399,867	399,867
Financial liabilities at fair value through profit or loss	6,347,250	6,347,250	28,132,507	28,132,507
Notes issued under repurchase agreements	34,208,372	34,208,372	17,216,630	17,216,630
Accrued expenses	4,588,319	4,588,319	3,788,546	3,788,546
Bonds payable — current portions	—	—	5,304,449	5,304,449
Other payables	19,704,041	19,704,041	16,735,613	16,735,613
Deposits and remittances	322,271,718	322,271,718	336,022,860	336,022,860
Bonds payable	17,800,000	17,811,355	8,800,000	8,800,000
Corporate bonds payable	12,878,088	12,878,088	13,321,002	13,321,002
Other borrowings	5,544,193	5,544,193	3,416,025	3,416,025
Miscellaneous financial liabilities	5,166,077	5,166,077	4,256,688	4,256,688
Guarantee deposits received	604,265	583,977	648,959	630,901

b. The methods and assumptions used by the Group to estimate the fair values of financial instruments are summarized as follows:

1) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash and cash equivalents, due from Central Bank of China and other banks, accounts receivable, other financial assets, bond investments with resale agreements, due to Central Bank and other banks, commercial paper payable, notes issued under repurchase agreements, accrued expenses and other payables.

2) If there is a quoted price from active market for financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, and derivative financial instruments for hedge, the fair value of these financial assets should be based on market price. Otherwise, valuation method should be used for estimation. The assumptions of the valuation method for estimation used by the Group are the same as those of the market participants.

   Cash flow discount method should be used towards debt securities without active market. The Group's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These conditions and characteristics include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. The Group's discount rate for domestic financial commodities is 1.01% to 1.68%, and the discount rate for international financial commodities is 3.71% to 5.08%.

   The fair values of the interest rate swap contracts, forward exchange contracts, stock index futures contracts, currency swap contracts, cross currency swap contract and debentures payable are based on the quoted price provided by the transaction counterparties.

3) Deposits and remittances, loans and overdue receivable are interest-bearing financial assets. Their carrying values approximate fair values.

4) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

5) If there is market price for investments accounted for by the equity method, the market prices should be the fair value. Otherwise, the fair value should be estimated by other financial information.

6) The fair value of guarantee deposits paid and received — except for deposits paid by the insurance company and deposits placed with courts for settlement of cases, which are in the form of government bonds, certificates of deposits and negotiable certificates of deposits — are estimated on the basis of the discounted value of the future cash flows. The discount rate used to discount future cash flows from guarantee deposits paid is the average interest rate of time deposits in banks while the rate used to discount guarantee deposits received is the average midterm loan interest rate.

7) Cash flow discount method should be used for financial debenture. The discount rate is equal to the remuneration rate of similar financial commodities under realistic conditions and characteristics. The discount rate used is 2.5834%.

8) Cash flow discount method should be used for other borrowings. The discount rate is equal to the other remuneration rate of similar financial commodities under realistic conditions and characteristics.

c. Fair values of financial assets/liabilities represented by quoted price in active markets, or calculated by valuation method are listed as follows:

	Quoted Price in Active Markets		Amounts Calculated by Valuation Method	
	2008	2009	2008	2009
Financial assets				
Financial assets at fair value through profit or loss	$134,469,839	$106,352,582	$ 12,920,509	$ 37,577,006
Available-for-sale financial assets	155,842,501	292,905,020	5,385,136	5,673,629
Debt securities without active market	—	—	295,188,050	383,882,668
Financial liabilities				
Financial liabilities at fair value through profit or loss	2,369,865	1,478,941	3,977,385	26,653,566

d. The Group's financial assets at fair value through profit or loss with interest rate changes as of March 31, 2008 and 2009 amounted to $536,002,881 thousand and $671,522,920 thousand, respectively, and financial liabilities of $139,698,312 thousand and $137,267,116 thousand, respectively; financial assets with cash flow risk of interest rate changes amounted to $365,130,352 thousand and $339,205,271, respectively, and financial liabilities of $266,471,639 thousand and $250,696,119 thousand, respectively.

e. For the three months ended March 31, 2008 and 2009, the interest income associated with financial assets (liabilities) other than those at fair value through profit or loss were $8,038,239 thousand and $8,030,301 thousand, respectively; interest expenses amounted to $1,852,402 thousand and $1,272,239 thousand, respectively.

f. The Company's financial risk information

1) Market risk

For the three months ended March 31, 2009, the Company did not engage in any bonds investment; therefore, there were no interest rate fluctuation risks. Cross-currency swap contracts engaged by the Company do not have substantial currency risks because the risks of those contracts are almost netted off with the hedged items.

2) Credit risk

The Company's financial assets are influenced by the Company's transaction counterparties. The influences include the Company's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. The credit risk value as of March 31, 2008 and 2009 are $0 thousand and $314,758, respectively, of whose fair values are positive at the balance date.

3) Liquidity risk

Liquidity risk refers to the risk that sums of money cannot be settled at the anticipated maturity date. The Company's forward exchange contracts are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

g. SKLIC's financial risk information

1) Market risk

SKLIC's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change. When the market interest rate increases by 1%, fair value of the securities investment would decrease by $27,611,000 thousand. SKLIC's currency swap contracts, forward exchange contracts and currency option contracts would also be influenced by the change in market foreign exchange rate: when United States dollars increase by one cent, fair value would decrease by $97,430 thousand.

2) Credit risk

The SKLIC's financial assets are influenced by the SKLIC's transaction counterparties. The influences include the SKLIC's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. Book values of the financial assets held by SKLIC represent fair values, except as mentioned in Note 50.

3) Liquidity risk

SKLIC has sufficient operation capital; therefore, SKLIC does not have liquidity risk.

SKLIC's investments in bonds and stocks are quoted in active markets. Financial assets could be easily sold according to the anticipated fair value price in the markets. The currency swap contracts, forward exchange contracts and currency option contracts held by SKLIC are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

4) Cash flow risk of interest rate fluctuation

Cash flow risk of interest rate fluctuation on debt securities refers to the risk of future repayment fluctuation of short-term/long-term loans arising from interest rate fluctuation. SKLIC does not engage in loans from others, so the risk mentioned above does not exist.

To avoid the risk of interest rate fluctuation on assets with floating-rate risk, SKLIC entered into interest rate swap contracts to manage the risk.

h. SKLIC’s risk management and hedge strategies

Risk management of SKLIC is shown as follows:

1) Credit risk management

Credit risk may be caused by the events of counterparties failing to perform their obligations. SKLIC established regulations by relevant acts according to the financial and operational condition risk management, ability to refund and other credit rating factor of transaction counterparties.

2) Market risk management

Market risk is considered the risk of loss resulting from changes in market price. SKLIC sets up the limit for market risk and other relevant regulations by various market risk factors.

3) Operation risk management

Operation risk indicates the unexpected loss caused by the failure of the internal control. SKLIC sets up regulations for each operation to list operation procedures, limit of authority and responsibility, and other stipulations.

4) Liquidity risk management

Liquidity risks are the risks of encountering difficulty in raising funds to meet the commitments; or finding the counterparties to settle financial instruments at a reasonable price.

SKLIC’s basic policy on liquidity risk management is to establish regulations taking into consideration the security, profitability and liquidity factors and by setting an appropriate current ratio and emergency plan according to the business nature.

5) Concentration risk management

To avoid the risks of concentration, SKLIC sets up the limitation of credit risk with same person or same affiliate and relevant control procedures.

6) The following table summarizes the maturities of SKLIC's financial instruments as of March 31, 2009:

Non-derivative financial instruments with fixed interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$1,054,074	$3,319,507	$17,210,235	$ 2,921,572	$ 2,170,019	$ 11,208,377	$ 37,883,784
Available-for-sale financial assets	2,519,382	5,187,433	9,427,600	14,939,815	21,894,683	131,135,627	185,104,540
Debt securities without active market	8,613,578	—	2,678,340	1,870,290	5,201,228	311,618,286	329,981,722

Non-derivative financial instruments with floating interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 1,976,164	$—	$—	$—	$—	$—	$ 1,976,164
Available-for-sale financial assets	33,152,674	—	—	—	—	—	33,152,674
Debt securities without active market	50,076,537	—	—	—	—	—	50,076,537

Derivative financial instruments

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 20,644	$—	$—	$—	$—	$—	$ 20,644
Financial liabilities at fair value through profit or loss	(44,246)	—	—	—	—	—	(44,246)

Information of reclassifications is shown as follows:

On July 1, 2008, SKLIC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$12,520,818	$ —
Available-for-sale financial assets	—	12,520,818
	$12,520,818	$12,520,818

In view of SKLIC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLIC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of March 31, 2009, were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$9,618,957	$9,618,957

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to March 31, 2009 and pro forma information assuming no reclassifications were made were as follows:

	Recognized in Profit and Loss (As Recognized Interests and Impairment Dollars)	Pro Forma Information Assuming No Reclassification Recognized in Income Statement
Available-for-sale financial assets	$—	$1,153,500

Reclassified information of SKLIC's subsidiaries is shown as follows

On July 1, 2008, SKLRESC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$184,807	$ —
Available-for-sale financial assets	—	184,807
	$184,807	$184,807

In view of SKLRESC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLRESC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying value and fair value of reclassified financial assets as of March 31, 2009 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$111,436	$111,436

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to March 31, 2009 and pro forma information assuming no reclassifications were made were as follows:

	Investment Income Recognized	Pro Forma Information Assuming No Reclassification Recognized in Income Statement
Available-for-sale financial assets	$—	$3,099

i. Financial risk information of TSKCB

1) Market risk

Fair value of bonds and bills investments, loans and other financial instruments engaged by TSKCB will change when the interest rate fluctuates.

2) Credit risk

Credit risk may be caused by the events of counterparties failing to perform their obligation associated with financial assets held by TSKCB. TSKCB follows a strict credit policy to assess and approve all credit lines and guarantees. Certain customers were requested to provide collaterals. The secured loans were 70% of the total loans for the three months ended March 31, 2009. The percentage of guarantees and issuance of letters of credit secured by collaterals were 15%. The collaterals for loans, financing guarantees and letters of credit guarantees are cash, inventories, securities, plants and other assets. If the customers default, TSKCB will execute its rights on the collateral in accordance with the terms of the contracts. There is no collateral required for credit card transactions. However, TSKCB assesses its customers' credit ratings periodically. Based on these assessments, customers' credit limits will be adjusted if necessary.

The credit risk amounts pertain to contracts with a fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except those held by TSKCB as follows:

	2009	
Items	Carry Value	Maximum Exposure of Credit Risk
Guarantee	$ —	$18,115,399
Letters of credit	—	2,644,655
Loan commitments (excluding credit card)	—	61,506,622

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics for concentration of credit risks include the nature of business activities engaged by debtors. TSKCB has not engaged in transactions that involved a prominent concentration in one client or one transaction party, but have transaction parties of similar industry type or from similar region.

As of March 31, 2009, TSKCB's credit exposure related to loans was classified as follows:

Industry	Contract Amount	Maximum Credit Exposure
Natural persons	$156,608,988	$156,608,988
Banking and insurance	120,262,363	120,262,363
Manufacturing	41,326,837	41,326,837
Real estate leasing	19,166,988	19,166,988
Wholesale and retail	13,903,893	13,903,893
Servicing	6,347,834	6,347,834
Others	26,438,675	26,438,675
	$384,055,578	$384,055,578

Region	Contract Amount	Maximum Credit Exposure
Domestic	$367,975,329	$367,975,329
England	3,338,676	3,338,676
Asian regions	3,324,727	3,324,727
Others	9,416,846	9,416,846
	$384,055,578	$384,055,578

3) Liquidity risk

Ratios of liquidity reserves are 13% and 17% as of March 31, 2008 and 2009, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Since derivatives have very little probabilities of failing to be sold at reasonable prices in the market, there will be very low liquidity risks.

The basic management policies of the TSKCB are matching due dates with interest rates of assets and liabilities and controlling unmatched gaps. The nature of uncertainty in those interest rates of assets and liabilities causes some unmatched gaps on the due day and could bring contingent profit or loss, thus the TSKCB adopts suitable allocation method to evaluate TSKCB's liquidity and liquidity analysis as follows:

	March 31, 2008			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,460,819	$ —	$ —	$ 6,460,819
Due from Central Bank of China and other banks	43,353,021	—	—	43,353,021
Financial assets at fair value through profit or loss	4,103,046	—	—	4,103,046
Accounts receivable	14,281,375	—	—	14,281,375
Discounts and loans	45,614,078	99,121,231	134,560,717	279,296,026
Available-for-sale financial assets	—	12,208,706	5,698,907	17,907,613
Held-to-maturity financial assets	899,999	9,603,069	346,271	10,849,339
Debt securities without active market	—	760,125	7,205,985	7,966,110
Hedge derivative	11,855	—	—	11,855
Other overdue receivable	142,969	—	—	142,969
	$114,867,162	$121,693,131	$147,811,880	$384,372,173
Liabilities				
Due to Central Bank of China and other banks	$ 10,148,568	$ —	$ —	$ 10,148,568
Financial liabilities at fair value through profit or loss	2,114,873	—	—	2,114,873
Notes issued under repurchase agreements	2,337,636	—	—	2,337,636
Payables	6,892,992	—	—	6,892,992
Deposits and remittances	317,788,126	17,429,270	—	335,217,396
Financial debenture	9,000,000	5,300,000	3,500,000	17,800,000
Lease payable	168,750	226,783	—	395,533
Appropriated loan fund	—	85,500	—	85,500
	$348,450,945	$ 23,041,553	$ 3,500,000	$374,992,498

	March 31, 2009			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,221,993	$ —	$ —	$ 6,221,993
Due from Central Bank of China and other banks	63,077,103	—	—	63,077,103
Financial assets at fair value through profit or loss	5,103,534	—	—	5,103,534
Accounts receivable	10,262,295	—	—	10,262,295
Discounts and loans	37,391,037	100,863,929	140,471,673	278,726,639
Available-for-sale financial assets	597,931	2,874,099	4,194,908	7,666,938
Held-to-maturity financial assets	1,984,475	7,690,083	183,044	9,857,602
Debt securities without active market	—	—	4,765,430	4,765,430
Other overdue receivable	208,307	—	—	208,307
	$124,846,675	$111,428,111	$149,615,055	$385,889,841
Liabilities				
Due to Central Bank of China and other banks	$ 3,377,118	$ —	$ —	$ 3,377,118
Financial liabilities at fair value through profit or loss	2,496,957	—	—	2,496,957
Notes issued under repurchase agreements	50,012	—	—	50,012
Payables	3,800,570	—	—	3,800,570
Deposits and remittances	336,344,189	18,273,877	—	354,618,066
Financial debenture	—	5,300,000	3,500,000	8,800,000
Lease payable	151,994	121,569	—	273,563
Appropriated loan fund	—	81,900	—	81,900
	$346,220,840	$ 23,777,346	$ 3,500,000	$373,498,186

4) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by TSKCB may take risks of future cash inflow/outflow. The risk is considered substantial and hedged by TSKCB.

j. TSKCB's hedge strategy

1) The activities of risk control and hedge strategy of TSKCB are affected by the industry nature of service and the restrictions of law, thus the overall risk management and control system has been applied to recognize measure and control all risks of TSKCB.

The objective of market risk management of TSKCB is to achieve optimal risk position, maintain adequate liquidity position, and manage all market risk centralized by considering the economic environment, competition condition, market value risk, and impact on net interest income. In order to achieve this goal, TSKCB's hedging activities concentrate on two main control factors: net future cash flow and market risk.

TSKCB use two types of hedging relationship to manage these two factors: cash flow hedge and fair value hedge. Cash flow hedge is to avoid interest rate exposure and fair value hedge is to minimize market value risk.

Fair value hedge is to transfer fixed income or structure transaction to floating income. TSKCB uses fair value hedge to transfer non-monetary linking bonds to become monetary linking bond following the current policy. According to the fund transfer, TSKCB set up the strategy of fair value hedge of interest rate exposure to hedge part of loans, deposit and structure liabilities with fixed interest rate. TSKCB primarily uses interest rate swaps to hedge fair value risk. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as hedging instruments.

There are two main goals of TSKCB's cash flow hedge: transferring monetary linking transaction to be fixed interest transaction to minimize interest rate risk and avoid exchange rate risk arising from forecast transaction. TSKCB primarily uses interest swap as a cash flow hedging instrument and forward exchange contract to avoid risk arising from exchange rate. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as cash flow hedging instruments.

2) Information of reclassifications

On July 1, 2008, TSKCB reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$ 3,498,350	$ 3,034,435
Available-for-sale financial assets	20,794,295	21,258,210
	$24,292,645	$24,292,645

In view of TSKCB's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, TSKCB reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of March 31, 2009 were as follows:

	Carrying Value	Fair value
Available-for-sale financial assets	$223,120	$223,120

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to March 31, 2009 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Amount		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Profit and Loss
Available-for-sale financial assets	$—	$(21,184)	$(21,184)

k. Financial risk information of SKSC

1) Market risk

Equity securities, commodity contracts and structure notes engaged by SKSC are measured at fair value, which changes with the evaluation factors like target price, interest rate, date of maturity, etc. SKSC also takes its hedge strategies to decrease the exposure of risk.

2) Credit risk

The credit risks of SKSC come from margin loan brokerage business, bonds issued under terms, derivatives and consigned trading of marketable securities. To manage the risk, SKSC reviews the credit condition and credit rating of counterparties before entering into any contracts with them. And the maximum limit on contractual amount is approved by SKSC to avoid the loss in an extreme condition.

3) Liquidity risk

The financial instruments held by SKSC are with a strong liquidity, thus the risk is expected to be extremely low. And SKSC has a holding limit on its investment in marketable securities.

4) Cash flow risk of interest rate fluctuation

SKSC's bond investments are with fixed rate, so the effective rate will not change when market interest rate changes to make fluctuations of future cash inflows.

5) Concentration of credit risk

SKSC's counterparties to financial transactions are not individuals or groups engaged in similar activities. SKSC sets up the regulation for the limit of concentrative transaction besides the stipulation of the authority concerned.

I. Derivative financial instruments for the three months ended March 31, 2008 and 2009 of SKSC, a subsidiary, were as follows:

1) Stock warrants

i) Except that SKSC 91, B6, C3, D1, D5, D6, E1 and S3 issued in 2008 and SKSC N4, N6, N8, AA, AB, AC and AD issued in 2009 are Europe stock warrants all other warrants that SKSC issues are American stock warrants which are effective six or seven months after listing on the market and will be settled by cash or securities at the options of SKSC. As of March 31, 2008 and 2009, the details of warrants issued and repurchase are as follows:

	March 31, 2008							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities 70	L & K Engineering Co., Ltd.	20,000,000	2007.10.01	1.03	70.27	1:0.20	18,707,000	0.01
Shin Kong Securities 71	Meiloon Industrial Co., Ltd.	20,000,000	2007.10.02	1.08	59.55	1:0.20	19,277,000	0.01
Shin Kong Securities 72	Pan Jit International Inc.	20,000,000	2007.10.02	1.58	76.95	1:0.20	19,970,000	0.02
Shin Kong Securities 73	Tyntek Corporation	20,000,000	2007.10.03	0.75	68.55	1:0.10	19,701,000	0.06
Shin Kong Securities 74	Fortune Electric Co., Ltd	20,000,000	2007.10.09	1.80	79.20	1:0.20	19,482,000	0.34
Shin Kong Securities 75	Fortune Electric Co., Ltd	20,000,000	2007.10.09	1.61	34.87	1:0.50	19,933,000	0.07
Shin Kong Securities 76	Inotera Memories, Inc.	25,000,000	2007.10.19	0.29	49.27	1:0.10	24,771,000	0.04
Shin Kong Securities 77	Merida Industry Co., Ltd.	20,000,000	2007.10.24	0.68	93.75	1:0.10	19,495,000	0.01
Shin Kong Securities 78	Tsrc Corporation	25,000,000	2007.10.25	0.59	71.55	1:0.10	24,832,000	0.01
Shin Kong Securities 79	Mitac Technology Corp.	25,000,000	2007.10.26	0.62	62.25	1:0.10	24,158,000	0.02
Shin Kong Securities 80	Sinopac Financial Holdings Company Limited	20,000,000	2007.10.31	0.69	22.65	1:0.50	18,871,000	0.22
Shin Kong Securities 81	Tung Ho Steel Enterprise Corp.	20,000,000	2007.11.01	2.19	72.00	1:0.50	17,718,000	1.54
Shin Kong Securities 82	Cheng Uei Precision Industry Co., Ltd.	20,000,000	2007.11.01	0.83	134.85	1:0.10	19,586,000	0.01
Shin Kong Securities 83	Taiwan Navigation Co., Ltd.	20,000,000	2007.11.05	1.01	101.70	1:0.10	17,868,000	0.19
Shin Kong Securities 84	Amtran Technology Co., Ltd.	20,000,000	2007.11.05	1.06	65.25	1:0.20	18,244,000	0.02
Shin Kong Securities 85	Nanya Technology Corporation	20,000,000	2007.11.08	0.36	30.00	1:0.20	16,340,000	0.03
Shin Kong Securities 86	Zinwell Corporation	20,000,000	2007.11.12	1.83	177.00	1:0.10	19,318,000	0.02

	March 31, 2008							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities 87	Asia Optical Co., Inc.	20,000,000	2007.11.12	0.89	141.75	1:0.10	16,553,000	0.07
Shin Kong Securities 88	Mediatek Inc.	30,000,000	2007.11.15	0.63	790.50	1:0.01	28,039,000	0.08
Shin Kong Securities 89	Innolux Display Corporation	20,000,000	2007.11.20	1.57	183.00	1:0.10	19,328,000	0.19
Shin Kong Securities 90	Au Optronics Corp.	20,000,000	2007.11.26	2.52	91.50	1:0.50	16,315,000	0.31
Shin Kong Securities 91	Au Optronics Corp.	20,000,000	2007.11.26	0.78	30.50	1:0.20	17,108,000	0.85
Shin Kong Securities 92	Pan Jit International Inc.	25,000,000	2007.11.27	0.50	47.40	1:0.10	19,927,000	0.04
Shin Kong Securities 93	Epistar Corporation	20,000,000	2007.11.29	1.45	178.50	1:0.10	19,186,000	0.03
Shin Kong Securities 94	Foxconn Technology Co., Ltd	20,000,000	2007.11.29	3.98	442.50	1:0.10	15,519,000	0.03
Shin Kong Securities 95	Upc Technology Corporation	20,000,000	2007.12.07	1.01	28.20	1:0.50	19,219,000	0.78
Shin Kong Securities 96	Micro-Star International Co., Ltd.	20,000,000	2007.12.14	0.57	39.22	1:0.20	18,877,000	0.39
Shin Kong Securities 97	Hon Hai Precision Ind. Co., Ltd.	20,000,000	2007.12.17	1.89	265.50	1:0.10	19,463,000	1.63
Shin Kong Securities 98	Mitac International Corp.	20,000,000	2007.12.17	0.64	45.30	1:0.20	15,551,000	0.62
Shin Kong Securities 99	Wei Chuan Foods Corp.	20,000,000	2007.12.18	0.32	23.77	1:0.20	18,048,000	0.73
Shin Kong Securities A1	Foxconn Technology Co., Ltd	20,000,000	2007.12.18	3.16	333.00	1:0.10	19,079,000	0.20
Shin Kong Securities A2	Inotera Memories, Inc.	20,000,000	2007.12.18	0.92	60.37	1:0.20	18,962,000	0.76
Shin Kong Securities A3	Zinwell Corporation	20,000,000	2007.12.19	1.54	143.25	1:0.10	18,530,000	0.19
Shin Kong Securities A4	Uni-President Enterprises Corp.	20,000,000	2007.12.20	1.02	56.40	1:0.20	19,927,000	1.07
Shin Kong Securities A5	Taiwan Paiho Limited	20,000,000	2007.12.20	0.36	43.35	1:0.10	17,069,000	0.31
Shin Kong Securities A6	Mercuries & Associates, Ltd	20,000,000	2007.12.31	0.51	27.67	1:0.20	16,490,000	1.06
Shin Kong Securities A7	Holtek Semiconductor Inc.	20,000,000	2007.12.31	0.78	71.77	1:0.10	18,316,000	0.72
Shin Kong Securities A8	Taiwan Tea Corporation	20,000,000	2008.01.08	1.21	23.32	1:0.50	19,366,000	4.30
Shin Kong Securities A9	Taiwan Semiconductor Manufacturing Co., Ltd.	20,000,000	2008.01.08	1.04	83.70	1:0.20	19,410,000	1.45
Shin Kong Securities B1	U-Ming Marine Transpost Corp.	20,000,000	2008.01.09	1.35	127.50	1:0.10	17,998,000	1.58

	March 31, 2008							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Value Per Share (NT Dollar)**
Shin Kong Securities B2	Sinopac Financial Holdings Company Limited	20,000,000	2008.01.09	0.50	18.45	1:0.50	18,482,000	0.60
Shin Kong Securities B3	Pan-International Industrial Corp.	20,000,000	2008.01.10	0.98	83.25	1:0.10	19,148,000	0.58
Shin Kong Securities B4	Mediatek Inc.	20,000,000	2008.01.10	0.46	506.25	1:0.01	18,458,000	0.73
Shin Kong Securities B5	Taiwan Cement Corp.	20,000,000	2008.01.14	1.34	73.65	1:0.20	19,682,000	1.97
Shin Kong Securities B6	Taiwan Cement Corp.	20,000,000	2008.01.14	0.78	24.55	1:0.20	17,154,000	0.27
Shin Kong Securities B7	Greatek Electronics Inc.	20,000,000	2008.01.14	0.65	59.25	1:0.20	19,589,000	0.49
Shin Kong Securities B8	China Man-Made Fiber Corporation	20,000,000	2008.01.17	0.76	16.50	1:0.50	19,263,000	1.33
Shin Kong Securities B9	Acer Incorporated	20,000,000	2008.01.17	1.09	76.05	1:0.20	19,928,000	0.90
Shin Kong Securities C1	Ability Enterprise Co., Ltd.	20,000,000	2008.01.17	1.25	76.80	1:0.20	19,022,000	0.39
Shin Kong Securities C2	Walsin Technology Corporation	20,000,000	2008.01.17	0.54	32.70	1:0.20	19,859,000	0.65
Shin Kong Securities C3	Cathay Financial Holding Co., Ltd.	20,000,000	2008.01.21	0.74	41.75	1:0.10	18,291,000	0.30
Shin Kong Securities C4	Cathay Financial Holding Co., Ltd.	20,000,000	2008.01.21	1.51	125.25	1:0.10	17,772,000	0.96
Shin Kong Securities C5	Chinese Maritime Transport Ltd.	20,000,000	2008.01.21	1.24	119.70	1:0.10	19,371,000	2.16
Shin Kong Securities C6	Asia Optical Co., Inc.	20,000,000	2008.02.12	0.76	110.40	1:0.10	19,699,000	0.53
Shin Kong Securities C7	Yageo Corporation	20,000,000	2008.02.12	0.45	13.50	1:0.50	19,279,000	0.57
Shin Kong Securities C8	Htc Corporation	20,000,000	2008.02.18	1.00	957.00	1:0.01	19,827,000	0.95
Shin Kong Securities C9	Largan Precision Co., Ltd.	20,000,000	2008.02.18	0.56	466.50	1:0.01	19,614,000	0.40
Shin Kong Securities D1	Taiwan Tea Corporation	20,000,000	2008.02.19	1.31	11.37	1:0.50	16,312,000	1.86
Shin Kong Securities D2	Wistron Corporation	20,000,000	2008.02.19	0.45	70.20	1:0.10	19,674,000	0.40
Shin Kong Securities D3	Silitech Technology Corporation	20,000,000	2008.02.20	1.12	138.00	1:0.10	19,683,000	0.66
Shin Kong Securities D4	Powertech Technology Inc.	20,000,000	2008.02.25	1.44	150.00	1:0.10	19,843,000	1.76
Shin Kong Securities D5	Huaku Development Co., Ltd.	20,000,000	2008.03.06	1.28	52.00	1:0.10	18,115,000	0.56
Shin Kong Securities D6	Taiwan Fertilizer Co., Ltd.	20,000,000	2008.03.07	1.19	59.25	1:0.10	19,283,000	1.05

	March 31, 2008							
Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
Shin Kong Securities D7	Taiwan Fertilizer Co., Ltd.	20,000,000	2008.03.07	1.78	177.75	1:0.10	19,950,000	2.70
Shin Kong Securities D8	Delta Electronics, Inc.	20,000,000	2008.03.07	1.27	135.00	1:0.10	19,911,000	1.38
Shin Kong Securities D9	Kenda Rubber Industrial Co., Ltd	20,000,000	2008.03.13	0.83	41.25	1:0.20	19,959,000	1.00
Shin Kong Securities E1	Chung Hung Steel Co., Ltd.	20,000,000	2008.03.13	0.68	10.50	1:0.50	19,458,000	0.47
Shin Kong Securities E2	Chung Hung Steel Co., Ltd.	20,000,000	2008.03.13	1.08	31.50	1:0.50	19,934,000	1.80
Shin Kong Securities E3	Gemtek Technology Co., Ltd	20,000,000	2008.03.19	1.29	75.90	1:0.20	19,987,000	0.95
Shin Kong Securities E4	Shih Wei Navigation Co., Ltd	20,000,000	2008.03.19	0.76	81.45	1:0.10	19,964,000	0.75
Shin Kong Securities Q6	Solar Applied Materials Technology Corp.	10,000,000	2007.09.21	3.38	236.25	1:0.10	8,159,000	0.07
Shin Kong Securities Q7	Advanced-Connectek Inc.	5,000,000	2007.10.01	2.44	42.97	1:0.50	4,527,000	0.01
Shin Kong Securities Q8	Advanced-Connectek Inc.	5,000,000	2007.10.01	0.58	14.32	1:0.20	4,709,000	1.28
Shin Kong Securities Q9	Taiwan Hopax Chems.Mfg.Co., Ltd.	7,000,000	2007.10.16	1.07	48.37	1:0.20	5,338,000	0.01
Shin Kong Securities R1	Phison Electronics Corp.	7,500,000	2007.11.05	4.94	435.00	1:0.10	3,894,000	0.26
Shin Kong Securities R2	Sino - American Silicon Products Inc.	10,000,000	2007.11.14	3.57	324.75	1:0.10	9,830,000	1.12
Shin Kong Securities R3	Firich Enterprises Co., Ltd.	5,000,000	2007.11.15	5.59	517.50	1:0.10	3,586,000	0.40
Shin Kong Securities R4	Ardentec Corporation	10,000,000	2007.12.19	0.52	28.05	1:0.20	9,358,000	0.28
Shin Kong Securities R5	Yuanta Financial Holdings	20,000,000	2007.12.21	0.67	64.20	1:0.10	16,704,000	0.16
Shin Kong Securities R6	Taiwan Ic Packaging Corporation	5,000,000	2008.01.10	1.11	24.52	1:0.50	3,690,000	0.93
Shin Kong Securities R7	Kenmos Technology Co., Ltd.	5,000,000	2008.01.21	2.07	34.12	1:0.50	4,373,000	3.86
Shin Kong Securities R8	Etron Technology, Inc.	7,500,000	2008.01.23	0.72	39.37	1:0.20	6,800,000	0.91
Shin Kong Securities R9	Taiwan Surface Mounting Technology Corp.	5,000,000	2008.01.23	0.47	73.42	1:0.10	—	1.47
Shin Kong Securities S1	Au Optronics Corp.	7,500,000	2008.01.25	0.94	48.30	1:0.20	4,140,000	1.56
Shin Kong Securities S2	Yuanta Financial Holdings	10,000,000	2008.02.18	0.51	48.00	1:0.10	8,944,000	0.45

Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Value Per Share (NT Dollar)
	March 31, 2008							
Shin Kong Securities S3	Au Optronics Corp.	10,000,000	2008.02.20	0.72	16.00	1:0.20	8,781,000	0.62
Shin Kong Securities S4	Chipbond Technology Corporation	10,000,000	2008.02.25	0.58	45.45	1:0.20	9,791,000	0.82
Shin Kong Securities S5	Taiwan Surface Mounting Technology Corp.	5,000,000	2008.03.14	1.30	90.00	1:0.10	4,851,000	1.37
Shin Kong Securities S6	Au Optronics Corp.	5,000,000	2008.03.19	1.34	54.00	1:0.20	5,000,000	1.30

Warrants	Name of Warrants	Number of Warrants	Issued Date	Issued Price Per Share (NT Dollar)	Exercise Price Per Share (NT Dollar)	Exercise Proportion	Number of Repurchase	Market Values Per Share (NT Dollar)
	March 31, 2009							
Shin Kong Securities M6	China Development Financial Holding Corp	20,000,000	2008.09.25	1.22	14.10	1:1.0	18,326,000	0.05
Shin Kong Securities M7	U-Ming Marine Transport Corp.	20,000,000	2008.09.26	1.46	75.75	1:0.2	19,638,000	0.03
Shin Kong Securities M8	Inventec Corporation.	20,000,000	2008.10.09	0.83	20.77	1:0.5	19,200,000	0.04
Shin Kong Securities M9	Ton Yi Industrial Corp.	20,000,000	2008.10.09	1.02	17.47	1:0.5	17,533,000	0.14
Shin Kong Securities U8	Chipbond Technology Corporation	7,000,000	2008.09.25	0.94	21.90	1:0.5	6,621,000	0.02
Shin Kong Securities U9	Taiwan Semiconductor Co., Ltd.	5,000,000	2008.09.26	1.31	26.25	1:0.5	3,443,000	0.02
Shin Kong Securities N1	Taiwan 50	20,000,000	2008.12.08	1.63	45.27	1:0.5	19,953,000	0.55
Shin Kong Securities N2	Wistron Corporation.	20,000,000	2008.12.08	0.87	31.72	1:0.2	19,570,000	1.40
Shin Kong Securities N3	AU Optronics Corp.	15,000,000	2009.1.10	0.92	28.00	1:0.2	14,988,000	0.92
Shin Kong Securities N4	AU Optronics Corp.	25,000,000	2009.01.10	0.76	23.00	1:0.2	24,332,000	0.30
Shin Kong Securities N5	Green Energy Technology Inc.	40,000,000	2009.01.13	1.16	110.51	1:1.0	39,999,000	2.36
Shin Kong Securities N6	MediaTek Inc.	25,000,000	2009.02.11	2.02	240.00	1:1.0	24,872,000	1.22
Shin Kong Securities N7	HTC Corporation	25,000,000	2009.02.16	3.66	454.25	1:1.0	24,586,000	4.95
Shin Kong Securities N8	HTC Corporation	25,000,000	2009.02.16	1.88	316.00	1:1.0	24,925,000	1.90
Shin Kong Securities N9	Cathay Financial Holding Co., Ltd.	20,000,000	2009.03.06	1.88	316.00	1:1.0	24,925,000	0.76
Shin Kong Securities AA	Cathay Financial Holding Co., Ltd.	20,000,000	2009.03.06	0.53	31.14	1:0.2	19,995,000	0.56

	March 31, 2009							
Warrants	**Name of Warrants**	**Number of Warrants**	**Issued Date**	**Issued Price Per Share (NT Dollar)**	**Exercise Price Per Share (NT Dollar)**	**Exercise Proportion**	**Number of Repurchase**	**Market Values Per Share (NT Dollar)**
Shin Kong Securities AB	Taiwan Semiconductor Manufacturing Co., Ltd.	20,000,000	2009.03.12	1.69	43.83	1:0.5	20,000,000	1.63
Shin Kong Securities AC	Asia Cement Corporation	20,000,000	2009.03.12	0.99	24.31	1:0.5	19,969,000	1.05
Shin Kong Securities AD	Taiwan 50	20,000,000	2009.03.23	1.69	33.64	1:0.5	20,000,000	1.58

ii) Credit risk

SKSC collects premiums from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

iii) Market price risk

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

According to Vega risk hedge operating approach, SKSC bought the same securities as the warrants. Convertible bonds can be used to hedge against Vega risk; however, the effect of use of convertible bonds to hedge against Vega risk will be compromised by low liquidity, long maturity and uncertainty in respect to the redemption.

iv) Liquidity risk, cash flow risk, future cash needed and period uncertainty

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

v) The category and purpose of the derivative financial instrument

SKSC owned options of derivative financial instruments under trading purpose. In order to avoid the fluctuations in market value, SKSC owns securities for non-trading purposes and securities with high negative correlation.

vi) Reporting of derivative financial instrument in the consolidated financial statements for the three months ended March 31, 2009:

	Amount	Account
Valuation (loss) gain		
Stock warrants issued liability . .	$ 673,136	Gains on valuation of warrants issued liability
Repurchasing of warrants	(120,655)	Loss on valuation of repurchased warrants issued
Operating securities — hedge	5,595	Gains on valuation recovery
Disposal (loss) gain		
Stock warrants issued liability . .	(236,662)	Loss on valuation of warrants issued liability
Repurchasing of warrants	(306,149)	Loss on valuation of repurchased warrants issued
Operating securities — hedge . .	(20,366)	Loss on disposal of securities - hedge

Reporting of derivative financial instrument in the consolidated financial statements for the three months ended March 31, 2008:

	Amount	Account
Valuation (loss) gain		
Stock warrants issued liability . .	$ 62,602	Gains on valuation of warrants issued liability
Repurchasing of warrants	32,092	Gains on valuation of repurchased warrants issued
Operating securities — hedge	(4,231)	Loss on valuation recovery
Disposal (loss) gain		
Stock warrants issued liability . .	61,286	Gains on valuation of warrants issued liability
Repurchasing of warrants	(144,507)	Loss on valuation of repurchased warrants issued
Operating securities — hedge . .	(2,243)	Loss on disposal of securities - hedge

2) Futures and options

i) Contract amount and credit risk

	March 31							
	2008				2009			
Financial Instrument	Unsettled Contracts Buy/Sell		Contract or Notional Amount	Fair Value	Unsettled Contracts Buy/Sell		Contract or Notional Amount	Fair Value
TAIEX Options Contracts	Buy	103	$ 1,169	$ 670	Buy	143	$ 718	$ 592
TFO Options Contracts	—	—	—	—	Buy	10	59	122
TAIEX Options Contracts	Sell	949	(7,930)	(4,965)	Sell	436	(3,269)	(3,177)
TAIEX Futures	Buy	1	425	426	—	—	—	—
Government Bonds Futures	Buy	1	1,703	1,704	Buy	2	11,097	11,109

Credit risk refers to the risk arising from the inability of a liable party to meet the terms of SKSC's financial instrument contracts when due. SKSC had dealt with reputable futures brokers with good credit ratings and 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 contact is not significant.

ii) Market price risk

Market price risk of TAIEX futures and options refers to the risk of market rate changes. Market price risk of interest rate index futures refers to the interest rate changes in the open market. SKSC evaluates its unsettled futures and options contracts by using the price quoted by brokers. As of March 31, 2008, unsettled unrealized loss on futures contracts and gain on options contacts amounted to $2 thousand and $2,466 thousand, respectively. As of March 31, 2009, unsettled unrealized gain on futures contracts and options contracts amounted to $12 thousand and $29 thousand.

iii) Liquidity risk, cash flow risk, future cash need and period uncertainty

SKSC has been engaged in futures and options transactions to hedge against price fluctuations on stock and bonds with operating capital; therefore, the risk of raising additional capital is not significant.

From the balance sheet date to April 10, 2009, the futures contracts of 2 units and options contracts of 490 units have been settled, resulting in gain on futures contracts of $20 thousand and loss on options contracts of $1,749 thousand, respectively. The futures contract of 0 unit and 99 unit option contracts were unsettled, resulting in gain on futures contracts of $0 thousand and loss on option contracts of 3 thousand.

iv) The category and purpose of the derivative financial instrument

SKSC has Taiwan stock index futures contracts, options contracts and interest rate index futures contracts held for non-trading purpose to hedge the risk from SKSC's marketable securities trading in the open market. SKSC invests in the derivative instruments which market price are in inverse relationship with the hedged items.

v) Reporting of derivative in the consolidated financial statements as of and for the three months ended March 31, 2008 and 2009

	2008	2009
Assets		
Deposits paid — self-own capital	$62,199	$73,203
Options — nonhedging	670	714
Liabilities		
Options — futures	4,965	3,177
Trading Purposes		
(Loss) gain on futures contracts — realized and nonhedging	(1,459)	26,221
(Loss) gain on futures contracts — unrealized and nonhedging	(2)	12
Gains (losses) on options contracts — realized and nonhedging	6,018	(2,674)
Gains on options contracts — unrealized and nonhedging	2,466	29

As of March 31, 2008 and 2009, the guarantee deposits for futures contracts amounted to $62,199 thousand and $73,203 thousand, respectively; the long options amounted to $670 thousand and $714 thousand, respectively; and the short options amounted to $4,965 thousand and $3,177 thousand, respectively.

For the three months ended March 31, 2008 and 2009, SKSC (losses) incurred gains of $(1,461) thousand and $26,233 thousand for TAIEX futures contracts; gains (losses) of $8,484 thousand and $(2,645) thousand for TAIEX options contracts.

3) Convertible corporate bond asset swap contracts

i) Objective and strategies

SKSC enters into convertible corporate bond asset swap contracts in a dealing capacity, i.e., it provides them to clients to enhance the liquidity of the convertible corporate bonds as well as minimize the risk of the residual position from underwriting.

ii) The nominal, fair value and credit risk of asset swap IRS contact and asset swap options are as follows:

	2008			2009		
Financial Instrument	Nominal Amount	Fair Value	Credit Risk	Nominal Amount	Fair Value	Credit Risk
Asset swap IRS contracts	$ —	$ —	$—	$ 50,000	$ (2,618)	$ —
Asset swap options	470,300	(20,910)	—	602,600	12,562	12,562

All the counter-parties of Asset swap IRS contact and Asset swap options were domestic companies as of March 31, 2009.

SKSC reviews each counter-party's assets, profitability, capital structure and industrial prospect to determine the client's credit standing. The transactions are then made within each credit limit. Thus, the credit risk is insignificant.

iii) Market risk

The interest rate risk from asset swap contracts and the exposure of the other interest rate-related assets are used to evaluate market risk. In addition, SKSC evaluates the theoretical price and exercise price of options periodically.

SKSC uses "equivalent amount of market risk" to measure the market risk of convertible corporate bond asset swap contracts. It is determined in the same way as calculating the Capital Adequacy Ratio as regulated by the authorities. Market risk equivalent amount represents the maximum loss SKSC may incur and SKSC uses equivalent amount of market risk as the upper limit of its derivative instruments trading.

	March 31	
	2008	2009
Equivalent amount	$12,757	$76,990

iv) Liquidity risk

Net interest, equal to the notional amount of the Asset swap IRS contracts multiplied by the difference in the interest rate bases received or paid upon each settlement date, is not material. The notional amounts are not exchanged on the final settlement date. Thus, the cash demand is not significant.

SKSC's working capital is assessed to be adequate to support the periodic payment of the specified interest on the asset swap transaction during the contract period. Hence, no significant funding risk is expected.

v) For the three months ended March 31, 2008 and 2009, the loss on convertible corporate bond asset swap contracts was $644 thousand (loss on derivative $1,600 thousand and gain on valuation recovery $2,264 thousand) and $51,150 thousand (loss on derivative $54,013 thousand and gain on valuation recovery $2,863 thousand), respectively.

4) Structured-note contracts

i) Objectives

SKSC issued structured-note contracts for trading purposes.

Structured-note contracts consist of equity-linked notes (ELN) contracts, principal guaranteed notes (PGN) contracts and credit-linked notes (CLN) contracts. These contracts have two components: Fixed-income instrument transactions and option transactions. SKSC sells fixed-income instruments to the counter-parties and buys or sells related securities options.

SKSC sets up hedge accounts for structured-note contract transactions.

ii) Nominal amount, fair value and credit risk are as follows:

	March 31					
	2008			2009		
Financial Instruments	Nominal or Premium	Fair Value	Credit Risk	Nominal or Premium	Fair Value	Credit Risk
PGN Contract						
Fixed-income instrument transactions	$577,796	$(575,881)	$—	$580,837	$(586,733)	$—
Equity — limited notes	—	—	—	1,104	(992)	—

All the counter-parties of structured-note contracts were domestic companies as of March 31, 2008 and 2009.

SKSC reviews each counter-party's assets, profitability, capital structure and industrial prospect to determine their credit standing. The transactions are then made within each client's credit limit. Thus, the credit risk is insignificant.

iii) Market risk

SKSC uses "equivalent amount of market risk" to measure the market risk of structured-note contracts. It is determined in the same way as calculating the Capital Adequacy Ratio as regulated by the authorities. Market risk equivalent amount represents the maximum losses SKSC may incur and SKSC uses equivalent amount of market risk as the upper limit of its derivative instruments trading.

	March 31	
	2008	2009
Equivalent amount		
ELN and PGN	$26,684	$5,612

iv) Liquidity risk

The amount received from counter-parties for structured-notes transactions is used in investing fixed-income instruments and linked securities, and SKSC will repay the principal and the fixed income to the counter-parties on contract maturity. Thus, no significant cash demand is expected.

v) The loss on structured-notes transactions were $3,878 thousand and $4,948 thousand, for the three months ended March 31, 2008 and 2009, respectively.

5) Information of reclassifications is shown as follows:

On July 1, 2008, SKSC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Operating securities — brokering	$366,800	$ —
Operating securities — under writing	122,935	—
Available-for-sale financial assets	—	489,735
	$489,735	$489,735

In view of SKSC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLRESC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of March 31, 2009 were as follows:

	Carrying Amount	Fair value
Available-for-sale financial assets	$405,564	$405,564

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to March 31, 2009 and pro forma information assuming no reclassifications were made were as follows:

		Pro Forma Information Assuming No Reclassification
	Investment Income Recognized	Recognized in Income Statement
Available-for-sale financial assets — current	$—	$5,715

6) Other disclosures

According to Futures Trading Act and other relevant acts, the standards of financial ratios are listed as follows:

		Regulations Governing Futures Commission Merchants					
		March 31, 2008		March 31, 2009			
Article	Formula	Calculation	Ratios	Calculation	Ratios	Standard	Remarks
17	Shareholder' equity	593,714	54.23%	612,001	96.17%	≥ 1	Conforming to relevant act
	(Total liabilities-futures traders' equity-reserve for trading losses-reserve for breach of contract losses)	10,948		6,364			
17	Current assets	568,234	4.92%	623,970	4.05%	≥ 1	
	Current liabilities	115,592		154,011			”
22	Shareholder' equity	593,714	100.63%	612,001	103.73%	≥60%	”
	Minimum paid-in capital	590,000		590,000		≥40%	
22	Adjusted net capital	576,857	1,707.50%	601,325	2,754.20%	≥20%	
	Total amount of customer margins required for the open positions of futures traders	33,784		21,833		≥15%	”

The characteristic risk of futures commission merchants

Futures transactions have a financial leverage character that low guarantee deposits are required. SKSC's risk of proprietary futures trading is the market price risk of targets. SKSC had set up a loss-stop point and the losses can be controlled within an expected range.

m. Financial risk information of SKITC

1) Market risk

SKITC's transactions of foreign exchange instruments are for trading purpose. Thus, such instruments are measured at balance sheet date using the market rate. As the market interest rate increase 1%, the market price of financial assets will decrease $4,158 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by SKITC if the counter-parties or third-parties breached contracts. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes its exposure to default by those parties is low

3) Liquidity risk

SKITC has sufficient working capital to settle derivative contracts and cash flows are not expected to fluctuate significantly due to changes in market exchange rates.

n. MLSC's financial risk information

1) Market risk

i) MLSC's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change.

ii) MLSC's equity securities investments were carried at fair value. Therefore, MLSC was exposed to the market price risk of the change of the equity securities

iii) According to Delta risk hedge operating approach, MLSC bought certain securities upon issuing warrants to avoid market price risk.

According to Delta value, MLSC will sell or buy securities dynamically. According to Vega risk hedge operating approach, MLSC bought the same securities as the warrants to oppose the risk of issuing securities as the warrants.

iv) MLSC made futures and option contracts, and the main risk was market price risk, which the market price of futures and option were influenced by investments. MLSC had set up a loss-stop point and standard of Greek to control the loss when the market price is opposite to investments. Under the Ministry of Finance's Approval Documents (87) Tai-Tsai-Zheng No. 01761, Securities and Futures Bureau allowed the securities which have proprietary trading department and underwriter department for having a futures hedge as requirement. The total market price of spot must not exceed the total market price of unsettled futures contracts, and must not exceed 20% of net value. Consequently, market price risk is not significant.

v) MLSC made convertible bond swap, and purchased option on transaction date. The market risk could be controlled as the option risk of buyer is limited. Otherwise, MLSC had option of selling convertible bond swap, but held convertible bond swap for premium to hedge; consequently, market risk is not significant.

vi) MLSC made structured-note contracts, and the amount received from investors on transaction date is invested in the linked products and fixed income products which have been approved by Securities and Futures Bureau. In addition, MLSC have a hedge for derivatives, and had set up a loss-stop point and the losses can be controlled within an expected range; consequently, market risk is not significant.

vii) MLSC made interest rate swap contracts, and the main risk is the change of contracts and option value by the exchange of market rate. In addition, MLSC had a hedge for contracts and options, and had set up a loss-stop point and the losses can be controlled within an expected range.

2) Credit risk

i) The main potential credit risk of MLSC results from cash and cash equivalent, financial assets at fair value through profit or loss, accounts receivable and accounts receivable from client position. MLSC deposits cash in different banks to control risk exposure to each bank. Debt security investments at fair value through profit or loss are composed of high credit rating listed corporate bonds. Besides, MLSC measured the credit of the counterparty before and after transaction periodically. MLSC will put the credit cap on different investment targets and counterparties to control credit risk, therefore, there's no material concern about credit risk highly condensed.

ii) MLSC received amount when it issued stock warrants; therefore, credit risk is not significant.

iii) MLSC has been engaged in futures and options transactions, and the transactions are with futures brokers and financial institutions, whose credit are excellent; therefore, credit risk is not significant.

iv) The main risk that MLSC engaged in convertible bond transactions comes from the counterparties who won't perform the presented terms at maturity. MLSC measured the credit of the counterparties before each transaction and set the limit based on the result, and evaluated periodically. Therefore, there's no material concern about the credit risk.

v) MLSC made structured — note contracts, and the amount received from investors on transaction date; therefore, credit risk is not significant.

3) Liquidity risk

i) MLSC's capital and working capital are sufficient to perform all the contracts; there is no liquidity risk as MLSC can raise capital to meet the engagements.

ii) MLSC can perform its own unsettled or unperformed futures and option contracts at a reasonable market price, therefore, risk of nondisposal is quite low.

iii) The main liquidity risk of warrants is the cash flow risk when the holders perform the warrants. MLSC has the choice to settle the warrants by cash or securities, and it has sufficient working capital that there's no material risk concern.

iv) MLSC will receive or pay the gap between the nominals multiplied by the interest rate which was set at contract date and maturity date. The amount of interest rate swap contracts is not material and there's no cash inflow or outflow of principal at maturity, so, there's no additional material cash request.

v) MLSC engaged in asset swap transactions that it paid contracted periodic interest to obtain an option during the transaction contract. MLSC has sufficient working capital that there's no material risk.

vi) MLSC engaged in structured instrument vehicles that it received premium at the contract date. This account is separate from its own assets and made by contracts, including the ratio to invest in the fixed-income instrument. Therefore, there's no additional material cash requirement when the contracts are at maturity.

4) Cash flow risk from interest rate fluctuations

MLSC's short-term debt and long-term debt are floating rate liabilities. The effective rate of short-term debt and long-term debt is changed by market rate. Therefore, the cash flow in the future is also affected.

o. MLSC made derivatives and other transactions in 2008 and 2009 as follows:

1) MLSC made derivatives at March 31, 2008 and 2009 as follows:

	March 31			
	2008		2009	
	Book Value	Nominal Value	Book Value	Nominal Value
Derivatives assets				
TAIEX futures	$170,791	$ 171,558	$ 83,498	$ 83,097
Long option — futures	66	66	13,752	16,204
Asset swap options	19,342	285,000	—	130,000
Bond options	6,408	6,200,000	31	300,000
Structured — note contracts	—	—	24	6,036
Long option — others	—	—	8,010	—
Derivatives liabilities				
TAIEX futures	253,799	249,261	109,902	109,903
Short option — futures	1,048	1,152	21,231	21,155
Interest rate swap contracts	—	—	38,748	37,200,000
Asset swap options	117,538	727,300	22,001	556,500
Bond options	5,060	4,100,000	39	300,000
Structured — note contracts	1,659	636,520	—	—
Financial liabilities at fair value through profit or loss — noncurrent	—	—	297,003	—

Derivative assets are recorded as "Financial assets at fair value through profits or loss"; derivative liabilities are recorded as "Financial liabilities at fair value through profits or loss".

2) As of March 31, 2008 and 2009, the guarantee deposits for futures contracts amounted to $634,815 thousand and $485,465 thousand, respectively. And the unsettled contract of futures and options contracts are as follows:

	March 31, 2008			
	Unsettled Contracts			
Financial Instrument	**Buy/Sell**	**Number of Contracts**	**Contract or Notional Amount**	**Fair Value**
TAIEX futures	Sell	126	$209,847	$214,704
TF options contract	Sell	35	39,414	39,095
Japan gold futures	Sell	2	1,770	1,774
Soy bean futures	Sell	1	2,067	1,849
TAIEX futures	Buy	95	104,028	103,944
TF options contract	Buy	1	1,186	1,117
XI futures contract	Buy	2	2,269	2,210
Japan platinum futures	Buy	2	1,825	1,869
Japan rubber futures	Buy	2	829	846
Wheat futures	Buy	2	3,407	2,869
TAIEX options contracts	Sell	104	(585)	513
TAIEX options contracts	Sell	164	(567)	421
TAIEX options contracts	Buy	60	53	24
TAIEX options contracts	Buy	20	13	4

	March 31, 2009			
	Unsettled Contracts			
Financial Instrument	**Buy/Sell**	**Number of Contracts**	**Contract or Notional Amount**	**Fair Value**
TAIEX futures	Sell	100	$103,208	$103,923
TAIEX futures	Buy	80	82,778	83,184
TF options contract	Sell	2	1,722	1,710
Smaller TAIEX futures	Sell	2	516	520
XI futures contract	Sell	6	3,647	3,749
GT futures	Buy	1	319	314
TAIEX options contracts	Buy	2,174	8,514	5,875
TAIEX options contracts	Buy	3,894	7,333	7,444
TAIEX options contracts	Sell	3,741	(12,035)	12,399
TAIEX options contracts	Sell	3,306	(8,913)	8,547
GT futures options	Sell	10	(26)	45
GT futures options	Sell	20	(54)	16
TF options contract	Buy	9	46	48
TF options futures contract	Buy	10	78	97
TF options contract	Sell	10	(29)	166
TF options contract	Sell	10	(41)	4
XI futures contract	Buy	29	233	288
XI futures contract	Sell	28	(57)	54

3) Gains (losses) on futures and options contracts, which are recorded as "Gains (losses) of derivative-futures" are as follows:

	2008	2009
Loss on futures contracts		
Gains on futures contracts — realized	$ 144,454	$ 93,956
Gains on futures contracts — unrealized	12,807	—
	157,261	93,956
Loss on futures contracts — realized	(222,816)	(109,227)
Loss on futures contracts — unrealized	(453)	(2,556)
	(223,269)	(111,783)
	$ (66,008)	$ (17,827)
Loss on options contracts		
Gains on options — realized	$ 25,978	$ 79,371
Gains on options — unrealized	375	—
	26,353	79,371
Loss on options — realized	(21,157)	(54,041)
Loss on options — unrealized	—	(2,028)
	(21,157)	(56,069)
	$ 5,196	$ 23,302

4) Gains (losses) on interest rate of swap contracts, assets swap options, structured — note contracts, forward bond contracts, forward bond contracts, bond option, equity derivative and selling options — others, which are recorded as "gains (losses) of derivative — futures" are as follows:

	March 31	
	2008	2009
Gains on interest rate swap contracts	$ 22,085	$ 29,866
Loss on interest rate swap contracts	(38,205)	(47,730)
	$(16,120)	$(17,864)
Gains on options	$ 4,532	$ 5,706
Loss on options	(67,425)	—
	$(62,893)	$ 5,706
Loss on structured — note contracts	$ (2,411)	$ (33)
Gains on bond option	$ 69,990	$ 20,133
Loss on bond option	(74,502)	(24,451)
	$ (4,512)	$ (4,318)
Gains on selling options — others	$ —	$ 11,277

5) Information on MLSC Reclassification of financial assets:

i) The amount and reasons of reclassified financial assets

	March 31, 2008		
	Categories After Reclassification		
	Available-for-sale Assets	Held-to-maturity Financial Assets	Debt Securities Without Active Market
Before Reclassification			
Financial assets held for trading	$801,245	$ —	$ —

Based on the guidance issued by the IASB, Futures Bureau of the Financial Supervisory Commission, and Accounting Research and Development Foundation, the recent turmoil in the global and domestic financial markets is an example of the 'rare circumstances' required by SFAS No. 34 before reclassification could be made. As such, MLSC has reclassified certain held for trading stocks investments as available-for-sale financial assets.

ii) The carrying amount and fair value of available-for-sale financial assets

	March 31, 2009	
	Carrying Amount	Fair Value
Available-for-sale financial assets — current	$441,848	$441,848
Available-for-sale financial assets — noncurrent	396,335	396,335
	$838,183	$838,183

iii) The amount of reclassified financial assets before and after reclassification.

	Financial Assets Originally Classified as Held For Trading Before Reclassification	
	Amounts Recognized in Profit or Loss Before Reclassification	Amount Recognized in Profit or Loss After Reclassification (Note)
For the three months ended March 31,2009	$(196,708)	$ —

Note: The amounts recognized in profit and loss after reclassification include interest expense and impairment loss.

iv) As of March 31, 2009, the expected recoverable cash flow amounted to $290,000 thousand and $300,000 thousand, respectively.

6) According to Futures Trading Act and other relevant acts, the standards of financial ratios are listed as follows:

i) MLSC's Futures Proprietary Trading Business

		Regulations Governing Futures Commission Merchants					
		March 31, 2008		March 31, 2009			
Article	Formula	Calculation	Ratios	Calculation	Ratios	Standard	Remarks
17	Shareholder' equity	812,785	364.38	848,574	36.67	≥ 1	Conforming to relevant act
	(Total liabilities - futures traders' equity-reserve for trading losses-reserve for breach of contract losses)	2,230		23,143			
17	Current assets	803,979	360.53	861,042	37.21	≥ 1	"
	Current liabilities	2,230		23,143			
22	Shareholder' equity	812,785	203.20%	848,574	212.14%	≥60%	"
	Minimum paid-in capital	400,000		400,000		≥40%	
22	Adjusted net capital	768,787	9,219.17%	817,570	2,125.10%	≥20%	"
	Total amount of customer margins required for the open positions of futures traders	8,339		38,472		≥15%	

7) The characteristic risk of futures commission merchants

Futures dealing department of MLSC has a high financial leverage risk in engaging in futures contract transactions and TAIEX option transactions. The maximum loss of longing futures options is the premium paid, so market price risk is not material. The market price risk is price change of TAIEX in short position. MLSC has established risk control mechanism and sets up a stop-loss point to monitor the carrying position and price variation. When the market price fluctuates substantially, MLSC will long options or TAIEX to manage the market price risk and control probable loss in the expected range.

51. RISK MANAGEMENT AND HEDGE STRATEGIES

Risk Management Mechanism

Finance-related business is the Group's main business, so its risk management and hedge strategies should adhere to the relevant regulations and acts. To meet the authorities' requirements, the Group adopted the overall risk management system to identify measure, monitor and control the market risk, credit risk (including risk of concentration), liquidity risk and other risks.

The Group established the position of chief risk-management officer to execute the Group's risk management policy and integrate the Group's risk management resources to increase the efficiency. The chief risk-management officer prepares a management report to the board of directors periodically to enable them to make clear the Group's circumstances of risk management.

The Group has its risk-management committee and convenes meetings quarterly to understand the assessment made by its subsidiaries, as well as the report of modified acts and current news made by the risk-management department. The committee makes its consensus and policy for the exposure of subsidiaries, and the risk-management department will transact it.

The risk-management department of the Group is in charge of the Group's risk control and executes varied risk management mechanism. Risk-management department is also the executive organization to implement the risk-management committee's consensus and policy.

The Group firmly believes that the key factor of building risk-management culture and popularizing risk-management system is from the support of administration. Therefore, the risk-management committee is composed of high-level managers of subsidiaries to make the risk exposures known by the high-level administration.

Hedge Strategies

The Group's main business is finance-related business, so the investing targets held by the Group are under the regulation of authorities concerned. As a result, the Group makes its hedge strategies with sustaining appropriate liquidity in consideration of relevant acts, economic circumstances, competitive conditions and market prices.

The Group's hedge activities are mainly for the avoidance of market price risk and cash flow risk, and the main risk factors are interest rate and currency fluctuations.

To hedge interest rate risk, a great part of the Group's financial instruments are fixed-interest-rate instruments. The Group also transferred the transaction linking to monetary market to that with fixed rate. Interest rate swap contracts are the prime hedging instruments against interest rate fluctuations. In addition, cross currency swaps, swap options, interest rate caps and floors, and other derivatives may be used by the Group as hedging instruments.

TABLE 1

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD AS OF MARCH 31, 2009

Holding Company	Type of Marketable Securities and Name	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Period				Note
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)				
SKLRESC	Common shares-with quoted market prices							
	The Great Taipei Gas Corp.	Affiliate	Available-for-sale financial assets- current	3,080	40,044	—	40,044	
	Shin Kong Synthetic Fibers Corp.	Affiliate	"	6,739	34,840	—	34,840	
	Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate	"	2,355	33,790	—	33,790	
	Taishin Financial Holding Co., Ltd.	Affiliate	"	502	2,761	—	2,761	
	Beneficiary certificates							
	Skinkong NT$ High Yield Fund	Affiliate	Financial assets at fair value through profit or loss-current	2,660	45,696	—	45,696	
	SKIT Global Top Fund	Affiliate	"	2,753	20,235	—	20,235	
	Shin Kong Multiple	Affiliate	"	2,000	15,500	—	15,500	
	Common shares — without quoted market prices							
	Yie-Kong Security	Affiliate	Financial assets at cost-noncurrent	4,673	57,125	15	57,125	
	First International Telecom	None	"	20,673	—	5	—	
	Industrial Bank of Taiwan	None	"	5,000	50,000	—	50,000	
	Simple Telecommunications	Affiliate	"	300	1,899	2	1,899	
	Lian An Co., Ltd.	None	"	5	50	—	50	
	New Century InfoComm Tech	None	"	4,211	29,474	—	29,474	
	Great Taipei Broadband Co., Ltd.	None	"	10,000	59,000	7	59,000	
	PK II Venture Capital Group	None	"	3,000	30,000	4	30,000	
	Centillion Venture Capital Corp.	Affiliate	Investments accounted for by the equity method	5,000	49,314	5	49,314	
	NLIC	Affiliate	"	1,500	19,441	30	19,441	
NLIC	ProMOS Technologies Inc.							
	Shin-Kong Chi-Shin Fund	Affiliate	Financial assets at fair value through profit or loss-current	2,653	39,233	—	39,233	

TABLE 2

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
PUBLIC ANNOUNCEMENTS IN COMPLIANCE WITH ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT
DECEMBER 31, 2008

Name	Amount of Credit, Endorsement or Other Transactions	Percentage of the Holding Company's Net Worth
	(In Millions of New Taiwan Dollars, Unless Specified Otherwise)	
Public Bonds of Central Government	$194,900	438.24%
HSBC	16,543	37.20%
Chunghwa Telecom Co., Ltd	11,065	24.88%
Taiwan Power Company	10,489	23.59%
Land Bank of Taiwan	10,096	22.70%
Deutsche Bank	8,806	19.80%
Taiwan Cooperative Bank	7,756	17.44%
Public Bonds of Taipei City	7,007	15.76%
Rsea Engineering Corp.	6,861	15.43%
Li, Min-Sying	6,660	14.98%
UBS AG Taiwan	6,500	14.62%
Capital Securities Investment Trust Co., Ltd.	5,973	13.43%
Fuh Hwa Securities Investment Trust Co., Ltd.	5,048	11.35%
ABN AMRO Taiwan	5,000	11.24%
Media Tek Inc.	4,127	9.28%
Taiwan Railway Administration	4,050	9.11%
Hon Hai Precision Ind. Co., Ltd.	3,852	8.66%
First International Telecom Co., Ltd.	3,033	6.82%
HTC Co., Ltd.	3,021	6.79%
Prudential Securities Investment Trust Co., Ltd.	2,952	6.64%
Pca Securities Investment Trust Co., Ltd.	2,746	6.17%
Total	326,485	734.12%
Cathay Financial Holding Co., Ltd. and Affiliate	20,666	46.47%
SKFHC and Affiliate	19,234	43.25%
First Financial Holding Co. and Affiliate	18,975	42.67%
Formosa Plastics Corporation and Affiliate	15,125	34.01%
Hua Nan Financial Holding Co., Ltd. and Affiliate	12,527	28.17%
Chinatrust Financial Holding Co. and Affiliate	8,860	19.92%
Mega Financial Holding Co., Ltd. and Affiliate	8,330	18.73%
Taishin Financial Holding Co., Ltd. and Affiliate	7,949	17.87%
China Development Financial Holding Co. and Affiliate	7,800	17.54%
Powerchip Semiconductor Corp. and Affiliate	7,739	17.40%
Fubon Financial Holding Co., Ltd. and Affiliate	6,978	15.69%
Polaris Securities Co., Ltd. and Affiliate	6,024	13.55%
Sinopac Financial Holding Co., Ltd. and Affiliate	6,024	13.55%
Durban Group and Affiliate	4,781	10.75%
Taiwan High Speed Rail Corp. and Affiliate	4,591	10.32%
China Steel Co., Ltd. and Affiliate	3,972	8.93%
AU Optronics Corp. and Affiliate	3,597	8.09%
MiTAC Inc. and Affiliate	3,197	7.19%
Yuanta Financial Holdings and Affiliate	3,030	6.81%
Total	169,399	380.90%

TABLE 3

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
INVESTMENTS IN MAINLAND CHINA
THREE MONTHS ENDED MARCH 31, 2009

1. SKLIC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan	Investment Flows Outflow	Investment Flows Inflow	Accumulated Outflow of Investment from Taiwan as Of March 31, 2009	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)	Carrying Value as of March 31, 2009	Accumulated Inward Remittance of Earnings as of March 31, 2009
					(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)						
Shin-Kong Hainan Insurance Co., Ltd. (Note)	Insurance	$2,191,900 (RMB $ 500,000)	Invest China directly	$1,095,950	$—	$—	$1,095,950	50%	$1,134	$1,232,889	N/A

Accumulated Investment in Mainland China as of March 31, 2009	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$1,095,950	US$40,000	$16,224,451

Note: SKLIC was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in Mainland China in its letter in 2003. SKLIC obtained approval of the China Insurance Regulatory Commission (ref. No. (96) Bao-Jian-Guo-Ji No.1254), and SKLIC and HNA Group prepare to establish the Chinese and foreign joint venture life insurance company. SKLIC remittance of the investment fund amount of RMB 2.5 billion was on June 6, 2008. As of the report date, Shin-Kong Hainan Insurance Co., Ltd is still on preparatory status

2. MLSC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan	Investment Flows: Outflow	Investment Flows: Inflow	Accumulated Outflow of Investment from Taiwan as of March 31, 2009	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)	Carrying Value as of March 31, 2009	Accumulated Inward Remittance of Earnings as of March 31, 2009
						(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)					
MLSC (HK) Shanghai Representative (Note 1)	Consulting services industry report and research	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MLSC (HK) Shenzhen Representative (Note 2)	Consulting services industry report and research	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shanghai MasterLink Investment Advisory Corp.	Securities investment consulting and training services	US$500	(Note 3)	US$500	US$—	US$—	US$500	100%	US$ 4	US$629	US$—

Accumulated Investment in Mainland China as of March 31, 2009	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
US$500	US$500	$9,546,323

Note 1: MLSC Shanghai Representative Office was approved by China Securities Regulatory Commission on October 22, 1998 and registered on January 11, 1999.

Note 2: MLSC Shenzhen Representative Office was approved by China Securities Regulatory Commission on May, 2003 and registered on May 8, 2003.

Note 3: The investment was approved by the Investment Commission, MOEA (ref. No. (85) No 85020739) on December 30, 1996. MLSC established MasterLink Securities B.V.I.) — MasterLink Investment Advisory Corp. which was approved on May 30, 1997, and the main business was securities investment consulting and training services. MLSC was altered as Shanghai MasterLink Investment Advisory Corp. through MOEA on June 27, 1997, and it was approved by MOEA which increased its paid-in capital to US$500 thousand.

TABLE 4

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
SUMMARY OF INTERCOMPANY TRANSACTIONS

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5) Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
	Three months ended March 31, 2008						
0	SKFHC	TSKCB	1	Cash and cash equivalents	1,939,174	Note 4	—
0	SKFHC	SKLIC	1	Income tax payable for linked-tax	1,412,892	”	—
0	SKFHC	TSKCB	1	Income tax receivable for linked-tax	304,071	”	—
0	SKFHC	SKSC	1	Income tax payable for linked-tax	224,725	”	—
1	SKLIC	SKFHC	2	Income tax receivable for linked-tax	1,412,892	”	—
1	SKLIC	TSKCB	3	Cash and cash equivalents	9,959,287	”	—
1	SKLIC	TSKCB	3	Financial assets at fair value through profit or loss	811,667	”	—
1	SKLIC	TSKCB	3	Valuation gain on financial assets	811,667	”	—
2	TSKCB	SKFHC	2	Income tax payable for linked-tax	304,071	”	—
2	TSKCB	SKFHC	2	Deposits and remittances	1,939,174	”	—
2	TSKCB	SKLIC	3	Deposits and remittances	9,959,287	”	—
2	TSKCB	SKLIC	3	Financial liabilities at fair value through profit or loss	811,667	Note 4	—
2	TSKCB	SKLIC	3	Valuation loss on financial assets	811,667	”	—
2	TSKCB	SKSC	3	Deposits and remittances	658,726	”	—
2	TSKCB	SKIBC	3	Deposits and remittances	104,756	”	—
3	SKSC	SKFHC	2	Income tax receivable for linked-tax	224,725	”	—
3	SKSC	TSKCB	3	Cash and cash equivalents	658,726	”	—

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5)			
				Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
4	SKIBC	TSKCB	3	Cash and cash equivalents	104,756	”	—
	Three months ended March 31, 2009						
0	SKFHC	TSKCB	1	Cash and cash equivalents	410,660	”	
0	SKFHC	SKLIC	1	Income tax payable for linked-tax	2,262,294	”	—
0	SKFHC	SKLIC	1	Debt securities without active market	4,700,000	”	—
0	SKFHC	TSKCB	1	Income tax payable for linked-tax	289,986	”	—
0	SKFHC	SKSC	1	Income tax receivable for linked-tax	281,785	”	—
1	SKLIC	SKFHC	2	Income tax receivable for linked-tax	2,262,294	”	—
1	SKLIC	SKFHC	2	Preferred stock liabilities	4,700,000	”	—
1	SKLIC	TSKCB	3	Cash and cash equivalents	16,745,669	”	1
1	SKLIC	TSKCB	3	Financial assets at fair value through profit or loss	2,260,196	”	—
1	SKLIC	TSKCB	3	Valuation gain on financial assets	2,260,196	”	6
1	SKLIC	TSKCB	3	Bonds purchased under resale agreements	702,000	”	—
1	SKLIC	SKSC	3	Bonds purchased under resale agreement	544,146	”	—
2	TSKCB	SKFHC	2	Deposits and remittances	410,660	”	—
2	TSKCB	SKFHC	2	Income tax receivable for linked-tax	289,986	”	—
2	TSKCB	SKLIC	3	Deposits and remittances	16,745,669	”	1
2	TSKCB	SKLIC	3	Financial liabilities at fair value through profit or loss	2,250,283	”	—

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions (Note 5)			
				Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
2	TSKCB	SKLIC	3	Valuation loss on financial liabilities	2,250,283	Note 4	6
2	TSKCB	SKLIC	3	Notes issued under repurchase agreement	702,000	”	—
2	TSKCB	SKSC	3	Deposits and remittances	837,947	”	—
2	TSKCB	SKSIC	3	Deposits and remittances	261,588	”	—
2	TSKCB	SKIBC	3	Deposits and remittances	113,581	”	—
3	SKSC	SKFHC	2	Income tax payable for linked-tax	281,785	”	—
3	SKSC	SKLIC	3	Notes issued under repurchase agreement	544,146	”	—
3	SKSC	TSKCB	3	Cash and cash equivalents	490,947	”	—
3	SKSC	TSKCB	3	Other assets — net	347,000	”	—
4	MLSC	Master Link Futures Co., Ltd.	3	Deposits paid-self	416,549	”	—
5	Master Link Futures Co., Ltd.	MLSC	3	Futures traders’ equity	416,549	”	—
6	SKSIC	TSKCB	3	Cash and cash equivalents	261,588	”	—
7	SKIBC	TSKCB	3	Cash and cash equivalents	113,581	”	—

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:
For balance sheet accounts — transaction amount ÷ total consolidated assets
For income statement accounts — accumulated transaction amount ÷ total consolidated operating income.

Note 4: Terms and conditions of related party transactions are made on arm’s length basis.

Note 5: Minimum transaction amount of $100 million.

TABLE 5

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
DERIVATIVE INSTRUMENT

Company	Nature of Contract	March 31, 2009 Contract Amount (Notional Principal)	March 31, 2009 Credit Risk	March 31, 2009 Fair Value
		(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)		
Shin Kong Finance (HK) Ltd.	Credit Default Swap Contracts	US$17,000	US$17,000	US$10,323

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Shin Kong Life Insurance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Shin Kong Life Insurance Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") as of December 31, 2006, 2007 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China ("ROC"). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial 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 consolidated financial position of Shin Kong Life Insurance Co., Ltd. and subsidiaries as of December 31, 2006, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Statements of Life Insurance Companies, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, effective January 1, 2008, the Group adopted Statement of Financial Accounting Standards (SFAS) No. 39, "Share-based Payment" and Interpretation 96-052 "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation of the ROC.

