

**FUBON FINANCIAL HOLDING CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2007 and 2006
(With Independent Auditors' Report Thereon)**

Independent Auditors' Review Report

The Board of Directors
Fubon Financial Holding Co., Ltd.:

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

We conducted our audits in accordance with generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" of the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Fubon Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with the "Principles for Compiling the Financial Statements of Financial Holding Companies", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and Republic of China generally accepted accounting principles.

As described in note 3, the Company and its subsidiaries, starting from January 1, 2006, adopted ROC Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation". In accordance with SFAS No. 34, the beginning balances of financial assets and liabilities should be reclassified and re-measured at fair value. The adoption of SFAS No. 34 resulted in revaluation differences, which were accounted for as cumulative effect of changes in accounting principle and adjustment to stockholders' equity amounting to NT\$663,881 thousand and NT\$3,376,374 thousand, respectively, for the year ended December 31, 2006.

As described in note 2, the entities of the consolidated financial statements were modified as of December 31, 2007, and we have restated the consolidated financial statement as of December 31, 2006 for comparison.

March 26, 2008

Note to Reader

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit review such consolidated financial statements are those generally accepted and applied in the Republic of China.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2006

(Expressed in thousands of New Taiwan dollars)

| Assets | 2007 | 2006 (restated) | Change of percentage | Liabilities and Stockholders' Equity | 2007 | 2006 (restated) | Change of percentage |
|---|--------------------------------|-----------------------------|-------------------------|---|--------------------------------|-----------------------------|-------------------------|
| Cash and cash equivalents (notes 4, 34 and 35) | \$ 53,432,177 | 59,343,746 | (10) | Due to Central Bank and other banks | \$ 65,844,315 | 42,249,257 | 56 |
| Due from Central Bank and call loans to banks (note 5) | 208,166,919 | 245,532,545 | (15) | Borrowings from Central Bank and other banks | 11,803,415 | 6,029,171 | 96 |
| Financial assets measured at fair value through profit or loss (notes 6, 34 and 35) | 56,268,394 | 63,451,130 | (11) | Financial liabilities measured at fair value through profit or loss (note 18) | 12,754,047 | 9,083,711 | 40 |
| Bonds and bills purchased under resell agreements (notes 7 and 34) | 10,872,316 | 7,252,638 | 50 | Bonds and bills sold under repurchase agreements (notes 7 and 34) | 69,043,762 | 71,479,640 | (3) |
| Receivables, net (notes 8 and 27) | 110,695,013 | 100,452,114 | 10 | Commercial paper payable, net (notes 19 and 35) | 599,817 | - | - |
| Loan, net (notes 9 and 34) | 807,716,729 | 732,104,410 | 10 | Payables (note 27) | 49,254,028 | 57,392,931 | (14) |
| Available-for-sale financial assets, net (notes 10 and 35) | 264,878,719 | 242,989,915 | 9 | Deposits (notes 20 and 34) | 982,651,871 | 941,018,648 | 4 |
| Held-to-maturity financial assets, net (note 11) | 5,883,418 | 4,808,219 | 22 | Bonds payable (note 21) | 67,079,902 | 96,982,854 | (31) |
| Investments under equity method, net (note 12) | 607,352 | 1,485,876 | (59) | Other borrowings (notes 22 and 35) | 11,790,000 | 4,394,646 | 168 |
| Other financial assets, net (note 13) | 79,472,047 | 61,982,313 | 28 | Reserve for operations and other liabilities (note 23) | 261,416,508 | 244,056,973 | 7 |
| Debt investments in non-active market (note 14) | 157,276,707 | 156,777,639 | - | Other financial liabilities (notes 13 and 25) | 94,226,503 | 77,450,836 | 22 |
| Real estate investments, net (note 15) | 13,038,149 | 10,481,324 | 24 | Other liabilities (note 26) | 7,276,575 | 6,511,366 | 12 |
| Fixed assets | 21,799,402 | 21,935,564 | (1) | Total liabilities | <u>1,633,740,743</u> | <u>1,556,650,033</u> | - |
| Intangible assets, net (note 16) | 1,430,656 | 1,487,141 | (4) | Total stockholders' equity (notes 13, 27 and 28) | | | |
| Other assets, net (notes 17, 25, 27, 34 and 35) | 12,397,919 | 14,368,514 | (14) | Common stock | <u>77,190,935</u> | <u>77,190,935</u> | - |
| | | | | Capital surplus | <u>49,092,515</u> | <u>49,091,107</u> | - |
| | | | | Retained earnings: | | | |
| | | | | Legal reserve | 19,438,395 | 18,598,404 | 5 |
| | | | | Special reserve | 2,048,871 | 2,764,494 | (26) |
| | | | | Unappropriated retained earnings | <u>15,043,320</u> | <u>8,464,604</u> | 78 |
| | | | | Total retained earnings | <u>36,530,586</u> | <u>29,827,502</u> | 22 |
| | | | | Equity adjustments | | | |
| | | | | Cumulative foreign currency translation adjustments | (374,525) | (259,270) | 44 |
| | | | | Unrealized gain on financial assets | 3,480,717 | 7,696,033 | (55) |
| | | | | Net loss from unrecognized pension cost | <u>(191,935)</u> | <u>(14,582)</u> | 1,216 |
| | | | | Total equity adjustments | <u>2,914,257</u> | <u>7,422,181</u> | (61) |
| | | | | Minority interest | <u>4,466,881</u> | <u>4,271,330</u> | 5 |
| | | | | Total stockholders' equity | <u>170,195,174</u> | <u>167,803,055</u> | - |
| Total Assets | \$ <u>1,803,935,917</u> | <u>1,724,453,088</u> | - | Total Liabilities and Stockholders' Equity | \$ <u>1,803,935,917</u> | <u>1,724,453,088</u> | - |

See accompanying notes to consolidated financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2007 and 2006
(Expressed in thousands of New Taiwan dollars, except earnings per share)

| | 2007 | 2006 (restated) | Change of percentage |
|---|-----------------------------|----------------------------|---------------------------------|
| Interest income (note 34) | \$ 59,528,543 | 61,102,940 | (3) |
| Less: interest expense (note 34) | <u>28,977,427</u> | <u>31,717,633</u> | (9) |
| Net interest income | 30,551,116 | 29,385,307 | 4 |
| Non-interest income, net | | | |
| Service fee income, net (note 34) | 12,782,468 | 7,618,000 | 68 |
| Insurance income, net (notes 31 and 34) | 81,974,492 | 73,773,473 | 11 |
| Gain (loss) on financial assets or liabilities measured at fair value through profit or loss | 3,247,920 | 1,725,473 | 88 |
| Realized gain on available-for-sale financial assets | 7,748,660 | 5,686,215 | 36 |
| Income (loss) from equity investments under equity method (note 12) | (95,733) | 272,163 | (135) |
| Gain on real estate investments (note 34) | 273,032 | 506,477 | (46) |
| Foreign exchange gains (loss) | 375,817 | (335,301) | (212) |
| Impairment loss (note 14) | (4,498,445) | (96,127) | 4,580 |
| Other non-interest income (note 34) | <u>2,691,301</u> | <u>3,207,869</u> | (16) |
| Net revenue | <u>135,050,628</u> | <u>121,743,549</u> | 11 |
| Bad debt expense (note 9) | <u>10,461,161</u> | <u>15,308,514</u> | (32) |
| Provision for insurance reserves (note 32) | <u>79,662,568</u> | <u>71,951,816</u> | 11 |
| Operating expense: | | | |
| Personnel expenses | 14,886,525 | 13,213,638 | 12 |
| Depreciation and amortization expenses | 1,804,460 | 1,720,386 | 5 |
| Other general and administrative expense | <u>10,360,356</u> | <u>9,890,290</u> | 6 |
| Total operating expense | <u>27,051,341</u> | <u>24,824,314</u> | 9 |
| Net income before cumulative effect of changes in accounting principle and income tax | 17,875,558 | 9,658,905 | 85 |
| Income tax expense | <u>2,825,026</u> | <u>1,506,253</u> | 88 |
| Net income before cumulative effect of changes in accounting principle | 15,050,532 | 8,152,652 | 85 |
| Cumulative effect of changes in accounting principle (net of income tax of \$104,153) (note 3) | <u>-</u> | <u>663,881</u> | - |
| Net income | \$ <u>15,050,532</u> | <u>8,816,533</u> | 71 |
| Attribution: | | | |
| The Company's income | \$ 14,431,579 | 8,399,903 | 72 |
| Minority interest's income | <u>618,953</u> | <u>416,630</u> | 49 |
| | \$ <u>15,050,532</u> | <u>8,816,533</u> | 71 |
| | Before tax | After tax | Before tax |
| Earnings per share – basic (note 30) | | | After tax |
| Net income before cumulative effect of changes in accounting principle and income tax | \$ 2.24 | 1.87 | 1.19 |
| Cumulative effect of changes in accounting principle | <u>-</u> | <u>-</u> | <u>0.09</u> |
| Net income | \$ <u>2.24</u> | <u>1.87</u> | <u>1.28</u> |
| | | | <u>1.09</u> |

See accompanying notes to consolidated financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2006
(Expressed in thousands of New Taiwan dollars)

| | Retained Earnings | | | | | | Unrealized Gains or Losses on Financial Instruments | Cumulative Foreign Currency Translation Adjustments | Unrecognized Pension Cost | Minority Interest | Total |
|--|----------------------|----------------------------|-------------------|-------------------|------------------|----------------------------------|---|---|---------------------------|-------------------|--------------------|
| | Common Stock | Common Stock for Write-off | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Retained Earnings | | | | | |
| Balance on January 1, 2006 | \$ 80,652,974 | (3,462,039) | 51,016,628 | 17,534,279 | 2,690,758 | 8,161,247 | (871,128) | (86,106) | (32,241) | 4,060,412 | 159,664,784 |
| Appropriations of retained earnings (note 28): | | | | | | | | | | | |
| Legal reserve | - | - | - | 1,064,125 | - | (1,064,125) | - | - | - | - | - |
| Special reserve | - | - | - | - | 73,736 | (73,736) | - | - | - | - | - |
| Cash dividends | - | - | (1,929,773) | - | - | (6,947,184) | - | - | - | - | (8,876,957) |
| Employee bonuses | - | - | - | - | - | (2,000) | - | - | - | - | (2,000) |
| Remuneration to directors and supervisors | - | - | - | - | - | (9,501) | - | - | - | - | (9,501) |
| Capital surplus from long-term equity investment under equity method | - | - | 4,252 | - | - | - | - | - | - | - | 4,252 |
| Cumulative foreign currency translation adjustments | - | - | - | - | - | - | - | (173,164) | - | - | (173,164) |
| Unrealized gains or losses from re-measurement of financial assets | - | - | - | - | - | - | 8,567,161 | - | - | - | 8,567,161 |
| Change in unrecognized pension cost | - | - | - | - | - | - | - | - | 17,659 | - | 17,659 |
| Change in minority interest | - | - | - | - | - | - | - | - | - | 210,918 | 210,918 |
| Retirement of treasury stock in 2005 | (3,462,039) | 3,462,039 | - | - | - | - | - | - | - | - | - |
| Net income of 2006 | - | - | - | - | - | 8,399,903 | - | - | - | - | 8,399,903 |
| Balance on December 31, 2006 | <u>77,190,935</u> | <u>-</u> | <u>49,091,107</u> | <u>18,598,404</u> | <u>2,764,494</u> | <u>8,464,604</u> | <u>7,696,033</u> | <u>(259,270)</u> | <u>(14,582)</u> | <u>4,271,330</u> | <u>167,803,055</u> |
| Appropriations of retained earnings (note 28): | | | | | | | | | | | |
| Legal reserve | - | - | - | 839,991 | - | (839,991) | - | - | - | - | - |
| Special reserve | - | - | - | - | (715,623) | 715,623 | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (7,719,093) | - | - | - | - | (7,719,093) |
| Employee bonuses | - | - | - | - | - | (2,000) | - | - | - | - | (2,000) |
| Remuneration to directors and supervisors | - | - | - | - | - | (7,402) | - | - | - | - | (7,402) |
| Capital surplus from long-term equity investment under equity method | - | - | 1,408 | - | - | - | - | - | - | - | 1,408 |
| Unrealized gains or losses from re-measurement of financial assets | - | - | - | - | - | - | (4,215,316) | - | - | - | (4,215,316) |
| Cumulative foreign currency translation adjustments | - | - | - | - | - | - | - | (115,255) | - | - | (115,255) |
| Change in unrecognized pension cost | - | - | - | - | - | - | - | - | (177,353) | - | (177,353) |
| Change in minority interest | - | - | - | - | - | - | - | - | - | 195,551 | 195,551 |
| Net income of 2007 | - | - | - | - | - | 14,431,579 | - | - | - | - | 14,431,579 |
| Balance on December 31, 2007 | <u>\$ 77,190,935</u> | <u>-</u> | <u>49,092,515</u> | <u>19,438,395</u> | <u>2,048,871</u> | <u>15,043,320</u> | <u>3,480,717</u> | <u>(374,525)</u> | <u>(191,935)</u> | <u>4,466,881</u> | <u>170,195,174</u> |

See accompanying notes to consolidated financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006
(Expressed in thousands of New Taiwan dollars)

| | 2007 | 2006 (restated) |
|--|----------------------|----------------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 15,050,532 | 8,816,533 |
| Adjustments to reconcile net income to net cash flows provided by operating activities | | |
| Minority interest's income | (618,953) | (416,630) |
| Amortization and depreciation | 1,826,452 | 1,741,762 |
| Provision for bad debts | 10,461,161 | 15,308,514 |
| Provision for insurance reserves | 79,662,568 | 71,951,816 |
| Gain on disposal of fixed assets | (92,573) | (88,582) |
| Gain on disposal of real estate investments | (346) | (303,999) |
| Investment income accounted for under equity method under (over) cash dividend received | 95,733 | (272,163) |
| Loss on asset impairment | 4,498,445 | 96,127 |
| Decrease in financial assets measured at fair value through profit or loss | 7,182,736 | 63,614,107 |
| Increase in receivables | (9,960,443) | (16,584,498) |
| Decrease in equity investments under equity method | 746,685 | 558,242 |
| Increase in goodwill and intangible assets | (354,055) | (139,738) |
| Increase in other financial assets | (21,082,507) | (10,576,104) |
| Decrease (increase) in other assets | 1,965,914 | (3,187,244) |
| Increase (decrease) in commercial paper payable | 599,817 | (3,295,968) |
| Increase (decrease) in financial liabilities measured at fair value through profit or loss | 3,670,336 | (2,092,232) |
| Increase (decrease) in payables | (8,140,903) | 11,750,784 |
| Decrease in reserve for operating and other liabilities | (62,303,033) | (41,461,588) |
| Increase in other financial liabilities | 16,775,667 | 9,833,848 |
| Increase (decrease) in other liabilities | 587,856 | (2,106,296) |
| Net cash flows provided by operating activities | <u>40,571,089</u> | <u>103,146,691</u> |
| Cash flows from investing activities: | | |
| Increase in loans | (82,739,933) | (99,406,426) |
| Decrease (increase) in due from Central Bank and call loans to banks | 37,365,626 | (74,783,584) |
| Increase in bonds and bills purchased under resell agreements | (3,619,678) | (2,177,146) |
| Decrease (increase) in available-for-sale financial assets | (26,966,675) | 51,652,964 |
| Increase in held-to-maturity financial assets | (1,762,569) | (500,901) |
| Increase in debt investment in non-active market | (3,355,483) | (8,167,157) |
| Increase in real estate investments | (2,592,229) | (1,884,432) |
| Decrease (increase) of fixed assets | (1,182,496) | 209,895 |
| Net cash flows used in investing activities | <u>(84,853,437)</u> | <u>(135,056,787)</u> |
| Cash flows from financing activities: | | |
| Increase (decrease) in due to Central Bank and other banks | 23,595,058 | (594,102) |
| Increase in deposits | 41,633,223 | 71,723,597 |
| Decrease in bonds and bills sold under repurchase agreements | (2,435,878) | (65,689,455) |
| Increase in borrowing from Central Bank and other banks | 5,774,244 | 2,207,928 |
| Increase (decrease) in bonds payable | (29,902,952) | 9,837,754 |
| Increase (decrease) in other borrowings | 7,395,354 | (604,558) |
| Changes in minority interest | 195,551 | 210,918 |
| Payment of cash dividend, employee bonus, and remuneration for directors and supervisors | (7,726,495) | (8,888,458) |
| Net cash flows provided by financing activities | <u>38,528,105</u> | <u>8,203,624</u> |
| Effect of exchange rate changes | <u>(157,326)</u> | <u>(144,547)</u> |
| Net decrease in cash and cash equivalents | (5,911,569) | (23,851,019) |
| Cash and cash equivalents at beginning of period | 59,343,746 | 83,194,765 |
| Cash and cash equivalents at end of period | <u>\$ 53,432,177</u> | <u>59,343,746</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash payments of interest | <u>\$ 28,432,915</u> | <u>30,619,124</u> |
| Cash payments of income tax | <u>\$ 2,034,143</u> | <u>2,327,371</u> |
| Financial and investing activities without cash flow: | | |
| Fixed assets transferred to leased assets | <u>\$ 4,530</u> | <u>28,606</u> |
| Fixed assets transferred to deferred assets | <u>\$ 18,765</u> | <u>-</u> |
| Declaration of employee bonus | <u>\$ 2,000</u> | <u>-</u> |

See accompanying notes to consolidated financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(All amounts expressed in thousands of New Taiwan dollars unless otherwise stated)

(1) Organization and Business Scope

Fubon Financial Holding Co., Ltd. (the Company) was established in December 2001 pursuant to the Financial Holding Company Law in Taiwan.

In connection with the formation of the Company, substantially all of the assets and liabilities and related operations of Fubon Insurance Co., Ltd. (Fubon Insurance) were transferred to a new wholly owned subsidiary named Fubon Insurance. The name of the “former” Fubon Insurance Co., Ltd. was changed to Fubon Financial Holding Co., Ltd. Secondly, shares of Fubon Securities Co., Ltd. (Fubon Securities), Fubon Commercial Bank Co., Ltd. (Fubon Bank), and Fubon Life Assurance Co., Ltd. (Fubon Life Assurance) were exchanged for shares in the Company on December 19, 2001.

On August 28, 2002, shares of Fubon Asset Management Co., Ltd. (Fubon Asset Management) were exchanged for shares in the Company.

On December 23, 2002, shares of TaipeiBank Co., Ltd. (TaipeiBank) were exchanged for shares in the Company.

In September 2003, shares of Fubon Direct Marketing Consulting Co., Ltd. (Fubon Direct Marketing) were acquired in cash by the Company.

In October 2003, shares of Fubon Holding Venture Capital Co., Ltd. (Fubon Holding Venture Capital) were acquired in cash by the Company.

In March 2004, 75% of the shares of International Bank of Asia, Limited renamed Fubon Bank (Hong Kong, Limited (Fubon Bank (Hong Kong)) were purchased in cash by the Company.

In August 2004, shares of Fubon Asset Management Service Co., Ltd. (Fubon AMC) and Fubon Investment Management Consulting Co., Ltd. (Fubon IMC) were purchased in cash by the Company.

The Company started the “Project One”, organization restructuring plan, in September 2005. It mainly changes the operating mode away from a focus on subsidiaries. Based on the principle of customer orientation, the Company established corporate finance, financial market, consumer finance, wealth management, investment and insurance businesses. Through resource integration, the Company hopes to improve administrative efficiency and lower operating costs.

The primary business of the Company is to own the financial businesses including banking, financial bills, credit cards, trust insurance, securities, futures, ventures, investments in foreign financial institutions approved by the government agency, and investments relevant to other financial services approved by the government authorities.

As of December 31, 2007, the Company and its subsidiaries had 13,427 employees.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

The following describes the consolidated subsidiaries:

- 1) Fubon Insurance was incorporated on December 19, 2001, and assumed all rights and liabilities of the former Fubon Insurance Co., Ltd., which was incorporated in 1961. It is primarily engaged in the business of property and casualty insurance.
- 2) Fubon Securities was incorporated on July 11, 1988, as a company with an integrated securities firm license. Fubon Securities' operations include brokerage, margin lending, securities financing and refinancing, securities trading, securities transfer services, securities underwriting, and future.
- 3) TaipeiBank started as a financial institution of the Taipei City Government (TCG) in 1969. On July 1, 1984, it was reorganized into a limited liability corporation and it was renamed as City Bank of Taipei Co., Ltd. The bank's name was subsequently changed to TaipeiBank Co., Ltd. on January 1, 1993. Fubon Bank was authorized to operate as a commercial bank on August 1, 1991, and commenced its operations on April 20, 1992.

On January 1, 2005, TaipeiBank was merged with Fubon Bank to improve operational efficiency and reduce costs. TaipeiBank was the surviving entity from this merger. However, the name TaipeiBank was changed to Taipei Fubon Bank on the same day.

Taipei Fubon Bank mainly engages in

1. all commercial banking operations authorized under the Banking Law;
2. trust operations;
3. handling of the public-benefit lottery operations; and
4. other authorized operations.

In addition to the aforementioned activities, Taipei Fubon Bank continues to handle certain functions for the Taipei City Government (TCG), primarily acceptance of payments for taxes, fines, and other fees, as well as the payments of principal and interest on bonds issued by the TCG.

- 4) Fubon Life Assurance was incorporated on June 3, 1992, under the laws of the Republic of China. Fubon Life Assurance is engaged in the business of life insurance underwriting.
- 5) Fubon Asset Management was incorporated in September 1992. Its operations include raising securities investment trust funds through issuance of beneficiary certificates to invest in securities and related products, managing discretionary trust funds, and other operations as approved by the authorities for securities investment trusts.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- 6) Fubon Bank (Hong Kong) was founded in 1982. Fubon Bank (Hong Kong) engages in the following operations:
1. Retail and consumer banking;
 2. Commercial banking;
 3. Investment banking;
 4. Investment and financial management services; and
 5. Properties management and other services.

(2) Summary of Significant Accounting Policies

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Company prepares the accompanying financial statements in accordance with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, the “Principles of Preparing Financial Reports of Financial Holding Companies”, the “Business Entity Accounting Act”, the “Regulation on Business Entity Accounting Handling” and ROC generally accepted accounting principles. The significant accounting policies used in preparing such financial statements are as follows:

1) Principles of consolidation

The consolidation of financial statements is made in accordance with the requirements of the “Principles of Preparing Financial Reports of Financial Holding Companies” and ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7 “Consolidated Financial Statements”. All material inter-company transactions have been eliminated in the consolidated financial statements.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following entities have been included in the consolidated financial statements:

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Fubon Insurance | 100.00% | 100.00% |
| Taipei Fubon Bank | 100.00% | 100.00% |
| Fubon Life Assurance | 100.00% | 100.00% |
| Fubon Asset Management | 100.00% | 100.00% |
| Fubon Securities | 100.00% | 100.00% |
| Fubon Direct Marketing | 100.00% | 100.00% |
| Fubon Financial Holding Venture Capital | 100.00% | 100.00% |
| Fubon Bank (HK) | 75.00% | 75.00% |
| Fubon AMC | 100.00% | 100.00% |
| Fubon IMC | 100.00% | 100.00% |
| Fubon Futures | 100.00% | 100.00% |
| Fubon Investment Service | 100.00% | 100.00% |
| Fubon Securities (BVI) | 100.00% | 100.00% |
| FB Gemini | (Note 1) | 77.78% |
| Fubon Securities USA | 100.00% | 100.00% |
| Fubon Capital (HK) Limited | 100.00% | - |
| Taipei Fubon Bank Life Assurance Agent Co., Ltd. | 100.00% | 100.00% |
| Fubon Multimedia Technology | 67.89% | 67.89% |
| Fubon Nominees (Hong Kong) (note 2) | 100.00% | 100.00% |
| Fubon Bank Vanuatu (note 2) | 100.00% | 100.00% |
| Fubon Credit (HK) (note 2) | 100.00% | 100.00% |
| Fubon Trustee (HK) (note 2) | 100.00% | 100.00% |
| FB Securities (HK) (note 2) | 100.00% | 100.00% |
| FB Investment Management (HK) (note 2) | 100.00% | 100.00% |

Note 1: Fubon Securities BVI did not hold any shares of FB Gemini as of December 2007.

Note 2: The companies specified above were the major subsidiaries held by the Fubon Bank (HK)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following entities have not been included in the consolidated financial statements because their total assets and operating revenue are deemed immaterial to the Company or the Company does not have control over these entities:

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Fubon Leasing | 100.00% | 100.00% |
| Fubon Bank Insurance Agent | 100.00% | 100.00% |
| Fubon Construction Management | 30.00% | 30.00% |
| Fu-Sheng Insurance Agent | 100.00% | 100.00% |
| Fu-Sheng General Insurance Agent | 100.00% | 100.00% |
| Shing Bon Venture Capital | (Note 1) | 75.00% |
| Citi Fubon Life Insurance (H.K.) (not controlled by the Company) | (Note 2) | 50.00% |
| Fu-Sheng Travel Service | 100.00% | 100.00% |
| Fuly Life Assurnace Agent | 100.00% | 100.00% |
| Fuly General Insurance Agent | 100.00% | 100.00% |

Note 1: Shing Bon Venture Capital was been dissolved in December 2007.

Note 2: The shares of Citi Fubon Life Insurance (H.K.) were sold by Fubon Life Assurance on June 21, 2007.

Since the operating revenues of Taipei Fubon Bank Insurance Agent, a subsidiary of Taipei Fubon Bank, became material to Taipei Fubon Bank starting from 2007 Taipei Fubon Bank Insurance Agent was included in the consolidated financial statements of 2007. Accordingly, the consolidated financial statements of 2006 were restated for comparison.

2) Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

3) Foreign currency transactions

The financial statements of the Company and domestic subsidiaries are reported at New Taiwan dollars. The non-derivative foreign currency transactions are translated by using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the foreign exchange rate ruling at the balance sheet dates. Translation gains and losses are recognized in profit or loss. In accordance with the revised ROC SFAS No. 14 “The Effects of Changes in Foreign Exchange Rates”, which is effective from January 1, 2006, foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated into the functional currency using the rate of foreign exchange at the date of the initial transaction. Foreign currency non-monetary assets and liabilities measured at fair value are translated into the functional currency using the rate of exchange ruling at the balance sheet date. Any exchange differences resulting from fair value variation through profit or loss are included in the income statement, and exchanged differences resulting from fair value variation through equity are accounted for as adjustments to stockholders’ equity.

The financial statements of foreign subsidiaries reported in functional currencies are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders’ equity, which is translated at historical rates, and revenues, costs and expenses, which are translated at the weighted-average exchange rates during the reporting years. Translation differences resulting from the translation of these financial statements into New Taiwan dollars, net of income taxes, are recorded as foreign currency translation adjustment, a separate component of stockholders’ equity.

4) Statement of cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have maturity dates which do not present significant risks of changes in value resulting from changes in interest rates.

5) Financial assets

Starting from January 1, 2006, the Company accounts for financial assets in accordance with ROC SFAS No. 34, “Financial Instruments: Recognition and Measurement”, under which financial assets are classified into one of following categories: measured at fair value, available-for-sale, held-to-maturity, measured at cost, and bond investments in non-active market.

Financial instruments held by the Company are recorded on the trading date and initially recognized at fair value plus transaction costs, except for financial instruments held for trading purposes, which are initially recognized at fair value only.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Subsequent to their initial recognition, the financial instruments held by the Company are classified according to the purpose of holding as follows:

1. Financial assets measured at fair value through profit or loss are trading securities, and are bought and held principally for the purpose of selling them in the near term. Derivatives held by the Company, other than hedging securities, are classified in this category. Financial assets or liabilities may be designated as financial instruments measured at fair value through profit or loss to eliminate measurement mismatches for items that naturally offset each other.

The fair value of financial assets held by the Consolidated Company is determined as follows:

Fair value of listed or OTC securities is determined based on the market closing prices on the balance sheet date, based on net worth on the balance sheet date for open-end funds, based on net price on the GreTai Securities Market on the balance sheet date for domestic bonds, based on net price on Bloomberg on the balance sheet date for foreign bonds, and based on quoted prices provided by financial market traders for financial instruments with a non-active market.

Financial assets at fair value through profit or loss which the Company classified on January 1, 2006, in compliance with SFAS No. 34, "Financial Instruments: Recognition and Measurement", cannot be reclassified again thereafter. On the other hand, those that do not belong to financial assets at fair value through profit or loss cannot be reclassified to this category.

2. Available-for-sale financial assets are recorded at fair value, and the change in market value is adjusted against shareholders' equity. Impairment loss is recognized when there is an indication of impairment thereof. If there is an indication that the impairment loss recognized has decreased in subsequent years, the decline in impairment loss is adjusted against shareholders' equity.
3. Held-to-maturity financial assets are recorded at amortized cost. Impairment loss is recognized when there is an indication of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.
4. Financial assets are recorded at cost if their fair values are not available. Impairment loss is recognized if there is an indication of impairment thereof, and this recognized amount is non-reversible.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. Bond investments in non-active market are recorded at amortized cost. Impairment loss is recognized when there is an indication of impairment thereof. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

- 6) Derivative financial instruments – held for trading

1. Foreign exchange forward contracts

Foreign-currency-denominated assets and liabilities on forward exchange contracts, which are used to accommodate customers' needs or manage the Company's exposures, are recorded at forward rates on the contract dates. Gains or losses arising from the differences between the contracted forward rates and spot rates on settlement are credited or charged to profit or loss. For contracts outstanding as of the balance sheet dates, the gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current gain or loss.

2. Foreign currency swap contracts

Foreign currency swap contracts are used to accommodate customers' needs or manage the Company's exposures. Amounts exchanged on the contract starting dates are recorded at their spot rates, and amounts to be exchanged on the settlement dates are recorded at the forward rates. Gains or losses arising from the differences between spot rates and contract starting-date rates are amortized using the straight-line method over the term of the contract and are credited or charged to interest income or expense. On the balance sheet dates, the balances of the receivables and payables under the contracts are netted out, and the resulting amount is classified as either an asset or a liability.

3. Cross-currency swaps contracts

Cross-currency swap contracts, which are used to accommodate customers' needs or manage the Company's exposures, are measured at fair value on the balance sheet date. The interest received or paid on each settlement date or the balance sheet date is recognized as interest income or expense, which is credited or charged to profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

4. Asset swaps

Asset swap contracts involve the exchange of interest payments on fixed-rate convertible bonds and bills for floating-rate interest, or the exchange of interest payments on fixed-rate or floating-rate credit linked notes for floating-rate or fixed-rate interest. Memorandum entries are made on the contract date. As of the balance sheet date, the change in the fair value of assets is recorded in profit or loss.

5. Interest rate futures contracts

Margin deposits paid by the Bank on futures contracts for trading purposes are recognized as assets. Both unrealized gain or loss arising from changes in market value of futures contracts on the balance sheet date, and realized gain or loss calculated on the contract settlement date or from early settlement, are recognized in profit or loss.

6. Margin deposits for futures contracts

All outstanding positions are marked to the settlement price of the closeout date or the fair market value as of the balance sheet date. Meanwhile, the gain or loss from evaluation by the mark-to-market method is reflected in margin deposits for futures contracts and in gain or loss on futures contracts in the accompanying balance sheets and income statements, respectively.

7. Interest rate swap contracts

As no principal amounts are exchanged for interest rate swaps upon settlement, the transactions are recorded in a memo account on the contract dates. For interest rate swap contracts used for purposes other than trading, net interest received or paid upon each settlement or accrued on the balance sheet date is recorded in profit or loss. As of the balance sheet date, the change in the fair value of assets is recorded in profit or loss.

8. Options

The premium paid or received for option contracts entered into for trading purposes is recognized as an asset or liability on the contract date. Losses or gains arising from such transactions are recorded as transaction gains or losses. At the balance sheet date, the assets and liabilities arising from option contracts are restated using the market value of the contracts, and the resulting differences are recognized in profit or loss.

9. Forward interest rate agreements (FRAs)

Forward interest rate agreements, which are entered into for trading purposes, are recorded by memorandum entries on the contract dates. On the settlement dates or balance sheet dates, any gains or losses resulting from the differences between the contracted rate and market rate are credited or charged in profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

10. Credit default swaps

Credit default swaps involve paying premiums to transfer credit risks of bond issuers to a third party. These transactions are recorded using memorandum entries on the contract dates. The premium paid or accrued by the Company for a credit default swap contract on each settlement or balance sheet date is recorded in profit or loss.

11. Asset swaps and options

The Company sells corporate bonds or options from convertible bonds to other investors. Asset swaps do not involve ownership transfer and are recorded by memorandum entries; the interest exchange payments are recorded as a net amount and remeasured using the market price.

The Company is engaged in convertible bond option transactions. The holder pays an option premium to the Company and acquires the conversion rights of the strike price in the contract period, and the seller has the obligation to sell the option to the holder. The option premium is recorded in the balance sheet. The convertible bond option transactions are recorded by memorandum entries.

12. Stock warrant liabilities

Proceeds received from issuing stock warrants are recorded as “stock warrant liabilities” in the accompanying consolidated balance sheets. The Company is allowed to repurchase those warrants, and the repurchased warrants are recognized as a reduction of stock warrant liabilities. Stock warrant liabilities are measured at fair value on the repurchase date and balance sheet date.

13. Structured notes

The Company entered into transactions involving equity-linked notes and principal guaranteed notes. An equity-linked note can be classified as a fixed income product and an option. The fixed income product is a liability of the Company; the option transaction is related to an asset of the Company. A principal guaranteed note can be classified as a fixed income product and an option. Both are liabilities of the Company.

