



Taishin Financial Holding Co., Ltd.

2005 Annual Report



Printed in July 2006



# Taishin Holdings

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website : <http://www.taishinholdings.com.tw>
  
- II Taishin International Bank Co., Ltd.**  
1Fl., No.44 Chung Shan North Road, Section 2  
Taipei, Taiwan  
886-2-2568-3988  
website : <http://www.taishinbank.com.tw>
  
- III Taiwan Securities Co., Ltd.**  
1Fl., No.123 Nanjing East Road, Section 2  
Taipei, Taiwan  
886-2-2507-5000  
website : <http://www.tsc.com.tw>
  
- IV Taishin Bills Finance Co., Ltd.**  
9Fl., Sung Chiang Road  
Taipei, Taiwan  
886-2-2562-3333  
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- V Taishin Asset Management Co., Ltd.**  
6Fl., No.46 Chung Shan North Road, Section 2  
Taipei, Taiwan  
886-2-2571-5100
  
- VI Taishin Marketing Consultant Co. Ltd.**  
6Fl., No.135 Ba De Road, Section 4  
Taipei, Taiwan  
886-2-2748-6886
  
- VII Taisin Venture Capital Investment Co., Ltd.**  
10Fl., No.46 Chung Shan North Road, Section 2  
Taipei, Taiwan  
886-2-2531-8678
  
- VIII Chung Hwa Bank** (Taishin Holdings has acquired 22.5% of shareholdings)  
38 Tsu Yu Road, Section 2,  
Taichung Taiwan  
886-4-2222-2001  
website:<http://www.chb.com.tw>

# 2005 Annual Report

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Wisdom is Trust,  
always give your best to achieve your goal.

I Message to Shareholders

# I. Message to Shareholders

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Taiwan's economy achieved moderate growth in 2005. The active promotion of the second financial reform by the government activated M&A (merger and acquisition) among local financial institutions at an unprecedented level, including some successful cases and some controversial failures, leading to change in the picture of the financial market. Meanwhile, over the past three to four years, domestic banks successively stepped into consumer banking businesses, including credit cards, cash cards, and unsecured personal loans, sparking vicious competition in the market, which led to the occurrence of extensive credit crisis for consumer banking in the fourth quarter last year and seriously eroded profits of the financial industry in 2005.

Taishin International Bank, a subsidiary under the auspices of Taishin Financial Holding, started to engage in the consumer-banking market as early as about 12 years ago and has obtained a leading status in the market, continuously scoring good performances over the past years and ranking first place in terms of profits among the 16 newer domestic banks. The current credit- and cash-card debt turmoil has inevitably affected the performance of the bank.

Despite the effect of the double-card debt turmoil on its profit performance, Taishin Financial Holding still achieved major breakthrough in expanding its business scope in the financial market and long-term development strategy. The most important event is the our investment of NT\$36.5 billion to acquire 22.5% controlling stake in Chang Hwa Commercial Bank last October, thereby re-organizing its board of directors and formally transforming the bank into a subsidiary of the financial holding firm, a move which has boosted the total assets of Taishin Financial Holding to NT\$2.35 trillion, the second highest among domestic financial holding firms. The critical step has laid a solid foundation for the long-term development of the financial holding firm. At the end of last December, the provisional shareholders' meeting passed the proposal of NT\$35 billion cash capital increment. Moreover, during the Chinese Lunar New Year holiday, we further introduced two foreign financial institutions as our strategic partners, Newbridge Capital of the U.S. and Nomura of Japan, which took part in the private-placement cash capital increment of Taishin Financial Holding by investing NT\$27 billion and NT\$4 billion, respectively.

With the injection of fresh capital by the two foreign partners totaling NT\$31 billion, the financial holding company has not only completed its cash capital increment but also replenished its financial resources after investing NT\$35 billion in Chang Hwa Bank, thereby strengthening its overall financial structure and augmenting its capital adequacy ratio. More importantly, with the partnership, banking and securities subsidiaries under the auspices of the financial holding firm have opportunities to develop closer cooperative relationship with international securities and financial institutions, laying a solid foundation for merger between Taishin and Chang Hwa Bank in the future.

With the litany of moves, including investment in Chang Hwa, cash capital increment, and solicitation of investments from New Bridge Capital and Nomura, we have actively complied with the government's policy for the second financial reform, as the transformation of Chang Hwa Bank into a subsidiary of the financial holding firm has helped the government achieve the goal of halving the number of state-owned financial institutions. The participation of New Bridge Capital and Nomura in the financial holding firm is also commensurate with the government's policy goal of introducing foreign capital into domestic financial institutions. Our contribution to the realization of the second financial reform is unrivaled among domestic peers.

I would like to emphasize that investments of New Bridge Capital and Nomura in Taishin are entirely out of their affirmation of our long-term management capability, as well as their confidence in the prospects of Taishin and Taiwan's financial market. The assistance from the multinational financial groups will give us a shot in the arm in our aspiration to develop into a regional financial institution.

Taishin Financial Holding originally garnered NT\$11 billion of after-tax profits on its own accounting. However, due to the higher-than-expected bad debts in the double-card debt turmoil, in order to uphold the quality of its assets, the financial holding company has appropriated additional bad-debt reserves of NT\$19.1 billion, on top of the original reserves of NT\$17.2 billion, according to the advice of public certified accountant, resulting in after-tax loss of NT\$3 billion following the audit of public certified accountant, the first red ink since the establishment of the financial holding company. However, we are confident that after weathering the impact of the double-card turmoil, the firm will resume the normal level of the past in its operation and profits.

Regarding credit ratings, international ratings firms Fitch and Moody's have both adjusted their credit ratings of Taishin Financial Holding. Fitch maintains the long-term international rating of Taishin Financial Holding at BBB, adjusts its rating outlook to negative, and upgrades its long-term domestic rating to A+(tw). It maintains the long-term international rating of Taishin Bank at BBB+, upgrades its domestic rating to AA-(tw), and adjusts rating outlook to negative. It maintains the long-term international rating of Taiwan Securities Co., at BBB-, upgrades its domestic rating to A(tw), and adjusts its rating outlook to stable. It maintains the long-term international rating of Taishin Bills Finance at BBB, upgrades its domestic rating to A+(tw), and maintains its rating outlook at stable. Moody's maintains the long-term international rating of Taishin Financial Holding and Taishin Bank at Baa3 and Baa2, respectively, and adjusts their rating outlook to positive. It maintains the domestic rating of Taishin Financial Holding at A2.tw and Taishin Bank at A1.tw.

Currently, the three functional business groups under the Financial Holding Firm are developing businesses in their most favorable directions respectively, generating lasting momentum for the overall development of the financial holding firm.

### **Wealth-Management Group**

Via various innovative new products and dignified services for wealth management, the group helps clients realize the dream of a healthy and rich life. In addition to securities channel, it also taps the massive clientele base of the wealth-management Mega Center of the Consumer Financing Business Group and banks, in order to rapidly accumulate assets under its management (AUM). In addition to actively upgrading its products and services, Taiwan Securities set up VIP Club in November 2004 and obtained wealth-management operating license from the Financial Supervisory Commission (FSC) in November 2005, aiming to provide customized and comprehensive quality wealth-management services to top-notch clients.

In 2005, the business group was market leader for various businesses, boasting 5.24% market share for brokerage business and 5.53% share for margin-trading loans, as well as stock agency for 2.21 million shareholders and foremost profits from warrants, both of which were on the top-three list among peers. Meanwhile, Taiwan Futures, a subsidiary of Taiwan Securities, saw its market share of options grow to 4.68% in 2005, up from 3.17% in 2004, with its industry ranking jumping to fourth place from 10th place. In addition, scale of discretionary-account operation of Taiwan Management Futures, another subsidiary of Taiwan Securities, had ascended to the championship of the industry by the end of 2005, scoring steady growth in its performance in the year.



# I. Message to Shareholders

With investments in overseas financial products among domestic investors growing year by year, scale of overseas investments entrusted to the company topped NT\$357.7 billion in 2005, for phenomenal growth of 43% over NT\$251 billion in 2004. In the future, the Wealth-Management Business Group will further intensify the entrustment business for overseas investments and integrate domestic and foreign trading platforms, so as to provide clients more complete services and pluralized financial products, thereby satisfying their need for one-stop shopping, maintaining market leadership status, and creating a win-win outcome for the company and clients.