As stated in Note 3, effective July 1, 2008, the Group adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

February 25, 2009 (except as to Note 4 which is as of March 31, 2009)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 5 and 27)	$ 35,994,134	$ 96,474,997	$ 103,547,048	$ 3,057,191
Financial assets at fair value through profit or loss (Notes 2, 6 and 27)	77,586,776	67,695,581	68,507,034	2,022,646
Available-for-sale financial assets (Notes 2 and 7)	96,484,260	112,098,020	93,777,370	2,768,744
Held-to-maturity investments (Notes 2 and 11)	8,222,372	3,393,979	—	—
Debt securities without an active market — current (Notes 2 and 13)	—	—	24,658,915	728,046
Other receivables (Notes 2 and 8)	20,412,996	17,569,919	20,022,932	591,170
Other current assets (Notes 2, 9, 26 and 27)	1,762,435	2,095,669	44,643,507	1,318,084
Total current assets	240,462,973	299,328,165	355,156,806	10,485,881
LOANS (Notes 2, 10 and 27)				
Policy loans	105,226,549	112,989,129	119,453,387	3,526,820
Secured loans	69,341,451	71,052,524	72,253,004	2,133,245
Allowance for secured loans	(911,543)	(916,399)	(709,952)	(20,961)
Secured loans, net	68,429,908	70,136,125	71,543,052	2,112,284
Total loans	173,656,457	183,125,254	190,996,439	5,639,104
FUNDS AND INVESTMENTS				
Available-for-sale financial assets-noncurrent (Notes 2 and 7)	50,983,342	30,086,776	246,492,068	7,277,593
Held-to-maturity investments-noncurrent (Notes 2 and 11)	202,439,407	204,567,762	—	—
Financial assets carried at cost-noncurrent (Notes 2 and 12)	6,417,626	4,974,093	4,871,934	143,842
Debt securities without active market-noncurrent (Notes 2 and 13)	296,860,481	304,118,896	307,780,926	9,087,125
Investments accounted for by the equity method (Notes 2, 14 and 27)	422,687	433,379	1,430,930	42,248
Real estate investments, net (Notes 2, 15 and 27)	71,888,848	77,749,175	78,880,163	2,328,909
Total funds and investments	629,012,391	621,930,081	639,456,021	18,879,717
PROPERTY AND EQUIPMENT (Notes 2 and 16)				
Cost				
Land	4,576,495	4,337,077	4,348,503	128,388
Buildings and structures	5,568,972	5,298,341	5,487,711	162,023
Transportation and communications equipment	74,309	76,627	75,665	2,234
Other equipment	1,533,752	1,866,456	2,118,395	62,545
Revaluation increment	1,514,724	1,218,815	1,282,725	37,872
	13,268,252	12,797,316	13,312,999	393,062
Less: Accumulated depreciation	(2,176,000)	(2,295,624)	(2,599,617)	(76,753)
Less: Accumulated impairment	—	(378,769)	(378,769)	(11,183)
Construction in progress	52,252	16,825	16,825	497
Property and equipment, net	11,144,504	10,139,748	10,351,438	305,623
OTHER ASSETS (Notes 2, 17, 19, 26, 27 and 28)				
Asset on insurance products — separate account	53,490,110	104,409,050	88,009,382	2,598,446
Miscellaneous assets	9,780,690	10,442,496	17,452,994	515,294
Total other assets	63,270,800	114,851,546	105,462,376	3,113,740
TOTAL	$1,117,547,125	$1,229,374,794	$1,301,423,080	$38,424,065

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 6)	$ 4,304,185	$ 3,183,373	$ 24,674,642	$ 728,510
Life insurance proceeds payable	694,350	445,271	1,005,543	29,688
Payables to other insurers	90,055	18,510	77,152	2,278
Accrued expenses (Note 18)	3,459,760	2,705,459	2,213,857	65,363
Other payables	2,780,398	3,344,870	1,955,301	57,730
Advance receipts	6,766,713	3,477,800	12,938,324	382,000
Total current liabilities	18,095,461	13,175,283	42,864,819	1,265,569
LONG-TERM LIABILITIES				
Reserve for land value increment tax (Note 2)	2,323,488	2,075,448	2,074,388	61,246
Preferred stock liabilities — noncurrent (Note 20)	—	—	6,354,000	187,600
Total long-term liabilities	2,323,488	2,075,448	8,428,388	248,846
RESERVE FOR OPERATIONS AND LIABILITIES (Note 2)				
Reserve for unearned premiums	5,537,962	5,746,716	6,811,312	201,102
Reserve for life insurance liability	955,257,331	1,032,057,692	1,118,982,455	33,037,569
Special reserve for life insurance	7,591,914	7,892,753	8,063,506	238,072
Reserve for claim payments	1,237,435	1,040,998	1,176,371	34,732
Reserve for insufficient premium	2,218,853	1,941,037	1,330,288	39,276
Total reserve for operations and liabilities	971,843,495	1,048,679,196	1,136,363,932	33,550,751
OTHER LIABILITIES				
Guarantee deposits received (Note 27)	550,414	586,340	656,481	19,382
Liabilities on insurance products — separate account (Notes 2 and 28)	53,490,110	104,409,050	88,009,382	2,598,446
Others	1,269,658	361,241	248,653	7,343
Total other liabilities	55,310,182	105,356,631	88,914,516	2,625,171
Total liabilities	1,047,572,626	1,169,286,558	1,276,571,655	37,690,337
STOCKHOLDERS' EQUITY				
Equity attributable to stockholders of the parent				
Common stock	33,208,802	33,208,802	41,832,423	1,235,088
Preferred stock	3,000,000	3,000,000	—	—
Capital surplus				
Issuance of common shares in excess of par	—	—	8,024,693	1,386
Treasury stock transactions	46,959	46,959	46,959	236,926
Retained earnings				
Legal reserve	1,826,079	3,003,188	3,244,870	95,804
Special reserve	4,496,778	5,744,064	7,012,726	207,048
Unappropriated retained earnings (accumulated deficit)	11,893,084	8,394,629	(13,761,044)	(406,291)
Unrealized valuation gains (losses) on financial instruments	9,480,566	1,026,073	(27,299,743)	(806,015)
Unrealized revaluation increment	5,929,936	5,571,991	5,570,537	164,468
Cumulative translation adjustment	—	—	107,804	3,183
	69,882,204	59,995,706	24,779,225	731,597
Minority interest	92,295	92,530	72,200	2,131
Total stockholders' equity	69,974,499	60,088,236	24,851,425	733,728
TOTAL	$1,117,547,125	$1,229,374,794	$1,301,423,080	$38,424,065

(Concluded)

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

(With Deloitte & Touche audit report dated February 25, 2009, except as to Note 4 which is as of March 31, 2009)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
OPERATING INCOME				
Premium income	$149,421,262	$150,311,350	$152,347,025	$ 4,497,993
Reinsurance commission income	1,845,751	1,372,710	1,414,978	41,777
Claims recovered from reinsurers	1,358,740	1,138,049	1,267,758	37,430
Recovered premium reserve (Note 2)	52,953,126	76,493,599	81,212,662	2,397,776
Recovered special reserve (Note 2)	20,065	—	73,543	2,171
Recovered claim reserve (Note 2)	1,287,595	1,519,716	1,261,645	37,250
Recovered insufficient premium reserve (Note 2)	—	321,739	610,992	18,039
Processing fee income (Note 28)	701,059	1,371,836	3,049,940	90,048
Interest income (Note 27)	34,424,612	38,259,240	38,703,815	1,142,717
Valuation gain on financial assets at fair value through profit or loss (Note 2)	—	—	7,617,886	224,915
Investment income recognized under equity method (Notes 2 and 14)	39,397	106,006	—	—
Exchange gain (Note 6)	—	608,562	—	—
Gain on investments (Note 23)	15,324,672	6,250,766	—	—
Gain on real estate investments (Notes 2, 7 and 24)	5,335,532	3,221,194	6,083,590	179,616
Incomes on insurance products — separate account (Notes 2 and 28)	42,254,277	107,464,772	145,493,238	4,295,637
Other income	482,258	511,136	510,974	15,086
Total operating income	305,448,346	388,950,675	439,648,046	12,980,455

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
OPERATING COSTS				
Reinsurance expenses	$ 3,505,337	$ 2,756,404	$ 2,694,839	$ 79,564
Acquisition expenses	91,963	82,097	73,769	2,178
Commission expenses	7,662,352	8,182,545	5,542,015	163,626
Insurance payments	66,731,326	90,528,241	94,758,155	2,797,702
Provision of premium reserve (Note 2)	150,892,662	153,502,714	169,202,021	4,995,631
Provision of special reserve (Note 2)	582,130	300,839	244,296	7,213
Disbursements to the industry stability fund	149,374	150,515	151,150	4,463
Provision for claim reserve (Note 2)	2,089,181	1,323,280	1,397,018	41,246
Provision for insufficient premium reserve (Note 2)	—	43,923	243	7
Processing fees	23,679	24,918	23,886	705
Interest expense	113,457	64,368	35,286	1,042
Valuation loss on financial assets at fair value through profit or loss (Note 2)	3,416,662	838,058	—	—
Valuation loss on financial liabilities at fair value through profit or loss (Note 2)	—	449,257	21,616,128	638,209
Investment loss recognized under equity method (Notes 2 and 14)	—	—	14,888	440
Exchange losses (Note 6)	1,378,429	—	1,433,701	42,330
Loss on disposal of investment (Note 23)	—	—	1,820,195	53,741
Disbursements on insurance products — separate account (Notes 2 and 28)	42,254,277	107,464,772	145,493,238	4,295,637
Other operating costs	3,391	583,804	505,770	14,933
Total operating costs	278,894,220	366,295,735	445,006,598	13,138,667
GROSS OPERATING INCOME (LOSS)	26,554,126	22,654,940	(5,358,552)	(158,212)
OPERATING EXPENSES (Notes 25 and 27)				
Selling expenses	10,468,601	10,577,134	9,424,400	278,252
Administrative expenses	5,426,094	5,292,796	5,580,077	164,750
Total operating expenses	15,894,695	15,869,930	15,004,477	443,002

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
OPERATING INCOME (LOSS)	$10,659,431	$6,785,010	$(20,363,029)	$(601,214)
NONOPERATING INCOME AND GAINS				
Recovered bad debt and overdue receivable	330,546	19,109	234,005	6,909
Others (Notes 7 and 27)	1,309,449	1,374,215	672,919	19,868
Total nonoperating income and gains	1,639,995	1,393,324	906,924	26,777
NONOPERATING EXPENSES AND LOSSES				
Impairment loss on financial assets and debt securities with no active market (Notes 7, 11, 12, 13, 16 and 21)	1,024,504	5,269,439	5,974,791	176,404
Others	102,809	101,586	170,908	5,043
Total nonoperating expenses and losses	1,127,313	5,371,025	6,145,699	181,447
OPERATING INCOME (LOSS) BEFORE TAX	11,172,113	2,807,309	(25,601,804)	(755,884)
INCOME TAX (EXPENSE) BENEFIT (Note 26)	(325,405)	(378,836)	5,859,280	172,993
OPERATING INCOME (LOSS) AFTER TAX	10,846,708	2,428,473	(19,742,524)	(582,891)
CUMULATIVE TRANSLATION ADJUSTMENT (After deducting estimated income tax expense of $191,644 thousand)	937,276	—	—	—
CONSOLIDATED NET INCOME (LOSS)	$11,783,984	$2,428,473	$(19,742,524)	$(582,891)
ATTRIBUTABLE TO				
Stockholders of the parent	$11,771,090	$2,416,820	$(19,737,526)	$(582,743)
Minority interest	12,894	11,653	(4,998)	(148)
	$11,783,984	$2,428,473	$(19,742,524)	$(582,891)

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except Earnings (Loss) Per Share)

	2006		2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 4)	NT$	US$ (Note 4)
EARNINGS (LOSS) PER SHARE (Note 22)								
Operating net income (loss)	$5.16	$5.02	$0.79	$0.69	$(7.10)	$(0.22)	$(5.48)	$(0.17)
Cumulative translation adjustment	0.53	0.44	—	—	—	—	—	—
Basic earnings (loss) per share	$5.69	$5.46	$0.79	$0.69	$(7.10)	$(0.22)	$(5.48)	$(0.17)
DILUTED EARNINGS PER SHARE (Note 22)								
Operating net income (loss)	$3.31	$3.22						
Cumulative translation adjustment	0.34	0.28						
Diluted earnings (loss) per share	$3.65	$3.50						

(Concluded)

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

(With Deloitte & Touche audit report dated February 25, 2009, except as to Note 4 which is as of March 31, 2009)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Capital Surplus		Retained Earnings							
	Issued and Outstanding Common Stock	Issued and Outstanding Preferred Stock	Issuance of Common Shares	Treasury Stock Transactions	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Valuation Gains (Losses) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustment	Minority Interest	Total
BALANCE, JANUARY 1, 2006 . . .	$21,208,802	$ 15,000,000	$—	$46,959	$1,089,790	$3,213,107	$ 7,364,346	$6,489,252	$ (5,596)	$—	$84,137	$54,490,797
Effect of initial adoption of Statement of Financial Accounting Standards No. 34 . .	—	—	—	—	—	—	—	—	7,932,687	—	—	7,932,687
Transfer property and equipment revaluation increment to other income	—	—	—	—	—	—	—	(559,316)	—	—	—	(559,316)
Change of unrealized gain on available-for-sale financial assets	—	—	—	—	—	—	—	—	1,496,623	—	—	1,496,623
Effect of long-term equity investments, net	—	—	—	—	—	—	—	—	56,852	—	—	56,852
Appropriations and distributions for 2005 net income												
Legal reserve	—	—	—	—	736,289	—	(736,289)	—	—	—	—	—
Special reserve	—	—	—	—	—	1,283,671	(1,283,671)	—	—	—	—	—
Cash dividends — preferred stock	—	—	—	—	—	—	(609,500)	—	—	—	—	(609,500)
Cash dividends — common stock	—	—	—	—	—	—	(4,559,892)	—	—	—	—	(4,559,892)
Employee bonus	—	—	—	—	—	—	(53,000)	—	—	—	—	(53,000)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	(4,736)	(4,736)
Consolidated net income for the year ended December 31,2006	—	—	—	—	—	—	11,771,090	—	—	—	12,894	11,783,984
Transfer preferred stock to common stock	12,000,000	(12,000,000)	—	—	—	—	—	—	—	—	—	—

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Capital Surplus		Retained Earnings							
	Issued and Outstanding Common Stock	Issued and Outstanding Preferred Stock	Issuance of Common Shares	Treasury Stock Transactions	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Valuation Gains (Losses) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustment	Minority Interest	Total
BALANCE, DECEMBER 31, 2006	33,208,802	3,000,000	—	46,959	1,826,079	4,496,778	11,893,084	5,929,936	9,480,566	—	92,295	69,974,499
											—	
Transfer of property and equipment revaluation increment to other income	—	—	—	—	—	—	—	(346,581)	—	—	—	(346,581)
Change in unrealized loss on available-for-sale financial assets	—	—	—	—	—	—	—	—	(8,439,213)	—	—	(8,439,213)
Effect of long-term equity investments, net	—	—	—	—	—	—	—	—	(15,280)	—	—	(15,280)
Appropriation of the 2006 net income												
Legal reserve	—	—	—	—	1,177,109	—	(1,177,109)	—	—	—	—	—
Special reserve	—	—	—	—	—	1,247,286	(1,247,286)	—	—	—	—	—
Cash dividends — preferred stock	—	—	—	—	—	—	(135,000)	—	—	—	—	(135,000)
Cash dividends — common stock	—	—	—	—	—	—	(3,320,880)	—	—	—	—	(3,320,880)
Employee bonus	—	—	—	—	—	—	(35,000)	—	—	—	—	(35,000)
Reversal of unrealized revaluation increment	—	—	—	—	—	—	—	(11,364)	—	—	—	(11,364)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	(11,418)	(11,418)
Consolidated net income for the year ended December 31,2007	—	—	—	—	—	—	2,416,820	—	—	—	11,653	2,428,473

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

			Capital Surplus		Retained Earnings							
	Issued and Outstanding Common Stock	Issued and Outstanding Preferred Stock	Issuance of Common Shares	Treasury Stock Transactions	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Valuation Gains (Losses) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustment	Minority Interest	Total
BALANCE, DECEMBER 31, 2007	33,208,802	3,000,000	—	46,959	3,003,188	5,744,064	8,394,629	5,571,991	1,026,073	—	92,530	60,088,236
	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of common stock for cash	8,623,621	—	7,681,295	—	—	—	—	—	—	—	—	16,304,916
Redemption of preferred stock	—	(3,000,000)	—	—	—	—	—	—	—	—	—	(3,000,000)
Compensation recognized for employee share-based payment	—	—	343,398	—	—	—	—	—	—	—	—	343,398
Transfer of property and equipment revaluation increment to other income	—	—	—	—	—	—	—	(1,454)	—	—	—	(1,454)
Change in unrealized loss on available-for-sale financial assets	—	—	—	—	—	—	—	—	(28,206,648)	—	—	(28,206,648)
Appropriation of the 2007 net income												
Legal reserve	—	—	—	—	241,682	—	(241,682)	—	—	—	—	—
Special reserve	—	—	—	—	—	1,268,662	(1,268,662)	—	—	—	—	—
Cash dividends — preferred stock	—	—	—	—	—	—	(135,000)	—	—	—	—	(135,000)
Cash dividends — common stock	—	—	—	—	—	—	(763,803)	—	—	—	—	(763,803)
Employee bonus	—	—	—	—	—	—	(9,000)	—	—	—	—	(9,000)
Effect of long-term equity investments, net	—	—	—	—	—	—	—	—	(119,168)	107,804	—	(11,364)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	(15,332)	(15,332)
Consolidated net loss for the year ended December 31,2008	—	—	—	—	—	—	(19,737,526)	—	—	—	(4,998)	(19,742,524)
BALANCE, DECEMBER 31, 2008	$41,832,423	$ —	$8,024,693	$46,959	$3,244,870	$7,012,726	$(13,761,044)	$5,570,537	$(27,299,743)	$107,804	$ 72,200	$ 24,851,425

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008
(In Thousands of U.S. Dollars)

			Capital Surplus		Retained Earnings							
	Issued and Outstanding Common Stock	Issued and Outstanding Preferred Stock	Issuance of Common Shares	Treasury Stock Transactions	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Valuation Gains (Losses) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustment	Minority Interest	Total
BALANCE, JANUARY 1, 2008	$ 980,478	$ 88,574	$ —	$1,386	$88,668	$169,591	$ 247,849	$ 30,294	$164,511	$ —	$2,732	$1,774,083
Issuance of common stock for cash	254,610	—	226,787	—	—	—	—	—	—	—	—	481,397
Redemption of preferred stock	—	(88,574)	—	—	—	—	—	—	—	—	—	(88,574)
Compensation recognized for employee share-based payment	—	—	10,139	—	—	—	—	—	—	—	—	10,139
Transfer of property and equipment revaluation increment to other income	—	—	—	—	—	—	—	—	(43)	—	—	(43)
Change in unrealized loss on available-for-sale financial assets	—	—	—	—	—	—	—	(832,791)	—	—	—	(832,791)
Appropriation of the 2007 net income												
Legal reserve	—	—	—	—	7,136	—	(7,137)	—	—	—	—	(1)
Special reserve	—	—	—	—	—	37,457	(37,457)	—	—	—	—	—
Cash dividends — preferred stock	—	—	—	—	—	—	(3,986)	—	—	—	—	(3,986)
Cash dividends — common stock	—	—	—	—	—	—	(22,551)	—	—	—	—	(22,551)
Employee bonus	—	—	—	—	—	—	(266)	—	—	—	—	(266)
Effect of long-term equity investments, net	—	—	—	—	—	—	—	(3,518)	—	3,183	—	(335)
Decrease in minority interest	—	—	—	—	—	—	—	—	—	—	(453)	(453)
Consolidated net loss for the year ended December 31, 2008	—	—	—	—	—	—	(582,743)	—	—	—	(148)	(582,891)
BALANCE, DECEMBER 31, 2008	$1,235,088	$ —	$236,926	$1,386	$95,804	$207,048	$(406,291)	$(806,015)	$164,468	$3,183	$2,131	$ 733,728

(Concluded)

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

(With Deloitte & Touche audit report dated February 25, 2009, except as to Note 4 which is as of March 31, 2009)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income (loss)	$ 11,783,984	$ 2,428,473	$(19,742,524)	$ (582,891)
Cumulative translation adjustment	(937,276)	—	—	—
Adjustments to reconcile net income (loss) to net cash provided by operating activities provision (reversal) for doubtful accounts	270,278	52,629	(174,964)	(5,166)
Depreciation (including property and equipment and real estate investments)	728,397	755,913	829,933	24,503
Amortization	130,593	153,545	235,056	6,940
Share-based payment	—	—	343,398	10,139
Transfer of property and equipment revaluation increment to other income	(559,316)	(249,553)	(1,454)	(43)
Amortization of held-to-maturity investments	(102,927)	(330,492)	(396,748)	(11,714)
Provision and recovery of various insurance reserves, net	99,303,186	76,835,702	87,684,736	2,588,861
Investment (income) loss recognized under equity method	(39,397)	(106,006)	14,888	440
Valuation loss on financial assets and liabilities	3,416,662	1,287,315	13,998,242	413,294
Loss on disposal of property and equipment, net	7,356	1,664	4,859	143
Gain on sale of real estate investments, net	(3,010,727)	(741,569)	(3,284,975)	(96,988)
Impairment loss on financial assets and debt securities with no active market	1,024,504	5,269,439	5,974,791	176,404
Cash dividends received from equity-method investees	8,400	66,021	43,920	1,297
Deferred income tax benefit	(580,494)	(473,551)	(6,624,439)	(195,584)
Gain on construction in progress	—	(7,638)	(186,683)	(5,512)
Gain on disposal of investments	—	(103,934)	—	—
Net changes in operating assets and liabilities				
Financial instruments at fair value through profit or loss	(42,184,996)	5,785,210	(6,024,051)	(177,858)
Other receivables	(575,289)	2,866,282	(2,452,291)	(72,403)
Other current assets	545,252	(14,554)	(852,889)	(25,181)
Prepaid pension expenses	(225,932)	(133,858)	55,937	1,652
Life insurance proceeds payable	192,626	(249,079)	560,272	16,542
Payables to other insurers	(67,559)	(71,545)	58,642	1,731
Accrued expenses	125,580	(754,301)	(491,602)	(14,514)
Other payables	(2,279,036)	2,046,330	(1,383,933)	(40,860)
Advance receipts	(54,955)	(3,288,913)	9,460,524	279,319
Other overdue receivables	(58,616)	(10,187)	—	—
Other assets	—	35,522	57,076	1,685
Other liabilities	—	—	(30,610)	(904)
Net cash provided by operating activities	66,860,298	91,048,865	77,675,111	2,293,332

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in bonds purchased under resell agreements	$ —	$ —	$ (30,097,758)	$ (888,626)
Increase in available-for-sale financial assets	(5,763,269)	(6,869,156)	(22,101,448)	(652,538)
(Increase) decrease in held-to-maturity financial assets	(57,329,685)	2,702,804	9,562,216	282,321
Increase in loans	(1,806,921)	(9,473,653)	(7,664,738)	(226,299)
Decrease (increase) in financial assets carried at cost	1,029,272	645,265	(91,421)	(2,699)
Increase in debt securities without an active market	18,105,539	(9,239,500)	(33,731,002)	(995,896)
Acquisition of real estate investments	(7,030,802)	(8,031,285)	(8,829,933)	(260,701)
Proceeds from disposal of real estate investments	5,670,304	2,025,245	10,141,036	299,411
Acquisition of property and equipment	(447,784)	(342,566)	(254,783)	(7,522)
Proceeds from disposal of property and equipment	47,198	12,345	12,072	356
Proceeds from sale of deferred expenses	—	6,006	16,000	472
(Increase) decrease in guarantee deposits paid	(145,882)	23,764	(4,883,476)	(144,183)
Increase in deferred expenses	(154,203)	(399,055)	(399,162)	(11,785)
Recovery of doubtful accounts and loans	1,222	2,479	—	—
Write-off of bad debts	(116,250)	(45,588)	(89,280)	(2,636)
Proceeds from capital return by equity-method investees	43,340	2,776	96,001	2,834
Proceeds from disposal of equity investments	—	1,882,285	—	—
Increase in long-term investments	—	—	(1,095,950)	(32,358)
Net cash used in investing activities	(47,897,921)	(27,097,834)	(89,411,626)	(2,639,849)
CASH FLOWS FROM FINANCING ACTIVITIES				
(Decrease) increase in guarantee deposits received	(50,896)	35,926	70,141	2,071
Capital contribution in cash	—	—	16,304,916	481,397
Proceeds from issue of preferred stock	—	—	6,354,000	187,600
Redemption of preferred stock	—	—	(3,000,000)	(88,574)
Preferred stock dividend payments	(609,500)	(135,000)	(135,000)	(3,986)
Common stock dividend payments	(4,559,892)	(3,320,880)	(763,803)	(22,551)
Employee bonus	(81,549)	(39,098)	(15,054)	(444)
Cash dividends paid — minority interest	(4,736)	(11,116)	(6,634)	(196)
Net cash (used in) provided by financing activities	(5,306,573)	(3,470,168)	18,808,566	555,317
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,655,804	60,480,863	7,072,051	208,800
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,338,330	35,994,134	96,474,997	2,848,391
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 35,994,134	$ 96,474,997	$103,547,048	$ 3,057,191
SUPPLEMENTARY CASH FLOW INFORMATION				
Cash paid during the year				
Interest	$ 103,368	$ 53,133	$ 20,891	$ 617
Income tax	$ 811,103	$ 726,536	$ 1,306,426	$ 38,572
CASH RECEIVED FROM DISPOSAL OF REAL ESTATE INVESTMENTS				
Total selling price	$ 10,139,713	$ 2,495,998	$ 10,141,675	$ 299,429
Payment for land value increment tax	(442,657)	(168,883)	(639)	(19)
Transfer of real estate investments to available-for-sale financial assets	(1,488,743)	(301,870)	—	—
Advance building expense	(2,538,009)	—	—	—
Net cash received from disposal of real estate investments	$ 5,670,304	$ 2,025,245	$ 10,141,036	$ 299,410

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
CASH PAID FOR ACQUISITION OF REAL ESTATE				
Increase in real estate investments	$ 7,063,361	$6,836,084	$ 9,016,616	$ 266,212
Add: Payables for acquisition of real estate investments, beginning of year	1,170,280	1,202,839	—	—
Deduct: Payables for acquisition of real estate investments, end of year	(1,202,839)	—	—	—
Deduct: Increase in construction in progress	—	(7,638)	(186,683)	(5,512)
Net payment for acquisition of real estate	$ 7,030,802	$8,031,285	$ 8,829,933	$ 260,700
CASH PAID FOR EMPLOYEE BONUS				
Employee bonus	$ 53,000	$ 35,000	$ 9,000	$ 266
Add: Employee bonus payable, beginning of year	39,736	11,187	7,089	209
Deduct: Employee bonus payable, end of year	(11,187)	(7,089)	(1,035)	(31)
Net payment for employee bonus	$ 81,549	$ 39,098	$ 15,054	$ 444
TRANSFER OF UNREALIZED INCREMENT FROM PROPERTY AND EQUIPMENT REVALUATION TO OTHER INCOME				
Transfer of unrealized increment from property and equipment revaluation to other income	$ —	$ 346,581	$ 1,454	$ 43
Deduct: Unrealized gain on sale, end of year	—	(97,028)	—	—
Net transfer to other income	$ —	$ 249,553	$ 1,454	$ 43
NONCASH INVESTMENT AND OPERATING ACTIVITIES				
Reclassification of financial assets at fair value through profit or loss into available-for-sale financial assets	$ —	$ —	$ 12,705,625	$ 375,129
Reclassification of held-to-maturity investments into available-for-sale financial assets	$ —	$ —	$198,796,273	$5,869,391

(Concluded)

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

(With Deloitte & Touche audit report dated February 25, 2009, except as to Note 4 which is as of March 31, 2009)

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Shin Kong Life Insurance Co., Ltd. (the "Company" or SKLIC) was established in July 1963 and its stock was listed on the Taiwan Stock Exchange Corporation ("TSEC") in December 1993. The Company's business is mainly in life insurance — individual and group life, accident, health, and so on. Its headquarters are in the City of Taipei, with 22 branch offices located in various counties throughout the country. The capital was $10,000 thousand when established. Through additional and reducing paid-in capital many times, the capital is about $4,183,000 thousand presently.

The Company became a subsidiary of Shin Kong Financial Holding Co., Ltd. (SKFHC) pursuant to the amended Article 26 of the Regulations for Financial Holding Companies. The Company ceased trading of its shares on TSEC since January 31, 2002, and was delisted on February 19, 2002.

The Company's parent is Shin Kong Financial Holding Co., Ltd., which holds 100% common share interest in the Company.

Shin Kong Life Real Estate Service Co., Ltd. (SKLRESC) was established on July 12, 1988 and obtained operating permit on August 17, 1988. SKLRESC is mainly engaged in management services, sanitary services, repair and maintenance of utilities equipment, commerce and installation of water-proof, burglarproof, and fire alarm equipment, commerce and installation of car parking equipment, operation of parking lots, and housing brokerage.

New Light International Co., Ltd. (NLIC) was established on June 27, 2005 and is mainly engaged in real estate leasing business.

SKLIC and its subsidiaries are hereinafter collectively referred to as the "Group."

As of December 31, 2006, 2007 and 2008, the Group had 18,399, 16,569 and 16,069 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, deferred income tax, reserve for operations and liabilities, depreciation, pension cost, accrued litigation loss and bonuses to employees, directors and supervisors. Actual results could differ from these estimates.

The significant accounting policies of the Group are summarized as follows:

Consolidation Policy and Profile

Consolidation Policy

SKLIC adopted SFAS No. 7, "Consolidated Financial Statements," which requires consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. All material transactions and balances among consolidated entities are eliminated in the consolidation.

Consolidation Profile

Subsidiaries in the Group as of December 31, 2006, 2007 and 2008 include:

Name of Investment Company	Name of Subsidiary	Type of Business	% of Ownership as of December 31, 2006	Included in the Consolidated Financial Statements as of December 31, 2006	% of Ownership as of December 31, 2007	Included in the Consolidated Financial Statements as of December 31, 2007	% of Ownership as of December 31, 2008	Included in the Consolidated Financial Statements as of December 31, 2008
SKLIC . . .	SKLRESC	Building management	90.01%	Yes	90.01%	Yes	90.01%	Yes
SKLIC . . .	NLIC	Real estate leasing	58% (Note 1)	Yes	58% (Note 1)	Yes	58% (Note 1)	Yes

Note 1: The ownership percentage includes the indirect equity interest owned by SKLRESC, a subsidiary of SKLIC.

Note 2: All of the subsidiaries are included in the consolidated financial statements except for Shin-Kong Hainan Insurance Co., Ltd. (preparatory organization) as of and for the year ended December 31, 2008 because it was still in development stage.

Classification of Asset and Liability as Current and Noncurrent

Cash and cash equivalents and other assets to be converted into cash or consumed within one year are classified as current. Properties, intangible and other noncurrent assets are classified as noncurrent. Liabilities to be liquidated or settled within one year are classified as current. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash and cash equivalents include cash (including foreign currencies) in banks, bank deposits, petty cash, certificates of deposits purchased, foreign-currency bank deposits, cash in transit and other short-term, highly liquid investments (such as government bonds, bankers' acceptances and commercial paper) with a maturity of three months or less on the date of acquisition.

Allowance for Doubtful Accounts

The Company in accordance with the "Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises" issued by the Ministry of Finance, the allowances for doubtful accounts are determined based on management's evaluation of the collectability of individual accounts, the borrower's/clients' financial condition and payment history.

Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowance are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. SKLRESC and NLIC assess the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing credit and economic environment, etc.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial assets/liabilities at fair value through profit or loss (FVTPL) have two subcategories, including financial assets/liabilities held for trading and those designated as at FVTPL. A financial asset is derecognized when the Group has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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

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

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Available-for-Sale Financial Assets

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (straight-line method can be used if there will be no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using settlement date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between the carrying amount and fair value shall be accounted for as unrealized gain (loss) on financial instrument under shareholders' equity. When the financial asset is derecognized, the cumulative gain or loss previously recognized in shareholders' equity shall be reclassified to profit and loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Debt Securities without Active Market

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Bonds Purchased (Sold) under Resell (Repurchase) Agreements

Bonds purchased under resale agreements are actual payment made to the counterparty in transactions involving the purchase of bonds, subject to an agreement by the purchaser to resell the bonds. Notes issued under repurchase agreements are actual receipts from the counterparty in transactions involving the sale of bonds by one party, subject to an agreement by the seller to repurchase the bonds. These transactions are treated as margin trading. All related interest income or expense is recognized on accrual basis.

Investments Accounted for by the Equity Method

Investments in which the Group holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method; the Group recognizes its share in the investee's profits or losses according to its ownership percentage in the investee.

Property and Equipment (Including Assets Leased to Others and Real Estate Investments)

Property and equipment are recorded at cost when acquired. However, the land of the Group was revalued in accordance with valuation guidelines announced by the government. Property and equipment were revalued in 1974 and on December 31, 1980.

Depreciation of property and equipment is calculated by the straight-line method based on their estimated useful life or remaining useful years upon revaluation, plus one year salvage value.

Major additions, renewals, betterments and interest expenses incurred are capitalized, while maintenance and repairs are expensed currently.

Upon retirement, sale or other disposal of properties, any gain or loss is credited or charged to income. An arrangement in which a company sells an asset to a buyer and then immediately leases the asset back from the buyer, any gain or loss on the sale will be deferred and amortized into the income statement on contract time. When the assets were sold, then a portion of the gain on sale may be recognized as current income.

Reserves for land revaluation increment tax required by law after revaluation are classified as long-term liabilities.

Long-Term Contracts

The Group adopts the percentage-of-completion method to recognize profit of long term construction contracts when all of the following conditions are met. Otherwise, the Group adopts completed contract method.

a. The construction has completed its planning stage with the engineering and design work, site clearance and preparation, excavation, and the building foundation completed and construction work can commence anytime.

b. Total estimated contract prices exceed total estimated contract cost.

c. Percentage-of-completion method is required when billings on construction-in-process exceed 15% of the contract price for each contract. Completed contract method is required when payment does not exceed 15% of the contract price.

d. Dependable estimates can be made as to total accounts receivable.

e. Contract costs to complete the contract and the degree of its completion at the end of the period can be reasonably estimated.

f. Related costs of the sales contract can reasonably identified.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as a current asset. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as current liabilities.

Impairment of Assets

The Group adopted SFAS No. 35, "Accounting for Impairment of Assets" effective on January 1, 2005. This SFAS requires the recognition of an impairment loss when there is indication that the carrying amount of an asset is not recoverable. An impairment loss shall be measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. If the impairment loss decreases, a gain on reversal of impairment loss is recognized to the extent of the impairment loss previously recognized. The recovered carrying amount of an impaired asset shall not exceed the original carrying amount less the depreciation or amortization. The impairment loss of goodwill shall not be reversed.

Share-based Payment

Share options granted under the share-based payment agreements after January 1, 2008 are accounted for according to SFAS No. 39, "Share-based Payment" and Interpretation (96) No. 267 and (97) No. 017. The payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

Real Estate in Trust

The accounting for securitized real estate is based on SFAS Interpretation No. (93) 141, “Accounting for Securitized Real Estate” issued by the Accounting Research and Development Foundation of ROC (“ARDF”).

When the sale of real estate is consummated and the risks and rewards of the ownership are transferred to the transferee, the transferor shall recognize profit by the full accrual method.

If the transferor sells portion of the real estate, the carrying value of the real estate shall be allocated between the sold and retained real estate in proportion to their fair value when the transaction occurs. If the fair value of the retained real estate cannot be reasonably and reliably measured, the carrying value of the retained real estate shall equal to zero and the carrying value of the real estate shall be allocated to the sold real estate in full.

The usufruct retained shall be accounted in accordance with its attribute. If the usufruct is attributive to real estate, the usufruct is accounted for as real estate and stated at cost. If the usufruct is attributive to financial asset, the usufruct is accounted as financial assets and stated at the lower of cost or market.

Rights of Superficies on Land

The cost of rights of superficies on land is amortized on the straight-line basis over 50 years, the term of the related land lease.

Deferred Expenses

Deferred expenses refer to power line allowances, leasehold improvements, computer programs and so forth, which are amortized on the straight-line basis over 3 to 10 years starting from the year when benefit was received or payments were made.

Separate Accounts

SKLIC sells investment type insurance policies. Based on agreements, the insurance premiums paid by policyholders are offset against various expenses of SKLIC and invested in separate accounts at allocation ratios agreed on with or directed by the policyholder. The value of the separate-account assets is accounted for at market value on the valuation date and their net worth is computed in accordance with the related regulations and accounting principles generally accepted in the ROC.

The assets, liabilities, income and expenses of separate accounts represent the rights and obligations of the policyholders and are recorded, pursuant to the accounting principles governing investment type insurance policies, in SKLIC’s “asset on insurance products — separate account,” “liabilities on insurance products — separate account,” “income on insurance products — separate account,” and “disbursements on insurance products — separate account” accounts.

Reserves for Operations

Reserves for operations and liabilities are stated pursuant to the Regulations Governing Calculation of Various Reserves for Operations promulgated by the Insurance Bureau on November 26, 2003. The figures for the reserves are provided by actuaries certified by the Ministry of Finance. On December 28, 2007, the regulations has been revised, and enforced on January 1, 2008. Each reserve basis is stated below:

Reserve for Life Insurance Liability

Reserve for life insurance liability of an insurance product is calculated according to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators. Calculation is based on a mortality table and projected interest rate at the time of approval of the insurance product by the Insurance Bureau.

Reserve for Unearned Premiums

Unearned premiums of effective policies with a term of less than one year are computed by policy type according to the actual risk (with recognition of reinsurance costs and benefits) assumed by the Company for the remaining policy period in compliance with related regulations. Since January 1, 2008, unearned premiums are computed by the remaining policy type according to the actual risk.

Special Reserve

Special reserve for actual undertakings (with recognition of reinsurance costs and benefits) includes special reserve for catastrophe, special reserve for contingent claim and other special reserves.

Special reserves for catastrophe are provided, by policy type, according to the rates set by regulatory authorities. The special reserve for catastrophe is used to offset the portion of net indemnities exceeding $30 million. The amount of reserve for catastrophe which was provisioned for more than 15 years can be measured by appointed actuary and reversed to income after reporting to Insurance Bureau.

If actual claim on an insurance product exceeds the reserve for catastrophe, 15% (30% used before January 1, 2008) of the difference should be taken from the special reserve for contingent claim. Otherwise, the whole excess may be taken from the reserve for the contingent claim. If the reserve for contingent claim is insufficient for the excess, another insurance product reserves for contingent claim may be used for that excess. When the accumulated amount of this special reserve for contingent claim exceeds 30% of the gross amount of net earned premium, the excess is recovered and treated as income.

Claim Reserve

This is a reserve for indeterminate claim, whether or not it is reported. The provisions for the reserves for reported indeterminate claim are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance. The provisions for the IBNR (incurred but not yet reported) reserve are at 1% of the net earned premium by policy type for policies with terms of less than one year from 2006, the provisions for the accident insurance retention reserve are recognized according to the method approved by the related authority, and historical information.

Premiums Deficiency Reserve

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Pension Cost

Defined benefit pension plan is accounted for based on SFAS No. 18, "Accounting for Pension." Defined contribution pension plan is accounted for based on contributions made for employees in their service years.

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

Income Tax

The Group adopted SFAS No. 22, "Accounting for Income Taxes," which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to "Alternative Minimum Tax Act", the Group calculates the alternative minimum tax in addition to the regular income tax. If the regular income tax is lower than the alternative minimum tax, the difference is accrued as an additional income tax adjustment.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholder approved to retain the earnings.

SKLIC, SKFHC and SKFHC's subsidiaries which SKFHC holds more than 90% of outstanding shares adopt the accounting treatment of the consolidated income tax return. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as SKFHC's income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Revenue Recognition

The Group follows SFAS No. 32, "Accounting for Revenue Recognition," to recognize revenue, except for insurance premium income.

Insurance Premium Income and Expenses

Direct premiums are recognized on the date the policies become effective. Policy-related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At balance sheet date, adjustments are made based on past experience.

Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are retranslated using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign currency nonmonetary assets and liabilities carried at fair value are retranslated at the rates prevailing on the date when the fair value was determined, with the exchange differences treated as follows:

a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Derivative Transactions

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps, currency options, etc. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

The Group's derivative contracts are mainly for fair value hedge. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy for undertaking hedge transactions and evaluation method of hedge efficiency.

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

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

b. The Group, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2006 and 2007 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

Initial adoption of the newly released SFASs and related revisions of previously released SFASs:

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

On January 1, 2006, the Group adopted the newly released SFAS No. 34, "Financial Instruments: Recognition and Measurement" and No. 36, "Financial Instruments: Disclosure and Presentation" and related revisions of previously released SFASs.

The Group had properly categorized its financial assets and liabilities upon the initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs for the year ended December 31, 2006 is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders' Equity (Net of Tax)
Financial assets or liabilities at fair value through profit or loss	$937,276	$ —
Available-for-sale financial assets	—	7,932,687
	$937,276	$7,932,687

SFAS No. 38 "Noncurrent Assets Held for Sale and Discontinued Operations"

Effective January 1, 2007, the Group adopted the newly released SFAS No. 38, "Noncurrent Assets Held for Sale and Discontinued Operations." These accounting changes had no material effect on the Group's financial statements as of and for the year ended December 31, 2007.

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued Interpretation 96-052 that requires companies to recognize remunerations to directors and supervisors and bonuses to employees as compensation expenses effective January 1, 2008. These remunerations and bonuses were previously recorded as appropriations from earnings. The adoption resulted in an increase of $53 thousand in net loss. Hence, this interpretation did not have material effect on the Group's consolidated financial statements because the Group had net loss for the year ended December 31, 2008.

Accounting for Employee Stock Options

On January 1, 2008, the Group adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption resulted in an increase of $343,398 thousand in operating loss $257,549 thousand in net loss in after income tax basic loss per share of $0.07 for the year ended December 31, 2008.

Reclassification for Financial Instruments

On July 1, 2008, the Group adopted the newly amended SFAS No. 34, "Accounting for Financial Instruments." The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 31 for relevant information regarding reclassifications of financial instruments.

4. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

5. CASH AND CASH EQUIVALENTS

	December 31		
	2006	2007	2008
Cash in banks	$ 246	$ 208	$ 208
Petty cash	132,243	174,123	251,329
Checking account	28,477	10,381	2,286
Demand	13,456,533	18,801,442	44,401,172
Time deposit	12,339,364	40,193,544	58,946,063
Negotiable certificates of deposits	2,329,454	7,163,352	—
Commercial paper	7,141,922	28,946,374	—
Government bonds	600,859	1,198,203	—
Bank acceptances	—	13,324	—
Less guarantee deposits paid (Note 17)	(34,964)	(25,954)	(54,010)
	$35,994,134	$96,474,997	$103,547,048

For the years ended December 31, 2006 and 2007, negotiable certificates of deposits, commercial paper and government bonds mature to three months, respectively, with interest rates ranging from 1.65%~1.68% and 1.97%~2.02%.

6. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31		
	2006	2007	2008
Financial assets held for trading			
Domestic investments			
Listed stock	$15,713,628	$11,740,044	$ —
Beneficiary certificates	6,405,747	530,081	24,269,939
Bonds and financial bills	30,766,384	27,448,311	18,562,221
Currency swap contracts	14,306	367,591	1,469,362
Interest rate swap contracts	96,955	29,724	18,230
Stock index futures	—	—	11,995
Foreign exchange contract	902,598	—	—
	53,899,618	40,115,751	44,331,747
Foreign investments			
Stocks	8,626,793	6,239,480	2,458,944
Beneficiary certificates	512,896	1,279,474	457,572
Bonds	13,296,408	18,725,264	10,933,890
Foreign exchange forward contracts	1,251,061	1,246,332	10,324,881
Interest rate swap contracts	—	89,280	—
	23,687,158	27,579,830	24,175,287
	$77,586,776	$67,695,581	$68,507,034

As of December 31, 2008, the reason for the zero balance of listed stock in domestic investments is shown in Note 31(h).

	December 31		
	2006	2007	2008
Financial liabilities held for trading			
Domestic investments			
Interest rate swap contracts	$ 56,576	$ 72,350	$ 42,672
Currency swap contracts	4,120,357	1,296,853	12,222,738
Foreign currency options	111,350	—	—
Stock index futures	15,902	—	—
	4,304,185	1,369,203	12,265,410
Foreign investments			
Foreign exchange forward contracts	—	1,689,312	12,409,232
Interest rate swap contracts	—	124,858	—
	—	1,814,170	12,409,232
	$4,304,185	$3,183,373	$24,674,642

For the years ended December 31, 2006, 2007 and 2008, net loss of financial assets and liabilities held for trading were $2,756,007 thousand, $4,981,969 thousand and $20,901,292 thousand, respectively.

As of December 31, 2008, the stock index futures contracts of 4,000 units were unsettled, resulting in unrealized gain of $11,995 thousand.

SKLIC entered into trust agreements with The Mega International Commercial Bank, JF Asset Management (Taiwan) Limited and FX Concepts entrusting the bank with funds to invest in foreign securities in a prescribed manner and consigning these companies to hedge the foreign currency risk by engaging in forward exchange derivative contracts.

As of December 31, 2008, transactions of the Company were as follows:

	Consigning Amount	Advanced to Its Consignee
The Mega International Commercial Bank	US$2 billion	NT$42,582,818 thousand (Note)
JF Asset Management (Taiwan) Limited	US$0.3 billion	NT$21,603 thousand
FX Concepts	US$0.4 billion	NT$2,751,850 thousand

Note: The original investment cost of $2,006,033 thousand is in trust fund held for trading; the original investment cost of $5,946,573 thousand is in trust fund available-for sale, the original investment cost of $34,630,212 thousand is in debt securities without active market.

SKLIC entered into derivative contracts during the years ended December 31, 2006, 2007 and 2008 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of SKLIC is to minimize risks due to changes in fair value or cash flows. SKLIC did not adopt hedge accounting for derivatives for the years ended December 31, 2006, 2007 and 2008.

As of December 31, 2006, 2007 and 2008, SKLIC's outstanding derivative contracts are summarized as follows: (In Thousands)

	Contract Amount
December 31, 2006	
Forward exchange contracts	US$ 5,282,528
Currency swap contracts	US$ 5,000,000
Interest rate swap contracts	NT$ 15,742,000
Currency option contracts	US$ 600,000
Stock index futures	NT$ 518,362

	Contract Amount
December 31, 2007	
Forward exchange contracts	US$ 4,357,746
Currency swap contracts	US$ 4,345,000
Interest rate swap contracts	NT$ 15,967,437

	Contract Amount
December 31, 2008	
Forward exchange contracts	US$ 2,393,402
Currency swap contracts	US$ 6,302,000
Interest rate swap contracts	NT$ 6,440,000
Stock index futures	NT$ 3,650,395

For the years ended December 31, 2006, 2007 and 2008, the derivative currency contracts resulted in gain (loss) on settlement, valuation loss, and exchange (loss) gain as follows:

	2006	2007	2008
Derivative contracts on currency			
Gain (loss) on settlement	$ 4,528,907	$(4,272,535)	$ 346,859
Valuation loss	(5,541,154)	(322,903)	(11,465,485)
Exchange (loss) gain	(1,378,429)	608,562	(1,433,701)
	$(2,390,676)	$(3,986,876)	$(12,552,327)

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31					
	2006		2007		2008	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
Domestic investments						
Listed securities	$31,090,615	$ —	$ 33,252,819	$ 236,835	$42,439,563	$ 227,737
Beneficiary certificates	2,294,491	—	2,916,050	—	2,560,329	—
Real estate investment trust fund beneficiary certificates	5,409,587	—	5,053,672	—	4,634,809	—
Real estate asset trust fund beneficiary certificates	—	3,958,193	—	4,633,991	—	5,560,943
Beneficiary certificates of financial assets	—	1,780,041	164,871	2,397,623	676,064	24,593,396
Bonds	1,088,587	45,245,108	797,638	22,818,327	7,051,968	223,041,992
Negotiable certificates of deposits	2,300	—	—	—	—	—
	39,885,580	50,983,342	42,185,050	30,086,776	57,362,733	253,424,068
Less guarantee deposits paid (Note 17)	—	—	—	—	—	(6,932,000)
	39,885,580	50,983,342	42,185,050	30,086,776	57,362,733	246,492,068
Foreign investments						
Stocks	$26,521,271	$ —	24,701,756	—	26,052,931	—
Beneficiary certificates	8,283,049	—	14,662,750	—	2,539,788	—
Bonds	21,794,360	—	30,548,464	—	7,821,918	—
	56,598,680	—	69,912,970	—	36,414,637	—
	$96,484,260	$50,983,342	$112,098,020	$30,086,776	$93,777,370	$246,492,068

Due to the downgrade in investment rating of financial bonds and beneficiary certificates and the drop in net value of listed securities in 2007 and 2008, SKLIC considered other related factors such as issuers' information on payment of interest and repayment of principal, etc., and SKLIC decided to recognize impairment loss of $1,794,979 thousand and $371,154 thousand for the years ended December 31, 2007 and 2008, respectively.

For the year ended December 31, 2006, SKLIC securitized Shin Kong International Building, Taiwan Securities Financial Buildings, Tainan Shin Kong Mitsukoshi Building, and

Shin Kong Tien Mu Jasper Villa and entrusted these real estate investments to a trustee for issuance of beneficiary certificates (Shin Kong No. 1) according to SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF, the relevant information is disclosed as follows:

In January, 2006, SKLIC sold Shin Kong No. 1 real estate to obtain Shin Kong No. 1 beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of the real estate investments of $3,004,826 thousand are recognized as gains on real estate investments. The related revaluation increment recognized under shareholder's equity amounted to $559,316 thousand are adjusted to other income.

Shin Kong No. 1 beneficiary certificates that arose from the mentioned transaction amounted to $1,488,743 thousand. This carrying value was calculated with real estate value minus the carrying value of the securitized portion. The beneficiary certificates are recognized as available-for-sale financial assets — domestic beneficiary certificates.

For the year ended December 31, 2007, SKLIC securitized Song-Jiang Building, Cheng-De Building and Ban-Ciao Building and entrusted these real estate investment to a trustee for issuance of beneficiary certificates (Song-Jiang case) according to SFAS Interpretation No. (93) 141 "Real Estate Securitization Accounting Treatment" issued by ARDF. In January 2007, SKLIC sold real estate to obtain beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of real estate investments of $118,278 thousand are recognized based on the real estate sold. SKLIC estimated the expected lease term of Song-Jiang case as the amortization term of deferred credit to recognize gain in the current year and future years. As of December 31, 2007 and 2008, deferred credit realized of $164,840 thousand and $30,612 thousand are recorded as other income, respectively.

SKLIC's issuing years of the real estate investment trust fund beneficiary certificates and the cost of acquisition are summarized as follows:

	Song-Jiang Building	**Zhong-Shang Building**	**Dun-Nan Building**	**Shin-Kong No. 1**
Certificate category	Real estate asset trust	Real estate asset trust	Real estate asset trust	Real estate investment trust
Issuing year	2007	2005	2005	2005
Cost of acquisition	$301,870	$691,980	$916,808	$1,488,743

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the time of securitization are summarized as follows:

	Song-Jiang Building	**Zhong-Shang Building**	**Dun-Nan Building**
Discount rate	5.18%	5.68%	5.06%
Vacancy rate	0.00%~10.42%	0.08%	3.96%
Market average vacancy rate	7.00%~13.00%	3.30%	6.63%
Percentage of issuance	60.00%	44.00%	54.00%
Equity coverage	1.38	1.24	1.11

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the balance sheet date are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building
Carrying value of beneficiary certificates	$ 592,114	$2,578,856	$2,389,973
Estimated percentage of issuance	60.00%	44.00%	54.00%
Estimated market vacancy rate	6.88%~11.30%	2.86%	5.70%
Estimated discount rate	5.18%	4.75%	4.75%
Effect on carrying value — 10% unfavorable fluctuation	561,950	2,477,960	2,309,090
Effect on carrying value — 20% unfavorable fluctuation	531,660	2,419,090	2,231,760
Estimated vacancy rate	3.07%	5.20%	3.80%
Effect on carrying value — 10% unfavorable fluctuation	602,720	2,531,420	2,381,260
Effect on carrying value — 20% unfavorable fluctuation	599,270	2,528,500	2,378,370

8. OTHER RECEIVABLES

	December 31		
	2006	2007	2008
Notes receivable	$ 6,476,446	$ 4,532,185	$ 4,232,459
Interest receivable	9,620,054	11,432,689	13,141,831
Receivables of proceeds from disposal of securities	2,991,959	111,395	1,370,551
Receivables — separate accounts	786,529	1,013,736	869,601
Others	618,092	536,793	464,648
	20,493,080	17,626,798	20,079,090
Less allowance for doubtful accounts (Note 10)	(80,084)	(56,879)	(56,158)
	$20,412,996	$17,569,919	$20,022,932

9. OTHER CURRENT ASSETS

	December 31		
	2006	2007	2008
Bonds purchased under resale agreements (Note 27)	$ —	$ —	$30,097,758
Linked income tax receivable (Note 27)	1,299,847	1,371,660	2,002,865
Tax refund receivable	388,662	242,302	235,379
Prepaid expense	46,287	96,966	88,548
Deferred income tax assets (Note 26)	229	366,804	11,963,995
Prepaid reinsurance expense	—	—	201,332
Others	27,410	17,937	53,630
	$1,762,435	$2,095,669	$44,643,507

As of December 31, 2008, bonds purchased under resale agreements amounted to $30,097,758 thousand, with agreed interest rates range from 0.35% to 1.35%, and agreed subsequent resale price of $30,126,240 thousand.

10. LOANS

	December 31		
	2006	2007	2008
Policy loans	$105,226,549	$112,989,129	$119,453,387
Loans	68,748,403	70,513,002	71,743,847
Overdue loans	593,048	539,522	509,157
	174,568,000	184,041,653	191,706,391
Less allowance for doubtful accounts	(911,543)	(916,399)	(709,952)
	$173,656,457	$183,125,254	$190,996,439

Under the Ministry of Finance regulations, insurance applicants who have paid premiums for more than one year and whose insurance policy includes termination value may apply for Life Insurance Policy Secured Loan at an amount not exceeding the termination value. In addition, upon default on premium payment, policyholders have the option to elect for automatic reimbursement of premium from the accumulated policy value reserve. SKLIC records related transactions as “Policy Loans.”

A policy loan is limited to the amount of the termination fee or the accumulated policy value reserve. If the loan or the sum of the reimbursement with accrued interest exceeds the life insurance liability reserve, the policy is automatically terminated without bad debts expected to occur; thus, no allowance for bad debt is provided.

Allowance for Loans and Accounts Receivable

	December 31								
	2006			2007			2008		
	Loans	Overdue Loans	Accounts Receivable	Loans	Overdue Loans	Accounts Receivable	Loans	Overdue Loans	Accounts Receivable
Balance of beginning of year	$371,447	$ 423,536	$ 82,327	$582,385	$370,091	$ 80,084	$ 598,663	$386,538	$56,879
Provision for loan losses and doubtful receivable	210,938	51,660	7,680	16,278	59,556	(23,205)	(194,327)	15,396	3,967
Write offs	—	(106,199)	(10,051)	—	(45,588)	—	—	(89,280)	—
Recovery of write offs	—	1,094	128	—	2,479	—	—	—	—
Reclassification	—	—	—	—	—	—	7,886	(3,198)	(4,688)
Balance of end of year	$582,385	$ 370,091	$ 80,084	$598,663	$386,538	$ 56,879	$ 412,222	$309,456	$56,158

11. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31					
	2006		2007		2008	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
Government bonds	$ 105,998	$146,378,537	$ 24,993	$146,375,969	$—	$—
Corporate bonds	2,154,397	16,220,969	963,279	15,056,154	—	—
Bank debentures	5,928,977	26,130,504	1,606,429	23,894,446	—	—
Beneficiary certificates	33,000	19,141,397	799,278	24,673,193	—	—
	8,222,372	207,871,407	3,393,979	209,999,762	—	—
Less guarantee deposits paid (Note 17)	—	(5,432,000)	—	(5,432,000)	—	—
	$8,222,372	$202,439,407	$3,393,979	$204,567,762	$—	$—

Due to the current tumultuous global financial environment and in order to strengthen the capital structure, SKLIC changed its intention of holding held-to-maturity financial assets, and reclassified $198,796,273 thousand from held-to-maturity investments to available-for-sale financial assets in accordance with SFAS No. 34, “Financial Instruments: Recognition and Measurement” in 2008, and measured at fair value. Related information of reclassifications is shown in Note 31(h).

Credit ratings of some investment financial bonds have been downgraded substantially in 2007. In consideration of other related factors such as information on payment of interest and repayment of principal, SKLIC recognized impairment loss of $327,726 thousand for the year ended December 31, 2007.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31		
	2006	2007	2008
Emerging market stocks	$ 82,092	$ 223,440	$ 168,115
Unlisted stocks	6,335,534	4,750,653	4,703,819
	$6,417,626	$4,974,093	$4,871,934

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

For the years ended December 31, 2006, 2007 and 2008, due to the drop in net value of unlisted securities, SKLIC recognized impairment loss of $934,241 thousand, $200,595 thousand and $193,580 thousand, respectively.

13. DEBT SECURITIES WITHOUT ACTIVE MARKET

	December 31					
	2006		2007		2008	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
Beneficiary certificates	$—	$101,082,531	$—	$ 8,008,935	$ —	$ 7,012,477
Structure notes	—	22,900,000	—	25,050,000	—	20,400,000
Foreign bonds	—	172,877,950	—	270,462,312	24,658,915	279,770,800
Preferred stock	—	—	—	597,649	—	597,649
	$—	$296,860,481	$—	$304,118,896	$24,658,915	$307,780,926

Foreign investments in trust funds entrusted to financial institutions are shown in Note 6.

As affected by subprime mortgage crisis and global financial crisis, the credit ratings of SKLIC's financial instruments, foreign corporate bonds, foreign beneficiary certificates and mortgage bond, have been downgraded significantly. In consideration of other related factors such as information on payment of interest and repayment of principal, SKLIC recognized impairment loss of $2,578,734 thousand and $5,410,057 thousand (representing impairment loss of $6,174,459 thousand and reversal of impairment loss of $764,402 thousand on disposal), respectively, for the years ended December 2007 and 2008.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31								
	2006			2007			2008		
	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%
Mercury Venture Capital Co., Ltd.	$120,000	$132,928	20.00	$120,000	$130,517	20.00	$ 120,000	$ 21,646	20.00
Shin Kong Securities Investment Consulting Co., Ltd.	361	2,838	5.00	—	—	—	—	—	—
Centillion Venture Capital Co., Ltd.	216,660	286,921	21.67	216,660	302,862	21.67	216,660	213,694	21.67
	337,021	422,687		336,660	433,379		336,660	235,340	
Prepaid investment									
Shin-Kong Hainan Airlines Life Insurance Co., Ltd. (Preparatory Organization)	—	—	—	—	—	—	1,095,950	1,195,590	50.00
	$337,021	$422,687		$336,660	$433,379		$ 1,432,610	$ 1,430,930	

a. Financial statements of the investee companies as of and for the years ended December 31, 2006, 2007 and 2008 of investee companies were audited except for Shin-Kong Hainan Co., Ltd. (Preparatory Organization).

b. Equity in (loss) earnings of equity method investments for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006		2007		2008	
	Investee's Income	**Investment Loss**	**Investee's Income**	**Investment Income**	**Investee's (Loss) Income**	**Investment Income**
Mercury Venture Capital Co., Ltd.	$ 29,824	$ 5,965	$ 27,326	$ 5,465	$(12,969)	$ (2,594)
Centillion Venture Capital Corp.	121,829	33,318	199,731	43,130	(17,079)	(4,130)
Shin Kong Securities Investment Consulting Co., Ltd.	2,217	114	—	(85)	—	—
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization)	—	—	—	—	(16,328)	(8,164)
MLSC	—	—	—	57,496	—	—
		$39,397		$106,006		$(14,888)

c. In 2006, shareholders' meeting of Centillion Venture Capital Corp. approved the declaration of capital reduction and the reduction rate is 16.6%. According to the equity interest ratio held by the Company, the Company got $33,340 thousand cash return from this capital deduction.

d. In June 2008, the Company and China Hainan Croup set up a joint-venture, Shin-Kong Hainan Insurance Co., Ltd., to operate the relevant business of life insurance in China area (as of December 31, 2008, it was still processing as preparatory organization). This investment has been approved by the Investment Commission, MOEA for the amount of $1,095,950 thousand (50% of ownership).

e. For the year ended March 31,2007, the Shin Kong life securities investment consultant co., Ltd which was dissolved, and recognized as the equity method investments by the Company.

f. Under SFAS No. 5, as of September 30, 2007, MasterLink Securities Co., Ltd.'s common stocks held by SKLIC and its parent which account for 20% equity were accounted for by the equity method to recognize the gain or loss on the investment. For the year ended December 31, 2007, SKLIC had sold all of the shares to SKFHC for $1,882,285 thousand; carrying value was $1,778,351 thousand, thus gain on the disposal was $103,934 thousand which was recorded as gain on disposal of investments.

g. Under SFAS No. 7 and the Guidelines Governing the Preparation of Financial Reports by Life Insurance Company, Shin Kong Life Real Estate Service Company and New Life International Co., Ltd. have been included in the Group's consolidated financial statements. However, Shin-Kong Hainan Insurance Co., Ltd. was not consolidated because it was still on preparatory status as of December 31, 2008.

15. REAL ESTATE INVESTMENTS, NET

	Year Ended December 31, 2006				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2006	$33,385,627	$31,298,485	$361,344	$3,366,070	$68,411,526
Increase	6,933,696	61,198	68,467	—	7,063,361
Disposal	(1,661,930)	(5,189,480)	—	—	(6,851,410)
Reclassification	921,605	822,345	69,867	(70,248)	1,743,569
Balance, December 31, 2006	39,578,998	26,992,548	499,678	3,295,822	70,367,046
Revaluation increment					
Balance, January 1, 2006	6,545,915	39,962	—	—	6,585,877
Increase	—	—	—	—	—
Disposal	(1,047,306)	—	—	—	(1,047,306)
Reclassification	767,561	2,169	—	—	769,730
Balance, December 31, 2006	6,266,170	42,131	—	—	6,308,301
Accumulated depreciation					
Balance, January 1, 2006	—	4,928,505	—	—	4,928,505
Depreciation expense	—	437,797	—	—	437,797
Disposal	—	(864,225)	—	—	(864,225)
Reclassification	—	194,158	—	—	194,158
Balance, December 31, 2006	—	4,696,235	—	—	4,696,235
Accumulated impairment					
Balance, January 1, 2006	—	—	—	—	—
Increase	90,264	—	—	—	90,264
Disposal	—	—	—	—	—
Balance, December 31, 2006	90,264	—	—	—	90,264
Carrying amount	$45,754,904	$22,338,444	$499,678	$3,295,822	$71,888,848

	Year Ended December 31, 2007				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2007	$39,578,998	$26,992,548	$ 499,678	$3,295,822	$70,367,046
Increase	5,127,949	1,197,166	510,969	—	6,836,084
Disposal	(152,551)	(308,553)	—	—	(461,104)
Reclassification	239,561	81,024	70,248	(70,248)	320,585
Balance, December 31, 2007	44,793,957	27,962,185	1,080,895	3,225,574	77,062,611
Revaluation increment					
Balance, January 1, 2007	6,266,170	42,131	—	—	6,308,301
Increase	—	—	—	—	—
Disposal	(652,238)	(34,756)	—	—	(686,994)
Reclassification	284,483	11,426	—	—	295,909
Balance, December 31, 2007	5,898,415	18,801	—	—	5,917,216
Accumulated depreciation					
Balance, January 1, 2007	—	4,696,235	—	—	4,696,235
Depreciation expense	—	514,086	—	—	514,086
Disposal	—	(126,560)	—	—	(126,560)
Reclassification	—	58,607	—	—	58,607
Balance, December 31, 2007	—	5,142,368	—	—	5,142,368
Accumulated impairment					
Balance, January 1, 2007	90,264	—	—	—	90,264
Increase	—	—	—	—	—
Disposal	(1,980)	—	—	—	(1,980)
Balance, December 31, 2007	88,284	—	—	—	88,284
Carrying amount	$50,604,088	$22,838,618	$1,080,895	$3,225,574	$77,749,175

	Year Ended December 31, 2008				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2008	$44,793,957	$27,962,185	$1,080,895	$3,225,574	$77,062,611
Increase	5,512,369	1,250,111	2,254,136	—	9,016,616
Disposal	(6,846,899)	(12,505)	(83,056)	—	(6,942,460)
Reclassification	5,619	360,579	(713,341)	(70,248)	(417,391)
Balance, December 31, 2008	43,465,046	29,560,370	2,538,634	3,155,326	78,719,376
Revaluation increment					
Balance, January 1, 2008	5,898,415	18,801	—	—	5,917,216
Increase	—	—	—	—	—
Disposal	(3,189)	—	—	—	(3,189)
Reclassification	(63,929)	19	—	—	(63,910)
Balance, December 31, 2008	5,831,297	18,820	—	—	5,850,117
Accumulated depreciation					
Balance, January 1, 2008	—	5,142,368	—	—	5,142,368
Depreciation expense	—	465,642	—	—	465,642
Disposal	—	(5,148)	—	—	(5,148)
Reclassification	—	—	—	—	—
Balance, December 31, 2008	—	5,602,862	—	—	5,602,862
Accumulated impairment					
Balance, January 1, 2008	88,284	—	—	—	88,284
Increase	—	—	—	—	—
Disposal	(1,816)	—	—	—	(1,816)
Balance, December 31, 2008	86,468	—	—	—	86,468
Carrying amount	$49,209,875	$23,976,328	$2,538,634	$3,155,326	$78,880,163

Through an auction in November 2003, SKLIC received 50-year rights of superficies on lot A12, located in the Hsin Yi district. The rights acquisition cost was recognized as “rights of superficies on land.” The rights, which are considered special because the Hsin Yi land is not for public use, will be terminated in November 2053. Under the related contract, SKLIC’s monthly rental fee throughout the life of the rights is $3,875 thousand, payable quarterly. As of December 31, 2008, SKLIC has paid out all payable. Upon termination of the contract, SKLIC should transfer gratuitously the completed structures on the land to the city of Taipei.

Revaluation of real estate investments are shown in Note 2.

16. PROPERTY AND EQUIPMENT

	Year Ended December 31, 2006					
	Land	Building	Transportation and Communication Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2006	$5,235,908	$6,377,026	$ 79,499	$1,565,792	$56,195	$13,314,420
Increase	261,810	10,348	12,882	162,744	—	447,784
Disposal	—	—	(18,072)	(194,784)	—	(212,856)
Reclassification	(921,223)	(818,402)	—	—	(3,943)	(1,743,568)
Balance, December 31, 2006	4,576,495	5,568,972	74,309	1,533,752	52,252	11,805,780
Revaluation increment						
Balance, January 1, 2006	2,257,903	26,552	—	—	—	2,284,455
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(767,563)	(2,168)	—	—	—	(769,731)
Balance, December 31, 2006	1,490,340	24,384	—	—	—	1,514,724
Accumulated depreciation						
Balance, January 1, 2006	—	1,287,743	19,562	930,555	—	2,237,860
Depreciation expense	—	156,045	9,583	124,972	—	290,600
Disposal	—	—	(9,652)	(148,650)	—	(158,302)
Reclassification	—	(194,158)	—	—	—	(194,158)
Balance, December 31, 2006	—	1,249,630	19,493	906,877	—	2,176,000
Carrying amount	$6,066,835	$4,343,726	$ 54,816	$ 626,875	$52,252	$11,144,504

	Year Ended December 31, 2007					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2007	$4,576,495	$5,568,972	$ 74,309	$1,533,752	$ 52,252	$11,805,780
Increase	143	1,244	13,188	327,991	—	342,566
Disposal	—	—	(10,870)	(66,735)	—	(77,605)
Reclassification	(239,561)	(271,875)	—	71,448	(35,427)	(475,415)
Balance, December 31, 2007	4,337,077	5,298,341	76,627	1,866,456	16,825	11,595,326
Revaluation increment						
Balance, January 1, 2007	1,490,340	24,384	—	—	—	1,514,724
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(284,483)	(11,426)	—	—	—	(295,909)
Balance, December 31, 2007	1,205,857	12,958	—	—	—	1,218,815
Accumulated depreciation						
Balance, January 1, 2007	$ —	$1,249,631	$ 19,493	$ 906,876	$ —	$ 2,176,000
Depreciation expense	—	81,526	9,795	150,506	—	241,827
Disposal	—	—	(5,047)	(58,549)	—	(63,596)
Reclassification	—	(58,607)	—	—	—	(58,607)
Balance, December 31, 2007	—	1,272,550	24,241	998,833	—	2,295,624
Accumulated impairment						
Balance, January 1, 2007	—	—	—	—	—	—
Increase	378,769	—	—	—	—	378,769
Disposal	—	—	—	—	—	—
Balance, December 31, 2007	378,769	—	—	—	—	378,769
Carrying amount	$5,164,165	$4,038,749	$ 52,386	$ 867,623	$ 16,825	$10,139,748

	Year Ended December 31, 2008					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2008	$4,337,077	$5,298,341	$ 76,627	$1,866,456	$16,825	$11,595,326
Increase	—	—	13,611	241,172	—	254,783
Disposal	(3,987)	—	(14,573)	(58,669)	—	(77,229)
Reclassification	15,413	189,370	—	69,436	—	274,219
Balance, December 31, 2008	4,348,503	5,487,711	75,665	2,118,395	16,825	12,047,099
Revaluation increment						
Balance, January 1, 2008	1,205,857	12,958	—	—	—	1,218,815
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	63,929	(19)	—	—	—	63,910
Balance, December 31, 2008	1,269,786	12,939	—	—	—	1,282,725
Accumulated depreciation						
Balance, January 1, 2008	—	1,272,550	24,241	998,833	—	2,295,624
Depreciation expense	—	147,665	10,593	206,033	—	364,291
Disposal	—	—	(6,149)	(54,149)	—	(60,298)
Reclassification	—	—	—	—	—	—
Balance, December 31, 2008	—	1,420,215	28,685	1,150,717	—	2,599,617
Accumulated impairment						
Balance, January 1, 2008	$ 378,769	$ —	$ —	$ —	$ —	$ 378,769
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, December 31, 2008	378,769	—	—	—	—	378,769
Carrying amount	$5,239,520	$4,080,435	$ 46,980	$ 967,678	$16,825	$10,351,438

Revaluation of property and equipment is shown in Note 2.

17. MISCELLANEOUS ASSETS, OTHERS

	December 31		
	2006	2007	2008
Insurance Industry Stability Fund	$ 1,406,848	$ 1,557,363	$ 1,708,514
Less reserve for Insurance Industry Stability Fund	(1,406,848)	(1,557,363)	(1,708,514)
Guarantee deposits paid	5,882,083	5,858,319	10,741,795
Deferred expenses	431,080	789,987	1,081,265
Prepaid pension expenses (Note 19)	2,206,317	2,340,175	2,284,238
Deferred income tax assets (Note 26)	1,243,528	1,454,015	3,345,696
Overdue receivable	58,615	68,802	11,726
Less allowance for doubtful accounts (Note 10)	(40,933)	(68,802)	(11,726)
	$ 9,780,690	$10,442,496	$17,452,994

Under the Ministry of Finance's Approval Documents Tai-Tsai-Bao No. 811769212 dated December 31, 1992, starting from January 1, 1993, an insurance company should contribute one thousandth of premiums received to the Industry Stability Fund. The credit account "Reserve for Insurance Industry Stability Fund" is a contra account of the Industry Stability Fund.

Guarantee deposits paid as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Insurance operation guarantee deposit	$5,432,000	$5,432,000	$ 6,932,000
Office leasing guarantee deposit (Note 27)	28,311	35,976	23,747
Guarantee deposit for provisional seizure of assets	34,964	25,954	54,010
Deposit for stock index futures	170,998	99,935	3,459,330
Other guarantee deposits	215,810	264,454	272,708
	$5,882,083	$5,858,319	$10,741,795

Based on Article 141 of the ROC Insurance Law ("Insurance Law"), an amount equal to 15% of SKLIC paid-in capital should be deposited in the Central Bank as "Insurance operation Guarantee Deposit." Article 142 of the same law further stipulates that this deposit can only be refunded if SKLIC ceases its business operations and completes the required liquidation process. As of December 31, 2006, 2007 and 2008, SKLIC deposited government bonds (carrying value) to the special treasury account as operating guarantee deposit.

Deferred expenses for the years ended December 31, 2006, 2007 and 2008 were as follows:

	Year Ended December 31, 2006			
	Computer Software Cost	Other Deferred Assets	Prepaid Computer Software Cost	Total
Balance, January 1, 2006	$ 71,426	$167,040	$169,004	$ 407,470
Increase	21,475	76,709	69,086	167,270
Amortization expense	(63,785)	(66,808)	—	(130,593)
Reclassification	66,888	—	(66,888)	—
Charge to Son-Jiang case REAT's cost	—	(13,067)	—	(13,067)
Balance, December 31, 2006	$ 96,004	$163,874	$171,202	$ 431,080

	Year Ended December 31, 2007			
	Computer Software Cost	Other Deferred Assets	Prepaid Computer Software Cost	Total
Balance, January 1, 2007	$ 96,004	$163,874	$171,202	$ 431,080
Increase	53,793	101,401	246,339	401,533
Disposal	—	(6,006)	—	(6,006)
Amortization expense	(65,849)	(87,696)	—	(153,545)
Reclassification	85,672	127,753	(94,022)	119,403
Charge to Son-Jiang case REAT's cost	—	(2,478)	—	(2,478)
Balance, December 31, 2007	$169,620	$296,848	$323,519	$ 789,987

	Year Ended December 31, 2008			
	Computer Software Cost	Other Deferred Assets	Prepaid Computer Software Cost	Total
Balance, January 1, 2008	$ 169,620	$ 296,848	$323,519	$ 789,987
Increase	68,863	131,770	198,529	399,162
Disposal	—	—	(16,000)	(16,000)
Amortization expense	(115,205)	(119,851)	—	(235,056)
Reclassification	70,377	147,177	(74,382)	143,172
Balance, December 31, 2008	$ 193,655	$ 455,944	$431,666	$1,081,265

18. ACCRUED EXPENSES

	December 31		
	2006	2007	2008
Salaries	$2,598,057	$1,970,741	$1,541,658
Others	861,703	734,718	672,199
	$3,459,760	$2,705,459	$2,213,857

Accrued expenses — others include taxes, insurance premiums, building administration expenses, advertising expenses and common office expenditures of each department.

19. PENSION FUND

Under the Labor Pension Act, Employee Retirement Plan and Retirement Fund Custody and Distribution Plan, the Group has both defined benefit pension plan and defined contribution pension plan. The Group contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee for the defined benefit pension plan. The pension fund is deposited in the Bank of Taiwan in the committee’s name. For the defined contribution pension plan the Group makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

For the years ended December 31, 2006, 2007 and 2008, net periodic pension cost under defined contribution plan amounted to $173,928 thousand, $208,410 thousand and $200,878 thousand, respectively; and under defined benefit plan amounted to $328,775 thousand, $359,207 thousand and $424,647 thousand, respectively.

Pension cost under a defined benefit plan is determined by actuarial valuations and accounted for in accordance with SFAS No. 18, “Accounting for Pension”. Information about the defined benefit plan was as follows:

	2006	2007	2008
Service cost — benefits earned during the period	$ 195,855	$ 208,988	$ 165,092
Interest cost on projected benefit obligation	211,420	226,914	246,725
Expected return on plan assets	(248,001)	(259,776)	(227,679)
Amortization of unrecognized transition obligation, net	(151)	(151)	(151)
Amortization of prior service cost	35,652	35,652	35,652
Amortization of pension service cost	135,393	148,652	221,065
Amortization of net transition obligations	(1,393)	(1,072)	(588)
Curtailment benefit	—	—	(15,469)
Net periodic pension cost	$ 328,775	$ 359,207	$ 424,647

The following table sets forth the Plan's funded status and the amounts under defined benefit plan which have been recognized in the accompanying balance sheets at December 31, 2006, 2007 and 2008:

	2006	2007	2008
Actuarial present value of benefit obligation			
Vested benefits	$(1,999,025)	$(2,236,808)	$(2,254,835)
Nonvested benefits	(2,888,998)	(3,076,038)	(2,352,193)
Accumulated benefit obligation	(4,888,023)	(5,312,846)	(4,607,028)
Effect of projected future salary increases	(466,258)	(473,839)	(608,960)
Projected benefit obligation	(5,354,281)	(5,786,685)	(5,215,988)
Pension assets at fair value	5,474,923	5,326,924	4,625,053
Projected benefit obligation in excess of plan assets	120,642	(459,761)	(590,935)
Unrecognized net obligations at transition	(904)	(754)	(470)
Unrecognized prior service cost	71,304	35,652	35,652
Unrecognized pension gain	2,015,275	2,765,038	2,839,991
Projected pension cost recognized in the balance sheet (included in miscellaneous assets, others)	$ 2,206,317	$ 2,340,175	$ 2,284,238
Vested benefits — undiscounted	$ 2,426,819	$ 2,703,393	$ 2,895,036

Relevant rates used in determining the actuarial present value of the projected benefit obligation under the defined benefit plan as of December 31, 2006, 2007 and 2008 are as follows:

SKLIC

	2006	2007	2008
Weighted-average discount rate	4.50%	4.50%	4.50%
Assumed rate of increase in future compensation levels	2.50%	2.50%	2.50%
Expected long-term rate of return on plan assets	5.00%	4.50%	4.50%

SKLRESC

	2006	2007	2008
Weighted-average discount rate	2.75%	2.75%	2.75%
Assumed rate of increase in future compensation levels	2.00%	2.00%	2.00%
Expected long-term rate of return on plan assets	2.75%	2.75%	2.75%

Stocks and bonds of the consolidated entities and affiliates held by the pension trust fund in the custody of the Committee of Pension Trust Funds are summarized as follows:

Name	Category	December 31 2006	December 31 2007	December 31 2008
			Unit: Share/Units	
Stock				
SKFHC	Listed stock	10,999,026	11,574,892	15,706,881
Shin Kong Synthetic Fiber Co., Ltd.	Listed stock	9,760,616	9,037,739	9,087,739
Taiwan-Sok Shin Kong Security Co., Ltd.	Listed stock	10,606,207	10,732,269	12,043,934
Shin Kong Fire & Marine Insurance Company . .	Listed stock	—	—	26,812,100
		31,365,849	31,344,900	63,650,654
Fund				
Shin Kong Investment Trust Co., Ltd. (SKITC)	SKITC Strategy Balanced Fund II / SKITC Fortune Balanced Fund / SKITC Global Champion Fund / SKITC Great China Fund / SKITC Strategy Balanced Fund II / SKITC ECB Balanced Fund / SKITC OTC Market Fund	14,077,720.12	14,112,695.36	5,700,403.30

20. PREFERRED STOCK LIABILITIES

SKLIC selected December 26, 2008 as the basis date for the issuance of 470,000 thousand shares of Class D preferred stock, with par value of NT$10 per share, for a total of NT$4,700,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of the Company’s Class D preferred stock is fixed at a rate of 4.25% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class D preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If SKLIC does not have any earnings or the earnings are insufficient to suffice for the dividends for Class D preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class D preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class D preferred stock of SKLIC have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of SKLIC's residual assets, for a sum up to and not exceeding the total proceeds received by SKLIC upon issuance.

(e) Class D preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class D preferred stockholders have voting rights in the Class D preferred stockholders' meeting.

(f) When SKLIC issues new shares, the Class D preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B preferred stockholder.

(g) Class D preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, SKLIC may repurchase all Class D preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, SKLIC is unable to repurchase part or all of the Class D preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 4.25% and computed for the actual extension of the term. The rights of the Class D preferred stock written in SKLIC's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class D preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class D preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

SKLIC selected December 26, 2008 as the basis date for the issuance of 165,400 thousand shares of Class E preferred stock, with par value of NT$10 per share, for a total of NT$1,654,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of SKLIC's Class E preferred stock is fixed at a rate of 7.71% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class E preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If SKLIC does not have any earnings or the earnings are insufficient to suffice for the dividends for Class E preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class E preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class E preferred stock of SKLIC have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of SKLIC's residual assets, for a sum up to and not exceeding the total proceeds received by SKLIC upon issuance.

(e) Class E preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class E preferred stockholders have voting rights in the Class E preferred stockholders' meeting.

(f) When SKLIC issues new shares, the Class E preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B preferred stockholder.

(g) Class E preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, SKLIC may repurchase all Class E preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, SKLIC is unable to repurchase part or all of the Class E preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 7.71% and computed for the actual extension of the term. The rights of the Class E preferred stock written in SKLIC's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class E preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class E preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

21. STOCKHOLDER'S EQUITY OF PARENT

Common Stock

As of December 31, 2006 and 2007, SKLIC's paid-in capital amounted to $33,208,802 thousand, divided into 3,320,880 thousand common shares with par value of $10.00 per share.

In order to increase the capital, strengthen financial structure and Risk-Based Capital Ratio, at December 30, 2008 and June 25, 2008, SKLIC issued private placement common stock of 274,127 thousand shares and 588,235 thousand shares with $10.00 par value at $23 and $17 which amounted to $6,304,916 thousand (included capital stock $2,741,268 thousand and additional paid-in capital $3,563,648 thousand) and $10,000,000 thousand (included capital stock $5,882,353 thousand and additional paid-in capital $4,117,647 thousand), respectively. Common shares of the two capital increases were fully acquired by SKFHC (the parent of the Company).

As of December 31, 2008, SKLIC's authorized capital was $54,450,000 thousand, divided into 5,445,000 thousand common shares with par value of $10.00 per share. Paid-in capital was $41,832,423 thousand, divided into 4,183,242 thousand common shares with par value of $10.00 per share.