(a) Equity-linked note – fixed-income investment:

The proceeds received from the counterparty are the principal discounted at an expected interest rate minus the amount of embedded equity derivative on the contract date. The implicit interest should be amortized over the term by the straight-line method and be accounted for as gain (loss) from equity linked note.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(b) Principal guaranteed note – fixed-income investment:

The value of a fixed-income instrument in the form of a principal guaranteed note is the contractual principal multiplied by the principal guarantee ratio and discounted by the expected interest rate. The implicit interest should be amortized over the term by the straight-line method and be accounted for as loss from principal guaranteed note.

(c) Equity-linked note – embedded equity derivative:

This is assessed by the fair value method. Changes in its fair value are recognized in the current period.

(d) Principal guaranteed note – embedded equity derivative:

This is assessed by the fair value method. The fair value is the contract principal minus the amount of the principal guaranteed note – fixed-income instrument. Changes in its fair value are recognized in the current period.

(e) The accounting principles for trading securities held to hedge the market risk from equity-linked notes and principal guaranteed notes are the same as the accounting treatment for securities held to hedge the market risk from stock warrants. The accounting principles for futures contracts are the same as the accounting treatment for hedged futures transactions adopted by a futures dealer.

14. Bond options

The nominal principal of speculation-purpose options is recorded by memorandum entries while the contract is effective. Bond options are remeasured using the fair value at the balance sheet date, and the unrealized gain (loss) should be recognized. If the options are exercised, the Company needs to acquire or deliver the defined bonds. The Company will recognize proceeds from trading bonds or bond acquisition cost at fair value. Receivables (payables) are calculated using the exercise interest rate.

7) Derivative instruments and hedging activities

When derivatives designated as hedges of operating, financing and investment risk meet the requirements of hedge accounting, these derivatives are for hedging purposes. However, when derivatives are not for hedging purposes, they should be classified as financial instruments held for trading.

When a fair value hedge, cash flow hedge, or hedge of net investment in foreign operations meets all the criteria for applying hedge accounting, the resulting profit or loss is recognized by offsetting the changes in the fair values of the hedging instruments and hedged items.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

1. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments against the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment are recognized through profit or loss in the current year.

2. Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flow of a recognized asset or liability or a highly probable forecast transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognized directly in equity. When the hedged transaction actually affects the profit or loss, the gain or loss previously recognized in equity should be recognized through current profit or loss. Any gain or loss from the change in fair value relating to an ineffective portion of the hedged transaction is recognized immediately through profit or loss.

3. Hedges of net investment in foreign operation

Hedges of net investment in foreign operation: The effective portion of any gain or loss on a hedging instrument relating to a hedge against foreign currency fluctuation in a foreign operation is recognized directly in equity until the disposal of the foreign operation, at which time the cumulative gain or loss recognized directly in equity is recognized in profit or loss.

8) Repo and reverse-repo bond transactions

Repo and reverse-repo bond transactions are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions and not as the sale or purchase of trading securities.

Repo and reverse-repo bond transactions are recorded as bonds sold under repurchase agreements and bonds purchased under resell agreements, respectively.

The difference between the selling and purchase prices for repo and reverse-repo bond transactions is treated as interest expense or interest income.

9) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans to investors for the purchase of securities and is recorded as receivables from pecuniary finance. Such loans are secured by the securities purchased by the investors. These securities are not reflected in the financial statements of the Company. The investors may redeem the collateral securities upon repayment of the loans.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Securities finance represents securities lent to investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. Such securities finance is not reflected in the financial statements of the Company. The investors' deposits for borrowing securities are held by the Company as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the Company lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

Securities refinancing represents borrowing securities from securities finance companies when the Company does not have sufficient securities to perform securities financing. For securities refinancing, the Company pays margin deposits to securities finance companies. These margin deposits are recorded as refinance margin deposits. The Company also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under receivables from securities refinance.

10) Allowance for doubtful accounts

Allowance for doubtful accounts is determined by an evaluation of the collectibility of loans, receivables (including overdue receivables and overdue loans), and advance accounts. Doubtful accounts are written off when the possibility of recovery is remote.

11) Long-term equity investment

Long-term investments in which the Company has more than 20% of the investee's voting shares or is able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Effective January 1, 2006, Statement of Financial Accounting Standards No. 5 “Long-term Investments under Equity Method” has been amended. The difference between investment cost and underlying equity in net assets shall be accounted for under the statement. If the differences come from assets that can be depreciated, depleted or amortized, then an investor company shall amortize such differences over estimated remaining economic lives. If the differences come from discrepancies between the carrying amounts of assets and their fair market values, then an investor company shall offset all unamortized differences when conditions making such over- or under-valuation are no longer present. When the investment cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. Goodwill shall not be amortized and shall be evaluated on each balance sheet date where there is any indication that goodwill may be impaired. If any such indication exists, the Company estimates the impairment loss on goodwill. When the fair value of identifiable net assets acquired exceeds the cost, the difference should be assigned to non-current assets acquired (except for financial assets not under equity method, assets to be disposed of, deferred tax assets, or prepaid pension or other retirement benefits cost) proportionate to their respective fair values. If these assets are all reduced to zero value, the remaining excess should be recognized as extraordinary gain.

When a long-term investment under the equity method is sold, the cost in excess of the selling price on the disposal date is recognized as gain (loss) on disposal of long-term equity investment. If there is any capital reserve arising from a long-term equity investment, capital reserve is recognized as current income (loss) by the percentage sold.

The shares of the Company held by a subsidiary should be calculated in compliance with Statement of Financial Accounting Standards No. 30, “Accounting for Treasury Stock”. Unrealized gains or losses from transactions between subsidiaries should be deferred. Deferred gains or losses derived from transactions involving depreciable or amortizable assets are amortized over their useful lives; others should be recognized in the current year.

12) Other financial assets**1. Separate account – insurance instruments**

Fubon Life Assurance is engaged in selling investment-type insurance commodities. The payment of premiums (net of administrative expenses) is recorded in a separate account which should only be used in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. According to accounting practices in the insurance industry, the assets, liabilities, revenue and expenses are recorded as “separate account – insurance instrument assets”, “separate account – insurance instrument liabilities”, “separate account – type insurance instrument revenue” and “separate account – insurance instrument expenses”, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Futures trading margins

Futures trading margins include trading margins deposited by customers and the gain (loss) generated from unsettled futures contracts based on daily market values.

13) Investments in real estate

Investments in real estate are recorded at cost when acquired; however, if a decline in the investment's value is considered other than temporary, the investment is written down to reflect such a decline, and the resulting loss is recognized in the years when such decline occurs. The cost of an investment in real estate, its corresponding revaluation surplus, and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from disposal of an investment in real estate is recognized as an operating gain or loss currently.

14) Fixed assets

Property, equipment and leasehold assets are stated at cost, and major purchases, renewals and improvements are capitalized. Repairs and maintenance are expensed as incurred. Depreciation of fixed assets other than land is calculated on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the leases or useful lives of such improvements.

The following are the estimated useful lives for depreciation and amortization of fixed assets:

| | |
|------------------------------------|---------------|
| Transportation equipment | 3 to 10 years |
| Furniture, fixtures, and equipment | 3 to 15 years |
| Other facilities | 3 to 20 years |
| Leasehold improvements | 3 to 5 years |
| Buildings | 3 to 60 years |

Gains or losses on the disposal of fixed assets are recorded as non-operating income or losses.

15) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

The Company reverses an impairment loss recognized in prior years for assets other than goodwill if there is any indication that the impairment loss previously recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior years.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

16) Goodwill and intangible assets

1. Goodwill

The net assets of an acquired company are recorded at cost. The excess of acquisition costs over the fair value of tangible and identifiable intangible assets less the liabilities is recorded as goodwill. Goodwill previously was amortized by the straight-line method over 5~15 years. If there is any indication of impairment, the impairment loss on goodwill is recognized on the balance sheet date.

Commencing from January 1, 2006, the Company adopted amended SFAS No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”. In accordance with SFAS No. 1, the Company discontinued amortizing goodwill and evaluate impairment on such goodwill regularly.

2. Intangible assets

Commencing from January 1, 2007, the Company adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, intangible assets are recorded at cost except for donation from the government, which is measured at fair value. Subsequent to their initial recognition, the book values are the cost and their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight-line method. The Company should reevaluate the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate. Major intangible assets are as follows:

- (a) Operating rights are recorded at cost and amortized on a straight-line basis over 10 years.
- (b) Costs of computer software are capitalized and amortized on a straight-line basis over three to five years.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

17) Other assets

1. Lease assets

Lease assets are stated at the lesser of fair value and the present value of lease payments (less the contract amount offered by lesser), or bargain purchase price, or guaranteed salvage value. If a lessee has the ownership of the property by the end of the lease term or a bargain purchase option, leased properties shall be amortized by the straight-line method over the estimated economic lives or the lease years.

2. Deferred charges

Costs of telephone installation are capitalized and amortized on a straight-line basis over three years. In addition, costs of issuing bonds are recognized as deferred charges and amortized over the redemption years.

3. Collateral assumed

Costs of collateral assumed include the purchase price and other necessary expenses. Collateral assumed is stated at the lower of cost or net realizable value as of the balance sheet date.

4. Nonperforming loans

Under “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans” (the “Regulations”) issued by the Ministry of Finance, the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is overdue and shall be authorized by a resolution passed by the board of directors.

Non-performing loans reclassified from loans are recognized as discounts and loans; otherwise, are recognized as other financial assets.

Overdue loans which are outstanding for six months or more are transferred to nonperforming loans. When the principal amount and related accrued interest of these overdue loans are transferred to nonperforming loans, accrual of interest income thereon is discontinued internally.

Overdue receivables are transferred from receivables from pecuniary finance when the Company evaluates the influence on the pecuniary finance customer’s settling possibility from listed companies being involved in a financial crisis and suspended from trading.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. Statutory deposits

In accordance with the ROC Insurance Law, the Company deposits with the Central Bank of China an amount equal to 15% of its issued capital as guarantee for its insurance business. The Company made these deposits in the form of government bonds and financial bills, and such deposits were approved by the Ministry of Finance.

Investments in bonds and other financial assets were placed with courts of justice as part of the requirements for pursuing various collection cases to recover overdue loans, the National Credit Card Center to secure the Bank's potential obligations on credit card activities, and the Central Bank of China to secure the Bank's potential obligations on its trust activities. Negotiable certificates of deposits were provided as collateral for day-term overdraft, a requirement for joining the Central Bank of China's clearing system for real-time gross settlement (RTGS).

As stipulated in the RGASF and the Regulations for Securities Brokers Undertaking Pecuniary and Securities Financing, the Company provided time deposits as operating deposits. As stipulated in the RGASF and OTC regulations, the Company deposited in the Taiwan Stock Exchange Corporation and the Over-the-counter Securities Exchange.

18) Financial liabilities

In accordance with SAFS No. 34 "Financial Instruments: Recognition and Measurement", which is effective from January 1, 2006, financial liabilities are classified into financial liabilities measured at fair value through profit and loss.

Financial liabilities for trading purposes are designated as financial liabilities for trading purposes at the time of initial recognition. The following shall be classified as financial liabilities for trading purposes:

1. Liabilities acquired primarily for the purpose of repurchase in the near term.
2. Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
3. Derivative financial liabilities.
4. Pecuniary and securities financing and refinancing

Securities dealers shall recognize securities financing as liabilities and classify these securities as for hedging or non-hedging purposes. The amount used to purchase borrowed stocks or bonds is credited to the financial liabilities account.

Financial liabilities at fair value through profit or loss should be measured at fair value, and any changes in their fair value should be charged to current earnings or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

If liabilities are designated as financial liabilities at fair value through profit or loss at the time of initial recognition, those liabilities shall not be reclassified to other categories of financial instruments. On the other hand, if financial instruments are not designated as financial liabilities at fair value through profit or loss, those liabilities shall not be reclassified to this category.

19) Payable

1. Reinsurance due to/due from other insurance companies

Based on the criteria for reinsurance ceding and ceded, inward reinsurance premiums, outward reinsurance premiums, accrued reinsurance claims payable, and reinsurance recovery receivable are calculated according to the individual agreement entered into with other insurance companies, and are recorded monthly.

2. Payables to customers

Payables to customers presented under current liabilities correspond to futures trading margins. The account will be recorded as futures trading margins receivable when it becomes a debit balance.

20) Reserve for operations

In accordance with the regulations of the respective authorities, reserve for operations includes provisions for guarantees and losses on breach of contract, etc., and such provisions should be recognized by the banking, insurance and securities industries.

21) Pension plan

The Company's domestic subsidiaries maintain and fund a retirement plan covering all regular employees. Payments of pension benefits are calculated based on the employees' average monthly salary for the last years prior to approved retirement and base point (b.p.) entitlement. The b.p. earned by each employee is based on 2 b.p. for the first 15 years of services and 1 b.p. from the 16th year and thereafter. Under the retirement plan, the pension benefits obligation will be fully compensated by the Company's domestic subsidiaries.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

The Labor Pension Act of the R.O.C. (“the Act”), effective from July 1, 2005, adopts a defined contribution pension plan. In accordance with the Act, employees of the Company’s domestic subsidiaries (who were hired before July 1, 2005) may elect to be subject to either the Act and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company’s domestic subsidiaries after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the Company’s domestic subsidiaries are required to make monthly cash contributions to the employees’ individual pension accounts at a rate not less than 6% of the employees’ monthly wages and deposit the contribution in a personal retirement benefit account.

Under SFAS No. 18 “Accounting for Pensions”, an actuarial valuation of a pension asset or liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets. Pension cost recognized in accordance with SFAS No. 18 includes the current service cost, net transition asset or obligation, prior service cost, and unrecognized gain (loss) on the pension plan, which is amortized on a straight-line basis over the expected average remaining service years of the employees.

Pursuant to the Act, the Company’s domestic subsidiaries also make monthly cash contribution at the rate of 6% of gross salary of each employee to the Bank of Taiwan. This contribution is recognized as pension expenses for the current year when the contribution is actually made. The pension expenses for foreign subsidiaries will be contributed based on the regulation of local government.

22) Revenue recognition

Interest income from the Company’s banking loans is accrued on unpaid principal balances in accordance with the terms of the loan. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until it is collected.

Service fees are recognized as income upon receipt and substantial completion of activities involved in the earnings process. Dividend revenues of equity securities are recognized on the ex-dividend date of subsidiaries or the date of the stockholders’ meeting.

For Fubon Insurance, the direct written premiums are recognized when the policy becomes effective, and the policy-related expenses are recognized as incurred. Reinsurance premiums assumed and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized when notified to make claim payments. At the end of each quarter, adjustments are made based on past experience.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expense of margin loans, securities financing and refinancing, and bonds purchased under agreements to resell and sold under agreements to repurchase are recognized during the transaction period on an accrued basis.

23) Income tax

Income tax expense is estimated based on accounting income. Deferred income tax is determined based on the differences between accounting income and taxable income, using statutory tax rates in effect during the years in which the differences are expected to reverse. The income tax effects due to temporary differences are recognized as deferred income tax assets or liabilities. The income tax effects of temporary differences arising from future tax-deductible items, unused loss carryforwards, and unused income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly. Deferred income tax assets and liabilities are classified as current or non-current based on the classification of the related assets and liabilities. If there are no related assets or liabilities, deferred tax assets and liabilities are classified based on the expected year of realization.

Interest income from short-term bills has been taxed separately and recorded as tax expenses. The adjustment of prior year's income tax was included in the current income tax.

In accordance with the "Income Basic Tax Act", the difference between regular income tax and basic tax should be recognized as current income tax expense.

The 10% surtax on undistributed earnings, computed according to the ROC Income Tax Act, is charged to current income tax expense in the year when the stockholders decide not to distribute the earnings.

In accordance with the Financial Holding Company Act, Article 49, the Consolidated Company has adopted Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return starting 2002 and to pay the 10% surtax on undistributed earnings. When preparing its financial statements, the Consolidated Company accounted for its income tax in conformity with SFAS No. 22, "Income Taxes". However, the Consolidated Company also adjusted the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with Fubon Financial Holding as the taxpayer. The adjustments resulting from using Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return are recorded under receivable from (payable to) related parties.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

24) Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted-average number of shares outstanding in each year. The effect of any increase in outstanding shares due to the issuance of stock dividends from retained earnings or capital surplus is retroactively adjusted upon approval of the Ministry of Economic Affairs (MOEA).

(3) Reasons for and Effects of Accounting Changes

The Company and its subsidiaries, starting from January 1, 2006, adopted Republic of China Statement of Financial Accounting Standards (SFAS) No. 34 “Financial Instruments: Recognition and Measurement” and No. 36 “Financial Instruments: Disclosure and Presentation”, and amended SFAS No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements” and amended SFAS No. 5 “Long-term Investments under Equity Method”. In accordance with SFAS No. 34, the beginning balances of financial assets and liabilities should be reclassified and re-measured at fair value or amortized cost. The adoption of SFAS No. 34 also resulted in revaluation differences, which were accounted for as cumulative effect of changes in accounting principle and adjustment to shareholders’ equity for the year ended December 31, 2006, amounting to \$663,881 and \$3,376,374, respectively.

In accordance with SFAS No. 5, if the investment cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. An acquiring corporation should not amortize the goodwill after January 1, 2006. This accounting change increased net income before tax and earnings per share for the year ended December 31, 2006, by \$162,282 and NT\$0.02 dollar, respectively.

The Accounting Research and Development Foundation announced interpretation letter regarding to “Share-based Payment”, under which employee bonuses and remuneration to directors and supervisors should be recognized as expense instead of earnings allocation items. The adoption of this interpretation letter will begin on January 1, 2008.

(4) Cash and Cash Equivalents

| | December 31, 2007 | December 31, 2006 |
|-------------------------------|------------------------------|------------------------------|
| Cash on hand and petty cash | \$ 7,740,514 | 8,094,367 |
| Bank deposits | 4,005,832 | 4,539,803 |
| Cash equivalents | 5,203,771 | 2,805,408 |
| Notes and checks for clearing | 2,022,504 | 8,905,334 |
| Due from banks | 34,531,159 | 35,029,704 |
| Less: Guarantee deposits | <u>(71,603)</u> | <u>(30,870)</u> |
| Total | \$ <u>53,432,177</u> | <u>59,343,746</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The guarantee deposits are time deposits provided as pledged assets. Please refer to note 35 for details.

(5) Due from Central Bank and Call Loans to Banks

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Due from Central Bank | \$ 27,035 | 63,483 |
| Call loans to banks | 70,767,937 | 49,890,202 |
| Deposit reserves for checking and settlement accounts | 3,923,646 | 8,324,799 |
| Deposit reserves | 19,405,206 | 18,800,599 |
| Deposit reserves for foreign currency account | 5,692,821 | 104,480 |
| Due from Central Bank – certificate of deposits | 107,750,000 | 167,740,000 |
| Other | <u>600,274</u> | <u>608,982</u> |
| Total | <u>\$ 208,166,919</u> | <u>245,532,545</u> |

The deposit reserves are determined monthly at prescribed rates based on the average balances of customers' deposits. The required deposit reserves are subject to withdrawal restrictions, but other reserves (checking, settlement accounts and foreign-currency deposit) can be withdrawn anytime.

(6) Financial Assets Measured at Fair Value through Profit or Loss

| | December 31, 2007 | December 31, 2006 (restated) |
|--|------------------------------|---|
| Financial assets held for trading: | | |
| Government bonds | \$ 270,735 | 9,976,651 |
| Commercial paper | 6,630,798 | 3,820,571 |
| Listed and OTC stocks and beneficiary certificates | 5,824,616 | 8,650,706 |
| Treasury bonds | 982,621 | 198,278 |
| Convertible bonds | 2,157,330 | 2,643,318 |
| Corporate and financial bonds | 4,141,813 | 4,624,768 |
| Negotiable certificates of deposit | 1,997 | - |
| Stock warrant | 13,178 | - |
| Trading securities | <u>21,766,613</u> | <u>22,729,951</u> |
| Subtotal | <u>41,789,701</u> | <u>52,644,243</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2007 | December 31, 2006 (restated) |
|---|------------------------------|---|
| Derivative financial instruments: | | |
| Interest rate swap contracts | \$ 4,998,286 | 4,014,374 |
| Foreign exchange forward contracts | 3,272,775 | 1,384,688 |
| Call option contracts | 1,031,370 | 212,279 |
| Foreign exchange swap contracts | 1,845,588 | 664,895 |
| Options of asset swaps | 20,309 | 117,881 |
| Cross-currency swap contracts | 71,730 | 144,316 |
| Equity option contracts | 729,246 | 68,824 |
| Other | <u>24,300</u> | <u>17,459</u> |
| Subtotal | <u>11,993,604</u> | <u>6,624,716</u> |
| Financial assets designated at fair value through profit or loss: | | |
| Financial bonds | 1,603,998 | 1,500,959 |
| Corporate bonds | - | 1,035,028 |
| Convertible bond asset swaps contract | <u>880,791</u> | <u>1,646,184</u> |
| Subtotal | <u>2,484,789</u> | <u>4,182,171</u> |
| Add: unrealized exchange gain | <u>300</u> | <u>-</u> |
| Total | \$ <u>56,268,394</u> | <u>63,451,130</u> |

Taipei Fubon Bank trades derivatives to meet clients' needs and to make payments in different currencies.

Part of interest rate swaps are engaged in reducing the market risk and credit risk, and are designated as trading purpose. Accordingly, their underlying financial assets are also designated as financial assets measured at fair value through profit or loss.

For details of pledged financial assets designated at fair value through profit or loss, please refer to note 35.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Bonds and Bills Purchased under Resell Agreements and Sold under Repurchase Agreements

As of December 31, 2007 and 2006, the summary of bonds and bills purchased under resell agreements and bonds and bills sold under repurchase agreements were as follows:

| | December 31, 2007 | | |
|---|---|--|------------------------------|
| | Margin lending (borrowed) amount | Period to repurchase (resell) | Interest rate (%) |
| Bonds and bills purchased under resell agreements | \$ <u>10,872,316</u> | 2008.01.02~ 2008.01.28 | 1.80~2.00 |
| Bonds and bills sold under repurchase agreements | \$ <u>(69,043,762)</u> | 2008.01.02~ 2008.04.02 | 1.53~2.15 |

| | December 31, 2006 | | |
|---|---|--|------------------------------|
| | Margin lending (borrowed) amount | Period to repurchase (resell) | Interest rate (%) |
| Bonds and bills purchased under resell agreements | \$ <u>7,252,638</u> | 2007.01.03~ 2007.01.25 | 1.615~1.700 |
| Bonds and bills sold under repurchase agreements | \$ <u>(71,479,640)</u> | 2007.01.02~ 2007.06.29 | 0.80~4.870 |

(8) Receivable, Net

| | December 31, 2007 | December 31, 2006 (restated) |
|--|------------------------------|---|
| Credit card fees receivable | \$ 29,398,868 | 34,671,255 |
| Accounts receivable, notes receivable and acceptance | 12,672,851 | 13,590,540 |
| Factoring receivable | 24,005,000 | 9,520,046 |
| Tax refund receivable | 1,270,474 | 2,922,031 |
| Interest receivable | 6,423,505 | 6,168,669 |
| Revenues receivable | 2,826,725 | 3,081,540 |
| Premiums receivable | 3,781,104 | 3,137,199 |
| Reinsurance recoverable | 758,571 | 815,298 |
| Due from other insurers | 446,783 | 873,734 |
| Margin loan receivable | 26,224,724 | 22,320,382 |
| Others | <u>4,046,204</u> | <u>4,344,559</u> |
| Subtotal | 111,854,809 | 101,445,253 |
| Less: allowance for doubtful accounts | <u>1,159,796</u> | <u>993,139</u> |
| Total | \$ <u>110,695,013</u> | <u>100,452,114</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Loans

1)

| | December 31, 2007 | December 31, 2006 |
|---------------------------------------|------------------------------|---------------------------|
| Discounts and overdrafts | \$ 6,629,366 | 7,116,791 |
| Short-term advances | 944,281 | 809,461 |
| Short-term loans | 130,857,002 | 135,650,848 |
| Short-term secured loans | 40,159,354 | 43,688,080 |
| Medium-term loans | 164,612,215 | 132,218,691 |
| Medium-term secured loans | 102,392,193 | 82,555,633 |
| Long-term loans | 58,795,869 | 55,757,024 |
| Long-term secured loans | 291,183,010 | 262,147,246 |
| Insurance policy loans | 6,473,976 | 5,321,118 |
| Letters of credit | 3,185,904 | 3,239,142 |
| Nonperforming loans | <u>8,463,660</u> | <u>11,978,188</u> |
| Subtotal | 813,696,830 | 740,482,222 |
| Less: allowance for doubtful accounts | <u>5,980,101</u> | <u>8,377,812</u> |
| Total | <u>\$ 807,716,729</u> | <u>732,104,410</u> |

2) The movements in allowance for doubtful accounts, including allowance for notes and accounts receivable and allowance for loans, for domestic banking subsidiaries for the years ended December 31, 2007 and 2006, were summarized as follows:

| | For allowance on accounts receivable | For allowance on other financial assets | 2007 For allowance on overall loan portfolio (excluding particular loans) | For allowance on particular loans | Total |
|--|---|---|---|---|-------------------------|
| Balance at January 1, 2007 | \$ 1,110,353 | 378,487 | 2,073,870 | 4,930,777 | 8,493,487 |
| Provision for (reversal of) doubtful accounts | 258,592 | 3,536,418 | (150,657) | 6,658,427 | 10,302,780 |
| Write-off | (377,045) | (4,029,334) | - | (8,935,199) | (13,341,578) |
| Recovery of doubtful accounts | 3,908 | 427,543 | - | 732,357 | 1,163,808 |
| Effects of exchange rate changes | 1,472 | - | - | (1,538) | (66) |
| Balance at December 31, 2007 | <u>\$ 997,280</u> | <u>313,114</u> | <u>1,923,213</u> | <u>3,384,824</u> | <u>6,618,431</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | For allowance on accounts receivable | For allowance on other financial assets | 2006 For allowance on overall loan portfolio (excluding particular loans) | For allowance on particular loans | Total |
|--|---|---|---|---|------------------|
| Balance at January 1, 2006 | \$ 1,027,210 | 1,033,185 | 195,357 | 9,463,050 | 11,718,802 |
| Provision for (reversal of) doubtful accounts | 86,089 | 7,245,811 | 1,878,513 | 5,823,632 | 15,034,045 |
| Write-off | (1,294) | (8,301,868) | - | (10,794,066) | (19,097,228) |
| Recovery of doubtful accounts | - | 401,359 | - | 438,610 | 839,969 |
| Effects of exchange rate changes | (1,652) | - | - | (449) | (2,101) |
| Balance at December 31, 2006 | \$ <u>1,110,353</u> | <u>378,487</u> | <u>2,073,870</u> | <u>4,930,777</u> | <u>8,493,487</u> |

(10) Available-for-sale Financial Assets

| | December 31, 2007 | December 31, 2006 |
|--|-----------------------|----------------------|
| Negotiable certificates of deposit | \$ 2,775,756 | 6,638,706 |
| Government bonds | 113,510,016 | 87,332,160 |
| Corporate and financial bonds | 79,187,449 | 88,155,783 |
| Listed and OTC stocks | 50,921,328 | 42,814,142 |
| Beneficiary certificates | 14,631,648 | 18,721,436 |
| Securitization of beneficiary certificates | 2,853,021 | 2,537,180 |
| Commercial paper | 3,361,304 | 651,202 |
| Treasury bonds | 658,211 | - |
| Subtotal | 267,898,733 | 246,850,609 |
| Add: unrealized exchange gain | 37,125 | 55,996 |
| Less: guarantee deposits | 2,203,323 | 3,916,690 |
| Accumulated impairment | 853,816 | - |
| Total | \$ <u>264,878,719</u> | <u>242,989,915</u> |

For details of pledged assets, please refer to note 35

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Held-to-maturity Financial Asset

| | December 31, 2007 | December 31, 2006 |
|-------------------------------------|----------------------|----------------------|
| Corporate bonds | \$ 1,490,796 | 499,439 |
| Financial bonds | 4,256,190 | 4,258,986 |
| Security documents | 727,812 | - |
| Commercial paper | - | 49,794 |
| Negotiable certificates of deposits | 97,452 | - |
| Subtotal | 6,572,250 | 4,808,219 |
| Less: accumulated impairment | 688,832 | - |
| Total | <u>\$ 5,883,418</u> | <u>4,808,219</u> |

(12) Investments under Equity Method

1)

| | December 31, 2007 | | December 31, 2006 (restated) | |
|--|-------------------|--------|---------------------------------|--------|
| | Amount | % | Amount | % |
| Fubon Venture Capital Co., Ltd. | \$ 86,457 | 45.00 | 132,849 | 40.00 |
| Fubon Brokers (Thailand) Co., Ltd. | (40) | 25.00 | 168 | 25.00 |
| Fubon Construction Management Co., Ltd. | 54,274 | 30.00 | 51,718 | 30.00 |
| Fubon Leasing Co., Ltd. | 395,719 | 100.00 | 449,379 | 100.00 |
| Fubon Insurance Agent Co., Ltd. | 7,027 | 100.00 | 8,421 | 100.00 |
| MetLife Fubon Limited (originally named Citi Fubon Life Assurance Company Hong Kong Limited) | - | - | 733,299 | 50.00 |
| Sinostar Venture Capital Co., Ltd. | 22,084 | 20.83 | 79,585 | 20.83 |
| Fu-Sheng Life Assurance Agent Co., Ltd. | 4,063 | 100.00 | 13,251 | 100.00 |
| Fu-Sheng General Insurance Agent Co., Ltd. | 2,836 | 100.00 | 3,709 | 100.00 |
| Shing Bon Venture Capital Co., Ltd. | - | - | 2,810 | 75.00 |
| Fu-Sheng Travel Service Co., Ltd. | 4,816 | 100.00 | 4,860 | 100.00 |
| Fuly Life Assurance Agent Co., Ltd. | 23,010 | 100.00 | 2,710 | 100.00 |
| Fuly General Insurance Agent Co., Ltd. | 7,106 | 100.00 | 3,117 | 100.00 |
| | <u>\$ 607,352</u> | | <u>1,485,876</u> | |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Sinostar Venture Capital Co., Ltd. and Fubon Bank Insurance Agent Co., Ltd. have applied to dissolve after stockholders' resolutions in 2006. In addition, Fubon Bills Finance Co., Ltd. merged with Taipei Fubon Bank on December 25, 2006.

The insurance subsidiary sold the shares of MetLife Fubon Limited in June 2007.

Fubon Venture Capital Co., Ltd. applied to dissolve after a stockholders' resolution with effective date of dissolution on May 18, 2007.

Shing Bon Venture Capital Co. Ltd. applied to dissolve after a stockholders' resolution on December 24, 2007.

- 2) For the years ended December 31, 2007 and 2006, the Consolidated Company's original investment costs and investment income (loss) from investments under the equity method were summarized as follows:

| | December 31, 2007 | |
|--|-------------------------------------|-------------------------------------|
| | Original investment cost | Investment (loss) income |
| Fubon Venture Capital Co., Ltd. | \$ 90,000 | (5,459) |
| Sinostar Venture Capital Co., Ltd. | - | - |
| Fubon Brokers (Thailand) Co., Ltd. | 412 | (268) |
| Fubon Construction Management Co., Ltd. | 30,000 | 4,137 |
| Fubon Leasing Co., Ltd. | 999,946 | (53,660) |
| Fubon Bank Insurance Agent Co., Ltd. | - | - |
| Fubon Insurance Agent Co., Ltd. | 2,013 | 2,956 |
| MetLife Fubon Limited (originally named Citi Fubon Life Assurance Company Hongkong Limited) | - | 12,000 |
| Fu-Sheng Life Assurance Agency Co., Ltd. | 3,000 | (354) |
| Fu-Sheng General Insurance Agency Co., Ltd. | 3,000 | (488) |
| Shing Bon Venture Capital Co., Ltd. | 3,000 | (118) |
| Fu-Sheng Travel Service Co., Ltd. | 6,000 | (44) |
| Fuly Life Assurance Agency Co., Ltd. | 3,000 | 20,300 |
| Fuly General Insurance Agency Co., Ltd. | 3,000 | 4,094 |
| FB Gemini Ltd. | - | (78,829) |
| Fubon Bills Finance Co., Ltd. | - | - |
| Total | \$ <u>1,143,371</u> | <u>(95,733)</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2006 (restated) | |
|--|-------------------------------------|-------------------------------------|
| | Original investment cost | Investment (loss) income |
| Fubon Venture Capital Co., Ltd. | \$ 80,000 | 23,956 |
| Sinostar Venture Capital Co., Ltd. | - | (7,738) |
| Fubon Brokers (Thailand) Co., Ltd. | 412 | (216) |
| Fubon Construction Management Co., Ltd. | 30,000 | 7,538 |
| Fubon Leasing Co., Ltd. | 999,946 | 2,132 |
| Fubon Bank Insurance Agent Co., Ltd. | - | 8,600 |
| Fubon Insurance Agent Co., Ltd. | 2,013 | 4,802 |
| MetLife Fubon Limited (originally named Citi Fubon Life Assurance Company Hongkong Limited) | 1,057,418 | 51,904 |
| Fu-Sheng Life Assurance Agent Co., Ltd. | 2,000 | 9,827 |
| Fu-Sheng General Insurance Agent Co., Ltd. | 2,000 | 428 |
| Shing Bon Venture Capital Co., Ltd. | 3,000 | (36) |
| Fu-Sheng Travel Service Co., Ltd. | 6,000 | (1,561) |
| Fuly Life Insurance Agency Co., Ltd. | 3,000 | (290) |
| Fuly General Assurance Agency Co., Ltd. | 3,000 | 117 |
| FB Gemini Ltd. | - | - |
| Fubon Bills Financial Co., Ltd. | - | <u>172,700</u> |
| Total | \$ <u>2,188,789</u> | <u>272,163</u> |

(13) Other Financial Assets

| | December 31, 2007 | December 31, 2006 (restated) |
|--|------------------------------|---|
| Financial assets carried at cost | \$ 7,775,179 | 9,488,642 |
| Hedging derivative financial assets | 275,678 | 370,611 |
| Separate account – insurance instrument assets | 66,574,073 | 47,953,139 |
| Futures trading margins | 4,740,674 | 4,115,309 |
| Bills purchased | 19,952 | 21,738 |
| Overdue receivable | 313,115 | 378,487 |
| Less: Allowance for bad debt of overdue receivable | (313,115) | (378,487) |
| Other | 86,491 | 32,874 |
| Total | \$ <u>79,472,047</u> | <u>61,982,313</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1) Financial assets carried at cost

| | December 31, 2007 | December 31, 2006 |
|-------------------------------|------------------------------|------------------------------|
| Investment in unlisted stocks | \$ <u>7,775,179</u> | <u>9,488,642</u> |

The unlisted stocks held by the Company are without an active market quoted price, so they are measured by the cost method.

