



Taishin Financial Holding Co., Ltd.

2006 Annual Report



Taishin Holdings

Taishin Financial Holding Co., Ltd.

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Taishin International Bank Co., Ltd.

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Taishin Bill Finance Co., Ltd.

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Taishin Asset Management Co., Ltd.

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

886-2-2596-9388

Taishin Marketing Consultant Co., Ltd.

2F, No.111, Sec 4, Bade Rd., Taipei, Taiwan

886-2-2326-8899

Taishin Venture Capital Investment Co., Ltd.

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

886-2-2596-9388

Chang Hwa Bank

(Taishin Holdings has acquired 23.15% of shareholdings)

No. 38 Tsu Yu Road, Section 2, Taichung, Taiwan

886-4-2222-2001

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2006 Annual Report

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Taishin Holdings

Message to Shareholders

I. Message to Shareholders



Dear Shareholders,

With export and import both scoring record high and exceeding US\$200 billion in value, the Taiwanese economy grew 4.39% in 2006. Affected by the twin-card debt storm, private consumption growth, though, slackened quarter by quarter, inching up 1.5% for the whole year. Owing to continuous interest-rate hikes by the Central Bank of China, inter-bank overnight call-loan rate averaged 1.55% for the year, when the interest rates for commercial papers stood at 1.54%. Overall, credit at the money market was loose. Average Taiwan Stock Exchange weighted stock price index hit 6,842, up 750 points from 2005, with trading volume expanding 27% to NT\$23.9 trillion.

Impacted by the twin-card debt storm, Taishin Financial Holding incurred loss of NT\$16.1 billion in 2006, but in manifesting our determination to clear bad assets, we set aside NT\$37 billion of bad-debt provision (excluding that by Chang Hwa Bank) and raised fresh fund totaling NT\$35 billion. Thanks to the efforts, Taishin Financial Holding has re-emerged as a financial institution with quality assets and sound finance, a healthy and hopeful one, confident of becoming a market leader again.

International rating firm Fitch has adjusted its international long-term rating for Taishin Financial Holding to BBB-, with a stable outlook, and downgraded our long-term domestic rating to A (tw), while Moody's has maintained its international long-term rating for Taishin at Baa3, with a positive outlook, in addition to an unchanged domestic rating of A2.tw.

Under the auspices of Taishin Financial Holding, the three function-oriented business groups have been endeavoring to expand businesses in the most favorable directions, building up growth momentum for the overall development and profit making of the financial holding firm.

1. Wealth Management Group

In 2006, the wealth management group led peers in development of many business segments, boasting market shares of 5.06% and 5.62% for stock brokerage and margin-trading, respectively, in addition to stock agency serving 2.39 million shareholders, all among the top three in the industry.

I. Message to Shareholders

Due to growing investments in overseas financial products among local people, overall re-commissioned overseas securities investments shot up 65% to NT\$591 billion in 2006. Faced with the market trend, the wealth management group, in addition to core-business development, will intensify re-commissioned overseas investment business and integrate domestic and overseas trading platforms, thereby satisfying needs for various wealth management products among clients, so as to retain our market readership and create a win-win outcome with our clients.

2.Retail Banking Group

Taishin has ranked second place in the domestic retail banking market for a long while. In the recent two years, the impact of the twin-card debt storm has led to structural change in the market, forcing some peers without economy of scale and strong expertise to quit the market. Furnished with the advantages in expertise and scale of clients, Taishin has decided to continue cultivating retail banking business but make large-scale adjustment in operational structure and strategy.

In operational strategy, we will fully capitalize on the CRM (customer relationship management) platform, in order to grasp client needs and enhance risk management capability. In practice, we will embrace differentiated pricing according to clients' risk levels. In strategies for branch operations, we will intensify inter-branch cooperation and take advantage of our creative capability to offer custom products and services for clients, via the method of client grouping, so as to deep-cultivate the pool of our several millions of clients and augment number of financial products for dealings between Taishin and our clients, thereby creating greater profit.

We are confident that retail banking market won't disappear on the twin-card debt storm and market outlook is still rosy following its resumption of a healthy and orderly climate. Based on its past advantage, Taishin will spare no effort in staging a remarkable performance again.

3.Wholesale Banking Group

The wholesale banking group staged an extraordinary performance in 2006, consolidating second-place ranking in the market for account-receivable business, in addition to ranking among top three for underwriting FRCP (fixed-rate commercial paper) by Taishin Bills Finance, second place for underwriting IPO (initial public offering)/SPO (secondary public offering) cases, and fourth place as an arranger for domestic syndicated loans. It was awarded "Taiwan Bond Deal of the Year for 2006" by International Finance Review and the "best trading bank for NT dollar interest rate-linked structured products for 2006" in Taiwan by Asiamoney.

Acute intra-industry competition resulting from over-banking has continuously driven down banking interest differential and handling fees, which, plus industrial outward transplantation, dampened growth of domestic corporate banking directly. Faced with the deteriorating climate, the wholesale banking group, in addition to continuing deep-cultivation of domestic quality clients, has been strengthening OBU (offshore banking unit) business and Hong Kong platform, in the hope of tapping

Taiwanese businesses-related business opportunities in the greater Chinese market. Meanwhile, it has been actively cultivating businesses related to small and medium enterprises via offering of all-directional trade-financing services, developing risk-hedging and investment-type financial products, and endeavoring to satisfy clients' finance-planning and financing needs in line with cash-management service. Moreover, it has been instituting BASEL II risk-management mechanism, pulling out all the stops in pushing corporate-banking business under the principle of associating prices with risks.

With the global economy expected to score moderate growth in 2006, the government has set the economic growth target at 4.6%, unemployment rate at 3.8%, and consumer price index hike under 2%. Thanks to gradual subsidence of the twin-card debt effect, booming stock and housing markets, and gradual upturn of private consumption, the financial-industry climate will be one of steady and upward development. In the future, the three business groups under the auspices of the financial holding firm will move in the direction of balanced operation and profit contribution. Following conversion of Chang Hwa Bank into a subsidiary of the financial holding firm, we will accelerate share swap with Chang Hwa Bank to achieve optimal merger between resources of the financial holding firm and Chang Hwa Bank, so that the latter can capitalize on the synergy effect to step up its development.

In mid-term and long-term, Taishin Financial Holding will continue its development on the basis of the banking operation. In the future, Taishin Financial Holding will be in an even more advantageous position to develop into a regional financial institution, thanks to the introduction of international financing experience brought on by the participation of international financial institutions, including Newbridge Capital, Nomura, and Soros funds, and the formation of an global financial network following the joining of the six overseas branches of subsidiary Chang Hwa Bank in global financial metropolises-London, New York, Los Angeles, Tokyo, Hong Kong, and Singapore-and its Kunshan representative's office in China, in addition to Hong Kong branch and representative's office in Ho Chi Minh City of Taishin Bank, and Hong Kong and Shanghai representative's offices of Taiwan Securities. Our long-term goal is to become a leading brand in the Taiwanese and Asian financial industry, so as to live up to the expectation of our clients and shareholders.

We are grateful of the consistent support of our shareholders to Taishin Financial Holding and look forward to your continuing support and guidance, in line with your patronage in the past. The management team will do its utmost and persist in its unrelenting effort to pursue maximum long-term interests of our shareholders, clients, and employees.

Chairman



Taishin Financial Holding Co.,Ltd.
May 2007



Taishin Holdings

Company Profile

II. Company Profile

1.Introduction

Establishment Date: February 18, 2002

Head Office Location: No. 118, Section 4, Ren-ai Road, Taipei, Taiwan

2.Company History:

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

On September 25, 2003, we established Taishin Venture Capital Investment Co., Ltd. to engage in venture capital businesses. On October 18, 2004, Taishin Bank has further acquired The 10th Credit Cooperatives of Hsin Chu to expand its operation locations, creating more incentives for our employees, customers and shareholders. On October 3, 2006, Taishin Holdings has invested 36.5 billion in Chang Hwa Bank with a controlling share of 22.5%.

The company introduced strategic foreign partners, Newbridge Capital of the U.S., Japan's Nomura Group, and OE International (L) Limited in March, May, and December of 2006, respectively, which invested NT\$31 billion and NT\$4 billion in the private share placements of Taishin Financial Holding, greatly strengthening the company's capital composition and boosting its capital adequacy ratio.



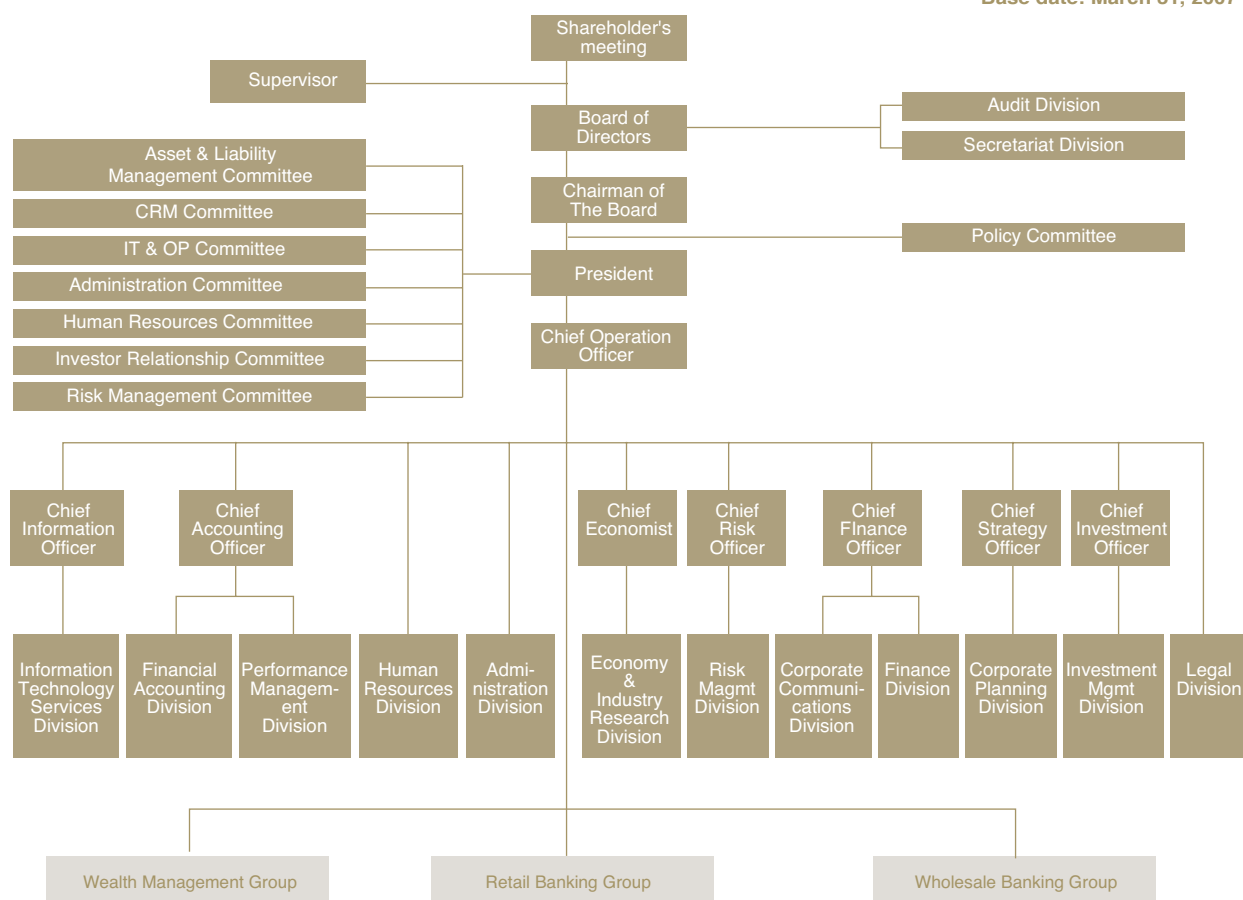
Report on Corporate Governance

III. Report on Corporate Governance

1. Organizational System

(1) Organizational Chart of Taishin Financial Holding

Base date: March 31, 2007



III. Report on Corporate Governance

(2) Duties of Major Committees and Departments

The company sets up the following committees and departments, charged with various duties:

(a) Committees

■ **Policy Committee :**

review of the company's business strategy; formulation of overall development direction, business planning/management, and strategy of the corporate group; inter-subsidiary coordination, and cross-department business projects.

■ **CRM Committee:**

keeping of the company's data; initiation, management/control, and coordination for customer-relationship development projects.

■ **Asset & Liability Management Committee:**

review of the group's overall assets and liabilities management policy, as well as supervision and control of assets and liabilities management of subsidiaries.

■ **Human Resources Committee:**

review of major human-resources strategy and major human-resources programs of the group.

■ **Administration Committee:**

review of major administrative management strategies and major administrative management programs of the group.

■ **IT & OP Committee:**

review of the group's overall operation and information integration policy, as well as establishment of operation and integrated information platforms of subsidiaries.

■ **Investor Relationship Committee:**

review of the group's strategy for development of relationship with domestic and foreign institutional investors and programs for maintaining important relationships.

■ **Risk Management Committee:**

control of and planning for overall market risks, credit risks, and operational risks of the financial holding firm and subsidiaries (including overseas branches), so as to upgrade risk-management quality and carry out timely risk management.

(b) Departments

■ **Corporate Planning Division:**

strategic planning; merger and acquisition; strategic alliances; evaluation and management of long-term equity investment; coordination and liaison of external consultants and relevant parties.

■ **Investment Management Division:**

analysis, consolidation, and management of subsidiaries' short-term equity and mutual fund investment; market analysis; study of related regulations.

■ **Economy & Industry Research Division:**

undertaking analysis of the global economy, exchange rates, interest rates, and the world's major stock markets and industries, in addition to tracking business outlooks of listed Taiwanese companies as the basis for investment suggestions. It also offers analysis and suggestions responding to needs of the financial holding firm's executives in decision making and of business units.

■ **Risk Management Division:**

monitoring credit, market and operational risks of Taishin FHC and its subsidiaries.

■ **Finance Division:**

administering financial planning, financing, credit rating, and controlling assets and liabilities as well as cash flow of Taishin FHC and its subsidiaries.

■ **Communications Division:**

managing legal entities' relations with the media.

■ **Administration Division:**

custody of corporate seal and stamps, document acceptance and delivery, transcription and collation, general administration, repair and maintenance.

■ **Information Technology Services Division:**

development of IT functionality, IT architecture, software and hardware integration of Taishin FHC, and technology-enabled applications based on banking requirements.

■ **Financial Accounting Division:**

Taishin Holdings and subsidiaries' budget; Taishin Holdings and subsidiaries account process and guidelines.

■ **Performance Management Division:**

formulation of business planning/management and business strategies, yearly business objectives, budget, and performance evaluation of achievement of business objectives (Balanced Scorecard); planning, management, and table compilation of the MIS (Management Information System) of the financial holding firm; and design and evaluation of the internal price-setting system of the financial holding firm's MIS.

■ **Human Resources Division:**

human resources policy planning, personnel administration, evaluation, recruitment, transference, training and education.

■ **Legal Division:**

in charge of regulations and contract legitimacy.

III. Report on Corporate Governance

2.Directors, Supervisors & Managers

(1) Directors & Supervisors

April 17, 2007.

Title	Name	Representative/Company
Chairman	Thomas T.L. Wu	Representative of Bo Rei Co., Ltd.
Director	Steve S.F. Shieh	Representative of Bo Rei Co., Ltd.
Director	Cheng Ching Wu	Representative of Tai Ho Enterprise Co., Ltd.
Director	Linda Kuo	Representative of Tong Shin Investment Co., Ltd.
Director	Yu-Lon Chiao	-
Director	Chu Chan Wang	Representative of Pan City Co., Ltd.
Director	Weijian Shan	Representative of Taishin Co-Investor Holdings I, Ltd.
Director	Thomas K.H. Wu	Representative of Taishin Leasing & Financing Co., Ltd.
Standing Supervisor	Toney Chen	Representative of Master Advisor Management Consulting Co., Ltd.
Supervisor	Henry C.S. Kao	Representative of Royal International Co., Ltd.
Supervisor	Long-Su Lin	Representative of Bo Rei Co., Ltd..

(2) Managers

April 17, 2007.

Title	Name
President	Kehhsiao Lin
Executive vice president	Greg Gibb
General Manager, Wholesale Banking Group	Justin Tsai
General Manager, Retail Banking Group	Daniel M. Tsai
General Manager, Wealth Management Group	Daw Yi Hsu
Chief Financial Officer & Spokesperson	Carol Lai
Chief Risk officer	Loofei Hwang
Chief Information Technology Officer	B.R. Ho
Chief Investment Officer	Welch Lin
Chief Accounting Officer	Ann Shaw
Chief Auditor	Diao-Li Lin
Senior Vice President, Retail Banking Group	T.H.Tsui
Senior Vice President	Ming-Nan Lin
Senior Vice President, Human Resources Division	Kevin Huang
Senior Vice President, Secretariat Division	David Chang
Senior Vice President, Legal Division	Charles M. Lin
Senior Vice President, Investment Management Division	Peter Tseng
Senior Vice President, Corporate planning Division	Minna Chou
Senior Vice President	Shujen Tuan
Senior Vice President, Financial Division	Li-Tzu Chen
Vice President, Audit Division	Chin-woei Huang

III. Report on Corporate Governance

3. Penalized Offenses and Major Defects of the Financial Holding Firm and Subsidiaries in Recent Two Years and Their Improvements

	Cases and Values	Improvement Measures
1. Indictment of executives or staffers for business-related crimes	Nil	—
2. Fines inflicted by Financial Supervisory Commission for violation of laws or regulations	<p>1. Taishin Bank (1) foreign-exchange position exceeding ceiling set by the Central Bank of China, due to lack of effective control or checking, for which the bank was fined NT\$10 million by the Financial Supervisory Commission, for violating item 1, article 45, of the Banking Law</p> <p>(2) Improper debt-collection methods of entrusted debt-collection institutions, for which the bank was fined NT\$2 million by the Financial Supervisory Commission for violating item 1, article 45 of the Banking Law.</p> <p>2. Chang Hwa Bank (1) Sales specialist Tien Kuo-hsiung of the Chicheng branch stealthily sold clients' beneficiary certificates of mutual funds, for which the bank was fined NT\$10 million by the Financial Supervisory Commission for failing to institute, as well as faithfully implement, an effective internal-control system, violating item 1, article 45 of the Banking Law.</p> <p>(2) A clerk of the Sanmin Branch embezzled NT\$ 8 million from fund for automated teller's machine, for which the bank was fined NT\$2 million by the Financial Supervisory Commission for failing to institute, as well as faithfully implement, an effective internal-control system, violating item 1, article 45 of the Banking Law.</p>	<p>Adjusted labor of division for forex-position control and checking and formulated "operating guidelines for forex-position control, checking, and reporting," to ensure reporting and investigation of forex-position deviations and carry out rigorous forex-position control.</p> <p>Following discovery of improper debt-collection methods of entrusted institutions during regular auditing, the business management unit immediately required the entrusted institutions to adjust the job of the responsible debt-collection staffer, cut entrusted business volume, and required compensation or revoked contract according to contract.</p> <p>1. Already revised the regulations related to trust business and restrictions on use of information system, so as to strengthen internal control.</p> <p>2. Already dismissed Tien Kuo-hsiung and penalized responsible persons for their negligence, in addition requiring business units to carry out self-auditing, which has been confirmed to be completed, winning permission by the Financial Supervisory Commission to resume "specific money-trust investments in securities" business.</p>

	Cases and Values	Improvement Measures
		3.Already sent written notices to various business units, reiterating requirement of compliance with regulations in the cash-replacement and - filling operation for ATM and faithful implementation of internal check and control, in addition to sponsoring internal-control classes and classes for self-auditing executives, so as to enhance their expertise.
3.Defects receiving serious corrections by the Financial Supervisory Commission	<p>1.Taishin Bank</p> <p>(1)The Financial Supervisory Commission gave Taishin Bank serious correction for failing to faithfully carry out the principles of know-your-customer and screening applications for account opening, in addition to formulating management regulations according to regulations “noteworthy items for banks in wealth-management business” and “noteworthy items for banks for sale of financial products to clients by non wealth-management departments.”</p> <p>(2)A clerk in a northern Taipei branch under the consumer-banking department had fund exchanges with and received gifts from an entrusted agent and a business executive utilized the agent’s account for exchanges of private funds.</p> <p>2.Chang Hwa Bank :</p> <p>Under-reporting the amount of non-performing loan in the “monthly NPL statement,” which affected the accuracy for financial management and statistical figures.</p>	<p>Already formulated operational guidelines and management regulations, in addition to reiterating importance of behavioral regulations for salespersons and the determination to penalize salespersons for their improper selling activities and business executives for their inadequate supervision.</p> <p>1.Reiterating working rules for staffers that staffers cannot betray their duties in exchange for benefits and gifts</p> <p>2.Then business executive has been penalized and demoted to a non-executive job. Already complied with the regulations of “measures for appropriation of provisions for loss in banking assets and processing of non-performing loans,debt-collection loans, and bad debts.”</p>

III. Report on Corporate Governance

	Cases and Values	Improvement Measures
4. Case penalized by the Financial Supervisory Commission for violating item 1, article 54 of the Banking Law	On December 23, 2005, Tien Kuo-hsiung, a clerk at the Chicheng branch of Chang Hwa Bank was found having stealthily sold clients' beneficiary certificates of mutual funds, for which the Financial Supervisory Commission ordered Chang Hwa Bank to dismiss the clerk and suspended the bank's right to undertake specific money-trust investments in securities for new clients until completion of improvement in internal control.	Same to 2(1) of (B)
5. Cases with actual individual or combined loss exceeding NT\$50 million, which should be disclosed, including irregularities of staffers, major incidents (fraud, stealth, unauthorized utilization and embezzlement of assets, forged trading, forging certificates or securities, collection of kickbacks, loss from catastrophes or external forces, hacker attacks, stealing of data, and leakage of business secrets and client data) or security incidents resulting from failure of faithfully following the regulations for upholding security of financial institutions.	<p>1. Taishin Bank Salespersons of the commerce-banking department were implicated in collusion with others to extend duplicated loans for heavy trucks, taking advantage of loopholes in the operational procedures, inflicting loss of NT\$58.17 million on the bank.</p> <p>2. Chang Hwa Bank Loss of NT\$63.814 million incurred from stealthy sales of clients' beneficiary certificates of mutual funds by sales specialist Tien Kuo-hsiung at Chicheng branch on December 23, 2005.</p>	<p>Already suspended heavy-truck loans, reviewed internal control and rectified defects in the operating flow, and strictly enforced tracking and auditing/control mechanism for wanted documents.</p> <p>Same to 2(1) of (B)</p>
6. Other items needing disclosure as designated by the Financial Supervisory Commission.	1. In its regular business inspection during August and September of 2005, the Financial Supervisory Commission discovered a number of violations of securities management laws and regulations by Taiwan Securities, including failure to appropriate 20% of after-tax profits fully for special reserves, daily stock trading value under the entrustment of clients exceeding the estimated daily-trading ceiling, deviation	In addressing the defects uncovered in the inspection, Taiwan Securities already adjusted processing of related accounts, required business staffers to require clients to produce financial proof in accepting stock-transaction entrustment with daily value exceeding the estimated ceiling, and formulated "measures governing transaction in foreign securities by the dealer department," which has been

	Cases and Values	Improvement Measures
	<p>of transaction decision-making and execution of the dealer department from the contents of the analytical report for securities investments, absence of dedicated department for undertaking side-line short-term bills finance business, and violation of regulations in undertaking subscription and sale of warrants and structured notes. Consequently, the commission reprimanded the company according to item 1, article 66 of the Securities Transaction Law, in addition to requiring the company to entrust certified public accounts to review the company's internal-control system and submit the review report to Taiwan Stock Exchange and then the commission within two months, according to article 28 of "guidelines for institution of internal-control system by service establishments in the securities and futures markets."</p> <p>2. On May 25, 2006, the Financial Supervisory Commission resolved to suspend duty of Chang Po-hsin, chairman of Chang Hwa Bank, for half a year, for sale of the bank's shareholding in Taiwan Development Corp. to specific persons in July 2005, which violated principle of corporate governance.</p>	<p>approved by the board of directors, formulated improvement plans which have been submitted to the regulator, and required various departments to faithfully comply with regulations of the internal-control system and related laws and regulations.</p> <p>To assure sufficient supply of data for meetings of the board of the directors, the bank, in Secretariat document No. 15257 dated October 5, 2006, already required various department to comply with the following principles:</p> <ol style="list-style-type: none"> (1) Submitting meeting data to all board directors according to deadline set by the rules for board meeting, so that board directors can fully understand issues on agenda before the meeting. (2) Proposing units should send related staffers to attend the board meeting and make report on their proposals, in addition to replying questions raised by board directors or supervisors. (3) Proposing units should provide detailed explanation for uncertain factors or special situation, should they exist in their proposals. (4) Board of directors can resolve to shelve the proposals should their data are insufficient.



Operating Status

IV. Operating Status

I. Business Contents

1. Business Scope

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

A. The Company is Allowed to Invest in the Following Businesses.

- (a) Banking
- (b) Bills finance
- (c) Credit card
- (d) Trust
- (e) Insurance
- (f) Securities
- (g) Futures
- (h) Venture capital
- (i) Foreign financial institutions with the regulator's approval
- (j) Other financial industry-related businesses acknowledged by the regulator

B. Management of Aforementioned Invested Businesses.

C. Businesses Other Than the Aforementioned Ones Following Approval by the Regulator of Applications by the Company.

2. Business Plan for the Current Fiscal Year

A. Expanding Scale via M&A and Demonstrating Efficiency of Integration

Taishin Holdings subscribed to B-type special shares floated by Chang Hwa Bank and helped it write off bad debts and improve quality of its assets via injection of fresh capital. Meanwhile, Taishin Holdings has also increased appropriation of reserves for bad debts, removing the potential burden of bad debts at one fell swoop, making financial information of both parties transparent and creating an environment conducive to the merger between the company and Chang Hwa Bank, which will be realized when conditions are ripe.

After the merger, subsidiaries of Taishin Holdings will pursue balanced development between corporate and retail banking businesses, which will be supported by its over 270 domestic business points and nine overseas branches. Via the integration of the operational platforms of channel, business, and the Internet, it will strengthen its international competitiveness and march toward the goal of becoming the best financial institution in the global Chinese community.

B. Introduction of Foreign Capital to Strengthen Shareholder and Capital Composition and Install International Operating Framework

Following introduction of capital from Newbridge Capital of the U.S., Japan's Nomura Group, and the Quantum Group of Funds, the company will closely cooperate with foreign investors in tapping domestic and overseas markets and augmenting international business and management capabilities, so as to connect with the international financial market.

IV. Operating Status

C. Strengthening Capabilities for Risk Management, Internal Control, and Managing Large-Scale International Financial Institution

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

D. Instituting Complete Corporate-banking, Consumer-banking, Wealth-management, and Assets-Management System

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

3. Industry Status

A. Market Status

(a) Financial Consolidation and Industry Trend

Affected by the twin-card debt turmoil starting from the second half of 2005, some banks with smaller consumer-market share or inadequate operation have successively exited the market. Meanwhile, foreign banks have taken the opportunity to make further incursion into the Taiwanese financial market, such as acquisition of Hsinchu International Bank by Standard Chartered Bank and that of Bank of Overseas Chinese by Citibank. The trend of financial consolidation is expected to carry on in Taiwan.

(b) Improving Consumer Banking

In the wake of the eruption of the twin-card debt turmoil, financial institutions have become increasingly conservative toward unsecured loans. However, enhancement of overall bad-debt coverage ratio and slight decline in NPL (non-performing loan) ratio at the end of 2006 shows gradual improvement in banking assets and subsidence of bad-debt problem among domestic banks. Banking profits are expected to score major upturn this year on reduction in provisions for twin-card bad debts.

(c) Increasing Stress on Wealth-Management Business

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

(d) Developing Investment-Banking Business

In line with financial liberalization/internationalization and diversification of corporate fund-raising channels, investment banking has become an important component in banks' effort to diversify their profit sources. Invest banking boasts extensive business scope, including

issuance of corporate bonds, assistance to enterprises in share listing, assistance to corporate merger and acquisition, planning for debt or share swap, issuance of commercial papers, interest-rate swap, loan transfer, assistance to municipal governments in bond issuance, sale of various financial products to clients via wealth-management professionals, and management of various funds or fund utilization under the commission of clients. Along with outbound investments by Taiwanese businessmen, increasing exchanges among domestic and foreign financial products, growing internationalization of enterprise management, rapid wealth accumulation among locals, multiplication and in-depth development of financial-management needs among local people will step up inevitably.

(e)Tapping Overseas Markets

In recent years, domestic financial institutions have successively strengthened overseas deployment to boost their operating and profit-making momentum, such as incursion of Chinatrust Financial Holding into the consumer-banking markets of Indonesia and the Philippines featuring consumption type similar to that of Taiwan, two-pronged strategy of Cathay Financial Holding to step into the life-insurance and banking markets of China and Vietnam, and effort of Fubon Financial Holding to tap the Taiwanese business-related businesses in the Pearl-River Delta area taking advantage of the resources of Taipei Fubon Bank and Fubon Bank (Hong Kong). Overseas deployment strategies among Taiwanese financial institutions, including overseas branches, representative's offices, or subsidiaries, are expected to focus on Vietnam, Hong Kong, and China.

B. Trends of Development in the Financial Products

With competition in the financial industry expected to become increasingly acute, in line with the “users pay” , non-interest income from various services will become a major source of profits for financial institutions. Such services will include introduction of new pluralized financial products from abroad, tailored to the needs of the market.

In accordance with the policy of financial liberalization, the government has successively relaxed financial controls, opened up various business sectors, and actively pushed privatization of state-owned financial institutions. As a result, in addition to the price factor, competition in the financial industry now covers service quality, talent cultivation, and R&D of products, leading to a more mature and steady development of the nation's financial industry.

4.Long-Term and Short-Term Business Development Plan

As a financial holding firm, Taishin Holdings's main businesses are investment and management. Our short-term planning focuses on intensified management of invested companies, while our long-term goal is to become a quality financial institution capable of providing complete financial services to Chinese people worldwide. To achieve the goal, we will embrace three strategies, namely, the establishment of a large-scale financial institution with global competitiveness, deployment in Chinese communities worldwide, and cultivation of top-notch financial talents and complete product lines.

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

IV. Operating Status

Taishin International Bank Co., Ltd.

1. Business Plan for the Current Fiscal Year

A. Retail Banking and Consumer Financing

(a) Credit Card

- Providing differentiated benefits and services to satisfy the needs of different client groups.
- Increasing risk-free income and lowering cost outlay.
- Deep-cultivating existing clientele and exploring new clients.
- Developing multiple payment instruments to meet clients' needs.

(b) Cash Card

- Enhancing assets quality
- Providing optimal products to different clients according to their best benefits.
- Operation and system reengineering.
- Sophisticated regional management.

(c) Various Consumer Financial Products

- Implementing the business strategy of “client segmentation,” raising the outstanding loans of low-risk clients, and determining credit lines of clients according to their evaluated grades.
- Instituting consumption-loan specialists at branches, fully exercising the client-service function of branch channels.
- Standardizing back-office operational procedures, boosting the efficiency of the overall loan-extension working flow.

(d) Commercial Finance

Provision of quality corporate services and integrated e-commerce and e-payment service.

B. Corporate and Enterprise Banking

For corporate banking, we aim to become the financial institution with the best corporate-banking service in the greater Chinese region in 2007.

- (a) Actively pushing accounts receivable and L/C (letter of credit) factoring businesses, so as to expand our clientele;
- (b) Developing trade financing business for small and medium enterprises and making our OBU (offshore banking unit) a financing and logistics center for overseas Taiwanese businesses;
- (c) Strengthening and expanding domestic and overseas syndicated-loan business and project-consulting services;
- (d) Promoting cash-management business and e-integrated services;
- (e) Offering financing platform for the greater Chinese region, financial management, and solutions for fund planning.

C. Wealth Management and Trust

- (a) Setting up competent professional wealth-management team to achieve business performance and financial contribution of wealth-management operation.
- (b) Deep-cultivating client relations, augmenting client satisfaction, and establishing a long-standing and reliable partnership with clients.

(c)Offering, on the basis of client-needs orientation, different wealth-management portfolios suited to different client groups, as well as all-directional financial planning for clients, so as to take care of every bunch of assets entrusted by clients and attain long-term client-business growth.

D.Trust

- Offering money-trust and securities-trust clients services of e-banking inquiry and delivery of e-bank statement;
- Instituting e-banking automated order-placement function for “So Easy target wealth-management plan” and simplifying related application forms;
- Actively soliciting money-trust and securities-trust businesses from large corporate bodies;
- Seeking cross business-department concerted marketing and capitalizing on integrated marketing resources of the financial holding firm;
- Stepping up promotion of trust-consultant business;
- Actively soliciting custodianship business for domestic mutual funds and creating lasting fund-custodianship income.
- Actively developing excellently performing new series mutual funds, so as to achieve complete product lines and help investors realize maximum profit potential.
- Introducing new products and businesses to satisfy diversified wealth-management needs of investors;
- Seeking product diversification by expanding collective/single-account businesses and the magnitude of product lines/platforms;
- Providing abundant mutual-fund product lines on the concept of assets allocation, and continuously introducing domestic and foreign mutual funds with excellent performance.
- Retaining steady growth of funds’ managed assets and creating steady fund-management income;
- Offering clients opportunities to buy secondary-market products;
- Developing agency business for foreign mutual funds.

2.Research and Development

A. New Financial Products and Business Units in the Past One Year

- (a)The bank's pioneering Rainbow wealth-management account centers on the concept of “life stages” of clients, providing various wealth-management services for young salaried workers aged 25-40, departing the past practice of offering segmented services to clients on the basis of their contribution. Thanks to its uniqueness and innovation, the Rainbow wealth-management account was granted the best product-design award (for the consumer-banking category) of the third “Taiwan financial business elite award” in November 2006.
- (b)The bank launched “Home Money” housing-loan program in January 2006, allowing clients to make complete financing plan according to their different financing needs, on the basis of their housing value.

B. New Financial Products for Corporate and Enterprise Banking in Recent Two Years

(a)Accounts-receivable factoring

Professional factoring team offers clients flexible working-capital financing.

IV. Operating Status

(b)Cash management

Offering corporate clients diversified and convenient collection and payment channels to boost client's cash-management efficiency.

(c)Serving as arranger for syndicated loans

(d)ABCP (asset-based commercial paper)

(e)Structured notes

C. Future R&D Plan

(a)Personal and Consumer Banking

- Developing credit-card payment function and channels.
- Developing mobile phone-based credit-card mobile payment function.
- Developing cash-card business and function.
- Strengthening e-wallet function and expanding application scope.
- Installing credit-information evaluation system.

(b)Corporate and Enterprise Banking

- Offering accounts-receivable factoring service for the greater Chinese region via strategic alliances with foreign banks, so as to provide Taiwanese businesses in China diversified financing solutions.
- In line with financial-product diversification, combining new financial products with structured-type financing, to further meet clients' needs.
- In line with the globalization trend, expanding off-shore banking and overseas business-points services, to meet the financing needs of Taiwanese businesses for global deployment.
- Augmenting self-production capability for treasury products, developing plural domestic and overseas financial products suited to institutional investors, to be coupled with quality services, such as mutual funds, private equity funds, corporate trust, and domestic and overseas discretionary-account operations.

3.Long-Term and Short-Term Business Development Plan

A. Retail Banking and Consumer Financing

(a)Short-Term Business Development Plan

- Balancing market interest rates and fund costs.
- Strengthening risk assessment system and enhancing accuracy for statistical analysis.
- Actively pushing e-banking and augmenting e-banking functions and products.
- Capitalizing on resources and extensive clientele of the financial holding firm to augment cross-selling.
- Further consolidating internal operational processes, to enhance operational efficiency and lower operating costs.
- Instituting internal assisting and training mechanism, to boost expertise and product knowledge of staffers.

(b)Long-Term Business Development Plan

- Combining wealth-management and debt-management products from the angle of account consolidation, so as to meet all-directional needs of clients.
- Offering risk-based differentiated pricing and multiple products via client-grouping management mechanism.
- Adjusting ratios of loan allocation to assure profitability of various product lines.
- Deep-cultivating existing clients to boost effective-card ratio and stimulate per-card consumption value.
- Augmenting the number of merchant stores and developing innovative promotional channels.
- Setting up cooperative and partnership links between subsidiaries and business departments of the financial holding firm.
- Augmenting business-information exchanges and operational efficiency via graphic transmission.
- Further strengthening risk management, to improve assets quality and cut NPL (non-performing loan) ratio.
- Implementing the bank's core value via active cultivation and motivation.

B. Corporate and Enterprise Banking

(a)Short-Term Business Development Plan

- Combining the financial holding firm's resources to carry out all-directional marketing among clients.
- Expanding cash-management clientele.
- Strengthening risk-management mechanism.
- Applying for upgrading of the Vietnam representative's office to a branch, to expand overseas clientele.

(b)Long-Term Business Development Plan

- Further strengthening product platforms to win trust of corporate clients via integrated marketing and deep-cultivated services and augment their business contribution.
- Augmenting expertise of staffers, in hopes of developing new financial products to meet overall needs of clients.
- Studying feasibility of setting up new overseas business points, to offer global financing and fund management services to Taiwanese businesses.

C. Wealth Management and Trust

(a)Short-Term Business Development Plan

- Forging a wealth-management brand image of pride-worthiness, reliability, strong performance, and quality benefits and services.
- Carrying out client-group management, setting up dedicated marketing teams for different client groups, enhancing product penetration rates among clients, boosting revenues, and enhancing client relationship.

IV. Operating Status

- Grasping features of bricks-and-mortar and virtual channels and better utilizing contacts with clients, to augment contribution of a single client.
- Continuing to promote education and start-up trust business for offspring, retaining market leadership and augmenting market share.
- Expanding “So Easy target wealth-management plan” business, augmenting added value for trust business and expanding magnitude of product lines.
- Enhancing performance for trust consultant business.
- Actively developing and deep-cultivating key channels
- Further expanding business volume for overseas mutual funds and creating handling-fee income.
- Launching new collective management-account products, so as to enrich self-developed product lines and meet needs of investors for diversified investments.
- Developing multiple financial derivatives to actively enhance market share and obtain market leadership.
- Introducing new products businesses to meet diversified investment and wealth-management needs of investors and offering clients, on the concept of assets allocation, rich financial derivatives, so as to provide one-stop shopping service to investors of different natures.

(b) Long-Term Business Development Plan

- Developing multiple securities trust businesses to actively enhance market share and obtain market leadership.
- Putting in place complete product lines for "So Easy target wealth-management plan," to tap the tremendous business potential arising from allowing laborers to select investment targets for their pension funds.
- Instituting multiple payment functions for trust platform.
- Developing new trust businesses by continuously tracking related legal changes.
- Further expanding business volume for domestic and overseas mutual funds, self-developed AUM business, and dollar-averaging fund investment, so as to create long-term stable management-fee income.
- Actively striving for custodianship business for domestic mutual funds, so as to expand the custodianship business scale and create long-term steady custodianship-fee income.
- Continuously developing, on sustainable-development concept, derivatives business and combining them with other investment products to achieve the goal of all-directional assets management.
- Continuously improving after-sales services for structured notes, to deep-cultivate client relationship.

Taiwan Securities Co., Ltd.

1.Business Plan for the Current Fiscal Year

A. Brokerage Business

The company's brokerage business continued to grow in 2006, with market share hitting 5.029%, ranking third place. In 2007, in addition to expansion of business scope via banking channel, we will launch concept-store sophisticated business points, in a manifestation of new-type channel service.

B. Securities Dealership Business

With forecast for an economic upturn in the second half following slowdown in the first half, we expect the Taiex index may hit new highs in the second half and is confident of scoring top-notch investment performance in the bullish market in 2007, by following the principle of maximizing investment returns under rigorous risk management.

C. Underwriting Business

In the Taiwanese capital market, the company not only ranked second place for book-runner cases but also third place for underwriting value in 2006, thanks mainly to underwrite NT\$18 billion domestic convertible bonds floated by Hon Hai Precision, which sets many records and poses as a milestone for the domestic capital market. In 2007, in anticipation of a bullish market, the company, in addition to holding onto the positioning of an investment bank for small and medium enterprises, will assist small and medium enterprises with good fundamentals or in niche lines to list their shares on the centralized or over-the-counter stock market, in addition to offering custom financial planning to corporate clients and continuously integrating the financial firm's resources to develop large-scale fund-raising business, so as to retain our market leadership. In addition, following years of effort, we expect to turn in an eye-catching performance for IPO (initial public offering) business in Hong Kong.

lines to list their shares on the centralized or over-the-counter stock market, in addition to offering custom financial planning to corporate clients and continuously integrating the financial firm's resources to develop large-scale fund-raising business, so as to retain our market leadership. In addition, following years of effort, we expect to turn in an eye-catching performance for IPO (initial public offering) business in Hong Kong.

D. Stock-Affairs Agency

Despite growing maturity and competition for the stock-affairs agency market, the company still actively integrates the resources of the underwriting department and the corporate-banking business group of Taishin Bank to solicit clients with the niche of integrated services, in hopes of boosting the numbers for listed companies and shareholders for our agency business.

E. Bond Business

Along with multiplication of global investment instruments, there have appeared more and more fixed-yield products to meet growing demands. We will dedicate to the development of interest rate- and bond-related derivatives, to meet the diversified needs of clients for bond transactions

IV. Operating Status

and offer corporate clients optimal fund-raising services in the domestic and overseas bond markets.

F. Derivatives Products

As the taxation problem for financial derivatives remained unsolved in 2006, the company didn't undertake active strategy for issuing derivatives but still endeavored to retain the existing market share and issuance volume under the principle of retaining adequate gross margin and rigorous exercise of risk management.

G. Financial Products

In line with the market trend and the globalization of client assets, the company has dedicated to the installation of e-trading platform, enabling investors to purchase overseas stocks and mutual funds online. The e-stock trading platform has been in operation and we will actively plan the installation of e-mutual fund trading platform in the future. In addition to offering clients easy order-placement mode, we will further strengthen product screening and performance evaluation and tracking.

2. Research and Development

A. R&D Achievements

In 2006, the company further issued 67 warrants, totaling NT\$1.832 billion in value, ranking 5th place in the industry, fully manifesting its R&D achievement.

B. R&D Plan

As the controversial taxation problem has dampened gross margin for many derivatives businesses, the company will continue communicating with the regulator actively, in hopes solving the problem and augmenting operating performance. The company plans to apply for the qualification for trading in stock options in 2007, which can augment the depth and magnitude of our operation and risk-hedging investment for derivatives.

3. Short-Term and Long-Term Business Development Plan

Faced with the slim-margin trend in the securities industry, the company plans to develop in the directions of enlarged scale, e-operation, diversification, and internationalization, so as to consolidate our competitive niche. Brief descriptions of our short- and long-term development plans follow:

A. Short-Term Business Development Plan

(a) Brokerage Business: The 2006 Business Development Plan lists several items for the development goal and direction of the business.

- Offering new-type services at business points, via development of sophisticated business points and planning of new-type concept outlets;
- Expanding the magnitude of wealth-management business, via integration of resources under Taishin Financial Holding;
- Implementation of e-Service via installation of e-Service platform and further strengthening of e-trading function.

- (b) Derivative-Product Business: Negotiation and communication with the regulator for solving the taxation problem.
- (c) Bond Business: Expanding the product line of interest-rate and bond derivatives, offering clients various fixed-yield investment vehicles.
- (d) Entrustment Business: Actively building up the front-, middle- and rear-end trading system platform and CRM system, so as to provide client more complete services for trading of financial products.
- (e) Financial products: offering assistance in setting up CRM (customer relationship management) system, so that salespersons can grasp updated information on client assets, as well as client-interactive system, allowing clients to understand their assets allocation and returns anytime.

B. Long-Term Business Development Plan

- (a) Brokerage Business: There are several key points for the long-term brokerage business development plan.
 - New-type services for business points: the formation of wealth-management securities firm.
 - Continuing expansion of the magnitude and depth of wealth-management business.
 - Improvement and innovation of e-Service: electronic trading for overseas markets and development of experience platform for wealth-management financial products.
- (b) Securities dealership: Stepping up contact with overseas markets and undertaking related R&D, in addition to carrying out trial investment with limited fund.
- (c) Bond business: Actively stepping into overseas markets, increasing trading in overseas bonds, and introducing non-NT dollar fixed-yield products, so as to provide clients multiple currency-denominated investment vehicles.
- (d) Entrustment Business: Further increasing transaction items and markets, and providing clients pluralized quality financial products.
- (e) Financial products: Rigorously selecting upper-hand trading partners to effectively lower costs, expanding trading market to offer multiple choices to clients, and analyzing and tracking performance to assist clients selecting quality financial products.

Taishin Bills Finance Co., Ltd.

1. Business Plan for the Current Fiscal Year

Due to the pickup in the global economy and Taiwan's economy, the company adheres to the conservative and steady principle emphasizing quality rather than quantity in its credit extension policy, intensifying businesses for bond transactions and trading in the primary and secondary bills markets. Due to the limited amount of self-guaranteed bills, the company has strengthened the development, cultivation, and expansion of bills quotes, so as to boost the issuance volume of bills guaranteed by others. We also increase the procurement of NCD (negotiable certificates of deposits) from banks with good credit standing and purchase via open bidding short-term revolving-credit bills NIF (notes insurance facility), to expand the source of supply.

Future Business Development Plan:

IV. Operating Status

A. Credit Extension

With listed medium- and large-scale quality enterprises as our major targeted clients and under the credit-extension policy emphasizing industry diversification and business quality, rather than quantity, we avoid large-scale credit-extension cases involving excessive sum for a single case and strengthen our credit verification operation, so as to carry out rigorous risk management in credit extension.

B. Trading Business

We strengthen the development of bills/bonds trading business and cultivation of potential clients, increase the volume and share of trading with corporate bodies and individuals, thereby lowering our reliance on funds of banks and other financial institutions. We set up a strategic alliance with Taishin Bank, such as serving as a certifying and underwriting institution in NIF syndicated loans arranged by Taishin Bank, and actively takes part in bidding for public bonds and treasury bills. We also closely monitor the political and economic situation, as well as changes in stock market and exchange rates, and correctly predict the trend of interest rates, so as to carry out good management of assets and liabilities and effectively control our risk positions.

C. Information Technology

We maintain on-line instant risk monitoring for credit extension and trading, strengthen functions for funds allocation and bills selection, push order placement for trading in bills and bonds via phone calls and the Internet for manpower saving, establish proprietary inter-bank remittance system, and develop client management system to enhance the service quality for clients.

D. Management

We downsize staff, carry out regular job rotation, and strengthen employee education/training; strengthen electronic-oriented public-document delivery and administrative procedure, so as to enhance administrative efficiency; intensify interaction with employee families to augment their allegiance to the company.

E. New Financial Products

The regulator has opened up new bills business items at large scale, including various derivative products, such as fixed-rate commercial paper, bills and bonds futures, interest swaps, bond options, assets swaps, and corporate-bond brokerage and trading. The company will actively take part in these businesses, in line with our consistent spirit of leading our peers in exploration of new products and markets.

F. Others

The company will elevate overall image of the company, establish the reputation of our management team, set up the status of quality brand in the market, and induce the market to engage in virtuous competition, in the hope of achieving steady growth in the aspects of assets, market share, and returns on equity and capital.

2. Status of Financial-Product R&D and Business Development

In line with the government's effort for financial development and opening up of the domestic securities market, the company will endeavor to develop various financial-product businesses, strive for businesses for certifying and underwriting ABCP in order to expand business source and income, study feasibility for undertaking businesses related to stock- and credit-based derivatives for lowering the company's credit and market risks and boosting profits.

3. Short-Term and Long-Term Development Plan

To cope with market competition, expand business, and strengthen organization, the company has mapped out short-, mid- and long-term business development plans as the following:

A. Short-Term Goals:

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

B. Medium-Term Goals:

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

C. Long-Term Goals:

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

IV. Operating Status

Taishin Asset Management Co., Ltd.

1.Business Plan for the Current Fiscal Year

- A. Bidding for packaged distressed-debt claims of financial institutions.
- B. Purchasing distressed-debt claims from peers via bargaining on a case-by-case basis.
- C. Striving for distressed-debt claims of peers or financial institutions under receivership by utilizing the expertise of our management team.

2.Short- Term and Long-Term Business Development Plan

A. Bidding for Purchasing Distressed-Debt Claims:

- (a)Continuously handling distressed-debt claims purchased from Taishin Bank.
- (b)Cooperating with peers in bidding for distressed-debt claims, in order to augment business source, on one hand, and understand peers' evaluation modes, asset-management know-how, and collection planning, on the other.
- (c)Purchasing distressed-debt claims via bargain: cooperating with private AMC (asset management corporation) to bargain for purchase of distressed-debt claims for select cases, an arrangement which enables the company to have better grasp of fund planning, risk assessment, and investment returns.
- (d)Setting up task force to bid for NPL (non-performing loan) secured by building plots in greater Taipei and carry out debts restructuring, to facilitate exploration of land-development business.

B. Agency Business:

- (a)Continued service as agency for the disposition of the Taishin Bank's NPLs.
- (b)Disposing of Taishin Bank's idled assets on its behalf;
- (c)Pursuit of the management and disposition of bad assets of asset management companies that have already been purchased.

Taishin Marketing Consultant Co., Ltd.

1.Business Plan for the Current Fiscal Year

Taishin Marketing Consultant shall provide "human resource outsourcing" service in accordance with the manpower utilization and management of Taishin Bank.

2.Long-Term and Short-Term Business Development Plan

Human resource outsourcing market is commonly divided into "long-term dispatching" and "short-term dispatching" in terms of contract period, with the former over six-month-long and the latter less than six-month-long. Taishin Marketing Consultant would make any necessary adjustment in its supportive manpower considering Taishin Bank's actual needs.

Taishin Venture Capital Co., Ltd.

1.Business Plan for the Current Fiscal Year

A. 2006 Business Situation

The company was incorporated in September 2003, with paid-in capital of NT\$1 billion initially. In 2006, the company retrieved some fund and carried further investment, with our investment in 2006 reaching NT\$92 million, boosting accumulated investment to NT\$872 million as of the end of 2006.

B. 2007 Business Development Plan

The company plans to carry out capital increment of NT\$250 million in the second half of 2007, for making short-term (one to three years) investments and enhancing liquidity. In 2007, the company will also step up disposition of shareholdings and actively develop Emerging Enterprise Market business, investing in undervalued stocks and stocks with good business prospects, so as to augment our profits.

2.Research and Development

Taishin Venture Capital will continue to undertake venture-capital business, in compliance with "scope and assistant measures for venture-capital business," which confines the investment scope of venture capital firms to sci-tech industry, other venture-capital businesses, manufacturing industry, and service industry. Consequently, the company's R&D focuses on the aforementioned industries and companies in those lines, studying the potential risks for their development before putting forward investment feasibility study and carrying out investment, to be followed by share listings of the invested firms via assistance of securities underwriters, thereby bringing greater integrated benefits to the financial holding firm.

3.Long-Term and Short-Term Business Development Plan

In short-term business development, we will continue to cooperate with the Corporate-Banking Business Group of Taishin Financial Holding in investing in selected companies boasting high cash yields to augment the company's cash flow. Meanwhile, following expansion of venture capital's investment scope by the government, we will actively locate and invest in undervalued listed stocks and stocks of those companies with good business prospects, so as to boost our profits.

Judging from overall global industrial development trends, the mainstream of long-term business development will continue to be technology industries. The slumping market of the past few years, however, has led to the under-valuation of the stocks of numerous companies with high growth potential, and only through venture investment via the long-term deployment method can the Company take solid advantage of the resulting opportunities for long-term industrial and regional growth.

IV. Operating Status

Chang Hwa Bank Co., Ltd.

1. Business Plan for the Current Fiscal Year

Business-volume targets for major financial businesses in the 2007 budget:

- A. Deposit: NT\$1,053,104,000,000
- B. Loan: NT\$892,484,000,000
- C. Foex transaction: US\$141,434,000,000
- D. Securities brokerage: NT\$96,724,000,000
- E. Trust (mutual fund): NT\$82,000,000,000

2. Research and Development

A. The Bank's R&D Outlay in the Recent One Year

2006—NT\$12,576,000

B. R&D Achievements

In 2006, the bank completed 22 research reports on risk management, customer relationship management, corporate governance, and financial products.

C. Future R&D Plan

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

II. Cross-line and Joint Marketing Benefits

According to article 43 and 43 of the Financial Holding Law, the financial holding firm and its subsidiaries can carry out joint marketing, achieving the benefits of joint management via joint business promotion, information exchanges, or joint utilization of business facilities or offices.

On July 31, 2003, the company's chairman ratified the "measures governing integrated marketing of Taishin Financial Holding Co., Ltd.," which was followed by passages of "enforcement rules for marketing-list management of Taishin Financial Holding Co., Ltd." in September 2003, "management regulations for use of client data by staffers of Taishin Financial Holding Co., Ltd." in December 2003, and "enforcement rules and management measures for use of client database of Taishin Financial Holding Co., Ltd." in July 2005, putting in place regulations, as well as supervisory and management mechanism, for cross selling or client introduction for products among different subsidiaries and their staffers of the financial holding firm. The regulations cover such activities as joint business promotion, processing of operational flow, joint use of client information, joint use of business facilities or offices, and offering of cross-line integrated financial products or services, so as to uphold clients' interests and assure compliance with the regulator's regulations, in hopes of offering clients more complete and convenient wealth-management products and services, thereby manifesting the optimal synergy of the financial holding firm.



III. Market and Business Conditions

Taishin Financial Holding Co., Ltd.

1. Market Analysis

A. Qualitative Changes in the Market

The establishment of financial holding companies under the concept of cross-industry operation is expected to bring substantial qualitative changes to the original financial market by giving expression to the mechanism for integration of group resources and services. The content of these changes include the gradual disappearance of clear boundaries between individual markets because of cross-industry operations, the switch from a product orientation to a customer orientation in the thinking of competitors in the market, and a new integrated services as well as new business competition and opportunities for market expansion brought on by the entry of financial holding companies.

B. Major Rivals in the Domestic and Overseas Markets

Among the existing 14 financial holding firms in Taiwan, those with subsidiary commercial banks boasting large business share and scale include, in addition to Taishin Financial Holding, First Commercial Holding, Hua Nan Financial Holding, Chinatrust Financial Holding, Cathay Financial Holding, Fubon Financial Holding, SinoPac Financial Holding, and E.Sun Financial Holding, whose banking branch channel give them strong edge in business promotion.

Major foreign rivals are mostly U.S. or European banks, such as Citibank, Standard Chartered Bank, and HSBC. Following recent acquisitions of Hsinchu International Bank by Standard Chartered Bank and Bank of Overseas Chinese by Citibank, U.S. and European financial holding firms have posed greater challenge to and pressure on management of domestic counterparts, due to their advantages of mature operating mode, product lines, and marketing technique, in addition to enlarged scale and business niche for greater-Chinese region.

2. Competitive Strategy

A. Expanding Business scope and Creating Synergy

Via acquisitions or cross-line alliance, we aspire to expand business scope and tap new business opportunities; boost asset-management capability, profit-making capability, and investment returns via cross-line development; enhance marketing efficiency via business integration; and achieve economy of scale, offering clients services with quality better than their expectation and at reasonable costs.

B. Strengthening of Operations and Strict Control of Risk

Strengthening of risk management, maintenance of asset quality, implementation of assets and liabilities management, control of liquidity risk, effective use of short-term funds, strengthening of long-term investment evaluation and management, heightening of income on assets, implementation of auditing and internal control systems.

IV. Operating Status

C. Reinforcement of Products and Full Services

Establishment of a full-spectrum financial business including banking, bills finance, stocks, insurance, and asset management, while seeking personal and corporate banking opportunities and carrying through with cross-marketing and operating platform integration.

D. Customer Orientation and Professional Division of Labor

Develop packaged products suited to different client groups via deep management of client data and analysis of client-group features, in addition to setting up dedicated business teams for different client groups and training salespersons to develop complete product know-how, as well as embracing “Single Customer View” in serving clients, managing risks, and creating wealth for clients.

E. Reinforcement of Human Resources and Cultivation of Manpower

Upgrade manpower quality, cultivate talents, stress employees' career development, working-hour flexibility, and satisfaction, in addition to fostering a cooperative corporate culture.

3.Competitive Niche

A. Integration of Service Channels

Companies operating under the flag of Taishin Holdings include Taishin Bank, Taiwan Securities, and Taishin Bills Finance, among others. The service channels of these companies differ in accordance with their different natures; by integrating the different sales channels, different customer groups can be encompassed and more service locations will be available to provide financial consultation.

B. Provision of a Diversified Product Range

The different need of customers at different times makes a diverse range of products an indispensable factor. The Company has always focused on customer-centric services and product re-bundling and one-stop-shopping are indexes of high-quality service that saves customers' time while at the same time satisfying their needs. In addition, the segmentation of existing customers for the provision of more appropriate financial products is used to achieve the goal of cross-marketing.

4.Favorable and Unfavorable Factors for Future Development

A. Favorable Factors

- (a) Taishin Holdings encompasses a complete line of products encompassing banking, securities, and bills finance.
- (b) Taishin Securities enjoys an outstanding brand image in the domestic capital market.
- (c) Taishin Bank has an excellent market image and a complete customer base.
- (d) Under the trend of consolidation in the domestic finance industry and the need of customers for a long-term cooperative partner, Taishin Holdings can provide services that assure customer satisfaction.

B. Unfavorable Factors

- (a) There are 14 financial holding companies in Taiwan and competition among them is intense, and there is concern about the high degree of similarity among their product development and packaging.
- (b) Some banking peers have enlarged their scale via M&A (merger and acquisition) or consolidation, such as Taiwan Cooperative Bank, Cathay United Bank, and Bank SinoPac, posing greater challenge to others.

Taishin International Bank Co., Ltd.

1. Market Analysis

Impacted by soaring oil and raw-material prices, growth rates of economies worldwide, except China and India, have slowed down, while Taiwanese exports, locomotive of the island's economy, have also slackened, with growth rate being the lowest among the four Asian little dragons, due to the double effects of external factor and domestic political contention. In the domestic financial market, excessive idle fund and acute competition has driven down interest differential and handling-fee income.

Meanwhile, continuous outward industrial transplantation has directly impacted the domestic corporate-banking market, flattening loan demand among domestic enterprises. Faced with the deteriorating climate, in addition to further deep cultivation of domestic quality corporate clients, domestic banks should actively strengthen OBU and Hong Kong platform, tapping business opportunities related to Taiwanese businesses in the greater Chinese region, as well as cultivate SME (small and medium enterprise) client groups via all-directional trade financing service and develop risk-hedging and investment-type financial products, so as to support clients in financial planning and meet their needs. Overall, amid the M&A (merger and acquisition) craze and acute competition triggered by the government's second financial reform in the market, the Taiwanese banking industry will undergo further consolidation, leading to phasing out of weaker ones via function of market mechanism, which will augment business scales and efficiency of domestic financial institutions.

2. Business Objective

In 2007, the bank will actively formulate new strategy and direction to strengthen our core competence, including accelerated corporate restructuring and personnel cultivation, in hopes of effectively pushing corporate-banking, consumer-banking, and wealth-management businesses simultaneously, under the principle of adequate risk management, so as to march towards the goal of a regional financial institution. On the existing foundation, the bank will institute a corporate structure capable of managing risk and sustaining steady profit growth, properly controlling cost via a steady-growth strategy, so as to achieve the goals of enlarged business scale and strengthened efficiency.

IV. Operating Status

3.Favorable and Unfavorable Factors for Future Development

A. The Bank's Competitive Advantages

- (a) Large clientele with profound relationship and extensive branch channel.
- (b) Leadership in business innovation, marketing skills, and product R&D.
- (c) Plentiful resources of the financial holding firm and integrated marketing synergy via cross selling.

B. Favorable Factors for Future Development

- (a) Further business liberalization by the regulator, such as lifting of investment ceiling of foreigners.
- (b) High house-ownership rate in Taiwan, promising high development potential for wealth-management investment.
- (c) Higher risk-management awareness for loan extension among domestic banks in the wake of the twin-card debt storm.

C. Unfavorable Factors for Future Development

- (a) Ceiling on Chinese investments by domestic banks, which hinders their development in the greater Chinese region.
- (b) Likelihood for further interest-rate hike, which may dampen the realty market.
- (c) Lack of R&D and innovation among domestic peers, leading to acute price competition, which puts a damper on profit potential.
- (d) Enlarged scale of foreign bank branches via acquisition of domestic banks, intensifying competition in the banking industry.

D. The Bank's Development Strategy

- (a) Deep-cultivating dealings with clients, on the basis of the single customer view.
- (b) Developing financial products capable of satisfying client's needs, as well as differentiated services.
- (c) Manifesting synergy of cross-line business development by integrating operations of subsidiaries and various business departments.
- (d) Endeavoring to maintain balanced development for various businesses, so as to diversify risks and boost profits.
- (e) Further enhancing core expertise and capabilities, especially in the filed of intangible assets (such as analytical technique and client database).

Taiwan Securities Co., Ltd.

1.Market Analysis

A. Supply

In 2007, in addition to further enhancing business performance of single business point, major securities firms have extended operations of their brokerage business points to sale of products of their financial holding firms' other subsidiaries, in order to augment market competitiveness,

increase available resources, and expand business scope, so as to achieve the synergy of resources integration and cross selling, thereby boosting market share and strengthening marketing capability for financial products.

B. Demand

Although the government's policy of “active management and effective liberalization” has brought much uncertainties to the market since 2006, gradual relaxation on restrictive regulations for securities firms, such as securities-related lending business and clients' securities-related loaning business, has expanded business scope of securities firms, which will create more rich income sources for the company in the future.

2.Business Objective

In 2007, in addition to further increasing market share for channel agency business, the company will endeavor to enhance business performance of business points, maximize cross-selling benefits by strengthening cooperation with banking channel, and active develop new products to meet client's diversified needs. Meanwhile, the company plans to apply for approval of OTC (over-the-counter market) option business, to expand our business scope. For underwriting business, in addition to continuously assisting small and medium enterprises in share listing, the company will develop large-scale fund-raising business, as well as cross-border M&A and financial consulting businesses, in addition to becoming a partner of business groups. For securities dealership, under the principle of rigorous risk management, we will carry out study of overseas trading and limited investments on a trial basis, so as to augment our operating performance. As a result, the company is confident of achieving further growth in 2007.

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3.Favorable and Unfavorable Factors for Future Development

A. Favorable Factors:

(a)Numerous and Extensive Channel Points:

Number of the company's business points had topped 57 as of the end of 2006, helping it achieve 5.029% share in the brokerage business market. Extensive channel points can help the company maintain stronger profit-making capability and facilitate its further business development. In line with the continuous expansion of the new-product market by the domestic financial industry, the company has carved out a market niche with large-scale and complete services by taking advantage the synergy offered by the financial holding firm, and will further strengthen cross-selling to augment the company's profit level.

IV. Operating Status

B. Unfavorable Factors:

(a) Overall Fund Outflow:

In 2006, while foreign capital continues to flow into the Taiwanese securities market, Taiwan scored net fund outflow of several billions of U.S. dollar. Meanwhile, in accordance with its commitment for WTO (World Trade Organization) ascension, China opened up various service markets, including financial and insurance markets, sparking scrambling among foreign financial institutions to enter the Chinese market. In order to assure management flexibility under the uncertain climate, domestic financial institutions have to actively cultivate overseas income sources, develop diversified businesses, and strengthen risk-management capability.

(b) Price Factor:

As securities firms boast numerous branches and offer similar products and services, individual clients are quite sensitive to prices, while institutional investors and large clients boast strong bargaining capability, thanks to their large trading volume and sufficient information, a situation which prompts securities firms to resort to unreasonable price war, driving down the overall profit margin. Faced with acute market competition, the company will seek market niche via differentiated services and extensive product line.

Taishin Bills Finance Co., Ltd.

1. Market Analysis

Despite further interest-rate hikes by the Central Bank of China in 2006, Taiwan's real interest rates remain low, due to the moderate scale of the interest hikes, as a result of which further interest hike by the CBC is inevitable. Interest-rate hikes are adverse to the business of bills finance firms, as narrowed interest differential reduces returns for bills holding. In addition, flooding idle funds have prompted banks to resort to low interests to promote loan business, squeezing demands for short-term bills issuance, cutting handling-fee income and eroding overall profit level, which needs to be compensated by other incomes.

Supported by moderate economic upturn and abundant funds, the stock market has climbed at moderate rate, boosting investment confidence. Proper expansion in the investment position for convertible corporate bonds can also boost capital gains. On the other hand, for fixed-yield long-term bond investments, there needs cautious observation of fund flow and wave-like investments, in order to control risks.

2. Business Objective

The company aspires to achieve the goals of upgrading service and operating efficiency, establishing good reputation, stepping up credit extension, intensifying credit investigation, strengthening employee education and training, cultivating financial specialists, assuring security and correctness of various trading information, and setting up excellent credit and professional corporate image.

In the long term, we hope to actively develop new businesses, upgrade the overall corporate image, establish the reputation of the management team, set up an outstanding brand status in the market, and induce virtuous competition in the market by taking advantage of the resources of the financial holding firm, in order to achieve steady growth in the aspects of assets, market share, and returns on equity and assets.

3.Favorable and Unfavorable Factors for Future Development

A. Favorable Factors:

- (a)With successive opening up of many new businesses by the regulator greatly boosting business diversification for bills finance firms, the company will actively launch new businesses, thereby enhancing our cross-industry competitiveness.
- (b)In 2006, Fitch Rating Ltd. raised the company's credit rating, with international long-term foreign-currency rating reaching BBB- and domestic rating twnA, an outstanding performance among domestic peers, enhancing corporate image and facilitating business expansion.
- (c)Integration of the financial holding firm's resources will facilitate expansion of various businesses, in addition to boosting sources for bills and fund supply.

B. Unfavorable Factors:

- (a)There is an excess of funds in banks and no appreciable heightening of corporate capital needs. This has led to a corresponding contraction of the bills market; and with no improvement in the shortage of bills sources, the bills business is difficult to develop.
- (b)With bills finance companies competing fiercely for bills and banks asking their customers to use their own bills units for certification and underwriting, the amount of bills issuance is likely to decrease.
- (c)The trend in short-term interest rates is showing signs of bottoming out and turning upward, and this will boost capital costs for bills finance companies. This situation puts upward pressure on the real interest rates of government bonds, and the rise of interest rates in the market will bring losses in originally held positions.

Taishin Asset Management Co., Ltd.

1.Market Analysis

With domestic corporate debts having been almost sold out and realty-mortgaged distressed-debt claims gradually declining in value and share, asset management companies have switched their business focus from bidding for corporate debts to consumer debts. Meanwhile, along with gradual contraction of the market capacity, many domestic and foreign peers have successively transformed their operations or exited the domestic market, with some beginning to re-sell their purchased distressed-debt claims, stimulating the development of the secondary market, conducive to division or combination of single or small debts, which can accelerate debt clearance and boost returns.

IV. Operating Status

2.Business Objective

In addition to continuing purchase and processing of distressed-debt claims, the company will continue to bid for NPL mortgaged by building plots in greater Taipei and restructure the debts, in order to expand land development business. Meanwhile, in line with market changes, the company will actively bid for distressed-debt claims of consumer banking. In addition, we will diversify our business and utilize banking and securities platforms, capitalizing on their plentiful funds and talents, for engaging in corporate restructuring, which will contribute to domestic financial and corporate reform.

3.Favorable and Unfavorable Factors for Future Development

A. Favorable Factors:

The company's advantages lie in complete business platforms and abundant resources afforded by the financial holding firm, facilitating its assistance for affiliated enterprises in processing distressed-debt claims and its development of other asset management businesses, in line with business development of the financial holding firm and other subsidiaries.

B. Unfavorable Factors:

Domestic financial holding firms and foreign financial institutions have successively set up AMC, leading to acute competition in the distressed-debt market, a situation aggravated by reluctance to sell distressed-debt claims among financial institutions in the wake of economic upturn.

Taishin Marketing Consultant Co., Ltd.

1.Market Analysis

Along with changes in international business climate, the labor market has been undergoing rapid structural changes. In response to the advent of the “slim-margin” era, temporary help supply service has emerged, helping enterprises achieve higher flexibility and efficiency in resources allocation, thereby saving expenses and cutting costs. Taishin Marketing Consultant focuses on the THS service business.

2.Business Objective

Taishin Marketing Consultant's main business is dispatching staffers to Taishin Bank to undertake debt-collection and assistant works, in line with need of Taishin Bank for manpower utilization and management.

3.Favorable and Unfavorable Factors for Future Development

A. Favorable Factors:

Taishin Marketing Consultant's business is to offer THS service to Tashin Bank in line with its manpower demand and can flexibly adjust its supporting manpower according to change in Taishin Bank's needs.

B. Unfavorable Factors:

THS works are mainly of temporary and simple ones in nature, with inferior pays and fringe benefits than regular jobs. Domestic job seekers, therefore, prefer long-term regular jobs, which offer better job security and sense of belongingness, leading to high turnover and lower quality for THS manpower.

Taishin Venture Capital Co., Ltd.

1. Market Analysis

Judging from the current state of the venture capital industry in Taiwan, the poor economic performance at home and abroad in 2005 led to weak investment willingness and investment was low in both number of cases and in amounts that year. The expectation of continued economic recovery in 2006, however, provided the best opportunity for venture capital companies with their emphasis on medium- and long-term investment, and lucrative returns on this investment are expected over the next several years.

2. Business Objective

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

3. Favorable and Unfavorable Factors for Future Development

A. Favorable Factors

Taiwan's venture capital industry has developed to the stage of maturity, and to keep the industry growing stronger the government has expanded its sources of funds by relaxing ratio limits on investment in venture capital firms by insurance companies, banks, and securities houses, and has abolished restrictions on industries in which venture capital companies are allowed to invest, thus expanding sources of venture capital and further boosting growth and development. At the same time, with the focus of global industrial development remaining on technology industries, venture capital companies play an indispensable role in the provision of capital. As the steady recovery of the global economy continues in the future and capital spending increases, Taiwan's venture capital industry will enjoy another wave of expansion and growth.

IV. Operating Status

B. Unfavorable Factors

(a) Decline of Taiwan's Economy, and Weak Investment Willingness

The main factor that influences the amount of investment is the economy. When the economy is good the stock market performs well and the raising of funds is relatively easy, and there are large returns on venture investment; but when the economy is bad, the return on investment is reduced and the raising of funds becomes difficult. At this time when the global economy is slipping and the demand for high-tech products is falling, therefore, the expansion of corporate capital increase is slowing down and companies have turned conservative in their attitude toward investment. At the same time, mainland China is offering tax incentives to various industries and some of Taiwan's enterprises are migrating there. All of this has an impact on willingness to invest and operate in Taiwan.

(b) Cancellation of Tax Incentives for Venture Investment

Venture capital enterprises were originally eligible for tax incentives, but in the 2000 revision of the Statute for Upgrading Industries the authorities, for taxation and other considerations, cancelled investment tax credits for venture capital firms.

Chang Hwa Bank Co., Ltd.

1. Market Analysis

In its latest forecast released in February 2007, GI (Global Insight), an international economic forecast body, estimated that the global economy grew 3.9% in 2006, underscoring its steady performance. Despite the languid domestic demands, due to twin-card debt storm, sluggish auto sales, and decline in private investments, the Taiwanese economy still racked up 4.62% growth in 2006, up 0.59 of a percentage point over 2005's 4.03%, thanks to robust exports performance, especially that of consumer electronic products, and the ensuing strong performance of the manufacturing industry.

2. Favorable and Unfavorable Factors for Future Development

A. Favorable Development Factors:

- (a) Improvement in assets quality.
- (b) Growth of the global economy.
- (a) Favorable market environment for the development of wealth-management business.

B. Unfavorable Development Factors:

- (a) Further narrowing of interest differential on acute banking competition.
- (b) Leading development of major financial institutions in the wealth-management market.
- (c) Continuing restrictions of cross-Taiwan Strait policies on provision of services by domestic banks to Taiwanese businesses.

IV. Corporate Responsibilities and Ethics

To offer substantiated payback to the society and communities, Taishin Financial Holding integrates paybacks in the aspects of art, enterprise, society, and community, continuously joining hands with the art and cultural circle in promoting Taiwanese contemporary arts, in addition augmenting interaction with communities. Founded by the Taishin Bank Art Foundation, Taishin Art Award grants topmost encouragement and honor to art workers in the two fields of indigenous visual and performing arts, thereby instituting everlasting historical status for the Taiwanese contemporary arts. In addition, various cultural and artistic activities have taken place in the Yuan Hall of Taishin Art and Culture Center on the second floor of Taishin Financial Holding headquarters building, including Shy Gong personal exhibition, cross-field works exhibition of Lin Chuan-chu, exhibition of finalist works for Taishin Art Award, as well as regular noontime musical concerts, featuring free performances of domestic musicians in various fields for enjoyment by citizens.

In 2006, in conjunction with the parent firm, Taishin Bank sponsored various high-class performing-art activities, offering the public various forms of artistic and cultural feasts, including artistic festival at the square in front of National Theater and Concert Hall, ushering Taiwanese people into the wonderland of international circus art, sponsoring new-year eve charity concert of Jose Carreras, with invitation for charity-group members to enjoy the touching beauty of his singing, in addition to performance of Taipei Philharmonic Orchestra in the U.S., world circulating concert of singer Wakin Chau, and “My Dream, One-Thousand Hand Mother Buddha.”

Regarding social benefit, in response to the campaign of the government for donating to the Asian Tsunami victims, Taishin Financial Holding made substantial donation to help the victimized areas carry out reconstruction works. The financial holding firm also converted e-Commerce to e-Charity and joined hands with its affiliate PayEasy.com to conduct “Caring Taiwan” series activities for the areas shattered by the 921 earthquake. By taking advantage of the corporate Internet resources and love, we successfully helped residents in the victimized areas develop independent local industries, including preserved plum fruit, plant dyeing, orange farming, and dried longan in Chungliiao village and “Assam black tea” in Yuchih village, both in Nantou county. We organized fund-raising for Kuohsing-village karate teenager team in 2005, helping children in 921 earthquake-stricken areas to have a fresh start for their life from athletic education and launched “short-term study in remote-area schools” in 2006, allowing urban school children opportunities to undertake short-term study in remote-area schools and the latter opportunities to increase their budgets. In line with its persisting commitment to the land of Taiwan, Taishin Financial Holding will carry on with its “care for Taiwan” series activities in the future.

For payback to the society, Taishin Financial Holding regularly sponsored blood-donation loving month during summer and winter vacations at banking and securities business points under its auspices, gaining warm response from our colleagues and clients. Taiwan Securities, a subsidiary of the financial holding firm, rolled out “three-in-one charity program of Taiwan Securities,” enabling investors to engage in charity activity along with wealth-management order placement. Taiwan Securities also organized charity fair in Etung park of Taipei city, when Taiwan Securities donated proceed from charity sales and contribution from the “three-in-one charity program” to the “Chinese Care for Life

IV. Operating Status

Association.” In 2006, we also sponsored “walking for Taiwanese children” program using proceeds from the activity to subsidize for the association for children afflicted by Prader-Willi syndrome, a rare inherited disease.

To encourage remote-area teenagers, Taishin Financial Holding printed “The World Is Flat, but I Am Not” and donated the books to senior-high and vocational-high school students under the assistance of World Vision Taiwan, Taiwan Fund for Children and Families, and Tien Cultural Foundation, in hopes of encouraging underprivileged teenagers with spread and sharing of knowledge. Taishin also donated “Big Nose’ s Diary for Cancer Fighting,” written by a Taishin staffer, to “ROC Cancer Patient Hope Association,” in order to encourage cancer patients with sharing of cancer-fighting experience.

Taishin Financial Holding also took part in organization of various financial and business-management seminars, such as Wealth & Life Exposition sponsored by the United Daily News Group, All-People Wealth Exposition by the China Times Group, 12th Cross-Taiwan Strait Financial Academic Seminar, 95 Robotic Education Exposition, Fourth Chinese Business Leader Summit in Shanghai, 13th East Asian Entrepreneur Summit, and Master Forum by Commonwealth Magazine. Meanwhile, Taiwan Securities assisted the Securities Analyst Association, Chinese Taipei, in introducing Association of Chartered International Investment Analysts (ACIIA) for undertaking examination for analyst certification, in addition to inviting ACIIA chairman to undertake explanation session, in hopes of joining ACIIA, so as to promote internationalization of the local securities analysis business and augment the quality of domestic analysts.

Moreover, Taishin Financial Holding and its subsidiaries sponsored various campus seminars, including 2006 International Economic, Financial, and Accounting Seminar of National Taiwan University, 2006 International Financial Seminar of National Taiwan University, and 14th Securities and Financial Theoretic Seminar. Taishin Financial Holding also joined hands with College of Management, National Taiwan University, in setting up “Research Scholar” program, offering three-year fellowship totaling NT\$3.6 million in value to encourage young business-management scholars to dedicate to teaching and research works, with the aim of cultivating next-generation excellent business-management teachers.

A steady and peaceful society is indispensable for the creation of an environment conducive to the sustainable development of society. Therefore, in adherence to the “customer-centered” business orientation, Taishin Financial Holding bases on the needs of customers for all of its financial services and products, constantly considering how to satisfy the needs of and create values for clients. We aim to maximize investment returns for shareholders, for we fully understand that as an agent for shareholders, this is our inherent mission. In the meantime, we also feed back our profits to the social public and actively take part in public-benefit activities, so as to fulfill our social responsibility.

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V. Financial Statements

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Taishin Financial Holding Co., Ltd. and subsidiaries

We have audited the accompanying consolidated balance sheets of Taishin Financial Holding Co., Ltd. ("Taishin Financial Holding") and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Taishin Financial Holding and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Chang Hwa Commercial Bank Co., Ltd., a consolidated subsidiary, which statements reflect total assets constituting 58.01% (NT\$1,357,541,056 thousand) of the consolidated total assets as of December 31, 2005, and the gross income constituting 9.74% (NT\$5,797,367 thousand) of the consolidated gross income for the period from October 3, 2005 (date of share acquisition) to December 31, 2005. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Chang Hwa Commercial Bank Co., Ltd., is based solely on the report of such other auditors.

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

In our opinion, based on the results of our audits and the audit report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taishin Financial Holding and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As mentioned in Note 3 to the consolidated financial statements, effective on January 1, 2006, Taishin Financial Holding and subsidiaries adopted the amended Statement of Financial Accounting Standards No. 34 “Accounting for Financial Instruments” No. 36 “Financial Instruments: Disclosure and Presentation” and other related amended standards. In addition, Taishin Financial Holding and subsidiaries does not amortize goodwill from merger since January 1, 2006, in conformity with the amended Statement of Financial Accounting Standards No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements” No. 5 “Long-Term Investments under Equity Method” and No. 25 “Business Combinations: Accounting Treatment under Purchase Method.”

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



February 16, 2007

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

V. Financial Statements

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

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006 Amount	2005 Amount	Percentage of Variatio %
Cash and cash equivalents (Notes 2 and 5)	\$ 59,848,023	\$ 73,988,130	(19)
Due from Central Bank and call loans to banks (Note 6)	207,701,591	142,437,647	46
Financial assets at fair value through profit or loss (Notes 2 and 7)	116,109,605	176,312,898	(34)
Bonds and securities purchased under resell agreements (Note 2)	26,163,593	23,947,026	9
Receivables, net (Notes 2 and 8)	111,012,154	148,000,718	(25)
Loans, net (Notes 2 and 9)	1,380,374,402	1,373,616,078	-
Available-for-sale financial assets (Notes 2 and 10)	94,109,665	66,766,759	41
Held-to-maturity financial assets (Notes 2 and 11)	185,561,348	198,561,940	(7)
Investments under equity method, net (Note 2 and 12)	986,602	1,036,727	(5)
OTHER FINANCIAL ASSETS (Note 2)			
Financial assets carried at cost (Note 13)	10,105,861	11,007,229	(8)
Other miscellaneous financial assets (Note 14)	7,725,056	5,687,700	36
Other financial assets, net	17,830,917	16,694,929	7
PROPERTY AND EQUIPMENT (Notes 2 and 15)			
Cost			
Land	28,237,797	28,706,470	(2)
Buildings	15,272,198	14,784,220	3
Machinery equipment	8,811,159	8,169,698	8
Transportation equipment	1,031,283	985,956	5
Miscellaneous equipment	2,087,342	1,983,547	5
Leasehold improvements	1,513,578	1,562,571	(3)
	56,953,357	56,192,462	1
Accumulated depreciation	(11,265,364)	(10,248,282)	10
	45,687,993	45,944,180	(1)
Construction in process and machine accessories	228,690	848,931	(73)
Prepayment for buildings and equipment	66,856	338,180	(80)
Property and equipment, net	45,983,539	47,131,291	(2)
GOODWILL AND INTANGIBLE ASSETS (Notes 2 and 16)	22,442,037	20,681,040	9
OTHER ASSETS (Note 2)			
Prepayments	3,078,557	3,298,037	(7)
Refundable deposits	19,975,585	9,306,169	115
Deferred tax assets	27,936,039	25,289,924	10
Other deferred assets	2,406,131	2,416,463	-
Other miscellaneous assets (Note 17)	10,196,828	10,591,921	(4)
Other assets, net	63,593,140	50,902,514	25
TOTAL	\$ 2,331,716,616	\$ 2,340,077,697	-

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 16, 2007)

TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 Amount	2005 Amount	Percentage of Variatio %
LIABILITIES			
Due to banks and Central Bank (Note 18)	\$ 236,622,085	\$ 272,419,392	(13)
Call loans from banks and Central Bank	384,585	405,645	(5)
Commercial paper payable, net (Note 19)	4,112,746	5,818,650	(29)
Financial liabilities at fair value through profit or loss (Notes 2 and 7)	16,686,135	8,244,280	102
Bonds and securities sold under repurchase agreements (Note 2)	87,195,497	86,673,177	1
Payables (Note 20)	73,467,017	87,510,287	(16)
Deposits (Note 21)	1,628,076,369	1,611,660,444	1
Bonds payable (Notes 2 and 22)	110,218,044	103,284,196	7
Other borrowings (Note 23)	4,250,000	2,830,000	50
Other financial liabilities	535,041	845,889	(37)
Reserve for operations and liabilities (Note 24)	1,797,106	1,684,161	7
Other liabilities (Notes 25 and 26)	15,590,148	16,301,013	(4)
Total liabilities	2,178,934,773	2,197,677,134	(1)
TAISHIN FINANCIAL HOLDING STOCKHOLDERS' EQUITY			
Capital stock (Note 27)			
Common stock	57,103,001	51,232,093	11
Preferred stock	12,777,778	9,000,000	42
Capital surplus (Note 28)			
Additional paid-in capital in excess of par	32,853,146	21,960,097	50
Other capital surplus	2,695,032	2,483,718	9
Retained earnings (Note 29)			
Legal reserve	-	2,264,406	(100)
Special reserve	-	40,534	(100)
Accumulated deficit	(16,148,540)	(2,688,496)	501
Other items of stockholders' equity			
Cumulative translation adjustments (Note 2)	12,848	10,919	18
Unrealized gains or losses on financial instruments (Note 2)	1,101,111	-	-
Treasury stock (Note 30)	-	(3,024,369)	100
Net loss not recognized as pension cost	(6,353)	(867)	633
Total Taishin Financial Holding stockholders' equity	90,388,023	81,278,035	11
MINORITY INTERESTS	62,393,820	61,122,528	2
Total stockholders' equity	152,781,843	142,400,563	7
TOTAL	\$ 2,331,716,616	\$ 2,340,077,697	-

V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006	2005	Percentage of Variatio
	Amount	Amount	%
INTEREST INCOME (Note 2)	\$ 81,287,342	\$ 59,749,468	36
INTEREST EXPENSES	(36,414,402)	(17,251,181)	111
NET INTEREST INCOME (Note 31)	44,872,940	42,498,287	6
NET INCOME OTHER THAN INTEREST INCOME (Note 2)			
Fee and commission income, net (Note 32)	12,413,997	9,302,969	33
Gains on financial assets and liabilities at fair value through profit or loss	1,242,234	3,638,015	(66)
Realized gains on available-for-sale financial assets	564,621	266,955	112
Investment income (loss) recognized under the equity method (Note 12)	20,372	(46,765)	144
Foreign exchange gains	1,257,136	1,004,405	25
Loss on asset impairments	(750,792)	(224,287)	235
Other non-interest net income and losses			
Credit receivable management income	574,519	715,680	(20)
Loss on sale of nonperforming loans	(10,710,148)	-	-
Gain on issuance of warrants, net	422,924	639,051	(34)
Income from trading and other sale	924,966	281,387	229
Other miscellaneous net income	1,833,511	1,421,102	29
GROSS INCOME	52,666,280	59,496,799	(11)
PROVISION FOR LOAN LOSSES (Note 9)	(31,620,816)	(36,861,397)	(14)
OPERATING EXPENSES (Note 33)			
Personnel expenses	(17,509,649)	(12,797,206)	37
Depreciation and amortization	(2,941,419)	(3,169,629)	(7)
Others	(11,428,289)	(9,168,640)	25
Total operating expenses	(31,879,357)	(25,135,475)	27

(Continued)

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 16, 2007)

TAISHIN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006	2005	Percentage of Variatio
	Amount	Amount	%
LOSS BEFORE INCOME TAX OF CONTINUED OPERATIONS	(10,833,893)	(2,500,073)	333
ESTIMATED INCOME TAX BENEFIT (Notes 2 and 34)	2,812,952	1,317,673	113
NET LOSS BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE	(8,020,941)	(1,182,400)	578
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE (minus tax of \$28,707 thousand) (Note 3)	742,710	-	-
CONSOLIDATED NET LOSS	<u>\$(7,278,231)</u>	<u>\$(1,182,400)</u>	516
ATTRIBUTABLE TO			
Taishin Financial Holding's stockholders	<u>\$(16,148,540)</u>	<u>\$(2,913,562)</u>	454
Minority interests	<u>8,870,309</u>	<u>1,731,162</u>	412
	<u>\$(7,278,231)</u>	<u>\$(1,182,400)</u>	516

	2006		2005	
	Pretax	After-tax	Pretax	After-tax
BASIC AND DILUTED LOSS PER SHARE (Note 36)				
Net loss before cumulative effects of changes in accounting principle	<u>\$(4.27)</u>	<u>\$(3.29)</u>	<u>\$(1.00)</u>	<u>\$(0.68)</u>
Net cumulative effects of changes in accounting principle	<u>0.14</u>	<u>0.14</u>	<u>-</u>	<u>-</u>
	<u>\$(4.13)</u>	<u>\$(3.15)</u>	<u>\$(1.00)</u>	<u>\$(0.68)</u>

(Concluded)

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 16, 2007)

V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus			Retained Earnings
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions	Stock Option	Legal Reserve
BALANCE, JANUARY 1, 2005	\$ 44,072,921	\$ 4,000,000	\$ 14,607,925	\$ 2,056,735	\$ -	\$ 1,133,950
Convertible bonds converted to common stock	465,127	-	305,000	-	-	-
Taishin Financial Holding's stock held by subsidiaries, which were subsequently subscribed by subsidiaries' employees	-	-	-	(31,703)	-	-
Taishin Financial Holding's shares sold by subsidiaries	-	-	-	152,485	-	-
Taishin Financial Holding's cash dividends received by subsidiaries	-	-	-	306,201	-	-
Issuance of preferred stock - C	-	5,000,000	10,000,000	-	-	-
Appropriation of 2004 earnings	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	1,130,456
Special reserve	-	-	-	-	-	-
Dividends on preferred stock - B	-	-	-	-	-	-
Employee bonuses	237,650	-	-	-	-	-
Remunerations to directors and supervisors	-	-	-	-	-	-
Stock dividends	6,456,395	-	(2,894,245)	-	-	-
Cash dividends	-	-	-	-	-	-
Unrealized loss on valuation of long-term investments	-	-	-	-	-	-
Translation adjustments on long-term equity investments	-	-	-	-	-	-
Net loss not recognized as pension cost	-	-	-	-	-	-
Changes in ownership interest subsidiaries	-	-	(58,583)	-	-	-
Effect from first-time consolidated entity	-	-	-	-	-	-
Equity investments in Chang Hwa Bank	-	-	-	-	-	-
Consolidated net loss in 2005	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	51,232,093	9,000,000	21,960,097	2,483,718	-	2,264,406
Loss appropriation	-	-	(383,556)	-	-	(2,264,406)
Convertible bonds converted to common stock	190,000	-	89,417	-	-	-
Capital infusion with cash	8,222,223	-	5,680,387	-	-	-
Issuance of preferred stock - D	-	7,777,778	6,145,962	-	-	-
Redemption of matured preferred stock - B	-	(4,000,000)	-	-	-	-
Equity components for compound financial instruments	-	-	-	-	99,608	-
Translation adjustments on long-term equity investments	-	-	-	-	-	-
Changes in ownership of long-term equity investment	-	-	(44,401)	-	-	-
Unrealized gains or losses of available-for-sale financial assets	-	-	-	-	-	-
Cancellation of treasury stock	(2,541,315)	-	(594,760)	111,706	-	-
Net loss not recognized as pension cost	-	-	-	-	-	-
Consolidated net loss in 2006	-	-	-	-	-	-
Adjustments of minority interests	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2006	\$ 57,103,001	\$ 12,777,778	\$ 32,853,146	\$ 2,595,424	\$ 99,608	\$ -

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

(With Deloitte & Touche audit report dated February 16, 2007)

Retained Earnings		Equity Adjustment								
Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Loss on Valuation of Long-Term Investments	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Minority Interests	Total		
\$ 10,508	\$ 11,535,815	\$(40,489)	\$(44)	\$ -	\$ -	\$(3,467,857)	\$ -	\$ 73,909,464		
-	-	-	-	-	-	-	-	770,127		
-	-	-	-	-	-	192,466	-	160,763		
-	-	-	-	-	-	251,022	-	403,507		
-	-	-	-	-	-	-	-	306,201		
-	-	-	-	-	-	-	-	15,000,000		
-	(1,130,456)	-	-	-	-	-	-	-		
30,026	(30,026)	-	-	-	-	-	-	-		
-	(242,000)	-	-	-	-	-	-	(242,000)		
-	(297,062)	-	-	-	-	-	-	(59,412)		
-	(297,062)	-	-	-	-	-	-	(297,062)		
-	(3,562,150)	-	-	-	-	-	-	-		
-	(5,751,993)	-	-	-	-	-	-	(5,751,993)		
-	-	-	44	-	-	-	-	44		
-	-	51,408	-	-	-	-	-	51,408		
-	-	-	-	-	(867)	-	-	(867)		
-	-	-	-	-	-	-	-	(58,583)		
-	-	-	-	-	-	-	471,398	471,398		
-	-	-	-	-	-	-	58,919,968	58,919,968		
-	(2,913,562)	-	-	-	-	-	1,731,162	(1,182,400)		
40,534	(2,688,496)	10,919	-	-	(867)	(3,024,369)	61,122,528	142,400,563		
(40,534)	2,688,496	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-	279,417		
-	-	-	-	-	-	-	-	13,902,610		
-	-	-	-	-	-	-	-	13,923,740		
-	-	-	-	-	-	-	-	(4,000,000)		
-	-	-	-	-	-	-	-	99,608		
-	-	1,929	-	-	-	-	-	1,929		
-	-	-	-	-	-	-	-	(44,401)		
-	-	-	-	1,101,111	-	-	-	1,101,111		
-	-	-	-	-	-	3,024,369	-	-		
-	(16,148,540)	-	-	-	(5,486)	-	-	(5,486)		
-	-	-	-	-	-	-	8,870,309	(7,278,231)		
-	-	-	-	-	-	-	(7,599,017)	(7,599,017)		
\$ -	\$ (16,148,540)	\$ 12,848	\$ -	\$ 1,101,111	\$(6,353)	\$ -	\$ 62,393,820	\$152,781,843		

V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net loss	\$(7,278,231)	\$(1,182,400)
Gain or loss with no effect on cash flows and other adjustments		
Provision for loan losses	31,620,816	36,861,397
Other provisions	125,338	26,536
Loss (gain) on sale of nonperforming loans	10,710,148	(33,287)
Recovery of loans written off	10,008,804	3,453,187
Recovery from devaluation loss on assumed collaterals and residuals	(13,746)	(8,793)
Depreciation and amortization	2,941,419	3,169,629
Loss on disposal of property and equipment	338,524	28,215
Loss on asset impairments	750,792	224,287
Investment income or loss recognized under equity method net of cash dividends received in current year	(7,859)	57,115
Amortization on premium or discount of bonds	(1,585,629)	(1,571,916)
Gain on financial instruments valuation	(1,388,384)	(1,636,809)
Gain on disposal of investments	(539,026)	(461,339)
Prepayment for equipment transferred to expense	974,999	-
Deferred income tax benefit	(4,810,110)	(4,517,736)
Income tax benefit from linked-tax system	(350,837)	(540,644)
Others	(5,486)	16,436
Net changes in operating assets and liabilities		
Financial assets for trading purpose	63,321,633	(20,406,733)
Financial liabilities for trading purpose	8,144,286	(2,049,135)
Bonds and securities purchased under resell agreements	(5,109,123)	6,841,946
Receivables	52,213,451	(18,798,316)
Other financial assets	(3,227,554)	3,687,790
Other assets	288,569	(9,210,351)
Debit (credit) item for consigned trades	(820,247)	49,144
Bonds and securities sold under repurchase agreements	5,015,188	(15,246,149)
Payables	(11,158,969)	27,230,509
Other financial liabilities	(309,674)	202,719
Other liabilities	(365,203)	(1,878,891)
Others	28,130	129,877
Net cash provided by operating activities	149,512,019	4,436,288
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in due from Central Bank and call loans to banks	(65,263,944)	(13,683,918)
Decrease (increase) in bonds and securities purchased under resell agreements	2,892,556	(907,644)
Increase in financial assets designated upon initial recognition as at fair value through profit or loss	(2,129,546)	-
Increase in loans (including delinquent loans)	(73,884,499)	(98,631,787)
Purchase of financial assets carried at cost	(658,151)	(703,382)

(Continued)

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 16, 2007)

	2006	2005
Proceeds received on sale of financial assets carried at cost	236,817	427,409
Proceeds refunded from combination of financial assets carried at cost	76,087	-
Increase in available-for-sale financial assets	(50,625,612)	(362,044)
Decrease in available-for-sale financial assets	27,055,333	5,429,570
Decrease (increase) in held-to-maturity financial assets	12,833,873	(58,722,541)
Decrease in investments under equity method	\$ -	\$ 6,165,461
Proceeds of sales of property, equipment and leased asset and idle asset	1,041,201	591,814
Purchase of property and equipment	(3,953,674)	(2,667,461)
Increase in refundable deposits	(10,669,416)	(3,017,781)
Proceeds of the sale of nonperforming loans	167,986	-
Decrease (increase) in other assets	461,124	(2,691,765)
Proceeds of the capital reduction of equity investees	56,692	-
Cash paid to merge other company	(1,933,948)	(36,836,768)
Net cash used in investing activities	(164,297,121)	(205,610,837)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	1,420,000	14,568
Decrease in commercial paper payable	(1,705,904)	(4,128,618)
(Decrease) increase in due to Central Bank and banks	(35,797,307)	31,677,345
Decrease in call loans from banks and Central Bank	(21,060)	(12,013)
Increase in deposits and remittances	16,476,077	147,429,495
Decrease in bonds and securities sold under repurchase agreements	(4,492,868)	(7,606,660)
Issue of bank notes	-	14,500,000
Redemption of European Convertible Bonds	-	(7,181,325)
Issue of corporate bonds	6,943,986	18,632,885
Capital infusion with cash	13,902,609	-
Redemption of preferred stock at maturity	(10,000,000)	-
Issue of preferred stock	13,923,740	15,000,000
Cash dividends distributed	(13,312)	(5,624,832)
Remuneration to directors/supervisors and employee bonuses	(8,028)	(357,032)
Proceeds of sales of treasury stock	-	534,243
Other	17,062	77,129
Net cash provided by financing activities	644,995	202,955,185
CASH AND CASH EQUIVALENTS RECEIVED FROM MERGER	-	26,813,919
EFFECT FROM FIRST-TIME CONSOLIDATED ENTITY	-	32,638,621
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,140,107)	61,233,176
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	73,988,130	12,754,954
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 59,848,023	\$ 73,988,130
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	\$ 34,828,811	\$ 25,861,518
Income tax	\$ 3,571,181	\$ 4,704,655

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 16, 2007)

V. Financial Statements

1. ORGANIZATION AND CONSOLIDATION POLICY

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

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

In the fourth quarter of 2005, Taishin Financial Holding acquired the private placement of 1,400,000 thousand shares of preferred stock - B issued by Chang Hwa Commercial Bank Co., Ltd. ("Chang Hwa Bank"). The ownership interests with voting rights held by Taishin Financial Holding amounted to 22.55% which allowed them to take over half of the seats in the board of directors of Chang Hwa Bank. Thus, Taishin Financial Holding had controlling interest in Chang Hwa Bank. Furthermore, Taishin Financial Holding acquired 160,225 thousand shares of common stocks from market in the second quarter of 2006. The ownership interests with voting rights held by Taishin Financial Holding and subsidiaries increased to 25.39% as of December 31, 2006.

The methods adopted to recognize the investment in Chang Hwa Bank are according to Statement of Financial Accounting Standards (SFAS) No. 5 "Long-Term Investments under Equity Method" and No. 25 "Business Combination." The information related to the fair value of Chang Hwa Bank's net assets acquired is as follows:

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

As of December 31, 2006 and 2005, Taishin Financial Holding and subsidiaries have 16,288 and 17,633 employees, respectively.

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

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

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

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

Taishin Insurance Agency Co., Ltd. ("Taishin Insurance Agency") was established in September 1996 and provides life insurance agent service. Taishin Insurance Agency acquired 97.6% equity interest of Taisin Non-Life Insurance Agency Co., Ltd. ("Taisin Non-Life Insurance") in 1999 and 100% equity interest of Taishin Insurance Brokers Co., Ltd. ("Taishin Insurance Brokers") in 2002.

Taiwan Securities was incorporated in October 1988, and was approved to establish 57 branches (including head office, Kaohsiung, Taichung, Ilan, Tainan, and etc.) until December 31, 2006. Taiwan Securities' operations include security underwriting, brokerage, margin lending and security transfer services, and other operations approved by the relevant authorities. Taiwan Securities was approved to operate brokerage and dealing services related to futures from March 2004. In addition, Taiwan Securities acquired 100% ownership interest of Dong Shi Securities Co., Ltd., for \$330,107 thousand. The net assets of Dong Shi Securities Co., Ltd. amounted to \$251,700 thousand. The difference between total purchase price and net assets acquired of \$78,407 thousand was recognized as goodwill.

Taiwan Futures ("Taiwan Futures") started to operate on December 26, 1997. Its operations include domestic/foreign futures management and consulting services. Taiwan Futures operated dealing services related to futures from March 23, 2006.

Shin Ze Asset Management Co., Ltd. ("Shin Ze") was licensed to operate on February 18, 2003. Shin Ze's operations include collection, evaluation, auction, and management of delinquent loans and business management advisory.

Anew Holdings Ltd. ("Anew Holdings"), Taiwan Securities' overseas holding company, was established at British Virgin Islands in August 1996. Anew Holdings owns 100% equity interests of Taiwan Securities (Hong Kong) Co., Ltd. ("Taiwan Securities-HK"), TSC Capital Limited, Taiwan Securities (Hong Kong) Co., Ltd. Nominee United and Tai Chen (BVI) Co., Ltd. ["Tai Chen (BVI)"]. The operations of all the above investees are brokerage, underwriting, investment consulting, and trust agent business.

V. Financial Statements

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

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

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

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

Chang Hwa Bank was incorporated under the Banking Act of the Republic of China, Securities and Exchange Law, and other related laws of the Republic of China. Chang Hwa Bank was established on March 1, 1947 and got license from the Ministry of Economic Affairs in July, 1950. It mainly engages in the following businesses:

- (a)all commercial banking operations allowed by the Banking Law;
- (b)trust operations;
- (c)international banking operations;
- (d)overseas branch operations authorized by the respective foreign governments; and
- (e)other operations as authorized by the central authority.

Chang Hwa Bank's headquarter is located in Taichung City, Taiwan, with branch operations at important sites in and out of the country to expand businesses. As of December 31, 2006, Chang Hwa Bank’ s operations include not only the head office and trust departments, but also 171 domestic branches, an international financing branch, five agents conducting securities brokerage activities, six overseas branches located in New York, Los Angeles, Tokyo, London, Hong Kong and Singapore, and a representative office in China.

Chang-Yin Insurance Agent Co., Ltd. (“Chang-Yin Insurance Agent”) was established on October 3, 2001 to provide life insurance agent service. Chang-Yin Insurance Broker Co., Ltd. (“Chang-Yin Insurance Broker”) was established on April 7, 2003 to provide property insurance broker service.

Consolidation Policy

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

Taishin Financial Holding acquired the controlling interest in Chang Hwa Bank in the fourth quarter of 2005. Since October 3, 2005 Chang Hwa Bank was included in the consolidated entities of financial report.

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

Subsidiaries included in the consolidated financial statements as of December 31, 2006 and 2005 are as follows:

Investors' Names	Subsidiaries' Names	Ownership Interest(%)	Consolidated as of December 31, 2006	Consolidated as of December 31, 2005	Note
Taishin Financial Holding	Taishin Bank	100.00	Yes	Yes	-
Taishin Financial Holding	Taiwan Securities	100.00	Yes	Yes	-
Taishin Financial Holding	Taishin Bills Finance	100.00	Yes	Yes	-
Taishin Financial Holding	Taishin AMC	100.00	Yes	Yes	-
Taishin Financial Holding	Taishin Marketing	100.00	Yes	Yes	-
Taishin Financial Holding	Taisin Venture Capital	100.00	Yes	Yes	-
Taishin Financial Holding	Chang Hwa Bank	25.12	Yes	Yes	As Taishin Financial Holding acquired controlling interest in Chang Hwa Bank during the fourth quarter of 2005, it was included in the consolidated financial statements since October 3, 2005.
Taishin Bank	Chang Hwa Bank	0.27	Yes	Yes	Same as above
Taishin Bank	Taishin Real-Estate	60.00	Yes	Yes	-
Taishin Bank	Taishin Insurance Agency	51.03	Yes	Yes	-
Taishin Bank	PayEasy Digital	66.67	Yes	Yes	-
Taishin Bank	Taishin Finance	99.99	Yes	Yes	-
Taishin Bank	Taiwan Futures	6.15	Yes	Yes	-
Taiwan Securities	Anew Holding	100.00	Yes	Yes	-
Taiwan Securities	Taiwan Futures	93.85	Yes	Yes	-
Taiwan Securities	Shin Ze	51.00	Yes	Yes	-
Taishin AMC	Taishin Real-Estate	40.00	Yes	Yes	-
Taishin Insurance Agency	Taisin Non-Life Insurance	97.60	Yes	Yes	-
Taishin Insurance Agency	Taishin Insurance Brokers	100.00	Yes	Yes	-
Anew Holding	Taiwan Securities-HK	100.00	Yes	Yes	-
Chang Hwa Bank	Chang-Yin Insurance Agent	100.00	Yes	Yes	As Taishin Financial Holding acquired controlling interest in Chang Hwa Bank during the fourth quarter of 2005, it was included in the consolidated financial statements since October 3, 2005.
Chang Hwa Bank	Chang-Yin Insurance Broker	100.00	Yes	Yes	Same as above

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Subsidiaries not included in the consolidated financial statements as of December 31, 2006 and 2005 are as follows:

Investors' Names	Subsidiaries' Names	Ownership Interest(%)	Consolidated as of December 31, 2006	Consolidated as of December 31, 2005	Note
Taishin Bank	Dah An Leasing Co., Ltd. ("Dah An Leasing")	99.00	No	No	Dah An Leasing was an equity method investee of Taishin Bank as of December 31, 2006 and 2005. Because its capital only accounted for 0.29% and 0.33% of the consolidated capital, also its total assets only reached 0.01% of the consolidated total assets, respectively and it does not have operating activities, thus, it was not included in the consolidated financial statements.
Taiwan Securities	Taiwan Managed Futures Co., Ltd. ("Taiwan Managed Futures")	100.00	No	No	Taiwan Managed Futures was an equity method investee of Taiwan Securities as of December 31, 2006 and 2005. Because its capital only accounted for 0.29% and 0.33% of the consolidated capital. Neither its total assets nor operating income reached 0.02% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Taiwan Securities	Taiwan Securities Investment Advisory Co., Ltd. ("Taiwan Securities Investment Advisory")	92.00	No	No	Taiwan Securities Investment Advisory was an equity method investee of Taiwan Securities as of December 31, 2006 and 2005. Because its capital only accounted for 0.43% and 0.50% of the consolidated capital. Neither its total assets nor operating income reached 0.18% of consolidated total assets and operating income. It was not included in the consolidated financial statements.

Investors' Names	Subsidiaries' Names	Ownership Interest(%)	Consolidated as of December 31, 2006	Consolidated as of December 31, 2005	Note
PayEasy Digital	PayEasy Travel Agency Co., Ltd. ("PayEasy Travel")	100.00	No	No	PayEasy Travel Agency was an equity method investee of PayEasy Digital as of December 31, 2006 and 2005. Because its capital only accounted for 0.01% and 0.02% of the consolidated capital. Neither its total assets nor operating income reached 0.01% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Anew Holdings	TSC Capital Limited ("TSC Capital")	100.00	No	No	TSC Capital Limited was an equity method investee of Anew Holdings as of December 31, 2006 and 2005. Because its capital only accounted for 0.12% and 0.13% of the consolidated capital. Neither its total assets nor operating income reached 0.05% of consolidated total assets and operating income. It was not included in the consolidated financial statements.
Anew Holdings	Tai Chen (BVI)	100.00	No	No	Tai Chen (BVI) was an equity method investee of Anew Holdings as of December 31, 2006 and 2005. Because its capital was less than 0.01% of the consolidated capital. Neither its total assets nor operating income reached 0.01% of consolidated total assets and operating income. It was not included in the consolidated financial statements.

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2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

■ Basis of Preparation

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

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

■ Current/Noncurrent Assets and Liabilities

Except for Taishin Bank and Chang Hwa Bank, assets and liabilities are classified into current and noncurrent based on liquidity. Cash and cash equivalents and assets which are expected to be liquidated in 12 months are classified as current assets. Fixed assets and assets not classified as current assets are categorized as noncurrent assets. Liabilities to be liquidated in 12 months are classified as current, and other liabilities are classified as noncurrent. Because of business characteristic, assets and liabilities of Taishin Bank and Chang Hwa Bank are categorized according to their nature and sequenced by their liquidity rather than classified as current or noncurrent assets or liabilities.

As the banking companies account for a large part of the consolidation, assets and liabilities in the consolidated financial statements are categorized according to their nature and sequenced by their liquidity rather than classified as current or noncurrent assets or liabilities.

■ Cash and Cash Equivalents

Cash and cash equivalents include cash in vault, working funds, post dated checks for clearance, unrestricted deposits, and other financial institution's instruments.

■ Financial Instruments at Fair Value through Profit or Loss

These instruments include (a) trading-purpose financial assets or liabilities; (b) financial assets designated upon initial recognition at fair value through profit and loss. These kinds of financial instruments are measured

at fair value initially and subsequently through profit or loss and changes in fair values are reported in income statement. Cash dividends received are recognized as current income. For securities companies, a regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting. For banks and bills companies, the same method applies for purchases and sales of stocks and beneficial certificates; settlement date accounting is used for all other financial assets.

Derivatives not qualified for hedge accounting will be classified as trading financial assets or liabilities. Derivatives with positive fair values are classified as financial assets, otherwise, financial liabilities.

The basis for fair value: for publicly-traded securities is closing price on balance sheet date; for open-end mutual funds is net asset value on balance sheet date; for bonds is the reference price on balance sheet date on web-site of Grand Cathay Securities Corporation or the GreTai Securities Market ("GTSM" , Taiwan' s Over-the-Counter Securities Exchange); for financial assets not actively traded in the market is estimated fair value by using valuation techniques.

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

■ **Bonds and Securities Purchased/Sold Under Specific Agreements**

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

■ **Credit Facilities Receivable**

The cost of credit receivable acquired from financial institutions is equal to the sum of acquisition cost and other necessary expenditures. The income from recovery or settlement of credit receivable is recognized based on cost-recovery method. The cost incurred in the period of acquisition and resale is recorded as current operating expenses. Allowances for bad debts are calculated at period end based on the estimated uncollectibility of such credit receivable.

■ **Delinquent Loans**

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

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

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■ Allowance for Loan Losses and Reserve for Guarantees

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

The management of banks and bills companies assesses the collectibility of credit portfolio based on the borrowers'/clients' delinquent status and financial condition in accordance with regulations issued by the MOF. These rules state that, if loans, accounts receivable, interest receivables, delinquent loans, and other financial assets are deemed uncollectible, full provisions should be made and recognized as current expense. If the possibility of collection is deemed low, provisions of at least 50% of the credit should be made and the loss should be recognized as an expense currently.

The regulations were revised in July 2005 to reclassify deteriorating loans into “special mention,” “substandard,” “doubtful,” and “uncollectible” categories. Provisions should be made at 2%, 10%, 50%, and 100%, respectively, for each loan category, as the minimum standard of the allowance for bad loans and guarantee. The effect of the revision to the financial report of Taishin Financial Holding and subsidiaries is immaterial.

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

Consolidated entities other than banking and bills entities provide their allowance for receivables based on the estimated recoverable amounts.

■ Available-for-Sale Financial Assets

Available-for-sale financial assets are recognized at their fair value plus transaction cost and are measured at fair value subsequent to the initial recognition, with changes in fair value recognized as separate component of stockholders' equity. If the financial assets are derecognized, the accumulated gains or losses previously recognized in equity are recognized in income statement. For securities companies, a regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting. For banks and bills companies, the same method applies for purchases and sales of stocks and beneficial certificates; settlement date accounting is used for all other financial assets.

The basis for fair value: for publicly-traded securities is closing price on balance sheet date; for open-end mutual funds is net asset value on balance sheet date; for bonds is the reference price on balance sheet date on web-site of Grand Cathay Securities Corporation or GTSM exchange; for financial assets not actively traded in the market is estimated fair value by using valuation techniques.

Cash dividends are recognized as income when dividends are declared. Stock dividends are not recognized as investment income, but only recorded as an increase in shares and cost per share is recalculated. Interests recognized under interest method resulting from amortization of difference between cost and maturity amount of debt-instrument are credited or charged to current income.

If there is an evidence of impairment, impairment loss, the difference between carrying amount and estimated recoverable amount is recognized. In a subsequent period, the recovery of impairment loss of equity instru-

ments is recognized directly in equity; the recovery of impairment loss of debt investments is recorded in net income or loss for the period, if the recovery can be objectively related to an event occurring after the loss was recognized.

■ Financial Asset Securitization

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

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

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

■ Held-to-Maturity Financial Assets

Held-to-maturity financial assets are carried at their amortized cost. Held-to-maturity financial assets are initially recorded at cost plus any other costs necessary for the transaction. Gains or losses are recognized when held-to-maturity financial assets are derecognized, impaired or amortized. For banking subsidiaries, settlement date accounting is used to record a regular way purchase or sale of held-to-maturity financial assets.

If there is an objective evidence of impairment, impairment loss, the difference between carrying amount and estimated recoverable amount, is recorded. In a subsequent period, the recovery of impairment loss of debt investments is recorded in net income or loss for the period, if the recovery can be objectively related to an event occurring after the loss was recognized. However, the reversed book value should be less than the book value if no impairment has happened.

■ Investments under Equity Method

Investments in companies in which ownership interest with voting rights is 20% or more or in which Taishin Financial Holding has significant influence over the investee are valued under the equity method.

For acquiring equity investment or initial adoption of equity method, the difference between cost and fair value of investment is amortized in five to twenty years by using straight-line method. However, from January 1, 2006, the costs of investments are required to be analyzed, any excess of the acquisition cost over the interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition is recorded as goodwill and should not be amortized according to amended SFAS No. 25 "Accounting Treatment for Merger

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under Purchasing Method.” Goodwill is subject to an impairment test periodically and when specific occasions or changes in environment reveal that impairment of goodwill might have occurred. Since January 1, 2006, the unamortized balance (investment cost over net equity acquired) of investments which were acquired before are no longer amortized.

Under the equity method, if an investor's ownership interest in its investee changes because the investor does not subscribe to new shares issued by its investee according to the same percentage of ownership interest or because of other reasons, the change should be adjusted to additional paid-in capital and long-term equity investments; if the additional paid-in capital from long-term investments is insufficient, the difference should be debited to retained earnings. Besides, investors should recognize unrealized loss on valuation of long-term investments and cumulative translation adjustments based on percentage of ownership interests of investees.

If ownership interest decreases or other reasons resulting in the loss of significant influence on the investee, such investment should no longer be accounted for under equity method and should be accounted for using accounting method described in the SFAS No. 34 “Accounting for Financial Instruments.” Book value will become new cost at the change of accounting method and any unrealized gains or losses from the downstream transactions with its investees will be realized.

■ Other Financial Assets

Financial assets carried at cost are investments in equity instruments, including unlisted stocks and TIGER stocks, whose fair value cannot be reliably measured and are recognized at cost initially. Cash dividends are recognized as income when dividends are declared, but dividends distributed from net income prior to investment are accounted for as deduction of investment. Stock dividends are not recognized as investment income, but only recorded as an increase in shares and cost per share is recalculated. If there is an objective evidence of impairment, the impairment loss is recorded and cannot be reversed thereafter.

Investments in bonds which are not actively traded in market but with fixed or determinable payments are recorded at amortized cost. The accounting treatments for this kind of bonds are similar to those for held-to-maturity financial assets, except there is no restriction on the disposal of such assets before their maturity.

■ Property, Equipment, Leased Asset and Idle Asset

Property, equipment, leased asset and idle asset are recorded at depreciated or amortized cost. Improvements which can extend the useful lives of assets are capitalized; otherwise they are expensed currently.

Depreciation is calculated using the straight-line method over useful lives based on guidelines prescribed by the government, and leasehold improvements are amortized over the lease terms. When assets are retired or sold, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain (loss) is credited (charged) to other gains and losses other than interest income (expense).

■ Goodwill and Intangible Asset

Goodwill from merger was amortized on a straight-line basis over five to twenty years. Effective from January 1, 2006, according to amended SFAS No. 25 “Accounting for Merger under Purchasing Method,” goodwill is subject to an impairment test periodically and is no longer amortized.

When securities subsidiaries purchased branches of other securities companies, the excess of the purchase price over net asset value acquired is accounted for a franchise, which is amortized on a straight-line basis over ten years. Since January 1, 2006, the franchise is no longer amortized but is subject to an impairment test periodically.

■ **Deferred Assets and Other Assets**

Deferred charges are amortized on a straight-line basis over related service lives.

Assumed collaterals and residuals are recorded at cost.

The issuance costs for convertible bonds issued before December 31, 2005, are amortized over the period between issuance date and redemption date of put options exercised by the bondholders under the straight-line (or average) method. The issuance costs of convertible bonds issued after January 1, 2006, should be allocated to the components of liability and equity based on the prorata of originally recognized amounts of each component in accordance with amended SFAS. Common transaction costs of many transactions shall be allocated to such transaction on a reasonable and similar pro-rata basis. Issuance costs allocated to the equity component, after deduction of related tax benefits is deducted from equity.

■ **Asset Impairment**

Assets are assessed for whether there's any indication of impairment (excluding assets that are exempted from by SFAS No. 35) at each balance sheet date. If evidence of impairment does exist, then future recoverable values of assets or assets' cash generating unit should be estimated. An impairment loss is recognized when future recoverable values of assets or assets' cash generating unit are less than their carrying values. The loss is reversed and a gain is recognized when future recoverable values of these assets (excluding goodwill) recover afterward. The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

Annual impairment revaluation should be conducted periodically for goodwill regardless of whether indication of the impairment loss exists or not. An impairment loss is recognized when future recoverable value of goodwill is less than its carrying value. Impairment loss for goodwill can not be reversed.

■ **Employees' Stock Warrants**

Issues of employees' stock warrants which grant dates or revised dates are on January 1, 2004 and afterwards should comply with regulations specified by Accounting Research and Development Foundation in Taiwan. Taishin Financial Holding adopts the method of intrinsic value and the compensation costs are expensed over the service years of qualified employees as specified in the stock option plan.

■ **Pensions**

Pension cost is recognized based on actuarial calculations for defined benefit pension plan and based on the contributions made for defined contribution pension plan.

Under defined benefit pension plan, gain or loss on curtailment or settlement is recognized in pension cost in the current period.

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According to the letter issued by the Accounting Research and Development Foundation (Ref. No. (94) GI-MI 098), subsidiaries which were included in the consolidated financial statements for the first time in 2005 in accordance with the amended SFAS No. 7 and had not adopted SFAS No. 18 “Accounting for Pensions” in the previous year, should have actuarial pension reports completed by December 31, 2005 and start to amortize pension expenses from January 1, 2006.

■ Convertible Corporate Bonds Payable

Convertible corporate bonds payable issued before December 31, 2005 is recognized as liability of the full amount of issue price. The accrued compensation interest payable from the excess of specified callable price over the face value of convertible bonds is recognized as a liability over the period between issue date and redemption date for call option under interest method. The book value method is used for the conversion of bonds into common stock. On conversion date, related accounts for the face value of convertible bonds, unamortized premiums or discounts, accrued compensation interest payable and issue costs are reversed and the net amount over the par value of common stock is recognized as capital surplus.

For convertible corporate bonds issued after January 1, 2006, original issue price less the value of solely-measured liability and embedded derivatives will be taken as value for equity component if bondholders want to convert bonds to specific number of common stock with specific price or amount of bonds. The liability component other than derivative is measured by amortized cost under interest method. Any related interest, gain or loss from redemption or refinancing will be recognized as current profit or loss. When convertible bonds are converted before maturity, the liability component (including corporate bond and embedded derivative) should be adjusted to the correct book value at the date of conversion, and the cost of common stock recorded should be based on it.

■ Treasury Stock

The acquisition of treasury stock is accounted for at cost as a reduction of stockholders' equity.

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

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

Based on SFAS No. 30 “Accounting for Treasury Stocks,” the shares of Taishin Financial Holding held by its subsidiaries should be regarded as treasury stock when the financial holding company recognizes investment income and prepares financial statements.

■ Foreign Currency Transactions and Related Translation of Financial Statements

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

For the long-term investment in foreign currency valued under equity method, any currency exchange gains or losses are recognized as cumulative translation adjustments to stockholders' equity based on the translated stockholders' equity.

■ Income Recognition

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

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

Fee income and service income of real-estate management companies are recognized when income is realized or realizable according to the contracts.

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

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

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

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

Stock service agent fees are recognized monthly according to the contracts.

■ Income Tax

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

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

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

■ Reclassifications

Certain accounts of consolidated financial statements for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of consolidated financial statement for the year ended December 31, 2006.

3. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Taishin Financial Holding and its subsidiaries adopt SFAS No. 34 "Accounting for Financial Instruments" and No. 36 "Financial Instruments: Presentation and Disclosure" and other related amended standards since January 1, 2006.

The Effects of First-Time Application of Newly Published or Amended SFAS

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

The summary of changes in accounting principles of consolidated financial statements for the year ended December 31, 2006 is as follows:

	Cumulative Effects of Changes in Accounting Principles (After Tax)	Adjustments of Shareholders' Equity (After Tax)
Financial assets at fair value through profit or loss	\$ 780,431	\$ -
Available-for-sale financial assets	-	2,377,679
Held-to-maturity financial assets	11,781	-
Financial liabilities at fair value through profit or loss	(51,823)	-
Bonds payable	2,321	-
	<u>\$ 742,710</u>	<u>\$ 2,377,679</u>

Reclassifications Due to Newly Published or Amended Financial Accounting Standards

According to the letter No. (94) GI-MI 016 issued by Accounting Research and Development Foundation, an entity which applied SFAS No. 34 in 2006 for the first time should reclassify its financial statements of 2005 to be consistent with 2006 presentation, but does not need to restate such 2005 financial statements. However, if different methods are adopted to evaluate the same accounting category, disclosures are required. Because of practical difficulty, pro forma data of prior years is not provided.

In respect of financial instruments evaluation method used by Taishin Financial Holding and subsidiaries, the accounting policies adopted for the year ended December 31, 2005 which are different from 2006 are summarized as follows:

a.Short-term Investments

Short-term investments include various kinds of securities purchased. These are recorded at acquisition cost and stated at the lower of cost or market value on the balance sheet date. If the market value is lower than cost, an allowance for market decline is provided, and this can be reversed when market value recovers. The basis for fair value of quoted securities is the average closing price of the last month in the year. The moving average method is used to determine the cost of investments sold.

b.Trading Securities

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

c.Long-term Equity Investment

Long-term investments are recorded at acquisition cost. Investments in companies in which Taishin Financial Holding's ownership interest with voting rights is 20% or more or in which Taishin Financial Holding has significant influence over the investee are valued using the equity method, otherwise, cost-method is adopted. Under the cost method, investments in shares with quoted market prices are stated at the lower of cost or market value, and any unrealized loss is recognized as a reduction of stockholders' equity.

d.Stock Warrant Liabilities

Warrants issued are accounted for as a liability at issue price before maturity or exercise. When warrants are repurchased after they are issued, the repurchase price is recorded as "repurchased warrants" in other current liabilities and treated as a reduction of the warrant issued. Warrants issued (including repurchased warrants) are measured at fair market value on the balance sheet date. Any unrealized loss, not exceeding

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the increase in market value of the hedged securities, on changes in loss valuation of warrants issued is deferred; any excess loss is recognized as current loss.

e. Derivative Financial Instruments

Forward exchange contracts for trading purposes are recorded as assets or liabilities in New Taiwan dollar at the future rate (“forward rate”) specified on the contract date. When a contract matures, the difference between the spot rate on maturity and the forward rate is recognized as a gain or loss in the settlement period. For contracts outstanding as of the balance sheet date, a gain or loss is computed according to the difference between the various forward exchange rates available for the remaining contract periods and the specified forward rates; the related gain or loss is recognized in the current period. The receivables and payables related to these contracts are netted out, and the resulting amount is recognized as an asset or liability.

The exchanged interest received or paid on each settlement of hedging IRSs is computed on the accrual basis and recognized in the current period as interest income or expense of the hedged item. Trading IRSs are evaluated at their fair value at the balance sheet date, and resulting gains or losses are credited or charged to current income.

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

For currency swap contracts used for hedging purposes, the spot-position assets or liabilities are recorded at spot rates on the contract date. Corresponding forward position assets or liabilities are recorded at the contracted forward rates, with receivables and payables to be netted out. Those assets or liabilities will be amortized as an interest expense or income during the contract period.

Cross-currency swap contracts for hedging purposes are recorded at their forward rates on the contract starting date. The interest received or paid on contract settlement is recorded in the current period as an adjustment to the revenue or expense of the hedged item. For cross-currency swaps used for trading purposes, the difference between discounted value of future interest and the principal of cross currency swap contracts and fair value based on transaction purposes is recognized as a gain or loss in the current period and charged to current income.

A futures transaction, together with the related pay-out guarantee deposit and broker's commission, is recorded on the transaction date at the contract (notional) amount using a memorandum entry. The gain or loss is computed at its fair value and recognized as income or expense in the current period. On the maturity date, the memo entry will be reversed, and the settlement gain or loss is recognized as income or expense in the current period.

In conformity with the newly published and amended SFAS adopted by Taishin Financial Holding and subsidiaries, the financial statements as of and for the year ended December 31, 2005 were reclassified as follows:

Balance Sheet

December 31, 2005		
	Pre-reclassification	After-reclassification
Short-term investments	\$ 394,783,660	\$ -
Trading securities	20,897,770	-
Long-term investments (excluding investments under equity method)	16,824,911	-
Other financial assets	18,828,283	-
Payables on forward exchange contract purchased - foreign currency	(206,179)	-
Other liabilities	(3,163,536)	(370,526)
Financial assets at fair value through profit or loss	-	176,312,898
Available-for-sale financial assets	-	66,766,759
Held-to-maturity financial assets	-	198,561,940
Financial assets carried at cost	-	11,007,229
Other miscellaneous financial assets - investments in bonds which are not actively traded in market	-	1,785,871
Refundable deposits	-	2,447,000
Financial liabilities at fair value through profit or loss	-	(8,244,280)
Other financial liabilities - payables on forward exchange contract purchased - foreign currency	-	(301,982)
	<u>\$ 447,964,909</u>	<u>\$ 447,964,909</u>

Income Statement

Year Ended December 31, 2005		
	Pre-reclassification	After-reclassification
Gain on sale of short-term investment	\$ 2,123,480	\$ -
Other operating income	1,314,413	-
Other operating cost	(1,496)	-
Non-operating income	478,004	-
Non-operating loss	(11,058)	-
Gains on financial assets and liabilities at fair value through profit or loss	-	3,638,015
Realized gains from available-for-sale financial assets	-	266,955
Other miscellaneous net income	-	(1,627)
	<u>\$ 3,903,343</u>	<u>\$ 3,903,343</u>

V. Financial Statements

Taishin Financial Holding and subsidiaries adopted newly amended SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No. 5 "Long-Term Investments in Equity Securities" and No. 25 "Business Combinations - Accounting Treatment under Purchase Method" since January 1, 2006. The revised version of SFAS mentioned above provide that (a) goodwill should not be amortized; (b) the difference between long-term investment and net equity acquired should be analyzed first, also if some parts belong to goodwill, impairment test will be adopted and goodwill should not be amortized. The adoption of newly amended SFAS results in decrease in consolidated net loss by \$1,660,670 thousand, no cumulative effect of changes in accounting principles, and increase in after-tax earnings per share by \$0.31 for the year ended December 31, 2006.

Taishin Financial Holding and subsidiaries adopted SFAS No. 35 "Accounting for Asset Impairment" since January 1, 2005. This change resulted in decrease of consolidated rental and idle assets by \$82,640 thousand as of December 31, 2005, and decrease of consolidated net income by \$82,640 thousand for the year ended December 31, 2005.

4. PRO FORMA FINANCIAL INFORMATION

Assuming that Taishin Financial Holding acquired controlling ownership in Chang Hwa Bank on January 1, 2005 the pro forma financial information of the consolidated entity for the year ended December 31, 2005 would be as follows:

Gross income	\$	82,854,613
Net loss before tax	(	53,411,167)
Net loss after tax	(	40,209,402)
Loss per share (in dollars)	(	0.80)

The above pro forma consolidated financial information is for reference only. It does not indicate the real or future financial conditions and operating results if Taishin Financial Holding had acquired ownership in Chang Hwa Bank as of January 1, 2005.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash in vault and working funds	\$ 13,286,222	\$ 12,743,640
Checks for clearing	25,691,829	22,579,396
Due from banks	19,145,101	36,668,531
Others	1,724,871	1,996,563
	<u>\$ 59,848,023</u>	<u>\$ 73,988,130</u>

6.DUE FROM CENTRAL BANK AND CALL LOANS TO BANKS

	December 31	
	2006	2005
Reserve for checking account	\$ 9,960,493	\$ 16,972,270
Reserve for demand account	40,504,825	39,201,716
Reserve for foreign deposit	131,111	212,768
Call loans to banks	101,636,245	85,689,007
Others	55,468,917	361,886
	<u>\$ 207,701,591</u>	<u>\$ 142,437,647</u>

Taishin Bank and Chang Hwa Bank are required to maintain reserve balances in the Central Bank. These reserves amounted to \$50,596,429 thousand and \$56,386,754 thousand as of December 31, 2006 and 2005, respectively.

7.FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2006	2005
Trading-purpose financial assets		
Investment in bills	\$ 48,973,944	\$ 111,420,282
Listed stocks and funds	6,817,753	11,863,525
Government bonds	11,919,678	19,791,489
Corporate bonds, bank notes and other bonds	12,349,161	10,768,245
Asset backed securities	2,777,444	842,478
Trading securities		
Dealing	12,667,083	9,819,022
Underwriting	798,697	755,543
Hedging	1,360,650	1,846,918
Futures	489,023	422,142
Forward contracts	472,885	582,316
Currency swaps	1,369,519	1,652,352
Interest rate swaps	11,077,177	4,286,876
Cross-currency swaps	611,626	648,946
Currency options	343,158	702,001
Interest rate options	664,896	439,275
Asset-swap options	471,930	126,940
Equity-security options	247,202	314,918
Equity-linked swaps	326,346	-
Others	241,887	29,630
	<u>113,980,059</u>	<u>176,312,898</u>
Financial assets designated upon initial recognition at fair value through profit or loss		
Interest-rate combination instruments	2,129,546	-
	<u>\$ 116,109,605</u>	<u>\$ 176,312,898</u>

V. Financial Statements

For financial assets at fair value through profit or loss pledged as collaterals as of December 31, 2006 and 2005, please refer to Note 3

	December 31	
	2006	2005
Financial liabilities at fair value through profit or loss		
Forward contracts	\$ 328,511	\$ 436,703
Currency swaps	1,061,220	1,727,401
Interest rate swaps	11,674,927	3,294,329
Cross-currency swaps	561,609	739,170
Currency options	298,570	646,179
Interest rate options	926,529	656,426
Asset-swap options	445,749	64,541
Equity-security options	17,679	290,027
Warrants	455,061	360,764
Equity-linked swaps	326,382	-
Others	589,898	28,740
	<u>\$ 16,686,135</u>	<u>\$ 8,244,280</u>

Taishin Bank engages in various derivative instruments to fulfill customers' needs, as well as to manage Taishin Bank's asset and liability positions and credit risk for the years ended December 31, 2006 and 2005.

Chang Hwa Bank engages in various derivative instruments to eliminate the risk arising from exchange rate and interest rate fluctuations in the market for the years ended December 31, 2006 and 2005. The purpose of Chang Hwa Bank's hedging strategy is to eliminate the market price risk and cash flow risk.

The nominal principal amounts of outstanding derivative contracts as of December 31, 2006 and 2005 are as follows:

	2006	2005
Outstanding derivative contracts		
Trading-purpose		
Forward contracts	\$ 83,913,996	\$ 51,075,269
Currency swaps	219,336,143	157,999,705
Interest rate swaps and asset swaps	1,444,427,369	1,203,769,965
Cross-currency swaps	38,031,446	51,249,337
Forward interest rate agreements	8,300,000	25,425,000
Futures	3,637,677	7,758,856
Future index options	1,427	3,879
Currency options	48,121,900	94,810,249
Interest rate options	196,804,987	168,013,550
Bond options	4,548,300	6,500,000
Equity-security options	4,513,617	14,683,013
Commodity options	801,862	1,917,585
Credit risk swaps	13,787,912	15,718,850
Fixed rate commercial papers	11,570,000	28,760,000
Asset-based commercial papers	21,574,400	19,360,400
Equity-linked swaps	5,283,225	-
Non-trading purpose		
Currency swaps	-	64,582,760
Interest rate swaps	-	17,868,171
Currency options	-	5,424,570

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

Warrants

Details of warrants issued by Taiwan Securities are as follows

	December 31	
	2006	2005
Warrants issued	\$ 782,893	\$ 1,553,961
Gain (loss) on change in fair value	250,871	(451,758)
Market value	1,033,764	1,102,203
Repurchased warrants	581,196	634,352
(Loss) gain on change in value	(2,493)	107,087
Market value	578,703	741,439
	\$ 455,061	\$ 360,764

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

V. Financial Statements

8. RECEIVABLES, NET

	December 31	
	2006	2005
Notes and accounts receivable	\$ 63,647,622	\$ 106,025,381
Margin loans receivable	20,055,312	16,156,365
Acceptance receivable	10,327,780	10,495,425
Revenue receivable	237,933	334,563
Interest receivable	9,174,723	8,154,308
Tax refund receivable	2,378,483	1,104,731
Other receivables	6,074,439	7,352,990
Less allowance for receivables	(884,138)	(1,623,045)
	<u>\$ 111,012,154</u>	<u>\$ 148,000,718</u>

9. LOANS

The details of loans are as follows:

	December 31	
	2006	2005
Negotiated	\$ 3,992,877	\$ 4,007,481
Overdrafts	2,010,529	2,288,309
Discounts	4,700,624	5,089,662
Short-term loans	399,675,715	474,358,721
Medium-term loans	408,613,146	414,646,493
Long-term loans	559,556,051	493,621,699
Delinquent loans	27,637,644	16,461,325
Gross loans	1,406,186,586	1,410,473,690
Less allowance for loan losses	(25,812,184)	(36,857,612)
	<u>\$ 1,380,374,402</u>	<u>\$ 1,373,616,078</u>

Allowance for loan losses is as follows:

	Year Ended December 31, 2006			
	Receivables	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio	Total
Balance, January 1, 2006	\$ 1,623,045	\$ 6,375,152	\$ 30,482,460	\$ 38,480,657
Reclassification at beginning	-	152,210	-	152,210
Provision (reversal of provision) for loan losses	8,722,992	37,498,303	(14,600,479)	31,620,816
Reclassification during this period	(21,951)	4,172,065	(4,150,114)	-
Disposal	(710,377)	(2,882,895)	-	(3,593,272)
Loans written off	(8,736,364)	(39,440,250)	-	(48,176,614)
Recovery of loans written off	6,849	10,001,955	-	10,008,804
Reclassified as other financial assets	-	(1,734,096)	-	(1,734,096)
Others	(56)	(53,596)	(8,531)	(62,183)
Balance, December 31, 2006	<u>\$ 884,138</u>	<u>\$ 14,088,848</u>	<u>\$ 11,723,336</u>	<u>\$ 26,696,322</u>

	Year Ended December 31, 2005			
	Receivables	For Losses on Particular Loans	For Losses on the Overall Loan Portfolio	Total
Balance, January 1, 2005	\$ 613,145	\$ 925,216	\$ 2,302,175	\$ 3,840,536
Affected amount of first - combination	604,509	49,496,426	1,347,755	51,448,690
Provision for loan losses	451,576	9,577,291	26,832,530	36,861,397
Reclassification of this period	-	350,000	-	350,000
Loans written off	(57,392)	(57,275,278)	-	(57,332,670)
Recovery of loans written off	2,718	3,450,469	-	3,453,187
Reclassified as other financial assets	-	(152,210)	-	(152,210)
Others	8,489	3,238	-	11,727
Balance, December 31, 2005	<u>\$ 1,623,045</u>	<u>\$ 6,375,152</u>	<u>\$ 30,482,460</u>	<u>\$ 38,480,657</u>

10.AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2006	2005
Domestic listed stocks	\$ 5,031,597	\$ 3,645,291
Government bonds	40,230,143	22,086,535
Corporate bonds and bank notes	45,424,871	39,470,365
Asset backed securities	2,713,003	1,114,568
Funds	710,051	450,000
	<u>\$ 94,109,665</u>	<u>\$ 66,766,759</u>

For available-for-sale financial assets pledged as collaterals as of December 31, 2006 and 2005, please refer to Note 38.

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

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

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

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

*Note: "ARMS" means adjustable rate mortgages.

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

(a) Assumptions used to evaluate retained interests

Rights of Residential Mortgages	
Year Ended December 31, 2004	
Projected principal repayment rate (% per annum)	20.00%
Estimated weighted average number of years	15.58
Estimated loss rate of credit (% per annum)	1.42%
Discount rate of remaining cash flows (% per annum)	5.30%

(b) Sensitivity analysis

Rights of Residential Mortgages			
December 31			
	2006		2005
Present value of retained interests	\$ 337,341	\$	339,021
Discount rate of remaining cash flow (% per annum)	3.14%		2.81%
Projected principal repayment rate (% per annum)	22%		25%
Estimated weighted average number of years	12.83		13.83
Influence of 10% unfavorable change in fair value	\$(26)	\$(	112)
Influence of 20% unfavorable change in fair value	\$(29)	\$(	190)
Estimated loss rate of credit (% per annum)	0.60%		1.20%
Influence of 10% unfavorable change in fair value	\$(258)	\$(	1,536)
Influence of 20% unfavorable change in fair value	\$(516)	\$(	3,063)

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

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

	Rights of Residential Mortgages	
	Years Ended December 31	
	2006	2005
Other cash inflows from retained interests	\$ 16,843	\$ 25,316

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

In the second quarter of 2005, Taishin Bank entrusted credit card receivables with a carrying value of \$11,752,793 thousand to HSBC - Taipei Branch, which will issue asset backed securities and seller's equity securities on these receivables, with terms from May 31, 2005 to November 30, 2010.

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

*Note:Reference rate is the commercial paper rate in the primary market, provided on page 51328 of the Moneyline Telerate at 11.30am on the previous date of the interest-bearing period.

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

(a)Assumptions used to evaluate retained interests

	Rights of Credit Card Receivables
	Year Ended December 31, 2005
Projected principal repayment rate (% per month)	17.60%
Estimated weighted average number of years	0.47
Estimated loss rate of credit (% per annum)	4.80%
Discount rate of remaining cash flows (% per annum)	25.00%

V. Financial Statements

(b) Sensitivity analysis

	Rights of Credit Card Receivables	
	December 31	
	2006	2005
Present value of retained interests	\$ 2,000,606	\$ 421,599
Discount rate of remaining cash flow (% per annum)	18.94%	25%
Projected principal repayment rate (% per month)	16.04%	17.60%
Estimated weighted average number of years	0.52	0.47
Influence of 10% unfavorable change in fair value	\$(396,927)	\$(70,742)
Influence of 20% unfavorable change in fair value	\$(793,854)	\$(141,484)
Estimated loss rate of credit (% per annum)	10.60%	4.80%
Influence of 10% unfavorable change in fair value	\$(243,417)	\$(15,999)
Influence of 20% unfavorable change in fair value	\$(486,834)	\$(31,997)

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

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

	Rights of Credit Card Receivables	
	Years Ended December 31	
	2006	2005
Cash from new securitization	\$ -	\$ 9,500,000
Other cash inflows from retained interests	258,600	458,857
Reserved cash (accounted for as refundable deposits)	(83,664)	250,000

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

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

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

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

(a) Assumptions used to evaluate retained interests

	Rights of Residential Mortgages	
	Years Ended December 31	
	2006	2005
Projected principal repayment rate (% per annum)	47.5%	45%
Estimated weighted average number of years	2.17	3.416
Estimated loss rate of credit (% per annum)	2%	2%
Discount rate of remaining cash flow	3.2%	3.2%

(b) Sensitivity analysis

	Rights of Residential Mortgages	
	Years Ended December 31	
	2006	2005
Present value of retained interest	\$ 381,521	\$ 376,554
Estimated weighted average number of years	2.17	3.416
Projected principal repayment rate	47.5%	45%
Influence of 10% adverse change in fair value	\$(21,374)	\$(12,179)
Influence of 20% adverse change in fair value	\$(12,111)	\$(31,356)
Estimated loss rate of credit (% per annum)	2%	2%
Influence of 10% adverse change in fair value	\$(19,679)	\$(10,767)
Influence of 20% adverse change in fair value	\$(19,000)	\$(18,854)

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

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

	Rights of Residential Mortgages	
	Years Ended December 31	
	2006	2005
Other cash inflows from retained interest	\$ 19,137	\$ 30,788
Income from securitization	10,670	17,556

11. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2006	2005
Time deposits of Central Bank	\$ 158,315,000	\$ 173,000,000
Government bonds	18,136,669	17,004,456
Corporate bonds and bank notes	8,877,165	8,317,406
Asset backed securities	232,514	240,078
	<u>\$ 185,561,348</u>	<u>\$ 198,561,940</u>

For held-to-maturity financial assets pledged as collaterals as of December 31, 2006 and 2005, please refer to Note 38.

V. Financial Statements

12. INVESTMENT UNDER EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Value	Ownership Interest (%)	Carrying Value	Ownership Interest (%)
Equity method				
Taiwan Securities Investment Advisory	\$ 337,128	92	\$ 338,834	92
Taiwan Managed Futures	170,338	100	177,978	100
Taishin Investment Trust Co., Ltd. ("Taishin Investment Trust")	135,446	45	130,698	45
Tai Chen (BVI)	66,926	100	65,405	100
TSC Capital Limited	72,086	100	74,023	100
Dah An Leasing	158,656	99	155,950	99
PayEasy Travel	4,672	100	9,304	100
An Hsin Real-Estate Management Co., Ltd. ("An Hsin Real-Estate")	41,350	30	37,060	30
Taishin Venture Capital Investment Co., Ltd.	-	-	47,475	26.17
	<u>\$ 986,602</u>		<u>\$ 1,036,727</u>	

Based on investees' financial statements for the years ended December 31, 2006 and 2005, the amounts of investment income (loss) recognized under equity method are as follows:

	2006	2005
Tai Chen (BVI)	\$ 2,024	\$ 1,724
Dah An Leasing	2,706	-
Taiwan Securities Investment Advisory	4,717	7,821
Taishin Investment Trust	4,748	-
An Hsin Real-Estate	10,380	12,342
Taishin Venture Capital Investment Co., Ltd.	9,217	-
Cheun Chang Development Co., Ltd.	-	5,765
Total investment income	<u>33,792</u>	<u>27,652</u>
Taiwan Managed Futures	(7,640)	(9,421)
TSC Capital Limited	(1,148)	(11,144)
PayEasy Travel	(4,632)	(696)
Taishin Investment Trust	-	(4,551)
Taishin Venture Capital Investment Co., Ltd.	-	(43,528)
Dah An Leasing	-	(5,077)
Total investment loss	<u>(13,420)</u>	<u>(74,417)</u>
	<u>\$ 20,372</u>	<u>\$ (46,765)</u>

13. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2006	2005
TIGER stocks	\$ 630,052	\$ 463,652
Domestic privately-held common stocks	9,413,209	10,239,159
Overseas privately-held common stocks	-	279,418
Funds traded at nonpublic market	62,600	25,000
	<u>\$ 10,105,861</u>	<u>\$ 11,007,229</u>

14. OTHER FINANCIAL ASSETS

	December 31	
	2006	2005
Bonds not actively-traded in market	\$ 2,894,134	\$ 1,785,871
Customers' margin accounts	3,858,782	3,754,244
Delinquent loans reclassified from other subjects (excluding loans)	2,633,038	209,350
Less allowance for bad debt	(1,734,096)	(152,210)
Others	73,198	90,445
	<u>\$ 7,725,056</u>	<u>\$ 5,687,700</u>

Customers' Margin Accounts

	December 31	
	2006	2005
Bank deposits	\$ 2,738,813	\$ 2,749,080
Balance in futures clearing houses		
Bank deposits	1,152,016	1,035,420
Receivables from (payables to) daily settlement price differences	(189,450)	(78,905)
Balance in settlement institutes		
Bank deposits	154,409	52,256
Gain/loss on unsettled positions	2,994	(3,607)
	<u>\$ 3,858,782</u>	<u>\$ 3,754,244</u>

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

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

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

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

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15. PROPERTY AND EQUIPMENT

	December 31			
	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 28,237,797	\$ -	\$ 28,237,797	\$ 28,706,470
Buildings	15,272,198	(3,261,750)	12,010,448	11,759,931
Machinery equipment	8,811,159	(4,299,179)	4,511,980	4,630,629
Transportation equipment	1,031,283	(732,428)	298,855	272,100
Miscellaneous equipment	2,087,342	(1,651,306)	436,036	358,536
Leasehold improvement and leased asset	1,513,578	(1,320,701)	192,877	216,514
Construction in process and ordered machines	228,690	-	228,690	848,931
Prepayments for building and equipment	66,856	-	66,856	338,180
	<u>\$ 57,248,903</u>	<u>\$(11,265,364)</u>	<u>\$ 45,983,539</u>	<u>\$ 47,131,291</u>

For property and equipment pledged as collaterals as of December 31, 2006 and 2005, please refer to Note 38.

16. GOODWILL AND INTANGIBLE ASSETS

	December 31	
	2006	2005
Goodwill from merger	<u>\$ 22,442,037</u>	<u>\$ 20,681,040</u>

Taishin Bank merged with Dah An Bank through a share swap in February 2002, in which Taishin Bank issued new shares to acquire the total assets and liabilities of Dah An Bank. The difference between the fair value of the new shares issued by Taishin Bank and the fair value of net assets acquired was recognized as goodwill. As of December 31, 2006, the unamortized amount is \$884,938 thousand with no material impairment loss.

Taishin AMC acquired 40% interest ownership of Taishin Real-Estate in April 2003. The difference between the purchase price and the net assets acquired was recognized as goodwill. As of December 31, 2006, the unamortized amount is \$4,187 thousand.

Taishin Bank acquired the net assets of the 10th Credit Cooperative of Hsin-Chu in October 2004. The acquisition price exceeding the net assets of 10th Credit Cooperative of Hsin-Chu was recognized as goodwill. As of December 31, 2006, the unamortized amount is \$267,336 thousand.

Taiwan Securities undertook all assets and liabilities of other securities firms and acquired 51% interest ownership of Shin Ze. The difference between total purchase price and net assets acquired were recognized as goodwill. As of December 31, 2006, the unamortized goodwill is \$172,701 thousand.

In the fourth quarter of 2005 and the second quarter of 2006, Taishin Financial Holding and Taishin Bank acquired 22.81% and 2.58% interest in net assets of Chang Hwa Bank, respectively. The difference between investment cost and fair value of net assets amounted to \$19,676,239 thousand and \$1,682,589 thousand, respectively, was recognized as goodwill and will be amortized within 20 years by straight-line method and subject to impairment test. The amortization for 2005 is \$245,953 thousand, and unamortized balance was \$21,112,875 thousand as of December 31, 2006. Upon the performance of the asset impairment test, Chang Hwa Bank is taken as one cash generating unit on the basis of the consolidated financial statements. Its operating assets, including Taishin Financial Holding's goodwill from the merger, the long-term investment under equity method and other non-operating assets are evaluated using estimated recoverable amounts determined as the higher of the value in use and fair value less costs to sell. The major assumptions in estimating the value in use are based on the historical profit performance and ability to generate cash flows in the future under normal business operations. Under the going concern assumption, the estimated cash flows in the future are discounted at the rate of cost of capital to calculate the value in use. Based on the result of the test, there is no material impairment of assets as of December 31, 2006 and 2005.

17. OTHER MISCELLANEOUS ASSETS

	December 31	
	2006	2005
Operating deposits	\$ 724,221	\$ 1,247,000
Settlement funds	443,601	446,985
Rental and idle assets, net	5,999,904	6,048,372
Debit item for consigned trades, net	1,990,775	1,170,528
Assumed collaterals and residuals	799,516	1,461,051
Others	238,811	217,985
	<u>\$ 10,196,828</u>	<u>\$ 10,591,921</u>

Operating Deposits

Taiwan Securities

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

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

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

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

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

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

Taishin Bills Finance

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

Taiwan Futures

As stipulated in Article 9 of the Rules Governing the Establishment Criteria of Futures Commission Merchants, futures brokers should provide \$50 million, in the form of cash, government bonds, and/or other financial instruments as operating deposits to be placed in Taiwan Futures' designated banks, and should also provide an additional \$10 million as operating deposits for each branch operation.

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

Settlement Funds

Taiwan Securities

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

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

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

Taiwan Futures

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

Initial deposit: \$40 million.

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

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

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

Rental and Idle Assets

	December 31	
	2006	2005
Rental land	\$ 5,182,355	\$ 5,184,779
Rental buildings	1,177,240	1,151,287
Less accumulated depreciation - rental buildings	(339,487)	(317,720)
Less accumulated impairment - rental assets	(76,604)	(76,604)
	5,943,504	5,941,742
Idle land	102,768	10,005
Idle buildings	-	104,284
Less accumulated depreciation - idle buildings	-	(1,623)
Less accumulated impairment - idle assets	(46,368)	(6,036)
	56,400	106,630
	\$ 5,999,904	\$ 6,048,372

For rental and idle assets pledged as collaterals as of December 31, 2006 and 2005, please refer to Note 38.

Debit Item for Consigned Trades

Security brokerage accounts with debit (credit) balances as of December 31, 2006 and 2005 are as follows:

	December 31	
	2006	2005
Debits		
Bank settlement account	\$ 1,816,768	\$ 1,259,154
Proceed receivable of securities purchased for customers	8,151,329	8,428,983
Settlement accounts receivable	4,112,261	6,701,764
Settlement prices	(3,984)	(899,930)
Marginal trading	396	9,286
	14,076,770	15,499,257
Credits		
Price payable of securities sold for customers	7,884,815	9,393,636
Settlement accounts payable	4,169,275	4,820,458
Marginal and securities borrowers payable	31,905	114,635
	12,085,995	14,328,729
Debit items for consigned trades, net	\$ 1,990,775	\$ 1,170,528

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18.DUE TO BANKS AND CENTRAL BANK

	December 31	
	2006	2005
Due to Central Bank	\$ 210,489	\$ 203,096
Due to other banks	40,587,855	50,575,305
Deposits transferred from the Postal Bureau	88,218,411	101,530,095
Call loans from other banks	105,304,426	116,544,865
Bank overdraft	2,300,904	3,566,031
	<u>\$ 236,622,085</u>	<u>\$ 272,419,392</u>

19.COMMERCIAL PAPER PAYABLE

	December 31	
	2006	2005
Guarantee and acceptance institution	\$ 850,000	\$ 850,000
International Bills Finance	500,000	500,000
Chung Hsing Bills Finance	540,000	-
Mega Bills Finance	-	200,000
Fubon Bills Finance	30,000	230,000
Grand Bills Finance	-	250,000
E. Sun Bills Finance	1,200,000	1,495,000
China Bill Finance	500,000	500,000
Hua Nan Bills Finance	500,000	700,000
Ta Ching Bills Finance	-	400,000
Chinatrust Bills Finance	-	700,000
Taiwan Bills Finance	4,120,000	5,825,000
Less discounts on commercial paper payable	(7,254)	(6,350)
	<u>\$ 4,112,746</u>	<u>\$ 5,818,650</u>

As of December 31, 2006 and 2005, interest rates for commercial paper payable ranged from 1.600% to 2.043% and 1.160% to 1.862% per annum, respectively.

20. PAYABLES

	December 31	
	2006	2005
Notes and accounts payable	\$ 37,505,510	\$ 50,894,689
Accrued expenses	4,617,290	5,251,708
Interest payable	8,440,743	6,794,947
Tax payable	595,063	554,124
Dividend and bonus payable	147,309	418,057
Acceptance payable	10,685,430	10,808,330
Collections payable	1,469,804	1,018,435
Securities financing guarantee deposits-in	1,837,156	1,860,996
Payable for securities financing guarantee	2,265,315	2,235,139
Sales tax payable	6,488	1,506,203
Exchange note payable	2,535,539	2,534,954
Other payables	3,361,370	3,632,705
	<u>\$ 73,467,017</u>	<u>\$ 87,510,287</u>

21. DEPOSITS

	December 31	
	2006	2005
Checking deposits	\$ 40,515,601	\$ 43,031,731
Demand deposits	232,254,949	229,865,024
Time deposits	420,908,740	419,486,049
Negotiable certificates of deposit	21,112,400	33,889,600
Savings deposits	911,983,458	884,351,335
Remittances and drafts issued	1,301,221	1,036,705
	<u>\$ 1,628,076,369</u>	<u>\$ 1,611,660,444</u>

22. BONDS PAYABLE

	December 31	
	2006	2005
Unsecured European Convertible Bonds - par	\$ -	\$ 266,085
Unsecured European Convertible Bonds - premiums	-	143
Unsecured subordinated corporate bonds - par	33,650,000	33,650,000
Unsecured corporate bonds - par	5,000,000	5,000,000
Unsecured convertible bonds - par	7,000,000	-
Unsecured convertible bonds - discounts	(131,956)	-
Bank notes	64,700,000	64,350,000
	<u>110,218,044</u>	<u>103,266,228</u>
Add interest compensation payables - unsecured European Convertible Bonds	-	17,968
	<u>\$ 110,218,044</u>	<u>\$ 103,284,196</u>

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Unsecured European Convertible Bonds (I) Issued By Taishin Financial Holding

(a) Issue amount: US\$220,000 thousand (including additional issue of US\$20,000 thousand).

(b) Denomination: US\$1 thousand.

(c) Issue date: April 17, 2003.

(d) Issue price: 100% of the principal amount of the bonds; additional amount issued at 101% of par value.

(e) Maturity: 5 years from the issue date.

(f) Coupon rate: 0% per annum.

(g) Conversion method:

i) Conversion object: Taishin Financial Holding's common shares.

ii) Conversion period:

Except for the closed period (as defined by relevant ROC laws), bonds may be converted from after 90 days of the issue date until the 30th day before the maturity date.

iii) Pricing:

- Conversion price per share of NT\$21.33 dollars was determined on the pricing date (based on the fixed rate of NT\$34.81:US\$1).
- Taishin Financial Holding should change the conversion price in accordance with any events specified in the Trust Deed.
- Under the approval of the board of directors, the conversion price per share was modified to NT\$14.84 dollars since August 4, 2005 in accordance with events specified in the Trust Deed.

(h) Redemption at the bondholders' option:

After April 17, 2006, the bondholders may demand Taishin Financial Holding to redeem the bonds at par value plus interest compensation, calculated semiannually at 2.4% per annum in any of these situations:

- Taishin Financial Holding's common shares cease to be listed or admitted for trading on the Taiwan Stock Exchange.
- The power control structure of Taishin Financial Holding changes.
- Bond issue is on its third anniversary

(i) Redemption at Taishin Financial Holding's option:

i) At maturity:

Unless the bonds are previously redeemed, repurchased and canceled, or converted, the issuer will redeem the bonds on the maturity date at 112.69% of the outstanding principal amount.

ii) Before maturity:

At any time on or after April 17, 2006, Taishin Financial Holding may redeem the bonds totally or partially at par value plus interest compensation, calculated semiannually at 2.4% per annum, in any of these situations:

- The closing price of Taishin Financial Holding's common shares listed on the Taiwan Stock Exchange for 30 consecutive trading days exceeds 130% of the conversion price.
- Over 95% of the bonds have been redeemed or converted.

- Taishin Financial Holding is obligated to pay additional tax because of certain changes in the tax laws in the ROC or in another jurisdiction having authority over Taishin Financial Holding.

(j) Redemption on maturity:

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

(k) Interest compensation payable:

The difference between the redemption price and face value of the bonds is amortized by the effective interest (2.40%) method and is credited to the reserve for bond redemption accounts. Interest compensation payables were \$0 thousand and \$17,968 thousand as of December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, options exercised on unsecured European Convertible Bonds (l) amounted to US\$220,000 thousand and US\$211,900 thousand, respectively.

(l) Trading market:

Luxembourg Stock Exchange

Unsecured European Convertible Bonds (II) Issued By Taishin Financial Holding

(a) Issue amount: US\$225,000 thousand (including additional issue of US\$25,000 thousand).

(b) Denomination: US\$1 thousand.

(c) Issue date: April 28, 2004.

(d) Issue price: 100% of the principal amount of the bonds.

(e) Maturity: 1.5 years from the issue date.

(f) Coupon rate: 0% per annum.

(g) Conversion method:

i) Conversion object: Taishin Financial Holding's common shares held by Taishin Bank.

ii) Conversion period:

Except for the closed period (as defined by relevant ROC laws), bonds may be converted from after 30 days of the issue date until the 10th day before the maturity date.

iii) Pricing:

- Conversion price per share of \$36.80 dollars is determined on the pricing date (based on the fixed rate of NT\$33.093:US\$1).
- Taishin Financial Holding should change the conversion price in accordance with any of the events specified in the Trust Deed.
- Under the approval of the board of directors, the conversion price per share was modified to \$27.10 dollars since August 4, 2005 in accordance with events specified in the Trust Deed.

(h) Redemption at the bondholders' option:

The bondholders may demand Taishin Financial Holding to redeem the bonds at par value in any of these situations:

- i) Taishin Financial Holding's common shares cease to be listed or are no longer admitted for trading on the Taiwan Stock Exchange.
- ii) Taishin Financial Holding's power control structure changes (include but not limited to a change in the majority of the directors)

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(i) Redemption at Taishin Financial Holding's option:

At any time on or after April 28, 2005, Taishin Financial Holding may redeem the bonds totally or partially at par value in any of these situations:

- i) The closing price of Taishin Financial Holding's common shares listed on the Taiwan Stock Exchange for 20 consecutive trading days exceeds 130% of the conversion price.
- ii) Over 95% of the bonds have been redeemed or converted.
- iii) Certain changes in the tax laws result in withholding tax increases, which require Taishin Financial Holding to pay more taxes.

Redemption is prohibited during the closed period as defined by ROC laws.

(j) Redemption on maturity:

Unless previously converted, redeemed, or repurchased, the bonds will be redeemed on maturity at 98.88% of the outstanding principal amount in cash.

(k) Trading market:

Luxembourg Stock Exchange

As of October 2005, the unsecured European Convertible Bonds (II) had been redeemed and no options had been exercised.

Unsecured Subordinated Corporate Bonds Issued By Taishin Financial Holding

Taishin Financial Holding issued \$8 billion in unsecured subordinated corporate bonds in December 2003.

Details are as follows:

Bond Item	AA	AB	AC	AD	AE	AF	AG	AH	AI	AJ	AK	AL	BA
Issue amount	4,500 million	500 million	500 million	200 million	300 million	300 million	200 million	450 million	200 million	200 million	200 million	200 million	250 million
Face value	10 or 50 million												10 million
Issue price	Par value												
Duration	2003.12.12 ~ 2010.12.12	2003.12.15 ~ 2010.12.15	2003.12.16 ~ 2010.12.16	2003.12.17 ~ 2010.12.17	2003.12.18 ~ 2010.12.18	2003.12.19 ~ 2010.12.19	2003.12.22 ~ 2010.12.22	2003.12.23 ~ 2010.12.23	2003.12.24 ~ 2010.12.24	2003.12.25 ~ 2010.12.25	2003.12.26 ~ 2010.12.26	2003.12.29 ~ 2010.12.29	2003.12.12 ~ 2010.12.12
Interest payment	Payable annually from the issue date.												From the issuance date, the interest will be paid semi-annually
Interest accrual	From the issuance date, the interest will be paid semi-annually												The interest will be accrued on floating and simple interest rate, the first interest - determined date is on 2nd day before the issuance date, the interest should be adjusted semi-annual on the 2nd day before the interest payment date. In addition, the interest rate should not be lower than 0% and will be accrued on the basis of actual days.
Coupon rate	3.5%												5.7% - floating rate
Redemption on maturity	In cash at par value.												
Other	1.The interest payments rely on the amounts accrued by Taishin Financial Holding. 2.The bonds are bearer, but could be converted into registered bonds upon holders' request. 3.If Taishin Financial Holding's consolidated capital adequacy ratio (CAR) is less than the standard set under relevant regulations. Taishin Financial Holding should stop paying interest on and redeeming the bonds until the consolidated CAR conforms to the requirements.												

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

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Unsecured Subordinated Corporate Bonds - 2004 (I) Issued By Taishin Financial Holding

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

Unsecured Subordinated Corporate Bonds - 2004 (II) Issued By Taishin Financial Holding

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

Unsecured Subordinated Corporate Bonds - 2005 (I) Issued By Taishin Financial Holding

- (a) Issue amount: \$12,000,000 thousand, and divided into Bond A and Bond B according to the issue dates. The total issue amount for Bond A and Bond B was \$11,500,000 thousand and \$500,000 thousand, respectively.
- (b) Denomination: \$10,000 thousand.
- (c) Maturity: Both Bond A and B mature 7 years from the issue date. Bond A was issued on September 20, 2005 and will mature on September 20, 2012. Bond B was issued on September 21, 2005 and will mature on September 21, 2012.
- (d) Issue price: Both Bond A and B were issued at 100% of the principal.
- (e) Coupon rate: 2.70% per annum for both Bond A and B.

- (f)Interest payment: Simple interest per annum from the issue date for both Bond A and B.
- (g)Redemption on maturity: In cash for both Bond A and B.
- (h)Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meet the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

Unsecured Subordinated Corporate Bonds - 2005 (II) Issued By Taishin Financial Holding

- (a)Issue amount: \$3,650,000 thousand.
- (b)Denomination: \$10,000 thousand.
- (c)Issue date: November 15, 2005.
- (d)Issue price: 100% of the principal amount of the bonds.
- (e)Maturity: 7 years from the issue date.
- (f)Coupon rate: 2.70 % per annum.
- (g)Interest payment: Simple interest per annum from the issue date.
- (h)Redemption on maturity: In cash.
- (i)Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meets the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

Unsecured Subordinated Corporate Bonds - 2005 (III) Issued By Taishin Financial Holding

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

Unsecured Convertible Corporate Bonds - 2006 (I) Issued By Taishin Financial Holding

- (a)Issue amount: \$7,000,000 thousand.
- (b)Denomination: \$50,000 thousand.

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(c) Issue date: May 5, 2006.

(d) Issue price: 100% of the amount of the bonds.

(e) Maturity: 5 years from the issue date.

(f) Coupon rate: 2.75% per annum.

(g) Interest payment: Simple interest per annum from the issue date.

(h) Conversion method:

i) Conversion object: Taishin Financial Holding's common shares.

ii) Conversion period:

Except for the closed period (as defined by relevant ROC laws), bonds may be converted from after 30 days of the issue date until the 10th day before the maturity date.

iii) Pricing:

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

(i) Redemption at the bondholders' option: None

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

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

ii) If the bonds which have been redeemed or converted were over 90%, Taishin Financial Holding may redeem the bonds at par value in cash after one month of the issue date until the 40th day before the maturity date.

(k) Redemption on maturity:

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

According to SFAS No. 34 and No. 36, the conversion option should be separated from liabilities. Therefore, Taishin Financial Holding recognized equity and liability amounted to \$99,609 thousand and \$6,849,398 thousand, respectively. As of December 31, 2006, no option had been exercised.

Unsecured Corporate Bonds Issued by Taishin Bills Finance

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

	December 31	
	2006	2005
First issue of unsecured corporate bonds (I)	\$ 1,200,000	\$ 1,200,000
Second issue of unsecured corporate bonds (II)	1,300,000	1,300,000
Third issue of unsecured corporate bonds (III)	1,000,000	1,000,000
Fourth issue of unsecured corporate bonds (IV)	1,500,000	1,500,000
	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

Unsecured Bonds (I)

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

Unsecured Bonds (II)

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

Unsecured Bonds (III)

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

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Unsecured Bonds (IV)

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

Bank Notes Issued By Taishin Bank

Taishin Bank has issued bank notes to enhance its capital ratio and raise medium to long-term operating funds. Details of the bank notes are as follows (including \$150,000 thousand held by other subsidiary as of December 31, 2005).

- (a) 10-year bank notes amounting to \$5,000 million were issued on October 2, 2001. The interest rates are 4.05% for year one to five and 4.45% for year six to ten. Interests are payable annually. Taishin Bank has redemption right on these bank notes at par value plus accrued interest payable starting from the sixth year.
- (b) 7-year bank notes amounting to \$5,000 million were issued on January 30, 2002. The interest rate for years one to seven is 4.00%. Interests are payable annually. The principal will be repaid on maturity.

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

(\$'000)

Bond Item		B	C	D	E	F	G	H
Issue Amount		600,000	500,000	500,000	500,000	200,000	200,000	200,000
Face Value		10,000	10,000	10,000	10,000	10,000	10,000	10,000
Issue Price		10,000	10,000	10,000	10,000	10,000	10,000	10,000
Term		2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10	2002.07.10-2007.10.10
Interest Payment		From the issuance date, interest is accruable quarterly and payable semiannually. The interest of the six months before maturity will be paid on the maturity date.						
Interest Accrual		The interest is accruable at simple and floating coupon rates: the first interest - determination date is on 2nd day before the issue date. From the issue date, the interest rate should be adjusted quarterly in accordance with the floating rate on the 2nd day before the interest-determination date and be accrued at a simple rate; in addition, the interest rate should not be lower than 0.00% and the interest will be accrued on the basis of actual days.						
Interest Rate	1st Year	(6.35%-Floating Rate)	(6.35%-Floating Rate)	(6.70%-Floating Rate)	4.63%	The first 18 months: 8.00%-Floating Rate From the 19th month: 6.70%-Floating Rate	(11.00%-2× Floating Rate)	4.15%
	2nd Year	(6.75%-Floating Rate)	(6.75%-Floating Rate)	(7.00%-Floating Rate)			(10.50%-2× Floating Rate)	4.15%
	3rd Year	(7.15%-Floating Rate)	(7.15%-Floating Rate)	(7.30%-Floating Rate)	(7.05%-Floating Rate)		(10.00%-2× Floating Rate)	If the floating rate is lower than 4.70% - the coupon rate is 4.15% - otherwise, rate is (8.85% - Floating Rate)
	4th Year	(7.55%-Floating Rate)	(7.55%-Floating Rate)	(7.60%-Floating Rate)			(9.50%-2× Floating Rate)	
	5th Year-Maturity date	(7.95%-Floating Rate)	(7.95%-Floating Rate)				(9.00%-2× Floating Rate)	
Redemption on Maturity		The bonds will be redeemed at the maturity date in cash at par value						
Other Agreements		1.The interest payments are based on the amount Taishin Bank accrued amount. No overrun interest will be paid. 2.The bonds are bearer bonds, which can be converted into registered bonds upon holders' request. 3.The floating rate is determined at the 90-day commercial paper fixing rate in the secondary market, provided on page 6165 of the Money Line Telerate at 11:00 am on the interest-determination day.						

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

V. Financial Statements

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

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

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

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

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
A	2003.11.28	2008.11.28	5 years	\$300 million	4.9% minus 6 months' USD LIBOR and the interest rate should not be less than 0%. The first interest determination date is November 28, 2004. The following interest rate, from the 2nd year to the 5th year, is recalculated at the floating rate on the 2nd day before the interest payment date, the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the reset day at 11:00 a.m.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semi-annually from the issue date
B	2003.11.28	2008.11.28		\$200 million			
C	2003.11.28	2008.11.28					
D	2003.11.28	2008.11.28					

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

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
A	2003.12.16	2008.12.16	5 years	\$200 million each	4.9% minus 6-month LIBOR. The 6-month LIBOR is recalculated at the floating rate on the 2nd day interest payment date, which is the first day of each payment period. The floating rate is provided by the Moneyline Telerate on the re-set day at 11:00 a.m. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate and payable semi-annually from the issue date.
B	2003.12.16	2008.12.16					
C	2003.12.16	2008.12.16					
D	2003.12.16	2008.12.16		\$300 million each			
E	2003.12.16	2008.12.16					
F	2003.12.16	2008.12.16		\$200 million each	The interest rate is $[2.5 \times (\text{NTD CMS 5y} - \text{NTD CMS 2y})] + 0.45\%$. "NTD CMS 5y" "NTD CMS 2y" is determined by the IRS MID rate of 5 year and 2 year NTD interest rate swap on the 2nd day before interest payment date at 11 AM, provided by PYTWD01 of Reuters on the reset day at 11:00 a.m. The interest rate should not be less than 0%.	\$10,000 thousand	
G	2003.12.16	2008.12.16					
H	2003.12.16	2008.12.16		\$200 million each	If 3-month USD LIBOR is less than 1.1%, the interest rate is 3 month USD LIBOR plus 0.65%; if 3-month USD LIBOR is between 1.1% and 2%, the interest rate is 3.25%; if the 3-month USD LIBOR is greater than 2.0%, the interest rate is 5.0% minus the 3-month USD LIBOR. The 3-month USD LIBOR is determined at the 3-month USD LIBOR on the 2nd day before the interest payment date, provided by the Moneyline Telerate on the reset day at 11:00 a.m. The interest rate should not be less than 0%.	\$10,000 thousand	Notes are redeemable at par value in cash on the maturity date. Interest is accruable at a simple rate quarterly and payable semi-annually from the issue date.
I	2003.12.16	2008.12.16					

V. Financial Statements

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

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

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

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

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

V. Financial Statements

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

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

Note a: (i) 「T」 : Between two interest-determination dates, the number of days with interest rate falling within the ranges of interest rates shown after item (iii) below.

(ii) 「N」 : The number of days between two interest-determination dates.

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

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

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

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

V. Financial Statements

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

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

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

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

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

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	The Method of Redemption and Interest Payment
A	2005.03.04	2015.03.04	10 years	\$1,287.5 million	Taishin Bank's floating interest rate for one-year time deposit plus 0.30% from the first to the fifth year and Taishin Bank's floating interest rate for one-year time deposit plus 0.50% since the sixth year.	\$500 thousand, \$10 million, and \$1 million	Notes are redeemable at par value in cash on the maturity date. Interest is accruable and payable annually from the issue date.
B	2005.03.04	2015.03.04		\$220.5 million	2.25% fixed interest rate from the first to the fifth year and Taishin Bank's floating interest rate for one-year time deposit plus 0.75% since the sixth year.		

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

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

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

i) Put option and redemption policies:

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

ii) Terms of exercising put option or redemption rights:

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

iii) Exercise of put option by the noteholders:

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

iv) Exercise of redemption right by Taishin Bank:

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

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

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

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

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

Bank Note	Issue Date	Maturity Date	Term	Issue Amount	Interest Rate	Face Value	Redemption Method and Interest Payment
A	2005.06.06	2017.06.06	12 years	\$2,950 million	2.70% fixed interest rate from the first to the seventh year and 3.20% fixed interest rate from the eighth to the twelfth year.	\$100 million, \$10 million, and \$1 million, respectively	Interest is accrued at a simple rate and paid annually from the issue date. Additional interest is not accrued if principal and interest are withdrawn after the interest date. Notes are redeemable at par value in cash on the maturity date, unless the redemption or put option is exercised.
B	2005.06.06	2017.06.06		\$1,442 million			
C	2005.06.06	2017.06.06		\$800 million	Taishin Bank's floating interest rate for one-year time deposit plus 0.65%. The interest rate is recalculated annually.		

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

Bank Notes Issued By Chang Hwa Bank

Chang Hwa Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. Under the approval of the MOF, Chang Hwa Bank issued \$20,000 million subordinated bank notes with terms from five to ten years on March 15, 2002. As of December 31, 2006 and 2005, the details of subordinated bank notes are as follows:

Bank Note	Interest Rate and Maturity Date	December 31	
		2006	2005
A	5-year term, interest payable yearly, annual interest 3.30%, maturity date: March 15, 2007	\$ 1,000,000	\$ 1,000,000
B	7-year term, interest payable yearly, annual interest 3.85%, maturity date: March 15, 2009	4,000,000	4,000,000
C	7-year term, based on the Bank's variable one year regular savings' rate +1.00%, interest payable monthly according to actual number of days, maturity date: March 15, 2009 (including \$200,000 thousand held by other subsidiaries as of December 31, 2005)	14,000,000	14,000,000
D	10-year term, interest payable yearly, annual interest rate for the first 5 years is 3.90%, and 4.60% for the last 5 years, maturity date: March 15, 2012	1,000,000	1,000,000
		<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>

23.OTHER BORROWINGS

	December 31	
	2006	2005
Unsecured borrowings	<u>\$ 4,250,000</u>	<u>\$ 2,830,000</u>

As of December 31, 2006 and 2005, interest rates on unsecured borrowings range from 1.700% to 1.870% and 1.420% to 1.614% per annum, respectively.

24.RESERVE FOR OPERATION AND LIABILITIES

	December 31	
	2006	2005
Reserve for guarantee liabilities	\$ 1,062,450	\$ 952,463
Reserve for default losses	287,533	226,519
Reserve for trading losses	433,200	491,256
Reserve for bad debt	13,923	13,923
	<u>\$ 1,797,106</u>	<u>\$ 1,684,161</u>

V. Financial Statements

Reserve for Default Losses

Taiwan Securities and Chang Hwa Bank

According to the Rules Governing Securities Firms, effective July 1, 2000, securities brokers are required to provide 0.0028% of their monthly transaction amount as reserve for contract loss until the reserve reaches \$200,000 thousand. This reserve may be used only to offset loss from brokerage trading or for items approved by the Securities and Futures Bureau.

Taiwan Futures

According to Article 16 of the Rules Governing Futures Commission Merchants, futures commission merchants are required to provide 2% of their monthly commission income as reserve for default loss until the reserve reaches \$200,000 thousand. This reserve may be used only to offset loss from default futures trading or for items approved by the Securities and Futures Bureau. If the reserve reaches \$200 million, an additional reserve is not required. In accordance with Letter No. (88) Tai-Tsai-Cheng-7- 108957, issued by Securities and Future Bureau on December 24, 1999, futures commission merchants need not provide this reserve from July 1, 1999 to June 30, 2003, as stipulated in Article 16 of Rules Governing Futures Commission Merchants.

Reserve for Trading Losses

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

Under the Rules Governing Securities Firms, effective 1989, securities proprietary traders are required to provide 10% of their monthly net dealing gain as reserve for security dealing losses until the reserve reaches \$200,000 thousand. Reserve may be used only to offset the dealing losses in excess of dealing gains.

Taiwan Futures

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

Reserve for Bad Debt

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

25. OTHER LIABILITIES

	December 31	
	2006	2005
Advance receipts	\$1,394,966	\$1,470,296
Value-added tax for land appraisal	5,701,075	5,750,705
Guarantee deposits	1,289,029	1,639,056
Deferred income	459,288	252,836
Accrued pension liability	2,648,064	2,712,776
Futures commission merchants' equity	3,736,072	3,611,604
Others	361,654	863,740
	<u>\$15,590,148</u>	<u>\$16,301,013</u>

Futures Commission Merchants' Equity

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

	December 31			
	2006		2005	
	Foreign Currency	New Taiwan Dollar	Foreign Currency	New Taiwan Dollar
NTD		\$ 3,073,625		\$ 3,554,164
USD	\$ 17,386	566,710	\$ 984	32,332
JPY	171,910	47,120	89,615	25,056
GBP	137	8,808	1	12
HKD	4,616	19,352	-	-
EUR	473	20,327	1	40
AUD	5	130	-	-
		<u>\$ 3,736,072</u>		<u>\$ 3,611,604</u>

26. PENSION EXPENSE

The Labor Pension Regulation, effective on July 1, 2005, allows employees to choose between the pension plan based on the Labor Standards Law and the pension plan under the Labor Pension Regulation with the employment seniorities prior to the adoption of this regulation being retained. Employees employed after July 1, 2005 can only apply to the Labor Pension Regulation.

The pension plan under the Labor Pension Regulation is a defined contribution pension plan. Since July 1, 2005, Taishin Financial Holding and subsidiaries fund the retirement plan monthly at amounts equal to 6% of salaries and wages of employees who choose the pension plan under the Labor Pension Regulation. Such pension fund is deposited in personal retirement account of employees, and total pension costs recognized by Taishin Financial Holding and subsidiaries are \$474,595 thousand and \$491,263 thousand for the year ended December 31, 2006 and 2005.

V. Financial Statements

The pension plan under the Labor Standards Law is a defined benefit pension plan. Taishin Financial Holding and subsidiaries fund the retirement plan monthly at amounts equal to 2% to 15% of salaries and wages of employees who choose the pension plan under the Labor Standards Law. Such pension fund is deposited in the employees' pension committee's name in the Central Trust of China (CTC). Under defined benefit pension plan, the related information is as follows:

Net periodic pension costs in 2006 and 2005 are as follows:

	2006	2005
Service cost	\$ 621,822	\$ 779,657
Interest cost	163,108	158,630
Expected return on pension funds	(75,010)	(78,253)
Amortization of net transition obligations	30,356	16,015
Amortization of unrecognized (income) losses	(664)	2,856
Settlement income	(4,715)	(7,369)
	<u>\$ 734,897</u>	<u>\$ 871,536</u>

The status of the employee pension plan as of December 31, 2006 and 2005 is summarized below:

	2006	2005
Actuarial present value of benefit obligations		
Vested benefits	\$ (2,089,168)	\$ (1,250,123)
Non-vested benefits	(2,416,025)	(3,482,937)
Accumulated benefit obligations	(4,505,193)	(4,733,060)
Additional benefits estimated for future compensation increase	(1,735,335)	(1,574,440)
Projected benefit obligations	(6,240,528)	(6,307,500)
Pension funds at fair value	2,597,955	2,638,239
Projected benefit obligation in excess of plan assets	(3,642,573)	(3,669,261)
Unrecognized net transition obligations	63,669	75,868
Unrecognized gains or losses	1,092,683	934,403
Deferred pension cost	507	(1,568)
Unrecognized net loss of pension cost	(45,250)	(867)
Unamortized gains or loss	-	(6,406)
Accrued pension liability	(21,207)	(14,727)
Prepaid pension cost	(95,893)	(30,218)
	<u>\$ (2,648,064)</u>	<u>\$ (2,712,776)</u>
Vested benefits	<u>\$ 2,368,307</u>	<u>\$ 1,306,299</u>

The assumptions used in the actuarial computations are summarized as follows:

	2006	2005
Discount rate	2.50%~3.25%	2.50%~3.25%
Rate of increase in future compensation levels	2.00%~4.25%	2.00%~4.25%
Expected rates of return on plan assets	2.50%~3.25%	2.50%~3.25%

27. CAPITAL STOCK

As of December 31, 2006, Taishin Financial Holding's authorized capital is \$100,000,000 thousand (10,000,000 thousand shares); registered capital is \$69,880,779 thousand, divided into 5,710,300 thousand common shares and 1,277,778 thousand preferred shares at NT\$10.00 dollars par value.

Details of outstanding capital stock as of December 31, 2006 are as follows:

Allowance for loan losses is as follows:

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

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

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

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

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

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

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

V. Financial Statements

Taishin Financial Holding's group capital adequacy ratio is 98.32% as of December 31, 2006.

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

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

28. CAPITAL SURPLUS

Taishin Financial Holding's capital surplus as of December 31, 2006 is \$35,548,178 thousand, which included additional paid-in capital of \$1,178,201 thousand from the unappropriated earnings of the financial institutions that swapped shares to form Taishin Financial Holding. Under Article 47-4 of the ROC Financial Holding Company Act, distribution of the portion from the original financial institutions' unappropriated earnings is not limited to the guidelines under Article 241-1 of the ROC Company Law. The additional paid-in capital in excess of par of preferred stock - D should not be capitalized in the period the preferred stock - D is outstanding.

29. DISTRIBUTION OF EARNINGS AND DIVIDEND POLICY

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

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

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

In their meeting on June 10, 2005, the shareholders approved the appropriation of the 2004 earnings proposed by the Board of Directors and resolved to distribute from the 2004 earnings cash dividends of NT\$1.30 dollars per share; stock dividends of \$6,456,395 thousand; preferred stock dividends of \$242,000 thousand;

bonuses to employees of \$59,412 thousand in cash and of \$237,650 thousand in stock (23,765 thousand shares); and remunerations to directors and supervisors of \$297,062 thousand.

The appropriation of the 2005 earnings has been approved in the meeting of stockholders as of June 9, 2006, the stockholders decided not to distribute any dividends.

The appropriation of the 2006 loss has not been approved by the Board of Directors as of February 16, 2007, the date of the accompanying independent auditors' report. Information of loss appropriation can be accessed online through the Market Observation Post System (MOPS) on the web site of the Taiwan Stock Exchange.

30. TREASURY STOCK

In Thousands of Shares

	Year Ended December 31, 2006			
	Beginning Balance	Increase	Decrease	Ending Balance
Stock held by subsidiaries	254,131	-	254,131	-
	Year Ended December 31, 2005			
	Beginning Balance	Increase	Decrease	Ending Balance
Stock held by subsidiaries	253,242	34,369	33,480	254,131

These treasury shares are held by Taishin Bank and Taiwan Securities by means of a share swap made under Article 31 of the ROC Financial Holding Company Act and related rules and subsequent stock dividends distributed. The average original cost of treasury stock is \$11.90 dollars per share as of December 31, 2005.

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

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

Taishin Bank reserved 202,335 shares of Taishin Financial Holding for the conversion of unsecured European Convertible Bonds (II) issued on April 28, 2004. The convertible bond was due in October 2005. As of the maturity date, no conversion rights were exercised.

In February 2006, Taishin Financial Holding and Taishin Bank canceled 254,131 thousand shares of Taishin Financial Holding converted from share swap and thus reduced capital in accordance with Article 31-2 of the Financial Holding Company Act. Capital reduction date was February 16, 2006.

V. Financial Statements

31. INTEREST INCOME, NET

	2006	2005
Interest income		
Loans	\$ 63,158,072	\$ 38,461,016
Call loans to banks	4,820,763	1,830,328
Bonds and securities purchased under resell agreements	394,452	228,094
Investment in marketable securities	8,894,170	2,743,710
Others	4,019,885	16,486,320
	81,287,342	59,749,468
Interest expense		
Deposits	(24,556,844)	(9,872,391)
Due to and call loans from banks and Central Bank	(7,155,965)	(2,808,830)
Bonds and securities sold under repurchase agreements	(1,044,546)	(1,033,429)
Financial liabilities at fair value through profit or loss	(312,865)	(77,815)
Bonds and securities	(3,092,911)	(2,031,467)
Others	(251,271)	(1,427,249)
	(36,414,402)	(17,251,181)
	\$ 44,872,940	\$ 42,498,287

32. FEE AND COMMISSION INCOME, NET

	2006	2005
Fee income	\$ 985,436	\$ 223,708
Fees from import and export	588,443	449,025
Interbank fees	766,280	871,419
Loan fees	3,724,836	3,518,189
Fees from certification, underwriting and brokerage	2,878,059	1,926,213
Fees from trust business	1,708,437	2,535,296
Agency fees	2,069,098	3,207,492
Fees from credit card and cash card	2,485,625	1,904,426
Others	15,206,214	14,635,768
Fee expense		
Interbank fees	(138,115)	(140,933)
Fees from the trust business	(119,885)	(60,280)
Brokerage fees	(280,308)	(264,732)
Underwriting fees	(271,660)	(2,860,589)
Fees from credit card and cash card	(1,097,592)	(1,356,727)
Others	(884,657)	(649,538)
	(2,792,217)	(5,332,799)
	\$ 12,413,997	\$ 9,302,969

33.PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2006 and 2005 are summarized as follows:

Classification Nature	2006		2005	
	Operating Cost	Operating Expense	Operating Cost	Operating Expense
Personnel expenses				
Salary	138,616	15,008,193	236,870	10,251,708
Labor/health insurance	-	816,018	-	647,166
Pension	-	1,209,492	-	1,362,798
Others	-	478,946	-	535,534
Depreciation	-	1,823,523	-	1,171,080
Amortization	-	1,117,896	-	1,998,549

34.INCOME TAX

The Basic Income Tax Act (BITA) took effect since January 1, 2006. The BITA defines basic income as the sum of the taxable income calculated in accordance with the Income Tax Act and income exempt from taxes under the Income Tax Act and other related laws. The basic tax is calculated as basic income multiplied by the tax rate prescribed by the Executive Yuan. Under the BITA, the tax payable of the current year is the higher of the basic income tax or the income tax payable calculated in accordance with the Income Tax Act. In determining its tax liabilities, Taishin Financial Holding and subsidiaries took into account the effect of BITA.

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

Taishin Financial Holding and subsidiaries' income tax benefits for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Current income tax payable	\$ 737,005	\$ 2,781,408
Deferred income tax benefit	(4,180,110)	(4,517,736)
Investment tax credit	(2,644)	(34,642)
Taxed separately	484,853	352,314
Income tax expense (benefit) - linked tax system	(350,837)	(540,644)
Additional 10% income tax on unappropriated earnings	1,995	358,795
Adjustment of prior years' tax estimates	(17,813)	(36,709)
Income tax expense transferred from withholding tax on bond interest income carried over from prior holders	2,136	4,867
Basic tax	87,231	-
Offshore income tax expense	367,498	-
Others	57,734	314,674
	<u>\$ (2,812,952)</u>	<u>\$ (1,317,673)</u>

V. Financial Statements

The details of deferred income tax assets as of December 31, 2006 and 2005 are as follows:

	2006	2005
Assets		
Allowance for bad debts in excess of tax limit	\$ 4,622,015	\$ 6,417,383
Provision for guarantee loss in excess of tax limit	118,635	84,898
Unrealized investment loss	361,099	304,389
Loss on securities trading default	48,034	40,656
Loss for decline in market value of credit receivable	51,500	66,568
Deferred benefit of assumed collaterals and residuals	29,648	29,225
Pension reserves	497,967	-
Loss carryforwards	23,658,529	19,587,228
Investment tax credit	38,917	-
Others	8,891	96,066
Less allowance	(1,227,365)	(1,290,376)
	28,207,870	25,336,037
Liabilities		
Unrealized gain on valuation of derivative instruments	(15,040)	-
Unrealized exchange gain	(47,378)	(41,953)
Goodwill amortization	(208,436)	-
Others	(977)	(4,160)
	(271,831)	(46,113)
Deferred income tax assets, net	\$ 27,936,039	\$ 25,289,924

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

	December 31, 2006					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	\$ 259,106	\$ 648,388	\$ 13,069	\$ 26,153	\$ 257,565	\$ 7,409
	December 31, 2005					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Balance of ICA	\$ 243,030	\$ 195,331	\$ 5,528	\$ 10,071	\$ 52,981	\$ 8,298
	December 31, 2006					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	NA	NA	1.02%	6.79%	2.26%	NA~32.14%
	December 31, 2005					
	Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Imputed tax credit rates	NA	NA	0.85%	3.96%	19.42%	NA~34.5%

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

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

Taishin Bank's 2003 income tax return has been examined and cleared by the tax authorities. The income tax returns of Taishin Real-Estate, Taishin Insurance Agency, PayEasy Digital, Taishin Insurance Brokers and Taishin Non-Life Insurance Agency through 2004 have been examined and cleared by the tax authorities.

Taishin Bank's 2003 income tax return has been examined and cleared by the tax authorities. The income tax returns of Taishin Real-Estate, Taishin Insurance Agency, PayEasy Digital, Taishin Insurance Brokers and Taishin Non-Life Insurance Agency through 2004 have been examined and cleared by the tax authorities.

The income tax returns of Taiwan Securities through 2000 have been examined and cleared by the tax authorities. In addition, Taiwan Securities' 2003 income tax return has also been examined and cleared by the tax authorities. The income tax returns of Taiwan Futures and Shin Ze through 2004 have been examined and cleared by the tax authorities.

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

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

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

The income tax returns of Taisin Venture Capital Investment through 2003 have been examined and cleared by the tax authorities.

The income tax returns of Chang Hwa Bank, Chang-Yin Insurance Agency and Chang-Yin Insurance Broker through 2003 have been examined and cleared by the tax authorities.

Information on unappropriated earnings (accumulated deficit) is as follows:

		December 31, 2006					
		Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Until 1997	\$	-	\$ -	\$ 26,098	\$ -	\$ -	\$ -
From 1998		(16,148,540)	(19,694,031)	1,277,216	385,215	11,377,055	122,419
		<u>\$(16,148,540)</u>	<u>\$(19,694,031)</u>	<u>\$ 1,303,314</u>	<u>\$ 385,215</u>	<u>\$ 11,37,055</u>	<u>\$ 122,419</u>
		December 31, 2005					
		Taishin Financial Holding	Taishin Bank	Taiwan Securities	Taishin Bills Finance	Chang Hwa Bank	Others
Until 1997	\$	-	\$ -	\$ 26,098	\$ -	\$ -	\$ -
From 1998		(2,688,496)	(3,762,908)	652,179	613,632	(36,182,905)	410,890
		<u>\$(2,688,496)</u>	<u>\$(3,762,908)</u>	<u>\$ 678,277</u>	<u>\$ 613,632</u>	<u>\$(36,182,905)</u>	<u>\$ 410,890</u>

V. Financial Statements

As stipulated in the Ministry of Finance Letter No. (91) Tai-Tsai-Tax 0910454466, the denominator to be used in the imputed tax credit ratio should include the unappropriated earnings generated from 1998 of the financial institutions that established Taishin Financial Holding through a share swap (these earnings are credited to the capital surplus of the financial holding company). As of December 31, 2006, the capital surplus of Taishin Financial Holding included \$1,085,666 thousand of these post-1998 earnings.

35. STOCK-BASED EMPLOYEE COMPENSATION PLAN

Taishin Financial Holding adopted the Stock-Based Employee Compensation Plan on August 2, 2005 and August 19, 2004 (Plan of 2005 and Plan of 2004, respectively) and recognized its compensation costs under the intrinsic value method. As of December 31, 2006 the compensation cost was \$0. Under the Plan of 2005 and Plan of 2004, Taishin Financial Holding has to grant 150,000 units and 77,549 units, respectively, of stock warrant to its qualified employees. Each unit represents the right to obtain 1,000 shares of Taishin Financial Holding's common stock, and the exercise price is equal to the stock closing price on the Taiwan Stock Exchange on the grant date.

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

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

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

In addition, Taishin Financial Holding issued 150,000 units of employee stock warrant in December 2006 (plan of 2006). Each unit represents the right to obtain 1,000 shares of Taishin Financial Holding's common stock. Taishin Financial Holding expects to issue 150,000,000 new shares at maximum to fulfill this plan and was approved by the MOF on January 17, 2008 (Ref. No. Jin-Gung-Zheng 0950162174).

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

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

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

	Years Ended December 31			
	2006		2005	
	Unit	Weighted Average Exercise Price (Dollars)	Unit	Weighted Average Exercise Price (Dollars)
<u>Plan of 2005</u>				
Outstanding units, beginning balance	147,780	\$ 23.55	-	\$ -
Units granted	-	-	150,000	23.55
Units forfeited	2,770	22.60	2,220	23.55
Outstanding units, ending balance	145,010		147,780	
Exercisable units, ending balance	-		-	
<u>Plan of 2004</u>				
Outstanding units, beginning balance				
Units forfeited	69,049	\$ 21.20	77,116	\$ 24.40
Outstanding units, ending balance	2,294	20.60	8,067	21.20
Exercisable units, ending balance	66,755		69,049	
	-		-	

Disclosures of the outstanding units of the stock warrants as of December 31, 2006 are as follows:

	Exercise Price (Dollars)	Outstanding Units	Expected Weighted Average Outstanding Period (Years)	Weighted Average Exercise Price (Dollars)	Exercisable Unit	Weighted Average Exercise Price (Dollars)
Plan of 2005	\$ 22.60	145,010	8.59 years	\$ 22.60	-	\$ -
Plan of 2004	20.60	66,755	2.63 years	20.60	-	-
		211,765				

V. Financial Statements

Had Taishin Financial Holding recognized the compensation cost of its stock-based employee compensation plan under the fair value method, the related method and assumptions, as of December 31, 2006 would have been as follows:

Valuation Model	Binomial	Plan of 2005	Plan of 2004
Assumptions	Dividend yield	14.48%	15%
	Expected price volatility	32.65%	39.39%
	Risk-free interest rate	1.94%	2.36%
	Expected outstanding periods	8.59 years	2.63 years
December 31			
		2006	2005
Net loss (in thousands)	Net loss recognized in financial statements	\$(16,148,540)	\$(2,913,562)
	Pro forma net loss	(16,407,608)	(3,094,949)
Basic EPS (in dollars)	Net loss recognized in financial statements	\$(3.15)	\$(0.68)
	Pro forma net loss	(3.20)	(0.72)

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

36. LOSS PER SHARE

Year Ended December 31, 2006					
	Income (Numerator)		Shares in Thousands (Denominator)	Loss Per Share (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net loss (of the parent company's stockholders)	\$(21,360,703)	\$(16,148,540)			
Less preferred stock dividends	(645,005)	(645,005)			
Basic earnings per share					
Net loss of common stockholders	\$(22,005,708)	(16,793,545)	5,325,693	\$(4.13)	\$(3.15)
Year Ended December 31, 2005					
	Income (Numerator)		Shares in Thousands (Denominator)	Loss Per Share (Dollars)	
	Pre-Tax	Post-Tax		Pre-Tax	Post-Tax
Consolidated net loss (of the parent company's stockholders)	\$(4,456,506)	\$(2,913,562)			
Less preferred stock dividends	(378,644)	(378,644)			
Basic earnings per share					
Net loss of common stockholders	\$(4,835,150)	\$(3,292,206)	4,830,644	\$(1.00)	\$(0.68)



37.RELATED-PARTY TRANSACTIONS

Names and relationships of related parties are as follows:

Name	Relationship
Dah An Leasing	Equity method investee
An Hsin Real-Estate	Same as above
Taishin Bank Employee's Welfare Institution	Its president is Taishin Bank's general manager
Jupiter Venture Capital Co., Ltd.	Its chairman is a member of the immediate family of Taishin Financial Holding's chairman
Mercury Venture Capital Co., Ltd.	Same as above
The Great Taipei Gas Corp.	Same as above
Wang Tien Woollen Textile Co., Ltd.	Same as above
Taishin Investment Trust	Same as above
Shin Kong Co., Ltd.	Same as above
Shin Kong Life Insurance Co., Ltd.	Same as above
Pioneer Chemical Corporation	Same as above
Shin Kong Synthetic Fibers Corp.	Same as above
Shin Kong Financial Holding Co., Ltd.	Same as above
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd.	Same as above
Shin Kong Investment Trust Co., Ltd.	Same as above
Shinshen Co., Ltd.	Same as above
Shinkong Engineering Corp.	Same as above
Centillion Venture Capital Corp.	Same as above
TSC Capital Limited	Related party in substance
Masterlink Securities Co., Ltd.	Same as above
Bank SinoPac (International Bank of Taipei)	Same as above
Tai Chen (BVI)	Same as above
Taiwan Managed Futures	Same as above
Taiwan Securities (Hong Kong) Co., Ltd. Nominee United	Same as above
Taiwan Securities Investment Advisory	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above
Taishin International Investment Development Co., Ltd.	Same as above
Taichern Management Co., Ltd.	Same as above
Taiwan Shin Kong Security Co., Ltd.	Same as above
Shin Kong Commercial Bank Co., Ltd.	Same as above
Ming Huang Investment Co., Ltd.	Same as above
TECO Electric & Machinery Co., Ltd.	Same as above
Nanko Industrial Co., Ltd.	Same as above
PayEasy Travel	Same as above
Saberasu Japan Investment II B.V.	Same as above
Fu Mei Co., Ltd.	Same as above
Shin Kong Mitsukoshi Department Store Co., Ltd.	Same as above
Shin Kong Computer Service Co., Ltd.	Same as above
Shin Kong Life Real Estate Service Co., Ltd.	Same as above
CyberSoft Digital Service Corp.	Same as above
Cheun Chang Development Ltd.	Same as above
PChome Online Co., Ltd.	Same as above
Cerberus I Asia Capital Management Co., Ltd.	Same as above
Cerberus III Asia Capital Management, Co., Ltd.	Same as above
Cerberus Asia Capital Management, Co., Ltd.	Same as above
Individual A	Same as above
Individual B	Same as above

V. Financial Statements

Material transactions with related parties are as follows:

Loans, Deposits and Guaranteed Loans

	Year Ended December 31, 2006			
	Ending Balance	Highest Amount	Interest and Service Charge Rate (Per Annum %)	Interest and Service Revenue (Expense)
Loans to related parties				
Ming Huang Investment Co., Ltd.	\$ 160,000	\$ 160,000	2.62~2.96	\$ 4,504
Taishin International Investment Development Co., Ltd.	201,000	324,000	1.88~2.12	4,854
Shin Kong Synthetic Fibers Corp.	300,000	1,276,923	2.1 8~3.64	6,080
Fu Mei Co., Ltd.	180,000	203,000	2.20~2.55	4,632
Masterlink Securities Co., Ltd.	350,000	500,000	1.50~1.82	3,575
Shinkong Engineering Corp.	110,000	110,000	2.40~2.40	130
Individual A	331,830	498,360	2.50~2.63	9,014
Others	613,562			31,411
	<u>\$ 2,246,392</u>			<u>\$ 64,200</u>
Guarantee for loans of related parties Shin Kong Synthetic Fibers Corp.	\$ 681,922	\$808,711	0.50~0.60	\$ 6,008
Others	90,000			97
	<u>\$ 771,922</u>			<u>\$ 6,105</u>
Deposits from related parties				
Shin Kong Life Insurance Co., Ltd.	\$ 1,515,764		0.00~2.50	\$(1,247)
Jupiter Venture Capital Co., Ltd.	431,132		0.15~1.68	(3,262)
Mercury Venture Capital Co., Ltd.	371,994		0.15~1.68	(4,439)
Shin Kong Mitsukoshi Department Store Co., Ltd.	312,341		0.00~0.15	(349)
Taishin Bank Employee's Welfare Institution	239,590		0.15~1.67	(3,293)
PChome Online Co., Ltd.	185,571		0.15~2.05	(957)
Dah An Leasing	168,305		0.15~0.15	(252)
Masterlink Securities Co., Ltd.	148,295		0.00~2.14	(2,064)
Shin Kong Synthetic Fibers Corp.	138,030		0.01~2.50	(2,353)
Taishin Investment Trust	127,473		0.15~2.12	(2,151)
Taiwan Securities Investment Advisory	110,466		0.15~1.60	(1,023)
Individual B	106,345		0.00~0.00	(1,407)
Others	1,949,795			(30,835)
	<u>\$ 5,805,101</u>			<u>\$(53,632)</u>

As of December 31, 2006, the balance of deposits from and lending to related parties of Chang Hwa Bank amounted to \$1,374,100 thousand and \$12,497,674 thousand, respectively, with the interest rates ranged from 0% to 13% and 0.55% to 7.63%, respectively.

Year Ended December 31, 2005				
	Ending Balance	Highest Amount	Interest and Service Charge Rate (Per Annum %)	Interest and Service Revenue (Expense)
Loans to related parties				
Shin Kong Synthetic Fibers Corp.	\$ 1,276,923	\$ 1,276,923	1.30~3.40	\$ 17,699
Wang Tien Woollen Textile Co., Ltd.	180,000	200,000	2.10~3.00	2,463
Fu Mei Co., Ltd.	203,000	426,000	1.98~2.40	4,504
Ming Huang Investment Co., Ltd.	160,000	160,000	2.54~2.67	4,100
Taishin Leasing & Financing Co., Ltd.	243,000	350,000	1.67~7.69	3,114
Taishin International Investment Development Co., Ltd.	139,000 495,660	323,000 495,660	1.67~1.88 2.45~2.59	2,305 5,253
Individual A	874,281			57,607
Others	<u>\$ 3,571,864</u>			<u>\$ 97,045</u>
Guarantee for loans of related parties Others	<u>\$ 21,590</u>			<u>\$ 5,810</u>
Deposits from related parties				
Shin Kong Life Insurance Co., Ltd.	\$ 1,596,131		0.00~1.95	\$(4,938)
Shin Kong Fire & Marine Insurance Co., Ltd.	422,611		0.00~1.80	(457)
Dah An Leasing	166,066		0.15~0.15	(249)
Jupiter Venture Capital Co., Ltd.	263,438		0.15~2.00	(1,867)
Mercury Venture Capital Co., Ltd.	352,119		0.15~2.00	(2,568)
Taishin Bank Employee's Welfare Institution	245,120		0.15~1.55	(2,770)
Taishin Investment Trust	130,177		0.15~1.89	(2,166)
Centillion Venture Capital Corp.	201,275		0.15~1.23	(515)
Shin Kong Synthetic Fibers Corp	229,630		0.00~1.80	(2,128)
Others	<u>1,407,840</u>			<u>(10,103)</u>
	<u>\$ 5,014,407</u>			<u>\$(27,761)</u>

As of December 31, 2005, the balance of deposits from and lending to related parties of Chang Hwa Bank amounted to \$2,501,141 thousand and \$38,300,864 thousand, respectively, with the interest rates ranged from 0.00% to 13.00% and 1.44 % to 10.00%, respectively.

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

V. Financial Statements

Trading Securities

Year Ended December 31, 2006						
Related Parties	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Shin Kong Life Insurance Co., Ltd.	\$ -	\$ -	\$ 998,677	1.41~1.67	\$ -	-
Shin Kong Financial Holding Co., Ltd	-	-	314,496	1.42~1.68	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,313,173</u>		<u>\$ -</u>	

Year Ended December 31, 2005						
Related Parties	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Shin Kong Life Insurance Co., Ltd.	\$ -	\$ -	\$ 1,796,860	1.15~1.45	\$ -	\$ -
Shin Kong Financial Holding Co., Ltd	-	-	349,220	1.15~1.45	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,146,080</u>		<u>\$ -</u>	

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

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

Taishin Bank

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Venture Capital	Wholly owned by the same parent company
Taiwan Securities	Same as above
Taishin Marketing	Same as above
Taishin Bills Finance	Same as above
Taishin AMC	Same as above
Chang Hwa Bank	Under control by the same parent company
Dah An Leasing	Equity-method investee
Taiwan Futures	Same as above
Taishin Insurance Agency	Same as above
Taishin Real-Estate	Same as above
Taishin Finance	Same as above
An Hsin Real-Estate Management Co., Ltd.	Same as above
PayEasy Digital	Same as above
Taishin Bank Employee's Welfare Institution	Its president is Taishin Bank's general Institution manager
Jupiter Venture Capital Co., Ltd.	Its director is a member of the immediate family of Taishin Bank's chairman

Name	Relationship
Mercury Venture Capital Co., Ltd.	Same as above
The Great Taipei Gas Corp.	Same as above
Wang Tien Woollen Textile Co., Ltd.	Same as above
Taishin Investment Trust	Same as above
Shin Kong Co., Ltd.	Same as above
Pioneer Chemical Corporation	Same as above
Shin Kong Life Insurance Co., Ltd.	Same as above
Shin Kong Synthetic Fibers	Same as above
Shin Kong Financial Holding Co., Ltd.	Same as above
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd.	Same as above
Shin Kong Investment Trust Co., Ltd.	Same as above
Shinshen Co., Ltd.	Same as above
Shinkong Engineering Corp.	Same as above
Centillion Venture Capital Co., Ltd.	Same as above
TSC Capital Limited	Related party in substance
Masterlink Securities Co., Ltd.	Same as above
Anew Holdings Ltd.	Same as above
Bank SinoPac (International Bank of Taipei)	Same as above
Taisin Non-Life Insurance Agency	Same as above
Tai Chen (BVI)	Same as above
Taiwan Managed Futures	Same as above
Taiwan Securities (Hong Kong) Co., Ltd. Nominee United	Same as above
Taiwan Securities (Hong Kong) Co., Ltd.	Same as above
Taiwan Securities Investment Advisory	Same as above
Taishin Insurance Broker	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above
Taishin International Investment Development Co., Ltd.	Same as above
Taichern Management Co., Ltd.	Same as above
Taiwan Shin Kong Security Co., Ltd.	Same as above
Shin Kong Commercial Bank Co., Ltd.	Same as above
Ming Huang Investment Co., Ltd.	Same as above
TECO Electric & Machinery Co., Ltd.	Same as above
Nanko Industrial Co., Ltd.	Same as above
Pay Easy Travel	Same as above
Saberasu Japan Investment II B.V. Fu Mei Co., Ltd.	Same as above
Shin Kong Mitsukoshi Department Store Co., Ltd.	Same as above
Shin Kong Computer Service Co., Ltd.	Same as above
Shin Kong Life Real Estate Service Co., Ltd.	Same as above
Shin Ze	Same as above
CyberSoft Digital Service Corp.	Same as above
Cheun Chang Development Ltd.	Same as above
Chang-Yin Life Insurance Agency	Same as above
Chang-Yin Insurance Broker	Same as above
PChome Online Co., Ltd.	Same as above
Cerberus I Asia Capital Management Co., Ltd.	Same as above
Cerberus III Asia Capital Management Co., Ltd.	Same as above
Cerberus Asia Capital Management Co., Ltd.	Same as above
Individual A	Same as above
Individual B.	Same as above

V. Financial Statements

Material transactions with related parties are as follows:

Loans, Deposits and Guaranteed Loans

	December 31, 2006			
	Ending Balance	Highest Amount	Interest and Service Charge Rate (Per Annum %)	Interest and Service Revenue (Expense)
Loans to related parties				
Masterlink Securities Co., Ltd.	\$ 350,000	\$ 500,000	1.50~1.82	\$ 3,575
Shin Kong Synthetic Fibers Corp.	300,000	1,276,923	2.18~3.64	6,080
Taishin International Investment Development Co., Ltd.	201,000	324,000	1.88~2.12	4,854
Fu Mei Co., Ltd.	180,000	203,000	2.20~2.55	4,632
Ming Huang Investment Co., Ltd.	160,000	160,000	2.62~2.96	4,504
Shinkong Engineering Corp.	110,000	110,000	2.40~2.40	130
Individual A	331,830	498,360	2.50~2.63	9,014
Others	653,562			31,796
	<u>\$ 2,286,392</u>			<u>\$ 64,585</u>
Guarantee for loans of related parties				
Shin Kong Synthetic Fibers Corp.	\$ 681,922	\$ 808,711	0.50~0.60	\$ 6,008
Others	90,000			97
	<u>\$ 771,922</u>			<u>\$ 6,105</u>
Deposits from related parties				
Taishin Financial Holding	\$ 11,859,419		0.00~5.00	\$(193,648)
Shinkong Life Insurance Co., Ltd.	1,515,764		0.00~2.50	(1,247)
Taiwan Securities	755,947		0.00~2.50	(7,083)
Taishin Insurance Agency	736,264		0.00~1.60	(2,367)
Jupiter Venture Capital Co., Ltd.	431,132		0.15~1.68	(3,262)
PayEasy Digital	391,108		0.00~1.71	(2,126)
Mercury Venture Capital Co., Ltd.	371,994		0.15~1.68	(4,439)
Taiwan Futures	346,430		0.60~2.50	(7,625)
Taiwan Securities (HK)	313,566		0.01~4.75	(1,031)
Shin Kong Mitsukoshi Department Store Co., Ltd.	312,341		0.00~0.15	(349)
Taishin Bank Employee's Welfare Institution	239,590		0.15~1.67	(3,293)
PChome Online Co., Ltd.	185,571		0.15~2.05	(957)
Dah An Leasing	168,305		0.15~0.15	(252)
Taishin Real-Estate	115,394		0.00~2.14	(1,514)
Masterlink Securities Co., Ltd.	148,295		0.00~2.14	(2,064)
Shin Kong Synthetic Fibers Corp.	138,030		0.01~2.50	(2,353)
Taishin Investment Trust	127,473		0.15~2.12	(2,151)
Taiwan Securities Investment Advisory	110,466		0.15~1.60	(1,021)
Shin Ze	101,702		0.00~2.50	(1,407)
Individual B	106,345		0.00~0.00	(262)
Others	2,137,452			(42,816)
	<u>\$ 20,612,588</u>			<u>\$(281,267)</u>

Year Ended December 31, 2005				
	Ending Balance	Highest Amount	Interest and Service Charge Rate (Per Annum %)	Interest and Service Revenue (Expense)
Loans to related parties				
Shin Kong Synthetic Fibers Corp.	\$ 1,276,923	\$ 1,276,923	1.30~3.40	\$ 17,699
TECO Electric & Machinery Co., Ltd.	515,625	200,000	2.70~3.00	15,120
Taishin Leasing & Financing Co., Ltd.	243,000	426,000	1.67~7.69	3,114
Fu Mei Co., Ltd.	203,000	160,000	1.98~2.40	4,504
Wang Tien Woollen Textile Co., Ltd.	180,000	350,000	2.10~3.00	2,463
Ming Huang Investment Co., Ltd.	160,000	323,000	2.54~2.67	4,100
Taishin International Investment Development Co., Ltd.	139,000	495,660	1.67~1.88	2,305
Individual A	495,660		2.45~2.59	5,253
Others	394,768			50,189
	<u>\$ 3,607,976</u>			<u>\$ 104,747</u>
Guarantee for loans of related parties Others	\$ 21,590			\$ 6,679
Deposits from related parties				
Shin Kong Fire & Marine Insurance Co., Ltd.	\$ 422,611		0.00~1.80	\$ (457)
Shin Kong Life Insurance Co., Ltd.	1,596,131		0.00~1.95	(4,938)
Shin Kong Mitsukoshi Department Store Co., Ltd.	373,016		0.00~0.15	(375)
Taiwan Futures	1,093,771		0.00~1.95	(9,898)
Taishin Bills Finance	1,202,938		0.00~1.90	(75,087)
Mercury Venture Capital Co., Ltd.	352,119		0.15~2.00	(2,568)
Taiwan Securities	961,797		0.00~2.00	(2,508)
Taishin Financial Holding	3,005,135		0.00~4.30	(201,348)
Taihin Real-Estate	479,574		0.00~0.15	(86)
Taishin Insurance Agency	703,948		0.00~1.20	(1,026)
Jupiter Venture Capital Co., Ltd.	263,438		0.15~2.00	(1,867)
Taishin AMC	261,487		0.00~0.15	(26)
Taishin Bank Employee's Welfare Institution	245,120		0.15~1.55	(2,770)
Shin Kong Synthetic Fibers Corp.	229,630		0.01~1.80	(2,128)
Centillion Venture Capital Co., Ltd.	201,275		0.15~1.80	(515)
PChome Online Co., Ltd.	175,011		0.15~1.70	(827)
Dah An Leasing	166,066		0.15~0.15	(249)
PayEasy Digital	145,985		0.00~1.43	(590)
Taishin Investment Trust	130,177		0.15~1.89	(2,166)
Taishin Insurance Broker	100,948		0.00~0.15	(134)
Others	1,121,531			(9,066)
	<u>\$ 13,231,708</u>			<u>\$ (318,629)</u>

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

V. Financial Statements

Call Loans to Banks and Call Loans from Banks

December 31, 2006

Related Party	Item	Balance	Highest Amount	Rate % Interest	Interest Revenue (Expense)
Taishin Bills Finance	Call loans to banks	\$ -	\$ 1,500,000	1.46~1.59	\$ 2,645
Taishin Bills Finance	Call loans from banks	-	50,000	1.47~1.47	(2)

December 31, 2005

Related Party	Item	Balance	Highest Amount	Rate % Interest	Interest Revenue (Expense)
Taishin Bills Finance	Call loans to banks	\$ 1,500,000	\$ 1,900,000	1.20~1.52	\$ 263
Taishin Bills Finance	Call loans from banks	-	300,000	1.13~1.32	(37)

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

Trading Securities

December 31, 2006

Related Party	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bills Finance	\$ 32,248,597	\$ 11,715,728	\$ -	(1.00)~1.51	\$ -	(3.00)~1.61
Shin Kong Life Insurance Co., Ltd.	-	-	998,677	1.41~1.67	-	-
Shin Kong Financial Holding Co., Ltd.	-	-	314,496	1.42~1.68	-	-
Taishin Financial Holding	-	-	1,889,794	1.38~1.62	-	-
Taiwan Securities	40,279,536	30,980,663	-	(2.80)~1.63	-	(4.00)~1.60
	<u>\$ 72,528,133</u>	<u>\$ 42,696,391</u>	<u>\$ 3,202,967</u>		<u>\$ -</u>	

Note: The ranges of interest rates of securities purchased under specific agreements include transactions of securities borrowing/lending.

December 31, 2005

Related Party	Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
			Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taiwan Securities	\$ 17,715,481	\$ 21,993,186	-	0.40~1.20	\$ -	-
Taishin Bills Finance	19,010,360	11,944,053	-	0.70~1.19	1,950,250	21~1.50
Shin Kong Life Insurance Co., Ltd.	-	-	1,796,860	1.15~1.45	-	-
Taishin Financial Holding	-	-	882,138	0.95~1.39	-	-
Shin Kong Financial Holding Co., Ltd.	-	-	349,22	1.15~1.45	-	-
	<u>\$ 36,725,841</u>	<u>\$ 33,937,239</u>	<u>\$ 3,028,218</u>		<u>\$ 1,950,250</u>	

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

Transferring Ownerships of Loans to Taishin AMC

The loans sold to Taishin AMC by Taishin Bank are as follows:

Related Party	Year	Original Amount	Transfer Price	Receivable Ending Balance	
				December 31	
				2006	2005
Taishin AMC	2005	\$ 2,951,353	\$ 986,000	\$ -	\$ 591,600
Taishin AMC	2006	14,984,736	704,697	-	-

Taishin Bank sold loans to Taishin AMC through public bidding in June 2005. The selling price was divided into seven installments from the date of contract until October 31, 2006. Comparing to the present value of future cash flows, Taishin Bank recognized income from selling bad loans of \$341,671 thousand, and unrealized interest income of \$10,591 thousand.

In July 2006, Taishin Bank sold non-performing loans with book value of \$9,494,152 thousand that resulted from cash card, credit card and small consumer loans to Taishin AMC through public bidding. According to the contract, June 30, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$546,697 thousand will be paid off in two installments by September 15, 2006. In September 2006, Taishin Bank sold non-performing loans with book value of \$5,490,584 thousand that resulted from cash card, credit card to Taishin AMC again through public bidding. According to the contract, August 31, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$158,000 thousand will be paid off in two installments by October 31, 2006. According to the Financial Institutions Merger Act, Taishin Bank deferred recognition of the loss on the sales of nonperforming loans and amortized within five years. However, Taishin Bank decided to recognize the loss at one time in compliance with GAAP in the fourth quarter of 2006. The total loss resulting from sale of non-performing loans in 2006 amounted to \$10,686,767 thousand.

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

Bank Notes

Related Party	Item	December 31			
		2006		2005	
		Amount	Percentage of Account Balance	Amount	Percentage of Account Balance
Taishin Bills Finance	Bank notes 91-1	\$ -	-	\$ 100,000	-
Taishin Bills Finance	Bank notes 91-1H	-	-	50,000	-

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

V. Financial Statements

Property and Equipment

The office building of Taishin Financial Holding was built by Taiwan Securities Co., Ltd., Taishin Bills Finance Co., Ltd. and Taishin Bank, and the construction was completed in 2005. The amounts due to Taiwan Securities Co., Ltd. and Taishin Bills Finance Co., Ltd. are recorded as other payables amounting to \$11,174 thousand and \$180,080 thousand as of December 31, 2005, respectively.

Other Material Transactions

Related Party	Item	December 31			
		2006		2005	
		Amount	Percentage of Account Balance	Amount	Percentage of Account Balance
Taishin Insurance Agency	Fee income	\$ 500,947	7	\$ 770,577	8
Cybersoft Digital Service Corp.	Operating expense	481,293	3	532,351	3

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

Chang Hwa Bank

Names and relationships of related parties are as follows:

Name	Relationship
Directors, supervisors, managers and the relatives	Chang Hwa Bank's directors, supervisors, managers and the relatives
The chairman of the corporation's directors and supervisors or the corporation of the representative assuming the position of directors and supervisors	Chang Hwa Bank's the chairman of the corporation's directors and supervisors or the corporation of the representative assuming the position of directors and supervisors
Chang-Yin Life Insurance Agency	Equity-method investee
Chang-Yin Insurance Broker	Same as above
Yunsan Enterprises Co., Ltd.	Its president is Chang Hwa Bank's president
Robina Finance and Leasing Corp.	Same as above
Wenhwa International Florist Co., Ltd.	Same as above
Charity Foundation of Chang Kong-Yu in Taichung City	The supervisor of the Chang Hwa Bank
Taishin Financial Holding	The Chang Hwa Bank's director
Shin Kong Synthetic Fibers Corp.	Its related party is Chang Hwa Bank's director
Shin Kong Life Insurance Co., Ltd.	Same as above
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Fire & Marine Insurance Co., Ltd.	Same as above
Taishin International Investment Development Co., Ltd.	Same as above
Bank SinoPac (International Bank of Taipei)	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above
Cheun Chang Development Ltd.	Same as above

Name	Relationship
Shin Kong Commercial Bank Co., Ltd	Same as above
Taishin Bills Finance	Same as above
Taiwan Securities	Same as above
Shin Kong Co., Ltd.	Its directors is Chang Hwa Bank's president
The Great Taipei Gas Corp.	Same as above
Taishin Real-Estate	Same as above
Taishin Insurance Agency	Same as above
Wang Tien Woollen Textile Co., Ltd.	Same as above
First Commercial Bank Co., Ltd.	The supervisor of the Chang Hwa Bank
Taiwan Business Bank	The supervisor of the Chang Hwa Bank
Others	Related party in substance

Material transactions with related parties are as follows:

Deposits

Item	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
The balance on December 31, 2006 (each related party is not over 10% of total loans)	\$ 1,404,424	0.14	0~13
The balance on December 31, 2005 (each related party is not over 10% of total loans)	2,577,844	0.26	0~13

Chang Hwa Bank provides interest rate at 13% per annum to the above affiliates such as the board of directors, supervisors, and managers for their savings with a balance below \$480 thousand. For any excess amount, the interest is calculated at the rate for regular savings deposits. The rest is the same as regular depositors.

Loans

Item	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
The balance on December 31, 2006 (each related party is not over 10% of total loans)	\$ 12,497,674	1.48	0.55~7.63
The balance on December 31, 2005 (each related party is not over 10% of total loans)	38,300,864	4.64	1.44~10.00

Chang Hwa Bank provides mortgage loans and consumer loans at interest rates of 2.3% with the balance of \$8,000 thousand and the amount below \$800 thousand, respectively, for the years ended December 31, 2006 and 2005 to the above natural persons such as the board of directors, supervisors, and managers. The rest is the same as regular loan borrowers.

V. Financial Statements

Due from Related Parties and Due to Related Parties

The details of Taishin Financial Holding and subsidiaries' due to related parties are as follows:

Year	Related Party	Branch	Highest Amount (In Thousands)	Ending Amount	Loans Limited	Rate (%)	Interest Income (In Thousands)
2006	Taishin Bank	L.A. office	US\$ 3,000	\$-	Designed by counter parties	4.57	US\$ 8,000
2005	First Commercial Bank Co., Ltd.	Head office	NT\$ 2,000,000	-	According to counterparts	1.19~1.45	NT\$ 4,852
		OBU	US\$ 37,000	-	According to counterparts	0.035~5.45	US\$ 277
		Singapore branch	US\$ 10,000	US\$ 10,000	According to counterparts	1.85~4.465	US\$ 58
		New York branch	US\$ 70,000	US\$ 70,000	According to counterparts	2.51~3.75	US\$ 605
		Los Angeles branch	US\$ 30,000	US\$ 30,000	According to counterparts	2.53~2.635	US\$ 444
		London branch	US\$ 15,000	-	According to counterparts	3.65~4.01	US\$ 5
			EUR€ 3,000	EUR€ 3,000	According to counterparts	2.26	EUR€ 23
	Taiwan Business Bank Co., Ltd.	Head office	NT\$ 3,000,000	-	According to counterparts	1.21~1.45	NT\$ 8,941
		OBU	US\$ 126,375	US\$ 35,000	According to counterparts	1.90~5.60	US\$ 1,324
		Singapore branch	US\$ 853	-	According to counterparts	0.045~0.05	-
		New York branch	US\$ 40,000	-	According to counterparts	2.61~3.785	US\$ 272
		Los Angeles branch	US\$ 25,000	US\$ 25,000	According to counterparts	2.74~4.09	US\$ 363
		London branch	US\$ 28,000	US\$ 7,700	According to counterparts	3.17~3.247	US\$ 391
			EUR€ 800	-	According to counterparts	2.05	EUR€ 1
	Taishin Bank	Head office	NT\$ 1,000,000	-	According to counterparts	1.39	NT\$ 152
		OBU	US\$ 15,000	-	According to counterparts	3.76	US\$ 2
		Los Angeles branch	US\$ 14,000	-	According to counterparts	2.17~3.67	US\$ 70
		London branch	US\$ 16,000	-	According to counterparts	3.505	US\$ 2

The details of Taishin Financial Holding and subsidiaries' due from related parties for the year ended December 31, 2005 are as follows:

Name of Related Parties	Department	Highest Balance For the year (In Thousands)		Ending Balance	Maximum Limit (In Thousands)	Interest Rate %	Interest Income (In Thousands)
First Commercial Bank Co., Ltd.	Head office	NT\$ 5,000,000		-	None	1.21~3.29	NT\$ 5,467
	OBU	US\$ 86,876	US\$ 71,696		US\$80,000 over night and 180 days	0.04~4.89	US\$ 1,974
	Singapore branch	US\$ 20,000	US\$ 20,000		US\$40,000 over night and 180 days for US\$20,000	2.36~4.34	US\$ 220
	New York branch	US\$ 35,000	US\$ 35,000		US\$40,000 over night and 180 days for US\$50,000	2.27~3.53	US\$ 208
	Los Angeles branch	US\$ 20,000	US\$ 20,000		US\$40,000 over night and 180 days for US\$20,000	2.36	US\$ 149
	London branch	US\$ 10,000		-	US\$40,000 over night and 180 days for US\$20,000	2.24	US\$ 11
Taiwan Business Bank Co., Ltd.	Head office	NT\$ 4,000,000		NT\$2,000,000	None	1.15~1.49	NT\$ 10,311
	OBU	US\$ 119,832	US\$ 35,000		US\$80,000 over night and 180 days for US\$40,000	0.03~7.25	US\$ 1,849
	Singapore branch	US\$ 15,000		-	US\$40,000 over night and 180 days for US\$20,000	2.33~4.135	US\$ 395
	New York branch	US\$ 20,000	US\$ 9,000		US\$40,000 over night and 180 days	2.55~4.00	US\$ 335
	Los Angeles branch	US\$ 34,000	US\$ 34,000		US\$40,000 over night and 180 days for US\$20,000	4.24	US\$ 164
	London branch	US\$ 500		-	US\$40,000 over night and 180 days for US\$20,000	3.15	-
		EUR€ 2,200		-	US\$40,000 Over night and 180 days for US\$20,000	2.17	EUR€ 1
Taishin Bills Finance	Head office	NT\$ 1,500,000		-	NT\$1,500,000	1.39~1.45	NT\$ 1,999
Taishin Bank	Head office	NT\$ 2,000,000		-	NT\$2,000,000	1.39~1.44	NT\$ 1,186
	OBU	US\$ 20,000		-	US\$20,000 over night and 180 days	3.82~4.16	US\$ 11
	Singapore branch	US\$ 5,000		-	US\$10,000 over night and 180 days	3.69	US\$ 18

The above transactions are approved by Chang Hwa Bank's chief executive officer. Terms are the same as those of non-related parties.

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Others

Chang Hwa Bank provided Chang-Yin Insurance Agent and Chang-Yin Insurance Broker with personnel resources and distribution channels, recognizing service charges for \$130,431 thousand and \$34,885 thousand in 2006, \$158,355 thousand and \$30,342 thousand in 2005. Chang Hwa Bank also undertook Repurchase Agreement on Bond with Chang-Yin Insurance Agent and Chang-Yin Insurance Broker, recognizing interest expense for \$1,136 thousand and \$872 thousand, respectively.

Taiwan Securities

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Bills Finance	Same as above
Taiwan Futures	94% owned by Taiwan Securities
Taiwan Securities Investment Advisory	92% owned by Taiwan Securities
Shin Ze	51% owned by Taiwan Securities
Taiwan Securities Investment Trust	45% owned by Taiwan Securities
Taiwan Securities (Hong Kong)	100% indirect owned by Taiwan Securities
Shin Kong Life Insurance Co., Ltd.	Related party in substance
Shin Kong Spinning Co., Ltd.	Same as above
Shin Kong Synthetic Fibers Corp.	Same as above
Shin Kong Life Real Estate Service Company	Same as above
Taiwan Shin Kong Security Co., Ltd.	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above
Taishin International Investment Development Co., Ltd.	Same as above
Taishin Insurance Agency	Same as above
The Great Taipei Gas Corp.	Same as above
Shin Kong Computer Service Co., Ltd.	Same as above
Bank SinoPac (International Bank of Taipei)	Same as above
Chang Hwa Bank	Same as above

Important Transactions with Related Parties

Item	Related Party	Years Ended December 31			
		2006		2005	
		Amount	Percentage of Item(%)	Amount	Percentage of Item(%)
Other revenue					
Future supplementary revenue	Taiwan Futures	\$ 162,390	100	\$ 172,233	100

Liability Contracts with Related Parties

		December 31			
		2006		2005	
Item	Related Party	Amount	Percentage of Item(%)	Amount	Percentage of Item(%)
Bank deposits	Taishin Bank	\$ 213,427	44	\$ 332,230	58
Bonds and securities purchased under resell agreements	Taishin International Investment Development Co., Ltd.	57,244	1	237,586	4
	Taishin Leasing & Financing Co., Ltd.	-	-	114,980	2
Other assets					
Operating deposits	Taishin Bank	390,000	37	290,000	19
	Bank SinoPac (International Bank of Taipei)	120,000	11	-	-
Other clearing specific account	Taiwan Securities(Hong Kong) Co., Ltd.	736,965	100	39,870	100
Cash and cash equivalent					
Prepaid underwriting stock value	Taishin Bank	118,505	93	-	-

Loans due to Related Parties

		December 31, 2006			
Related Party		Highest Amount	Ending Balance	Interest Rate (%)	Interest Expense
Taishin Bank		\$ 250,000	\$ 40,000	1.83	\$ 379
		December 31, 2005			
Related Party		Highest Amount	Ending Balance	Interest Rate (%)	Interest Expense
Taishin Bank		\$ 500,000	\$ -	-	\$ 444

Property Transactions

Taiwan Securities purchased one set of office equipment from Taishin Bank for \$24,650 thousand in 2006.

Taiwan Securities' building was constructed on RenAi Road in Taipei in 2005. Taiwan Securities exchanged land at fair value of \$317,135 thousand with the building and received a cash payment of \$11,174 thousand from Taishin Bank. There is no profit or loss in this transaction.

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Taishin Bills Finance

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taiwan Securities	Same as above
Shin Kong Commercial Bank Co., Ltd.	Related party in substance
Chang Hwa Bank	Equity-method investee

Material transactions with related parties are as follows:

Loans

Loans between Taishin Bills Finance and Taishin Bank for the years ended December 31, 2006 and 2005 are as follows:

	2006			
	Ending Balance	Highest Amount	Interest Rate (%)	Interest
Call loans to banks	\$ -	\$ 50,000	1.470	\$ 2
Call loans from banks	-	1,500,000	1.455~1.59	(2,645)
Short-term borrowing	-	1,200,000	1.67~1.75	(340)

	2005			
	Ending Balance	Highest Amount	Interest Rate (%)	Interest
Call loans to banks	\$ -	\$ 300,000	1.130~1.315	\$ 37
Call loans from banks	1,500,000	1,900,000	1.200~1.520	(263)
Short-term borrowing	-	1,800,000	1.300~1.480	(779)

Taishin Bills Finance pledged its time deposits of \$700,000 thousand and \$1,900,000 thousand in Taishin Bank as collaterals of financing.

Loans between Taishin Bills Finance and Shin Kong Commercial Bank for the year ended December 31, 2006 are as follows:

	Ending Balance	Highest Amount	Interest Rate (%)	Interest
Call loans to banks	\$ -	\$ 250,000	1.588~1.62	\$ 32
Call loans from banks	400,000	400,000	1.21~1.70	(3,052)

Deposits

Taishin Bills Finance deposits to related parties for the years ended December 31, 2006 and 2005 are as follows:

		December 31			
		2006		2005	
	Related Party	Amount	Rate (%)	Amount	Rate (%)
Time deposits (including mortgage)	Taishin Bank	\$ -	-	\$ 1,200,000	0.85~1.90
	Shin Kong Commercial Bank Co., Ltd	500,000	1.60~1.75	259,000	1.60~1.75

Interest revenues from Taishin Bank and Shin Kong Commercial Bank for the years ended December 31, 2006 and 2005 are \$19,208 thousand and \$77,279 thousand, respectively.

Trading Securities and Bonds

		December 31, 2006					
		Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
Related Party				Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank		\$ 11,715,728	\$ 32,248,597	\$ -	-3~1.605	\$ -	-1~1.59
Taiwan Securities		22,867,417	24,549,986	-	-	-	-
		<u>\$ 34,583,145</u>	<u>\$ 56,798,583</u>	<u>\$ -</u>		<u>\$ -</u>	

		December 31, 2005					
		Purchase Price (Accumulated Amount)	Sales Price (Accumulated Amount)	Repurchase Price		Resell Price	
Related Party				Ending Balance	Interest Rate (Per Annum %)	Ending Balance	Interest Rate (Per Annum %)
Taishin Bank		\$ 11,944,053	\$ 19,010,360	\$ 1,950,250	1.21~1.50	\$ -	-
Taiwan Securities		21,223,612	21,526,049	-	-	-	-
		<u>\$ 33,167,665</u>	<u>\$ 40,536,409</u>	<u>\$ 1,950,250</u>		<u>\$ -</u>	

Financial Assets at Fair Value through Profit or Loss

			December 31			
Account	Related Party	Item	2006		Resell Price	
			Amount	Cost	Amount	Cost
Financial Assets at Fair Value through Profit or Los	Shin Kong Commercial Bank Co., Ltd.	Negotiable certificate deposits	\$ 503,800	\$ 503,805	\$ 1,400,000	\$1,400,000
Available-for-sale financial assets	Taishin Bank	Bank notes 91-1	-	-	100,000	105,696
	Taishin Bank	Bank notes 91-1H	-	-	50,000	52,150
	Chang Hwa Bank	Bank notes 91 1C03	-	-	200,000	203,030

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

Property and Equipment

Taishin Bills Finance's building on RenAi Road in Taipei established in 2005 is owned by Taishin Bills Finance and Taishin Bank. Taishin Bills Finance exchanged its land worth \$235,378 thousand with building worth \$117,298 thousand owned by Taishin Bank. The remaining \$118,080 thousand is accounted as receivables in 2005, and is paid in total amount in 2006. This transaction did not result in any profit or loss.

Taishin AMC

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Real-Estate	Equity-method investee
Cheun Chang Development Ltd.	Related party in substance
Cybersoft Digital Service Corp.	Same as above
Taishin Leasing & Financing Co., Ltd.	Same as above

Material transactions with related parties are as follows:

Liability Contracts with Related Parties

Item	Related Party	December 31			
		2006		2005	
		Amount	Percentage of Item(%)	Amount	Percentage of Item(%)
Loans payable within	Taishin Bank	\$ -	-	\$ 587,018	100

Transferring Ownership of Loans from Taishin Bank

In June 2005, Taishin AMC bought Taishin Bank's loans, referring to 12 clients and with a book value of \$2,951,353 thousand, for \$986,000 thousand. The purchase price, \$986,000 thousand, of Taishin Bank's loans referring to 12 clients was payable in seven installments from the contract date to October 31, 2006. The difference of \$10,591 thousand between the purchase price and the present value (cost of purchased loans) of \$975,409 thousand, which was calculated at its imputed interest rate, was charged to unrealized interest expense and was amortized by the interest method.

In July 2006, Taishin AMC bought non-performing loans that resulted from cash card, credit card and small consumer loans from Taishin Bank for \$546,697 thousand with book value of \$9,494,152 thousand. According to the contract, June 30, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$546,697 thousand will be paid off in two installments by September 15, 2006. In September 2006, Taishin AMC bought non-performing loans that resulted from cash card, credit card and small consumer loans from Taishin Bank for \$158,000 thousand with book value of \$5,490,584 thousand.

According to the contract, August 31, 2006 was determined as the basic measurement date of this transaction, and the receivables of \$158,000 thousand will be paid off in two installments by October 31, 2006. Also defined in the contract, 5 years from measurement date, Taishin AMC authorized Taishin Bank the rights to collect payments from debtors and will pay the 30% of loans collected as service fee and 40% of amounts paid as commission.

a. Transferring ownerships of loans

December 31, 2006				
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$ 4,972,424	\$ 14,984,736	\$ (1,038,271)	\$ 18,918,889

December 31, 2005				
	Beginning Balance	Purchased	Collected	Ending Balance
Transferring ownerships of loans	\$ 4,383,481	\$ 2,951,353	\$ (2,362,410)	\$ 4,972,424

b. Credit Receivable, net

December 31, 2006					
	Beginning Balance	Purchased Costs	Costs Received	Bad Debt Loss	Ending Balance
Credit receivable	\$ 530,149	\$ 704,697	\$ (461,029)	\$ -	\$ 773,817
Allowance for bad debt	(266,271)	-	-	60,271	(206,000)
Credit receivable, net	\$ 263,878	\$ 704,697	\$ (461,029)	\$ 60,271	\$ 567,817

December 31, 2005					
	Beginning Balance	Purchased Costs	Costs Received	Bad Debt Loss	Ending Balance
Credit receivable	\$ 817,546	\$ 975,409	\$ (1,262,806)	\$ -	\$ 530,149
Allowance for bad debt	(266,271)	-	-	-	(266,271)
Credit receivable, net	\$ 551,275	\$ 975,409	\$ (1,262,806)	\$ -	\$ 263,878

c. Payables for Purchasing Loans

December 31, 2006					
	Beginning Balance	Loans sold	Amount Paid	Overdue Within a Year	Ending Balance
Payable for purchasing loans	\$ 591,600	\$ 704,697	\$ (1,296,297)	\$ -	\$ -
(Unrealized) realized interest expense	(4,582)	-	4,582	-	-
Payable for purchasing loans, net	\$ 587,018	\$ 704,697	\$ (1,291,715)	\$ -	\$ -

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	December 31, 2005				
	Beginning Balance	Loans sold	Amount Paid	Overdue Within a Year	Ending Balance
Payable for purchasing loans (Unrealized) realized interest expense	\$ -	\$ 986,000	\$ (394,400)	\$ (591,600)	\$ -
	-	(10,591)	6,009	4,582	-
Payable for purchasing loans, net	\$ -	\$ 975,409	\$ (388,391)	\$ (587,018)	\$ -

Taishin Marketing

Names and relationships of related parties are as follows:

Name	Relationship
Taishin Financial Holding	Parent company
Taishin Bank	Wholly owned by the same parent company
Taishin Insurance Agency	Subsidiaries of Taishin Bank
Taishin Insurance Broker	Subsidiaries of Taishin Insurance Agency
Taishin Non-Life Insurance Agency	Same as above

Material Transactions with Related Parties

Account	Related Party	December 31			
		2006		2005	
		Amount	Rate (%)	Amount	Rate (%)
Consultant service revenue	Taishin Bank	\$ 61,820	100	\$ 206,550	100

Taisin Venture Capital

Names and relationships of related parties are as follows:

Name	Relationship
Taichern Financial Management Co., Ltd.	Its president is Taisin Venture's president (Liquidated at July 15, 2006)
Taishin Bank	Wholly owned by the same parent company
Shin Kong Securities Investment Trust Co., Ltd.	Related party in substance
Taishin Leasing & Financial Co., Ltd.	Same as above
Taishin AMC	Same as above

Material Transactions with Related Parties

As of December 31, 2006 and 2005, Taisin Venture Capital holds 2,858,219.60 units and 9,849,343.64 units of beneficiary certificates issued by Shin Kong Securities, with amounts of \$44,458 thousand and \$146,896 thousand, respectively.

38. PLEDGED ASSETS

Pledged Assets	Description	December 31	
		2006	2005
Refundable deposits	Cash and certificates of time deposits	\$ 19,975,585	\$ 9,306,169
Operating deposits	Cash	724,221	1,247,000
Settlement funds	Cash	443,601	446,985
Financial assets at fair value through profit or loss	Stocks, certificates of time deposits, bonds and equity securities	1,190,118	12,496,000
Available-for-sale financial assets	Bonds	2,061,896	2,602,790
Held-to-maturity financial assets	Certificates of time deposits and bonds	13,305,016	18,975,392
Property and equipment, net	Land and buildings	2,305,550	1,309,213
Rental assets	Land and buildings	241,137	245,422

39. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to those mentioned in Note 7, Taishin Financial Holding and subsidiaries have the following contingent liabilities and commitments as of December 31, 2006 and 2005:

	December 31, 2006	
	2006	2005
Guarantees	\$ 72,383,940	\$ 74,251,951
Letters of credit	35,770,839	38,036,647
Trust liabilities	238,373,003	181,034,044
Unpaid equipment purchase contracts	329,909	883,351
Unused loan commitments (excluding credit card)	256,839,000	126,545,520
Unused loan commitments (credit card only)	386,151,458	401,133,693

Chang Hwa Bank enters into operating leases for its domestic branch premises. Significant provisions of the contracts are as follows:

(a) The lease period ranges from one to fifteen years. Rental payments are made annually.

(b) As of December 31, 2006, the estimated future lease payments under the lease contracts are as follows:

2007	\$ 408,754
2008	232,728
2009	169,698
2010	108,108
2011	74,455

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The Department of National Defense of Iran as the recipient requested Chang Hwa Bank to release US\$15,000 thousand. On August 1, 2002, the Supreme Court decided in favor of Chang Hwa Bank. The Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taipei District Court. On September 10, 2004, the Taipei District Court decided in favor of Chang Hwa Bank. However, the Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taiwan High Court on October 6, 2004. The lawsuit is still in a legal progress under the High Court.

40. DISCLOSURES OF FINANCIAL INSTRUMENTS INFORMATION

Information of Fair Value

	December 31, 2006	
	Carrying Value	Fair Value
Financial assets		
Cash and cash equivalents	\$ 59,848,023	\$ 59,848,023
Due from Central Bank and call loans to banks	207,701,591	207,701,591
Financial assets at fair value through profit or loss	116,109,605	116,109,605
Bonds and securities purchased under resell agreements	26,163,593	26,163,593
Receivables	110,012,154	110,012,154
Loans	1,380,374,402	1,380,374,402
Available-for-sale financial assets	94,109,665	94,109,665
Held-to-maturity financial assets	185,561,348	185,561,348
Investments under equity method	986,602	986,602
Other financial assets	17,830,917	17,830,917
	<u>\$ 2,198,697,900</u>	<u>\$ 2,198,697,900</u>

	December 31, 2006	
	Carrying Value	Fair Value
Financial liabilities		
Due to banks and Central Bank	\$ 236,622,085	\$ 236,622,085
Call loans from banks and Central Bank	384,585	384,585
Commercial paper payable	4,112,746	4,112,746
Financial liabilities at fair value through profit or loss	16,686,135	16,686,135
Bonds and securities sold under repurchase agreements	87,195,497	87,195,497
Payables	73,467,017	73,467,017
Deposits	1,628,076,369	1,628,076,369
Bonds payable	110,218,044	110,218,044
Other borrowings	4,250,000	4,250,000
Other financial liabilities	535,041	535,041
	<u>\$ 2,161,547,519</u>	<u>\$ 2,161,547,519</u>

Taishin Financial Holding and subsidiaries adopt the following methods and assumptions to determine the fair values of financial instruments for the year ended December 31, 2006:

(a) The fair value of the short-term financial instruments is determined at their carrying values on the balance sheet dates because of the short maturities of these instruments. The method applies to cash and cash equivalents, due from Central Bank and call loans to banks, bonds and securities purchased under resell agreements, receivables, due to banks and Central Bank, payables, bonds and securities sold under repurchase agreements, and call loans from banks and Central Bank.

(b) If market price is available, the fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity financial assets is measured at quoted active market prices for these instruments. If market price is not available, the fair value is determined in accordance with valuation technique. The estimates and assumptions used by Taishin Financial Holding and subsidiaries for fair market value are consistent with those used by market participants that formulate the pricing for financial instruments.

The fair value of debt investments not actively traded in market is determined at their expected future cash flow, the frequency of interest payments, the remaining contract period, the creditworthiness of borrowers and the discount rate, which is determined at the yield rate of the equivalent instruments in the market. The fair value of the equity investment is determined at the market value.

The fair value of derivative instruments is determined at the expected acquired or paid amount, assuming that Taishin Financial Holding and subsidiaries terminate the contracts in accordance with the contracts. Taishin Financial Holding and subsidiaries adopt the model that is identical to the market to determine the fair values of derivative financial instruments.

(c) Loans and deposits are interest-bearing financial assets and liabilities and its carrying values approach to its fair value. The carrying amount of delinquent loans is the estimated collectable amount which is the book value less allowance for bad debt. Therefore, the fair value of loans and receivables is determined at their carrying value.

(d) Financial assets carried at cost are equity instrument investments of which the fair value could not be measured reliably, including non-public stocks and TIGER stocks. The fair value of these instruments is determined at their carrying values.

Taishin Financial Holding and subsidiaries adopt the quoted active market price and valuation technique to determine the fair value of financial assets and liabilities as follows:

	December 31, 2006	
	Use of Quoted Price in Active Market Determined	Use of Valuation Technique Estimated
Financial assets		
Financial assets at fair value through profit or loss	\$ 55,951,142	\$ 60,158,463
Available-for-sale financial assets	88,248,615	5,861,050
Held-to-maturity financial assets	-	185,561,348
Financial liabilities		
Financial liabilities at fair value through profit or loss	455,061	16,231,074

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For the year ended December 31, 2006, the net income (loss) recognized under the quoted market price determined and valuation technique estimated is \$990,390 thousand and \$(181,514) thousand, respectively.

For those financial assets and financial liabilities not measured by fair market value through profits or loss for the year ended December 31, 2006 of Taishin Financial Holding and subsidiaries, the related interest income and interest expense are \$77,187,404 thousand and \$36,364,981 thousand, respectively.

Unrealized gain from available-for-sale financial asset amounted to \$1,101,111 thousand as of December 31, 2006, is classified as the adjustments for stockholders' equity.

Information of Financial Risk

Market Price Risk

Taishin Financial Holding and subsidiaries engage in derivatives mainly to meet customers' needs, trade for business and manage market risks. While taking into account the CAR ratio, annual budget, and the anticipation on market fluctuations, the board of directors annually reviewed the measurement of risks and returns to determine whether they are appropriate, oversaw the assumed risks to ensure compliance with Taishin Financial Holding's requirement, approved the authorization limits on market risk, and ensured all trading engaged within authorization limits.

Taishin Financial Holding and subsidiaries use the market risk factor sensitivity as the instrument for market risk controls. The market risk factor sensitivity refers to the change in value resulting from a unit change in a specific market risk factor. Market risk factors include interest rate, exchange rate, price of equity instruments and commodity prices. The market risk factor sensitivity of Taishin Financial Holding and subsidiaries discloses the market risks derived from different risk positions on the trading book.

Foreign exchange rate factor sensitivity, FX Delta, refers to the net risk positions of different currencies on balance sheet date. That is the effect of the change in present value due to 100% change in foreign exchange for each currency. The foreign exchange rate factor sensitivity not only includes those of foreign-currency derivatives, but also integrates the risk sensitivity of spot foreign rate positions for hedging purpose and spot position of different currencies.

Interest rate factor sensitivity refers to the effect (DV01 or PVBP) of change in present value of future cash flows generated from spot rate positions and interest-rate derivative positions incurred by moving upwards the yield curves under evaluation by 0.01% (one b.p.) on the interest rate structure.

Risk sensitivity of equity instruments refers to the effect of price change in the value of derivative positions due to 100% price change in equity instruments and in underlying assets of derivative instruments. Taishin Financial Holding and subsidiaries engage in the trading of equity instruments including stock, convertible bonds, and stock-index options and stock options.

(In thousands of original currencies)

Market Risk Type	Currency	December 31,2006
Exchange rate risk value	EUR	\$ 1,352
	JPY	1,696,385
	USD	38,393
	Others (Note)	(775,080)
Interest rate sensitivity DV0 1		
Interest curve of bonds	TWD	(18,176)
	USD	(59)
Interest curve of IRS and CCS	TWD	3,500
	USD	120
	Others (Note)	18
Equity securities risk value	TWD	16,723,373
	USD	51,198
	Others (Note)	221

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

Credit Risk

Credit risks refer to the losses from financial instruments incurred by non-performance of the contracted obligations by Taishin Financial Holding and subsidiaries' counterparties or others. Taishin Financial Holding and subsidiaries provide loans, loan commitments and guarantee services based on prudent credit evaluations. The collaterals that Taishin Financial Holding and subsidiaries demand to be pledged on loans, loan commitments or guarantees are normally cash, inventory, marketable securities or other property. When the counterparties or others default, Taishin Financial Holding and subsidiaries have rights to enforce the collaterals or other guarantees and effectively reduce credit risks. In disclosures on the maximum amounts for credit risk exposures, the market values of the collaterals are not considered. Taishin Financial Holding and subsidiaries are trading various derivatives with its peer financial institutions within trading limits authorized in accordance with world rankings and credit ratings. Taishin Financial Holding and subsidiaries anticipate that the probability of default by counterparties is very low.

The maximum credit risk exposures of various financial instruments held by Taishin Financial Holding and subsidiaries are the same as per book values. Please refer to consolidated financial statements.

The contract amounts of financial assets with off-balance-sheet credit risks held by Taishin Financial Holding and subsidiaries as of December 31, 2006 are as follows:

Financial Instrument Type	December 31,2006
Guarantees	\$ 72,383,940
Letters of credit	35,770,839
Unused loan commitments (excluding credit card)	256,839,000
Unused loan commitments (credit card only)	386,151,458

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Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics for concentration of credit risks include the nature of business activities engaged by debtors. Taishin Financial Holding and subsidiaries have not engaged in transactions that involved a prominent concentration of one client or one transaction party, but have transaction parties of similar industry type or from similar region.

Taishin Financial Holding and subsidiaries' information with prominent aggregate attributes of credit risk are as follows:

Industry Type	December 31, 2006	
	Carrying Value	Percentage of Item (%)
Manufacturing	\$ 361,277,970	26
Wholesale and retailing	118,532,897	8
Finance and insurance	85,281,926	6
Real estate and leasing	47,016,949	3
Service	28,322,861	2
Individuals	623,831,698	44
Others	141,922,285	10
	<u>\$ 1,406,186,586</u>	

Geographic Location	December 31, 2006	
	Carrying Value	Percentage of Item (%)
Asia	\$ 1,287,022,329	92
Europe	13,090,958	1
North America	61,482,300	4
Others	44,590,999	3
	<u>\$ 1,406,186,586</u>	

Liquidity Risk

Taishin Financial Holding and subsidiaries had stipulated regulations on liquidity management to appropriately arrange the allocation of assets and liabilities, avoid concentration on nationalities, transaction parties, and product lines in regard to the sources and uses of funds, and thus reduce the liquidity risk of failing to raise capital for contract performance or failing to sell financial assets with reasonable prices in the market. Overall, the working capital of Taishin Financial Holding and subsidiaries is sufficient to cover the increase in assets and pay off the liabilities when due.

Taishin Financial Holding and subsidiaries' information on liquidity risk is as follows:

- 1) Taishin Financial Holding and subsidiaries' capital and working capital are sufficient to perform all the contracted obligations, and its investments in securities purchased under resell agreements are marketable financial assets that have low liquidity risks and are easily traded with reasonable prices in the market.
- 2) Taishin Bank's ratios of liquidity reserves are 18.44% and 16.08% for the years ended December 31, 2006 and 2005, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations,

ations, there will be no liquidity risk in this regard. Taishin Bank's derivatives, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.

3) Taiwan Securities' working capital is sufficient and there will be no liquidity risk of failing to raise capital funds to perform contracted obligations. Its investments in bonds are marketable and are expected to be sold with fair value in the market. Taiwan Securities' investments in equity instruments do not have active market and thus are expected to have significant liquidity risks.

4) Taishin Bills Finance investments in bonds and short-term bills have active market and are easily traded with reasonable prices in the market. Taishin Bills Finance engages in the trading of derivatives and uses the nominal principal amounts in contracts to calculate receivable and payable amounts, and there are no cash inflows or outflows from nominal principal amounts. The derivatives are mostly traded in active market and have low liquidity risks.

5) Chang Hwa Bank's ratio of liquidity reserves is 21.50% for the year ended December 31, 2006. Its capital and working capital are sufficient to perform all the contracted obligations, and thus there will be no liquidity risks due to failure to raise capital funds to perform contracted obligations. Chang Hwa Bank's derivatives, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have low liquidity risks.

Cash Flow Risk from Change in Interest Rates

1) Taishin Financial Holding issues debenture bonds with floating rates and anticipates fluctuations in cash flows in the future due to change in market interest rates. To manage interest rate risks effectively, Taishin Financial Holding engages in trading of interest rate swaps in accordance with the evaluation of interest rate risks to avoid cash flow risks as a result of change in interest rates.

2) Taishin Bank, Taishin Bills Finance and Chang Hwa Bank's cash flow risks as a result of change in interest rates refer to cash flow fluctuations in the future from its assets with floating rates and liabilities with floating rates. Taishin Bank, Taishin Bills Finance, and Chang Hwa Bank evaluate interest rates risks in trends of interest rate and engage in trading of interest rates swaps in accordance with risk levels and operational needs to reduce cash flow risks as a result of changes in interest rates.

Effective Interest Rate (Excluding Financial Assets at Fair Value through Profit or Loss)

As of December 31, 2006, the effective interest rate distinction based on the main currencies of financial instruments that Taishin Financial Holding and subsidiaries held or issued are as follows:

Geographic Location	Effective Interest Rate (%)	
	NTD	USD
Bonds and securities purchased under resell agreements	0.76~2.00	-
Available-for-sale financial assets	1.53~2.17	5.14~5.49
Held-to-maturity financial assets	0~6.25	0~5.75
Loans	0.08~18.16	2.86~16.23
Commercial paper payable	1.76~2.04	-
Bonds and securities sold under repurchase agreements	1.40~1.68	-
Deposits	0~4.00	0.50~5.95
Bonds payable	0~4.13	-

V. Financial Statements

41. RELATED INFORMATION OF CAPITAL ADEQUACY

	Group's Eligible Capital	Group's Statutory Capital Requirement
Taishin Financial Holding	\$ 91,622,219	\$ 106,679,547
Taishin Bank	45,326,787	48,530,620
Chang Hwa Bank	23,426,852	16,771,922
Taishin Bills Finance	7,213,897	3,256,178
Taiwan Securities	12,558,279	6,186,418
Taishin Venture Capital	873,624	436,905
Taishin AMC	1,411,434	823,630
Taishin Marketing	6,471	4,905
Exclusive items amounts subtracted	(107,557,071)	(106,530,981)
Total	74,882,492	76,159,144
Group's capital adequacy rate (Note)		98.32%

Note 1: The above list was prepared according to "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Company."

Note 2: Group's capital adequacy rate = Group's eligible capital ÷ Group's statutory capital requirement.

42. DISCLOSURES ACCORDING TO ARTICLE 46 OF FINANCIAL HOLDING ACT

According to Article 46 of Financial Holding Company Act, all subsidiaries of financial holding company should disclose the balance of credit, endorsements and other transactions to the same person, same related person or same related enterprise.

(In NT\$ Million; %)

Transaction Party	Relationship	Total of Credit, Endorsement and Other Transaction	As Proportion of Financial Holding's Net Equity
Central Bank	Same related enterprise	\$ 241,124	266.77%
National Treasury Agency of Ministry of Finance	Same related enterprise	37,443	41.42%
Formosa Plastics Co., and related parties	Same related enterprise	36,579	40.47%
Taiwan High Speed Rail Co., Ltd.	Same related enterprise	29,987	33.18%
Chinatrust Co., and related parties	Same related enterprise	19,113	21.15%
Chi Mei Co., and related parties	Same related enterprise	17,975	19.89%
BenQ Co., and related parties	Same related enterprise	14,905	16.49%
Tatung Co., and related parties	Same related enterprise	12,081	13.37%
Ya-Dong Group	Same related enterprise	10,652	11.78%
Uni-President Co., and related parties	Same related enterprise	9,932	10.99%
Hon Hai Precision Ind. Co., Ltd., and related parties	Same related enterprise	9,848	10.90%
China Airline Co., and related parties	Same related enterprise	8,927	9.88%
China Development Financial Holdings and related parties	Same related enterprise	8,359	9.25%

(In NT\$ Million; %)

Transaction Party	Relationship	Total of Credit, Endorsement and Other Transaction	As Proportion of Financial Holding's Net Equity
National Security Funds	Same related enterprise	8,071	8.93%
Ever Green Co., and related parties	Same related enterprise	7,660	8.47%
Fubon Financial Holding and related parties	Same related enterprise	7,141	7.90%
Taiwan Power Co., Ltd.	Same related enterprise	6,997	7.74%
Mega Financial Holdings and related parties	Same related enterprise	6,424	7.11%
Hosin Group	Same related enterprise	6,142	6.80%
BNP Paribas	Same related enterprise	6,052	6.70%
Mosel Vitelic Group	Same related enterprise	5,555	6.15%
Walsin Lihwa Co., and related parties	Same related enterprise	5,547	6.14%
Union Bank and related parties	Same related enterprise	5,420	6.00%
First International Computer Inc., and related parties	Same related enterprise	5,231	5.79%
Taiwan Business Bank	Same related enterprise	5,177	5.73%
Ford Motor Company	Same related enterprise	4,958	5.49%
E-United Group	Same related enterprise	4,797	5.31%
Shin Kong Group	Same related enterprise	4,789	5.30%
Jih Sun Holdings and related parties	Same related enterprise	4,480	4.96%
Department of Finance, TaipeiCity Gov.	Same related enterprise	4,000	4.43%
Huanan Financial Holding and related parties	Same related enterprise	3,985	4.41%
SinoPac Holdings and related parties	Same related enterprise	3,948	4.37%
China Steel Group	Same related enterprise	3,935	4.35%
Aurora Co., and related parties	Same related enterprise	3,900	4.31%
The Shanghai Commercial & Savings Bank, Ltd.	Same related enterprise	3,898	4.31%
Pouchen Industry Group	Same related enterprise	3,833	4.24%
Lin Yuan Group	Same related enterprise	3,725	4.12%
Nice Group	Same related enterprise	3,684	4.08%
Taipei Financial Center Co.	Same related enterprise	3,661	4.05%
Calyon	Same related enterprise	3,586	3.97%
Taiwan International SecuritiesGroup	Same related enterprise	3,534	3.91%
Industrial bank of Taiwan and related parties	Same related enterprise	3,509	3.88%
Hsin-Tao Power Corporation	Same related enterprise	3,471	3.84%
Hsin-Han Constrution Corporation	Same related enterprise	3,403	3.76%
China Steel Corporation	Same related enterprise	3,285	3.63%
Taita Chemical Company, Ltd.and related parties	Same related enterprise	3,118	3.45%
Yuanta Core Pacific Securities and related parties	Same related enterprise	3,087	3.42%

Note: Counted as total credit, endorsements and other transactions done by all subsidiaries to the same person, same related party or same related enterprise divided by net equity of Taishin Financial Holding.

V. Financial Statements

43. FINANCIAL INFORMATION BY BUSINESS

The financial information by business for the year ended December 31, 2006 are as follows:

(In NT\$ Million; %)

Item	Business Type	Bank Business	Securities Business	Bills Business	Other Business	Total
Net interest revenue (loss)		44,401,512	1,200,984	292,524	(1,022,080)	44,872,940
Net non- interest revenue		2,982,778	4,617,936	111,434	81,192	7,793,340
Net revenue (loss)		47,384,290	5,818,920	403,958	(940,888)	52,666,280
Bad debt expenses		(31,620,816)	-	-	-	(31,620,816)
Operating expenses		(27,041,007)	(4,177,174)	(153,299)	(507,877)	(31,879,357)
Income (loss) before income tax of continued operation		(11,277,533)	1,641,746	250,659	(1,448,765)	(10,833,893)
Income tax benefit (expense)		3,174,240	(505,726)	(108,696)	253,134	2,812,952
Income (loss) after income tax of continued operation		(8,103,293)	1,136,020	141,963	(1,195,631)	(8,020,941)

44. FINANCIAL STATEMENTS OF TAISHIN FINANCIAL HOLDING

TAISHIN FINANCIAL HOLDING CO., LTD. BALANCE SHEETS DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006	2005
Cash and cash equivalents	\$ 11,859,469	\$ 3,004,919
Financial assets at fair value through profit or loss	10,550	-
Bonds and securities purchased under resell agreements	12,414,859	1,372,617
Receivables	198,237	319,004
Prepayments	1,209	2,248
Investments under equity method	106,530,981	112,269,585
 OTHER FINANCIAL ASSETS		
Financial assets carried at cost	33,034	103,590
 PROPERTY AND EQUIPMENT		
Cost		
Machinery equipment	15,668	15,626
Transportation equipment	4,380	4,380
Miscellaneous equipment	3,647	2,588
Leasehold improvements	-	475
	23,695	23,069
Accumulated depreciation	(8,290)	(5,252)
Property and equipment, net	15,405	17,817
 OTHER ASSETS		
Deferred tax assets	480,596	1,995
Other deferred assets	33,552	45,264
Other miscellaneous assets	789,788	335,524
 Other assets	1,303,936	382,783
 TOTAL	\$ 132,367,680	\$ 117,472,563

V. Financial Statements

TAISHIN FINANCIAL HOLDING CO., LTD. BALANCE SHEETS DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY		2006	2005
LIABILITIES			
Payables			
Accrued expense	\$	541,233	\$ 355,111
Other payables		9 13,569	1,897,378
		1,454,802	2,252,489
Financial liabilities carried at cost		40,518,044	33,934,195
Other liabilities		6,811	7,844
		41,979,657	36,194,528
STOCKHOLDERS' EQUITY			
Capital stock			
Common stock		57,103,001	51,232,093
Preferred stock		12,777,778	9,000,000
Capital surplus			
Additional paid-in capital in excess of par		32,853,146	21,960,097
Others		2,695,032	2,483,718
Retained earnings			
Legal reserve		-	2,264,406
Special reserve		-	40,534
Accumulated deficit	(	16,148,540)	(2,688,496)
Other items of stockholders' equity			
Cumulative translation adjustments		12,848	10,919
Unrealized gains or losses of financial instruments		1,101,111	-
Treasury stock		-	(3,024,369)
Net loss not recognized as pension cost	(	6,353)	(867)
		90,388,023	81,278,035
TOTAL	\$	132,367,680	\$ 117,472,563

TAISHIN FINANCIAL HOLDING CO., LTD.
INCOME STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006	2005
INCOME		
Investment income under equity method	\$ 4,390,783	\$ 1,456,128
Others	376,314	647,024
Total income	4,767,097	2,103,152
EXPENSES AND LOSSES		
Investment loss under equity method	(19,681,508)	(4,411,309)
Operating expenses	(357,141)	(491,477)
Others	(1,154,577)	(652,058)
Total expenses and losses	(21,193,226)	(5,554,844)
LOSS BEFORE INCOME TAX	(16,426,129)	(3,451,692)
INCOME TAX BENEFIT	274,645	538,130
NET LOSS BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE	(16,151,484)	(2,913,562)
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE (Minus tax of \$981 thousand)	2,944	-
NET LOSS	\$ (16,148,540)	\$ (2,913,562)

	2006		2005	
	Pretax	After-tax	Pretax	After-tax
LOSS PER SHARE				
Basic and diluted				
Net loss before cumulative effects of changes in accounting principle	\$(3.21)	\$(3.15)	\$(0.79)	\$(0.68)
Cumulative effects of changes in accounting principle	-	-	-	-
Net loss	\$(3.21)	\$(3.15)	\$(0.79)	\$(0.68)

V. Financial Statements

TAISHIN FINANCIAL HOLDING CO., LTD. STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus		
	Common Stock	Preferred Stock	Additional Paid-in Capital in Excess of Par	Treasury Stock Transactions	Stock Option
BALANCE, JANUARY 1, 2005	\$ 44,072,921	\$ 4,000,000	\$ 14,607,925	\$ 2,056,735	\$ -
Convertible bonds converted to common stock	465,127	-	305,000	-	-
Taishin Financial Holding's stock held by subsidiaries, which were subsequently subscribed by subsidiaries' employees	-	-	-	(31,703)	-
Taishin Financial Holding's shares sold by subsidiaries	-	-	-	152,485	-
Taishin Financial Holding's cash dividends received by subsidiaries	-	-	-	306,201	-
Issuance of preferred stock - C	-	5,000,000	10,000,000	-	-
Appropriation of 2004 earnings	-	-	-	-	-
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Dividends on preferred B stocks - 6.05%	-	-	-	-	-
Employee bonuses	237,650	-	-	-	-
Remunerations to directors and supervisors	-	-	-	-	-
Stock dividends - 14.59%	6,456,395	-	(2,894,245)	-	-
Cash dividends - \$1.3 per share	-	-	-	-	-
Unrealized loss on valuation of long-term investments	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-
Net loss not recognized as pension cost	-	-	-	-	-
Changes in holding percentage between subsidiaries	-	-	(58,583)	-	-
Net loss for the year ended December 31, 2005	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	51,232,093	9,000,000	21,960,097	2,483,718	-
Elimination of 2005 deficit	-	-	(383,556)	-	-
Convertible bonds converted to common stock	190,000	-	89,417	-	-
Capital infusion with cash	8,222,223	-	5,680,387	-	-
Issuance of preferred stock - D	-	7,777,778	6,145,962	-	-
Redemption of matured preferred stock - B	-	(4,000,000)	-	-	-
Equity components for compound financial instruments	-	-	-	-	99,608
Translation adjustments on long-term equity investments	-	-	-	-	-
Changes in ownership interest in subsidiaries	-	-	(44,401)	-	-
Unrealized gains or losses of available-for-sale financial assets	-	-	-	-	-
Cancellation of treasury stock	(2,541,315)	-	(594,760)	111,706	-
Net loss not recognized as pension cost	-	-	-	-	-
Net loss for the year ended December 31, 2006	-	-	-	-	-
BALANCE, DECEMBER 31, 2006	<u>\$ 57,103,001</u>	<u>\$ 12,777,778</u>	<u>\$ 32,853,146</u>	<u>\$ 2,595,424</u>	<u>\$ 99,608</u>

Retained Earnings			Equity Adjustmen						
Legal Reserve	Special Reserve	Unappro- priate d Earnings (Deficit)	Cumulative Translation Adjustments	Unrealized Loss on Valuation of Long-Term Investment	Unrealized Gain or Loss on Financial Instruments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Total	
\$ 1,133,950	\$ 10,508	\$ 11,535,815	\$ (40,489)	\$ (44)	\$ -	\$ -	\$ (3,467,857)	\$ 73,909,464	
-	-	-	-	-	-	-	-	770,127	
-	-	-	-	-	-	-	192,466	160,763	
-	-	-	-	-	-	-	251,022	403,507	
-	-	-	-	-	-	-	-	306,201	
-	-	-	-	-	-	-	-	15,000,000	
-	-	-	-	-	-	-	-	-	
1,130,456	-	(1,130,456)	-	-	-	-	-	-	
-	30,026	(30,026)	-	-	-	-	-	-	
-	-	(242,000)	-	-	-	-	-	(242,000)	
-	-	(297,062)	-	-	-	-	-	(59,412)	
-	-	(297,062)	-	-	-	-	-	(297,062)	
-	-	(3,562,150)	-	-	-	-	-	-	
-	-	(5,751,993)	-	-	-	-	-	(5,751,993)	
-	-	-	-	44	-	-	-	44	
-	-	-	51,408	-	-	-	-	51,408	
-	-	-	-	-	-	(867)	-	(867)	
-	-	-	-	-	-	-	-	(58,583)	
-	-	(2,913,562)	-	-	-	-	-	(2,913,562)	
2,264,406	40,534	(2,688,496)	10,919	-	-	(867)	(3,024,369)	81,278,035	
(2,264,406)	(40,534)	2,688,496	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	279,417	
-	-	-	-	-	-	-	-	13,902,610	
-	-	-	-	-	-	-	-	13,923,740	
-	-	-	-	-	-	-	-	(4,000,000)	
-	-	-	-	-	-	-	-	99,608	
-	-	-	1,929	-	-	-	-	1,929	
-	-	-	-	-	-	-	-	(44,401)	
-	-	-	-	-	1,101,111	-	-	1,101,111	
-	-	-	-	-	-	-	3,024,369	-	
-	-	-	-	-	-	(5,486)	-	(5,486)	
-	-	(16,148,540)	-	-	-	-	-	(16,148,540)	
\$ -	\$ -	\$(16,148,540)	\$ 12,848	\$ -	\$ 1,101,111	\$(6,353)	\$ -	\$ 90,388,023	

V. Financial Statements

TAISHIN FINANCIAL HOLDING CO., LTD. STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(16,148,540)	\$(2,913,562)
Depreciation and amortization	20,047	62,872
Deferred tax (benefit) expense	(347,257)	2,471
Income tax benefit on linked-tax system	(42,586)	(539,207)
Gain on evaluation of financial assets	(8,543)	-
Gain on financial assets carried at cost	(7,331)	-
Impairment loss on financial assets carried at cost	1,080	3,610
Investment loss recognized under equity method	15,290,725	2,955,181
Cash dividends under equity method	839,614	6,478,619
Amortization on premium and discount of European Convertible Bonds	23,662	(90)
Loss on disposal of property and equipment	9	-
Changes in interest payable compensation	626	12,883
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(2,007)	-
Bonds and securities purchased under resell agreements	(11,042,242)	2,894,208
Receivables	(786,339)	3,000,911
Prepayments	1,039	(2,248)
Other miscellaneous financial assets	-	7,143,218
Other asset	(585,785)	(327,093)
Payables	152,005	(369,936)
Other liabilities	(6,519)	3,147
Others	(5,398)	14,601
Net cash (used in) provided by operating activities	(12,653,740)	18,419,585
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds refunded from combination of financial assets carried at cost	76,807	-
Increase in investments under equity method	(9,333,096)	(36,568,000)
Purchase of property or equipment	(4,252)	(14,160)
Proceeds from sale of property and equipment	1,852	-
Decrease in refundable deposits	290	-
Increase in deferred expense	(3,200)	(15,036)
Net cash used in investing activities	(9,261,599)	(36,597,196)

TAISHIN FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars))

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue cost of bonds payable	(445)	(17,115)
Remunerations to directors and supervisors	-	(356,475)
Preferred stock dividend	-	(5,993,993)
Issue of subordinated corporate bonds	-	18,650,000
Issue of convertible bonds payable	6,943,986	-
Redemption of European Convertible Bonds	-	(7,181,325)
Redemption of matured preferred stock - B	(4,000,000)	-
Issue of preferred stock - C	-	15,000,000
Issue of preferred stock - D	13,923,739	-
Capital infusion with cash	13,902,609	-
Net cash provided by financing activities	30,769,889	20,101,092
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,854,550	1,923,481
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,004,919	1,081,438
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 11,859,469</u>	<u>\$ 3,004,919</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest	\$ 1,010,768	\$ 761,111
Income tax	<u>\$ 1,566,380</u>	<u>\$ 810,366</u>

V. Financial Statements

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

Taishin Bank

Balance Sheet

	December 31	
	2006	2005
Assets		
Cash and cash equivalents	\$ 10,883,151	\$ 10,374,979
Due from Central Bank and call loans to banks	91,074,180	26,732,957
Financial assets at fair value through profit or loss	56,432,692	109,670,291
Bonds and securities purchased under resell agreements	-	4,872,108
Receivables	70,497,131	93,824,215
Loans	517,279,676	537,064,125
Available-for-sale financial assets	6,786,174	6,277,518
Held-to-maturity financial assets	18,012,885	15,261,783
Investments under equity method	2,171,305	1,717,230
Other financial assets	3,726,752	3,298,609
Property and equipment	17,504,724	18,655,393
Other assets	28,587,623	15,616,604
	\$ 822,956,293	\$ 843,365,812
Liabilities		
Due to banks and Central Bank	\$ 66,384,638	\$ 71,348,054
Financial liabilities at fair value through profit or loss	15,037,060	7,721,240
Bonds and securities sold under repurchase agreements	16,284,892	22,364,962
Payables	23,690,821	25,393,765
Deposits	620,420,052	618,707,764
Bank notes	44,700,000	44,700,000
Other financial liabilities	184,641	396,036
Other liabilities	1,400,411	1,664,178
	788,102,515	792,295,999
Stockholders' equity		
Capital stock	34,867,765	34,353,524
Capital surplus	13,254,298	11,292,909
Retained earnings (accumulated deficit)	(14,265,315)	5,428,716
Other adjustments	997,030	(5,336)
	34,853,778	51,069,813
	\$ 822,956,293	\$ 843,365,812

Income Statement

	Years Ended December 31	
	2006	2005
Net interest income	\$ 25,887,383	\$ 37,475,547
Net non-interest income	(2,856,204)	8,638,682
Gross income	23,031,179	46,114,229
Bad debt expenses	(34,493,945)	(36,361,163)
Operating expenses	(15,018,729)	(15,880,006)
Loss before income tax	(26,481,495)	(6,126,940)
Estimated income tax benefit	6,685,472	2,351,816
Cumulative effects of changes in accounting principle	146,393	-
Net loss	\$(19,649,630)	\$(3,775,124)
Pre-tax loss per share (dollar)	\$(9.39)	\$(2.10)
After-tax loss per share (dollar)	\$(7.02)	\$(1.32)

Key Financial and Business Highlights

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	(3.16%)	(2.36%)	(0.78%)	(0.48%)
Return on net worth	(61.28%)	(45.74%)	(11.07%)	(6.82%)
Profit margin		(85.32%)		(8.19%)

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

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

Note c: Profit margin = $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

V. Financial Statements

Asset Quality

Item	December 31			
	2006		2005	
	Amount	NPL Ratio	Amount	NPL Ratio
Series A nonperforming loans	\$ 8,146,259	1.53%	\$ 2,500,971	0.45%
Series B nonperforming loans	3,434,461	0.65%	4,987,167	0.89%
Total nonperforming loans	11,580,720	2.18%	7,488,138	1.34%
Nonperforming loans that are exempted from being reported as past-due items after negotiations	14,365,872	NA	NA	NA
Accounts receivable that are exempted from being reported as past-due items after negotiations	1,265,956	NA	NA	NA

Note a: Nonperforming loans are in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-performing Loans and Bad Debts issued by the MOF.

Note b: Series A and Series B nonperforming loans are defined in the Letter issued by the Banking Bureau on April 19, 2005 (Ref. No. IN-GI (1) 0941000251).

Note c: Nonperforming loans ratio = Nonperforming loans ÷ Loans

Note d: Nonperforming loan balance excluded from regulatory reporting and account receivable balance excluded from regulatory reporting as a result of debt negotiations and related performance are disclosed to comply with the Letter issued by MOF on April 25, 2006 (ref. No. Jin-Guan-Yin 09510001270).

Concentration of Credit Risk

	December 31	
	2006	2005
Loans to parties with common interests	\$ 8,314,94	\$ 15,145,000
Percentage of loans to parties with common interests	1.41%	2.47%
Percentage of loans secured by stocks	3.89%	4.35%

Item	December 31			
	2006		2005	
	Industry	%	Amount	NPL Ratio
Approved credit concentration (Top 3)	Individuals	70.37	Individuals	73.10
	Manufacturing	13.95	Manufacturing	11.94
	Finance and insurance	4.15	Finance and insurance	5.35

Note a: Loans include bills negotiated loans and bills discounted, acceptances, delinquent loans, guarantees, and prepaid accounts receivable.

Note b: Percentage of loans to parties with common interests = Loans to parties with common interest ÷ Total loans

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

Note d: Loans to parties with common interests is defined by the Banking Law.

Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2006 and 2005 are as follows:

		2006	
		Average Value	Average Interest Rate %
Assets			
Due from banks	\$	6,262,361	1.00
Due from Central Bank and call loans to banks		42,546,929	1.66
Financial assets at fair value through profit or loss		99,426,178	1.80
Bonds and securities purchased under resell agreements		2,385,230	1.25
Receivables		44,768,681	9.40
Loans		525,647,765	5.79
Available-for-sale financial assets		2,637,471	21.19
Held-to-maturity financial assets		15,923,148	3.04
Liabilities			
Due to banks and call loans from banks		72,270,597	2.81
Bonds and securities sold under repurchase agreements		19,450,572	1.39
Demand deposits		182,379,986	0.58
Time deposits		435,218,475	2.17
Other financial liabilities		44,873,853	2.65
		2005	
		Average Value	Average Interest Rate %
Assets			
Due from banks	\$	5,667,745	0.68
Due from Central Bank and call loans to banks		23,521,077	1.77
Trading securities		93,590,239	2.58
Bonds and securities purchased under resell agreements		2,108,022	1.04
Receivables		53,101,896	13.46
Loans		521,116,289	6.85
Liabilities			
Due to banks and call loans from banks		78,274,702	1.95
Bonds and securities sold under repurchase agreements		23,498,782	1.09
Demand deposits		173,729,240	0.47
Time deposits		374,440,004	1.68
Other financial liabilities		39,670,607	2.86

V. Financial Statements

Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	340,896,931	(1,807,092)	21,676,877	190,657,032	551,423,748
Interest-sensitive liabilities	309,659,802	203,631,878	46,120,101	31,173,523	590,585,304
Interest sensitivity gap	31,237,129	(205,438,970)	(24,443,224)	159,483,509	(39,161,556)
Net worth					32,820,529
Ratio of interest-sensitive assets to liabilities (%)					93.37%
Ratio of interest sensitivity gap to net assets (%)					(119.32)

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

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$
(NT dollars only)

(In Thousands of U.S. Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	2,119,005	972,554	226,924	802,198	4,120,681
Interest-sensitive liabilities	2,891,902	1,237,274	199,095	137,167	4,465,438
Interest sensitivity gap	(772,897)	(264,720)	27,829	665,031	(344,757)
Net worth					36,278
Ratio of interest-sensitive assets to liabilities (%)					92.28%
Ratio of interest sensitivity gap to net assets (%)					(950.32)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$
(NT dollars only)

(In Thousands of New Taiwan Dollars)

Item	December 31, 2005				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	379,714,000	38,267,000	63,183,000	196,046,000	677,210,000
Interest-sensitive liabilities	305,047,000	213,943,000	78,692,000	32,825,000	630,507,000
Interest sensitivity gap	74,667,000	(175,676,000)	(15,509,000)	163,221,000	46,703,000
Net worth					113,436,000
Ratio of interest-sensitive assets to liabilities					107.41
Ratio of interest sensitivity gap to net worth					41.17

Note a: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

Note b: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Maturity Analysis of Assets and Liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	659,040,478	174,725,259	9,433,595	1,603,136	29,542,135	443,736,353
Major maturity cash outflow	659,040,478	140,940,028	227,873,058	85,228,122	106,270,056	98,729,214
Gap	-	33,785,231	(218,439,463)	(83,624,986)	(76,727,921)	345,007,139

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

(In Thousands of U.S. Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	5,269,798	1,607,281	1,504,894	977,988	228,605	951,030
Major maturity cash outflow	5,269,798	1,376,321	1,974,687	1,323,708	256,433	338,649
Gap	-	230,960	(469,793)	(345,720)	(27,828)	612,381

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

V. Financial Statements

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2005				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major maturity cash inflow	768,170,000	137,953,000	105,073,000	41,416,000	70,083,000	413,645,000
Major maturity cash outflow	768,170,000	239,520,000	65,146,000	83,062,000	145,992,000	234,450,000
Gap	-	(101,567,000)	39,927,000	(41,646,000)	(75,909,000)	179,195,000

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

Capital Adequacy

Item	December 31	
	2006	2005
Capital requirement	\$ 45,326,787	\$ 68,579,010
Risk-weighted assets	606,632,747	674,472,011
Capital adequacy ratio	7.47%	10.17%
Tier I capital to risk weighted assets ratio	5.39%	6.81%
Tier II capital to risk weighted assets ratio	2.86%	4.65%
Tier III capital to risk weighted assets ratio	-	-
Common stock equity to total assets ratio	4.19%	5.55%

Note a: Capital adequacy ratio = Capital requirement ÷ Risk-weighted assets

This ratio is calculated in accordance with Article 44 of the Banking Law and the letters issued by the MOF on October 16, 2001 (Ref. No. Tai-Tsai-Ron 0090345106) and on December 9, 2003 (Ref. No. Tai-Tsai-Ron 0928011668).

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

Trust Accounts

Under Article 3 of the Trust Law, Taishin Bank can offer trust services. The items and amounts of trust accounts as of December 31, 2006 and 2005 are as follows:

	2006	2005
Special purpose trust accounts - foreign and domestic investments	\$ 138,040,534	\$ 111,901,668
Special purpose monetary fund - master	6,993,948	1,563,342
Special purpose monetary fund - stand-alone	829,545	895,170
Special purpose cover fund - stand-alone	365,511	1,559,648
Specific monetary fund - stand-alone	2,816,849	2,567,399
Special cover fund - stand-alone	27,638,405	19,308,625
Real estate securitization	3,914,046	-
Real estate trust	700,380	466,718
Monetary mutual trust fund	3,069,598	846,300
	\$ 184,368,816	\$ 139,108,870

Loans to Parties with Common Interests

Item	Number of Customers	Ending Balance	Amount of Possible Loss
Personal loans (Note a)	1,185	206,380	1,584
Employees' mortgage loans	954	3,124,357	-
Other loans to parties with common interests (Note b)	486	5,981,029	2,900
Loans with guarantors having common interests	576	4,261,905	
Loans with collateral providers having common interests	906	5,925,749	-

Note a: Personal loan is defined by the Banking Law.

Note b: Personal loans and employees' mortgage loans are not included.

Note c: Parties with common interest are defined by the Banking Law.

Chang Hwa Bank

Balance Sheet

	December 31	
	2006	2005
Assets		
Cash and cash equivalents	\$ 44,126,907	\$ 58,079,091
Due from Central Bank and call loans to banks	116,366,938	117,014,169
Financial assets at fair value through profit or loss	11,146,041	28,447,641
Bonds and securities purchased under resell agreements	8,559,731	6,580,178
Receivables	17,668,191	22,137,487
Loans	863,458,135	834,431,158
Available-for-sale financial assets	69,275,366	45,373,552
Held-to-maturity financial assets	167,548,463	183,300,157
Investments under equity method	61,644	52,666
Other financial assets	7,492,708	7,173,425
Property and equipment	25,071,214	25,024,975
Other assets and intangible assets	24,829,994	28,780,535
	<u>\$ 1,355,605,332</u>	<u>\$ 1,356,395,034</u>
Liabilities		
Due to banks and Central Bank	\$ 162,085,482	\$ 184,164,623
Call loans from banks and Central Bank	384,585	405,645
Financial liabilities at fair value through profit or loss	48,517	13,523,833
Bonds and securities sold under repurchase agreements	16,301,987	12,794,440
Payables	40,772,769	38,747,089
Deposits	1,022,848,401	999,365,926
Bonds notes	20,000,000	20,000,000
Accrued pension liabilities	2,331,485	2,391,611
Other financial liabilities	350,400	354,050
Other liabilities	8,297,157	8,243,499
	<u>1,273,420,783</u>	<u>1,279,990,716</u>
Stockholders' equity		
Capital stock	62,094,756	63,594,756
Capital surplus	-	39,256,183
Retained earnings (accumulated deficit)	11,377,055	(34,924,183)
Other adjustments	8,712,738	8,477,562
	<u>82,184,549</u>	<u>76,404,318</u>
	<u>\$ 1,355,605,332</u>	<u>\$ 1,356,395,034</u>

V. Financial Statements

Income Statement

	Years Ended December 31	
	2006	2005
Net interest income	\$ 18,219,176	\$ 17,065,166
Net non-interest income	11,476,326	9,577,139
Gross income	29,695,502	26,642,305
Bad debt expense	(4,525,824)	(62,716,748)
Operating expenses	(10,845,182)	(11,868,121)
Income (loss) before income tax	14,324,496	(47,942,564)
Income tax (expense) benefit	(3,240,079)	11,426,810
Cumulative effects of change in accounting principle	292,638	-
Net income (loss)	\$ 11,377,055	\$(36,515,754)
Pretax basic earnings (loss) per share (dollar)	\$ 2.85	\$(10.04)
After-tax basic earnings (loss) per share (dollar)	\$ 2.18	\$(7.67)

Important Financial and Business Overview

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	1.08%	0.84%	(3.59%)	(2.74%)
Return on net worth	18.43%	14.35%	(63.40%)	(48.29%)
Profit margin		38.31%		(137.06%)

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

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

Note c: Profit margin =
$$\frac{\text{Income after tax}}{\text{Net revenue}}$$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

Asset Quality

Item	December 31			
	2006		2005	
	Amount	NPL Ratio (Note c)	Amount	NPL Ratio (Note c)
Series A nonperforming loans	12,904,302	1.47%	\$ 12,813,018	1.47%
Series B nonperforming loans	1,395,261	0.16%	1,314,009	0.16%
NPLs	14,299,563	1.63%	14,127,027	1.63%
Allowance for loan losses	11,687,317	-	13,748,252	-
Loans written-off	6,350,994	-	59,550,572	-
Nonperforming loans that are exempted from being reported as past-due items after negotia- tions	3,943		-	
Accounts receivable that are exempted from being reported as past-due items after negotia- tions	44,562		-	

Note a: Nonperforming loans are listed in accordance with The Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts issued by the Ministry of Finance.

Note b: Series A and Series B nonperforming loans are defined in the Letter issued by the Banking Bureau on April 19, 2005 (Ref. No. In-Gi (1) 0941000251).

Note c: Nonperforming loans ratio = Nonperforming loans ÷ Loans

Note d: Nonperforming loans balance excluded from regulatory reporting and account receivable balance excluded from regulatory reporting as a result of debt negotiations and related performance are disclosed to comply with the Letter issued by MOF on April 25, 2006 (ref. No. Jin-Guan-Yin 09510001270).

Concentration of Credit Risk

Item	December 31, 2006		December 31, 2005	
Loans to parties with common interests	24,127,977		49,028,369	
Percentage of loans to parties with common interests	2.63%		5.58%	
Percentage of loans secured by stocks	1.30%		1.32%	
Approved credit concentration (Top 3)	Industry	Ratio	Industry	Ratio
	Service industry	32%	Service industry	31%
	Manufacturing	27%	Manufacturing	26%
	Wholesale and retailin	10%	Wholesale and retailin	10%

Note a: Loans include bills negotiated loans and bills discounted, acceptances, guarantees, and prepaid accounts receivable.

Note b: Percentage of loans to parties with common interests = Loans to parties with common interest ~ Total loans

Note c: Percentage of loans secured by stocks = Loans secured by stocks ~ Total loans

Note d: Loans to parties with common interests is defined by Article 33-1 of the Banking Law.

V. Financial Statements

Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2006 and 2005 are as follows:

	2006		2005	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
Assets				
Cash - call loans to banks	\$ 114,291,947	4.48	\$ 105,708,333	2.51
Due from Central Bank	39,793,824	1.00	38,811,873	1.01
Financial assets - bonds and bills	233,463,939	2.20	206,980,088	1.72
Loans	830,989,230	3.42	834,239,572	3.01
Liabilities				
Due to and call loans from banks	137,798,330	4.34	160,411,155	2.28
Demand deposits	498,993,243	0.68	488,134,590	0.58
Time deposits	478,741,687	2.26	476,948,429	1.64
Negotiable certificates of deposits	6,597,892	1.16	8,399,650	0.94
Deposits transferred from the Postal Bureau	44,869,187	2.16	52,305,600	1.85
Financing from banks	3,052,149	5.11	4,318,745	2.54
Bank notes	20,000,000	3.26	20,000,000	3.03

Interest Rate Sensitivity

(In Thousands of New Taiwan Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	701,271,875	136,658,210	71,968,184	75,466,249	985,364,518
Interest-sensitive liabilities	371,137,472	472,853,197	71,501,341	11,525,356	927,017,366
Interest sensitivity gap	330,134,403	(336,194,987)	466,843	63,940,893	58,347,152
Net worth					83,219,294
Ratio of interest-sensitive assets to liabilities					106.29%
Ratio of interest sensitivity gap to net worth					70.11%

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

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

(In Thousands of U.S. Dollars)

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	5,425,494	968,490	417,965	410,002	7,221,951
Interest-sensitive liabilities	5,600,283	1,428,204	471,762	3,127	7,503,376
Interest sensitivity gap	(174,789)	(459,714)	(53,797)	406,875	(281,425)
Net worth					22,264
Ratio of interest-sensitive assets to liabilities					96.25%
Ratio of interest sensitivity gap to net worth					(1,264.04%)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, OBU and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

The Maturity Analysis of Assets and Liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major Maturity cash inflow	1,109,735,594	214,747,344	111,119,819	75,058,203	98,665,576	610,144,652
Major Maturity cash outflow	1,217,196,971	173,021,793	148,072,983	107,535,049	202,661,155	585,905,991
Gap	(107,461,377)	41,725,551	(36,953,164)	(32,476,846)	(103,995,579)	24,238,661

Note: This table only includes amounts denominated in New Taiwan dollars of Chang Hwa Bank and its branches.

(In Thousands of U.S. Dollars)

	Total	December 31, 2006				
		Period Remaining until Due Date and Amount Due				
		1~30 Days	31~90 Days	91~180 Days	181 Days~1 Year	More Than 1 year
Major Maturity cash inflow	4,847,139	1,952,757	1,142,010	848,856	85,860	817,656
Major Maturity cash outflow	5,341,352	2,806,879	813,740	388,942	414,390	917,401
Gap	(494,213)	(854,122)	328,270	459,914	(328,530)	(99,745)

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

V. Financial Statements

Special Recorded Items

	Cases and amount
Management or any employee being involved in lawsuit for any fault in business in one year	On December 23, 2005, an employee of some branch of Chang Hwa Bank stole and sold customer's trustee funds. Chang Hwa Bank has sued the employee for this case.
The Bank being fined for disobeying the Banking Law in one year	<p>On December 23, 2005, an employee of some branch of Chang Hwa Bank stole and sold customer's trustee funds. Chang Hwa Bank violated Bank Law Article 45-1 when it doesn't establish effective internal control and implementation. Chang Hwa Bank was fined \$10 million by the Financial Supervisory Commission Executive Yuan.</p> <p>On July 19, 2006, an employee of Chang Hwa Bank embezzled cash amounted to \$8 million from ATM machine. Chang Hwa Bank violated Bank Law Article 45-1 when it did not establish effective internal control and implementation. Chang Hwa Bank was fined \$2 million by the Financial Supervisory Commission Executive Yuan on November 13, 2006 according to Article 129-7 under the same law.</p>
The Bank being punished by MOF for any fault in one year	None
The Bank incurred losses over \$50,000 thousand for management or employee fraud or for any security incident in one year	On December 23, 2005, an employee of some branch of Chang Hwa Bank stole and sold customer's trustee funds. This case caused loss of \$63,814 thousand.

Capital Adequacy

	December 31	
	2006	2005
Capital requirement	\$ 93,235,570	\$ 84,474,781
Risk-weighted assets	\$ 834,373,555	\$ 766,117,323
Capital adequacy ratio	11.17%	11.03%
Tier I capital to risk weighted assets ratio	8.42%	7.40%
Tier II capital to risk weighted assets ratio	3.58%	4.59%
Tier III capital to risk weighted assets ratio	-	-
Common stock equity to total assets ratio	5.03%	4.16%

Note a: Capital adequacy ratio = Capital requirement ÷ Risk weighted assets

This ratio is calculated in accordance with Article 44 of the Banking Law and the letters issued by the MOF on October 16, 2001 (Ref. No. Tai-Tsai-Ron 0928011668).

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

Trust Accounts

Under Article 3 of the Trust Law, Chang Hwa can offer trust services. The items and amounts of trust accounts are as follows:

	December 31	
	2006	2005
Special purpose trust accounts - domestic	\$ 33,030,829	\$ 25,780,896
Special purpose trust accounts - foreign	19,716,694	14,844,803
Issuance trust	858	900
Retirement and breeds trust	4,386	4,611
Umbilical-cord-blood trust	270,800	211,307
Money claim and guarantee trust	294,200	351,200
Presale house trust	-	115,916
Marketable securities trust	132,660	110,717
Real estate trust	553,760	504,824
	<u>\$ 54,004,187</u>	<u>\$ 41,925,174</u>

Related Party Credit Transaction

Category	Account	Balance as of December 31, 2006	Probable Loss
Consumers loans	1,497	\$ 576,782	\$ -
Employee loans for house purchase	1,490	3,969,198	-
Loans for other related parties	785	19,581,997	-
Loans guaranteed by related parties	1,288	4,197,384	-
Loans with collateral provided by related parties	1,500	9,879,687	-

Taiwan Securities

Balance Sheet

	December 31	
	2006	2005
Assets		
Current assets	\$ 43,596,436	\$ 38,550,496
Funds and investments	3,245,958	3,048,998
Property and equipment	2,881,327	2,950,088
Other assets	3,248,292	2,935,894
Debit item for consigned trades, net	214,234	-
	<u>\$ 53,186,247</u>	<u>\$ 47,485,476</u>
Liabilities		
Current liabilities	\$ 31,030,257	\$ 25,572,154
Long-term liabilities	1,993,547	2,496,603
Other liabilities	655,282	676,446
Credit item for consigned trades, net	-	20,964
	<u>33,679,086</u>	<u>28,766,167</u>
Stockholders' equity		
Capital stock	13,255,044	13,255,044
Capital surplus	2,082,283	2,082,283
Retained earnings	4,171,572	3,368,780
Other adjustments	(1,738)	13,202
	<u>19,507,161</u>	<u>18,719,309</u>
	<u>\$ 53,186,247</u>	<u>\$ 47,485,476</u>

V. Financial Statements

Income Statement

	Years Ended December 31	
	2006	2005
Revenue	\$ 6,852,279	\$ 7,768,106
Expense	(5,188,298)	(6,317,459)
Income before income tax	1,663,981	1,450,647
Income tax expense	(478,593)	(858,131)
Cumulative effects of changes in accounting principle	32,165	-
Net income	\$ 1,217,553	\$ 592,516
Pretax basic earnings per share (dollar)	\$ 1.28	\$ 1.10
After-tax basic earnings per share (dollar)	\$ 0.91	\$ 0.45

Key Financial and Business Highlights

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	3.37%	2.42%	2.64%	1.08%
Return on net worth	8.87%	6.37%	7.64%	3.12%
Profit margin		17.77%		7.63%

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

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

Note c: Profit margin =
$$\frac{\text{Income after tax}}{\text{Net revenue}}$$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

Balance Sheet of Futures-Dealing Department

Please refer to Table 6.

Income statement of Futures-Dealing Department

Please refer to Table 7.

Limitation and Execution of Financial Ratios As Stipulated in the Futures Trading Law

In accordance with the “Guidelines Governing the Preparation of Financial Reports by Futures Commission Merchants” stipulated by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, major financial ratios of Taiwan Securities and Taiwan Futures as of December 31, 2006 and 2005 are disclosed as follows to show financial status, operating results and cash flow information:

Taiwan Securities

Items	December 31, 2006		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	382,950 650	589.15	≥ 1
Current assets/ Current liabilities	365,523 650	562.34	≥ 1
Shareholders' equity/ Minimum issued capital	382,950 400,00	95.74%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	367,413 2,611	14,071.73%	≥ 20% ≥ 15%

Items	December 31, 2005		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	401,516 574	699.51	≥ 1
Current assets/ Current liabilities	382,511 57	666.40	≥ 1
Shareholders' equity/ Minimum issued capital	401,516 400,00	100.38%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	386,563 1,35	28,634.30%	≥ 20% ≥ 15%

V. Financial Statements

Taiwan Futures

ItemsItems	December 31, 2006		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	882,939 132,020	6.69	≥ 1
Current assets/ Current liabilities	4,678,656 3,914,05	1.20	≥ 1
Shareholders' equity/ Minimum issued capital	882,939 630,00	140.15%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	880,343 951,80	92.49%	≥ 20% ≥ 15%

ItemsItems	December 31, 2005		
	Calculation	Ratio	Benchmark
Shareholders' equity/ (Total liabilities - futures trader equity - loss on trading securities - reserve of penalty)	803,698 163,445	4.92	≥ 1
Current assets/ Current liabilities	4,528,442 3,835,18	1.18	≥ 1
Shareholders' equity/ Minimum issued capital	803,698 230,000	349.43%	≥ 60% ≥ 40%
Adjusted Net Capital/ Guarantee deposit needed for unsettled position	772,962 911,05	84.84	≥ 20% ≥ 15%

Taishin Bills Finance

Balance Sheet

	December 31	
	2006	2005
Assets		
Cash and cash equivalents	\$ 3,566,727	\$ 4,079,819
Due from Central Bank and call loans to banks	260,473	190,521
Financial assets at fair value through profit or loss	32,285,022	37,046,501
Bonds and securities purchased under resell agreements	345,177	7,662,544
Receivables	406,900	459,869
Available-for-sale financial assets	17,285,855	17,989,482
Other financial assets	8,435	8,428
Property and equipment	343,840	346,781
Other assets	6,199,644	2,567,933
	<u>\$ 60,702,073</u>	<u>\$ 70,351,878</u>
Liabilities		
Due to banks and Central Bank	\$ 8,155,000	\$ 16,641,000
Commercial paper payable	-	499,186
Financial liabilities at fair value through profit or loss	281,723	-
Bonds and securities sold under repurchase agreements	39,744,197	40,735,911
Payables	191,892	81,653
Bonds payable	5,000,000	5,000,000
Other liabilities	489,351	521,623
	<u>53,862,163</u>	<u>63,479,373</u>
Stockholders' equity		
Capital stock	5,140,000	5,140,000
Retained earnings	1,687,922	1,732,505
Other adjustments	11,988	-
	<u>6,839,910</u>	<u>6,872,505</u>
	<u>\$ 60,702,073</u>	<u>\$ 70,351,878</u>

Income Statement

	Years Ended December 31	
	2006	2005
Net interest income	\$ 318,231	\$ 50,239
Net non-interest income	159,765	903,622
Gross income	477,996	953,861
Bad debt expenses	(25,338)	(42,265)
Operating expenses	(153,299)	(162,245)
Income before income tax	299,359	749,351
Income tax expense	(108,696)	(136,572)
Cumulative effects of changes in accounting principle	193,815	-
Net income	<u>\$ 384,478</u>	<u>\$ 612,779</u>
Pretax basic earnings per share (dollar)	<u>\$ 0.99</u>	<u>\$ 1.46</u>
After-tax basic earnings per share (dollar)	<u>\$ 0.74</u>	<u>\$ 1.19</u>

V. Financial Statements

Important Financial and Business Overview

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	0.78%	0.59%	1.09%	0.89%
Return on net worth	7.47%	5.61%	11.03%	9.02%
Profit margin		80.44%		64.24%

Note a: Return on total assets =	Income before (after) tax
	Average assets
Note b: Return on net worth =	Income before (after) tax
	Average net worth
Note c: Profit margin =	Income after tax
	Net revenue

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

Asset Quality

Item	December 31	
	2006	2005
Guarantees and endorsed credit amount not exceeding payment date three months	\$ -	\$ -
Nonperforming loans (NPLs, including delinquent loans)	-	-
Surveillance loans	185,869	191,787
Delinquent loans	-	-
NPL ratio	-	-
NPL ratio plus surveillance loan ratio	1.81%	1.54%
Allowance for bad debts and guarantees depended on rules	191,294	216,719
Allowance for bad debts and guarantees in actual	472,653	467,667

Capital Adequacy

Item	December 31	
	2006	2005
Capital requirement	\$ 7,213,897	\$ 6,809,102
Risk-weighted assets	40,702,230	52,375,948
Capital adequacy ratio	17.72%	13.00%
Tier I capital to risk weighted assets ratio	16.68%	13.12%
Tier II capital to risk weighted assets ratio	1.04%	0.82%
Tier III capital to risk weighted assets ratio	-	-
Common stock equity to total assets ratio	11.27%	9.77%

Note a: Capital adequacy ratio = Capital requirement ÷ Risk weighted assets.

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

Management Information

a.Business Highlight

	December 31	
	2006	2005
Guarantees and endorsed notes	\$ 10,280,900	\$ 12,507,500
Ratio of guarantees and endorsed notes to net assets (after appropriation of last year's earnings)	1.60	2.00
Short-term securities sold under repurchase agreements	\$ 39,744,197	\$ 40,735,911
Ratio of short-term securities sold under repurchase agreements to net assets (after appropriation of last year's earnings)	6.17	6.51

b.Concentration of Credit Risks

	December 31	
	2006	2005
Loans to parties with common interests	\$ 350,000	\$ 345,000
Percentage of loans to parties with common interests	3.40%	2.76%
Percentage of loans secured by stocks	26.12%	20.02%

V. Financial Statements

Item	Industry	December 31	
		2006 (%)	2005 (%)
Approved credit concentration	Agriculture, forestry, fishery and animal husbandry	-	1.60
	Mining	-	-
	Manufacturing	16.98	22.18
	Utilities	-	-
	Construction	3.96	1.92
	Wholesale and retailing, food and beverage	13.54	12.39
	Transportation, warehousing and communications	2.92	2.08
	Finance, insurance and leasing	14.78	14.31
	Finance, insurance and securities brokerage	7.73	11.60
	Finance, insurance and real estate	6.31	5.03
	Finance, insurance and investment	33.78	28.49
	Service industry	-	0.40
	Others	-	-
		100	100

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

Note b: Stock pledged and approved credit ratio = Loans secured by stocks ÷ Total loans.

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

c.Special Recorded Items

	Reason and Amount
Within the past year, the person in charge or employee violated the law in the course of business operations and was sued by the public prosecutor in the recent year.	None
Within the past year, a fine was levied on Taishin Bills Finance for violating the Law Governing Bills Finance Business.	None
Within the past year, Taishin Bills Finance committed a misdemeanor, resulting in the Ministry of Finance's (MOF) subjecting Taishin Bills Finance to corrective measures.	None
Within the past year, there was an actual loss of more than \$50,000 thousand due to a major employee fraud, workplace accidents or failure to comply with financial institutions' guidelines for sound operations.	None
Others	None

Note: The "past year" refers to the period from January 1, 2006 to December 31, 2006.

Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2006 and 2005 are as follows:

	2006	
	Average Value	Average Interest Rate %
Assets		
Time deposits	\$ 5,725,786	1.9008
Deposits in banks	31,952	-
Call loans to banks	134,395	1.5429
Deposits in Central Bank	459	-
Financing commercial papers	16,457,800	1.7331
Trading commercial papers	9,274	2.9754
Trading negotiable certificate of deposits	11,509,745	1.7280
Trading treasury bills	144,305	1.4951
Trading asset-based commercial papers - ABCP	3,795,366	1.7740
Trading government bonds	4,226,657	1.9547
Trading bank notes	399,388	1.9085
Trading corporate bonds	773,021	2.0727
Trading convertible bonds	1,051,655	-
Trading other assets	983,488	-
Trading structured time deposits	241,096	-
Available-for-sale government bonds	9,165,004	1.8835
Available-for-sale bank notes	4,267,346	1.5294
Available-for-sale corporate bonds	4,531,737	2.0842
Bills purchased under resell agreement	388,093	1.5733
Bonds purchased under resell agreement	2,977,362	0.7754
Liabilities		
Due to banks	10,521,030	1.5660
Bills sold under repurchase agreements	21,718,556	1.5290
Bonds sold under repurchase agreements	22,464,180	1.3950
Bonds payable	5,000,000	2.0645

V. Financial Statements

	2005	
	Average Value	Average Interest Rate %
Assets		
Time deposits	\$ 6,281,220	1.5645
Deposits in banks	38,834	-
Deposits in Central Bank	4,175	-
Call loans to banks	150,370	1.3274
Financing commercial papers	15,625,038	1.2073
Trading commercial papers	23,865	1.0282
Negotiable certificate of deposits	15,343,478	1.1615
Treasury bills	4,585,200	1.1980
Government bonds	13,911,446	1.7255
Bank notes	4,964,598	1.3236
Corporate bonds	3,703,032	1.3025
Bills purchased under resell agreement	992,764	1.3508
Bonds purchased under resell agreement	1,201,448	1.3566
Other short-term investments	528,666	-
Liabilities		
Short-term borrowings	52,055	-
Short-term notes and bills payable	175,890	1.1972
Due to banks	9,121,014	1.3116
Bills sold under repurchase agreements	30,040,879	1.2350
Bonds sold under repurchase agreements	19,101,167	1.1761
Bonds payable	5,000,000	2.0645

Liquidity

Analysis of maturities of assets and liabilities as of December 31, 2006:

	1~30 Days	31~90 Days	91~180 Days	181 Days ~1 Year	More Than 1 Year
Cash used in					
Bills	\$ 5,182,416	\$ 11,919,868	\$ 5,233,981	\$ 3,697,354	\$ -
Bonds	739	741,559	1,198,915	3,732,770	17,863,275
Deposits	896,327	216,500	1,275,400	1,178,500	-
Call loans to banks	260,473	-	-	-	-
Bonds and securities purchased under resell agreements	345,177	-	-	-	-
	<u>6,685,132</u>	<u>12,877,927</u>	<u>7,708,296</u>	<u>8,608,624</u>	<u>17,863,275</u>
Cash provided by					
Call loans from banks	8,155,000	-	-	-	5,000,000
Bonds and securities sold under repurchase agreements	35,756,819	3,979,516	4,862	3,000	-
Self-owned capital	-	-	-	-	6,839,910
	<u>43,911,819</u>	<u>3,979,516</u>	<u>4,862</u>	<u>3,000</u>	<u>11,839,910</u>
Net flow	<u>\$ (37,226,687)</u>	<u>8,898,411</u>	<u>7,703,434</u>	<u>8,605,624</u>	<u>6,023,365</u>
Accumulated net flow	<u>\$ (37,226,687)</u>	<u>\$ (28,328,276)</u>	<u>\$ (20,624,842)</u>	<u>\$ (12,019,218)</u>	<u>\$ (5,995,853)</u>

Interest Rate Sensitivity

Item	December 31, 2006				
	1~90 Days	91~180 Days	181 Days~1 Year	More Than 1 Year	Total
Interest-sensitive assets	19,563,059	7,708,296	8,608,624	17,863,275	53,743,254
Interest-sensitive liabilities	47,891,335	4,862	3,000	11,839,910	59,739,107
Interest sensitivity gap	(28,328,276)	7,703,434	8,605,624	6,023,365	(5,995,853)
Net worth					6,839,910
Ratio of interest-sensitive assets to liabilities					89.96%
Ratio of interest sensitivity gap within one year to net worth					(175 .72%)

Note a: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note b: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Taishin AMC

Balance Sheet

		December 31	
		2006	2005
Assets			
Current assets	\$	701,429	\$ 1,664,940
Financial assets carried at cost		92,396	52,995
Long-term investments under equity method		242,803	128,712
Property and equipment		1,870	3,119
Other assets		608,762	628,133
	\$	1,647,260	\$ 2,477,899
Liabilities			
Current liabilities	\$	226,559	\$ 1,279,599
Other liabilities		9,267	12,192
		235,826	1,291,791
Stockholders' equity			
Capital stock		1,100,000	750,000
Retained earnings		311,434	436,108
		1,411,434	1,186,108
	\$	1,647,260	\$ 2,477,899

V. Financial Statements

Income Statement

	Years Ended December 31	
	2006	2005
Operating revenue	\$ 190,570	\$ 537,226
Operating cost and expenses	(182,542)	(112,509)
Operating income	8,028	424,717
Nonoperating income and gains	219,858	110,798
Nonoperating expenses and losses	(35,715)	(43,854)
Income before income tax	192,171	491,661
Income tax expense	(22,442)	(83,277)
Cumulative effects of changes in accounting principle	55,780	-
Net income	\$ 225,509	\$ 408,384
Pretax basic earnings per share (dollar)	\$ 2.26	\$ 4.47
After-tax basic earnings per share (dollar)	\$ 2.05	\$ 3.71

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	12.02%	10.93%	23.66%	19.65%
Return on net worth	19.09%	17.36%	46.15%	38.33%
Profit margin		54.94%		63.02%

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

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

Note c: Profit margin =
$$\frac{\text{Income after tax}}{\text{Operating income}}$$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Income before tax includes income before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

Taishin Marketing

Balance Sheet

	December 31	
	2006	2005
Assets		
Current assets	\$ 8,666	\$ 16,784
Property and equipment	1,109	3,265
Other assets	35	2,182
	<u>\$ 9,810</u>	<u>\$ 22,231</u>
Liabilities		
Current liabilities	\$ 3,184	\$ 16,476
Other liabilities	155	89
	<u>3,339</u>	<u>16,565</u>
Stockholders' equity		
Capital stock	1,000	1,000
Capital surplus	1,027	952
Retained earnings	4,444	3,714
	<u>6,471</u>	<u>5,666</u>
	<u>\$ 9,810</u>	<u>\$ 22,231</u>

Income Statement

	Years Ended December 31	
	2006	2005
Operating revenue	\$ 63,491	\$ 208,995
Operating cost and expenses	(63,617)	(206,246)
Operating (loss) income	(126)	2,749
Income tax expense (benefit)	931	(1,999)
Net income	<u>\$ 805</u>	<u>\$ 750</u>
Pretax basic (loss) earnings per share (dollar)	<u>\$ (1.26)</u>	<u>\$ 27.49</u>
After-tax basic earnings per share (dollar)	<u>\$ 8.03</u>	<u>\$ 7.50</u>

V. Financial Statements

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	(0.79%)	5.02%	10.79%	2.94%
Return on net worth	(2.08%)	13.26%	5 1.95%	14.17%
Profit margin		1.27%		0.36%

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

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

Note c: Profit margin = $\frac{\text{Income after tax}}{\text{Net revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Taisin Venture Capital

Balance Sheet

	December 31	
	2006	2005
Assets		
Current assets	\$ 105,121	\$ 149,158
Funds and investments	768,728	757,163
Other assets	7	-
	<u>\$ 873,856</u>	<u>\$ 906,321</u>
Liabilities		
Current liabilities	\$ 232	\$818
Stockholders' equity		
Capital stock	1,000,000	(94,497)
Accumulated deficit	(126,376)	1,000,000
Other adjustments	-	-
	<u>873,624</u>	<u>905,503</u>
	<u>\$ 873,856</u>	<u>\$ 906,321</u>

Income Statement

	Years Ended December 31	
	2006	2005
Revenue	\$ 20,019	\$ 28,997
Expenses	(53,163)	(76,203)
Loss before income tax	(33,144)	(47,206)
Income tax expense	-	(651)
Cumulative effects of changes in accounting principle	1,265	-
Net loss	<u>\$ (31,879)</u>	<u>\$ (47,857)</u>
Pretax basic loss per share (dollar)	<u>\$ (0.32)</u>	<u>\$ (0.47)</u>
After-tax basic loss per share (dollar)	<u>\$ (0.32)</u>	<u>\$ (0.48)</u>

Profitability

Item	December 31			
	2006		2005	
	Pretax	After Tax	Pretax	After Tax
Return on total assets	(3.58%)	(3.58%)	(5.08%)	(5.15%)
Return on net worth	(3.58%)	(3.58%)	(5.10%)	(5.17%)
Profit margin		(159.24%)		(165.04%)

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

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

Note c: Profit margin = $\frac{\text{Income after tax}}{\text{Revenue}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2006 and 2005, respectively.

Note e: Loss before tax includes loss before income tax of continued operations and pre-tax cumulative effects of changes in accounting principle.

V. Financial Statements

46.DISCLOSURES UNDER STATUTORY REQUIREMENTS

Material transactions are summarized as follows:

No.	Item	Explanation
1	Accumulated purchases and sales the same kind of marketable securities over \$300 million or 10% of outstanding capital for the year ended December 31, 2006	Table 1
2	Acquisition or disposal of fixed assets over \$300 million or 10% of outstanding capital for the year ended December 31, 2006	None
3	Discounts of service charges for related party transactions over \$5 million	None
4	Intercompany receivables over \$300 million or 10% of outstanding capital	None
5	Sales of NPL from subsidiaries over \$5 billion	Note 34
6	Authorities securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization	Table 10
7	Other material transactions which impact users' decision of financial statements	None

Information on Taishin Financial Holding's investees:

No.	Item	Explanation
1	Investees' names, locations, etc	Table 2
2	Capital lending to another party	Note
3	Endorsement for another party	Note
4	Marketable securities held as of December 31, 2006	Table 3 (Note)
5	Accumulated purchases and sales the same kind of marketable securities over \$300 million or 10% of outstanding capital for the year ended December 31, 2006	Table 4 (Note)
6	Acquisition or disposal of property and equipment over \$300 million or 10% of outstanding capital for the year ended December 31, 2006	Table 5
7	Discounts of service charges for related party transactions over \$5 million	None
8	Intercompany receivables over \$300 million or 10% of outstanding capital	Note 34
9	Sales of NPL from subsidiaries over \$5 billion.	None
10	Authorities securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Security	None
11	Other material transactions which may affect decision of the user of the financial statements	None
12	Derivative instrument	Notes 7 and 40

Note: None, or not required to No. 2 to 5 disclose if the investee is a bank, insurance or security company.

Information of Investment in Mainland China is summarized as follows:

No.	Item	Explanation
1	Information of investment in Mainland China	None
2	Material commitments and contingent liabilities	Note 36
3	Material disaster loss	None
4	Material subsequent events	None

According to the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, a company should disclose business relationships and material transactions in consolidation. Please refer to Table 8.

47. FINANCIAL INFORMATION OF DEPARTMENT

(a) Financial Information of Department

Taishin Financial Holding and subsidiaries' operations are related to banking, securities and financial services mentioned in Article 36 of the ROC Financial Holding Company Act. Please refer to Note 40 for subsidiaries financial information of industry in which Taishin Financial Holding has controlling interest.

(b) Financial Information of District

The operating income of Taishin Financial Holding and subsidiaries' overseas departments is not over 10% of consolidated operating income. In addition, their assets are not over 10% of consolidated total assets either. Thus, no financial information of district is required.

(c) Information of Foreign Sales

The revenue from foreign sales done by the domestic departments of Taishin Financial Holding and subsidiaries to individuals is not over 10% of consolidated total operating income.

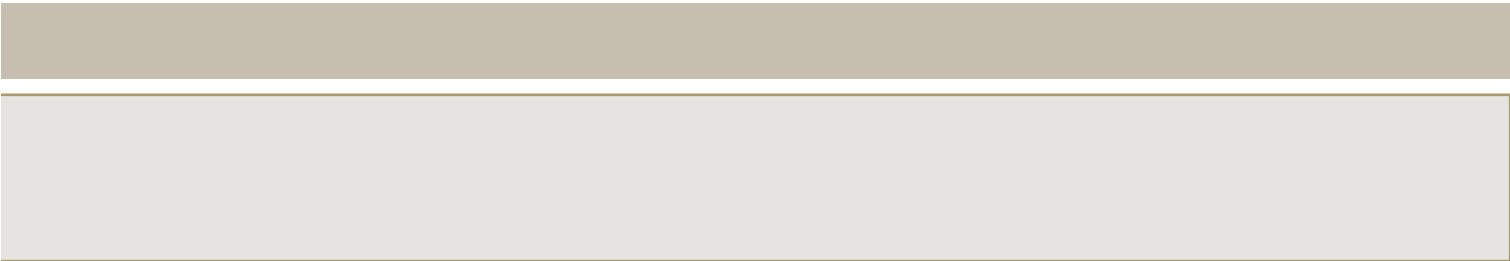
(d) Information of Important Customers

Taishin Financial Holding and subsidiaries don't have important customers contributing revenue more than 10% of consolidated operating income.

V. Financial Statements

Table 1 Accumulated purchases and sales balance of specific marketable securities over NT\$300 million or 10% of outstanding capital for the year ended December 31, 2006

Buyer or Seller	Type and Name of Marketable Security	Account Recorded	Transaction Party	Issuer's Relationship to the Buyer or Seller	Beginning of the Period	
					Shares (Units)	Amount
Taishin Financial Holding	Chang Hwa Bank Common stocks	Long-term investments	-	-	-	-



(In Thousands of New Taiwan Dollars)

Purchases		Sales				End of the Period	
Shares (Units)	Amount	Shares (Units)	Selling Price	Carrying Value	Disposal Gain (Loss)	Shares (Units)	Amount
160,225,000	3,833,096	-	-	-	-	160,225,000	3,833,096

V. Financial Statements

Table 2 Information on investees' names, locations, etc. as of and for the year ended December 31, 2006

Investor	Investees' Names	Investees' Location	Principal Business Activities
Taishin Financial Holding	Taishin Bank	1Fl., No. 44, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Commercial bank business, trust, and bills discounting
	Taiwan Securities	4Fl., No. 137, Sec. 2, Nanjing E. Rd., Taipei, Taiwan	Securities brokerage, margin lending, and underwriting financial products
	Taishin Bills Finance	9F 10Fl., No. 118, Sec. 4, Ren-Ai Rd., Taipei, Taiwan	Bills finance
	Taishin AMC	6Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Acquisition of delinquent loans, evaluation, auction, and management
	Taishin Marketing	2Fl., No. 111, Sec. 4, Bate Rd., Taipei, Taiwan	Investment and enterprise operating consultant and agency
	Taishin Venture Capital	10Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Investment start-up
	Chang Hwa Bank	No. 38, Sec. 2, Tsu Yu Rd., Taichung, Taiwan	Commercial bank business, trust, and bills discounting
Taishin Bank	Taishin Real-Estate	3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Audit and consulting of construction plan, contract witness
	Taishin Insurance Agency	6Fl., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Life insurance agency
	Taishin International Finance	4001B, 40th Fl., Tower II, Lippo Center, 89 Queensway Central, Hong Kong	Import and export of foreign exchange, trade financing, guarantee and acceptance
	PayEasy Digital	13Fl., No. 11, Sec. 1, Jungshan N. Rd., Taipei, Taiwan	Investment and enterprise operating consultant, information software and data processing, advertising, international trade, agency and network services
	Dah An Leasing	6Fl., No. 23, Sec. 1, Changan Rd., Taipei, Taiwan	Leasing and retailing of machinery, mobile, aircraft, marine and components

Note 1: Chang Hwa Bank's interest with voting rights held by the group and related parties amounted to 25%.

Note 2: Taishin Real-Estate interest with voting rights held by the group and related parties amounted to 100%.

Note 3: Taishin Insurance Agency's interest with voting rights held by the group and related parties amounted to 92%.

Note 4: Taishin International Finance's interest with voting rights held by the group and related parties amounted to 100%.

Note 5: PayEasy Digital's interest with voting rights held by the group and related parties amounted to 81%.

Note 6: Dah An Leasing's interest with voting rights held by the group and related parties amounted to 100%.

(In Thousands, Except for Percentage and Shares)

Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognize Income (Loss) of Current Period	Investment s of the Group and Related Parties	Note
End of Current Period	End of Last Period	Shares	Owner- ship Interest (%)	Book Value				
54,482,363	48,982,363	3,486,776,537	100.00	34,813,768	(19,649,629)	(19,649,629)	None	Subsidiary
17,400,824	17,400,824	1,325,504,447	100.00	19,502,684	1,214,548	1,214,548	None	Subsidiary
6,371,000	6,371,000	514,000,000	100.00	6,839,909	384,416	384,416	None	Subsidiary
750,000	750,000	75,000,000	100.00	1,411,434	201,944	201,944	None	Subsidiary
2,000	2,000	100,000	100.00	6,471	805	805	None	Subsidiary
1,000,000	1,000,000	100,000,000	100.00	873,624	(31,879)	(31,879)	None	Subsidiary
40,401,096	36,568,000	1,560,225,000	25.13	43,641,111	11,377,055	2,589,070	Note 1	Subsidiary
30,000	30,000	12,000,000	60.00	357,925	364,925	217,937	Note 2	Subsidiary
1,500	1,500	56,135,145	51.03	801,723	300,020	159,071	Note 3	Subsidiary
127,314	127,314	29,999,700	99.99	220,825	40,675	40,674	Note 4	Subsidiary
34,000	34,000	6,666,667	66.67	189,818	172,283	112,668	Note5	Subsidiary
198,000	198,000	19,800,000	99.00	196,773	2,733	2,706	Note 6	Subsidiary

V. Financial Statements

Table 2 Information on investees' names, locations, etc. as of and for the year ended December 31, 2006

Investor	Investees' Names	Investees' Location	Principal Business Activities
	An Hsin Real-Estate Management Co., Ltd.	10Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan	Construction consultation, real estate appraisal
	Taishin Venture Capital Co., Ltd.	10Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Investment start-up
	Taiwan Futures	1 1F., No. 96, Sec. 1, Jianguo N. Rd., Jhonshan District, Taipei City 104, Taiwan	Futures brokering
	Chang Hwa Bank	No. 38, Sec. 2, Tsu Yu Rd., Taichung, Taiwan	Commercial bank business, trust, and bills discounting
Taishin AMC	Taishin Real-Estate	3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Audit and consulting of construction plan, contract witness
Taiwan Securities	Anew Holdings	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Management of the overseas investment business
	Taiwan Futures	1 1F., No. 96, Sec. 1, Jianguo N. Rd., Jhonshan District, Taipei City 104, Taiwan	Brokers of futures transactions
	Taiwan Securities Investment Advisory	16F., No. 118, Sec. 4, Ren-Ai Rd., Da-An District, Taipei City 106, Taiwan	Securities investment consultant and publications of investment

Note 1: An Shin Real-Estate Management Co., Ltd.'s ownership interest with voting rights held by the group and related parties amounted to 41%

Note 2: Taishin Futures's ownership interest with voting rights held by the group and related parties amounted to 100%.

Note 3: Chang Hwa Bank's ownership interest with voting rights held by the group and related parties amounted to 25%.

Note 4: Taiwan Securities Investment Advisory's ownership interest with voting rights held by the group and related parties amounted to 100%.

(In Thousands, Except for Percentage and Shares)

Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognize Income (Loss) of Current Period	Investment s of the Group and Related Parties	Note
End of Current Perio	End of Last Period	Shares	Owner- ship Interest (%)	Book Value				
15,000	15,000	2,700,000	30.00	41,350	35,730	10,380	Note 1	Investee on which Taishin Bank has significant influence
-	26,325	-	-	-	37,416	1,871	None	Liquidated
40,000	40,000	4,400,000	6.15	54,335	79,241	4,877	Note 2	Investee on which Taishin Bank has Significant influence
307,814	307,814	16,500,000	0.27	308,556	11,377,055	29,303	Note 3	Investee on which Taishin Bank has Significant influence
39,600	39,600	8,000,000	40.00	242,803	364,925	145,291	None	Subsidiary
1,310,540	1,310,540	39,894,691	100.00	1,602,966	US\$5,451	177,324	None	Subsidiary
610,000	360,020	67,100,000	93.85	828,604	79,241	74,600	Note 2	Subsidiary
338,529	338,529	27,599,513	92.00	337,128	5,004	4,717	Note 4	Subsidiary

V. Financial Statements

Table 2 Information on investees' names, locations, etc. as of and for the year ended December 31, 2006

Investor	Investees' Names	Investees' Location	Principal Business Activities
Anew Holdings	Shin Ze	4Fl., No. 100, Sec. 3, Minsheng E. Rd., Song Shan Dis., Taipei, Taiwan	Collection of delinquent loans, evaluation, auction, and management. Management on late posting payment, investment, business management consultant
	Taiwan Managed Futures	9F., No. 123, Sec. 2, Nanjing E. Rd., Jhongshan District, Taipei City 104, Taiwan	Management of futures transactions
	Taishin Investment Trust Co., Ltd.	1 1Fl., No. 96, Sec. 1, Jian Guo N. Rd., Taipei, Taiwan	Securities issuance and investment
	Tai Chen (BVI)	Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands	Underwriters and business advisory
	Taiwan Securities (Hong Kong) Co., Ltd.	Room 1302-05, 13F1, No. 18, Tower II, Admiralty Centre, Harcourt Rd., H.K.	Brokers, under-writers, and investment consultant
	TSC Capital Limited	Room 1302-05, 13F1, No. 18, Tower II, Admiralty Centre, Harcourt Rd., H.K.	Consultant
	Taiwan Securities (Hong Kong) Co., Ltd. Nominee United	Room 1302-05, 13F1, No. 18, Tower II, Admiralty Centre, Harcourt Rd., H.K.	Trust agent business
Taishin VentureCapital	Taishin Venture Capital Co., Ltd.	1 0Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan	Investment start-up
Taishin Insurance Agency	Taishin Non-Life Insurance Agency	9Fl-4, No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Nonlife insurance agency
	Taishin Insurance Brokers	9Fl-4, No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan	Insurance brokers
PayEasy Digital	PayEasy Travel	13-1Fl., No. 11, Sec. 1, Jungshan N. Rd., Taipei, Taiwan	Travel agency
An Hsin Real-Estate Management Co., Ltd.	Riches Chung Asset Management Service Co., Ltd.	1 0Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan	Acquisition of delinquent loans and related evaluation auction, and management

Note: Riches Chung Asset Management Service Co., Ltd.'s ownership interest with voting rights held by the group and related parties amounted to 80%.

(In Thousands, Except for Percentage and Shares)

Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognize Income (Loss) of Current Period	Investment s of the Group and Related Parties	Note
End of Current Period	End of Last Period	Shares	Owner- ship Interest (%)	Book Value				
25,500	25,500	2,550,000	51.00	61,145	(16,334)	(8,330)	None	Subsidiary
200,000	200,000	20,000,000	100.00	170,338	(7,648)	(7,640)	None	Subsidiary
135,000	135,000	13,500,000	45.00	135,446	10,552	4,748	None	Subsidiary
US\$ 10	US\$ 10	10,000	100.00	US\$ 2,053	US\$ 62	US\$ 62	None	Subsidiary
HK\$288,600	HK\$288,600	288,600	100.00	US\$ 44,906	HK\$ 42,300	US\$ 5,446	None	Subsidiary
HK\$ 20,000	HK\$ 20,000	20,000	100.00	US\$ 2,212	HK\$(274)	US\$(35)	None	Subsidiary
-	-	3	100.00	-	-	-	None	Subsidiary
-	109,203	-	-	-	37,416	7,346	None	Investee on which Taisin Venture Capital. has Significant influence (liquidated on July 14, 2006)
-	2,440	-	-	-	(425)	(438)	None	Liquidated
2,000	2,000	6,000,000	100.00	80,292	13,113	12,747	None	Subsidiary
10,000	10,000	1,000,000	100.00	4,672	(4,632)	(4,632)	None	Subsidiary
-	5,500	-	-	-	-	(59)	Note	Liquidated

V. Financial Statements

Table 2 Information on investees' names, locations, etc. as of and for the year ended December 31, 2006

Investor	Investees' Names	Investees' Location	Principal Business Activities
	Riches Fu Asset Management Service Co., Ltd.	10Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan	Collection of delinquent loans, evaluation, auction, and management
Chung Hwa Bank	Chung Yi Insurance Agency	6F, No. 57, Sec. 2 Jungshan N. Rd., Taipei, Taiwan	Insurance agency
	Chung Yi Insurance Broker	6F, No. 57, Sec. 2 Jungshan N. Rd., Taipei, Taiwan	Insurance broker

Note 1: Riches Fu Asset Management Service Co., Ltd.'s ownership interest with voting rights held by the group and related parties amounted to 83%.

(In Thousands, Except for Percentage and Shares)

Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognize Income (Loss) of Current Period	Investment s of the Group and Related Parties	Note
End of Current Perio	End of Last Period	Shares	Owner- ship Interest (%)	Book Value				
6,501	7,014	948,044	67.72	13,030	4,318	2,849	Note 1	Subsidiary
2,008	2,008	500,000	100.00	45,400	33,062	32,784	None	Subsidiary
2,000	2,000	500,000	100.00	16,244	10,044	9,980	None	Subsidiary

台新金融控股股份有限公司



董事長

吳東亮





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