Preferred Stock

SKLIC selected December 19, 2003 as the basis date for the issuance of 300,000 thousand shares of Class B preferred stock, with par value of NT$10 per share, for a total of NT$3,000,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 0920712918 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of SKLIC's Class B preferred stock is fixed at a rate of 4.50% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class B preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If SKLIC does not have any earnings or the earnings are insufficient to suffice for the dividends for Class B preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class A preferred stock, from earnings in subsequent years in priority to common stock. Upon and after the repurchase of Class B preferred stock at date of expiry, SKLIC should promptly declare and distribute all the accumulated dividends in arrears, second to Class A preferred stock.

(c) Other than the fixed rate of dividends, Class B preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class B preferred stock of SKLIC is ranked priority over the common stock, but ranked after Class A preferred stock, in the distribution of SKLIC's residual assets, for a sum up to and not exceeding the total proceeds received by SKLIC upon issuance.

(e) Class B preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class B preferred stockholders have voting rights in the Class B preferred stockholders' meeting.

(f) When SKLIC issues new shares, the Class B preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class A preferred stockholder.

(g) Class B preferred stock can not be converted into common stock and expires 5 years from the date of issuance. Upon expiry, SKLIC may repurchase all Class B preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, SKLIC is unable to repurchase part or all of the Class B preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 4.50% and computed for the actual extension of the term. The rights of the Class B preferred stock written in SKLIC's articles of incorporation would not be injured.

(h) The issuance of Class B preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class B preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

Class B preferred stock had been redeemed on December 19, 2008. Pursuant to ARDF issued Interpretation (93) No. 061, when the company does not have any earnings or the earnings are insufficient to suffice for the dividends in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution from earnings in subsequent years. Upon and after the repurchase of preferred stock at date of expiry, the company should promptly declare and distribute all the accumulated dividends. Such Class B preferred stock dividends of $130,205 thousand should be recognized once SKLIC's stockholders resolve to distribute it. Due to deficit of SKLIC in 2008, the Class B preferred stock dividends will be recognized in subsequent years when SKLIC has earnings and the distribution is resolved by SKLIC's stockholders.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage per year of the Company's paid-in capital. The Company distributes new shares to shareholders based on their percentage of the shares held.

SKFHC (the parent of SKLIC) approved to issue common stock for cash in 2008 and reserved 15% of the shares for distributing to persons who were employed by SKLIC or SKFHC as share-based payment. According to ARDF Interpretation (96) No. 267 and (97) No. 017, SKLIC recognized this compensation cost as expenses and capital surplus amounted to $343,398 thousand in 2008.

Distribution of Earnings

SKLIC's annual earnings, net of tax and any deficit, should be appropriated in the following order:

(a) 10% as legal reserve and, if required, a special reserve based on relevant regulations;

(b) Annual dividends to SKLIC's all preferred stockholders;

(c) 1% as bonuses to employees.

(d) The Board of Directors prepares an earning distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of stockholders for approval.

Since 2008, the bonus to employees and the bonus to directors and supervisors are recognized as expenses in the current year. The amounts are estimated based on past experiences. Due to net loss in 2008, there were no bonus to employees and bonus to directors and supervisors recognized based on the Articles of Incorporation of SKLIC for the year ended December 31, 2008.

SKLIC is in the stage of stable growth. In framing a proposal for the distribution of annual earnings, the board of directors must balance SKLIC's long-term financial strategy and future demand for capital against the stockholders' demand for cash inflow. Thus, dividends and bonuses for common stockholders are declared pursuant to a balanced dividend policy. Accordingly, stock dividends declared must not exceed 50% of total dividends declared for the year. The percentages of stock and cash dividends declared are further adjusted according to the following considerations: capital needed for business operations and capital demand for investments, state of the stock market, major legislative reform; and so forth.

Further, based on a ruling issued by the Department of Insurance of the Ministry of Finance (ref. No. (91) Tai-Tsai-Bao No. 0910074195), any revenue arising from the contingent claim reserves in excess of 30% of the current year's retained premium should not be distributed as dividends or be used for any other purposes, unless there is prior approval by the authorities concerned. The restricted amount should be appropriated as special reserve according to the resolution of the stockholder in the following year. As of December 31, 2008, SKLIC's contingent claim reserve, included as special reserve, amounted $7,012,726 thousand.

The proposal for distribution of 2007 earnings which was approved by the stockholder on May 20, 2008, raised legal reserve of $241,682 thousand and special reserve of $1,268,661 thousand, distributed cash dividends of $763,803 thousand (per share of $0.23), preferred stock dividends of $135,000 thousand and employee bonuses of $9,000 thousand. Earnings per share after tax for the year ended December 31, 2007 was $0.69. If bonus to employees and remunerations to directors and supervisors were recognized as expense, pro forma information of earnings per share after tax for 2007 would be $0.68.

SKLIC's 2008 earnings distribution was not passed as of the date of auditors' report. Information on the status of earnings distribution can be accessed at the website of Market Observation Post System provided by TSEC.

Unrealized Gain (Loss) on Financial Instruments

Unrealized gain or loss for the years ended December 31, 2006, 2007 and 2008 as follows:

	Available-for-Sale	Long-Term Equity Investment	Total
2006			
Balance, January 1, 2006	$ —	$ (5,596)	$ (5,596)
Adjustment taken directly to equity	9,429,310	56,852	9,486,162
Balance, December 31, 2006	$ 9,429,310	$ 51,256	$ 9,480,566
2007			
Balance, January 1 , 2007	$ 9,429,310	$ 51,256	$ 9,480,566
Adjustment taken directly to equity	(8,439,213)	(15,280)	(8,454,493)
Balance, December 31 , 2007	$ 990,097	$ 35,976	$ 1,026,073
2008			
Balance, January 1 , 2008	$ 990,097	$ 35,976	$ 1,026,073
Adjustment taken directly to equity	(28,206,648)	(119,168)	(28,325,816)
Balance, December 31 , 2008	$(27,216,551)	$ (83,192)	$(27,299,743)

Unrealized Revaluation Increment

	December 31		
	2006	2007	2008
Revaluation increment-land	$5,872,574	$5,514,629	$5,513,175
Revaluation increment — other fixed asset	208,396	208,396	208,396
Less earning transfer raising capital	(151,034)	(151,034)	(151,034)
	$5,929,936	$5,571,991	$5,570,537

Before 2005, according to the Company law 238th, additional paid-in capital can only be used to recover accumulated deficit and transfer to capital. If the company recovered accumulated deficit by using unrealized revaluation increment which was included in additional paid-in capital, then the used unrealized revaluation should be recovered at the earning year. Before the used unrealized revaluation increment had been fully recovered, the company could not distribute earning or resolve any other use of accumulated earnings. However, after the revision of the Company law, the Company law 238th was cancelled, and unrealized revaluation increment was separated as one line in the statement of changes of stockholders' equity following Generally Accepted Accounting Principles and Preparation of Financial Statements by Life Insurance Companies. Also, unrealized revaluation increment can only be utilized when the revalued properties were disposed.

For the year ended December 31, 2006, 2007 and 2008, the decrements of unrealized revaluation increment due to disposal of real estate which were calculated based on disposal percentage were $559,316 thousand, $346,581 thousand and $1,454 thousand, respectively, and the decrease in unrealized revaluation increment due to asset impairment was $11,364 thousand for the year ended December 31, 2007.

22. EARNINGS (LOSS) PER SHARE

	Year Ended December 31, 2006				
	Amount		Weighted Average Number of Outstanding Shares (‘000)	Earnings Per Share (Dollar)	
	Income before Tax	Income after Tax		Income before Tax	Income after Tax
Net income	$ 12,288,139	$ 11,771,090			
Less interest of preferred stock	(135,000)	(135,000)			
Basic earnings per share					
Net income attributable to common shares	12,153,139	11,636,090	2,130,743	$ 5.70	$ 5.46
Convertible preferred stock with dilutive effect of potential common shares	—	—	1,190,137		
Dilutive earning per share					
Net income with dilutive effect of potential common shares	$ 12,153,139	$ 11,636,090	3,320,880	$ 3.66	$ 3.50

	Year Ended December 31, 2007				
	Amount		Weighted Average Number of Outstanding Shares (‘000)	Earnings Per Share (Dollar)	
	Income before Tax	Income after Tax		Income before Tax	Income after Tax
Net income	$ 2,792,110	$ 2,416,820			
Less interest of preferred stock	(135,000)	(135,000)			
Basic earnings per share					
Net income attributable to common shares	$ 2,657,110	$ 2,281,820	3,320,880	$ 0.80	$ 0.69

	Year Ended December 31, 2008				
	Amount		Weighted Average Number of Outstanding Shares (‘000)	Loss Per Share (Dollar)	
	Loss before Tax	Loss after Tax		Loss before Tax	Loss after Tax
Net loss	$(25,601,460)	$(19,737,526)			
Less interest of preferred stock	(130,205)	(130,205)			
Basic losses per share					
Net loss attributable to common shares	$(25,731,665)	$(19,867,731)	3,628,587	$(7.10)	$(5.48)

23. GAINS (LOSSES) ON INVESTMENTS

The Group's gains (losses) on investments for the years ended December 31, 2006, 2007 and 2008 consisted of the following:

	2006	2007	2008
Gains (losses) on disposal of investments, net	$ 8,273,035	$ 7,571,395	$(8,762,573)
Gain on disposal of long-term equity investments, net (Note 14)	—	103,934	—
Dividend income	2,486,131	2,982,478	4,229,872
Foreign investments in trust funds—distributable income	248,425	149,236	2,513,315
Gains (losses) on settlement of derivatives, net	4,317,081	(4,556,277)	199,191
	$15,324,672	$ 6,250,766	$(1,820,195)

24. INCOME FROM REAL ESTATE INVESTMENTS

	2006	2007	2008
Rental income (Note 27)	$2,324,805	$2,471,987	$2,611,932
Gains on disposal of real estate investments, net (Note 7)	3,010,727	741,569	3,284,975
Gains on construction (Note 2)	—	7,638	186,683
	$5,335,532	$3,221,194	$6,083,590

SKLIC disposed of Chao-Yang Building and land in Jianguo S. Rd., Da-An District, Taipei City in 2008. The proceeds of disposal and the cost were $10,149,330 thousand and $6,938,684 thousand (including other costs of $7,649 thousand), respectively. The disposal gain (including land value increment tax of $639 thousand), was $3,202,997 thousand, recognized as gains on disposal of real estate investments.

SKLIC sold real estate to obtain beneficiary certificates in 2007. The transaction amount was $1,134,811 thousand (including cash $832,941 thousand and subordinated securities $301,870 thousand). The transaction cost was $784,845 thousand (including real estate investment $782,367 thousand and deferred expenses $2,478 thousand). The disposal gain, net of transaction costs and unrealized gain on sale and leaseback $495,689 thousand, was $16,771 thousand (recognized as advance receipts). SKLIC estimated the expected lease term of Song-Jiang case as amortization term of unrealized gain on sale and leaseback. As of December 31, 2007 and 2008, realized gains on sale and leaseback were $118,278 thousand and $81,978 thousand, respectively, recognized as gains on disposal of real estate investments.

According to the provisions of SFAS No. 11, "Long-term Construction Contracts", SKLIC calculated gains (losses) on construction in process of Shin-Kong Ruei-An JASPER by percentage-of-completion method. As of December 31, 2008, accumulated profit on construction was $194,321 thousand with $7,638 thousand recognized in 2007 and $186,683 thousand recognized in 2008.

25. PERSONNEL, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES

Item	2006 Operation Costs	2006 Operation Expenses	2006 Total	2007 Operation Costs	2007 Operation Expenses	2007 Total	2008 Operation Costs	2008 Operation Expenses	2008 Total
Personnel expenses									
Salary	4,062,385	8,381,331	12,443,716	4,321,406	7,859,533	12,180,939	2,297,637	7,879,003	10,176,640
Labor and health insurance	10,874	681,314	692,188	10,476	724,447	734,923	11,067	672,604	683,671
Pension	9,462	493,240	502,702	8,855	558,762	567,617	(6,333)	631,858	625,525
Others	8,311	438,940	447,251	7,929	716,311	724,240	8,027	468,981	477,008
Depreciation	—	728,397	728,397	—	755,913	755,913	—	829,933	829,933
Amortization	—	130,593	130,593	—	153,545	153,545	—	235,056	235,056

Category — Years Ended December 31

26. INCOME TAX

Income tax expense (benefit) and deferred income tax asset (liability) of each consolidated entity for the years ended December 31, 2006, 2007 and 2008 were as follows:

2006	Income Tax Expense (Benefit)	Deferred Income Tax Asset
SKLIC	300,764	1,240,777
SKLRESC	22,524	2,980
NLIC	2,117	—
	$325,405	$1,243,757

2007	Income Tax Expense (Benefit)	Deferred Income Tax Asset
SKLIC	353,187	1,817,839
SKLRESC	22,575	2,980
NLIC	3,074	—
	$378,836	$1,820,819

2008	Income Tax Expense (Benefit)	Deferred Income Tax Asset
SKLIC	(5,891,828)	15,306,711
SKLRESC	28,167	2,980
NLIC	4,381	—
	$(5,859,280)	$15,309,691

The details of deferred income tax assets and liabilities as of December 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Deferred income tax assets			
Operating loss carryforward	$ 4,827,135	$ 249,217	$ 2,638,008
Unrealized pension expense	—	13,574	9,987
Investment credit	329,482	—	100,668
Impairment loss	300,108	500,139	2,187,314
Unrealized loss on financial assets at fair value through profit or loss	1,059,653	1,176,360	3,866,536
Unrealized (gain) loss on available-for-sale financial assets	(1,727,219)	121,022	6,985,455
Loss on collaterals assumed	—	—	58,851
Unrealized exchange (gains) loss, net	(17,451)	25,695	(195,378)
Others	13,150	(5,552)	31,505
	4,784,858	2,080,455	15,682,946
Less valuation allowance	(5,285,831)	(259,636)	(373,255)
Deferred income tax (liabilities) assets	(500,973)	1,820,819	15,309,691
Add deferred income tax liabilities (included in other liabilities)	1,269,658	—	—
Less deferred income tax assets — noncurrent (included in other assets)	(1,243,528)	(1,454,015)	(3,345,696)
Deferred income tax assets — current (included in other current assets)	$ (474,843)	$ (366,804)	$(11,963,995)

On January 6, 2009, the Legislative Yuan of the Republic of China passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Group recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

For the years ended December 31, 2006, 2007 and 2008, tax expense (benefit) was as follows:

	2006	2007	2008
Current income tax expense	$ 698,286	$ 784,960	$ 590,214
Separate taxation levied for interest income arising from short-term notes and bills and securitization	84,791	179,094	90,622
Deferred tax income	(580,494)	(473,551)	(6,624,439)
Adjustment of prior year's tax	122,822	(111,667)	84,323
Tax expense (benefit)	$ 325,405	$ 378,836	$(5,859,280)

In 2008, the current income tax expense of $558,980 thousand was withholding tax on foreign income. As SKLIC assessed that the foreign income at the applicable domestic tax rate did not increase SKLIC's tax refund receivable, the withholding tax was recognized under current income tax.

Loss carryforwards as of December 31, 2008 comprised of:

Expiry Year	Unused Amount
2013	$ 996,869
2018	9,555,166
	$10,552,035

The Group prepared valuation allowance according to the possibility realization in deferred tax assets of loss carryforward.

For the year ended December 31, 2008, information related to investment credits as follows:

Regulation Basis of Tax Credits	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development	$ 7,248	$ 7,248	2010
	Research and development	10,403	10,403	2011
	Personnel training	32,357	32,357	2010
	Personnel training	23,782	23,782	2011
	Personnel training	26,878	26,878	2012
		$100,668	$100,668	

The income tax returns of the Group examined by authorities were as follows:

	Examined Year
SKLIC	2003
SKLRESC	2006
NLIC	2006

Information related to imputation credit account:

	December 31		
	2006	2007	2008
SKLIC	364,025	575,895	1,136,372
SKLRESC	78,402	63,221	90,644
NLIC	1	1,125	4,409

	December 31		
Ratio of Imputation Credit Account	2006	2007	2008
SKLIC	6.25%	6.86%	—
SKLRESC	33.33%	33.33%	—
NLIC	30.35%	12.80%	33.50%

Based on the amended ROC Income Tax Law, information on the imputation credit accounts (ICA) and accumulated deficit are as follows:

a. As of December 31, 2008, the imputation credit accounts of the Company is $1,136,372 thousand.

b. As of December 31, 2008, the accumulated retained earnings (deficit) of SKLIC prior to the adoption of the integrated tax approach (years before 1998) and after the adoption (years 1998 and after) were $0 thousand and $(13,761,044) thousand, respectively.

As of December 31, 2008, SKLIC's income tax returns through 2003 had been assessed and approved by the tax authority. In 2000 to 2003 tax returns, SKLIC and the tax authority have different interpretation of the tax treatment for periodic amortization of premiums on bond investments. The Taipei High Administrative Court adjudicated that the periodic amortization of premiums on bond investments cannot be used to offset interest income earned on bond investments. SKLIC has appealed to the Highest Administrative Court, and the case for 2000 income tax return had been rejected. However, as of the reporting date, SKLIC hasn't received any revised tax return from the tax authority. There will be no significant impact in the current year since loss carryforward can fully cover the amount disagreed.

27. RELATED-PARTY TRANSACTIONS

The related parties and their relationships with the Group are as follows:

Related Party	Relationship
SKFHC	Parent company of the Company
Shin Kong Life Real Estate Service Company (SKLRESC)	The subsidiary of the Company
Wu, Tung-Chin	Chairman of the Company
Wu, Anthony T.S.	Second-degree relative of the Company's chairman
Wu, Thomas T.L.	Second-degree relative of the Company's chairman
Wu, Eric T.S.	Second-degree relative of the Company's chairman
Kuo Wu, Ru-Yue	Second-degree relative of the Company's chairman
Wu, Ben-Sen	Second-degree relative of the Company's vice chairman
Wu, Ing-Ing	Second-degree relative of the Company's vice chairman
Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate
Shin Kong Securities Investment Consulting Co., Ltd. (SKSIC) (Note 1)	Affiliate
Shin Kong Securities Co., Ltd. (SKSC)	Affiliate
Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC)	Affiliate
Shin Kong Investment Trust Co., Ltd.	Affiliate
Cyun He Venture Capital Co., Ltd.	Affiliate
Taiwan Shin Kong Commercial Bank Co., Ltd.	Affiliate
Shin Kong Insurance Agency Co., Ltd.	Affiliate

Related Party	Relationship
Shin Kong Property Insurance Agency Co., Ltd.	Affiliate
Shin Kong Marketing Consultant Co., Ltd. (Original Macoto Marketing Consultant Co., Ltd.) (Note 2)	Affiliate
MasterLink Securities Corp. (MLSC)	Affiliate
Shin Kong Company Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ruey-Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tong Shan Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin International Bank Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Fire & Marine Insurance Company	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Chin Shan Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ennead Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin Financial Holding Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Waibel Enterprises, Inc.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Engineering Corp.	Its chairman is a second-degree relative of the Company's chairman
Tung Yin Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Accessorize Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Synthetic Fiber Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Recreation Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Auto21 Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Mercury Venture Capital Co., Ltd. (Note 3)	Its chairman is a second-degree relative of the Company's chairman
Cosmos Commercial Bank Co., Ltd. (Note 4)	Its chairman is a second-degree relative of the Company's chairman
Jui Chin Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Shin Kong Hae Yang Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Leasing Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Inc.	Its chairman and supervisor are a second-degree relative of the Company's chairman

Related Party	Relationship
Rue-Ying Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company’s chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company’s chairman
Ru Ying Co., Ltd.	Its director is a second-degree relative of the Company’s chairman
Ten Outstanding Young Persons’ Foundation	Its director is a second-degree relative of the Company’s chairman
Taishin Investment Trust Co., Ltd.	Its chairman is a second-degree relative of the Company’s chairman
The Shin Kong Life Charity Foundation	Its chairman is the Company’s chairman
Sian Shun Enterprise Co., Ltd.	A director is the Company’s chairman
Taiwan Finance Industry Co., Ltd. (Note 1)	Its chairman is the Company’s vice-chairman
Shin Kong Chao-Feng Co., Ltd.	Its chairman is the Company’s vice-chairman
Wang Tien Woolen Textile Co., Ltd.	Its chairman is the Company’s chairman
Shin Kong Wu Ho-Su Memorial Hospital	The hospital’s chairman is the Company’s chairman
Tai Li Dyehouse Co., Ltd.	Its chairman is the Company’s chairman
The Great Taipei Gas Corp.	Its major directors are the Company’s directors or second-degree relative of the Company’s director
Shin Kong Mitsukoshi Department Store Co., Ltd.	Executive director is the Company’s chairman
Shin Kong Spinning Co., Ltd.	Its chairman is a second-degree relative of the Company’s chairman and its director is the Company’s chairman
Shin Sheng Co., Ltd.	Its chairman is a second-degree relative of the Company’s chairman
Taiwan Fuhbic Corp.	A director is the Company’s chairman
Great Taipei Broadband Co., Ltd.	A director is the Company’s chairman
Shin Kong Computer Service Co., Ltd. (Note 1)	A director is the Company’s chairman
National Cultural Association	Its director is the Company’s chairman
Irst International Telecom Co., Ltd. (Note 5)	Its representative of legal person director is the Company’s chairman
Chi-Ye Chemical Engineering Co., Ltd.	A director is the Company’s chairman
Da Chung Venture Capital Co., Ltd.(Note 3)	A director is the Company’s chairman
Jupiter Venture Capital Co., Ltd. (Note 3)	A director is the Company’s chairman
Hsin Ching Investment Co., Ltd.	A second-degree relative of supervisor is the Company’s supervisor
Shin Kong Tower Tourism Co., Ltd.	Its chairman is the Company’s vice-chairman
Chia-Ban Investment Co., Ltd.	Its chairman is the Company’s vice- chairman
Yung Kwang Co., Ltd.	Its chairman is the Company’s vice- chairman
Pei-Tou Hotel Co., Ltd.	Its chairman is the Company’s vice- chairman
Wu Cha-Lu Insurance Culture Foundation	Its chairman is the Company’s vice- chairman
Sin-Sin Foods Co., Ltd.	Its chairman is the Company’s vice- chairman
Shin Kong Farm Co., Ltd.	Its chairman and director are the Company’s vice-chairman and chairman
Taishin Securities Co., Ltd.	The director of company second-degree relative and so on its legal person chairman

Related Party	Relationship
Chang Hwa Bank	The director of company second-degree relative and so on its legal person chairman
Yeng Tseng Enterprise Co., Ltd.	Its chairman is a second-degree relative of Company's supervisor
Hong, Wen-Dong	The Company's executive director
Wu, Min-Wei	The Company's supervisor
Taiwan Institute Sustainable Energy Foundation	The foundation's major chairman is the Company's director (or supervisor) or its second-degree relative
Yi Kong Security Co., Ltd.	Its chairman is the SKFHC's supervisor
Shin Bao Telecom Co., Ltd.	Its chairman is the SKFHC's supervisor
Cuei Yuan Investment Co., Ltd.	A director is the Company's vice-chairman
Shin Kong Leasing Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman

Note 1: Liquidated in the first quarter, 2007.
Note 2: Renamed on January 9, 2007.
Note 3: Under liquidation as of December 31, 2008.
Note 4: Its directors and supervisors have been reelected in September 2007. The current directors or supervisors have no relationship with the Company anymore.
Note 5: The Company ceased to be the representative of legal person director since September 2008.

Major transactions with related parties were as follows:

Deposits

	2006		2007		2008	
	Amount	%	Amount	%	Amount	%
Taiwan Shin Kong Commercial Bank Co., Ltd.	$4,026,806	11	$ 9,403,161	10	$25,928,747	25
Others	1,443,692	4	2,158,563	2	2,137,378	2
	$5,470,498	15	$11,561,724	12	$28,066,125	27

For the years ended December 31, 2006, 2007 and 2008, all the above deposit transactions were including pledged time deposit amounted to $34,364 thousand, $25,954 thousand and $54,010 thousand.

All the above deposit transactions were made under an arm's length terms.

Secured Loans

	Year Ended December 31, 2006				
	Highest Balance	Period-End Balance	%	Annual Interest Rate %	Total Interest Income
Auto 21 Co., Ltd.	$1,620,000	$1,570,000	1	3.75	$53,375
Hsin Ching Investment Co., Ltd.	280,000	235,000	—	3.55	8,705
Yeng Tseng Enterprise Co., Ltd.	200,000	200,000	—	3.75	1,893
Hung Shin Enterprise Co., Ltd.	150,000	150,000	—	3.55	5,325
Jui Chin Enterprise Co., Ltd.	120,000	55,000	—	3.75	3,108
Shin Kong HacYang Co., Ltd.	91,000	50,000	—	3.55	1,584
Rue-Ying Enterprise Co., Ltd.	50,000	35,000	—	3.55	572
Tung Yin Investment Co., Ltd.	30,000	10,000	—	3.75	971
Others	—	49,229	—	2.96~3.77	1,324
		$2,354,229	1		$76,857

	Year Ended December 31, 2007				
	Highest Balance	Period-End Balance	%	Annual Interest Rate %	Total Interest Income
Auto 21 Co., Ltd.	$1,570,000	$1,050,000	1	3.75~4.00	$45,350
Hsin Ching Investment Co., Ltd.	300,000	—	—	3.55~3.95	9,905
Yeng Tseng Enterprise Co., Ltd.	200,000	50,000	—	3.75~3.95	3,928
Hung Shin Enterprise Co., Ltd.	150,000	150,000	—	3.55~3.95	5,377
Tung Yin Investment Co., Ltd.	100,000	—	—	3.75~3.95	313
Jui Chin Enterprise Co., Ltd.	68,000	68,000	—	3.75~3.95	2,543
Shin Kong HacYang Co., Ltd.	40,000	—	—	3.55	410
Rue-Ying Enterprise Co., Ltd.	35,000	—	—	3.55~3.95	568
Others	—	59,086	—	2.60~3.10	1,707
		$1,377,086	1		$70,101

	Year Ended December 31, 2008				
	Highest Balance	Period-End Balance	%	Annual Interest Rate %	Total Interest Income
Auto 21 Co., Ltd.	$1,050,000	$ 275,000	—	3.56~4.05	$23,758
Wang Tien Woolen Textile Co., Ltd.	745,000	745,000	1	3.46~3.96	18,752
Shin Kong HacYang Co., Ltd.	320,000	250,000	—	3.55~3.96	2,886
Hung Shin Enterprise Co., Ltd.	150,000	150,000	—	3.95~4.06	5,962
Jui Chin Enterprise Co., Ltd.	68,000	68,000	—	3.56~3.95	2,664
Hsin Ching Investment Co., Ltd.	55,000	8,000	—	3.95~4.06	214
Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	—	3.56~3.95	1,971
Tung Yin Investment Co., Ltd.	39,000	5,000	—	3.56~3.95	60
Rue-Ying Enterprise Co., Ltd.	38,000	5,000	—	3.55~3.95	56
Cuei Yuan Investment Co., Ltd.	29,000	29,000	—	3.40	103
Others	—	58,939	—	2.96~3.10	1,799
		$1,643,939	1		$58,225

The terms and conditions of the above secured loans to related parties were on an arm's length basis.

Lease of Real Estate to Related Parties

Rentals received from lease of major real estate to related parties for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006		2007		2008	
	Amount	%	Amount	%	Amount	%
Shin Kong Mitsukoshi Department Store Co., Ltd.	$ 898,613	38	$ 892,812	36	$ 878,764	33
TSKCB	79,146	3	121,499	5	133,535	5
SKSC	15,398	1	37,624	2	43,350	2
Shin Kong Wu Ho-Su Memorial Hospital	38,793	2	35,103	1	36,429	1
SKFHC	19,137	1	18,962	1	19,337	1
Taiwan-Sok Shin Kong Security Co., Ltd.	18,579	1	16,480	1	16,995	1
Irst International Telecom Co., Ltd.	—	—	—	—	15,006	1
Shin Kong Synthetic Fiber Corp.	14,363	1	15,348	1	13,942	1
SKITC	10,692	—	11,348	—	11,481	—
Taishin Securities Co., Ltd.	15,082	1	3,583	—	2,404	—
Taishin International Bank	6,348	—	2,712	—	2,101	—
Others	47,022	2	35,274	1	44,606	2
	$1,163,173	50	$1,190,745	48	$1,217,950	47

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

Since some of the agreements on the lease of real estate by Shin Kong Mitsukoshi Department Store Co., Ltd. from SKLIC had expired, the two parties are still negotiating the new lease agreements and the terms of the agreements are still uncertain. For the years ended December 31, 2006, 2007 and 2008, the lease of real estate to Shin Kong Mitsukoshi Department Store Co., Ltd. amounted to $523,617 thousand, $460,000 thousand and $489,440 thousand, respectively, which SKLIC recognized as other income.

As of December 31, 2006, 2007 and 2008, deposits received for the lease of real estate to related parties were as follows:

	2006	2007	2008
Shin Kong Mitsukoshi Department Store Co., Ltd.	$160,000	$160,000	$160,000
Others	60,950	65,988	74,727
	$220,950	$225,988	$234,727

Lease of Real Estate from Related Parties

As of December 31, 2006, 2007 and 2008, deposits paid for the lease of real estate from related parties were as follows:

	2006	2007	2008
Great Taipei Gas Corp.	$ 9,874	$10,405	$ 7,701
Wu, Ben-Sen	7,500	7,500	7,500
Enned Leasing Co., Ltd.	1,127	—	—
	$18,501	$17,905	$15,201

During the term of the lease, SKLIC is not required to pay additional rent. Upon termination of the lease contract and the return of the leased property, SKLIC will get a deposit refund, free of interest.

Investments in Beneficiary Certificates

As of December 31, 2006, SKLIC purchased from mutual funds from SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,116,214 thousand and $53,325 thousand, respectively. SKLIC sold mutual funds from SKITC and Taishin Investment Trust Co., Ltd. amounted to $659,862 thousand and $147,226 thousand, respectively. As of December 31, 2006, the balance of mutual fund investment in SKITC and Taishin Investment Trust Co., Ltd. amounted to $2,270,230 thousand and $163,812 thousand, respectively.

As of December 31, 2007, SKLIC purchased from mutual funds from SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,075,842 thousand and $30,000 thousand, respectively. SKLIC sold mutual funds from SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,427,546 thousand and $71,077 thousand, respectively. As of December 31, 2007, the balance of mutual fund investment in SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,917,482 thousand and $134,041 thousand, respectively.

As of December 31, 2008, SKLIC purchased from mutual funds from SKITC amounted to $1,458,000 thousand. SKLIC sold mutual funds from SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,407,399 thousand and $26,370 thousand, respectively. As of December 31, 2008, the balance of mutual fund investment in SKITC and Taishin Investment Trust Co., Ltd. amounted to $1,803,300 thousand and $105,710 thousand, respectively.

Notes Issued Under Resale Agreement

2006 and 2007: None

	Year Ended December 31, 2008				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
SKSC	$2,464,000	2008.10	$1,350,300	0.42~1.75	$ 6,565
TSKCB	3,775,000	2008.11	985,000	0.40~1.75	8,340
Taishin International Bank	2,940,000	2008.09	—	1.74~1.78	5,145
			$2,335,300		$20,050

Investments in Bonds

	2006		2007		2008	
	Buy	Sell	Buy	Sell	Buy	Sell
SKSC	$2,756,707	$ —	$ —	$ 591,935	$ —	$ —
Taishin Securities Co., Ltd.	—	252,297	—	1,709,559	—	—
MLSC	—	—	—	—	240,000	—
TSKCB	—	800,000	—	—	—	—
Cosmos Commercial Bank Co., Ltd.	699,996	—	—	—	—	—
	$3,456,703	$1,052,297	$ —	$2,301,494	$240,000	$ —

Derivative Transactions

	Counterparty	Years Ended December 31		
		2006	2007	2008
Currency swap contracts	TSKCB	$23,240,948	$21,509,709	$35,751,680
	Taishin International Bank Co., Ltd.	6,845,160	5,515,310	657,200
		$30,086,108	$27,025,019	$36,408,880
Interest rate swap contracts	Taishin International Bank Co., Ltd.	$ 1,450,000	$ 750,000	$ 250,000

Linked Income Tax Receivables

Since January 1, 2004, SKFHC filed its consolidated income tax return comprising SKLIC and subsidiaries which SKFHC had held for 12 months within the tax year according to Article 49 of the Financial Holding Company Act. As of December 31, 2006, 2007 and 2008, the linked income tax receivable of $1,431,247 thousand, $1,371,660 thousand and $2,002,865 thousand had been recorded under other current assets.

Other Operating Revenue

	2006	2007	2008
TSKCB	$50,176	$ 75,315	$ 60,417
Shin Kong Wu Ho-Su Memorial	6,087	41,193	39,092
Taishin International Bank	23,214	19,669	18,819
Yi Kong Security Co., Ltd.	8,386	6,484	5,824
SKSC	2,639	4,658	4,851
SKFHC	2,596	2,656	3,022
SKITC	1,271	1,364	1,359
TSKIBC	62	144	243
Shin Bao Telecom Co., Ltd.	5	—	—
	$94,436	$151,483	$133,627

Other Operating Cost

a. Parking management expense

	2006	2007	2008
TSKCB	$1,185	$400	$ —

b. Building management expense

	2006	2007	2008
Yi Kong Security Co., Ltd.	$121,615	$111,221	$107,125

Operating Expense

a. Insurance expense

	2006	2007	2008
Shin Kong Fire and Marine Insurance Co., Ltd.	$20,489	$18,921	$18,641

b. Donations

	2006	2007	2008
Shin Kong Life Charity Foundation	$ —	$20,000	$12,000
Ten Outstanding Young Persons' Foundation	—	500	—
National Cultural Association	—	1,000	—
Taiwan Institute Sustainable Energy Foundation	—	30,000	—
Shin Kong Wu Ho-Su Memorial Hospital	60,000	—	—
Shin Kong Life Scholarship Foundation	5,500	—	—
Shin Kong Wu Foundation	3,000	—	—
	$68,500	$51,500	$12,000

c. Rent expense

	2006	2007	2008
Great Taipei Gas Corp.	$38,535	$35,114	$33,735
Ennead Leasing Co., Ltd.	4,366	3,226	—
	$42,901	$38,340	$33,735

Securities Investment Processing Fee and Other Expense

For the years ended of December 31, 2006, 2007 and 2008, the Group paid processing fee of $30,056 thousand, $30,066 thousand and $88,448 thousand, respectively, to SKSC for its services in trading marketable securities. And as of December 31, 2007, for the Song-Jiang case SKLIC paid $785 thousand to SKSC as issuing cost.

Property Transactions

In 2007, SKLIC brought land and building in Pingtung from TSKCB. The buying prices of land and building based on the valuation report were $70,510 thousand and $25,490 thousand, respectively, and both amounts were already fully paid off.

SKLIC obtained approval from the FSC in letter Jin-Guan-Zheng (1) No. 0970003898 for 250,000 thousand shares of Cosmos Bank private placement of common stock from TSKCB; total costs amounted to $500,000 thousand as of March 21, 2008.

In 2008, SKLIC entered into an agreement with First International Telecom Company ("FITC") for acquisition of land and structures, amounting $396,000 thousand. As of December 31, 2008, SKLIC paid $118,800 thousand as a down payment. Though the ownership of land and structures has been transferred to SKLIC, FITC default to execute the purchase agreement and therefore, SKLIC did not pay off the remaining payment as of

December 31, 2008. As FITC is anticipating to file a petition for restructuring, it is in urgent to take action from September 10, 2008 to March 9, 2009 for disposal of its assets prior to the petition. Management of SKLIC considered that FITC may negotiate with SKLIC to nullify the purchase agreement. In addition, before the court enforces to sell the building by auction, SKLIC has a chance to negotiate with the creditors who own the mortgage right of the land and structures. SKLIC considered that the down payment paid is recoverable and accordingly, no impairment loss has been recognized.

Disposal of Investment Transactions

In 2007, SKLIC disposal holding shares of investee, MLSC to SKFHC for $1,882,285 thousand. The amount had already been collected. The carrying value of shares was $1,778,351 thousand, and the gains of disposal were $103,934 thousand.

Conversion of Bonds to Stocks

On September 7, 2007, SKLIC and other debtors of Cosmos Commercial Bank signed the Capital Restructure Memorandum of Cosmos Commercial Bank. On October 9, 2007, the board of directors of SKLIC decided to take back cash of $62,128 thousand and private-raised common stocks of 115,936 thousand shares with per share value $2 dollars of Cosmos Commercial Bank as the price for writing off the subordinate financial bonds with face value of $700,000 thousand. SKLIC recognized impairment loss for $405,996 thousand under conservative principle. SKLIC took the common stocks on December 28, 2007.

Compensation of Directors, Supervisors and Management Personnel

	2006	2007	2008
Salaries, Incentives and Special compensation	$148,852	$123,217	$104,090
Directors' remuneration	4,289	33,363	32,383
Bonus	664	1,105	40
	$153,805	$157,685	$136,513

The compensation of directors, supervisors and management personnel for the years ended December 31, 2006 and 2007 included the bonuses appropriated from earnings for 2006 and 2007 which had been approved by shareholder in their annual meeting held in 2007 and 2008, respectively.

28. INSURANCE PRODUCTS — SEPARATE ACCOUNT

The related accounts of the separate account as of December 31, 2006, 2007 and 2008 were summarized as follows:

	December 31		
	2006	2007	2008
Separate account assets			
Beneficiary certificates	$34,287,410	$ 83,728,455	$ 40,919,077
Bonds	17,361,842	19,303,255	46,936,829
Accounts receivable	1,840,858	1,377,340	153,476
	$53,490,110	$104,409,050	$ 88,009,382
Separate account liabilities			
Reserves	$53,490,108	$104,371,346	$ 88,009,382
Accounts Payable	2	37,704	—
	$53,490,110	$104,409,050	$ 88,009,382
Separate account benefits			
Premium income	$33,096,761	$ 67,203,494	$ 51,731,417
Recovered reserve	1,570,925	20,438,622	67,669,478
Interest income	1,002,813	2,042,822	580,034
Unrealized gain on financial instruments	3,360,550	10,763,454	19,053,967
Gain on disposal of financial instruments	169,257	1,625,253	607,522
Exchange gain	2,948,277	5,378,413	5,805,698
Other income	105,694	12,714	45,122
	$42,254,277	$107,464,772	$145,493,238
Separate account expenses			
Insurance payment	$ 33,255	$ 84,291	$ 97,487
Cash surrender value	1,452,641	17,959,016	19,810,147
Provision of insurance reserves	36,166,542	71,319,860	51,307,514
Unrealized loss on financial instruments	1,715,101	12,576,323	40,473,445
Loss on disposal of financial instruments	7,403	725,621	12,883,017
Management fee	732,552	1,330,034	1,882,538
Service charge and redeemed expense	319,935	569,613	708,531
Exchange loss	1,826,814	2,792,023	17,976,098
Other expense	34	107,991	354,461
	$42,254,277	$107,464,772	$145,493,238

In 2006, 2007 and 2008, SKLIC managed the separate account and received from dealers sales rebates of $335,125 thousand, $750,583 thousand and $2,284,828 thousand, respectively.

29. ALLOCATION OF REVENUE, COST, EXPENSE RESULTING FROM INTERCOMPANY SHARING OF RESOURCES

SKFHC and its subsidiaries apply economies of scale to optimize profit. The joint marketing expenses are allocated directly to each subsidiary based on the nature of business or indirectly allocated based on each subsidiary's capital stock.

30. COMMITMENT AND CONTINGENCY

As of December 31, 2008, the remaining balance of six open construction contracts and real estate investments that had not been completed or still in progress was $3.97 billion to be paid in 2009.

31. SUPPLEMENTAL DISCLOSURES

Material Contracts and Related Information

Information on material transactions is as follows:

Code	Description	Explanation
1	Acquisition of individual real estate at cost or prices over $100 million or 20% of issued capital stock	Table 2
2	Disposal of individual real estate at cost or prices over $100 million or 20% of issued capital stock	Table 3
3	Engaged on mainly business for the transactions with related parties over $100 million or 20% of issued capital stock	Note 27
4	Receivables from related parties over $100 million or 20% of issued capital stock	Note 27
5	Derivative transactions	Notes 6 and 31

Information of Investees

Code	Description	Explanation
1	Information on invested enterprise	Table 4
2	Financing provided	None
3	Endorsement/guarantee provided	None
4	Marketable securities held as of December 31, 2008	Table 1
5	Marketable securities acquired or disposed of at costs or prices over $100 million or 20% of issued capital stock	None
6	Acquisition of real estate at cost or prices over $100 million or 20% of issued capital stock	None
7	Disposal of real estate at cost or prices over $100 million or 20% of issued capital stock	None
8	Engaged on mainly business for the transactions with related parties over $100 million or 20% of issued capital stock	None
9	Receivables from related parties over $100 million or 20% of issued capital stock	None
10	Derivative transactions	None

Investment in Mainland China

Please see Table 5 attached.

Summary of intercompany transactions

Please see Table 6 attached.

Disclosure of Financial Instruments

a. Fair value of financial instruments

	December 31					
	2006		2007		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
Cash and cash equivalents	$ 35,994,134	$ 35,994,134	$ 96,474,997	$ 96,474,997	$103,547,048	$103,547,048
Financial assets at fair value through profit or loss	77,586,776	77,586,776	67,695,581	67,695,581	68,507,034	68,507,034
Other receivables	20,412,996	20,412,996	17,569,919	17,569,919	20,022,932	20,022,932
Bond purchased under resale agreements	—	—	—	—	30,097,758	30,097,758
Loans, net	173,656,457	173,656,457	183,125,254	183,125,254	190,996,439	190,996,439
Available-for-sale financial assets	147,467,602	147,467,602	142,184,796	142,184,796	340,269,438	340,269,438
Held-to-maturity financial assets	210,661,779	215,110,037	207,961,741	202,029,195	—	—
Financial assets at cost	6,417,626	6,417,626	4,974,053	4,974,053	4,871,934	4,871,934
Debt securities without active market	296,860,481	296,826,508	304,118,896	303,531,581	332,439,841	332,379,329
Investments accounted for by the equity method	422,687	422,687	433,379	433,379	1,430,930	1,430,930
Guarantee deposits paid	5,882,083	5,796,869	5,858,319	5,715,154	10,741,795	10,737,811
Financial liabilities						
Financial liabilities at fair value through profit or loss	4,304,185	4,304,185	3,183,373	3,183,373	24,674,642	24,674,642
Life insurance proceed payable	694,350	694,350	445,271	445,271	1,005,543	1,005,543
Payables to other insurance	90,055	90,055	18,510	18,510	77,152	77,152
Accrued expenses	3,459,760	3,459,760	2,705,459	2,705,459	2,213,857	2,213,857
Other payables	2,270,518	2,270,518	3,344,870	3,344,870	1,936,888	1,936,888
Guarantee deposits received	550,414	534,020	586,340	572,011	656,481	635,310

b. The methods and assumptions used by the Group to estimate the fair values of financial instruments are summarized as follows:

1) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to their amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash and cash equivalents, other receivables, receivables from other insurance, bond investments with resale agreements, accrued expenses, life insurance proceed payable, payables to other insurance and other payables.

2) If there is a quoted price from active market for financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, and derivative financial instruments for hedge, the fair value of these financial assets should be based on market price. Otherwise, valuation method should be used for estimation. The assumptions of the valuation method for estimation used by the Group are the same as those of the market participants.

   Cash flow discount method should be used towards debt securities without active market. The Group's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These conditions and characteristics include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. The Group's discount rate for domestic financial commodities is 1.04% to 1.40%, and the discount rate for international financial commodities is 4.01% to 4.96%.

The fair values of the interest rate swap contracts, forward exchange contracts, currency swap contracts and swap contracts are based on the quoted price provided by the transaction counterparties.

3) Loans are interest-bearing financial assets. The carrying values approximate fair values. The fair value of overdue loans is based on their carrying amount, the expected recovery amount which is net of allowance.

4) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

5) If there is market price for investments accounted for by the equity method, the market prices should be the fair value. Otherwise, the fair value should be estimated by other financial information.

6) The fair value of guarantee deposits paid and received — except for deposits paid by the insurance company and deposits placed with courts for settlement of cases, which are in the form of government bonds, certificates of deposits and negotiable certificates of deposits — are estimated on the basis of the discounted value of the future cash flows. The discount rate used to discount future cash flows from guarantee deposits paid is the average interest rate of time deposits in banks while the rate used to discount guarantee deposits received is the average midterm loan interest rate.

c. Fair values of financial assets/liabilities represented by quoted price in active markets, or calculated by valuation method are listed as follows:

	Quoted Price in Active Markets			Amounts Calculated by Valuation Method		
	2006	2007	2008	2006	2007	2008
Financial assets						
Financial assets at fair value through profit or loss	$ 77,586,776	$ 23,919,598	$ 33,460,040	$ —	$ 43,775,983	$ 35,046,994
Available-for-sale financial assets	143,509,409	137,550,805	334,708,495	3,958,193	4,633,991	5,560,943
Debt securities without active market	—	—	—	296,860,481	303,531,581	332,379,329
Financial liabilities						
Financial liabilities at fair value through profit or loss	4,304,185	—	—	—	3,183,373	24,674,642

d. The following table summarizes the maturities of the Group's financial instruments as of December 31, 2008:

Non-derivative financial instruments with fixed interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$1,074,002	$1,507,469	$17,649,532	$ 758,944	$ 1,434,193	$ 4,579,284	$ 27,003,424
Available-for-sale financial assets	3,181,708	5,874,980	7,628,651	7,952,130	18,717,809	184,437,109	227,792,387
Debt securities without active market	9,990,204	2,708,034	2,100,000	2,737,221	8,011,972	258,966,596	284,514,027

Non-derivative financial instruments with floating interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 2,492,687	$—	$—	$—	$—	$—	$ 2,492,687
Available-for-sale financial assets	35,392,951	—	—	—	—	—	35,392,951
Debt securities without active market	47,925,814	—	—	—	—	—	47,925,814

Derivative financial instruments

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 18,230	$—	$—	$—	$—	$—	$ 18,230
Financial liabilities at fair value through profit or loss	(42,672)	—	—	—	—	—	(42,672)

e. For the years ended December 31, 2006, 2007 and 2008, the interest income associated with financial assets (liabilities) other than those at fair value through profit or loss were $23,687,827 thousand, $23,753,923 thousand and $20,469,707 thousand, respectively. Fair value change of the available-for-sale financial assets as of December 31, 2006, 2007 and 2008 recognized in shareholders' equity amounted to $9,486,162 thousand, $8,439,213 thousand and $(28,206,648) thousand, respectively.

f. The Group's financial risk information

1) Market risk

The Group's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change. When the market interest rate increases by 1%, fair value of the securities investment would decrease by $27,223,000 thousand. The Group's currency swap contracts, forward exchange contracts and currency option contracts would also be influenced by the change in market foreign exchange rate when United States dollars increase by one cent, fair value would decrease by $81,470 thousand.

2) Credit risk

The Group's financial assets are influenced by the Group's transaction counterparties. The influences include the Group's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. Book values of the financial assets held by the Group represent fair values, except as mentioned in Note 31.

3) Liquidity risk

The Group has sufficient operation capital; therefore, the Group does not have liquidity risk.

The Group's investments in bonds and stocks mostly are quoted in active markets. Financial assets could be easily sold according to the anticipated fair value price in the markets. The currency swap contracts, forward exchange contracts and currency option contracts held by the Group are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

4) Cash flow risk of interest rate fluctuation

Cash flow risk of interest rate fluctuation on debt securities refers to the risk of future repayment fluctuation of short-term/long-term loans arising from interest rate fluctuation. The Group does not engage in loans from others, so the risk mentioned above does not exist.

To avoid the risk of interest rate fluctuation on assets with floating-rate risk, the Group entered into interest rate swap contracts to manage the risk.

g. The Group's risk management and hedge strategies

Risk management of the Group is shown as follows:

1) Credit risk management

Credit risk may be caused by the events of counterparties failing to perform their obligations. The Group established regulations by relevant acts according to the financial and operational condition risk management, ability to refund and other credit rating factor of transaction counterparties.

2) Market risk management

Market risk is considered the risk of loss resulting from changes in market price. The Company sets up the limit for market risk and other relevant regulations by various market risk factors.

3) Operation risk management

Operation risk indicates the unexpected loss caused by the failure of the internal control. The Group sets up regulations for each operation to list operation procedures, limit of authority and responsibility, and other stipulations.

4) Liquidity risk management

Liquidity risks are the risks of encountering difficulty in raising funds to meet the commitments; or finding the counterparties to settle financial instruments at a reasonable price.

The Group's basic policy on liquidity risk management is to establish regulations taking into consideration the security, profitability and liquidity factors and by setting an appropriate current ratio and emergency plan according to the business nature.

5) Concentration risk management

To avoid the risks of concentration, the Group sets up the limitation of credit risk with same person or same affiliate and relevant control procedures.

h. Information of reclassifications is shown as follows:

On July 1, 2008, SKLIC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Accounting for Financial Instruments". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$12,520,818	$ —
Available-for-sale financial assets	—	12,520,818
	$12,520,818	$12,520,818

In view of SKLIC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLIC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$9,048,688	$9,048,688

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Profit and Loss	Recognized in Shareholders' Equity
Financial assets held for trading	$(2,031,965)	$—	$(161,510)	$ —
Available-for-sale financial assets	—	—	(64,788)	(5,458,160)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Amount Recorded		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$—	$(5,458,160)	$(6,290,920)

On July 1, 2008, SKLRESC reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Accounting for Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$184,807	$ —
Available-for-sale financial assets	—	184,807
	$184,807	$184,807

In view of SKLRESC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLRESC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying value and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$108,337	$108,337

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Financial assets held for trading	$(15,275)	$ —	$—	$ —
Available-for-sale financial assets	—	—	—	(76,470)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Amount		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$ —	$(76,470)	$(76,470)

Due to changing international economic environment and in order to enhance its capital structure, the Company changed its intention of investing in held-to-maturity financial assets. As of December 31, 2008, SKLIC adopted SFAS No. 34, "Accounting for Financial Instruments" and reclassified portfolio of held-to-maturity financial assets to available-for-sale financial assets. The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Held-to-maturity financial assets	$198,796,273	$ —
Available-for-sale financial assets	—	208,440,463
	$198,796,273	$208,440,463

In view of SKLIC's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, SKLIC reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$208,440,463	$208,440,463

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	2008			
	Before Reclassification		After Reclassification	
	Recognized in Profit and Loss	Recognized in Stockholders' Equity	Recognized in Profit and Loss	Recognized in Stockholders' Equity
Held-to-maturity financial assets	$—	$ —	$—	$ —
Available-for-sale financial assets	—	—	—	8,679,771

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro forma information assuming no reclassifications were made were as follows:

	Carrying Value		Pro Forma Information Assuming No Reclassification
	Recognized in Profit and Loss	Recognized in Shareholders' Equity	Recognized in Income Statement
Available-for-sale financial assets	$ —	$8,679,771	$—

TABLE 1

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD AS OF DECEMBER 31, 2008

Holding Company	Type of Marketable Securities and Name	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Period				Note
				Units /Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)				
SKLRESC	Common shares — with quoted market prices							
	The Great Taipei Gas Corp.	Affiliate	Available-for-sale financial assets — current	3,080	$36,964	—	$36,964	
	Shin Kong Synthetic Fibers Corp.	Affiliate	Available-for-sale financial assets — current	6,739	30,325	—	30,325	
	Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate	Available-for-sale financial assets — current	2,355	38,146	—	38,146	
	Taishin Financial Holding Co., Ltd.	Affiliate	Available-for-sale financial assets — current	502	2,902	—	2,902	
	Beneficiary certificates Skinkong NT$ High Yield Fund	Affiliate	Financial assets at fair value through profit or loss — current	1,496	25,661	—	25,661	
	SKITC Global Top Fund	Affiliate	Financial assets at fair value through profit or loss — current	2,753	19,960	—	19,960	
	Shin Kong Multiple	Affiliate	Financial assets at fair value through profit or loss — current	2,000	14,140	—	14,140	
	Common shares — without quoted market prices Yie-Kong Security	Affiliate	Financial assets at cost — noncurrent	4,673	57,125	15	57,125	
	First International Telecom	None	Financial assets at cost — noncurrent	20,673	—	5	—	
	Industrial Bank of Taiwan	None	Financial assets at cost — noncurrent	5,000	50,000	—	50,000	
	Simple Telecommunications	Affiliate	Financial assets at cost — noncurrent	300	1,899	2	1,899	
	Lian An Co., Ltd.	None	Financial assets at cost — noncurrent	5	50	—	50	
	New Century InfoComm Tech	None	Financial assets at cost — noncurrent	4,211	29,474	—	29,474	
	Great Taipei Broadband Co., Ltd.	None	Financial assets at cost — noncurrent	10,000	59,000	7	59,000	
	PK II Venture Capital Group	None	Financial assets at cost — noncurrent	3,000	30,000	4	30,000	
	Centillion Venture Capital Corp.	Affiliate	Investments accounted for by the equity method	5,000	49,314	5	49,314	
	NLIC	Affiliate	Investments accounted for by the equity method	1,500	19,441	30	19,441	
NLIC	ProMOS Technologies Inc. Shin-Kong Chi-Shin Fund	Affiliate	Financial assets at fair value through profit or loss — current	2,653	39,192	—	39,192	

TABLE 2

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
ACQUISITION OF INDIVIDUAL REAL ESTATE AT COST OVER $100 MILLION OR 20% OF ISSUED CAPITAL STOCK
YEAR ENDED DECEMBER 31, 2008

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

						The Prior Transaction Information (If the Transaction Party Is Related Party)						
Buyer	Property Name	Transaction Date	Transaction Amount (Note 1)	Payment	Transaction Party	Other	Relationship	Taiwan Date	Amount	Pricing Reference	Acquisition Purpose	Other Agreement
The Company	No. 115~120 Wunde Section 5, Neihu District, Taipei City (Rueihu Building)	2007.07.11	$1,638,255	Paid $1,636,994 (Note 2)	Individual	—	—	—	$ —	Appraiser's report	Plan for rent	None
	5F, NO.87 Songjiang Rd., Zhongshan District, Taipei City (Empire Building)	2008.03.14	225,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	9F ,NO.80, Sec. 1, Jianguo N. Rd., Zhongshan District, Taipei City (Mobil Petroleum Co. Inc. Trade Building)	2008.03.14	130,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	3F~5F ,NO.80, Sec. 1, Jianguo N. Rd., Zhongshan District, Taipei City (Mobil Petroleum Co. Inc. Trade Building)	2008.03.14	396,000	Paid $118,800	Relationship	Meifu Property Development Co., Ltd., Chang, Fong-Ming	None	1997.03.21 and 2000.12.11	396,050	Appraiser's report	Rent	None
	No. 218, Chongyang Rd., Nangang District, Taipei City (Nangang Century Plaza)	2008.06.25	102,500	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.58, Zhouzi St., Neihu District, Taipei City (Asec Technology Building)	2008.07.14	1,300,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.669, Ruiguang Rd., Neihu District, Taipei City (Primax Electronics Building)	2008.12.12	2,000,000	Paid off	Individual	—	—	—	—	Appraiser's report	Rent	None
	No.296, Yangguang St., Neihu District, Taipei City (First International Computer Building)	2008.12.16	3,033,000	Paid off	Individual					Appraiser's report	Rent	None

Note 1: The transaction amount exclude intermediary fee and rule fee, etc.
Note 2: The trading was paid $1,348,000 thousand on the year of 2007.

TABLE 3

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
DISPOSAL OF INDIVIDUAL REAL ESTATE AT COST OVER $100 MILLION OR 20% OF ISSUED CAPITAL STOCK
YEAR ENDED DECEMBER 31, 2008

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

Disposing Company	Type of Asset	Transaction Date	Acquisition Date	Book Value	Transaction Amount	Collection	Disposal Gain (Loss)	Counter Parties	Relationship	Purpose for Disposal	Price Reference	Other Undertaking
The Company	No. 219-1, Ruian Section 1, Da-an District, Taipei City (Total 11 lands)	2008.07.25	2006.03.02	$3,409,980	$4,800,000	Received	$1,382,638	Lin, Min-Syong and Tsai, Jien-Yi	None	Improve the benefit of assets' application	Appraiser's report	None
	No. 220-2, Ruian Section 1, Da-an District, Taipei City (Total 23 lands)	2008.07.30	2006.03.02	3,515,825	5,340,330	Received	1,823,423	Lin, Min-Syong and Tsai, Jien-Yi	None	Improve the benefit of assets' application	Appraiser's report	None

Note: Disposal gain (loss) is net of transaction costs and unrealized gain on sale and leaseback.

TABLE 4

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
INFORMATION REGARDING INVESTEE COMPANIES
YEAR ENDED DECEMBER 31, 2008

Investor Company	Name of Investee	Location	Principal Business Activity	Original Cost		Held by the Company			Gain (Loss) of Investee	Investment Gain (Loss)	Remarks
				End of the Year	Beginning of the Year	Number of Shares	Ownership Interest (%)	Carrying Value			
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
The Company	*Significant influence*										
	Mercury Venture Capital Co., Ltd.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	$ 120,000	$120,000	12,000	20.00	$ 21,646	$(12,969)	$(2,594)	
	Centillion Venture Capital Corp.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	166,660	166,660	16,667	16.67	164,381	(17,079)	(3,146)	
SKLRESC											
	Centillion Venture Capital Corp.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	50,000	50,000	5,000	5.00	49,314	(17,079)	(984)	
The Company	*Majority-Owned*										
	Shin-Kong Hainan Insurance Co., Ltd.	F-15, B, No. 93, Jian Guo Road, Jau Yang Religion. Beijing	Insurance	1,095,950	—	—	50.00	1,195,590	(16,328)	(8,164)	

TABLE 5

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
INVESTMENTS IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2008

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008
					Outflow	Inflow					
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
Shin-Kong Hainan Insurance Co., Ltd. (Note)	Insurance	$2,191,900 (RMB $500,000)	Invest China directly	—	$1,095,950	—	$1,095,950	50%	$(8,164)	$1,195,590	N/A

Accumulated Investment in Mainland China as of December 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 1,095,950	US$40,000	$16,842,827

Note: The Company was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in Mainland China in its letter in 2003. On November 5, 2007, the Company obtained approval of the China Insurance Regulatory Commission (ref. No. (96) Bao-Jian-Guo-Ji No.1254), and the Company and HNA Group prepared to establish the Chinese and foreign joint venture life insurance company. The Company remittance of the investment fund amount of RMB 500 million was on June 6, 2008. As of the report date, Shin-Kong Hainan Insurance Co., Ltd. is still on preparatory status.

TABLE 6

SHIN KONG LIFE INSURANCE CO., LTD. AND SUBSIDIARIES
SUMMARY OF INTERCOMPANY TRANSACTIONS

				Transactions			
Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
	Year Ended December 31,2006						
0	SKLIC	SKLRESC	1	Rent revenue	$ 13,782	Note 4	—
0	SKLIC	SKLRESC	1	Management expenses	194,510	Note 4	—
0	SKLIC	NLIC	1	Rent revenue	123	Note 4	—
1	SKLRESC	SKLIC	2	Management expenses	13,782	Note 4	—
1	SKLRESC	SKLIC	2	Operating income	194,510	Note 4	—
1	SKLRESC	NLIC	3	Operating income	1,863	Note 4	—
1	SKLRESC	NLIC	3	Other receivables	76	Note 4	—
1	SKLRESC	NLIC	3	Other miscellaneous revenue	59	Note 4	—
2	NLIC	SKLIC	2	Management expenses	123	Note 4	—
2	NLIC	SKLIC	3	Operating cost	1,863	Note 4	—
2	NLIC	SKLIC	3	Other miscellaneous expense	59	Note 4	—
2	NLIC	SKLIC	3	Other payables	76	Note 4	—
	Year Ended December 31,2007						
0	SKLIC	SKLRESC	1	Rent revenue	14,420	Note 4	
0	SKLIC	SKLRESC	1	Operating income	8,756	Note 4	
0	SKLIC	SKLRESC	1	Other payables	23,644	Note 4	
0	SKLIC	SKLRESC	1	Management expenses	191,568	Note 4	
0	SKLIC	SKLRESC	1	Guarantee deposits paid	10,000	Note 4	
0	SKLIC	NLIC	1	Rent revenue	143	Note 4	
0	SKLIC	NLIC	1	Guarantee deposits received	6	Note 4	

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions			
				Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
1	SKLRESC	SKLIC	2	Management expenses	$ 14,420	Note 4	
1	SKLRESC	SKLIC	2	Operating Cost	8,756	Note 4	
1	SKLRESC	SKLIC	2	Operating income	191,568	Note 4	
1	SKLRESC	SKLIC	2	Other receivables	23,644	Note 4	
1	SKLRESC	SKLIC	2	Guarantee deposits received	10,000	Note 4	
1	SKLRESC	NLIC	2	Operating income	7,277	Note 4	
1	NLIC	SKLIC	3	Management expenses	143	Note 4	
1	NLIC	SKLIC	3	Guarantee deposits paid	6	Note 4	
1	NLIC	SKLRESC	3	Operating Cost	7,277	Note 4	
	Year Ended December 31,2008						
0	SKLIC	SKLRESC	1	Rent revenue	16,010	Note 4	
0	SKLIC	SKLRESC	1	Guarantee deposits received	742	Note 4	
0	SKLIC	SKLRESC	1	Other payables	25,344	Note 4	
0	SKLIC	SKLRESC	1	Management expenses	193,913	Note 4	
0	SKLIC	SKLRESC	1	Guarantee deposits paid	10,400	Note 4	
0	SKLIC	NLIC	1	Rent revenue	179	Note 4	
0	SKLIC	NLIC	1	Guarantee deposits received	60	Note 4	
1	SKLRESC	SKLIC	2	Guarantee deposits paid expenses	742	Note 4	
1	SKLRESC	SKLIC	2	Operating Cost	16,010	Note 4	
1	SKLRESC	SKLIC	2	Operating income	193,913	Note 4	
1	SKLRESC	SKLIC	2	Other receivables	25,344	Note 4	
1	SKLRESC	SKLIC	2	Guarantee deposits received	10,400	Note 4	
1	SKLRESC	NLIC	2	Operating income	7,277	Note 4	
1	NLIC	SKLIC	3	Management expenses	179	Note 4	

				Transactions			
Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)			
1	NLIC	SKLIC	3	Guarantee deposits paid	$ 60	Note 4	
1	NLIC	SKLRESC	3	Operating Cost	7,277	Note 4	

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:
For balance sheet accounts - transaction amount ÷ total consolidated assets
For income statement accounts - accumulated transaction amount ÷ total consolidated operating income.

Note 4: Terms and conditions of related party transactions are made on arm’s length basis.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Shin Kong Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Shin Kong Life Insurance Co., Ltd. (the "Company") as of March 31, 2008 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue our report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 — "Review of Financial Statements" of the Republic of China ("ROC"). A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 39, "Share-based Payment" and Interpretation 96-052 "Accounting for Bonuses to Employees, Directors and Supervisors" issued by ARDF.

As stated in Note 3, effective July 1, 2008, the Company adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our reviews also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 28, 2009

SHIN KONG LIFE INSURANCE CO., LTD.

BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Notes 2, 5 and 28)	$ 74,418,921	$ 78,536,577	$ 2,318,765
Financial assets measured at fair value through profit or loss (Notes 2, 6 and 28)	121,767,025	124,850,435	3,686,166
Available-for-sale financial assets (Notes 2 and 7)	105,211,933	92,739,043	2,738,088
Held-to-maturity financial assets (Notes 2 and 12)	6,385,551	—	—
Debt investment without active market (Notes 2 and 14)	—	4,512,687	133,236
Other receivables (Notes 2 and 8)	20,251,057	18,084,021	533,924
Noncurrent assets held for sale (Notes 2, 9 and 32)	—	8,692,516	256,644
Other current assets (Notes 2, 10, 27 and 28)	8,273,409	45,955,422	1,356,818
Total current assets	336,307,896	373,370,701	11,023,641
LOANS			
Life insurance loans	116,176,501	117,795,543	3,477,873
Secured loans	71,009,589	70,097,204	2,069,596
Allowance for bad-debts — secured loans	(968,188)	(804,977)	(23,767)
Net secured loans	70,041,401	69,292,227	2,045,829
Total loans	186,217,902	187,087,770	5,523,702
FUNDS AND INVESTMENTS			
Available-for-sale financial assets — noncurrent (Notes 2 and 7)	37,985,230	196,692,359	5,807,274
Held-to-maturity financial assets — noncurrent (Notes 2 and 12)	200,689,251	—	—
Financial assets carried at cost-noncurrent (Notes 2 and 13)	4,943,133	4,539,386	134,024
Debt investment without active market — noncurrent (Notes 2 and 14)	287,456,542	375,545,572	11,087,853
Investments accounted for by the equity method (Notes 2, 15 and 28)	1,030,066	1,894,633	55,938
Real estate investments, net	78,548,165	70,131,975	2,070,622
Total funds and investments	610,652,387	648,803,925	19,155,711
FIXED ASSETS (Notes 2 and 17)			
Cost			
Land	4,336,132	4,438,888	131,057
Buildings and structures	5,293,438	5,437,435	160,538
Transportation and communications equipment	75,503	71,169	2,101
Other facilities	1,862,908	2,238,942	66,104
Revaluation increment	1,217,632	1,265,399	37,360
	12,785,613	13,451,833	397,160
Less: Accumulated depreciation	(2,346,742)	(2,655,167)	(78,393)
Less: Accumulated impairment	(378,769)	(378,769)	(11,183)
Construction in progress	16,825	16,825	497
Net fixed assets	10,076,927	10,434,722	308,081
OTHER ASSETS			
Asset on insurance products — separate account (Notes 2 and 29)	112,802,355	86,573,014	2,556,038
Others (Notes 11, 18, 20 and 27)	9,945,284	25,437,608	751,037
Total other assets	122,747,639	112,010,622	3,307,075
TOTAL	$1,266,002,751	$1,331,707,740	$39,318,210

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD.

BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Financial liabilities measured at fair value through profit or loss (Notes 2 and 6)	$ 3,497,006	$ 26,653,566	$ 786,937
Claims payable	629,906	772,316	22,802
Due to reinsurers and ceding companies	120,423	146,707	4,331
Accrued expenses (Note 19)	2,340,604	1,847,200	54,538
Other payables (Notes 27 and 28)	8,552,368	9,872,767	291,490
Advance receipts	12,777,325	1,463,443	43,208
Total current liabilities	27,917,632	40,755,999	1,203,306
LONG-TERM LIABILITIES			
Reserve for land revaluation increment tax (Note 2)	2,074,388	2,074,388	61,246
Liability — oriented preferred stock — noncurrent (Note 21)	—	6,354,000	187,600
Total long-term liabilities	2,074,388	8,428,388	248,846
RESERVE FOR OPERATIONS AND LIABILITIES (Note 2)			
Reserve for unearned premiums	6,234,255	6,264,976	184,971
Reserve for life insurance liability	1,051,343,291	1,154,163,385	34,076,274
Special reserve for life insurance	7,891,532	8,222,217	242,758
Reserve for claim payment	1,072,579	1,085,443	32,047
Reserve for insufficient premiums	1,808,756	1,386,800	40,945
Total reserve for operations and liabilities	1,068,350,413	1,171,122,821	34,576,995
OTHER LIABILITIES			
Guarantee deposits and margins received (Note 26)	570,626	633,947	18,717
Liabilities on insurance products — separate account (Notes 2 and 29)	112,802,355	86,573,014	2,556,038
Other liabilities — others (Note 25)	982,424	218,815	6,464
Total other liabilities	114,355,405	87,425,776	2,581,219
Total liabilities	1,212,697,838	1,307,732,984	38,610,366
STOCKHOLDERS' EQUITY			
Common stock (Notes 2 and 22)	33,208,802	41,832,423	1,235,088
Preferred stock (Note 22)	3,000,000	—	—
Capital surplus (Note 22)			
Additional paid-in capital from share issuance in excess of par	343,398	8,024,693	236,926
Treasury stock transaction (Note 22)	46,959	46,959	1,386
Retained earnings			
Legal reserve	3,003,188	3,244,870	95,804
Special reserve	5,744,064	7,012,726	207,048
Unappropriated retained earnings (accumulated deficit)	791,602	(14,791,672)	(436,721)
Unrealized gain (loss) on financial instruments (Note 22)	1,596,363	(27,109,750)	(800,406)
Unrealized revaluation increment (Note 22)	5,570,537	5,570,537	164,468
Cumulative translation adjustments	—	143,970	4,251
Total stockholders' equity	53,304,913	23,974,756	707,844
TOTAL	$1,266,002,751	$1,331,707,740	$39,318,210

(Concluded)

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

(With Deloitte & Touche review report dated April 28, 2009)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands, Except Loss Per Share)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
OPERATING INCOME			
Premium income	$ 31,667,358	$41,230,044	$1,217,303
Reinsurance commission incomes	308,311	179,287	5,293
Claims recovered from reinsurers	270,325	201,514	5,950
Recovered premiums and reserves (Note 2)	13,457,965	10,923,296	322,507
Recovered special reserves (Note 2)	24,856	1,079	32
Recovered claim reserves (Note 2)	20,740	235,240	6,945
Recovered premiums insufficient reserves (Note 2)	132,435	21,764	643
Service fees (Note 29)	1,422,008	192,890	5,695
Interest income (Note 28)	9,564,006	9,817,916	289,871
Valuation gains on financial assets (Note 2)	10,584,579	4,238,892	125,152
Investment income recognized under equity method (Notes 2 and 15)	26,417	23,254	687
Foreign exchange gains (Note 6)	—	11,186,037	330,264
Gain on investments (Note 24)	4,658,524	—	—
Gain on real estate investments (Notes 2 and 25)	782,542	793,493	23,428
Incomes on insurance products — separate account (Notes 2 and 29)	45,377,275	19,989,782	590,191
Total operating income	118,297,341	99,034,488	2,923,961
OPERATING COSTS			
Reinsurance expenses	529,910	512,712	15,138
Acquisition expenses	17,653	17,272	510
Commission expenses	1,625,286	1,202,218	35,495
Insurance payments	18,259,354	14,863,214	438,831
Provision of premiums reserve (Note 2)	33,231,104	45,557,891	1,345,081
Provision of special reserve (Note 2)	23,636	159,790	4,718
Disbursements toward industry stability	30,684	41,218	1,217
Provision of claim reserve (Note 2)	52,321	144,311	4,261
Provision for insufficient premium reserves (Note 2)	154	78,276	2,311
Processing fee	2,577	1,160	34
Interest expenses	20,046	7,783	230
Valuation losses on financial liabilities (Note 2)	313,469	2,748,163	81,139
Foreign exchange losses (Note 6)	21,567,467	—	—
Loss on disposal of investments (Note 24)	—	11,342,919	334,896
Disbursements on insurance products — separate account (Notes 2 and 29)	45,377,275	19,989,782	590,191
Other operating costs	—	97,660	2,883
Total operating costs	121,050,936	96,764,369	2,856,935

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands, Except Loss Per Share)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
GROSS OPERATING INCOME (LOSS)	(2,753,595)	2,270,119	67,026
OPERATING EXPENSES (Notes 25 and 28)			
General expenses	2,759,254	1,778,143	52,499
Administrative expenses	1,678,377	1,321,230	39,009
Total operating expenses	4,437,631	3,099,373	91,508
OPERATING LOSS	(7,191,226)	(829,254)	(24,482)
NONOPERATING INCOME AND GAINS			
Recovered bad debts and overdue accounts	13,313	921	27
Other nonoperating incomes and gains (Notes 7 and 28)	189,229	131,063	3,870
Total nonoperating income and gains	202,542	131,984	3,897
NONOPERATING EXPENSES AND LOSSES			
Impairment losses (Notes 12 and 14)	3,275,166	93,440	2,759
Liability — oriented preferred stock dividends	—	82,727	2,442
Miscellaneous expenses	80,287	17,765	528
Total nonoperating expenses and losses	3,355,453	193,932	5,729
OPERATING LOSS BEFORE INCOME TAX	(10,344,137)	(891,202)	(26,314)
INCOME TAX BENEFIT (EXPENSE) (Note 27)	(2,741,110)	139,426	4,117
NET LOSS	$ (7,603,027)	$(1,030,628)	$(30,431)

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 4)	NT$	US$ (Note 4)
LOSS PER SHARE (Notes 2 and 23)						
Basic loss per share	$(3.12)	$(2.30)	$(0.21)	$(0.006)	$(0.25)	$(0.007)

(Concluded)

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

(With Deloitte & Touche review report dated April 28, 2009)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

			Capital Surplus		Retained Earnings						
	Common Stock	Preferred Stock	Additional Paid-in Capital From Share Issuance in Excess of Par	Treasury Stock Transaction	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2008	$33,208,802	$3,000,000	$ —	$46,959	$3,003,188	$5,744,064	$ 8,394,629	$1,026,073	$5,571,991	$—	$59,995,706
Transfer of property and equipment revaluation increment to other income	—	—	—	—	—	—	—	—	(1,454)	—	(1,454)
Change in unrealized gain on available-for-sale financial assets	—	—	—	—	—	—	—	572,642	—	—	572,642
Effect of long-term equity investments, net	—	—	—	—	—	—	—	(2,352)	—	—	(2,352)
Share-based payments	—	—	343,398	—	—	—	—	—	—	—	343,398
Net loss for the three months ended March 31, 2008	—	—	—	—	—	—	(7,603,027)	—	—	—	(7,603,027)
BALANCE, MARCH 31, 2008	$33,208,802	$3,000,000	$343,398	$46,959	$3,003,188	$5,744,064	$ 791,602	$1,596,363	$5,570,537	$—	$53,304,913

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

			Capital Surplus		Retained Earnings						
	Common Stock	Preferred Stock	Additional Paid-in Capital From Share Issuance in Excess of Par	Treasury Stock Transaction	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2009	$41,832,423	$	$8,024,693	$46,959	$3,244,870	$7,012,726	$(13,761,044)	$(27,299,743)	$5,570,537	$107,804	$24,779,225
Change in unrealized gain on available-for-sale financial assets	—	—	—	—	—	—	—	179,480	—	—	179,480
Effect of long-term equity investments, net	—	—	—	—	—	—	—	10,513	—	36,166	46,679
Net loss for the three months ended March 31, 2009	—	—	—	—	—	—	(1,030,628)	—	—	—	(1,030,628)
BALANCE, MARCH 31, 2009	$41,832,423	$	$8,024,693	$46,959	$3,244,870	$7,012,726	$(14,791,672)	$(27,109,750)	$5,570,537	$143,970	$23,974,756

(Concluded)

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

(With Deloitte & Touche review report dated April 28, 2009)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2009
(In Thousands of U.S. Dollars)
(Reviewed, Not Audited)

			Capital Surplus		Retained Earnings						
	Common Stock	Preferred Stock	Additional Paid-in Capital From Share Issuance in Excess of Par	Treasury Stock Transaction	Legal Reserve	Special Reserve	Unappropriated Retained Earnings (Accumulated Deficit)	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Total
BALANCE, JANUARY 1, 2009	$1,235,088	$—	$236,926	$1,386	$95,804	$207,048	$(406,290)	$(806,015)	$164,468	$3,183	$731,598
Change in unrealized gain on available-for-sale financial assets	—	—	—	—	—	—	—	5,299	—	—	5,299
Effect of long-term equity investments, net	—	—	—	—	—	—	—	310	—	1,068	1,378
Net loss for the three months ended March 31, 2009	—	—	—	—	—	—	(30,431)	—	—	—	(30,431)
BALANCE, MARCH 31, 2009	$1,235,088	$—	$236,926	$1,386	$95,804	$207,048	$(436,721)	$(800,406)	$164,468	$4,251	$707,844

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

(With Deloitte & Touche review report dated April 28, 2009)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (7,603,027)	$ (1,030,628)	$ (30,431)
Adjustments to reconcile net loss to net cash used in operating activities			
Bad debt expenses	100,093	97,654	2,883
Depreciation expenses (including property and equipment and real estate investments)	202,837	219,973	6,495
Amortization	53,246	77,482	2,288
Share-based payment	343,398	—	—
Transfer of property and equipment revaluation increment to other income	(1,454)	—	—
Amortization of held-to-maturity investments	(96,919)	—	—
Provision and recovery of various insurance reserves, net	19,671,217	34,758,889	1,026,244
Investment income recognized under equity method	(26,417)	(23,254)	(687)
Revaluation gains on financial assets and liabilities	(10,271,110)	(1,490,729)	(44,013)
Loss on disposal of property and equipment, net	1,509	1,007	30
Gain on sale of real estate investments, net	(28,312)	(21,868)	(646)
Impairment losses	3,275,166	93,440	2,759
Deferred income tax (benefit) expense	(3,016,385)	72,268	2,134
Gain on construction in progress	(118,254)	(40,469)	(1,195)
Recovery of written-off loss	120	—	—
Write-off of nonperforming loans	(59,766)	—	—
Net changes in operating assets and liabilities			
Financial assets measured at fair value through profit or loss	(43,836,767)	(52,972,701)	(1,564,001)
Other receivables	(2,730,940)	1,890,409	55,814
Other current assets	(685,463)	(897,248)	(26,491)
Claims payable	184,635	(233,227)	(6,886)
Due to reinsurers and ceding companies	101,913	69,555	2,054
Accrued expenses	(317,658)	(348,833)	(10,299)
Other payables	5,191,106	7,969,935	235,310
Advance receipts	9,303,319	(11,469,164)	(338,623)
Prepaid pension liability	27,247	93,902	2,772
Other liabilities	(10,980)	(7,970)	(235)
Others	(5,382)	(2,686)	(79)
Net cash used in operating activities	(30,353,028)	(23,194,263)	(684,803)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in bonds with resale agreement	—	(2,891,242)	(85,363)
(Increase) decrease in available-for-sale financial assets	(1,152,792)	51,162,773	1,510,563
Decrease in held-to-maturity financial assets	612,529	—	—
(Increase) decrease in loans	(3,144,437)	3,813,644	112,597
Decrease in financial assets carried at cost	28,972	—	—
Decrease (increase) in debt investments without active market	13,758,517	(47,711,858)	(1,408,676)
Acquisition of real estate investments	(814,654)	(313,509)	(9,256)
Proceeds from disposal of real estate investments	9,171	—	—
Acquisition of property and equipment	(27,021)	(26,471)	(782)
Proceeds from disposal of property and equipment	4,059	1,555	46
Increase in guarantee deposits paid	(909,781)	(5,609,208)	(165,610)
Increase in deferred expenses	(59,135)	(119,729)	(3,535)
Net cash provided by (used in) investing activities	8,305,428	(1,694,045)	(50,016)

(Continued)

SHIN KONG LIFE INSURANCE CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received	8,929	913	27
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,038,671)	(24,887,395)	(734,792)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	96,457,592	103,423,972	3,053,557
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 74,418,921	$ 78,536,577	$2,318,765
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid (excluding capitalized interest)	$ 16,472	$ 5,665	$ 173
Income tax paid	$ 288,394	$ 287,095	$ 8,764
CASH RECEIVED FROM DISPOSAL OF REAL ESTATE INVESTMENTS			
Total selling price	$ 9,810	$ —	$ —
Payment for land value increment tax	(639)	—	—
Net cash received from disposal of real estate investments	$ 9,171	$ —	$ —
CASH PAID FOR ACQUISITION OF REAL ESTATE			
Increase in real estate investments	$ 932,908	$ 353,978	$ 10,451
Add: Payables for acquisition of real estate investments, beginning of period	—	—	—
Deduct: Payables for acquisition of real estate investments, end of period	—	—	—
Deduct: Gain on unfinished construction	(118,254)	(40,469)	(1,195)
Net payment for acquisition of real estate	$ 814,654	$ 313,509	$ 9,256
TRANSFER OF UNREALIZED INCREMENT FROM PROPERTY AND EQUIPMENT REVALUATION TO OTHER INCOME			
Transfer of unrealized increment from property and equipment revaluation to other income	$ 1,454	$ —	$ —
Deduct: Unrealized gain on sale, end of period	—	—	—
Net transfer to other income	$ 1,454	$ —	$ —

(Concluded)

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

(With Deloitte & Touche review report dated April 28, 2009)

SHIN KONG LIFE INSURANCE CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

Shin Kong Life Insurance Co., Ltd. (the “Company”) was established in July 1963 and its stock was listed on the Taiwan Stock Exchange Corporation (“TSEC”) in December 1993. The Company’s business is mainly in life insurance — individual and group life, accident, health, and so on. Its headquarters are in the City of Taipei, with 22 branch offices located in various counties throughout the country.

The Company became a subsidiary of Shin Kong Financial Holding Co., Ltd. (SKFHC) pursuant to the amended Article 26 of the Regulations for Financial Holding Companies. The Company ceased trading of its shares on TSEC since January 31, 2002, and was delisted on February 19, 2002.

The Company’s parent is Shin Kong Financial Holding Co., Ltd., which holds 100% equity interest in the Company.

As of March 31, 2008 and 2009, the Company had 15,923 and 15,008 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Life Insurance Companies, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, deferred income tax, reserve for operations and liabilities, depreciation, pension cost, accrued litigation loss and bonuses to employees, directors and supervisors. Actual results could differ from these estimates.

The significant accounting policies of the Company are summarized as follows:

Classification of Asset and Liability Classified as Current and Noncurrent

Cash and cash equivalents and other assets to be converted into cash or consumed within one year are classified as current. Properties, intangible and other noncurrent assets are classified as noncurrent. Liabilities to be liquidated or settled within one year are classified as current. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash and cash equivalents include cash (including foreign currencies) in banks, bank deposits, petty cash, certificates of deposits purchased, foreign-currency bank deposits, cash in transit and other short-term, highly liquid investments (such as government bonds, bankers' acceptances and commercial paper) with a maturity of three months or less on the date of acquisition.

Allowance for Doubtful Accounts

The Company in accordance with the "Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises" issued by the Ministry of Finance, the allowances for doubtful accounts are determined based on management's evaluation of the collectability of individual accounts, the borrower's/clients' financial condition and payment history.

Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowance are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Financial assets/liabilities at fair value through profit or loss (FVTPL) have two subcategories, including financial assets/liabilities held for trading and those designated as at FVTPL. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

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

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

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Non-Current Assets Classified as Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are initially measured at the assets' previous carrying amount and not depreciated, depleted or amortized. At each balance sheet date, noncurrent assets held for sale are measured at the lower of carrying amount and fair value. If the fair value of a noncurrent asset classified as held for sale is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its fair value. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment been recognized for the assets in prior years.

Assets classified as held for sale and liabilities classified as held for sale are presented separately in the balance sheet. Interest expenses and other costs related to liabilities classified as held for sale are recognized when incurred.

Available-for-Sale Financial Assets

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (straight-line method can be used if there will be no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using settlement date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior periods.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and re-measured at fair value, and the difference between the carrying amount and fair value shall be accounted for as unrealized gain (loss) on financial instrument under shareholders' equity. When the financial asset is derecognized, the cumulative gain or loss previously recognized in shareholders' equity shall be reclassified to profit and loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Debt Securities without Active Market

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Bonds Purchased (Sold) under Resell (Repurchase) Agreements

Bonds purchased under resale agreements are the actual payment made to the counterparty in transactions involving the purchase of bonds, subject to an agreement by the purchaser to resell the bonds. Notes issued under repurchase agreements are actual receipts from the counterparty in transactions involving the sale of bonds by one party, subject to an agreement by the seller to repurchase the bonds. These transactions are treated as margin trading. All related interest income or expense is recognized on accrual basis.

Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method; the Company recognizes its share in the investee's profits or losses according to its ownership percentage in the investee.

Property and Equipment (Including Assets Leased to Others and Real Estate Investments)

Property and equipment are recorded at cost when acquired. However, the land of the Company was revalued in accordance with valuation guidelines announced by the government. Property and equipment were revalued in 1974 and on March 31, 1980.

Depreciation of property and equipment is calculated by the straight-line method based on their estimated useful life or remaining useful years upon revaluation, plus one year salvage value.

Major additions, renewals, betterments and interest expenses incurred are capitalized, while maintenance and repairs are expensed currently.

Upon retirement, sale or other disposal of properties, any gain or loss is credited or charged to income. An arrangement in which a company sells an asset to a buyer and then immediately leases the asset back from the buyer, any gain or loss on the sale will be deferred and amortized into the income statement on contract time. When the assets were sold, then a portion of the gain on sale may be recognized as current income.

Reserves for land revaluation increment tax required by law after revaluation are classified as long-term liabilities.

Long-Term Contracts

The Company adopts the percentage-of-completion method to recognize profit of long term construction contracts when all of the following conditions are met. Otherwise, the Company adopts completed contract method.

a. The construction has completed its planning stage with the engineering and design work, site clearance and preparation, excavation, and the building foundation completed and construction work can commence anytime.

b. Total estimated contract prices exceeds total estimated contract cost.

c. Percentage-of-completion method is required when billings on construction-in-process exceed 15% of the contract price for each contract. Completed contract method is required when payment does not exceed 15% of the contract price.

d. Dependable estimates can be made as to total accounts receivable.

e. Contract costs to complete the contract and the degree of its completion at the end of the period can be reasonably estimated.

f. Related costs of the sales contract can reasonably identified.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as a current asset. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as current liabilities.

Impairment of Assets

The Company adopted SFAS No. 35, “Accounting for Impairment of Assets” effective on January 1, 2005. This SFAS requires the recognition of an impairment loss when there is indication that the carrying amount of an asset is not recoverable. An impairment loss shall be measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. If the impairment loss decreases, a gain on reversal of impairment loss is recognized to the extent of the impairment loss previously recognized. The recovered carrying amount of an impaired asset shall not exceed the original carrying amount less the depreciation or amortization. The impairment loss of goodwill shall not be reversed.

Share-based Payment

Share options granted under the share-based payment agreements after January 1, 2008 are accounted for according to SFAS No. 39, “Share-based Payment” and Interpretation (96) No. 267 and (97) No. 017. The payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period.

Real Estate in Trust

The accounting for securitized real estate is based on SFAS Interpretation No. (93) 141, “Accounting for Securitized Real Estate” issued by the Accounting Research and Development Foundation of ROC (“ARDF”).

When the sale of real estate is consummated and the risks and rewards of the ownership are transferred to the transferee, the transferor shall recognize profit by the full accrual method.

If the transferor sells portion of the real estate, the carrying value of the real estate shall be allocated between the sold and retained real estate in proportion to their fair value when the transaction occurs. If the fair value of the retained real estate cannot be reasonably and reliably measured, the carrying value of the retained real estate shall equal to zero and the carrying value of the real estate shall be allocated to the sold real estate in full.

The usufruct retained shall be accounted in accordance with its attribute. If the usufruct is attributive to real estate, the usufruct is accounted for as real estate and stated at cost. If the usufruct is attributive to financial asset, the usufruct is accounted as financial assets and stated at the lower of cost or market.

Rights of Superficies on Land

The cost of rights of superficies on land is amortized on the straight-line basis over 50 years, the term of the related land lease.

Deferred Expenses

Deferred expenses refer to power line allowances, leasehold improvements, computer programs and so forth, which are amortized on the straight-line basis over 3 to 10 years starting from the year when benefit was received or payments were made.

Separate Accounts

The Company sells investment type insurance policies. Based on agreements, the insurance premiums paid by policyholders are offset against various expenses of the Company and invested in separate accounts at allocation ratios agreed on with or directed by the policyholder. The value of the separate-account assets is accounted for at market value on the valuation date and their net worth is computed in accordance with the related regulations and accounting principles generally accepted in the ROC.

The assets, liabilities, income and expenses of separate accounts represent the rights and obligations of the policyholders and are recorded, pursuant to the accounting principles governing investment type insurance policies, in the Company's "asset on insurance products — separate account", "liabilities on insurance products — separate account", "income on insurance products — separate account", "disbursements on insurance products — separate account".

Reserves for Operations

Reserves for operations and liabilities are stated pursuant to the Regulations Governing Calculation of Various Reserves for Operations promulgated by the Insurance Bureau on November 26, 2003. The figures for the reserves are provided by actuaries certified by the Ministry of Finance. On December 28, 2007, the regulations have been revised, and enforced on January 1, 2008. Each reserve basis is stated below:

Reserve for Life Insurance Liability

Reserve for life insurance liability of an insurance product is calculated according to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators. Calculation is based on a mortality table and projected interest rate at the time of approval of the insurance product by the Insurance Bureau.

Reserve for Unearned Premiums

Unearned premiums of effective policies with a term of less than one year are computed by policy type according to the actual risk (with recognition of reinsurance costs and benefits) assumed by the Company for the remaining policy period in compliance with related regulations. Since January 1, 2008, unearned premiums are computed by the remaining policy type according to the actual risk.

Special Reserve

Special reserve for actual undertakings (with recognition of reinsurance costs and benefits) includes special reserve for catastrophe, special reserve for contingent claim and other special reserves.

Special reserves for catastrophe are provided, by policy type, according to the rates set by regulatory authorities. The special reserve for catastrophe is used to offset the portion of net indemnities exceeding $30 million. The amount of reserve for catastrophe which was provisioned for more than 15 years can be measured by appointed actuary and reversed to income after reporting to Insurance Bureau.

If actual indemnity on an insurance product exceeds the reserve for catastrophe, 15% of the difference should be taken from the special reserve for contingent claim. Otherwise, the whole excess may be taken from the reserve for the contingent claim. If the reserve for contingent claim is insufficient for the excess, another insurance product reserves for contingent claim may be used for that excess. When the accumulated amount of this special reserve for contingent claim exceeds 30% of the gross amount of net earned premium, the excess is recovered and treated as income.

Claim Reserve

This is a reserve for indeterminate indemnity, whether or not it is reported. The provisions for the reserves for reported indeterminate indemnity are estimated on a case by case basis based on several factors, including historical information and circumstances surrounding each claim for each type of insurance. The provisions for the IBNR (incurred but not yet reported) reserve are at 1% of the net earned premium by policy type for policies with terms of less than one year from 2006, the provisions for the accident insurance retention reserve are recognized according to the method approved by the related authority, and historical information.

Premiums Deficiency Reserve

New life insurance, health insurance and annuity policies written since January 1, 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserves, are subject to special reserves for insufficient premiums. Aside from the liability reserves required by regulations, the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

Pension Cost

Defined benefit pension plan is accounted for based on SFAS No. 18, “Accounting for Pension.” Defined contribution pension plan is accounted for based on contributions made for employees in their service years.

According to SFAS No. 23, “Presentation and Disclosures for Interim Financial Statements”, minimum pension liabilities (prepaid pension expenses) for defined benefit pension plan are not revalued; however, minimum pension liabilities (prepaid pension expenses) are equal to beginning balance of minimum pension liabilities (prepaid pension expenses) adjusted to current pension costs and contributions made.

Income Tax

The Company adopted SFAS No. 22, “Accounting for Income Taxes,” which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to “Alternative Minimum Tax Act”, the Group calculates the alternative minimum tax in addition to the regular income tax. If the regular income tax is lower than the alternative minimum tax, the difference is accrued as an additional income tax adjustment.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

The Company, SKFHC and SKFHC’s subsidiaries which SKFHC holds more than 90% of outstanding shares adopt the accounting treatment of the consolidated income tax return. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as SKFHC’s income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Revenue Recognition

The Company follows SFAS No. 32, “Accounting for Revenue Recognition,” to recognize revenue, except for insurance premium income.

Insurance Premium Income and Expenses

Direct premiums are recognized on the date the policies become effective. Policy-related expenses are recognized as incurred.

Reinsurance premiums inward and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. At balance sheet date, adjustments are made based on past experience.

Foreign currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are retranslated using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign currency nonmonetary assets and liabilities carried at fair value are retranslated at the rates prevailing on the date when the fair value was determined, with the exchange differences treated as follows:

a. Recognized in shareholders’ equity if the changes in fair value are recognized in shareholders’ equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Derivative Transactions

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps, currency options, etc. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

The Company's derivative contracts are mainly for fair value hedge. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives, its strategy for undertaking hedge transactions and evaluation method of hedge efficiency.

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

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

The Company, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2009.

3. ACCOUNTING CHANGES

Initial adoption of the newly released SFASs and related revisions of previously released SFASs:

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, ARDF issued Interpretation 96-052 that requires companies to recognize remunerations to directors and supervisors and employee bonuses as compensation expenses since January 1, 2008. These remunerations and bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation did not have material effect on the Company's financial statements because the Company was in net loss for the three months ended March 31, 2008.

Accounting for Employee Stock Options

On January 1, 2008, the Company adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption resulted in an increase of $257,549 thousand in net loss and an increase in after income tax basic loss per share of $0.07 for the three months ended March 31, 2008.

Reclassification for Financial Instruments

On July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Accounting for Financial Instruments". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 33 for relevant information regarding reclassifications of financial instruments. The adoption of this interpretation resulted in an increase of $1,153,500 thousand in operating loss $865,125 thousand in net loss and in after income tax basic loss per share of $0.21 for the three months ended March 31, 2009.

4. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

5. CASH AND CASH EQUIVALENTS

	March 31	
	2008	2009
Cash in banks	$ 208	$ 7,254
Petty cash	194,222	152,567
Checking account	2,426	1,381
Demand	19,582,082	11,963,220
Time deposit	37,833,547	54,750,913
Negotiable certificates of deposits	1,222,514	150,009
Commercial paper	12,577,324	11,567,612
Government bonds	3,032,552	—
Bankers' acceptances	—	631
Less guarantee deposits paid (Note 18)	(25,954)	(57,010)
	$74,418,921	$78,536,577

For the three months ended March 31, 2008 and 2009, negotiable certificates of deposits, commercial paper, Bankers' acceptances and government bonds mature to three months, respectively, with interest rates ranging from 1.99%~2.30% and 0.16%~0.18%.

6. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31 2008	March 31 2009
Financial assets held for trading		
Domestic investments		
Listed stock	$ 15,884,848	$ 2,414,310
Beneficiary certificates	33,669,439	56,062,975
Bonds and financial bills	32,601,663	19,817,595
Currency swap contracts	6,680,001	964,303
Interest rate swap contracts	19,147	20,644
TAIEX options	3,378	—
Stock index futures	718	—
	88,859,194	79,279,827
Foreign investments		
Stocks	4,587,238	2,670,661
Beneficiary certificates	2,292,228	9,157,590
Bonds	19,293,308	20,042,353
Foreign exchange forward contracts	6,563,101	13,700,004
Interest rate swap contracts	171,956	—
	32,907,831	45,570,608
	$121,767,025	$124,850,435
Financial liabilities held for trading		
Domestic investments		
Interest rate swap contracts	$ 88,165	$ 44,246
Currency swap contracts	930,582	12,153,300
Stock index futures	—	49,401
TAIEX options	770	—
	1,019,517	12,246,947
Foreign investments		
Foreign exchange forward contracts	2,298,773	14,406,619
Interest rate swap contracts	178,716	—
	2,477,489	14,406,619
	$ 3,497,006	$ 26,653,566

For the three months ended March 31, 2008 and 2009, net gain (loss) of financial assets and liabilities held for trading were $12,637,977 thousand and $(9,404,606) thousand, respectively.

As of March 31, 2008 and 2009, the stock index futures contracts of 106 units and 1,500 units were unsettled, resulting in gain (loss) of $718 thousand and $(49,401) thousand, respectively.

As of March 31, 2008, the TAIEX options of 700 units were unsettled, resulting in unrealized gain of $755 thousand.

The Company entered into trust agreements with The Mega International Commercial Bank and FX Concepts entrusting the banks with funds to invest in foreign securities in a prescribed manner and consigning these banks to hedge the foreign currency risk by engaging in forward exchange derivative contracts.

As of March 31, 2008 and 2009, transactions of the Company were as follows:

	Consigning Amount	Advanced to Its Consignee
2008		
The Mega International Commercial Bank	US$2.0 billion	NT$48,432,719 thousand (Note)
JF Asset Management (Taiwan) Limited	US$0.5 billion	NT$10,782,099 thousand
BNP Paribas Asset Management U.K. Limited	US$0.5 billion	NT$1,904,524 thousand
FX Concepts	US$0.2 billion	NT$2,515,229 thousand
2009		
The Mega International Commercial Bank	US$2 billion	NT$42,582,819 thousand (Note)
FX Concepts	US$0.4 billion	NT$4,232,186 thousand

Note: Entrusted assets included foreign investments held for trading, available-for-sale foreign investments, and foreign bond investments with no active market.

The Company entered into derivative contracts during the three months ended March 31, 2008 and 2009 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows. The Company did not adopt hedge accounting for derivatives for the three months ended March 31, 2008 and 2009.

As of March 31, 2008 and 2009, the Company's outstanding derivative contracts are summarized as follows: (In Thousands)

	Contract Amount
March 31, 2008	
Forward exchange contracts	US$ 4,572,764
Currency swap contracts	US$ 5,124,000
Interest rate swap contracts	NT$16,245,675
TAIEX options	NT$ 288,750
Stock index futures	NT$ 181,342

	Contract Amount
March 31, 2009	
Forward exchange contracts	US$3,679,705
Currency swap contracts	US$7,173,000
Interest rate swap contracts	NT$2,850,000
Stock index futures	NT$1,510,299

For the three months ended March 31, 2008 and 2009, the derivative currency contracts resulted in gain (loss) on settlement, valuation gain and exchange (loss) gain as follows:

	2008	2009
Derivative contracts on currency		
Gain (loss) on settlement	$ 370,257	$ (9,314,413)
Valuation gain	9,117,567	942,115
Exchange (loss) gain	(21,567,467)	11,186,037
	$(12,079,643)	$ 2,813,739

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31			
	2008		2009	
	Current	Noncurrent	Current	Noncurrent
Domestic investments				
Listed securities	$ 32,361,546	$ 749,771	$44,304,454	$ 192,794
Beneficiary certificates	2,880,275	—	2,837,148	—
Real estate investment trust fund beneficiary certificates	5,384,008	—	6,468,161	—
Real estate asset trust fund beneficiary certificates	—	5,385,136	2,826,872	2,846,757
Bonds	94,400	29,657,537	4,484,863	183,810,716
Beneficiary certificates of financial assets	165,280	2,192,786	475,836	24,306,092
	40,885,509	37,985,230	61,397,334	211,156,359
Less guarantee deposits paid (Note 18)	—	—	—	(14,464,000)
	40,885,509	37,985,230	61,397,334	196,692,359
Foreign investments				
Stocks	30,272,580	—	23,632,001	—
Funds and beneficiary certificates	11,668,595	—	2,530,001	—
Bonds	22,385,249	—	5,179,707	—
	64,326,424	—	31,341,709	—
	$105,211,933	$37,985,230	$92,739,043	$196,692,359

In the first quarter of year 2007 the Company securitized Song-Jiang Building, Cheng-De Building and Ban-Ciao Building and entrusted these real estate investments to a trustee for issuance of beneficiary certificates (Song-Jiang case) according to SFAS Interpretation No. (93) 141 “Real Estate Securitization Accounting Treatment” issued by ARDF. In January 2007, the Company sold real estate to obtain beneficiary certificates, and the deal conforms to SFAS Interpretation No. (93) 141. Gains on disposal of real estate investments of $16,771 thousand are recognized for the three months ended March 31, 2007 based on the real estate sold.

The Company estimated the expected lease term of Song-Jiang case as the amortization term of deferred credit to recognize gain in the current year and future years. As of March 31, 2008 and 2009, deferred credit realized of $10,981 thousand and $7,970 thousand are recorded as other income, respectively.

The Company's issuing years of the real estate investment trust fund beneficiary certificates and the cost of acquisition are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building	Shin-Kong No. 1
Certificate category	Real estate asset trust	Real estate asset trust	Real estate asset trust	Real estate investment trust
Issuing year	2007	2005	2005	2005
Cost of acquisition	301,870	691,980	916,808	1,488,743

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the time of securitization are summarized as follows:

	Song-Jiang Building	Zhong-Shang Building	Dun-Nan Building
Discount rate	5.18%	5.68%	5.06%
Vacancy rate	0.00%~10.42%	0.08%	3.96%
Market average vacancy rate	7.00%~13.00%	3.30%	6.63%
Percentage of issuance	60.00%	44.00%	54.00%
Equity coverage	1.38	1.24	1.11

Assumptions used to evaluate the carrying value of the retained portion of securitized real estate at the balance sheet date are summarized as follows:

	Song-Jiang Building	Dun-Nan Building	Zhong-Shang Building
Carrying value of beneficiary certificates	$603,614	$2,243,143	$2,826,872
Estimated percentage of issuance	60.00%	54.00%	44.00%
Estimated market vacancy rate	7.46%~11.44%	9.60%	—
Estimated discount rate	5.35%	4.13%	—
Effect on carrying value — 10% unfavorable fluctuation	573,580	2,309,090	—
Effect on carrying value — 20% unfavorable fluctuation	543,290	2,231,760	—
Estimated vacancy rate	14.35%	6.23%	—
Effect on carrying value — 10% unfavorable fluctuation	600,970	2,376,670	—
Effect on carrying value — 20% unfavorable fluctuation	603,710	2,373,370	—

On March 30, 2009, land and building of Zhong-Shang real estate trust fund, which will expire in 5 years on January 11, 2010, was sold to Shin Kong No. 1 trust fund managed by Mega International Commercial Bank.

8. OTHER RECEIVABLES

	March 31	
	2008	2009
Notes receivable	$ 3,775,666	$ 3,089,470
Interest receivable	10,630,331	12,410,414
Receivables of proceeds from disposal of securities	1,372,686	928,238
Receivables — separate accounts	3,692,608	1,051,948
Others	827,444	658,822
	20,298,735	18,138,892
Less allowance for doubtful accounts (Note 11)	(47,678)	(54,871)
	$20,251,057	$18,084,021

9. NONCURRENT ASSETS HELD FOR SALE

	March 31					
	2008			2009		
	Land	Building	Total	Land	Building	Total
Hsin-Yi A11	$—	$—	$—	$4,020,960	$1,312,590	$5,333,550
Hanover Technology Building	—	—	—	1,205,227	1,445,724	2,650,951
Yang-Guang Technology Building	—	—	—	425,362	282,653	708,015
	$—	$—	$—	$5,651,549	$3,040,967	$8,692,516

On March 31, 2009, the Board of the Company resolved to sell the land and building located in Hsin-Yi A11; the transaction was completed on April 30, 2009 (see Note 32). The Board also resolved to securitize Hanover Technology Building and Yang-Guang Technology Building within one year.

10. OTHER CURRENT ASSETS

	March 31	
	2008	2009
Bonds purchased under resale agreements (Note 28)	$ —	$32,989,000
Linked income tax receivable (Note 28)	1,412,892	2,262,294
Deferred income tax assets (Note 27)	6,213,290	9,490,861
Prepaid expense	111,124	698,517
Prepaid reinsurance expense	238,762	255,351
Tax refund receivable	235,379	227,617
Others	61,962	31,782
	$8,273,409	$45,955,422

As of March 31, 2009, bonds purchased under resale agreements amounted to $32,989,000 thousand, with agreed interest rates which range from 0.11% to 0.15%, and agreed subsequent agreement resale price of $32,991,796 thousand.

11. LOANS, NET

	March 31	
	2008	2009
Policy loans	$116,176,501	$117,795,543
Loans	70,458,246	69,526,209
Overdue loans	551,343	570,995
	187,186,090	187,892,747
Less allowance for doubtful accounts	(968,188)	(804,977)
	$186,217,902	$187,087,770

Under the Ministry of Finance regulations, insurance applicants who have paid premiums for more than one year and whose insurance policy includes termination value may apply for the Life Insurance Policy Secured Loan at an amount not exceeding the termination value. In addition, upon default on premium payment, policyholders have the option to elect for automatic reimbursement of premium from the accumulated policy value reserve. The Company records related transactions as “Policy Loans.”

A policy loan is limited to the amount of the termination fee or the accumulated policy value reserve. If the loan or the sum of the reimbursement with accrued interest exceeds the life insurance liability reserve, the policy is automatically terminated without bad debts expected to occur; thus, no allowance for bad debt is provided.

Allowance for Loans and Accounts Receivable

	March 31					
	2008			2009		
	Loans	Overdue Loans	Accounts Receivable	Loans	Overdue Loans	Accounts Receivable
Balance of beginning of period	$598,663	$386,538	$ 55,649	$412,222	$309,456	$54,928
Provision for loan losses and doubtful receivable	41,333	55,826	2,934	55,958	42,182	(486)
Write offs	—	(48,861)	(10,905)	—	—	—
Recovery of write offs	—	120	—	—	—	—
Reclassification	—	—	—	—	(429)	429
Balance of end of period	$639,996	$393,623	$ 47,678	$468,180	$351,209	$54,871

12. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31			
	2008		2009	
	Current	Noncurrent	Current	Noncurrent
Government bonds	$ 30,988	$146,372,721	$—	$—
Corporate bonds	1,860,493	14,168,079	—	—
Bank debentures	3,494,825	21,506,127	—	—
Beneficiary certificates	999,245	24,074,324	—	—
	6,385,551	206,121,251		
Less guarantee deposits paid (Note 18)	—	(5,432,000)	—	—
	$6,385,551	$200,689,251	$—	$—

Due to the current tumultuous global financial environment and in order to strengthen the capital structure, the Company changed its intention of holding held-to-maturity financial assets, and reclassified $198,796,273 thousand from held-to-maturity investments to available-for-sale financial assets in accordance with SFAS No. 34, “Accounting for Financial Instrument” in 2008, and measured at fair value.

Credit ratings of some investment financial bonds have been downgraded substantially in the first quarter of 2008. In consideration of other related factors such as information on payment of interest and repayment of principal, the Company recognized impairment loss of $371,329 thousand for the three months ended March 31, 2008.

13. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2008	2009
Emerging market stocks	$ —	$ 13,116
Unlisted stocks	4,543,133	4,526,270
Prepaid investment	400,000	—
	$4,943,133	$4,539,386

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

14. DEBT SECURITIES WITHOUT ACTIVE MARKET

	March 31			
	2008		2009	
	Current	Noncurrent	Current	Noncurrent
Structure notes	$—	$ 24,050,000	$ —	$ 4,200,000
Beneficiary certificates	—	102,852,511	—	7,012,477
Foreign bonds	—	159,956,382	4,012,687	364,235,446
Preferred stock	—	597,649	500,000	97,649
	$—	$287,456,542	$4,512,687	$375,545,572

Foreign investments in trust funds entrusted to financial institutions are shown in Note 6.

As affected by subprime mortgage crisis and global financial crisis, the credit ratings of the Company's financial instruments, foreign corporate bonds, foreign beneficiary certificates and mortgage bond, have been downgraded significantly. In consideration of other related factors such as information on payments of interest and repayment of principal, the Company recognized impairment loss of $2,903,837 thousand and $93,440 thousand, respectively, for the three months ended March 31, 2008 and 2009.

15. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31					
	2008			2009		
	Original Investment Cost	Carrying Value	%	Original Investment Cost	Carrying Value	%
Mercury Venture Capital Co., Ltd.	$120,000	$ 129,360	20.00	$ 120,000	$ 21,646	20.00
Shin Kong Life Real Estate Service Company	440,784	649,642	90.01	440,784	449,107	90.01
New Life International Co., Ltd.	15,500	19,364	31.00	15,500	21,088	31.00
Centillion Venture Capital Co., Ltd.	166,660	231,700	16.67	166,660	169,903	16.67
	742,944	1,030,066		742,944	661,744	
Prepaid investment						
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization)	—	—	—	1,095,950	1,232,889	50.00
	$742,944	$1,030,066		$1,838,894	$1,894,633	

a. Financial statements of the investee companies as of and for the three months ended March 31, 2008 and 2009 were not reviewed except for Shin-Kong Life Real Estate Service Company and New Life International Co., Ltd.

b. Equity in (losses) earnings of equity method investments for the three months ended March 31, 2008 and 2009 were as follows:

	2008		2009	
	Investee's (Loss) Income	Investment (Loss) Income	Investee's (Loss) Income	Investment (Loss) Income
Mercury Venture Capital Co., Ltd.	$ (358)	$ (72)	$ —	$ —
Shin Kong Life Real Estate Service Company	28,762	25,890	24,087	21,681
New Life International Co., Ltd.	2,717	842	3,221	998
Centillion Venture Capital Corp.	(1,457)	(243)	(3,354)	(559)
Shin-Kong Hainan Insurance Co., Ltd. (Preparatory Organization)	—	—	2,267	1,134
	$29,664	$26,417	$26,221	$23,254

c. Mercury Venture Capital Corp. was liquidated on October 1, 2008. As of March 31, 2009, the liquidation has not been completed. According to ARDF issued Interpretation (88) No. 233, in accounting for equity investment accounted under equity method during liquidation, the Company did not recognize gain or loss since the Company expected to recover all of the investment.

d. In June 2008, the Company and China Hainan Group set up a joint-venture, Shin-Kong Hainan Insurance Co., Ltd., to operate the relevant business of life insurance in China area (as of March 31, 2008, it was still processing as preparatory organization). This investment has been approved by the Investment Commission, MOEA for the amount of $1,095,950 thousand (50% of ownership).

16. REAL ESTATE INVESTMENTS, NET

	Three Months Ended March 31, 2008				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1,2008	$44,793,957	$27,962,185	$1,080,895	$3,225,574	$77,062,611
Increase	11	—	932,897	—	932,908
Disposal	(4,150)	(12,505)	—	—	(16,655)
Reclassification	945	4,903	17,562	(17,562)	5,848
Balance, March 31, 2008	44,790,763	27,954,583	2,031,354	3,208,012	77,984,712
Revaluation increment					
Balance, January 1,2008	5,898,415	18,801	—	—	5,917,216
Increase	—	—	—	—	—
Disposal	(3,189)	—	—	—	(3,189)
Reclassification	1,183	—	—	—	1,183
Balance, March 31, 2008	5,896,409	18,801	—	—	5,915,210
Accumulated depreciation					
Balance, January 1,2008	—	5,142,368	—	—	5,142,368
Depreciation expense	—	128,069	—	—	128,069
Disposal	—	(5,148)	—	—	(5,148)
Reclassification	—	—	—	—	—
Balance, March 31, 2008	—	5,265,289	—	—	5,265,289
Accumulated impairment					
Balance, January 1,2008	88,284	—	—	—	88,284
Increase	—	—	—	—	—
Disposal	(1,816)	—	—	—	(1,816)
Balance, March 31, 2008	86,468	—	—	—	86,468
Carrying amount	$50,600,704	$22,708,095	$2,031,354	$3,208,012	$78,548,165

	Three Months Ended March 31, 2009				
	Land	Building	Prepayment for Buildings and Constructions in Progress	Rights of Superficies on Land	Total
Cost					
Balance, January 1, 2009	$43,465,046	$29,560,370	$2,538,634	$3,155,326	$78,719,376
Increase	32	3,683	350,263	—	353,978
Disposal	—	—	—	—	—
Reclassification	(5,741,935)	(3,818,681)	17,562	(17,562)	(9,560,616)
Balance, March 31, 2009	37,723,143	25,745,372	2,906,459	3,137,764	69,512,738
Revaluation increment	—	—	—	—	—
Balance, January 1,2009	5,831,297	18,820	—	—	5,850,117
Increase	—	—	—	—	—
Disposal	—	—	—	—	—
Reclassification	17,326	—	—	—	17,326
Balance, March 31, 2009	5,848,623	18,820	—	—	5,867,443
Accumulated depreciation					
Balance, January 1, 2009	—	5,602,862	—	—	5,602,862
Depreciation expense	—	148,398	—	—	148,398
Disposal	—	—	—	—	—
Reclassification	—	(589,522)	—	—	(589,522)
Balance, March 31, 2009	—	5,161,738	—	—	5,161,738
Accumulated impairment					
Balance, January 1, 2009	86,468	—	—	—	86,468
Increase	—	—	—	—	—
Disposal	—	—	—	—	—
Balance, March 31, 2009	86,468	—	—	—	86,468
Carrying amount	$43,485,298	$20,602,454	$2,906,459	$3,137,764	$70,131,975

Through an auction in November 2003, the Company received 50-year rights of superficies on lot A12, located in the Hsin Yi district. The rights acquisition cost was recognized as “rights of superficies on land.” The rights, which are considered special because the Hsin Yi land is not for public use, will be terminated in November 2053. Under the related contract, the Company’s monthly rental fee throughout the life of the rights is $3,875 thousand, payable quarterly. As of December 31, 2008, the Company has paid out all payable. Upon termination of the contract, the Company should transfer gratuitously the completed structures on the land to the city of Taipei.

On March 3, 2009, the Board of the Company resolved to sell the land and building located in Hsin-Yi A11, and the Board also resolved to securitize Hanover Technology Building and Yang-Guang Technology Building. Land valued at $5,651,549 thousand and buildings valued at $3,040,967 thousand were classified as noncurrent assets held for sale (see Note 9).

Revaluation of real estate investments are shown in Note 2.

17. PROPERTY AND EQUIPMENT

	Three Months Ended March 31, 2008					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2008	$4,337,077	$5,298,341	$73,630	$1,863,336	$16,825	$11,589,209
Increase	—	—	8,618	18,403	—	27,021
Disposal	—	—	(6,745)	(18,831)	—	(25,576)
Reclassification	(945)	(4,903)	—	—	—	(5,848)
Balance, March 31, 2008	4,336,132	5,293,438	75,503	1,862,908	16,825	11,584,806
Revaluation increment						
Balance, January 1, 2008	1,205,857	12,958	—	—	—	1,218,815
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(1,183)	—	—	—	—	(1,183)
Balance, March 31, 2008	1,204,674	12,958	—	—	—	1,217,632
Accumulated depreciation						
Balance, January 1, 2008	—	1,272,550	23,407	996,025	—	2,291,982
Depreciation expense	—	23,329	2,450	48,989	—	74,768
Disposal	—	—	(2,475)	(17,533)	—	(20,008)
Reclassification	—	—	—	—	—	—
Balance, March 31, 2008	—	1,295,879	23,382	1,027,481	—	2,346,742
Accumulated impairment						
Balance, January 1, 2008	378,769	—	—	—	—	378,769
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, March 31, 2008	378,769	—	—	—	—	378,769
Carrying amount	$5,162,037	$4,010,517	$52,121	$ 835,427	$16,825	$10,076,927

	Three Months Ended March 31, 2009					
	Land	Buildings	Transportation and Communications Equipment	Other Equipment	Construction in Progress	Total
Cost						
Balance, January 1, 2009	$4,348,503	$5,487,711	$71,901	$2,115,542	$16,825	$12,040,482
Increase	—	—	1,133	25,338	—	26,471
Disposal	—	—	(1,865)	(12,953)	—	(14,818)
Reclassification	90,385	(50,276)	—	111,015	—	151,124
Balance, March 31, 2009	4,438,888	5,437,435	71,169	2,238,942	16,825	12,203,259
Revaluation increment						
Balance, January 1, 2009	1,269,786	12,939	—	—	—	1,282,725
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Reclassification	(17,326)	—	—	—	—	(17,326)
Balance, March 31, 2009	1,252,460	12,939	—	—	—	1,265,399
Accumulated depreciation						
Balance, January 1, 2009	—	1,420,215	27,564	1,148,069	—	2,595,848
Depreciation expense	—	11,313	2,384	57,878	—	71,575
Disposal	—	—	(412)	(11,844)	—	(12,256)
Reclassification	—	—	—	—	—	—
Balance, March 31, 2009	—	1,431,528	29,536	1,194,103	—	2,655,167
Accumulated impairment						
Balance, January 1, 2009	378,769	—	—	—	—	378,769
Increase	—	—	—	—	—	—
Disposal	—	—	—	—	—	—
Balance, March 31, 2009	378,769	—	—	—	—	378,769
Carrying amount	$5,312,579	$4,018,846	$41,633	$1,044,839	$16,825	$10,434,722

Revaluation of property and equipment is shown in Note 2.

18. MISCELLANEOUS ASSETS, OTHERS

	March 31	
	2008	2009
Insurance Industry Stability Fund	$ 1,588,039	$ 1,749,732
Less reserve for Insurance Industry Stability Fund	(1,588,039)	(1,749,732)
Guarantee deposits paid	6,775,823	16,361,367
Deferred expenses	795,876	1,250,966
Prepaid pension expenses (Note 20)	2,366,649	2,230,287
Deferred income tax assets (Note 27)	—	5,594,988
Overdue receivable	72,367	14,412
Less allowance for doubtful accounts (Note 11)	(65,431)	(14,412)
	$ 9,945,284	$25,437,608

Under the Ministry of Finance's Approval Documents Tai-Tsai-Bao No. 811769212 dated December 31, 1992, starting from January 1, 1993, an insurance company should contribute one thousandth of premiums received to the Industry Stability Fund. The credit account "Reserve for Insurance Industry Stability Fund" is a contra account of the Industry Stability Fund.

Guarantee deposits paid as of March 31, 2008 and 2009 were as follows:

	2008	2009
Insurance operation guarantee deposit	$5,432,000	$14,464,000
Office leasing guarantee deposit (Note 28)	34,763	31,007
Deposit for stock index futures	1,009,834	1,536,851
Other guarantee deposits	299,226	329,509
	$6,775,823	$16,361,367

Based on Article 141 of the ROC Insurance Law ("Insurance Law"), an amount equal to 15% of the Company paid-in capital should be deposited in the Central Bank as "Insurance operation Guarantee Deposit." Article 142 of the same law further stipulates that this deposit can only be refunded if the Company ceases its business operations and completes the required liquidation process. As of March 31, 2008 and 2009, the Company deposited government bonds (carrying value) to the special treasury account as operating guarantee deposit. In order to switch the original deposit of government bonds from the special treasury account, on March 31, 2009, the Company pledged additional $7,232,000 thousand of government bonds as required for the deposits on March 31, 2009 and redeemed $7,232,000 thousand of the original government bonds on April 14, 2009.

	Three Months Ended March 31, 2008			
	Computer Software Cost	Other Deferred Assets	Prepaid Computer Software Cost	Total
Balance, January 1, 2008	$169,620	$296,848	$323,519	$789,987
Increase	46,131	9,294	3,710	59,135
Amortization expense	(25,296)	(27,950)	—	(53,246)
Reclassification	56,850	—	(56,850)	—
Balance, March 31, 2008	$247,305	$278,192	$270,379	$795,876

	Three Months Ended March 31, 2009			
	Computer Software Cost	Other Deferred Assets	Prepaid Computer Software Cost	Total
Balance, January 1, 2009	$193,655	$455,944	$ 431,666	$1,081,265
Increase	72,244	4,168	43,317	119,729
Amortization expense	(37,257)	(40,225)	—	(77,482)
Reclassification	388,266	127,454	(388,266)	127,454
Balance, March 31, 2009	$616,908	$547,341	$ 86,717	$1,250,966

19. ACCRUED EXPENSES

	March 31	
	2008	2009
Salaries	$1,115,697	$ 967,572
Others	1,224,907	879,628
	$2,340,604	$1,847,200

Accrued expenses — others include taxes, insurance premiums, building administration expenses, advertising expenses and common office expenditures of each department.

20. PENSION FUND

Under the Labor Pension Act, Employee Retirement Plan and Retirement Fund Custody and Distribution Plan, the Company has both defined benefit pension plan and defined contribution pension plan. The Company contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. For the defined contribution pension plan the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

For the three months ended March 31, 2008 and 2009, net periodic pension cost under defined contribution plan amounted to $50,165 thousand and $44,151 thousand, respectively; and under defined benefit plan amounted to $117,930 thousand and $161,206 thousand, respectively.

Pension cost under a defined benefit plan is determined by actuarial valuations and accounted for in accordance with SFAS No. 18, "Accounting for Pension". Information about the defined benefit plan was as follows:

Movements in prepaid pension were as follows:

	2008	2009
Balance of prepaid pension expenses, January 1	$(2,393,896)	$(2,324,189)
Pension expenses	117,930	161,206
Contributions to the fund	(90,683)	(67,304)
Balance of prepaid pension expenses, March 31	$(2,366,649)	$(2,230,287)

Stocks and bonds of the consolidated entities and affiliates held by the pension trust fund in the custody of the Committee of Pension Trust Funds are summarized as follows:

		March 31	
Name	Category	2008	2009
		Unit: Share/Units	
Stock			
SKFHC	Listed stock	14,377,991	16,786,881
Shin Kong Synthetic Fiber Co., Ltd.	Listed stock	9,037,739	9,087,739
Taiwan-Sok Shin Kong Security Co., Ltd.	Listed stock	10,982,269	12,707,934
Shin Kong Fire & Marine Insurance Company	Listed stock	—	27,034,100
		34,397,999	65,616,654
Fund			
Shin Kong Investment Trust Co., Ltd. (SKITC)	SKITC Strategy Balanced Fund II / SKITC Fortune Balanced Fund / SKITC Global Champion Fund / SKITC Great China Fund / SKITC Strategy Balanced Fund II / SKIT ECB Balanced Fund / SKITC OTC Market Fund	10,180,308.27	5,700,403.30

21. PREFERRED STOCK LIABILITIES

The Company selected December 26, 2008 as the basis date for the issuance of 470,000 thousand shares of Class D preferred stock, with par value of NT$10 per share, for a total of NT$4,700,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of the Company's Class D preferred stock is fixed at a rate of 4.25% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class D preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If the Company does not have any earnings or the earnings are insufficient to suffice for the dividends for Class D preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class D preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class D preferred stock of the Company have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of the Company's residual assets, for a sum up to and not exceeding the total proceeds received by the Company upon issuance.

(e) Class D preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class D preferred stockholders have voting rights in the Class D preferred stockholders' meeting.

(f) When the Company issues new shares, the Class D preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B preferred stockholder.

(g) Class D preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, the Company may repurchase all Class D preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, the Company is unable to repurchase part or all of the Class D preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 4.25% and computed for the actual extension of the term. The rights of the Class D preferred stock written in the Company's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class D preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class D preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

The Company selected December 26, 2008 as the basis date for the issuance of 165,400 thousand shares of Class E preferred stock, with par value of NT$10 per share, for a total of NT$1,654,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 09702215290 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of the Company's Class E preferred stock is fixed at a rate of 7.71% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class E preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If the Company does not have any earnings or the earnings are insufficient to suffice for the dividends for Class E preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class B preferred stock, from earnings in subsequent years in priority to common stock.

(c) Other than the fixed rate of dividends, Class E preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class E preferred stock of the Company have rank priority over the common stock, but rank after policyholders of insurance contract, beneficiary, other creditors and Class B preferred stock, in the distribution of the Company's residual assets, for a sum up to and not exceeding the total proceeds received by the Company upon issuance.

(e) Class E preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class E preferred stockholders have voting rights in the Class E preferred stockholders' meeting.

(f) When the Company issues new shares, the Class E preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class B preferred stockholder.

(g) Class E preferred stock cannot be converted into common stock and expires 7 years from the date of issuance. Upon expiry, the Company may repurchase all Class E preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, the Company is unable to repurchase part or all of the Class E preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 7.71% and computed for the actual extension of the term. The rights of the Class E preferred stock written in the Company's articles of incorporation would not be injured.

(h) If the distribution of the dividends could cause the Risk-Based Capital ratio to fall below the ratio required by law, the interest payment and principal payment should be deferred without interest charge.

(i) The issuance of Class E preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class E preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

22. STOCKHOLDERS' EQUITY OF PARENT

Common Stock

As of March 31, 2008, the Company's paid-in capital amounted to $33,208,802 thousand, divided into 3,320,880 thousand common shares with par value of $10.00 per share.

To increase capital, strengthen financial structure and Risk-Based Capital Ratio, at June 25, 2008 and December 30, 2008, the Company issued 588,235 thousand and 274,127 thousand shares of common stock with $10.00 par value at $17 and $23 that amounted to $10,000,000 thousand (included capital stock $5,882,353 thousand and additional paid-in capital $4,117,647 thousand) and $6,304,916 thousand (included capital stock $2,741,268 thousand and additional paid-in capital $3,563,648 thousand); in the two private placements of common stock, SKFHC (parent company of the Company) offered to subscribe all shares.

As of March 31, 2009, the Company's authorized capital was $54,450,000 thousand, divided into 5,445,000 thousand common shares with par value of $10.00 per share and outstanding common stock was $41,832,423 thousand, divided into 4,183,242 thousand common shares at $10.00 per share.

Preferred Stock

The Company selected December 19, 2003 as the basis date for the issuance of 300,000 thousand shares of Class B preferred stock, with par value of NT$10 per share, for a total of NT$3,000,000 thousand. The issuance of the said Class of preferred stock was duly authorized by Tai-Tsai-Bao Document No. 0920712918 from MOF. Important information pertaining to the conditions of issue is as follows:

(a) The annual dividends of the Company's Class B preferred stock is fixed at a rate of 4.50% per annum, calculated based on the actual price at issuance. It is distributed once annually by cash. After the ratification of the financial statements in the annual regular meeting of stockholders, a reference date would be set by the Board of Directors for the distribution of dividends on the Class B preferred stock. The dividends for the preceding year as well as the accumulated undeclared and under-declared dividends in arrears would be declared and distributed. Dividends for the year of issuance are computed based on the actual number of days remaining in the year from the date of issuance. The date of issuance is defined as the basis date.

(b) If the Company does not have any earnings or the earnings are insufficient to suffice for the dividends for Class B preferred stock in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution, second to Class A preferred stock, from earnings in subsequent years in priority to common stock. Upon and after the repurchase of Class B preferred stock at date of expiry, the Company should promptly declare and distribute all the accumulated dividends in arrears, second to Class A preferred stock.

(c) Other than the fixed rate of dividends, Class B preferred stock are not entitled to the distribution of dividends pertaining to common stock, be it cash or stock, from earnings and capital surplus.

(d) Class B preferred stock of the Company have rank priority over the common stock, but rank after Class A preferred stock, in the distribution of the Company's residual assets, for a sum up to and not exceeding the total proceeds received by the Company upon issuance.

(e) Class B preferred stockholders do not have voting and election rights in the annual regular meeting of stockholders, but can be elected as directors and supervisors. The Class B preferred stockholders have voting rights in the Class B preferred stockholders' meeting.

(f) When the Company issues new shares, the Class B preferred stockholders have rights of first refusal equivalent to that of a common stockholder and a Class A preferred stockholder.

(g) Class B preferred stock can not be converted into common stock and expires 5 years from the date of issuance. Upon expiry, the Company may repurchase all Class B preferred stock based on the issue price; payments may be made out of either earnings or the proceeds received at issuance of new stock. If, due to objective factors or events beyond its control, the Company is unable to repurchase part or all of the Class B preferred stock upon expiry, the outstanding stock would be subject to the same conditions of issue as listed above until all of the said stock have been repurchased. Consequently, the dividend rate will remain at 4.50% and computed for the actual extension of the term. The rights of the Class B preferred stock written in the Company's articles of incorporation would not be injured.

(h) The issuance of Class B preferred stock is a private placement. Upon resale, the seller and the purchaser of the Class B preferred stock are bound by Article 43-8 of the Securities and Exchange Act.

Class B preferred stock were redeemed on December 19, 2008. Pursuant to ARDF issued Interpretation (93) No. 061, when the company does not have any earnings or the earnings are insufficient to suffice for the dividends in a year, then the undeclared or under-declared dividends would be accumulated and be declared for distribution from earnings in subsequent years. Upon and after the repurchase of preferred stock at date of expiry, the company should promptly declare and distribute all the accumulated dividends. Such Class B preferred stock dividends of $130,205 thousand should be recognized once the Company's stockholders resolve to distribute it. Due to deficit of the Company in 2008, the Class B preferred stock dividends will be recognized in subsequent years when the Company has earnings and the distribution is resolved by the Company's stockholders.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. The Company distributes new shares to shareholders based on their percentage of the shares held.

SKFHC (the parent of the Company) approved to issue common stock for cash in 2008 and reserved 15% of the shares for distributing to persons who were employed by the

Company or SKFHC as share-based payment. According to ARDF Interpretation (96) No. 267 and (97) No. 017, the Company recognized this compensation cost as expenses and capital surplus amounted to $343,398 thousand in first quarter, 2008.

Distribution of Earnings

The Company's annual earnings, net of tax and any deficit, should be appropriated in the following order:

(a) 10% as legal reserve and, if required, a special reserve based on relevant regulations;

(b) Annual dividends to the Company's all preferred stockholders;

(c) 1% as bonuses to employees.

(d) The Board of Directors prepares an earning distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of stockholders for approval.

Since 2008, the bonus to employees and the bonus to directors and supervisors are recognized as expenses in the current year. The amounts are estimated based on past experiences. Due to net loss in 2008, there were no bonus to employees and bonus to directors and supervisors recognized based on the Articles of Incorporation of the Company for the year ended December 31, 2008.

The Company is in the stage of stable growth. In framing a proposal for the distribution of annual earnings, the board of directors must balance the Company's long-term financial strategy and future demand for capital against the stockholders' demand for cash inflow. Thus, dividends and bonuses for common stockholders are declared pursuant to a balanced dividend policy. Accordingly, stock dividends declared must not exceed 50% of total dividends declared for the year. The percentages of stock and cash dividends declared are further adjusted according to the following considerations: capital needed for business operations and capital demand for investments, state of the stock market, major legislative reform; and so forth.

Further, based on a ruling issued by the Department of Insurance of the Ministry of Finance (ref. No. (91) Tai-Tsai-Bao No. 0910074195), any revenue arising from the contingent claim reserves in excess of 30% of the current year's retained premium should not be distributed as dividends or be used for any other purposes, unless there is prior approval by the authorities concerned. The restricted amount should be appropriated as special reserve according to the resolution of the stockholders in the following year. As of March 31, 2009, the Company's contingent claim reserve, included as special reserve, amounted $7,012,726 thousand.

The proposal for distribution of 2007 earnings was approved by the shareholder's meeting on May 20, 2008, raised legal reserve of $241,682 thousand and special reserve of $1,268,661 thousand, to distribute cash dividends of $763,803 thousand (per share of $0.23), preferred stock dividends of $135,000 thousand and employee bonuses of $9,000 thousand. Earnings per share after tax for the three months ended was $0.69. If bonus to employees and remunerations to directors and supervisors was recognized as expense, pro forma information of earnings per share after tax for the three months ended was $0.68.

The board of directors resolved to raise special reserve of $464,928 thousand and offset of accumulated deficit by using legal reserve of $3,244,870 thousand, special reserve of $7,012,726 thousand and additional paid-in capital of $3,968,376 thousand on April 28, 2009. After the above offsetting, the balance of accumulated deficit is nil. Related information on the status of earnings distribution can be accessed at the website of Market Observation Post System provided by TSEC.

Unrealized Gain (Loss) on Financial Instruments

Unrealized gain or loss for the three months ended March 31, 2008 and 2009 as follows:

	Available-for-Sale	Long-Term Equity Investment	Total
2008			
Balance, January 1, 2008	$ 990,097	$ 35,976	$ 1,026,073
Adjustment taken directly to equity	572,642	(2,352)	570,290
Balance, March 31, 2008	$ 1,562,739	$ 33,624	$ 1,596,363
2009			
Balance, January 1, 2009	$(27,216,551)	$(83,192)	$(27,299,743)
Adjustment taken directly to equity	179,480	10,513	189,993
Balance, March 31, 2009	$(27,037,071)	$(72,679)	$(27,109,750)

Unrealized Revaluation Increment

	March 31	
	2008	2009
Revaluation increment-land	$5,513,175	$5,513,175
Revaluation increment — other fixed asset	208,396	208,396
Less earning transfer raising capital	(151,034)	(151,034)
	$5,570,537	$5,570,537

Before 2005, according to the Company law 238th, additional paid-in capital can only be used to recover accumulated deficit and transfer to capital. If the company offset accumulated deficit by using unrealized revaluation increment which was included in additional paid-in capital, then the used unrealized revaluation should be recovered at the earning year. Before the used unrealized revaluation increment had been fully recovered, the company could not distribute earning or resolve any other use of accumulated earnings. However, after the revision of the Company law, the Company law 238th was cancelled, and unrealized revaluation increment was separated as one line in the statement of changes of stockholders' equity following Generally Accepted Accounting Principles and Preparation of Financial Statements by Life Insurance Companies. Also, unrealized revaluation increment can only be utilized when the revalued properties were disposed.

For the three months ended March 31, 2008, revaluation increment of $1,454 thousand was recognized upon disposal of real estate which was calculated by the disposal percentage.

23. LOSS PER SHARE

	Three Months Ended March 31, 2008				
	Amount		Weighted Average Number of Outstanding Shares ('000)	Loss Per Share (Dollar)	
	Loss Before Tax	Loss After Tax		Loss Before Tax	Loss After Tax
Net income	$(10,344,137)	$(7,603,027)			
Less interest of preferred stock	(33,566)	(33,566)			
Basic loss per share Net loss with common shares	$(10,377,703)	$(7,636,593)	3,320,880	$(3.12)	$(2.30)

	Three Months Ended March 31, 2009				
	Amount		Weighted Average Number of Outstanding Shares ('000)	Loss Per Share (Dollar)	
	Loss Before Tax	Loss After Tax		Loss Before Tax	Loss After Tax
Net loss	$(891,202)	$(1,030,628)	4,183,242	$(0.21)	$(0.25)

24. GAINS (LOSSES) ON INVESTMENTS

The Company's gains (losses) on investments for the three months ended March 31, 2008 and 2009 consisted of the following:

	2008	2009
Gains (losses) on disposal of investments, net	$3,733,887	$ (1,520,074)
Dividend income	96,709	4,129
Foreign investments in trust funds — distributable income	275,596	170,166
Gains (losses) on settlement of derivatives, net	552,332	(9,997,140)
	$4,658,524	$(11,342,919)

25. INCOME FROM REAL ESTATE INVESTMENTS

	2008	2009
Rental income (Note 28)	$635,976	$731,156
Gains on disposal of real estate investments, net	28,312	21,868
Gains on construction (Note 2)	118,254	40,469
	$782,542	$793,493

The Company estimated the expected lease term of Song-Jiang case as amortization term of unrealized gains on sale and leaseback. As of March 31, 2008 and 2009, realized gains on sale and leaseback were $33,836 thousand and $21,868 thousand, respectively, recognized as gains on disposal of real estate investments.

According to the provisions of SFAS No. 11, "Long-term Construction Contracts", the Company calculated gains (losses) on construction in process of Shin-Kong Ruei-An JASPER by percentage-of-completion method. As of March 31, 2008 and 2009, accumulated profit on construction was as follows:

	2008	2009
Cumulative construction profit to date	$125,891	$ 234,790
Deduct: Cumulative construction profit recognized in prior periods	(7,637)	(194,321)
Construction profit in current period	$118,254	$ 40,469

26. PERSONNEL, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES

	Category					
	Three Months Ended March 31					
	2008			2009		
Item	Operation Costs	Operation Expenses	Total	Operation Costs	Operation Expenses	Total
Personnel expenses						
Salary	695,562	2,255,322	2,950,884	408,164	1,368,008	1,776,172
Labor and health insurance	—	183,425	183,425	—	194,160	194,160
Pension	—	168,095	168,095	—	205,357	205,357
Others	213	78,568	78,781	296	45,234	45,530
Depreciation	—	202,837	202,837	—	219,973	219,973
Amortization	—	53,246	53,246	—	77,482	77,482

27. INCOME TAX

Linked income tax receivable for the three months ended March 31, 2008 and 2009 was as follows:

	2008	2009
Loss before income tax	$(10,344,137)	$ (891,202)
The differences between taxable income and financial income before income tax		
Tax separately levied on interest from short-term bills and notes	(289,691)	(189,679)
Dividend income	(96,709)	(4,129)
Tax-free income on disposal of domestic securities	(3,726,767)	(2,218,217)
Equity in earnings of equity method investees	(26,417)	(23,254)
Gain on disposal of land	(5,489)	3,106
Unrealized exchange losses (gains)	20,190,518	(10,797,081)
The contribution less the pension cost	27,594	93,953
Amortization of bond premium	15,717	—
Impairment loss (reversal gains)	3,275,166	(1,148,049)
Unrealized valuation gains on financial instruments	(10,271,110)	(1,490,729)
Derivatives trade (gains) losses on futures and options	(11,378)	686,126
Others	(1,816)	—
	9,079,618	(15,087,953)
Less loss carryforwards	—	—
Taxable income	—	—
Tax rate	25%-10	25%-10
Estimated income tax provision	—	—
Income tax under the Alternative Minimum Tax Act	247,162	—
Less withholding tax	(288,394)	(287,095)
Linked income tax receivable	$ (41,232)	$ (287,095)

The Company and other subsidiaries of SKFHC adopted the consolidated income tax return system to file their consolidated income tax returns. The consolidated income tax resulted in other current assets — linked income tax receivable, net.

The details of deferred income tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

	2008	2009
Deferred income tax assets		
Operating loss carryforward	$ 565,347	$ 6,631,765
Investment credit	—	100,668
Impairment loss	946,356	1,885,618
Unrealized loss on financial assets at fair value through profit or loss	(1,377,765)	3,496,016
Unrealized loss on available-for-sale financial assets	834,088	6,836,861
Unrealized exchange loss (gain), net	5,073,324	(2,894,649)
Others	(6,060)	37,570
	6,035,290	16,093,849
Less valuation allowance	(488,000)	(1,008,000)
Deferred income tax assets	5,547,290	15,085,849
Add deferred income tax liabilities — noncurrent (included in other liabilities)	666,000	—
Less deferred income tax assets — noncurrent (included in other assets)	—	(5,594,988)
Deferred income tax assets — current (included in other current assets)	$(6,213,290)	$ (9,490,861)

On January 6, 2009, the Legislative Yuan of the Republic of China passed the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Company recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

For the three months ended March 31, 2008 and 2009, tax expense (benefit) as follows:

	2008	2009
Current income tax expense	$ 247,162	$ 27,444
Separate taxation levied for interest income arising from short-term notes and bills and securitization	28,113	4,286
Deferred tax (income) loss	(3,016,385)	72,268
Adjustment of prior year's tax	—	35,428
Tax (benefit) expense	$(2,741,110)	$139,426

On March 31, 2009, the current income tax expense of $27,444 thousand was withholding tax on foreign income. As the Company assessed that foreign income at the applicable domestic tax rate did not increase the Company's tax refund receivable, the withholding tax was recognized under current income tax.

Loss carryforwards as of March 31, 2008 comprised of:

Expiry Year	Unused Amount
2013	$ 996,869
2018	9,555,166
2019	15,975,026
	$26,527,061

The Company prepared valuation allowance according to the possibility realization in deferred tax assets of loss carryforward.

For the year ended March 31, 2009, information related to investment credits as follows:

Regulation Basis of Tax Credits	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development	$ 7,248	$ 7,248	2010
	”	10,403	10,403	2011
	Personnel training	32,357	32,357	2010
	”	23,782	23,782	2011
	”	26,878	26,878	2012
		$100,668	$100,668	

Based on the amended ROC Income Tax Law, information on the imputation credit accounts (ICA) and accumulated deficit are as follows:

a. As of March 31, 2009, the imputation credit accounts of the Company is $1,145,121 thousand.

b. As of March 31, 2009, the accumulated deficit of the Company prior to the adoption of the integrated tax approach (years before 1998) and after the adoption (years 1998 and after) were $0 thousand and $14,791,672 thousand, respectively.

As of March 31, 2009, the Company's income tax returns through 2004 had been assessed and approved by the tax authority. In 2004 tax assessment, the Company has provided additional income tax provision recorded in the first quarter 2009 for the difference of $27,666 thousand between 2004 tax filing and tax assessment. In 2000 to 2004 tax returns, the Company and the tax authority have different interpretation of the tax treatment for periodic amortization of premiums on bond investments. The Taipei High Administrative Court adjudicated that the periodic amortization of premiums on bond investments cannot be used to offset interest income earned on bond investments. The Company has appealed to the Highest Administrative Court, and the case for 2000 income tax return had been rejected. However, as of the reporting date, the Company has not received any revised tax return from the tax authority. There will be no significant impact in the current period since loss carryforward can fully cover the amount disagreed.

28. RELATED-PARTY TRANSACTIONS

The related parties and their relationships with the Company are as follows:

Related Party	Relationship
Shin Kong Financial Holding Co., Ltd.	Parent company of the Company
Shin Kong Life Real Estate Service Company (SKLRESC)	The subsidiary of the Company
Wu, Tung-Chin	Chairman of the Company
Wu, Anthony T.S.	Second-degree relative of the Company's chairman
Wu, Thomas T.L.	Second-degree relative of the Company's chairman
Wu, Eric T.S.	Second-degree relative of the Company's chairman
Kuo Wu, Ru-Yue	Second-degree relative of the Company's chairman
Wu, Ben-Sen	Second-degree relative of the Company's vice chairman
Wu, Ing-Ing	Second-degree relative of the Company's vice chairman
Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate
Shin Kong Securities Co., Ltd. (SKSC)	Affiliate
Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC)	Affiliate
Shin Kong Investment Trust Co., Ltd.	Affiliate
Cyun He Venture Capital Co., Ltd.	Affiliate
New Light International Co., Ltd. (NLIC)	Affiliate
Taiwan Shin Kong Commercial Bank Co., Ltd.	Affiliate
Shin Kong Insurance Agency Co., Ltd.	Affiliate
Shin Kong Property Insurance Agency Co., Ltd.	Affiliate
MasterLink Securities Corp. (MLSC)	Affiliate
Shin Kong Company Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ruey-Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Tong Shan Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin International Bank Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Fire & Marine Insurance Company	Its chairman is a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Chin Shan Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Ennead Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taishin Financial Holding Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman

Related Party	Relationship
Waibel Enterprises, Inc.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Engineering Corp.	Its chairman is a second-degree relative of the Company's chairman
Tung Yin Investment Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Accessorize Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Synthetic Fiber Corp.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Recreation Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Auto21 Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Mercury Venture Capital Co., Ltd. (Note 1)	Its chairman is a second-degree relative of the Company's chairman
Jui Chin Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Shin Kong Hae Yang Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Leasing Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Ennead Inc.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Rue-Ying Enterprise Co., Ltd.	Its chairman and supervisor are a second-degree relative of the Company's chairman
Hung Shin Enterprise Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Ru Ying Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Ten Outstanding Young Persons' Foundation	Its director is a second-degree relative of the Company's chairman
Shian-Da Co., Ltd.	Its director is a second-degree relative of the Company's chairman
Taishin Investment Trust Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
The Shin Kong Life Charity Foundation	Its chairman is the Company's chairman
Sian Shun Enterprise Co., Ltd.	A director is the Company's chairman
Shin Kong Chao-Feng Co., Ltd	Its chairman is the Company's vice-chairman
Wang Tien Woolen Textile Co., Ltd.	Its chairman is the Company's chairman
Shin Kong Wu Ho-Su Memorial Hospital	The hospital's chairman is the Company's chairman
Tai Li Dyehouse Co., Ltd	Its chairman is the Company's chairman
The Great Taipei Gas Corp.	Its major directors are the Company's directors or second-degree relative of the Company's director
Shin Kong Mitsukoshi Department Store Co., Ltd.	Executive director is the Company's chairman

Related Party	Relationship
Shin Kong Spinning Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman and its director is the Company's chairman
Shin Sheng Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Taiwan Fuhbic Corp.	A director is the Company's chairman
Great Taipei Broadband Co., Ltd.	A director is the Company's chairman
National Cultural Association	Its director is the Company's chairman
Irst International Telecom Co., Ltd. (Note 2)	Its representative of legal person director is the Company's chairman
Chi-Ye Chemical Engineering Co., Ltd.	A director is the Company's chairman
Da Chung Venture Capital Co., Ltd. (Note 1)	A director is the Company's chairman
Jupiter Venture Capital Co., Ltd. (Note 1)	A director is the Company's chairman
Hsin Ching Investment Co., Ltd.	A second-degree relative of supervisor is the Company's supervisor
Shin Kong Tower Tourism Co., Ltd.	Its chairman is the Company's vice-chairman
Chia-Ban Investment Co., Ltd.	Its chairman is the Company's vice- chairman
Yung Kwang Co., Ltd.	Its chairman is the Company's vice- chairman
Pei-Tou Hotel Co., Ltd.	Its chairman is the Company's vice- chairman
Wu Cha-Lu Insurance Culture Foundation	Its chairman is the Company's vice- chairman
Sin-Sin Foods Co., Ltd.	Its chairman is the Company's vice- chairman
Shin Kong Farm Co., Ltd.	Its chairman and director are the Company's vice-chairman and chairman
Taiwan Securities Co., Ltd.	The director of company second-degree relative and so on its legal person chairman
Chang Hwa Bank	The director of company second-degree relative and so on its legal person chairman
Yeng Tseng Enterprise Co., Ltd.	Its chairman is a second-degree relative of Company's supervisor
Hong, Wen-Dong	The Company's executive director
Wu, Min-Wei	The Company's supervisor
Taiwan Institute Sustainable Energy Foundation	The foundation's major chairman is the Company's director (or supervisor) or its second-degree relative
Yi Kong Security Co., Ltd.	Its chairman is the SKFHC's supervisor
Shin Bao Telecom Co., Ltd.	Its chairman is the SKFHC's supervisor
Cuei Yuan Investment Co., Ltd.	A director is the Company's vice-chairman
Shin Kong Leasing Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman
Shin Kong Shien Ya International Co., Ltd.	Its chairman is a second-degree relative of the Company's chairman

Note 1: Under liquidation as of March 31, 2009.

Note 2: Its directors and supervisors have been reelected in September 2007. The current directors or supervisors have no relationship with the Company anymore.

Major transactions with related parties were as follows:

Deposits

	2008		2009	
	Amount	%	Amount	%
Taiwan Shin Kong Commercial Bank Co., Ltd.	$ 9,959,287	13	$16,017,151	20
Others	2,495,120	3	1,381,616	2
	$12,454,407	16	$17,398,767	22

For the three months ended March 31, 2008 and 2009, all the above deposit transactions were including pledged time deposit amounted to $26,137 thousand and $57,303 thousand.

All the above deposit transactions were made under an arm's length terms.

Secured Loans

	Three Months Ended March 31, 2008				
	Highest Balance	Period-End Balance	%	Annual Interest Rate %	Total Interest Income
Auto 21 Co., Ltd.	$1,050,000	$1,050,000	1	3.55	$ 9,319
Hung Shin Enterprise Co., Ltd.	150,000	150,000	—	3.95	1,481
Jui Chin Enterprise Co., Ltd.	68,000	68,000	—	3.95	672
Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	—	3.95	494
Others	—	59,050	—	2.96~3.10	370
		$1,377,050	1		$12,336

	Three Months Ended March 31, 2009				
	Highest Balance	Period-End Balance	%	Annual Interest Rate %	Total Interest Income
Wang Tien Woolen Textile Co., Ltd.	$745,000	$ 745,000	—	3.46	$ 6,444
Auto 21 Co., Ltd.	275,000	275,000	—	3.56	2,448
Shin Kong HacYang Co., Ltd.	250,000	250,000	—	3.41~3.96	2,369
Hung Shin Enterprise Co., Ltd.	150,000	150,000	—	4.06	1,523
Jui Chin Enterprise Co., Ltd.	68,000	68,000	—	3.56	605
Yeng Tseng Enterprise Co., Ltd.	50,000	50,000	—	3.56	445
Cuei Yuan Investment Co., Ltd.	29,000	—	—	3.40	141
Hsin Ching Investment Co., Ltd.	13,000	13,000	—	4.06	122
Tung Yin Investment Co., Ltd.	5,000	5,000	—	3.56	45
Others	—	58,901	—	2.41~3.10	431
		$1,614,901	—		$14,573

The terms and conditions of the above secured loans to related parties were on an arm's length basis.

Lease of Real Estate to Related Parties

Rentals received from lease of major real estate to related parties for the three months ended March 31, 2008 and 2009 were as follows:

	2008		2009	
	Amount	%	Amount	%
Shin Kong Mitsukoshi Department Store Co., Ltd.	$223,279	35	$224,048	31
TSKCB	32,422	5	35,291	5
SKSC	10,488	1	11,339	2
Shin Kong Wu Ho-Su Memorial Hospital	9,138	1	9,439	1
Shin Kong Financial Holding Co., Ltd.	4,865	1	4,918	1
Taiwan-Sok Shin Kong Security Co., Ltd.	4,166	1	4,244	1
SKLRESC	3,331	1	3,473	—
Shin Kong Synthetic Fiber Corp.	3,423	1	3,625	—
SKITC	2,871	—	2,860	—
Taishin Securities Co., Ltd.	608	—	1,604	—
Taishin International Bank	665	—	455	—
Others	10,009	2	10,214	2
	$305,265	48	$311,510	43

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

Since some of the agreements on the lease of real estate by Shin Kong Mitsukoshi Department Store Co., Ltd. from the Company had expired, the two parties are still negotiating the new lease agreements and the terms of the agreements are still uncertain. For the three months ended March 31, 2008 and 2009, the lease of real estate to Shin Kong Mitsukoshi Department Store Co., Ltd. amounted to $107,500 thousand, which the Company recognized as other income.

As of March 31, 2008 and 2009, deposits received for the lease of real estate to related parties were as follows:

	2008	2009
Shin Kong Mitsukoshi Department Store Co., Ltd.	$160,000	$160,000
Others	67,154	69,459
	$227,154	$229,459

Lease of Real Estate from Related Parties

As of March 31, 2008 and 2009, deposits paid for the lease of real estate from related parties were as follows:

	2008	2009
Great Taipei Gas Corp.	$ 9,068	$ 7,701
Wu, Ben-Sen	7,500	7,500
SKLRESC	10,400	10,400
	$26,968	$25,601

During the term of the lease, the Company is not required to pay additional rent. Upon termination of the lease contract and the return of the leased property, the Company will get a deposit refund, free of interest.

Operating Expense

a. Building management expense

	2008	2009
SKLRESC	$41,131	$46,505

b. Insurance expense

	2008	2009
Shin Kong Fire and Marine Insurance Co., Ltd.	$4,648	$4,696

c. Water, electricity and gas expense

	2008	2009
SKLRESC	$11,512	$14,636

The water, electricity and gas expense were paid by SKLRESC on behalf of the Company when SKLRESC managed the leased assets of the Company.

d. Rent expense

	2008	2009
Great Taipei Gas Corp.	$8,277	$8,526

Investments in Beneficiary Certificates

For the three-months ended March 31, 2008, the Company sold mutual funds to SKITC amounted to $145,485 thousand. As of March 31, 2008, the balance of mutual fund investment in SKITC and Taishin Investment Trust Co., Ltd amounted to $1,623,903 thousand and $134,025 thousand, respectively.

For the three-months ended March 31, 2009, the Company purchased mutual funds from SKITC and sold mutual funds to SKITC amounted to $300,000 thousand and $100,000 thousand, respectively. As of March 31, 2009, the balance of mutual fund investment in SKITC and Taishin Investment Trust Co., Ltd amounted to $2,005,245 thousand and $105,881 thousand, respectively.

Notes Issued Under Resale Agreement

2008: None

	Three Months Ended March 31, 2009				
	Highest Balance	Highest Month	Ending Balance	Interest Rate %	Interest Income
SKSC	$1,250,385	January 2009	$702,000	0.12~0.35	$ 631
TSKCB	3,785,000	January 2009	—	0.12~0.40	901
			$702,000		$1,532

Derivative Transactions

	Three Months Ended March 31		
	Counterparty	2008	2009
Currency swap contracts	TSKCB	$36,577,215	$41,039,570
	Taishin International Bank Co., Ltd.	3,648,600	678,340
		$40,225,815	$41,717,910
Interest rate swap contracts	Taishin International Bank Co., Ltd.	$ 750,000	$ 250,000

Securities Investment Processing Fee and Other Expense

For the three months ended of March 31, 2008 and 2009, the Company paid processing fee of $32,214 thousand and $689 thousand, respectively, to SKSC for its services in trading marketable securities.

Property Transactions

The Company obtained approval from the FSC in letter Jin-Guan-Zheng (1) No. 0970003898 for 250,000 thousand shares of Cosmos Bank private placement of common stock from TSKCB, total costs amounted to $500,000 thousand as of March 21, 2008.

In the first quarter 2008, the Company entered into an agreement with First International Telecom Company (“FITC”) for acquisition of land and structures, amounting $396,000 thousand. As of March 31, 2008, the Company paid $118,800 thousand as a down payment. Though the ownership of land and structures has been transferred to the Company, FITC default to execute the purchase agreement and therefore, the Company did not pay off the remaining payment as of March 31, 2009. Before the court enforces to sell the building by auction, the Company has a chance to negotiate with the creditors who own the mortgage right of the land and structures. The Company considered that the down payment paid is recoverable and accordingly, no impairment loss has been recognized.

Dividends and Bonus Payable — Dividends of Preferred Stocks

The Company issued Class D preferred shares totaling $4,700,000 thousand which were held by the parent company; the dividend shall be 4.25% per annum of the issuance price and shall be paid annually in one lump sum. As of March 31, 2009, the Company estimated preferred stocks dividends payable and interest expenses were $50,492 thousand.

Linked Income Tax Receivables

According to Article 49 of the Financial Holding Company Act, the Company and other subsidiaries of SKFHC for full 12 months within one tax year adopted the consolidated income tax return system to file their consolidated income tax returns since January 1, 2004. As of March 31, 2008 and 2009, the linked income tax receivable of $1,412,892 thousand and $2,262,294 thousand had been recorded under other current assets.

29. INSURANCE PRODUCTS -SEPARATE ACCOUNT

The related accounts of the Company as of March 31, 2008 and 2009 were summarized as follow:

	March 31	
	2008	2009
Separate account assets		
Beneficiary certificates	$ 74,298,227	$40,217,352
Bonds	31,250,626	46,246,880
Accounts receivable	7,253,502	108,782
	$112,802,355	$86,573,014
Separate account liabilities		
Reserves	$112,727,777	$86,552,079
Accounts Payable	74,578	20,935
	$112,802,355	$86,573,014

	March 31	
	2008	2009
Separate account benefits		
Premium income	$26,862,883	$ 1,353,740
Recovered reserve	14,289,274	5,560,485
Interest income	60,219	25,213
Unrealized gain on financial instruments	3,941,505	5,022,729
Gains on disposal of financial instruments	104,358	114,003
Exchange gain	24,606	7,505,224
Other income	94,430	408,388
	$45,377,275	$19,989,782
Separate account expenses		
Insurance payment	$ 16,460	$ 53,684
Cash surrender value	5,123,220	1,903,958
Provision of Insurance reserves	22,645,704	4,103,181
Unrealized loss on financial instruments	11,670,900	5,133,641
Loss on disposal of financial instruments	738,882	2,279,756
Management fee	518,740	350,307
Processing fee and redeemed expense	226,395	141,575
Exchange loss	4,400,256	5,622,950
Other expense	36,718	400,730
	$45,377,275	$19,989,782

In 2008 and 2009, the Company managed separate account and received from dealers sales rebates of $1,189,486 thousand and $34,801 thousand, respectively.

30. ALLOCATION OF REVENUE, COST, EXPENSE RESULTING FROM INTERCOMPANY SHARING OF RESOURCES

SKFHC and its subsidiaries apply economies of scale to optimize profit. The joint marketing expenses are allocated directly to each subsidiary based on the nature of business or indirectly allocated based on each subsidiary's capital stock.

31. COMMITMENT AND CONTINGENCY

As of March 31, 2009, the remaining balance of four open construction contracts and real estate investments that had not been completed or still in progress was as follows:

	Amount
Nine months ended December 31, 2009	$1,800,580
After 2009	1,966,260
	$3,766,840

32. SUBSEQUENT EVENTS

On March 3, 2009, the Company resolved to sell the land and building of Hsin-Yih A11 by tender. On April 3, 2009, the land and building were sold for $11.6 billion. The transaction was completed on April 30, 2009.

33. SUPPLEMENTAL DISCLOSURES

Material Contracts and Related Information

Information on material transactions is as follows:

Code	Description	Explanation
1	Acquisition of individual real estate at cost or prices over $100 million or 20% of issued capital stock	None
2	Disposal of individual real estate at cost or prices over $100 million or 20% of issued capital stock	None
3	Engaged on mainly business for the transactions with related parties over $100 million or 20% of issued capital stock	None 28
4	Receivables from related parties over $100 million or 20% of issued capital stock	Note 28
5	Derivative transactions	Notes 33 (4)

Information of Investees

Code	Description	Explanation
1	Information on invested enterprise	Table 1
2	Financing provided	None
3	Endorsement/guarantee provided	None
4	Marketable securities held as of March 31, 2008	Table 2
5	Marketable securities acquired or disposed of at costs or prices over $100 million or 20% of issued capital stock	None
6	Acquisition of real estate at cost or prices over $100 million or 20% of issued capital stock	None
7	Disposal of real estate at cost or prices over $100 million or 20% of issued capital stock	None
8	Engaged on mainly business for the transactions with related parties over $100 million or 20% of issued capital stock	None
9	Receivables from related parties over $100 million or 20% of issued capital stock	None
10	Derivative transactions	None

Investment in Mainland China

The Company was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in Mainland China in its letter in 2003. As November 5, 2007, the Company obtained approval of the China Insurance Regulatory Commission (ref. No. (2007) Bao-Jian-Guo-Ji No.1254), and the Company and HNA Group prepare to establish the Chinese and foreign joint venture life insurance company. As of the report date, the joint venture life insurance company in Mainland China is still on preparatory status.

Disclosure of Financial Instruments

a. Fair value of financial instruments

	March 31			
	2008		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 74,418,921	$ 74,418,921	$ 78,536,577	$ 78,536,577
Financial assets at fair value through profit or loss	121,767,025	121,767,025	124,850,435	124,850,435
Other receivables	20,251,057	20,251,057	18,084,021	18,084,021
Bond purchased under resale agreements	—	—	32,989,000	32,989,000
Loans, net	186,217,902	186,217,902	187,087,770	187,087,770
Available-for-sale financial assets	143,197,163	143,197,163	289,431,402	289,431,402
Held-to-maturity financial assets	207,074,802	203,893,548	—	—
Financial assets at cost	4,943,133	4,943,133	4,539,386	4,539,386
Debt securities without active market	287,456,542	286,901,940	380,058,259	379,957,194
Investments accounted for by the equity method	1,030,066	1,030,066	1,894,633	1,894,633
Guarantee deposits paid	6,775,823	6,537,845	16,361,367	16,359,212
Financial liabilities				
Financial liabilities at fair value through profit or loss	3,497,006	3,497,006	26,653,566	26,653,566
Life insurance proceed payable	629,906	629,906	772,316	772,316
Payables to other insurance	120,423	120,423	146,707	146,707
Accrued expenses	2,340,604	2,340,604	1,847,200	1,847,200
Other payables	8,552,368	8,552,368	9,872,767	9,872,767
Guarantee deposits received	570,626	550,585	633,947	615,901

b. The methods and assumptions used by the Company to estimate the fair values of financial instruments are summarized as follows:

1) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to their amounts being similar to the amounts of receipt and payment of these instruments

in the near future. This approach applies to cash and cash equivalents, other receivables, receivables from other insurance, bond investments with resale agreements, accrued expenses, life insurance proceed payable, payables to other insurance and other payables.

2) If there is a quoted price from active market for financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, and derivative financial instruments for hedge, the fair value of these financial assets should be based on market price. Otherwise, valuation method should be used for estimation. The assumptions of the valuation method for estimation used by the Company are the same as those of the market participants.

   Cash flow discount method should be used towards debt securities without active market. The Company's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These conditions and characteristics include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. The Company's discount rate for domestic financial commodities is 1.01% to 1.68%, and the discount rate for international financial commodities is 3.71% to 5.08%.

   The fair values of the interest rate swap contracts, forward exchange contracts, currency swap contracts and swap contracts are based on the quoted price provided by the transaction counterparties.

3) Loans are interest-bearing financial assets. The carrying values approximate fair values. The fair value of overdue loans is based on their carrying amount, the expected recovery amount which is net of allowance.

4) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented

5) If there is market price for investments accounted for by the equity method, the market prices should be the fair value. Otherwise, the fair value should be estimated by other financial information.

6) The fair value of guarantee deposits paid and received — except for deposits paid by the insurance company and deposits placed with courts for settlement of cases, which are in the form of government bonds, certificates of deposits and negotiable certificates of deposits — are estimated on the basis of the discounted value of the future cash flows. The discount rate used to discount future cash flows from guarantee deposits paid is the average interest rate of time deposits in banks while the rate used to discount guarantee deposits received is the average midterm loan interest rate.

c. Fair values of financial assets/liabilities represented by quoted price in active markets, or calculated by valuation method are listed as follows:

	Quoted Price in Active Markets		Amounts Calculated by Valuation Method	
	2008	2009	2008	2009
Financial assets				
Financial assets at fair value through profit or loss	$ 61,399,988	$ 87,625,799	$ 60,367,037	$ 37,224,636
Available-for-sale financial assets	137,812,027	286,584,645	5,385,136	2,846,757
Debt securities without active market	—	—	286,901,940	379,957,194
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	—	3,497,006	26,653,566

d. The following table summarizes the maturities of the Company's financial instruments as of March 31, 2009:

Non-derivative financial instruments with fixed interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$1,054,074	$3,319,507	$17,210,235	$ 2,921,572	$ 2,170,019	$ 11,208,377	$ 37,883,784
Available-for-sale financial assets	2,519,382	5,187,433	9,427,600	14,939,815	21,894,683	131,135,627	185,104,540
Debt securities without active market	8,613,578	—	2,678,340	1,870,290	5,201,228	311,618,286	329,981,722

Non-derivative financial instruments with floating interest rate

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 1,976,164	$—	$—	$—	$—	$—	$ 1,976,164
Available-for-sale financial assets	33,152,674	—	—	—	—	—	33,152,674
Debt securities without active market	50,076,537	—	—	—	—	—	50,076,537

Derivative financial instruments

Item	Less Than One Year	Due in 1~2 Years	Due in 2~3 Years	Due in 3~4 Years	Due in 4~5 Years	Over 5 Years	Total
Financial assets at fair value through profit or loss	$ 20,644	$—	$—	$—	$—	$—	$ 20,644
Financial liabilities at fair value through profit or loss	(44,246)	—	—	—	—	—	(44,246)

e. For the three months ended March 31, 2008 and 2009, the interest income associated with financial assets (liabilities) other than those at fair value through profit or loss were \$4,420,439 thousand and \$5,683,763 thousand, respectively. The available-for-sale financial assets as of March 31, 2008 and 2009 recognized in shareholders' equity of \$572,642 thousand and \$179,480 thousand, respectively.

f. The Company's financial risk information

1) Market risk

The Company's bond investments are considered bonds with fixed interest rate. Therefore, when market interest rates change, fair value of the securities investment would also change. When the market interest rate increases by 1%, fair value of the securities investment would decrease by \$27,611,000 thousand. The Company's currency swap contracts, forward exchange contracts and currency option contracts would also be influenced by the change in market foreign exchange rate when United States dollars increase by one cent, fair value would decrease by \$97,430 thousand.

2) Credit risk

The Company's financial assets are influenced by the Company's transaction counterparties. The influences include the Company's credit risk concentration, fundamental formation, contract amounts, and other receivables of financial assets. Book values of the financial assets held by the Company represent fair values, except as mentioned in Note 33.

3) Liquidity risk

The Company has sufficient operation capital; therefore, the Company does not have liquidity risk.

The Company's investments in bonds and stocks mostly are quoted in active markets. Financial assets could be easily sold according to the anticipated fair value price in the markets. The currency swap contracts, forward exchange contracts and currency option contracts held by the Company are for hedging and settled with net amount, which does not need a large amount of cash; therefore, there will not be a substantial cash flow risk.

4) Cash flow risk of interest rate fluctuation

Cash flow risk of interest rate fluctuation on debt securities refers to the risk of future repayment fluctuation of short-term/long-term loans arising from interest rate fluctuation. The Company does not engage in loans from others, so the risk mentioned above does not exist.

To avoid the risk of interest rate fluctuation on assets with floating-rate risk, the Company entered into interest rate swap contracts to manage the risk.

g. The Company's risk management and hedge strategies

Risk management of the Company is shown as follows:

1) Credit risk management

Credit risk may be caused by the events of counterparties failing to perform their obligations. The Company established regulations by relevant acts according to the financial and operational condition risk management, ability to refund and other credit rating factor of transaction counterparties.

2) Market risk management

Market risk is considered the risk of loss resulting from changes in market price. The Company sets up the limit for market risk and other relevant regulations by various market risk factors.

3) Operation risk management

Operation risk indicates the unexpected loss caused by the failure of the internal control. The Company sets up regulations for each operation to list operation procedures, limit of authority and responsibility, and other stipulations.

4) Liquidity risk management

Liquidity risks are the risks of encountering difficulty in raising funds to meet the commitments; or finding the counterparties to settle financial instruments at a reasonable price.

The Company's basic policy on liquidity risk management is to establish regulations taking the security, profitability and liquidity into consideration and make projects for emergency.

5) Concentration risk management

To avoid the risks of concentration, the Company sets up the limitation of credit risk with same person or same affiliate and relevant control procedures.

h. Information of reclassifications is shown as follows:

On July 1, 2008, the Company reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Accounting for Financial Instruments". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$12,520,818	$ —
Available-for-sale financial assets	—	12,520,818
	$12,520,818	$12,520,818

In view of the Company's intention of not selling the abovementioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, the Company reclassified these financial assets held for trading to available-for-sale financial assets.

The carrying amount and fair value of reclassified financial assets as of March 31, 2009 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	$9,618,957	$9,618,957

The changes in fair value recognized in profit and loss from the reclassification date to March 31, 2009 and pro forma information assuming no reclassifications were made were as follows:

	Recognized in Profit and Loss (as Recognized Interests and Impairment Dollars)	Pro Forma Information Assuming No Reclassification Recognized in Income Statement
Available-for-sale financial assets	$—	$1,153,500

TABLE 1

SHIN KONG LIFE INSURANCE CO., LTD.
INFORMATION REGARDING INVESTEE COMPANIES
THREE MONTHS ENDED MARCH 31, 2009

Investor Company	Name of Investee	Location	Principal Business Activity	Original Cost: End of the Period	Original Cost: Beginning of the Period	Held by the Company: Number of Shares	Held by the Company: Ownership Interest (%)	Held by the Company: Carrying Value	Gain (Loss) of Investee	Investment Gain (Loss)	Remarks
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
The Company	*Significant influence*										
	Mercury Venture Capital Co., Ltd.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	$ 120,000	$ 120,000	12,000	20.00	$ 21,646	$ —	$ —	
	Centillion Venture Capital Corp.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	166,660	166,660	16,667	16.67	169,903	(3,354)	(559)	
SKLRESC	NLIC	F-14, No. 123, Sec 2, Non Chin East Road, Taipei	Real estate lease	15,000	15,000	1,500	30.00	20,407	3,221	966	
	Centillion Venture Capital Corp.	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Venture capital	50,000	50,000	5,000	5.00	50,971	(3,354)	(167)	
The Company	*Majority-Owned*										
	SKLRESC	F-10, No. 123, Sec 2, Non Chin East Road, Taipei	Management service	440,784	440,784	38,706	90.01	449,107	24,087	21,681	
	NLIC	F-14, No. 123, Sec 2, Non Chin East Road, Taipei	Real estate lease	15,500	15,500	1,550	31.00	21,088	3,221	998	
	Shin-Kong Hainan Insurance Co., Ltd.	F-15, B, No. 93, Jian Guo Road, Jau Yang Religion. Beijing	Insurance	1,095,950	1,095,950	—	50.00	1,232,889	2,267	1,134	

TABLE 2

SHIN KONG LIFE INSURANCE CO., LTD.
MARKETABLE SECURITIES HELD AS OF MARCH 31, 2008

Holding Company	Type of Marketable Securities and Name	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Period: Units / Shares ('000)	End of Period: Carrying Value	End of Period: Ownership Interest (%)	End of Period: Market Price	Note
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)				
SKLRESC	Common shares — with quoted market prices							
	The Great Taipei Gas Corp.	Affiliate	Available-for-sale financial assets — current	3,080	$40,044	—	$40,044	
	Shin Kong Synthetic Fibers Corp.	Affiliate	”	6,739	34,840	—	34,840	
	Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate	”	2,355	33,790	—	33,790	
	Taishin Financial Holding Co., Ltd.	Affiliate	”	502	2,761	—	2,761	
	Beneficiary certificates							
	Skinkong NT$ High Yield Fund	Affiliate	Financial assets at fair value through profit or loss — current	2,660	45,696	—	45,696	
	SKIT Global Top Fund	Affiliate	”	2,753	20,235	—	20,235	
	Shin Kong Multiple	Affiliate	”	2,000	15,500	—	15,500	
	Common shares — without quoted market prices							
	Yie-Kong Security	Affiliate	Financial assets at cost — noncurrent	4,673	57,125	15	57,125	
	First International Telecom	None	”	20,673	—	5	—	
	Industrial Bank of Taiwan	None	”	5,000	50,000	—	50,000	
	Simple Telecommunications	Affiliate	”	300	1,899	2	1,899	
	Lian An Co., Ltd.	None	”	5	50	—	50	
	New Century InfoComm Tech	None	”	4,211	29,474	—	29,474	
	Great Taipei Broadband Co., Ltd.	None	”	10,000	59,000	7	59,000	
	PK II Venture Capital Group	None	”	3,000	30,000	4	30,000	
	Centillion Venture Capital Corp.	Affiliate	Investments accounted for by the equity method	5,000	49,314	5	49,314	
	NLIC	Affiliate	”	1,500	19,441	30	19,441	
NLIC	ProMOS Technologies Inc.							
	Shin-Kong Chi-Shin Fund	Affiliate	Financial assets at fair value through profit or loss — current	2,653	39,233	—	39,233	

TABLE 3

SHIN KONG LIFE INSURANCE CO., LTD.
INVESTMENTS IN MAINLAND CHINA
THREE MONTHS ENDED MARCH 31, 2009

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2009	Investment Flows: Outflow	Investment Flows: Inflow	Accumulated Outflow of Investment from Taiwan as of March 31, 2009	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of March 31, 2009	Accumulated Inward Remittance of Earnings as of March 31, 2009
				(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)							
Shin-Kong Hainan Insurance Co., Ltd. (Note)	Insurance	$2,191,900 (RMB $500,000)	Invest China directly	$1,095,950	—	—	$1,095,950	50%	$1,134	$1,232,889	None

Accumulated Investment in Mainland China as of March 31, 2009	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$1,095,950	US$40,000	$16,224,451

Note: The Company was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in Mainland China in its letter in 2003. As November 5, 2007, the Company obtained approval of the China Insurance Regulatory Commission (ref. No. (2007) Bao-Jian-Guo-Ji No.1254), and the Company and HNA Group prepare to establish the Chinese and foreign joint venture life insurance company. The Company remittance of the investment fund amount of RMB 500 million was on June 6, 2008. As of the report date, Shin-Kong Hainan Insurance Co., Ltd. is still on preparatory status.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
Taiwan Shin Kong Commercial Bank Co., Ltd.

We have audited the accompanying consolidated balance sheets of Taiwan Shin Kong Commercial Bank Co., Ltd. (the "Company" or TSKCB) and its subsidiaries (collectively, the "Group") as of December 31, 2006, 2007 and 2008, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China (ROC). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial 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 consolidated financial position of Taiwan Shin Kong Commercial Bank Co., Ltd. and its subsidiaries as of December 31, 2006, 2007 and 2008, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

As stated in Note 3, effective January 1, 2006, the Group adopted Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement," No. 36, "Financial Instruments: Disclosure and Presentation" and other related amended SFASs including No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No. 5, "Long-term Investments in Equity Securities," and No. 25 "Business Combinations — Accounting Treatment under Purchase Method," which provide that goodwill is no longer amortized but assessed for impairment at least on an annual basis. In addition, effective July 1, 2008, the Group adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our audits also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

February 13, 2009 (except as to Note 4 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
ASSETS				
Cash and cash equivalents (Note 5)	$ 8,400,285	$ 6,191,127	$ 6,858,244	$ 202,487
Due from Central Bank of China and banks (Note 6)	38,261,232	34,193,186	46,159,280	1,362,837
Financial assets at fair value through profit or loss (Notes 2,7 and 30)	4,214,320	3,848,399	5,636,189	166,407
Bond and securities purchased under resell agreements (Notes 2 and 8)	241,018	—	—	—
Receivables, net (Notes 2, 9, 10, 28 and 30)	14,912,853	14,637,425	11,802,074	348,452
Notes discounted and loans, net (Notes 2, 10 and 30)	232,925,849	276,617,925	280,299,019	8,275,731
Available-for-sale financial assets (Notes 2, 11 and 32)	5,396,330	14,043,205	22,368,541	660,423
Held-to-maturity investments (Notes 2, 12 and 31)	12,060,240	11,650,154	9,848,572	290,776
Other financial assets, net (Notes 2, 10, 13 and 22)	9,571,004	7,647,586	7,989,877	235,899
PROPERTY AND EQUIPMENT (Notes 2 and 14)				
Cost				
Land	7,326,183	4,627,192	3,657,074	107,974
Buildings and structures	5,416,887	3,226,760	2,729,674	80,593
Computers	1,240,720	1,237,087	884,041	26,101
Transportation and communication equipment	23,070	21,254	3,396	100
Other equipment	1,032,269	1,069,245	594,347	17,548
Leased assets	750,670	750,670	750,670	22,163
Total cost	15,789,799	10,932,208	8,619,202	254,479
Revaluation increment	142,651	389,886	388,816	11,480
Less accumulated depreciation	(2,566,265)	(2,876,471)	(2,163,231)	(63,869)
Construction in progress	76,352	48,832	45,113	1,332
Property and equipment, net	13,442,537	8,494,455	6,889,900	203,422
GOODWILL AND INTANGIBLE ASSETS, NET (Notes 2 and 15)	1,245,055	1,243,924	1,243,924	36,726
OTHER ASSETS (Notes 2, 16 and 28)	11,793,883	8,228,192	4,478,253	132,219
TOTAL	$352,464,606	$386,795,578	$403,573,873	$11,915,379

(Continued)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
LIABILITIES AND STOCKHOLDER'S EQUITY				
LIABILITIES				
Due to Central Bank of China and banks (Note 17)	$ 11,991,138	$ 7,860,507	$ 4,553,045	$ 134,427
Financial liabilities at fair value through profit or loss (Notes 2, 7 and 30)	990,994	1,166,557	2,763,152	81,581
Notes issued under repurchase agreements (Notes 2 and 18)	4,540,484	3,699,313	2,594,597	76,605
Payables (Notes 2 and 19)	8,815,508	7,937,428	5,889,687	173,891
Customer deposits and remittances (Notes 20 and 30)	286,746,241	325,763,735	356,026,863	10,511,570
Financial debenture (Note 21)	17,800,000	17,800,000	10,100,000	298,199
Accrued pension liability (Notes 2 and 24)	105,236	15,877	19,845	586
Miscellaneous financial liabilities (Notes 2, 22 and 30)	827,847	604,730	385,709	11,388
Other liabilities (Notes 2, 12 and 23)	747,387	722,902	636,086	18,780
Total liabilities	332,564,835	365,571,049	382,968,984	11,307,027
STOCKHOLDER'S EQUITY				
Common stock (Note 25)	21,577,665	19,577,665	19,577,665	578,024
Capital surplus (Note 25)				
Issuance of common shares in excess of par	2,167,301	365,754	365,754	10,799
Premium on business combination	3,469,239	—	—	—
Other capital reserve	5,449	—	—	—
Retained earnings				
Legal reserve	—	—	427,008	12,607
Special reserve	—	—	302,715	8,938
(Accumulated deficit) unappropriated retained earnings	(7,276,235)	1,423,361	836,786	24,704
Other adjustments on stockholder's equity				
Unrealized revaluation increment	—	163,653	240,671	7,106
Cumulative translation adjustments (Note 2)	(2,580)	(3,189)	(14,303)	(422)
Unrealized gain (loss) from available-for-sale financial instruments (Note 2)	110,366	(231,250)	(1,132,351)	(33,432)
Unrealized (loss) gain from cash flow hedge (Note 2)	(151,292)	(71,465)	944	28
Net loss not recognized as pension cost	(142)	—	—	—
Total stockholder's equity	19,899,771	21,224,529	20,604,889	608,352
TOTAL	$352,464,606	$386,795,578	$403,573,873	$11,915,379

(Concluded)

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

(With Deloitte & Touche audit report dated February 13, 2009, except as to Note 4 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except (Loss) Earnings Per Share)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
INTEREST INCOME (Notes 2 and 30)	$11,793,638	$12,352,696	$13,284,898	$ 392,232
INTEREST EXPENSE (Note 30)	(4,742,704)	(5,989,191)	(7,045,778)	(208,024)
NET INTEREST INCOME	7,050,934	6,363,505	6,239,120	184,208
NET INCOME (LOSS) EXCLUDING INTEREST REVENUE				
Service fees, net (Notes 2, 26 and 30)	1,525,849	1,907,747	1,579,179	46,624
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net (Notes 2 and 7)	471,757	(397,799)	(436,289)	(12,881)
Realized (loss) gain on available-for sale financial assets, net (Note 2)	(2,119)	2,543	63,131	1,864
Realized gain on held-to-maturity investments, net (Note 2)	92	3,741	3,670	108
Gain on foreign exchange, net (Note 2)	19,865	64,561	104,983	3,100
Loss on assets impairment (Notes 2 ,11 and 13)	—	(1,812,500)	(601,338)	(17,754)
(Loss) gain on market value (decline) increase of collateral assumed (Note 2)	(1,070,000)	272,990	62,835	1,855
Gain on disposal of property and equipment and deferred expense, net	1,824	2,752,647	371,729	10,975
Other gains, net	105,371	92,756	210,635	6,218
NET REVENUE	8,103,573	9,250,191	7,597,655	224,317
BAD DEBT EXPENSE (Notes 2 and 10)	(9,752,944)	(1,860,988)	(1,929,716)	(56,974)
OPERATING EXPENSES (Note 27)				
Personnel expenses	(2,795,782)	(2,890,842)	(2,604,543)	(76,898)
Depreciation and amortization	(758,886)	(748,862)	(596,131)	(17,601)
Business expenses and general and administrative expenses	(2,515,445)	(2,242,100)	(2,203,319)	(65,052)
Total operating expenses	(6,070,113)	(5,881,804)	(5,403,993)	(159,551)
(LOSS) INCOME BEFORE INCOME TAX OF CONTINUED OPERATIONS	(7,719,484)	1,507,399	263,946	7,792
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 28)	418,830	(84,038)	(37,342)	(1,103)
NET (LOSS) INCOME OF CONTINUED OPERATIONS	(7,300,654)	1,423,361	226,604	6,689
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Minus tax of $3,014 thousand) (Note 3)	24,419	—	—	—
CONSOLIDATED NET (LOSS) INCOME	$ (7,276,235)	$ 1,423,361	$ 226,604	$ 6,689

(Continued)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands, Except (Loss) Earnings Per Share)

	2006		2007		2008			
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	NT$	NT$	US$ (Note 4)	NT$	US$ (Note 4)
(LOSS) EARNINGS PER SHARE (Note 29)								
Net (loss) income of continued operations	$(5.51)	$(5.17)	$0.75	$0.73	$0.11	$0.0034	$0.12	$0.0037
Cumulative effect of changes in accounting principles	0.01	0.01	—	—	—	—	—	—
Basic net (loss) earnings per share	$(5.50)	$(5.16)	$0.75	$0.73	$0.11	$0.0034	$0.12	$0.0037

(Concluded)

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

(With Deloitte & Touche audit report dated February 13, 2009, except as to Note 4 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars)

		Capital Surplus			Retained Earnings			Other Equity					
	Common Stock	Premium on Capital Stock	Issuance of Common Shares in Excess of Par	Other Capital Reserve	Legal Reserve	Special Reserve	(Accumulated Deficit) Unappropriated Retained Earnings	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Gain (Loss) from Financial Instruments	Unrealized (Loss) Gain from Cash Flow Hedge	Net Loss Not Recognized As Pension Cost	Total
BALANCE, JANUARY 1, 2006	$14,177,665	$ 2,682,834	$ 3,469,239	$ 5,449	$ 343,982	$ 802,626	$(1,662,141)	$ —	$ (1,915)	$ —	$ —	$ —	$19,817,739
Effect of initial adoption of SFAS No. 34 (Note 3)	—	—	—	—	—	—	—	—	—	40,090	(197,563)	—	(157,473)
Offsetting of accumulated deficit by capital surplus, legal reserve and special reserve	—	(515,533)	—	—	(343,982)	(802,626)	1,662,141	—	—	—	—	—	—
Issuance of common stock	7,400,000	—	—	—	—	—	—	—	—	—	—	—	7,400,000
Cumulative translation adjustment	—	—	—	—	—	—	—	—	(665)	—	—	—	(665)
Effect of changes in ownership interests in equity-method investments	—	—	—	—	—	—	—	—	—	—	—	(142)	(142)
Net loss for 2006	—	—	—	—	—	—	(7,276,235)	—	—	—	—	—	(7,276,235)
Available-for-sale financial assets valuation adjustment	—	—	—	—	—	—	—	—	—	70,276	—	—	70,276
Cash flow hedge adjustment	—	—	—	—	—	—	—	—	—	—	46,271	—	46,271
BALANCE, DECEMBER 31, 2006	21,577,665	2,167,301	3,469,239	5,449	—	—	(7,276,235)	—	(2,580)	110,366	(151,292)	(142)	19,899,771
Offsetting of accumulated deficit by capital surplus	—	(1,801,547)	(3,469,239)	(5,449)	—	—	5,276,235	—	—	—	—	—	—
Offsetting of accumulated deficit by capital	(2,000,000)	—	—	—	—	—	2,000,000	—	—	—	—	—	—
Land revaluation increment	—	—	—	—	—	—	—	163,653	—	—	—	—	163,653
Cumulative translation adjustment	—	—	—	—	—	—	—	—	(609)	—	—	—	(609)
Effect of changes in ownership interests in equity-method investments	—	—	—	—	—	—	—	—	—	—	—	142	142
Net income for 2007	—	—	—	—	—	—	1,423,361	—	—	—	—	—	1,423,361
Available-for-sale financial assets valuation adjustment	—	—	—	—	—	—	—	—	—	(341,616)	—	—	(341,616)
Cash flow hedge adjustment	—	—	—	—	—	—	—	—	—	—	79,827	—	79,827
BALANCE, DECEMBER 31, 2007	19,577,665	365,754	—	—	—	—	1,423,361	163,653	(3,189)	(231,250)	(71,465)	—	21,224,529
Recovered unrealized assets valuation increment	—	—	—	—	—	—	(77,293)	77,293	—	—	—	—	—
Legal reserve	—	—	—	—	427,008	—	(427,008)	—	—	—	—	—	—
Special reserve	—	—	—	—	—	302,715	(302,715)	—	—	—	—	—	—
Employee bonus	—	—	—	—	—	—	(6,163)	—	—	—	—	—	(6,163)
Cumulative translation adjustment	—	—	—	—	—	—	—	—	(11,114)	—	—	—	(11,114)
Net income for 2008	—	—	—	—	—	—	226,604	—	—	—	—	—	226,604
Release of revaluation increment on disposal of land	—	—	—	—	—	—	—	(275)	—	—	—	—	(275)
Available-for-sale financial assets valuation adjustment	—	—	—	—	—	—	—	—	—	(901,101)	—	—	(901,101)
Cash flow hedge adjustment	—	—	—	—	—	—	—	—	—	—	72,409	—	72,409
BALANCE, DECEMBER 31, 2008	$19,577,665	$ 365,754	$ —	$ —	$ 427,008	$ 302,715	$ 836,786	$240,671	$(14,303)	$(1,132,351)	$ 944	$ —	$20,604,889

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

(With Deloitte & Touche audit report dated February 13, 2009, except as to Note 5 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
YEAR ENDED DECEMBER 31, 2008
(In Thousands of U.S. Dollars)

		Capital Surplus			Retained Earnings			Other Equity					
	Common Stock	Premium on Capital Stock	Issuance of Common Shares in Excess of Par	Other Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Retained Earnings	Unrealized Revaluation Increment	Cumulative Translation Adjustments	Unrealized Loss from Financial Instruments	Unrealized (Loss) Gain from Cash Flow Hedge	Net Loss Not Recognized As Pension Cost	Total
BALANCE, JANUARY 1, 2008	$578,024	$10,799	$—	$—	$ —	$ —	$ 42,024	$4,832	$ (94)	$ (6,828)	$(2,110)	$—	$626,647
Recovered unrealized assets valuation increment	—	—	—	—	—	—	(2,282)	2,282	—	—	—	—	—
Legal reserve	—	—	—	—	12,607	—	(12,607)	—	—	—	—	—	—
Special reserve	—	—	—	—	—	8,938	(8,938)	—	—	—	—	—	—
Employee bonus	—	—	—	—	—	—	(182)	—	—	—	—	—	(182)
Cumulative translation adjustment	—	—	—	—	—	—	—	—	(328)	—	—	—	(328)
Net income for 2008	—	—	—	—	—	—	6,689	—	—	—	—	—	6,689
Release of revaluation increment on disposal of land	—	—	—	—	—	—	—	(8)	—	—	—	—	(8)
Available-for-sale financial assets valuation adjustment	—	—	—	—	—	—	—	—	—	(26,604)	—	—	(26,604)
Cash flow hedge adjustment	—	—	—	—	—	—	—	—	—	—	2,138	—	2,138
BALANCE, DECEMBER 31, 2008	$578,024	$10,799	$—	$—	$12,607	$8,938	$ 24,704	$7,106	$(422)	$(33,432)	$ 28	$—	$608,352

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

(With Deloitte & Touche audit report dated February 13, 2009, except as to Note 4 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net (loss) income	$ (7,276,235)	$ 1,423,361	$ 226,604	$ 6,689
Cumulative effect of change in accounting principle	(24,419)	—	—	—
Adjustments to reconcile net (loss) income to net cash provided by operating activities				
Provision of allowance for bad debts	9,752,944	1,860,988	1,929,716	56,974
Recovery of doubtful accounts and loan loss	493,305	813,263	700,128	20,671
Write-off of doubtful accounts and loan loss	(8,274,953)	(4,393,006)	(2,254,201)	(66,555)
Adjustment of financial liabilities designated as at fair value through profit or loss	3,043	16,150	86,335	2,549
Amortization of premium or discount on bonds investments	40,388	40,881	135,676	4,006
Loss (gain) on disposal of available-for-sale financial assets, net	2,119	—	(3,783)	(112)
Gain on disposal of held-to-maturity investments, net	(92)	(3,741)	(3,670)	(108)
Impairment loss on debt securities without active market	—	1,812,500	601,338	17,754
Gain on disposal of debt securities without active market	—	(245)	—	—
Depreciation and amortization (including depreciation of non-operating assets)	767,145	755,101	605,010	17,863
Gain on disposal of property, equipment and deferred expenses	(1,824)	(2,752,647)	(371,729)	(10,975)
Loss on disposal of collateral assumed	38,242	104,558	111,591	3,295
Loss (gain) on market value decline (increase) of collateral assumed	1,070,000	(272,990)	(62,835)	(1,855)
Provision for reserve accounts	892	—	165	5
Deferred income tax (benefit) expense	(458,557)	39,787	(55,447)	(1,637)
Accrued pension liabilities	(11,342)	(88,572)	3,513	104
Net changes in operating assets and liabilities				
Financial assets for trading	365,867	787,157	(1,565,391)	(46,218)
Receivables	4,690,271	1,642,254	3,105,011	91,674
Other assets	80,089	55,025	30,540	902
Financial liabilities for trading	7	(261,823)	2,577,973	76,114
Payables	1,466,532	(368,248)	(2,046,641)	(60,426)
Other liabilities	(19,519)	(57,752)	(85,337)	(2,520)
Net cash provided by operating activities	2,703,903	1,152,001	3,664,566	108,194
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in due from Central Bank of China and call loans to banks	10,807,966	4,069,991	(11,968,039)	(353,352)
Decrease in bonds and securities purchased under resell agreements	2,756,040	241,018	—	—
Increase in notes discounted and loans	(28,845,479)	(43,235,049)	(4,623,122)	(136,496)
Purchase of available-for-sale financial assets	(4,410,182)	(8,209,051)	(9,850,703)	(290,839)
Proceeds received on disposal of available-for-sale financial assets	167,408	202,422	933,487	27,561
Purchase of held-to-maturity investments	(1,264,599)	—	—	—
Proceeds received on disposal of held-to-maturity investments	4,635,945	422,812	1,404,316	41,462
Proceeds received on disposal of investment under equity method	6,607	—	—	—
Purchase of debt securities without active market	(8,516,688)	(3,216,150)	(5,077,802)	(149,920)
Proceeds received on disposal of debt securities without active market	2,020,952	2,288,826	4,271,800	126,123
Decrease (increase) in other financial assets	3,316	(98,391)	(166,013)	(4,901)
Purchase of property, equipment and deferred expenses	(827,974)	(336,676)	(327,185)	(9,660)
Acquisition of collateral assumed	(122,931)	(20,681)	(298)	(9)
Proceeds received on disposal of property, equipment, deferred expenses and collateral assumed	1,220,936	8,779,356	2,202,880	65,039
(Increase) decrease in refundable deposits	(1,146,028)	2,383,956	3,197,958	94,419
Net cash used in investing activities	(23,514,711)	(36,727,617)	(20,002,721)	(590,573)

(Continued)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands)

	2006	2007	2008	
	NT$	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in due to Central Bank of China and banks	553,971	(4,120,717)	(3,314,189)	(97,850)
Increase (decrease) in notes issued under repurchase agreements	3,812,555	(841,171)	(1,104,716)	(32,616)
Increase in deposits and remittances	2,710,336	39,017,492	30,263,128	893,508
Issuance of financial debenture	8,800,000	—	—	—
Redemption of financial debenture	(3,994,300)	(518,500)	(8,701,100)	(256,897)
Decrease in lease payable	(41,201)	(115,781)	(120,134)	(3,547)
Decrease in appropriated loan fund	(100,900)	(900)	(3,600)	(106)
Decrease in reserve for land revaluation increment tax	—	—	(795)	(23)
Increase (decrease) in guarantee deposits received	36,625	(50,143)	(2,623)	(77)
Issuance of common stock	7,400,000	—	—	—
Payment for employee bonus	—	(1,737)	(8,380)	(247)
Net cash provided by financing activities	19,177,086	33,368,543	17,007,591	502,145
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,633,722)	(2,207,073)	669,436	19,766
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,034,169	8,400,285	6,191,127	182,791
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(162)	(2,085)	(2,319)	(70)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,400,285	$ 6,191,127	$ 6,858,244	$ 202,487
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the year				
Interest	$ 4,629,440	$ 5,726,093	$ 7,052,811	$ 208,232
Income tax	$ 231,264	$ 120,492	$ 144,109	$ 4,255
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Offsetting of accumulated deficit by capital	$ —	$ 2,000,000	$ —	$ —
Offsetting of accumulated deficit by capital surplus	$ —	$ 5,276,235	$ —	$ —
REDEMPTION OF FINANCIAL DEBENTURE				
Decrease in financial debenture	$ —	$ —	$ 8,700,000	$ 256,864
Decrease in other payables	—	518,500	1,100	32
Cash paid	$ —	$ 518,500	$ 8,701,100	$ 256,896

(Concluded)

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

(With Deloitte & Touche audit report dated February 13, 2009, except as to Note 4 which is as of March 31, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

On September 23, 1996, the Third Credit Cooperative of Taipei, a credit union, was approved by the Republic of China ("ROC") Ministry of Finance (MOF) under Letter Tai-Tsai-Rong No. 85546025 to reorganize into a commercial bank named Macoto Bank.

Macoto Bank acquired all of the assets and assumed all of the liabilities of the Second Credit Cooperative of Hsinchu, the Eighth Credit Cooperative of Taichung, the Second Credit Cooperative of Chiayi, and the Credit Cooperative of Gang Shang (credit unions) on January 5, 1997, January 1, 1998, August 31, 2001, and September 14, 2001, respectively. The acquisitions were approved by the ROC MOF.

Responding to financial development trend and the government policy to promote financial institutions, Macoto Bank agreed to be acquired by Shin Kong Financial Holding Co., Ltd. by means of share swap in the stockholders' meeting on June 10, 2005. The share swap was completed on October 3, 2005 and Macoto Bank became a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd. On October 4, 2005, the board of directors resolved Macoto Bank's merger with Taiwan Shin Kong Commercial Bank Co., Ltd., a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd., with Macoto Bank as the surviving entity and Taiwan Shin Kong Commercial Bank Co., Ltd. as the eliminated entity. Macoto Bank issued new shares to exchange TSKCB's total assets and liabilities. For this share swap, Macoto Bank issued 708,727 thousand common shares at the share exchange ratio of 1.5040 common shares of TSKCB for every Macoto Bank share. On December 26, 2005, Macoto Bank obtained approval of the transaction from the Financial Supervisory Commission of Executive Yuan (FSC). On December 31, 2005, this transaction was completed. At the same time, Macoto Bank was renamed into Taiwan Shin Kong Commercial Bank Co., Ltd. (the "Company" or TSKCB referred to in these financial statements).

Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC), formerly known as Shin Kong Insurance Brokerage Co., Ltd. (SKIBC) is engaged in property and casualty insurance and life insurance brokerage business. On August 31, 2006, SKIBC merged with TSKIBC, and SKIBC was the surviving company and was renamed into TSKIBC.

Shin Kong Life Insurance Agency Co., Ltd. (SKLIAC) and Shin Kong Property Insurance Agency Co., Ltd. (SKPIAC) are engaged in life insurance and property and casualty insurance agency business.

Shin Kong Marketing Consultant Co., Ltd. (SKCC), formerly named Macoto Marketing Consultant Co., Ltd., was established on August 15, 2002. SKCC's business is mainly in consulting services for loan market, such as selling or buying NPL, investment consultant, overdue receivable management service, etc.

Shin Kong Finance (HK) Ltd. (SFHK), formerly named Macoto Finance (HK) Limited, was established on June 28, 2004. SFHK's business is mainly in loan business in Hong Kong.

The Company and its subsidiaries are hereinafter collectively referred to as the “Group.”

As of December 31, 2006, 2007 and 2008, the Group had 3,516, 3,391 and 3,328 employees, respectively.

As of December 31, 2008, the Company had 108 branches including a business department, a trust department, a foreign exchange transaction department and an offshore banking branch in Taiwan. The Company is engaged mainly in financial operations regulated by the Banking Law and other businesses approved by competent authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the amounts of doubtful accounts, deferred income tax, provision for reserve accounts, depreciation, pension, employee bonus and loss on pending litigations. Actual results could differ from these estimates. According to SFAS No. 28, “Disclosures in the Financial Statements of Banks”, accounts include in the Group’s financial statements are not classified as current or non-current but are stated in the order of their liquidity. Please see Note 33 for the maturity analysis of assets and liabilities.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements should prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (“SFB”) for their oversight purposes.

Consolidation Profile

Subsidiaries in the Group as of December 31, 2006, 2007 and 2008 include:

Name of Investment Company	Name of Subsidiary	Type of Business	% of Ownership as of December 31, 2006	Included in the Consolidated Financial Statements as of December 31, 2006	% of Ownership as of December 31, 2007	Included in the Consolidated Financial Statements as of December 31, 2007	% of Ownership as of December 31, 2008	Included in the Consolidated Financial Statements as of December 31, 2008
TSKCB . . .	TSKIBC	Insurance brokerage	—	No (Note 1)	—	No (Note 1)	—	No (Note 1)
TSKCB . . .	SKLIAC	Insurance agency	100%	Yes	100%	Yes	100%	Yes
TSKCB . . .	SKPIAC	Insurance agency	100%	Yes	100%	Yes	100%	Yes
TSKCB . . .	SKCC	Loan market consulting	100% (Note 2)	Yes	100%	Yes	100% (Note 2)	Yes
TSKCB. . .	SFHK	Loan business	100%	Yes	100%	Yes	100%	Yes

Note 1: On August 30, 2006, TSKIBC, wholly owned by TSKCB, merged with SKIBC, a subsidiary of SKFHC, and SKIBC was the surviving company.
Note 2: The ownership percentage includes the indirect equity interest owned by SKLIAC, a subsidiary of TSKCB.

Financial statements of consolidated entities as of and for the years ended December 31, 2006, 2007 and 2008 were audited by auditors.

All material transactions and balances among consolidated entities are eliminated in the consolidation.

The Group's significant accounting policies are summarized as follows:

Financial Assets or Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial instruments held for trading or those designated as at fair value through profit or loss on initial recognition. The Group recognizes a financial asset or a financial liability on its balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Group has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specifies in the relevant contract is discharged, cancelled or expired.

Financial instruments at fair value through profit or loss are initially measured at fair value with transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, financial instruments at fair value through profit or loss are remeasured at fair value, with changes in fair value recognized directly in profit or loss. On derecognition of a financial instrument, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of stocks, beneficiary certificates and foreign exchange forward contracts are recognized and derecognized on a trade date basis. Others are recognized and derecognized on a settlement date basis.

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

Financial assets and liabilities designated upon initial recognition as at fair value through profit or loss include compound financial instruments and financial assets or liabilities which have been recorded at fair value upon initial recognition for the purpose of eliminating major differences caused by inconsistent accounting process. In addition, a portfolio of financial assets or financial liabilities or its component which is managed according to the risk control and investment policy of the group is designated as financial instruments at fair value through profit or loss.

Bonds Purchased under Resale / Notes Issued under Repurchase Agreements

Bond purchased under resale agreement or a note issued under repurchase agreement is considered as a financing transaction if the risk and reward are attributed to the dealer. When a bond is purchased under a resale agreement, its purchase price is listed as “bonds purchased under resale agreements”, an asset account. For a note issued under repurchase agreement, the selling price is listed as “notes issued under repurchase agreements”, a liability account. Bills and bonds under repurchase and resale agreements are accounted for under the financing method. All related interest income or expense is recognized on accrual basis.

Receivables

Credit card receivables are recorded when the merchants report the amount, and the related interest revenues are recognized by accrual basis accounting. Credit card receivables are reclassified into delinquent loans and the related accrued interests are not recognized when they are overdue and uncollected.

Factoring service fees and interests are recorded as income when they are realized or realizable. Besides, the Group determines allowance for credit losses by evaluating the collectibility of the outstanding balances. The amounts of factored accounts unpaid to the sellers are accounted as “accounts payable”.

Delinquent Loans

According to “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” (the “Regulations”) issued by the MOF, overdue loans with accrued interests are reclassified into delinquent loans and accounted as discounts and loans if accounted as loans initially; otherwise accounted as other financial assets such as loans originally recorded as guarantee, acceptance, factoring and credit card receivables.

Allowance for Doubtful Accounts

The Group makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for the specific or general risks. Debts and guarantees with specific risk are evaluated internally for their collaterals, collectibility and customers’ overall credits.

The Company, in accordance with the “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises” and “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Bank Enterprises” issued by the MOF, provide allowances for doubtful accounts based on management’s evaluation of the collectibility of individual accounts, the borrower’s/clients’ financial condition and payment history. Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowances are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

Accounts deemed uncollectible are written off with the approval of the Board of Directors. Under SFAS No. 28, "Disclosures in the Financial Statements of Banks", a loan that is recovered after being written off in the current period is recorded as an increase of allowance for loan loss.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the same period. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

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

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

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurs after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-Maturity Investments

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Other Financial Assets

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, stocks traded in the Emerging Stock Market and limited listed stocks, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

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

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

Property and Equipment / Non-Operating Assets

Property and equipment are stated at cost plus revaluation increment and less accumulated depreciation and accumulated impairment loss. Major additions and improvements to property and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment. Depreciation is continued for the remaining salvage value of the property and equipment if such assets are still in operation after reaching their estimated useful lives.

Assets held under capital leases are initially recognized as assets of the Group at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

If parts of property and equipment are not used for operating activities, the related cost and accumulated depreciation are transferred to other assets — non-operating assets.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment loss and any unrealized revaluation increment of an item of property and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in net income (loss) excluding interest revenue in the year of disposal.

Goodwill

Under SFAS No. 25, "Business Combination — Accounting Treatment under Purchase Method", the Group evaluates the impairment of goodwill, the excess of cost over the fair value of acquired identifiable net assets, periodically. An impairment loss is recognized when there is objective evidence of impairment.

Deferred Expenses

Deferred expenses are computer programs and others which are amortized on the straight-line basis over 3 to 5 years.

Collateral Assumed

Collateral assumed is recorded at estimated net realizable value at the date of acquisition, and is stated at the lower of cost or net realizable value at balance sheet date of the respective years. Under the Banking Law, collateral assumed with legal maturities not disposed of will be provided with allowance for loss, included in reserves.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment, deferred expenses, non-operating assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reversed, the carrying amount of the asset is increased accordingly, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill had been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

Pension Plan

The Group has two pension schemes covering all eligible employees. One is defined benefit plan under the Labor Standards Law and another is defined contribution plan under the Labor Pension Act. Under the defined benefit plan, the Group adopts the provision of SFAS No. 18, "Accounting for Pension" to recognize pension related assets, liabilities, and cost under actuarial method. Under the defined contribution plan, the Group makes contributions to individual employee's pension account and recognizes pension cost based on the actual contributions made during employee's service period.

Reserve

Reserve for trading loss is provided for at 10% of the monthly net gain on the sale of government bonds and classified under other liabilities until such reserve had reached the amount of $200,000 thousand. This reserve could not be used for any purpose other than to offset the trading loss in excess of the trading profit.

Reserve for guarantee loss is provided for based on the estimated unrecoverable amount.

Recognition of Revenues

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Group that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection. Under MOF regulations, the interest revenue on credits for which agreements had been reached to extend their maturities is recognized upon collection.

Service fee is recorded as income upon receipt or substantial completion of activities involved in the earnings process.

Income Tax

The Group adopted SFAS No. 22, “Accounting for Income Taxes” which requires asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that would result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to SFAS No. 12, “Accounting for Income Tax Credits,” the Group recognizes the tax benefit from the tax credit earned at the year the expenditure arose from research and development and personnel training.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Starting 2006, the Company adopts the accounting treatment of the consolidated income tax return with SKFHC, the parent of the Company, in compliance with ARDF Interpretation (92) No. 240. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as SKFHC’s income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Foreign Currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss and foreign-currency non-monetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

(a) Recognized in stockholder's equity if the changes in fair value are recognized in stockholder's equity;

(b) Recognized in profit and loss if the changes in fair value is recognized in profit and loss.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments would result from the translation of the investee's financial statements into the reporting currency of the Group. Such adjustments are accumulated and reported as a separate component of stockholder's equity.

Foreign-currency non-monetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Commitments and Contingencies

The Group estimates any contingent loss that met two basic requirements:

(a) Information available prior to issuance of the financial statements indicated that it is probable that an asset has been impaired or that a liability has been incurred at the date of the financial statements.

(b) The amount of the loss could be reasonably estimated.

If a loss is probable or measurable, but not both, or if there is at least a reasonable possibility that a liability might have been incurred, the nature of the contingency must be disclosed in the notes to the financial statements, along with an estimate of the possible loss or the range of the possible loss if an estimate could be made.

Hedge Accounting

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

(a) Fair value hedge:

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

(b) Cash flow hedge:

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholder's equity. The amount recognized in stockholder's equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in stockholder's equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

The Group, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities. The main focus of cash flow hedge is to minimize the change of future cash flow arising from the fluctuation of the interest rates and foreign currency of assets and liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the years ended December 31, 2006 and 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

On January 1, 2006, the Group adopted the newly released SFAS No. 34, “Financial Instruments: Recognition and Measurement” and SFAS No. 36, “Financial Instruments: Disclosure and Presentation.”

The Company categorized its financial assets and financial liabilities upon initial adoption of these newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss and derivatives designated for fair value hedges were included in the cumulative effect of changes in accounting principles, and the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets and derivatives designated for cash flow hedges were recognized as adjustments to stockholder’s equity.

The effect of adopting the newly released SFASs was summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Stockholder’s Equity (Net of Tax)
Financial assets or liabilities at fair value through profit or loss	$24,419	$ —
Available-for-sale financial assets	—	40,090
Hedging derivatives	—	(197,563)
	$24,419	$(157,473)

The above accounting changes resulted in decreases of $24,419 thousand in net loss, and NT$0.01 in loss per share for the year ended December 31, 2006.

Effective January 1, 2006, pursuant to the newly released SFAS No. 1, “Conceptual Framework for Financial Accounting and Preparation of Financial Statements” (4th amendment), No. 5, “Long-term Investments in Equity Securities” (5th amendment) and No. 25, “Business Combinations — Accounting Treatment under Purchase Method” (1st amendment), investment premiums or goodwill are assessed for impairment instead of being amortized. For the year ended December 31, 2006, the amortization expenses decreased by $104,606 thousand because the excess of purchase price (cash) over net asset amounting to $1,243,107 thousand recognized as goodwill ceased amortization commencing January 1, 2006.

Since July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement." The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 33 for relevant information regarding reclassifications of financial instruments.

The ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation did not have significant effect on the financial statements.

4. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

5. CASH AND CASH EQUIVALENTS

	December 31		
	2006	2007	2008
Cash	$3,462,352	$3,565,657	$3,663,207
Notes and checks for clearing	4,391,513	1,769,776	2,117,765
Deposits in other banks	546,420	855,694	1,077,272
	$8,400,285	$6,191,127	$6,858,244

6. DUE FROM THE CENTRAL BANK OF CHINA AND BANKS

	December 31		
	2006	2007	2008
Reserve for deposits			
Reserve — checking account	$ 3,029,198	$ 2,863,116	$ 8,129,466
Reserve — demand account	7,370,591	8,349,737	9,006,765
Inter-bank clearing account	203,052	200,740	200,276
Reserve — foreign currency deposit	15,320	989,512	37,789
Time deposits	20,300,000	19,200,000	24,700,000
Due from banks	7,343,071	2,590,081	4,084,984
	$38,261,232	$34,193,186	$46,159,280

The deposit reserves, which are calculated by multiplying the average monthly balances of all deposit accounts by the legally required ratio, were in the Central Bank of China. These account reserves can be used any time except demand account which can be used only for the monthly adjustment of the deposit reserve.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31		
	2006	2007	2008
Financial assets held for trading			
Foreign exchange forward contracts	$ 1,475	$ 94	$1,752,136
Convertible corporate bonds	190,802	187,905	1,521,011
Cross-currency swap contracts	16	166,101	1,048,358
Beneficiary certificates	2,166,421	1,452,316	500,000
Credit default swap	—	—	341,771
Exchangeable corporate bonds	—	9,292	200,454
Negotiable certificate of deposit	—	—	11,572
Listed securities	1,639,789	1,735,115	—
Corporate bonds	—	297,576	—
Government bonds	215,817	—	—
	$4,214,320	$3,848,399	$5,375,302
Financial assets designated as at fair value through profit or loss			
Credit-linked loans	$ —	$ —	$ 260,887
Financial liabilities held for trading			
Interest rate swap contracts	$ —	$ 169,613	$2,762,527
Cross-currency swap contracts	—	1,312	625
Foreign exchange forward contracts	25,766	14,254	—
	$ 25,766	$ 185,179	$2,763,152
Financial liabilities designated as at fair value through profit or loss			
Financial debentures	$ 965,228	$ 981,378	$ —

Summary of financial instruments at fair value through profit or loss:

	December 31		
	2006	2007	2008
Financial assets and liabilities held for trading			
Realized gain (loss)	$472,632	$(112,410)	$(136,061)
Valuation gain (loss)	2,961	(269,239)	(213,893)
	$475,593	$(381,649)	$(349,954)
Financial assets and liabilities designated as at fair value through profit or loss			
Valuation loss	$ (3,043)	$ (16,150)	$ (86,335)

As of December 31, 2006, 2007 and 2008, the Group's outstanding derivative contracts are summarized as follows:

			Contract Amount (Notional Principals) (In Thousand Dollars)
December 31, 2006			
Foreign exchange forward contracts	Buy	NTD	$ 28,684
	Sell	USD	730
Cross-currency swap contracts (Note 30)	Buy	USD	713,000
	Buy	NTD	22,525,220
Interest rate swap contracts		NTD	9,600,000
December 31, 2007			
Foreign exchange forward contracts	Buy	JPY	$ 286,240
	Sell	USD	1,857
Cross-currency swap contracts (Note 30)	Buy	USD	663,000
	Buy	NTD	21,176,422
	Buy	USD	10,942
	Sell	USD	3,000
Interest rate swap contracts		NTD	9,600,000
December 31, 2008			
Foreign exchange forward contracts (Note 30)	Buy	USD	$ 660,000
	Buy	JPY	200,000
	Buy	NTD	10,127
Cross-currency swap contracts (Note 30)	Buy	USD	1,588,842
	Buy	NTD	45,939,695
	Buy	ZAR	115,000
	Buy	AUD	47,000
	Buy	NZD	35,000
	Buy	JPY	180,314
	Buy	CAD	2,000
	Buy	GBP	1,800
Credit default swap		USD	17,000
Interest rate swap contracts		NTD	1,300,000

TSKCB uses foreign exchange forward contracts as hedging instruments for exchange rate exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these contracts to hedge the risk from the operations mentioned and cover the exposure of foreign currency demand. TSKCB enters into foreign-currency derivative contracts for hedging the risk of exchange rate fluctuations on its foreign assets (liabilities); it enters into interest rate swap contracts without exchange of notional principals for non-trading purpose to hedge the risk of interest rate fluctuations on its issuing of financial debentures. TSKCB's hedging strategy is to hedge the great part of market price or cash flow risks, and to use hedging instruments having high negative correlation with fair value of the hedged items and to periodically evaluate the effectiveness of these instruments. Please refer to Notes 14, 22 and 23 for more detail information.

8. BOND AND SECURITIES PURCHASED UNDER RESALE AGREEMENTS

As of December 31, 2006, bonds purchased under resale agreements amounted to $241,018 thousand with interest rates ranging from 1.625% to 1.635%.

9. RECEIVABLES, NET

	December 31		
	2006	2007	2008
Accounts receivable	$14,709,040	$12,504,398	$ 9,560,119
Interests receivable	911,437	1,011,169	1,108,375
Customers' liabilities under acceptances	357,910	763,040	341,281
Consolidated income tax refundable (Notes 28 and 30)	97,455	204,106	256,495
Accrued revenue	15,000	15,000	22,479
Income tax refundable	107,768	85,020	16,766
Notes receivable	35,675	22,034	6,800
Other receivables	632,119	629,656	817,097
	16,866,404	15,234,423	12,129,412
Less allowance for doubtful accounts (Note 10)	(1,953,551)	(596,998)	(327,338)
	$14,912,853	$14,637,425	$11,802,074

10. NOTES DISCOUNTED AND LOANS, NET

	December 31		
	2006	2007	2008
Notes discounted and bill negotiated	$ 322,447	$ 324,125	$ 91,520
Loans due within one year	36,446,278	48,794,987	40,910,638
Loans due from one to seven years	96,586,919	98,736,466	103,985,593
Loans due more than seven years	100,118,542	127,103,314	134,332,621
Delinquent loans	2,830,904	4,574,323	4,507,365
	236,305,090	279,533,215	283,827,737
Less allowance for doubtful accounts	(3,379,241)	(2,915,290)	(3,528,718)
	$232,925,849	$276,617,925	$280,299,019

As of December 31, 2006, 2007 and 2008, TSKCB has ceased interest not accrued on the delinquent loans amounted to $2,830,904 thousand, $4,574,323 thousand and $4,507,365 thousand, respectively.

Allowance for doubtful accounts of receivables, loans and other delinquent loan:

	2006		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio (Excluding the Particular Loans)	Total
Balance, January 1, 2006	$ 2,106,483	$ 1,331,614	$ 3,438,097
Provision	3,219,757	6,533,187	9,752,944
Write offs	(4,812,943)	(3,462,010)	(8,274,953)
Reversal of write offs	486,858	6,447	493,305
Balance, December 31, 2006	$ 1,000,155	$ 4,409,238	$ 5,409,393

	2007		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio (Excluding the Particular Loans)	Total
Balance, January 1, 2007	$ 1,000,155	$ 4,409,238	$ 5,409,393
Provision	1,188,839	672,149	1,860,988
Write offs	(1,238,444)	(3,154,562)	(4,393,006)
Reversal of write offs	755,817	57,446	813,263
Balance, December 31, 2007	$ 1,706,367	$ 1,984,271	$ 3,690,638

	2008		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio (Excluding the Particular Loans)	Total
Balance, January 1, 2008	$ 1,706,367	$1,984,271	$ 3,690,638
Provision	1,534,755	394,961	1,929,716
Write offs	(1,376,028)	(878,173)	(2,254,201)
Reversal of write offs	656,052	44,076	700,128
Balance, December 31, 2008	$ 2,521,146	$1,545,135	$ 4,066,281

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31		
	2006	2007	2008
Government bonds	$3,992,752	$10,766,836	$16,184,457
Corporate bonds	—	697,340	2,695,113
Real estate asset fund	—	359,208	1,412,172
Listed securities	—	—	1,390,947
Foreign bonds — in thousands of US dollars, as of December 31, 2006, 2007 and 2008, the bonds amounted to $43,060 thousand, $35,833 thousand, and $15,801 thousand, respectively.	1,403,578	1,162,521	519,223
Domestic private common stock	—	1,057,300	166,629
	$5,396,330	$14,043,205	$22,368,541

As of December 31, 2006, 2007 and 2008, the par value of the repurchase agreements collateralized by available-for-sale government bonds amounted to $3,690,700 thousand, $3,328,900 thousand and $2,336,500 thousand, respectively.

Credit linked note was bought from China Development Industrial Bank. Details of terms are summarized as follows:

(a) Product: Credit linked note with Cosmos Bank first convertible financial debenture.

(b) Reference obligation: Cosmos Bank, the former related party (Note 30), first convertible financial debenture, however the right to convert had been sold to General Electric Capital Corporation by China Development Industrial Bank.

(c) Reference entity: Cosmos Bank or the successors.

(d) Contract amount: $3,125,000 thousand.

(e) Scheduled termination date: September 7, 2010

(f) Interest rate: Fixed rate 3.25%, paid semi-annually.

(g) Definition of credit event: Reference entity's bankruptcy, restructuring and failure to pay.

(h) Settlement upon credit event: Cash settlement or physical settlement.

Caused by the September 2007 Cosmos Bank credit event, and on the premises of legal and contractual regulations, and in agreement with the Cosmos Bank Recapitalization Program, TSKCB, as proper lender, and other lenders to Cosmos Bank, on September 7, 2007 co-signed a Cosmos Bank recapitalization memo and on October 9, 2007 the Board of Directors of TSKCB resolved to sign the contract to swap $3,125,000 thousand domestic unsecured convertible bank debentures first issued by Cosmos Bank in 2007, with the Cosmos Bank private placement of common stock. Based on the principle of stability and to be conservative, those credit-linked notes were deemed to have suffered $1,812,500 thousand loss. TSKCB cleared the credit-linked note contract by physical settlement on October 18, 2007 and received $3,125,000 thousand domestic unsecured convertible bank debentures first issued by Cosmos Bank in 2007. On December 28, 2007, TSKCB converted these convertible bank debentures into 517,571 thousand shares of Cosmos Bank private placement of common stock which were included under available-for-sale financial assets and received partial return of investments of $277,359 thousand.

TSKCB obtained approval from the FSC for the sale of 250,000 thousand shares of Cosmos Bank private placement of common stock to Shin Kong Life Insurance Co., Ltd.; total selling price was $500,000 thousand. In addition, Cosmos Bank finished capital reduction in the third quarter of 2008. TSKCB reduced its holding in shares of stock according to ratio of capital reduction. As of December 31, 2008, TSKCB held 88,106 thousand shares of Cosmos Bank's private placement common stock valued at $535,142 thousand.

Available-for-sale financial assets are pledged to district courts for litigation and for issuing financial debenture. Please refer to Note 31.

12. HELD-TO-MATURITY INVESTMENTS

	December 31		
	2006	2007	2008
Government bonds	$ 6,259,895	$ 6,234,292	$6,212,168
Beneficiary certificates	2,085,833	2,082,563	2,124,731
Corporate bonds	1,987,775	1,899,347	1,399,570
Foreign bonds — in thousands of US dollars, as of December 31, 2006, 2007 and 2008, the bonds amounted to $14,429 thousand, $9,631 thousand and $3,411 thousand, respectively.	926,711	733,952	112,103
Financial debentures	800,026	700,000	—
	$12,060,240	$11,650,154	$9,848,572

Held-to-maturity investments are pledged to district courts for litigation and for issuing financial debenture. Please refer to Note 31.

13. OTHER FINANCIAL ASSETS, NET

	December 31		
	2006	2007	2008
Financial assets carried at cost	$ 445,026	$ 445,026	$ 578,909
Bond investments without active market	9,122,406	7,202,346	7,409,241
Hedging derivative (Note 21)	—	—	1,258
Remittance purchase	3,572	214	469
Other delinquent loan, net	—	—	—
	$9,571,004	$7,647,586	$7,989,877

Details of the financial assets carried at cost are summarized as follows:

	December 31		
	2006	2007	2008
Domestic non-listed (OTC) common stock	$145,026	$145,026	$145,026
Domestic non-listed (OTC) preferred stock	300,000	300,000	300,000
Abroad limited trade — listed common stock	—	—	133,883
	$445,026	$445,026	$578,909

Details of the bond investments without active market are summarized as follows:

	December 31		
	2006	2007	2008
Foreign bonds — in thousands of US dollars, as of December 31, 2006, 2007 and 2008, the bonds amounted to $183,992 thousand, $222,000 thousand and $243,779 thousand, respectively.	$5,997,406	$7,202,346	$8,010,579
Credit-link note (Note 11)	3,125,000	—	—
Less impairment loss	—	—	(601,338)
	$9,122,406	$7,202,346	$7,409,241

As of December 31, 2008, impairment loss on bond investments without active market amounted to $601,338 thousand.

Details of other delinquent loan — net are summarized as follows:

	December 31		
	2006	2007	2008
Other delinquent loan	$ 76,601	$ 178,350	$ 210,225
Less allowance for doubtful accounts (Note 10)	(76,601)	(178,350)	(210,225)
	$ —	$ —	$ —

14. PROPERTY AND EQUIPMENT

	2006							
	Land	Building and Structures	Computers	Transportation	Other Equipment	Leased Assets	Construction In Progress	Total
Cost								
Balance, beginning of year	$7,335,343	$3,122,537	$1,120,255	$ 35,991	$1,229,663	$659,209	$ 1,985,267	$15,488,265
Addition	26,032	170,942	100,983	—	58,984	91,461	240,125	688,527
Reduction	(25,939)	(1,242)	(8,097)	(12,921)	(4,391)	—	—	(52,590)
Reclassifications	(9,253)	2,124,650	27,579	—	(251,987)	—	(2,149,040)	(258,051)
Balance, end of year	7,326,183	5,416,887	1,240,720	23,070	1,032,269	750,670	76,352	15,866,151
Revaluation increment								
Balance, beginning of year	134,474	8,177	—	—	—	—	—	142,651
Addition	—	—	—	—	—	—	—	—
Reduction	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—
Balance, end of year	134,474	8,177	—	—	—	—	—	142,651
Accumulated depreciation								
Balance, beginning of year	—	639,916	688,430	26,574	838,380	71,544	—	2,264,844
Addition	—	141,780	161,059	2,868	97,366	123,937	—	527,010
Reduction	—	(1,219)	(6,475)	(11,461)	(4,811)	—	—	(23,966)
Reclassifications	—	(24,339)	—	—	(177,284)	—	—	(201,623)
Balance, end of year	—	756,138	843,014	17,981	753,651	195,481	—	2,566,265
Carrying amount	$7,460,657	$4,668,926	$ 397,706	$ 5,089	$ 278,618	$555,189	$ 76,352	$13,442,537

	2007							
	Land	Building and Structures	Computers	Transportation	Other Equipment	Leased Assets	Construction In Progress	Total
Cost								
Balance, beginning of year	$ 7,326,183	$ 5,416,887	$1,240,720	$23,070	$1,032,269	$750,670	$ 76,352	$15,866,151
Addition	71,011	—	67,979	827	36,896	—	57,668	234,381
Reduction	(2,922,345)	(2,286,603)	(102,022)	(2,643)	(4,037)	—	—	(5,317,650)
Reclassifications	152,343	96,476	30,410	—	4,117	—	(85,188)	198,158
Balance, end of year	4,627,192	3,226,760	1,237,087	21,254	1,069,245	750,670	48,832	10,981,040
Revaluation increment								
Balance, beginning of year	134,474	8,177	—	—	—	—	—	142,651
Addition	247,235	—	—	—	—	—	—	247,235
Reduction	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—
Balance, end of year	381,709	8,177	—	—	—	—	—	389,886
Accumulated depreciation								
Balance, beginning of year	—	756,138	843,014	17,981	753,651	195,481	—	2,566,265
Addition	—	140,017	157,505	2,246	92,978	125,111	—	517,857
Reduction	—	(127,894)	(100,426)	(2,587)	(3,737)	—	—	(234,644)
Reclassifications	—	26,993	—	—	—	—	—	26,993
Balance, end of year	—	795,254	900,093	17,640	842,892	320,592	—	2,876,471
Carrying amount	$ 5,008,901	$ 2,439,683	$ 336,994	$ 3,614	$ 226,353	$430,078	$ 48,832	$ 8,494,455

	2008							
	Land	Building and Structures	Computers	Transportation	Other Equipment	Leased Assets	Construction In Progress	Total
Cost								
Balance, beginning of year	$4,627,192	$3,226,760	$1,237,087	$ 21,254	$10,269,245	$750,670	$ 48,832	$10,981,040
Addition	37,447	—	54,857	—	36,610	—	53,141	182,055
Reduction	(733,856)	(519,439)	(423,767)	(17,858)	(511,508)	—	—	(2,206,428)
Reclassifications	(273,709)	22,353	15,864	—	—	—	(56,860)	(292,352)
Balance, end of year	3,657,074	2,729,674	884,041	33,396	594,347	750,670	45,113	8,664,315
Revaluation increment								
Balance, beginning of year	381,709	8,177	—	—	—	—	—	389,886
Addition	—	—	—	—	—	—	—	—
Reduction	(1,070)	—	—	—	—	—	—	(1,070)
Reclassifications	—	—	—	—	—	—	—	—
Balance, end of year	380,639	8,177	—	—	—	—	—	388,816
Accumulated depreciation								
Balance, beginning of year	—	795,254	900,093	17,640	842,892	320,592	—	2,876,471
Addition	—	73,609	144,382	1,293	74,274	123,377	—	416,935
Reduction	—	(180,984)	(423,780)	(16,726)	(502,650)	—	—	(1,124,140)
Reclassifications	—	(6,035)	—	—	—	—	—	(6,035)
Balance, end of year	—	681,844	620,695	2,207	414,516	443,969	—	2,163,231
Balance, end of year, net	$4,037,713	$2,056,007	$ 263,346	$ 1,189	$ 179,831	$306,701	$ 45,113	$ 6,889,900

In 2007, some land value increments were recognized from reappraisal according to government announced land current value. The reserve for land value increment tax of $83,582 thousand was listed under other liabilities, please refer to Note 23. The decrease of property and equipment was caused mainly by the selling of lands and buildings in 2007; please refer to Note 39.

In 2006, property and equipment net reclassification decreased by $56,428 thousand due to transfer from collaterals assumed of $330,776 thousand, and transfer to deferred expenses of $188,408 thousand, non-operating assets of $81,461 thousand and collaterals assumed of $117,335 thousand. In 2007, property and equipment net reclassification increased by $171,165 thousand due to transfer from non-operating assets of $222,393 thousand and transfer to deferred expenses of $51,228 thousand. In 2008, property and equipment net reclassification decreased by $286,317 thousand due to transfer to deferred expenses of $40,996 thousand and non-operating assets of $245,321 thousand.

15. INTANGIBLE ASSETS

	December 31		
	2006	2007	2008
Goodwill	$1,245,055	$1,243,924	$1,243,924

TSKCB's acquisitions of other financial institutions are measured according to the provisions of SFAS No. 25, "Business Combinations — Accounting Treatment under Purchase Method". The excess of purchase price (cash) over net assets amounting to $2,082,113 thousand was recognized as goodwill. The Group reviewed and decided no impairment loss should be charged for the years ended December 31, 2006, 2007 and 2008.

16. OTHER ASSETS

	December 31		
	2006	2007	2008
Deferred income tax assets (Note 28)	$ 2,060,040	$1,993,644	$2,024,955
Non-operating assets, net	1,133,495	904,863	1,141,305
Refundable deposits	6,181,115	3,797,101	599,142
Deferred expenses	428,590	349,080	353,379
Collateral assumed, net	1,837,026	1,084,456	290,556
Prepayments	153,617	99,048	68,916
	$11,793,883	$8,228,192	$4,478,253

As of December 31, 2006, 2007 and 2008, non-operating assets consist of the following:

	2006		
	Land	Building	Total
Cost			
Balance, beginning of year	$790,460	$ 359,773	$1,150,233
Addition	—	—	—
Reduction	—	—	—
Reclassifications	89,105	7,046	96,151
Balance, end of year	879,565	366,819	1,246,384
Accumulated depreciation			
Balance, beginning of year	—	(89,940)	(89,940)
Addition	—	(8,259)	(8,259)
Reduction	—	—	—
Reclassifications	—	(14,690)	(14,690)
Balance, end of year	—	(112,889)	(112,889)
Carrying amount	$879,565	$ 253,930	$1,133,495

	2007		
	Land	Building	Total
Cost			
Balance, beginning of year	$ 879,565	$ 366,819	$1,246,384
Addition	—	—	—
Reduction	—	—	—
Reclassifications	(152,343)	(97,043)	(249,386)
Balance, end of year	727,222	269,776	996,998
Accumulated depreciation			
Balance, beginning of year	—	(112,889)	(112,889)
Addition	—	(6,239)	(6,239)
Reduction	—	—	—
Reclassifications	—	26,993	26,993
Balance, end of year	—	(92,135)	(92,135)
Carrying amount	$ 727,222	$ 177,641	$ 904,863

	2008		
	Land	Building	Total
Cost			
Balance, beginning of year	$ 727,222	$ 269,776	$ 996,998
Addition	—	—	—
Reduction	—	—	—
Reclassifications	273,709	(22,353)	251,356
Balance, end of year	1,000,931	247,423	1,248,354
Accumulated depreciation			
Balance, beginning of year	—	(92,135)	(92,135)
Addition	—	(8,879)	(8,879)
Reduction	—	—	—
Reclassifications	—	(6,035)	(6,035)
Balance, end of year	—	(107,049)	(107,049)
Carrying amount	$1,000,931	$ 140,374	$1,141,305

As of December 31, 2006, 2007 and 2008, deferred expense consists of the following:

	2006		
	Computer Software	Lease Improvement	Total
Balance, beginning of year	$ 184,565	$ 152,709	$ 337,274
Addition	80,917	53,875	134,792
Amortization	(129,346)	(102,530)	(231,876)
Reduction	—	(8)	(8)
Reclassifications	117,627	70,781	188,408
Balance, end of year, net	$ 253,763	$ 174,827	$ 428,590

	2007		
	Computer Software	Lease Improvement	Total
Balance, beginning of year	$ 253,763	$174,827	$ 428,590
Addition	69,580	32,680	102,260
Amortization	(148,148)	(82,857)	(231,005)
Reduction	—	(1,993)	(1,993)
Reclassifications	—	51,228	51,228
Balance, end of year, net	$ 175,195	$173,885	$ 349,080

	2008		
	Computer Software	Lease Improvement	Total
Balance, beginning of year	$ 175,195	$173,885	$ 349,080
Addition	36,225	108,954	145,179
Amortization	(103,988)	(75,208)	(179,196)
Reduction	—	(2,680)	(2,680)
Reclassifications	36,143	4,853	40,996
Balance, end of year, net	$ 143,575	$209,804	$ 353,379

As of December 31, 2006, 2007 and 2008, collateral assumed consists of the following:

	2006	2007	2008
Land	$ 2,151,529	$ 1,581,663	$ 882,169
Buildings	1,090,295	634,584	477,390
Other equipment	277	295	248
Less allowance for collaterals assumed	(1,405,075)	(1,132,086)	(1,069,251)
	$ 1,837,026	$ 1,084,456	$ 290,556

17. DUE TO CENTRAL BANK OF CHINA AND BANKS

	December 31		
	2006	2007	2008
Due to Central Bank of China	$ 14,777	$ 38,485	$ 5,635
Due to banks	1,150,683	985,193	191,701
Due to Chunghwa Post Co., Ltd.	4,200,446	3,140,472	3,037,543
Call loan from banks	6,625,232	3,696,357	1,318,166
	$11,991,138	$7,860,507	$4,553,045

18. NOTES ISSUED UNDER REPURCHASE AGREEMENTS

As of December 31, 2006, 2007 and 2008, government bonds issued under repurchase agreements were $4,540,484 thousand, $3,699,313 thousand and $2,594,597 thousand with interest rates ranging from 1.470%~1.635%, 1.75%~1.98% and 0.40%~0.65%, respectively. The future repurchasing commitment of such repurchase agreements as of December 31, 2006, 2007 and 2008 were $4,543,432 thousand, $3,700,733 thousand and $2,595,036 thousand, respectively.

19. PAYABLES

	December 31		
	2006	2007	2008
Notes and checks in clearing	$4,391,513	$1,769,776	$2,117,765
Interest payable	909,804	1,172,816	1,165,548
Accrued expenses	941,594	1,002,584	776,039
Accounts payable	307,891	601,344	414,545
Bankers' acceptances	357,910	763,040	341,281
Trust exchange payable	677,122	1,306,833	218,556
Receipts under custody	223,383	274,017	167,177
Other payables	1,006,291	1,047,018	688,776
	$8,815,508	$7,937,428	$5,889,687

20. CUSTOMER DEPOSITS AND REMITTANCES

	December 31		
	2006	2007	2008
Savings account deposits	$216,187,835	$220,788,290	$214,995,998
Time deposits	41,559,720	71,935,436	97,002,530
Negotiable certificates of deposit	1,950,700	3,697,600	890,100
Demand deposits	21,656,933	24,155,475	38,284,306
Checking account deposits	5,379,329	5,118,841	4,841,429
Remittances outstanding	11,724	68,093	12,500
	$286,746,241	$325,763,735	$356,026,863

21. FINANCIAL DEBENTURE

	December 31		
	2006	2007	2008
First dominant bank debenture	$10,000,000	$10,000,000	$ 1,300,000
Second dominant bank debenture	8,800,000	8,800,000	8,800,000
	18,800,000	18,800,000	10,100,000
Less item reclassified to financial liabilities designated as at fair value through profit or loss	(1,000,000)	(1,000,000)	—
	$17,800,000	$17,800,000	$10,100,000

TSKCB issued first to sixth primary financial debenture of 2003 on November 25, 2003, December 3, 2003, December 5, 2003, December 8, 2003, December 10, 2003 and December 16, 2003, respectively, and issued first and second primary financial debenture of 2004 on February 4, 2004 and February 16, 2004, respectively. Those issuances of financial debenture were approved by the ruling reference No. 0920032691 issued by the MOF on July 14, 2003. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $10,000,000 thousand

(b) Principal issued: $10,000,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: 5 years with maturities on November 25, 2008, December 3, 2008, December 5, 2008, December 8, 2008, December 10, 2008, December 16, 2008, February 4, 2009 and February 16, 2009, respectively.

(e) Nominal interest rate: Fixed or floating interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid as follows:

(i) Paid seasonally from the issuance date: Items A, B, C, D and F of fifth first financial debenture of 2003.

(ii) Paid semi-annually from the issuance date: First, third, fourth, sixth first financial debenture and item E of fifth first financial debenture of 2003 and first and second first financial debenture of 2004.

(iii) Paid annually from the issuance date: Second first financial debenture of 2003.

(h) As of December 31, 2008, TSKCB's first, second, third, fourth, fifth and sixth primary financial debenture of 2003, totaling $8,700,000 thousand had been redeemed.

TSKCB issued first secondary financial debenture and second secondary financial debenture on November 13, 2006 and November 27, 2006, respectively, which were approved by the ruling reference No. 09500376520 issued by Banking Bureau of the FSC on September 8, 2006. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $8,800,000 thousand

(b) Principal issued: $8,800,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: Debenture I: 7 years with maturities on November 13, 2013 and November 27, 2013, respectively. Debenture II: 7 years with maturities on November 13, 2016 and November 27, 2016, respectively.

(e) Nominal interest rate: Fixed interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid annually from the issuance date.

As of December 31, 2007, to offset the effect of inconsistency in accounting between the interest payment on the settlement date for the third and fourth primary financial debenture of 2003 amounting to $1,000,000 thousand and the interest swap contract which is taking a position that is equal and opposite to the ultimate position of the first financial debenture, TSKCB designated those financial liabilities as at fair value through profit or loss. As of December 31, 2008, TSKCB's third and fourth primary financial debenture had been redeemed. Please refer to Note 7.

22. MISCELLANEOUS FINANCIAL LIABILITIES

	December 31		
	2006	2007	2008
Lease payable	$539,724	$423,943	$303,809
Appropriated loan fund	86,400	85,500	81,900
Hedging derivative	201,723	95,287	—
	$827,847	$604,730	$385,709

In December 2004, TSKCB entered into an automation equipment lease agreement with Taiwan Shin Kong Security Co., Ltd. Terms and conditions of the agreement are summarized as follows:

(a) Subject: automated teller machines (ATMs)

(b) Term: Five years from the next day of inspection. Upon expiry, TSKCB has a priority right to lease these ATMs. Once the lease term reaches seven years, the ownership of these ATMs will be transferred to TSKCB.

(c) Lease payment: Monthly rental of $30 thousand each; Total rental expenses for five-year lease amounted to $1,800 thousand.

(d) During the lease term, TSKCB is obliged to pay full rentals for any installed but later withdrawn ATM.

(e) As of December 31, 2008, 434 ATMs had been installed and are accounted for as capital lease.

As of December 31, 2006, 2007 and 2008, TSKCB being one of the banks that lend to the Taipei International Financial Building Co., Ltd. was provided by the government with a funding reported as appropriated loan fund which amounted to $86,400 thousand, $85,500 thousand and $81,900 thousand, respectively.

To hedge cash flow risk due to the fluctuations of interest rate, the Bank has held interest rate swap contracts amounting to $9,600,000 thousand (notional principal). For these interest rate swap contracts, all criteria: Bank's documentation of the hedging relationship, objectives of risk management, hedging strategy and the means to assess the hedging effectiveness, of cash flow hedge accounting required by SFAS No. 34, "Financial Instruments: Recognition and Measurement" are met, thus the contracts are remeasured at fair value. The effectively hedged portion, $8,600,000 thousand, was recognized directly in the stockholder's equity. The remaining, $1,000,000 thousand, is recognized in the financial assets held for trading. As of December 31, 2008, due to the redemption of the financial debenture, the remaining interest rate swap contracts, amounting to $1,300,000 thousand, were measured at fair value and recognized directly in the stockholder's equity.

23. OTHER LIABILITIES

	December 31		
	2006	2007	2008
Advance receipts	$486,480	$416,598	$330,757
Reserve for land revaluation increment tax (Note 14)	142,919	226,501	225,706
Guarantee deposit received	86,374	36,185	33,516
Reserve for guarantee	14,232	14,232	14,232
Reserve for trading loss	12,781	12,781	12,946
Others	4,601	16,605	18,929
	$747,387	$722,902	$636,086

24. PENSION

The Group has two pension plans covering all regular employees. One is defined benefit plan under the Labor Standards Law. The benefits under defined benefit plan are primarily based on employee's number of years of service and average compensation for the year before retirement. The Group funds the plan at certain percentage of its employee's salaries and wages and deposits in the custody of the committee of Pension Trust Funds, which are managed by the Group's Committee of Pension Fund. Another is defined contribution plan under the Labor Pension Act, effective on July 1, 2005. For those employees who choose defined contribution plan, the Group makes monthly contribution based on 6% of each employee's salaries and wages and deposits the fund into an employee's individual pension account in the Bureau of Labor Insurance.

SFHK operates defined contribution retirement schemes for all qualifying employees to make monthly contributions to employees' individual pension accounts at certain percentage of monthly salaries and wages based on local regulation.

For the years ended December 31, 2006, 2007 and 2008, net periodic pension cost under defined contribution plan amounted to $80,608 thousand, $85,653 thousand and $88,463 thousand, respectively; and under defined benefit plan amounted to $53,705 thousand, $48,021 thousand and $48,663 thousand, respectively, which consist of the following:

	2006	2007	2008
Service cost — benefits earned during the period	$ 34,727	$ 32,208	$ 29,075
Interest cost on projected benefit obligation	33,704	28,693	28,307
Amortization of unrecognized transition obligation, net	8,696	9,652	8,392
Estimated return on plan assets	(25,383)	(22,560)	(21,777)
Amortization of unrecognized pension loss	1,961	28	4,666
Net periodic pension cost	$ 53,705	$ 48,021	$ 48,663

The following table sets forth the Plan's funded status and the amounts under defined benefit plan recognized in the accompanying balance sheets at December 31, 2006, 2007 and 2008:

	2006	2007	2008
Actuarial present value of benefit obligation			
Vested benefits	$ (196,424)	$ (211,482)	$ (216,399)
Non-vested benefits	(523,619)	(515,976)	(506,630)
Accumulated benefit obligation	(720,043)	(727,458)	(723,029)
Effect of projected future salary increases	(323,326)	(301,886)	(354,587)
Projected benefit obligation	(1,043,369)	(1,029,344)	(1,077,616)
Pension assets at fair value	787,654	761,641	745,545
Projected benefit obligation in excess of plan assets	(255,715)	(267,703)	(332,071)
Unrecognized net obligations at transition	85,130	75,174	66,613
Unrecognized pension loss	66,896	177,412	246,828
Prepaid pension	(274)	(760)	(1,215)
Additional liability	(1,273)	—	—
Accrued pension liability	$ (105,236)	$ (15,877)	$ (19,845)
Vested benefits — undiscounted	$ 252,264	$ 268,921	$ 350,904

Relevant rates used in determining the actuarial present value of the projected benefit obligation under defined benefit plan for the years ended December 31, 2006, 2007 and 2008 were as follows:

TSKCB	2006	2007	2008
Weighted-average discount rate	2.75%	2.75%	2.75%
Assumed rate of increase in future compensation levels	3.00%	3.00%	3.00%
Expected long-term rate of return on plan assets	2.75%	2.75%	2.75%

SKCC	2006	2007	2008
Weighted-average discount rate	2.75%	2.75%	2.75%
Assumed rate of increase in future compensation levels	2.50%	2.00%	2.50%
Expected long-term rate of return on plan assets	2.75%	2.75%	2.75%

SKLIAC	2006	2007	2008
Weighted-average discount rate	2.75%	2.75%	2.75%
Assumed rate of increase in future compensation levels	4.25%	3.75%	3.25%
Expected long-term rate of return on plan assets	2.75%	2.75%	2.75%

25. STOCKHOLDER'S EQUITY

Common Stock

As of January 1, 2006, TSKCB has authorized and issued common stocks totaling $14,177,665 thousand, divided into 1,417,767 thousand common shares at $10 par value per share.

In July 2006, the Board of Directors, resolved to issue 740,000 thousand shares of common stock at $10 par value as private placement and the deal was completed in October 2006. The Company's paid-in capital then became $21,577,665 thousand, divided into 2,157,767 thousand common shares with par value of $10 per share.

On June 6, 2007, the Board of Directors on behalf of the stockholder, resolved a $2,000,000 thousand capital reduction for 200,000 thousand shares to offset accumulated deficit which was approved by the Financial Supervisory Commission of Executive Yuan in letter of July 25, 2007 Jin-Guan-Zheng (1) No 0960037481. The Company decided the base date of capital reduction to be July 30, 2007. Thus as of December 31, 2006, 2007 and 2008, the Company's paid-in capital decreased to $19,577,665 thousand, divided into 1,957,767 thousand common shares with par value of $10 per share.

Capital Surplus

Under the ROC related law and regulations, capital surplus shall not be used except to offset a deficit. However, the income derived from issuance of new shares at a premium (including the premiums on shares issued above their par value, premiums on shares issued in merger, treasury stock transaction, etc.) and earnings from endowments received can be transferred to capital as a stock dividend, which is based on the respective equities of stockholder. Such amount that is transferred from capital surplus to capital shall not be more than the limitation set in the ROC related law and regulations.

Retained Earnings

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

(a) Payment of taxes;

(b) Offset accumulated deficit, if any;

(c) 30% thereafter, if any, as legal reserve;

(d) Special reserve to be distributed after deliberation;

(e) The remainder plus the beginning balance of unappropriated earnings is to be distributed 1% as bonus to employees and 99% as dividend to the shareholder.

The appropriation of item (e) will be proposed and approved by the Board of Directors. However, the Board of Directors may consider TSKCB's actual condition and decide not to distribute any or part of earnings.

According to the ROC Banking Law, the maximum cash dividends may not exceed 15% of the amount of capital until such reserve equals the amount of capital. Cash or assets distribution should be restricted if the capital adequacy ratio is below the authority's requirement.

Since TSKCB is 100% owned by Shin Kong Financial Holding Co., Ltd., in order to ensure that there are adequate working capital available for the expansion of Shin Kong Financial Holding Co., Ltd. operations and so as to increase its profitability, dividends may be distributed in a combination of cash and stock. However, the cash dividends should not be less than 30% of the current year's distributable amount for stockholder dividends, and the rest will be stock dividends.

According to TSKCB's Articles of Incorporation, the bonus to employees may be based on estimated amount. After distributing 30% of income after tax as legal reserve and distributing special reserve according to the ROC Banking Law and regulations, the remainder plus the beginning balance of unappropriated earnings may be distributed 1% as bonus to employees. If the actual amount subsequently resolved by the shareholder differs from the proposed amount, the difference is recorded in the year of stockholder's resolution as a change in accounting estimate. As of December 31, 2008, the bonus to employees was zero.

The proposal for distribution of 2005 and 2006 earnings was approved by the Board of Directors on behalf of the stockholder on March 8, 2006 and June 6, 2007, to offset accumulated deficit against capital in excess of par of $515,533 thousand and $5,276,235 thousand, legal reserve of $802,626 thousand and special reserve of $343,982 thousand. Information associated with such appropriation is available at the Market Observation Post System website.

The proposal for distribution of 2007 earnings was approved by the Board of Directors on behalf of the shareholder on April 16, 2008. The proposal was to appropriate for legal reserve of $427,008 thousand and special reserve of $302,715 thousand, to add unrealized revaluation increment of $77,293 thousand and distribute bonus to employees of $6,163 thousand. The amount of earnings per share after tax for the year 2007 was $0.73. If bonus to employees was regarded as expense, pro forma information of earnings per share after tax for 2007 would be $0.72. Related information associated with such appropriation is available at the Market Observation Post System website.

The proposal for distribution of 2008 earnings was not yet approved as of the date of the independent auditors' report. The result of the proposal will be shown on the Market Observation Post System of the Taiwan Stock Exchange Corporation.

According to SKCC's, SKLIAC's and SKPIAC's Articles of Incorporation, the annual net income after income taxes should be first used to recover accumulated deficits, and remaining amount should then be set aside as legal reserve. The remaining earnings are distributed as follows:

(a) not less than 1% as bonuses to employees;

(b) final remainder, to be appropriated on the basis of the board of directors' proposal to submitted to the stockholders' regular annual meeting for approval.

26. SERVICE FEES, NET

	Years Ended December 31		
	2006	2007	2008
Service fee income (Note 30)	$2,086,556	$2,483,811	$2,145,552
Service fee expense	(560,707)	(576,064)	(566,373)
	$1,525,849	$1,907,747	$1,579,179

27. EMPLOYEE EXPENSES, DEPRECIATION AND AMORTIZATION

	Years Ended December 31		
	2006	2007	2008
Employee expenses			
Salaries	$2,382,427	$2,478,130	$2,184,244
Labor and health insurance	167,446	165,418	165,831
Pension expense	134,313	133,674	137,126
Other employee expenses	111,596	113,620	117,342
	$2,795,782	$2,890,842	$2,604,543
Depreciation	$ 527,010	$ 517,857	$ 416,935
Amortization	$ 231,876	$ 231,005	$ 179,196

28. INCOME TAX

Linked income tax receivable (payable), income tax expense (benefit) and deferred income tax asset of each consolidated entity for the years ended December 31, 2006, 2007 and 2008 were as follows:

	2006		
	Linked Income Tax Receivable (Payable)	Income Tax Expense (Benefit)	Deferred Income Tax Asset
The Company	$ (97,455)	$(488,149)	$1,981,992
SKCC	(18,558)	49,890	77,901
SKLIAC	4,183	17,983	83
SKPIAC	899	1,178	—
SFHK	—	(134)	64
TSKIBC	—	402	—
	$(110,931)	$(418,830)	$2,060,040

	2007		
	Linked Income Tax Receivable (Payable)	Income Tax Expense (Benefit)	Deferred Income Tax Asset
The Company	$(105,909)	$38,073	$1,925,280
SKCC	(15)	24,944	68,167
SKLIAC	9,110	18,102	—
SKPIAC	531	1,264	—
SFHK	1,768	1,655	197
	$ (94,515)	$84,038	$1,993,644

	2008		
	Linked Income Tax Receivable (Payable)	Income Tax Expense (Benefit)	Deferred Income Tax Asset
The Company	$(52,389)	$ (4,784)	$1,972,412
SKCC	7,127	15,359	52,190
SKLIAC	16,164	25,274	—
SKPIAC	1,019	1,531	61
SFHK	(1,867)	(38)	292
	$(29,946)	$37,342	$2,024,955

	2006	2007	2008
(Loss) income before income tax of continued operations	$(7,781,200)	$ 1,461,434	$ 221,820
Adjustments			
Permanent difference	(713,798)	(1,195,988)	147,139
Temporary difference	1,349,903	(3,062,920)	(27,065)
	(7,145,095)	(2,797,474)	341,894
Less loss carryforward	—	—	(341,894)
Taxable loss	(7,145,095)	(2,797,474)	—
Current income tax expense	—	—	—
Unappropriated earnings (additional 10% income tax)	—	—	61,019
Less prepaid and withheld income tax	(97,455)	(105,909)	(113,408)
Income tax refundable	$ (97,455)	$ (105,909)	$ (52,389)

As of December 31, 2006, 2007 and 2008, deferred income tax assets consist of the following:

	2006	2007	2008
Deferred income tax assets			
Loss carryforward-the Company	$ 2,381,319	$ 2,933,746	$ 2,806,137
Loss carryforward-other consolidated entities	10,933	2,716	7,380
Excess of allowance for doubtful accounts	745,187	239,269	330,421
Unrealized market devaluation of collateral assumed	213,436	145,188	129,480
Others	234,336	107,129	11,172
Deferred taxable liability			
Amortization of goodwill	—	(94,577)	(115,924)
Less allowance for deferred income tax assets	(1,525,171)	(1,339,827)	(1,143,711)
Net deferred income tax assets	$ 2,060,040	$ 1,993,644	$ 2,024,955

On January 6, 2009, the Legislative Yuan of the ROC passed the amendment of Article 39 of the Income Tax Law, which extends the operating loss carryforward period from five years to ten years. TSKCB recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

As of December 31, 2008, the details of TSKCB's loss carryforward are as follows:

Expiry Year	Deductible Amount
Year 2015	$ 1,773,586
Year 2016	6,953,560
Year 2017	2,497,403
	$11,224,549

On December 31, 2005, TSKCB merged with TSKCB. According to the Law of Business Merging No. 38, the loss of each Bank for the past five years should be calculated with the new combined ratio of shareholder's equity after the merger (TSKCB: 49.99%, TSKCB: 50.01%).

The details of the income tax (benefit) expense are as follows:

	Years Ended December 31		
	2006	2007	2008
Current income tax expense	$ 19,597	$ 20,931	$ 87,885
(Increase) decrease in deferred income tax assets	(505,974)	66,396	(31,311)
Prior year's tax adjustment	20,130	23,320	4,904
Intra-period tax allocation — cumulative effect of a change in accounting principle	(3,014)	—	—
Intra-period tax allocation — adjustment of stockholder's equity	50,431	(26,609)	(24,136)
Income tax (benefit) expense	$(418,830)	$ 84,038	$ 37,342

The information of imputed credit account is disclosed as follows:

	2006	2007	2008
The balance of imputed credit account	$116,338	$198,599	$184,433
Estimated imputed credit ratio	—	13.95%	22.04%

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

As of December 31, 2008, TSKCB has no unappropriated earnings attributed to years 1997 and before.

As of December 31, 2008, TSKCB's income tax returns through 2005 had been assessed and approved by the tax authority. However, in the assessment result of TSKCB's 2004 income tax return, the amortization of bond investment amounting to $64,840 thousand and the amount of amortization of goodwill from acquisition of Credit Cooperatives amounting $8,778 thousand were not recognized by the tax authority. TSKCB did not agree with the assessed result and is in the process of litigation with the authority.

As of December 31, 2008, SKCC's income tax returns through 2006 had been assessed and approved by the tax authority. Although SKCC's 2003-2006 income tax returns had been assessed, it did not agree with the assessed result and is in the process of litigation with the authority. According to management's estimation, an additional tax of $19,369 thousand has been provided for as of December 31, 2008, of which $12,242 thousand has been paid for in advance.

As of December 31, 2008, SKLIAC's income tax returns through 2006 had been assessed and approved by the tax authority.

As of December 31, 2008, SKPIAC's income tax returns through 2006 had been assessed and approved by the tax authority.

29. (LOSS) EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share are summarized as follows:

	Amounts (Numerator)		Shares Denominator	(Loss) Earnings Per Share (Dollars)	
	Before Income Tax	After Income Tax	(Shares in Thousands)	Before Income Tax	After Income Tax
2006					
Loss for the year attributable to common stockholder	$(7,692,051)	$(7,276,235)	1,411,441	$(5.50)	$(5.16)
2007					
Income for the year attributable to common stockholder	$ 1,507,399	$ 1,423,361	1,957,767	$ 0.77	$ 0.73
2008					
Income for the year attributable to common stockholder	$ 263,946	$ 226,604	1,957,767	$ 0.13	$ 0.12

On June 6, 2007 the Board of Directors on behalf of the stockholder, resolved a $2,000,000 thousand capital reduction for 200,000 thousand shares to offset accumulated deficit. The Board of Directors decided the base date of capital reduction to be July 30, 2007. The number of shares outstanding in 2006 was retroactively adjusted to reflect the effect of such event.

30. RELATED PARTY TRANSACTIONS

Related Parties	Relationship
Shin Kong Financial Holding Co., Ltd. (SKFHC)	Parent company of TSKCB
Zeng-Chang, Li	New president and general manager of TSKCB (Note 1)
Cheng-Jin, Liang	Former president of TSKCB (Note 1)
Bo-Han, Lin; Shi-Qi, Hong; Bo-Feng, Lin; Bang-Sheng, Wu; Jin-Tai, Huang; Yi-Zhong, Xie; Shen-Yong, Yang	Directors of TSKCB
Ching-Shuei, Guo; Sheng-Yi, Hu	Independent directors of TSKCB (Note 2)
Zhong-Her, Chen; Song-Chun, Cheng	Supervisors of TSKCB
Xi-Sheng, Wang, etc.	Executive managers of TSKCB
Shin Kong Life Insurance Co., Ltd. (SKLIC)	100% holding subsidiary of SKFHC
Shin Kong Investment Trust Co., Ltd. (SKITC)	100% holding subsidiary of SKFHC
Shin Kong Securities Co., Ltd. (SKSC)	100% holding subsidiary of SKFHC
Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC)	100% holding subsidiary of SKFHC
Dong-Jin, Wu	President of SKFHC
Jia-Lu, Wu	Vice President of SKFHC
Peng, Shiu	General manager of SKFHC
Yun-Wan, Ye; Deng-Shan, Lin; Wen-Dong, Hong; Dong-Sheng, Wu; Xi-Hong, Wu; Gui-Lan, Wu; Xin-Yin, Wu; Xi-Jie, Wu; Shi-Jun, Hong; Chong-Ren, Huang; Ji-Shi, Zheng; Wen-Chi, Wu; Ya-Fu, Du	Directors of SKFHC
Yao-Feng, Li; Qi-Ming, Su; Shi-Fei, Chen; Yuan-Ju, Huang; He-Jen, Huang	Supervisors of SKFHC
Dong-Xian, Wu, etc.	The spouses and kinsfolk of presidents, vice presidents and managers of SKFHC and TSKCB.
Yin-Fang, Wu-Peng, etc.	The spouses of directors and supervisors of SKFHC and TSKCB.
Dong-Quan, Wu, etc.	The presidents, directors, supervisors and managers of SKLIC, SKITC, SKSC and TSKIBC and their spouses
Shin Kong Chao Feng Co., Ltd.	The person in charge is the president of SKFHC
Xin-Quan Co., Ltd,	The person in charge is the president of SKFHC
Pei-Tou Hotel Co., Ltd.	The person in charge is the president of SKFHC
TacBright Optronics Co., Ltd.	The person in charge is the president of SKFHC
Sbright Optroincs Co., Ltd.	The person in charge is the president of SKFHC
Shin Kong Wo Ho-Su Hospital	The person in charge is the president of SKFHC
Shin Kong Wu Foundation	The person in charge is the president of SKFHC
Shin Kong Wu Ho-Su Cultural Foundation	The person in charge is the president of SKFHC
Lian-Sin Cultural Foundation	The person in charge is the president of SKFHC
Wu Tung-Chin Charity Foundation	The person in charge is the president of SKFHC
Great Taipei Broadband Co., Ltd., etc.	The person in charge is the president of SKFHC
First International Telecom Co., Ltd.	The former director is the president of SKFHC
Dong-Yin Investment Co., Ltd.	The person in charge is the spouse of president of SKFHC

Related Parties	Relationship
Yin-Yin Investment Co., Ltd.	The person in charge is the spouse of president of SKFHC
Tai-Zi Car Industry Co., Ltd.	The person in charge is the family of president of SKFHC
UBright Optonics Co., Ltd.	The person in charge is the family of president of SKFHC
Jin-Ge Food Co., Ltd.	The person in charge is the family of president of SKFHC
Dong-Xian Investment Co., Ltd.	The person in charge is the family of president of SKFHC
Hou-Sheng Chemical Industry Co., Ltd.	The person in charge is the family of president of SKFHC
Mian-Hao Enterprise Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Compose Fiber Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Fang Zhi Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Property Insurance Co., Ltd.	The person in charge is the family of president of SKFHC
Xin-Sheng Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Construction and Development Co., Ltd.	The person in charge is the family of president of SKFHC
Rui-Xin Co., Ltd.	The person in charge is the family of president of SKFHC
Jui-Chin Enterprise Co., Ltd.	The person in charge is the family of president of SKFHC
Tai Shin Financial Holding Co., Ltd.	The person in charge is the family of president of SKFHC
Cosmos Bank	The former person in charge is the family of president of SKFHC (Note 3)
Yong-Guang Co., Ltd.	The person in charge is the vice president of SKFHC
Jia-Bang Investment Co., Ltd.	The person in charge is the vice president of SKFHC
Wang-Tien Woolen Textile Co., Ltd.	The person in charge is the vice president of SKFHC
Taipei City Wu Jia-Lu Insurance Foundation	The person in charge is the vice president of SKFHC
Taipei GAS Co., Ltd.	Related party in substance
Taiwan Shin Kong Security Co., Ltd.	Related party in substance
Qi-Ye Chemical Co., Ltd.	Related party in substance

Note 1: The former president resigned on October 3, 2008 and elected the general manager; Zeng-Chang, Li is elected as the new president.

Note 2: TSKCB appointed independent directors, Ching-Shuei, Guo and Sheng-Yi, Hu, on October 3, 2008.

Note 3: Cosmos Bank had changed its president and supervisor in September 2007. The new president is not from the related parties of the Company.

Summary of significant transactions with related parties is as follows:

Loans

	2006						
				Compliance			
	Numbers / Name	Highest Balance	Balance, End of the Year	Performing Loans	Overdue Loans	Collaterals	The difference between related and non-related party
Employees consumption loan	22	39,605	15,675	15,675	—	Car, deposit receipt	None
Loan on mortgage	67	711,399	371,360	371,360	—	Real estate	None
Other loan	Shin-Kong Compose Fiber	672,534	422,451	422,451	—	Public trade stock, equipment	None
	Xin-Sheng	259,000	259,000	259,000	—	Real estate	None
	Jia-Bang Investment	195,000	175,000	175,000	—	Real estate, Public trade Stock	None
	Dong-Xia Investment	100,000	100,000	100,000	—	Real estate	None
	Rui-Xin	210,000	60,000	60,000	—	Real Stock, Public trade stock	None
	Jin-Ge Food	65,084	30,000	30,000	—	Real estate	None
	Wen-Dong Hong	20,000	20,000	20,000	—	Real estate	None
	Shin-Kong Wo Ho-Su Hospital	50,000	10,000	10,000	—	Public trade stock	None
	Taiwan Shin-Kong Security	22,658	10,000	10,000	—	Real estate	None
	Shin-Guang Fang Zhi	2,798	1,585	1,585	—	Public trade stock	None
	Yong-Guang	85,000	—	—	—	Public trade stock	None
	Dong-Yin Investment	5,000	—	—	—	Public trade stock	None
	Taipei Gas	1,586	—	—	—	Real estate	None

	2007							
				Compliance				
	Numbers / Name	Highest Balance	Balance, End of the Year	Performing Loans	Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
Employees consumption loans	24	72,825	11,342	11,342	—	Car, deposit receipt	773	None
Loans on mortgage	69	789,737	438,457	438,457	—	Real estate	7,806	None
Other loans	Tai-Zi Car Industry	1,779,800	1,727,050	1,727,050	—	Real estate	29,474	None
	Hou-Sheng Chemical Industry	1,000,000	1,000,000	1,000,000	—	Real estate	10,931	None
	Shin Kong Compose Fiber	895,443	590,966	590,966	—	Public trade Stock, Equipment	15,387	None
	Shin Kong Zao Feng	450,000	450,000	450,000	—	Real estate	3,995	None
	Rui-Xin	300,000	300,000	300,000	—	Real estate, Public trade Stock	2,511	None
	Xin-Sheng	312,200	270,200	270,200	—	Real estate	8,654	None
	Dong-Xia Investment	200,000	200,000	200,000	—	Real estate	3,792	None
	Jia-Bang Investment	175,000	175,000	175,000	—	Real estate	5,115	None
	First International Telecom	191,360	126,087	126,087	—	Real estate, equipment	5,803	None
	Taiwan Shin Kong Security	43,458	40,000	40,000	—	Real estate	259	None
	Qi-ye Chemical	30,000	30,000	30,000	—	Public trade Stock	506	None
	Wen-Dong Hong	20,000	20,000	20,000	—	Real estate	535	None
	Shin Kong Wo Ho-Su Hospital	10,000	10,000	10,000	—	Public trade Stock	213	None
	Shin Kong Fang Zhi	93,765	—	—	—	Public trade Stock	325	None
	Jin-Fe Food	30,000	—	—	—	Real estate	402	None
	SKSC	19,775	—	—	—	Real estate, Public trade Stock, Beneficiary certificates	4	None
	Taipei Gas	9,443	—	—	—	Real estate	—	None

	2008							
				Compliance				
	Numbers / Name	Highest Balance	Balance, End of the Year	Performing Loans	Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
Employees consumption loans	29	46,664	12,401	12,401	—	Car, deposit receipt	517	None
Loans on mortgage	73	688,445	291,084	291,084	—	Real estate	9,387	None
Other loans	Tai-Zi Car Industry	1,757,300	1,716,850	1,716,850	—	Real estate, equipment	69,967	None
	Hou-Sheng Chemical Industry	1,000,000	990,000	990,000	—	Real estate, deposit receipt	32,396	None
	Shin Kong Zao Feng	660,000	450,000	450,000	—	Real estate	12,336	None
	Wang-Tien Woolen Textile	400,000	400,000	400,000		Real estate	3,308	None
	Jia-Bang Investment	283,100	283,100	283,100	—	Real estate	5,476	None
	Rui-Xin	300,000	256,000	256,000	—	Real estate, public trade stock	7,818	None
Other loans	Dong-Xia Investment	270,000	245,000	245,000	—	Real estate, public trade stock	7,584	None
	Kuo Wu, Ru-Yue	200,000	200,000	200,000	—	Real estate	3,361	None
	First International Telecom	126,087	99,676	—	99,676	Real estate, equipment	3,299	None
	UBright Optronics	95,000	95,000	95,000	—	Equipment	867	None
	Shin Kong Compose Fiber	646,302	71,726	71,726	—	Public trade stock, equipment	6,629	None
	Mian Hao Enterprise	50,000	50,000	50,000	—	Public trade stock, real estate	98	None
	Peng-Shin, Wu	31,300	31,300	31,300	—	Real estate	—	None
	Qi-ye Chemical	30,000	30,000	30,000	—	Public trade stock	504	None
	Wen-Dong, Hong	20,000	20,000	20,000	—	Real estate	557	None
	Taiwan Shin Kong Security	46,073	10,000	10,000	—	Real estate	335	None
	Pei-Tou Hotel	10,000	10,000	10,000	—	Public trade stock	73	None
	Xin-Shrng	270,200	—	—	—	Real estate	6,795	None
	Shin Kong Wu Ho-Su Hospital	20,000	—	—	—	Public trade stock	244	None
	SBright Optronics	10,115	—	—	—	None	—	None
	Taipei Gas	4,985	—	—	—	Real estate	—	None
	Shin Kong Fang Zhi	3,252	—	—	—	Public trade stock	—	None
	Yong-Guang	1,000	—	—	—	Public trade stock	1	None
	Dong-Yin Investment	1,000			—	Public trade stock	1	None

According to Articles 32 and 33 of the Banking Law, credit loans cannot be made to related parties except loans to government and consumers; secured loans to related parties shall be provided with adequate collateral.

Guarantee

Company	2006 Highest Balance	2006 Balance, End of the Year	2006 Guarantee Reserve Balance	2006 Ratio (%)	2006 Guarantee
Shin-Kong Compose Fiber	$90,000	$—	$—	0.30	Public trade stock

Company	2007 Highest Balance	2007 Balance, End of the Year	2007 Guarantee Reserve Balance	2007 Ratio (%)	2007 Guarantee
Shin Kong Compose Fiber	$43,270	$43,270	$—	0.50	Equipment
Shin Kong Wo Ho-Su Hospital	6,759	6,759	—	0.45	Public trade stock
Shin Kong Fang Zhi	500	500	—	0.50	Public trade stock
		$50,529			

Company	2008 Highest Balance	2008 Balance, End of the Year	2008 Guarantee Reserve Balance	2008 Ratio (%)	2008 Guarantee
Shin Kong Compose Fiber	$86,540	$ 43,270	$—	0.50	Equipment
TacBright Optionics	29,900	29,900	—	0.50	Deposit receipt
SBright Optionics	28,305	18,190	—	0.50	Deposit receipt
Shin Kong Wo Ho-Su Hospital	11,000	11,000	—	0.45	Public trade stock
Taiwan Shin Kong Security	7,000	7,000	—	0.75	Real estate
Shin Kong Fang Zhi	5,801	5,422	—	0.50	Public trade stock
		$114,782			

Derivative Financial Instruments

Company	2006 Derivative Financial Instruments	2006 Period	2006 Notional Principal	2006 Valuation Gain or Loss	End Balance Account	End Balance Amount
SKLIC	Currency swaps	2006.02.13~ 2007.08.21	US$ 713,000 thousand	NT$ 418,230 thousand	Financial assets at fair value through profit or loss	NT$ 418,230 thousand
Cosmos Bank	Credit-link notes	2006.11~ 2010.09	NT$3,125,000 thousand	—	Bond investments without active market	NT$3,125,000 thousand

Company	2007					
	Derivative Financial Instruments	Period	Notional Principal	Valuation Gain or Loss	End Balance	
					Account	Amount
SKLIC	Cross-currency swap	2007.02.13~ 2008.08.21	US$ 663,000 thousand	NT$ 132,824 thousand	Financial assets at fair value through profit or loss	NT$ 132,824 thousand

Company	2008					
	Derivative Financial Instruments	Period	Notional Principal	Valuation Gain or Loss	End Balance	
					Account	Amount
SKLIC	Cross-currency swap	2008.02.13~ 2009.05.29	US$ 428,000 thousand	NT$1,020,179 thousand	Financial assets at fair value through profit or loss	NT$1,020,179 thousand
SKLIC	Foreign exchange forward	2008.02.15~ 2009.07.23	US$ 610,000 thousand	NT$1,019,745 thousand	Financial assets at fair value through profit or loss	NT$1,019,745 thousand

Deposits

	2006		
	Ending Balance	Interest Ratio	Interest Expense
SKLIC	$4,481,926	0.00%~2.10%	$25,773
SKFHC	903,554	0.10%~1.925%	6,906
SKSC	388,143	0.00%~1.725%	6,926
SKITC	148,977	0.00%~2.00%	2,745
Shin Kong Wo-Ho-Su Hospital	146,071	0.00%~1.32%	179
Rui-Xin	52,751	0.00%~0.10%	19
Shin-Kong Fang Zhi	51,825	0.00%~0.10%	11
Taipei Gas	42,098	0.00%~0.10%	19
TSKIBC	35,767	0.00%~0.20%	409
Yong Guang	30,510	0.00%~0.10%	17
Shin-Kong Compose Fiber	15,679	0.00%~0.10%	1
Taiwan Shin Kong Securities	11,282	0.00%~0.20%	15
Qi-Ye Chemical	10,076	0.00%~0.10%	11
Others	1,825,733		32,498
	$8,144,392		$75,529

	2007		
	Ending Balance	Interest Ratio	Interest Expense
SKLIC	$ 9,868,295	0.00%~2.54%	$ 72,488
SKFHC	1,954,468	0.10%~2.16%	63,729
Shin Kong Wo-Ho-Su Hospital	464,787	0.00%~1.71%	243
Shin Kong Property Insurance	264,040	0.00%~2.48%	3,509
SKITC	93,216	0.00%~2.40%	2,025
Rui-Xin	81,868	0.00%~0.10%	13
TSKIBC	76,936	0.00%~2.40%	927
Xin-Quan	51,113	0.10%~0.10%	20
Taipei Gas	37,872	0.00%~0.10%	11
Shin Kong Compose Fiber	29,923	0.00%~0.10%	168
Taipei City Wu Jia-Lu Insurance Foundation	27,190	0.00%~2.46%	428
Hou-Sheng Chemical Industry	24,112	0.10%~2.03%	221
Taiwan Shin Kong Security	20,469	0.00%~2.36%	270
Shin Kong Fang Zhi	16,423	0.00%~0.10%	14
Qi-Ye Chemical	15,532	0.00%~0.10%	18
Others	1,879,495		33,293
	$14,905,739		$177,377

	2008		
	Ending Balance	Interest Ratio	Interest Expense
SKLIC	$26,616,652	0.00%~2.58%	$153,929
Shin Kong Wo-Ho-Su Hospital	692,602	0.00%~1.90%	337
SKSC	565,326	0.00%~2.48%	8,148
SKFHC	410,660	0.01%~2.60%	42,301
Shin Kong Property Insurance	291,743	0.00%~2.67%	6,507
SKITC	270,550	0.00%~2.60%	4,380
Shin Kong Construction and Development Co., Ltd.	203,516	0.00%~2.48%	857
Taipei Gas	127,393	0.00%~0.01%	28
TSKIBC	105,945	0.00%~2.67%	1,563
Shin Kong Compose Fiber	101,619	0.00%~0.01%	7
Wu Tung-Chin Charity Foundation	52,959	0.00%~2.71%	547
Shin Kong Wu Ho-Su Cultural Foundation	50,043	0.00%~2.76%	730
Jui-Chin Enterprise Co., Ltd.	46,388	0.00%~0.01%	3
Lian-Sin Cultural Foundation	40,217	0.03%~2.68%	935
Shin Kong Wu Foundation	22,075	0.00%~2.71%	454
Others	1,402,004		22,192
	$30,999,692		$242,918

The transaction terms with related parties do not significantly differ from those with ordinary customers except for the 9.75% interest rate on TSKCB's employee deposits for the years 2006, 2007 and 2008.

Service Fee Income

	2006		2007		2008	
	Amount	% to Total Amount of Service Fee	Amount	% to Total Amount of Service Fee	Amount	% to Total Amount of Service Fee
SKLIC	$214,306	14	$235,345	10	$328,341	15
Shin Kong Property Insurance Co., Ltd.	3,690	—	9,696	—	12,607	1
	$217,996	14	$245,041	10	$340,948	16

The nature of transactions differ from each related party, therefore the transactions are not comparable.

Significant Contracts

The Company signed an agreement with Shin Kong Marketing Consultant Co., Ltd. about cooperating in the business of consumer loan. The difference between borrowing rate and agreement rate of the loan is shared by them according to the arrangement. However, if the borrower does not pay after 60 days, credit documentation contains flaws, or there is a lawsuit existing, Shin Kong Marketing Consultant Co., Ltd. should compensate unconditionally. For the year ended 2006, the compensation fee was $114,471 thousand. The contract was revised in July 2006; the main revisions are as follows.

(a) Shin Kong Marketing Consultant Co., Ltd. will no longer pay the compensation and the Company has taken the responsibility for the risk on delayed payments and possible lawsuits.

(b) Shin Kong Marketing Consultant Co., Ltd. only provides agency receiving service.

Property Transaction

In May 2007, the Company sold land and building to SKLIC. The selling price was $96,000 thousand based on a valuation report, and loss was $1,851 thousand on disposal of property.

Please refer to Note 11.

Lease Transaction

Please refer to Note 22.

Other Transactions

TSKCB and SKFHC, 100%-owner of TSKCB, adopted the consolidated income tax return system to file their consolidated income tax returns since January 1, 2006. The consolidated income tax resulted in receivable of $256,495 thousand as of December 31, 2008.

Guarantor of Credit

	2006		
	Creditor	Highest Balance	Ending Balance
Chong-Ren, Huang	Li-Guang S&C	$210,000	$210,000

	2007		
	Creditor	Highest Balance	Ending Balance
Chong-Ren, Huang	Li-Guang S&C	$210,000	$ —
Shi-Qi, Hong	Chuan-Wen Investment	10,000	10,000
		$220,000	$10,000

	2008		
	Creditor	Highest Balance	Ending Balance
Chong-Ren, Huang	Powerchip Semiconductor	$360,000	$240,000
Jia-Lu, Wu	Jia-Bang Investment	283,100	283,100
Shi-Jun, Hong	Hung Chen Shu-Ying	140,000	140,000
Shi-Qi, Hong	Wen-Shr Consulting	34,000	34,000
Shi-Qi, Hong	Chuan-Wen Investment	10,000	3,880
Bang-Sheng, Wu	Shin Jia-Ban Enterprise	1,493	1,411
		$828,593	$702,391

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

Compensation of directors, supervisors and management personnel:

	2006	2007	2008
Salaries	$34,563	$40,918	$53,148
Incentives	10,931	10,606	15,942
Special compensation	3,521	3,925	4,188
Bonus (Note)	—	513	—
	$49,015	$55,962	$73,278

Note: The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by the Board of Directors on behalf of the stockholder in 2008. The appropriations of 2008 earnings were not yet approved by the Board of Directors or the stockholder. Information associated with appropriations of earnings is available at the Market Observation Post System website.

31. PLEDGED ASSETS

As of December 31, 2006, 2007 and 2008, certain assets were pledged as collaterals. Details are summarized as follows:

	2006	2007	2008
Held-to-maturity investment — government bonds	$5,646,100	$5,610,500	$1,904,000
Available-for-sale financial assets — government bonds	—	2,278,000	—
	$5,646,100	$7,888,500	$1,904,000

Assets are pledged to district courts for litigation and for issuing financial debenture.

32. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies were summarized as follows:

	December 31		
	2006	2007	2008
Guarantees	$ 6,043,261	$10,284,327	$ 15,331,427
Letters of credit	3,486,272	3,413,887	1,578,314
Trust liabilities	20,976,644	81,490,366	113,194,429
Loan commitments (excluding credit card)	41,390,180	58,034,403	64,261,266

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

Trust Account Balance Sheet
December 31, 2007
(In Thousands of New Taiwan Dollars)

Trust Asset	Amount	Trust Liability	Amount
Cash in banks		Trust capital	
The principal deposits in TSKCB	$ 470,110	Funds and investment	$75,512,023
The principal deposits in other bank	9,500	Funds invested in obligation and trust funds with collateral	1,677,064
Short-term investments		Fund invested in securities investment trust funds	34,360
Mutual fund	56,537,747	Trust in real estate	4,551,179
Bond investments	18,207,164	Reserve and accumulated deficit	
Common stocks	34,357	Accumulated deficit	(1,891,354)
CP or repurchase investment	71,051	Exchange	41
Real estate		Net income	1,607,053
Land	3,950,840		
Building	100,211		
Construction in process	432,322		
Intangible asset			
Creditor's capital	1,677,064		
Trust Asset	$81,490,366	Trust Liability	$81,490,366

Trust Account Income Statement
Year Ended December 31, 2007

Trust income	
Interest revenue	$ 3,135
Preferred stock dividend income	362,453
Common stock dividend income	2,100
Gain on disposal of assets	1,534,097
Realized capital gain	786,627
Distribution of beneficiary certificate	184
Subtotal	2,688,596
Trust expense	
Management fee	(142,579)
Insurance fee	(12,037)
Service fee	(8)
Storage fee	(1)
Loss on disposal of assets	(924,434)
Other fee	(9)
Subtotal	(1,079,068)
Income before income tax	1,609,528
Income tax expense	(2,475)
Net income	$ 1,607,053

The summary of trust asset is as follows:

Item	Amount
Cash in banks	
The principal deposits in TSKCB	$ 470,110
The principal deposits in other bank	9,500
Short-term investments	
Mutual fund	56,537,747
Bond investments	18,207,164
Common stocks	34,357
CP or repurchase investment	71,051
Real estate	
Land	3,950,840
Building	100,211
Construction in process	432,322
Intangible asset	
Creditor's capital	1,677,064
	$81,490,366

Trust Account Balance Sheet
December 31, 2008
(In Thousands of New Taiwan Dollars)

Trust Asset	Amount	Trust Liability	Amount
Cash in banks		Securities under custody payable	
The principal deposits in TSKCB	$ 1,876,623	Securities under custody payable	$ 1,192,336
The principal deposits in other bank	9,500	Trust capital	
		Funds and investment	105,309,725
Short-term investments		Funds invested in obligation and trust funds with collateral	573,336
Mutual fund	44,414,201		
Bond investments	59,340,366		
Common stocks	6,354	Fund invested in securities investment trust funds	30,402
CP or repurchase investment	33,369		
Securities under custody		Trust in real estate	6,377,665
Securities under custody	1,192,336	Reserve and accumulated deficit	
Real estate		Accumulated earnings	10,608,909
Land	5,120,057	Exchange	(1,675)
Building	145,213	Net loss	(10,896,269)
Construction in process	483,074		
Intangible asset			
Creditor's capital	573,336		
Trust Asset	$113,194,429	Trust Liability	$113,194,429

Trust Account Income Statement
Year Ended December 31, 2008

Trust income	
Interest revenue	$ 7,080
Preferred stock dividend income	413,319
Common stock dividend income	1,266
Gain on disposal of assets	790,779
Realized capital gain	1,008,362
Realized exchange gain	205
Subtotal	2,221,011
Trust expense	
Management fee	(15,070)
Storage fee	(5)
Insurance fee	(1,010)
Service fee	(40)
Realized capital loss	(290)
Loss on disposal of assets	(13,098,050)
Other fee	(5)
Realized exchange loss	(15)
Subtotal	(13,114,485)
Loss before income tax	(10,893,474)
Income tax expense	(2,795)
Net loss	$(10,896,269)

The summary of trust asset is as follows:

Item	Amount
Cash in banks	
The principal deposits in TSKCB	$ 1,876,623
The principal deposits in other bank	9,500
Short-term investments	
Mutual fund	44,414,201
Bond investments	59,340,366
Common stocks	6,354
CP or repurchase investment	33,369
Securities under custody payable	
Securities under custody	1,192,336
Real estate	
Land	5,120,057
Building	145,213
Construction in process	483,074
Intangible asset	
Creditor's capital	573,336
	$113,194,429

33. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

	December 31					
	2006		2007		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
Financial assets at fair value equivalent to carrying value	$304,351,887	$304,351,887	$349,242,141	$349,242,141	$372,850,086	$372,850,086
Held-to-maturity investments	12,060,240	12,021,634	11,650,154	11,529,506	9,848,572	9,867,070
Other financial assets	9,571,004	9,413,126	7,647,586	7,497,674	7,989,877	6,916,490
Financial liabilities						
Financial liabilities at fair value equivalent to carrying value	313,084,365	313,084,365	346,427,540	346,427,540	371,827,344	371,827,344
Financial debenture	17,800,000	17,598,277	17,800,000	17,704,714	10,100,000	10,101,258
Other financial liabilities	827,847	827,847	604,730	604,730	385,709	385,709

The methods and assumptions used to estimate the fair values of financial instruments are summarized as follows:

(a) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to the amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash and cash equivalents, due from Central Bank of China and banks, receivables (excluding income tax refundable), due to Central Bank of China and banks, notes issued under repurchase agreements, payables and remittance.

(b) If there is a quoted price in active market for financial instruments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and derivatives for hedge, the fair value of these financial instruments should be based on market price. Otherwise, valuation method should be used for estimation. The assumption of the valuation method for estimation used by TSKCB is the same as those of the market participants.

Cash flow discount method should be used for debt securities without active market. TSKCB's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. TSKCB's discount rate for financial commodities is 2.4380% to 2.7325%.

If there is no quoted market price for reference, fair value of forward currency contacts and interest rate swaps are calculated using the discounted cash flow method. The Group estimated the fair value of each forward contract on the basis of the exchange rate quoted by Reuters. Fair value of each interest swap and each cross-currency swap are based on the market price quoted by Bloomberg, except that some contracts are provided by counterparties.

(c) Notes discounted and loans, and deposits are interest-bearing financial instruments, so their carrying values approximate fair values. The carrying amount of delinquent loans is the estimated collectible amount which is the book value less allowance for bad debt; therefore, the fair value is determined at their carrying value.

(d) Financial instruments include securities that have not yet listed and derivative without substantial effect. According to Guidelines Governing the Preparation of Financial Reports by Public Banks, they should be measured at cost.

(e) Cash flow discount method should be used for financial debenture. TSKCB's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. TSKCB's discount rate is 1.045%.

Fair value of financial instruments represented by quoted price in active markets, or calculated by valuation method is listed as follows:

	Quoted Price in Active Markets			Amounts Calculated by Valuation Method		
	December 31			December 31		
	2006	2007	2008	2006	2007	2008
Financial assets						
Financial assets at fair value through profit or loss	$4,214,320	$ 3,848,399	$ 5,636,189	$ —	$ —	$ —
Available-for-sale financial assets	5,396,330	14,043,205	22,368,541	—	—	—
Held-to-maturity investments	—	—	—	12,021,634	11,529,506	9,867,070
Other financial assets	—	—	—	9,413,126	7,497,674	6,916,490
Financial liabilities						
Financial liabilities at fair value through profit or loss	990,994	1,166,557	2,763,152		—	—
Financial debenture	—	—	—	17,598,277	17,704,714	10,101,258
Other financial liabilities	—	—	—	827,847	604,730	385,709

TSKCB's financial assets exposed to fair value risk due to interest rate changes as of December 31, 2006, 2007 and 2008 amounted to $107,997,240 thousand, $122,709,883 thousand and $125,052,844 thousand, respectively, and financial liabilities of $112,160,241 thousand, $129,418,214 thousand and $136,767,264 thousand, respectively. Financial assets exposed to cash flow risk due to interest rate changes amounted to $194,971,240 thousand, $221,683,390 thousand and $233,821,992 thousand, respectively, and financial liabilities of $207,834,528 thousand, $225,960,977 thousand and $236,461,862 thousand, respectively.

For the years ended December 31, 2006, 2007 and 2008, TSKCB's interest income of financial assets and liabilities not recognized through profit or loss amounted to $9,095,906 thousand, $12,347,486 thousand and $13,279,150 thousand, respectively. Interest expenses amounted to $4,278,115 thousand, $5,848,648 thousand and $7,033,507 thousand, respectively. In 2006, 2007 and 2008, TSKCB recognized $70,276 thousand, $(341,616) thousand and $(901,101) thousand as adjustments of stockholder's equity from available-for-sale financial assets, respectively.

Financial Risk Information

(a) Market risk

Fair values of bonds and bills investments, loans and other financial instruments of TSKCB change when the interest rate fluctuates.

(b) Credit risk

Credit risk may be caused by counterparties' failure to perform their obligation associated with financial assets held by TSKCB. TSKCB follows a strict credit policy to assess and approve all credit lines and guarantees. The secured loans were 68% of the total loans on December 31, 2008. The percentage of guarantees and issuance of letters of credit secured by collaterals was 9%. The collaterals for loans, financing guarantees and letters of credit guarantees are cash, inventories, securities, plants and other assets. If the customers default, TSKCB will execute its rights on the collateral in accordance with the terms of the contracts.

Objects of assessing credit risks include positive fair value of contracts on balance sheet and off-balance sheet commitments. Maximum exposure to credit risk of all financial instruments is the same as book value excluding items below:

	December 31, 2008	
Financial Instrument	**Book Value**	**Maximum Exposure of Credit Risk**
Guarantees	$—	$15,331,427
Letters of credit	—	1,578,314
Loan commitments (excluding credit card)	—	64,261,266

When the other parties to the financial instruments consist of a single individual, or a concentration of entities with similar commercial activities, they may have similar abilities to fulfill their credit obligations. TSKCB does not have such situation. TSKCB's credit exposure related to loans on December 31, 2008 was classified as follows:

Industry	Contract Amount	Maximum Exposure of Credit Risk
Natural persons	$157,405,998	$157,405,998
Banking and insurance	129,134,645	129,134,645
Manufacturing	43,290,185	43,290,185
Real estate leasing	21,219,973	21,219,973
Wholesale and retail	14,184,377	14,184,377
Servicing	8,114,225	8,114,225
Others	25,155,077	25,155,077
	$398,504,480	$398,504,480

Region	Contract Amount	Maximum Exposure of Credit Risk
Domestic	$380,455,571	$380,455,571
England	4,198,199	4,198,199
Asian regions	2,147,816	2,147,816
Others	11,702,894	11,702,894
	$398,504,480	$398,504,480

(c) Liquidity risk

Ratios of liquidity reserves are 11%, 10% and 13% on December 31, 2006, 2007 and 2008, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Since derivatives have very little probabilities of failing to be sold at reasonable prices in the market, there will be very low liquidity risks.

The basic management policies of TSKCB are matching maturity dates with interest rates of assets and liabilities and controlling unmatched gaps. The nature of uncertainty in those interest rates of assets and liabilities causes some unmatched gaps on the maturity day and could bring contingent profit or loss, thus TSKCB adopts suitable allocation method to evaluate Bank's liquidity and liquidity analysis is as follows:

	December 31, 2006			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
	(In Thousands of New Taiwan Dollars)			
Assets				
Cash and cash equivalents	$ 8,400,285	$ —	$ —	$ 8,400,285
Due from Central Bank of China and banks	38,261,232	—	—	38,261,232
Financial assets at fair value through profit or loss	4,214,320	—		4,214,320
Bonds purchased under resell agreements	241,018	—	—	241,018
Receivables	16,866,404	—	—	16,866,404
Notes discounted and loans	36,768,725	96,586,919	102,949,446	236,305,090
Available-for-sale financial assets	—	4,155,742	1,240,588	5,396,330
Held-to-maturity investments	685,557	10,046,478	1,328,205	12,060,240
Debt securities without active market	—	3,776,662	5,345,744	9,122,406
	$105,437,541	$114,565,801	$110,863,983	$330,867,325
Liabilities				
Due to Central Bank of China and banks	$ 11,699,501	$ 291,637	$ —	$ 11,991,138
Financial liabilities at fair value through profit or loss	—	990,994	—	990,994
Notes issued under repurchase agreements	4,540,484	—	—	4,540,484
Payables	8,815,508	—	—	8,815,508
Customers deposits and remittances	271,761,665	14,984,576	—	286,746,241
Financial debenture	—	14,300,000	3,500,000	17,800,000
Lease payable	161,466	378,258	—	539,724
Hedge Derivative	—	201,723	—	201,723
Appropriated loan fund	—	86,400	—	86,400
	$296,978,624	$ 31,233,588	$ 3,500,000	$331,712,212

	December 31, 2007			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,191,127	$ —	$ —	$ 6,191,127
Due from Central Bank of China and banks	34,193,186	—	—	34,193,186
Financial assets at fair value through profit or loss	3,848,399	—	—	3,848,399
Receivables	15,234,423	—	—	15,234,423
Notes discounted and loans	49,735,967	98,118,291	131,678,957	279,533,215
Available-for-sale financial assets	—	9,025,442	5,017,763	14,043,205
Held-to-maturity investments	1,621,506	9,563,416	465,232	11,650,154
Debt securities without active market	—	324,430	6,877,916	7,202,346
Other delinquent loan	178,350	—	—	178,350
	$111,002,958	$117,031,579	$144,039,868	$372,074,405
Liabilities				
Due to Central Bank of China and banks	$ 7,860,507	$ —	$ —	$ 7,860,507
Financial liabilities at fair value through profit or loss	1,166,557	—	—	1,166,557
Notes issued under repurchase agreements	3,699,313	—	—	3,699,313
Payables	7,937,428	—	—	7,937,428
Customers deposits and remittances	309,045,000	16,718,735		325,763,735
Financial debenture	7,700,000	6,600,000	3,500,000	17,800,000
Lease payable	197,160	226,783	—	423,943
Appropriated loan fund	—	85,500	—	85,500
Hedge derivatives	—	95,287	—	95,287
	$337,605,965	$ 23,726,305	$ 3,500,000	$364,832,270

	December 31, 2008			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,858,244	$ —	$ —	$ 6,858,244
Due from Central Bank of China and banks	46,159,280	—	—	46,159,280
Financial assets at fair value through profit or loss	5,636,189	—	—	5,636,189
Receivables	12,129,412	—	—	12,129,412
Notes discounted and loans	41,002,158	103,985,593	138,839,986	283,827,737
Available-for-sale financial assets	—	15,860,534	6,508,007	22,368,541
Held-to-maturity investments	1,974,249	7,690,700	183,623	9,848,572
Debt securities without active market	—	—	7,409,241	7,409,241
Hedge derivatives	1,258	—	—	1,258
Other delinquent loan	210,225	—	—	210,225
	$113,971,015	$127,536,827	$152,940,857	$394,448,699
Liabilities				
Due to Central Bank of China and banks	$ 4,553,045	$ —	$ —	$ 4,553,045
Financial liabilities at fair value through profit or loss	2,763,152	—	—	2,763,152
Notes issued under repurchase agreements	2,594,597	—	—	2,594,597
Payables	5,889,687	—	—	5,889,687
Customers deposits and remittances	337,762,149	18,264,714	—	356,026,863
Financial debenture	1,300,000	5,300,000	3,500,000	10,100,000
Lease payable	156,353	147,456	—	303,809
Appropriated loan fund	—	81,900	—	81,900
	$355,018,983	$ 23,794,070	$ 3,500,000	$382,313,053

(d) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by TSKCB may take risks of future cash inflow/outflow. The risk is considered substantial, therefore hedged by TSKCB.

Cash Flow Hedges

Cash flow risk may be caused by the floating-rate liabilities held by TSKCB, so TSKCB had entered into interest-rate swap contracts to hedge the risk.

Hedged Item	Assigned Financial Instrument for Hedging	December 31, 2008 Contract Amount	December 31, 2008 Fair Value	Anticipated Cash Flows	Period in which the Relevant Gains or Losses are Recognized
Primary financial bond . . .	Interest rate swap contracts	$1,300,000	$1,258	2004~2009	2004~2009

	December 31, 2008
Fair value of the hedging instrument	$1,258
Less the apportioned income tax	(314)
Adjusted amount of current stockholder's equity	$ 944

Information of Reclassifications

Since July 1, 2008, TSKCB adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement." The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. The fair values were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$ 3,498,350	$ 3,034,435
Available-for-sale financial assets	20,794,295	21,258,210
	$24,292,645	$24,292,645

In 2008, the international economic condition changed a lot and resulted in global financial crisis which caused the value of financial assets to collapse. TSKCB decided not to sell parts of the financial assets held for trading in the short time, and reclassified them to available-for-sale financial assets

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

	Carrying Value	Fair Value
Available-for-sale financial assets	$244,304	$244,304

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

	2008			
	Before Reclassification		After Reclassification	
	Investment Income Recognized	Stockholder's Equity Adjustment	Investment Income Recognized	Stockholder's Equity Adjustment
Financial assets held for trading	$79,321	$—	$—	$ —
Available-for-sale financial assets	$ —	$—	$—	$(219,611)

The investment income and stockholder's equity adjustment recognized on the reclassified financial assets and the pro forma information if the reclassification had not been made were as follows:

	Carrying Value		Pro Forma Information
	Investment Income Recognized	Stockholder's Equity Adjustment	Investment Income Recognized
Available-for-sale financial assets	$—	$(219,611)	$(219,611)

34. HEDGE STRATEGY

The activities of risk control and hedge strategy of TSKCB are affected by the industry nature of service and the restrictions of law, thus total risk management and control system is applied to recognize, measure and control the risks of TSKCB.

The market risk management objective is to hold the best risk position, maintain adequate liquidity and concentrate to manage all of the market risks by thoroughly having those factors including economic environment, competitive situation, market value risk and the influence to net interest revenue taken into consideration; therefore, to avoid net cash flow and market value risks, cash flow hedge and fair value hedge are the main hedge strategies of TSKCB.

To hedge interest rate risk, a great part of TSKCB's financial instruments are fixed-interest-rate instruments. TSKCB also transferred the transaction linking to monetary market to that with fixed rate. Interest rate swap contracts are the primary hedging instruments against interest rate fluctuations. In addition, cross currency swaps, swap options, interest rate caps and floors, and other derivatives may be used by TSKCB as hedging instruments.

35. INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

	2006		2007		2008	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets						
Due from other banks	$ 3,772,393	1.48	$ 1,153,887	1.37	$ 2,632,280	1.40
Due from Central Bank of China	46,879,883	1.62	39,474,190	1.85	39,237,291	2.10
Bonds purchased under resell agreements	240,569	1.49	1,869	1.65	94,394	1.98
Financial assets for trading	1,772,788	1.04	616,662	0.71	270,740	2.47
Available-for-sale financial assets	3,083,725	4.47	10,043,496	2.77	19,448,488	2.33
Held-to-maturity investments	14,045,847	2.00	11,452,276	1.69	10,566,324	1.90
Debt securities without active market	3,999,862	7.08	10,573,275	6.27	7,666,251	6.54
Accounts receivable (credit card)	10,678,070	16.07	7,457,753	16.93	5,398,543	16.30
Accounts receivable (factoring)	1,010,420	2.26	1,065,456	3.60	922,149	3.44
Notes discounted and loans	211,514,296	3.97	248,901,572	3.62	281,650,660	3.61
Liabilities						
Notes issued under repurchase agreement	2,915,198	1.51	6,003,144	1.79	2,559,734	1.71
Due to other banks	11,773,692	3.06	10,482,635	3.50	9,411,812	2.59
Demand deposits	93,055,695	0.46	102,767,815	0.46	102,828,629	0.44
Time deposits	185,668,929	1.88	201,597,039	2.26	236,479,486	2.47
Financial debentures	14,128,142	2.59	17,800,000	2.27	17,311,129	2.29
Appropriated loan fund	185,315	1.09	86,084	1.50	84,082	1.51

36. INFORMATION ABOUT SFAS No. 28

Asset Quality

Category		Non performing Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)
		Items				
		December 31, 2006				
		(In Thousands of New Taiwan Dollars, %)				
Corporate loan . . .	Secured	590,042	47,128,224	1.25%	286,220	48.51%
	Unsecured	886,615	53,008,244	1.67%	898,535	101.34%
Consumer loan . . .	Mortgage (Note 4)	183,020	46,983,671	0.39%	234,801	128.29%
	Cash Card	786	113,347	0.69%	21,442	2,727.99%
	Micro Credit (Note 5)	791,164	24,800,530	3.19%	1,041,082	131.59%
	Other Secured	1,210,676	58,662,026	2.06%	372,283	30.75%
	(Note 6) Unsecured	354,827	4,990,631	7.11%	524,878	147.93%
Loans		4,017,130	235,686,673	1.70%	3,379,241	84.12%

Category		Non performing Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)
		Items				
		December 31, 2007				
		(In Thousands of New Taiwan Dollars, %)				
Corporate loans	Secured	402,779	64,885,941	0.62%	79,427	19.72%
	Unsecured	2,126,096	67,291,860	3.16%	1,439,156	67.69%
Consumer loans . . .	Mortgage (Note 4)	199,430	54,553,583	0.37%	38,975	19.54%
	Cash Card	41	56,326	0.07%	19,840	48,390.24%
	Micro Credit (Note 5)	1,115,581	21,903,550	5.09%	928,508	83.23%
	Other Secured	1,174,450	67,295,610	1.75%	285,760	24.33%
	(Note 6) Unsecured	152,315	2,795,916	5.45%	123,624	81.16%
Loans		5,170,692	278,782,786	1.85%	2,915,290	56.38%

Category		Non performing Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)
		Items				
		December 31, 2008				
		(In Thousands of New Taiwan Dollars, %)				
Corporate loans	Secured	460,172	71,664,595	0.64%	85,767	18.64%
	Unsecured	2,634,514	63,048,680	4.18%	2,279,514	86.53%
Consumer loans	Mortgage (Note 4)	120,050	57,518,214	0.21%	8,733	7.27%
	Cash Card	—	37,657	—	13,645	—
	Micro Credit (Note 5)	825,812	19,228,696	4.29%	795,198	96.29%
	Other Secured	1,138,923	70,189,130	1.62%	257,355	22.60%
	(Note 6) Unsecured	126,024	1,900,104	6.63%	83,867	66.55%
Loans		5,305,495	283,587,076	1.87%	3,524,079	66.42%

Category	Items				
	December 31, 2006				
	Overdue Receivable	Account Receivable	Delinquency Ratio	Allow for Credit Losses	Coverage Ratio
	(In Thousands of New Taiwan Dollars, %)				
Credit Card	342,296	13,807,156	2.48%	1,684,906	492.24%
Account receivable without recourse (Note 7)	—	779,813	—	—	—

Category	Items				
	December 31, 2007				
	Overdue Receivable	Account Receivable	Delinquency Ratio	Allow for Credit Losses	Coverage Ratio
	(In Thousands of New Taiwan Dollars, %)				
Credit Card	174,342	11,505,982	1.52%	449,461	257.80%
Account receivable without recourse (Note 7)	—	652,496	—	—	—

Category	Items				
	December 31, 2008				
	Overdue Receivable	Account Receivable	Delinquency Ratio	Allow for Credit Losses	Coverage Ratio
	(In Thousands of New Taiwan Dollars, %)				
Credit Card	180,129	9,296,529	1.94%	233,769	129.78%
Account receivable without recourse (Note 7)	—	331,539	—	—	—

Note 1: The amount recognized as non-performing loans ("NPLs") is in compliance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans". Nonperforming credit loans represent the amounts of nonperforming loans reported to the SFC, as required by the SFC in its letter dated July 6, 2005 (Ref. No. 094400378).

Note 2: Nonperforming loan ratio = Nonperforming loans ÷ Outstanding loan balance; Nonperformance credit loan ratio = Nonperforming loans ÷ Account receivable balance.

Note 3: Allowance for doubtful accounts ratio = Allowance for doubtful accounts, loan ÷ Overdue loan; Allowance for doubtful ratio, credit card = Allowance for doubtful accounts, credit card ÷ Overdue loan.

Note 4: Home mortgage refer to financing obtained to buy, build, or fix houses owned by the borrowers' spouse or children, with the house used as loan collateral.

Note 5: Micro credit is covered by the SFC pronouncement dated December 19, 2005 (Ref No. 09440010950) and is excluded from credit card and cash card loans.

Note 6: "Others" under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, micro credit, and credit cards.

Note 7: As required by the SFC in its letter dated July 19, 2005 (Ref No. 0945000494), provision for bad debt is recognized once no compensation is made by a factor or insurance company for accounts receivable factored without recourse.

Note 8: Overdue loans and receivables which are subjects of debt negotiation are disclosed in accordance with Financial Supervisory Commission, Executive Yuan Gin-Guan-Yin 09510001270 Interpretation issued on April 25, 2006.

Note 9: Overdue loans and receivables which are subjects of debt negotiation are disclosed in accordance with Financial Supervisory Commission, Executive Yuan Gin-Guan-Yin 09700318940 Interpretation issued on September 15, 2008.

Concentration of Credit Extensions

	December 31, 2006		
Rank (Note 1)	Company (Note 2)	Balance of Credit Extensions (Note 3)	Ratio (%)
	(In Thousands of New Taiwan Dollars, %)		
1	China Construction	3,776,700	18.98
2	Formosa Plastics Group	2,565,385	12.89
3	Ye-Hui	2,166,195	10.89
4	Tang-Rong Iron Factory	1,500,021	7.54
5	Shin-Kong	1,499,308	7.53
6	Hong-Tai	1,376,500	6.92
7	Ming-Ji	1,351,327	6.79
8	Yuan-Xiong	1,322,615	6.65
9	Li-Jing	1,267,500	6.37
10	Qing-Feng	1,218,659	6.12

	December 31, 2007		
Rank (Note 1)	Company (Note 2)	Balance of Credit Extensions (Note 3)	Ratio (%)
	(In Thousands of New Taiwan Dollars, %)		
1	De-An Group	4,995,753	23.54
2	China Construction Group	3,824,843	18.02
3	Formosa Plastics Group	3,238,042	15.26
4	Shin Kong Group	2,682,160	12.64
5	Taichan Assets Management Group	2,171,750	10.23
6	Ye-Hui Group	2,094,212	9.87
7	Taiwan Railways Administration	2,000,000	9.42
8	Li-Jing Group	1,828,250	8.61
9	Ou-Li-Shi Group	1,801,450	8.49
10	Hong-Tai Group	1,749,077	8.24

	December 31, 2008		
Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
	(In Thousands of New Taiwan Dollars, %)		
1	De-An Group	4,795,178	23.27
2	China Construction Group	3,790,317	18.40
3	Li-Jing Group	3,458,196	16.78
4	Formosa Plastics Group	3,048,428	14.79
5	Tong-Yi Group	2,272,269	11.03
6	Hong-Tai Group	2,265,749	11.00
7	Taichan Assets Management Group	2,217,250	10.76
8	Ye-Hui Group	2,144,692	10.41
9	Shin Kong Group	2,072,608	10.06
10	Ou-Li-Shi Group	1,919,025	9.31

Note 1: Excluding the government or state-owned agencies.

Note 2: According to Article 6 of the "Supplementary Provisions to the Stock Exchange Corporation Criteria for the Review of Securities Listings", "Group" refers to the entity that has a controlling or subordinate relationship with the counter-party that obtained loans from TSKCB.

Note 3: Credit balance means the sum of all loans (including import bill negotiated, discounted export bills negotiated, overdrafts, short-term secured and unsecured loans, marginal receivables, medium-term secured and unsecured loans, long-term secured and unsecured loans and overdue receivables), exchange bills negotiated, accounts receivable factored without recourse, acceptances receivable, and guarantees issued.

Interest Rate Sensitivity Information

Interest Rate Sensitivity (New Taiwan Dollars)

Items	December 31, 2006				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of New Taiwan Dollars, %)				
Interest rate-sensitive assets	47,817,000	17,986,000	23,594,000	194,641,000	284,038,000
Interest rate-sensitive liabilities	48,002,000	113,664,000	114,466,000	28,406,000	304,538,000
Interest rate-sensitive gap	(185,000)	(95,678,000)	(90,872,000)	166,235,000	(20,500,000)
Net worth					19,899,771
Ratio of interest rate-sensitive assets to liabilities					93.27
Ratio of interest rate sensitivity gap to net worth					(103.02)

Items	December 31, 2007				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of New Taiwan Dollars, %)				
Interest rate-sensitive assets	200,406,000	7,337,000	3,834,000	105,747,000	317,324,000
Interest rate-sensitive liabilities	135,766,000	128,580,000	49,592,000	14,577,000	328,515,000
Interest rate-sensitive gap	64,640,000	(121,243,000)	(45,758,000)	91,170,000	(11,191,000)
Net worth					21,224,529
Ratio of interest rate-sensitive assets to liabilities					96.59
Ratio of interest rate sensitivity gap to net worth					(52.73)

Items	December 31, 2008				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of New Taiwan Dollars, %)				
Interest rate-sensitive assets	208,429,633	4,451,922	7,434,406	111,651,886	331,967,847
Interest rate-sensitive liabilities	134,080,613	136,987,378	62,721,977	12,483,308	346,273,276
Interest rate-sensitive gap	74,349,020	(132,535,456)	(55,287,571)	99,168,578	(14,305,429)
Net worth					20,604,889
Ratio of interest rate-sensitive assets to liabilities					95.87
Ratio of interest rate sensitivity gap to net worth					(69.43)

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

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

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

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

Interest Rate Sensitivity (U.S. Dollars)

Items	December 31, 2006				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of U.S. Dollars, %)				
Interest rate-sensitive assets	84,426	52,517	8,129	330,125	475,197
Interest rate-sensitive liabilities	402,968	22,809	49,922	—	475,699
Interest rate-sensitive gap	(318,542)	29,708	(41,793)	330,125	(502)
Net worth					610,497
Ratio of interest rate-sensitive assets to liabilities					99.89
Ratio of interest rate sensitivity gap to net worth					(0.08)

Items	December 31, 2007				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of U.S. Dollars, %)				
Interest rate-sensitive assets	93,818	80,178	13,250	421,999	609,245
Interest rate-sensitive liabilities	471,488	60,699	58,029	—	590,216
Interest rate-sensitive gap	(377,670)	19,479	(44,779)	421,999	19,029
Net worth					654,210
Ratio of interest rate-sensitive assets to liabilities					103.22
Ratio of interest rate sensitivity gap to net worth					2.91

Items	December 31, 2008				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of U.S. Dollars, %)				
Interest rate-sensitive assets	89,748	18,092	22,439	522,669	652,948
Interest rate-sensitive liabilities	457,702	32,390	57,522	—	547,614
Interest rate-sensitive gap	(367,954)	(14,298)	(35,083)	522,669	105,334
Net worth					627,051
Ratio of interest rate-sensitive assets to liabilities					119.24
Ratio of interest rate sensitivity gap to net worth					16.80

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

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

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

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

Profitability

Items		Years Ended December 31 2006	2007	2008
			(%)	
Return on total assets	Before income tax	(2.25)	0.41	0.07
	After income tax	(2.11)	0.39	0.06
Return on equity	Before income tax	(39.08)	7.33	1.26
	After income tax	(36.64)	6.92	1.08
Net income ratio		(92.96)	15.39	2.98

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets
Note 2: Return on equity = Income before (after) income tax ÷ Average equity
Note 3: Net income ratio = Income after income tax ÷ Total net revenues
Note 4: Income before (after) income tax represents income for the years ended December 31, 2006, 2007 and 2008.

Maturity Analysis

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

December 31, 2006

	Total	Remaining Period to Maturity 1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Main capital inflow on maturity	371,737,000	61,121,000	20,670,000	17,750,000	21,775,000	250,421,000
Main capital outflow on maturity	397,161,000	64,548,000	15,990,000	28,910,000	197,543,000	90,170,000
Gap	(25,424,000)	(3,427,000)	4,680,000	(11,160,000)	(175,768,000)	160,251,000

December 31, 2007

	Total	Remaining Period to Maturity 1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Main capital inflow on maturity	396,095,000	69,339,000	22,260,000	22,185,000	28,669,000	253,642,000
Main capital outflow on maturity	435,251,000	51,606,000	53,954,000	65,277,000	129,893,000	134,521,000
Gap	(39,156,000)	17,733,000	(31,694,000)	(43,092,000)	(101,224,000)	119,121,000

December 31, 2008

	Total	Remaining Period to Maturity 1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Main capital inflow on maturity	416,393,700	65,285,324	35,964,701	42,362,391	40,441,914	232,339,370
Main capital outflow on maturity	471,267,373	60,495,765	83,546,647	92,247,939	124,518,543	110,458,479
Gap	(54,873,673)	4,789,559	(47,581,946)	(49,885,548)	(84,076,629)	121,880,891

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

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

	December 31, 2006					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of U.S. Dollars)					
Main capital inflow on maturity	485,272	53,784	44,359	50,828	8,129	328,172
Main capital outflow on maturity	475,355	341,438	64,492	20,954	48,471	—
Gap	9,917	(287,654)	(20,133)	29,874	(40,342)	328,172

	December 31, 2007					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of U.S. Dollars)					
Main capital inflow on maturity	633,408	77,413	40,568	80,178	13,250	421,999
Main capital outflow on maturity	654,212	412,383	123,101	60,699	58,029	—
Gap	(20,804)	(334,970)	(82,533)	19,479	(44,779)	421,999

	December 31, 2008					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of U.S. Dollars)					
Main capital inflow on maturity	669,809	52,631	53,978	18,092	22,439	522,669
Main capital outflow on maturity	565,965	400,169	75,884	32,390	57,522	—
Gap	103,844	(347,538)	(21,906)	(14,298)	(35,083)	522,669

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

37. CAPITAL ADEQUACY RATIO

			December 31		
			2006	2007	2008
Eligible capital	Tier 1 capital		18,545,481	18,928,908	18,742,494
	Tier 2 capital		11,755,351	8,758,653	9,317,560
	Tier 3 capital		—	—	—
	Eligible capital		30,055,780	27,687,561	28,060,054
Risk- weighted assets	Credit risk	Standard valuation method	232,454,898	231,032,135	241,270,964
		Internal valuation method		—	—
		REIT's		1,041,282	1,062,366
	Operational risk	Basic index method	—	18,663,725	17,516,900
		Selective standard method		—	—
		Advanced valuation method		—	—
	Market risk	Standard method	7,532,300	7,637,138	5,499,788
		Internal model method		—	—
	Total risk weighted assets		239,987,198	258,374,280	265,350,018
Capital adequacy			12.52	10.72	10.57
Ratio of tier 1 capital to risk — weighted assets			7.73	7.33	7.06
Ratio of tier 2 capital to risk — weighted assets			4.90	3.39	3.51
Ratio of tier 3 capital to risk — weighted assets			—	—	—
Ratio of common stockholder's equity to total assets			6.12	5.06	4.85

Note 1 The above table was prepared in accordance with the regulations Governing the Capital Adequacy Ratio of Banks and related calculation tables.

Note 2: TSKCB should disclose the capital adequacy ratios of the current and previous periods in the annual financial reports. For semiannual financial reports, TSKCB should disclose the capital adequacy ratios of the current and previous periods and of the previous year-end.

Note 3: The formulas used in the calculations in the above table entries were as follows:

1) Eligible capital=Tier 1 capital +Tier 2 capital + Tier 3 capital.
2) Total risk-weighted asset = Risk-weighted assets for credit risk + (Capital requirement for marker risk + Capital requirements for market risk) × 12.5
3) Capital adequacy ratio = Eligible capital ÷ Total risk-weighted assets.
4) Tier 1 risk-based capital ratio = Tier 1 capital ÷ Total risk-weighted assets.

5) Tier 2 risk-based capital ratio = Tier 2 capital ÷ Total risk-weighted assets.
6) Tier 3 risk-based capital ratio = Tier 3 capital ÷ Total risk-weighted assets.
7) Ratios of common stockholder's capital to total assets = common stock ÷ total assets.

38. ALLOCATION OF REVENUE, COST, EXPENSE RESULTING FROM INTERCOMPANY SHARING OF RESOURCES

SKFHC and its subsidiaries apply economies of scale to optimize profit. The joint marketing expenses are allocated to each subsidiary's capital stock.

39. INFORMATION RELATED TO SIGNIFICANT TRANSACTIONS

The related information of significant transactions is as follows:

No.	Item	Explanation
1	Accumulated Purchases and sales balance of specific investee's marketable security over NT$300 million or 10% of outstanding capital for the year ended December 31, 2008	Appendix I
2	Acquisition of real assets over NT$300 million or 10% of outstanding capital for the year ended December 31, 2008	None
3	Disposal of real assets over NT$300 million or 10% outstanding capital for the year ended December 31, 2008	Appendix II
4	Discount on fees income from related parties over NT$5 million	None
5	Receivables from related parties over NT$300 million or 10% of outstanding capital	None
6	Sale of NPL information.	None
7	Financial assets securitization or real assets securitization	None
8	Other significant transactions which may affect decisions of the users of the financial statement	None

The related information of TSKCB's investees:

No.	Item	Explanation
1	Information on invested enterprise.	None
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of December 31, 2008	None
5	Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the year ended December 31, 2008	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2008	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2008	None
8	Discount on fees income from related parties over NT$5 million	None
9	Receivable from related parties over NT$300 million or 10% of outstanding capital	None
10	Sale of NPL over NT$5 billion	None
11	Financial assets securitization or real assets securitization	None
12	Derivative instrument	Appendix III
13	Other significant transactions which may affect decisions of the users of the financial statement	None

Note: Not applicable or not required for disclosure if the investee is a financial institution, insurance company, or security company.

40. SEGMENT INFORMATION

TSKCB engages only in banking activities as prescribed by the Banking Law. No single customer and overseas units account for at least 10% of TSKCB's operating revenue or total assets. Thus, no customer is required to be disclosed. In addition, TSKCB did not set up any offshore unit; therefore, no disclosure of geographical information is made.

Appendix I Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital for the year ended December 31, 2008

Holding Company	Marketable Securities Type and Issuer/Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units (in Thousands)	Amount	Shares/Units (in Thousands)	Amount	Shares/Units (in Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares/Units (in Thousands)	Amount
					(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)									
	Listed securities													
TSKCB	Cosmos Bank private placement of common stock	Available-for-sale financial assets	SKLIC	100% holding subsidiary of SKFHC	517,571	$1,035,142	—	$—	250,000	500,000	$500,000	$—	88,106 (Note 1)	166,629 (Note 2)

Note 1: Cosmos Bank finished capital reduction in the third quarter of 2008; the number of shares held at the year end was 88,106 shares which was calculated by the percentage of capital reduction.

Note 2: Holding cost of $535,142 thousand minus valuation allowance of $368,513 thousand.

Appendix II Disposal of real assets over NT$300 million or 10% outstanding capital for the year ended December 31, 2008:

Company	Property	Transaction Day	Acquisition Day	Book Value	Amount	Received / Paid	Gain (Loss)	Subject	Relationship	Purpose	Price Reference	Other Terms
				(In Thousands of New Taiwan Dollars, Except for Number of Shares)								
TSKCB	Lands and Buildings	2008.01.16	2005.08.29	985,137	1,220,000	Received	234,863	Cheng-Jiou Investment Corporation	Non-related parties	Enhance the turn-over of property	Valuation report	None
TSKCB	Collateral assumed	2008.05.07	2004.12.24	369,681	310,000	Received	(59,681)	Ming-Chao, Chen,	Non-related parties	Law and regulations	Valuation report	None

Appendix III Derivative instrument

Company	Nature of Contract	December 31, 2008 Contract Amount (Notional Principals) (in Thousands)	Credit Risk (in Thousands)	Fair Value (in Thousands)
Shin Kong Finance (HK) Limited	Credit Default Swap Contracts	US$17,000	US$17,000	NT$341,771

Appendix IV Summary Intercompany Transaction

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
	Year Ended December 31,2006						
0	TSKCB	SKCC	1	Accounts receivable	$ 3,285	Note 4	—
0	TSKCB	SKCC	1	Accounts payable	4	”	—
0	TSKCB	SKCC	1	Deposits and remittances	109,103	”	—
0	TSKCB	SKCC	1	Interest expense	220	”	—
0	TSKCB	SKCC	1	Service fee income	44,268	”	—
0	TSKCB	SKCC	1	Service charge	3,723	”	—
0	TSKCB	SKCC	1	Other income	3,018	”	—
0	TSKCB	SKLIAC	1	Accounts receivable	26,434	”	—
0	TSKCB	SKLIAC	1	Accounts payable	1	”	—
0	TSKCB	SKLIAC	1	Deposits and remittances	68,672	”	—
0	TSKCB	SKLIAC	1	Interest expense	66	”	—
0	TSKCB	SKLIAC	1	Service fee income	76,842	”	—
0	TSKCB	SKLIAC	1	Other income	2,777	”	—
0	TSKCB	SKPIAC	1	Accounts receivable	300	”	—
0	TSKCB	SKPIAC	1	Deposits and remittances	9,882	”	—
0	TSKCB	SKPIAC	1	Interest expense	5	”	—
0	TSKCB	SKPIAC	1	Service fee income	300	”	—
0	TSKCB	SKPIAC	1	Other income	240	”	—
0	TSKCB	SFHK	1	Deposits and remittances	77	”	—
0	TSKCB	TSKIBC	1	Interest expense	7	”	—
0	TSKCB	TSKIBC	1	Service fee income	2,804	”	—
0	TSKCB	TSKIBC	1	Other income	1,760	”	—
1	SKCC	TSKCB	2	Cash and cash equivalents	109,103	”	—
1	SKCC	TSKCB	2	Other receivable	4	”	—
1	SKCC	TSKCB	2	Accounts payable	3,285	”	—
1	SKCC	TSKCB	2	Operating revenue	3,723	”	—
1	SKCC	TSKCB	2	Operating cost	44,268	”	—
1	SKCC	TSKCB	2	Operating expense	3,018	”	—
1	SKCC	TSKCB	2	Interest income	220	”	—

(Continued)

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions			
				Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
2	SKLIAC	TSKCB	2	Cash and cash equivalents	$ 38,672	”	—
2	SKLIAC	TSKCB	2	Other receivable	1	”	—
2	SKLIAC	TSKCB	2	Accounts payable	26,434	”	—
2	SKLIAC	TSKCB	2	Operating cost	76,842	”	—
2	SKLIAC	TSKCB	2	Operating expense	2,777	”	—
2	SKLIAC	TSKCB	2	Interest income	66	”	—
3	SKPIAC	TSKCB	2	Cash and cash equivalents	9,882	”	—
3	SKPIAC	TSKCB	2	Accrued expense	300	”	—
3	SKPIAC	TSKCB	2	Operating cost	300	”	—
3	SKPIAC	TSKCB	2	Operating expense	240	”	—
3	SKPIAC	TSKCB	2	Interest income	5	”	—
4	SFHK	TSKCB	2	Cash and cash equivalents	77	”	—
5	TSKIBC	TSKCB	2	Operating cost	2,804	”	—
5	TSKIBC	TSKCB	2	Operating expense	1,760	”	—
5	TSKIBC	TSKCB	2	Interest income	7	”	—
	Year Ended December 31, 2007						
0	TSKCB	SKCC	1	Account receivable	1,010	”	—
0	TSKCB	SKCC	1	Account payable	6	”	—
0	TSKCB	SKCC	1	Deposits and remittances	179,273	”	—
0	TSKCB	SKCC	1	Other liability	169	”	—
0	TSKCB	SKCC	1	Interest expense	150	”	—
0	TSKCB	SKCC	1	Service fee income	23,599	”	—
0	TSKCB	SKCC	1	Other income	5,546	”	—
0	TSKCB	SKLIAC	1	Account receivable	18,496	”	—
0	TSKCB	SKLIAC	1	Account payable	16	”	—
0	TSKCB	SKLIAC	1	Deposits and remittances	56,056	”	—
0	TSKCB	SKLIAC	1	Interest expense	73	”	—
0	TSKCB	SKLIAC	1	Service fee income	78,521	”	1
0	TSKCB	SKLIAC	1	Other income	2,160	”	—
0	TSKCB	SKPIAC	1	Account payable	6	”	—
0	TSKCB	SKPIAC	1	Deposits and remittances	7,849	”	—

(Continued)

				Transactions			
Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
0	TSKCB	SKPIAC	1	Interest expense	$ 22	”	—
0	TSKCB	SKPIAC	1	Service fee income	736	”	—
0	TSKCB	SKPIAC	1	Other income	240	”	—
0	TSKCB	SFHK	1	Account payable	1	”	—
0	TSKCB	SFHK	1	Deposits and remittances	4,930	”	—
0	TSKCB	SFHK	1	Interest expense	11	”	—
1	SKCC	TSKCB	2	Cash and cash equivalents	179,273	”	—
1	SKCC	TSKCB	2	Account receivable	123	”	—
1	SKCC	TSKCB	2	Other receivable	6	”	—
1	SKCC	TSKCB	2	Refundable deposit	46	”	—
1	SKCC	TSKCB	2	Accrued expense	1,010	”	—
1	SKCC	TSKCB	2	Operating cost	23,599	”	—
2	SKCC	TSKCB	2	Operating expense	5,546	”	—
2	SKCC	TSKCB	2	Interest income	150	”	—
2	SKLIAC	TSKCB	2	Cash and cash equivalents	56,056	”	—
2	SKLIAC	TSKCB	2	Other receivable	16	”	—
2	SKLIAC	TSKCB	2	Account payable	18,496	”	—
2	SKLIAC	TSKCB	2	Operating cost	78,521	”	1
2	SKLIAC	TSKCB	2	Operating expense	2,160	”	—
2	SKLIAC	TSKCB	2	Interest income	73	”	—
3	SKICB	TSKCB	2	Cash and cash equivalents	7,849	”	—
3	SKICB	TSKCB	2	Other receivable	6	”	—
3	SKICB	TSKCB	2	Operating cost	736	”	—
3	SKICB	TSKCB	2	Operating expense	240	”	—
3	SKICB	TSKCB	2	Interest income	22	”	—
4	SFHK	TSKCB	2	Cash and cash equivalents	4,930	”	—
4	SFHK	TSKCB	2	Interest receivable	1	”	—
4	SFHK	TSKCB	2	Interest income	11	”	—
1	SKLIC	TSKCB	3	Financial assets at fair value through profit or loss	132,824	”	—
1	SKLIC	TSKCB	3	Valuation loss on financial assets	132,824	”	—
2	TSKCB	SKFHC	1	Deposits and remittances	1,939,121	”	—
2	TSKCB	SKLIC	3	Deposits and remittances	9,219,414	”	1

(Continued)

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions			
				Account	Amount	Terms	% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
2	TSKCB	SKLIC	3	Management expenses	$121,499	”	—
2	TSKCB	SKLIC	3	Financial liabilities at fair value through profit or loss	132,824	”	—
2	TSKCB	SKLIC	3	Valuation gain on financial liabilities	132,824	”	—
2	TSKCB	SKSC	3	Deposits and remittances	479,492	”	—
3	SKSC	TSKCB	3	Cash and cash equivalents	526,506	”	—
	Year Ended December 31,2008						
0	TSKCB	SKCC	1	Account payable	19,161	”	—
0	TSKCB	SKCC	1	Deposit and remittances	103,728	”	—
0	TSKCB	SKCC	1	Other liability	74,681	”	—
0	TSKCB	SKCC	1	Interest expense	562	”	—
0	TSKCB	SKCC	1	Service fee income	9,405	”	
0	TSKCB	SKCC	1	Other income	4,543	”	
0	TSKCB	SKLIAC	1	Account receivable	17,900	”	—
0	TSKCB	SKLIAC	1	Account payable	8	”	—
0	TSKCB	SKLIAC	1	Deposit and remittances	52,244	”	—
0	TSKCB	SKLIAC	1	Interest expense	995	”	1
0	TSKCB	SKLIAC	1	Service fee income	119,704	”	2
0	TSKCB	SKLIAC	1	Other income	1,852	”	—
0	TSKCB	SKPIAC	1	Deposits and remittances	9,730	”	—
0	TSKCB	SKPIAC	1	Interest expense	118	”	—
0	TSKCB	SKPIAC	1	Other income	102	”	—
1	SKSC	TSKCB	2	Deposits and remittances	16	”	—
1	SKCC	TSKCB	2	Interest expense	14	”	—
1	SKCC	TSKCB	2	Cash and cash equivalents	98,728	”	—
1	SKCC	TSKCB	2	Account receivable	93,637	”	—
1	SKCC	TSKCB	2	Other payable	113	”	—
1	SKCC	TSKCB	2	Restrict assets	5,000	”	—
1	SKCC	TSKCB	2	Refundable deposit	92	”	—
1	SKCC	TSKCB	2	Operating cost	9,405	”	—
1	SKCC	TSKCB	2	Operating expense	4,543	”	—

(Continued)

Ref. No. (Note 1)	Name of Company	Name of Counter Party	Relationship (Note 2)	Transactions: Account	Transactions: Amount	Transactions: Terms	Transactions: % of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
1	SKCC	TSKCB	2	Interest income	$ 562	”	—
2	SKLIAC	TSKCB	2	Cash and cash equivalents	49,244	”	—
2	SKLIAC	TSKCB	2	Other receivable	8	”	—
2	SKLIAC	TSKCB	2	Restrict assets	3,000	”	—
2	SKLIAC	TSKCB	2	Account payable	17,900	”	—
2	SKLIAC	TSKCB	2	Operating cost	119,704	”	2
2	SKLIAC	TSKCB	2	Operating expense	1,852	”	—
2	SKLIAC	TSKCB	2	Interest income	995	”	—
3	SKPIAC	TSKCB	2	Cash and cash equivalents	9,730	”	—
3	SKPIAC	TSKCB	2	Operating expense	102	”	—
3	SKPIAC	TSKCB	2	Interest income	118	”	—
4	SFHK	TSKCB	2	Cash and cash equivalents	16	”	—
4	SFHK	TSKCB	2	Interest income	14	”	—

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:
1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:
For balance sheet accounts—transaction amount ÷ total consolidated assets
For income statement accounts—accumulated transaction amount ÷ total consolidated operating income.

Note 4: Terms and conditions of related party transactions are made on arm’s length basis.

(Concluded)

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholder
Taiwan Shin Kong Commercial Bank Co., Ltd.

We have reviewed the accompanying balance sheets of Taiwan Shin Kong Commercial Bank Co., Ltd. (the "Company") as of March 31, 2008 and 2009, and the related statements of income, and of cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue our report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 — "Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

As stated in Note 3, effective January 1, 2008, the Company adopted Interpretation 96-052 "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation of the ROC.

As stated in Note 3, effective July 1, 2008, the Company adopted the amended SFAS No. 34, which requires the reclassification of financial instruments under certain conditions.

Our reviews also comprehended the translation of New Taiwan dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4 to the financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers.

/s/ Deloitte & Touche
Deloitte & Touche
Taipei, Taiwan
The Republic of China

April 22, 2009

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
ASSETS			
Cash and cash equivalents (Note 5)	$ 6,460,819	$ 6,221,993	$ 183,702
Due from Central Bank of China and banks (Note 6)	43,353,021	63,077,103	1,862,330
Financial assets at fair value through profit or loss (Notes 2, 7 and 29)	4,103,046	5,103,534	150,680
Receivables, net (Notes 2, 8, 9, 27 and 29)	13,926,383	10,042,505	296,501
Notes discounted and loans, net (Notes 2, 9 and 29)	275,922,362	275,341,244	8,129,355
Available-for-sale financial assets (Notes 2, 10 and 30)	17,907,613	7,666,938	226,364
Held-to-maturity investments (Notes 2, 11 and 30)	10,849,339	9,857,602	291,042
Stocks — equity method (Notes 2 and 12)	397,817	292,112	8,625
Other financial assets, net (Notes 2 and 13)	8,422,992	5,344,339	157,790
PROPERTY AND EQUIPMENT (Notes 2 and 14)			
Cost			
Land	3,907,492	3,590,853	106,019
Buildings and structures	2,813,484	2,590,058	76,471
Computers	1,104,078	776,404	22,923
Transportation and communication equipment	19,395	2,527	75
Other equipment	712,282	499,515	14,748
Leased assets	750,670	750,670	22,163
Total cost	9,307,401	8,210,027	242,399
Revaluation increment	389,886	388,816	11,480
Less accumulated depreciation	(2,415,096)	(2,040,964)	(60,259)
Construction in progress	65,465	42,562	1,257
Property and equipment, net	7,347,656	6,600,441	194,877
GOODWILL AND INTANGIBLE ASSETS, NET (Notes 2 and 15)	1,243,107	1,243,107	36,702
OTHER ASSETS (Notes 2, 16 and 27)	8,063,895	4,550,646	134,356
TOTAL	$397,998,050	$395,341,564	$11,672,324

(Continued)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

BALANCE SHEETS
MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008 NT$	2009 NT$	2009 US$ (Note 4)
LIABILITIES AND STOCKHOLDER'S EQUITY			
LIABILITIES			
Due to Central Bank of China and banks (Note 17)	$ 10,148,568	$ 3,377,118	$ 99,708
Financial liabilities at fair value through profit or loss (Notes 2, 7 and 29)	2,114,873	2,496,957	73,722
Notes issued under repurchase agreements (Notes 2 and 18)	2,337,636	50,012	1,477
Payables (Notes 2 and 19)	6,892,992	3,800,570	112,211
Customer deposits and remittances (Notes 20 and 29)	335,217,396	354,618,066	10,469,975
Financial debenture (Note 21)	17,800,000	8,800,000	259,817
Accrued pension liability (Note 2)	20,284	26,277	776
Miscellaneous financial liabilities (Notes 2 and 22)	481,033	355,463	10,495
Other liabilities (Notes 2 and 23)	858,542	1,017,136	30,032
Total liabilities	375,871,324	374,541,599	11,058,213
STOCKHOLDER'S EQUITY			
Common stock (Note 24)	19,577,665	19,577,665	578,024
Capital surplus (Note 24)			
Premium on capital stock	365,754	365,754	10,799
Retained earnings			
Legal reserve	—	494,990	14,614
Special reserve	—	1,071,519	31,636
Unappropriated retained earnings	2,030,530	172,312	5,087
Other adjustments on stockholder's equity			
Unrealized revaluation increment	163,653	240,671	7,106
Cumulative translation adjustments	(7,483)	(21,578)	(637)
Unrealized loss on available-for-sale financial assets	(12,284)	(1,101,368)	(32,518)
Unrealized gain from cash flow hedge	8,891	—	—
Total stockholder's equity	22,126,726	20,799,965	614,111
TOTAL	$397,998,050	$395,341,564	$11,672,324

(Concluded)

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

(With Deloitte & Touche review report dated April 22, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
INTEREST INCOME (Notes 2 and 29)	$ 3,245,028	$ 2,215,910	$ 65,424
INTEREST EXPENSE (Note 29)	(1,685,137)	(1,210,392)	(35,736)
NET INTEREST INCOME	1,559,891	1,005,518	29,688
NET INCOME (LOSS) EXCLUDING INTEREST REVENUE			
Service fees, net (Notes 2, 25 and 29)	353,176	285,435	8,427
Gain (loss) on financial assets and liabilities at fair value through profit or loss, net (Notes 2 and 7)	224,708	(16,334)	(482)
Realized gain on available-for-sale financial assets, net (Note 2)	26,339	596,937	17,624
Realized gain on held-to-maturity investments, net (Note 2)	769	—	—
Investment income recognized under the equity method, net (Notes 2 and 12)	42,503	8,535	252
(Loss) gain on foreign exchange, net (Note 2)	(233)	167,795	4,954
(Loss) gain on market value increase (decline) on collateral assumed (Note 2)	(40,755)	27,933	825
Loss on disposal of collateral assumed	(9,482)	(45,854)	(1,354)
Gain (loss) on disposal of property, equipment and deferred expense, net	378,495	(81)	(2)
Other gains (losses), net	17,684	(46,087)	(1,362)
NET REVENUE	2,553,095	1,983,797	58,570
BAD DEBT EXPENSE (Notes 2 and 9)	(498,833)	(540,711)	(15,964)
OPERATING EXPENSES (Note 26)			
Personnel expenses	(680,341)	(618,100)	(18,249)
Depreciation and amortization	(155,335)	(138,969)	(4,103)
Business expenses and general and administrative expenses	(563,899)	(495,608)	(14,633)
Total operating expenses	(1,399,575)	(1,252,677)	(36,985)
INCOME BEFORE INCOME TAX	654,687	190,409	5,621
INCOME TAX EXPENSE (Notes 2 and 27)	(47,518)	(18,097)	(534)
NET INCOME	$ 607,169	$ 172,312	$ 5,087

	2008		2009			
	Before Income Tax	After Income Tax	Before Income Tax		After Income Tax	
	NT$	NT$	NT$	US$ (Note 4)	NT$	US$ (Note 4)
BASIC EARNINGS PER SHARE (Note 28)	$0.33	$0.31	$0.10	$0.0030	$0.09	$0.0027

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

(With Deloitte & Touche review report dated April 22, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 607,169	$ 172,312	$ 5,087
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Provision of allowance for bad debts	498,833	540,711	15,964
Recovery of doubtful accounts and loan loss	194,013	160,158	4,729
Write-off of doubtful accounts and loan loss	(363,397)	(827,580)	(24,434)
Adjustment of financial liabilities designated at fair value through profit or loss	18,654	(10,518)	(311)
Amortization of premium or discount on bonds investments	22,256	12,090	357
Gain on disposal of available-for-sale financial assets, net	(1,653)	(579,645)	(17,114)
Gain on disposal of held-to-maturity investments, net	(769)	—	—
Investment income recognized under equity method	(42,503)	(8,535)	(252)
Depreciation and amortization (including depreciation of non-operating assets)	157,661	141,251	4,170
(Gain) loss on disposal of property, equipment and deferred expenses, net	(378,495)	81	2
Loss on disposal of collateral assumed	9,482	45,854	1,354
Loss (gain) on market value decline (increase) of collateral assumed	40,755	(27,933)	(825)
Provision for reserve accounts	165	57,965	1,711
Deferred income tax expense	39,974	5,572	165
Accrued pension liabilities	4,407	6,432	190
Net changes in operating assets and liabilities			
Financial assets for trading	(254,647)	201,402	5,946
Receivables	764,414	1,427,339	42,142
Other assets	(61,900)	(32,826)	(969)
Financial liabilities for trading	929,662	(266,195)	(7,859)
Payables	(953,834)	(1,745,181)	(51,526)
Other liabilities	137,748	16,191	478
Net cash provided by (used in) operating activities	1,367,995	(711,055)	(20,995)

(Continued)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands)
(Reviewed, Not Audited)

	2008	2009	
	NT$	NT$	US$ (Note 4)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in due from Central Bank of China and call loans to banks	(9,161,780)	(16,917,823)	(499,493)
(Increase) decrease in notes discounted and loans	(513,240)	4,860,437	143,503
Purchase of available-for-sale financial assets	(4,337,373)	(119,092)	(3,516)
Proceeds received on disposal of available-for-sale financial assets	666,104	15,409,400	454,957
Proceeds received on disposal of held-to-maturity investments	385,302	—	—
Purchase of debt securities without active market	(2,892,114)	(169,585)	(5,007)
Proceeds received on disposal of debt securities without active market	2,128,350	2,814,199	83,088
Decrease in other financial assets	35,594	2,387	70
Purchase of property, equipment and deferred expenses	(39,942)	(30,540)	(902)
Acquisition of collateral assumed	(130)	(515)	(15)
Proceeds from disposal of property, equipment, deferred expenses and collateral assumed	1,412,259	37,920	1,120
Decrease in refundable deposits	19,794	3,786	112
Net cash (used in) provided by investing activities	(12,297,176)	5,890,574	173,917
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in due to Central Bank of China and banks	3,412,223	(350,661)	(10,353)
Decrease in notes issued under repurchase agreements	(1,361,677)	(2,544,585)	(75,128)
Increase (decrease) in deposits and remittances	9,205,553	(1,574,515)	(46,487)
Redemption of financial debenture	(100)	(1,300,000)	(38,382)
Decrease in lease payable	(28,410)	(30,246)	(893)
(Decrease) increase in guarantee deposits received	(2,118)	9,840	292
Net cash provided by (used in) financing activities	11,225,471	(5,790,167)	(170,951)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	296,290	(610,648)	(18,029)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,164,529	6,832,641	201,731
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,460,819	$ 6,221,993	$ 183,702
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period			
Interest	$ 1,432,910	$ 1,255,829	$ 37,078
Income tax	$ 36,119	$ 46,016	$ 1,359

(Concluded)

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

(With Deloitte & Touche review report dated April 22, 2009)

TAIWAN SHIN KONG COMMERCIAL BANK CO., LTD.

NOTES TO FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008 AND 2009
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

On September 23, 1996, the Third Credit Cooperative of Taipei, a credit union, was approved by the Republic of China ("ROC") Ministry of Finance (MOF) under Letter Tai-Tsai-Rong No. 85546025 to reorganize into a commercial bank named Macoto Bank.

Macoto Bank acquired all of the assets and assumed all of the liabilities of the Second Credit Cooperative of Hsinchu, the Eighth Credit Cooperative of Taichung, the Second Credit Cooperative of Chiayi, and the Credit Cooperative of Gang Shang (credit unions) on January 5, 1997, January 1, 1998, August 31, 2001, and September 14, 2001, respectively. The acquisitions were approved by the ROC MOF.

Responding to financial development trend and the government policy to promote financial institutions, Macoto Bank agreed to be acquired by Shin Kong Financial Holding Co., Ltd. by means of share swap in the stockholders' meeting on June 10, 2005. The share swap was completed on October 3, 2005 and Macoto Bank became a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd. On October 4, 2005, the board of directors resolved Macoto Bank's merger with Taiwan Shin Kong Commercial Bank Co., Ltd., a wholly-owned subsidiary of Shin Kong Financial Holding Co., Ltd., with Macoto Bank as the surviving entity and Taiwan Shin Kong Commercial Bank Co., Ltd. as the eliminated entity. Macoto Bank issued new shares to exchange TSKCB's total assets and liabilities. For this share swap, Macoto Bank issued 708,727 thousand common shares at the share exchange ratio of 1.5040 common shares of TSKCB for every Macoto Bank share. On December 26, 2005, Macoto Bank obtained approval of the transaction from the Financial Supervisory Commission of Executive Yuan (FSC). On December 31, 2005, this transaction was completed. At the same time, Macoto Bank was renamed into Taiwan Shin Kong Commercial Bank Co., Ltd. (the "Company" or TSKCB referred to in these financial statements).

As of March 31, 2008 and 2009, the Company had 3,196 and 3,007 employees, respectively.

As of March 31, 2009, the Company had 108 branches including a business department, a trust department, a foreign exchange transaction department and an offshore banking branch in Taiwan. The Company is engaged mainly in financial operations regulated by the Banking Law and others approved by competent authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts and valuation of financial assets, doubtful accounts, deferred income tax, provision for reserve accounts, depreciation, amortization, pension, employee bonus and loss on pending litigations. Actual results could differ from these estimates. According to SFAS No. 28, “Disclosures in the Financial Statements of Banks”, accounts include in the Company’s financial statements are not classified as current or non-current but are stated in the order of their liquidity. Please see Note 32 for the maturity analysis of assets and liabilities.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements should prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (“SFB”) for their oversight purposes.

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

Financial Assets or Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial instruments held for trading or those designated as at fair value through profit or loss on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specifies in the relevant contract is discharged, cancelled or expired

Financial instruments at fair value through profit or loss are initially measured at fair value with transaction costs directly attributable to the acquisition of financial instruments at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, financial instruments at fair value through profit or loss are re-measured at fair value, with changes in fair value recognized directly in profit or loss. On de-recognition of a financial instrument, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of stocks, beneficiary certificates and foreign exchange forward contracts are recognized and derecognized on a trade date basis. Others are recognized and derecognized on a settlement date basis.

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks — at closing prices; open-end mutual funds — at net asset values; bonds — at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market — at values determined using valuation techniques.

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

Bonds Purchased under Resale / Notes Issued under Repurchase Agreements

Bond purchased under resale agreement or a note issued under repurchase agreement is considered as a financing transaction if the risk and reward are attributed to the dealer. When a bond is purchased under a resale agreement, its purchase price is listed as “bonds purchased under resale agreements”, an asset account. For a note issued under repurchase agreement, the selling price is listed as “notes issued under repurchase agreements”, a liability account. Bills and bonds under repurchase and resale agreements are accounted for under the financing method. All related interest income or expense is recognized on accrual basis.

Receivables

Credit card receivables are recorded when the merchants report the amount, and the related interest revenues are recognized by accrual basis accounting. Credit card receivables are reclassified into delinquent loans and the related accrued interests would not be recognized when they are overdue and uncollected.

Factoring service fees and interests are recorded as income when they are realized or realizable. Besides, the Company determines the allowance for credit losses by evaluating the collectibility of the outstanding balances. The amounts of factored accounts unpaid to the sellers are accounted as “accounts payable” .

Delinquent Loans

According to “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” (the “Regulations”) issued by the MOF, overdue loans with accrued interests are reclassified into delinquent loans and accounted as discounts and loans if accounted as loans initially; otherwise accounted as other financial assets such as loans originally recorded as guarantee, acceptance, factoring and credit card receivables.

Allowance for Doubtful Accounts

The Company makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for the specific or general risks. Debts and guarantees with specific risk are evaluated internally for their collaterals, collectibility and customers’ overall credits.

The Company, in accordance with the “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Insurance Enterprises” and “Rules for Handling Assessment of Assets, Overdue Loans, Receivable on Demand and Bad Debts by Bank Enterprises” issued by the MOF, provide allowances for doubtful accounts based on management’s evaluation of the collectibility of individual accounts, the borrower’s/ clients’ financial condition and payment history. Such doubtful accounts are classified into: special mention, substandard, highly uncollectible, and deemed uncollectible and the allowances are provided at 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement. Credits deemed uncollectible may be written off if the write-off is approved by the board of directors.

Accounts deemed uncollectible are written off with the approval of the Board of Directors. Under SFAS No. 28, "Disclosures in the Financial Statements of Banks", a loan that is recovered after being written off in the current period is recorded as an increase of allowance for loan loss.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the same period. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

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

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

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurs after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-Maturity Investments

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Investments Accounted for by the Equity Method

Investments in equity securities are accounted for under the equity method if the Company's ownership interest is 20% or more of the voting shares or the Company has significant influence on the investee's operating and financial policy decisions, and recognizes the investee's profit or loss according to the investor's ownership equity.

Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

When the Company's share in loss of an investee over which the Company has control exceeds its investment in the investee plus any advances made to the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profit, such profit is first attributed to the Company to the extent of the excess loss previously borne by the Company.

Other Financial Assets

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, stocks traded in the Emerging Stock Market and limited listed stocks, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

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

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

Property and Equipment / Non-Operating Assets

Property and equipment are stated at cost plus revaluation increment and less accumulated depreciation and accumulated impairment loss. Major additions and improvements to property and equipment are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment. Depreciation is continued for the remaining salvage value of the property and equipment if such assets are still in operation after reaching their estimated useful lives.

Assets held under capital leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

If parts of property and equipment are not used for operating activities, the related cost and accumulated depreciation are transferred to other assets — non-operating assets.

The related cost (including revaluation increment), accumulated depreciation and any unrealized revaluation increment of an item of property and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in net income (loss) excluding interest revenue in the year of disposal.

Goodwill

Under SFAS No. 25, “Business Combination — Accounting Treatment under Purchase Method”, the Company evaluates the impairment of goodwill, the excess of cost over the fair value of acquired identifiable net assets, periodically. An impairment loss is recognized when there is objective evidence of impairment.

Deferred Expenses

Deferred expenses are computer programs and others which are amortized on the straight-line basis over 3 to 5 years.

Collateral Assumed

Collateral assumed is recorded at estimated net realizable value at the date of acquisition, and is stated at the lower of cost or net realizable value at balance sheet date of the respective years. Under the Banking Law, collateral assumed with legal maturities not disposed of will be provided with allowance for loss, included in reserves.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment, deferred expenses, non-operating assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reversed, the carrying amount of the asset is increased accordingly, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (“CGU(s)”) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill had been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

Pension Plan

The Company has two pension schemes covering all eligible employees. One is defined benefit plan under the Labor Standards Law and another is defined contribution plan under the Labor Pension Act. Under the defined benefit plan, the Company adopts the provision of SFAS No. 18, “Accounting for Pension” to recognize pension related assets, liabilities and cost under actuarial method. Under the defined contribution plan, the Company makes contributions to individual employee’s pension account and recognizes pension cost based on the actual contributions made during employee’s service period.

According to SFAS No. 23, “Presentation and Disclosures for Interim Financial Statements”, minimum pension liabilities (prepaid pension expenses) for defined benefit pension plan are not revalued; however, minimum pension liabilities (prepaid pension expenses) are equal to beginning balance of minimum pension liabilities (prepaid pension expenses) adjusted to current pension costs and contributions made.

Under the defined contribution plan, the Company makes contributions to individual employee’s pension account and recognized pension cost based on the actual contributions made during employee’s service period.

Reserve

Reserve for trading loss is provided for at 10% of the monthly net gain on the sale of government bonds and classified under other liabilities until such reserve had reached the amount of $200,000 thousand. This reserve could not be used for any purpose other than to offset the trading loss in excess of the trading profit.

Reserve for guarantee loss is provided for based on the estimated unrecoverable amount.

Recognition of Revenues

Interest revenue on loans is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Company that are classified as nonperforming loans. The interest revenue on those loans/ credits is recognized upon collection. Under MOF regulations, the interest revenue on credits for which agreements had been reached to extend their maturities is recognized upon collection.

Service fee is recorded as income upon receipt or substantial completion of activities involved in the earnings process.

Income Tax

The Company adopted SFAS No. 22, “Accounting for Income Taxes” which requires asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that would result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided to reduce deferred tax assets that are not certain to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

According to SFAS No. 12, “Accounting for Income Tax Credits” the Company recognizes the tax benefit from the tax credit earned at the year the expenditure arose from research and development and personnel training.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Starting 2006, the Company adopted the accounting treatment of the consolidated income tax return with SKFHC, the parent of the Company, in compliance with ARDF Interpretation (92) No. 240. The difference of current income tax and deferred income tax between consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax return is considered as SKFHC’s income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Foreign Currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss. At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss and foreign-currency non-monetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

(a) Recognized in stockholder’s equity if the changes in fair value are recognized in stockholder’s equity;

(b) Recognized in profit and loss if the changes in fair value is recognized in profit and loss

If the functional currency of an equity-method investee is a foreign currency, translation adjustments would result from the translation of the investee’s financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of stockholder’s equity.

Foreign-currency non-monetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Commitments and Contingencies

The Company estimates any contingent loss that met two basic requirements:

(a) Information available prior to issuance of the financial statements indicated that it is probable that an asset has been impaired or that a liability has been incurred at the date of the financial statements.

(b) The amount of the loss could be reasonably estimated.

If a loss is probable or measurable, but not both, or if there is at least a reasonable possibility that a liability might have been incurred, the nature of the contingency must be disclosed in the notes to the financial statements, along with an estimate of the possible loss or the range of the possible loss if an estimate could be made.

Hedge Accounting

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

(a) Fair value hedge: The gain or loss from re-measuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

(b) Cash flow hedge: The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholder's equity. The amount recognized in stockholder's equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in stockholder's equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

The Company, engaged in fair value hedge, mainly manages the change of the fair value arising from fixed interest rates and foreign currency for assets and liabilities. The main focus of cash flow hedge is to minimize the change of future cash flow arising from the fluctuation of the interest rates and foreign currency of assets and liabilities.

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2009.

3. ACCOUNTING CHANGES

Since July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that is held for trading. Please see Note 32 for relevant information regarding reclassifications of financial instruments.

The ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of $7,764 thousand in net income after tax and a decrease in after income tax basic earnings per share of $0.004 for the three months ended March 31, 2008 on the financial statements.

4. TRANSLATION INTO U.S. DOLLARS

The financial statements are stated in New Taiwan dollars. The translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of readers, using the noon buying rate of NT$33.87 to US$1.00 as certified by The Federal Reserve Bank of New York for customs purposes on March 31, 2009. The convenience translation should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other exchange rate.

5. CASH AND CASH EQUIVALENTS

	March 31	
	2008	2009
Cash	$3,813,217	$3,581,527
Deposits in other banks	958,454	1,897,625
Notes and checks for clearing	1,689,148	742,841
	$6,460,819	$6,221,993

6. DUE FROM THE CENTRAL BANK OF CHINA AND BANKS

	March 31	
	2008	2009
Reserve for deposits		
Reserve — checking account	$ 1,999,261	$16,456,531
Reserve — demand account	8,607,518	9,097,920
Inter-bank clearing account	200,708	200,309
Reserve — foreign currency deposit	790,530	39,005
Time deposits	29,300,000	34,750,000
Due from banks	2,455,004	2,533,338
	$43,353,021	$63,077,103

The deposit reserves, which are calculated by multiplying the average monthly balances of all deposit accounts by the legally required ratio, were in the Central Bank of China. These account reserves can be used any time except demand account which can be used only for the monthly adjustment of the deposit reserve.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31	
	2008	2009
Financial assets held for trading		
Listed securities	$1,954,541	$ 165
Cross-currency swap contracts	1,105,720	954,217
Beneficiary certificates	579,054	110,362
Corporate bonds	297,576	—
Convertible corporate bonds	147,883	2,016,272
Exchangeable corporate bonds	9,807	251,813
Foreign exchange forward contracts	5,197	1,499,300
Interest rate swap contracts	3,268	—
	$4,103,046	$4,832,129
Financial assets designated as at fair value through profit or loss		
Credit-linked loans	$ —	$ 271,405
Financial liabilities held for trading		
Cross-currency swap contracts	$ 848,097	$2,462,919
Foreign exchange forward contracts	266,744	34,038
	$1,114,841	$2,496,957
Financial liabilities designated as at fair value through profit or loss		
Financial debentures (Note 21)	$1,000,032	$ —

Summary of financial instruments at fair value through profit or loss:

	Three Months Ended March 31	
	2008	2009
Financial assets and liabilities held for trading		
Realized (loss) gain	$ (20,517)	$ 5,451
Valuation gain (loss)	263,879	(32,303)
	$243,362	$(26,852)
Financial assets and liabilities designated as at fair value through profit or loss		
Valuation (loss) gain	$ (18,654)	$ 10,518

As of March 31, 2008 and 2009, TSKCB's outstanding derivative contracts are summarized as follows:

			Contract Amount (Notional Principals)
			(In Thousand Dollars)
March 31, 2008			
Foreign exchange forward contracts	Buy	JPY	976,900
	Buy	USD	595,000
Cross-currency swap contracts (Note 29)	Buy	USD	613,000
	Buy	ZAR	48,000
	Buy	NZD	19,000
	Buy	NTD	37,965,840
	Buy	CAD	2,000
	Buy	HKD	46,000
	Buy	AUD	30,000
	Buy	USD	10,000
Interest rate swap contracts		NTD	9,600,000
March 31, 2009			
Foreign exchange forward contracts (Note 29)	Buy	USD	513,000
	Sell	USD	3,600
Cross-currency swap contracts (Note 29)	Buy	USD	1,926,600
	Buy	ZAR	217,000
	Buy	AUD	55,800
	Buy	NZD	34,600
	Buy	EUR	6,000

TSKCB uses foreign exchange forward contracts as hedging instruments for exchange rate exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these contracts to hedge the risk from the operations mentioned and cover the exposure of foreign currency demand. TSKCB enters into foreign-currency derivative contracts for hedging the risk of exchange rate fluctuations on its foreign assets (liabilities); it enters into interest rate swap contracts without exchange of notional principals for non-trading purpose to hedge the risk of interest rate fluctuations on its issuing of financial debentures. TSKCB's hedging strategy is to hedge the great part of market price or cash flow risks, and to use hedging instruments having high negative correlation with fair value of the hedged items and to periodically evaluate the effectiveness of these instruments. Please refer to Notes 13 and 21 for more detail information.

8. RECEIVABLES, NET

	March 31	
	2008	2009
Accounts receivable	$11,938,685	$ 8,507,109
Interests receivable	1,007,015	604,233
Customers' liabilities under acceptances	539,359	325,255
Consolidated income tax refundable (Notes 27 and 29)	224,725	289,986
Income tax refundable	81,657	11,461
Accrued revenue	18,740	22,479
Notes receivable	8,279	6,271
Other receivables	462,915	495,501
	14,281,375	10,262,295
Less allowance for doubtful accounts (Note 9)	(354,992)	(219,790)
	$13,926,383	$10,042,505

9. NOTES DISCOUNTED AND LOANS, NET

	March 31	
	2008	2009
Notes discounted and bill negotiated	$ 222,957	$ 85,969
Loans due within one year	45,391,122	37,305,068
Loans due from one to seven years	99,121,230	100,863,929
Loans due more than seven years	129,811,125	135,984,492
Delinquent loans	4,749,592	4,487,181
	279,296,026	278,726,639
Less allowance for doubtful accounts	(3,373,664)	(3,385,395)
	$275,922,362	$275,341,244

As of March 31, 2008 and 2009, interest not accrued by TSKCB on the delinquent loans amounted to $4,749,592 thousand and $4,487,181, respectively.

Allowance for doubtful accounts of receivables, loans and other delinquent loan:

	Three Months Ended March 31, 2008		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio (Excluding the Particular Loans)	Total
Balance, January 1, 2008	$1,706,367	$1,835,809	$3,542,176
Provision	421,324	77,509	498,833
Write offs	(48,910)	(314,487)	(363,397)
Reversal of write offs	194,013	—	194,013
Balance, March 31, 2008	$2,272,794	$1,598,831	$3,871,625

	Three Months Ended March 31, 2009		
	Unrecovery Risk for Particular Loans	Unrecovery Risk for Overall Loan Portfolio (Excluding the Particular Loans)	Total
Balance, January 1, 2009	$2,521,146	$1,419,057	$3,940,203
Provision	293,159	247,552	540,711
Write offs	(690,626)	(136,954)	(827,580)
Reversal of write offs	160,158	—	160,158
Balance, March 31, 2009	$2,283,837	$1,529,655	$3,813,492

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2008	2009
Government bonds	$13,304,624	$ 743,970
Corporate bonds	1,545,780	2,728,060
Real estate asset fund	1,465,844	2,153,241
Foreign bonds — in thousands of US dollars, as of March 31, 2008 and 2009, the bonds amounted to $34,308 thousand and $12,918 thousand, respectively.	1,043,135	438,148
Domestic private common stock	548,230	141,459
Listed securities — private common stock	—	1,462,060
	$17,907,613	$7,666,938

As of March 31, 2008 and 2009, the par value of the repurchase agreements collateralized by available-for-sale government bonds amounted to $2,103,000 thousand and $45,100 thousand, respectively.

Credit linked note was bought from China Development Industrial Bank. Details of terms are summarized as follows:

(a) Product: Credit linked note with Cosmos Bank first convertible financial debenture.

(b) Reference obligation: Cosmos Bank, the former related party, first convertible financial debenture, however the right to convert had been sold to General Electric Capital Corporation by China Development Industrial Bank.

(c) Reference entity: Cosmos Bank or the successors.

(d) Contract amount: $3,125,000 thousand.

(e) Scheduled termination date: September 7, 2010

(f) Interest rate: Fixed rate 3.25%, paid semi-annually.

(g) Definition of credit event: Reference entity's bankruptcy, restructuring and failure to pay.

(h) Settlement upon credit event: Cash settlement or physical settlement.

Caused by the September 2007 Cosmos Bank credit event, and on the premises of legal and contractual regulations, and in agreement with the Cosmos Bank Recapitalization Program, TSKCB, as proper lender, and other lenders to Cosmos Bank, on September 7, 2007 co-signed a Cosmos Bank recapitalization memo and on October 9, 2007 the Board of Directors of TSKCB resolved to sign the contract to swap $3,125,000 thousand domestic unsecured convertible bank debentures first issued by Cosmos Bank in 2007, with the Cosmos Bank private placement of common stock. Based on the principle of stability and to be conservative, those credit-linked notes were deemed to have suffered $1,812,500 thousand loss. TSKCB cleared the credit-linked note contract by physical settlement on October 18, 2007 and received $3,125,000 thousand domestic unsecured convertible bank debentures first issued by Cosmos Bank in 2007. On December 28, 2007, TSKCB converted these convertible bank debentures into 517,571 thousand shares of Cosmos Bank private placement of common stock which were included under available-for-sale financial assets and received partial return of investments of $277,359 thousand.

TSKCB obtained approval from the FSC for the sale of 250,000 thousand shares of Cosmos Bank private placement of common stock to Shin Kong Life Insurance Co., Ltd.; total selling price was $500,000 thousand. In addition, Cosmos Bank finished capital reduction in the third quarter of 2008. TSKCB reduced its holding in shares of stock according to ratio of capital reduction. As of March 31, 2009, TSKCB held 88,106 thousand shares of Cosmos Bank's private placement common stock valued at $535,142 thousand and the fair value at $141,459 thousand.

Available-for-sale financial assets are pledged to district courts for litigation and for issuing financial debenture. Please refer to Note 30.

11. HELD-TO-MATURITY INVESTMENTS

	March 31	
	2008	2009
Government bonds	$ 6,228,855	$6,206,220
Beneficiary certificates	2,093,038	2,135,975
Corporate bonds	1,599,402	1,399,641
Financial debentures	700,000	—
Foreign bonds — in thousands of US dollars, as of March 31, 2008 and 2009, the bonds amounted to $7,500 thousand and $3,413 thousand, respectively.	228,044	115,766
	$10,849,339	$9,857,602

Held-to-maturity investments are pledged to district courts for litigation and for issuing financial debenture. Please refer to Note 30.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31			
	2008		2009	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Shin Kong Insurance Agency Co., Ltd.	$195,780	100.00	$169,082	100.00
Shin Kong Property Insurance Agency Co., Ltd.	8,938	100.00	10,040	100.00
Shin Kong Marketing Consultant Co., Ltd.	124,967	49.70	112,990	49.70
Shin Kong Finance (HK) Limited	68,132	100.00	—	100.00
	$397,817		$292,112	

TSKCB's equity in earnings of equity method investees for the three months ended March 31, 2008 and 2009 is summarized as follows:

	Equity in Earnings		Original Cost	
	2008	2009	2008	2009
Shin Kong Insurance Agency Co., Ltd.	$28,774	$13,883	$ 2,060	$ 2,060
Shin Kong Property Insurance Agency Co., Ltd.	1,316	722	2,060	2,060
Shin Kong Finance (HK) Limited	3,032	(3,797)	67,938	67,938
Shin Kong Marketing Consultant Co., Ltd.	9,381	(2,273)	9,940	9,940
	$42,503	$ 8,535	$81,998	$81,998

As of March 31, 2009, the stockholder's equity of Shin Kong Finance (HK) Limited was negative, so the book value of the investment in Shin Kong Finance (HK) Limited had credit balance and reported as other liabilities. Please refer to Note 23.

13. OTHER FINANCIAL ASSETS, NET

	March 31	
	2008	2009
Bond investments without active market	$7,966,110	$4,765,430
Financial assets carried at cost	445,026	578,909
Hedging derivative	11,855	—
Remittance purchase	1	—
Other delinquent loan, net	—	—
	$8,422,992	$5,344,339

Details of the bond investments without active market are summarized as follows:

	March 31	
	2008	2009
Foreign bonds — in thousands of US dollars, as of March 31, 2008 and 2009, the bonds amounted to $262,000 thousand and $158,803 thousand, respectively.	$7,966,110	$5,386,111
Less impairment loss	—	(620,681)
	$7,966,110	$4,765,430

As of March 31, 2009, impairment loss on bond investments without active market amounted to $620,681 thousand (US$18,300 thousand).

Details of the financial assets carried at cost are summarized as follows:

	March 31	
	2008	2009
Domestic non-listed (OTC) common stock	$300,000	$300,000
Domestic non-listed (OTC) preferred stock	145,026	145,026
Abroad limited trade — listed common stock	—	133,883
	$445,026	$578,909

To hedge cash flow risk due to the fluctuations of interest rate, TSKCB has held interest rate swap contracts amounting to $9,600,000 thousand (notional principal). For these interest rate swap contracts, all criteria: Bank's documentation of the hedging relationship, objectives of risk management, hedging strategy and the means to assess the hedging effectiveness, of cash flow hedge accounting required by SFAS No. 34, "Financial Instruments: Recognition and Measurement," are met, thus the contracts are remeasured at fair value. The effectively hedged portion, $8,600,000 thousand, was recognized directly in the stockholder's equity. The remaining, $1,000,000 thousand, is recognized in the financial assets held for trading. As of March 31, 2009, the financial debenture has matured and had been paid off.

Details of other delinquent loan — net are summarized as follows:

	March 31	
	2008	2009
Other delinquent loan	$ 142,969	$ 208,307
Less allowance for doubtful accounts (Note 9)	(142,969)	(208,307)
	$ —	$ —

14. PROPERTY AND EQUIPMENT

	Three Months Ended March 31, 2008							
	Land	Building and Structures	Computers	Trans-portation	Other Equipment	Leased Assets	Construc-tion In Progress	Total
Cost								
Balance, beginning of period	$4,627,192	$3,226,760	$1,236,596	$20,385	$1,036,786	$750,670	$48,832	$10,947,221
Addition	—	—	5,102	—	4,107	—	16,633	25,842
Reduction	(664,502)	(413,388)	(137,620)	(990)	(328,611)	—	—	(1,545,111)
Reclassifications	(55,198)	112	—	—	—	—	—	(55,086)
Balance, end of period	3,907,492	2,813,484	1,104,078	19,395	712,282	750,670	65,465	9,372,866
Revaluation increment								
Balance, beginning of period	381,709	8,177	—	—	—	—	—	389,886
Addition	—	—	—	—	—	—	—	—
Reduction	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—
Balance, end of period	381,709	8,177	—	—	—	—	—	389,886
Accumulated depreciation								
Balance, beginning of period	—	795,254	899,633	16,988	816,582	320,592	—	2,849,049
Addition	—	20,792	38,609	453	19,229	31,278	—	110,361
Reduction	—	(86,869)	(137,616)	(990)	(319,974)	—	—	(545,449)
Reclassifications	—	1,135	—	—	—	—	—	1,135
Balance, end of period	—	730,312	800,626	16,451	515,837	351,870	—	2,415,096
Carrying amount	$4,289,201	$2,091,349	$ 303,452	$ 2,944	$ 196,445	$398,800	$65,465	$ 7,347,656

	Three Months Ended March 31, 2009							
	Land	Building and Structures	Computers	Tran-sportation	Other Equipment	Leased Assets	Construc-tion In Progress	Total
Cost								
Balance, beginning of period	$3,657,074	$2,729,674	$ 883,512	$2,527	$554,804	$750,670	$45,113	$8,623,374
Addition	—	—	10,041	—	3,924	—	4,737	18,702
Reduction	—	(1,848)	(117,149)	—	(59,213)	—	—	(178,210)
Reclassifications	(66,221)	(137,768)	—	—	—	—	(7,288)	(211,277)
Balance, end of period	3,590,853	2,590,058	776,404	2,527	499,515	750,670	42,562	8,252,589
Revaluation increment								
Balance, beginning of period	380,639	8,177	—	—	—	—	—	388,816
Addition	—	—	—	—	—	—	—	—
Reduction	—	—	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—	—	—
Balance, end of period	380,639	8,177	—	—	—	—	—	388,816
Accumulated depreciation								
Balance, beginning of period	—	681,844	620,192	1,410	386,987	443,969	—	2,134,402
Addition	—	16,483	32,624	106	14,707	29,545	—	93,465
Reduction	—	(1,848)	(117,149)	—	(59,132)	—	—	(178,129)
Reclassifications	—	(8,774)	—	—	—	—	—	(8,774)
Balance, end of period	—	687,705	535,667	1,516	342,562	473,514	—	2,040,964
Carrying amount	$3,971,492	$1,910,530	$ 240,737	$1,011	$156,953	$277,156	$42,562	$6,600,441

The decrease of property and equipment was caused mainly by the selling of lands and buildings in 2008.

15. INTANGIBLE ASSETS

	March 31	
	2008	2009
Goodwill	$1,243,107	$1,243,107

TSKCB's acquisitions of other financial institutions are measured according to the provisions of SFAS No. 25, "Business Combinations — Accounting Treatment under Purchase Method." The excess of purchase price (cash) over net assets amounting to $2,082,113 thousand was recognized as goodwill. The Company reviewed and decided no impairment loss should be charged for the years ended March 31, 2008 and 2009.

16. OTHER ASSETS

	March 31	
	2008	2009
Refundable deposits	$3,772,817	$ 590,261
Deferred income tax asset (Note 27)	1,858,520	1,967,154
Collateral assumed, net	1,002,889	235,230
Non-operating assets, net	958,758	1,334,238
Deferred expenses	314,742	325,401
Prepayments	156,169	98,362
	$8,063,895	$4,550,646

As of March 31, 2008 and 2009, non-operating assets consist of the following:

	Three Months Ended March 31, 2008		
	Land	Building	Total
Cost			
Balance, beginning of period	$727,222	$269,776	$ 996,998
Addition	—	—	—
Reduction	—	—	—
Reclassifications	55,198	(112)	55,086
Balance, end of period	782,420	269,664	1,052,084
Accumulated depreciation			
Balance, beginning of period	—	92,135	92,135
Addition	—	2,326	2,326
Reduction	—	—	—
Reclassifications	—	(1,135)	(1,135)
Balance, end of period	—	93,326	93,326
Carrying amount	$782,420	$176,338	$ 958,758

	Three Months Ended March 31, 2009		
	Land	Building	Total
Cost			
Balance, beginning of period	$1,000,931	$247,423	$1,248,354
Addition	—	—	—
Reduction	—	—	—
Reclassifications	66,221	137,768	203,989
Balance, end of period	1,067,152	385,191	1,452,343
Accumulated depreciation			
Balance, beginning of period	—	107,049	107,049
Addition	—	2,282	2,282
Reduction	—	—	—
Reclassifications	—	8,774	8,774
Balance, end of period	—	118,105	118,105
Carrying amount	$1,067,152	$267,086	$1,334,238

As of March 31, 2008 and 2009, deferred expense consists of the following:

	Three Months Ended March 31, 2008		
	Computer Software	Lease Improvement	Total
Balance, beginning of period	$175,195	$173,063	$348,258
Addition	8,212	5,888	14,100
Amortization	(26,188)	(18,786)	(44,974)
Reduction	—	(2,642)	(2,642)
Reclassifications	—	—	—
Balance, end of period, net	$157,219	$157,523	$314,742

	Three Months Ended March 31, 2009		
	Computer Software	Lease Improvement	Total
Balance, beginning of period	$143,575	$208,204	$351,779
Addition	1,795	10,043	11,838
Amortization	(26,572)	(18,932)	(45,504)
Reduction	—	—	—
Reclassifications	7,288	—	7,288
Balance, end of period, net	$126,086	$199,315	$325,401

As of March 31, 2008 and 2009, collateral assumed consists of the following:

	March 31	
	2008	2009
Land	$ 1,555,517	$ 864,142
Buildings	619,965	412,158
Other equipment	248	248
Less allowance for collaterals assumed	(1,172,841)	(1,041,318)
	$ 1,002,889	$ 235,230

17. DUE TO CENTRAL BANK OF CHINA AND BANKS

	March 31	
	2008	2009
Due to Central Bank of China	$ 67,842	$ 8,779
Due to banks	326,962	119,249
Due to Chunghwa Post Co., Ltd.	3,022,572	3,063,543
Call loan from banks	6,731,192	185,547
	$10,148,568	$3,377,118

18. NOTES ISSUED UNDER REPURCHASE AGREEMENTS

As of March 31, 2008 and 2009, government bonds issued under repurchase agreements were $2,337,636 thousand and 50,012 thousand with interest rates ranging from 1.750%~1.850% and 0.12%, respectively. The future repurchasing commitment of such repurchase agreements as of March 31, 2008 and 2009 were $2,338,889 thousand and $50,103 thousand, respectively.

19. PAYABLES

	March 31	
	2008	2009
Interest payable	$1,417,951	$1,119,274
Notes and checks in clearing	1,689,148	742,841
Accrued expenses	715,030	601,111
Trust exchange payable	695,393	98,235
Accounts payable	674,709	365,343
Bankers' acceptances	539,359	325,255
Receipts under custody	291,307	170,006
Other payables	870,095	378,505
	$6,892,992	$3,800,570

20. CUSTOMER DEPOSITS AND REMITTANCES

	March 31	
	2008	2009
Savings account deposits	$219,355,372	$216,821,550
Time deposits	82,244,499	104,531,910
Negotiable certificates of deposit	3,591,700	684,500
Demand deposits	25,239,275	28,354,747
Checking account deposits	4,761,142	4,216,968
Remittances outstanding	25,408	8,391
	$335,217,396	$354,618,066

21. FINANCIAL DEBENTURE

	March 31	
	2008	2009
Primary financial debenture	$10,000,000	$ —
Secondary financial debenture	8,800,000	8,800,000
	18,800,000	8,800,000
Less item reclassified to financial liabilities designated as at fair value through profit or loss (Note 7)	(1,000,000)	—
	$17,800,000	$8,800,000

TSKCB issued first to sixth primary financial debenture of 2003 on November 25, 2003, December 3, 2003, December 5, 2003, December 8, 2003, December 10, 2003 and December 16, 2003, respectively, and issued first and second primary financial debenture of

2004 on February 4, 2004 and February 16, 2004, respectively. Those issuances of financial debenture were approved by the ruling reference No. 0920032691 issued by the MOF on July 14, 2003. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $10,000,000 thousand

(b) Principal issued: $10,000,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: 5 years with maturities on November 25, 2008, December 3, 2008, December 5, 2008, December 8, 2008, December 10, 2008, December 16, 2008, February 4, 2009 and February 16, 2009, respectively.

(e) Nominal interest rate: Fixed or floating interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid as follows:

    (i) Paid seasonally from the issuance date: Items A, B, C, D and F of fifth first financial debenture of 2003.

    (ii) Paid semi-annually from the issuance date: First, third, fourth, sixth first financial debenture and item E of fifth first financial debenture of 2003 and first and second first financial debenture of 2004.

    (iii) Paid annually from the issuance date: Second first financial debenture of 2003.

(h) TSKCB's first, second, third, fourth, fifth and sixth primary financial debenture of 2003, $1,300,000 thousand and $8,700,000 thousand had been redeemed in December 2008 and February 2009, respectively.

TSKCB issued first secondary financial debenture and second secondary financial debenture on November 13, 2006 and November 27, 2006, respectively, which was approved by the ruling reference No. 09500376520 issued by Banking Bureau of the FSC on September 8, 2006. Details of the financial debenture issuance are summarized as follows:

(a) Total approved principal: $8,800,000 thousand

(b) Principal issued: $8,800,000 thousand

(c) Denomination: $10,000 thousand, issued at par

(d) Period: Debenture I: 7 years with maturities on November 13, 2013 and November 27, 2013, respectively. Debenture II: 7 years with maturities on November 13, 2016 and November 27, 2016, respectively.

(e) Nominal interest rate: Fixed interest rate.

(f) Repayment: The financial debenture will be paid on the maturity date.

(g) The interest will be paid annually from the issuance date.

As of March 31, 2008, to offset the effect of inconsistency in accounting between the interest payment on the settlement date for the third and fourth primary financial debenture of 2003 amounting to $1,000,000 thousand and the interest swap contract which is taking a position that is equal and opposite to the ultimate position of the first financial debenture, TSKCB designated those financial liabilities as at fair value through profit or loss. As of March 31, 2009, TSKCB's third and fourth primary financial debenture had been redeemed. Please refer to Note 7.

22. MISCELLANEOUS FINANCIAL LIABILITIES

	March 31	
	2008	2009
Lease payable	$395,533	$273,563
Appropriated loan fund	85,500	81,900
	$481,033	$355,463

In December 2004, TSKCB entered into an automation equipment lease agreement with Taiwan Shin Kong Security Co., Ltd. Terms and conditions of the agreement are summarized as follows:

(a) Subject: automated teller machines ("ATMs")

(b) Term: Five years from the next day of inspection. Upon expiry, TSKCB has a priority right to lease these ATMs. Once the lease term reaches seven years, the ownership of these ATMs will be transferred to TSKCB.

(c) Lease payment: Monthly rental of $30 thousand each; Total rental expenses for five-year lease amounted to $1,800 thousand.

(d) During the lease term, TSKCB is obliged to pay full rentals for any installed but later withdrawn ATM.

(e) As of March 31, 2009, 434 ATMs had been installed and are accounted for as capital lease.

As of March 31, 2008 and 2009, TSKCB being one of the banks that lend to the Taipei International Financial Building Co., Ltd. was provided by the government with a funding reported as appropriated loan fund which amounted to $85,500 thousand and $81,900 thousand, respectively.

23. OTHER LIABILITIES

	March 31	
	2008	2009
Advance receipts	$455,063	$ 354,410
Reserve for land revaluation increment tax	226,501	225,706
Deferred credits — related gain	96,316	63,407
Guarantee deposit received	34,113	43,448
Reserve for guarantee	14,232	14,232
Reserve for trading loss	12,946	70,911
Credit of investment under equity method (Note 12)	—	226,519
Others	19,371	18,503
	$858,542	$1,017,136

Shin Kong Marketing Consultant Co., Ltd. participated in the auction that is selling non-performing credit card debts and it won on January 11, 2008 and signed the contract on January 25, 2008. The non-performing credit card debt purchased included all the rights pertaining thereto. The total relevant amount was $9,995,293 thousand and purchase price was $98,080 thousand. The transaction was completed on January 28, 2008 and recorded as deferred credits — related gain in other liabilities. As of March 31, 2009, the unrealized gain was $63,407 thousand.

24. STOCKHOLDER'S EQUITY

Common Stock

As of March 31, 2008 and 2009 TSKCB has authorized and issued common stocks totaling $1,957,767 thousand, divided into 1,957,767 thousand common shares at $10 par value per share.

Capital Surplus

Under the ROC related law and regulations, capital surplus shall not be used except to offset a deficit. However, the income derived from issuance of new shares at a premium (including the premiums on shares issued above their par value, premiums on shares issued in merger, treasury stock transaction, etc.) and earnings from endowments received can be transferred to capital as a stock dividend, which is based on the respective equities of shareholder. Such amount that is transferred from capital surplus to capital shall not be more than the limitation set in the ROC related law and regulations.

Retained Earnings

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

(a) Payment of taxes;

(b) Offset accumulated deficit, if any;

(c) 30% thereafter, if any, as legal reserve;

(d) Special reserve to be distributed after deliberation;

(e) The remainder plus the beginning balance of unappropriated earnings is to be distributed 1% as bonus to employees and 99% as dividend to the shareholder.

The appropriation of item (e) will be proposed and approved by the Board of Directors. However, the Board of Directors may consider TSKCB's actual condition and decide not to distribute any or part of earnings.

According to the ROC Banking Law, the maximum cash dividends may not exceed 15% of the amount of capital until such reserve equals the amount of capital. Cash or assets distribution should be restricted if the capital adequacy ratio is below the authority's requirement.

Since TSKCB is 100% owned by Shin Kong Financial Holding Co., Ltd., in order to ensure that there are adequate working capitals available for the expansion of Shin Kong Financial Holding Co., Ltd. operations and so as to increase its profitability, dividends may be distributed in a combination of cash and stock. However, the cash dividends should not be less than 30% of the current year's distributable amount for stockholder dividends, and the rest will be stock dividends.

According to TSKCB's Articles of Incorporation, the bonus to employees may be based on estimated amount. After distributing 30% of income after tax as legal reserve and distributing special reserve according to the ROC Banking Law and regulations, the remainder plus the beginning balance of unappropriated earnings may be distribute 1% as bonus to employees. If the actual amount subsequently resolved by the stockholder differs from the proposed amount, the difference is recorded in the year of stockholder's resolution as a change in accounting estimate. As of March 31, 2009, the bonus to employees was $908 thousand.

The proposal for distribution of 2007 earnings was approved by the Board of Directors on behalf of the stockholder on April 16, 2008. The proposal was to appropriate for legal reserve of $427,008 thousand and special reserve of $302,715 thousand, to add unrealized revaluation increment of $77,293 thousand and distribute bonus to employees of $6,163 thousand. Related information associated with such appropriation is available at the Market Observation Post System website.

The proposal for distribution of 2008 earnings was approved by the Board of Directors on behalf of the stockholder on February 25, 2009. The proposal was to appropriate for legal reserve of $67,982 thousand and special reserve of $768,804 thousand. Related information associated with such appropriation is available at the Market Observation Post System website.

25. SERVICE FEES, NET

	Three Months Ended March 31	
	2008	2009
Service fee income (Note 29)	$ 474,409	$ 404,840
Service fee expense	(121,233)	(119,405)
	$ 353,176	$ 285,435

26. EMPLOYEE EXPENSES, DEPRECIATION AND AMORTIZATION

	Three Months Ended March 31	
	2008	2009
Employee expenses		
Salaries	$581,285	$518,980
Labor and health insurance	40,420	41,053
Pension expense	33,159	34,115
Other employee expenses	25,477	23,952
	$680,341	$618,100
Depreciation	$110,361	$ 93,465
Amortization	$ 44,974	$ 45,504

27. INCOME TAX

	Three Months Ended March 31	
	2008	2009
Income before income tax	$ 654,687	$ 190,409
Adjustments		
Permanent difference	(833,999)	(731,475)
Temporary difference	317,486	(70,289)
	138,174	(611,355)
Less loss carryforward	(138,174)	—
Taxable loss	—	—
Current income tax expense	—	—
Additional income tax basic	7,544	12,525
Less prepaid and withheld income tax	(28,163)	(46,016)
Income tax refundable	$ (20,619)	$ (33,491)

	2008	2009
Income tax refundable, beginning of the period	$204,106	$256,495
Add: current income tax refundable	20,619	33,491
Income tax refundable, ending of the period	$224,725	$289,986

As of March 31, 2008 and 2009, deferred income tax assets consist of the following:

	March 31	
	2008	2009
Deferred income tax assets		
Loss carryforward	$ 2,899,203	$ 2,958,976
Excess of allowance for doubtful accounts	265,436	256,671
Unrealized market devaluation of collateral assumed	145,188	122,496
Others	60,293	22,972
Deferred taxable liability		
Amortization of goodwill	(99,913)	(121,261)
Less allowance for deferred income tax assets	(1,411,687)	(1,272,700)
Net deferred income tax assets	$ 1,858,520	$ 1,967,154

On January 6, 2009, the Legislative Yuan of the ROC passed the amendment of Article 39 of the Income Tax Law, which extends the operating loss carryforward period from five years to ten years. TSKCB recalculated deferred tax assets according to the amended Article and recorded the resulting difference as a deferred income tax benefit.

As of March 31, 2009, the details of TSKCB's loss carryforward are as follows:

Expiry Year	Deductible Amount
Year 2015	$ 1,773,586
Year 2016	6,953,560
Year 2017	2,497,403
Year 2019	611,355
	$11,835,904

On December 31, 2005, TSKCB merged with TSKCB. According to the Law of Business Merging No. 38, the loss of each Bank for the past five years should be calculated with the new combined ratio of shareholder's equity after the merger (TSKCB: 49.99%, TSKCB: 50.01%).

The details of the income tax expense are as follows:

	Three Months Ended March 31	
	2008	2009
Current income tax expense	$ 7,544	$12,525
Decrease in deferred income tax assets	66,760	5,258
Intra-period tax allocation — adjustment of stockholder's equity	(26,786)	314
Income tax expense	$ 47,518	$18,097

The information of imputed credit account is disclosed as follows:

	March 31	
	2008	2009
The balance of imputed credit account	$209,020	$13,654
Estimate imputed creditable ratio	10.29%	7.92%

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

As of March 31, 2009, TSKCB has no unappropriated earnings attributed to years 1997 and before.

As of March 31, 2009, TSKCB's income tax returns through 2005 had been assessed and approved by the tax authority. However, in the assessment result of TSKBC's 2004 income tax return, the amortization of bond investment amounting to $64,840 thousand and the amount of goodwill amortization, arising from acquisition of Credit Cooperatives amounting $8,778 thousand were not recognized by the tax authority. TSKBC did not agree with the assessed result and is in the process of litigation with the authority.

28. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share are summarized as follows:

	Amounts (Numerator)		Shares Denominator	Earnings Per Share (Dollars)	
	Before Income Tax	After Income Tax	(Shares in Thousands)	Before Income Tax	After Income Tax
Three months ended March 31, 2008					
Income for the year attributable to common stockholder	$654,687	$607,169	1,957,767	$0.33	$0.31
Three months ended March 31, 2009					
Income for the year attributable to common stockholder	$190,409	$172,312	1,957,767	$0.10	$0.09

29. RELATED PARTY TRANSACTIONS

Related Parties	Relationship
Shin Kong Financial Holding Co., Ltd. (SKFHC)	Parent company of TSKCB
Zeng-Chang, Li	New president and general manager of TSKCB (Note 1)
Cheng-Jin, Liang	Former president of TSKCB (Note 1)
Bo-Han, Lin; Shi-Qi, Hong; Bo-Feng, Lin; Bang-Sheng, Wu; Jin-Tai, Huang; Yi-Zhong, Xie; Shen-Yong, Yang	Directors of TSKCB
Ching-Shuei, Guo; Sheng-Yi, Hu	Independent directors of TSKCB (Note 2)
Zhong-Her, Chen; Song-Chun, Cheng	Supervisors of TSKCB
Xi-Sheng, Wang, etc.	Executive managers of TSKCB
Shin Kong Life Insurance Co., Ltd. (SKLIC)	100% holding subsidiary of SKFHC
Shin Kong Investment Trust Co., Ltd. (SKITC)	100% holding subsidiary of SKFHC
Shin Kong Securities Co., Ltd. (SKSC)	100% holding subsidiary of SKFHC
Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC)	100% holding subsidiary of SKFHC
Shin Kong Insurance Agency Co., Ltd.	100% owned subsidiary of TSKCB
Shin Kong Property Insurance Agency Co., Ltd.	100% owned subsidiary of TSKCB
Shin Kong Finance (HK) Limited	100% owned subsidiary of TSKCB
Shin Kong Marketing Consultant Co., Ltd.	Investee under equity method
Dong-Jin, Wu	President of SKFHC
Jia-Lu, Wu	Vice President of SKFHC
Peng, Shiu	General manager of SKFHC
Yun-Wan, Ye; Deng-Shan, Lin; Wen-Dong, Hong; Dong-Sheng, Wu; Xi-Hong, Wu; Gui-Lan, Wu; Xin-Yin, Wu; Xi-Jie, Wu; Shi-Jun, Hong; Chong-Ren, Huang; Ji-Shi, Zheng; Wen-Chi, Wu; Ya-Fu, Du	Directors of SKFHC
Yao-Feng, Li; Qi-Ming, Su; Shi-Fei, Chen; Yuan-Ju, Huang; He-Jen, Huang	Supervisors of SKFHC
Dong-Xian, Wu, etc.	The spouses and kinsfolk of presidents, vice presidents and managers of SKFHC and TSKCB.

Related Parties	Relationship
Yin-Fang, Wu-Peng, etc.	The spouses of directors and supervisors of SKFHC and TSKCB.
Dong-Quan, Wu, etc.	The presidents, directors, supervisors and managers of SKLIC, SKITC, SKSC and TSKIBC and their spouses
Shin Kong Chao Feng Co., Ltd.	The person in charge is the president of SKFHC
Xin-Quan Co., Ltd,	The person in charge is the president of SKFHC
Pei-Tou Hotel Co., Ltd.	The person in charge is the president of SKFHC
Sbright Optroincs Co., Ltd.	The person in charge is the president of SKFHC
Shin Kong Wu Ho-Su Hospital	The person in charge is the president of SKFHC
Shin Kong Wu Foundation	The person in charge is the president of SKFHC
Shin Kong Wu Ho-Su Cultural Foundation	The person in charge is the president of SKFHC
The Shin Kong Life Charity Foundation	The person in charge is the president of SKFHC
Shin Kong Wu Ho-Su Rescue Foundation	The person in charge is the president of SKFHC
Lian-Sin Cultural Foundation	The person in charge is the president of SKFHC
Wu Dong-Jin Charity Foundation	The person in charge is the president of SKFHC
Great Taipei Broadband Co., Ltd., etc.	The person in charge is the president of SKFHC
First International Telecom Co., Ltd.	The former director is the president of SKFHC
Dong-Yin Investment Co., Ltd.	The person in charge is the spouse of president of SKFHC
Yin-Yin Investment Co., Ltd.	The person in charge is the spouse of president of SKFHC
Tai-Zi Car Industry Co., Ltd.	The person in charge is the family of president of SKFHC
UBright Optonics Co., Ltd.	The person in charge is the family of president of SKFHC
Dong-Xian Investment Co., Ltd.	The person in charge is the family of president of SKFHC
Hou-Sheng Chemical Industry Co., Ltd.	The person in charge is the family of president of SKFHC
Mian-Hao Enterprise Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Compose Fiber Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Fang Zhi Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Property Insurance Co., Ltd.	The person in charge is the family of president of SKFHC
Xin-Sheng Co., Ltd.	The person in charge is the family of president of SKFHC
Shin Kong Construction and Development Co., Ltd.	The person in charge is the family of president of SKFHC
Rui-Xin Co., Ltd.	The person in charge is the family of president of SKFHC
Tai Shin Financial Holding Co., Ltd.	The person in charge is the family of president of SKFHC
Yong-Guang Co., Ltd.	The person in charge is the vice president of SKFHC
Jia-Bang Investment Co., Ltd.	The person in charge is the vice president of SKFHC

Related Parties	Relationship
Wang-Tien Woolen Textile Co., Ltd.	The person in charge is the vice president of SKFHC
Shin Kong Recreation Co., Ltd.	The person in charge is the vice president of SKFHC
Taipei City Wu Jia-Lu Insurance Foundation	The person in charge is the vice president of SKFHC
Taipei GAS Co., Ltd.	Related party in substance
Taiwan Shin Kong Security Co., Ltd.	Related party in substance
Qi-Ye Chemical Co., Ltd.	Related party in substance

Note 1: The former president resigned on October 3, 2008 and elected the general manager; Zeng-Chang, Li is elected as the new president.
Note 2: TSKCB appointed independent directors, Ching-Shuei, Guo and Sheng-Yi, Hu, on October 3, 2008.

Summary of significant transactions with related parties is as follows:

Loans

	Three Months Ended March 31, 2008							
				Compliance				
	Numbers / Name	Highest Balance	Balance, End of the Year	Performing Loans	Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
Employees consumption loans	20	14,805	11,735	11,735	—	Car, deposit receipt	102	None
Loans on mortgage	53	485,203	413,501	413,501	—	Real estate	2,959	None
Other loans	Tai-Zi Car Industry	1,757,300	1,724,500	1,724,500	—	Real estate, equipment	17,378	None
	Hou-Sheng Chemical Industry	1,000,000	1,000,000	1,000,000	—	Real estate, deposit receipt	8,323	None
	Shin Kong Zao Feng	450,000	450,000	450,000	—	Real estate	2,998	None
	Shin Kong Compose Fiber	646,302	283,621	283,621	—	Public trade stock, equipment	3,463	None
	Xin-Sheng	270,200	270,200	270,200	—	Real estate	2,621	None
	Dong-Xia Investment	250,000	250,000	250,000	—	Real estate, public trade stock	1,484	None
	Rui-Xin	300,000	230,000	230,000	—	Real estate, public trade stock	1,756	None
	Kuo Wu, Ru-Yue	200,000	200,000	200,000	—	Real estate	1,403	None
	Jia-Bang Investment	175,000	175,000	175,000	—	Real estate	1,592	None

Three Months Ended March 31, 2008

Numbers / Name	Highest Balance	Balance, End of the Year	Compliance: Performing Loans	Compliance: Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
First International Telecom	126,087	113,587	113,587	—	Real estate, equipment	1,173	None
Wang-Tien Woolen Textile	100,000	100,000	100,000	—	Real estate	—	None
Wen-Dong Hong	20,000	20,000	20,000	—	Real estate	137	None
Shin Kong Wu Ho-Su Hospital	20,000	10,000	10,000	—	Public trade stock	72	None
Shin Kong Fang Zhi	532	523	523	—	Public trade stock	—	None
Taiwan Shin Kong Security	46,073	—	—	—	Real estate	241	None
Qi-ye Chemical	30,000	—	—	—	Public trade stock	70	None
Pei-Tou Hotel	1,000	—	—	—	Public trade stock	1	None
Dong-Yin Investment	1,000	—	—	—	Public trade stock	1	None
Yong-Guang	1,000	—	—	—	Public trade stock	1	None

Three Months Ended March 31, 2009

	Numbers / Name	Highest Balance	Balance, End of the Year	Compliance: Performing Loans	Compliance: Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
Employees consumption loans	19	12,146	10,703	10,703	—	Car, deposit receipt	82	None
Loans on mortgage	64	551,451	509,797	509,797	—	Real estate	2,468	None
Other loans	Tai-Zi Car Industry	1,716,850	1,714,300	1,714,300	—	Real estate, equipment	11,311	None
	Hou-Sheng Chemical Industry	990,000	990,000	990,000	—	Real estate, deposit receipt	4,999	None
	Wang-Tien Woolen Textile	460,000	460,000	460,000	—	Real estate	3,047	None
	Shin Kong Zao Feng	450,000	450,000	450,000	—	Real estate	2,927	None
	Shin Kong Compose Fiber	350,000	350,000	350,000	—	Public trade stock, equipment	587	None

Numbers / Name	Highest Balance	Balance, End of the Year	Compliance: Performing Loans	Compliance: Overdue Loans	Collaterals	Interest Revenue	The Difference Between Related and Non-Related Party
Three Months Ended March 31, 2009							
Jia-Bang Investment	283,100	283,100	283,100	—	Real estate	2,035	None
Kuo Wu, Ru-Yue	200,000	200,000	200,000	—	Real estate	991	None
Dong-Xia Investment	245,000	100,000	100,000	—	Real estate	1,059	None
First International Telecom	100,112	99,338	—	99,338	Real estate, equipment	348	None
UBright Optronics	95,000	95,000	95,000	—	Equipment	429	None
Rui-Xin	256,000	76,000	76,000	—	Real estate, public trade stock	1,585	None
Mian Hao Enterprise	50,000	40,000	40,000	—	Public trade stock, real estate	389	None
Peng-Shin, Wu	31,300	31,300	31,300	—	Real estate	211	None
Qi-ye Chemical	30,000	30,000	30,000	—	Public trade stock	254	None
Wen-Dong, Hong	20,000	20,000	20,000	—	Real estate	69	None
Pei-Tou Hotel	10,000	—	—	—	Public trade stock	38	None
Taiwan Shin Kong Security	10,000	—	—	—	Real estate	46	None
Shin Kong Wu Ho-Su Hospital	10,000	—	—	—	Public trade stock	20	None

According to Articles 32 and 33 of the Banking Law, credit loans cannot be made to related parties except loans to government and consumers; secured loans to related parties shall be provided with adequate collateral.

Guarantee

Company	Highest Balance	Balance, End of the Year	Guarantee Reserve Balance	Ratio (%)	Guarantee
	Three Months Ended March 31, 2008				
Shin Kong Compose Fiber	$43,270	$43,270	$—	0.50	Equipment
Shin Kong Wu Ho-Su Hospital	6,759	6,759	—	0.45	Public trade stock
Shin Kong Fang Zhi	5,607	5,017	—	0.50	Public trade stock
		$55,046			

Company	Highest Balance	Balance, End of the Year	Guarantee Reserve Balance	Ratio (%)	Guarantee
	Three Months Ended March 31, 2009				
Rui-Xin	$180,000	$180,000	$—	1.00	Real estate
Dong-Xia Investment	145,000	145,000	—	1.00	Real estate
Shin Kong Compose Fiber	43,270	43,270	—	0.50	Equipment
SBright Optionics	18,190	18,190	—	0.50	Deposit receipt
Taiwan Shin Kong Security	15,197	15,197	—	0.75	Public trade stock
Shin Kong Fang Zhi	5,767	5,596	—	0.50	Public trade stock
Shin Kong Wu Ho-Su Hospital	11,000	15,197	—	0.45	Real estate
		$407,253			

Derivative Financial Instruments

Company	Derivative Financial Instruments	Period	Notional Principal (In Thousands)	Valuation Gain or Loss (In Thousands)	End Balance: Account	End Balance: Amount (In Thousands)
	Three Months Ended March 31, 2008					
SKLIC	Cross-currency swap	2007.04.18~ 2009.03.26	US$613,000	NT$(944,491)	Financial liabilities at fair value through profit or loss	NT$ (811,667)

Company	Derivative Financial Instruments	Period	Notional Principal (In Thousands)	Valuation Gain or Loss (In Thousands)	End Balance: Account	End Balance: Amount (In Thousands)
	Three Months Ended March 31, 2009					
SKLIC	Cross-currency swap	2008.04.24~ 2010.02.11	US$700,000	NT$(235,576)	Financial assets at fair value through profit or loss	NT$ 784,603
SKLIC	Foreign exchange forward	2008.04.21~ 2010.04.01	US$510,000	NT$ 445,935	Financial assets at fair value through profit or loss	NT$1,465,680

Sale of NPL Information

Three months ended March 31, 2008

Counterparty: Shin Kong Marketing Consultant Co., Ltd
Trade date: January 25, 2008

Form of the NPL			Amount (Note 1)	Book Value	Price Allocation (Note 2)
Enterprise	Guaranteed		—	—	—
	Not guaranteed		—	—	—
Personal	Guaranteed	Home mortgage lending	—	—	—
		Car loan	—	—	—
		Other	—	—	—
	Not guaranteed	Credit card	9,995,293	—	98,080
		Cash card	—	—	—
		Small amount fiduciary loan (Note 3)	—	—	—
		Other	—	—	—
Subtotal			9,995,293	—	98,080

Note 1: Amount of NPL is the compensation of buyers from creditors, including the remaining balance of NPL (allowance not deducted) with bad debts written off.

Note 2: Price allocation means the company allocate total sale price to each category based on the percentage of cash recoverable assessment of each category

Note 3: Small amount fiduciary loan, as required by FSC in its letter reference dated December 29, 2005 (Ref. No. 09440010950) and does not include credit card and cash card.

Three months ended March 31, 2009

None.

Deposits

	Three Months Ended March 31, 2008		
	Ending Balance	Interest Ratio	Interest Expense
SKLIC	$10,463,533	0.00%~2.56%	$55,403
SKFHC	1,939,174	0.10%~2.23%	17,341
Shin Kong Wu Ho-Su Hospital	297,457	0.00%~1.79%	73
Shin Kong Property Insurance	269,081	0.00%~2.56%	1,676
TSKIBC	104,756	0.00%~2.56%	371
SKITC	95,132	0.00%~2.56%	465
Shin Kong Marketing Consultant Co., Ltd	78,368	0.00%~2.56%	30
Shin Kong Insurance Agency Co., Ltd	73,077	0.00%~2.43%	144
Qi-Ye Chemical	69,834	0.00%~0.10%	10
Taipei Gas	36,055	0.00%~0.10%	4
Xin-Shent	29,238	0.00%~0.10%	2
Taipei City Wu Jia-Lu Insurance Foundation	24,022	0.00%~2.58%	615
Shin Kong Fang Zhi	20,689	0.00%~0.10%	3
Xin-Quan	10,314	0.10%~0.10%	14
Shin Kong Compose Fiber	9,953	0.00%~0.10%	2
Rui-Xin	9,847	0.00%~0.10%	5
First International Telecom	573	0.00%~0.10%	4
Other	1,478,599		9,116
	$15,009,702		$85,278

	Three Months Ended March 31, 2009		
	Ending Balance	Interest Ratio	Interest Expense
SKLIC	$16,631,217	0.00%~2.58%	$40,111
SKSC	749,534	0.00%~2.48%	1,114
SKFHC	410,875	1.00%~2.60%	2,838
Shin Kong Construction and Development Co., Ltd.	393,093	0.00%~2.29%	294
Shin Kong Property Insurance	302,417	0.00%~2.67%	1,769
SKITC	261,588	0.00%~2.60%	1,706
Shin Kong Wu Ho-Su Hospital	259,110	0.00%~0.67%	87
Taipei Gas	129,499	0.00%~1.00%	13
TSKIBC	113,581	0.00%~2.67%	428
Shin Kong Marketing Consultant Co., Ltd	107,724	0.00%~2.56%	154
Shin Kong Recreation Co., Ltd.	60,449	0.00%~0.10%	3
Wu Tung-Chin Charity Foundation	52,526	0.00%~2.58%	158
Shin Kong Wu Ho-Su Cultural Foundation	49,342	0.00%~2.76%	165
Shin Kong Insurance Agency Co., Ltd	49,232	0.00%~2.56%	60
Shin Kong Wu Ho-Su Rescue Foundation	46,521	0.00%~2.02%	147
Xin-Sheng	44,473	0.00%~0.10%	9
Lian-Sin Cultural Foundation	40,379	0.15%~2.68%	188
Shin Kong Compose Fiber	37,039	0.00%~0.10%	1
The Shin Kong Life Charity Foundation	35,427	0.08%~2.67%	196
First International Telecom	2,048	0.10%~0.10%	1
Others	1,317,274		3,750
	$21,093,348		$53,192

The transaction terms with related parties do not significantly differ from those with ordinary customers except for the 9.75% and 5.95% interest rate on TSKCB's employee deposits as of March 31, 2008 and 2009.

Service Fee Income

	Three Months Ended March 31			
	2008		2009	
	Amount	% to Total Amount of Service Fee	Amount	% to Total Amount of Service Fee
Shin Kong Insurance Agency Co., Ltd.	$27,618	6	$30,601	8
Shin Kong Marketing Consultant Co., Ltd.	2,360	—	1,916	—
	$29,978	6	$32,517	8

The nature of transactions differ from each related party, therefore the transactions are not comparable.

Property Transaction

The further transaction refers to Note 10.

Lease Transaction

Please refer to Note 22.

Other Transactions

TSKCB and SKFHC, 100%-owner of TSKCB, adopted the consolidated income tax return system to file their consolidated income tax returns since January 1, 2006. The consolidated income tax resulted in receivable of $289,986 thousand as of March 31, 2009.

Guarantor of Credit

	Three Months Ended March 31, 2008		
	Creditor	Highest Balance	Ending Balance
Bang-Sheng, Wu	Shin Jia-Ban Enterprise	$ 1,486	$ 1,473
Jia-Lu, Wu	Jia-Bang Investment	175,000	175,000
Shi-Jun, Hong	Hung Chen Shu-Ying	140,000	140,000
Shi-Qi, Hong	Wen-Shr Consulting	10,000	10,000
Shi-Qi, Hong	Chuan-Wen Investment	34,000	34,000
		$360,486	$360,473

	Three Months Ended March 31, 2009		
	Creditor	Highest Balance	Ending Balance
Jia-Lu, Wu	Jia-Bang Investment	$283,100	$283,100
Chong-Ren, Huang	Powerchip Semiconductor	360,000	240,000
Shi-Jun, Hong	Hung Chen Shu-Ying	140,000	140,000
Shi-Qi, Hong	Wen-Shr Consulting	34,000	34,000
Shi-Qi, Hong	Chuan-Wen Investment	3,880	3,880
Bang-Sheng, Wu	Shin Jia-Ban Enterprise	1,493	1,387
		$822,473	$702,367

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

30. PLEDGED ASSETS

As of March 31, 2008 and 2009, certain assets were pledged as collaterals. Details are summarized as follows:

	March 31	
	2008	2009
Held-to-maturity investment — government bonds	$5,600,800	$581,700
Available-for-sale financial assets — government bonds	2,278,000	—
	$7,878,800	$581,700

Assets are pledged to district courts for litigation and for issuing financial debenture.

31. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies were summarized as follows:

	March 31 2008	March 31 2009
Guarantees	$ 13,914,164	$ 18,115,399
Letters of credit	4,004,640	2,644,655
Trust liabilities	105,922,411	110,613,051
Loan commitments (excluding credit card)	64,610,590	61,506,622

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

Trust Account Balance Sheet
March 31, 2008
(In Thousands of New Taiwan Dollars)

Trust Asset	Amount	Trust Liability	Amount
Cash in banks		Securities under custody payable	
The principal deposits in the Bank	$ 600,631	Securities under custody payable	$ 3,378,906
The principal deposits in other Bank	9,500	Trust capital	
		Funds and investment	95,453,371
Short-term investments		Funds invested in obligation and trust funds with collateral	1,543,078
Mutual fund	58,680,872		
Bond investments	35,980,042		
Common stocks	31,484	Fund invested in securities investment trust funds	31,484
CP or repurchase investment	41,183		
Securities under custody		Trust in real estate	5,808,375
Securities under custody	3,378,906	Reserve and accumulated deficit	
Real estate		Accumulated earnings	(117,586)
Land	5,292,976	Exchange	(369)
Building	100,211	Net loss	(174,848)
Construction in process	263,528		
Intangible asset			
Creditor's capital	1,543,078		
Trust Asset	$105,922,411	Trust Liability	$105,922,411

Trust Account Income Statement
Three Months Ended March 31, 2008

Trust income	
Interest revenue	$ 1,184
Preferred stock dividend income	104,397
Gain on disposal of assets	250,337
Realized capital gain	331,654
Subtotal	687,572
Trust expense	
Management fee	(13,449)
Insurance fee	(10)
Service fee	(6)
Loss on disposal of assets	(848,209)
Other fee	(1)
Subtotal	(861,675)
Loss before income tax	(174,103)
Income tax expense	(745)
Net loss	$(174,848)

The summary of trust asset is as follows:

Item	Amount
Cash in banks	
The principal deposits in TSKCB	$ 600,631
The principal deposits in other bank	9,500
Short-term investments	
Mutual fund	58,680,872
Bond investments	35,980,042
Common stocks	31,484
CP or repurchase investment	41,183
Securities under custody payable	
Securities under custody	3,378,906
Real estate	
Land	5,292,976
Building	100,211
Construction in process	263,528
Intangible asset	
Creditor's capital	1,543,078
	$105,922,411

Trust Account Balance Sheet
March 31, 2009
(In Thousands of New Taiwan Dollars)

Trust Asset	Amount	Trust Liability	Amount
Cash in banks		Securities under custody payable	
The principal deposits in the Bank	$ 1,785,146	Securities under custody Payable	$ 2,102,615
The principal deposits in other bank	9,500	Trust capital Funds and investment	101,689,485
Short-term investments		Funds invested in obligation and trust funds with Collateral	573,336
Mutual fund	42,281,037	Fund invested in securities investment trust funds	27,886
Bond investments	57,882,877	Trust in real estate	6,512,920
Common stocks	6,353	Reserve and accumulated deficit	
CP or repurchase investment	14,000	Accumulated deficit	1,775,870
Securities under custody		Exchange	(1,429)
Securities under custody	2,102,615	Net income	(2,067,632)
Real estate			
Land	5,121,131		
Building	146,015		
Construction in process	691,041		
Intangible asset			
Creditor's capital	573,336		
Trust Asset	$110,613,051	Trust Liability	$110,613,051

Trust Account Income Statement
Three Months Ended March 31, 2009

Trust income	
Interest revenue	$ 2,461
Preferred stock dividend income	84,740
Gain on disposal of assets	103,161
Realized capital gain	213,793
Subtotal	404,155
Trust expense	
Management fee	(8,724)
Service fee	(5)
Loss on disposal of assets	(2,462,449)
Other fee	(2)
Subtotal	(2,471,180)
Loss before income tax	(2,067,025)
Income tax expense	(607)
Net loss	$(2,067,632)

The summary of trust asset is as follows:

Item	Amount
Cash in banks	
The principal deposits in TSKCB	$ 1,785,146
The principal deposits in other bank	9,500
Short-term investments	
Mutual fund	42,281,037
Bond investments	57,882,877
Common stocks	6,353
CP or repurchase investment	14,000
Securities under custody payable	
Securities under custody	2,102,615
Real estate	
Land	5,121,131
Building	146,015
Construction in process	691,041
Intangible asset	
Creditor's capital	573,336
	$110,613,051

32. FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

	March 31			
	2008		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Financial assets at fair value equivalent to carrying value	$361,764,679	$361,764,679	$367,443,982	$367,443,982
Held-to-maturity investments	10,849,339	10,802,426	9,857,602	9,913,164
Other financial assets	8,422,992	8,217,814	5,344,339	4,184,383
Financial liabilities				
Financial liabilities at fair value equivalent to carrying value	356,711,465	356,711,465	364,342,723	364,342,723
Financial debenture	17,800,000	17,811,855	8,800,000	8,800,000
Other financial liabilities	481,033	481,033	355,463	355,463

The methods and assumptions used to estimate the fair values of financial instruments are summarized as follows:

(a) The carrying value reported in the balance sheet for short-term financial instruments approximate the fair value due to their short maturities or due to the amounts being similar to the amounts of receipt and payment of these instruments in the near future. This approach applies to cash and cash equivalents, due from Central Bank of China and banks, receivables (excluding income tax refundable), due to Central Bank of China and banks, notes issued under repurchase agreements, payables and remittance.

(b) If there is a quoted price in active market for financial instruments at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and derivatives for hedge, the fair value of these financial instruments should be based on market price. Otherwise, valuation method should be used for estimation. The assumption of the valuation method for estimation used by TSKCB is the same as those of the market participants.

Cash flow discount method should be used for debt securities without active market. TSKCB's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. These include debtor's credit conditions, remaining period of fixed interest rate in accordance with the contract regulation, remaining period of capital payment and currency payment, etc. TSKCB's discount rate for financial commodities is 2.677% to 3.155%.

If there is no quoted market price for reference, fair value of forward currency contacts and interest rate swaps are calculated using the discounted cash flow method. The Company estimated the fair value of each forward contract on the basis of the exchange rate quoted by Reuters. Fair values of each interest swap and each cross-currency swap are based on the market price quoted by Bloomberg, except that some contracts are provided by counterparties.

(c) Notes discounted and loans, and deposits are interest-bearing financial instruments, so their carrying values approximate fair values. The carrying amount of delinquent loans is the estimated collectible amount which is the book value less allowance for bad debt; therefore, the fair value is determined at their carrying value.

(d) Investments accounted for by equity method are equity instrument investments of which the fair value could not be measured reliably. The fair value of these instruments is determined at their carrying values.

(e) Financial instruments include securities that have not yet listed and derivative without substantial effect. According to Guidelines Governing the Preparation of Financial Reports by Public Banks, they should be measured at cost. The fair value of these instruments is determined at their carrying values.

(f) Cash flow discount method should be used for financial debenture. TSKCB's discount rate is equal to the remuneration rate of similar financial commodities' realistic conditions and characteristics. TSKCB's discount rate is 2.5834%.

Fair value of financial instruments represented by quoted price in active markets, or calculated by valuation method is listed as follows:

	Quoted Price in Active Markets		Amounts Calculated by Valuation Method	
	March 31		March 31	
	2008	2009	2008	2009
Financial assets				
Financial assets at fair value through profit or loss	$ —	$ —	$5,103,534	$ 4,103,046
Available-for-sale financial assets	—	—	7,666,938	17,907,613
Held-to-maturity investments	9,913,164	10,802,426	—	—
Other financial assets	4,184,383	8,217,814	—	—
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	—	2,496,957	2,114,873
Financial debenture	8,800,000	17,811,855	—	—
Other financial liabilities	355,463	481,033	—	—

TSKCB's financial assets exposed to fair value risk due to interest rate changes as of March 31, 2008 and 2009 amounted to $131,616,898 thousand and $115,295,150 thousand, respectively, and financial liabilities of $132,260,804 thousand and $131,276,653 thousand, respectively. Financial assets exposed to cash flow risk due to interest rate changes amounted to $226,413,016 thousand and $228,622,160 thousand, respectively, and financial liabilities of $233,807,491 thousand and $235,432,121 thousand, respectively.

For the three months ended March 31, 2008 and 2009, TSKCB's interest income of financial assets and liabilities not recognized through profit or loss amounted to $3,245,028 thousand and $2,213,718 thousand, respectively. Interest expenses amounted to $1,666,496 thousand and $1,208,448 thousand, respectively. In 2008 and 2009, TSKCB recognized $218,966 thousand and $30,983 thousand as the adjustments of stockholder's equity from available-for-sale financial assets, respectively.

Financial Risk Information

(a) Market risk

Fair values of bonds and bills investments, loans and other financial instruments of TSKCB change when the interest rate fluctuates.

(b) Credit risk

Credit risk may be caused by counterparties' failure to perform their obligation associated with financial assets held by TSKCB. TSKCB follows a strict credit policy to assess and approve all credit lines and guarantees. The secured loans were 70% of the total loans on March 31, 2009. The percentage of guarantees and issuance of letters of credit secured by collaterals was 15%. The collaterals for loans, financing guarantees and letters of credit guarantees are cash, inventories, securities, plants and other assets. If the customers default, TSKCB will execute its rights on the collateral in accordance with the terms of the contracts.

Objects of assessing credit risks include positive fair value of contracts on balance sheet and off-balance sheet commitments. Maximum exposure to credit risk of all financial instruments is the same as book value excluding items below:

	March 31, 2009	
Financial Instrument	Book Value	Maximum Exposure of Credit Risk
Guarantees	$—	$18,115,399
Letters of credit	—	2,644,655
Loan commitments (excluding credit card)	—	61,506,622

When the other parties to the financial instruments consist of a single individual, or a concentration of entities with similar commercial activities, they may have similar abilities to fulfill their credit obligations. TSKCB does not have such situation. TSKCB's credit exposure related to loans on March 31, 2009 was classified as follows:

Industry	Contract Amount	Maximum Exposure of Credit Risk
Natural persons	$156,608,988	$156,608,988
Banking and insurance	120,262,363	120,262,363
Manufacturing	41,326,837	41,326,837
Real estate leasing	19,166,988	19,166,988
Wholesale and retail	13,903,893	13,903,893
Servicing	6,347,834	6,347,834
Others	26,438,675	26,438,675
	$384,055,578	$384,055,578

Region	Contract Amount	Maximum Exposure of Credit Risk
Domestic	$367,975,329	$367,975,329
Asian regions	3,338,676	3,338,676
England	3,324,727	3,324,727
Others	9,416,846	9,416,846
	$384,055,578	$384,055,578

(c) Liquidity risk

Ratios of liquidity reserves are 13% and 17% on March 31, 2008 and 2009, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Since derivatives have very little probabilities of failing to be sold at reasonable prices in the market, there will be very low liquidity risks.

The basic management policies of TSKCB are matching maturity dates with interest rates of assets and liabilities and controlling unmatched gaps. The nature of uncertainty in those interest rates of assets and liabilities causes some unmatched gaps on the maturity day and could bring contingent profit or loss, thus TSKCB adopts suitable allocation method to evaluate Bank's liquidity and liquidity analysis is as follows:

	March 31, 2008			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
	(In Thousands of New Taiwan Dollars)			
Assets				
Cash and cash equivalents	$ 6,460,819	$ —	$ —	$ 6,460,819
Due from Central Bank of China and banks	43,353,021	—	—	43,353,021
Financial assets at fair value through profit or loss	4,103,046	—	—	4,103,046
Receivables	14,281,375	—	—	14,281,375
Notes discounted and loans	45,614,078	99,121,231	134,560,717	279,296,026
Available-for-sale financial assets	—	12,208,706	5,698,907	17,907,613
Held-to-maturity investments	899,999	9,603,069	346,271	10,849,339
Debt securities without active market	—	760,125	7,205,985	7,966,110
Hedge derivatives	11,855	—	—	11,855
Other delinquent loan	142,969	—	—	142,969
	$114,867,162	$121,693,131	$147,811,880	$384,372,173
Liabilities				
Due to Central Bank of China and banks	$ 10,148,568	$ —	$ —	$ 10,148,568
Financial liabilities at fair value through profit or loss	2,114,873	—	—	2,114,873
Notes issued under repurchase agreements	2,337,636	—	—	2,337,636
Payables	6,892,992	—	—	6,892,992
Customers deposits and remittances	317,788,126	17,429,270	—	335,217,396
Financial debenture	9,000,000	5,300,000	3,500,000	17,800,000
Lease payable	168,750	226,783	—	395,533
Appropriated loan fund	—	85,500	—	85,500
	$348,450,945	$ 23,041,553	$ 3,500,000	$374,992,498

	March 31, 2009			
	0~1 Year	Over 1 Year to 7 Years	More than 7 Years	Total
Assets				
Cash and cash equivalents	$ 6,221,993	$ —	$ —	$ 6,221,993
Due from Central Bank of China and banks	63,077,103	—	—	63,077,103
Financial assets at fair value through profit or loss	5,103,534	—	—	5,103,534
Receivables	10,262,295	—	—	10,262,295
Notes discounted and loans	37,391,037	100,863,929	140,471,673	278,726,639
Available-for-sale financial assets	597,931	2,874,099	4,194,908	7,666,938
Held-to-maturity investments	1,984,475	7,690,083	183,044	9,857,602
Debt securities without active market	—	—	4,765,430	4,765,430
Other delinquent loan	208,307	—	—	208,307
	$124,846,675	$111,428,111	$149,615,055	$385,889,841
Liabilities				
Due to Central Bank of China and banks	$ 3,377,118	$ —	$ —	$ 3,377,118
Financial liabilities at fair value through profit or loss	2,496,957	—	—	2,496,957
Notes issued under repurchase agreements	50,012	—	—	50,012
Payables	3,800,570	—	—	3,800,570
Customers deposits and remittances	336,344,189	18,273,877	—	354,618,066
Financial debenture	—	5,300,000	3,500,000	8,800,000
Lease payable	151,994	121,569	—	273,563
Appropriated loan fund	—	81,900	—	81,900
	$346,220,840	$ 23,777,346	$ 3,500,000	$373,498,186

(d) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by TSKCB may take risks of future cash inflow/outflow. The risk is considered substantial, therefore hedged by TSKCB.

Information of Reclassifications

Since July 1, 2008, TSKCB adopted the newly amended SFAS No. 34, “Financial Instruments: Recognition and Measurement”. The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. The fair values were as follows:

	Before Reclassification	After Reclassification
Financial assets held for trading	$ 3,498,350	$ 3,034,435
Available-for-sale financial assets	20,794,295	21,258,210
	$24,292,645	$24,292,645

In 2008, the international economic condition changed a lot and resulted in global financial crisis which caused the value of financial assets to collapse. TSKCB decided not to sell parts of the financial assets held for trading in the short time, and reclassified them to available-for-sale financial assets

The carrying value and fair value after reclassification as of March 31, 2009, were as follows:

	Carrying Value	Fair value
Available-for-sale financial assets	$223,120	$223,120

The investment income and stockholder's equity adjustment recognized on the reclassified financial assets and the pro forma information if the reclassification had not been made were as follows:

	Carrying Value		Pro Forma Information
	Investment Income Recognized	Stockholder's Equity Adjustment	Investment Income Recognized
Available-for-sale financial assets	$—	$(21,184)	$(21,184)

33. HEDGE STRATEGY

The activities of risk control and hedge strategy of TSKCB are affected by the industry nature of service and the restrictions of law, thus total risk management and control system is applied to recognize, measure and control the risks of TSKCB.

The market risk management objective is to hold the best risk position, maintain adequate liquidity and concentrate to manage all of the market risks by thoroughly having those factors including economic environment, competitive situation, market value risk and the influence to net interest revenue taken into consideration; therefore, to avoid net cash flow and market value risks, cash flow hedge and fair value hedge are the main hedge strategies of TSKCB.

To hedge interest rate risk, a great part of TSKCB's financial instruments are fixed-interest-rate instruments. TSKCB also transferred the transaction linking to monetary market to that with fixed rate. Interest rate swap contracts are the primary hedging instruments against interest rate fluctuations. In addition, cross currency swaps, swap options, interest rate caps and floors, and other derivatives may be used by TSKCB as hedging instruments.

34. INTEREST EARNING ASSETS AND INTEREST BEARING LIABILITIES

	2008		2009	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets				
Due from other banks	$ 4,233,863	1.88	$ 1,225,991	0.22
Due from Central Bank of China	37,575,435	2.08	42,746,367	0.77
Bonds purchased under resell agreements	377,576	1.98	—	—
Financial assets for trading	—	—	352,581	0.62
Available-for-sale financial assets	16,384,267	2.17	13,427,900	2.36
Held-to-maturity investments	10,848,429	1.78	9,855,199	1.94
Debt securities without active market	8,003,385	6.69	6,259,539	5.02
Accounts receivable (credit card)	5,879,253	16.52	4,819,489	17.91
Accounts receivable (factoring)	1,063,375	4.27	656,218	2.77
Notes discounted and loans	276,336,323	3.58	280,397,730	2.42
Liabilities				
Notes issued under repurchase agreement	1,971,285	2.56	2,948,744	0.20
Due to other banks	9,283,777	2.74	4,317,950	1.13
Demand deposits	105,070,434	0.46	104,295,325	0.23
Time deposits	226,888,649	2.44	242,400,863	1.77
Financial debentures	17,800,000	2.27	9,394,048	2.50
Appropriated loan fund	85,500	1.50	81,900	1.48

35. INFORMATION ABOUT SFAS No. 28

Asset Quality

Affair		Item: March 31, 2008 Non-Performing Loans (Note 1)	Loans	Non-Performing loan ratio (Note 2)	Allowance for Doubtful Accounts	Coverage Ratio (Note 3)	March 31, 2009 Non-Performing Loans (Note 1)	Loans	Non-Performing loan ratio (Note 2)	Allowance for Doubtful Accounts	Coverage Ratio (Note 3)
Business finance	Guarantee	377,838	67,168,594	0.56%	50,024	13.24%	377,838	67,168,594	0.56%	50,024	13.24%
	Non-guarantee	2,078,038	64,478,563	3.22%	1,802,205	86.73%	585,849	71,406,858	0.82%	79,592	13.59%
Consumer finance	Residential mortgage loan (Note 4)	191,314	55,765,134	0.34%	10,039	5.25%	2,398,522	59,983,739	4.00%	2,117,669	88.29%
	Cash card	—	50,462	—	18,166	—	171,641	57,260,379	0.30%	10,637	6.20%
	Credit loans (Note 5)	1,227,536	21,046,582	5.83%	1,092,439	88.99%	—	34,976	—	12,772	—
	Others (Note 6) Guarantee										
	Non-guarantee	1,249,602	68,250,278	1.83%	308,700	24.70%	1,237,326	70,148,475	1.76%	265,212	21.43%
		151,718	2,536,413	5.98%	92,091	60.70%	123,236	1,793,352	6.87%	88,048	71.45%
Total loans		5,276,046	279,296,026	1.89%	3,373,664	63.94%	5,314,463	278,726,639	1.91%	3,385,395	63.70%

Affair	Item: March 31, 2008 Non-Performing Accounts	Accounts Receivable	Non-Performing Accounts Ratio	Allowance for Doubtful Accounts	Coverage Ratio	March 31, 2009 Non-Performing Accounts	Accounts Receivable	Non-Performing Accounts Ratio	Allowance for Doubtful Accounts	Coverage Ratio
Credit card	132,093	10,999,715	1.20%	317,037	240.01%	176,714	8,368,496	2.11%	245,925	139.17%
Factoring without recourse (Note 7)	—	626,038	—	—	—	—	265,314	—	—	—

	March 31, 2008	March 31, 2009
Non-performing loans of debt negotiation performed according to contract (Note 8) . . .	391,551	306,636
Non-performing receivables of debt negotiation performed according to contract (Note 8)	1,629,315	1,124,840
Non-performing loans of debt discharged and regenerated (Note 9)		144,261
Non-performing receivables of debt discharged and regenerated (Note 9)		117,863

Note 1: The amount recognized as non-performing loans (“NPLs”) is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing /Non-accrual Loans” . The amount recognized as non-performing accounts (NPAs) of credit card was disclosed in accordance with the Banking Bureau’s letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Non-performing loan ratio = Non-performing loans ÷ Outstanding loan balance. Non-performing accounts of credit card ratio = Non-performing accounts ÷ Accounts receivable.

Note 3: Coverage of loan ratio = Allowance for doubtful accounts of loans ÷ Non-performing loans. Coverage of credit card ratio = Allowance for doubtful accounts of credit card ÷ Non-performing accounts.

Note 4: Residential mortgage loan is taken by a borrower who constructs or repairs his own house or under age children's house which is 100% secured and gives mortgage right to financial institution.

Note 5: The credit loans are other than credit card and cash card, and disclosed in accordance with the Banking Bureau's letter dated December 29, 2005 (Ref. No. 09440010950).

Note 6: The consumer finance's "Others" are other than "Residential mortgage loan", "Cash card" and "Credit loans" of guarantee or non-guarantee.

Note 7: The factoring without recourse is disclosed in accordance with the Banking Bureau's letter dated July 19, 2005 (Ref. No. 094000494). The accounts not confirmed by factors or insurance company for three months are labeled as non-performing loans.

Note 8: Overdue loans and receivables which are subject of debt negotiation are disclosed in accordance with Financial Supervisory Commission, Executive Yuan Gin-Guan-Yin 09510001270 Interpretation issued on April 25, 2006.

Note 9: Overdue loans and receivables which are subject of debt negotiation are disclosed in accordance with Financial Supervisory Commission, Executive Yuan Gin-Guan-Yin 09700318940 Interpretation issued on September 15, 2008.

Concentration of Credit Extensions

March 31, 2008

Rank (Note 1)	Company (Note 2)	Balance of Credit Extensions (Note 3)	Ratio (%)
	(In Thousands of New Taiwan Dollars, %)		
1	De-An Group	4,950,544	22.37%
2	Taiwan Railways Administration	4,000,000	18.08%
3	China Construction Group	3,718,843	16.81%
4	Formosa Plastics Group	3,066,522	13.86%
5	Li-Jing Group	2,508,760	11.34%
6	Shin Kong Group	2,307,760	10.43%
7	Ye-Hui Group	2,180,420	9.85%
8	Taichan Assets Management Group	2,171,750	9.82%
9	Uni-President	1,966,208	8.89%
10	Hong-Tai Group	1,905,919	8.61%

March 31, 2009

Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
	(In Thousands of New Taiwan Dollars, %)		
1	De-An Group	4,756,218	22.87%
2	China Construction Group	3,779,317	18.17%
3	Li-Jing Group	3,457,781	16.62%
4	Formosa Plastics Group	3,064,540	14.73%
5	Shin Kong Group	2,444,959	11.75%
6	Hong-Tai Group	2,246,582	10.80%
7	Taichan Asserts Management Group	2,171,750	10.44%
8	Uni-President	2,103,266	10.11%
9	Ye-Hui Group	1,960,635	9.43%
10	Tai-Zi Car Industry	1,779,620	8.56%

Note 1: Excluding government or state-owned agencies.

Note 2: According to Article 6 of the "Supplementary Provisions to the Stock Exchange Corporation Criteria for the Review of Securities Listings", "Group" refers to the entity that has a controlling or subordinate relationship with the counter-party that obtained loans from TSKCB.

Note 3: Credit balance means the sum of all loans (including import bill negotiated, discounted export bills negotiated, overdrafts, short-term secured and unsecured loans, marginal receivables, medium-term secured and unsecured loans, long-term secured and unsecured loans and overdue receivables), exchange bills negotiated, accounts receivable factored without recourse, acceptances receivable, and guarantees issued.

Interest Rate Sensitivity Information

Interest Rate Sensitivity (New Taiwan Dollars)

Items	March 31, 2008				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of New Taiwan Dollars, %)				
Interest rate-sensitive assets	212,069,987	5,878,621	3,680,309	110,588,326	332,217,243
Interest rate-sensitive liabilities	141,820,876	123,954,905	62,395,166	12,706,453	340,877,400
Interest rate-sensitive gap	70,249,111	(118,076,284)	(58,714,857)	97,881,873	(8,660,157)
Net worth					22,126,726
Ratio of interest rate-sensitive assets to liabilities					97.46
Ratio of interest rate sensitivity gap to net worth					(39.14)

Items	March 31, 2009				
	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	(In Thousands of New Taiwan Dollars, %)				
Interest rate-sensitive assets	223,818,509	5,379,131	7,416,797	83,908,772	320,523,209
Interest rate-sensitive liabilities	111,481,747	153,262,484	65,199,203	13,258,558	343,201,992
Interest rate-sensitive gap	112,336,762	(147,883,353)	(57,782,406)	70,650,214	(22,678,783)
Net worth					20,799,965
Ratio of interest rate-sensitive assets to liabilities					93.39
Ratio of interest rate sensitivity gap to net worth					(109.03)

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

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

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

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

Interest Rate Sensitivity (U.S. Dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	March 31, 2008				
	In Thousands of U.S. Dollars, %)				
Interest rate-sensitive assets	101,380	68,093	16,095	457,691	643,259
Interest rate-sensitive liabilities	449,709	68,982	51,071	—	569,762
Interest rate-sensitive gap	(348,329)	(889)	(34,976)	457,691	73,497
Net worth					727,733
Ratio of interest rate-sensitive assets to liabilities					112.90
Ratio of interest rate sensitivity gap to net worth					10.10

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
	March 31, 2009				
	(In Thousands of U.S. Dollars, %)				
Interest rate-sensitive assets	92,657	20,775	21,517	435,098	570,047
Interest rate-sensitive liabilities	268,719	56,312	118,369	—	443,400
Interest rate-sensitive gap	(176,062)	(35,537)	(96,852)	435,098	126,647
Net worth					613,261
Ratio of interest rate-sensitive assets to liabilities					128.56
Ratio of interest rate sensitivity gap to net worth					20.65

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

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

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

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

Profitability

Items		Three Months Ended March 31 2008	2009
		(%)	
Return on total assets	Before income tax	0.17	0.05
	After income tax	0.15	0.04
Return on equity	Before income tax	3.02	0.92
	After income tax	2.80	0.83
Net income ratio		23.78	8.69

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

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

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

Note 4: Income before (after) income tax represents income for the three months ended March 31, 2008 and 2009.

Maturity Analysis

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

	March 31, 2008					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Main capital inflow on maturity	426,365,464	67,227,787	32,509,410	22,224,103	27,860,265	276,543,899
Main capital outflow on maturity	469,779,324	53,122,482	59,669,837	78,237,192	129,784,132	148,965,681
Gap	(43,413,860)	14,105,305	(27,160,427)	(56,013,089)	(101,923,867)	127,578,218

	March 31, 2009					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Main capital inflow on maturity	425,505,442	88,762,769	37,446,178	31,812,096	44,158,183	223,326,216
Main capital outflow on maturity	468,769,717	51,844,721	76,935,036	99,879,970	132,256,694	107,853,296
Gap	(43,264,275)	36,918,048	(39,488,858)	(68,067,874)	(88,098,511)	115,472,920

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

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

	March 31, 2008					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of U.S. Dollars)					
Main capital inflow on maturity . . .	664,386	75,675	46,832	68,093	16,095	457,691
Main capital outflow on maturity	601,888	398,654	83,181	68,982	51,071	—
Gap	62,498	(322,979)	(36,349)	(889)	(34,976)	457,691

	March 31, 2009					
		Remaining Period to Maturity				
	Total	1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
	(In Thousands of U.S. Dollars)					
Main capital inflow on maturity . . .	581,271	71,623	32,258	20,775	21,517	435,098
Main capital outflow on maturity	454,591	234,498	45,412	56,312	118,369	—
Gap	126,680	(162,875)	(13,154)	(35,537)	(96,852)	435,098

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

36. ALLOCATION OF REVENUE, COST, EXPENSE RESULTING FROM INTERCOMPANY SHARING OF RESOURCES

SKFHC and its subsidiaries apply economies of scale to optimize profit. The joint marketing expenses are allocated to each subsidiary's capital stock.

37. INFORMATION RELATED TO SIGNIFICANT TRANSACTIONS

The related information of significant transactions is as follows:

No.	Item	Explanation
1	Accumulated Purchases and sales balance of specific investee's marketable security over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2009	None
2	Acquisition of real assets over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2009	None
3	Disposal of real assets over NT$300 million or 10% outstanding capital for the three months ended March 31, 2009	None
4	Discount on fees income from related parties over NT$5 million	None
5	Receivables from related parties over NT$300 million or 10% of outstanding capital	None
6	Sale of NPL information.	None
7	Financial assets securitization or real assets securitization	None
8 .	Other significant transactions which may affect decisions of the users of the financial statement	None

The related information of TSKCB's investees:

No.	Item	Explanation
1	Information on invested enterprise.	NA
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of March 31, 2009	Appendix I
5	Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2009	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2009	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2009	None
8	Discount on fees income from related parties over NT$5 million	None
9	Receivable from related parties over NT$300 million or 10% of outstanding capital	None
10	Sale of NPL over NT$5 billion	None
11	Financial assets securitization or real assets securitization	None
12	Derivative instrument	Appendix II
13	Other significant transactions which may affect decisions of the users of the financial statement	None

Note: Not applicable or not required for disclosure if the investee is a financial institution, insurance company, or security company.

Appendix I Marketable securities held at March 31, 2009:

Holding Company	Category and Name of the Security	Relationship	Recording Entry	Three Months End of March 31, 2009 Number of Shares	Carrying Value	% Owned	Market Value	Other Terms
		(In Thousands of New Taiwan Dollars, Except for Number of Shares)						
Shin Kong Insurance Agency Co., Ltd.	Shin Kong Marketing Consultant Co., Ltd.	Equity method investee	Equity investments	10,563	115,171	50.30	115,171	

Appendix II Derivative instrument

		March 31,2009		
Company	Nature of Contract	Contract Amount (Notional Principals) (in Thousands)	Credit Risk (in Thousands)	Fair Value (in Thousands)
Shin Kong Finance (HK) Limited.	Credit Default Swap Contracts	US$17,000	US$17,000	NT$10,323

Annex A

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

We have extracted from publicly available documents the information presented in this section, which has not been prepared or independently verified by the Initial Purchasers or any of their respective affiliates or advisors in connection with this offering.

General

Historically, foreign investments in the ROC securities market were restricted. However, commencing in 1983, the ROC government has from time to time enacted legislation and adopted regulations to make foreign investment in the ROC securities market possible.

Foreign Investors Regulations

On December 28, 1990, the ROC Executive Yuan approved guidelines drafted by the ROC Securities and Futures Commission which, since January 1, 1991, has allowed direct investment in ROC securities that are listed on the Taiwan Stock Exchange or other ROC securities approved by the ROC Securities and Futures Commission by certain eligible Qualified Foreign Institutional Investors.

In addition to Qualified Foreign Institutional Investors, certain individual and institutional foreign investors which met certain qualifications set by the ROC Securities and Futures Commission ("General Foreign Investors") may invest in the shares of Taiwan Stock Exchange-listed companies, GreTai Securities Market (formerly known as Over-The-Counter Securities Exchange) traded companies, emerging market companies or other ROC securities approved by the ROC Securities and Futures Commission up to a limit of US$50 million (in the case of institutional investors) and US$5 million (in the case of individual investors) after obtaining permission from the Taiwan Stock Exchange or GreTai Securities Market. General Foreign Investors were also subject to the foreign ownership limitations on certain specified industries as described in the preceding paragraph.

On September 30, 2003, the ROC Securities and Futures Commission issued an amendment to the "Guidelines for Overseas Chinese and Foreign Investors to Apply for Investment in ROC Securities Market" and relevant regulations, in which the FSC lifted certain restrictions and simplified the procedures required for foreign investments in the ROC securities market. The amendment focuses mainly on the following aspects:

- The concept of "Qualified Foreign Institutional Investors" no longer exists. Foreign Investors are reclassified as "Off-Shore General Foreign Investors", "On-Shore General Foreign Investors", "Off-Shore Foreign Institutional Investors" and "On-Shore Foreign Institutional Investors" based on whether they are institutions or natural persons, and whether they have presence in the ROC.

- For foreign investors to invest in the ROC securities market, registration with the Taiwan Stock Exchange, instead of the approval of the ROC Securities and

Futures Commission, is required. The Taiwan Stock Exchange may withdraw or rescind the registration if the application documents submitted by foreign investors are untrue or incomplete, or if any material violation of the relevant regulations exists. However, the approval of the CBC is still required for investments by Off-Shore Foreign Institutional Investors provided that it was not registered as a sub-investment account.

- Except for restrictions imposed by specific regulations, the investment amount of Off-Shore Foreign Institutional Investors in the ROC securities market is not restricted.

- Offshore Foreign Investors may provide the securities they hold as the underlying shares of depositary receipts and act as selling shareholders in depositary receipts offerings.

- Offshore Foreign Institutional Investors are required to appoint their agent or nominee to attend the shareholders' meeting of the invested company.

In addition to the investment permitted under the "Guidelines for Overseas Chinese and Foreign Investors to Apply for Investment in ROC Securities Market", under existing ROC laws and regulations relating to foreign investments, investors (both institutional and individual) who are non-ROC persons and wish to make direct investments in the shares of ROC companies are required to submit a "Foreign Investment Approval" application to the Investment Commission of the ROC Ministry of Economic Affairs or other governmental authority. Foreign investors who obtain such approval will be subject to the "Law Governing Investments by Foreigners". The Investment Commission or other governmental authority reviews each foreign investment approval application and approves or disapproves such application after consultation with other governmental agencies. Any non-ROC person possessing a "Foreign Investment Approval" may repatriate annual net profits and interests and cash dividends attributable to an approved investment. Stock dividends, investment capital and capital gains attributable to the investment may be repatriated with approval of the Investment Commission or other governmental authority.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a negative list, as amended by the ROC Executive Yuan from time to time. The prohibition on foreign investment in the prohibited industries specified in the negative list is absolute in the absence of specific exemption from the negative list. Pursuant to the negative list, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the negative list is intended to implement.

In the past, citizens of the PRC and entities organized under the laws of the PRC were prohibited from investing, whether directly or indirectly, in the ROC. In April 2009, in accordance with "Statute Governing Relations between Peoples of the Taiwan Area and the Mainland Area" (the "Statute"), the FSC promulgated "Regulations Governing PRC Investors in Conducting Securities Investment and Futures Transactions (the "PRC Investment Regulation") to loosen the restrictions and allow the securities and futures investment by qualified PRC investors. Pursuant to the PRC Investment Regulation, the qualified PRC investors are: (1) qualified domestic institutional investors as approved by the PRC government, i.e., QDII; (2) PRC employees of a Taiwanese company whose shares are listed on TSE or a Taiwanese company whose shares are traded on the GTSM; (3) PRC shareholders holding shares in a foreign company whose shares or receipts representing shares are listed on TSE or traded on the GTSM; and (4) other investors as may be approved by the FSC. The PRC investors may invest in the following investments: overseas beneficiary certificates issued by a ROC securities investment trust or a futures investment trust, certain ROC securities, overseas corporate bonds publicly issued or privately placed by a Taiwanese company, overseas depositary receipts publicly issued or privately placed by a ROC company, and overseas shares publicly issued, privately placed or traded by a ROC company.

In general, the PRC Investment Regulation follows the same structure as the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals while some special restrictions are imposed. For example, unless otherwise permitted under laws and regulations, the exercise of the voting rights by a PRC investor shall not effectively control or affect the management of the invested company, and the voting rights shall be exercised by a Taiwanese agent or representative. In addition, any PRC Investor who, individually or in aggregate, shall not acquire more than 10% of the total issued share capital of any TSE or GTSM-listed company without the prior approval of the Investment Commission.

On June 30, 2009, in accordance with the Statute, the Ministry of Economics Affairs promulgated the “Guidelines Governing the Investment in Taiwan by PRC Nationals (the “Investment Guidelines”), the “Guidelines Governing the Establishment of Branches and Representative Office in Taiwan by PRC Profit-Seeking Enterprises (the “Branch Guidelines”) and the list of permitted investment businesses (the “Permitted Investment List”) under the Statute. The two Guidelines and the Permitted Investment List regulate investment in unlisted companies, investment in TSE or GTSM-listed companies exceeding 10%, the establishment of subsidiaries and the opening of branches and representative office of PRC companies in Taiwan. All PRC investment into Taiwan which is permitted under the two Guidelines and Permitted Investment List is required to first obtain approval from the Investment Commission.

PRC investors shall fully comply with the Statute, the PRC Investment Regulation, the Investment Guidelines, the Branch Guidelines and the Permitted Investment List and any regulations and rulings as promulgated by the competent government agencies of the ROC from time to time.

Depositary Receipts

In April 1992, the ROC Securities and Futures Commission enacted regulations permitting ROC companies with securities listed on the Taiwan Stock Exchange, with the prior approval of the ROC Securities and Futures Commission, to sponsor the issue and sale to foreign investors of depositary receipts. Depositary receipts represent deposited shares of ROC companies. In December 1994, the ROC Ministry of Finance allowed companies whose shares are traded on the GreTai Securities Market or listed on the Taiwan Stock Exchange, upon approval of the ROC Securities and Futures Commission, to sponsor the issue and sale of depositary receipts. The approval will be granted (i) if the underlying shares are newly issued shares, for a fixed number of depositary receipts (which may be decreased by the board of directors of the issuing company if such decrease has been authorized at the relevant shareholders’ meeting) or (ii) if the underlying shares are not newly issued shares, for a maximum number of depositary receipts which, with limited exceptions (as described below), may not be increased without additional approvals by the ROC Securities and Futures Commission.

A holder of depositary receipts from a private placement may request the foreign depositary that issued the depositary receipts to withdraw from the depositary receipt facility shares and transfer the shares to the holder. The holder may request the issuer to apply for a public offering of the shares (withdrawn from the depositary receipt facility) and sell the shares in the ROC, beginning three years after the delivery date of depositary receipts in such private placement.

Under existing laws and regulations relating to foreign exchange control, a depositary or a holder of depositary receipts may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT dollars into other currencies, including U.S. dollars, in respect of the following: proceeds of the sale of shares represented by depositary receipts, proceeds of the sale of shares received as stock dividends and deposited into the depositary receipt facility, and any cash dividends or cash distributions received. In addition, a depositary, also without any of these approvals, may convert inward remittances of payments into NT dollars for purchases of underlying shares for deposit into the depositary receipt facility against the creation of additional depositary receipts. However, a depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for exchange from NT dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depositary receipts withdrawn from the depositary receipt facility may be converted into other currencies without obtaining CBC approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the Taiwan Stock Exchange, the GreTai Securities Market, stock of emerging market companies, private placements of securities or Taiwan depositary receipts, subject to limitations and restrictions set forth in “Foreign Investors Regulations” above.

Overseas Corporate Bonds

Since 1989, the ROC Securities and Futures Commission has approved a series of overseas corporate bond issues by ROC companies listed on the Taiwan Stock Exchange in offerings outside the ROC. Under current ROC laws, subject to the ROC Securities and Futures Commission approval, such overseas corporate bonds can be (i) converted or exchanged by bondholders, other than persons of the PRC except for qualified domestic institutional investors in the PRC, into shares of ROC companies or (ii) converted into or exchanged for depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted or changed from overseas convertible or exchangeable bonds may be used for reinvestment in securities listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market, subject to limitations and restrictions set forth in “Foreign Investors Regulations” above.

According to the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals, a non-resident foreign converting bondholder, when exercising the conversion right to convert bonds into shares of a ROC company, will be required to register with the Taiwan Stock Exchange, and obtain the approval from the CBC if it is an offshore foreign institutional investor, and to appoint a qualified local agent (with such qualifications as are set by the ROC Securities and Futures Commission) to open a securities trading account with a local brokerage firm, pay ROC taxes, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. The converting holder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmation to settle trades, and to report all relevant information. In addition, such converting holder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the CBC, a ROC company may, without obtaining further approvals from the CBC or any other governmental authority of the ROC, convert NT dollars to non-ROC currencies, including U.S. dollars, for making payments in respect of proceeds of the redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such shares, as well as an inward remittance of subscription payments in respect of rights offerings. However, a converting bondholder must obtain prior approval from the CBC on a payment-by-payment basis for conversion from NT dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued shares.

Amendment of the Guidelines for Handling Offering and Issuance of Overseas Securities by Issuers

On December 31, 2003, the ROC Securities and Futures Commission passed the amendment of the Guidelines for Handling Offering and Issuance of Overseas Securities by Issuers (the "Rules"), which govern the issuance of Depositary Receipts and Overseas Corporate Bonds by ROC issuers. The amendment focuses mainly on the following aspects:

- In addition to the "Approval" procedure previously taken, "File and Effective" procedure is adopted. Under the "File and Effective" procedure, the approval by the ROC Securities and Futures Commission of the issuance of overseas securities will be deemed granted twelve days after the receiving of the complete application set, including the approval letter of ROC CBC and competent authorities if applicable, provided that all conditions as set forth in the Rules are met.

- The companies whose stocks are traded on the Emerging Market are allowed to issue overseas convertible notes and overseas corporate notes with warrants, provided that a credit rating report shall be issued by an accredited credit rating institution and the companies shall issue new shares for conversion or the exercise of warrants by investors.

Exchange Controls

Applicable ROC laws and regulations, including the ROC Foreign Exchange Control Statute, provide that all foreign exchange transactions must be executed by banks designated to handle such business, by the ROC Ministry of Finance and the CBC. Current regulations favor trade-related foreign exchange transactions and foreign investment approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, ROC companies and resident individual may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent), respectively, in each calendar year. Furthermore, any remittance of foreign currency into the ROC by a ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the CBC.

In addition, foreign persons may, subject to certain requirements but without foreign exchange approval, remit outside and into the ROC foreign currencies of up to US$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT dollars to a foreign currency and vice versa.

Annex B

THE SECURITIES MARKET OF THE ROC

We have extracted from publicly available documents the information presented in this section, which has not been prepared or independently verified by the Initial Purchasers or any of their respective affiliates or advisors in connection with this offering.

The Taiwan Stock Exchange

In 1961, the ROC Securities and Exchange Commission established the Taiwan Stock Exchange to provide a marketplace for securities trading. The Taiwan Stock Exchange is a corporation owned by government controlled and private banks and enterprises. The Taiwan Stock Exchange is independent of entities transacting business through it, each of which pays a user's fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the Taiwan Stock Exchange.

The Taiwan Stock Exchange commenced operations in 1962. During the early 1980s, the ROC Securities and Exchange Commission actively encouraged new listings on the Taiwan Stock Exchange and the number of listed companies grew from 119 in 1983 to 669 as of December 31, 2003. As of December 31, 2003, the market capitalization of companies listed on the Taiwan Stock Exchange was approximately NT$12,867.8 billion.

Historically, ROC companies have listed only shares and bonds on the Taiwan Stock Exchange. However, the ROC Securities and Futures Commission has encouraged companies to list other types of securities. In 1988, the ROC Securities and Exchange Commission permitted the issuance of Taiwan's first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed end investment funds and debt instruments issued by Asian Development Bank are also listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market. The ROC Securities and Futures Commission also has regulations which permit foreign issuers to list their equity securities directly on the Taiwan Stock Exchange or through the use of depositary receipts. To date, five foreign issuers have listed their equity securities on the Taiwan Stock Exchange through the use of depositary receipts in accordance with these regulations.

The Taiwan Stock Exchange requirements for listing are based on the following company attributes:

- the number and distribution of stockholders, including the diversification of such stockholders;
- length of time in business;
- amount of paid-in capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

The GreTai Securities Market

To complement the Taiwan Stock Exchange, the GreTai Securities Market was established in September 1982 on the initiative of the Securities and Exchange Commission to encourage the trading of securities of companies who do not qualify for listing on the Taiwan Stock Exchange. As of December 31, 2003, 423 companies had listed equity securities on the GreTai Securities Market and the total market capitalization of those companies was NT$1,200.7 billion.

Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The Taiwan Stock Exchange Index is compiled by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted market index in ROC Securities Market, a non-resident foreign converting noteholder, when exercising the conversion right to convert the notes into shares of a Taiwan company, is required to register with the Taiwan Stock Exchange.

The weighting of stocks in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table shows for the periods indicated information relating to the Taiwan Stock Exchange Index.

Period ended, December 31,	Number of Listed Companies at the Period End	Stock Trading Values	Index High	Index Low	Index at Period End
		(in NT$ billions)			
1996	382	12,907.56	6,982.81	4,690.22	6,933.94
1997	404	37,241.15	10,116.84	6,820.35	8,187.27
1998	437	29,618.97	9,277.09	6,251.38	6,418.43
1999	462	29,291.53	8,608.91	5,474.79	8,448.84
2000	531	30,526.57	10,202.20	4,614.63	4,739.09
2001	584	18,354.94	6,104.24	3,446.26	5,551.24
2002	638	21,873.95	6,462.30	3,850.04	4,432.45
2003	669	20,333.24	6,142.32	4,139.50	5,890.69
2004	697	23,875.37	7,034.10	5,316.87	6,139.69
2005	691	18,818.90	6,575.53	5,632.97	6,548.34
2006	688	23,900.36	7,823.72	6,257.80	7,823.70
2007	698	33,043.85	9,809.88	7,344.56	8,506.28
2008	718	26,157.36	9,295.20	4,089.93	4,591.22

Source: Taiwan Stock Exchange Website (*www.twse.com*.tw).

As indicated above, the performance of the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The Taiwan Stock Exchange has placed limits on block trading and on the range of daily price movements. Fluctuations in the price of securities traded on the Taiwan Stock Exchange is restricted to 7% above and below the previous day's closing price in the case of equity securities, and 5% in the case of debt securities. The price limit for movements below the previous day's closing price has been modified from time to time by the ROC FSC based on market conditions.

Effective from July 1, 2000, brokerage commission can be set at any rate not exceeding 0.1425% of the transaction price subject to reporting to the Taiwan Stock Exchange.

A securities transaction tax of 0.3% of the transaction price is payable by the seller of equity securities. These securities transaction taxes are withheld at the time of the transaction. According to the amended Statute of Upgrading Industries, which became effective on February 1, 2002, no securities transaction tax will be imposed on the transfer of corporate bonds and financial debentures until December 31, 2009.

Sales of shares of listed companies on the Taiwan Stock Exchange are generally sold in "round lots" of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in making these sales. Transactions that involve 500 trading lots (500,000 shares) or more must be registered and executed in accordance with Taiwan Stock Exchange guidelines.

National Financial Stabilization Fund

In response to the decline and volatility in the ROC securities market, the ROC Government has formed the National Financial Stabilization Fund which has purchased and may from time to time purchase shares of ROC companies to support the ROC securities market. The details of the transactions of the National Financial Stabilization Fund have not been made public. In addition, the ROC Government's Labor Insurance Fund and other funds associated with the ROC Government have in the past, purchased, and may from time to time purchase, shares of ROC companies on the Taiwan Stock Exchanges or other markets.

Regulation and Supervision

The ROC Securities and Futures Commission has extensive regulatory authority over public companies. Public companies are generally required to obtain approval from, or registration with, the ROC Securities and Futures Commission for all securities offerings. The ROC Securities and Futures Commission requires periodic reporting of financial and operating information by all public companies. In addition, the ROC Securities and Futures Commission establishes standards for financial reporting and carries out licensing and supervision of participants in the ROC securities market.

The ROC Securities and Futures Commission has responsibility for implementing the ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities market. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the ROC Securities and Futures Commission to promulgate necessary rules. The Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors, as well as the spouses, minor children and nominees of these parties, and stockholders who (together with their spouses, minor children and nominees) hold 10% or more of the shares of the issuer. The ROC Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. "Insiders" include:

- directors, supervisors, managers, as well as the spouses, minor children and nominees of these parties, and shareholders (together with their spouses, minor children and nominees) who hold 10% or more of the issuing company's shares;

- any person who has learned material, non public information due to an occupational or controlling relationship with the issuing company; and

- any person who has learned material, non public information from any of the above.

Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other documents related to securities transactions. The ROC Securities and Futures Commission regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

In addition, the ROC Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers and regulation of tender offers.

The ROC Securities and Futures Commission does not have criminal or civil enforcement powers under the ROC Securities and Exchange Law. Criminal actions may be pursued only by the government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC Securities and Futures Commission is empowered to curb abuses and violations of laws and regulations only through administrative measures including:

- issuance of warnings;

- temporary suspension of operation;

- imposition of administrative fines; and

- revocation of licenses.

In addition to providing a market for securities trading, the Taiwan Stock Exchange reviews applications by Taiwan issuers to list securities on the Taiwan Stock Exchange. If issuers of listed securities violate laws and regulations or encounter extended or severe negative results of operations, the Taiwan Stock Exchange may, with the approval of the ROC Securities and Futures Commission, delist securities of these issuers.

Annex_C

INDEPENDENT OPINION ON THE EMBEDDED VALUE AND THE VALUE OF ONE YEAR OF NEW BUSINESS OF SHIN KONG LIFE

Deloitte.
德勤

德勤精算保險建策(香港)有限公司
香港金鐘道88號
太古廣場一座35樓

電話：+852 2852 1600
傳真：+852 2577 9683
電子郵件：mail@deloitte.com.hk
www.deloitte.com/cn

Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited
35/F One Pacific Place
88 Queensway
Hong Kong

Tel: +852 2852 1600
Fax: +852 2577 9683
Email: mail@deloitte.com.hk
www.deloitte.com/cn

July 20, 2009

The President
Shin Kong Financial Holding Co., Ltd
Shin Kong Life Tower
No. 66, Section 1, Chung-Hsiao W. Road
Taiwan, R.O.C.

Dear Sirs,

Independent Opinion on the Reasonableness of the assumptions used in the Embedded Value & Value of One Year of New Business as calculated by Shin Kong Life Insurance Co Ltd.

Engagement Scope

Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited ("Deloitte Actuarial", or "we") were retained by Shin Kong Life Insurance Co Ltd. ("Shin Kong Life" or "the Company") under an Engagement Letter dated May 8, 2009, and appointed as an External Independent Reviewer to perform an independent review of the reasonableness of the assumptions used by the Company in their calculation of the published embedded value ("EV") and value of one year's new business ("V1YNB") in respect of the year ending 2008.

The independent review was carried out over the period May 1, 2009 and May 31, 2009 in respect of the business covered as detailed below.

This opinion has been prepared by Deloitte Actuarial at the request of Shin Kong Financial Holding Co., Ltd to include our findings of our independent review and opinion in the preliminary offering memorandum, final offering memorandum and any amendments or supplements thereto, relating to the offer and sale of an aggregate of global depositary shares, each representing 25 common shares, par value NT$10.00 per share, of the Company (the "Offering Memorandum").

Business Covered

For the EV, the policies valued were those in force as at December 31, 2008. For the V1YNB, the policies valued were those sold from January 1, 2008 to December 31, 2008.

Introduction & Important Notices

The reader is referred to the section Reliance and Limitations at the end of this report for important notices about the results reported herein. In particular this report is made solely to Shin Kong Life's Directors as a body. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Shin Kong Life's Directors as a body for our work in respect of this report or for the conclusions that we have reached.

All aspects of the Embedded Value determination, including setting the assumptions, selecting the methodology and all performing the calculations, were carried out by Shin Kong Life. Deloitte Actuarial's involvement has been to undertake an independent review of the assumptions only. The review was carried out with a view to provide an assessment and opinion on the reasonableness of the assumptions, taken as a whole, used by the Company. That assessment takes into account the current experience of the Company, as well as our view on the current local Taiwanese environment in which they operate.

Embedded values should not be construed to be a direct reflection of market value, nor do they represent a fairness valuation or "fair value" estimate of the company in question. Actual market values are determined by investors based on a variety of information available to them and their own investment criteria. This report does not constitute our opinion on the "fair market value" of the Company.

The Company has used a traditional deterministic approach to calculate its embedded value which is a common method used in Taiwan and is consistent with the methodology used by local companies who publish their embedded values and appraisal values. This method does not include an explicit allowance for the cost of options and guarantees within the business. Instead, this approach makes an implicit allowance for the time value cost of options and guarantees and other risks associated with the realisation of the projected future profits through the use of a risk adjusted discount rate.

Embedded values do not allow for the value of future business yet to be written.

This report is subject to certain reliances and limitations, as described in the final section, that we wish to draw to the attention of users of this report. In particular, users should bear in mind that this report constitutes our opinion on the assumptions used as at December 31, 2008 at the time of our review carried out in May 2009. No update to the review has been included in this report.

Details on Our Role as an External Independent Reviewer

The EV and V1YNB figures which we have referenced are those as set out on pages 53 and 54 of the Offering Memorandum. Those values have been calculated by the Company on assumptions set by the Company, using models developed by the Company.

The scope of our review in 2009 of the 2008 values is briefly outlined below:

- Review and opinion on the reasonableness of the assumptions used in the calculations, taking into consideration Shin Kong Life's recent experience, Deloitte Actuarial's knowledge of the Taiwanese life insurance market, Shin Kong Life's stated investment strategy, and the economic environment as at December 31, 2008. The review covers both the economic as well as the portfolio assumptions;

- To consider the methodology used by the client and to frame our review of their assumptions in light of their chosen methodology; and

- Where initially determined assumptions were considered to be inappropriate to make recommendations for alternative assumptions. Shin Kong Life has adopted all such recommendations.

For the purpose of performing our review in 2009 of the 2008 values, we have:

- Reviewed experience studies prepared by the Company in respect of their insurance policies covering all aspects of their business, including lapses, mortality, morbidity, expenses, investment results, regulations, reinsurance costs, commissions, commission overrides, partial withdrawals on investment linked business, taxes and other product specific matters;

- Reviewed the Company's approach to the treatment of the following matters in their projections including any assumptions made for the purpose of modeling these aspects: crediting interest rates on interest sensitive business, participating business bonus rates, treatment in the projection of participating fund surpluses and shareholder distributions of the same, compulsory par business reference interest rate assumption for projection of future interest dividend purposes, assumed future mortality dividend rate, profit tax rates and other taxes, and the treatment of the dividend offsetting reserve in the projection.

In respect of the review done for the reported 2008 EV and V1YNB, there was no review by Deloitte Actuarial of the following aspects:

- the financial cash flow projection model used by Shin Kong Life for the calculations, including whether the assumptions have been properly implemented in the modeling software;

- the policy data on the office Master File or the reconciliation of data used in the projection model with that held on the Company's master policy file;

- the reasonableness of the results and implied profitability assumed by the model for the new business and in force business valuation;

- reserving basis and accuracy of these reserves;

- the approach used to determine the net asset value (NAV) and adjustments to the NAV, and any outside model value adjustments; and

- the calculation of the RBC capital and the cost of capital calculations.

In prior years (2006, 2007 and 2008) Deloitte was engaged by the Company to review their EV and V1YNB figures and on those occasions the scope included reviews of model accuracy, data reconciliation, RBC, Cost of Capital and a review of all calculations. In all these prior reviews, Deloitte was satisfied with the results of these investigations and so, based on these satisfactory findings from those prior years it was considered by the Company unnecessary to do another review of all these items this year. This was a decision reached by the Company and Deloitte Actuarial offer no opinion on its appropriateness.

Our review was conducted in accordance with current generally accepted actuarial practices and processes for such reviews. We have relied on the veracity and integrity of the non-policy data and other information including experience studies to support assumptions, supplied by Shin Kong Life. We have reviewed this data for general reasonableness but did not independently verify it.

Our review did not cover an audit of the accuracy of the policy data items and we offer no comment on the quality of the policy data used by the Company in the valuation, and readers should not assume our review verifies the data is free from error.

The calculations of EV and V1YNB results necessarily make numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are not fully within Shin Kong Life's control. Although the assumptions used represent estimates which the Company believes are reasonable, actual experience in the future is likely to vary from that assumed in the calculation of the results and any such variations may be material. Deviations from assumed experience are normal and are to be expected.

The "Multiplier" used to determine the value of future new business ("VNB") in the Appraisal Value ("AV") was not the subject of the Deloitte Actuarial review and is entirely the work of Shin Kong Life and Deloitte Actuarial offers no opinion on the "Multiplier" or the AV.

Limitations on EV as measures of Fair Value and Financial Security

We note, and draw the attention of readers to the sensitivity of the results to assumptions, and in particular, to the interest rate assumption and we warn readers that the degree of this volatility makes it difficult to attach any value to the business with any high degree of certainty. This sensitivity is an inherent component of the valuation method used (the traditional embedded value approach) and it should be noted that the "value" one attributes to this business is in a large part a function of the assumption about future interest rates. It should be remembered that management have no control over interest rate movements in the future and therefore the future value of the business is largely out of the control of management in this regard.

An EV should not be considered a measure of "fair value" or "market value". We wish to point out that an EV does not necessarily represent a transaction value of either the in force business or the Company as a whole. Deloitte Actuarial gives no opinion on the "fair value" of the Company.

In particular, the value produced by this traditional EV method for the Company:

- Assumes that interest rates will rise slowly in the future, although implied forward rates are such that the market is not currently pricing in future rises in interest rates;

- Considers as locked in capital the minimum amount of regulatory capital (200% RBC) whereas the company would normally be expected to hold at least some degree of working capital above this;

- Makes no reference to observed market capitalisations of listed life insurers in Taiwan or other market comparables such as recent transaction prices; and

- Makes no allowance for the value of future new business.

Further, EV and V1YNB are not indicators of financial soundness of a company and readers should not assume that a positive EV means no risk of financial failure.

Our Opinion

We note that the Company's calculations have been performed using traditional actuarial valuation approaches in relation to valuation methodology and assumptions. The calculations did not use stochastic or option pricing techniques or other recently proposed methodologies to allow for the cost of options and guarantees embedded in the portfolio. Allowance for these was made approximately through an implicit allowance in the risk discount rate.

Based on our review, our findings are that:

- nothing has come to our attention which causes us to believe that the assumptions made by the Company, or changed on the basis of any recommendations we made, taken as a whole, do not provide a reasonable basis for the calculation of the EV and V1YNB;
- the assumptions have been defined in accordance with the purpose of the valuation and after taking relevant consideration of the valuation methodology;
- the assumptions used reasonably and relevantly reflect the actual experience of the Company and the current environment at December 31, 2008 time; and
- the assumption basis reflects a “going concern” operation.

In the following sections, we outline the details of our review into the assumptions as set by the Company.

Assumption Review

Overview of Assumption Review Process

Shin Kong Life set the assumptions for the valuation and then provided evidence in the form of experience studies and investigations to support these assumptions.

Deloitte reviewed Shin Kong Life’s investigations of past experience and other work used to set the valuation assumptions. If we felt it necessary, based on our review, we directed Shin Kong Life to alter their initial set of assumptions.

Conclusions and Findings From the Review

We were satisfied that these investigations had been carried out soundly, that due weight has been given to current circumstances and the company’s plans, as well as the general market environment. We conclude that the assumptions used by the Company, as amended where directed by Deloitte, are in line with its recent experience and industry averages. We also concluded that the risk discount rate used by the Company for this valuation is within a range of reasonable assumptions for the market in question at the valuation date.

Below is a discussion of the assumptions Shin Kong Life has used and we have reviewed.

Discount Rates

Shin Kong Life used the Capital Asset Pricing Model (CAPM) to determine their risk discount rate. CAPM expresses the risk discount rate (RDR) as:

RDR = Risk free rate of return + Beta * local equity risk premium

The local equity risk premium is based on a lengthy regional study of market risk premiums observed in Asia over many periods and is set at a predetermined level for each market reflecting long term views of the market risk. The risk premium for Taiwan is set at 7.0%.

The derivation of the risk free rate of return is explained below in the section on Investment Returns. Based on this, Shin Kong Life set their own RDR as 9.5%.

Our review involved an independent derivation of the RDR, which centred round the application of the CAPM theory. The derivation of our beta factor was based on a consideration of the following key risk factors as they apply to Shin Kong Life:

- Product range
- Distribution vulnerability and diversification
- Regulatory intervention risk
- Expense overrun
- Investment/asset risk and mismatch risk

From this assessment we derive a RDR using the same formula as that above. Our overall risk assessment for Shin Kong Life was a medium to high risk. Based on this review, and the outcome of our approach, we are happy with 9.5% used by Shin Kong Life as the RDR which we consider to be at the lower end of an acceptable range.

Investment Returns

The Company determined a single level expected future portfolio yield for their long term investment return assumption through the use of their ALM (Asset Liability) model and an assumed long term bond yield. First a series of increasing portfolio rates by year was determined as described below. Then these rates were averaged to produce a single rate applied in all years. Details on their approach are described below. Deloitte reviewed both their approach and assumptions and consider the results to be reasonable to use when considering the long term nature of the business, and for determining an embedded value.

The basic approach used was to determine a relevant market risk free rate and to develop yields for other asset classes by applying appropriate risk premia to this risk free rate. This gives the expected future new money yields by asset class.

To set the base market risk free rate, the Company used the local 10-year government bond yield as the measure of risk free rates in the market, which was taken as 1.61% as at the valuation date. However it considered the current low bond yields to be the result of restricted supply and adverse current market conditions, and therefore assumed that this low level would not last indefinitely. The Company therefore assumed that the Taiwan bond yield would converge to its long term historical level closer to the US Treasury bond yield over 10 years. This meant using the actual current yield on Taiwan government bond initially and grading this over a 10 year period into the historical long term mean. The long term mean was taken to be 4.3% and is based on recent historical data for the US 10 year Treasury bond yields.

Asset mix ratios were applied based on current target asset mix and this was assumed not to change over the next 30 years.

To develop an average future portfolio yield for the valuation, the Company estimated the future new cash flows from premiums less benefits and expenses together with cash from investment income and reinvestment of maturing assets from the existing portfolio, for the next 30 years and applied the estimated future new money yield in the relevant year to new money inflows, and the old money yield to the remaining old money portfolio. This produced an estimated portfolio yield for each year from 2009 to 2038 allowing for the reinvestment of the old portfolio and new cash flows.

This method produced a future portfolio return of 3.46% in year one (2009) rising to 5.2% in year 2038. If averaged to get a long term single rate, this would be 4.84%. The Company's assumption for investment administrative expenses was in line with its experience in the past five years and was set at 0.19%, giving a net yield of 4.65%pa.

This is the long-term view of the Company and allows for the changing mix of the market yields on the portfolio as new money enters the portfolio and earns the new money rate or as old assets mature and roll over into new assets.

The investment return assumption takes account of current low interest rates and assumes that interest rates in Taiwan will rise over the long term to levels consistent with long term historical levels for yields on Taiwan bonds.

We have observed that it is common practice in Taiwan for life insurers with long term liability portfolios to assume future interest rates rise in the investment return assumption, and we view Shin Kong Life's assumption as being reasonable in this context.

Deloitte hold a similar view to that of the Company in that we consider the current market risk free levels (using as a proxy the Taiwan 10 year NTD bond rate for the risk free) are unusually low, especially when compared to the pseudo proxy for interest rates in this market which we consider to be the US 10yr bond yields. Given the long term nature of this valuation it would be unreasonable, in our opinion, to assume this low rate would remain unchanged over such a long time. We consider Taiwan interest levels should be similar to US levels plus a margin and so would expect to see the current low level rising to be consistent with these US levels.

Reserving basis

The Company has projected the future profits and required capital reflecting reserving requirements consistent with Taiwan's statutory basis, including an allowance for solvency margin which has been taken to be 200% of the RBC as calculated by the company. Deloitte's scope did not cover a verification of the RBC calculation.

Mortality

The Company developed the mortality assumptions based on its own mortality experience. In view of the mortality improvement seen in both the industry and the company's experience in the past few years, we believe that the assumed mortality level and selection factors set were reasonable and reflective of the future mortality trend. No mortality improvement is projected, an assumption that we consider to be conservative overall.

Morbidity and Loss Ratios

The Company developed its morbidity assumptions and loss ratio assumptions based on its own actual claim experience. Based on this recent experience, their assumptions are supported and appear reasonable. However, this is a difficult assumption to set, and experience has been known to deteriorate quickly as the business matures. Deloitte recommended the use of deterioration factors to the cancer claim rates and hospitalisation loss ratios and the Company did apply our recommendations.

Lapses

The lapse assumptions were set with reference to the Company's actual lapse experience and expectation in the future, and differ by product type, policy duration and the level of interest rate guarantee.

Special consideration was given to the large in force blocks of high interest rate business. The Company developed two sets of lapse assumptions for its in force portfolio based on the level of interest rate guarantee inherent in the policies, namely a significant guarantee group with a pricing interest rate above 4% and a low guarantee group with a pricing interest rate of 4% or below.

The reason for developing separate sets of lapse assumptions was in anticipation of the different lapse behaviour of the two groups of policyholders where those policyholders with high interest rate would be less likely to lapse. This assumption was supported by both the recent experience in the industry and the Company's own experience.

Lapse rates in general reflected the experience with due consideration for relevant product features and the long term duration of the business. We believed that the use of the pricing lapse assumption as a proxy for the experience assumption is acceptable where there was little actual experience.

Taking the lapse assumptions as a whole, the lapse assumptions are within a reasonable range.

Partial Withdrawal

The Company included a separate assumption for partial withdrawals in respect of unit linked and structured note policies. Partial withdrawals refers to account balance redemptions that do not result in the complete surrendering of a policy which contract terms and conditions allow (i.e. there is an account balance remaining for such policies after a partial withdrawal).

The assumptions are set by referring to the experience in the last four calendar years. We are satisfied that the assumptions are consistent with the Company's experience for unit linked and structure note products.

Compulsory Par Business Reference Interest Dividend and Crediting Rates

A compulsory par reference interest rate assumption is required to determine the dividend payable each year for the compulsory participating business. According to life insurance regulation in Taiwan, the compulsory par reference interest rate for compulsory participating business is to be set with reference to the average 2-year bank deposit rate declared by the three major banks.

We are satisfied with the Company's approach of determining the theoretical 2-year bank rate which is set at a discount to the 10-year Taiwan NTD government bond and moves with the changing bond rate accordingly, and the discount being based on historical evidence.

A crediting rate assumption is required for the interest sensitive business and universal life business. The Company's approach is to maintain a constant spread between the earned rate and the crediting rate, and the assumed spread is 100 bps. The assumed spread of 100 bps is in line with the average spread observed for the last two years for the Company and is in line with similar assumptions used within the industry. We are satisfied with this constant spread approach, as it is in line with the current regulation governing the interest sensitive business in Taiwan. The regulation allows life insurers to determine the crediting rate based on the investment performance of the Company.

Mortality Dividend Rate

Shin Kong Life assumed that the mortality dividend rate applicable at the valuation date would also apply in all future periods. We consider this is a reasonable assumption, consistent generally with the assumption that mortality levels remain at current levels in the future.

Maintenance and Acquisition Expenses

The Company derived the expense assumptions based on an analysis of its actual 2008 expenses.

In reviewing the expense assumptions, we have checked to ensure that:

- all expenses, including both initial and renewal expenses, have been included in the derivation of the expense assumptions;

- the initial and renewal expense assumptions reconcile well with the actual expenses incurred by the Company in 2008.

The reconciliation checks that we performed showed satisfactory results. We were satisfied that the expense assumptions were within a reasonable range and were reflective of the Company's relevant experience. We are happy to use these assumptions going forward as the future expense levels for the business, with the inflation factor mentioned below.

Commissions and Commission Override Assumptions

Shin Kong Life assumed the current commission schedules applied for the commission assumptions in the projection and modelled these at the product level to follow current product specifications.

Non-commission related sales expenses paid to sales people (eg production bonuses, recruiting rewards, fixed allowances etc) are known as commission overrides, and these were set with reference to actual payments by distribution channel.

Inflation

We believe an expense inflation rate of 2% is consistent with the other economic assumptions and fits in with a long-term view of stable interest rates and low inflation.

Tax

We have confirmed that the Company had reflected the relevant tax basis in their projection model. Deloitte has not reviewed the details of the tax calculations and relies on the reported tax amounts in the accounts to be correct.

Dividend off setting reserve

In calculating the value of in force business, the Company had made the assumption that the dividend offsetting reserve would be held until the end of the projection period. This is a reasonable assumption to make, given the regulation does not specify the timing of the release of the reserve.

Bonus for True Par Business

Given that the true participating business is relatively new and immaterial at this point, the Company's current bonus strategy is to declare the middle level of the illustrated bonus to policyholder. Illustrated policyholder bonuses are allowed by the regulator, as a minimum for expected future bonuses.

The Company set the future bonus assumption for the valuation to be the same as the middle level of illustrated policyholder bonuses, and assumed that shareholder profit in the projection is 30% of the bonus to policyholder each year. The 30% represents the 30:70 gate prescribed by the local insurance regulation where at least 70% of the surplus declared for distribution each year must be distributed to policyholders.

In the long term, it is more appropriate to consider and allow for interaction between the Par fund investment returns and future policyholder dividends (and hence shareholder transfers), such that long-term sustainable, rather than illustrated, dividends are used in the projection. Going forward, if the volume of True Par business increases, we recommend the Company to revise the policyholder bonus methodology and to consider the interaction between projected surpluses and bonuses.

Treatment of the Surplus from True Par Fund in the Valuation

Considering the immateriality of the Par Fund business, the current cash flow projection model does not take into account the par fund surplus as at the valuation date. Given that the true participating business is relatively new and the par fund surplus as at the valuation date was immaterial, we are satisfied with not including it in the valuation results.

Future solvency and tax regulations

No assumption was made for future changes in the solvency capital requirements and these were assumed to remain unchanged from present regulations. This is consistent with our understanding of the current regulations for solvency.

No assumption was made for future changes in the tax regulations and these were assumed to remain unchanged from present day application and rate. This is consistent with our current understanding of life insurance company taxation.

Reinsurance Cost

The Company set the reinsurance cost assumption to be 0.13% of gross premium. This assumption is based on the average reinsurance cost experience over the past ten years. We are satisfied that this assumption lies within a reasonable range.

Reliances and Limitations

Some reliances and limitations have been noted in other parts of this report. Additional ones are set out below.

Reliances

In reviewing the assumptions, we relied on the accuracy and completeness of all data and other information (qualitative, quantitative, written and verbal) provided to us for the purpose stated in the 'Introduction' section of this report. While we have reviewed the non-policy data for general reasonableness and we have no reason to disbelieve the information for the purposes of reviewing the assumptions, we did not independently verify it. It should be noted that if any data or other information supplied to us were proved to be inaccurate or incomplete, our opinions may need to be revised. We received and relied on various information from the Company, including:

- a summary of the actual asset mix of the Company's investment portfolio;
- the volume share of different business lines for in force business at December 31, 2008 and new business issued in 2008;
- the balance sheets and income statements for financial year 2008;
- the values placed on the assets and liabilities in the balance sheets;
- the reconciliation as at December 31, 2008 of actual expense against the estimated expenses based on actual related policy data;
- the investigations of recent experience for mortality, morbidity, expenses, policy discontinuances, partial withdrawals and other policy related matters;
- the investigations of recent experience for spreads over risk free rates for different kinds of asset, investment returns, investment strategy, and other matters used for the derivation of the economic assumptions ; and
- reconciliations carried out by the Company.

Limitations

This report is for the use of Shin Kong Life and its directors and executives for the stated purpose only. This report should be considered in its entirety as parts taken in isolation could be misleading. It should not be considered as appropriate for any purpose other than that for which it was intended, and any user should request explanation or amplification as required. Members of Deloitte staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

The opinions of our review are based on data and facts existing as at December 31, 2008 and you should bear in mind that these figures omit the impact of any changes or developments within the company or its operations since that date. In particular, users should bear in mind that this report constitutes our opinion on the portfolio at December 31, 2008 at the time of our review carried out in May 2009. No update to the review has been included in this report.

This report is made solely to Shin Kong Life's Directors as a body. To the fullest extent permitted by law we do not accept or assume responsibility or liability (including without limitation, those arising from negligence) to anyone other than Shin Kong Life's Directors as a body for our work in respect of this report or for the conclusions that we have reached.

This report represents our opinion on the reasonableness of the assumptions used in the Embedded Value and value of one year new business of Shin Kong Life. Readers should be aware that the results of the valuation would not necessarily correspond with a share market valuation or sale price of the business. The embedded value uses assumptions for future economic and portfolio performance, which are uncertain in nature. Although the assumptions on which the valuation was based have been reviewed in respect of likely future experience, the actual experience will vary from the estimates. Therefore, it is not possible to put a value on a life insurance company with certainty.

The valuation performed by Shin Kong Life uses traditional actuarial embedded valuation approaches in relation to methodology and assumptions. In recent times however, other valuation methodologies and assumptions have been proposed, including fair value and market consistent methods. Our review of the assumptions has been undertaken considering the methodology used by Shin Kong Life and has ignored consideration one would give to assumptions if the Company were to apply these alternative techniques.

The calculations of EV and V1YNB results necessarily make numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are not fully within Shin Kong Life's control. Although the assumptions used represent estimates which the Company believes are reasonable, actual experience in the future is likely to vary from that assumed in the calculation of the results and any such variations may be material. Deviations from assumed experience are normal and are to be expected.

Our review is to be carried out in accordance with the methods, approach and other considerations as set out in:

- The relevant parts of:
  - Guidance Note 252 of the Institute of Actuaries of Australia entitled "Economic Valuations of Life Insurance Business", and
  - Guidance Note 552 of the Institute of Actuaries of Australia entitled "Economic Valuations", or
- Professional Conduct Standards as defined by the Professional Affairs Board of the Institute and Faculty of Actuaries.

Conclusion

All enquiries relating to the content or interpretation of the report should be referred to Deloitte in the first instance

Yours faithfully

/s/ Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited

Deloitte Actuarial and Insurance Solutions (Hong Kong) Limited

ISSUER

Shin Kong Financial Holding Co., Ltd.
66 Chung-Hsiao West Road, Section 1
Taipei, Taiwan
Republic of China

DEPOSITARY

Citibank, N.A.
388 Greenwich Street
New York, New York 10013
USA

CUSTODIAN

Citibank, N.A. (Taipei Branch)
9F, 16, Nan-king East Road
Section A, Taipei, Taiwan
Republic of China

INDEPENDENT PUBLIC ACCOUNTANTS

Deloitte & Touche
12th Floor, 156 Min Sheng E. Road, Sec. 3
Taipei, Taiwan
Republic of China

LEGAL ADVISERS

U.S. Legal Advisors to the Initial Purchasers

Simpson Thacher & Bartlett LLP
35th Floor
ICBC Tower
3 Garden Road, Central
Hong Kong

ROC Legal Advisors to the Company

Baker & McKenzie
Hung Tai Center
15th Floor
No. 168, Tun Hwa North Road
Taipei, Taiwan 105
Republic of China

LUXEMBOURG LISTING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Aerogolf Center-1A
Hoehenhof, L-1736
Senningerberg
Luxembourg

光