2) For details of hedging derivative financial assets, please refer to note 25.

3) Separate account – insurance instruments

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Separate account – insurance instrument assets: | | |
| Receivables | \$ 1,269,507 | 2,466,206 |
| Securities | <u>65,304,566</u> | <u>45,486,933</u> |
| Total | \$ <u>66,574,073</u> | <u>47,953,139</u> |
| | 2007 | 2006 |
| Separate account – insurance instrument income: | | |
| Gross written premiums | \$ 36,051,187 | 13,994,165 |
| Reserve release for investment-type insurance policy | 14,589,976 | 6,675,115 |
| Interest income | 3,320,037 | 12,495 |
| Gain on investment | - | 3,508,448 |
| Exchange gain | <u>687,342</u> | <u>393,065</u> |
| Total | \$ <u>54,648,542</u> | <u>24,583,288</u> |
| | 2007 | 2006 |
| Separate account – insurance instrument expense: | | |
| Claim | \$ 18,011,472 | 6,870,448 |
| Provision for reserve of investment-type insurance policy | 33,210,910 | 17,527,675 |
| Investment loss | 3,184,232 | - |
| Administrative expense | <u>241,928</u> | <u>185,165</u> |
| Total | \$ <u>54,648,542</u> | <u>24,583,288</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Debt Investment in Non- active Market

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Corporate bonds – domestic | \$ 7,063,636 | 7,239,158 |
| Financial bonds – domestic | 21,050,348 | 25,019,448 |
| Corporate bonds – foreign | 26,095,993 | 26,444,871 |
| Financial bonds – foreign | 50,254,922 | 49,570,609 |
| Government bonds – foreign | 1,621,195 | 1,628,973 |
| Structured bonds – foreign | 12,034,993 | 11,140,590 |
| Preferred stock – domestic | 7,200,237 | 7,200,227 |
| Linked deposit | 19,470,880 | 20,473,050 |
| Security documents | 8,153,178 | 5,011,496 |
| Securitization of beneficiary certificates | 7,481,650 | 1,214,217 |
| Securitization of bonds | 502,685 | 2,214,764 |
| Zero-coupon bonds | - | 512,072 |
| Foreign securities | <u>432,232</u> | <u>66,915</u> |
| Subtotal | 161,361,949 | 157,736,390 |
| Less: unrealized exchange gain (loss) | (1,228,827) | (958,751) |
| Accumulated impairment | <u>(2,856,415)</u> | <u>-</u> |
| Total | <u>\$ 157,276,707</u> | <u>156,777,639</u> |

The losses on debt investment in non-active market, available-for-sale financial asset, held-to-maturity financial assets, etc., amounted to \$4,498,445 and \$96,127, in 2007 and 2006, respectively, recognized as impairment loss.

(15) Real Estate Investment

1)

| | December 31, 2007 | December 31, 2006 |
|------------------------------|------------------------------|------------------------------|
| Cost: | | |
| Land | \$ 9,014,935 | 7,182,429 |
| Revaluation surplus | 18,331 | 18,331 |
| Building | 5,004,420 | 4,150,128 |
| Construction payment | 9,931 | - |
| Prepayment for investment | <u>300</u> | <u>682</u> |
| Sub-total | 14,047,917 | 11,351,570 |
| Accumulated depreciation: | | |
| Building | 857,827 | 754,055 |
| Accumulated asset impairment | <u>151,941</u> | <u>116,191</u> |
| Real estate investment, net | <u>\$ 13,038,149</u> | <u>10,481,324</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) As of December 31, 2007, the Consolidated Company's rental income from real estate investment for the next five years is summarized as follows:

| Years | Amount |
|-------------------------------------|----------------------------|
| January 1, 2008 ~ December 31, 2008 | \$ 348,000 |
| January 1, 2009 ~ December 31, 2009 | 348,000 |
| January 1, 2010 ~ December 31, 2010 | 355,000 |
| January 1, 2011 ~ December 31, 2011 | 355,000 |
| January 1, 2012 ~ December 31, 2012 | <u>362,000</u> |
| | \$ <u>1,768,000</u> |

(16) Intangible Assets

| | December 31, 2007 | December 31, 2006 |
|------------------------|----------------------------|-------------------------|
| Goodwill | \$ 497,436 | 534,872 |
| Operating rights | 21,164 | 30,234 |
| Computer software | 801,483 | 812,791 |
| Deferred pension costs | <u>110,573</u> | <u>109,244</u> |
| | \$ <u>1,430,656</u> | <u>1,487,141</u> |

(17) Other Assets

| | December 31, 2007 | December 31, 2006 (restated) |
|----------------------------------|-----------------------------|------------------------------------|
| Guarantee deposits | \$ 4,315,930 | 6,589,736 |
| Prepaid pension cost | - | 138,674 |
| Foreclosed real estate | 1,014,283 | 743,553 |
| Deferred income tax assets – net | 785,080 | 1,113,297 |
| Settlement and clearing funds | 524,482 | 514,430 |
| Leased assets, net | 567,030 | 564,705 |
| Consolidated debit | 2,136,715 | 2,136,715 |
| Other | <u>3,054,399</u> | <u>2,567,404</u> |
| | \$ <u>12,397,919</u> | <u>14,368,514</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Financial Liabilities Measured at Fair Value through Profit or Loss

1)

| | December 31, 2007 | December 31, 2006 |
|------------------------------------|------------------------------|------------------------------|
| Financial liabilities for trading | | |
| Stock warrant liabilities | \$ 187,808 | 277,758 |
| Exchange fund bills and bond | 48,525 | 1,868,353 |
| Zero coupon bonds | <u>916,394</u> | <u>-</u> |
| | <u>1,152,727</u> | <u>2,146,111</u> |
| Derivative financial instruments | | |
| Interest rate swap contracts | 4,930,240 | 4,160,470 |
| Foreign exchange forward contracts | 2,276,235 | 1,617,425 |
| Put option contracts | 768,611 | 268,614 |
| Foreign exchange swap contracts | 1,847,063 | 4,411 |
| Cross-currency swap contracts | 362,785 | 678,339 |
| Asset swap options | 199,786 | 79,586 |
| Equity swap | 161,258 | 60,621 |
| Equity linked instruments | 558,401 | - |
| Other | <u>496,941</u> | <u>68,134</u> |
| | <u>11,601,320</u> | <u>6,937,600</u> |
| | \$ <u>12,754,047</u> | <u>9,083,711</u> |

2) Stock warrant liabilities

As of December 31, 2007 and 2006, stock warrant liabilities recorded by Fubon Securities in the accompanying consolidated balance sheets were listed as follows:

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2007 | | Conversion ratio | Market price (per unit) |
|-------------------------------------|-------------------------------------|---------------------|-------------------------------------|---------------------------------------|--|-----------------------------|--|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fubon F4 | Chi Mei Optoelectronics Corp. | 20,000 | 6,154 | 0.58 | 56.33 | 64.74 | 0.94 |
| Fubon F5 | Media Tek Inc. | 20,000 | 4,815 | 0.60 | 729.00 | 8.10 | 0.11 |
| Fubon F6 | High Tech Computer Corp. | 20,000 | 16,995 | 0.89 | 873.00 | 6.54 | 1.02 |
| Fubon F7 | Unimicron Technology Corp. | 20,000 | 19,089 | 1.17 | 70.95 | 8.09 | 1.26 |
| Fubon F8 | Innolux Display Corp. | 20,000 | 10,329 | 1.23 | 150.00 | 8.13 | 1.10 |
| Fubon F9 | MITAC International Corp. | 20,000 | 13,821 | 0.98 | 46.45 | 8.63 | 0.25 |
| Fubon G1 | ASUSTeK Computer Inc. | 20,000 | 12,110 | 1.41 | 120.90 | 11.43 | 1.60 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2007 | | Conversion ratio | Market price (per unit) |
|----------------------|---|--------------|--------------------------|------------------------|---------------------------|------------------|-------------------------|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fbuon G2 | Kinsus Interconnect Technology Corp. | 20,000 | 12,520 | 1.22 | 200.25 | 10.94 | 0.03 |
| Fubon G3 | Faraday Technology Corp. | 20,000 | 7,874 | 1.59 | 201.75 | 8.46 | 0.02 |
| Fubon G4 | King Yuan Electronics Co., Ltd. | 20,000 | 17,698 | 0.80 | 43.58 | 7.26 | 0.11 |
| Fubon G5 | Cheng Vei Precision Industry Co., Ltd. | 20,000 | 15,528 | 1.25 | 156.75 | 8.36 | 0.05 |
| Fubon G6 | Universal Scientific Industrial Co., Ltd. | 20,000 | 17,211 | 0.69 | 38.33 | 7.41 | 0.11 |
| Fubon G7 | Catcher Technology Co., Ltd. | 20,000 | 8,893 | 0.50 | 459.00 | 6.12 | 0.16 |
| Fubon G8 | Advanced Semiconductor Engineering Inc. | 20,000 | 17,650 | 0.91 | 65.10 | 9.54 | 0.08 |
| Fubon G9 | Sitronix Technology Co., Ltd. | 20,000 | 17,169 | 1.60 | 195.00 | 8.13 | 0.55 |
| Fubon H1 | United Microelectronics Corp. | 20,000 | 16,174 | 1.15 | 30.45 | 17.65 | 0.01 |
| Fubon H2 | Silitech Technology Corp. | 20,000 | 19,436 | 1.40 | 251.25 | 11.96 | 0.11 |
| Fubon H3 | Greatek Electronics Inc. | 20,000 | 18,950 | 1.10 | 85.50 | 10.36 | 0.11 |
| Fubon H4 | Ruentex Development Co., Ltd. | 20,000 | 16,919 | 0.69 | 43.73 | 8.45 | 0.15 |
| Fbuon H5 | Yageo Corp. | 20,000 | 17,599 | 0.91 | 24.00 | 8.79 | 0.02 |
| Fubon H6 | Opto Tech Corp. | 20,000 | 12,850 | 1.70 | 40.95 | 8.03 | 0.11 |
| Fubon H7 | Amtran Technology Co., Ltd. | 20,000 | 8,586 | 1.00 | 60.75 | 8.10 | 0.17 |
| Fubon H8 | Wistron Corp. | 20,000 | 19,069 | 1.06 | 92.10 | 11.58 | 0.33 |
| Fubon H9 | Gold Circuit Electronics Ltd. | 20,000 | 17,390 | 1.18 | 33.28 | 10.44 | 0.45 |
| Fubon J1 | Phoenix Precision Technology Corp. | 20,000 | 19,393 | 1.90 | 66.00 | 11.58 | 0.09 |
| Fbuon J2 | Sonix Technology Co., Ltd. | 20,000 | 14,462 | 1.39 | 154.50 | 7.41 | 0.07 |
| Fubon J3 | Asia Optical Co., Inc. | 20,000 | 15,697 | 1.72 | 237.00 | 9.19 | 0.07 |
| Fubon J4 | Nan Ya Printed Circuit Board Corp. | 20,000 | 12,101 | 2.20 | 302.25 | 9.16 | 1.25 |
| Fubon J5 | AU Optronics Corp. | 20,000 | 17,297 | 1.64 | 84.45 | 17.16 | 0.65 |
| Fubon J6 | Transcend Information, Inc. | 20,000 | 17,764 | 1.75 | 231.00 | 8.80 | 0.11 |
| Fubon J7 | Gemtek Technology Co., Ltd. | 20,000 | 15,574 | 2.13 | 126.15 | 7.90 | 0.12 |
| Fubon J8 | Ali Corp. | 20,000 | 10,929 | 1.34 | 148.95 | 7.41 | 0.03 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2007 | | Conversion ratio | Market price (per unit) |
|----------------------|--|--------------|--------------------------|------------------------|---------------------------|------------------|-------------------------|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fubon J9 | Foxconn Technology Co., Ltd. | 20,000 | 19,658 | 4.14 | 402.15 | 9.13 | 0.46 |
| Fubon K1 | Kinpo Electronics, Inc. | 20,000 | 17,920 | 1.15 | 17.10 | 12.61 | 0.08 |
| Fbuon K2 | Tatung Co. | 20,000 | 19,016 | 1.18 | 20.85 | 8.09 | 0.28 |
| Fubon K3 | Winbond Electronics Corp. | 20,000 | 16,760 | 0.80 | 18.45 | 7.69 | 0.10 |
| Fubon K4 | Forhouse Corp. | 20,000 | 18,795 | 2.74 | 64.13 | 7.80 | 0.10 |
| Fubon K5 | Wintek Corp. | 20,000 | 15,630 | 1.31 | 66.75 | 6.79 | 0.80 |
| Fubon K6 | Gigabyte Technology Co., Ltd. | 20,000 | 18,176 | 1.48 | 42.90 | 9.66 | 0.13 |
| Fubon K7 | Ritek Corp. | 20,000 | 13,108 | 1.60 | 17.93 | 7.47 | 0.23 |
| Fubon K8 | Inventec Corp. | 20,000 | 17,598 | 2.21 | 36.30 | 10.95 | 0.04 |
| Fubon K9 | Taiwan Semiconductor Manufacturing Co., Ltd. | 20,000 | 19,156 | 2.58 | 97.50 | 12.60 | 0.62 |
| Fubon L1 | Sunplus Technology Co., Ltd. | 20,000 | 17,655 | 1.05 | 123.60 | 7.85 | 0.08 |
| Fbuon L2 | Formosa Petrochemical Corp. | 20,000 | 17,779 | 1.15 | 136.80 | 15.86 | 0.86 |
| Fubon L3 | Taiwan Cement Corp. | 20,000 | 17,723 | 1.84 | 61.88 | 11.21 | 2.65 |
| Fubon L4 | Acer Incorporated | 20,000 | 15,611 | 1.45 | 96.30 | 8.86 | 1.01 |
| Fubon L5 | Chi Mei Optoelectronics Corp. | 20,000 | 9,246 | 2.60 | 53.63 | 13.75 | 6.90 |
| Fubon L6 | WPG Holdings Limited | 20,000 | 19,234 | 2.30 | 48.60 | 7.04 | 1.25 |
| Fubon L7 | Novatek Microelectronics Corp. | 20,000 | 16,280 | 2.20 | 223.50 | 6.77 | 0.71 |
| Fubon L8 | Compal Communications Inc. | 20,000 | 17,438 | 1.33 | 121.20 | 6.08 | 0.78 |
| Fubon L9 | Compal Electronics, Inc. | 20,000 | 17,314 | 2.16 | 51.23 | 15.81 | 1.20 |
| Fubon M1 | Lite-on Technology Corp. | 20,000 | 19,014 | 2.50 | 75.15 | 10.02 | 4.17 |
| Fubon M2 | D-link Corp. | 20,000 | 16,196 | 2.20 | 114.00 | 6.91 | 0.42 |
| Fubon M3 | Hon Hai Precision Ind. Co., Ltd. | 20,000 | 18,472 | 1.96 | 381.00 | 12.96 | 0.69 |
| Fubon M4 | Realtek Semiconductor Corp. | 20,000 | 19,759 | 2.07 | 192.75 | 6.21 | 1.14 |
| Fubon M5 | Epistar Corp. | 20,000 | 19,096 | 2.04 | 227.25 | 7.43 | 1.72 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2007 | | Conversion ratio | Market price (per unit) |
|----------------------|--------------------------------------|--------------|--------------------------|------------------------|---------------------------|------------------|-------------------------|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fubon M6 | Media Tek Inc. | 20,000 | 12,150 | 0.94 | 885.00 | 6.28 | 0.20 |
| Fubon M7 | Yuanta Financial Holding Co., Ltd. | 20,000 | 19,674 | 0.85 | 35.85 | 5.62 | 0.39 |
| Fubon M8 | Uni-President Corp. | 20,000 | 19,437 | 1.85 | 77.10 | 5.56 | 0.64 |
| Fubon M9 | Siliconware Precision Ind. Co., Ltd. | 20,000 | 19,479 | 0.88 | 101.25 | 7.67 | 0.55 |
| Fubon N1 | ASUSTek Computer Inc. | 20,000 | 17,432 | 1.03 | 149.70 | 9.69 | 0.49 |
| Fubon N2 | Everight Electronics Co., Ltd. | 20,000 | 19,865 | 2.11 | 214.50 | 6.78 | 0.97 |
| Fubon N3 | Nanya Technology Corp. | 20,000 | 19,459 | 0.95 | 30.45 | 10.68 | 0.33 |
| Fubon N4 | AU Optronics Corp. | 20,000 | 18,786 | 2.25 | 98.40 | 5.83 | 1.26 |
| Fubon N5 | High Tech Computer Corp. | 20,000 | 18,777 | 1.05 | 997.50 | 6.33 | 0.67 |
| Fubon N6 | United Microelectronics Corp. | 20,000 | 19,985 | 2.06 | 29.10 | 9.42 | 1.45 |
| Fubon N7 | Catcher Technology Co., Ltd. | 20,000 | 19,984 | 2.60 | 290.25 | 14.30 | 2.15 |
| Fubon N8 | Kinsus Interconnect Technology Corp. | 20,000 | 19,720 | 2.13 | 182.25 | 5.70 | 1.06 |
| Fubon N9 | Largan Precision Co., Ltd. | 20,000 | 19,969 | 0.80 | 622.50 | 5.19 | 0.84 |
| Fubon AA | Powertech Technology Inc. | 20,000 | 19,970 | 1.86 | 169.50 | 6.08 | 1.46 |
| Fubon AB | Micro-Star International Corp. | 20,000 | 20,000 | 0.78 | 43.05 | 7.36 | 0.87 |
| Fubon AC | Unimicron Technology Corp. | 20,000 | 20,000 | 1.62 | 90.00 | 7.41 | 1.66 |
| Fubon AD | Sonix Technology Co., Ltd. | 20,000 | 19,875 | 1.21 | 115.95 | 6.39 | 1.79 |
| Fbuon P8 | Coretronic Corp. | 20,000 | 17,642 | 1.06 | 78.30 | 9.85 | 0.19 |
| Fubon P9 | Chipbond Corp. | 20,000 | 12,275 | 1.09 | 62.47 | 7.64 | 0.05 |
| Fubon Q1 | Powerchip Semiconductor Corp. | 20,000 | 16,420 | 0.88 | 30.08 | 11.39 | 0.12 |
| Fubon Q3 | PixArt Imaging Inc. | 20,000 | 14,057 | 0.82 | 678.00 | 5.51 | 0.11 |
| Fbuon Q4 | A-DATA Technology Co., Ltd. | 20,000 | 18,364 | 2.05 | 208.50 | 6.78 | 0.09 |
| Fbuon Q5 | PixArt Imaging Inc. | 20,000 | 19,242 | 0.48 | 349.50 | 4.85 | 0.76 |
| Fbuon Q6 | Powerchip Semiconductor Corp. | 20,000 | 19,868 | 1.48 | 20.47 | 9.22 | 1.83 |
| Fbuon Q7 | Coretronic Corp. | 20,000 | 19,985 | 1.11 | 65.55 | 7.87 | 1.36 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2006 | | Conversion ratio | Market price (per unit) |
|----------------------|--|--------------|--------------------------|------------------------|---------------------------|------------------|-------------------------|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fubon A5 | Nanya Technology Group | 20,000 | 12,210 | 2.50 | 27.20 | 7.74 | 1.82 |
| Fubon A6 | Cheng Uei Precision Industry Co., Ltd. | 20,000 | 3,403 | 2.00 | 176.15 | 69.00 | 0.44 |
| Fubon A7 | Chi Mei Optoelectronics Corp. | 20,000 | 4,000 | 2.25 | 45.63 | 16.42 | 0.03 |
| Fubon A8 | Novatek Microelectronics Corp. | 20,000 | 13,710 | 1.90 | 205.08 | 93.95 | 0.68 |
| Fubon A9 | AU Optronics Corp. | 20,000 | 12,996 | 1.60 | 61.65 | 25.69 | 0.08 |
| Fubon B1 | Acer Inc. | 20,000 | 17,405 | 2.00 | 77.70 | 25.90 | 2.05 |
| Fubon B2 | Far Eastern Textile Co., Ltd. | 20,000 | 16,681 | 1.40 | 34.76 | 18.39 | 0.60 |
| Fubon B3 | Shin Kong Financial Holding Co., Ltd. | 20,000 | 13,650 | 1.85 | 45.29 | 18.14 | 0.25 |
| Fubon B4 | Siliconware Precision Ind. Co., Ltd. | 20,000 | 19,143 | 2.00 | 58.88 | 19.63 | 3.65 |
| Fubon B5 | Hon Hai Precision Ind. Co., Ltd. | 20,000 | 16,120 | 1.50 | 298.50 | 132.67 | 3.12 |
| Fubon B6 | Advanced Semiconductor Engineering Inc. | 20,000 | 19,220 | 2.20 | 47.33 | 14.34 | 1.25 |
| Fubon B7 | ASUSTek Computer Inc. | 30,000 | 17,750 | 1.02 | 120.15 | 78.53 | 0.95 |
| Fubon B8 | United Microelectronics Corp. | 20,000 | 9,902 | 1.40 | 28.80 | 13.71 | 0.67 |
| Fubon B9 | Ya Hsin Ind. Co., Ltd. | 20,000 | 5,786 | 1.70 | 38.33 | 15.03 | 1.70 |
| Fubon C1 | Media Tek Inc. | 20,000 | 16,624 | 2.40 | 454.50 | 126.25 | 4.06 |
| Fubon C2 | Walsin Technology Corp. | 20,000 | 16,741 | 1.50 | 37.88 | 16.83 | 3.15 |
| Fubon C3 | Compeq Manufacturing Co., Ltd. | 20,000 | 9,384 | 1.50 | 20.18 | 8.97 | 0.92 |
| Fubon C4 | Compal Communications Inc. | 20,000 | 8,391 | 2.00 | 199.50 | 66.50 | 0.20 |
| Fubon C5 | Mitac International Corp. | 20,000 | 16,022 | 2.30 | 48.45 | 14.04 | 2.28 |
| Fubon C6 | Unimicron Technology Corp. | 30,000 | 25,114 | 0.72 | 69.30 | 64.17 | 0.32 |
| Fubon C7 | Epistar Corp. | 20,000 | 7,450 | 1.55 | 153.00 | 65.81 | 0.50 |
| Fubon C8 | Taiwan Green Point Entertainment Co., Ltd. | 20,000 | 17,900 | 1.10 | 122.85 | 74.45 | 0.35 |
| Fubon C9 | Catcher Technology Co., Ltd. | 20,000 | 13,184 | 2.50 | 406.50 | 108.40 | 2.65 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Stock warrant issued | Underlying securities | Issued units | Issued units repurchased | December 31, 2006 | | Conversion ratio | Market price (per unit) |
|----------------------|--------------------------------------|--------------|--------------------------|------------------------|---------------------------|------------------|-------------------------|
| | | | | Issue price (per unit) | Exercise price (per unit) | | |
| Fubon D1 | Wistron Corp. | 20,000 | 17,866 | 2.60 | 57.30 | 14.69 | 4.70 |
| Fubon D2 | Kinsus Interconnect Technology Corp. | 20,000 | 10,864 | 1.20 | 145.80 | 81.00 | 0.36 |
| Fubon D3 | Media Tek Inc. | 20,000 | 15,584 | 2.60 | 489.75 | 125.58 | 2.09 |
| Fubon D4 | Realtek Semiconductor Corp | 30,000 | 17,500 | 0.60 | 73.13 | 81.25 | 0.70 |
| Fubon D5 | Micro-Star International Corp. | 20,000 | 17,075 | 1.22 | 32.25 | 17.62 | 1.68 |
| Fubon D6 | VIA Technologies Inc. | 20,000 | 15,397 | 1.95 | 37.13 | 12.69 | 12.80 |
| Fubon D7 | Inventec Corp. | 20,000 | 17,854 | 1.48 | 40.80 | 18.38 | 1.29 |
| Fubon P5 | Powerchip Semiconductor Corp. | 20,000 | 100 | 1.53 | 32.55 | 14.18 | 0.52 |
| Fubon P6 | Coretronic Corp. | 30,000 | 18,697 | 0.75 | 64.65 | 57.47 | 0.18 |
| Fubon P7 | ProMOS Technologies Inc. | 20,000 | 19,002 | 1.26 | 21.00 | 11.11 | 1.24 |

As of December 31, 2007 and 2006, the Company's net liabilities for stock warrants issued were as follows:

| | December 31, 2007 | December 31, 2006 |
|---|--------------------------|-----------------------|
| Liabilities for stock warrants issued | \$ 1,179,000 | 1,167,100 |
| Less: issued stock warrants repurchased | <u>991,192</u> | <u>889,342</u> |
| | <u>\$ 187,808</u> | <u>277,758</u> |

The stock warrant issued by the Consolidated Company is American-style warrant, and the durations of these stock warrants are from six months to one year starting from the first trading date. The warrants are settled by stock delivery or cash.

(19) Commercial Paper Payable

| | December 31, 2007 | December 31, 2006 |
|--|----------------------------|----------------------|
| Commercial paper payable | \$ 600,000 | - |
| Less: discount on commercial paper payable | <u>183</u> | <u>-</u> |
| | <u>\$ 599,817</u> | <u>-</u> |
| Interest rates | <u>2.428~2.518%</u> | <u>-</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In 2007, the commercial paper payables were guaranteed by International Bills Finance, Chinatrust Bills Finance and China Bills Finance.

For details of assets pledged for commercial paper, please refer to note 35.

(20) Deposits

| | December 31, 2007 | December 31, 2006 (restated) |
|------------------------------------|------------------------------|---|
| Checking accounts | \$ 57,278,424 | 65,998,606 |
| Demand deposits | 113,919,435 | 91,592,164 |
| Time deposits | 335,916,890 | 300,813,991 |
| Negotiable certificates of deposit | 6,770,479 | 6,980,271 |
| Savings accounts | 467,789,813 | 475,442,894 |
| Remittances | <u>976,830</u> | <u>190,722</u> |
| | \$ <u>982,651,871</u> | <u>941,018,648</u> |

(21) Bonds Payable

1) The bonds payable of the Company were as follows:

| | December 31, 2007 | December 31, 2006 |
|---------------------------|------------------------------|------------------------------|
| Unsecured corporate bonds | \$ 11,400,000 | 13,000,000 |
| Financial bonds | <u>55,679,902</u> | <u>83,982,854</u> |
| | \$ <u>67,079,902</u> | <u>96,982,854</u> |

2) The Company issued the first unsecured domestic corporate bonds, resolved by the board of directors on May 17, 2005, in order to repay the second unsecured Euro convertible bonds issued by the Company. Indicative terms and conditions for an issue were as follows:

1. Form / Denomination: Unsecured corporate bonds
2. Issue date: June 27~July 5, 2005; issued \$2,000,000 twice on June 27, 2005, and July 4, 2005, respectively.
3. Maturity date/duration: June 27~July 5, 2010; 5 years
4. Issue amount

The issued amount was \$4,000,000 divided equally into Bonds A01 to A04 and Bonds B01 to B04 according to the issue conditions and dates, and issued at 100% of par value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. Coupon rate

(a) Bonds A01 to A04:

1.93% per annum.

(b) Bonds B01 to B04:

1.9208% per annum.

6. Interest payment

(a) Bond A01 to A04:

The interests are paid annually at coupon rate calculated with nominal simple interest rate.

(b) Bond B:

The interests are paid semi-annually at coupon rate calculated with compound interest.

7. Principal payment: Five years after issue date

- 3) The Company issued the first unsecured domestic corporate bonds, resolved by the board of directors on April 25, 2007, in order to repay the first unsecured Euro convertible bonds issued by the Company. Indicative terms and conditions for an issue were as follows:

1. Form / Denomination: Unsecured corporate bonds

2. Issue date: July 5, 2007

3. Maturity date/duration: July 5, 2012; 5years

4. Issue amount

The total issue amount was \$7,000,000, with par value of \$10,000 each unit, and issued at 100% of par value.

5. Coupon rate

2.10% per annum.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

6. Interest payment

The interests are paid annually from the issue date at fixed coupon rate calculated with nominal simple interest rate.

7. Principal payment: Five years after issue date

4) Unsecured corporate bonds – Fubon Securities:

1. Issue amount

The issue amount was \$2,000,000 divided into Bonds A01 to A08 (\$1,600,000) and Bonds B01 to B02 (\$400,000), according to the issue date, and issued at par.

2. Coupon rate

(a) Bonds A01 to A08:

2% per annum. The interest is paid and calculated annually with nominal simple interest rate.

(b) Bonds B01 to B02:

If the floating rate is lower than 1.10%, the coupon rate is the floating rate plus 1.65%; if the floating rate is higher than 1.10%, the coupon rate is 5.10% minus the floating rate. The coupon rate is reset every three months after the issue date based on LOBOR.

3. Interest payment

(a) Bond A:

The interest is paid annually at coupon rate and calculated with simple interest.

(b) Bond B:

The interest is paid semi-annually at coupon rate and calculated with nominal simple interest rate.

4. Principal repayment

(a) Bond A:

The bonds with 3-year duration will be redeemed on maturity (March 2007).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Bond B:

The bonds with 5-year duration will be redeemed on maturity (March 2009).

5) Financial debentures payable

| December 31, 2007 | | | |
|--------------------------|--------------------------------|--|-----------------------------|
| | Maturity years | Interest rate | Amount |
| Taipei Fubon Bank | From April 2008 to March 2014 | Inverse floating rate, floating rate or fixed rate | \$ 38,760,256 |
| Fubon Bank (Hong Kong) | From May 2008 to November 2017 | Floating rate or fixed rate | 16,919,646 |
| | | | <u>\$ 55,679,902</u> |

| December 31, 2006 | | | |
|--------------------------|--------------------------------|--|-----------------------------|
| | Maturity years | Interest rate | Amount |
| Taipei Fubon Bank | From June 2007 to March 2014 | Inverse floating rate, floating rate or fixed rate | \$ 62,831,217 |
| Fubon Bank (Hong kong) | From May 2007 to November 2016 | Floating rate | 21,151,637 |
| | | | <u>\$ 83,982,854</u> |

(22) Other Borrowings

| | December 31, 2007 | December 31, 2006 |
|---------------------------|------------------------------|------------------------------|
| Credit and guarantee loan | <u>\$ 11,790,000</u> | <u>4,394,646</u> |

The annual interest rates ranged from 2.33% to 2.70% and 1.70% to 7.17% in 2007 and 2006, respectively.

For details of assets pledged for other borrowings, please refer to note 35.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(23) Reserves for Operations and Other Liabilities

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Reserve for securities default | \$ 223,662 | 217,526 |
| Reserve for trading loss | - | 125,473 |
| Reserve for bad debt | 32,142 | 32,142 |
| Unearned premium reserve | 10,016,403 | 9,686,828 |
| Special claim reserve | 10,286,554 | 8,800,790 |
| Claim reserve | 4,859,932 | 4,414,028 |
| Reserves for value added taxes on land | 9,263 | 9,263 |
| Assurance reserve | 235,927,491 | 220,709,862 |
| Guarantee reserve | <u>61,061</u> | <u>61,061</u> |
| | \$ <u>261,416,508</u> | <u>244,056,973</u> |

(24) Pension

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Benefit obligation: | | |
| Vested benefit obligation | \$ (781,578) | (626,979) |
| Non-vested benefit obligation | (2,330,060) | (1,770,488) |
| Accumulated benefit obligation | (3,111,638) | (2,397,467) |
| Additional benefits based on future salaries | <u>(743,815)</u> | <u>(619,481)</u> |
| Projected benefit obligation | (3,855,453) | (3,016,948) |
| Fair value of plan assets | <u>3,364,626</u> | <u>3,370,807</u> |
| Funding status | (490,827) | 353,859 |
| Unrecognized amortization of net transition obligation | 75,491 | 87,722 |
| Unrecognized prior year service cost | 33,426 | 35,776 |
| Unrealized pension net loss (benefit) | 648,722 | (207,873) |
| Additional minimum pension liability | <u>(302,508)</u> | <u>(130,810)</u> |
| Prepaid pension cost (accrued pension liabilities) | \$ <u>(35,696)</u> | <u>138,674</u> |

For the years ended December 31, 2007 and 2006, net pension costs of the Consolidated Company were as follows:

| | 2007 | 2006 |
|--|--------------------------|-----------------------|
| Service cost | \$ 180,950 | 193,925 |
| Interest cost | 92,685 | 100,356 |
| Expected return on pension plan assets | (103,262) | (103,324) |
| Amortization on deferred cost | <u>12,213</u> | <u>11,139</u> |
| Net pension cost | \$ <u>182,586</u> | <u>202,096</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pension expense recognized by the Consolidated Company for the years ended December 31, 2007 and 2006, totaled \$717,968 and \$649,388, respectively.

The actuarial assumptions are as follows:

| | 2007 | 2006 |
|--|---------------|---------------|
| Discount rate | 2.75% ~ 3.50% | 3.00% ~ 3.50% |
| Rate of increase in future compensation | 2.00% ~ 3.00% | 2.00% ~ 3.00% |
| Expected rate of return on pension plan assets | 2.75% ~ 3.50% | 3.00% ~ 3.50% |

(25) Other Financial Liabilities

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Separate account – insurance instrument liabilities | \$ 66,574,073 | 47,953,139 |
| Exchange fund bills and bonds | 25,275,717 | 25,967,939 |
| Hedging derivative financial liabilities | 1,125,188 | 2,206,836 |
| Appropriated loan funds | <u>1,251,525</u> | <u>1,322,922</u> |
| Total | <u>\$ 94,226,503</u> | <u>77,450,836</u> |

1) Separate account – insurance instrument liabilities

| | December 31, 2007 | December 31, 2006 |
|---------|------------------------------|------------------------------|
| Reserve | <u>\$ 66,574,073</u> | <u>47,953,139</u> |

For related revenue and expenses of separate account – insurance instrument, please refer to note 13.

2) Exchange fund bills and notes

Fubon Bank (Hong Kong) was appointed by the Hong Kong Monetary Authority as the eligible market-makers of exchange fund bills and notes, and other debt instruments in 2002.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Hedging financial liabilities, net

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Hedging derivative financial liabilities | \$ 1,125,188 | 2,206,836 |
| Hedging derivative financial assets | <u>275,678</u> | <u>370,611</u> |
| | \$ <u>849,510</u> | <u>1,836,225</u> |

1. Fubon Life Assurance

(a) Cash flow hedge

The future cash flow of the floating-rate assets or liabilities may fluctuate, which result from the changes of market interest rates. Accordingly, Fubon Life Assurance entered into interest rate swap contracts to hedge such interest rate risk.

| Hedged item | Designated hedging instrument | Nominal amount | Designated hedging instrument's fair value on December 31, 2007 | Expected period of cash flow | Expected period of recognition in profit or loss |
|--|--|---------------------------|--|---|---|
| Floating-rate corporate bonds, financial debenture and strip bonds | Interest rate swap contract | \$ 1,600,000 | 232 | 2008~2009 | 2008~2009 |

(b) As of December 31, 2007, Fubon Life Assurance had adjusted the shareholders' equity for the unrealized gain or loss resulting from the cash flow hedge. Details were as below:

| Item | 2007 | 2006 |
|---|---------------|-------------|
| Shareholders' equity adjusted amount | \$ <u>232</u> | <u>-</u> |
| Non-financial liabilities (deferred income tax liabilities) transferred from shareholders' equity | \$ <u>58</u> | <u>-</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Fubon Securities

(a) Cash flow hedge

The future cash flow of the floating-rate assets or liabilities may fluctuate, which result from the changes of market interest rates. Accordingly, Fubon Securities entered into interest rate swap contracts to hedge such interest rate risk.

| Hedged item | Designated hedging instrument | Nominal amount | Designated hedging instrument's fair value on December 31, 2007 | Expected period of cash flow | Expected period of recognition in profit or loss |
|-------------------------------|--------------------------------------|-----------------------|--|-------------------------------------|---|
| Floating-rate bond investment | Interest rate swap contract | \$ 400,000 | (5,814) | 2007~2009 | 2007~2009 |

| Hedged item | Designated hedging instrument | Nominal amount | Designated hedging instrument's fair value on December 31, 2006 | Expected period of cash flow | Expected period of recognition in profit or loss |
|-------------------------------|--------------------------------------|-----------------------|--|-------------------------------------|---|
| Floating-rate bond investment | Interest rate swap contract | \$ 400,000 | (15,674) | 2006~2009 | 2006~2009 |

(b) As of December 31, 2007, Fubon Securities had adjusted the shareholders' equity for the unrealized gain or loss resulting from the cash flow hedge. Details were as below:

| Item | 2007 | 2006 |
|--|-----------------|---------------|
| Amounts of current adjustment to equity | \$ <u>5,814</u> | <u>15,674</u> |
| Current income or loss (deferred income tax liabilities) transferred from shareholders' equity | \$ <u>7,600</u> | <u>4,637</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Taipei Fubon Bank

(a) Cash flow hedge

The future cash flow of the floating-rate assets or liabilities may fluctuate, which result from the changes of market interest rates. Accordingly, Taipei Fubon Bank entered into interest rate swap contracts to hedge such interest rate risk.

| Hedged item | Designated hedging instrument | Nominal amount | Designated hedging instrument's fair value on December 31, 2007 | Expected period of cash flow | Expected period of recognition in profit or loss |
|---------------------|-------------------------------|----------------|---|------------------------------|--|
| Financial debenture | Interest rate swap contract | \$ 19,600,000 | (318,744) | 2006~2013 | 2006~2013 |

| Hedged item | Designated hedging instrument | Nominal amount | Designated hedging instrument's fair value on December 31, 2006 | Expected period of cash flow | Expected period of recognition in profit or loss |
|---------------------|-------------------------------|----------------|---|------------------------------|--|
| Financial debenture | Interest rate swap contract | \$ 36,000,000 | (788,442) | 2006~2013 | 2006~2013 |

(d) As of December 31, 2007, Taipei Fubon Bank had adjusted the shareholders' equity for the unrealized gain or loss resulting from the cash flow hedge. Details were as below:

| Item | 2007 | 2006 |
|--|---------------------|---------------------|
| Shareholders' equity adjusted amount, beginning | \$ (528,900) | - |
| Current income or loss transferred from shareholders' equity | 1,668,843 | 75,369 |
| Increase in the shareholders' equity adjusted amount | (1,379,001) | (604,269) |
| Shareholders' equity adjusted amount, ending | \$ <u>(239,058)</u> | \$ <u>(528,900)</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Fair value hedge

Fixed-rate loans granted may be exposed to the risk of fluctuations in fair value because of changes in interest rates. Accordingly, Taipei Fubon Bank entered into interest rate swap contracts to hedge such interest rate risk.

| | | December 31, 2007 | |
|--|--------------------------------------|--------------------------|-------------------|
| Hedged item | Designated hedging instrument | Nominal amount | Fair value |
| Loan granted | Interest rate swap contract | \$ 383,491 | (5,582) |
| Financial bonds | Interest rate swap contract | 23,600,000 | (689,744) |
| Available-for-sale financial assets – corporate bond | Interest rate swap contract | 1,248,685 | (55,706) |

| | | December 31, 2006 | |
|--------------------|--------------------------------------|--------------------------|-------------------|
| Hedged item | Designated hedging instrument | Nominal amount | Fair value |
| Loan granted | Interest rate swap contract | \$ 3,500,000 | (11,107) |
| Financial bonds | Interest rate swap contract | 22,900,000 | (1,068,783) |

4. Fubon Bank (H.K.) – fair value hedge

Fixed-rate bond payables may be exposed to the risk of fluctuation in fair value because of changes in interest rates. Accordingly, Fubon Bank (H.K.) entered into interest rate swap contracts to hedge such interest rate risk.

| | | December 31, 2007 | |
|--------------------|--------------------------------------|--------------------------|-------------------|
| Hedged item | Designated hedging instrument | Nominal amount | Fair value |
| Bond payable | Interest rate swap contract | \$ 7,457,562 | 225,848 |

| | | December 31, 2006 | |
|--------------------|--------------------------------------|--------------------------|-------------------|
| Hedged item | Designated hedging instrument | Nominal amount | Fair value |
| Bond payable | Interest rate swap contract | \$ 1,956,448 | 47,781 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(26) Other Liabilities

| | December 31, 2007 | December 31, 2006 (restated) |
|-------------------------------------|------------------------------|---|
| Advance receipts | \$ 1,636,325 | 2,447,104 |
| Temporary receipts | 2,941,031 | 1,463,074 |
| Deferred revenues | 77,154 | 95,711 |
| Guarantee deposits received | 598,851 | 666,066 |
| Deferred credit account | 235,309 | 500,182 |
| Contingency reserve for reinsurance | 122,609 | 133,983 |
| Accrued pension cost | 35,696 | - |
| Others | <u>1,629,600</u> | <u>1,205,246</u> |
| | \$ <u>7,276,575</u> | <u>6,511,366</u> |

(27) Income Tax

The components of income tax expense for the years ended December 31, 2007 and 2006 were as follows:

| | 2007 | 2006 (restated) |
|--|----------------------------|----------------------------|
| Current income tax expense | \$ 3,079,693 | 2,660,052 |
| Deferred income tax benefit | (317,121) | (1,153,799) |
| The 10% surtax on undistributed earnings | <u>62,454</u> | <u>-</u> |
| Income tax expense | \$ <u>2,825,026</u> | <u>1,506,253</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company and its domestic subsidiaries are subject to a maximum income tax rate of 25%; and Fubon Bank (Hong Kong) is subject to an income tax rate of 17.5%. Effective January 1, 2006, the Company and its domestic subsidiaries adopted the "Income Basic Tax Act". The reconciliation of income tax calculated based on accounting income at the statutory rate and the income tax as reported in the accompanying financial statements for the years ended December 31, 2007 and 2006 were summarized as follows:

| | 2007 | 2006 (restated) |
|---|----------------------------|----------------------------|
| Income tax calculated based on accounting income | \$ 4,584,950 | 2,760,064 |
| Tax effect of adjustments: | | |
| Loss (gain) on investment under equity method | 23,933 | (68,041) |
| Tax-exempt investment revenue | (1,679,767) | (884,635) |
| Unrealized loss (gain) on evaluation of financial instruments | (193,943) | 30,271 |
| Unrealized loss (gain) on revaluation of stock warrants | (62,487) | 343,663 |
| Foreign income tax (OBU) | (385,455) | (392,222) |
| Tax-exempt dividend income | (872,417) | (855,952) |
| Prior year's tax adjustments | (163,421) | 207,467 |
| Effect of combined income tax declaration | 829,248 | 120,080 |
| Differences between regular income tax and basic income tax | 265,095 | 147,593 |
| 10% surtax on undistributed earnings | 62,454 | - |
| Non-deductible federal tax on overseas branches | 109,237 | 48,855 |
| Non-deductible expenses | 187,343 | 175,800 |
| Others | <u>120,256</u> | <u>(126,690)</u> |
| Income tax expenses | \$ <u>2,825,026</u> | <u>1,506,253</u> |

Deferred income tax expense (benefit) for the years ended December 31, 2007 and 2006, consisted of the following:

| | 2007 | 2006 (restated) |
|---|----------------------------|----------------------------|
| Allowance for bad debt in excess of tax-allowable limit | \$ 482,277 | 894,381 |
| Foreign investment gain under equity method | 194,378 | 128,157 |
| Unrealized gain (loss) from foreign exchange | (78,399) | 81,160 |
| Unrealized gain (loss) on evaluation of financial instruments | 213,788 | (194,421) |
| Increase in loss carry-forward | (264,533) | (2,038,365) |
| Deferred income tax benefit from pension expense | (16,058) | (20,725) |
| Provision for allowance of deferred income tax assets | 84,896 | 42,638 |
| Unrealized loss on asset impairment | (922,001) | (4,172) |
| Others | <u>(11,469)</u> | <u>(42,452)</u> |
| Deferred income tax expense (benefit) | \$ <u>(317,121)</u> | <u>(1,153,799)</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The deferred income tax assets (liabilities) were as follows:

| | December 31, 2007 | December 31, 2006 (restated) |
|--|------------------------------|---|
| Current: | | |
| Deferred income tax assets | \$ 188,633 | 308,159 |
| Valuation allowance for deferred income tax assets | <u>(78,070)</u> | <u>(275,196)</u> |
| Deferred income tax assets – net | 110,563 | 32,963 |
| Deferred income tax liabilities | <u>(113,959)</u> | <u>(101,664)</u> |
| Deferred income tax assets (liabilities) – current, net | <u>\$ (3,396)</u> | <u>(68,701)</u> |
| Non-current: | | |
| Deferred income tax assets | \$ 1,718,221 | 1,782,577 |
| Valuation allowance for deferred income tax assets | <u>(78,959)</u> | <u>(71,995)</u> |
| Deferred income tax assets – net | 1,639,262 | 1,710,582 |
| Deferred income tax liabilities | <u>(850,786)</u> | <u>(528,584)</u> |
| Deferred income tax assets – non-current, net | <u>\$ 788,476</u> | <u>1,181,998</u> |
| Deferred income tax assets, net | <u>\$ 785,080</u> | <u>1,113,297</u> |
| Total deferred tax assets | <u>\$ 1,906,854</u> | <u>2,090,736</u> |
| Total deferred tax liabilities | <u>\$ 964,745</u> | <u>630,248</u> |
| Total valuation allowance for deferred income tax assets | <u>\$ 157,029</u> | <u>347,191</u> |

Temporary differences of deferred income tax assets (liabilities), loss carry-forwards, and tax credit were as follows:

| | December 31, 2007 | December 31, 2006 (restated) |
|--|------------------------------|---|
| Deferred income tax assets: | | |
| Allowance for bad debts in excess of tax-allowable limit | \$ 97,838 | 580,621 |
| Loss on cash flow hedge derivatives | 161,263 | 190,975 |
| Unrealized loss on evaluation of financial instruments | 179,599 | 194,421 |
| Unrealized foreign exchange loss | 78,070 | 81,408 |
| Loss carry-forward | 249,062 | 800,429 |
| Reserve for default losses | 55,915 | 54,382 |
| Unrealized donation expense | 58,190 | 76,439 |
| Impairment loss | 980,915 | 36,894 |
| Others | <u>46,002</u> | <u>75,167</u> |
| | <u>\$ 1,906,854</u> | <u>2,090,736</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2007 | December 31, 2006 (restated) |
|---|------------------------------|---|
| Deferred income tax liabilities | | |
| Foreign investment income under equity method | \$ 474,945 | 280,567 |
| Unrealized foreign exchange gain | 11,741 | 11,800 |
| Unrealized gain on available-for-sale financial instruments | 43,866 | 89,864 |
| Unrealized gain on evaluation of financial instruments | 353,160 | - |
| Others | <u>81,033</u> | <u>110,465</u> |
| | \$ <u>964,745</u> | <u>492,696</u> |

In accordance with the ROC Income Tax Act, assessed net losses can be carried forward for five consecutive years to reduce taxable income. As of December 31, 2007, the amount of loss carry-forwards and the year of expiry were as follows:

| Year incurred | 2007 | Year of expiry |
|----------------------|-------------------|-----------------------|
| 2006 (declared) | \$ <u>996,348</u> | 2011 |

- 1) In accordance with the Financial Holding Company Act, Article 49, the companies appointed Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return commencing from 2002. For the years 2003, 2005, and 2006, the amounts of income tax receivable were \$115,682, \$274,664, \$880,128, respectively.
- 2) Under a consolidated corporate income tax filing, the income tax payable was \$28,992 and \$1,204,467 as of December 31, 2006 and 2005, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) The status of the local tax office' assessment of the income tax return of the Company and its subsidiaries was as follows:

| | Examined approve to | Disapproved issues |
|------------------------|--------------------------------|--|
| The Company | 2002 | - |
| Fubon Insurance | 2002 | The withholding taxes on accrued bond interest and amortization of bond premium and discount |
| Fubon Life Assurance | 2002 | The withholding taxes on accrued bond interest and amortization of bond premium and discount |
| Fubon Securities | 2002 | The tax issue on stock warrant and the withholding tax of accrued bond interest |
| Fubon Asset Management | 2002 | - |
| Taipei Fubon Bank | 2002 | - |
| Former Fubon Bank | 2002 | - |

- 4) Since 2002, the Company has filed a consolidated income tax return in accordance with the Financial Holding Company Act, Article 49. As of December 31, 2007 and 2006, the details of receivable and payable of subsidiaries resulting from consolidated income tax filing were as follows:

| | Estimate in 2007 | December 31, 2007 Taxes in previous years | Total |
|--|-----------------------------|--|------------------|
| Linked taxes receivable from subsidiary: | | | |
| Fubon Insurance | \$ 450,818 | - | 450,818 |
| Fubon Life Assurance | 313,751 | - | 313,751 |
| Fubon Securities | 701,904 | 1,400,000 | 2,101,904 |
| Taipei Fubon Bank | 109,739 | - | 109,739 |
| Fubon Asset Management | 69,567 | - | 69,567 |
| Fubon Direct Marketing | 18,788 | - | 18,788 |
| Fubon Asset Management Service | 28,940 | - | 28,940 |
| Fubon Investment Management | 626 | - | 626 |
| Fubon Financial Holding Venture | 193 | - | 193 |
| Capital | | | |
| Total | \$ <u>1,694,326</u> | <u>1,400,000</u> | <u>3,094,326</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Estimate in 2007 | Taxes in previous years | Total |
|---|---------------------|-------------------------------|------------------|
| Linked taxes payable to subsidiaries: | | | |
| Fubon Insurance | \$ - | 96,074 | 96,074 |
| Fubon Life Assurance | 126,089 | 410,883 | 536,972 |
| Fubon Bank | - | 131,864 | 131,864 |
| Fubon Securities | - | 183,859 | 183,859 |
| Taipei Fubon Bank | <u>973,592</u> | <u>866,378</u> | <u>1,839,970</u> |
| Total | <u>\$ 1,099,681</u> | <u>1,689,058</u> | <u>2,788,739</u> |
| | | December 31, 2006 | |
| | Estimate in 2006 | Taxes in previous years | Total |
| Linked taxes receivable from subsidiaries: | | | |
| Fubon Insurance | \$ 238,986 | - | 238,986 |
| Fubon Life Assurance | 172,525 | - | 172,525 |
| Fubon Securities | 858,606 | 950,000 | 1,808,606 |
| Fubon Asset Management | 32,724 | - | 32,724 |
| Fubon Direct Marketing | 1,124 | - | 1,124 |
| Fubon Asset Management Service | 27,252 | - | 27,252 |
| Fubon Investment Management | 294 | - | 294 |
| Fubon Financial Holding Venture Capital | 1,360 | - | 1,360 |
| Total | <u>\$ 1,332,871</u> | <u>950,000</u> | <u>2,282,871</u> |
| | Estimate in 2006 | Taxes in previous years | Total |
| Linked taxes payable to subsidiaries: | | | |
| Fubon Insurance | \$ - | 96,074 | 96,074 |
| Fubon Life Assurance | 226,693 | 410,883 | 637,576 |
| Fubon Bank | - | 131,864 | 131,864 |
| Fubon Securities | - | 183,859 | 183,859 |
| Taipei Fubon Bank | <u>1,961,093</u> | <u>19,349</u> | <u>1,980,442</u> |
| Total | <u>\$ 2,187,786</u> | <u>842,029</u> | <u>3,029,815</u> |

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The balances of the imputation credit account (ICA) as of December 31, 2007 and 2006, are summarized as follows:

| | December 31, 2007 | December 31, 2006 |
|-----------------------------------|------------------------------|------------------------------|
| Imputation credit account balance | \$ <u>69,420</u> | <u>97,480</u> |

The imputed tax credit for appropriating the net income for 2007 is 0.46% (expected) and for 2006 was 9.18% (actual), respectively.

| | December 31, 2007 | December 31, 2006 |
|-----------------------------------|------------------------------|------------------------------|
| Unappropriated retained earnings: | | |
| Earned prior to January 1, 1998 | \$ 46,459 | 46,459 |
| Earned after January 1, 1998 | <u>14,996,861</u> | <u>8,418,145</u> |
| Total | \$ <u>15,043,320</u> | <u>8,464,604</u> |

(28) Total Shareholders' Equity

1) Common stock

In accordance with Article 31 of the Financial Holding Company Act and Article 28-2 of the Securities and Exchange Law, the Company wrote off 170,232 thousand shares of the Company held by its subsidiaries deemed as treasury stock and wrote off 175,972 thousand shares of treasury stock. Thus, total written-off shares were 346,204 thousand shares, and common stock, capital surplus, and retained earnings were debited \$3,462,039, \$3,689,595 and \$2,725,354, respectively. The write-off application was approved by the authorities on March 31, 2006.

The authorized and paid-in capital as of December 31, 2007, amounted to \$120,000,000 and \$77,190,935, respectively.

2) Limits on distribution of capital surplus and retained earnings

1. Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once a year. In addition, the amount to be capitalized cannot exceed ten percent of the paid-in capital.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Details of capital surplus as of December 31, 2007 and 2006 were as follows:

| | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Additional paid-in capital for cash | \$ 15,258,148 | 15,258,148 |
| Additional paid-in capital from share exchange | 33,825,945 | 33,825,945 |
| Additional paid-in capital from equity investment by equity method | 7,318 | 5,910 |
| Asset revaluation surplus | <u>1,104</u> | <u>1,104</u> |
| | \$ <u>49,092,515</u> | <u>49,091,107</u> |

2. The details of additional paid-in capital from share exchange were as follows:

| Date | Description | December 31, 2007 | December 31, 2006 |
|-------------------|--|------------------------------|------------------------------|
| December 19, 2001 | Fubon Securities, Fubon Bank, and Fubon Life Assurance | \$ 42,040,134 | 42,040,134 |
| August 28, 2002 | Fubon Asset Management | (124,882) | (124,882) |
| December 23, 2002 | TaipeiBank | <u>3,384,059</u> | <u>3,384,059</u> |
| | Sub-total | <u>45,299,311</u> | <u>45,299,311</u> |
| | Cash dividend | (3,912,569) | (3,912,569) |
| | Employee bonus and remuneration to directors and supervisors | (46,600) | (46,600) |
| December 19, 2004 | Write-off of common stock held by Fubon Securities and Fubon Insurance | (2,982,647) | (2,982,647) |
| April 29, 2005 | Retirement of treasury stock | (313,789) | (313,789) |
| December 23, 2005 | Retirement of treasury stock | (2,287,988) | (2,287,988) |
| June 2006 | Cash dividend | <u>(1,929,773)</u> | <u>(1,929,773)</u> |
| | | <u>(11,473,366)</u> | <u>(11,473,366)</u> |
| | | \$ <u>33,825,945</u> | <u>33,825,945</u> |

The additional paid-in capital through exchange of shares was generated from the transfer of the shares of subsidiaries to the Company. In compliance with item 4 of Article 47 of the Financial Holding Company Law, the portion of additional paid-in capital from the share exchange which resulted from the original financial institution's unappropriated retained earnings can be distributed as cash dividends. As of December 31, 2007, the balance of such capital surplus was \$4,343.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Legal reserve

The ROC Company Act stipulates that the Company must retain 10% of its annual earnings, as defined in the Act, until the accumulated amount of such retention equals the amount of paid-in capital. This legal reserve shall be used exclusively to cover losses and shall not be distributed as cash dividends, but may be converted to share capital when it reaches an amount equal to at least 50% of paid-in capital. Such distribution may not exceed 50% of legal reserve.

4. Special reserve

According to the Company's articles of incorporation, in addition to legal reserve, the Company is also required provide a special reserve equal to the amount of any current year stockholders' equity contra account from the current year's earnings after tax or prior years' unappropriated earnings. If a reversal of stockholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

5. Distribution of earnings

According to the Company's articles of incorporation, 10% of its annual net income after offsetting prior years' losses and tax payment is to be appropriated as legal reserve.

The distribution for employees' bonus shall be at least 0.01% to 0.05% of the remaining unappropriated earnings, and the remuneration to directors and supervisors shall be 0.1%.

The detailed information regarding appropriation of retained earnings of 2006 and 2005 for employees' bonuses and directors' and supervisors' remuneration is as follows:

| | 2006 | 2005 |
|---|------------------------|----------------------|
| Employees' bonuses – cash | \$ 2,000 | 2,000 |
| Directors' and supervisors' remuneration – cash | <u>7,402</u> | <u>9,501</u> |
| Total | <u>\$ 9,402</u> | <u>11,501</u> |

If the aforementioned employees' bonuses and directors' and supervisors' remuneration were expensed during the year, the pro forma basic earnings per share (after tax) would be NT\$1.14 dollar and NT\$1.38 dollar in 2006 and 2005, respectively.

The Company paid a cash dividend of NT\$1.0 dollar and NT\$1.15 dollar per share in 2006 and 2005, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As stipulated by the Financial Supervisory Commission, Executive Yuan, the distribution of employees' bonus and directors' and supervisors' remuneration should be resolved in the board meeting and stockholders' meetings. Related information is available on the Market Observation Post System.

6. Dividend policy

The Company adopted a stable and balanced dividend policy to balance the shareholders' profitability, the Company's capital accumulation as well as the impact on operation.

According to the Company's operating plan, the purpose of stock dividends is to retain operating capital. The remainder can be distributed in cash, but cash dividends are at least 50% of the dividends declared. Nevertheless, the aforementioned dividend policy may be adjusted with the resolution of shareholders' meeting. The Company may reconsider the proper dividend policy in the light of its operations and capital budget plan for the next year.

(29) Employee Warrant Plan

An employee warrant plan was approved in June 2007 by the Financial Supervisory Commission. The Company granted a total of 150,000 unit of call warrants. Each unit represent the right to purchase one thousand shares of the Company's common stock. This warrant is granted to the employees working for the parent company or for more than 50%-owned subsidiaries (direct or indirect). The duration of the warrants is five year, and the exercise price of the warrant is the closing price at the issue date.

Warrant holders are only able to execute the rights two years after vesting. The annual vesting percentages are as below:

| Vesting period of employee warrants | Percentage of warrants vested | Accumulated percentage of warrants vested |
|--|--------------------------------------|--|
| Over 2 years but less than 3 years | 50% | 50% |
| Over 3 years but less than 4 years | 25% | 75% |
| 4~5 years | 25% | 100% |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The related information on employee warrants for the year ended December 31, 2007, was as follows:

| Employee warrant plan in 2007 | Units | December 31, 2007 | |
|--|----------------|--|-------|
| | | Weighted-average exercise price (NT dollars) | |
| Outstanding balance in January 1, 2007 | - | \$ | - |
| Granted: | | | |
| Release for the first time | 60,877 | | 30.50 |
| Release for the second time | 88,950 | | 28.20 |
| Cancelled | <u>(1,940)</u> | | 30.50 |
| Outstanding balance on December 31, 2007 | <u>147,887</u> | | |
| Vestment, balance on December 31, 2007 | <u>-</u> | | |

(30) Earnings per Share

The details of basic and diluted earnings per share for the years ended December 31, 2007 and 2006 are as follows:

| | December 31, 2007 | | | EPS | |
|-----------------------------|----------------------|---------------------|-------------------|------------------------------|------------------------------|
| | Amount | | Shares (000's) | Before | After |
| | Before income tax | After income tax | | income tax (NT Dollar) | income tax (NT Dollar) |
| Basic EPS: | | | | | |
| Net income for common stock | \$ <u>17,256,605</u> | <u>14,431,579</u> | 7,719,094 | <u>2.24</u> | <u>1.87</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2006 | | | EPS | |
|---|---------------------|------------------|-------------------|------------------------------|------------------------------|
| | Amount | | Shares (000's) | Before | After |
| | Before | After | | income tax (NT Dollar) | income tax (NT Dollar) |
| | income tax | income tax | | | |
| Basic EPS: | | | | | |
| Net income before extraordinary item and cumulative effect of changes in accounting principle | \$ 9,242,275 | 7,736,022 | 7,719,094 | 1.19 | 1.00 |
| Cumulative effect of changes in accounting principle | 663,881 | 663,881 | 7,719,094 | 0.09 | 0.09 |
| Net income for common stock | <u>\$ 9,906,156</u> | <u>8,399,903</u> | 7,719,094 | <u>1.28</u> | <u>1.09</u> |

(31) Insurance Income, Net

| | 2007 | 2006 |
|--|----------------------|--------------------|
| Gross written premiums | \$ 88,936,256 | 84,636,309 |
| Reinsurance claims recovery | 4,451,824 | 5,807,046 |
| Policyholders' reserve release | 60,326,579 | 38,902,843 |
| Special claim reserve release | 1,036,846 | 1,233,014 |
| IBNR reserve release | 1,027,474 | 542,767 |
| Investment-type insurance policy revenue | <u>54,648,542</u> | <u>24,583,288</u> |
| Total revenue | <u>210,427,521</u> | <u>155,705,267</u> |
| Insurance expenses | 10,631,901 | 11,009,160 |
| Direct business expense | 6,815 | 4,327 |
| Benefits and claims | 63,165,771 | 46,335,019 |
| Investment-type insurance policy expense | <u>54,648,542</u> | <u>24,583,288</u> |
| Total expenses | <u>128,453,029</u> | <u>81,931,794</u> |
| Net income | <u>\$ 81,974,492</u> | <u>73,773,473</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(32) Provision for Insurance reserves

| | 2007 | 2006 |
|--------------------------------------|-----------------------------|--------------------------|
| Provision for policyholders' reserve | \$ 76,036,073 | 69,238,485 |
| Provision for special claim reserve | 2,528,333 | 1,579,497 |
| Stability fund | 110,083 | 106,360 |
| Provision for IBNR reserve | <u>988,079</u> | <u>1,027,474</u> |
| | \$ <u>79,662,568</u> | <u>71,951,816</u> |

(33) Financial Instruments

1) Fair value of financial instruments

| Non-derivative financial instruments | December 31, 2007 | | December 31, 2006 (restated) | |
|--|--------------------------|-------------------|-------------------------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 53,432,177 | 53,432,177 | 59,343,746 | 59,343,746 |
| Due from Central Bank and call loans to banks | 208,166,919 | 208,166,919 | 245,532,545 | 245,532,545 |
| Financial assets measured at fair value through profit or loss | 44,274,790 | 44,274,790 | 56,826,414 | 56,826,414 |
| Bonds and bills purchased under resell agreements | 10,872,316 | 10,872,316 | 7,252,638 | 7,252,638 |
| Receivables | 110,695,013 | 110,695,013 | 100,452,114 | 100,452,114 |
| Loans | 807,716,729 | 807,716,729 | 732,104,410 | 732,104,410 |
| Available-for-sale financial assets | 264,878,719 | 264,878,719 | 242,989,915 | 242,989,915 |
| Held-to-maturity investments | 5,883,418 | 5,850,109 | 4,808,219 | 4,808,367 |
| Other financial assets | 79,196,369 | 79,207,954 | 61,611,702 | 61,791,160 |
| Debt investments in non-active market | 157,276,707 | 152,060,470 | 156,777,639 | 152,733,257 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Non-derivative financial instruments | December 31, 2007 | | December 31, 2006 (restated) | |
|--|-------------------|-------------|------------------------------|-------------|
| | Book value | Fair value | Book value | Fair value |
| Financial liabilities: | | | | |
| Due to Central Bank and other banks | \$ 65,844,315 | 65,844,315 | 42,249,257 | 42,249,257 |
| Borrowing from Central Bank and other banks | 11,803,415 | 11,803,415 | 6,029,171 | 6,029,171 |
| Bonds and bills sold under repurchase agreements | 69,043,762 | 69,043,762 | 71,479,640 | 71,479,640 |
| Financial liabilities measured at fair value through profit or loss | 1,152,727 | 1,152,727 | 2,146,111 | 2,146,111 |
| Payables | 49,254,028 | 49,254,028 | 57,392,931 | 57,392,931 |
| Deposits | 982,651,871 | 982,651,871 | 941,018,648 | 941,018,648 |
| Bonds payable | 67,079,902 | 67,077,053 | 96,982,854 | 97,032,665 |
| Other borrowings | 11,790,000 | 11,790,000 | 4,394,646 | 4,394,646 |
| Other financial liabilities | 93,101,315 | 93,101,315 | 75,244,000 | 75,244,000 |
| | | | | |
| Derivative financial instruments | December 31, 2007 | | December 31, 2006 (restated) | |
| | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Financial assts measured at fair value through profit or loss | \$ 11,993,604 | 11,993,604 | 6,624,716 | 6,624,716 |
| Other financial assets | 275,678 | 275,678 | 370,611 | 370,611 |
| Financial liabilities: | | | | |
| Financial liabilities measured at fair value through profit or loss | 11,601,320 | 11,601,320 | 6,937,600 | 6,937,600 |
| Other financial assets | 1,125,188 | 1,125,188 | 2,206,836 | 2,206,836 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- 2) Methods and assumptions used by the Company and its subsidiaries for fair value evaluation of financial instruments were as follows:
1. Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short-term maturities, the book value is adopted as a reasonable basis in estimating the fair value. This method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, bonds and bills purchased under resell agreements, receivables, other financial assets (excluding financial assets carried at cost and debt investments in non-active market), due to Central Bank and other banks, commercial paper payable, bonds and bills sold under repurchase agreements, payables, borrowing from Central Bank and other banks, bonds payable (excluding financial liabilities measured at fair value through profit and loss), other borrowings, and other financial liabilities.
 2. The fair value of financial instruments at fair value through profit or loss and available-for-sale, held-to-maturity, and hedging derivative financial assets is based on quoted market prices in an active market. If a quoted market price is unavailable, then the fair value is determined based on certain valuation techniques. The estimates and assumptions of the valuation techniques adopted by the Company and its subsidiaries are identical to those adopted by other market participants.
 3. The fair value of debt investments in non-active market is estimated by using the quoted prices from financial institution or counterparty. If the fair value is unavailable, then the fair value is determined based on unamortized cost.
 4. Financial assets carried at cost of other financial assets are investment in unlisted stocks.
 5. Loans and deposits are both classified as interest-bearing financial assets; therefore, their book value is equivalent to their fair value.
 6. The fair value of each forward contract is determined on the forward rate from Bloomberg Information System. The fair value of interest rate swap and cross currency swap is calculated either by the quotations from the counterparty or by the price from Reuters.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) As of December 31, 2007 and 2006, the fair values of the financial instruments of the Company and its subsidiaries which were based on quoted market price or determined by using certain valuation techniques were as follows:

| | December 31, 2007 | | December 31, 2006 (restated) | |
|---|------------------------|--|------------------------------|--|
| | Quoted market price | Estimate using valuation technique | Quoted market price | Estimate using valuation technique |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ - | 53,432,177 | - | 59,343,746 |
| Due from Central Bank and call loans to banks | - | 208,166,919 | - | 245,532,545 |
| Financial assets at fair value through profit or loss | 28,173,530 | 28,094,864 | 45,948,287 | 17,502,843 |
| Bonds and bills purchased under resell agreements | 10,872,316 | - | 7,252,638 | - |
| Receivables | - | 110,695,013 | - | 100,452,114 |
| Loans | - | 807,716,729 | - | 732,104,410 |
| Available-for-sale financial assets | 166,240,636 | 98,638,083 | 152,621,524 | 90,368,391 |
| Held-to-maturity investments | - | 5,850,109 | - | 4,808,367 |
| Other financial assets | - | 79,483,632 | - | 62,161,771 |
| Debt investments in non-active market | - | 152,060,470 | - | 152,733,257 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2007 | | December 31, 2006 (restated) | |
|---|--------------------------------|---|-------------------------------------|---|
| | Quoted market price | Estimate using valuation technique | Quoted market price | Estimate using valuation technique |
| Financial liabilities: | | | | |
| Due to Central Bank and other banks | \$ - | 65,844,315 | - | 42,249,257 |
| Borrowings from Central Bank and other banks | - | 11,803,415 | - | 6,029,171 |
| Financial liabilities at fair value through profit or loss | 763,594 | 11,990,453 | 525,629 | 8,558,082 |
| Bonds and bills sold under repurchase agreements | 69,043,762 | - | 71,479,640 | - |
| Commercial paper payable | - | 599,817 | - | - |
| Payables | - | 49,254,028 | - | 57,392,931 |
| Deposits | - | 982,651,871 | - | 941,018,648 |
| Bonds payable | - | 67,077,053 | - | 97,032,665 |
| Other borrowings | - | 11,790,000 | - | 4,394,646 |
| Other financial liabilities | - | 94,226,503 | - | 77,450,836 |

4) For the years ended December 31, 2007 and 2006, the Company recognized gain (loss) on changes in valuation of financial instruments of \$1,097,177 and \$(74,361), respectively.

5) Financial risk information

To effectively control the overall risk of the Company, the Company established a risk management committee which is responsible for risk management-related task. The Risk Management Committee, established by the Board, operates independently from other business units to execute the risk control system solidly. The risk management organization structure includes the Boards of Fubon Financial Holding Co., Ltd. and its subsidiaries, top management, risk management units as well as each business unit. The Risk Management Committee is responsible for risk management policy making by applying adequate segregation of duties and delegation with professional skills. The purpose to establish overall risk management culture is to ensure the effectiveness and soundness of risk management system.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The risk management policy is to constitute five main segments including the scope, workflow, control points, scheme as well as reports & feedback of market risk management. This policy, managed and controlled by the Risk Management Committee, is to minimize the potential adverse impacts on the operational efficiency by using both qualitative and quantitative methodologies.

Risks that the Company might encounter are listed below:

1. Market risk

Market risk refers to the fluctuation in market price such as a change in interest rate, exchange rate, securities' prices, and commodity price, which might possibly cause a potential loss. The Company manages market risk through a market risk management control system, which is able to evaluate and control every aspect of market risk.

2. Credit risk

The Company sets up credit risk management policies to evaluate and control risk that might arise during the course of business. A credit rating of the counterparties will be deliberately evaluated by the company and subsidiaries before entering into the transaction such as loans, acceptance and certain guarantees. Moreover, the sufficiency of adequate collaterals such as cash, real estate or securities with liquidity, etc. might be needed regarding to the credit evaluations of the counterparties.

Significant concentration of credit risk exist when significant exposure to an individual counterparty, a transaction or a number of related counterparties engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The contract amounts of the financial instruments with off-balance-sheet credit risk for Taipei Fubon Bank and Fubon Bank (HK) were as follows:

| | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Credit line of credit cards and cash cards | \$ 221,438,858 | 228,050,486 |
| Guarantees on loans and letters of credit | 67,379,932 | 55,168,298 |
| Irrevocable loan acceptance | 95,207,125 | 99,658,120 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Taipei Fubon Bank does not have any significant concentration of credit risk in terms of a single client, a party or a transaction, except for clients being in the industry with similar industrial characteristics. Contracts with significant concentration of credit risk of Taipei Fubon Bank were as follows:

| | December 31, 2007 | | December 31, 2006 | |
|---|------------------------------|--|---------------------------|--|
| | Fair value | Maximum Credit Exposure | Fair value | Maximum Credit Exposure |
| Manufacturing | \$ 95,383,735 | 95,383,735 | 93,629,708 | 93,629,708 |
| Wholesale and retail trade | 32,434,124 | 32,434,124 | 30,443,930 | 30,443,930 |
| Conveyance storehouse and communication | 27,237,035 | 27,237,035 | 17,011,235 | 17,011,235 |
| | \$ <u>155,054,894</u> | \$ <u>155,054,894</u> | <u>141,084,873</u> | <u>141,084,873</u> |

3. Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk refers to the inactiveness of the market, whereas capital liquidity risk refers to the inability to convert assets into cash and obtain adequate capital. The Consolidated Companies not only set standards for the capital needs of different business departments, but also control the general position of daily capital inflow and outflow.

The capital and operating funds of the Consolidated Company are sufficient to fulfill all current contract obligations. As a result, there is no liquidity risk.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The maturity analysis of material assets and liabilities of Taipei Fubon Bank as of December 31, 2007 and 2006 is as follows:

| | December 31, 2007 | | | | | | |
|---|-----------------------|-------------------|-------------------|--------------------|--------------------|--------------------|----------------------|
| | Within one month | 1-3 months | 3-6 months | 6-12 months | 1-7 years | Over 7 years | Total |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 15,059,774 | - | - | - | - | - | 15,059,774 |
| Due from Central Bank and call loans to banks | 152,239,450 | 13,120,000 | 17,695,000 | 22,055,000 | - | - | 205,109,450 |
| Financial assets measured at fair value through profit or loss | 14,417,638 | 2,151,855 | 499,417 | 3,426,553 | 147,157 | - | 20,642,620 |
| Receivables | 66,961,628 | 232,170 | 86,954 | 15,067 | - | - | 67,295,819 |
| Loans | 128,501,614 | 23,752,693 | 23,747,887 | 31,076,925 | 184,476,894 | 270,803,285 | 662,359,298 |
| Available-for-sale financial assets | - | 11,265,097 | 1,350,661 | 6,083,892 | 60,411,673 | 6,626,301 | 85,737,624 |
| Held-to-maturity investments | 688,832 | 472,855 | 97,452 | 599,537 | 4,227,449 | 486,125 | 6,572,250 |
| Debt investments in non-active market | 157,715 | - | 6,292,264 | 765,824 | 9,839,374 | 7,784,915 | 24,840,092 |
| Other financial instrument assets | - | - | - | - | 47,340 | - | 47,340 |
| | <u>\$ 378,026,651</u> | <u>50,994,670</u> | <u>49,769,635</u> | <u>64,022,798</u> | <u>259,149,887</u> | <u>285,700,626</u> | <u>1,087,664,267</u> |
| Liabilities | | | | | | | |
| Due to Central Bank and other banks | \$ 41,340,271 | 5,542,061 | 5,030,198 | 6,854,894 | 1,039,456 | - | 59,806,880 |
| Borrowing from Central Bank and other banks | 11,803,415 | - | - | - | - | - | 11,803,415 |
| Financial liabilities measured at fair value through profit or loss | 7,604,838 | - | - | - | - | - | 7,604,838 |
| Bonds sold under agreements to repurchase | 55,055,203 | 2,896,242 | 607,257 | 188,826 | - | - | 58,747,528 |
| Payables | 22,012,633 | 807,013 | 848,600 | 1,486,053 | 682,370 | - | 25,836,669 |
| Deposits and remittances | 490,169,945 | 72,872,241 | 77,503,413 | 118,018,499 | 42,229,062 | 16,335,486 | 817,128,646 |
| Financial bonds | - | - | 1,000,000 | 3,100,000 | 34,660,256 | - | 38,760,256 |
| Other financial instrument liabilities | 5,582 | 3,823 | - | 75,132 | 1,032,579 | - | 1,117,116 |
| | <u>\$ 627,991,887</u> | <u>82,121,380</u> | <u>84,989,468</u> | <u>129,723,404</u> | <u>79,643,723</u> | <u>16,335,486</u> | <u>1,020,805,348</u> |

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2006 | | | |
|--|------------------------------|---------------------------|---------------------------|-----------------------------|
| | Within one year | 1~7 years | Over 7 years | Total |
| Assets | | | | |
| Cash and cash equivalents | \$ 19,244,303 | - | - | 19,244,303 |
| Due from Central Bank of China and other banks | 239,834,761 | - | - | 239,834,761 |
| Financial assets measured at fair value through profit or loss | 12,191,055 | 15,218,314 | - | 27,409,369 |
| Bonds purchased under agreements to resell | 29,943 | - | - | 29,943 |
| Receivables | 59,507,406 | 4,405,923 | - | 63,913,329 |
| Loans | 204,449,093 | 166,907,728 | 246,670,605 | 618,027,426 |
| Available-for-sale financial assets | 10,805,875 | 60,824,238 | 3,551,469 | 75,181,582 |
| Held-to-maturity investments | 298,387 | 4,509,832 | - | 4,808,219 |
| Debt investments in non-active market | 728,401 | 11,237,963 | 11,795,095 | 23,761,459 |
| Other financial instrument assets | 658,780 | 1,816,027 | 3,924 | 2,478,731 |
| | \$ <u>547,748,004</u> | <u>264,920,025</u> | <u>262,021,093</u> | <u>1,074,689,122</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Within one year | December 31, 2006 | | |
|--|------------------------------|--------------------------|-------------------------|-----------------------------|
| | | 1~7 years | Over 7 years | Total |
| Liabilities | | | | |
| Due to Central Bank and other banks | \$ 66,801,543 | - | - | 66,801,543 |
| Borrowing from Central Bank and other banks | 6,029,171 | - | - | 6,029,171 |
| Financial liabilities measured at fair value through profit or loss | 499,851 | 3,785,400 | 29,955 | 4,315,206 |
| Bonds sold under agreements to repurchase | 56,056,537 | - | - | 56,056,537 |
| Payables | 33,082,159 | - | - | 33,082,159 |
| Deposits and remittances | 726,591,762 | 49,321,810 | - | 775,913,572 |
| Financial bonds | 23,431,217 | 38,000,000 | 1,900,000 | 63,331,217 |
| Other financial instrument liabilities | 2,324,549 | 1,627,478 | - | 3,952,027 |
| | \$ <u>914,816,789</u> | <u>92,734,688</u> | <u>1,929,955</u> | <u>1,009,481,432</u> |

4) Cash flow risk of interest rate change

The fixed-rate short-term and long-term borrowings are subject to cash flow risk since the fluctuation of market interest rate will have not impact on its effective interest rate.

The bond investments of the Consolidated Company carried at floating rates are subject to cash flow risk since the future cash flow of those bond investments changed along with the market rate fluctuation.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(34) Related-Party Transactions

1) Names and relationship of related parties

| Name of related party | Relationship with the Company |
|--|---|
| Fuly Life Assurance Agent Co., Ltd. | A Company second-tier subsidiary |
| Fu-sheng Life Assurance Agent Co., Ltd. | A Company second-tier subsidiary |
| Fu-sheng General Insurance Agent Co., Ltd. | A Company second-tier subsidiary |
| Fubon Property Management Co., Ltd. | An affiliate |
| Fubon Securities Finance Co., Ltd. | An affiliate |
| Fubon Land Development Co., Ltd. | An affiliate |
| Sinostar Venture Capital Co., Ltd. | An affiliate |
| Fubon Bank Assurance Agent Co., Ltd. | An affiliate (dissolved on August 20, 2007) |
| Fubon Venture Capital Co., Ltd. | An affiliate (dissolved on July 14, 2006) |
| Fubon Charity Foundation | An affiliate |
| Fubon Art Foundation | An affiliate |
| Fubon Culture and Education Foundation | An affiliate |
| Taipei Bank Charitable Foundation | An affiliate |
| Funds Managed by Fubon Asset Management | An affiliate |
| Ming Tong Co., Ltd. | A major stockholder of the Company |
| Chung Hsing Land Development Co., Ltd. | A major stockholder of the Company |
| TFN Media Co., Ltd. | An affiliate |
| Taiwan Mobile Co., Ltd. | An affiliate |
| Taiwan Cellular Co., Ltd. | An affiliate |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Name of related party | Relationship with the Company |
|---|---|
| Taiwan Teleservice & Technologies Co., Ltd. | An affiliate |
| Taiwan Fixed Network Co., Ltd. | An affiliate |
| Taiwan High Speed Rail Co., Ltd. | An affiliate |
| Taipei Smart Card Corporation | An affiliate |
| Fu Young Media Co., Ltd. | An affiliate (merged with TFN Media Co., Ltd. in December, 2007) |
| Cashbox Partyworld Co., Ltd | An affiliate |
| Mr. Tasi Ming Chung | President of Fubon Financial Holding |
| Mr. Tasi Ming Hsing | Vice-president of Fubon Financial Holding |
| Miss Tasi Ming Chun | An affiliate |
| Miss Tasi Ming Wen | An affiliate |
| Taipei City Government | A major stockholder of the Company |
| Others | Directors, supervisors, managers and their relatives; investees under equity method |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) Significant transactions with the above related parties of the Company as of and for the years ended December 31, 2007 and 2006 were as follows:

1. Insurance revenue

| | Insurance revenue | | Insurance receivable | |
|-------------------------------------|--------------------------|-----------------------|------------------------------|------------------------------|
| | 2007 | 2006 | December 31, 2007 | December 31, 2007 |
| Taiwan High Speed Rail Co., Ltd. | \$ 326,389 | 77,713 | - | - |
| Taiwan Mobile Co., Ltd. | 82,306 | 111,567 | 106 | 624 |
| Taiwan Fixed Network Co., Ltd. | 13,919 | 16,658 | 13,388 | 9,716 |
| TECO Electric & Machinery Co., Ltd. | 10,095 | - | - | - |
| AUO Corp. | - | 46,670 | - | - |
| Other | <u>39,419</u> | <u>36,812</u> | <u>4,579</u> | <u>1,609</u> |
| | \$ <u>472,128</u> | <u>289,420</u> | <u>18,073</u> | <u>11,949</u> |

The terms of the transactions were similar to those with non-related parties.

2. Rental revenue

| | 2007 | 2006 |
|------------------------------|------------------------------|------------------------------|
| Rental revenue: | | |
| Cashbox Partyworld Co., Ltd. | \$ 13,026 | - |
| Others | <u>56,463</u> | <u>31,526</u> |
| | \$ <u>69,489</u> | <u>31,526</u> |
| | December 31, 2007 | December 31, 2006 |
| Deposits: | | |
| Cashbox Partyworld Co., Ltd. | \$ 2,516 | - |
| Others | <u>6,144</u> | <u>3,213</u> |
| | \$ <u>8,660</u> | <u>3,213</u> |

All the above leases were operating leases. The terms of the transactions were similar to those with non-related parties.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Rental expenses and refundable deposits

| | 2007 | 2006 |
|-------------------------------------|--------------------------|-----------------------|
| Rental expense: | | |
| Ming Tong Co., Ltd. | \$ 19,992 | 19,536 |
| Chung Hsing Development Co., Ltd. | 170,097 | 135,219 |
| Taipei City Government | 27,638 | 18,916 |
| Tsai Ming Chun, Tsai Ming Wen | 23,384 | - |
| Others | <u>1,084</u> | <u>21,208</u> |
| | \$ <u>242,195</u> | <u>194,879</u> |
| | December | December |
| | 31, 2007 | 31, 2006 |
| Refundable deposits: | | |
| Miss Tasai Ming Chun, Tsai Ming Wen | \$ 4,042 | - |
| Others | <u>12,977</u> | <u>14,519</u> |
| | \$ <u>17,019</u> | <u>14,519</u> |

All the above leases were operating leases. The terms of the transactions were similar to those with non-related parties.

4. Deposits accepted by Taipei Fubon Bank

| | December 31, 2007 | | December 31, 2006 | |
|--|--------------------------|--------------------------------|--------------------------|--------------------------------|
| | Amount | Interest rate range | Amount | Interest rate range |
| Others (no individual related party accounts for more than 10% of total loans) | \$ <u>22,355,394</u> | 0~4.89% | <u>23,942,349</u> | 0~7.25% |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Loans

Loans to related parties from Taipei Fubon Bank

| | December 31, 2007 | | December 31, 2006 | |
|--|----------------------|---------------------|-------------------|---------------------|
| | Amount | Interest rate range | Amount | Interest rate range |
| Others (no individual related party accounts for more than 10% of total loans) | \$ <u>40,176,695</u> | 1.679~ 8.2005% | <u>48,378,486</u> | 1.35~ 8.13% |

| Category | Amount or Name of Related Party | December 31, 2007 | | | | Type of Collateral | Differences in transaction terms between related and nonrelated parties |
|-------------------------|--|----------------------|-------------------|--------|----------|----------------------------|---|
| | | Highest Balance | Ending Balance | Normal | Overdue | | |
| Employee consumer loans | 58 | \$ 21,514 | 21,514 | ✓ | - | Credit | None |
| House mortgages | 156 | 696,397 | 685,629 | ✓ | - | Land and buildings | None |
| Others | Department of Rapid Transit Systems, TCG | 2,486,507 | 2,486,507 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Hydraulic Engineering Office, Public Works Department, Taipei City | 7,142,251 | 7,142,251 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Water Department, Taipei City | 111 | 4 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | New Construction Office, Public Works Department, Taipei City | 194,283 | 77,461 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Municipal Secured Small Loans Service | 20,411 | 13,913 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei City Government | 29,845,110 | 6,845,110 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department of Urban Development, Taipei City Government | 4,505,478 | 3,432,314 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taiwan High Speed Rail Co., Ltd. | 19,141,992 | 19,141,992 | ✓ | - | Approval by contract | Approval by contract |
| | Fubon Land Development Co., Ltd. | 800,000 | 330,000 | ✓ | - | Construction land | None |
| Total | | \$ <u>64,854,054</u> | <u>40,176,695</u> | | <u>-</u> | | |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| December 31, 2006 | | | | | | | |
|-------------------------|---|----------------------|-------------------|--------|----------|----------------------------|---|
| Category | Amount or Name of Related Party | Highest Balance | Ending Balance | Normal | Overdue | Type of Collateral | Differences in transaction terms between related and nonrelated parties |
| Employee consumer loans | 58 | \$ 17,436 | 17,436 | ✓ | - | Credit | None |
| House mortgages | 134 | 518,309 | 511,592 | ✓ | - | Land and buildings | None |
| Others | Department of Rapid Transit Systems, TCG | 2,544,841 | 2,486,507 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Maintenance Office, Public Works Department of Taipei City Government | 1,940,000 | 1,940,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Water Department, Taipei City | 993,156 | 945,120 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | New Construction Office, Public Works Department, Taipei City | 194,283 | 194,283 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Municipal Secured Small Loans Service | 25,602 | 20,594 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department of Finance, Taipei City Government | 7,500,000 | 7,500,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei City Government | 26,245,110 | 14,245,110 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | House mortgages of Taipei City Government employees | 3,600,000 | 430,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department of Urban Development, Taipei City Government | 5,427,771 | 4,661,095 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taiwan High Speed Rail Co., Ltd. | 11,651,749 | 11,651,749 | ✓ | - | Approval by contract | Approval by contract |
| | TFN Media Co., Ltd. | 500,000 | 475,000 | ✓ | - | Land and buildings | None |
| | Fubon Land Development Co., Ltd. | 800,000 | 800,000 | ✓ | - | Construction land | None |
| | Taiwan Fixed Network Co., Ltd. | 2,500,000 | 2,500,000 | ✓ | - | Machinery and equipment | None |
| Total | | <u>\$ 64,458,257</u> | <u>48,378,486</u> | | <u>-</u> | | |

6. Guarantees

| | December 31, 2007 | | December 31, 2006 | |
|------------|-------------------|---------------------|-------------------|---------------------|
| | Amount | Interest rate range | Amount | Interest rate range |
| Guarantees | \$ <u>991,163</u> | 0.775~ 0.85% | <u>911,218</u> | 0.775~ 0.85% |

| Related party | December 31, 2007 | | | | |
|----------------------------------|-----------------------------------|----------------|------------------|------------|--------------------|
| | Highest balance in current period | Ending balance | Provision (note) | Rates (%) | Type of collateral |
| Taiwan High Speed Rail Co., Ltd. | \$ <u>1,065,718</u> | <u>991,163</u> | <u>-</u> | 0.775~0.85 | None |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Related party | Highest balance in current period | December 31, 2006 | | Rates (%) | Type of collateral |
|-------------------------------------|--|-------------------|---------------------|------------|-----------------------|
| | | Ending balance | Provision (note) | | |
| Taiwan High Speed Rail Co., Ltd. | \$ <u>911,218</u> | <u>911,218</u> | <u>-</u> | 0.775-0.85 | None |

7. Trading contracts for derivatives held or issued by the Company and related parties as of December 31, 2007 and 2006, were as follows:

| Name | Financial instruments | December 31, 2007 | December 31, 2006 |
|-------------------------------------|--------------------------------------|----------------------|----------------------|
| Taiwan Fixed Network Co., Ltd. | Interest rate swap contract | \$ - | 500,000 |
| Taiwan High Speed Rail Co., Ltd. | Foreign exchange forward contract | 649,680 | - |
| | | \$ <u>649,680</u> | <u>500,000</u> |

8. Securities refinancing transactions

| Name of related party | 2007 | | December 31, 2007 | |
|---------------------------------------|-----------------------|---------------------|--|--|
| | Refinancing amount | Interest revenue | Securities refinance ending balance | Securities refinance margin deposits ending balance |
| Fubon Securities Finance Co., Ltd. | \$ <u>36,762</u> | <u>1</u> | <u>-</u> | <u>-</u> |

| Name of related party | 2006 | | December 31, 2006 (restated) | |
|---------------------------------------|-----------------------|---------------------|--|--|
| | Refinancing amount | Interest revenue | Securities refinance ending balance | Securities refinance margin deposits ending balance |
| Fubon Securities Finance Co., Ltd. | \$ <u>132,372</u> | <u>4</u> | <u>-</u> | <u>-</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

9. Service fees

For the years ended December 31, 2007 and 2006, the Company received service fees of \$58,860 and \$65,649 (restated), respectively, from the TCG for its handling of loans to government employees and teachers, and home loans to various individuals.

In addition, being the agent for the bonds issued by the Taipei City Government, Taipei Fubon Bank received service fees for handling the related interest payments. For the years ended December 31, 2007 and 2006, the service fees amounted to \$12,509 and \$18,417, respectively.

10. Other revenues

(a) Commission revenue

| Name of related party | 2007 | 2006 |
|----------------------------------|--------------------------|-----------------------|
| Fu-sheng Life Assurance Agent | \$ 268,012 | 110,780 |
| Fu-sheng General Insurance Agent | 53,860 | 39,916 |
| Fuly Life Assurance Agent | <u>28,326</u> | <u>-</u> |
| | \$ <u>350,198</u> | <u>150,696</u> |

(b) Commission receivable

| Name of related party | December 31, 2007 | December 31, 2006 |
|----------------------------------|-------------------------|----------------------|
| Fu-sheng Life Assurance Agent | \$ 27,900 | 22,642 |
| Fu-sheng General Insurance Agent | 10,366 | 8,253 |
| Fuly Life Assurance Agent | <u>5,410</u> | <u>-</u> |
| | \$ <u>43,676</u> | <u>30,895</u> |

(c) Management fees

| Name of related party | Management revenues 2007 | 2006 |
|---|-----------------------------|-----------------------|
| Funds managed by Fubon Asset Management | \$ 525,435 | 597,259 |
| Others | <u>42,495</u> | <u>37,976</u> |
| | \$ <u>567,930</u> | <u>635,235</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Service fee

| Name of related party | December 31, 2007 | December 31, 2006 |
|--|-------------------------|-----------------------|
| Fund managed by Fubon Asset Management | \$ 22,820 | 45,477 |
| Taiwan Mobile Co., Ltd. | - | 11,171 |
| Others | <u>61,988</u> | <u>107,179</u> |
| | \$ <u>84,808</u> | <u>163,827</u> |

(e) Brokerage commission

| Name of related party | 2007 | 2006 |
|--|-------------|---------------|
| Chung Hsing Land Development Co., Ltd. | \$ <u>-</u> | <u>10,365</u> |

(f) Transfer agency fees

| Name of related party | 2007 | 2006 |
|-----------------------|------------------|--------------|
| Others | \$ <u>11,211</u> | <u>9,649</u> |

(g) Cooperation revenue

| Name of related party | 2007 | 2006 |
|-----------------------|-----------------|---------------|
| Others | \$ <u>8,164</u> | <u>11,534</u> |

11. Secured loan

| | Limit of loan | 2007 | | Interest |
|-------|---------------|---------------|-----------|------------|
| | | December 31 | Rate (%) | |
| Other | \$ 26,741 | <u>19,287</u> | 2.25~4.38 | <u>681</u> |
| | Limit of loan | 2006 | | Interest |
| | | December 31 | Rate (%) | |
| Other | \$ 25,804 | <u>23,642</u> | 2.25~4.02 | <u>654</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Other expenses payable to related parties

| Name of related party | Items | 2007 | 2006 |
|---|---|--------------------------|-----------------------|
| Fu-sheng General Insurance Agent | Service fee and commission expenses | \$ 67,772 | 69,310 |
| Taiwan Fixed Network Co., Ltd. | Phone expense | 122,287 | 104,746 |
| Taiwan Teleservice & Technologies Co., Ltd. | Professional service fee | 20,251 | 118,172 |
| Taipei Smart Card Corporation | Service fee | 81,252 | 27,000 |
| Taiwan High Speed Rail Co., Ltd. | Other expense | 22,000 | - |
| Taiwan Mobile Co., Ltd. | Other expense | 17,008 | 17,915 |
| Fubon Property Management Co., Ltd. | Management fee | 29,820 | 28,044 |
| Fu-Young Media Co., Ltd. | Channel rent | 27,619 | 31,429 |
| Others | Management fee, service fee and other expense | 140,440 | 75,384 |
| | | \$ <u>528,449</u> | <u>472,000</u> |

13. Commission expenses

| Name of related party | 2007 | 2006 (restated) |
|---|--------------------------|-----------------------|
| Taipei Fubon Bank Assurance Agent Co., Ltd. | \$ - | 174,325 |
| Fu-Sheng Life Assurance Agent Co., Ltd. | 353,106 | 182,753 |
| Fuly Life Assurance Agent Co., Ltd. | <u>67,828</u> | - |
| | \$ <u>420,934</u> | <u>357,078</u> |

14. Disposal revenue

| Name of related party | 2007 | 2006 |
|---------------------------|-------------------|----------|
| Taiwan Cellular Co., Ltd. | \$ <u>408,094</u> | <u>-</u> |

The disposal revenue is from selling shares of Taiwan Cellular Co., Ltd. to Taiwan Fixed Network Co., Ltd.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Bond transactions

(a) Bond sold under repurchase agreements

| Name of related party | Interest expense | 2007 |
|--|-------------------------|--|
| | | Bonds sold under agreements to repurchase, December 31 |
| Fund managed by Fubon Asset Management | \$ 12,580 | 893,467 |
| Tsai Ming Jung | 9,510 | 989,106 |
| Tsai Ming Shing | 3,878 | 582,525 |
| Taiwan High Speed Rail Co., Ltd. | 7,078 | 195,600 |
| Others | <u>16,222</u> | <u>1,346,395</u> |
| | \$ <u>49,268</u> | <u>4,007,093</u> |

| Name of related party | Interest expense | 2006 |
|--|-------------------------|--|
| | | Bonds sold under agreements to repurchase, December 31 |
| Fund managed by Fubon Asset Management | \$ 17,230 | 488,877 |
| Taiwan High Speed Rail Co., Ltd. | 2,529 | 540,000 |
| Others | <u>10,910</u> | <u>825,403</u> |
| | \$ <u>30,669</u> | <u>1,854,280</u> |

(b) Bond purchased under resell agreements

| Name of related party | Interest expense | 2007 |
|-----------------------------|------------------|---|
| | | Bonds purchased under agreements to repurchase, December 31 |
| Taipei Fubon Bank Co., Ltd. | \$ <u>1,035</u> | <u>390,000</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

16. Bond transactions

(a) Purchase of bonds

| Name of related party | Dealing amount | |
|------------------------|----------------|----------------|
| | 2007 | 2006 |
| Fubon Land Development | \$ <u>-</u> | <u>708,451</u> |

(b) Sale of bonds

| Name of related party | Dealing amount | |
|---|-------------------|----------------|
| | 2007 | 2006 |
| Funds managed by Fubon Asset Management | \$ - | 213,966 |
| Fubon Land Development | <u>698,069</u> | <u>703,200</u> |
| | \$ <u>698,069</u> | <u>917,166</u> |

17. Accounts receivable from related party

| Name of related party | December 31, 2007 | December 31, 2006 |
|-----------------------|----------------------|----------------------|
| Others | \$ <u>77,177</u> | <u>49,554</u> |

18. The Company's donations to related parties were as follows:

| Name of related party | 2007 | 2006 |
|--|-------------------|---------------|
| Taipei Bank Charitable Foundation | \$ 40,000 | 60,000 |
| Fubon Culture and Education Foundation | 35,536 | 2,000 |
| Fubon Art Foundation | 10,172 | 5,003 |
| Fubon Charity Foundation | <u>32,076</u> | - |
| | \$ <u>117,784</u> | <u>67,003</u> |

19. Payable to customers of related party

| Name of related party | December 31, 2007 | December 31, 2006 |
|---|----------------------|----------------------|
| Funds managed by Fubon Asset Management | \$ <u>61,174</u> | <u>55,860</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

20. Funds purchased by the Company's related party and managed by Fubon Asset Management Co., Ltd. were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|--------------------------------------|----------------------------|--------------------------|
| Fubon Global REIT Fund | \$ 38,809 | 298,340 |
| Fubon Precision Fund | 218,817 | 169,277 |
| Fubon Fubon Fund | 1,004,816 | 1,038,779 |
| Fubon Aggressive Growth Fund | 81,979 | 58,074 |
| Fubon Chi-hsiang Fund | 3,633,226 | 5,752,403 |
| Fubon Jin-Ju-I Fund | 868,212 | 3,353,768 |
| Fubon Supreme Fund | 68,249 | 60,456 |
| Fubon Taiwan Technology Tracker Fund | 95,448 | 131,240 |
| Fubon Millennium Dragon Fund | 41,197 | 1,181,076 |
| Fubon Fu-Bao Fund | 41,733 | 42,297 |
| Fubon I REIT Securitization Fund | 1,831,068 | 1,995,783 |
| Fubon II REIT Securitization Fund | <u>1,216,580</u> | <u>1,613,569</u> |
| | \$ <u>9,140,134</u> | <u>15,695,062</u> |

21. Fubon Life Assurance disposed of several pieces of land in the Shih-Lin area to Fubon Land Development for \$1,713,000, which resulted in a \$295,898 disposal gain after deducting out-of-pocket expense.

Fubon Life Assurance bought several pieces of land and buildings in the Chung-Sheng area from Fubon Land Development for \$2,638,529, recognized in real estate investments.

As of December 31, 2006, Fubon Life Assurance had disposed of operating land and buildings to Fubon REIT II (Land Bank is the entrusted organization) for \$176,600; the \$5,663 gain and \$6,648 deferred gain were recognized after deducting out-of-pocket expenses. The amortization of deferred gain was \$3,220 for 2007 and was recognized as the reduction of rent expense.

- 3) Information on related-party transactions amounting to more than \$100,000

Since the related-party transactions had been offset when the Company compiled the consolidated financial report, only one of the parties needs to disclose its related-party information.

The subsidiary Fubon Investment Management Co., Ltd. did not have related-party transactions of more than \$100,000; therefore, the Company does not disclose such information.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Fubon Insurance

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--|---|
| Taipei Fubon Bank | Subsidiary of Company |
| Fubon Securities Co., Ltd. | Subsidiary of Company |
| Fubon Bills Finance Co., Ltd. | An affiliate (merged with Taipei Fubon Bank on December 25, 2006) |
| Fund managed by Fubon Asset Management | An affiliate |
| Fubon Venture Capital Co., Ltd. | An affiliate |
| Taiwan High Speed Rail Co., Ltd. | An affiliate |
| Cashbox Partyworld Co., Ltd. | An affiliate |

(b) Significant transactions with related parties as of and for the years ended December 31, 2007 and 2006 were as follows:

a) Insurance revenue from related party

| Name of related party | Insurance revenue | Insurance receivable |
|----------------------------------|--------------------------|-----------------------------|
| | 2007 | 2006 |
| | 2007 | 2006 |
| Taiwan High Speed Rail Co., Ltd. | \$ 326,389 | 77,713 |
| Taiwan Mobile Co., Ltd. | 70,961 | 100,380 |
| | <u>\$ 397,350</u> | <u>178,093</u> |
| | | <u>106</u> |
| | | <u>624</u> |

All the above insurance was charged to the related parties in accordance with the rules under the Insurance Law. The terms and conditions of the transactions were similar to those with non-related parties.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- b) Rental revenue from related party:

| Name of related party | Insurance revenue | | Refundable deposits | |
|-----------------------|-------------------|----------------|---------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Taipei Fubon Bank | \$ <u>115,148</u> | <u>117,114</u> | <u>2,505</u> | <u>2,505</u> |

All the above leases were operating leases. The terms conditions of the transaction were similar to those with non-related parties.

- c) Funds purchased by Fubon Insurance and managed by Fubon Asset Management Co., Ltd. were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|-----------------------------------|---------------------|-------------------|
| Fubon Fubon Fund | \$ 238,435 | 236,687 |
| Fubon Chi-hsiang Fund | 100,000 | - |
| Fubon I REIT Securitization Fund | 607,416 | 690,375 |
| Fubon II REIT Securitization Fund | <u>522,500</u> | <u>693,000</u> |
| Total | \$ <u>1,468,351</u> | <u>1,620,062</u> |

- d) Bank deposit with related party

| Name of related party | December 31, 2007 | December 31, 2006 |
|-----------------------------|-------------------|-------------------|
| Taipei Fubon Bank Co., Ltd. | \$ <u>356,496</u> | <u>572,701</u> |

- e) Fubon Insurance Investment related companies

| Name of related party | December 31, 2007 | December 31, 2006 |
|----------------------------------|---------------------|-------------------|
| Taiwan High Speed Rail Co., Ltd. | \$ 1,154,007 | 1,154,007 |
| Taiwan Fixed Network Co., Ltd. | - | 1,059,350 |
| Cashbox Partyworld Co., Ltd. | <u>214,804</u> | <u>214,804</u> |
| | \$ <u>1,368,811</u> | <u>2,428,161</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

f) Bond transactions

a. Bond purchased under resell agreement

| | | 2007 |
|------------------------------|-----------------------------|--|
| | | Bonds purchased under agreements to resell, December 31 |
| Name of related party | Interest revenue | |
| Taipei Fubon Bank Co., Ltd. | \$ <u>1,035</u> | <u>390,000</u> |

b. Purchase of bonds

| | December 31, 2007 | December 31, 2006 |
|-------------------------------|------------------------------|------------------------------|
| Name of related party | | |
| Fubon Securities Co., Ltd. | \$ - | 200,000 |
| Fubon Bills Finance Co., Ltd. | - | <u>199,582</u> |
| | \$ <u><u>-</u></u> | <u><u>399,582</u></u> |

2. Fubon Life Assurance

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--|---|
| Fubon Asset Management Co., Ltd. | Subsidiary of the Company |
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the Company |
| Fubon Securities Co., Ltd. | Subsidiary of the Company |
| Fubon Finance Holding Venture Capital Co., Ltd. | Subsidiary of the Company |
| Fubon Bills Finance Co., Ltd. | An affiliate (merged with Taipei Fubon Bank on December 25, 2006) |
| Funds managed by Fubon Asset Management Co. Ltd. | An affiliate |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Name of related party | Relationship with the Company |
|--|-------------------------------|
| Taipei Fubon Bank Life Assurance Agent Co., Ltd. | An affiliate |
| Taipei Fubon Bank Assurance Agent Co., Ltd. | An affiliate |
| Fu-Sheng Life Assurance Agent Co., Ltd. | An affiliate |
| Fubon Bank Land Development | An affiliate |

(b) Significant transactions with related parties

a) Insurance revenue from related party

| Name of related party | 2007 | 2006 |
|-----------------------------|------------------|----------------|
| Taipei Fubon Bank Co., Ltd. | \$ <u>97,070</u> | <u>189,025</u> |

All the above insurance was charged to the related parties in accordance with the rules under Insurance Law. The terms and conditions of the transactions were similar to those with non-related parties.

b) Commission expenses

| Name of related party | 2007 | 2006 |
|--|---------------------|----------------|
| Fu-Sheng Life Insurance Agent Co., Ltd. | \$ 353,106 | 182,753 |
| Taipei Fubon Bank Life Assurance Agent Co., Ltd. | 793,052 | 164,170 |
| Taipei Fubon Bank Assurance Agent Co., Ltd. | - | 174,325 |
| | \$ <u>1,146,158</u> | <u>521,248</u> |

c) Deposits accepted by Taipei Fubon Bank

| Name of related party | December 31, 2007 | December 31, 2006 |
|-----------------------|----------------------|----------------------|
| Demand deposits | \$ 6,110,314 | 5,283,980 |
| Linked deposits | 500,000 | - |
| | \$ <u>6,610,314</u> | <u>5,283,980</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Fubon Life Assurance holds financial bonds issued by Taipei Fubon Bank. For the year ended December 31, 2006, the financial bonds amounted to \$500,000, recognized in debt investments in non-active market.

- d) Funds purchased by Fubon Life Assurance and managed by Fubon Asset Management Co., Ltd. were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|--------------------------------------|----------------------------|-------------------------|
| Fubon Fubon Fund | \$ 278,156 | 234,602 |
| Fubon Millennium Dragon Fund | - | 483,692 |
| Fubon Precision Fund | 117,512 | 112,490 |
| Fubon Taiwan Technology Tracker Fund | 95,448 | 131,240 |
| Fubon Chi-hsiang Fund | 1,802,054 | 3,229,447 |
| Fubon Jin-Ju-I Fund | <u>36,797</u> | <u>1,441,938</u> |
| Total | \$ <u>2,329,967</u> | <u>5,633,409</u> |

As of December 31, 2007 and 2006, Fubon Life Assurance had acquired Fubon REIT II Fund in the amounts of \$694,080 and \$920,569, respectively.

As of December 31, 2007 and 2006, Fubon Life Assurance had acquired Fubon REIT I Fund in the amounts of \$607,053 and \$689,962, respectively.

- e) Investments requested from Fubon Asset Management Co., Ltd. were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|----------------------------------|----------------------------|-------------------------|
| Fubon Asset Management Co., Ltd. | \$ <u>1,814,653</u> | <u>1,619,758</u> |

- f) Bond transactions with related parties were as follows:

- a. Purchase of bonds

| Name of related party | 2007 | 2006 |
|-------------------------------|--------------------|--------------------------------|
| Fubon Bills Finance Co., Ltd. | \$ - | 957,414 |
| Fubon Securities Co., Ltd. | - | 1,114,195 |
| Taipei Fubon Bank Co., Ltd. | - | <u>513,781</u> |
| | \$ <u><u>-</u></u> | <u><u>2,585,390</u></u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Bond purchased under resell agreements

| Name of related party | Interest revenue | 2007 |
|-----------------------------|--------------------------|---|
| | | Bonds purchased under agreements to resell, December 31 |
| Fubon Securities Co., Ltd. | \$ 1,208 | 275,019 |
| Taipei Fubon Bank Co., Ltd. | <u>175,710</u> | <u>1,002,752</u> |
| | \$ <u>176,918</u> | <u>1,277,771</u> |
| | | 2006 |
| | | Bonds purchased under agreements to resell, December 31 |
| Taipei Fubon Bank Co., Ltd. | \$ 10,477 | 165,345 |
| Fubon Securities Co., Ltd. | <u>542,188</u> | - |
| | \$ <u>552,665</u> | <u>165,345</u> |

g) Amounts of financial bonds, company bonds and stock transactions of Fubon Life Assurance with each related party were as follows:

| Name of related party | December 31, 2006 |
|---|-----------------------------|
| Funds managed by Fubon Asset Management | \$ 16,116,457 |
| Fubon Financial Holding Venture Capital Co., Ltd. | 287,280 |
| | \$ <u>16,403,737</u> |

Fubon Asset Management promised to compensate Fubon Life Assurance for the financial bonds and corporate bonds bought from Fubon Asset Management with yield of 90 days CP+20BP, which is paid quarterly.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- h) Gain on sale of common stocks of Taiwan Fixed Network Co., Ltd.

| Name of related party | 2007 | 2006 |
|------------------------------|--------------------------|-----------------|
| Taiwan Cellular Co., Ltd. | \$ <u>362,443</u> | <u>-</u> |

- i) Fubon Life Assurance bought several pieces of land and buildings in the Chung-Sheng area from Fubon Land Development for \$2,638,529, recognized in real estate investments.
- j) Fubon Life Assurance disposed of several pieces of land in the Shih-Lin area to Fubon Land Development for \$1,713,000, which resulted in a \$295,898 disposal gain after deducting out-of-pocket expense.
- k) As of December 31, 2006, Fubon Life Assurance had disposed of operating land and buildings to REIT II (Land Bank is the entrusted organization) for \$176,600; the \$5,663 gain and \$6,648 deferred gain were recognized after deducting out-of-pocket expenses. The amortization of deferred gain was \$3,220 for 2007 and was recognized as reduction of rent expense.

3. Fubon Securities

- (a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--|---|
| Fubon Insurance Co., Ltd. | Subsidiary of the Company |
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the Company |
| Fubon Life Assurance Co., Ltd. | Subsidiary of the Company |
| Fubon Futures Co., Ltd. | A Company second-tier subsidiary |
| Fubon Investment Service Co., Ltd. | A Company second-tier subsidiary |
| Fubon Securities Finance Co., Ltd. | An affiliate |
| Fubon Bills Finance Co., Ltd. | An affiliate (merged with Taipei Fubon Bank on December 25, 2006) |
| Fund managed by Fubon Asset Management Co., Ltd. | An affiliate |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Name of related party | Relationship with the Company |
|----------------------------------|---|
| Fubon Land Development Co., Ltd. | An affiliate |
| Mr. Tsai Ming Chung | President of Fubon Financial Holding |
| Mr. Tsai Min Hsing | Vice-president of Fubon Financial Holding |

(b) Significant transactions with related parties

a) Bank deposits, short-term borrowings, and other current assets

On December 31, 2007 and 2006, cash deposited in Taipei Fubon Bank was as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|--|------------------------------|------------------------------|
| Demand deposits (including securities brokerage account) | \$ <u>81,158</u> | <u>396,721</u> |
| Time deposits | \$ <u>487,330</u> | <u>228,630</u> |
| Foreign currency deposits | \$ <u>48,487</u> | <u>118,809</u> |

As of December 31, 2007 and 2006, the Company had provided time deposits in Taipei Fubon Bank as operating deposits amounting to \$1,345,500 and \$1,490,000, respectively. Interest revenue earned on the operating deposits in Taipei Fubon Bank was \$36,339 and \$27,508 for the years ended December 31, 2007 and 2006, respectively.

Balances of short-term borrowing from Taipei Fubon Bank as of December 31, 2007 and 2006 were \$0. As of December 31, 2007 and 2006, unused credit facilities from Taipei Fubon Bank amounted to \$6,000,000. The book value of land and buildings pledged to Taipei Fubon Bank for short-term borrowings was \$921,865 and \$862,914 as of December 31, 2007 and 2006, respectively. The Company also provided fund investments amounting to \$661,879 and \$1,321,237 and trading securities amounting to \$1,522,500 and \$1,183,000 to Taipei Fubon Bank as collateral for short-term borrowings as of December 31, 2007 and 2006, respectively, recorded as financial assets at fair value through profit or loss.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Bond transactions

a. Bond purchased under resell agreements

| | | 2007 |
|------------------------------|-------------------------|--|
| Name of related party | Interest revenue | Bonds purchased under agreements to resell, December 31 |
| Taipei Fubon Bank Co., Ltd. | \$ <u>10,031</u> | <u>2,353,162</u> |

| | | 2006 |
|------------------------------|-------------------------|--|
| Name of related party | Interest revenue | Bonds purchased under agreements to resell, December 31 |
| Taipei Fubon Bank Co., Ltd. | \$ <u>5,815</u> | <u>210,000</u> |

b. Bond sold under repurchase agreement

| | | 2007 |
|--|-------------------------|---|
| Name of related party | Interest revenue | Bonds sold under agreements to repurchase, December 31 |
| Fund managed by Fubon Management Co., Ltd. | \$ 12,580 | 893,467 |
| Mr. Tsai Ming Chung | 9,510 | 989,106 |
| Mr. Tsai Ming Hsing | 3,878 | 582,525 |
| Others | <u>16,222</u> | <u>1,346,395</u> |
| | \$ <u>42,190</u> | <u>3,811,493</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Name of related party | Interest revenue | 2006 |
|--|-------------------------|--|
| | | Bonds sold under agreements to repurchase, December 31 |
| Fund managed by Fubon Management Co., Ltd. | \$ 17,230 | 488,877 |
| Others | <u>10,910</u> | <u>825,403</u> |
| | \$ <u>28,140</u> | <u>1,314,280</u> |

c. Purchase of bonds

| Name of related party | Dealing amount | |
|----------------------------------|--------------------|-------------------------|
| | 2007 | 2006 |
| Fubon Life Assurance Co., Ltd. | \$ - | 707,525 |
| Fubon Insurance Co., Ltd. | - | 893,027 |
| Fubon Land Development Co., Ltd. | - | 708,451 |
| | \$ <u>-</u> | <u>2,309,003</u> |

d. Sale of bonds

| Name of related party | Dealing amount | |
|--|--------------------------|-----------------------|
| | 2007 | 2006 |
| Fubon Land Development Co., Ltd. | \$ 698,069 | 703,200 |
| Fund managed by Fubon Management Co., Ltd. | - | 213,966 |
| | \$ <u>698,069</u> | <u>917,166</u> |

c) Funds purchased by Fubon Securities and managed by Fubon Asset Management Co., Ltd. were as follows:

| Name of fund | December 31, 2007 | December 31, 2006 |
|------------------------------|----------------------------|-------------------------|
| Fubon Chi-hsiang Fund | \$ 500,061 | 1,410,260 |
| Fubon Millennium Dragon Fund | - | 643,627 |
| Fubon Jin-Ju-I Fund | 671,899 | 1,696,294 |
| Fubon Global REIT Fund | - | 239,400 |
| | \$ <u>1,171,960</u> | <u>3,989,581</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

d) Brokerage commissions from futures contracts

| Name of related party | Commission revenue | | Commission receivable | |
|-------------------------|--------------------|--------------------|-----------------------|---------------|
| | For the year ended | For the year ended | December | December |
| | December 31, 2007 | December 31, 2006 | 31, 2007 | 31, 2006 |
| Fubon Futures Co., Ltd. | \$ <u>128,610</u> | <u>146,215</u> | <u>11,927</u> | <u>16,946</u> |

e) Rental revenue

| Name of related party | Rental revenue | | Rental receivable | |
|-----------------------------|--------------------|--------------------|-------------------|---------------|
| | For the year ended | For the year ended | December | December |
| | December 31, 2007 | December 31, 2006 | 31, 2007 | 31, 2006 |
| Taipei Fubon Bank Co., Ltd. | \$ <u>181,211</u> | <u>161,024</u> | <u>27,670</u> | <u>28,518</u> |

f) Professional expense

| Name of related party | For the year ended | For the year ended |
|--------------------------|--------------------|--------------------|
| | December 31, 2007 | December 31, 2006 |
| Fubon Investment Service | \$ <u>118,158</u> | <u>77,054</u> |

g) Brokerage commission

| Name of related party | Dealing amount | |
|-----------------------|--------------------|--------------------|
| | For the year ended | For the year ended |
| | December 31, 2007 | December 31, 2006 |
| Others | \$ <u>61,988</u> | <u>107,179</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

h) Securities refinancing transactions

| Name of related party | 2007 | | December 31, 2007 | |
|------------------------------------|--------------------|------------------|-------------------------------------|---|
| | Refinancing amount | Interest revenue | Securities refinance ending balance | Securities refinance margin deposits ending balance |
| Fubon Securities Finance Co., Ltd. | \$ <u>36,762</u> | <u>1</u> | <u>-</u> | <u>-</u> |

| Name of related party | 2006 | | December 31, 2006 | |
|------------------------------------|--------------------|------------------|-------------------------------------|---|
| | Refinancing amount | Interest revenue | Securities refinance ending balance | Securities refinance margin deposits ending balance |
| Fubon Securities Finance Co., Ltd. | \$ <u>132,372</u> | <u>4</u> | <u>-</u> | <u>-</u> |

4. Fubon Asset Management

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--------------------------------|--|
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the Company |
| Fubon Life Assurance Co., Ltd. | Subsidiary of the Company |
| Fubon Bills Finance Co., Ltd. | Taipei Fubon Bank subsidiary (merged with Taipei Fubon Bank on December 25, 2006) |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Significant transactions with related parties

a) Commercial paper bought under agreements to resell

| | Dealing amount | Ending balance | 2006 Interest rate (%) | Interest revenue |
|--|----------------------------|---------------------------|---------------------------------------|-----------------------------|
| Commercial paper bought under agreements to resell | \$ <u>1,163,512</u> | <u>-</u> | 1.385~1.65 | <u>1,853</u> |

b) Bank deposits with related parties:

| Name of related party | December 31, 2007 | December 31, 2006 |
|------------------------------|------------------------------|------------------------------|
| Limited time deposits | \$ <u>251,500</u> | <u>246,500</u> |

c) Other

In late 2007, the Company sold bonds with face value of \$1,850,000 to Fubon Life Assurance and estimated loss on disposal of investment amounted to \$197,635.

5. Taipei Fubon Bank

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--|--------------------------------------|
| Fubon Insurance Co., Ltd. | Subsidiary of the Company |
| Fubon Life Assurance Co., Ltd. | Subsidiary of the Company |
| Fubon Securities Co., Ltd. | Subsidiary of the Company |
| Fubon Asset Management Co., Ltd. | Subsidiary of the Company |
| Fubon Direct Marketing Co., Ltd. | Subsidiary of the Company |
| Fubon Asset Management Service Co., Ltd. | Subsidiary of the Company |
| Fubon Bank (Hongkong) | Subsidiary of the Company |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| Name of related party | Relationship with the Company |
|---|---|
| Fubon Bills Finance | Taipei Fubon Bank subsidiary (merged with Taipei Fubon Bank on December 25, 2006) |
| Fund managed by Fubon Asset Management Co., Ltd. | An affiliate |
| Taiwan High Speed Rail Co., Ltd. | An affiliate |
| Taiwan Fixed Network Co., Ltd. | An affiliate |
| Fubon Land Development Co., Ltd. | An affiliate |
| Taiwan Teleservice & Technologies Co., Ltd. | An affiliate |
| Taipei City Government | Major shareholder of the Company. |
| Others | Directors, supervisors, managers and their relatives up to the second degree. |

(b) Significant transactions with related parties

a) Deposits and loans

| Name of related party | Amount | 2007 Interest rate / service fee rate (%) | Interest revenue (expense) |
|-----------------------|----------------------|--|----------------------------------|
| Deposits | \$ <u>34,899,929</u> | 0~4.89 | <u>(252,527)</u> |
| Loans | \$ <u>40,176,695</u> | 1.679~8.2005 | <u>1,717,737</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| December 31, 2007 | | | | | | | |
|------------------------|---|----------------------|-------------------|--------|----------|----------------------------|---|
| Category | Amount or Name of Related Party | Highest Balance | Ending Balance | Normal | Overdue | Type of Collateral | Differences in transaction terms between related and nonrelated parties |
| Employee consumer loan | 58 | \$ 21,514 | 21,514 | ✓ | - | Credit | None |
| House mortgages | 156 | 696,397 | 685,629 | ✓ | - | Land and buildings | None |
| Others | Department of Rapid Transit Systems, TCG | 2,486,507 | 2,486,507 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Hydraulic Engineering Office, Public Works | 7,142,251 | 7,142,251 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department, Taipei City Government | | | | | | |
| | Taipei Water Department, Taipei City Government | 111 | 4 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | New Construction Office, Public Works | 194,283 | 77,461 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department, Taipei City Government | | | | | | |
| | Taipei Municipal Secured Small Loans Service | 20,411 | 13,913 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei City Government | 29,845,110 | 6,845,110 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department Of Urban Development, Taipei City Government | 4,505,478 | 3,432,314 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taiwan High Speed Rail Co., Ltd. | 19,141,992 | 19,141,992 | ✓ | - | Approval by contract | Approval by contract |
| | Fubon Land Development Co., Ltd. | 800,000 | 330,000 | ✓ | - | Construction land | None |
| Total | | <u>\$ 64,854,054</u> | <u>40,176,695</u> | | <u>-</u> | | |

| Name of related party | Amount | 2007 | |
|----------------------------|-------------------|--------------------------------------|----------------------------|
| | | Interest rate / service fee rate (%) | Interest revenue (expense) |
| Guarantees and acceptances | \$ <u>991,163</u> | 0.775~0.85 | <u>9,390</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| December 31, 2007 | | | | | |
|-------------------------------------|--|-------------------|---------------------|------------|-----------------------|
| Related party | Highest balance in current period | Ending balance | Provision (note) | Rate (%) | Type of collateral |
| Taiwan High Speed Rail Co., Ltd. | \$ <u>1,065,718</u> | <u>991,163</u> | <u>-</u> | 0.775~0.85 | None |

| Name of related party | Amount | 2006 Interest rate / service fee rate (%) | Interest revenue (expense) |
|-----------------------|----------------------|--|----------------------------------|
| Deposits | \$ <u>37,698,717</u> | 0~7.25 | <u>(201,842)</u> |
| Due from other bank | \$ <u>1,360,865</u> | 1.42~4.2 | <u>2,032</u> |
| Loans | \$ <u>48,378,486</u> | 1.35~8.13 | <u>1,010,664</u> |

| December 31, 2006 | | | | | | | |
|---------------------------|---|--------------------|-------------------|--------|---------|-------------------------------|--|
| Category | Amount or Name or Related Party | Highest Balance | Ending Balance | Normal | Overdue | Type of Collateral | Differences in transaction terms between related and nonrelated parties |
| Employee consumer loan | 58 | \$ 17,436 | 17,436 | ✓ | - | Credit | None |
| House mortgages | 134 | 518,309 | 511,592 | ✓ | - | Land and buildings | None |
| Others | Department of Rapid Transit Systems, TCG | 2,544,841 | 2,486,507 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Maintenance Office, Public Works | 1,940,000 | 1,940,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department, Taipei City Government | 993,156 | 945,120 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Water Department, Taipei City Government | 194,283 | 194,283 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | New Construction Office, Public Works | 25,602 | 20,594 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department, Taipei City Government | 7,500,000 | 7,500,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei Municipal Secured Small Loans Service | 26,245,110 | 14,245,110 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department Of Finance, Taipei City Government | 3,600,000 | 430,000 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei City Government | 5,427,771 | 4,661,095 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | House mortgages of Taipei City Government | 4,661,095 | 4,661,095 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Taipei City Government employees | 4,661,095 | 4,661,095 | ✓ | - | Public treasury guarantees | Public treasury guarantees |
| | Department of Urban Development, Taipei City Government | 4,661,095 | 4,661,095 | ✓ | - | Public treasury guarantees | Public treasury guarantees |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| December 31, 2006 | | | | | | | |
|-------------------|----------------------------------|----------------------|-------------------|--------|----------|-------------------------|---|
| Category | Amount or Name or Related Party | Highest Balance | Ending Balance | Normal | Overdue | Type of Collateral | Differences in transaction terms between related and nonrelated parties |
| Others | Taiwan High Speed Rail Co., Ltd. | 11,651,749 | 11,651,749 | ✓ | - | Approval by contract | Approval by contract |
| | TFN Media Co., Ltd. | 500,000 | 475,000 | ✓ | - | Land and buildings | None |
| | Fubon Land Development Co., Ltd. | 800,000 | 800,000 | ✓ | - | Construction land | None |
| | Taiwan Fixed Network Co., Ltd. | 2,500,000 | 2,500,000 | ✓ | - | Machinery and equipment | None |
| Total | | <u>\$ 64,458,257</u> | <u>48,378,486</u> | | <u>-</u> | | |

| Name of related party | Amount | 2006 | |
|----------------------------|-------------------|--------------------------------------|----------------------------|
| | | Interest rate / service fee rate (%) | Interest revenue (expense) |
| Guarantees and acceptances | \$ <u>911,218</u> | 0.775~0.85 | <u>233</u> |

| December 31, 2006 | | | | | |
|----------------------------------|-----------------------------------|----------------|------------------|------------|--------------------|
| Related party | Highest balance in current period | Ending balance | Provision (note) | Rate (%) | Type of collateral |
| Taiwan High Speed Rail Co., Ltd. | \$ <u>911,218</u> | <u>911,218</u> | <u>-</u> | 0.775~0.85 | None |

- b) Bond transactions between Taipei Fubon Bank and its related parties were as follows:

| Name of related party | Transaction types | 2007 | 2006 |
|------------------------|--|---------|-----------|
| Fubon Life Assurance | Bonds purchased | \$ - | 1,505,747 |
| Fubon Asset Management | Bonds purchased | - | 213,248 |
| Fubon Securities | Bonds purchased | 614,707 | 569,090 |
| Taiwan High Speed Rail | Bonds sold under repurchase agreements | 195,600 | 540,000 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Fund transactions

| Name of related party | December 31, 2007 | December 31, 2006 |
|----------------------------------|----------------------------|-------------------------|
| Fubon I REIT Securitization Fund | \$ 616,599 | 615,446 |
| Fubon Fund | <u>488,225</u> | <u>567,490</u> |
| | \$ <u>1,104,824</u> | <u>1,182,936</u> |

d) Derivatives

Derivative contracts between Taipei Fubon Bank and its related parties as of December 31, 2007 and 2006 were as follows:

| Name of fund | Financial instruments | December 31, 2007 | December 31, 2006 |
|----------------------------------|------------------------------------|----------------------|----------------------|
| Fubon Securities Co., Ltd. | Interest rate swap contract | \$ 19,560,000 | 17,386,500 |
| Taiwan Fixed Network Co., Ltd. | Interest rate swap contract | - | 500,000 |
| Fubon Insurance Co., Ltd. | Foreign currency swap contract | 1,627,877 | 1,519,268 |
| Fubon Life Assurance Co., Ltd. | Interest rate swap contract | 500,000 | - |
| Fubon Life Assurance Co., Ltd. | Foreign currency swap contract | 7,088,406 | 7,470,440 |
| Fubon Life Assurance Co., Ltd. | Forward foreign exchange contract | 1,295,961 | - |
| Fubon Bank (Hong Kong) | Options | 13,853,771 | - |
| Fubon Bank (Hong Kong) | Forward foreign exchange contracts | 1,529,094 | - |
| Fubon Asset Management Co., Ltd. | Foreign currency swap contract | - | 649,300 |
| Taiwan High Speed Rail Co., Ltd. | Forward foreign exchange contract | 649,680 | - |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

e) Insurance

Insurance contracts with Fubon Insurance were as follows:

| | | 2007 | |
|--|----------------------|-----------------------|--------------------------|
| Insured items | Insured years | Insured amount | Insurance expense |
| Cash | 2007.4.20~2008.4.20 | \$ 300,000 | 850 |
| Safety deposit box liability insurance | 2007.4.20~2008.4.20 | 150,000 | 762 |
| Electrical equipment insurance | 2006.11.1~2007.11.1 | 2,758,613 | 6,897 |
| Electrical equipment insurance | 2007.11.1~2008.11.1 | 3,027,667 | 6,055 |
| Fire insurance | 2007.4.20~2008.4.20 | 4,894,454 | 2,943 |
| Liability insurance | 2007.4.20~2008.4.20 | 168,000 | 800 |
| Banking insurance | 2007.4.20~2008.4.20 | 272,000 | 12,150 |
| | | 2006 | |
| Insured items | Insured years | Insured amount | Insurance expense |
| Cash | 2006.4.20~2007.4.20 | \$ 300,000 | 850 |
| Safety deposit box liability insurance | 2006.4.20~2007.4.20 | 150,000 | 773 |
| Electrical equipment insurance | 2005.11.1~2006.11.1 | 2,879,761 | 7,199 |
| Electrical equipment insurance | 2006.11.1~2007.11.1 | 2,758,613 | 6,897 |
| Fire insurance | 2006.4.20~2007.4.20 | 5,580,128 | 3,293 |
| Liability insurance | 2006.4.20~2007.4.20 | 168,000 | 863 |
| Banking insurance | 2006.4.20~2007.4.20 | 272,000 | 12,150 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

f) Disposal of non-performing loans

Related party: Fubon Asset Management Service Co., Ltd.

Disposal date: January 9, 2007

For the year ended December 31, 2007

| | | | Amount | Carrying amount | Price allocation |
|------------|-----------------|--------------------|-----------|--------------------|---------------------|
| Enterprise | Secured | | \$ - | - | - |
| | Non-secured | | - | - | - |
| General | Secured | House mortgages | - | - | - |
| | | Car loans | - | - | - |
| | | Others | - | - | - |
| | Non- secured | Credit cards | 1,303,109 | - | 51,166 |
| | | Cash cards | 394,630 | - | 15,494 |
| | | Micro credit | - | - | - |
| | | Others | - | - | - |
| Total | | | 1,697,739 | - | 66,660 |

Related party: Fubon Asset Management Service Co., Ltd.

Disposal date: March 23, 2006

For the year ended December 31, 2006

| | | | Amount | Carrying amount | Price allocation |
|------------|-----------------|--------------------|---------|--------------------|---------------------|
| Enterprise | Secured | | \$ - | - | - |
| | Non-secured | | - | - | - |
| General | Secured | House mortgages | 103,897 | 103,757 | 82,020 |
| | | Car loans | - | - | - |
| | | Others | - | - | - |
| | Non- secured | Credit cards | - | - | - |
| | | Cash cards | - | - | - |
| | | Micro credit | - | - | - |
| | | Others | - | - | - |
| Total | | | 103,897 | 103,757 | 82,020 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Related party: Fubon Asset Management Service Co., Ltd.

Disposal date: April 20, 2006

For the year ended December 31, 2006

| | | | Amount | Carrying amount | Price allocation |
|------------|-------------|--------------|---------|--------------------|---------------------|
| Enterprise | Secured | | \$ - | - | - |
| | Non-secured | | - | - | - |
| General | Secured | House | 266,149 | 264,866 | 204,625 |
| | | mortgages | | | |
| | | Car loans | - | - | - |
| | | Others | - | - | - |
| | Non-secured | Credit cards | - | - | - |
| | | Cash cards | - | - | - |
| | | Micro credit | - | - | - |
| | | Others | - | - | - |
| Total | | | 266,149 | 264,866 | 204,625 |

Related party: Fubon Asset Management Service Co., Ltd.

Disposal date: July 17, 2006

For the year ended December 31, 2006

| | | | Amount | Carrying amount | Price allocation |
|------------|-------------|--------------|-----------|--------------------|---------------------|
| Enterprise | Secured | | \$ - | - | - |
| | Non-secured | | - | - | - |
| General | Secured | House | - | - | - |
| | | mortgages | | | |
| | | Car loans | - | - | - |
| | | Others | - | - | - |
| | Non-secured | Credit cards | 824,691 | - | 33,164 |
| | | Cash cards | - | - | - |
| | | Micro credit | 639,468 | - | 25,716 |
| | | Others | - | - | - |
| Total | | | 1,464,159 | - | 58,880 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Fubon Bank (Hong Kong)

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|------------------------------|--------------------------------------|
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the Company |

(b) Significant transactions with related parties

Significant transactions with related parties as of and for the years ended December 31, 2007 and 2006 were as follows:

| | December 31, 2007 | December 31, 2006 |
|-------------------------------------|------------------------------|------------------------------|
| Taipei Fubon Bank Co., Ltd. Deposit | HKD <u>23,994</u> | HKD <u>396,437</u> |
| FB Gemini Capital Ltd. Deposit | HKD <u>28,603</u> | HKD <u>3,177</u> |
| FB Gemini Securities Ltd. Deposit | HKD <u>7</u> | HKD <u>25,536</u> |

7. Fubon Asset Management Service

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|------------------------------|--------------------------------------|
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the Company |

(b) Significant transactions with related parties as of and for the years ended December 31, 2007 and 2006 were as follows:

Deposits

For the years ended December 31, 2007 and 2006, the deposits in and bonds purchased under resell agreements from Taipei Fubon Bank were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Deposits | \$ <u>146,400</u> | <u>867,603</u> |
| Bonds purchased under resell agreements | \$ <u>151,053</u> | <u>120,184</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8. Fubon Financial Holding Venture Capital

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|--|--------------------------------------|
| Fund managed by Fubon Asset Management Co., Ltd. | An affiliate |

(b) Significant transactions with related parties – financial assets

Funds purchased by Fubon Financial Holding Venture Capital and managed by Fubon Asset Management Co., Ltd. were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|------------------------------|------------------------------|------------------------------|
| Fubon Chi-hsiang Fund | \$ 1,072,686 | 940,119 |
| Fubon Jin-Ju-I Fund | <u>118,349</u> | <u>161,840</u> |
| Total | \$ <u>1,191,035</u> | <u>1,101,959</u> |

9. Fubon Direct Marketing

(a) Name of related party and relationship

| Name of related party | Relationship with the Company |
|---|--------------------------------------|
| Taipei Fubon Bank Co., Ltd. | Subsidiary of the company |
| Fubon Insurance Co., Ltd. | Subsidiary of the company |
| Fu-sheng Life Assurance Agent Co., Ltd. | An affiliate |

(b) Significant transactions with related parties as of and for the years ended December 31, 2007 and 2006 were as follows:

a) Deposits:

| Name of related party | December 31, 2007 | | December 31, 2006 | |
|------------------------------|--------------------------|----------------------|--------------------------|----------------------|
| | Amount | % | Amount | % |
| Taipei Fubon Bank Co., Ltd. | \$ <u>151,194</u> | <u>100.00</u> | <u>109,715</u> | <u>100.00</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Operating revenue:

| Name of related party | 2007 | 2006 |
|---|--------------------------|-----------------------|
| Taipei Fubon Bank Co., Ltd. | \$ 202,146 | 275,309 |
| Fubon Insurance Co., Ltd. | 221,604 | 166,925 |
| Fu-sheng Life Assurance Agent Co., Ltd. | 268,012 | 110,780 |
| | \$ <u>691,762</u> | <u>553,014</u> |

c) Receivables involving operating revenue from related parties were as follows:

| Name of related party | December 31, 2007 | December 31, 2006 |
|---|------------------------------|------------------------------|
| Taipei Fubon Bank Co., Ltd. | \$ 1,744 | 12,649 |
| Fubon Insurance Co., Ltd. | 23,669 | 17,973 |
| Fu-sheng Life Assurance Agent Co., Ltd. | <u>27,900</u> | <u>22,642</u> |
| Total | \$ <u>53,313</u> | <u>53,264</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(35) Pledged Assets

As of December 31, 2007 and 2006, the book values of pledged assets were as follows:

| Pledged assets | Purpose of Pledge | December 31, 2007 | December 31, 2006 |
|--|---|-----------------------------|--------------------------|
| Time deposits (accounted for as refundable deposits) | Lease deposits | \$ - | 500 |
| Time deposits (accounted for as refundable deposits) | Guarantee deposits | 71,603 | 30,870 |
| Time deposits | Bank loans | 443,170 | 231,420 |
| Structured time deposits | Assets backed commercial paper | 200,000 | - |
| Beneficiary certificates (accounted for as financial assets measured at fair value through profit or loss) | Bank loans | 661,879 | 1,321,237 |
| Time deposits (accounted for as available-for-sale financial assets) | Placement with courts of justice for various over-due loan collection cases and National Credit Card Center to secure potential obligation arising from credit card activities | 4,515,762 | 5,890,579 |
| Trading securities (accounted for as financial assets to measured at fair value through profit or loss) | Bank loan | 1,522,500 | 2,805,400 |
| Government bonds | Guarantee deposits | 2,203,323 | 3,916,690 |
| Fixed assets – land and buildings | Bank loans | 1,156,710 | 1,104,463 |
| Leased assets – land and buildings | Bank loans | 440,819 | 433,086 |
| Idle assets – land and buildings | Bank loans | 102,132 | 107,189 |
| | | \$ <u>11,317,898</u> | <u>15,841,434</u> |

For the years ended December 31, 2007 and 2006, operating deposits and refundable deposits in Taipei Fubon Bank Co., Ltd. amounting to \$2,054,800 and \$1,669,500, respectively, were offset when the Company compiled the consolidated financial report.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(36) Contingent Liabilities and Commitments**

1) Legal matters of Fubon Insurance

As of December 31, 2007, Fubon Insurance had several insurance disputes and was requested to pay indemnities amounting to approximately \$1,289,942, of which approximately \$1,144,252 was reinsured. The difference not covered by reinsurance related to these claims had been accrued. These cases were still pending with the district court and had not been resolved as of December 31, 2007.

2) Legal matters of Fubon Life Assurance

As of December 31, 2007, Fubon Life Assurance had 16 important insurance lawsuits for which it was requested to pay total indemnities of approximately \$32,420, which losses had been accrued.

3) Contingent liabilities and commitments of Fubon Securities

1. As of December 31, 2007, Fubon Securities had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be Fubon Securities' first and second proxy. If Fubon Securities is unable to fulfill its obligations to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

Fubon Securities has reciprocated by agreeing to act as the first or second proxy for these companies.

2. There were several disputes that former brokers had with clients due to securities brokerage transactions. The clients filed lawsuits against Fubon Securities for damages amounting to \$19,000. These cases are currently under judicial examination.
3. There were several disputes which brokers of the Futures IB group of Fubon Securities had with clients due to future transactions. However, as of December 31, 2008, no client to filed a lawsuit against Fubon Securities for damages.
4. Customers of Fubon Futures, Mrs. Lin and four other persons, argued that Fubon Futures ought to indemnify them all losses on futures under their accounts in the Company, amounting to \$213,441. According to the Company's appointed attorney's opinion, the losses would be \$0 based on current condition.

In addition, the procurator of the Taipei District Court indicted Fubon Futures and asked for a penalty of \$2,000 because a Fubon Futures broker might have promised clients a gain. In the attorney's opinion, Fubon Futures' losses would be \$0 based on current condition.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

A customer of Fubon Futures, Mr. Li, requested through the Republic of China Arbitration Association that Fubon Futures indemnify him all the losses incurred under Mr. Lin's account, amounting to \$16,435. According to the Company's appointed attorney's opinion, Fubon Futures' losses would be \$0 based on the current condition.

4) Contingent liabilities and commitments of Taipei Fubon Bank

1. As of December 31, 2007, Taipei Fubon Bank had purchased bills and bonds sold under repurchase agreements which should be repurchased before September 18, 2008, amounting to \$58,818,361.

As of December 31, 2007, the Bank's investments in financial assets at fair value through profit or loss and available-for-sale financial assets, net, amounting to \$3,319,800 and \$50,017,200, respectively, had been sold under repurchase agreements.

2. As of December 31, 2007, Taipei Fubon Bank engaged in important construction and purchase contracts amounted to \$439,295, of which \$82,290 was unpaid.
3. Taipei Fubon Bank sold a building in the Neihu District to Land Bank by sell-and-leaseback on March 24, 2006. The gain on disposal of the building amounted to \$297,232, and is recognized during the 3-year leaseback period.
4. Taipei Fubon Bank was designated by the Ministry of Finance (MOF) as the issuing institution of public-welfare sports Lottery from April 16, 2008 to December 31, 2013. According to the announcement of MOF, the Bank must issue the amount of the Sports Lottery no less than \$4,000,000. Otherwise resulted from the un-controllable factors and approved by the authority in charge, the annual profit generating from the sport lottery must reach 80% of the Bank's financial plan every year.
5. As of December 31, 2007 and 2006, trust assets with Taipei Fubon Bank amounted to \$253,434,160 and \$188,625,931, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Balance Sheet of Trust Accounts
December 31, 2007

| | (In thousands of New Taiwan Dollars) | | |
|---|--------------------------------------|---|--------------------|
| | Other trust business | Financial asset and related estate trust plan | Total |
| Trust assets | | | |
| Bank deposits | \$ 18,241 | 577,373 | 595,614 |
| Bonds | - | 88,675,480 | 88,675,480 |
| Stocks | - | 7,585,326 | 7,585,326 |
| Mutual funds | - | 147,052,835 | 147,052,835 |
| Receivables – sale of securities | - | 259 | 259 |
| Real estate | | | |
| Land | 496,400 | 2,848,385 | 3,344,785 |
| Buildings | 103,600 | 12,861 | 116,461 |
| Construction in process | - | 1,910,709 | 1,910,709 |
| Net asset value of collective investment trust fund | - | 4,152,691 | 4,152,691 |
| Total trust assets | <u>\$ 618,241</u> | <u>252,815,919</u> | <u>253,434,160</u> |
| Trust liabilities | | | |
| Payables | \$ 478 | - | 478 |
| Other liabilities | 14,344 | - | 14,344 |
| Trust capital | 600,000 | 251,940,075 | 252,540,075 |
| Reserves and cumulative earnings | | | |
| Net income | 106 | 15,247,226 | 15,247,332 |
| Cumulative earnings | 3,313 | (18,524,073) | (18,520,760) |
| Net asset value of collective investment trust fund | - | 4,152,691 | 4,152,691 |
| Total trust liabilities | <u>\$ 618,241</u> | <u>252,815,919</u> | <u>253,434,160</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust Income Statement
For the year ended December 31, 2007

| | (In thousands of New Taiwan Dollars) | | |
|---|--------------------------------------|--|-------------------|
| | Other trust service | Financial asset and related estate trust plan | Total |
| Trust income | | | |
| Interest income | \$ 23 | 2,744 | 2,767 |
| Rental income | 26,145 | - | 26,145 |
| Cash dividends | - | 2,796,441 | 2,796,441 |
| Realized capital income – common stock | - | 8,265 | 8,265 |
| Realized capital income – mutual fund | - | 4,240,412 | 4,240,412 |
| Gains from asset trading | - | <u>11,671,945</u> | <u>11,671,945</u> |
| Total trust income | <u>26,168</u> | <u>18,719,807</u> | <u>18,745,975</u> |
| Trust expense | | | |
| Trust administrative expense | 742 | 1,067,857 | 1,068,599 |
| Supervision fee | - | 240 | 240 |
| Tax expenses | 1,277 | - | 1,277 |
| Commission and fees | - | 370 | 370 |
| Realized capital loss – common stock | - | 82,514 | 82,514 |
| Income tax expenses | - | 2,853 | 2,853 |
| Losses from asset trading | - | 2,318,747 | 2,318,747 |
| Distribution of beneficiary certificates | 23,218 | - | 23,218 |
| Others | <u>825</u> | <u>-</u> | <u>825</u> |
| Total trust expense | <u>26,062</u> | <u>3,472,581</u> | <u>3,498,643</u> |
| Income before income tax | 106 | 15,247,226 | 15,247,332 |
| Income tax expense | - | - | - |
| Net income | <u>\$ 106</u> | <u>15,247,226</u> | <u>15,247,332</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Balance Sheet of Trust Accounts
December 31, 2006

| | (In thousands of New Taiwan Dollars) | | |
|---|--------------------------------------|---|--------------------|
| | Other trust business | Financial asset and related estate trust plan | Total |
| Trust assets | | | |
| Bank deposits | \$ 18,268 | 2,203,270 | 2,221,538 |
| Bonds | - | 75,266,532 | 75,266,532 |
| Stocks | - | 7,463,422 | 7,463,422 |
| Mutual funds | - | 96,274,445 | 96,274,445 |
| Receivables – sale of securities | - | 37,168 | 37,168 |
| Real estate | | | |
| Land | 496,400 | 2,244,396 | 2,740,796 |
| Buildings | 103,600 | 12,142 | 115,742 |
| Construction in process | - | 142,755 | 142,755 |
| Net asset value of collective investment trust fund | - | 4,363,533 | 4,363,533 |
| Total trust assets | <u>\$ 618,268</u> | <u>188,007,663</u> | <u>188,625,931</u> |
| Trust liabilities | | | |
| Payables | \$ 611 | - | 611 |
| Other liabilities | 14,344 | - | 14,344 |
| Trust capital | 600,000 | 183,772,667 | 184,372,667 |
| Reserves and cumulative earnings | | | |
| Net income | (315) | (63,942) | (64,257) |
| Cumulative earnings | 3,628 | (64,595) | (60,967) |
| Collective investment trust fund | - | 4,363,533 | 4,363,533 |
| Total trust liabilities | <u>\$ 618,268</u> | <u>188,007,663</u> | <u>188,625,931</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust Income Statement
For the year ended December 31, 2007

| | (In thousands of New Taiwan Dollars) | | |
|---|--------------------------------------|---|-----------------|
| | Other trust service | Financial asset and related estate trust plan | Total |
| Trust income | | | |
| Interest income | \$ 23 | 1,603 | 1,626 |
| Rental income | 26,065 | - | 26,065 |
| Cash dividends | - | 18,176 | 18,176 |
| Realized capital income – common stock | - | 14,626 | 14,626 |
| Realized capital income – mutual fund | - | 213 | 213 |
| Others | - | <u>224</u> | <u>224</u> |
| Total trust income | <u>26,088</u> | <u>34,842</u> | <u>60,930</u> |
| Trust expense | | | |
| Trust administrative expense | 744 | 1,710 | 2,454 |
| Supervision fee | - | 50 | 50 |
| Contractual fee | - | 1,681 | 1,681 |
| Tax expenses | 1,226 | 255 | 1,481 |
| Commission and fees | - | 613 | 613 |
| Realized capital loss – common stock | - | 73,851 | 73,851 |
| Income tax expenses | - | 20,111 | 20,111 |
| Architecture agent commission | - | 150 | 150 |
| Architecture fee | - | 280 | 280 |
| Distribution of beneficiary certificates | 23,338 | - | 23,338 |
| Others | <u>1,095</u> | <u>83</u> | <u>1,178</u> |
| Total trust expense | <u>26,403</u> | <u>98,784</u> | <u>125,187</u> |
| Income before income tax | (315) | (63,942) | (64,257) |
| Income tax expense | - | - | - |
| Net loss | <u>\$ (315)</u> | <u>(63,942)</u> | <u>(64,257)</u> |

5) Contingent liabilities and commitments of Fubon Asset Management

1. Structured Asset Investors, LLC signed a contract with Fubon Asset Management under which it is to assist and offer investment recommendations to, and receive consulting income from, Fubon Asset Management.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

2. In order to avoid liquidity risk, Fubon Asset Management sold the bonds with face value of \$9,200,000 (\$9,100,000 belonging to a fund managed by Fubon Asset Management and \$100,000 belonging to Fubon Asset Management) and USD Principal-protected Notes (\$8,200,000 approximately) of Citigroup or its related parties to Capital Securities at book value. Then, Fubon Asset Management entrusted the bonds to Land Bank to establish a specific purpose trust, and Land Bank issued a Collateralized Bond Obligation (CBO) with face value of \$17,400,000. However, if the representations and guaranty conditions in the trust contract are violated, Fubon Asset Management or the appointed third parties should repurchase those NTD bonds. As of December 31, 2007, the related issue cost amounted to \$32,494, recognized as non-operating expense.
3. Fubon Asset Management and Lehman Brothers Financial Consulting entered into a bond business contract, under which Lehman Brothers Financial Consulting commits to sell all bonds before January 31, 2008. As of December 31, 2007, the Company might incur losses resulting from the disposal of the remaining bonds with face value of \$3,000,000 in the future.
4. In order to avoid liquidity risk, Fubon Asset Management decided to sell its bond funds Fubon Ju-I Fund, Fubon Ju-I II Fund, Fubon Ju-I III Fund, Fubon Millennium Dragon Fund, Fubon Chi-hsiang I Fund, and Fubon Chi-hsiang III Fund, totaling NT\$18,100 million, to Fubon Life Assurance and other counter parties, and planned to subsidize the yield spread with its own capital. Approval from the Financial Supervisory Commission (FSC) for the above-mentioned transaction was obtained on February 24, 2006. Fubon Asset Management committed to pay Fubon Life Assurance at a yield of 90-day CP+20BP, and this yield is to pay at the end of each quarter from the settlement date to the maturity date. In 2007 and 2006, the compensation losses amounted to \$288,298 and \$197,808, respectively, recognized as non-operating expense. In 2007, Fubon Asset Management entrusted the bonds with face value of \$2,950,000 to Lehman Brothers Financial Consulting. Among the entrusted bonds, the bonds with face value of \$1,850,000 were planned to sell to Fubon Life Assurance in the near future, and the estimated loss on disposal of such bonds amounted to \$197,635. Aforementioned transactions have already approved by the FSC on January 16, 2008. In accordance with the conservative principal, Fubon Asset Management recognized the relevant losses as a non-operating expense amounting to \$246,500. As approved by FSC in 2007, Fubon Asset Management had recognized additional losses of \$44,580 and the relevant expenses of \$66,947, in non-operating expense, based on the bond sold to the third parties with face value of \$1,000,000.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. On January 27, 2006, Fubon Asset Management was punished by the Financial Supervisory Commission, for buying back its funds by using insider information. Fubon Asset Management was fined \$3,600 in accordance with the Securities Investment Trust and Consulting Act, Article 113, paragraph 2, and Article 111, paragraph 4. In addition, the managers who were involved in this case were also prohibited from performing such job duties for three months to one year in accordance with the Securities Investment Trust Act, Article 104. On March 6, 2006, Fubon Asset Management replied to the FSC regarding the insider trading. Fubon Asset Management took the disciplinary action against those who were involved in the trading and submitted its plans to improve its internal control. In addition, to show its sincerity, Fubon Asset Management stated that beneficiaries who held Fubon Fu-Tai Fund as of October 18, 2005, were allowed to receive a reward of NT\$0.0748 dollar for every unit. As of December 31, 2007 and 2006, rewards of \$75 and \$31,858, respectively, had been paid and recognized as non-operating expense.

6) Operating leases

The lease contracts for office space have expiry dates through 2011. The future lease payments for these contracts are approximately as follows:

| | Amount |
|--|----------------------------|
| From January 1, 2008, to December 31, 2008 | \$ 1,981,435 |
| From January 1, 2009, to December 31, 2009 | 1,208,385 |
| From January 1, 2010, to December 31, 2010 | 677,350 |
| From January 1, 2011, to December 31, 2011 | 372,215 |
| From January 1, 2012, to December 31, 2012 | <u>181,515</u> |
| | \$ <u>4,420,900</u> |

(37) Other

1) Summary of personnel costs and depreciation, depletion and amortization expenses

A summary of personnel costs and depreciation, depletion and amortization expenses for the years ended December 31, 2007 and 2006, is as follows:

| Nature | Function | 2007 | | | 2006 | | |
|----------------------------|----------|--------------------|--------------------|------------|--------------------|--------------------|------------|
| | | Cost of goods sold | Operating expenses | Total | Cost of goods sold | Operating expenses | Total |
| Personnel costs: | | | | | | | |
| Salaries | | 522,950 | 11,368,788 | 11,891,738 | 364,097 | 9,951,793 | 10,315,890 |
| Labor and health insurance | | 38,976 | 406,171 | 445,147 | 27,439 | 388,774 | 416,213 |
| Pension | | 26,446 | 717,968 | 744,414 | 18,034 | 649,388 | 667,422 |
| Other employment costs | | 31,685 | 2,393,598 | 2,425,283 | 22,708 | 2,223,683 | 2,246,391 |
| Depreciation expenses | | 5,235 | 1,404,432 | 1,409,667 | 5,112 | 1,378,346 | 1,383,458 |
| Depletion expenses | | - | - | - | - | - | - |
| Amortization expenses | | 10,512 | 400,028 | 410,540 | 11,815 | 342,040 | 353,855 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

2) Reclassification

To conform to the presentation adopted for the consolidated financial statements as of and for the year ended December 31, 2007, certain items of the financial statements as of December 31, 2006, have been reclassified. The reclassification does not have significant impact on the presentation of the financial statements.

3) Business or trading behaviors within Subsidiaries:

1. Business or trading behaviors:

Please see Note 5 for your reference.

2. Integrate business activities:

The Company changes the operating mode in information cross application and marketing cooperation aspect by established the six business groups of corporate finance, financial market, consumer finance, wealth management, investment and insurance businesses commencing from 2005. Through promoting sales cooperation aggressively, the Company hopes to make marketing cooperation effectively and efficiently.

3. Cross utilization of information:

In support of government's policy for financial holding company and its subsidiaries, the company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on January 1, 2002.

To cope with the change of duties in the company and to enhance the protection of privacy, the agreement was resigned on April 15, 2005. The related information is disclosed on the web sites of any subsidiaries.

In accordance with the Company's self-discipline standard, the Company has completed "the customer exercise back-out option". Customers could notify the Company and its subsidiaries to stop using their personal information among subsidiaries. At the same time this standard is disclosed on the subsidiary's web site.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved in August 2000 and 2001, separately. Taipei Bank and Fubon Bank were officially merged and applied for new operating location in 2005. By now Taipei Fubon Bank had 118 branches, which also operate securities and insurance business; 6 other branches set up insurance counters. They provide securities and insurance services in banks. In August 2006, 2 business locations of Fubon Insurance set up bank counters which provided bank related service. In December 2007, Fubon Insurance applied to cancel the bank operation in these business locations.

5. Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries. The estimated amount as of December 31, 2007 was as follows:

Fubon Insurance paid to other subsidiaries amounting to \$99,876, Taipei Fubon Bank paid to other subsidiaries amounting to \$7,395, Fubon Life Assurance paid to other subsidiaries amounting to \$44,344, Fubon Securities paid to other subsidiaries amounting to \$19,870, Fubon Asset Management paid to other subsidiaries amounting to \$2,491.

(a) Capital adequacy ratios

As of December 31, 2007
(Expressed in millions of New Taiwan dollars)

| Item | Ownership interest | Eligible capital | Legal capital |
|--|--------------------|------------------|---------------|
| The Company | 100.00% | 165,700 | 169,786 |
| Taipei Fubon Bank | 100.00% | 69,429 | 58,123 |
| Fubon Bank (HK) | 75.00% | 16,419 | 9,110 |
| Fubon Securities | 100.00% | 27,407 | 10,869 |
| Fubon Insurance and Fubon Life Assurance | 100.00% | 39,569 | 17,806 |
| Fubon Asset Management | 100.00% | 597 | 522 |
| Fubon Financial Holding Venture Capital | 91.67% | 1,896 | 950 |
| Others | 100.00% | 2,836 | 2,826 |
| Less: deductible item | | (170,175) | (169,143) |
| Subtotal | | 153,678 | 100,849 |
| Consolidated capital adequacy ratios | | | 152.38% |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2006
(Expressed in millions of New Taiwan dollars)

| Item | Ownership interest | Eligible capital | Legal capital |
|--|--------------------|------------------|---------------|
| The Company | 100.00% | 163,514 | 173,403 |
| Taipei Fubon Bank | 100.00% | 69,681 | 49,679 |
| Fubon Bank (HK) | 75.00% | 14,706 | 7,087 |
| Fubon Securities | 100.00% | 25,535 | 10,117 |
| Fubon Insurance and Fubon Life Assurance | 100.00% | 39,796 | 15,154 |
| Fubon Asset Management | 100.00% | 1,075 | 612 |
| Fubon Financial Holding Venture Capital | 91.67% | 1,618 | 811 |
| Others | 100.00% | 2,813 | 3,716 |
| Less: deductible item | | (167,465) | (166,586) |
| Subtotal | | 151,273 | 93,993 |
| Consolidated capital adequacy ratios | | | 160.94% |

(b) Eligible capital

| Item | Amount | |
|-------------------------------|-------------------|-------------------|
| | December 31, 2007 | December 31, 2006 |
| Common stock | 77,190,935 | 77,190,935 |
| Capital surplus | 49,092,515 | 49,091,107 |
| Legal reserve | 19,438,395 | 18,598,404 |
| Special reserve | 2,048,871 | 2,764,494 |
| Accumulated profit | 15,043,320 | 8,464,604 |
| Equity adjustments | 2,914,257 | 7,422,181 |
| Less: Deferred assets | (27,848) | (17,430) |
| Consolidated eligible capital | 165,700,445 | 163,514,295 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Financial information classified by business type:

2007

| Item | Banking | Insurance | Securities | Others | Consolidation |
|--|------------|------------|------------|-------------|---------------|
| Interest income | 20,738,835 | 8,219,411 | 1,618,027 | (25,157) | 30,551,116 |
| Non-interest income | 12,005,434 | 84,404,775 | 7,487,466 | 601,837 | 104,499,512 |
| Net revenue | 32,744,270 | 92,624,186 | 9,105,493 | 576,679 | 135,050,628 |
| Bad debt expense | 10,461,161 | - | - | - | 10,461,161 |
| Provision for insurance reserve | - | 79,662,568 | - | - | 79,662,568 |
| Operating expense | 15,025,098 | 5,666,169 | 4,601,516 | 1,758,558 | 27,051,341 |
| Net income before cumulative effect of changes in accounting principle, and income tax | 8,322,547 | 7,295,449 | 4,503,977 | (2,246,415) | 17,875,558 |
| Income tax expense | 1,128,160 | 776,811 | 755,442 | 164,613 | 2,805,026 |
| Cumulative effect of changes in accounting principle | - | - | - | - | - |
| Acquisition income | 6,129,851 | 6,518,638 | 3,748,535 | (1,346,492) | 15,050,532 |

2006 (restated)

| Item | Banking | Insurance | Securities | Others | Consolidation |
|--|------------|------------|------------|-------------|---------------|
| Interest income | 21,168,981 | 7,032,589 | 1,382,794 | (199,057) | 29,385,307 |
| Non-interest income | 9,373,044 | 75,609,407 | 6,414,947 | 960,844 | 92,358,242 |
| Net revenue | 30,542,025 | 82,641,996 | 7,797,741 | 761,787 | 121,743,549 |
| Bad debt expense | 15,308,514 | - | - | - | 15,308,514 |
| Provision for insurance reserve | - | 71,951,816 | - | - | 71,951,816 |
| Operating expense | 13,941,115 | 5,238,843 | 4,111,822 | 1,532,534 | 24,824,314 |
| Net income before cumulative effect of changes in accounting principle, and income tax | 1,292,395 | 5,451,337 | 3,685,919 | (770,746) | 9,658,905 |
| Income tax expense | (572,777) | 643,702 | 1,121,965 | 313,363 | 1,506,253 |
| Cumulative effect of changes in accounting principle | 454,329 | 55,747 | 132,038 | 21,767 | 663,881 |
| Acquisition income | 2,319,502 | 4,863,382 | 2,695,992 | (1,062,343) | 8,816,533 |

(Continued)

5) Financial statements of Fubon Financial Holding Co., Ltd.

FUBON FINANCIAL HOLDING CO., LTD.**Balance Sheets****December 31, 2007 and 2006****(expressed in thousands of New Taiwan dollars)**

| Assets | 2007 | 2006 | Change of percentage | Liabilities and Stockholders' Equity | 2007 | 2006 | Change of percentage |
|---|------------------------------|---------------------------|-------------------------|--|------------------------------|---------------------------|-------------------------|
| Cash and cash equivalents | \$ 2,518,073 | 1,429,099 | 76 | Payables | \$ 4,932,114 | 4,356,955 | 13 |
| Financial assets measured at fair value through profit or loss | 491,324 | - | - | Bonds payable | 11,000,000 | 11,000,000 | - |
| Bonds and bills purchased under resell agreements | 5,243,870 | 6,656,312 | (21) | Other liabilities | <u>869,216</u> | <u>154,803</u> | 461 |
| Receivables, net | 4,862,943 | 4,200,435 | 16 | Total liabilities | <u>16,801,330</u> | <u>15,511,758</u> | 8 |
| Available-for-sale financial assets, net | 97,913 | - | - | Total stockholders' equity: | | | |
| Long-term investment under equity method | 169,142,860 | 166,585,712 | 2 | Common stock | <u>77,190,935</u> | <u>77,190,935</u> | - |
| Other financial assets, net | 13,400 | 14,064 | (5) | Capital surplus | <u>49,092,515</u> | <u>49,091,107</u> | - |
| Fixed assets, net | 73,025 | 102,089 | (28) | Retained earnings: | | | |
| Intangible assets, net | 9,822 | 13,024 | (25) | Legal reserve | 19,438,395 | 18,598,404 | 5 |
| Other assets, net | 76,393 | 42,748 | 79 | Special reserve | 2,048,871 | 2,764,494 | (26) |
| | | | | Unappropriated retained earnings | <u>15,043,320</u> | <u>8,464,604</u> | 78 |
| | | | | | <u>36,530,586</u> | <u>29,827,502</u> | 22 |
| | | | | Equity adjustments | | | |
| | | | | Cumulative foreign currency translation adjustments | (374,525) | (259,270) | 44 |
| | | | | Unrealized gain (losses) on financial instruments | 3,480,717 | 7,696,033 | (55) |
| | | | | Net loss from unrecognized pension cost | <u>(191,935)</u> | <u>(14,582)</u> | 1,216 |
| | | | | | <u>2,914,257</u> | <u>7,422,181</u> | (61) |
| | | | | Total stockholders' equity | <u>165,728,293</u> | <u>163,531,725</u> | - |
| Total Assets | \$ <u>182,529,623</u> | <u>179,043,483</u> | 2 | Total Liabilities and Stockholders' Equity | \$ <u>182,529,623</u> | <u>179,043,483</u> | 2 |

(Continued)

FUBON FINANCIAL HOLDING CO., Ltd.

Income Statements

For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

| | 2007 | 2006 | Change of percentage |
|---|-----------------------------|-------------------------|-------------------------|
| Revenue: | | | |
| Income from equity investments under equity method | \$ 14,846,854 | 9,256,277 | 60 |
| Other revenue | <u>182,060</u> | <u>58,399</u> | 212 |
| | <u>15,028,914</u> | <u>9,314,676</u> | 61 |
| Expense: | | | |
| Operating expense | 387,629 | 486,977 | (20) |
| Other expense and loss | <u>233,879</u> | <u>242,796</u> | (4) |
| | <u>621,508</u> | <u>729,773</u> | (15) |
| Net income before income tax | 14,407,406 | 8,584,903 | 68 |
| Income tax expense (gain) | <u>(24,173)</u> | <u>185,000</u> | (113) |
| Net income | \$ <u>14,431,579</u> | <u>8,399,903</u> | 72 |
| | Before tax | After tax | Before tax |
| | After tax | Before tax | After tax |
| Earnings per share – basic | \$ <u>1.87</u> | <u>1.87</u> | <u>1.11</u> |
| | | <u>1.09</u> | |

(Continued)

FUBON FINANCIAL HOLDING CO., Ltd.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

| | Common Stock | Common Stock for Write-off | Retained earnings | | | | Unrealized Gains or Losses on Financial Instruments | Cumulative Foreign Currency Translation Adjustments | Unrecognized Pension Cost | Treasury Stock | Total |
|---|----------------------|----------------------------------|--------------------|-------------------|--------------------|--|---|---|------------------------------|-------------------|--------------------|
| | | | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Retained Earnings | | | | | |
| Balance on January 1, 2006 | 80,652,974 | (3,462,039) | 51,016,628 | 17,534,279 | 2,690,758 | 8,161,247 | (871,128) | (86,106) | (32,241) | - | 155,604,372 |
| Appropriation of retained earnings: | | | | | | | | | | | |
| Legal reserve | - | - | - | 1,064,125 | - | (1,064,125) | - | - | - | - | - |
| Special reserve | - | - | - | - | 73,736 | (73,736) | - | - | - | - | - |
| Cash dividends | - | - | (1,929,773) | - | - | (6,947,184) | - | - | - | - | (8,876,957) |
| Employee bonuses | - | - | - | - | - | (2,000) | - | - | - | - | (2,000) |
| Remuneration to directors and supervisors | - | - | - | - | - | (9,501) | - | - | - | - | (9,501) |
| Capital surplus from long-term equity investments under equity method | - | - | 4,252 | - | - | - | - | - | - | - | 4,252 |
| Unrealized gains or losses from remeasure of financial assets | - | - | - | - | - | - | 8,567,161 | - | - | - | 8,567,161 |
| Cumulative foreign currency translation adjustments | - | - | - | - | - | - | - | (173,164) | - | - | (173,164) |
| Change in unrecognized pension cost | - | - | - | - | - | - | - | - | 17,659 | - | 17,659 |
| Retirement of treasury stock in 2005 | (3,462,039) | 3,462,039 | - | - | - | - | - | - | - | - | - |
| Net income of 2006 | - | - | - | - | - | 8,399,903 | - | - | - | - | 8,399,903 |
| Balance on December 31, 2006 | <u>77,190,935</u> | <u>-</u> | <u>49,091,107</u> | <u>18,598,404</u> | <u>2,764,494</u> | <u>8,464,604</u> | <u>7,696,033</u> | <u>(259,270)</u> | <u>(14,582)</u> | <u>-</u> | <u>163,531,725</u> |
| Appropriation of retained earnings: | | | | | | | | | | | |
| Legal reserve | - | - | - | 839,991 | - | (839,991) | - | - | - | - | - |
| Special reserve | - | - | - | - | (715,623) | 715,623 | - | - | - | - | - |
| Cash dividends | - | - | - | - | - | (7,719,093) | - | - | - | - | (7,719,093) |
| Employee bonuses | - | - | - | - | - | (2,000) | - | - | - | - | (2,000) |
| Remuneration to directors and supervisors | - | - | - | - | - | (7,402) | - | - | - | - | (7,402) |
| Capital surplus from long-term equity investments under equity method | - | - | 1,408 | - | - | - | - | - | - | - | 1,408 |
| Unrealized gains or losses from remeasure of financial assets | - | - | - | - | - | - | (4,215,316) | - | - | - | (4,215,316) |
| Cumulative foreign currency translation adjustments | - | - | - | - | - | - | - | (115,255) | - | - | (115,255) |
| Change in unrecognized pension cost | - | - | - | - | - | - | - | - | (177,353) | - | (177,353) |
| Net income of 2007 | - | - | - | - | - | 14,431,579 | - | - | - | - | 14,431,579 |
| Balance on December 31, 2006 | <u>\$ 77,190,935</u> | <u>-</u> | <u>49,092,515</u> | <u>19,438,395</u> | <u>2,048,871</u> | <u>15,043,320</u> | <u>3,480,717</u> | <u>(374,525)</u> | <u>(191,935)</u> | <u>-</u> | <u>165,728,293</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Statements of Cash Flows

For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

| | 2007 | 2006 |
|---|---------------------|--------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 14,431,579 | 8,399,903 |
| Adjustments to reconcile net income to net cash: | | |
| Amortization and other depreciation | 38,939 | 22,080 |
| Investment income accounted for under equity method evaluation under (exceed) cash dividend received | (7,064,082) | 7,801 |
| Loss on investment impairment | 664 | - |
| Increase in receivables | (662,508) | (2,058,863) |
| Decrease in other financial assets | - | 43,936 |
| Increase in other assets | (37,557) | (18,921) |
| Increase in payables | 573,159 | 2,057,399 |
| Increase in other liabilities | 714,413 | 103,663 |
| Increase in financial assets at fair value through profit or loss | <u>(491,324)</u> | <u>-</u> |
| Net cash flows provided by operating activities | <u>7,503,283</u> | <u>8,556,998</u> |
| Cash flows from investing activities: | | |
| Decrease (increase) in bonds and bills purchased under resell agreements | 1,412,442 | (6,046,805) |
| Purchase of fixed assets | (911) | (74,748) |
| Purchase of intangible assets | (1,850) | (14,700) |
| Increase in available-for-sale financial assets | <u>(97,495)</u> | <u>-</u> |
| Net cash flows provided by (used in) investing activities | <u>1,312,186</u> | <u>(6,136,253)</u> |
| Cash flows from financing activities: | | |
| Repaid commercial paper | - | (2,297,598) |
| Proceeds from subsidiary's capital reduction | - | 10,000,000 |
| Payment of employee bonus | - | (2,000) |
| Payment of remuneration for directors and supervisors | (7,402) | (9,501) |
| Payment of cash dividend | <u>(7,719,093)</u> | <u>(8,876,957)</u> |
| Net cash flows used in financing activities | <u>(7,726,495)</u> | <u>(1,186,056)</u> |
| Net increase in cash and cash equivalents | 1,088,974 | 1,234,689 |
| Cash and cash equivalents at beginning of period | <u>1,429,099</u> | <u>194,410</u> |
| Cash and cash equivalents at end of period | <u>\$ 2,518,073</u> | <u>1,429,099</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash payments of interest | <u>\$ 213,701</u> | <u>233,797</u> |
| Cash payments of income tax | <u>\$ 34,156</u> | <u>608,814</u> |
| Financial and investing activities not affecting cash: | | |
| Declaration of cash dividend | <u>\$ 2,000</u> | <u>-</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6) Subsidiaries' condensed consolidated balance sheets and statements of income

1. Condensed balance sheets

| | Taipei Fubon Bank | |
|---|--------------------------------|-----------------------------|
| | December | December |
| | 31, 2007 | 31, 2006 |
| Cash and cash equivalents | \$ 15,059,774 | 19,244,303 |
| Due from Central Bank and call loans to banks | 205,109,450 | 239,834,761 |
| Financial assets measured at fair value through profit or loss | 20,642,620 | 27,409,369 |
| Bonds and bills purchased under resell agreements | - | 29,943 |
| Receivable, net | 66,298,539 | 62,802,976 |
| Loans, net | 657,051,262 | 611,022,779 |
| Available-for-sale financial assets, net | 85,559,042 | 75,181,582 |
| Held-to-maturity investment, net | 5,883,418 | 4,808,219 |
| Investment under equity method, net | 1,110,570 | 721,054 |
| Other financial assets – net | 27,925,162 | 27,387,497 |
| Fixed asset – net (including intangible assets) | 13,913,061 | 14,097,604 |
| Other asset – net | 1,187,779 | 2,391,888 |
| Total assets | \$ <u>1,099,740,677</u> | <u>1,084,931,975</u> |
| Due to Central Bank and other banks | \$ 59,806,880 | 66,801,543 |
| Borrowings from Central Bank and other banks | 11,803,415 | 6,029,171 |
| Financial liabilities measured at fair value through profit or loss | 7,604,838 | 4,315,206 |
| Bonds and bills sold under repurchase agreements | 58,747,528 | 56,056,537 |
| Payable | 25,836,669 | 33,082,159 |
| Deposits | 817,128,646 | 775,913,572 |
| Financial bonds | 38,760,256 | 63,331,217 |
| Other financial liabilities | 2,814,179 | 3,952,027 |
| Other liabilities | 2,143,835 | 3,171,461 |
| Total liabilities | <u>1,024,646,246</u> | <u>1,012,652,893</u> |
| Common stock | 39,627,167 | 39,627,167 |
| Capital surplus | 21,935,212 | 21,935,212 |
| Retained earnings | 13,458,832 | 10,408,336 |
| Equity adjustment item | 73,220 | 308,367 |
| Total stockholders' equity | <u>75,094,431</u> | <u>72,279,082</u> |
| Total liabilities and stockholders' equity | \$ <u>1,099,740,677</u> | <u>1,084,931,975</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Fubon Insurance | |
|---|------------------------------|------------------------------|
| | December 31, 2007 | December 31, 2006 |
| Current assets | \$ 27,845,940 | 22,444,547 |
| Funds and investments | 23,602,172 | 24,609,812 |
| Fixed assets (including intangible assets) | 1,446,069 | 1,525,232 |
| Other assets | <u>1,553,628</u> | <u>3,009,981</u> |
| Total assets | \$ <u>54,447,809</u> | <u>51,589,572</u> |
| Current liabilities | \$ 8,342,788 | 7,056,605 |
| Long-term liabilities | 50,495 | 24,987 |
| Reserve for operations | 24,639,141 | 22,699,022 |
| Other liabilities | <u>176,526</u> | <u>178,266</u> |
| Total liabilities | <u>33,208,950</u> | <u>29,958,880</u> |
| Common stock | 8,178,396 | 8,178,396 |
| Capital surplus | 8,318,907 | 8,318,907 |
| Retained earnings | 3,146,286 | 3,608,417 |
| Equity adjustment item | <u>1,595,270</u> | <u>1,524,972</u> |
| Total stockholders' equity | <u>21,238,859</u> | <u>21,630,692</u> |
| Total liabilities and stockholders' equity | \$ <u>54,447,809</u> | <u>51,589,572</u> |
| | Fubon Life Assurance | |
| | December 31, 2007 | December 31, 2006 |
| Current assets | \$ 72,818,816 | 57,660,014 |
| Loans | 19,689,159 | 13,322,095 |
| Funds and investments | 165,634,045 | 174,422,809 |
| Fixed assets (including intangible assets) | 718,072 | 734,462 |
| Other assets | <u>68,196,800</u> | <u>49,120,423</u> |
| Total assets | \$ <u>327,056,892</u> | <u>295,259,803</u> |
| Current liabilities | \$ 5,503,436 | 5,685,018 |
| Long-term liabilities | 458,736 | 617,494 |
| Reserve for operations | 236,451,239 | 220,912,486 |
| Other liabilities | <u>66,626,758</u> | <u>47,979,474</u> |
| Total liabilities | <u>309,040,169</u> | <u>275,194,472</u> |
| Common stock | 5,648,000 | 5,648,000 |
| Capital surplus | 5,131,848 | 5,131,848 |
| Retained earnings | 5,283,361 | 3,609,690 |
| Equity adjustment item | <u>1,953,514</u> | <u>5,675,793</u> |
| Total stockholders' equity | <u>18,016,723</u> | <u>20,065,331</u> |
| Total liabilities and stockholders' equity | \$ <u>327,056,892</u> | <u>295,259,803</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Fubon Securities | |
|---|-------------------------------|------------------------------|
| | December 31, 2007 | December 31, 2006 |
| Current assets | \$ 54,869,705 | 51,705,044 |
| Funds and investments | 4,296,629 | 4,130,741 |
| Fixed assets (including intangible assets) | 2,012,229 | 2,019,763 |
| Other assets | <u>2,548,643</u> | <u>2,692,106</u> |
| Total assets | \$ <u>63,727,206</u> | <u>60,547,654</u> |
| Current liabilities | \$ 27,961,504 | 26,617,669 |
| Long-term liabilities | 401,954 | 403,458 |
| Other liabilities | <u>463,404</u> | <u>390,709</u> |
| Total liabilities | <u>28,826,862</u> | <u>27,411,836</u> |
| Common stock | 17,050,000 | 15,500,000 |
| Capital surplus | 6,481,490 | 8,030,082 |
| Retained earnings | 11,542,744 | 9,621,547 |
| Equity adjustment item | <u>(173,890)</u> | <u>(15,811)</u> |
| Total stockholders' equity | <u>34,900,344</u> | <u>33,135,818</u> |
| Total liabilities and stockholders' equity | \$ <u>63,727,206</u> | <u>60,547,654</u> |
| | Fubon Asset Management | |
| | December 31, 2007 | December 31, 2006 |
| Current assets | \$ 460,392 | 681,168 |
| Fixed assets | 12,189 | 6,758 |
| Other assets | <u>572,069</u> | <u>535,936</u> |
| Total assets | \$ <u>1,044,650</u> | <u>1,223,862</u> |
| Current liabilities | \$ 436,341 | 136,804 |
| Other liabilities | <u>11,457</u> | <u>11,887</u> |
| Total liabilities | <u>447,798</u> | <u>148,691</u> |
| Common stock | 555,980 | 555,980 |
| Capital surplus | 337,704 | 337,704 |
| Retained earnings | <u>(296,832)</u> | <u>181,487</u> |
| Total stockholders' equity | <u>596,852</u> | <u>1,075,171</u> |
| Total liabilities and stockholders' equity | \$ <u>1,044,650</u> | <u>1,223,862</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | (HK dollars in thousand) | |
|--|-------------------------------|--------------------------|
| | Fubon Bank (Hong Kong) | |
| | December | December |
| | 31, 2007 | 31, 2006 |
| Cash and cash equivalents | \$ 7,024,601 | 7,818,671 |
| Due from Central Bank and call loans to banks | 740,990 | 1,684,201 |
| Financial assets measured at fair value through profit or loss | 1,867,403 | 1,565,676 |
| Available-for-sale financial assets, net | 17,230,441 | 14,257,154 |
| Receivable, net | 796,311 | 820,469 |
| Loans, net | 31,556,873 | 25,822,131 |
| Fixed asset – net (including intangible assets) | 1,142,320 | 1,119,256 |
| Other assets, net | <u>263,940</u> | <u>256,855</u> |
| Total assets | \$ <u>60,622,879</u> | <u>53,344,413</u> |
| Due to Central Bank and other banks | \$ 1,457,845 | 961,515 |
| Payable | 928,116 | 875,992 |
| Deposit and remittances | 42,835,641 | 35,284,180 |
| Financial liabilities measured at fair value though profit or loss | 1,036,859 | 870,742 |
| Financial bonds payable | 4,015,829 | 5,034,317 |
| Other financial liabilities | 6,080,278 | 6,194,642 |
| Other liabilities | <u>150,557</u> | <u>143,995</u> |
| Total liabilities | <u>56,505,125</u> | <u>49,365,383</u> |
| Common stock | 1,172,160 | 1,172,160 |
| Legal reserve | 213,447 | 129,571 |
| Capital surplus | 1,121,778 | 1,121,778 |
| Retained earnings | 1,669,281 | 1,503,149 |
| Equity adjustment item | <u>(58,912)</u> | <u>52,372</u> |
| Total stockholders' equity | 4,117,754 | 3,979,030 |
| Total liabilities and stockholders' equity | \$ <u>60,622,879</u> | <u>53,344,413</u> |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Condensed statements of income

| | Taipei Fubon Bank | |
|---------------------------------|-----------------------------|-------------|
| | 2007 | 2006 |
| Interest income | \$ 17,181,170 | 17,839,258 |
| Non-interest revenue | 9,559,398 | 7,933,629 |
| Net operating income | 26,740,568 | 25,772,887 |
| Bad debt expense | 10,302,780 | 15,034,045 |
| Operating expense | 12,389,319 | 11,648,263 |
| Income before tax | 4,048,469 | (909,421) |
| Net income | 3,353,574 | 439,785 |
| Earnings per share – before tax | 1.02 | (0.09) |
| Earnings per share – after tax | 0.85 | 0.11 |
| | Fubon Insurance | |
| | 2007 | 2006 |
| Operating revenues | \$ 42,781,573 | 44,220,738 |
| Operating costs | 35,671,645 | 37,345,500 |
| Operating profits | 7,109,928 | 6,875,238 |
| Operating expense | 4,103,698 | 4,056,865 |
| Non-operating revenues | 49,791 | 106,840 |
| Non-operating expenses | 411,607 | 99,412 |
| Income before tax | 2,644,414 | 2,825,801 |
| Net income | 2,011,614 | 2,400,414 |
| Earnings per share – before tax | 3.23 | 1.81 |
| Earnings per share – after tax | 2.46 | 1.53 |
| | Fubon Life Assurance | |
| | 2007 | 2006 |
| Operating revenues | \$ 188,884,573 | 127,948,563 |
| Operating costs | 180,430,798 | 123,673,367 |
| Operating profits | 8,453,775 | 4,275,196 |
| Operating expense | 1,964,203 | 1,449,963 |
| Non-operating revenues | 49,086 | 76,300 |
| Non-operating expenses | 2,439,182 | 57,502 |
| Income before tax | 4,099,476 | 2,844,031 |
| Net income | 3,955,465 | 2,681,643 |
| Earnings per share – before tax | 7.26 | 5.15 |
| Earnings per share – after tax | 7.00 | 4.75 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | Fubon Securities | |
|---------------------------------|-------------------------|-------------|
| | 2007 | 2006 |
| Revenue | \$ 10,778,334 | 8,982,639 |
| Expense | 6,115,127 | 5,111,363 |
| Income before tax | 4,663,207 | 3,871,276 |
| Net income | 3,923,207 | 2,859,305 |
| Earnings per share – before tax | 2.74 | 2.55 |
| Earnings per share – after tax | 2.30 | 1.84 |

| | Fubon Asset Management | |
|---------------------------------|-------------------------------|-------------|
| | 2007 | 2006 |
| Operating revenues | \$ 696,709 | 706,826 |
| Operating profits | 696,709 | 706,826 |
| Operating expense | 421,829 | 416,223 |
| Non-operating revenues | 18,219 | 35,453 |
| Non-operating expenses | 701,477 | 621,785 |
| Income before tax | (408,378) | (297,729) |
| Net income | (478,319) | (392,967) |
| Earnings per share – before tax | (7.34) | (5.35) |
| Earnings per share – after tax | (8.60) | (7.07) |

(HK dollars in thousand)

| | Fubon Bank (Hong Kong) | |
|---------------------------------|-------------------------------|-------------|
| | 2007 | 2006 |
| Operating revenues | \$ 1,752,441 | 1,181,284 |
| Operating profits | 1,519,227 | 1,108,722 |
| Operating income | 684,454 | 392,013 |
| Nonoperating expense | 167,387 | 516 |
| Income before tax | 517,067 | 391,497 |
| Net income | 460,888 | 327,168 |
| Earnings per share – before tax | 0.44 | 0.33 |
| Earnings per share – after tax | 0.39 | 0.28 |

7) Disclosure of investment in Mainland China:

1. Fubon Insurance and Fubon Life Assurance planned to jointly invest NT\$430 million to set up Xiamen Fubon Insurance Company in Mainland China. The investment project had been approved by the FSC as of December 24, 2007, but such investment had not been accomplished as of December 31, 2007.
2. Commitments and contingencies: see note 36.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Significant disaster loss: none.
4. Significant subsequent event: none.
- 8) The following disclosures are only applicable to Taipei Fubon Bank for the years ended December 31, 2007 and 2006, in accordance with SFAS No. 28.

1. Asset quality

| Items | | December 31, 2007 | | | | |
|---|-----------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|-------------------------|
| | | Non-Performing Loan (NPL) (Note 1) | Total Loans | NPL Ratio (Note 2) | Loan Loss Reserves (LLR) | Coverage Ratio (Note 3) |
| Public treasury loan | Secured | - | 19,997,561 | - | - | - |
| | Non-secured | - | 50,822,381 | - | - | - |
| Finance loan | Secured | - | 573,769 | - | - | - |
| | Non-secured | - | - | - | 1,416 | - |
| Corporate loan | Secured | 2,413,844 | 126,286,613 | 1.91 | 914,735 | 37.90 |
| | Non-secured | 2,902,981 | 220,731,898 | 1.32 | 2,473,168 | 85.19 |
| Consumer loan | Mortgage (Note 4) | 1,689,749 | 208,934,639 | 0.81 | 496,008 | 29.35 |
| | Cash card | 172 | 399,444 | 0.04 | 33,688 | 19,586.05 |
| | Micro credit (note 5) | 545,049 | 12,783,126 | 4.26 | 1,299,141 | 238.35 |
| | Other (note 6) | Secured | 34,042 | 2,270,726 | 1.50 | 17,594 |
| Non-secured | | 298,886 | 19,477,557 | 1.53 | 72,286 | 24.19 |
| Total | | 7,884,723 | 662,277,714 | 1.19 | 5,308,036 | 67.32 |
| | | Overdue Receivable | Account Receivable | Delinquency Ratio | Allowance for Credit Losses | Coverage Ratio |
| Credit card | | 299,173 | 29,467,634 | 1.02 | 1,194,119 | 399.14 |
| Account receivable – factoring with no recourse (note 7) | | - | 24,005,000 | - | - | - |
| Excluded NPL as a result of debt consultation and loan agreement | | 3,611,594 | | | | |
| Excluded overdue receivables as a result of debt consultation and loans agreement | | 3,155,136 | | | | |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | | December 31, 2006 | | | | | |
|---|-----------------------|------------------------------------|---------------------------|--------------------------|------------------------------------|-------------------------|-------|
| Items | | Non-Performing Loan (NPL) (Note 1) | Total Loans | NPL Ratio (Note 2) | Loan Loss Reserves (LLR) | Coverage Ratio (Note 3) | |
| Public treasury loan | Secured | - | 24,922,710 | - | - | - | |
| | Non-secured | - | 63,443,464 | - | - | - | |
| Finance loan | Secured | 327 | 513,761 | 0.06 | - | - | |
| | Non-secured | - | - | - | 1,416 | - | |
| Corporate loan | Secured | 2,735,508 | 118,177,425 | 2.31 | 1,172,334 | 42.86 | |
| | Non-secured | 2,473,522 | 186,352,106 | 1.33 | 1,570,486 | 63.49 | |
| Consumer loan | Mortgage (Note 4) | 2,181,608 | 180,663,194 | 1.21 | 790,768 | 36.25 | |
| | Cash card | 29,210 | 1,051,622 | 2.78 | 760,641 | 2,604.04 | |
| | Micro credit (note 5) | 3,980,225 | 21,609,777 | 18.42 | 2,650,864 | 66.60 | |
| | Other (note 6) | Secured | 110,336 | 3,202,963 | 3.44 | 42,711 | 38.71 |
| | | Non-secured | 492,551 | 18,047,359 | 2.73 | 15,428 | 3.13 |
| Total | | 12,003,287 | 617,984,381 | 1.94 | 7,004,648 | 58.36 | |
| | | Overdue Receivable | Account Receivable | Delinquency Ratio | Allowance for Credit Losses | Coverage Ratio | |
| Credit card | | 377,884 | 34,804,994 | 1.09 | 794,119 | 210.15 | |
| Account receivable – factoring with no recourse (note 7) | | - | 9,520,046 | - | - | - | |
| Excluded NPL as a result of debt consultation and loan agreement | | | | 4,443,927 | | | |
| Excluded overdue receivables as a result of debt consultation and loans agreement | | | | 3,907,768 | | | |

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” issued by the MOF.
For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans.
For credit card business: Delinquency Ratio = Overdue receivable/Account receivable.

Note 3: For loan business: Coverage Ratio = LLR/NPL
For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up the dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950).

Note 6: Others in consumer loan refers to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivable – factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Concentration of credit extensions

December 31, 2007

(Expressed in thousands of New Taiwan Dollars, %)

| Rank (Note 1) | Group Name (Note 2) | Credit Extensions Balance (Note 3) | % of Net Asset Value |
|------------------|--|---|-------------------------|
| 1 | Continental Engineering Corporation Group | 21,358,601 | 28.44 |
| 2 | AUO Group | 9,915,862 | 13.20 |
| 3 | FCFC (Formosa Chemicals FIBRE Corporation) | 8,843,373 | 11.78 |
| 4 | Far Eastern Textile | 6,855,919 | 9.13 |
| 5 | CHIMEI Group | 6,284,702 | 8.37 |
| 6 | Foxconn Technology Group | 6,217,588 | 8.28 |
| 7 | USI Group | 5,836,151 | 7.77 |
| 8 | Tatung Group | 5,416,161 | 7.21 |
| 9 | Powerchip Semiconductor Corporation Group | 4,934,831 | 6.57 |
| 10 | Pacific Electric Wire & Cable Group | 4,575,967 | 6.09 |

December 31, 2006

(in thousands of New Taiwan Dollars, %)

| Rank (Note 1) | Group Name (Note 2) | Credit Extensions Balance (Note 3) | % of Net Asset Value |
|------------------|--|---|-------------------------|
| 1 | Continental Engineering Corporation Group (Note 4) | 14,201,971 | 19.65 |
| 2 | FCFC (Formosa Chemicals & FIBRE Corporation) | 10,811,116 | 14.96 |
| 3 | BenQ Group | 10,341,745 | 14.31 |
| 4 | CHIMEI Group | 8,831,167 | 12.22 |
| 5 | Tatung Group | 7,790,683 | 10.78 |
| 6 | Pacific Electric Wire & Cable Group | 6,699,916 | 9.27 |
| 7 | Far Eastern Textile | 6,242,559 | 8.64 |
| 8 | Uni-President Group | 4,573,569 | 6.33 |
| 9 | Foxconn Technology Group | 4,403,229 | 6.09 |
| 10 | Evergreen Group | 3,906,680 | 5.40 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Top ten borrowers (excluding government or state-owned utilities) according to total credit extensions.

Note 2: Groups are regulated in the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings, Article 6.

Note 3: Total credit extensions comprise loans (including import bills negotiated, export bills negotiated, overdrafts, short-term loans, short-term secured loans, receivables from pecuniary finance, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, and overdue receivables), exchange bills negotiated, factoring receivable without recourse, acceptances receivable, and guarantees issued.

Note 4: The amount includes the credit line vested to High Speed Railway.

3. Average amounts and average interest rate for interest-earning assets and interest-bearing liabilities

| | December 31, 2007 | |
|--|--------------------------|------------------------|
| | Average | Average annual |
| | amount | interest rate % |
| Interest-earning assets: | | |
| Cash – due from banks – deposits | \$ 1,657,638 | 5.33 |
| Due from Central Bank of China and other banks | 120,134,521 | 3.32 |
| Financial assets measured at fair value through profit or loss | 16,947,312 | 1.60 |
| Bonds and short-term bills purchased under resell agreements | 209,155 | 1.12 |
| Factoring receivable | 7,581,897 | 6.09 |
| Discounts and loans | 670,353,746 | 3.77 |
| Available-for-sale financial assets – net | 175,814,948 | 2.23 |
| Held-to-maturity investment, net | 5,435,386 | 2.41 |
| Debt investments in non-active market | 26,303,718 | 4.97 |
| Interest-bearing liabilities: | | |
| Due to banks | 71,520,137 | 3.90 |
| Borrowing from Central Bank and other banks | 15,733,672 | 5.21 |
| Bonds and short-term bills sold under repurchase agreements | 62,198,021 | 1.72 |
| Demand deposits | 90,561,150 | 0.63 |
| Demand savings deposits | 255,918,730 | 0.62 |
| Time deposits | 190,923,342 | 2.82 |
| Time savings deposits | 223,828,812 | 2.26 |
| Negotiable certificates of deposit | 839,061 | 1.16 |
| Public treasury savings | 24,108,146 | 0.35 |
| Bank debentures | 57,355,342 | 1.92 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| | December 31, 2006 | |
|--|---------------------------|---|
| | Average amount | Average annual interest rate % |
| Interest-earning assets: | | |
| Cash – due from banks – deposits | \$ 3,139,607 | 2.81 |
| Due from Central Bank of China and other banks | 61,169,197 | 2.31 |
| Financial asset measured at fair value through profit or loss | 23,342,396 | 2.12 |
| Bonds and short-term bills purchased under resell agreements | 2,067,340 | 0.58 |
| Factoring receivable | 1,245,067 | 7.36 |
| Discounts and loans | 599,394,436 | 4.00 |
| Available-for-sale financial assets – net | 204,555,516 | 1.88 |
| Held-to-maturity investment, net | 4,403,550 | 1.84 |
| Debt investments in non-active market | 23,965,047 | 5.78 |
| Interest-bearing liabilities: | | |
| Due to banks | 63,143,394 | 3.03 |
| Borrowing from Central Bank and other banks | 4,008,879 | 4.96 |
| Bonds and short-term bills sold under repurchase agreements | 50,088,315 | 1.44 |
| Demand deposits | 78,394,484 | 0.61 |
| Demand savings deposits | 240,912,586 | 0.62 |
| Time deposits | 148,780,461 | 2.42 |
| Time savings deposits | 220,118,682 | 1.97 |
| Negotiable certificates of deposit | 1,134,561 | 1.01 |
| Public treasury savings | 31,491,031 | 0.38 |
| Bank debentures | 59,605,479 | 1.80 |

4. Interest rate sensitivity information

Interest rate sensitivity of assets and liabilities (in thousands of NTD, %)

| December 31, 2007 | | | | | |
|--|------------------|--------------------|-----------------------------|--------------------------|--------------|
| | 1~90 days | 91~180 days | 181 days ~ 1year | Over one year | total |
| Interest-rate-sensitive assets | \$597,325,000 | 64,438,000 | 65,112,000 | 90,378,000 | 817,253,000 |
| Interest-rate-sensitive liabilities | 347,664,000 | 357,335,000 | 40,268,000 | 47,362,000 | 792,629,000 |
| Interest-rate-sensitivity gap | 249,661,000 | (292,897,000) | 24,844,000 | 43,016,000 | 24,624,000 |
| Net worth | 73,256,000 | | | | |
| Ratio of interest-rate-sensitive assets to liabilities | 103.11 | | | | |
| Ratio of interest-rate-sensitivity gap to net worth | 33.61 | | | | |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

| December 31, 2006 | | | | | |
|--|---------------|---------------|---------------------|------------------|-------------|
| | 1~90 days | 91~180 days | 181 days ~ 1year | Over one year | total |
| Interest-rate-sensitive assets | \$551,354,836 | 111,405,002 | 80,169,889 | 80,679,273 | 823,609,000 |
| Interest-rate-sensitive liabilities | 357,716,000 | 380,360,000 | 43,025,000 | 37,255,000 | 818,356,000 |
| Interest-rate-sensitivity gap | 193,638,836 | (268,954,998) | 37,144,889 | 43,424,273 | 5,253,000 |
| Net worth | | | | | 68,780,000 |
| Ratio of interest-rate-sensitive assets to liabilities | | | | | 100.64 |
| Ratio of interest-rate-sensitivity gap to net worth | | | | | 7.64 |

Note 1: The above amounts include only New Taiwan dollar amounts held by the Bank's onshore branches (i.e., excluding foreign currency).

Note 2: Interest-rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities, which are 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 (only interest-rate-sensitive assets and liabilities within one year, in New Taiwan dollars).

Interest rate sensitivity of assets and liabilities (in thousands of USD, %)

| December 31, 2007 | | | | | |
|--|-------------|-------------|---------------------|------------------|-----------|
| | 1~90 days | 91~180 days | 181 days ~ 1year | Over one year | total |
| Interest-rate-sensitive assets | \$4,075,892 | 891,309 | 182,240 | 138,503 | 5,287,944 |
| Interest-rate-sensitive liabilities | 4,850,332 | 291,868 | 186,113 | 87,503 | 5,415,816 |
| Interest-rate-sensitivity gap | (774,440) | 599,441 | (3,873) | 51,000 | (127,872) |
| Net worth | | | | | 60,305 |
| Ratio of interest-rate-sensitive assets to liabilities | | | | | 97.64 |
| Ratio of interest-rate-sensitivity gap to net worth | | | | | (212.04) |

| December 31, 2006 | | | | | |
|--|-------------|-------------|---------------------|------------------|-------------|
| | 1~90 days | 91~180 days | 181 days ~ 1year | Over one year | total |
| Interest-rate-sensitive assets | \$5,265,170 | 817,245 | 26,283 | 95,249 | 6,203,947 |
| Interest-rate-sensitive liabilities | 6,579,051 | 218,097 | 339,984 | 93,818 | 7,230,950 |
| Interest-rate-sensitivity gap | (1,313,881) | 599,148 | (313,701) | 1,431 | (1,027,003) |
| Net worth | | | | | 111,504 |
| Ratio of interest-rate-sensitive assets to liabilities | | | | | 85.80 |
| Ratio of interest-rate-sensitivity gap to net worth | | | | | (921.05) |

Note 1: The above amounts include only U.S. dollar amounts held by the onshore branches, OBU, and offshore branches of the Bank and exclude contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities, which are 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 (only interest-rate-sensitive assets and liabilities within 180 days, in U.S. dollars)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Profitability

Unit: %

| Item | | December 31, 2007 | December 31, 2006 |
|------------------------|-------------------|----------------------|----------------------|
| Return on total assets | Before income tax | 0.37 | (0.03) |
| | After income tax | 0.31 | 0.04 |
| Return on net worth | Before income tax | 5.49 | (0.48) |
| | After income tax | 4.55 | 0.60 |
| Profit margin | | 12.54 | 1.71 |

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax is the income in the nine months ended December 31, 2007 and 2006.

Note 5: The above profitability ratios are at annual rates.

6. Maturity analysis of assets and liabilities

Maturity analysis (in thousands of NTD)

| December 31, 2007 | | | | | | |
|----------------------------------|-------------|--|------------|-------------|-------------------------|------------------|
| | Total | Amount for the Remaining Time Before the Maturity Date | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days to One Year | Over One Year |
| Main capital inflow on maturity | \$1,086,149 | 274,334 | 85,486 | 74,297 | 109,410 | 542,622 |
| Main capital outflow on maturity | 1,413,896 | 196,097 | 136,117 | 116,299 | 493,939 | 471,444 |
| GAP | (327,747) | 78,237 | (50,631) | (42,002) | (384,529) | 71,178 |

| December 31, 2006 | | | | | | |
|----------------------------------|-------------|--|------------|-------------|-------------------------|------------------|
| | Total | Amount for the Remaining Time Before the Maturity Date | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days to One Year | Over One Year |
| Main capital inflow on maturity | \$1,067,925 | 226,135 | 128,012 | 100,419 | 61,767 | 551,592 |
| Main capital outflow on maturity | 1,084,097 | 177,846 | 155,391 | 152,860 | 183,898 | 414,102 |
| GAP | (16,172) | 48,289 | (27,379) | (52,441) | (122,131) | 137,490 |

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: The above amounts include only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e., excluding foreign currency).

Maturity analysis (in thousands of USD)

| December 31, 2007 | | | | | | |
|----------------------------------|--------------|--|------------|-------------|----------------------|---------------|
| | Total | Amount for the Remaining Time Before the Maturity Date | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days to One Year | Over One Year |
| Main capital inflow on maturity | \$16,459,657 | 5,379,938 | 3,513,439 | 3,005,428 | 2,397,170 | 2,163,682 |
| Main capital outflow on maturity | 16,863,087 | 6,768,502 | 3,763,212 | 2,512,473 | 2,431,697 | 1,387,203 |
| GAP | (403,430) | (1,388,564) | (249,773) | 492,955 | (34,527) | 776,479 |

| December 31, 2006 | | | | | | |
|----------------------------------|-------------|--|------------|-------------|----------------------|---------------|
| | Total | Amount for the Remaining Time Before the Maturity Date | | | | |
| | | 1-30 Days | 31-90 Days | 91-180 Days | 181 Days to One Year | Over One Year |
| Main capital inflow on maturity | \$4,132,555 | 1,442,867 | 1,144,376 | 539,043 | 72,723 | 933,546 |
| Main capital outflow on maturity | 4,097,072 | 2,448,497 | 754,017 | 193,563 | 199,737 | 501,258 |
| GAP | 35,483 | (1,005,630) | 390,359 | 345,480 | (127,014) | 432,288 |

Note 1: The above amounts are book values of the assets and liabilities of the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance-sheet amounts (for example, the issuance of negotiable certificates of deposits, bonds or stocks).

Note 2: If the overseas assets are at least 10% of the total assets, there should be additional disclosures.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Statement of capital adequacy

| | | December 31, 2007 | |
|--|------------------|---|-------------|
| Eligible capital | Tier 1 capital | \$ 70,070,504 | |
| | Tier 2 capital | - | |
| | Tier 3 capital | - | |
| | Eligible capital | 70,070,504 | |
| Risk-weighted assets | Credit risk | Standardized approach | 633,958,106 |
| | | Internal rating-based approach | - |
| | | Securitization | 2,166,845 |
| | Operational risk | Basic indicator approach | - |
| | | Standardized approach/Alternative standardized approach | 44,936,826 |
| | | Advance measurement approach | - |
| | Market risk | Standardized approach | 45,657,702 |
| | | Internal models approach | - |
| Total risk-weighted assets | | 726,719,479 | |
| Capital adequacy ration | | 9.64% | |
| Tier 1 risk-based capital ratio | | 9.64% | |
| Tier 2 risk-based capital ratio | | - | |
| Tier 3 risk-based capital ratio | | - | |
| Ratio of common stockholders' equity to total assets | | 3.60% | |

Note 1: These tables were prepared according to the "Regulations Governing the Capital Adequacy Ratio of Banks" and related calculation tables.

Note 2: The formula:

Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

| | December 31, 2006 |
|---|------------------------------|
| Net eligible capital | \$ 69,681,380 |
| Total risk-weighted assets | 620,983,315 |
| Capital adequacy ratios | 11.22% |
| Ratio of tier 1 capital to risk-weighted assets | 11.51% |
| Ratio of tier 2 capital to risk-weighted assets | 0.43% |
| Ratio of tier 3 capital to risk-weighted assets | - |
| Ratio of the deduction from capital to risk-weighted assets | (0.72%) |
| Ratio of common stockholders' equity to total assets | 6.66% |