## **Retail Banking Group**

For years, Taishin has been on the top-two list in the domestic retail banking market. Under the structural impact of the double-card debt turmoil on the market over the recent half a year, majority of peers without economy of scale and adequate expertise are expected to withdraw from the market after the turmoil subsides. Furnished with its expertise and scale, Taishin will definitely continue to cultivate retail banking business and provide customized products and services to clients, taking advantage of its innovative and cutting-edge experience for consumer banking and its advanced CRM (customer relationship management) platform.

In 2006, the Retail Banking Group will spare no effort in tackling bad debts generated by the double-card turmoil, in the hope of cutting the loss from the bad debts to the minimum. In addition, it will adjust its business strategy and upgrade the risk-management mechanism, adopting the marketing strategy of differentiated pricing according to clients' credit ratings, in line with the management principle emphasizing balance between business development and risk management.

Taishin firmly believes that the retail banking market will not disappear because of the double-card debt turmoil and still promises tremendous development potential following return of the market to a healthy and orderly environment. In the future, in line with its consistent innovation-oriented management, Taishin will continue to pioneer the rollout of various innovative consumer financial products, tailored to the needs of clients, so as to enhance satisfaction among clients and create brilliant performance once again.

## **Corporate Banking Group**

With its rich financial experience, plus edges in banking, bills, and securities businesses, the group offers the most complete integrated financial services to Taiwanese enterprises, with its scope covering consulting, risk management, various credit extension, bills transaction, assistance for share listing, and issuance of corporate bonds and convertible bonds. In response to the needs of Taiwanese businesses for cross-border operations, it has also established funding logistics service network for the greater Chinese market, providing one-stop shopping solution to rapidly growing Taiwanese enterprises.

In 2005, the Corporate Banking Group racked up outstanding performance, ranking second place in business volume for the market of accounts receivables and first place in terms of profits. Taishin Bills Finance was the market championship for the volume of underwriting FRCP (fixed-rate commercial paper), ranked second place for the domestic cases of underwriting IPO/SPO (initial public offering/secondary public offering), and was on the top-five list for underwriting corporate bonds and financial bonds, and the arrangement of syndicated loans. In June 2005, it set up a representative office in Hu Chih Min city of Vietnam. In the future, the Corporate Banking Group will march ahead at steady pace, by further deep-cultivating relations with clients and expanding services for overseas Taiwanese businesses and those in the greater Chinese market.



Looking ahead, Taishin Financial Holding will continue to pursue own business growth, strengthen assets quality, upgrade organizational efficiency, push ISO quality management, install market and credit risk management system, and enhance synergy by creating client values via CRM. Moreover, in compliance with the spirit of constant progress, we will seek further improvement in the aspects of products, services, management, and profits, so as to create a win-win outcome with clients and maintain a leading status in the acute competition.

After subsidence of the double-card turmoil, the retail banking market will inevitably undergo a major shakeout, and the three business groups under the auspices of Taishin Financial Holding will become more balanced in terms of operations and profit contribution. After putting Chang Hwa Bank under its fold, the financial holding firm will further plan the integration of its resources and that of Chang Hwa, so that the bank can benefit from the synergy of merger, while retaining its existing edges. When the objective environment and related conditions are ripe, the financial holding firm will also push the merger of Taishin Bank and Chang Hwa Bank.

In the medium and long term, Taishin Financial Holding will center on banking operation in its development, better utilize its resources to support business development and expand market shares, and further strengthen key product lines, including insurance, securities, and investment trust, thereby achieving steady growth in assets and clientele base. The joining of international financial investment groups, New Bridge Capital and Nomura, will bring us international financial business experience, which coupled with our existing global financial network—consisting of six overseas branches of Chang Hwa in the international financial metropolises of London, New York, Los Angeles, Tokyo, Hong Kong, and Singapore, plus its representative office in Kunsan, China; the Hong Kong branch and representative office in Hu Chih Min city, Vietnam, of Taishin Bank; and representative offices in Hong Kong and Shanghai of Taiwan Securities—will lay a solid foundation for Taishin Financial Holding to develop towards a regional financial institution and achieve the ultimate goal of becoming the leading brand in the financial industries in Taiwan and even Asia, thereby living up to the high expectation of our clients and shareholders.

Last but not least, I would like to express our sincere gratitude for the consistent support of shareholders to Taishin Financial Holding and hope shareholders, in line with their patronage of Taishin in the past, can continue to give Taishin unreserved support and guidance. The management team will do its utmost in our unrelenting effort to pursue the long-term maximum benefits of shareholders, clients, and employees.

Chairman



Taishin Financial Holding Co., Ltd.  
May 2006





Wisdom is Expertise,  
to rest assured under your supervision.

II Profile of Taishin Financial Holding Co., Ltd.

# II. Company Profile

## I. Introduction

**Establishment Date :** February 18, 2002

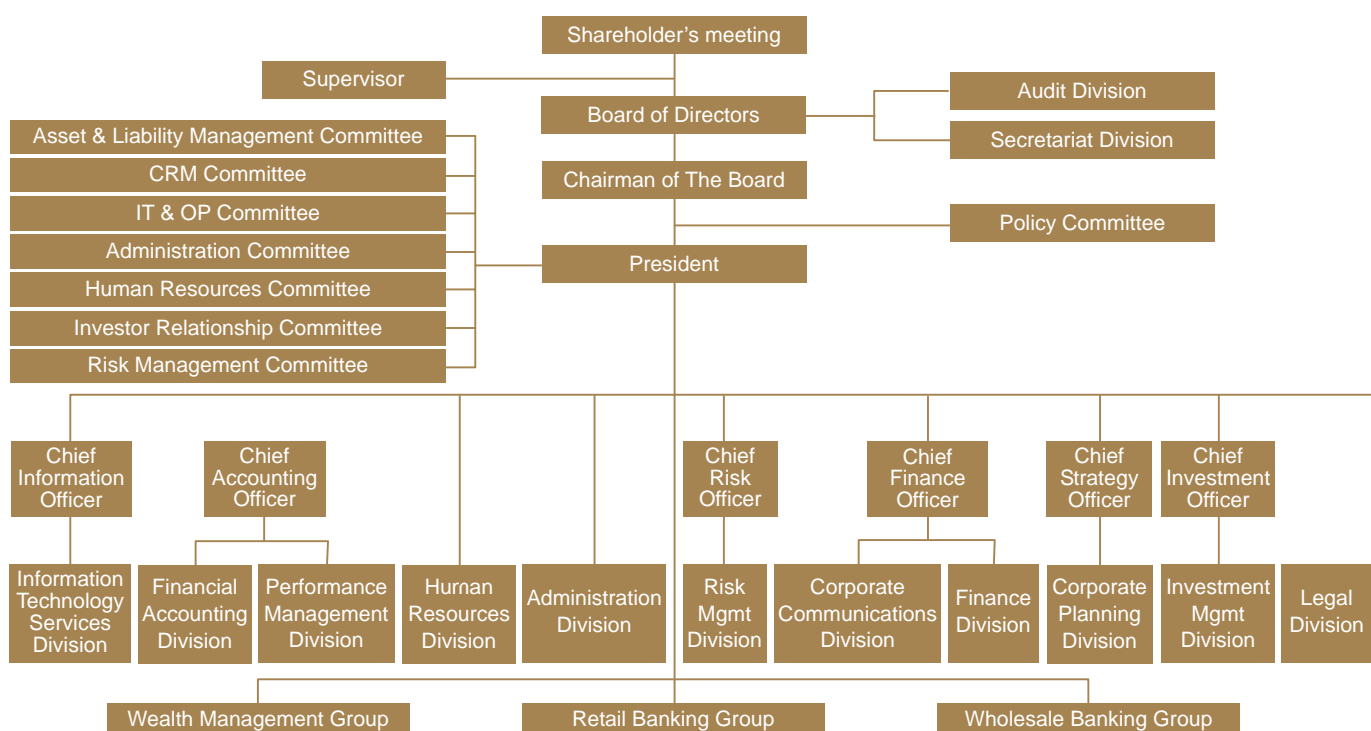
**Head Office Location :** 44 Chung Shan N. Rd., Sec.2, Taipei, Taiwan

**Company history :**

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

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

## II. Organizational Chart



## Key functions and responsibilities

### • Corporate Planning Division

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

### • Investment Management Division

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

### • Risk Management Division

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

### • Finance Division

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

### • Communications Division

managing legal entities' relations with the media.

### • Administration Division

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

### • Information Technology Services Division

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

### • Financial Accounting Division

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

### • Performance Management Division

business planning and review, defining annual budgeting guidelines and principles, tracking budget execution at all levels, and coordinating operational issues among subsidiaries.

### • Human Resources Division

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

### • Legal Division

in charge of regulations and contract legitimacy.

## II. Company Profile

### III. Directors, Supervisors & Managers

#### 1. Directors & Supervisors

March 31, 2006.

| Title               | Representative / Company  |
|---------------------|---|
| Chairman            | Thomas T.L. Wu<br>Representative of Bo Rei Co., Ltd.                              |
| Director            | Cheng Ching Wu<br>Representative of Tai Ho Co., Ltd.                              |
| Director            | Thomas Wu<br>Representative of Taishin Leasing & Financing Co., Ltd.              |
| Director            | Chu Chan Wang<br>Representative of Pan City Co., Ltd.                             |
| Director            | Yu-Lon Chiao  |
| Director            | Linda Kuo<br>Representative of Tong Shin Co.                                      |
| Director            | Weijian Shan<br>Representative of Bo Rei Co., Ltd.                                |
| Managing Supervisor | Tong-Shung Wu<br>Representative of Master Advisor Management Consulting Co., Ltd. |
| Supervisor          | Henry C.S. Kao<br>Representative of Royal Investment Co., Ltd.                    |

## 2. Managers

March 31, 2006

| Title   | Name           |
|---|----------------|
| President   | Julius Chen    |
| Executive Consultant  | Steve Shieh    |
| General Manager, Wholesale Banking Group                              | Justin Tsai    |
| General Manager, Retail Banking Group                                 | Daniel M. Tsai |
| General Manager, Wealth Management Group                              | Keh Hsiao Lin  |
| Chief Auditor   | Diao-Li Lin    |
| Chief Financial Officer & Spokesperson                                | Carol Lai      |
| Chief Investment Officer  | Welch Lin      |
| Chief Risk Management Officer   | James Lin      |
| Chief Accounting Officer  | Ann Cheng      |
| Chief Information Technology Officer                                  | B.R. Ho        |
| Senior Vice President   | Tom Tsui       |
| Vice President  | Ho Chen        |
| Senior Vice President, Administration Division & Secretariat Division | Ming-Nan Lin   |
| Senior Vice President, Human Resources Division                       | Kevin Huang    |
| Senior Vice President, Corporate Planning Division                    | David Chang    |
| Senior Vice President, Legal Division                                 | Charles M. Lin |
| Senior Vice President, Investment Division                            | Peter Tseng    |
| Senior Vice President, Finance Division                               | Ada Chen       |
| Senior Vice President, Performance Management Division                | Bertina Chen   |
| Senior Vice President, Risk Management Division                       | Perry Wang     |



### IV. Status of capital and issuance of corporate shares, corporate bonds, and GDR as of 2005.03

#### 1.Type of Shares

| Type of Shares          | Authorized Capital   |                         |               |
|-------------------------|----------------------|-------------------------|---------------|
|                         | Share Issued (1,000) | Unissued Shares (1,000) | Total (1,000) |
| Common shares           | 5,438,942,054        | 2,661,057,946           | 8,100,000,000 |
| B-type Preferred shares | 1,677,777,779        | 222,222,221             | 1,900,000,000 |

## 2. Corporate Bond

### (1) Corporate Bond-1

| Type                     | 2003 Domestic 1 <sup>st</sup><br>Unsecured<br>Subordinated Bond | 2004 Domestic 1 <sup>st</sup><br>Unsecured<br>Subordinated Bond | 2004 Domestic 2 <sup>nd</sup><br>Unsecured<br>Subordinated Bond |
|--------------------------|---|---|---|
| Issued Date              | December 12~29, 2003  | May 21, 2004  | June 21, 2004   |
| Face value               | NT\$10,000,000、<br>NT\$50,000,000                               | NT\$10,000,000  | NT\$10,000,000  |
| Issued and Listed Place  | OTC, Taiwan   | OTC, Taiwan   | OTC, Taiwan   |
| Issued Price             | 100%  | 100%  | 100%  |
| Total amount             | NT\$8 Billion   | NT\$2 Billion   | NT\$5 Billion   |
| Coupon                   | Type A : 3.5%<br>Type B : 5.7%-「Floating<br>Rate B」 (note 1)    | 2.9%  | 3.5%  |
| Maturity                 | 7 years<br>(December 12~29, 2010)                               | 7 years<br>(May 21, 2011)                                       | 7 years<br>(June 21, 2011)                                      |
| Status                   | Subordinated  | Subordinated  | Subordinated  |
| Guarantor                | None  | None  | None  |
| Trustee                  | Bank SinoPac  | Bank SinoPac  | Bank SinoPac  |
| Underwriter              | None  | None  | None  |
| Legal                    | Modern Law office   | Modern Law office   | Modern Law office   |
| Auditors                 | Deloitte & Touche   | Deloitte & Touche   | Deloitte & Touche   |
| Final Redemption         | Redemption at Maturity  | Redemption at Maturity  | Redemption at Maturity  |
| Outstanding balance      | NT\$8billion  | NT\$2billion  | NT5billion  |
| Call or Early Redemption | None  | None  | None  |
| Restriction              | None  | None  | None  |
| Qualified Capital        | Yes   | Yes   | Yes   |
| Rating                   | Moody's<br>2003.11.17 Baa2.tw                                   | Fitch Taiwan<br>2004.05.04 BBB+(tw)                             | Fitch Taiwan<br>2004.06.02 BBB+(tw)                             |
| Other Rights             | Conversion、<br>GDR or others                                    | None  | None  |
|                          | Terms and<br>Conditions   | Note2   | Note2   |
| Amortization             | None  | None  | None  |
| Custodian                | None  | None  | None  |

Note 1: 「Floating Rate B」 : (Moneyline Telerate) page 6165、90D CP (Fixing Rate)

Note2 : P.96 ~P.101 Terms and conditions of Corporate Bonds

## II. Company Profile

### (2) Corporate Bond-2

| Type                     | 2005 Domestic 1 <sup>st</sup><br>Unsecured Subordinated<br>Bond | 2005 Domestic 2 <sup>nd</sup><br>Unsecured Subordinated<br>Bond | 2005 Domestic 3 <sup>rd</sup><br>Unsecured Subordinated<br>Bond |
|--------------------------|---|---|---|
| Issued Date              | September 20、21, 2005   | November 15, 2005   | December 8, 2005  |
| Face value               | NT\$10,000,000  | NT\$10,000,000  | NT\$50,000,000  |
| Issued and Listed Place  | OTC, Taiwan   | OTC, Taiwan   | OTC, Taiwan   |
| Issued Price             | 100%  | 100%  | 100%  |
| Total amount             | NT\$12 Billion  | NT\$3.65 Billion  | NT\$3 Billion   |
| Coupon                   | 2.7%  | 2.7%  |   |
| Maturity                 | 7 years<br>(September 20、21, 2012)                              | 7 years<br>(November 15, 2012)                                  | 7 years<br>(December 8, 2012)                                   |
| Status                   | Subordinated  | Subordinated  | Subordinated  |
| Guarantor                | None  | None  | None  |
| Trustee                  | Bank SinoPac  | Chiao Tung Bank   | Chiao Tung Bank   |
| Underwriter              | None  | None  | None  |
| Legal                    | Modern Law office   | Modern Law office   | Modern Law office   |
| Auditors                 | Deloitte & Touche   | Deloitte & Touche   | Deloitte & Touche   |
| Final Redemption         | Redemption at Maturity  | Redemption at Maturity  | Redemption at Maturity  |
| Outstanding balance      | NT\$12 Billion  | NT\$3.65 Billion  | NT\$3 Billion   |
| Call or Early Redemption | None  | None  | None  |
| Restriction              | None  | None  | None  |
| Qualified Capital        | Yes   | Yes   | Yes   |
| Rating                   | Fitch Taiwan<br>2005.08.25 A(twn)                               | Fitch Taiwan<br>2005.09.22 A(twn)                               | Fitch Taiwan<br>2005.10.28 A(twn)                               |
| Other Rights             | Conversion、GDR or others  | None  | None  |
|                          | Terms and Conditions  | Note1   | Note1   |
| Amortization             | None  | None  | None  |
| Custodian                | None  | None  | None  |

Note 1 : see P.96 ~P.101 Terms and Conditions of Corporate Bonds

## (3) Corporate Bond-3

|                          |   |   |
|--------------------------|---|---|
| Type                     | 2003 Euro 1 <sup>st</sup> Unsecured Convertible Bond  |   |
| Issued Date              | Apr. 17, 2003   |   |
| Face value               | USD1,000  |   |
| Issued and Listed Place  | Luxemburg Stock Exchange  |   |
| Issued Price             | 100%;Over-allotment issues at 101%  |   |
| Total amount             | US\$220mn (including over allotment US\$20mn)   |   |
| Coupon                   | 0%  |   |
| Maturity                 | 5 Years ; Maturity Date : 2008.04.17  |   |
| Status                   | Ordinate  |   |
| Guarantor                | None  |   |
| Trustee                  | Citibank, N.A.  |   |
| Underwriter              | Citigroup Global Markets  |   |
| Legal                    | -   |   |
| Auditors                 | Deloitte & Touche   |   |
| Final Redemption         | Unless previously redeemed, repurchased and cancelled or converted, the Bonds will mature on April 17,2008 at 112.69% of their principal amount to be paid in U.S. dollars. |   |
| Outstanding balance      | US\$2mn (As of 2006.03.31)  |   |
| Call or Early Redemption | Note 1  |   |
| Restriction              | Note 1  |   |
| Qualified Capital        | None  |   |
| Rating                   | Moody's Investors Service, Inc.<br>2003.04.10;Baa 3   |   |
| Other Rights             | The amount of Conversion \ GDR or others  | Conversion amount:US\$218mn(As of 2006.03.31) |
|                          | Terms and Conditions  | Note 1  |
| Amortization             | Coupon 0%; Issue at premium, no significant negative impact on equity and amortization  |   |
| Custodian                | None  |   |

## II. Company Profile

### (4) Convertible Bond

| Type   |              | 2003 Euro 1st. Unsecured convertible Bond |            |
|--|--------------|---|------------|
| Item   | Year         | 2005                                      | 2006.03.31 |
|  | Market Price | Highest                                   | 180.00     |
| Lowest   |              | 135.13                                    | 126.44     |
| Average  |              | 165.84                                    | 126.59     |
| Conversion Price                                 |              | NT\$ 14.84                                |            |
| Issued Date and Conversion Price on Issuing Date |              | 2003.04.17; NT\$ 21.33                    |            |
| Converted From                                   |              | New common shares                         |            |

### 3. Preferred Shares

| Items               |  | Issuing Date<br>2000.06.30<br>Series B   | 2005.09.28<br>Series C  | 2006.03.22<br>Series D<br>Private Placement                           |
|---------------------|--|--|---|---|
| Face value          |  | NT\$10   | NT\$10  | NT\$10  |
| Issued Price        |  | NT\$10 per share   | NT\$30 per share  | NT\$18 per share  |
| Total shares        |  | 400,000,000 shares   | 500,000,000 shares  | 777,777,779 shares  |
| Total amount        |  | NT\$4.0 Billion  | NT\$15.0 Billion  | NT\$14,000,000,022  |
| Obligation & Rights | Coupon                                       | 6.05%(accumulative)  | 3.5%(accumulative)  | 6.5%(non-accumulative)  |
|                     | Allotment of remaining properties            | Prior to common shares   | Prior to common shares, but junior to Series B preferred shares | