



2006 ANNUAL REPORT

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Directory of Head Office & Branches



The Bridge Toward New Generation

Letter to Shareholders



Chairman Ping-Hui Liu

The overall global economic performance in 2006 appeared to move in a steady growth trend, which can be attributable to the robust performance continuation since second half of last year. According to Global Insight Inc, the global economic growth rate in 2006 outperformed last year's 3.5% and reached 3.9%. In Taiwan, despite the impacts from the "Double Card Crisis" which caused the diminishing consumer spending desires and the slowing down of domestic demands, the economic growth has still outgrown previous year's 4.03% and reached 4.62%. Such performance was driven by several factors such that the increased exports in the global consumer electronic sectors which stimulated by the expanded foreign demand, and real estate booming which increased expenditure in construction expense.

Impacts from the "Double Card Crisis" have caused increasingly deteriorating consumer credit quality, which caused the domestic banks to encounter the pressures from the soaring credit risk and write-offs. The total write-offs for the domestic banks have reached the threshold of more than NT\$200 billion in 2006, which severely deteriorated the earnings. In order to prevent from further damages, most of the financial institutions have shifted their strategy to a more conservative approach, by implementing the customer segmentation policy, lowering the consumer credit limit and reducing the weight on the consumer lending business, etc. In addition, the domestic financial industry is also faced with its greatest

challenges, such as the increasingly intensified price competition that squeezes the interest spread, the aggressive foreign investment to acquire domestic banking sector, and the introduction of New BASEL II. Confronted with such severely challenged situations, the key objective for future prosperity is to achieve a breakthrough by strengthening its structure and improving its competitiveness in order to survive in such a globalized & liberalized financial world.

In order to cope with such an intensified market competition and increasingly challenging environment nowadays, BOP has administered the conservative strategy approach by reducing the weight on consumer banking sector and terminating the cash card business in April to prevent further impacts from the "Double Card Crisis". BOP has issued common share for cash at the end of 2006 and raised its paid-in capital of up to NT\$9.56 billion to improve its operating capital, asset quality, and strengthen the operational structure. To pursuit a steady operation growth, a substantial amount of provisioning has been provided to allowance for bad debt account, in which the fiscal year net income has consequently turned from a profit gain to a loss.

In the management perspective and aside from strengthening of cost and risk managements, speeding up the personnel training programs and focusing on the improvement of internal management efficiency were carried out. Offering efficient quality services to customers was also incorporated along with the 2004's reorganization philosophy in mind. The "Branch Operation Department" was established in July 2006 to coordinate and strengthen the current channel network, as well as to enhance the cross-selling mechanism to fulfill the diverse needs of various customers. In order to succeed in promoting the business operation, the operating strategy of "Focusing in the Corporate Sector, Consolidating the Consumer Sector, Finance Sector as Supplementary, and Administration Sector as Support" was put into practice. In addition, constantly in quest for breakthrough in the aspects of management and service to offer innovative products, repackaging, and channel distribution: Services such as Web ATM, ATM Cash Card in advance, SME transaction financing, FX internet banking, and FX telephone banking, etc. were developed. Distinctive deposit



related products such as “Advantageous Prosperity”, “Go Rich”, and “Within this Life Time” have been introduced to the general public. Supporting systems such as “Comprehensive Wealth Management Navigation”, “Real Estate Trust”, “E-Factoring”, “New Banc System (NBS)”, and “Business Intelligence (BI)”, have also been established actively to suit the expansion of business operation.

BOP Headquarter construction kick-off ceremony was held in July 15, 2006. The Headquarter was a 34 floor, state of the art, building complex located within the Sinban section, the major Taipei County hub where the three railing system joints. Upon the completion of the Headquarter in 2010, it will serve to facilitate in expanding the service scale, improving operation synergies, establishing corporate identity, and with the ambition to become the new landmark icon of Taipei County.

Overlook of the operating result in 2006, significant improvements than 2005 had been achieved with the tremendous efforts by the management team and every employee, the total deposit outstanding and total lending reached NT\$167.2 billion and NT\$140.7 billion, respectively. Among which the corporate and foreign lending sectors had performed superiorly, with growth of 31.31% and 40.54%, respectively. Despite the confrontation in such a fierce financial environment, BOP has kept its dedication to pursuit in improving its asset quality and strengthening its financial structure, and as a result, BOP's credit rating for 2006 by Taiwan Ratings Co. (A partner of Standard & Poor's)

has been sustained from previous year's rating: Long-term “twBBB”, Short-term “twA-3” and Stable Outlook.

Outlook for 2007, the global economic growth may appear decelerating due to the price downswing in the real estate market and diminishing desires for consumer spending, as well as effects upon energy price fluctuation and gradual rise on the interest rate. In the domestic perspective however, it is reasonable to anticipate with strong momentums from the consumer spending and investment growth with numerous positive indications such as the easing up of the “Double Card Crisis”, improved unemployment rate, continuation of robust stock & housing markets, major transportation infrastructure which carries out the leisure expenditure, and expansion of the production capacity from manufacture industry which raises capital expenditure. In addition, along with the initiation of major investment plans proposed by the government, the domestic economic growth is expected to achieve a 4.14% target level.

With stricter supervision from the authority due to the result of “REBAR Group Crisis” and on going discussions in merger and acquisition among financial industry, BOP is determined to pursuit in a moderate pace to outgrow its asset scale with fundamental principles of “customer, expertise, innovation, and service” in mind, and will adequately shift its operation position accordingly. Additionally, in order to accomplish BOP's goals of “Vigorously expanding Corporate and Wealth management sectors, retaining moderate growth for Consumer sector, participating in the cross-strait related business, and strengthening its electronic financial services”, BOP has dedicated itself to enhance the credit asset quality, improve operational procedures, plan out the most efficient branch channel distribution, and motivate staff learnings. Meanwhile, by leading in strategic partner and seeking out for potential merger target to strengthen its operation scale so as to promptly meet our corporate vision of becoming a comprehensive mid-sized commercial bank. Last but not least, do really hope to get all the supports from every one of our shareholders and let us work together forward to a prosperous future.



President Ming-Sing Shieh

Bank Overview

Bank of Panhsin (BOP) was founded back in April 25, 1957, formerly known as the Panchiao Credit Cooperative (PCC), and has ever since kept its operating principle of “Customer First” in mind to pursuit in expanding its business scale at a steady pace. In order to cope with such a rapidly liberalized financial environment and in accordance with the article of “Standards and Methods for Reorganization of Credit Cooperative into Commercial Bank” announced in December 6, 1995, PCC had acquired the Kaohsiung Fifth Credit Cooperative on September 29, 1997, officially transformed into a commercial bank, and renamed BOP the following day. The business premise has thus burst out of the Greater Taipei Area and its footprint extended to the southern part of the country. BOP had also acquired the Chiayi First Credit Cooperative on March 7, 2005, and the total branches have extended up to 47, which were allocated across Taipei City & County, Taoyuan County, Hsinchu County, Taichung city, Chiayi City, Tainan city, Kaohsiung City, and Yilan County.

Hence, BOP will persist in retaining its management concepts of “Integrity, Practicality, and Innovation” to expand its operating scale, improve its asset quality, and ultimately maximize its profits. BOP is determined to pursuit in becoming a highly competitive & comprehensive mid-sized commercial bank.

I. Date of Incorporation: September 30, 1997

II. Major Events in the Past Three Years

- Jan. 02, 2004 According to the principle of “Matching the right people to the right task”, BOP organization was divided into three divisions: Consumer Banking, Corporate Banking, and Supporting & Planning Sector; The number of management units had extended up to 15 departments.
- Feb. 20, 2004 The procurement of Plot 9, subsection 3, Sinban section within the Panchiao Special Zone in Taipei County for the construction of BOP Headquarter.
- Apr. 29, 2004 Collaboration with AnShin Card Services Company (later acquired by Sinopac) for the issuance of co-branded credit card service.
- Jun. 09, 2004 The 2004 Board of Directors’ meeting passed a resolution for the issuance of NT\$ 1 billion each in both common and preferred stock for cash (at par value of NT\$10).
- Oct. 18, 2004 Approval granted from Minister of Finance (MOF) for the establishment of Offshore Bank Unit (OBU) and officially started its operation.
- Nov. 02, 2004 Contract signed for acquiring Chiayi First Credit Cooperative. The contract was officially in effect on March 7, 2005 and branch channels have extended up to 47.
- Nov. 22, 2004 Approval granted from Finance Supervisory Commission (FSC) for the establishment of Panhsin Insurance Broker Co., Ltd and officially started its operation.
- Dec. 29, 2004 In accordance with the second phase restructuring scheme, BOP was divided into five divisions: Corporate Banking, Consumer Banking, Finance, Administration and Auditing. The number of management units had extended up to 18 departments.
- Jun. 02, 2005 Approval granted from FSC for the establishment of Panhsin Asset Management Co., Ltd and officially started its operation.
- Jun. 20, 2005 Allocation of NT\$198 million from distributed stock dividends of 2004 for capital increment.
- Nov. 07, 2005 Approval granted from FSC to undertake the wealth management business.
- Jun. 20, 2006 Held both common and preferred stock shareholders’ meeting in 2006, and re-elected BOP’s 4th term representative of directors & supervisors and passed the resolution for capital surplus transferred to common stock of NT\$360 million.



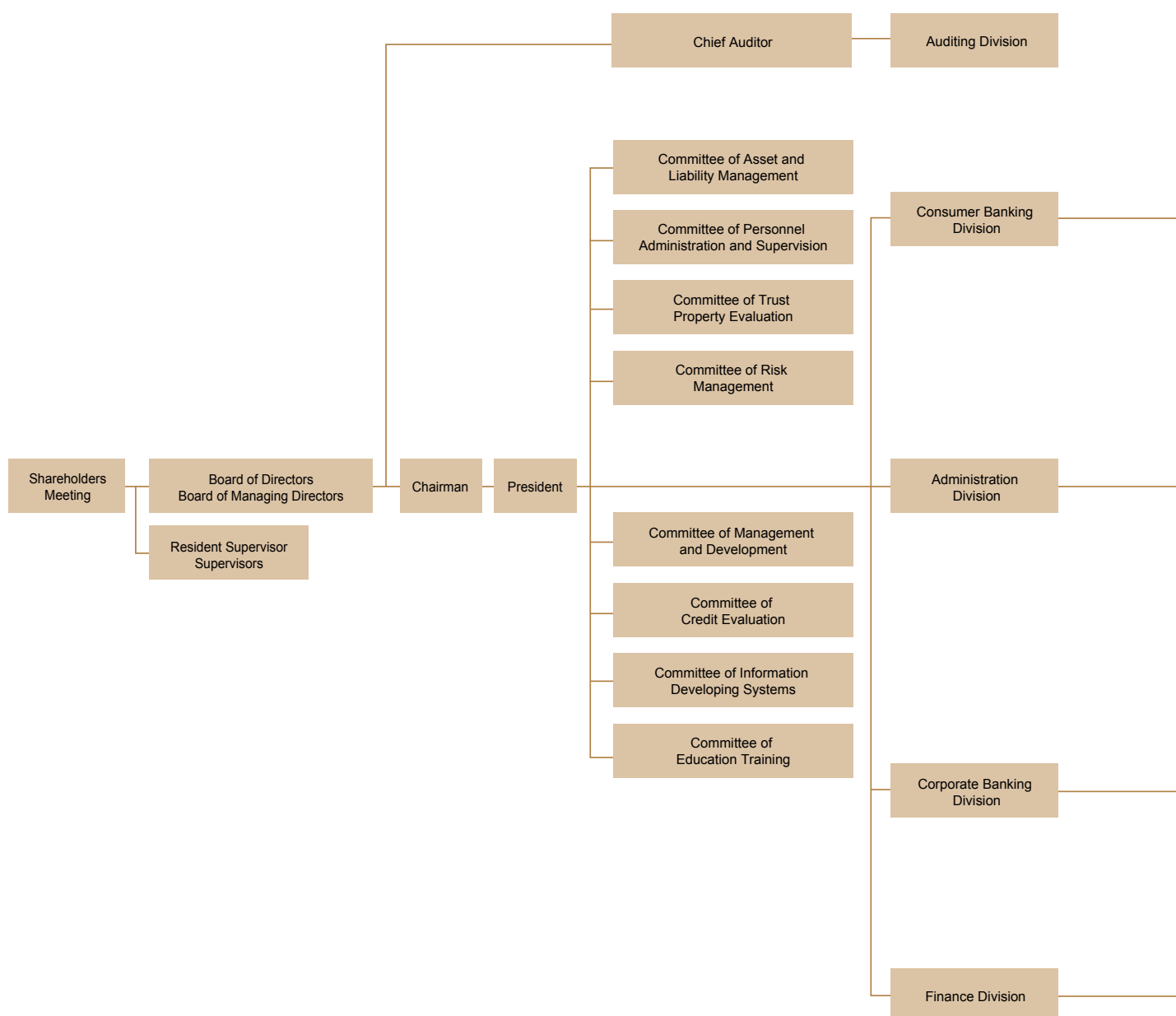
- Jun. 26, 2006 Held BOP's 1st board of directors' meeting of the 4th term directors, and elected 6 managing directors. Same day, held 1st board of managing directors' meeting, and re-appointed Ping-Hui Liu as chairman consecutively.
- Jul. 15, 2006 Held BOP Headquarter construction kick-off ceremony.
- Sept. 1, 2006 Capital surplus transferred to common stock and paid-in capital increased up to NT\$8.56 billion.
- Nov. 14, 2006 Approval granted for BOP's public offering.
- Dec. 28, 2006 Issuance of common stock for cash and paid-in capital increased up to NT\$9.56 billion.

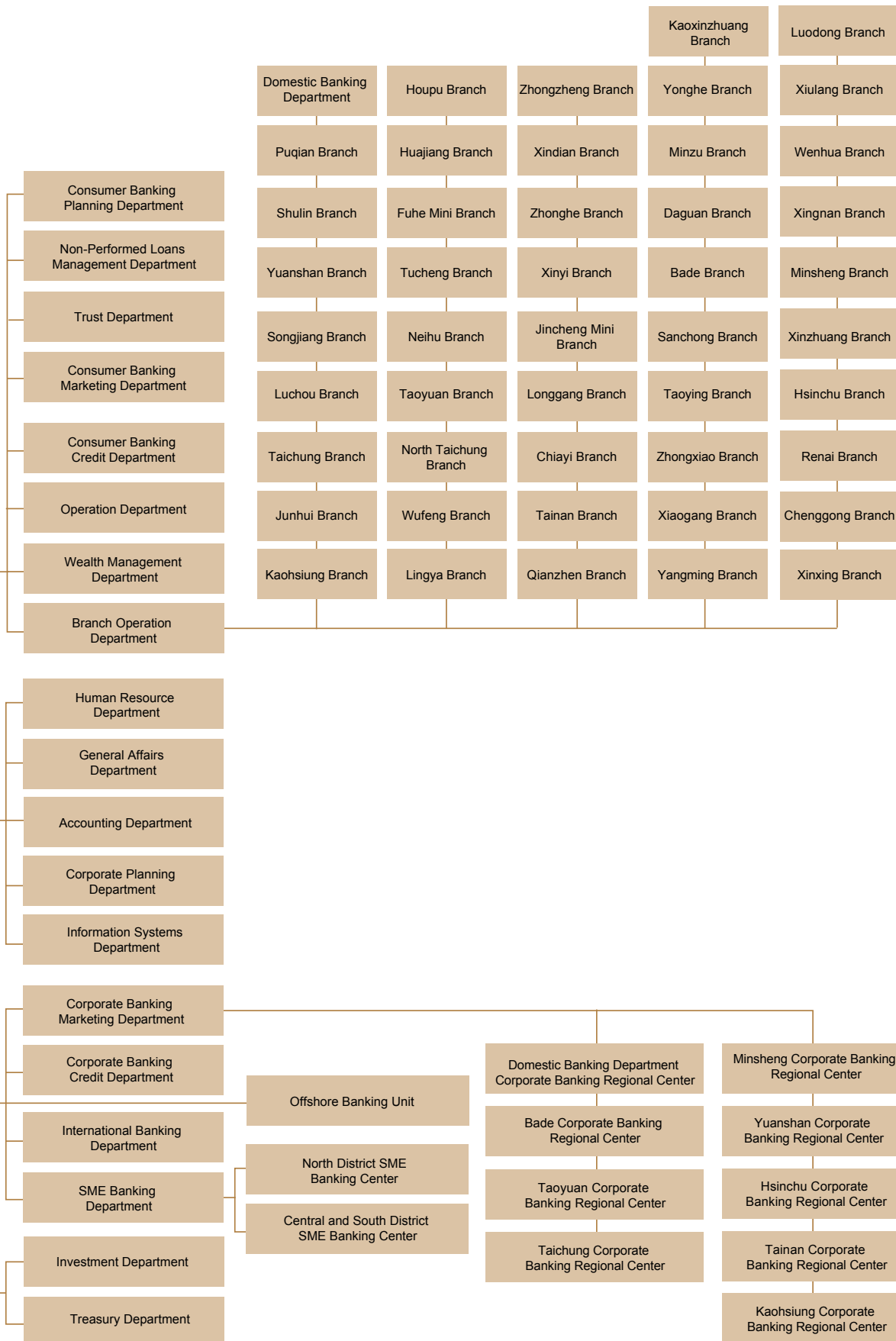
III. Credit Rating

Rating Agency	Date	Long-Term	Short-Term	Outlook
Taiwan Rating Co.	Oct.03, 2006	twBBB	twA-3	Stable

Corporate Governance

I. Organization Chart





II. Information on the Directors, Supervisors, President, Executive Vice Presidents, Vice Presidents, and Major Managers

(I) Directors and Supervisors

Position	Name	Date Appointed	Term	Date First Appointed	Shareholding when Elected		Current Shareholding	
					Shares	%	Shares	%
Chairman	Ping-Hui Liu	Jun. 20, 2006	3	Sept. 30, 1997	32,221,530	4.48	29,017,606	3.39
Managing Director	Ming-Hsin Chiu	Jun. 20, 2006	3	Sept. 30, 1997	4,289,635	0.60	4,504,116	0.53
Managing Director	Dao-Ming Kuo	Jun. 20, 2006	3	Sept. 30, 1997	6,870,069	0.95	7,213,572	0.84
Managing Director	Han-Chia Construction Co., Ltd. (Representative: Ping-Hua Liu)	Jun. 20, 2006	3	Jun. 20, 2006	53,255	0.01	61,797	0.01
Managing Director	Chao-Shen Liu	Jun. 20, 2006	3	Sept. 30, 1997	2,840,750	0.39	2,982,787	0.35
Managing Director	Chung-Liang Chen	Jun. 20, 2006	3	Jun. 26, 2003	651,442	0.09	5,684,014	0.66
Director	Sheng-Hung Shao	Jun. 20, 2006	3	Sept. 30, 1997	11,843,817	1.65	12,436,007	1.45
Director	San Light Construction Co., Ltd. (Representative: Mei-Yun Liao)	Jun. 20, 2006	3	Jun. 20, 2006	11,830	-	3,012,421	0.35
Director	Fang-Chin Huang	Jun. 20, 2006	3	Jun. 26, 2000	1,520,885	0.21	1,596,929	0.19
Director	Lin-Long Chien	Jun. 20, 2006	3	Sept. 30, 1997	6,305,638	0.88	6,620,919	0.77
Director	San-Jyun Construction Co., Ltd. (Representative: Jian-Chong Jhao)	Jun. 20, 2006	3	Jun. 20, 2006	11,830	-	12,421	-
Director	Li-Wang Lu	Jun. 20, 2006	3	Sept. 30, 1997	10,520,175	1.46	7,451,075	0.87
Director	Fu-Jing Investment Co., Ltd. (Representative: Hsien-Tse Chiu)	Jun. 20, 2006	3	Jun. 20, 2006	33,613,212	4.67	35,293,872	4.12
Director	Jing-Bao-Di Co., Ltd. (Representative: Tong-Ren Lin)	Jun. 20, 2006	3	Jun. 20, 2006	-	-	(PS)1,000,000	1.00
Director	Jen-Hsien Chiu	Jun. 20, 2006	3	Jun. 26, 2003	6,770,229	0.94	7,108,740 (PS) 765,000	0.83 0.77
Director	Ming-Sing Shieh	Jun. 20, 2006	3	Jun. 20, 2006	17,219	-	46,071 (PS) 17,219	0.01 0.02
Director	Jia-Nan Fang	Jun. 20, 2006	3	Jun. 26, 2003	12,015,784	1.67	12,638,424	1.48
Director	Jhin-Chen Chen	Jun. 20, 2006	3	Sept. 30, 1997	2,757,779	0.38	2,895,668	0.34
Resident Supervisor	Chin-E Yeh	Jun. 20, 2006	3	Sept. 30, 1997	4,502,578	0.63	4,727,706	0.55
Supervisor	Lai-Wei Liu	Jun. 20, 2006	3	Jun. 20, 2006	5,229,611	0.73	5,491,091	0.64
Supervisor	Shang-Che Chen	Jun. 20, 2006	3	Sept. 30, 1997	6,519,394	0.91	6,845,363	0.80
Supervisor	Teng-Chum Chen	Jun. 20, 2006	3	Jun. 26, 2000	1,141,087	0.16	1,198,141 (PS) 875,000	0.14 0.88
Supervisor	Mao-Yang Chu	Jun. 20, 2006	3	Sept. 30, 1997	6,229,609	0.87	6,541,089	0.76

Note:(PS) represents preferred shares.



Shares Held by Spouses & Minor Children		Major Experience & Education	Current Positions In the BOP and Other Companies
Shares	%		
30,894,219	3.61	Chihlee College of Business/ Chairman of Panchiao Credit Cooperative	Chairman of Panhsin Insurance Broker Co., Ltd./ Chairman of Da-Shun Construction Co., Ltd./ Director of FU-JING Investment Co., Ltd.
2,173,854	0.25	Ta-Tung Vocational High School/ Director of Panchiao Credit Cooperative	Director of Panhsin Asset Management Co., Ltd./ Director of Chin-Huan-Cho Development Co., Ltd.
2,185,677	0.26	MBA, Meijo University, Japan/ Director of Panchiao Credit Cooperative	Chairman of Panhsin Asset Management Co., Ltd./ Chairman of Aizia Enterprise Co., Ltd./ Chairman of Ching-I Enterprise Co., Ltd.
-	-	Chung-Yuan University/ Director of Panchiao Credit Cooperative	-
-	-	University of Southern California/ Director of Panchiao Credit Cooperative	Director of Fung-Ho Construction Co.
99,787	0.01	Kai Nan Commercial Vocational High School/ Manager of BOP	-
1,075,463	0.13	Tam-Shui Vocational Senior High School/ Director of Panchiao Credit Cooperative	Director & President of Bi-Fu Construction Co., Ltd./ Director of Space Satellite Television City Co., Ltd./ Director of Shin Ho Ho Net CATV Co., Ltd.
-	-	Blessed Imelda's School/ Chairman of San-Light Construction Co., Ltd.	-
-	-	Yu Da High School of Commerce/ Membership representative of Panchiao Credit Cooperative	Supervisor of Long-Jin Construction Co., Ltd.
1,305,057	0.15	Kuang Hua Senior Commercial Vocational Continuation School/ Supervisor of Panchiao Credit Cooperative	Director of Panhsin Asset Management Co., Ltd./ Chairman of He-Ching Entertainment Co., Ltd./ Chairman of Yi-Chin Entertainment Co., Ltd.
-	-	Fu-Jen Catholic University/ Chairman of Cheng-Huey Construction Co., Ltd.	-
3,578	-	Private Chin Kuang Senior Commercial & Industrial School/ Supervisor of Panchiao Credit Cooperative	Chairman of Mao-Qi Construction Co., Ltd.
-	-	National Taipei High School of Commerce/ Supervisor of Panchiao Credit Cooperative	-
-	-	Tamkang University/ V.P. of BOP	-
2,365,197 (PS) 459,781	0.28 0.46	Kai Nan Commercial Vocational High School/ Chairman of Juridical Person Chiu Chun-Mu Foundation	Director of Pu-Sheng Bio-Tech Co., Ltd./ Director of Golden-Global Development Co., Ltd.
-	-	Chinese Culture University/ E.V.P. of Chinatrust Commercial Bank	Director of Panhsin Insurance Broker Co., Ltd./ Director of Panhsin Asset Management Co., Ltd./ President of BOP
9,565,400	1.12	Soochow University/ S.V.P. of Chinatrust Commercial Bank	S.E.V.P. of BOP
18,744 (PS) 2,025	-	Kinki University Japan/ President of BOP	-
1,977	-	National Taipei High School of Commerce/ Resident Supervisor of Panchiao Credit Cooperative	-
8,648,733	1.01	Ger-Jyh Senior High School/ Director of Panchiao Credit Cooperative	Chairman of Jin-Annian Construction Co., Ltd./ Chairman of Jin-Fu Co., Ltd./ Chairman of Kao-Do Construction Co., Ltd.
438,479	0.05	Chung-Yu Jr. College of Business Administration/ Supervisor of Panchiao Credit Cooperative	Supervisor of Panhsin Insurance Broker Co., Ltd.
3,254	-	Kai Nan Commercial Vocational High School/ V.P. of BOP	Supervisor of Panhsin Asset Management Co., Ltd./ Director of Digital-Cell-Tech Entertainments Co., Ltd.
318,578	0.04	Yu Da High School of Commerce/ E.V.P. of Panchiao Credit Cooperative	Chairman of Hong-Tai Development Construction Co., Ltd./ Director of Pu-Sheng Bio-Tech Co., Ltd./ Supervisor of Shi-Qi Construction Co., Ltd.

(II) President, Executive Vice Presidents, Vice Presidents and Major Managers

Position	Name	Date Appointed	Shares Held		Shares Held by Spouses and Minor Children	
			Shares	%	Shares	%
President	Ming-Sing Shieh (also known as Mark Shieh)	Aug. 09, 2004	46,071 (PS) 17,219	- 0.02	-	-
S.E.V.P. & G.M. of Consumer Banking Marketing & Non- Performing Loans Dept.	Hsin-Min Lee (also known as Tony Lee)	Sept. 21, 2006	43,061 (PS) 27,524	- 0.02	-	-
S.E.V.P. & G.M. of Treasury Dept.	Jia-Nan Fang	Sept. 21, 2006	12,638,424	1.48	9,565,400	1.12
E.V.P. & G.M. of Corporate Banking Credit Dept.	Rong-Kun Jhangjian	Aug. 18, 2006	19,422	-	-	-
E.V.P.	Hui-Ming Chang	Sept. 21, 2006	13,558 (PS) 12,913	- 0.01	-	-
E.V.P. & G.M. of Corporate Banking Marketing Dept.	Yuan-Tung Hsieh	Dec. 22, 2006	-	-	-	-
E.V.P. & Chief Auditor	Fu-Chai Teng	Sept. 21, 2006	93,784 (PS) 12,913	0.01 -	-	-
V.P. & G.M. of Auditing Division	Gi-Chan Yo	Oct. 01, 2006	27,273 (PS) 10,040	- 0.01	-	-
S.V.P. & G.M. of International Banking Dept. & Offshore Banking Unit	Wei-Min Lin	Feb. 16, 2004	-	-	-	-
S.V.P. & G.M. of General Affairs Dept.	Chao-Fu Sun	Mar. 23, 2001	158,701 (PS) 28,342	0.02 0.03	4,134 (PS) 499	-
S.V.P. & G.M. of Human Resource Dept.	Chi-Hsun Chang	Oct. 01, 2006	31,520 (PS) 11,478	- 0.01	-	-
S.V.P. & G.M. of Corporate Planning & Accounting Dept.	Charles C.J. Wang	Mar. 01, 2006	-	-	-	-
S.V.P. & G.M. of Information Systems Dept.	Tzi-Sheng Tsai	Feb. 15, 2005	12,051 (PS) 11,478	- 0.01	-	-
S.E.V.P. & G.M. of Consumer Banking Planning Dept.	Tien-Jen Fang	Dec. 22, 2006	14,567	-	-	-
S.V.P. & G.M. of Consumer Banking Credit Dept.	Jhih-Wun Lin	Dec. 22, 2006	40,587 (PS) 12,457	- 0.01	-	-
V.P. & G.M. of Operation Dept.	Cing-Shang Chang	Aug. 21, 2006	27,273 (PS) 10,040	- 0.01	-	-
S.V.P. & G.M. of Trust Dept.	Hsue-Hsin Lin	Sept. 25, 2006	1,207 (PS) 11,478	- 0.01	-	-
S.V.P. & G.M. of Wealth Management Dept. & Branch Operation Dept.	Ed-Ward Yu	Sept. 25, 2006	5,000	-	-	-
V.P. & G.M. of SME Dept.	Jheng-Long Lin	Oct. 26, 2006	10,542 (PS) 3,540	-	-	-
G.M. of Domestic Banking Dept.	Der-Hsien Lin	Jul. 23, 2005	-	-	-	-
G.M. of Houpu Branch	Fu-Shan Lyu	Jan. 01, 2005	377,262	0.04	28,667	-
G.M. of Yonghe Branch	Wan-Ji Chen	Jul. 01, 2006	111,414 (PS) 26,886	0.01 0.03	29,491	-



Career/Education Experience	Concurrent Job in Other Company
Economics Dept., Chinese Culture University/ E.V.P. of Chinatrust Commercial Bank	Director of Panhsin Insurance Broker Co., Ltd./ Director of Panhsin Asset Management Co., Ltd.
Accounting Dept., National Chung-Hsing University/ Manager of Ta-Chong Bank	
Economics Dept., Soochow University/ S.V.P. of Chinatrust Commercial Bank	
Banking Dept., National Chengchi University / S.V.P. of Chinatrust Commercial Bank	
Accounting Dept., Tamkang University/ Manager of Chinatrust Commercial Bank	
International Trade Dept., Chinese Culture University / Manager of Taishin International Bank	
Business Administration Dept., National Chung Hsing University/ V.P. of Taishin Bank	
Law Dept., National Taiwan University/ Deputy Manager of Macoto Bank	
MBA, George Washington University, USA/ Manager of Taishin International Bank	
Agriculture Dept., National Hsin Chung Senior High School/ V.P. of BOP	
Master of Economics, National Taiwan University/ V.P. of BOP	
MBA, Armstrong University, USA / Special Assistance to Chairman of Chinatrust Commercial Bank	
Hydraulic Engineering Dept., National Cheng Kung University/ V.P. of Chinatrust Commercial Bank	
Agricultural Economics Graduate Dept., National Chung-Hsing University/ Senior Deputy Manager of Fuhwa Commercial Bank	
Business Administration Dept., Hsing-Wu College of Business / Manager of BOP	
Math Dept. Tamkang University/ V.P. of Chinatrust Commercial Bank	
International Trade Dept., Chinese Culture University/ V.P. of Chinatrust Commercial Bank	
Business Administration Dept., Tamkang University / V.P. of Cosmos Bank	
Statistics Dept., Tamkang University / Manager of Chinatrust Commercial Bank	
Business Administration Dept., Takming College/ Manager of Chinatrust Commercial Bank	
Business Administration Dept., Tamkang University/ Manager of BOP	
Business Administration Dept., Chihlee College of Business / Manager of BOP	

Position	Name	Date Appointed	Shares Held		Shares Held by Spouse and Minor Children	
			Shares	%	Shares	%
G.M. of Minzu Branch	De-Gua Lin	Jul. 01, 2006	399,520 (PS) 11,478	0.05 0.01	10,236	-
G.M. of Puqian Branch	Shih-Chi Wu	Mar. 01, 2004	42,224	-	57,489	0.01
G.M. of Huajiang Branch	Shian-Tang Chiu	Mar. 01, 2004	82,646 (PS) 17,001	0.01 0.02	379,627	0.05
G.M. of Zhonghe Branch	Jerry Chen	Mar. 01, 2004	15,000 (PS) 10,040	- 0.01	-	-
G.M. of Minsheng Branch	Jyun-Wei Wang	Dec. 22, 2006	17,051	-	-	-
G.M. of Tucheng Branch	Siou-Cian Wan	Feb. 22, 2006	150,545	0.02	-	-
G.M. of Wenhua Branch	Chun-Ming Huang	Mar. 01, 2004	256,791 (PS) 11,343	0.03 0.01	8,677	-
G.M. of Daguan Branch	Chun-Llian Lin	Mar. 01, 2004	6,000 (PS) 10,000	- 0.01	-	-
G.M. of Xingnan Branch	Wan-Yi Zhou	Apr. 01, 2005	123,997 (PS) 25,713	0.01 0.03	413	-
G.M. of Kaohsiung Branch	Shu-Zhen Lin	Dec. 01, 2005	9,040 (PS) 8,610	- 0.01	-	-
G.M. of Xiaogang Branch	Shumei Zheng	Jan. 01, 2005	12,040 (PS) 8,610	- 0.01	-	-
G.M. of Xinxing Branch	Wei-Jia Ke	Jun. 05, 2006	-	-	-	-
G.M. of Qianzhen Branch	Jiunn-Fu Chen	Mar. 01, 2004	27,273 (PS) 10,040	- 0.01	-	-
G.M. of Yangming Branch	Pin-Cheng Huang	Aug. 01, 2006	2,000 (PS) 3,000	-	-	-
G.M. of Lingya Branch	Xian-Chin Kuo	Oct. 22, 2005	3,000 (PS) 8,610	-	-	-
G.M. of Kaoxinzhuang Branch	Chin-Chuan Chiang	Jan. 01, 2005	10,500 (PS) 10,000	- 0.01	-	-
G.M. of Songjiang Branch	Ying-Rong Zheng	Dec. 01, 2004	70,542 (PS) 10,040	0.01 0.01	-	-
G.M. of Xinyi Branch	Yi-Hsien Huang	Jul. 23, 2005	31,520 (PS) 11,478	- 0.01	-	-
G.M. of Xinzhuang Branch	Jhang-Yuan Chen	Jul. 23, 2005	732,106 (PS) 97,175	0.08 0.10	63,301	0.01
G.M. of Xiulang Branch	YI-Zhong Luo	Dec. 15, 2004	168,120	0.02	31,465	-
G.M. of Taoyuan Branch	Yuan-Cyun Lai	Jul. 01, 2006	80,818	0.01	541	-
Manager of Sanchong Branch	Lai-Wong Lin	Jul. 05, 2004	211,643 (PS) 33,528	0.02 0.03	18,299 (PS) 100,900	- 0.10
G.M. of Yuanshan Branch	Li-Qin Wei	Aug. 01, 2005	10,752 (PS) 10,065	- 0.01	3,254 -	-
G.M. of Taoying Branch	Yuan-Hong Lee	Aug. 30, 2001	16,000 (PS) 10,000	- 0.01	-	-



Career/Education Experience	Concurrent Job in Other Company
Banking & Insurance Dept., Hsing-Wu College/ Manager of BOP	
Master Degree, National Chengchi University/ Manager of BOP	
International Trade Dept., Chihlee College of Business/ Manager of BOP	
Economics Dept., Soochow University/ Deputy Manager of Chinatrust Commercial Bank	
Business Administration Dept., Dan-Shuei College of Technology/ Manager of Grand Commercial Bank.	
Economics Dept., Chinese Culture University/ Deputy Manager of BOP	
Yu-Da High School of Commerce/ Manager of BOP	
Sung-Shan High School of Commerce and Home Economics/ Manager of BOP	
International Trade Dept., National Taipei Open University/ Deputy Manager of BOP	
Accounting & Statistics Dept., International Business College/ Assistant Manager of BOP	
International Trading Dept., China Institute of Technology/ Assistant Manager of BOP	
Jhong-Sing High School/ Assistant Manager of BOP	
Business Dept., International Business College/ Manager of BOP	
Business Dept., San-Hsin College/ Assistant Manager of BOP	
Business Dept., San-Hsin High School/ Assistant Manager of BOP	
Banking & Insurance Dept., National Open College/ Manager of BOP	
Cooperative Economics Dept., National Chung-Hsing University/ Assistant Manager of Cathay United Bank	
MBA, Business Administration Dept., National Chengchi University/ Manager of Asia Bank	
Accounting & Statistics Dept., National Taipei College of Business/ Manager of BOP	
Business Administration Dept., Chihlee College of Business/ Deputy Manager of BOP	
Kai-Nan Commercial Vocational High School/ Manager of BOP	
Accounting & Statistics Dept., National Taipei College of Business/ Manager of BOP	
Qiang-Shu High School/ Manager of BOP	
Math Dept., Fu-Jen Catholic University/ Manager of Enterprise Bank of Hualien	

Position	Name	Date Appointed	Shares Held		Shares Held by Spouses and Minor Children	
			Shares	%	Shares	%
G.M. of Longgang Branch	Huei-Jin Jinag	Aug. 01, 2005	75,925 (PS) 5,000	0.01 -	-	-
G.M. of Shulin Branch	Chin-Lung Kuo	Feb. 17, 2003	71,597 (PS) 10,000	0.01 0.01	16,724	-
G.M. of Jincheng Mini Branch	Guang-Di Lin	Aug. 25, 2005	20,591 (PS) 10,005	- 0.01	53,071	0.01
G.M. of Hsinchu Branch	Zhen-Hua Xia	Dec. 01, 2004	10,542	-	-	-
G.M. of Bade Branch	Gui-Lin Guo	Mar. 22, 2004	100,000	0.1	-	-
G.M. of Taichung Branch	Yong-Lun Lee	Jul. 01, 2006	24,557	-	-	-
G.M. of Tainan Branch	Xiu-Fen Lee	Sept. 24, 2005	-	-	-	-
G.M. of Xindian Branch	Wen-Cheng Lai	Aug. 07, 2001	31,520 (PS) 11,478	- 0.01	-	-
G.M. of Neihu Branch	Yi-Ming Wang	Jul. 01, 2006	10,417	-	28,087	-
G.M. of Zhongzheng Branch	Mo Jhen	Apr. 25, 2006	-	-	-	-
G.M. of Luchou Branch	Ke-Long Wu	Sept. 12, 2005	147,327 (PS) 1,534	0.02 -	27,028	-
G.M. of Chiayi Branch	Siou-Lan Chang	Dec. 16, 2006	(PS) 10,000	0.01	-	-
G.M. of Renai Branch	Mao-Feng Huang	Sept. 25, 2006	20,607 (PS) 8,610	- 0.01	-	-
G.M. of Zhongxiao Branch	Yong-Chang Chen	May. 28, 2005	10,542 (PS) 10,040	- 0.01	-	-
Manager of Junhui Branch	Ji-Zhou Xu	Mar. 25, 2006	(PS) 11,478	0.01	-	-
G.M. of Wufeng Branch	Hong-Jhang Jiang	Apr. 10, 2006	(PS) 8,000	0.01	-	-
G.M. of Luodong Branch	Lee-Ying Lan	Feb. 22, 2006	(PS) 69,882	0.01	-	-
G.M. of Chenggong Branch	Shou-Yao Chen	Jun. 05, 2006	12,139	-	-	-
G.M. of North Taichung Branch	Yu-Yue Dai	Apr. 10, 2006	(PS) 8,610	0.01	16,594	-



Career/Education Experience	Concurrent Job in Other Company
Accounting & Statistics Dept., Chihlee College of Business/ Assistant Manager of BOP	
International Trade Dept., Chihlee College of Business/ Manager of BOP	
Public National Taipei College of Business/ Assistant Manager of BOP	
Business Administration Dept., National Chung-Hsing University/ Assistant Manager of Ta-Chong Bank	
Business Administration Dept., Chinese Culture University/ V.P. of Chinatrust Commercial Bank	
Business Administration Dept., Taichung College of Business/ Manager of Chinatrust Commercial Bank	
Finance Dept., Southern Taiwan University of Technology / Manager of HSBC	
Banking & Insurance Dept., Tatung College of Business/ Manager of Chinfon Bank	
International Trade Dept., Chihlee College of Business / Assistant Manager of BOP	
Economics Dept., Fu-Jen Catholic University/ Deputy Manager of Fubon Bank	
Business Administration Dept., Chihlee College of Business/ Assistant Manager of BOP	
National Chiayi Home Economic Vocational High School/ Manager of Chiayi First Credit Cooperative	
National Chiayi Senior Commercial Vocational School/ Manager of Chiayi First Credit Cooperative	
K&J High School/ Manager of Chiayi First Credit Cooperative	
National Hwa-Nan Senior Commercial High School/ E.V.P. of Chiayi First Credit Cooperative	
Business Administration Dept., Tatung College of Business/ Assistant Manager of Chiayi First Credit Cooperative	
Bank and Insurance Dept., Chihlee College of Business/ Manager of BOP	
Banking & Insurance Dept., International Business College/ Assistant Manager of BOP	
Wu-Feng Institute of Technology/ Manager of Chiayi First Credit Cooperative	

III. Corporate Governance & Status of Implementation

Item	Status of Implementation	Variation Status to the Corporate Governance Best-Practice Principle in Banking Industry
1. Shareholders' structure & equity (1) Dealing with shareholders suggestions & Disputes (2) In control of the list and status of the banks' major shareholders (3) Establishment of the risk management mechanism & firewall between subsidiaries	(1) The Stock Affair Unit is responsible to handle the suggestions & disputes from shareholders. (2) The Stock Affair Unit is responsible with the information & status of major shareholders, and disclosure of such matters in the annual report. (3) Formulated the "Regulations on financial & business operations among BOP's subsidiaries", and has established adequate risk management mechanism and firewall between subsidiaries of Panhsin Insurance Broker Co., Ltd. & Panhsin Asset Management Co., Ltd.	(1) Complied (2) Complied (3) Complied
2. Board of directors & duties (1) Establishment of the independent directors (2) Periodic independency assessment of the auditing CPA	(1) Not established yet. (2) Periodic independency assessment was carried out before signing the appointment letter with CPA each year.	(1) Evaluating (2) Complied
3. Board of supervisors & duties (1) Establishment of the independent supervisors (2) Communication between supervisors, employees and shareholders	(1) Not established yet. (2) Through telephone, written document or face-to-face communication, and setting up the external website to disclose the supervisors' communication mailbox.	(1) Evaluating (2) Complied
4. Establishment of communication channel with shareholders	Established stakeholders' management system to get hold of its status, and acts as communication channel.	Complied
5. Public disclosure (1) Establishment of web page to disclose information regarding financial statement and corporate governance (2) Disclosures by other means (ex. English website, collecting & disclosure by designated person, implementation of spokesman system, etc)	(1) In accordance with the MOF's announcement of "Quarterly Disclosure of Major Financial Statements in Banks", Accounting Dept. was responsible for information collecting and Information System Dept. was to assist in such disclosing matters. (2) Spokesman was appointed by the president and was responsible for announcing the related information on the website.	(1) Complied (2) Complied
6. Establishment of credit evaluation committee & implementation status	Not established yet.	Evaluating
7. Implementation status of BOP's corporate governance & variation to the "Rules for Corporate Governance in Banking Industry": BOP has not yet formulated the "Corporate Governance Best-Practice Principles", and most rules were complied with the "Rules of Corporate Governance in Banking Industry", but only certain business operations were under research.		
8. Social responsibility measures & implementation status (ex. human rights, employee's rights, environmental protection, community participation, relation with suppliers): (1) The "Third Annual BOP Table Tennis Tournament" was held in conjunction with the government's proposal for doubling the exercising population. (2) Adoption of Jieshou Park as gratitude to the general public usage. (3) Keeping the commitment to clients & shareholders, fulfilling the diversified financial needs of clients, and generating the ultimate investment return to shareholders.		
9. Other major significant information (ex. Vocational studies by directors & supervisors, attendance status by directors & supervisors, risk management policy & risk measurement standards, consumer protection policy, etc): Not established yet.		
10. Revealing the assessment report of corporate governance by self or others if any, disclose the major deficiency and improvement plan: None.		

IV. Information on CPA Professional Fees

Unit: NT\$ Thousand

Firm	Name of CPA	Auditing Fee	Non-Audit Fee					Does CPA Auditing Period Cover a Complete Fiscal Year			Note
			System Design	Business Registration	Human Resource	Others	Total	Yes	No	Audit Period	
KPMG Certified Public Accountants	Andrew Yu Li-Li Lu	1,750	-	160	-	1,120	1,280	✓		-	(Note)

Note: Auditing of financial debentures amounting NT\$70 thousand, internal control system assessment amounting NT\$350 thousand, and auditing of internal control due to public offering amounting NT\$ 700 thousand.



V. Status on Changes in Any Transfer or Pledge of Equity Interests of Directors, Supervisors, and Managerial Officers

(I) Status on Changes in Equity Interest of Directors & Supervisors

Position	Name	2006		Mar.31, 2007	
		Changes in Shares Held (Less)	Changes in Shares Pledged (Less)	Changes in Shares Held (Less)	Changes in Shares Pledged (Less)
Chairman	Ping-Hui Liu	(2,203,924)	(6,300,000)	-	2,850,000
Managing Director	Ming-Hsin Chiu	214,481	-	-	-
Managing Director	Dao-Ming Kuo	343,503	-	-	-
Managing Director	Han-Jia Construction Co., Ltd. (Representative: Ping-Hua Liu)	61,542	-	-	-
Managing Director	Chao-Sheng Liu	142,037	-	-	-
Managing Director	Chung-Liang Chen	5,032,572	-	-	5,000,000
Director	Sheng-Hung Shao	592,190	-	-	-
Director	San Light Construction Co., Ltd. (Representative: Mei-Yun Liao)	3,000,591	-	-	3,000,000
Director	Fang-Chin Huang	76,044	-	-	-
Director	Lin-Long Chien	315,281	(5,500,000)	-	-
Director	San-Jyun Construction Co., Ltd. (Representative: Jian-Chong Jhao)	591	-	-	-
Director	Li-Wang Lu	(3,069,100)	-	-	-
Director	Fu-Jing Investment Co., Ltd. (Representative: Hsien-Tse Chiu)	1,972,720	-	-	-
Director	Jing-Bao-Di Co., Ltd. (Representative: Tong-Ren Lin)	(PS) 1,000,000	-	-	-
Director	Jen-Hsien Chiu	338,511	-	-	-
Director	Ming-Sing Shieh	28,852	-	-	-
Director	Jia-Nan Fang	622,640	-	-	-
Director	Jhin-Chen Chen	137,889	-	-	-
Resident Supervisor	Chin-E Yeh	174,872	-	(700,000)	-
Supervisor	Lai-Wei Liu	261,480	5,229,611	-	-
Supervisor	Shang-Che Chen	325,969	-	-	-
Supervisor	Teng-Chum Chen	57,054	-	-	-
Supervisor	Mao-Yang Chu	311,480	-	-	-

(II) Status on Changes in Equity Interest of Managerial Officers

Position	Name	2006		Mar.31, 2007	
		Changes in Shares Held (Less)	Changes in Shares Pledged (Less)	Changes in Shares Held (Less)	Changes in Shares Pledged (Less)
President	Ming-Sing Shieh	28,852	-	-	-
Senior Executive Vice President	Hsin-Min Lee	27,277	-	-	-
Senior Executive Vice President	Jia-Nan Fang	622,640	-	-	-
Executive Vice President	Rong-Kun Jhangjian	19,422	-	-	-
Executive Vice President	Hui-Ming Chang	645	-	-	-
Chief Auditor	Fu-Chai Teng	80,871	-	-	-
General Manager	Gi-Chan Yo	17,233	-	-	-
General Manager	Chao-Fu Sun	14,219	-	-	-
General Manager	Chi-Hsun Chang	20,042	-	-	-
General Manager	Tzi-Sheng Tsai	573	-	-	-
General Manager	Tien-Jen Fang	14,567	-	-	-
General Manager	Jhih-Wun Lin	21,385	-	-	-
General Manager	Jyun-Wei Wang	5,573	-	-	-
General Manager	Cing-Shang Chang	17,233	-	-	-
General Manager	Hsue-Hsin Lin	1,207	-	-	-
General Manager	Fu-Shan Lyu	17,964	-	-	-
General Manager	Wan-Ji Chen	5,305	-	-	-
General Manager	Shih-Chi Wu	2,010	-	-	-
General Manager	Shian-Tang Chiu	27,610	-	-	-
General Manager	De-Gua Lin	14,024	-	-	-
General Manager	Jerry Chen	4,960	-	-	-
General Manager	Siou-Cian Wan	7,168	-	-	-
General Manager	Chun-Ming Huang	12,228	-	-	-
General Manager	Chun-Lian Lin	1,280	-	-	-
General Manager	Wan-Yi Zhou	19,778	-	-	-
General Manager	Shu-Zhen Lin	430	-	-	-
General Manager	Shumei Zheng	3,430	-	-	-
General Manager	Jiunn-Fu Chen	17,233	-	-	-
General Manager	Chin-Chuan Chiang	500	-	-	-
General Manager	Ying-Rong Jheng	60,502	-	-	-
General Manager	Mao-Fong Huang	11,997	-	-	-
General Manager	Yi-Hsien Huang	20,042	-	-	-
General Manager	Jhang-Yuan Chen	135,417 (PS) 12,750	-	-	-
General Manager	YI-Zhong Luo	8,005	-	-	-
General Manager	Yuan-Cyun Lai	3,848	-	-	-



Position	Name	2006		Mar.31, 2007	
		Changes in Shares Held (Less)	Changes in Shares Pledged (Less)	Changes in Shares Held (Less)	Changes in Shares Pledged (Less)
General Manager	Lai-Wang Lin	26,264	-	324	-
General Manager	Li-Qin Wei	512	-	-	-
General Manager	Yuan-Hong Lee	6,000	-	-	-
General Manager	Huei-Jing Jiang	3,615	-	-	-
General Manager	Chin-Lung Kuo	3,409	-	-	-
General Manager	Guang-Di Lin	980	-	-	-
General Manager	Zhen-Hua Xia	502	-	-	-
General Manager	Yong-Lun Lee	15,947	-	-	-
General Manager	Wen-Cheng Lai	20,042	-	-	-
General Manager	Yi-Ming Wang	(341,842)	-	-	-
General Manager	Ke-Long Wu	8,920	-	-	-
General Manager	Yong-Chang Chen	502	-	-	-
General Manager	Lee-Ying Lan	(3,005) (PS) (10,040)	-	-	-

Note: Only person with changes was listed.

(III) Status on Changes in Equity Interest of Major Shareholders

Major Shareholder	2006		Mar.31, 2007	
	Changes in Shares Held (Less)	Changes in Shares Pledged (Less)	Changes in Shares Held (Less)	Changes in Shares Pledged (Less)
Bai-Yuan Investment Co., Ltd.	39,000,000	-	(1,000,000)	38,000,000
Yuan-Ci Investment Co., Ltd.	34,925,750	14,215,000	-	20,000,000
Yuan-Mao Construction Co., Ltd.	10,010,500	-	-	10,000,000
Mei-Yun Liao	1,471,246	-	-	-
Bi-Wan Chen	455,495	-	-	-
Shu-Ming Guo	412,877	8,236,856	-	-
Dong-Yi Lin	435,516 (PS) 500,000	-	-	-

(IV) Information on Transferring of Equity Interest (Common Share)

Name	Reason for Transferring	Transaction Date	Transaction Party	Declaration of Relationship Associated with Banks, Directors, and Supervisors According to Banking Law, Article 25 of Note 3	Shares	Trading Price (Dollar)
Ping-Hui Liu	Prosecuted	Aug. 25, 2006	Yuan-Ci Investment Co., Ltd.	Shares Held Over 1%	7,300,000	10.0
Mei-Yun Liao	Prosecuted	Aug. 25, 2006	Yuan-Ci Investment Co., Ltd.	Shares Held Over 1%	915,000	10.0

(V) Information on Pledging of Equity Interest (Common Share)

Name	Reason for Pledged Change	Date Changed	Transaction Counterparty	Share	Pledged Amount Redeemed
Ping-Hui Liu	Redeemed	Aug. 25, 2006	Shin-Kong Bank	6,300,000	-
Lai-Wei Liu	Pledged	Mar. 08, 2006	Ta-Chong Bank Sin-Yi Branch	5,229,611	-
Shu-Ming Guo	Pledged	Mar. 08, 2006	Ta-Chong Bank Sin-Yi Branch	8,236,856	-
Yuan-Ci Investment Co., Ltd.	Pledged	Aug. 30, 2006	En-Tie Bank He-Ping Branch	14,215,000	-

VI. Information on the Inter-Relations of the Bank's Top 10 Shareholders

Name	Shares Held		Shares Held by Spouse & Minor Children		Top 10 Shareholders Inter-Relations According to SFAS No. 6	
	Share	%	Share	%	Name	Relation
Bai-Yuan Investment Co., Ltd.	39,000,000	4.56	-	-	-	-
Fu-Jing Investment Co., Ltd.	35,293,872	4.12	-	-	Mei-Yun Liao Ping-Hui Liu	Director Director
Yuan-Ci Investment Co., Ltd.	34,925,750	4.08	-	-	Mei-Yun Liao Ping-Hui Liu	Chairman Director
Mei-Yun Liao	30,894,219	3.61	29,017,606	3.39	Yuan-Ci Investment Co., Ltd. Fu-Jing Investment Co., Ltd.	Chairman Director
Ping-Hui Liu	29,017,606	3.39	30,894,219	3.61	Yuan-Ci Investment Co., Ltd. Fu-Jing Investment Co., Ltd.	Director Director
Jia-Nan Fang	12,638,424	1.48	9,565,400	1.12	-	-
Sheng-Hung Shao	12,436,007	1.45	1,075,463	0.13	-	-
Yuan-Mao Construction Co., Ltd.	10,010,500	1.17	-	-	-	-
Bi-Wan Chen	9,565,400	1.12	12,638,424	1.48	-	-
Dong-Yi Lin	9,145,892	1.07	57,486	-	-	-

Note: In accordance with SFAS No. 6.

VII. Status on Consolidated Shares Holding

Reinvested Business	BOP Investment		General Investment	
	Share	%	Share	%
Taipei Credit Cooperative	100	27.03	100	27.03
Syun-Rueidu Development Co., Ltd.	4,940,000	1.86	4,940,000	1.86
Financial Information Service Co., Ltd.	4,550,000	1.14	4,550,000	1.14
Yin-Lien Insurance Broker Co., Ltd.	300,000	20.00	300,000	20.00
Taiwan Depository & Clearing Co. Ltd.	235,504	0.08	235,504	0.08
Sunny Asset Management Co., Ltd.	69,180	1.15	69,180	1.15
Panhsin Insurance Broker Co., Ltd.	2,010,000	100.00	2,010,000	100.00
Taiwan Cooperative Bank	2,327,998	0.05	2,327,998	0.05
Panhsin Asset Management Co., Ltd.	5,000,000	100.00	5,000,000	100.00

Note: In accordance with article 74, "Relationship to Reinvested Business", of Banking Law.

Funding Status



I. Shares & Dividends

(I) Source of Capital

Unit: Thousand Shares ; NT\$ Thousand

Date	Issuing Price (NT\$)	Authorized Capital		Paid-In Capital		Note	
		Shares	Amount	Shares	Amount	Capital Source	Others
Sept. 1997	10	600,000	6,000,000	600,000	6,000,000	Note 1	None
Jun. 2005	10	819,800	8,198,000	819,800	8,198,000	Note 2	None
Jun. 2006	10	1,500,000	15,000,000	819,800	8,198,000	Note 3	None
Sept. 2006	10	1,500,000	15,000,000	855,790	8,557,900	Note 3	None
Dec. 2006	10	1,500,000	15,000,000	955,790	9,557,900	Note 4	None

Note 1: The Panchiao Credit Cooperative has transformed officially into a Commercial Bank.

Note 2: Retained earning transferred to capital of NT\$198,000 thousand on June 20, 2005 as reference date. Approval note of Jin-Guan-Yin (3) No.0940015799 had been granted from Financial Supervisory Commission (FSC) on June 24, 2005. Issuance of preferred stock for cash totaled NT\$1,000,000 thousand on June 22, 2005 as reference date. Issuance of common stock for cash totaled NT\$1,000,000 thousand on June 24, 2005 as reference date.

Approval note of Jin-Guan-Yin (3) No.0938011560 had been granted from FSC on September 10, 2004.

Note 3: A resolution had passed to amend bank's articles of incorporation and increased the authorized capital of up to NT\$15 billion in shareholders' meeting held on June 20, 2006.

Capital surplus transferred to capital of NT\$359,900 thousand on September 01, 2006 as reference date. Approval note of Jin-Guan-Yin (3) No.09500320330 had been granted from FSC on July 18, 2006.

Note 4: Issuance of common stock for cash totaled NT\$1,000,000 thousand on December 28, 2006 as reference date. Approval note of Jin-Guan-Yin (3) No.09500439170 had been granted from FSC on October 03, 2006, as well as Jin-Guan-Yin (3) No.0950150935 on November 14, 2006.

Share Type	Authorized Capital (Thousand Shares)			Note
	Shares Outstanding	Un-Issued Shares	Total	
Common Stock	855,790	544,210	1,400,000	Became a Public Offered Company on November 14, 2006
Preferred Stock	100,000	-	100,000	

(II) Shareholder Structure (Including Preferred Share)

Structure / Quantity	Government Institutions	Financial Institutions	Domestic Institutions	Individuals	Foreign Institution & Foreigners	Total
Number of Shareholders	2	4	89	100,017	1	100,113
Number of Shares Held	136,620	71,000,000	140,961,217	743,691,839	324	955,790,000
Ratio of Share Holding (%)	0.01	7.43	14.75	77.81	-	100.00

(III) Distribution Breakdown of Shares Holding (Par Value of NT\$ 10)

Shareholding Classifications	Number of Shareholders		Shares		Ratio (%)	
	Common Share	Preferred Share	Common Share	Preferred Share	Common Share	Preferred Share
1~999	75,011	9,610	24,316,746	1,024,744	2.84	1.02
1,000~5,000	13,503	764	36,893,647	2,073,830	4.31	2.07
5,001~10,000	2,252	336	15,205,525	2,511,298	1.78	2.51
10,001~20,000	2,383	112	29,234,837	1,417,158	3.42	1.42
20,001~30,000	4,293	21	95,323,101	524,778	11.14	0.52
30,001~40,000	336	4	17,778,988	133,644	2.08	0.13
40,001~50,000	201	15	9,485,139	744,921	1.11	0.74
50,001~100,000	1,339	31	82,238,425	2,632,927	9.61	2.63
100,001~200,000	239	9	33,809,529	1,435,750	3.95	1.44
200,001~400,000	105	12	29,602,330	3,392,635	3.46	3.39
400,001~600,000	39	7	18,457,921	3,605,781	2.16	3.61
600,001~800,000	55	1	36,777,123	765,000	4.30	0.77
800,001~1,000,000	14	3	13,100,220	2,875,000	1.53	2.88
1,000,001~10,000,000	47	3	209,350,091	8,862,534	24.46	8.86
10,000,001~30,000,000	4	2	64,102,537	36,000,000	7.49	36.00
30,000,001~50,000,000	4	1	140,113,841	32,000,000	16.37	32.00
Total	99,825	10,931	855,790,000	100,000,000	100.00	100.00

(IV) Major Shareholders (Common Share)

Major Shareholders	Shares	Ratio (%)
Bai-Yuan Investment Co., Ltd.	39,000,000	4.56
Fu-Jing Investment Co., Ltd.	35,293,872	4.12
Yuan-Ci Investment Co., Ltd.	34,925,750	4.08
Mei-Yun Liao	30,894,219	3.61
Ping-Hui Liu	29,017,606	3.39
Jia-Nan Fang	12,638,424	1.48
Sheng-Hung Shao	12,436,007	1.45
Yun-Mao Construction Co., Ltd.	10,010,500	1.17
Bi-Wan Chen	9,565,400	1.12
Dong-Yi Lin	9,145,892	1.07

(V) Dividend Policy and Implementation

1. According to the banks' article of incorporation, the excess profit must be first used to pay off all the taxes due and redeem the previous losses. Of any remaining, 30% shall contribute to legal reserves, then to the appropriated retained earnings and preferred shares' dividends accordingly. If any remaining after, it shall be distributed in the following order:

- (1) To pass the resolution in shareholders' meeting for the proposed distribution of the shareholders' dividend by the board of directors;
- (2) 5% as remuneration for directors and supervisors;
- (3) 5% as bonus for employees.



2. The distribution of earnings for cash shall not exceed 15% of total paid-in capital.
3. The distribution of earnings for cash shall be regulated when the equity capital to risk-weighted asset ratio (CAR) is lower than the standard set forth by the Minister of Finance, unless the legal reserve has exceeded the amount of paid-in capital, then the aforementioned regulation shall not be in effect.
4. Dividend Distribution Status: No dividend was distributed due to the recorded loss in 2006.

(VI) Employees' Bonus and Remuneration Paid to Directors & Supervisors

Status on the use of earnings in the preceding fiscal year for distribution of employees' dividends, and remuneration paid to directors & supervisors: In accordance with the bank's articles of incorporation and the approval of earnings distribution proposal at the shareholders' meeting held on June 20, 2006, the distribution of earnings were as follows: 30% as legal reserve of NT\$44,105 thousand, preferred dividends of NT\$23,548 thousand, cash dividends of NT\$71,980 thousand, employees' bonus and directors & supervisors' remuneration of NT\$3,968 thousand, and the remaining un-distributed earnings of NT\$2,299 thousand.

II. Status on the Issuance of Financial Debenture

Types	1 st (Term) Financial Debenture	2 nd (Term) Financial Debenture	3 rd (Term) Financial Debenture	4 th (Term) Financial Debenture
Date & No. Approved By Authority	Sept.03, 2003 Tai-Tsai-Jung (3) No. 920041600	Sept.03, 2003 Tai-Tsai-Jung (3) No. 920041600	Sept.03, 2003 Tai-Tsai-Jung (3) No. 920041600	May.02, 2006 Jin-Guan-Yin (3) No. 09500173780
Date of Issuance	Dec.16, 2003	Jan.07, 2004	Sept.01, 2004	Jun.16, 2006
Par Value	NT\$100 thousand NT\$1,000 thousand NT\$10,000 thousand	NT\$100 thousand NT\$1,000 thousand NT\$10,000 thousand	NT\$100 thousand NT\$1,000 thousand NT\$10,000 thousand	NT\$100 thousand NT\$1,000 thousand NT\$10,000 thousand
Currency	NT\$	NT\$	NT\$	NT\$
Offering Price	Par Value	Par Value	Par Value	Par Value
Total Amount	NT\$1,158,600 thousand	NT\$391,800 thousand	NT\$449,600 thousand	NT\$1,680,000 thousand
Interest Rate	Fixed: 3% Floating: 1 Yr Term Deposit Rate from the Post Office plus 1.25%	Fixed: 3% Floating: 1 Yr Term Deposit Rate from the Post Office plus 1.25%	Fixed: 3.25% Floating: 1 Yr Term Deposit Rate from the Post Office plus 1.25%	Fixed: 3.30% Floating: 1 Yr Term Deposit Rate from the Post Office plus 1.10%
Maturity	Term: 5.5 Years Date of Maturity: Jun.16, 2009	Term: 5.5 Years Date of Maturity: Jul.07, 2009	Term: 5.5 Years Date of Maturity: Mar.01, 2010	Term: 5 Years 8 Months Date of Maturity: Feb.16, 2012
Repayment Priority	Subordinate	Subordinate	Subordinate	Subordinate
Certifying Financial Institution	International Bills Finance Company	Fubon Bills Finance Company	Fubon Bills Finance Company	Hua Nan Bills Finance Company
Repayment Method	Pay Off upon Maturity	Pay Off upon Maturity	Pay Off upon Maturity	Pay Off upon Maturity
Unpaid Balance	-	-	-	-
Paid-In Capital of Previous Year	NT\$6 billion	NT\$6 billion	NT\$6 billion	NT\$8.198 billion (Including Preferred Stock)
Net Worth of Previous Year	NT\$8,358,878 thousand	NT\$6,590,855 thousand	NT\$6,590,855 thousand	NT\$9,037,304 thousand
Ratio of Applied Shares and Prior Shares Outstanding to Prior Year's Final Net Worth (%)	13.86	23.52	30.35	40.72
Considered as Qualified Capital and Its Tiers	Yes, Tier II	Yes, Tier II	Yes, Tier II	Yes, Tier II

Note: All the above debentures were issued through Private Placement.

III. Status on the Preferred Share

Item \ Date of Issuance		Jun.22, 2005
Par Value		NT\$10
Offering Price		Par Value
Number of Shares		100 million
Total Amount		NT\$1 billion
Rights & Obligations	Distribution of Dividends and Bonus	Cash dividend shall be paid annually according to the actual issuing price in the annual rate of 4.50%. For the shares issued less than a year, the dividend shall be paid according to the actual days counting from its issued date. In case of no earnings or earnings were insufficient to pay off the dividends after annual account, the unpaid amount shall be accumulated and paid in priority the following profitable year. Not allowed to participate in the distribution of retained earning and capital surplus transferring to capital which relating to common share.
	Distribution of Remaining Property	Priority over common stock, but not to exceed the initial issuing price.
	Voting Rights	None
	Others	While issuing the new common stock for cash, preferred stock shareholders shall possess the priority with warrants. Current preferred stock is non-convertible.
Outstanding	Recalled or Converted Shares	-
	Unrecalled or Converted Shares	NT\$1 billion
	Recalling or Converting Provisions	Term matured in 6 years and to be recalled with initial issuing price by retained earnings or earnings from newly issued stocks.
Other Rights	The Amount of Conversion or Subscription till 2007.06.30	None
	Methods for Issuance of Conversion or Subscription	None
Influence on the provisions for preferred shareholders' equity and possible dilution for current common shareholders' equity		Since the preferred stock is non-convertible, thus no influence.
Influence on the redemption of preferred stock to the ratio of equity capital to risk-weighted asset		None



IV. Plan for Utilization of Fund & Status of Implementation

(I) Issuance of Common Share for Cash in 2005

1. Plan Content

Unit: NT\$ Thousand

Plan Content	Expected Completion Date	Capital Required	Expected Implementation Schedule
Strengthening of Operating Capital, Improving Equity Capital, and Enhancing Operational Structure	3 rd Quarter 2005	2,000,000	2,000,000
Expected Benefits	1. To adequately improve equity capital, strengthen capital structure and raise CAR to tolerate the risk. 2. To raise equity capital, and improve market competitiveness to cope with the future growth on crediting business. 3. The placement amount totaled NT\$2,000,000 thousand, was expected to complete in 2nd Quarter 2005. The collected amount will be used in the lending business and provided that the current BOP's average loan rate of 3.7%, it is expected to generate an additional interest income of NT\$74,000 thousand.		

2. Status of Implementation: Execution completed according to the plan, and the incremented amount was utilized to facilitate the lending business.

3. Beneficiary Analysis: The plan has been successfully implemented to strengthen the operating capital and increase the interest income. As a result, with the gradual rise of housing market and loan rates, the interest income has increased by NT\$921 million, growth rate of 21.82%, in 2005. In addition, in the aspects of equity capital and financial structure improvement, the achievement rate in shareholders' equity and capital adequacy ratio (CAR) have reached 93.22% and 94.58%, respectively.

(II) Issuance of Common Share for Cash in 2006

1. Plan Content

Unit: NT\$ Thousand

Plan Content	Expected Completion Time	Total Amount	Expected Implementation Schedule
Reinforce Operating Capital to Undertake Lending Business	1 st Quarter 2007	1,000,000	1,000,000
Expected Benefit	1. To reinforce the operating capital, improve equity capital and strengthen operational structure for the long-term development needs. 2. The placement amount totaled NT\$1,000,000 thousand, was expected to complete in 4th Quarter 2006. The collected amount will be used in the lending business and provided that the current BOP's average loan rate of 3.71%, it is expected to generate an additional interest income of NT\$37,100 thousand.		

2. Status of Implementation: Collection and registration completed as the end of December 2006.

3. Beneficiary Analysis: In order to improve the equity capital and strengthen operational structure, the CAR was improved from 8.17% before the collection and up to 8.44% after as the end of Dec. 2006, achievement of 96.02% compared to the projected 8.79%.

Business Operation

I. Business Scope

(I) Major Business & Its Relative Weight

1. Deposit

BOP was focused on collecting its funds from various sources, such as from the general public, industrial and commercial enterprises, etc. and its business includes foreign & domestic demand, time, and general deposits. As the end of 2006, the total deposit outstanding reached NT\$167.22 billion, increased NT\$12.68 billion and growth of 8.20%, compared to the previous year's NT\$154.54 billion.

Unit: NT\$ Thousand

Types	Difference		2006		2005	
	Amount	Growth Rate (%)	Amount	Weight (%)	Amount	Weight (%)
Current Deposit	1,096,702	2.90	38,951,730	23.29	37,855,028	24.50
Checking Account	8,246	0.52	1,596,954	0.96	1,588,708	1.03
Demand Deposit	1,226,395	13.04	10,627,668	6.36	9,401,273	6.08
Demand Saving	(137,939)	(0.51)	26,727,108	15.98	26,865,047	17.38
Time Deposit	11,038,315	10.36	117,578,077	70.32	106,539,762	68.94
Time Deposit	5,084,160	18.73	32,231,198	19.28	27,147,038	17.57
Negotiable Certificates of Deposit	149,500	0.96	15,745,700	9.42	15,596,200	10.09
Interest-drawing Saving Deposit	2,096,953	4.47	48,960,626	29.28	46,863,673	30.33
Non-interest-drawing Time Saving Deposit	3,552,531	21.13	20,364,228	12.18	16,811,697	10.88
Installment Saving Deposit	155,171	128.08	276,325	0.16	121,154	0.08
Re-deposit from Banks & Post Office	543,850	5.36	10,686,417	6.39	10,142,567	6.56
Total Deposits	12,678,867	8.20	167,216,224	100.00	154,537,357	100.00

2. Consumer Banking

Due to the deteriorating consumer credit quality, except from terminating the cash card business and reducing the weight on consumer loan, the centralized valuation audit scheme for mortgage loan has been implemented, and through such auditing procedures, the risk management was reinforced. As the end of 2006, the total consumer loan outstanding was NT\$83.51 billion, decreased 10.94% compared to the previous year's NT\$93.76 billion.

Unit: NT\$ Thousand

Types	Difference		2006		2005	
	Amount	Growth Rate (%)	Amount	Weight (%)	Amount	Weight (%)
Secured Overdraft	(8,512)	(43.91)	10,875	0.01	19,387	0.02
Short-term Loan	(776,170)	(47.26)	866,025	1.04	1,642,195	1.75
Short-term Secured Loan	(4,499,016)	(48.82)	4,715,585	5.65	9,214,601	9.83
Medium-term Loan	(3,217,446)	(25.67)	9,314,622	11.15	12,532,068	13.37
Medium-term Secured Loan	(1,241,639)	(29.59)	2,954,123	3.54	4,195,761	4.47
Long-term Loan	(75,689)	(52.23)	69,098	0.08	144,787	0.15
Long-term Secured Loan	(436,679)	(0.66)	65,576,793	78.53	66,013,472	70.41
Total Loans	(10,255,151)	(10.94)	83,507,121	100.00	93,762,271	100.00



3. Corporate Banking

BOP has devoted to undertake general loan, land & construction finance, stock secured loan, and joint syndication, etc. and through the integrated financial services to support the individual enterprise with development and provide the needed funds to enhance its competitive strength. As the end of 2006, the total loan outstanding was NT\$50.36 billion, increased NT\$12.01 billion and growth of 31.31% compared to last year.

Unit: NT\$ Thousand

Types	Difference		2006		2005	
	Amount	Growth Rate (%)	Amount	Weight (%)	Amount	Weight (%)
Discount	(7,739)	(100.00)	-	-	7,739	0.02
Overdraft	922	220.05	1,341	-	419	-
Secured Overdraft	-	-	-	-	-	-
Short-Term Loan	1,245,122	12.20	11,451,188	22.74	10,206,066	26.61
Short-Term Secured Loan	5,741,682	81.19	12,814,020	25.45	7,072,338	18.44
Medium-Term Loan	4,347,705	86.14	9,394,727	18.66	5,047,022	13.16
Medium-Term Secured Loan	3,168,884	24.53	16,086,242	31.94	12,917,358	33.68
Long-Term Loan	44,471	124.05	80,320	0.16	35,849	0.09
Long-Term Secured Loan	(2,533,407)	(82.74)	528,555	1.05	3,061,962	7.98
Total Loans	12,007,639	31.31	50,356,393	100.00	38,348,754	100.00

4. Wealth Management & Trust Business

Ever since the establishment of wealth management business in 2004, fostering of the talents and recruiting the professionals have been actively put into practice, as well as to provide clients with genuine asset management consultation to make up the fee income due to the increasingly squeezed interest spread in such a bruising competitive banking industry.

In order to fulfill the diverse demands from various clients, approvals have been granted to undertake new trust businesses, such as security trust, collective investment trust account, superficies right trust, lease right trust, etc. and aggressively promoting in personal trust account and real estate transaction trust. The trust & insurance fee income in 2006 totaled NT\$189.31 million, growth of 49.52% compared to the previous year's NT\$126.62 million, among which the designated purpose trust fund and real estate trust have surged the most, growth of 155.87% and 70.61%, respectively.

Unit: NT\$ Thousand

Types	Difference		2006		2005	
	Amount	Growth Rate (%)	Amount	Weight (%)	Amount	Weight (%)
Designated Purpose Trust Fund	61,964	155.87	101,718	53.73	39,754	31.40
Real Estate Trust	27,551	70.61	66,569	35.16	39,018	30.82
Custodial & Assurance	(184)	(7.08)	2,416	1.28	2,600	2.05
Other Trust	8,609	-	8,609	4.55	-	-
Subtotal	97,940	120.36	179,312	94.72	81,372	64.27
Insurance	(35,242)	(77.89)	10,001	5.28	45,243	35.73
Total	62,698	49.52	189,313	100.00	126,615	100.00

5.NPL Collection & Management

Collections from bad debts were NT\$80 million in 2006, a slight improvement than last year. The actual foreclosed collaterals were NT\$793 million, reduced NT\$159 million from 2005, and an annual achievement rate of 153%.

6.Foreign Exchange & International Banking

In order to cope with the globalized financial environment and ever since the establishment of international banking in 2003, BOP has been aggressively recruiting professional foreign exchange (FX) talents to expand the FX and international banking businesses. A superior growth was achieved under the collaboration between the international banking department and operational units. FX transaction volumes have reached US\$2.81 billion in 2006, increased US\$0.71 billion compared to last year.

Unit: US\$ Thousand

Types	Difference		2006	2005
	Amount	Growth (%)	Amount	Amount
Import	61,196	15.37	459,242	398,046
Export	35,810	33.11	143,964	108,154
Outward Remittance	393,539	49.00	1,196,631	803,092
Inward Remittance	219,332	27.57	1,014,804	795,472
Total	709,877	33.73	2,814,641	2,104,764
Foreign Deposit Outstanding	42,688	38.73	152,903	110,215
Foreign Loan Outstanding (Including Investment)	89,194	59.42	239,293	150,099

7.Weight on Major Asset by Type to Total Asset

Unit: NT\$ Thousand

Major Business Type	2006		2005	
	Amount	Ratio to Total Asset (%)	Amount	Ratio to Total Asset (%)
Total Asset	190,088,963	100.00	177,170,179	100.00
Loan & Advance	143,187,825	75.33	140,144,851	79.10
Due from Central Bank & Placement to Other Banks	18,508,772	9.74	25,380,355	14.33
Bills & Bonds & Security Investments	3,043,725	1.60	3,259,305	1.84
Total Liability	180,881,931	95.16	168,132,875	94.90
Deposit & Remittance	156,677,427	82.42	144,413,083	81.51
Deposit by Central Bank & Other Banks	16,201,518	8.52	17,165,517	9.69
Financial Debenture Payable	3,680,000	21.94	2,000,000	1.13



8.Weight on Major Income by Type to Total Income

Unit: NT\$ Thousand

Major Business Type	2006		2005	
	Amount	Ratio to Total Asset (%)	Amount	Ratio to Total Asset (%)
Net Income	3,546,940	100.00	3,678,929	100.00
Net Interest Income	2,833,992	79.90	2,951,890	80.24
Net Fee Income	607,782	17.14	644,661	17.52
Financial Liability at Fair Value through Profit or Loss	94,587	2.67	(23,028)	(0.63)
Realized Gain (Loss) on Available for Sale Financial Asset	5,500	0.16	21,355	0.58
Investment Gain with Equity Method – Net	9,293	0.26	27,621	0.75
Translation Gain – Net	486	0.01	36,775	1.00
Asset Impairment Loss	(155,122)	(4.37)	(69,658)	(1.89)
Other Non-interest Income	171,208	4.83	89,313	2.43
Other Bad Debt Expense	(20,786)	(0.59)	-	-

(II) Operation Plan for 2007

1. Deposit & Remittance

- (1) Through consolidating the mortgage and wealth management businesses to aggressively develop diversified financial products and conduct promotional campaigns to improve the deposit structure, attract prospect clients, and raise weight on demand deposit to reduce funding cost.
- (2) Implementing ACH services through convenient stores as channels to recruit prospect clients from communities & organizational groups, and enlarge core deposit base to increase fee incomes.
- (3) Reinforcing the relations with enterprises, aggressively collecting working capitals from SMEs to strengthen the source of fund.
- (4) Implementing New Banc System (NBS) to improve operation procedures and service quality of deposit & remittance business.

2. Consumer Banking

- (1) Planning out the newly innovative automated services to improve the usage and generate the fee income from ATM, Internet banking, and web ATM sectors. Extending the scope of centralizing the operation procedures to reduce operating cost.
- (2) Establishing the cross-sell mechanism, reinforcing the existing channel network, developing virtual channels, and maintaining the relations with existing clients to recruit the prospect clients.
- (3) Providing 24-hour comprehensive call center and strengthening the service efficiency.
- (4) Setting up the centralized credit valuation standard, completing the data mining functions and improving the market sensibility of products.
- (5) Improving the crediting system by simplifying the operation procedures, and reinforcing the risk management to improve the credit quality & efficiency.

3. Corporate Banking

- (1) Constantly improving the weight on fee income related businesses.
- (2) Aggressively promoting the account receivable related business and strengthening the range & depth of such products.
- (3) Collecting short-term demand deposit, and allocating time deposit strategically to reduce funding cost.
- (4) Carrying out the lead in syndicated loan for qualified clients with primary emphasis on medium-sized enterprise and participating in the joint syndication as alternative.
- (5) Establishing the corporate Internet banking and financial service system to effectively monitor the cash flow status of the borrower's operating revenue and capital flow.

4. Wealth Management & Trust Business

- (1) Establishing a well-qualified wealth management team and financial managers through incubational program to enhance the competence, assist in making career plan and encourage obtaining the international certified license.
- (2) Under the principle of "Matching the right people to the right task", strengthening the cross-selling mechanism and integrating the "Comprehensive Wealth Management Navigation System" to satisfy and meet diverse needs of the clients.
- (3) Analyzing client's behavior with the Business Intelligence System (BI), initiatively recognizing the client's needs and getting ahead of the market movement. Collaborating with external R&D group to develop niche products, and improve the assets under management, for generating and ensuring the diversified revenue sources.
- (4) With real estate trust as focus and through trust management mechanism to reach out and proceed as expert consultant in the field of land development, such as urban redevelopment and catastrophic reconstruction. In the mean time, aggressively promoting the pecuniary right related trust to assist the trustor in comprehending and ensuring such rights.
- (5) Applying for new trust business licenses and planning out the unique and tailor-made products to fulfill the clients' perception of one-stop-shop demand, as well as creating the corporate recognition and professionalism image.

5. Debt Collection & Management

- (1) Speeding up the collection of bad debts and ensuring the execution of on-site repayment negotiation mechanism.
- (2) Improving the efficiency to deal with foreclosed collaterals and evaluating the possibilities of transferring to sell.
- (3) Strengthening the collaboration with Panhsin Asset Management Co. to improve the management of overdue loans.

6. Foreign Exchange & International Banking

- (1) Reinforcing the traditional foreign remittance business and expanding trade finance with the principles of deepening the relationship with existing clients and recruiting prospect clients.
- (2) Cautiously selecting high interest spread security investment targets and aggressively participating in global syndication market to enhance the international exposure.
- (3) Aggressively developing OBU business operations and establishing inter-bank transaction network with major banks of the world.
- (4) Establishing and reinforcing foreign exchange Internet banking and telephoning services to recruit foreign deposit and other sources of fund.



(III) Market Analysis

1. Domestic Economy

The global economy outlook for 2007 is expecting to ease back to a lower gear; nonetheless, the exports maybe sustained and grow upward to some extent with the well expected performance from the major trading partners, as well as the introduction of new IT products which may facilitate the high-tech industry to raise its capital expenditure. In the domestic demand perspective, domestic consumer investment spending is likely to grow, attributable to the steady price index and constantly improved unemployment rate. Additionally, the market confidence & development have been reinforced by the aggressive promotion in major governmental investment plans, and the domestic economic growth is expected to reach 4.14%, with only a somewhat weaker performance than last year. As for the real estate market, despite the potential risk for the over supplied demands, the market is still driven by several beneficial leads, such as the initiation of major transportation infrastructure, visitors from Mainland China and persuasion of direct flight from Mainland to Taiwan. Consequently with such incentives, the investment-type of clients will be the major reason for the soaring house price.

2. Domestic Financial Industry

Ever since the Central Bank of Taiwan initiated the interest raising mechanism, both deposit and loan rate have been elevated. Yet interest spread has been squeezed due to the bruising price competition among financial institutions in an attempt to attract customers and enhance market shares. Most of the banks have thus shifted their attention to cash & credit card related businesses. However, undertaking such businesses have derived yet another dilemma of deteriorating asset that ultimately led to delinquency and soaring of the overall NPL ratio. As a result, to provide substantial amount of provisioning and readjust the weight on corporate & consumer business operations to improve asset quality become inevitable. In order to resolve from the “Double Card Crisis” and with the intention to raise the cash inflows needed to improve the financial structures, Financial Supervisory Commission (FSC) had agreed in May 2006 to permit banks to sell off its NPLs to Asset Management Company (AMC) under certain conditions.

The implementation of BASEL II has furthered the consideration for operation risk, internal control procedures, as well as adjustment for the capital provisioning to a higher standard. Domestic banks will inevitably reduce their risk-weighted asset and readjust the credit policy in order to improve the financial structures and capital adequacy.

3. Supply & Demand of Future Market

Despite the slackening Global economy and with the gradual growth in domestic consumer investment, the domestic demand is anticipated to be the major driving force to carry out the demand for capitals. Nonetheless, due to the aftermath from the “Double Card Crisis” and initiation of debt negotiation mechanism, the domestic banks have all implemented the constricted policies and reduced the weight on its unsecured consumer lending businesses. As for the booming real estate market, banks will adequately readjust its Loan-to-Value (LTV) ratio to diversify the mortgage risk and to stay away in case of interest policy turnaround that may lead to the soaring house cost.

4. Favorable & Unfavorable Factors of Development Prospect

(1) Favorable Factors

- Gradual recovery from the “Double Card Crisis” and through operating policy adjustment to facilitate in expanding its new business operations.
- Moderate growth driven by the domestic demands is beneficial for the growth of secured corporate and consumer lending.

- Easing up of the legal restrictions from authorities which open up the unlimited opportunities for diversified product developments in the financial industry.
- BOP has been cultivating regionally for 50 years, with the strong and solid clientele base to facilitate in developing its regional competitiveness.
- BOP continuously engages in organization restructuring, and aggressively recruits the professional talents to facilitate in improving its competitiveness.
- BOP's active involvement in improving its financial structure to enhance operating performance.

(2) Unfavorable Factors

- The election issues bring up the topics for uncertainty in cross-strait situation, the conservative approach for the short-term governmental policy in dealing with Mainland China, and lack of transparent financial statements for Taiwanese companies engaging business in Mainland China. All the above facts raise the concerns and risks to undertake the cross-strait business.
- Excessive financial institutions & branches and rapidly liberalized financial market, intensify the competition among the banking industry.

5.Countermeasure Policy

- (1) Leading in financial investor or strategic partners either through issuance of common stock for cash or M&A to improve the capital structure, expand the operating scale, and enhance its competitiveness.
- (2) Utilizing the clientele data analysis to classify and distinguish the needs of various clients. In addition, developing differentiated product portfolio to mitigate the existing problem of the bruising price competition.
- (3) Redistribution of channel network with point, line, and area marketing strategy.
- (4) Increasing the weight on non-interest income by strengthening the financial planning and investment competency to reassure the investment return.
- (5) Enhancing BOP's recognition and customer loyalty through the advertisement campaign marketing.

(IV) Status of Financial Product Research & Business Development

1.Major Financial Products, Business Establishments, and Performances in the Past Two Years

(1) Consumer Banking

- Aggressively promoting the automated-related services, such as "ATM Credit Card for Cash Lending in Advance", "Web ATM", and "IC Debt Card". Initiating the ACH parking ticket payment in Taipei City, Taipei County, Kaohsiung City, Chiayi City, and Tainan City. The number of vehicles for application reached 26,415 and fee income totaled NT\$420 thousand as the end of 2006.
- Promotional mortgage products, such as "Generous Loan", "Happiness Mortgage Premium", and "Salary Transfer to Mortgage Premium", were offered to well-qualified house realtors and community groups. In addition, "2 yr. Term Premium Investment" was also offered to enhance the product competitiveness. The total loan outstanding from the four-aforementioned products reached NT\$218 million as the end of 2006.

(2) Corporate Banking

- Initiating the factoring with finance and notes for easy loan business in July 2003 and May 2006, respectively. The total operating income of NT\$47.59 million was generated from such, and 266% growth compared to last year.

2.Research & Development Results in the Past Two Years and Future Plans

(1) Research & Development Results in the Past Two Years



- Establishment of ACH parking ticket payment system in Tainan, Chiayi, and Taipei County.
- Establishment of credit enquiring management system for consumer lending business.
- Establishment of Web-ATM and Business Intelligence (BI) system phase one and two.
- Development on FX telephone banking and online banking enquiry & transferring system.
- Development on parameterization of credit valuation system.
- Development on "Go Rich" system.
- Establishment of "Comprehensive Wealth Management Navigation System" and "Real Estate Trust System".

(2) Future Research and Development Proposal

- Establishing the New Banc System (NBS).
- Establishing the phase three Business Intelligence (BI) system.
- Establishing the call center.
- Reinforcing the Internet security system and internal hacking defensive system.
- Expanding the web, server, authentication server, and broadband backup management systems, etc.
- Establishing the factoring and credit enquiry systems for Corporate Banking sector.
- Establishing the IC debit card system and Web E-payment, E-trading, joint credit enquiry and credit enquiry for bill valuation systems for institutional users.

(V) Long & Short-Term Business Development Proposal

1. Consumer Banking Sector

(1) Short-Term Business Development Proposal

- In control of market and social movements, utilizing the event marketing strategy to plan out the competitive projects and business operations.
- Deepening the relation with existing clients, utilizing the community resources and channel network to improve operating efficiency.
- Establishing and strengthening the cross-sell mechanism, initiating the consumer behavioral analysis to ensure a stable business growth.
- Planning out the complete portfolio product in integration with product R&D, operation procedure and risk management to readjust the operation strategy dynamically.
- Endeavoring to undertake ACH financial services to increase fee income and number of clients due to its convenient payment natures.

(2) Long-Term Business Development Proposal

- Aggressively developing newly innovative business to provide clients with diversified financial instruments.
- In control of consumer banking market trend, analyzing client's needs, and utilizing information system to develop the niche products.
- Seeking for potential strategic partners to expand operating scale.
- Recruiting professional talents, and strengthening the personnel-training program to establish an expert management team recognition.

2. Corporate Banking Sector

(1) Short-Term Business Development Proposal

- Readjusting the credit structure and improving the allocation of capital efficiency to diversify the industrial risk.

- Improving the credit asset quality and enhancing the risk, monitoring, and post-management system.
- Locating the target clients and enhancing crediting products to improve its competitiveness.
- Implementing the internal cross-sell mechanism and reinforcing the clientele base to generate revenue.
- Standardizing operation procedures to improve the efficiency of utilizing the electronic systems.

(2) Long-Term Business Development Proposal

- Expanding the financial instruments in capital market to increase fee-based incomes.
- Recruiting well-qualified institutional clients and strengthening the credit asset quality.
- Participating in the fields of financial asset & real estate securitizations.
- Establishing the videoconference platform to improve communication efficiency within organization in both horizontal and vertical aspects.
- Promoting the Internet banking to reduce operating cost.
- Improving the integration of product marketing to provide diversified asset allocation.

3. International Banking Sector

(1) Short-Term Business Development Proposal

- Aggressively expanding in the fields of outward & inward remittance, foreign exchange and international banking related businesses, etc.
- Cautiously investing in foreign securities and aggressively participating in international syndication loan to improve international recognition and foreign revenue.
- Expanding the DBU & OBU business operations in the direct cross-strait financing and assisting the Taiwanese merchants abroad for their capital needs.
- Strengthening the electronic automated service platform and through completing the transactions online to reduce operating cost, improve efficiency and ultimately create value-added foreign instruments.

(2) Long-Term Business Development Proposal

- Getting hold of global allocation strategy for enterprises and establishing branches abroad to expand international businesses.
- Aggressively developing and introducing foreign exchange businesses to fulfill the diverse needs of various clients.
- Strengthening the foreign account officers' (AO) training program and enhancing the foreign development capability.
- Establishing inter-bank relations with well-known international banks and striving for cross-strait related businesses in compliance with the regulations.



II. Personnel Information

(I) Employee Information in the Past Two Years

Item		2005	2006	Mar.31, 2006
Number of Employee	Employee	1,656	1,546	1,469
	Intern	41	57	63
	Total	1,697	1,603	1,532
Average Age		33.68	34.37	34.32
Average Seniority		4.64	5.36	5.77
Academic Distribution (%)	Master & Above	4.89	6.18	6.33
	College	77.20	80.15	80.35
	Senior High	17.50	13.23	12.86
	Junior High & Below	0.41	0.44	0.46

(II) Status on Employee Training

Year	Educational Expenditure (NT\$ Thousand)	Internal Training		External Training	
		Attendant	Course	Attendant	Course
2006	6,387	4,162	95	492	83
Mar.31, 2006	1,046	1,437	28	35	35

III. Corporate Responsibility & Ethical Behavior

BOP is determined to pursue forward with sustainable development spirit, strong corporate responsibility and commitment beared in mind. To clients, fulfilling the diverse financial needs with cordial service attitude and professional competency. To shareholders, generating the ultimate investment return with solid operating and managing attitude. To employee, carrying out their inner potentials through teamwork and performance assessment. To society, enthusiastically participating in social welfares and culture activities with philosophy of "From the community - To the community". BOP held the "Third Annual BOP Table Tennis Tournament" in conjunction with the government's proposal for doubling the exercising population, sponsored the Kuang Jen Foundation for hosting the "Health Youth, Untrammied, Happy Baby Carnival", and Show-Lan Junior High' s Taiwanese Opera performance abroad, as well as the adoption of Jieshou Park as gratitude for the general public usage.

IV. Information Technology Platform

(I) Primary System Maintenance

Maintenance contract signed with IBM to enhance the operational quality. The electronic devices have also been insured with general insurance policy. In addition, foreign exchange & fund system maintenance contract have been signed with Cradle Co., ARES Co., and Dimerco Data System Co. to ensure the operational stability.

(II) Emergency Backup Plan

Business Resiliency and Continuity Services (BRCS) contract signed with IBM to prevent from the emergency system breakdown. Periodically backup the important data onto the portable magnetic tape to prevent data loss in case of extraordinary situation, as well as conducting the emergency protective drill once a year to maintain the operational stability.

(III) Network Management & Safety Measures

Enhancing employee's awareness to use the Internet bandwidth efficiently and to surf the Internet with caution. Frequently upgrading the anti-virus software to ensure and protect from virus attack.

(IV) Future Development & Procurement Proposal

Collaboration with IBM & FNS, IT companies, for the implementation of New Banc System (NBS) and anticipating the service in June 2007. Meanwhile, planning out and establishing a more complete emergency backup system to replace the current magnetic tape transaction system. Implementing the IBM TIVOLI and RATIONAL systems to have a more complete management system to enhance the safety, monitoring, backup, and varied management.

V. Major Contract

Type of Contract	Party Involved	Beginning & Ending Date	Major Content	Constraint
Land Purchase Contract and Appointed House Leasing Agreement	Far Eastern Co., Ltd.	Jan. 12, 2005	1.Procurement of plot 8, subsection 3, Sinban Section in Panchiao City. 2.After the completion of Headquarter, the 1 st to 3 rd Floor will be leased to Far Eastern Co., Ltd.	
Service Contract	IBM Taiwan	Mar. 24, 2006	New Banc System	Anticipating the completion in 15 months.
Design Contract	Architect: Hsiang-Rong Huang Designer: P&T Group	Dec. 24, 2004	Headquarter design & construction supervision	Anticipating the completion within 5 years.
Joint Construction Contract	Far Eastern Construction Co.	Jul. 12, 2006	Joint construction contract signed with Far Eastern construction Co. for the construction of BOP's Headquarter.	
Construction Contract	Far Eastern General Contractor Co.	Aug. 11, 2006 – 150 Calendar Day	Headquarters' Foundation Construction	
Construction Contract	China Engineering Consultant Inc.	Aug. 15, 2006 till the Completion of the Construction	Providing construction management services, and in charge of tender offering, bidding, construction, inspection, supervision, warranty, and delivery, etc.	
Deposit Insurance Contract	Central Deposit Insurance Corp.	Since Jan. 29, 1992	When BOP was unable to carry out its obligation to the depositors, Central Deposit Insurance Corp. will be responsible for the liability.	Maximum Penalty of NT\$1 Million per Depositor.
Real Estate Purchasing Contract	Panhsin Asset Management Co., Ltd.	Dec. 27, 2006	Selling of BOP's foreclosed collaterals.	Installment of Purchased / Sold Price

Financial Status



I. Abbreviated Balance Sheet & Income Statement in the Past Five Years

(I) Abbreviated Balance Sheet

Unit: NT\$ Thousand

Item		Financial Status in the Past Five Years				
		2006	2005	2004	2003	2002
Cash & Cash Equivalents						
Due from Central Bank & Placement to other Banks		29,499,169	21,077,838	20,339,543	17,375,561	10,487,204
Financial Assets at Fair Value through Profit or Loss		1,498,235	842,623	3,400,537	5,869,166	4,890,497
Bills & Bonds Purchased under Agreements to Resell		-	1,099,206	336,904	-	574,291
Available for Sale - Financial Assets		1,545,490	1,317,476	240,130	243,683	497,874
Loans & Advances		143,187,825	140,144,851	113,421,280	96,097,706	78,203,818
Account Receivables		2,594,785	1,135,880	759,813	737,128	710,870
Held till Maturity - Financial Assets		-	-	-	-	-
Long-Term Investment under Equity Method		89,914	80,621	3,000	-	-
Fixed Assets (Property & Equipment)		5,149,939	4,849,231	3,996,020	2,017,539	1,979,785
Intangible Assets		1,374,344	1,352,192	1,408,744	1,520,687	2,208,228
Other Financial Assets		63,547	81,450	476,542	462,393	782,717
Other Assets		5,085,715	5,188,811	3,982,995	4,450,678	4,987,116
Total Assets		190,088,963	177,170,179	148,365,508	128,774,541	105,322,400
Deposits by Central Bank and Other Banks		16,201,518	17,165,517	8,839,484	5,542,132	1,734,312
Deposits & Remittances		156,677,427	144,413,083	127,254,391	111,674,266	92,492,571
Financial Liabilities at Fair Value through Profit or Loss		2,235	595	-	1,718	-
Bills & Bonds Sold under Agreements to Repurchase		601,427	1,378,798	1,367,370	2,193,864	1,305,079
Central Bank and Other Banks Financing, Financial Debentures Payable		3,680,000	2,000,000	2,000,000	1,158,600	-
Preferred Stock Liabilities		-	-	-	-	-
Accrued Pension Liabilities		55,546	77,757	52,082	27,004	16,263
Other Financial Liabilities		-	-	-	-	-
Other Liabilities		3,663,778	3,097,125	1,779,209	1,586,102	1,315,106
Total Liability	Before Distribution	180,881,931	168,132,875	141,292,536	122,183,686	96,863,331
	After Distribution	180,881,931	168,236,339	141,448,186	122,183,686	96,963,523
Capital Stock		9,557,900	8,198,000	6,000,000	6,000,000	6,000,000
Legal Reserve		245,786	605,686	605,686	2,465,283	2,465,283
Retained Earning	Before Distribution	(590,125)	302,654	509,288	(1,859,597)	308,517
	After Distribution	-	349,057	155,638	(1,859,597)	208,325
Unrealized Gain (Loss) on Financial Instruments		32,865	(15,485)	-	-	-
Accumulated Translation Adjustments		-	-	-	-	-
Other Adjustments to Shareholders Equity		(39,394)	(53,551)	(42,002)	(14,831)	(314,731)
Total Shareholders Equity	Before Distribution	9,207,032	9,037,304	7,072,972	6,590,855	8,459,069
	After Distribution	9,207,032	8,933,840	6,917,322	6,590,855	8,358,877

Note1: The above-mentioned figures of after distribution were in accordance with the resolution passed by the shareholders meeting the following year.

Note2: The financial figures above have all been audited and certified by CPA.

Note3: Financial statements of 2002 to 2005 have been reclassified to coordinate with 2006 accordingly, no major effects upon such reclassifications.

(II) Abbreviated Income Statement

Unit: NT\$ Thousand

Item	Year	Financial Status in the Past Five Years				
		2006	2005	2004	2003	2002
Net Interest Income		2,833,992	2,951,890	2,478,929	2,047,452	2,002,976
Net Non-Interest Income		712,948	727,039	523,835	(566,062)	589,405
Bad Debt Expense for Margin Loans		2,171,877	1,128,226	338,886	2,254,596	849,739
Operating Expense		2,313,820	2,367,400	1,989,650	1,807,687	1,650,138
Income from Continuing Operation before Tax		(938,757)	183,303	674,228	(2,580,893)	92,504
Income from Continuing Operation after Tax		(808,757)	147,016	509,288	(2,067,922)	145,595
Income from Discontinued Operation (After Tax)		-	-	-	-	-
Extraordinary Loss (Net after Tax)		-	-	-	-	-
Cumulative Effects due to Changes in the Accounting Principles (Net After Tax)		19,442	-	-	-	-
Earning		(789,315)	147,016	509,288	(2,067,922)	145,595
EPS (Loss)		(1.10)	0.17	0.78	(3.15)	0.22

Note1: The financial figures above have all been audited and certified by CPA.

Note2: EPS (Loss), calculated with weighted average of shares adjusted for the current year.

Note3: Financial statements of 2002 to 2005 have been reclassified to coordinate with 2006 accordingly, no major effects upon such reclassifications.



II. Financial Analysis in the Past Five Years

Unit: NT\$ Thousand

Item		Financial Status in the Past Five Years				
		2006	2005	2004	2003	2002
Operation Capability	Loan to Deposit Ratio (%)	91	96	90	88	86
	NPL Ratio (%)	4.52	3.89	2.71	3.96	8.55
	Interest Expense to Average Deposit (%)	1.63	1.42	1.46	1.54	2.54
	Interest Income to Average Loan (%)	3.77	4.06	4.03	4.16	5.77
	Total Asset Turnover Ratio (Time)	0.02	0.02	0.02	0.01	0.02
	Average Revenue per Employee	2,213	2,168	2,075	1,246	2,581
	Average Income per Employee	(492)	87	352	(1,741)	156
Profitability	Return on Tier 1 Capital (%)	(14)	3	12	(45)	1
	ROA (%)	(0.43)	0.09	0.37	(1.77)	0.14
	ROE (%)	(9)	2	7	(27)	2
	Net Income Ratio (%)	(22)	4	10	(50)	3
	EPS (Dollar)	(1.10)	0.17	0.78	(3.15)	0.22
Financial Structure	Liability to Total Asset	95	95	95	95	92
	Fixed Asset to Shareholders' Equity	56	54	56	31	23
Growth	Asset Growth (%)	7	19	15	22	3
	Profitability Growth (%)	(612)	(73)	(Note 8)	(2,890)	(37)
Cash Flows	Cash Flow (%)	6	76	140	28	54
	Cash Flow to Dividends & Expenditures (%)	238	272	176	238	160
	Cash Flow Reinvestment Ratio (%)	2	16	17	4	29
Liquidity Reserve Ratio (%)		11	10	10	11	10
Stakeholders' Secured Lending Outstanding		1,567,810	2,037,418	2,155,806	2,147,208	2,457,175
Stakeholders' Secured Lending Outstanding to Total Lending Outstanding (%)		1.03	1.39	1.81	2.10	2.92
Operating Scale	Market Share of Asset (%)	0.50	0.57	0.50	0.46	0.41
	Market Share of Net Worth (%)	0.44	0.48	0.40	0.41	0.52
	Market Share of Deposit (%)	0.62	0.65	0.58	0.55	0.50
	Market Share of Loan (%)	0.81	0.80	0.70	0.65	0.52

The reasons for the changes of CAR in the recent two terms (Such analysis is not necessary, if the variation is within 20%):

1. Reduction on Average income per employee, Return on Tier 1 capital, ROA, ROE, Net income total revenue, EPS, and Profitability growth: To enhance the financial structure, additional provisioning has been provided, thus the bad debt expenses for margin loans has been increased substantially which results in a recorded loss this year.
2. Increase on Asset growth: Due to the increased amount in Cash & Cash equivalents, Dues from Central Bank & Placement to other banks this year.
3. Reduction on Stakeholders' secured lending outstanding and Stakeholders secured lending outstanding to Total lending outstanding ratio: Due to the repayment by stakeholder this year.
4. Reduction on Cash flow ratio and Cash flow reinvestment ratio: Please refers to page 188.

Note 1: The financial figures above have all been audited and certified by CPA.

Note 2: Calculation methods:

(1) Operating Capability

(a) Loan to Deposit Ratio = Total deposits / Total loans

(b) NPL Ratio = Total non-performing loans / Total loans

(c) Interest Expense to Average Deposit = Total interest expense / Average deposits

(d) Interest Income to Average Loan = Total interest income / Average loans outstanding

- (e) Total Asset Turnover = Net operating income / Total assets
- (f) Average Revenue per Employee = Operating revenue / Number of employees
- (g) Average Income per Employee = After-tax profit / Number of employees
- (2) Profitability
 - (a) Return on Tier I Capital = Before-tax income / Average total amount of Tier I capital
 - (b) Return on Asset = After-tax income / Average total assets
 - (c) Return on Equity = After-tax income / Average net shareholder equity
 - (d) Net Income Ratio = After-tax income / Net income on operations
 - (e) Earning Per Share = (after-tax profit preferred shares dividends) / Weighted average of shares outstanding (Note 4)
- (3) Financial Structure
 - (a) Liability to Total Asset = Total liabilities (Note 3) / Total assets
 - (b) Fixed Asset to Shareholders' Equity = Fixed asset / Shareholders' Equity
- (4) Growth Rate
 - (a) Asset Growth = (Total assets of current year - Total assets of previous year) / Total assets of previous year
 - (b) Profitability Growth = (Pre-tax profit of current year - pre-tax profit of previous year) / Pre-tax profit of previous year
- (5) Cash Flow
 - (a) Cash Flow = Net operating cash flow / (placement \$ advance to other banks + commercial paper payable + financial assets at fair value through profit or loss + bills & bonds purchased under agreements to resell + payables of maturity with one year)
 - (b) Cash Flow to Dividends & Expenditures = Net operating cash flow in the past five years / (capital expenditures + cash dividends) in the past five years
- (6) Liquidity Reserve Ratio = Liquid assets required by Central Bank / Liabilities for which the liquid reserves are allocated
- (7) Operating Scale
 - (a) Market Share of Asset = Total assets / Total assets of financial institution allowed to engage in the deposits and loan business (Note 5)
 - (b) Market Share of Net Worth = Net worth / Total net worth of financial institutions allowed to engage in the deposits and loan business (Note 5)
 - (c) Market Share of Deposit = Total deposits / Total assets of financial institutions allowed to engage in the deposit and loan business (Note 5)
 - (d) Market Share of Loan = Total loans / Total loans of financial institution allowed to engage in the deposit and loan business (Note 5)

Note 3: Total liabilities exclude guaranteed liability reserves, reserve for losses on bonds and bills dealing, reserve for contract violation losses, and reserve for accidental losses.

Note 4: The following items should be considered when calculating the earnings per share in the aforementioned items.

- (1) Calculation shall be based on weighted average number of shares but not on the number of shares issued as of year-end.
- (2) For any cash increment or treasury share transaction, period of circulation shall be considered in calculating the weighted average number of shares.
- (3) Whenever capital increment is carried out via transfer of profit or legal reserve, retroactive adjustment shall be carried out in accordance with the ratio of increment when calculating earnings per share for past years and for six-month periods with no need to consider the time of issuance for the capital increment.
- (4) If the preferred share is a non-convertible, cumulative preferred stock, the stock dividend for the current year (whether released or not) should be deducted from after-tax net profit or added to after-tax net loss.
- (5) When there is an after-tax net profit, the dividend on preferred shares that are not cumulative stock should be deducted from after-tax net profit; in cases of loss, no adjustment is necessary.

Note 5: Financial institutions that can engage in the deposit and loan business include domestic banks, Taiwan branches of foreign banks, credit cooperatives, the credit departments of farmers' and fishermen's associations, and trust investment companies.

Note 6: Net Income total revenue refers to the sum of interest income and non-interest income.

Note 7: The following items should be considered when analyzing the cash flows

- (1) Net operating cash flow represents the net cash inflows from operating activities
- (2) Capital expenditures represents the yearly cash outflows from capital investment
- (3) Cash dividends include dividends from common & preferred stocks
- (4) Fixed asset represents total fixed asset before accumulated depreciations

Note 8: Not expressed due to negative base point.



III. Capital Adequacy Analysis in the Past Five Years

Unit: NT\$ Thousand

Item			Year	Financial Status in the Past Five Years				
				2006	2005	2004	2003	2002
Equity Capital	Tier 1 Capital	Common Stock	8,557,900	7,198,000	6,000,000	6,000,000	6,000,000	
		Legal Reserve (Excluding Legal Reserve for Fixed Asset Appreciation)	245,786	605,686	605,686	2,465,283	2,465,283	
		Legal Earning Reserve	196,891	152,786	-	206,177	162,499	
		Cumulative Earning	(787,017)	149,867	509,288	(2,065,774)	146,019	
		Other Shareholders Equity	(6,529)	(69,036)	(42,002)	(14,831)	(314,732)	
		Less: Goodwill	1,316,159	1,316,159	1,377,000	1,485,000	2,173,744	
		Total Tier 1 Capital	6,890,872	6,721,144	5,695,972	5,105,855	6,285,325	
	Tier 2 Capital	Operation Reserve & Bad Debt Account	433,275	391,925	1,069,740	1,012,992	277,207	
		Long-Term Subordinated Debentures	2,569,920	1,289,920	1,689,920	1,158,600	-	
		Non-Perpetual Preferred Stock	800,000	1,000,000	-	-	-	
		Total Tier 2 Capital	3,803,195	2,681,845	2,759,660	2,171,592	277,207	
	Tier 3 Capital		-	-	-	-	-	
	Equity Capital		10,494,268	9,203,527	8,374,440	7,199,255	6,379,280	
Risk-Weighted Asset	Credit Risk	Standardized Approach	122,593,355	112,992,659	91,602,239	76,183,227	63,290,770	
		Inter Rating-Based Approach	-	-	-	-	-	
		Securitization Framework	-	-	-	-	-	
	Operation Risk	Basic Indicator Approach	-	-	-	-	-	
		Standardized / Alternative Approach	-	-	-	-	-	
		Advanced Measurement Approach	-	-	-	-	-	
	Market Risk	Standardized Approach	1,753,150	1,780,663	3,950,825	4,856,188	4,743,525	
		Internal Model-based Approach	-	-	-	-	-	
	CAR (%)			8.44	8.02	8.76	8.88	9.38
Tier 1 Capital to Risk-Weighted Asset (%)			5.54	5.86	5.96	6.30	9.24	
Tier 2 Capital to Risk-Weighted Asset (%)			3.06	2.34	2.89	2.68	0.41	
Tier 3 Capital to Risk-Weighted Asset (%)			-	-	-	-	-	
Common Stock to Total Asset (%)			4.50	4.06	4.04	4.66	5.70	
The reasons for the changes of CAR in the recent two terms (Such analysis is not necessary, if the variation is within 20%):								
1.Reduction on legal reserve & Increment of legal earning reserve: In accordance with resolutions passed at shareholders meeting to distribute earnings from 2005 and legal reserve transferred to common stock.								
2.Reduction on cumulative earning: In order to enhance financial structure, additional provisioning has been provided, thus the bad debt expenses for margin loans has increased substantially which results in this year's recorded loss.								
3.Increase on other shareholders equity: Due to the decrease net loss of pension fund yet recognized & increased gain or loss from available for sale financial asset, compared with last year.								
4.Increase on long-term subordinated debenture & Tier 2 Capital to risk-weighted asset: Due to issuance of long-term subordinated debentures this year.								

Note 1: The financial figures above have all been audited and certified by CPA.

Note 2: Calculation methods:

- (1) Equity Capital = Tier I capital + Tier II capital + Tier III capital
- (2) Risk-weighted Asset = Credit risk-weighted assets + Required capital for (Operation risk +Market risk) x 12.5
- (3) Capital Adequacy Ratio = Equity capital / Total risk-weighted assets
- (4) Tier I capital to risk-weighted Asset ratio = Tier I capital / Total risk-weighted assets
- (5) Tier II capital to risk-weighted Asset ratio = Tier II capital / Total risk-weighted assets
- (6) Tier III capital to risk-weighted Asset ratio = Tier III capital / Total risk-weighted assets
- (7) Common Share to Total Asset = Common share / Total assets

IV. Certified Financial Statement by CPA

Independent Auditors' Report

The Board of Directors

Bank of PANHSIN:

We have audited the accompanying balance sheets of Bank of PANHSIN as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Bank of PANHSIN as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and Republic of China generally accepted accounting principles.

As described in note 3 to the financial statements, Bank of PANHSIN, starting from January 1, 2006, adopted Statement of Financial Accounting Standards No. 34 (SFAS 34) "Financial Instruments: Recognition and Measurement", No. 36 (SFAS 36) "Financial Instruments: Disclosure and Presentation", and the recently revised No. 1 (SFAS 1) "Conceptual Framework for Financial Accounting and Preparation of Financial Statements". As a result, net loss before the cumulative effect of changes in accounting principle and basic deficits per share decreased by \$88,860 thousand and \$0.12, respectively. In accordance with SFAS 34, the beginning balance of financial assets and liabilities should be reclassified and re-measured at fair value. For the year ended December 31, 2006, the resulting cumulative effect of changes in accounting principle and the decrease in basic deficits per share were \$19,442 thousand and \$0.03, respectively. In addition, adjustments to stockholders' equity were \$40,763 thousand.

As described in notes 3 and 13 to the financial statements, Bank of PANHSIN adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets" in 2005. The asset impairment loss recognized in 2005 amounted to \$52,244 thousand (net of income tax benefit of \$17,414 thousand). This caused earnings per share after tax for 2005 to decrease by \$0.08.

Bank of PANHSIN has prepared consolidated financial statements for Bank of PANHSIN and its subsidiaries as of and for the years ended December 31, 2006 and 2005, on which we have expressed a modified unqualified opinion with explanatory paragraphs for reference.



February 16, 2007

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



Balance Sheets

December 31, 2006 and 2005

(Expressed in thousands of New Taiwan dollars, except for par value)

	2006	2005	Change %
Assets			
Cash and cash equivalents (note 4)	\$ 4,118,814	2,569,066	60
Due from Central Bank and placement to other banks (note 5)	25,380,355	18,508,772	37
Financial assets at fair value through profit or loss, net (notes 6 and 23)	1,498,235	842,623	78
Bills and bonds purchased under agreements to resell (notes 8 and 25)	-	1,099,206	-
Accounts receivable, net (notes 9, 10, 20 and 24)	2,594,785	1,135,880	128
Loans and advances to customers (notes 10 and 24)	143,187,825	140,144,851	2
Available-for-sale financial assets, net (notes 7, 11 and 25)	1,545,490	1,317,476	17
Long-term investments under equity method, net (note 11)	89,914	80,621	12
Other financial assets, net (notes 11)	63,547	81,450	(22)
Property and equipment, net (note 12)	5,149,939	4,849,231	6
Goodwill and intangible assets (notes 3 and 13)	1,374,344	1,352,192	2
Other assets—net:			
Deferred income tax assets (note 20)	761,391	631,572	21
Other assets (notes 14, 15, 25 and 26)	4,324,324	4,557,239	(5)
	5,085,715	5,188,811	(2)
Total Assets	\$ 190,088,963	177,170,179	7
Liabilities and Stockholders' Equity			
Deposits by Central Bank and other banks (note 16)	\$ 16,201,518	17,165,517	(6)
Financial liabilities at fair value through profit or loss (note 6)	2,235	595	276
Bills and bonds sold under agreements to repurchase (notes 8 and 25)	601,427	1,378,798	(56)
Notes and accounts payable	3,485,495	2,934,176	19
Deposits and remittances (notes 17 and 24)	156,677,427	144,413,083	8
Subordinate financial debentures (notes 18 and 24)	3,680,000	2,000,000	84
Accrued pension liabilities (note 19)	55,546	77,757	(29)
Other liabilities	178,283	162,949	9
Total Liabilities	180,881,931	168,132,875	8
Stockholders' Equity (notes 3, 7 and 21):			
Share capital:			
Common stock of \$10 par value per share; authorized and issued 1,500,000 and 855,790 thousand shares, respectively, in 2006; authorized and issued 719,800 thousand shares in 2005	8,557,900	7,198,000	19
Preferred stock of \$10 par value per share; cumulative but non-participating; authorized and issued 100,000 thousand shares in 2006 and 2005	1,000,000	1,000,000	-
	9,557,900	8,198,000	17
Capital surplus	245,786	605,686	(59)
Retained earnings:			
Legal reserve	196,891	152,786	29
Unappropriated earnings (accumulated deficits)	(787,016)	149,868	(625)
	(590,125)	302,654	(295)
Other adjustments to stockholders' equity:			
Unrealized gain (loss) on available-for-sale financial assets	32,865	(15,485)	312
Net loss from unrecognized pension cost	(39,394)	(53,551)	26
	(6,529)	(69,036)	91
Total Stockholders' Equity	9,207,032	9,037,304	2
Commitments and Contingent Liabilities (notes 14, 24, 26 and 28)			
Total Liabilities and Stockholders' Equity	\$ 190,088,963	177,170,179	7

Statements of Income

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2006	2005	Change %
Interest income (notes 6 and 24)	\$ 5,788,330	5,143,787	13
Less: Interest expense (note 24)	2,954,338	2,191,897	35
Net interest income	2,833,992	2,951,890	(4)
Other-non-interest income:			
Fees and commission income, net (note 24)	607,782	644,661	(6)
Gain (loss) on financial instruments at fair value through profit or loss (note 6)	94,587	(23,028)	511
Realized gain (loss) on available-for-sale financial assets (note 7)	5,500	21,355	(74)
Investment income under the equity method, net	9,293	27,621	(66)
Foreign exchange gain (loss), net	486	36,775	(99)
Asset impairment loss (notes 11, 13 and 15)	(155,122)	(69,658)	(123)
Other non-interest income, net (notes 14, 15 and 24)	171,208	89,313	92
Other bad debt expenses (note 10)	(20,786)	-	-
Net Revenue	3,546,940	3,678,929	(4)
Bad Debt Expenses for Margin Loans (note 10)	2,171,877	1,128,226	93
Operating Expenses:			
Personnel costs (notes 19 and 29)	1,412,103	1,407,084	-
Depreciation and amortization (notes 12, 13 and 29)	164,774	277,524	(41)
Other general and administrative expenses (note 24)	736,943	682,792	8
	2,313,820	2,367,400	(2)
Income (loss) from Continuing Operations before Income Tax	(938,757)	183,303	(612)
Income Tax Expense (benefit) (note 20)	(130,000)	36,287	(458)
Income (loss) before cumulative effect of changes (note 3)	(808,757)	147,016	(650)
Cumulative effect of changes, net of income tax of \$0 (note 3)	19,442	-	-
Net Income (loss)	\$ (789,315)	147,016	(637)
	Before Tax	After Tax	Before Tax
Basic Earnings (deficits) per Share (notes 3 and 22)			After Tax
Net income (loss) before cumulative effect of changes in accounting principle	\$ (1.30)	(1.13)	0.23
Cumulative effect of changes in accounting principle		0.03	0.17
Net Loss		\$ (1.10)	



Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars)

	Share Capital			Retained Earnings		Unrealized gain (loss) on available-for-sale financial assets	Net loss from unrecognized pension cost	Total
	Common stock	Preferred stock	Capital surplus	Legal reserve	Unappropriated earnings (accumulated deficits)			
Balance at January 1, 2005	\$ 6,000,000	-	605,686	-	509,288	-	(42,002)	7,072,972
Issuance of common stock for cash (note 21)	1,000,000	-	-	-	-	-	-	1,000,000
Issuance of preferred stock for cash (note 21)	-	1,000,000	-	-	-	-	-	1,000,000
Appropriation of retained earnings (note 21):								
Legal reserve	-	-	-	152,786	(152,786)	-	-	-
Directors' and supervisors' bonuses	-	-	-	-	(17,825)	-	-	(17,825)
Employees' bonus	-	-	-	-	(17,825)	-	-	(17,825)
Cash dividends	-	-	-	-	(120,000)	-	-	(120,000)
Retained earnings transferred to common stock	198,000	-	-	-	(198,000)	-	-	-
Net income for 2005	-	-	-	-	147,016	-	-	147,016
Recognition of unrealized loss	-	-	-	-	-	(15,485)	-	(15,485)
Recognition of net loss from unrecognized pension cost	-	-	-	-	-	-	(11,549)	(11,549)
Balance at December 31, 2005	7,198,000	1,000,000	605,686	152,786	149,868	(15,485)	(53,551)	9,037,304
Issuance of common stock for cash (note 21)	1,000,000	-	-	-	-	-	-	1,000,000
Appropriation of retained earnings (note 21):								
Legal reserve	-	-	-	44,105	(44,105)	-	-	-
Directors' and supervisors' bonuses	-	-	-	-	(3,968)	-	-	(3,968)
Employees' bonus	-	-	-	-	(3,968)	-	-	(3,968)
Cash dividends	-	-	-	-	(71,980)	-	-	(71,980)
Dividends on preferred stock	-	-	-	-	(23,548)	-	-	(23,548)
Capital surplus used to increase common stock (note 21)	359,900	-	(359,900)	-	-	-	-	-
Net loss for 2006	-	-	-	-	(789,315)	-	-	(789,315)
Recognition of unrealized gain (loss) on available-for-sale financial assets (note 7)	-	-	-	-	-	7,587	-	7,587
Recognition of unrealized gain (loss) on available-for-sale financial assets due to change in accounting principle (notes 3 and 7)	-	-	-	-	-	40,763	-	40,763
Reversal of net loss from unrecognized pension cost	-	-	-	-	-	-	14,157	14,157
Balance at December 31, 2006	<u>\$ 8,557,900</u>	<u>1,000,000</u>	<u>245,786</u>	<u>196,891</u>	<u>(787,016)</u>	<u>32,865</u>	<u>(39,394)</u>	<u>9,207,032</u>

Statements of Cash Flows

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars)

	2006	2005
Cash flow from operating activities:		
Net income (loss)	\$ (789,315)	147,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	107,751	100,675
Amortization	58,133	179,194
Asset impairment loss	155,122	69,658
Provision for (reversal of) reserve for securities trading losses	(1,076)	304
Provision for bad debts of margin loans	2,171,877	1,128,226
Other bad debt expenses	20,786	-
Investment income under the equity method	(9,293)	(27,621)
Gain on sale of available-for-sale financial assets, net	(4,971)	(21,114)
Loss (gain) on disposal of property and equipment, net	(8,247)	11,264
Gain on disposal of non-operating assets	(5,046)	(511)
Gain on disposal of foreclosed assets	(897)	(42,443)
Decrease (increase) in financial assets at fair value through profit or loss	(655,612)	817,643
Increase in accounts receivable	(1,196,210)	(359,385)
Increase in other financial assets	(2,398)	-
Decrease (increase) in deferred income tax assets	(129,819)	28,846
Increase in financial liabilities at fair value through profit or loss	1,640	595
Increase in accounts payable and other liabilities	551,319	1,229,596
Increase (decrease) in accrued pension liabilities	(8,054)	14,126
Net cash provided by operating activities	255,690	3,276,069
Cash flow from investing activities:		
Decrease (increase) in due from Central Bank and placement to other banks	(6,871,583)	808,425
Acquisition of available-for-sale financial assets	(1,193,714)	(1,345,322)
Proceeds from disposal of available-for-sale financial assets	1,019,021	2,081,291
Increase in loans and advances to customers	(5,214,851)	(24,529,333)
Decrease (increase) in bills and bonds purchased under agreements to resell	1,099,206	(762,302)
Capital refund from investees under cost method	15,361	-
Increase in long-term investments under equity method	-	(50,000)
Acquisition of property and equipment	(378,526)	(757,694)
Proceeds from disposal of property and equipment	64,327	548
Proceeds from sale of non-operating assets	16,868	4,860
Increase in foreclosed assets	(636,641)	(189,442)
Proceeds from disposal of foreclosed assets	351,660	462,079
Increase in other assets	(92,990)	(1,471,140)
Net cash provided by acquisition (note 13)	-	4,760,740
Net cash used in investing activities	(11,821,862)	(20,987,290)
Cash flow from financial activities:		
Increase (decrease) in deposits by Central Bank and other banks	(963,999)	5,815,534
Increase in deposits and remittances (including negotiable certificates of deposit)	12,264,344	10,898,627
Increase (decrease) in bills and bonds securities sold under agreements to repurchase	(777,371)	11,428
Cash dividends, employees' bonus, and directors' and supervisors' bonus	(103,464)	(155,650)
Issuance of subordinate financial debentures	1,680,000	-
Increase (decrease) in deposits-in and other liabilities	16,410	(11,998)
Issuance of common stock for cash	1,000,000	1,000,000
Issuance of preferred stock for cash	-	1,000,000
Net cash provided by financial activities	13,115,920	18,557,941
Net increase in cash and cash equivalents	1,549,748	846,720
Cash and cash equivalents at beginning of year	2,569,066	1,722,346
Cash and cash equivalents at end of year	\$ 4,118,814	2,569,066
Supplementary disclosure of cash flow:		
Cash payments of income tax	\$ 27,329	26,233
Cash payments of interest	\$ 2,666,447	2,117,781
Investing and financing activities not affecting cash flows:		
Unrealized gain (loss) on available-for-sale financial assets	\$ 7,587	(15,485)
Unrealized gain (loss) on available-for-sale financial assets due to change in accounting principle	\$ 40,763	-
Reconciliation of cash received from disposal of foreclosed assets:		
Increase in receivables from disposal of foreclosed assets	\$ 283,481	-



Notes to Financial Statements

December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars, unless otherwise specified)

(1) Organization and Business Scope

Bank of PANHSIN (the Bank), formerly named "Pan Chiao Credit Cooperative", was founded on April 25, 1957. Pursuant to an approval granted by the Ministry of Finance, the Bank was re-incorporated as a commercial bank on July 8, 1997, and completed the acquisition of "The 5th Credit Cooperative of Kaohsiung" on September 29, 1997. The Bank obtained a banking license authorized by the Ministry of Finance to operate as a commercial bank on September 30, 1997. In October 1999, the Bank received its trust license from the Ministry of Finance and started operations on November 26 of the same year with capital of \$100 million. On November 27, 2002, the Bank was authorized by the Ministry of Finance to establish an International Banking Department, which started operations on July 7, 2003. Furthermore, the Bank completed the acquisition of "The 1st Credit Cooperative of Chiayi" on March 6, 2005.

The Bank was established pursuant to the Banking Law to engage in:

- 1) all commercial banking operations allowed by the Banking Law;
- 2) savings operations;
- 3) trust operations;
- 4) credit card operations;
- 5) trading in government bonds and other debt securities; and
- 6) other operations as authorized by the relevant central authority.

On November 14, 2006, the Bank was approved by the Securities and Futures Bureau of the Financial Supervisory Commission, Executive Yuan to offer its shares publicly.

As of December 31, 2006, the number of the Bank's employees was 1,603.

(2) Summary of Significant Accounting Policies

The financial statements of the Bank are presented in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese version of the Bank's financial statements from which it is derived.

The financial statements of the Bank are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Banks, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and ROC generally accepted accounting principles. The financial statements are prepared primarily on a historical cost basis except as otherwise specified in the following accounting policies. A summary of significant accounting policies and the measurement basis used in preparing the financial statements is as follows:

1) Basis of preparation

The financial statements include the accounts of the head office and its branches. All intra office balances and transactions have been eliminated for preparation of the financial statements.

The Bank, for internal management purposes, should maintain separate accounts and prepare separate sets of financial statements for the entrusted funds managed by the Bank. All the entrusted assets are booked to a memo account.

2) Foreign currency transactions

Except for accounts in its Offshore Banking Unit that are maintained in US dollars, accounts in all other

departments are maintained in New Taiwan dollars. For those transactions denominated in foreign currencies, assets and liabilities are recorded in their original foreign currencies, and all income and expense accounts denominated in original foreign currencies are translated into New Taiwan dollars at daily closing exchange rates. At the balance sheet date, the financial statement amounts in all foreign currencies are translated into New Taiwan dollars at exchange rates assigned on that date. Differences from translation are recorded as gains or losses for the current period.

3) Cash and cash equivalents

The Bank considers cash and due from banks as cash and cash equivalents.

4) Deposit reserve

Deposit reserve is calculated based on the monthly average balance of the various deposit accounts, by using specific reserve ratios as promulgated by the Central Bank of China (CBC). The deposit reserve demand account is placed with the CBC and is subject to change only when the monthly reserve requirement is adjusted.

5) Financial assets and liabilities at fair value through profit or loss

Starting from January 1, 2006, the Bank accounts for financial assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement". The Bank recognizes the purchases or sales of stocks, funds and beneficiary certificates using trade date accounting and of other financial assets using settlement date accounting. These financial instruments are initially recognized at fair value plus acquisition or issuance cost.

Financial assets whose changes in fair value are recognized in profit or loss include debt securities, beneficiary certificates, equity shares and derivative instruments held or issued by the Bank. These financial assets can be classified into two subcategories: financial assets held for trading purposes and financial assets designated at fair value. Financial assets held for trading purposes are acquired or held principally for the purpose of selling or repurchasing them in the near term.

Financial instruments with fair value changes recognized in profit or loss should be measured at fair value. The fair value of an asset is the amount at which the asset could be purchased or sold in a current arm's length transaction between willing parties. A quoted market price, if available, in an active market is the best evidence of fair value. The fair value of listed or OTC stocks is the market closing price of the last transaction day. The market price of open end funds is the net asset value on balance sheet date. The fair value of local bonds is represented by the OTC's quoted market price of the last transaction day of the bonds. However if a quoted market price is not available, fair value should be estimated using the information available in the circumstances or estimated using pricing models. Estimation of fair value is usually based on recent trading prices of such financial instruments and supplemented by related valuation techniques available.

The realized and unrealized gain or loss, including the amortization of discount and premium, on financial instruments at fair value through profit or loss whose changes in fair value are recognized in the income statement. Interest income (expense) and cash dividends received during the holding period are recorded under the accounts of "interest income (expense)" and "gain (loss) on financial instruments at fair value through profit or loss", respectively. Cash dividends, including the dividends declared in the year of investment, are recognized as income on the ex dividend date or when the board approves the cash dividends. Stock dividends are not recognized as income but treated as increases in the number of shares held.

A financial instrument cannot be reclassified into or out of the fair value through profit or loss category after



initial recognition.

The investments held by the Bank on December 31, 2005, were classified as marketable securities, long term equity investments, and derivative instruments. Marketable securities including short-term-bills, listed stocks, government bonds, corporate bonds, and beneficiary certificates (including open-end and closed-end funds) are recorded at cost when acquired and are evaluated by the lower of total-cost-or-market-value method on the balance sheet date. The market prices of listed stocks and closed-end funds are determined by the average closing price for the last month of the reporting period. The market prices of open-end funds are the net asset value on the balance sheet date. The market prices of financial debentures and corporate bonds are determined by the value on the nearest trading date. The market prices of government bonds are determined by the value on the balance sheet date. The cost of short term investments sold is determined by the weighted-average-cost method.

The marketable securities as of December 31, 2005, have been reclassified and presented to conform to the financial statements for the year ended December 31, 2006.

6) Available for sale financial assets

Starting from January 1, 2006, the Bank adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement". Except for stocks, funds, and beneficiary certificates which use transaction-date accounting, the Bank recognizes the purchase or sale of the financial assets by using settlement date accounting. These financial instruments are initially recognized at fair value plus acquisition or issuance cost.

Available for sale financial assets are subsequently remeasured at fair value, and the changes therein are recognized in the shareholders' equity adjustment account. Fair value is based on the quoted market price or estimated amount if the quoted market price is not available. When there is any indication of impairment in the value of the available-for-sale financial assets, the impairment loss should be recognized in the income statement. The impairment losses recognized in the income statement on debt instruments classified as available-for-sale are reversed through the income statement if the fair value of such debt instruments increase in a subsequent period. When available-for-sale financial assets are sold, cumulative gains or losses previously recognized in equity are recognized in the income statement. Interest income and cash dividends are recorded under "interest income" and "realized gain on available for sale financial assets", respectively. Cash dividends are recognized as income on the ex-dividend date or when the board approves the cash dividends. Cash dividends received are deducted from the amount invested in the same year. Stock dividends are not recognized as income but treated as increases in the number of shares held.

The marketable securities as of December 31, 2005, have been reclassified as available-for-sale financial assets and presented to conform to the financial statements for the year ended December 31, 2006.

7) Derivative financial instruments

Derivative financial instruments are foreign exchange forward contracts, currency swaps, interest rate swaps, and options, which are entered into by the Bank in foreign exchange, interest rate, and capital markets. Derivative financial instruments are for trading purposes except those accounted for under hedge accounting. Trading purposes include market creation, customer services, trading and other relevant arbitrage.

Derivative financial instruments held for trading purposes are evaluated at fair value. Changes in fair value are recorded as current period income or loss. Fair value is the amount at which the asset could be purchased or sold in a current arm's-length transaction between willing parties. A quoted market

price, if available, in an active market is the best evidence of fair value; however, if a quoted market price is not available, fair value should be estimated using the information available in the circumstances or using pricing models. Estimation of fair value is usually based on recent trading prices of similar financial instruments and supplemented by related valuation techniques available.

Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

An embedded derivative financial instrument is split from the host contract and accounted for as a separate derivative if the embedded derivative financial instrument meets the definition specified in the Statements of Financial Accounting Standards. The host contract, depending on whether or not it is a financial instrument, is recognized according to the related Statements of Financial Accounting Standards.

8) Resales and repurchase agreements

Financial instruments sold (purchased) under repurchase (resell) agreements are accounted for using the acquisition cost. The difference between the sale and repurchase price is treated as interest income or interest expenses and recognized over the life of the agreement.

9) Loans and advances to customers, and related allowance for doubtful accounts

Credit terms are decided by the term to maturity of loans. The loan period of short term loans is within one year, the loan period of medium term loans is one to seven years, and the loan period of long term loans is more than seven years. Loans with pledged assets are recorded as secured loans.

All loans are recorded initially as the actual amount lent out and reported at their outstanding principal balances net of any provisions for doubtful accounts. An allowance for doubtful accounts is determined by an evaluation of the collectibility of loans, receivables, and advance accounts. Doubtful accounts are written off when the recovery possibility is remote.

Principal or interest overdue over three months is categorized as overdue accounts. Interest overdue over six months was categorized as overdue accounts before June 30, 2005. In addition, when principal or interest has not been paid for over six months, the said principal and interest are transferred to non performing loans. When this occurs, interest will only be calculated and booked to the memo accounts accordingly.

Starting from July 1, 1999, the Bank has to provide 3% of operating revenue as allowance for bad debt to speed up the write-off of default accounts. This allowance should be provided until the Bank's overdue accounts ratio has dropped to lower than 1%. The aforementioned allowance is recognized under bad debt expense and allowance for bad debt expense accounts.

10) Long-term investments under equity method

Long-term investments are accounted for under the equity method when the percentage of ownership exceeds 20%, or is less than 20% with significant influence over the investee.

When the Bank disposes of long-term investment accounted for under the equity method, the difference between the cost and the selling price at the disposal date is recorded in gain (loss) on disposal of long-term equity investment. If there is any capital surplus arising from long-term investment under the equity method, such capital surplus is transferred to current income or loss by the percentage of disposal.

Starting from January 1, 2005, investments in which the Bank has controlling interests are consolidated into the Bank's consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 7 (SFAS 7) "Consolidated Financial Statements".

11) Other financial assets



Holdings of unlisted or non-OTC stocks over which the Bank does not have significant influence are classified as financial assets stated at cost. Since the fair value cannot be obtained, these financial assets are measured at cost. If there is any objective evidence of impairment in the value of the financial assets stated at cost, an impairment loss is recognized in the income statement accordingly. This impairment loss cannot be reversed.

Cash dividends from the aforementioned financial assets stated at cost are recorded under "other non interest income, net". Stock dividends are not recognized as income but treated as increases in the number of shares held. In addition, if fair value is available and reliably measurable, the aforementioned financial assets should be evaluated by using fair value and reclassified as "available for sale financial assets".

Other investments are originally held for strategic investments in cooperatives and credit unions. On disposition, paid in capital is to be refunded, and gain or loss is recognized when it occurs. Distributed earnings are recorded as gains on investment.

The long term equity investments held by the Bank on December 31, 2005 were classified as investments under equity method and investments under cost method. The investments under cost method are stated and revalued at cost. If there is any indication of impairment, an impairment loss is recognized accordingly.

12) Property and equipment, and related depreciation

Property and equipment are stated at acquisition cost. Interest expense on the acquisition of assets is capitalized and classified under appropriate categories of property and equipment. Major renewals and betterments of property and equipment are capitalized, while maintenance and repairs are expensed.

Apart from land, depreciation is calculated on a straight line basis over the estimated useful lives of the respective assets. In addition, the salvage value is amortized over the estimated remaining useful life of an asset. Gains or losses on the disposal of property and equipment are recorded as non operating income or loss.

The estimated useful lives of property and equipment are as follows:

Building	3~60 years
Equipment	3~ 7 years
Transportation equipment	3~10 years
Other equipment	3~10 years
Leasehold improvement	2~11 years

13) Intangible assets—goodwill

Goodwill arose on the acquisition of "The 5th Credit Cooperative of Kaohsiung" and "The 1st Credit Cooperative of Chiayi" in 1997 and 2005, respectively. It was recognized as the purchase price less the market value of tangible assets obtained, and classified as an intangible asset. Goodwill previously was amortized over 20 years and 5 years, respectively, on a straight line basis. Starting in 2006, in accordance with the newly revised SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", goodwill shall not be amortized.

14) Other intangible assets

Computer software is recorded at acquisition cost and amortized over three years.

15) Other assets—non-operating assets

Property and equipment leased out under operating leases are reclassified as non operating assets. Depreciation is provided on a straight line basis over the estimated useful lives of the leased out assets,

and is recorded as a non interest expense or income, net.

Construction is recorded under the account of construction in progress. When construction is completed but not yet sold, the balance will be transferred to the account of property held for sale.

16) Other assets—foreclosed assets

Foreclosed assets are stated at their net realizable value. Any difference from the original value of the loans is recognized as bad debts. Losses or gains on the disposal of foreclosed assets are recorded as other non interest expense or income, net.

17) Asset impairment

Effective on January 1, 2005, the Bank adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets". In accordance with SFAS 35, the Bank assesses at each balance sheet date whether there is any indication that an asset other than goodwill may have been impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset and recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Bank assesses the cash generating unit of goodwill on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

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

The impairment loss recognized for goodwill cannot be reversed.

18) Deposits by banks and deposits and remittances

Deposits are recorded at the contracted principal amount or the expected value on maturity. Negotiable certificates of deposit are issued at face value, and principal and accrued interest are paid on the maturity date.

19) Subordinate financial debentures

The Bank issued subordinate financial debentures at par with lump sum payment at maturity, and the interest expenses are computed and recorded at par value multiplied by the stated interest rate every month. The annual fee paid to the OTC is recognized as operating expense.

20) Other liability—reserve for securities trading losses

According to the Rules Governing Securities Firms, 10% of the excess of securities trading gains over losses must be provided as a reserve on a monthly basis, until the accumulated balance of such reserve reaches \$200,000. Such reserve can only be used to offset the loss from securities trading.

The aforementioned reserve for trading losses is recognized as charged to other non-interest expense or income, net and other liability—reserve for securities trading losses.

21) Pension plan

The Bank has defined benefit pension plans for engaged managers and all regular employees, respectively. In accordance with the pension plans, benefit payments are provided based on the number of service years and the average salary of the qualified managers or employees six months prior to their retirement. For the engaged managers, the Bank deposits a certain percentage of the monthly gross salary payment with the Hou Pu Branch of the Bank in a retirement fund account. As for the employees, in accordance with the ROC Labor Standards Law, a retirement fund was set up with the Central Trust of China with a monthly contribution of a certain percentage of the gross salary payment.

For the defined benefit pension plans, the measurement date for the completion of the actuarial



assessment was the end of each fiscal year. The amount of the accumulated benefit obligation over pension plan assets is recognized as minimum pension liability on the reporting date. Furthermore, the Bank recognized net pension cost, which included service costs, interest costs, expected returns on plan assets, and the amortization of the net transition obligation, in accordance with the retirement plan's actuarial assessment. The initial net pension cost and unrecognized net transition obligation are amortized by using the straight line method over 15 and 27 years for engaged managers and regular employees, respectively.

Minimum pension liability usually occurs due to the existence of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation. If the amount of minimum pension liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation, then the difference would be charged to the deferred pension cost account; otherwise, the difference shall be charged to the account net loss not yet recognized as net pension cost. Deferred pension cost is classified as an intangible asset; net loss from unrecognized net pension cost is classified as a reduction of stockholders' equity.

On July 1, 2005, the Labor Pension Act (the New System) became effective. Under the New System the Bank has an obligation to contribute no less than 6% of monthly paid salary to the pension accounts in the Labor Insurance Bureau individually owned by the Bank's existing employees who chose to join the New System and the employees hired after the effective date. The amounts deposited are charged to current operations.

22) Recognition of revenue

Interest revenue, fees and commissions are recognized as income on an accrual basis.

23) Income tax

Income tax is estimated based on the accounting income. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly.

The 10% surtax on unappropriated earnings is recorded as expense in the year the stockholders approve the distribution of earnings.

24) Earnings (deficits) per share of common stock

Earnings (deficits) per share are computed by dividing net income (loss) divided by the weighted-average number of issued shares of common stock outstanding during the year. The increase in issuance of stock dividends from retained earnings or capital surplus or the decrease in stock by offsetting accumulated deficits is adjusted retroactively. Furthermore, if the designated date of record for a stock dividend is proposed before publishing the financial statements, the earnings per common share are adjusted retroactively. If there is cumulative preferred stock outstanding, preferred stock dividends shall be deducted from net income whether or not dividends are declared.

(3) Reasons for and Effects on Accounting Changes

Effective January 1, 2005, the Bank adopted Statement of Financial Accounting Standards No. 35, "Impairment of Assets". The impairment loss recognized on intangible assets—goodwill was \$52,244 (net of income tax benefit of \$17,414). As a result, basic earnings per share decreased by \$0.08 dollars.

Effective January 1, 2006, pursuant to the newly revised ROC Statement of Financial Accounting Standards No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", goodwill is no longer amortized. The resulting effect of this change in accounting principle amounted to \$118,480. The net loss before accumulative effect of changes in accounting principle and basic deficits per share decreased by \$88,860 and \$0.12 dollars, respectively.

Starting from January 1, 2006, the Bank adopted ROC Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation". In accordance with SFAS No. 34, the beginning balance of financial assets and financial liabilities should be reclassified and remeasured at fair value. For the period ended December 31, 2006, the resulting cumulative effect of changes in accounting principle amounted to \$19,442 and basic net deficits per share decreased by \$0.03 dollars. In addition, adjustment to stockholders' equity was \$40,763.

(4) Cash and Cash Equivalents

As of December 31, 2006 and 2005, composite banking insurance amounted to \$147,400.

(5) Due from Central Bank and Placement to Other Banks

As of December 31, 2006 and 2005, due from Central Bank and placement to other banks were as follows:

	2006	2005
Deposit reserve:		
Deposit reserve—checking account	\$ 2,965,717	1,598,972
Deposit reserve—demand account	4,117,736	3,752,395
ATM settlement account	150,564	152,015
	<u>7,234,017</u>	<u>5,503,382</u>
Certificates of deposit	15,000,000	10,700,000
Placement to other banks	3,146,338	2,305,390
	<u>\$ 25,380,355</u>	<u>18,508,772</u>

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

As of December 31, 2006 and 2005, financial assets and liabilities at fair value through profit or loss were as follows:

	2006	2005
Trading assets:		
Equity securities	\$ 74,819	102,304
Beneficiary certificates	460,145	397,962
Asset-backed securities	-	100,000
Derivatives	353	-
	<u>535,317</u>	<u>600,266</u>
Financial assets designated at fair value:		
Overseas convertible bonds	\$ -	161,657
Convertible bonds—asset swap	23,399	15,000
Credit-linked notes	939,519	65,700
	<u>962,918</u>	<u>242,357</u>
	<u>\$ 1,498,235</u>	<u>842,623</u>
	2006	2005
Trading liabilities:		
Derivative financial instruments	\$ 2,235	595



For the years ended December 31, 2006 and 2005, net gain (loss) on financial assets and financial liabilities at fair value through profit or loss were as follows:

	2006	2005
Net gain (loss) on valuation and disposal of trading assets:		
Rate-related instruments	\$ (514)	-
Equity securities	64,856	(34,913)
Beneficiary certificates	23,403	11,276
Derivatives	5,317	109
	<u>93,062</u>	<u>(23,528)</u>
Dividend income	-	500
Other interest income	533	-
	<u>533</u>	<u>500</u>
	<u>\$ 93,595</u>	<u>(23,028)</u>
	2006	2005
Net gain (loss) on valuation and disposal of financial assets designated at fair value:		
Convertible bonds—asset swaps	\$ (561)	-
Credit-linked notes	(700)	-
	<u>(1,261)</u>	<u>-</u>
Interest income	-	-
	<u>\$ (1,261)</u>	<u>-</u>
	2006	2005
Net gain (loss) on valuation and disposal of trading liabilities:		
Derivatives	\$ 2,786	-

As of December 31, 2005, in accordance with interpretation Ji-Mi-Zih No. 016 issued in 2005 by the Accounting Research and Development Foundation, after adopting ROC Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement", the Bank reclassified bills evaluated by the lower-of-total-cost-or-market-value method amounting \$1,855,612 (net of allowance for cost in excess of market value of \$2,630) to financial assets at fair value through profit or loss of \$842,623, available for sale financial assets of \$1,002,989, and financial assets stated at cost of \$10,000. The amount of derivatives under other liabilities reclassified to trading liabilities was \$595.

(7) Available for Sale Financial Assets

As of December 31, 2006 and 2005, available for sale financial assets were as follows:

	Cost after Amortization	2006 Assessment Adjustment	Fair Value
Rate-related instruments			
Negotiable certificates of deposit	\$ 231,784	98	231,882
Government bonds	1,230,930	26,340	1,257,270
Equity securities			
Stocks	49,911	6,427	56,338
	<u>\$ 1,512,625</u>	<u>32,865</u>	<u>1,545,490</u>
	2005 Book Value		
Rate-related instruments			
Negotiable certificates of deposit	\$ 238,457		
Government bonds	1,025,329		
Corporate bonds	6,298		
Equity securities			
Stocks	47,392		
	<u>\$ 1,317,476</u>		

For the year ended December 31, 2006, movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	Amount
Beginning balance	\$ (15,485)
Effect of adoption of new SFAS	40,763
Net change for the period	7,587
Ending balance	<u>\$ 32,865</u>

The beginning balance was the unrealized loss on decline in market value of Taiwan Cooperative Bank Co., Ltd. under the lower-of-cost-or-market-value method. It was originally classified under the adjustment to stockholders' equity account, and was reclassified as unrealized loss on available-for-sale financial assets in 2006.

Please refer to note 25 for the available-for-sale financial assets under pledge

(8) Bills and Bonds Purchased under Agreements to Resell; Bills and Bonds Sold under Agreements to Repurchase

As of December 31, 2006 and 2005, bills and bonds purchased under agreements to resell, and bills and bonds sold under agreements to repurchase were as follows:

	2006	
	Period to Repurchase	Interest Rate (%)
Bills and bonds sold under agreements to repurchase	2007.1.5~2007.3.2	1.35~1.63

	2005	
	Period to Repurchase	Interest Rate (%)
Bills and bonds purchased under agreements to resell	2006.1.2~2006.2.6	1.42~1.60
Bills and bonds sold under agreements to repurchase	2006.1.2~2006.1.18	1.26~1.48

(9) Accounts Receivable, Net

As of December 31, 2006 and 2005, accounts receivable, net, were as follows:

	2006	2005
Dividends receivable	\$ 557	1,415
Interest receivable	482,607	441,640
Accounts receivable	13,751	23,022
Notes receivable—PANHSIN AMC	283,481	-
Tax refundable	52,576	63,765
Proceeds from sale of stock	-	39,946
Acceptance receivable	534,470	460,953
Other receivable—PANHSIN AMC	1,169,748	40,352
Other receivable—Other	79,856	66,262
Subtotal	<u>2,617,046</u>	<u>1,137,355</u>
Less: allowance for bad and doubtful accounts	<u>22,261</u>	<u>1,475</u>
	<u>\$ 2,594,785</u>	<u>1,135,880</u>



(10) Loans and Advances to Customers

As of December 31, 2006 and 2005, details of loans and advances to customers were as follows:

	2006	2005
Remittance and discounts for exports	\$ 261,229	141,907
Short-term loans, overdrafts, and bills purchased	16,632,423	15,231,374
Short-term secured loans and overdrafts	18,131,058	16,518,171
Medium-term loans	19,914,985	18,356,839
Medium-term secured loans	19,464,113	17,441,619
Long-term loans	149,418	180,636
Long-term secured loans	66,105,348	69,075,434
Non-performing loans	5,465,534	4,400,680
Subtotal	146,124,108	141,346,660
Less: allowance for bad and doubtful accounts	2,936,283	1,201,809
	<u>\$ 143,187,825</u>	<u>140,144,851</u>

The Bank assesses the risk that specific loans or advances to customers may not be recoverable and provides allowance for these specific bad debts accordingly. The risk that these specific loans may not be recoverable is assessed according to the probability that these loans may default when overdue. To strengthen the Bank's financial structure, to enhance its ability to accept risk, and to reinforce the quality of its assets, the Bank assessed and increased the allowance for bad debts for expired loans and advances to customers this year.

Movements of allowance for bad and doubtful accounts in years 2006 and 2005 were as follows:

	2006		
	Specific Provision	General Provision	Total
Beginning balance	\$ 811,359	391,925	1,203,284
Add: provision for doubtful accounts	2,231,321	41,350	2,272,671
Less: write-off	517,411	-	517,411
Ending balance	<u>\$ 2,525,269</u>	<u>433,275</u>	<u>2,958,544</u>

	2005		
	Specific Provision	General Provision	Total
Beginning balance	\$ 534,969	1,089,437	1,624,406
Add: provision for doubtful accounts	1,916,409	(697,512)	1,218,897
allowance related to the acquisition of The 1st Credit Cooperative of Chiayi	438,733	-	438,733
Less: write-off	2,078,752	-	2,078,752
Ending balance	<u>\$ 811,359</u>	<u>391,925</u>	<u>1,203,284</u>

For the years ended December 31, 2006 and 2005, the provision for bad debt expenses was \$2,272,671 and \$1,218,897, respectively. For the years ended December 31, 2006 and 2005, the amounts collected after write-off were \$80,008 and \$90,671, respectively. For the years ended December 31, 2006 and 2005, the bad debt expenses net of the aforementioned collection after write-off were \$2,192,663 and \$1,128,226, respectively.

The aforementioned bad debt expenses were recorded under bad debt expenses for loans in the amount of \$2,171,877 and other bad debt expenses in the amount of \$20,786 for the year 2006. The bad debt

expenses provided in 2005 were recorded under bad debt expenses for loans in the amount of \$1,128,226. As of December 31, 2006 and 2005, details of allowance for bad and doubtful accounts were as follows:

	2006	2005
Loans and advances (excluding non-performing loans)	\$ 39,459	25,501
Non-performing loans	2,896,824	1,176,308
Accounts receivable and others	22,261	1,475
	<u>\$ 2,958,544</u>	<u>1,203,284</u>

For the years ended December 31, 2006 and 2005, the amounts of allowance for bad and doubtful accounts generated from 3% of operating revenues were \$183,798 and \$168,995, respectively.

As of December 31, 2006 and 2005, loans and advances not accruing interest were \$5,465,534 and \$4,400,680, respectively. For the years ended December 31, 2006 and 2005, interest receivable not accrued was \$872,786 and \$836,426, respectively.

As of December 31, 2006 and 2005, loans classified by geographical region were as follows:

	2006	2005
Domestic	\$ 142,086,861	141,310,931
Overseas	4,037,247	35,729
	<u>\$ 146,124,108</u>	<u>141,346,660</u>

As of December 31, 2006 and 2005, details of loans and advances to customers were as follows:

	2006	2005
Manufacturing	\$ 10,799,251	10,070,968
General commercial	28,737,689	21,561,698
Construction	7,488,155	4,358,120
Private	94,866,662	100,390,015
Others	4,232,351	4,965,859
	<u>\$ 146,124,108</u>	<u>141,346,660</u>

As of December 31, 2006 and 2005, asset quality was as follows:

	2006		2005	
	Amount	Percentage of Total Outstanding Loans	Amount	Percentage of Total Outstanding Loans
Overdue loans category A	\$ 5,646,597	3.87	4,433,931	3.14
Overdue loans category B	951,500	0.65	1,055,708	0.75
Total overdue loans	<u>\$ 6,598,097</u>	<u>4.52</u>	<u>5,489,639</u>	<u>3.89</u>
Reserve for loans	<u>\$ 2,936,283</u>		<u>1,201,809</u>	
Write-off of current allowance for bad debts from overdue loans balance	<u>\$ 517,411</u>		<u>2,078,752</u>	

For the year ended December 31, 2006, the non-reportable amount of overdue loans was \$710,742, and the related allowance provided was \$14,011.

Note 1: The overdue loans (including nonperforming loans) are reported in accordance with the "Regulations on Reserving Allowance for Asset Impairment and Allowance for Bad Debts from Overdue Loans and Nonperforming Loans in Bank".



Note 2: The overdue loans of category A and Category B should be recorded in accordance with Yin Ju (1) Ruling No.0941000251 issued on April 19, 2005.

Note 3: Overdue loans ratio=overdue loans / loans balance.

Note 4: Write-off of current allowance for bad debts from overdue loans balance: the cumulative amount of current allowance for bad debts from overdue loans from January 1 in that year to the balance sheet date.

(11) Long-Term Investments under Equity Method and Other Investments

As of December 31, 2006 and 2005, details of long-term investments under equity method and other investments were as follows:

	2006			2005		
	Percentage of Ownership	Investment Cost	Amount	Percentage of Ownership	Investment Cost	Amount
Equity method:						
Panhsin Insurance Broker Co., Ltd.	100.00	\$ 20,100	35,763	100.00	3,000	28,450
Panhsin Asset Management Co., Ltd.	100.00	50,000	54,151	100.00	50,000	52,171
		<u>\$ 70,100</u>	<u>89,914</u>		<u>53,000</u>	<u>80,621</u>
Financial assets stated at cost:						
Xin-Rui-Du Development Co., Ltd.	1.86	4,940	4,940	1.86	4,940	4,940
Tsai-Jin Information Co., Ltd.	1.14	45,500	45,500	1.14	45,500	45,500
Yin Lion Insurance Agency Co., Ltd.	19.99	1,000	1,000	19.99	1,000	1,000
Taipei County Credit Cooperative Union	-	10	10	-	10	10
Debt Instruments Depository and Clearing Co., Ltd.	-	-	-	0.02	20,000	20,000
Taiwan Depository & Clearing Corporation	0.08	6,345	6,345	-	-	-
Taiwan High Speed Rail Corporation-preferred shares	0.01	10,000	10,000	0.02	10,000	10,000
Yang Guang Asset Management Company	1.15	692	692	-	-	-
		<u>68,487</u>	<u>68,487</u>		<u>81,450</u>	<u>81,450</u>
Less: accumulated impairment loss		-	4,940		-	-
		<u>\$ 68,487</u>	<u>63,547</u>		<u>81,450</u>	<u>81,450</u>

For the years ended December 31, 2006 and 2005, movements of accumulated impairment loss of financial assets stated at cost were as follows:

	2006	2005
Beginning balance	\$ -	-
Add: provision (recorded as asset impairment loss)	4,940	-
Ending balance	<u>\$ 4,940</u>	<u>-</u>

The financial assets stated at cost (under other financial assets) were accounted for by the cost method since there was no quoted market price and estimates of fair values were not available.

The Bank obtained permission from the Bureau of Monetary Affairs, Financial Supervisory Commission, R.O.C. to establish Panhsin Asset Management Co., Ltd. (Panhsin AMC) on May 6, 2005. Panhsin AMC obtained a registration license on June 3, 2005, and started business on May 27, 2005.

After completion of the acquisition of The 1st Credit Cooperative of Chiayi on March 6, 2005, 2,604 thousand shares of Taiwan Cooperative Bank Co., Ltd., which were previously held by The 1st Credit Cooperative of Chiayi, were accounted for as long-term equity investments by the Bank. Since January 1, 2006, this investment has been reclassified as available for sale financial assets.

(12) Property and Equipment

As of December 31, 2006 and 2005, property and equipment were as follows:

	2006	2005
Cost:		
Land	\$ 3,771,591	3,744,154
Buildings	898,409	830,297
Equipment	585,038	568,882
Transportation equipment	89,784	81,435
Other equipment	103,619	98,411
Leasehold improvement	169,050	140,775
Subtotal	5,617,491	5,463,954
Less: accumulated depreciation	794,410	702,622
	4,823,081	4,761,332
Construction in progress and prepayments for equipment	326,858	87,899
	<u>\$ 5,149,939</u>	<u>4,849,231</u>

For the years ended 2006 and 2005, the movement of accumulated depreciation was as follows:

	2006	2005
Beginning balance	\$ 702,622	649,635
Add: depreciation	106,641	98,330
reclassification from leased-out asset	16,891	-
accumulated depreciation related to the acquisition of The 1st Credit Cooperative of Chiayi	-	22,048
Less: disposal	31,744	67,391
Ending balance	<u>\$ 794,410</u>	<u>702,622</u>

(13) Intangible Asset—Goodwill

As of December 31, 2006 and 2005, intangible assets—goodwill were as follows:

	2006	2005
Original cost	\$ 1,385,817	1,385,817
Less: accumulated impairment loss	69,658	69,658
	<u>\$ 1,316,159</u>	<u>1,316,159</u>



For the years ended December 31, 2006 and 2005, the movement of goodwill was as follows:

	2006	2005
Beginning balance	\$ 1,385,817	1,377,000
Increase	-	138,787
Decrease	-	129,970
Ending balance	<u>\$ 1,385,817</u>	<u>1,385,817</u>

For the years ended December 31, 2006 and 2005, the movement of accumulated impairment loss was as follows:

	2006	2005
Beginning balance	\$ 69,658	-
Add: provision	-	69,658
Ending balance	<u>\$ 69,658</u>	<u>69,658</u>

The Bank applied value in use as the estimated recoverable amount when performing an impairment test on the aforementioned goodwill in the year ended December 31, 2005. The related discount rate used by the Bank for the test was 10%. Because the growth of the loans was less than expected and the operating expenses increased, the bank adjusted downward the expected amount of the next five years' cash inflows provided from the cash-generating unit to which goodwill was allocated. Consequently, the Bank recognized the book value in excess of the estimated recoverable amount as an impairment loss.

(14) Other Assets—Non-Operating Assets

As of December 31, 2006 and 2005, other assets-non operating assets were as follows:

	2006	2005
Leased-out assets, net	\$ 307,923	443,641
Property available for sale, net	45,934	52,136
	<u>\$ 353,857</u>	<u>495,777</u>

The depreciation expense for leased out assets was \$1,110 and \$2,345 in 2006 and 2005, respectively. This depreciation expense was recorded under other non interest income, net.

The major terms of the lease contract are as follows:

- 1) Contract period is for 1 to 3 years.
- 2) The lessee has usage rights during the leasehold period. The leased assets cannot be mortgaged, securitized, sub-leased or disposed of in any manner without prior written consent from the Bank.

The Bank recognized net gain in the amount of \$5,046 and \$511 in 2006 and 2005, respectively, from the sale of leased out assets and property available for sale.

(15) Other Assets—Foreclosed Assets

As of December 31, 2006 and 2005, other assets—foreclosed assets were as follows:

	2006	2005
Foreclosed assets	\$ 2,314,147	2,470,080
Less: accumulated impairment loss	149,726	157,874
	<u>\$ 2,164,421</u>	<u>2,312,206</u>

For the years ended December 31, 2006 and 2005, the movement of accumulated impairment loss was as follows:

	2006	2005
Beginning balance	\$ 157,874	264,619
Add: provision	150,182	-
allowance related to the acquisition of The 1st Credit Cooperative of Chiayi	-	20,619
Less: write-off	158,330	127,364
Ending balance	<u>\$ 149,726</u>	<u>157,874</u>

The net gain on disposal of foreclosed assets was \$897 and \$42,443 in 2006 and 2005, respectively, recorded under other non-interest income.

(16) Deposits by Central Bank and Other Banks

As of December 31, 2006 and 2005, deposits by Central Bank and other banks were as follows:

	2006	2005
Deposits by other banks	\$ 8,292,349	8,044,525
Bank draft from other banks	6,113	43,720
Deposits transferred from Post Office	2,394,068	2,098,042
Overnight deposit from other banks	5,508,988	6,979,230
	<u>\$ 16,201,518</u>	<u>17,165,517</u>

(17) Deposits and Remittances

As of December 31, 2006 and 2005, deposits and remittances were as follows:

	2006	2005
Checking account	\$ 1,596,954	1,588,708
Demand deposits	10,627,668	9,401,273
Time deposits	28,523,215	24,260,674
Negotiable certificates of deposit	15,745,700	15,596,200
Foreign currency time deposits	3,707,983	2,886,364
Savings accounts:		
Demand deposits	25,766,732	25,967,730
Staff accounts deposits	960,376	897,317
Installment savings deposits	276,325	121,154
Non-interest-drawing time savings deposits	20,364,228	16,811,697
Interest-drawing savings deposits	48,960,626	46,863,673
Remittances	147,620	18,293
	<u>\$ 156,677,427</u>	<u>144,413,083</u>

As of December 31, 2006 and 2005, the maturity dates for the above time deposits and savings, except for demand savings deposits, was between one month and one year.

In accordance with related regulations, time deposits transferred from the Post Office account have been reclassified from the deposits and remittances account to the deposits of Central Bank and other banks account. Certain accounts in the period ended December 31, 2005, have been reclassified to conform to the presentation for the period ended December 31, 2006, for comparative purposes.



(18) Subordinated Financial Debentures

As of December 31, 2006 and 2005, subordinate financial debentures were as follows:

	2006	2005
Subordinated financial debentures	\$ 3,680,000	2,000,000

In order to improve the capital structure and promote the regulatory capital adequacy ratio, the board of directors of the Bank decided to issue subordinated financial debentures on July 24, 2003. The issuing of subordinated financial debentures was approved by the Bureau of Monetary Affairs in Ministry of Finance Ruling Tai Tsai Rong No. 0920041600 on September 3, 2003. The Bank issued the first series of the subordinated financial debentures on December 16, 2003, January 7, 2004, and September 1, 2004, respectively, and the period of the debentures was five years and six months. The total amount was \$2,000,000, which was also the par value. The details were as follows:

	The First Series of the Subordinated Financial Debentures in 2003	The First Series of the Subordinated Financial Debentures in 2004 (1st issuance)	The First Series of the Subordinated Financial Debentures in 2004 (2nd issuance)
Par value	\$ 1,158,600	391,800	449,600
Stated interest rate			
Fixed	3.00%	3.00%	3.25%
Floating	Floating interest rate plus 1.25% of Chunghwa Post Co., Ltd. stated one-year time savings deposit rate (note 1)	Floating interest rate plus 1.25% of Chunghwa Post Co., Ltd. stated one-year time savings deposit rate (note 1)	Floating interest rate plus 1.25% of Chunghwa Post Co., Ltd. stated one-year time savings deposit rate (note 1)
Period	Five years and six months	Five years and six months	Five years and six months
Interest payment date	Payable every half-year	Payable every half-year	Payable every half-year
Term of principal repayment	Repaid on maturity	Repaid on maturity	Repaid on maturity
Issued price	Priced at face value on issuing date	Priced at face value on issuing date	Priced at face value on issuing date

The board of directors of the Bank decided to issue subordinated financial debentures on December 21, 2005. The issuance of subordinated financial debentures was approved by the Bureau of Monetary Affairs in Ministry of Finance Ruling Tai-Tsai Rong No. 09500173780 on May 2, 2006. The Bank issued the first series of the subordinated financial debentures on June 16, 2006, and the period of the debentures was five years and eight months. The total amount was \$1,680,000, which was also the par value. The details were as follows:

	The First Series of the Subordinated Financial Debentures in 2006
Par value	\$ 1,680,000
Stated interest rate Fixed	3.30%
Floating	Floating interest rate plus 1.10% of Chunghwa Post Co. Ltd. stated one-year time savings deposit rate (note 2)
Period	Five years and eight months
Interest payment date	Payable every year
Term of principal repayment	Repaid on maturity
Issued price	Priced at face value on issuing date

Note 1: The stated interest rates are recalculated every half year, two business days prior to the effective date.

Note 2: The stated interest rates are recalculated every year, two business days prior to the effective date.

(19) Pension

In accordance with the pension plan, the Bank deposited an amount equal to 8% and 9.64% of the monthly gross salary payment in a retirement fund account for managers and employees, respectively, in 2006 and 2005. Furthermore, in accordance with the New System, from July 1, 2005, the Bank deposited in the Bureau of Labor Insurance an additional amount equal to 6% of the monthly gross salary payment for employees who chose the New System. The measurement dates of the actuarial valuation were December 31, 2006 and 2005. As of December 31, 2006 and 2005, the reconciliation of the funded status and accrued pension liabilities was follows:

	2006		2005	
	Managers	Regular Employees	Managers	Regular Employees
Benefit obligation:				
Vested benefit obligation	\$ (37,545)	(52,992)	(33,578)	(47,541)
Non-vested benefit obligation	(14,207)	(268,155)	(28,210)	(228,027)
Accumulated benefit obligation	(51,752)	(321,147)	(61,788)	(275,568)
Additional benefits based on future salaries	(13,996)	(146,500)	(33,253)	(319,366)
Projected benefit obligation (PBO)	(65,748)	(467,647)	(95,041)	(594,934)
Fair value of plan assets	14,588	334,838	2,413	313,657
Funded status	(51,160)	(132,809)	(92,628)	(281,277)
Unrecognized net transitional benefit obligation (assets)	(1,791)	126,239	(2,089)	133,252
Unrecognized pension loss (gain)	55,181	(11,812)	88,893	129,643
Additional minimum pension liability	(39,394)	-	(53,551)	-
Accrued pension liabilities	\$ (37,164)	(18,382)	(59,375)	(18,382)
Vested benefit	\$ 59,985	75,110	66,896	68,364

For the years ended December 31, 2006 and 2005, the components of net pension cost were as follows:

	2006		2005	
	Managers	Regular Employees	Managers	Regular Employees
Service cost	\$ 4,457	20,530	9,203	44,233
Interest cost	3,326	20,823	4,059	17,138
Actual return on plan assets	(19)	(7,864)	(25)	(4,409)
Amortization	5,255	5,827	3,757	(1,456)
Net pension cost	\$ 13,019	39,316	16,994	55,506

Actuarial assumptions for the years 2006 and 2005 were as follows:

	2006		2005	
	Managers	Regular Employees	Managers	Regular Employees
Discount rate	2.50%	2.75%	3.50%	3.50%
Rate of increase in futures compensation	2.00%	2.00%	4.00%	4.00%
Rate of projected return on plan assets	2.50%	2.75%	3.50%	3.50%



As of December 31, 2006 and 2005, the balance of the pension funds deposits with the Bank's Hou Pu Branch for managers was \$3,282 and \$2,176, respectively.

For the years ended December 31, 2006 and 2005, net pension cost was as follows:

	2006	2005
Defined benefit pension plan	\$ 52,335	72,500
Defined contribution pension plan	39,316	18,975
	<u>\$ 91,651</u>	<u>91,475</u>

(20) Income Tax

The Bank is subject to ROC income tax at a maximum rate of 25%. Starting from January 1, 2006, the Bank adopted the ROC "Income Basic Tax Act" to calculate its basic income tax. The income tax expense for 2006 and 2005 is summarized below:

	2006	2005
Before cumulative effective of changes in accounting principle:		
Current income tax expense (benefit)	\$ (181)	7,441
Deferred income tax expense (benefit)	(129,819)	28,846
Cumulative effect of changes in accounting principle	-	-
Income tax expense (benefit)	<u>\$ (130,000)</u>	<u>36,287</u>

The differences between the expected income tax at the statutory income tax rate and the income tax expense as reported in the accompanying financial statements for the years ended December 31, 2006 and 2005, were as follows:

	2006	2005
Income tax at statutory rate	\$ (234,689)	45,826
Tax effect of interest income from separately taxed short-term bills	(91)	(456)
Dealing loss (gain) from securities trading, net	(23,288)	630
Loss (gain) on sale of land, net	27,810	4,428
Reversal of valuation gain on financial assets	(1,441)	(6,660)
Impairment loss on financial assets stated at cost	1,235	-
Provision for (reversal of) reserve for securities trading losses	(269)	76
Adjustment of prior year's impairment loss on foreclosed assets	(906)	-
Adjustment and expiration of prior year's loss carryforwards	11,502	5,652
Adjustment and expiration of prior year's investment tax credit	198	(1,053)
Increase in investment tax credit—staff training costs	(1,916)	(3,212)
Underestimation (overestimation) of prior year's income tax	(882)	7,147
Provision for (reversal of) allowance for deferred income tax assets	105,937	(13,821)
Other adjustments in accordance with Income Tax Act	84	(2,270)
Income of OBU exempt from tax	(4,056)	-
Investment income from long-term investment under equity method	(9,228)	-
Income tax expense (benefit)	<u>\$ (130,000)</u>	<u>36,287</u>

For the years ended December 31, 2006 and 2005, the major components of deferred income tax expense (benefit) were as follows:

	2006	2005
Decrease in allowance for bad and doubtful debts (in excess of tax limitation)	\$ (364,071)	121,554
Impairment loss on foreclosed assets	(37,546)	-
Reversal of allowance for loss on decline in net realizable value of foreclosed assets	39,583	31,841
Amortization of goodwill	39,463	9,843
Impairment loss on goodwill	3,869	(17,414)
Unrealized foreign exchange gain, net	151	90
Investment income from long-term investments under equity method	(6,905)	6,905
Unfunded pension expense	(6,369)	(3,532)
Valuation gain on financial assets	286	-
Adjustment of prior year's impairment loss on foreclosed assets	(906)	-
Loss carryforwards used (acquired)	86,905	(108,007)
Adjustment and expiration of prior year's loss carryforwards	11,502	5,652
Adjustment and expiration of prior year's investment tax credit	198	(1,053)
Increase in investment tax credit-staff training costs	(1,916)	(3,212)
Provision for (reversal of) allowance for deferred income tax assets	105,937	(13,821)
	<u>\$ (129,819)</u>	<u>28,846</u>

As of December 31, 2006 and 2005, the deferred income tax assets (liabilities) were as follows:

	2006	2005
Deferred income tax assets	\$ 1,026,014	796,877
Valuation allowance—deferred income tax assets	(264,337)	(158,400)
Net deferred income tax assets	761,677	638,477
Deferred income tax liabilities	(286)	(6,905)
Deferred income tax assets, net	<u>\$ 761,391</u>	<u>631,572</u>

As of December 31, 2006 and 2005, the components of deferred income tax assets (liabilities), including temporary differences, loss carryforwards, and tax credits, and the respective income tax effect for each component were as follows:

	2006		2005	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Deferred income tax assets (liabilities):				
Pension costs in excess of tax limitation	\$ 83,333	20,833	57,856	14,464
Allowance for bad and doubtful debts in excess of tax limitation	1,456,283	364,071	-	-
Allowance for loss on decline in net realizable value of foreclosed assets	149,726	37,431	154,247	38,562
Amortization of goodwill in excess of tax limitation	304,774	76,194	462,628	115,657
Impairment loss on goodwill	54,178	13,545	69,658	17,414
Unrealized foreign exchange loss	-	-	604	151
Loss carryforwards	2,026,058	506,514	2,419,685	604,921
Investment tax credit—staff training costs	7,426	7,426	5,708	5,708
Unrealized loss (gain) on valuation of financial instruments at fair value through profit or loss	(1,142)	(286)	-	-
Investment income from long-term investment under equity method	-	-	(27,621)	(6,905)
	<u>\$ 1,025,728</u>		<u>789,972</u>	



As of December 31, 2006 and 2005, the components of income tax receivable were as follows:

	2006	2005
Current income tax benefit (expense)	\$ 181	(7,441)
Income tax on separately taxed short-term bills	700	294
Income tax receivable of prior years	25,066	44,973
Withheld income tax	26,629	25,939
Income tax receivable (recorded under accounts receivable)	<u>\$ 52,576</u>	<u>63,765</u>

In accordance with the ROC Income Tax Act, net losses can be carried forward for five consecutive years to reduce taxable income. As December 31, 2006, the amount of losses and the year of expiry were as follows:

Year of loss	2006	Year of Expiry
2002 (assessed)	\$ 410,768	2007
2003 (assessed)	1,032,573	2008
2004 (assessed)	193,119	2009
2005 (reported)	389,598	2010
	<u>\$ 2,026,058</u>	

Pursuant to the R.O.C. Statute for Upgrading Industries, the Bank's unused investment tax credit—staff training costs as of December 31, 2006, was as follows:

Year incurred	2006	Year of Expiry
2004	\$ 2,508	2008
2005	3,002	2009
2006	1,916	2010
	<u>\$ 7,426</u>	

The ROC income tax authorities have examined the Bank's income tax returns filed before re-incorporation for all years through 1997. Income tax returns filed after re-incorporation have been examined for all years through 2004.

As of December 31, 2006 and 2005, the information related to the imputation credit account (ICA) was as follows:

	2006	2005
Balance of ICA	<u>\$ 1,734</u>	<u>5,558</u>

The imputation tax credit ratio of earnings to be distributed to ROC resident shareholders in 2007 is estimated at 0.00%. The actual imputation tax credit ratio of earnings distribution for ROC resident shareholders in 2005 was 9.78%.

The unappropriated earnings (accumulated deficits) on December 31, 2006 and 2005, were as follows:

	2006	2005
Year 1998 and after	<u>\$ (787,016)</u>	<u>149,868</u>

As of on December 31, 2006 and 2005, legal reserves were all provided for by earnings after 1998.

(21) Stockholders' Equity

1) Common stock

On March 23, 2005, the board of directors decided to increase capital through cash injection of \$1,000,000. After cash injection, the balance of capital amounted to \$7,000,000. The date of the capital increase was designated as June 24, 2005, by the board of directors, and the related registration was also completed.

On March 23, 2005, the board of directors decided to issue 100,000 thousand shares of preferred stock at \$10 (dollars) per share, resulting in issued share capital of \$1,000,000. The date of the capital increase was designated as June 24, 2005, by the board of directors, and the related registration was also completed. The preferred stock is cumulative, nonparticipating and nonconvertible, and the Bank will redeem the preferred stock at par value plus unpaid dividends on maturity. The preferred stock dividend was 4.5%. The date of payment of the cash dividend would be designated by the board of directors after the meeting of shareholders' approval of last year's financial statements.

On February 23, 2005, the board of directors decided to declare cash dividends of \$120,000, or \$0.2 per share, and to increase the issued capital by transferring \$198,000 from unappropriated earnings through the issuance of 19,800 thousand shares of new common stock as stock dividends of \$0.33 (dollars) per share. After the capital increase, the total issued capital amounted to \$7,198,000. The date of the capital increase was designated as June 20, 2005, by the board of directors, and the related registration was also completed.

On February 20, 2006, the board of directors decided to declare dividends for preferred shares of \$23,548 and cash dividend of \$0.1 (dollars) per common share, totaling \$71,980. In addition, capital surplus of \$359,900 was used to increase common stock through the issuance of 35,990 shares at \$10 (dollars) per share. This resolution was agreed to in the stockholders' meeting on June 20, 2006. The capital increase was approved by the Financial Supervisory Commission in Executive Yuan Ruling Jin Guan Yin (3) 09500320330 on July 18, 2006. The date of the capital increase was designated as September 1, 2006, by the board of directors on August 16, 2006, and the related registration was also completed.

On September 20, 2006, the board of directors decided to issue 100,000 thousand shares, at \$10 (dollars) per share, resulting in issued share capital of \$1,000,000. After the capital increase, authorized and issued capital were \$15,000,000 and \$8,557,900, respectively. The date of the capital increase was designated as December 28, 2006, by the board of directors, and the related registration was completed on January 18, 2007.

2) Capital surplus

According to the ROC Company Act, realized capital surplus can be capitalized and transferred to share capital after offsetting accumulated deficits. Capital surplus should not be used for distribution of cash dividends. Realized capital surplus mentioned above includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Bank.

As of December 31, 2006 and 2005, the composition of capital surplus was as follows:

	2006	2005
Legal reserve and paid-in surplus transferred to capital surplus	\$ 245,786	605,686



3) Restrictions on legal reserve and appropriation of retained earnings

According to the ROC Company Act and the Company's articles of incorporation, any annual earnings of the Company shall first be used to pay income tax and offset any deficits, after which 30% of the remaining earnings shall be provided as legal reserve, and then special reserve shall also be provided. Afterwards, dividends for preferred stock shall be distributed. Distribution of the remaining earnings shall then be as follows:

1. Stockholders' dividends proposed by the board of directors shall be decided in the stockholders' meeting;
2. 5% as directors' and supervisors' remuneration; and
3. 5% as employees' bonuses.

As of December 31, 2005, cumulative dividends on preferred stock amounted to \$23,548, and it was decided on June 20, 2006, to distribute them. As of December 31, 2006, the Bank had distributed all the preferred stock dividends for 2005. In addition, the cumulative dividends on preferred stock for 2006 amounted to \$45,000, and as of December 31, 2006, it has not been decided to distribute them.

According to the ROC Company Act, prior to the Bank's setting aside an accumulated legal reserve equalling the amount of total share capital, this reserve can only be used to offset an accumulated deficit and cannot be distributed as cash dividends. However, one half of the legal reserve can be converted to share capital when it reaches an amount equal to one half of issued share capital upon approval by the Bank's stockholders. In addition, pursuant to the ROC Banking Law, the Bank cannot distribute cash dividends exceeding 15% of total share capital until the legal reserve reaches an amount equal to total share capital.

On February 20, 2006, and February 23, 2005, the board of directors passed a resolution on the Bank's appropriation of earnings for 2005 and 2004, respectively. The distribution of the Bank's employees' bonuses and directors' and supervisors' remuneration was as follows:

	2005	2004
Bonus to employees—cash	\$ 3,968	17,825
Directors' and supervisors' remuneration-cash	3,968	17,825
	<u>\$ 7,936</u>	<u>35,650</u>

If the aforementioned employees' bonuses and directors' and supervisors' remuneration were all paid in cash and were deemed to be expenses from the same fiscal year as the distributed earnings, the earnings per share after tax (after retroactive adjustment) would have decreased from \$0.17 (dollars) and \$0.49 (dollars) to \$0.16 (dollars) and \$0.43 (dollars) in 2005 and 2004, respectively. The distribution of earnings was not different from the resolution passed by the board of directors.

As of the auditor's report date, the board of directors had not passed a resolution on the Bank's 2006 appropriation of earnings. Please see the Market Observation Post System website for information on the board of director's resolution on the appropriation of earnings.

(22) Earnings per Share

For the years ended 2006 and 2005, the basic earnings per share of the Bank were as follows (expressed in thousands of shares):

	2006		2005	
	Pre-Tax	After Tax	Pre-Tax	After Tax
Income (loss) before cumulative effect of changes in accounting principle	\$ (938,757)	(808,757)	183,303	147,016
Less: dividends on preferred stock	(45,000)	(45,000)	(23,548)	(23,548)
Income (loss) before cumulative effect of changes in accounting principle belonging to common stockholders	(983,757)	(853,757)	159,755	123,468
Cumulative effect of changes in accounting principle	-	19,442	-	-
Net income (loss) attributable to common stockholders	\$ (983,757)	(834,315)	159,755	123,468
Weighted-average outstanding shares	755,790	755,790	705,790	705,790
Basic earnings per share (expressed in New Taiwan dollars)				
Income (loss) before cumulative effect of changes in accounting principle	\$ (1.30)	(1.13)	0.23	0.17
Cumulative effect of changes in accounting principle		0.03		
Income (loss) before cumulative effect of changes in accounting principle belonging to common stockholders		\$ (1.10)		

(23) Disclosure of Financial Instruments

1) Fair value information on financial assets

The Bank's methods and assumptions for estimating the fair value of financial instruments were as follows:

1. The book value of the financial instruments which have a short maturity period will be considered as their fair value. This assumption is used in evaluating the following accounts: cash and cash equivalents, due from Central Bank and placement to other banks, bills and bonds purchased under resell agreements, receivables, other financial assets (not including financial assets stated at cost and bond investments in non active market), deposits by Central Bank and other banks, financial liabilities at fair value through profit or loss, bills and bonds sold under repurchase agreements, payables, bonds payable, other financial liabilities, and some components of other liabilities.
2. Fair values of financial instruments are the quoted market price if the instruments are actively traded on the market. If quoted market price is unavailable, the fair value is determined based on certain valuation techniques. The estimates and assumptions of the valuation techniques adopted by the Bank are identical to those adopted by other market participants. The discount rates the Bank uses are identical to those return rates of financial instruments with the same conditions, including the credit status of the debtor, the remaining periods of contracted interest based on fixed interest rates, the remaining periods of paying off principal, and currency used.

Among the derivative instruments, stock options embedded in convertible corporate bonds and credit linked notes are evaluated by the prices offered by counterparties; forward contracts, currency swaps, currency and interest rate swaps, and interest rate swaps are evaluated by the rates of the Reuters system by discounting future cash flows to their present values.



3. The interest on net loans and advances to customers is based on floating rates. Thus, the book value is the fair value.
4. Other assets-foreclosed assets and leased out assets are stated at their net realizable value and are evaluated for accumulated impairment loss on the balance sheet date. Thus, the book value is the fair value.
5. Most of deposits and remittances mature in less than one year; even those which mature in more than one year are mostly based on floating rates. Thus, the book value is the fair value.
6. Most of the off balance sheet financial assets, such as commitments and guarantees, mature in less than one year. Thus, the contract amount is the fair value.

- 2) As of December 31, 2006, except for the fair value based on the quoted market price, the evaluated fair values of the Bank's financial assets and liabilities were as follows:

	2006
Trading assets:	
Derivative financial instruments	\$ 353
Financial assets designated at fair value:	
Convertible asset swap	23,399
Credit-linked note	939,519
	<u>962,918</u>
	<u>\$ 963,271</u>
Trading liabilities:	
Derivative financial instruments	\$ 2,235

- 3) For the year ended December 31, 2006, the Bank recognized a loss of \$171 for financial instruments evaluated by using valuation techniques.

4) Policy for managing financial risk and risk information

The Bank set up a risk management policy approved by the board of directors to control risk effectively. The chief executive officer of the center is in charge of all activities to maximize and maintain profit for stockholders.

The Bank follows a risk management policy and strives to quantify, assess, and then manage risks in order to proceed in pricing and to obtain the optimal capital allocation.

The risks the Bank encountered were as follows:

1. Market risk

Market risk means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for the Bank, either on or off the balance sheet. The Bank has set up a market risk management standard. Through the market management system, the Bank is able to evaluate and control each part of the market risk.

The Bank possesses government bonds and negotiable certificate of deposit (recorded under available-for-sale financial assets). The fair value of fixed rate government bond investment will be affected by a change in market rate. A 1% increase in market rate will decrease the fair value of bond investment by \$52,304.

The Bank engages in foreign currency transactions which give rise to foreign currency assets and liabilities. Therefore, changes in exchange rates will affect the fair value of the net position on foreign currencies. For assets denominated in USD, appreciation of the NTD by 0.1 against the USD will cause a loss of NT\$475 thousand.

2. Credit risk

Credit risk is the risk that borrowers and counter parties will not be able to fulfil contracts. The Bank has set up a credit risk management standard which is able to evaluate and control possible credit risk resulting from business operations by establishing and implementing a management structure.

Financial instruments issued by or held by the Bank may cause loss as counter parties are not able to fulfil contracts. The amount of the Bank's credit risk is equal to the financial instruments which remain positive on the balance sheet date. The Bank conducts a cautious credit assessment before qualifying loans and guarantees. Loans with collateral amount to 73% in 2006 of the total amount of loans. In order to obtain credit lines from the Bank, borrowers and guarantors are asked to provide collateral such as cash, fixed assets, securities with liquidity, and other assets. Furthermore, in order to reduce credit risk, the Bank follows certain credit policies and negotiates credit limits with counter parties. In addition, the Bank signs master netting agreements with the counter party to reduce credit risk.

Concentration of credit risk refers to the significant concentration of credit risks from all financial instruments, whether the risks are from an individual counter party or group of counter parties. Group concentration of credit risks exists if a number of counter parties are engaged in similar activities or activities in the same region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. There is no significant concentration of credit risks from counter parties of the Bank's financial instruments. The related information can be found in note 10 to the financial statements and as follows:

1) Lines of credit to interested parties and information on concentration of credit risk:

Item	December 31, 2006		December 31, 2005	
Outstanding balance of credit extended to related parties	\$	1,567,810		2,037,418
Ratio of lines of credit to related parties to total outstanding credits (%)		1.03		1.39
Percentage of lines of credit secured by company shares (%)		1.07		0.57
	Industry	Ratio (%)	Industry	Ratio (%)
Concentration of credit risk by industry (top 3)	Financial, insurance and real estate	14.03	Individuals	68.34
	Manufacturing	8.23	Financial, insurance and real estate	11.11
	Construction	5.18	Manufacturing	7.96

2) As of December 31, 2006 and 2005, the unused contractual amount of financial instruments with off balance sheet credit risk was as follows:

	2006	2005
Unused lines of credit	\$ 3,341,610	5,458,864
Other guarantees	\$ 5,726,512	5,125,474
Unused L/C balance	\$ 1,621,411	1,302,436



3. Liquidity risk

Liquidity risks include market and capital risks. Market risk is the risk that market prices will encounter obvious changes. Capital risk is the risk that a responsibility cannot be fulfilled because of being unable to convert assets into cash or acquire enough cash. The Bank's risk management approach starts with managing the daily payment queue and forecasting cash flows. It then covers tactical liquidity risk management dealing with access to unsecured funding sources. The Bank's cash flows are monitored by the treasury department on a daily basis to ensure the Bank's access to liquidity.

To control risk effectively, support and respect from management are essential in addition to the factors mentioned above. Under the full support of management, the risk management system of the Bank has been established. It has resulted in improving management efficiency, and the results are gradually becoming more evident.

The Bank controls the transaction risks of the financial instruments by adopting a credit approval policy, position limitations, stop loss point setting, and a management control process. In addition, the Bank maintains adequate current assets, and utilizes money market and foreign exchange market instruments to support its future cash flow requirements.

As of December 31, 2006, the liquidity reserve ratio was 10.56%; the bank has enough operating capital to fulfil all contractual obligations. Thus, there is no significant liquidity risk.

As of December 31, 2006, the duration analysis of assets and liabilities was as follows:

Structure of duration analysis in New Taiwan dollars (expressed in thousands of New Taiwan dollars)

Aging for Remaining Period until Expiration		Day 1 to Day 30	Day 31 to Day 90	Day 91 to Day 180	Day 181 to 1 Year	Over 1 Year
Capital provided	\$ 182,542,875	32,674,343	11,012,896	18,112,678	13,977,133	106,765,825
Capital used	184,826,663	57,091,334	26,784,244	25,465,080	49,190,662	26,295,343
Spreads	(2,283,788)	(24,416,991)	(15,771,348)	(7,352,402)	(35,213,529)	80,470,482

Structure of duration analysis in US dollars (expressed in thousands of US dollars)

Aging for Remaining Period until Expiration		Day 1 to Day 30	Day 31 to Day 90	Day 91 to Day 180	Day 181 to 1 Year	Over 1 Years
Capital provided	\$ 320,737	180,253	69,671	40,365	-	30,448
Capital used	314,704	169,050	93,084	22,888	19,731	9,951
Spreads	6,033	11,203	(23,413)	17,477	(19,731)	20,497

4. Cash flow risk arising from interest rate change

The analysis of ratios of interest rate sensitive currency held by the Bank as of December 31, 2006, was follows:

Interest rate sensitivity analysis of assets & liabilities (expressed in thousands of NT dollars)

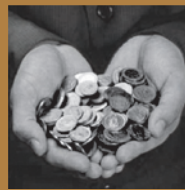
Item	Day 1 to Day 90	Day 91 to Day 180	Day 181 to 1 Year	Over 1 Years	Total
Interest-rate-sensitive assets	\$ 32,903,227	115,437,450	2,728,427	5,991,429	157,060,533
Interest-rate-sensitive liabilities	43,116,969	84,194,834	31,190,404	6,604,450	165,106,657
Interest-rate-sensitive spreads	(10,213,742)	31,242,616	(28,461,977)	(613,201)	(8,046,304)
Interest-rate-sensitive equity, net					9,642,758
Ratio of interest-rate-sensitive assets to liabilities (%)					95.13
Ratio of interest-rate-sensitive spreads to net equity (%)					(83.44)

Interest rate sensitivity analysis of assets & liabilities (expressed in thousands of US dollars)

Item	Day 1 to Day 90	Day 91 to Day 180	Day 181 to 1 Year	Over 1 Years	Total
Interest-rate-sensitive assets	\$ 232,518	38,865	-	30,445	301,828
Interest-rate-sensitive liabilities	234,800	12,510	14,867	151	262,328
Interest-rate-sensitive spreads	10,218	20,355	(19,867)	30,294	39,500
Interest-rate-sensitive equity, net					953
Ratio of interest-rate-sensitive assets to liabilities (%)					115.06
Ratio of interest-rate-sensitive spreads to net equity (%)					4,144.81

Information regarding effective interest rates for financial instruments (not including financial assets at fair value through profit or loss) issued by or held by the Bank as of December 31, 2006, was as follows:

Item	New Taiwan Dollars	US Dollars
Available-for-sale financial assets:		
Government bonds	2.38% ~ 7.75%	-
Local government bonds	2.59% ~ 6.33%	-
Negotiable certificate of deposits	1.75% ~ 1.91%	-
Loans and advances to customers		
Overdrafts and secured overdrafts	0.00% ~ 4.88%	-
Short-term loans	0.00% ~ 15.00%	6.00%~8.00%
Short-term secured loans	1.63% ~ 9.13%	6.00%~7.00%
Medium-term loans	0.00% ~ 15.00%	6.00%~8.00%
Medium-term secured loans	0.00% ~ 15.00%	6.00%~7.00%
Long-term loans	0.00% ~ 9.00%	-
Long-term secured loans	0.00% ~ 8.88%	-
Subordinated financial debentures	2.92% ~ 3.30%	-
Deposits		
Demand deposits	0.15%	2.00%~3.00%
Time deposits	1.46% ~ 2.19%	3.00%~6.00%
Demand savings deposits	0.50%	-
Time saving deposits	1.75% ~ 2.36%	-



5. Operational risk

Operational risk can be defined as the risk of monetary losses resulting from inadequate or failed internal processes, people, and systems or from external events. The Bank implements monitoring systems for operational risk exposures and losses from major business lines. Risk management policies and procedures for controlling or mitigating operational risk are in place and enforced through regular internal auditing.

6. Legal risk

Legal risk arises from the possibility that an entity may not be able to follow regulations issued by the government and may not be able to enforce a contract against another party. Legal risk arises from possible risk of loss due to an unenforceable contract or an "ultra vires" act of a counterparty. Legal risk involves the potential illegality of the contract, as well as the possibility that the other party entered into the contract without proper authority. The legal affairs department of the Bank is responsible for providing professional legal consulting and review services for internal regulations and all trading contracts, and making sure that the Bank follows the financial regulations and operational regulations.

(24) Related Party Transactions

1) Name and relationship of related party

Name	Relationship
Directors and supervisor (non-legal entity)	The non-legal entity directors and supervisor of the Bank, and their spouses, close relatives, etc.
President, general manager, managers, etc.	The president, general manager, and managers, and their spouses, close relatives, etc.
The major individual stockholders of the Bank	The top ten major stockholders; stockholdings more than 1%
Panhsin Insurance Broker Co., Ltd.	Investee that is controlled by the Bank
Panhsin Asset Management Co., Ltd.	Investee that is controlled by the Bank
Ta-Shun Construction Co., Ltd., etc.	The Bank's chairman is the same as the chairman of Ta-Shun Construction Co., Ltd.
Tai-Shun Advertising Co., Ltd., etc.	The Bank's chairman is also a director of Tai-Shun Advertising Co., Ltd.
Ai-Jie Industrial Co., Ltd., etc.	A Bank director is also the chairman of Ai-Jie Industrial Co., Ltd.
Ta-Wang Construction Co., Ltd.	The Bank's chairman is the same as the chairman of Ta-Wang Construction Co., Ltd.
Tien-Mao Construction Co., Ltd.	The Bank's chairman is the same as the chairman of Tien-Mao Construction Co., Ltd.
San-Jun Shun Co., Ltd.	The Bank's chairman is the same as the chairman of Tien-Mao Construction Co., Ltd.

2) Significant transactions with related parties

1. Deposits

Name	2006		
	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
Deposits by each related party not over 1% of total deposits	\$ 2,139,434	1.37	0.10~9.26

Name	2005		
	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
Each related party's deposits are not over 1% of total deposits	\$ 2,587,898	1.98	0.1~8.925

For the years ended December 31, 2006 and 2005, apart from an interest rate limit on staff demand savings between 9.260% to 8.925%, the interest rates and other terms provided to the above related parties were the same as the terms offered to the general public.

For the years ended December 31, 2006 and 2005, interest expense paid on the above deposits was \$24,500 and \$25,503, respectively.

2. Loans

Name	2006		
	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
Loans to each related party not over 1% of total loans	\$ 1,239,232	0.85	1.75~20.00

Name	2005		
	Ending Balance	Percentage of Deposits (%)	Interest Rate (%)
Loans to each related party not over 1% of total loans	\$ 1,751,645	1.24	1.98~11.50

For the years ended December 31, 2006 and 2005, loans to related parties were under the same terms as those to other customers.

For the years ended December 31, 2006 and 2005, interest income received from the above loans was \$14,150 and \$90,857, respectively.

3. Fee and commission revenue

For the years ended December 31, 2006 and 2005, the Bank recognized fee and commission revenue amounting to \$19,308 and \$32,552, respectively, for providing agency services for life and property insurance policies on behalf of Panhsin Insurance Broker Co., Ltd., recorded under operating revenue-fee and commission revenue.

4. Rental revenue

The details to office rentals by the Bank to a related party for operation need are as follows:
the Bank follows the financial regulations and operational regulations.

Name	Building	Period	Rental Revenue	
			2006	2005
Panhsin AMC	Zhongzheng Rd., Panchiao City, No. 330	January 1, 2005 ~December 31, 2007	726	750

5. Leases

For operation purposes, the bank leases the office premises for some branches from related parties for the years ended December 31, 2006 and 2005, as follows:

Name	Usage	Deposit	Rental Expenses	
			2006	2005
Ta-Wang Construction Co., Ltd.	Yuan-Shan Branch	\$ 750	3,015	3,011
Ta-Shun Construction Co., Ltd.	Corporate Banking Marketing Department, Corporate Banking Credit Department and Operation Department Office	185	1,114	1,113
Tien-Mao Construction Co., Ltd.	"	106	638	637
		\$ 1,041	4,767	4,761

The above deposit paid to related parties was recorded in the other financial assets account.



6. Property transactions

On July 26, 2006, the Bank entered into contracts with Panhsin Asset Management Co., Ltd. (Panhsin AMC) to sell non performing loans at the price of \$1,501,506. The price was determined according to the assessment report made by certified public accountants. The assessed value ranged from \$1,086,224 to \$1,481,799. The method of payment was that Panhsin AMC has to pay 10% of the contract price upon the signing of the contract. Three months after the transfer of loans, 70% of the contract price should then be paid. The remaining proceeds should be paid in full by Panhsin AMC on July 20, 2007, one year after the signing of the contract. However, if there have been any buy backs due to defaults, they would be deducted from the remaining proceeds. On July 26, August 29, and September 21 of 2006, since debtors made agreements with the Bank before the Bank could settle with Panhsin AMC, \$181,608 was bought back by the Bank, reducing the contract price to \$1,319,898. The transfer of loans was completed on November 10, 2006. Panhsin AMC signed an additional agreement with the Bank on November 15, 2006, to postpone the payment of the remaining contract price to November 10, 2007. As of December 31, 2006, proceeds not yet received were \$1,169,748, recorded under accounts receivable—other.

In addition, on December 27, 2006, the Bank entered into contracts with Panhsin Asset management Co., Ltd. to sell foreclosed assets for \$550,000, among which the title to three accounts had not been transferred, totaling \$251,519. As of December 31, 2006, proceeds from the sale were \$298,481. Proceeds not yet received were \$283,481, recorded under accounts receivable—other. The Bank obtained an appraisal report from realtors, and the appraised amount was \$486,117.

On June 21, 2005, the Bank entered into contracts with Panhsin Asset Management Co., Ltd. to sell non performing loans at the price of \$41,353. However, the Bank collected part of the non performing loans on November 2, 2005, and reduced the contract price by \$1 to a total of \$41,352. As of December 31, 2005, proceeds not yet received from the abovementioned transaction amounted to \$40,352, recorded under accounts receivable—other. The proceeds were fully received in 2006.

7. Other

- a) For the years ended December 31, 2006 and 2005, the details of the Bank's engaging in purchase without recourse transactions with affiliates in the open market were as follows:

2006			
	Type	Purchase Price	Selling Price
Supervisors	Bills	\$ 140,705	-

2005			
	Type	Purchase Price	Selling Price
Supervisors	Bills	\$ 246,966	-

- b) For the years ended December 31, 2006 and 2005, the details of the Bank's selling a series of subordinated financial debentures to related parties were as follows:

2006				
Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Directors, supervisors, and main stockholders	\$ 58,600	58,600	2.85~3.28	1,802

2005				
Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Directors, supervisors, and main stockholders	\$ 56,400	56,400	2.78~3.00	1,628

- 3) As of December 31, 2006 and 2005, information regarding affiliates acting as borrowers, guarantors, and collateral providers of the Bank which are interested parties in accordance with Articles 32 and 33 of the Banking Law was as follows:

Type	2006			
	Number of Accounts	Amount	Default Possibility	
			Normal Loan	Overdue Accounts
Consumer loans	78	\$ 22,831	21,459	1,372
Mortgage loans for employees	5	9,262	9,262	-
Other loans to interested parties	390	1,535,806	1,358,157	177,649
Loans to others with interested parties acting as guarantors	205	1,877,165	1,863,294	13,871
Secured loans with collateral from interested parties	173	859,312	681,350	177,962

Type	2005			
	Number of Accounts	Amount	Default Possibility	
			Normal Loan	Overdue Accounts
Consumer loans	107	\$ 33,049	33,049	-
Mortgage loans for employees	10	23,043	23,043	-
Other loans to interested parties	429	1,981,326	1,254,203	72,173
Loans to others with interested parties acting as guarantors	143	479,395	463,201	16,194
Secured loans with collateral from interested parties	185	1,490,039	776,347	713,692

(25) Pledged Assets

As of December 31, 2006 and 2005, pledged assets were as follows:

Pledged Assets	Pledged For	Book Value	
		2006	2005
Short-term bills (recorded under bills and bonds purchased under agreements to resell and available-for-sale financial assets)	Securities sold under repurchase agreements	\$ 425,746	1,322,884
Bonds (recorded as available-for-sale financial assets)	Reserve for trust business	53,952	49,779
	Provisional seizure	150,130	152,036
	Operating deposits for trading bills	53,952	54,401
	Operating deposits for trading bonds	11,206	10,880
Certificate of deposits (recorded as other assets)	Overdraft guarantee deposited in the Central Bank of China	1,600,000	1,500,000
Bank deposit (recorded as other assets)	Settlement deposits for bonds	7,400	7,400
	Deposits for foreign exchange	33,500	33,500
	Deposits for lawsuits	41,269	43,468
		<u>\$ 2,377,155</u>	<u>3,174,348</u>

- 1) The Bank provided the Central Bank of China with government bonds as reserve for its trust custodian business.
- 2) For executing provisional seizure of debtors' properties, the Bank provided pledged assets to the court.
- 3) Operating deposits for trading bills were deposited in the Central Bank of China for the Bank's securities dealing business.
- 4) Operating deposits for trading bonds were deposited in the OTC for the Bank's treasury sales business. Furthermore, a reserve for trading losses has been set to conform to securities regulations.



- 5) An overdraft guarantee was deposited in the Central Bank of China as an overnight overdraft guarantee for the transfer of funds among banks.
- 6) Deposits for foreign exchange were deposited in Standard Chartered Bank for the Bank's derivative transactions.

(26) Commitments and Contingent Liabilities

- 1) As of December 31, 2006 and 2005, the Bank had the following construction in progress and significant purchase agreements:

		2006	
		Contract Price	Unpaid Portion of Contract Price
Significant purchase agreements:			
Software system	\$	450,859	228,637
Headquarter building construction		127,885	41,256
	\$	<u>578,744</u>	<u>269,893</u>
		2005	
		Contract Price	Unpaid Portion of Contract Price
Significant purchase agreements:			
Software system	\$	85,141	41,972
Headquarter building construction		87,307	42,578
	\$	<u>172,448</u>	<u>84,550</u>

2) Operating leases

The Bank has entered into certain operating leases for its branches. As of December 31, 2006, estimated future lease contract commitments were as follows:

Fiscal Year	Amount
2007	\$ 89,552
2008	75,067
2009	44,867
2010	19,038
2011	3,045
	<u>\$ 231,569</u>

Furthermore, the Bank's guarantee deposit for operating leases was \$18,178 and \$31,634 on December 31, 2006 and 2005, respectively. It has been recorded as other financial assets.

3) Other

As of December 31, 2006 and 2005, other was as follows:

	2006	2005
Consignment collection for others	\$ 11,583,773	10,201,979
Consignment released and loans for others	2,981,290	791,820
Collateral held as performance bond	211,405	95,954
Traveller's checks held for consignment sale	43,664	31,412
Marketable securities under custodian	25,567,450	28,251,331
Custodial goods	2,490,000	-
Trust assets	23,266,554	12,312,813
	<u>\$ 66,144,136</u>	<u>51,685,309</u>
Lines of credit provided but not used	\$ 3,341,610	5,458,864
Guarantees	\$ 5,726,512	5,125,474
Letters of credit issued but not yet presented	\$ 1,621,411	1,302,436
Short-term bills and government bonds sold under repurchase agreements	\$602,419	1,379,509
Short-term bills and government bonds bought under resale agreements	\$ -	1,100,117
Syndication loans receivable	\$ 2,457,820	4,013,380
Credit default swap sold	\$ 325,960	-

4) In accordance with local regulations, disclosure of accounts in the balance sheet and schedule of investment for trust business was as follows:

Trust Balance Sheet December 31, 2006			
Trust Assets		Trust Liabilities	
Bank deposits	\$ 578,995	Trust capital—monetary trust	11,362,816
Investments in funds	10,734,890	Trust capital—real estate	11,822,249
Investment in bonds	127,471	Trust capital—monetary bond and guaranteed assets	127,471
Land	7,965,482	Net income	352,272
Building	37,837	Accumulated losses	(398,254)
Construction in progress	3,821,879		
Total trust assets	<u>\$ 23,266,554</u>	Total trust liabilities	<u>\$ 23,266,554</u>

Trust Balance Sheet December 31, 2005			
Trust Assets		Trust Liabilities	
Bank deposits	\$ 51,963	Trust capital—monetary trust	6,255,770
Investments in funds	6,203,807	Trust capital—real estate	6,057,043
Land	6,057,043		
Total trust assets	<u>\$ 12,312,813</u>	Total trust liabilities	<u>\$ 12,312,813</u>



Trust Income Statement for the Year Ended 2006

Trust revenue:	
Interest revenue	\$ 3,352
Preferred stock cash dividends revenue	203,111
Property transactions gain	175,212
	<u>381,675</u>
Trust expenses:	
Management expenses	28,561
Property transactions loss	283
Other expenses	6
	<u>28,850</u>
Net income before income tax	352,825
Income tax expense	553
Net income after income tax	<u>\$ 352,272</u>

Schedule of Investment for Trust Business December 31, 2006

Bank deposits	\$ 578,995
Investments in funds	10,734,890
Investment in bonds	127,471
Land	7,965,482
Building	37,837
Construction in progress	3,821,879
	<u>\$ 23,266,554</u>

Schedule of Investment for Trust Business December 31, 2005

Bank deposits	\$ 51,963
Investments in funds	6,203,807
Land	6,057,043
	<u>\$ 12,312,813</u>

(27) Significant Disaster Loss: None.

(28) Subsequent Events

On December 29, 2006, Rebar Corporation unexpectedly announced that it had filed for restructuring. On January 2 and January 4 of 2007, Great Chinese Bills Finance Corporation, which was a subsidiary of Rebar Corporation, borrowed \$295,000 and \$100,000, respectively, from the Bank. The due dates for these loans were January 9 and January 10 of 2007, respectively; however, Great Chinese Bills Finance Corporation did not repay these loans. The Bank subsequently filed for seizure of the \$130,000 subordinated financial debenture held by Great Chinese Bills Finance Corporation, which was issued by the Bank.

The Bank has had custody to the subordinated financial debenture since January 16, 2007, after filing for seizure. The Bank has engaged lawyers to exercise the right to offset according to the ROC Civil Law. If the Bank was to exercise this right, the maximum loss to the Bank would amount to \$265,000.

(29) Others

1) Personnel, depreciation, depletion, and amortization expenses

Function Accounts	For the Year Ended 2006			For the Year Ended 2005		
	Cost of Goods Sold	Operating Expenses	Total	Cost of Goods Sold	Operating Expenses	Total
Personnel costs						
Salaries	-	1,216,748	1,216,748	-	1,217,053	1,217,053
Labor and health insurance	-	74,668	74,668	-	70,328	70,328
Pension	-	91,651	91,651	-	91,475	91,475
Other employment	-	29,036	29,036	-	28,228	28,228
Depreciation	-	106,641	106,641	-	98,330	98,330
Depletion	-	-	-	-	-	-
Amortization	-	58,133	58,133	-	179,194	179,194

Furthermore, the depreciation expense for leased out assets was \$1,110 and \$2,345 in 2006 and 2005, respectively, and was recorded under other non interest income, net.

2) Reclassification

Certain amounts in the financial statements of 2005 have been reclassified to conform with the 2006 financial statements presentation. Such reclassifications have no significant effect on the financial statement presentation.

3) Net cash equivalents provided by the acquisition were as follows:

	For the year ended 2006
	The 1st Credit Cooperative of Chiayi
Receivables	\$ 16,682
Loans and advances to customers, net	3,322,144
Available-for-sale financial assets	68,107
Other financial assets	6,022
Property and equipment, net	491,887
Other assets—foreclosed assets	66,209
Payables	(41,045)
Deposits and remittances	(8,770,566)
Other liabilities	(58,967)
	(4,899,527)
Goodwill—recorded under intangible assets	138,787
Net cash equivalents provided by the acquisition	<u>\$ (4,760,740)</u>



4) In accordance with SFAS No. 28, the disclosures are as follows:

1. Information on interest bearing assets and liabilities

Item	December 31, 2006		December 31, 2005	
	Average Amount	Average Rate (%)	Average Amount	Average Rate (%)
Assets				
Cash due from banks	\$ 218,510	1.40	549,992	1.12
Due from Central Bank and placement to other banks	20,529,924	1.76	18,239,189	1.46
Financial assets at fair value through profit or loss	424,785	8.07	313,953	4.20
Loans and advances to customers	140,882,714	3.77	121,516,513	3.91
Available-for-sale financial assets	1,253,578	2.89	1,522,457	3.19
Bills and bonds purchased under agreements to resell	648,732	1.52	557,908	1.36
Liabilities				
Due to banks	14,822,427	2.63	12,635,075	2.17
Bills and bonds sold under agreements to repurchase	959,468	1.38	1,144,412	1.17
Demand deposit	11,056,373	0.28	8,958,833	0.20
Time deposits	32,254,275	1.90	29,454,415	1.37
Negotiable time deposit	17,212,306	1.71	13,629,380	1.48
Demand savings deposit	26,707,470	0.72	25,989,702	0.72
Time savings deposit	66,905,361	1.98	54,746,943	1.68
Financial debenture	2,915,901	3.17	2,000,000	2.93

2. Major foreign currency position, net

Major Foreign Currency Position, Net (market risk)	December 31, 2006		December 31, 2005	
	Amount in Functional Currency	Amount in New Taiwan Dollars	Amount in Functional Currency	Amount in New Taiwan Dollars
USD	\$ 731	23,884	863	28,413
EUR	-	-	53	2,045
SGD	140	2,984	-	-
JPY	-	-	9,348	2,614
GBP	31	2,008	49	2,803
CAD	-	-	86	2,417
HKD	545	2,304	-	-
FRN	43	1,142	-	-

3. Profitability

Items		2006	2005
Return on assets (%)	Before income tax	(0.50)	0.11
	After income tax	(0.43)	0.09
Return on net equity (%)	Before income tax	(10.08)	2.28
	After income tax	(8.65)	1.83
Net income to operating revenue ratio (%)		(22.25)	4.00

5) Capital Adequacy Ratio

Items	December 31, 2006	December 31, 2005
Self-owned capital, net	\$ 10,494,268	9,203,527
Risk-based assets	124,346,505	114,773,322
Capital adequacy ratio (%)	8.44	8.02
Tier 1 risk-based capital ratio (%)	5.54	5.86
Tier 2 risk-based capital ratio (%)	3.06	2.34
Tire 3 risk-based capital ratio (%)	-	-
Equity ratio (%)	4.84	5.10

- 6) The Bank completed the acquisition of "The 5th Credit Cooperative of Kaohsiung" on September 29, 1997, but one member of this cooperative claimed later that the procedure at the Second Temporary Corporation Members Convention on September 6, 1997, was illegal due to a difference between the number of people attending this convention and what the Bank's articles of incorporation required. On January 24, 2002, the Supreme Court rejected the appeal by "The 5th Credit Cooperative of Kaohsiung" and ruled that the procedures and decisions made at the Corporation Members Convention regarding the acquisition mentioned above were ineffective. In addition, any further lawsuits against related parties will not be upheld by the Kaohsiung District Court and the Taiwan Supreme Court based on the above decision.

On August 30, 2002, the Bank requested the regulatory authorities to manage all related issues and also filed an appeal with the Taipei Supreme Administrative Court on December 4, 2002. Due to the illegality of the aforementioned appeal, on July 4, 2003, the Taipei Supreme Administrative Court decided not to proceed with the appeal. The Bank filed an appeal with the Superior Executive Court on September 2, 2003. On September 30, 2004, the Superior Executive Court rejected the appeal after a one year process, and the Bank filed an appeal with the Supreme Administrative Court. The Supreme Administrative Court rejected the appeal after a one year process. The reason was as follows: "To take over a troubled bank by law is within the power of the regulatory authorities, but it is not the right of the people to apply to do so."

Therefore, this judgment merely held that the Bank could not directly apply to take over a troubled bank. On the contrary, it meant that the regulatory authorities could use the power of law to dispose of a troubled bank. Currently, the Bank is searching for alternative solutions to settle the aforementioned issue, which has no significant impact on the Bank's operations, and the financial statements did not require any adjustment.



(30) Other Disclosure Items

1) Related information on material transaction items:

1. Information regarding long term equity investment for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid in capital: none.
2. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid in capital:

Name of Company which Acquired Property	Name of Property	Transaction Date or Occurrence Date	Transaction Amount	Conditions of Payment	Counter-Party	Relationship with the Bank	Year-End				Reference for Deciding Price	Purpose of Obtaining and Usage Status	Other Required Items
							Owner	Relationship with the Bank	Transfer Date	Amount			
The Bank	Foreclosed assets	2006.6.27	\$632,994	Proceeds offset by loans	Xin-Rui-Du Development Co., Ltd.	Customer	-	-	-	-	Auction	For resale to minimize loss on bad debt	-

3. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid in capital:

Name of Company which Disposed Property	Name of Property	Transaction Date or Occurrence Date	Originally Acquired Date	Book Value	Transaction Amount	Conditions of Payment	Gain (loss) on Disposal	Counter-Party	Relationship with the Bank	Purpose of Disposal	Reference for Deciding Price	Other Required Items
The Bank	Foreclosed assets	2006.12.27		-	\$550,000 (Note)	20% of price on contract date	-	Panhsin Asset Management Co., Ltd.	Subsidiary	To utilize operating funds	By open bidding, the highest bidder and no lower than the minimum bid price	-

Note: The total contract price was \$550,000. As of December 31, 2006, the title to the foreclosed assets in the amount of \$298,481 had been transferred and \$283,481 had not yet been collected.

4. Information regarding discounted processing fees on transaction with related parties for which the amount exceeded NT\$ 5 million: none.
5. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid in capital:

Name of Company which has the Receivables	Counter-Party	Relationship with the Bank	Year-End Amount	Turnover Rate	Overdue Receivables from Related Party		Receivables from Related Party	Allowance for Bad Debt
					Amount	Handling Method	Subsequent to the Opinion Date	Allowance Provided
The Bank	Panhsin AMC	Subsidiary	\$1,453,229 (Note)	-	-	-	-	-

Note: Recorded under notes receivable in the amount of \$283,481 and other receivable in the amount of \$1,169,748.

6. Information regarding selling non performing loans for which the amount exceeded NT\$5 billion: none.
7. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.
8. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

2) Information on long term equity investments:

1. Information on investees' name, location, etc.:

Name of the Investor	Name of the Investee	Investee Location	Investee's Main Operations	Original Investment Amount		Held by Investor at Year-End			Net Income of Investee	Gain Recognized During the Period	Remarks
				December 31, 2006	December 31, 2005	Shares	Ratio	Book Value			
The Bank	Panhsin Insurance Broker Co., Ltd.	15F, No 330, Zhongzheng Rd., Panchiao City, Taipei County	Insurance agency	20,100	3,000	2,010	100.00%	35,763	7,313	7,313	Subsidiary
"	Panhsin Asset Management Co., Ltd.	3F., No. 18, Cheng-tu St., Panchiao City, Taipei County	Purchasing non-performing loans	50,000	50,000	5,000	100.00%	54,151	1,980	1,980	Subsidiary
Total				70,100	53,000	7,010		89,914	9,293	9,293	

2. Lending to other parties: none.

3. Guarantees and endorsements for other parties: none.

4. Information regarding securities held as of December 31, 2006: none.

5. Information regarding securities for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid in capital: none.

6. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid in capital:

Name of Company which Acquired Property	Name of Property	Transaction Date or Occurrence Date	Transaction Amount	Conditions of Payment	Counter-Party	Relationship	Year-End				Reference for Deciding Price	Purpose of Obtaining and Usage Status	Other Required Items
							Owner	Relationship with the Bank	Transfer Date	Amount			
Panhsin AMC	Available for sale assets	2006.12.27	550,000 (Note)	20% of price on contract date	The Bank	Parent company	-	-	-	-	By open bidding: the highest bid and no lower than the minimum bid price	Sell or rent after repackaging or repairs to increase revenue	none

Note: The total contract price was \$550,000. As of December 31, 2006, the title to the asset in the amount of \$298,481 had been transferred, and \$283,481 had not yet been paid.

7. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid in capital: none.

8. Information regarding discounted processing fees on transaction with related parties for which the amount exceeded NT\$5 million: none.

9. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid in capital: none.

10. Information regarding trading in derivative financial instruments: none.

11. Information regarding selling non performing loans for which the amount exceeded NT\$5 billion: none.

12. Information on applications for handling securitized commodities according to the Regulation on Financial Asset Securitization or the Regulation on Real Estate Investment Trusts: none.

13. Other material transaction items which were significant to people who use the information in the financial statements to make financial decisions: none.

(31) Segment Information: Not Applicable.



V. Certified Consolidated Financial Statement by CPA for the Parent Company and Its Subsidiaries

Independent Auditors' Report

The Board of Directors
Bank of PANHSIN:

We have audited, in accordance with Republic of China generally accepted auditing standards and the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants, the consolidated balance sheets of Bank of PANHSIN and its 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. In our report dated February 16, 2007, we expressed a modified unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Starting from January 1, 2006, Bank of PANHSIN and its subsidiaries adopted Statement of Financial Accounting Standards No. 34 (SFAS 34) "Financial Instruments: Recognition and Measurement", No. 36 (SFAS 36) "Financial Instruments: Disclosure and Presentation", and the recently revised No. 1 (SFAS 1) "Conceptual Framework for Financial Accounting and Preparation of Financial Statements". As a result, net loss before the cumulative effect of changes in accounting principle and basic deficits per share decreased by \$88,860 thousand and \$0.12, respectively. In accordance with SFAS 34, the beginning balance of financial assets and liabilities should be reclassified and re measured at fair value. For the year ended December 31, 2006, the resulting cumulative effect of changes in accounting principle and the decrease in basic deficits per share were \$19,442 thousand and \$0.03, respectively. In addition, adjustments to stockholders' equity were \$40,763 thousand.

Bank of PANHSIN and its subsidiaries adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets" in 2005. The asset impairment loss recognized in 2005 amounted to \$52,244 thousand (net of income tax benefit of \$17,414 thousand). This caused earnings per share after tax for 2005 to decrease by \$0.08.

February 16, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005

(Expressed in thousands of New Taiwan dollars, except for par value)

	2006	2005	Change %
Assets			
Cash and cash equivalents	\$ 4,118,916	2,569,066	60
Due from Central Bank and placement to other banks	25,380,355	18,508,772	37
Financial assets at fair value through profit or loss, net	1,498,235	842,623	78
Bills and bonds purchased under agreements to resell	-	1,099,206	-
Accounts receivable, net	2,390,202	1,134,935	111
Loans and advances to customers	143,187,825	140,144,851	2
Available-for-sale financial assets, net	1,545,490	1,317,476	17
Other financial assets, net	63,547	81,450	(22)
Property and equipment, net	5,150,939	4,850,171	6
Goodwill and intangible assets	1,374,972	1,353,094	2
Other assets — net:			
Deferred income tax assets	761,391	631,572	21
Other assets	4,728,122	4,561,884	4
	<u>5,489,513</u>	<u>5,193,456</u>	6
Total Assets	<u>\$ 190,199,994</u>	<u>177,095,100</u>	7
Liabilities and Stockholders' Equity			
Deposits by Central Bank and other banks	\$ 16,241,518	17,165,517	(5)
Commercial paper payable, net	149,849	-	-
Financial liabilities at fair value through profit or loss	2,235	595	276
Bills and bonds sold under agreements to repurchase	601,427	1,378,798	(56)
Notes and accounts payable	3,494,778	2,936,468	19
Deposits and remittances	156,575,321	144,333,361	8
Subordinate financial debentures	3,680,000	2,000,000	84
Accrued pension liabilities	55,546	77,757	(29)
Other liabilities	192,288	165,300	16
Total Liabilities	<u>180,992,962</u>	<u>168,057,796</u>	8
Stockholders' Equity			
Share capital			
Common stock of \$10 par value per share; authorized and issued 1,500,000 and 855,790 thousand shares, respectively, in 2006; authorized and issued 719,800 thousand shares in 2005	8,557,900	7,198,000	19
Preferred stock of \$10 par value per share; cumulative but non-participating; authorized and issued 100,000 thousand shares in 2006 and 2005	1,000,000	1,000,000	-
	9,557,900	8,198,000	17
Capital surplus	245,786	605,686	(59)
Retained earnings:			
Legal reserve	196,891	152,786	29
Unappropriated earnings (accumulated deficits)	(787,016)	149,868	(625)
	<u>(590,125)</u>	<u>302,654</u>	(295)
Other adjustments to stockholders' equity:			
Unrealized gain (loss) on available-for-sale financial assets	32,865	(15,485)	312
Net loss from unrecognized pension cost	(39,394)	(53,551)	26
	<u>(6,529)</u>	<u>(69,036)</u>	91
Total Stockholders' Equity	<u>9,207,032</u>	<u>9,037,304</u>	2
Commitments and Contingent Liabilities			
Total Liabilities and Stockholders' Equity	<u>\$ 190,199,994</u>	<u>177,095,100</u>	7



Consolidated Statements of Income

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2006	2005	Change%
Interest income	\$ 5,788,330	5,143,787	13
Less: Interest expense	2,954,556	2,191,820	35
Net interest income	2,833,774	2,951,967	(4)
Other—non-interest income:			
Fees and commission income, net	591,331	612,479	(3)
Gain (loss) on financial instruments at fair value through profit or loss	94,587	(23,028)	511
Realized gain (loss) on available-for-sale financial assets	5,500	21,355	(74)
Foreign exchange gain (loss), net	486	36,775	(99)
Asset impairment loss	(155,122)	(69,658)	(123)
Other non-interest income, net	245,623	173,531	42
Other bad debt expenses	(30,629)	-	-
Net Revenue	3,585,550	3,703,421	(2)
Bad Debt Expenses for Margin Loans	2,171,877	1,128,226	93
Operating Expenses:			
Personnel costs	1,432,756	1,426,238	-
Depreciation and amortization	165,388	278,096	(41)
Other general and administrative expenses	745,571	686,835	9
	2,343,715	2,391,169	(2)
Income (loss) from Continuing Operations before Income Tax	(930,042)	184,026	(605)
Income Tax Expense (benefit)	(121,285)	37,010	(428)
Income (loss) before cumulative effect of changes in accounting principle	(808,757)	147,016	(650)
Cumulative effect of changes in accounting principle, net of income tax of \$0	19,442	-	-
Comprehensive net income (loss)	\$ (789,315)	147,016	(637)
Attribution of comprehensive net income:			
Stockholders of parent company	\$ (789,315)	147,016	(637)
Minority stockholders	-	-	-
	\$ (789,315)	147,016	(637)
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>
Basic Earnings (deficits) per Share:			
Net income (loss) before cumulative effect of changes in accounting principle	\$ (1.30)	(1.13)	0.23
Cumulative effect of changes in accounting principle		0.03	
Net Loss	\$ (1.10)		

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars)

	Share Capital			Retained Earnings				
	Common stock	Preferred stock	Capital surplus	Legal reserve	Unappropriated earnings (accumulated deficits)	Unrealized gain (loss) on available-for-sale financial assets	Net loss from unrecognized pension cost	Total
Balance at January 1, 2005	\$ 6,000,000	-	605,686	-	509,288	-	(42,002)	7,072,972
Issuance of common stock for cash	1,000,000	-	-	-	-	-	-	1,000,000
Issuance of preferred stock for cash	-	1,000,000	-	-	-	-	-	1,000,000
Appropriation of retained earnings:								
Legal reserve	-	-	-	152,786	(152,786)	-	-	-
Directors' and supervisors' bonuses	-	-	-	-	(17,825)	-	-	(17,825)
Employees bonus	-	-	-	-	(17,825)	-	-	(17,825)
Cash dividends	-	-	-	-	(120,000)	-	-	(120,000)
Retained earnings transferred to common stock	198,000	-	-	-	(198,000)	-	-	-
Net income for 2005	-	-	-	-	147,016	-	-	147,016
Recognition of unrealized loss	-	-	-	-	-	(15,485)	-	(15,485)
Recognition of net loss from unrecognized pension cost	-	-	-	-	-	-	(11,549)	(11,549)
Balance at December 31, 2005	7,198,000	1,000,000	605,686	152,786	149,868	(15,485)	(53,551)	9,037,304
Issuance of common stock for cash	1,000,000	-	-	-	-	-	-	1,000,000
Appropriation of retained earnings:								
Legal reserve	-	-	-	44,105	(44,105)	-	-	-
Directors' and supervisors' bonuses	-	-	-	-	(3,968)	-	-	(3,968)
Employees bonus	-	-	-	-	(3,968)	-	-	(3,968)
Cash dividends	-	-	-	-	(71,980)	-	-	(71,980)
Dividends on preferred stock	-	-	-	-	(23,548)	-	-	(23,548)
Capital surplus used to increase common stock	359,900	-	(359,900)	-	-	-	-	-
Net loss for 2006	-	-	-	-	(789,315)	-	-	(789,315)
Recognition of unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	7,587	-	7,587
Recognition of unrealized gain (loss) on available-for-sale financial assets due to change in accounting principle	-	-	-	-	-	40,763	-	40,763
Reversal of net loss from unrecognized pension cost	-	-	-	-	-	-	14,157	14,157
Balance at December 31, 2006	\$ 8,557,900	1,000,000	245,786	196,891	(787,016)	32,865	(39,394)	9,207,032



Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005

(expressed in thousands of New Taiwan dollars)

	2006	2005
Cash flow from operating activities:		
Net income (loss)	\$ (789,315)	147,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	108,088	100,947
Amortization	58,410	179,494
Asset impairment loss	155,122	69,658
Provision for (reversal of) reserve for securities trading losses	(1,076)	304
Provision for bad debts of margin loans	2,171,877	1,128,226
Other bad debt expenses	30,629	-
Gain on sale of available-for-sale financial assets, net	(4,971)	(21,114)
Loss (gain) on disposal of property and equipment, net	(8,247)	11,264
Gain on disposal of non-operating assets	(5,046)	(42,954)
Gain on disposal of foreclosed assets	(897)	-
Decrease (increase) in financial assets at fair value through profit or loss	(655,612)	817,643
Increase in accounts receivable	(1,285,896)	(358,440)
Increase in other financial assets	(2,398)	-
Decrease (increase) in deferred income tax assets	(129,819)	28,846
Increase in financial liabilities at fair value through profit or loss	1,640	595
Increase in accounts payable and other liabilities	558,310	1,231,890
Increase (decrease) in accrued pension liabilities	(8,054)	14,126
Net cash provided by operating activities	192,745	3,307,501
Cash flow from investing activities:		
Decrease (increase) in due from Central Bank and placement to other banks	(6,871,583)	808,425
Acquisition of available-for-sale financial assets	(1,193,714)	(1,345,322)
Proceeds from disposal of available-for-sale financial assets	1,019,021	2,081,291
Increase in loans and advances to customers	(5,214,851)	(24,529,333)
Decrease (increase) in bills and bonds purchased under agreements to resell	1,099,206	(762,302)
Capital refund from investees under cost method	15,361	-
Acquisition of property and equipment	(378,923)	(758,906)
Proceeds from disposal of property and equipment	64,327	548
Acquisition of property held for sale	(47,711)	-
Proceeds from sale of non-operating assets	16,868	4,860
Increase in foreclosed assets	(693,337)	(189,442)
Proceeds from disposal of foreclosed assets	336,660	462,079
Increase in other assets	(89,258)	(1,476,987)
Net cash provided by acquisition	-	4,760,740
Net cash used in investing activities	(11,937,934)	(20,944,349)
Cash flow from financial activities:		
Increase (decrease) in deposits by Central Bank and other banks	(923,999)	5,815,534
Increase in commercial paper payable	149,849	-
Increase in deposits and remittances (including negotiable certificates of deposit)	12,241,960	10,818,903
Increase (decrease) in bills and bonds securities sold under agreements to repurchase	(777,371)	11,428
Cash dividends, employees' bonus, and directors' and supervisors' bonus	(103,464)	(155,650)
Issuance of subordinate financial debentures	1,680,000	-
Increase (decrease) in deposits-in and other liabilities	28,064	(9,647)
Issuance of common stock for cash	1,000,000	1,000,000
Issuance of preferred stock for cash	-	1,000,000
Net cash provided by financial activities	13,295,039	18,480,568
Effects of first-time inclusion of certain subsidiaries in the consolidated financial statements	-	3,000
Net increase in cash and cash equivalents	1,549,850	846,720
Cash and cash equivalents at beginning of year	2,569,066	1,722,346
Cash and cash equivalents at end of year	\$ 4,118,916	2,569,066
Supplementary disclosure of cash flow:		
Cash payments of income tax	\$38,046	26,236
Cash payments of interest	\$ 2,666,717	2,117,704
Investing and financing activities not affecting cash flows:		
Unrealized gain (loss) on available-for-sale financial assets	\$ 7,587	(15,485)
Unrealized gain (loss) on available-for-sale financial assets due to change in accounting principle	\$ 40,763	-

Review & Analysis of Financial Condition, Business Performance, and Risk Management Assessment

I. Analysis of Financial Condition

Unit: NT\$ Thousand

Item \ Year	2006	2005	Variation	
			Amount	Ratio (%)
Total Asset	190,088,963	177,170,179	12,918,784	7.29
Total Liability	180,881,931	168,132,875	12,749,056	7.58
Total Shareholders Equity	9,207,032	9,037,304	169,728	1.88

II. Operation Result

Unit: NT\$ Thousand

Item \ Year	2006	2005	Variation	
			Amount	Ratio (%)
Net Interest Income	2,833,992	2,951,890	(117,898)	(4)
Net Non-Interest Income	712,948	727,039	(14,091)	(2)
Bad Debt Expense for Margin Loan	2,171,877	1,128,226	1,043,651	93
Operating Expense	2,313,820	2,367,400	(53,580)	(2)
Earning before Tax	(938,757)	183,303	(1,122,060)	(612)
Income Tax Expense (Gain)	(130,000)	36,287	(166,287)	(458)
Cumulative Effect of Changes in Accounting Principle	19,442	-	19,442	-
Earning after Tax	(789,315)	147,016	(936,331)	(637)

1. Increase on bad debt expense for margin loans: Due to increased provisioning for write-offs to strengthen financial structure.

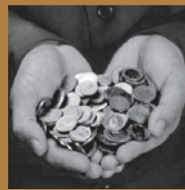
2. Increase on Income tax expense (Gain): Due to excessive provisioning for write-offs.

III. Cash Flow

(I) Liquidity Analysis in the Past Two Years

Item \ Year	2006	2005	Increase (Decrease) Ratio
Cash Flow (%)	6	76	(92)
Cash Flow to Dividends & Expenditures (%)	240	272	(32)
Cash Flow Fulfillment Ratio (%)	2	16	(88)

1. Reduction on cash flow ratio & cash flow reinvestment ratio: Due to the substantial deduction on net cash flow from operating activities compared to last year.



(II) Cash Liquidity Analysis for the Coming Year

Unit: NT\$ Thousand

Beginning Cash Outstanding	Projected Net Cash Flow from Operating Activity for the Coming Year	Projected Net Cash Flow from Investing & Financial Activities for the Coming Year	Project Cash Left Over (Insufficient)	Corrective Measure when the Projected Cash Is Not Enough	
				Investment Plan	Wealth Management Plan
4,118,814	970,705	(1,599,929)	3,489,590	-	-

1. Cash Flow Distribution of This Year

- (1) Cash flow from operating activity: NT\$255,691 thousand.
- (2) Cash flow from investing activity: NT\$(11,821,863)thousand.
- (3) Cash flow from financial activity: NT\$13,115,920 thousand.

2. Corrective Measures to be Taken in Response to Illiquidity, and Liquidity Analysis: None

IV. Effects upon Financial Operations of Major Capital Expenditure

(I) Implementation of Major Capital Expenditure and Fund Source

Unit: NT\$ Thousand

Plan	Fund Source	Expected Completion Date	Fund Required	Expected Fund Implementation					
				Before 2005	2006	2007	2008	2009	2010
Headquarter Construction	Own Fund	Sept. 2010	5,593,296	2,505,109	21,582	1,055,879	1,158,426	443,860	408,440
NBS Establishment	Own Fund	Aug. 2007	389,078	4,000	167,078	218,000	-	-	-

(II) Effects upon Financial Operations

1. New Headquarter building construction was initiated in July 15, 2006, and expected to complete in 2010. Anticipations for the consolidation of all the operation departments, improving operating performance, and enhancing banks' recognition.
2. BOP has decided to change its mainframe server system to cope with the increasingly expanded business operations, to reduce IT software cost, and improve counter side operation efficiency. The completion of New Banc System (NBS) was expected in 2007.

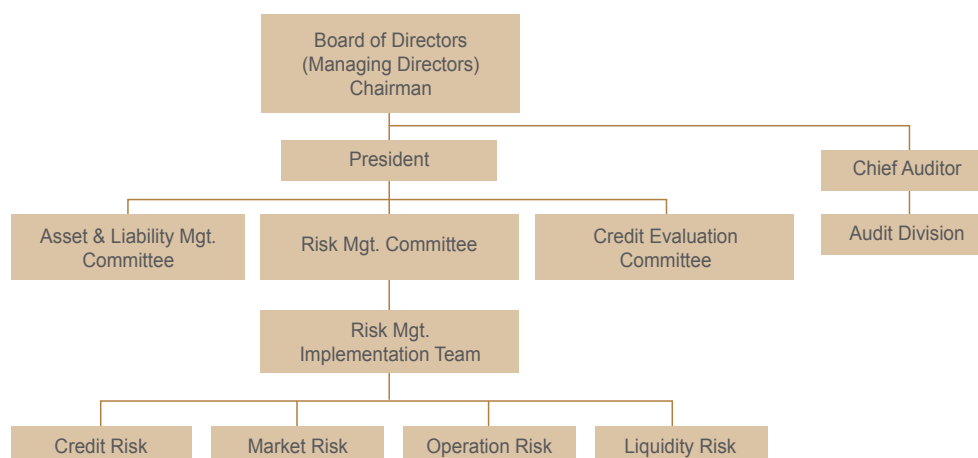
V. Reinvestment Policy

1. Reinvestment Policy: In accordance with governmental policies, BOP has reinvested the Sunny Asset Management Company with debt-equity swap method amounting NT\$690 thousand.
2. Reason for Profit: Received stock dividends from Taiwan Cooperative Bank along with two other reinvested companies. Received cash dividends from Financial Information Service Company along with three other reinvested companies.
3. Plan for Improvement:
 - (1) Continuously strengthening the debt collecting business operations to improve profitability of BOP's reinvested subsidiary, Panhsin Asset Management Co., Ltd.
 - (2) Collaboration between wealth management business operations and BOP's reinvested subsidiary, Panhsin Insurance Broker Co., Ltd., to generate insurance fee income.
4. Investment Plan for the Coming Year: Strengthening the equity management in accordance with governmental policies and the operation development needs.

VI. Risk Management

(I) Risk Management Organization and Policy

1. Risk Management Organization Chart



Item	Monitoring Department	Risk Management Organization
Credit Risk	Corporate Banking Credit Dept. Consumer Banking Credit Dept.	President, Credit Evaluation Committee, Board of Managing Directors or Directors
Market Risk	Treasury Dept., Investment Dept.	President, Asset & Liability Mgt. Committee, Board of Managing Directors or Directors
Operation Risk	Audit Dept., Operation Dept., Branch Operation Dept.	President, Board of Managing Directors or Directors
Liquidity Risk	Treasury Dept.	President, Asset & Liability Mgt. Committee, Board of Managing Directors or Directors

2. Risk Management Policy

All the related operation units should take roles in its own duty on the basis of “correct measurement, efficient supervision, and strictly controlled management”. Roles such as ensuring and assisting in planning, executing the strategy properly, examining capital adequacy, readjusting pricing strategy promptly, providing risk report & monitoring plan, and managing investment portfolios, etc. All the roles will be taking into considerations to reflect the operating status and proper solutions should be suggested accordingly. Such suggested solutions will be used as important reference upon making major operating decisions and effectively enhancing BOP’s core competency.

(II) Method for Risk Measurement & Control

1. General Disclosure

(1) Credit Risk

In order to strengthen the credit management, BOP has segmented its risk bearing limitation according to the types of industry, enterprise, and collateral. Periodic reviews have been conducted thoroughly and simultaneous adjustments been made accordingly to avoid from concentration risk. Additionally, the post credit management was integrated with credit re-evaluation, alerting and monitoring to ensure the solidity of the debt rights. In order to strengthen the risk management mechanism and in compliance with the new BASEL II, BOP has determined and gradually established



its internal credit rating system with qualitative & quantitative analysis to forecast the possible default & loss rates among the clients, to minimize the risk as well as to ensure the shareholders' interests.

(2) Market Risk

In order to pursue a balance between risk & return while maximizing the shareholders' value, the central management unit has been particularly set up at the treasury department to monitor the transactions along with the market risk management procedures. Additionally, market assessment was carried out in accordance with SFAS No.34 to periodically evaluate the status of transactions and properly disclose the exposures and gain or loss.

(3) Operation Risk

Standardized operation procedures and internal control system were implemented through proper internal propagations, and training programs to further the employee with risk awareness in mind, as well as to establish a disciplined corporate culture environment. In addition, the "Open System Security Operating Guidelines" has been formulated to ensure the safety of the computer-related facilities and reinforce the information operating controls. An emergency response team has also been set up to deal with major unexpected incidents and to instantaneously mitigate the operation risk.

(4) Liquidity Risk

With the market demand & supply and internal funding status, aggressively diversifying the sources of fund and enhancing funding stability in compliance with related regulations so as to meet the required liquidity ratio. Periodic analysis and monitoring the gaps and changes in maturity structure between asset & liability were conducted, as well as the funding position variations were assessed thoroughly. While selecting the investment target, emphasizing the safety measures along with considering the liquidity in secondary market to reduce liquidity risk.

2. Credit Risk Disclosure

(1) On-balance Sheet: Credit risk weighted asset

Unit: NT\$ Thousand

Item	Proper Risk Weight	Risk Weighted Asset
Debt Credit or Other Guaranteed Credit by Central Government & Central Bank of China	-	-
Local & Regional Government's Credit & Other Guaranteed Credit	10%	418
Credit Guarantee by Domestic Banks	20%	966,003
Fixed Asset Collateral Loans	50%	37,615,304
Unsecured Loans & Other Assets	100%	77,228,056
Total	-	115,809,781

(2) Off-balance Sheet: Credit risk weighted asset

Unit: NT\$ Thousand

Item	Risk Weighted Asset
Regular Off-balance Transactions	6,775,625
Financial Derivative Instruments	382
Re-purchase Agreement (RP)	7,567
Re-sell Agreement (RS)	-
Total	6,783,574

3. Calculation of Market Risk Provisioning & Risk Weighted Asset Using Standard Method

Unit: NT\$ Thousand

Risk Type	Required Capital	Risk Weighted Asset (Note)
Interest Risk	53,416	667,700
Equity Security Risk	85,594	1,069,925
Foreign Exchange Risk	1,242	15,525
Product Risk	-	-
Option with Simple Method	-	-
Total	140,252	1,753,150

Note: Required capital x 12.5

4. Liquidity Risk

(1) Maturity Structure Analysis of NT Dollars

Unit: NT\$ Thousand

Item	Total	Outstanding by Remaining Time till Maturity				
		< 30 Day	31- 90 Day	91- 180 Day	181 Day- 1 Year	> 1 Year
Major Inflow of Matured Fund	182,542,875	32,674,343	11,012,896	18,112,678	13,977,133	106,765,825
Major Outflow of Matured Fund	184,826,663	57,091,334	26,784,244	25,465,080	49,190,662	26,295,343
Fund Gap	(2,283,788)	(24,416,991)	(15,771,348)	(7,352,402)	(35,213,529)	80,470,482

(2) Maturity Structure Analysis of US Dollars

Unit: US\$ Thousand

Item	Total	Outstanding by Remaining Time till Maturity				
		< 30 Day	31- 90 Day	91- 180 Day	181 Day- 1 Year	> 1 Year
Major Inflow of Matured Fund	320,737	180,253	69,671	40,365	-	30,448
Major Outflow of Matured Fund	314,249	168,595	93,084	22,888	19,731	9,951
Fund Gap	6,488	11,658	(23,413)	17,477	(19,731)	20,497

(III) Effects upon the Bank's Financial Operation due to Major Policy and Regulation Changes in the Aspects of Domestic and International & Countermeasure

1. Securities & Exchange Act — "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" (Mar. 28, 2006)

The regulations governing appointment of independent director had been announced on January 1, 2007. Nonetheless, with such regulation's article 9, "A public company that has created independent director positions under the Act is excused from application of the provisions hereof before the expiration of the term of office of the incumbent directors", BOP has already appointed the new directors with 3 year term on June 20, 2006, thus is expecting to comply with the regulation to constitute the independent director upon next election.

2. "Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operations" (Sept. 18, 2006)

BOP did not undertake credit card business, had terminated the cash card and outsourcing of



consumer loans business in May 2005 and March 2006, respectively, thus there are no significant effects upon.

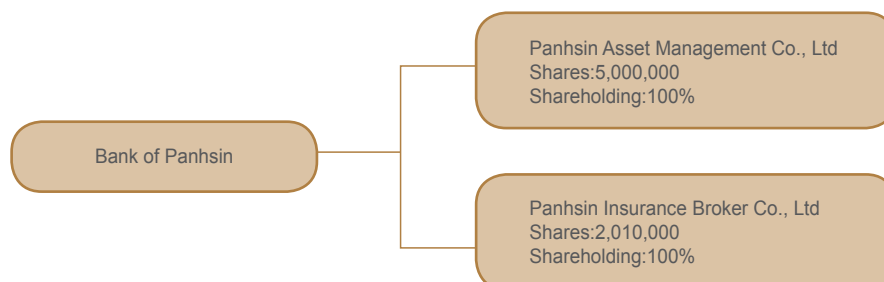
VII. Crisis Management Mechanism

On July 2, 2002, BOP has formulated the guideline dealing with unusual & extraordinary events, modified on April 22, 2004 to include bank run, major robbery, fraud, fire, natural disaster, violence or any other unusual events. On October 25, 2006, the board of directors meeting has passed the resolution to formulate the "Safety Maintenance Operation Procedure" to accommodate unusual & extraordinary events, such as natural disaster, major robbery, fraud, theft, threat, and media report, etc. In addition, check list of standardized operation procedure has also been formulated.

Special Notes

I. Related Information on the Banks Subsidiaries

(I) Relationship Chart



(II) Profile of Subsidiaries

Unit: NT\$ Thousand

Name of Subsidiary	Date of Establishment	Address	Paid-In Capital	Major Business Scope
Panhsin Asset Management Co., Ltd	Jun. 02, 2005	3F, No.18 Chengdu St., Panchiao City, Taipei County	50,000	Acquisition of Non Performing Loans
Panhsin Insurance Broker Co., Ltd	Oct. 19, 2004	1F, No.330 Zhongzheng Rd., Panchiao City, Taipei County	20,100	Insurance Broker

(III) Information on Directors, Supervisors and President of Subsidiaries

Name of Subsidiary	Title	Name or Representative	Share Held	
			Share	Ratio (%)
Panhsin Asset Management Co., Ltd	Chairman	Dao-Ming Kuo (Representative of BOP)		
	Director	Ming-Hsin Chiu (Representative of BOP)		
	Director	Lin-Long Chien (Representative of BOP)	5,000,000	100.00
	Director	Ming-Sing Shieh (Representative of BOP)		
	Supervisor	Teng-Chum Chen (Representative of BOP)		
	President	Sin-Mao Huang	-	-
Panhsin Insurance Broker Co., Ltd	Chairman	Ping-Hui Liu (Representative of BOP)		
	Director	Ming-Sing Shieh (Representative of BOP)	2,010,000	100.00
	Director	Rong-Sheng Hong (Representative of BOP)		
	Supervisor	Shang-Che Chen (Representative of BOP)		
	President	Jin-Jiang Hong	-	-

(IV) Operation Status of Subsidiaries

Unit: NT\$ Thousand

Name of Subsidiary	Capital	Total Asset	Total Liability	Equity	Operating Income	Operating Revenue	Current Profit	EPS (Dollar)
Panhsin Asset Management Co., Ltd	50,000	1,715,870	1,661,719	54,151	21,771	6,397	1,982	0.40
Panhsin Insurance Broker Co., Ltd	20,100	45,549	9,786	35,763	62,349	17,951	13,559	6.75

Directory of Head Office & Branches

Units	Address	Telephone	Fax
Head Office	No.18, Chengdu St., Panchiao City, Taipei County	(02) 29629170	(02) 29572011
Domestic Banking Department	No.11, Sec.1, Wenhua Rd., Panchiao City, Taipei County	(02) 29689101	(02) 29665807
Trust Department	No.330, Zhongzheng Rd., Panchiao City, Taipei County	(02) 29658689	(02) 29658755
International Banking Department	No.358, Sec.2, Bade Rd., Songshan District, Taipei City	(02) 27717000	(02) 27112978
Offshore Banking Unit	No.358, Sec.2, Bade Rd., Songshan District, Taipei City	(02) 27717000	(02) 27112978
Daguan Branch	No.155, Sec.2, Daguan Rd., Panchiao City, Taipei County	(02) 22756566	(02) 22752574
Zhongzheng Branch	No.330, Zhongzheng Rd., Panchiao City, Taipei County	(02) 89658998	(02) 89682156
Wenhua Branch	No.261, Sec.1, Wenhua Rd., Panchiao City, Taipei County	(02) 22587777	(02) 22593584
Minzu Branch	No.339, Hansheng E. Rd., Panchiao City, Taipei County	(02) 29629111	(02) 29581242
Houpu Branch	No.18, Chengdu St., Panchiao City, Taipei County	(02) 29629121	(02) 29560201
Puqian Branch	No.38, Sec.2, Sanmin Rd., Panchiao City, Taipei County	(02) 29629106	(02) 29541499
Huajiang Branch	No.382, Sec.2, Wenhua Rd., Panchiao City, Taipei County	(02) 22529101	(02) 22520108
Yonghe Branch	No.12, Renai Rd., Yonghe City, Taipei County	(02) 29299481	(02) 29210495
Xiulang Branch	No.118, Dehe Rd., Yonghe City, Taipei County	(02) 29459366	(02) 29458495
Fuhe Mini Branch	No.232, Yongjhen Rd., Yonghe City, Taipei County	(02) 89211919	(02) 89213377
Zhonghe Branch	No.232, Zhonghe Rd., Zhonghe City, Taipei County	(02) 22498756	(02) 22497418
Yuanshan Branch	No.753, Zhongzheng Rd., Zhonghe City, Taipei County	(02) 22259199	(02) 22260657
Xingnan Branch	No.45, Sec.1, Xingnan Rd., Zhonghe City, Taipei County	(02) 29459366	(02) 29458495
Tucheng Branch	No.289, Sec.1, Zhongyang Rd., Tucheng City, Taipei County	(02) 22629119	(02) 22654536
Jincheng Mini Branch	No.91, Sec.3, Jincheng Rd., Tucheng City, Taipei County	(02) 82615666	(02) 22709241
Xinzhuang Branch	No.719, Xingfu Rd., Xinzhuang City, Taipei County	(02) 29906699	(02) 29900433
Shulin Branch	No.58, Zhenqian St., Shulin City, Taipei County	(02) 86755666	(02) 86755656
Sanchong Branch	No.126, Sec.3, Chongyang Rd., Sanchong City, Taipei County	(02) 89839966	(02) 29871976
Xindian Branch	No.60, Minquan Rd., Xindian City, Taipei County	(02) 89113377	(02) 89113661
Luchou Branch	No.256, Minzu Rd., Luchou City, Taipei County	(02) 82850666	(02) 82835789
Songjiang Branch	No.238, Songjiang Rd., Zhongshan District, Taipei City	(02) 25429999	(02) 25311707
Bade Branch	No.360, Sec.2, Bade Rd., Songshan District, Taipei City	(02) 27528833	(02) 27405959
Minsheng Branch	No.133-1, Sec.3, Minsheng E. Rd., Songshan District, Taipei City	(02) 87129966	(02) 27120105
Xinyi Branch	No.127, Sec.2, Keelung Rd., Xinyi District, Taipei City	(02) 27329999	(02) 27334900
Neihu Branch	No.163, Sec.4, Chenggong Rd., Neihu District, Taipei City	(02) 87919999	(02) 87919899
Taoyuan Branch	No.360, Yongan Rd., Taoyuan City, Taoyuan County	(03) 3398777	(03) 3396362
Taoying Branch	No.102, Taoying Rd., Taoyuan City, Taoyuan County	(03) 3758999	(03) 3660551
Longgang Branch	No.78, Longdong Rd., Zhongli City, Taoyuan County	(03) 4657799	(03) 4655511
Hsinchu Branch	No.56, Zhubei S Rd., Zhubei City, Hsinchu County	(03) 6581588	(03) 6580189
North Taichung Branch	No.186, Sec. 4, Wenxin Rd., North District, Taichung City	(04) 22961798	(04) 22961885
Taichung Branch	No.556, Sec. 1, Wenxin Rd., Nantun District, Taichung City	(04) 23267799	(04) 23266029
Renai Branch	No.502, Renai Rd., Chiayi City	(05) 2222157	(05) 2272952
Wufong Branch	No.114, Wufong N. Rd., Chiayi City	(05) 2278826	(05) 2258736
Zhongxiao Branch	No.317, Zhongxiao Rd., Chiayi City	(05) 2774616	(05) 2774615

Units	Address	Telephone	Fax
Junhui Branch	No.360, Wufong S. Rd., Chiayi City	(05) 2300778	(05) 2300780
Chiayi Branch	No.298, Zhongshan Rd., Chiayi City	(05) 2279045	(05) 2291649
Tainan Branch	No.189, Chongming Rd., East District, Tainan City	(06) 3368799	(06) 3361287
Chenggong Branch	No.457, Chenggong Rd., West Central District, Tainan City	(06) 2113999	(06) 2112388
Xiaogang Branch	No.213, Erling Rd., Xiaogang District, Kaohsiung City	(07) 8011161	(07) 8018565
Qianzhen Branch	No.421, Ruilong Rd., Qianzhen District, Kaohsiung City	(07) 7513176	(07) 7513380
Lingya Branch	No.10, Linsen 2nd Rd., Lingya District, Kaohsiung City	(07) 3337177	(07) 3311363
Kaohsiung Branch	No.148, Wufu 4th Rd., Yancheng District, Kaohsiung City	(07) 5518271	(07) 5618881
Kaoxinzhuang Branch	No.485, Xinzhuangzai Rd., Zuoying District, Kaohsiung City	(07) 3412621	(07) 3416142
Yangming Branch	No.178, Juemin Rd., Sanmin District, Kaohsiung City	(07) 3865111	(07) 3828199
Xinxing Branch	No.69, Bade 2nd Rd., Xinxing District, Kaohsiung City	(07) 2860191	(07) 2868349
Luodong Branch	No.119, Gongzheng Rd., Luodong Town, Yilan County	(039) 568866	(039) 557199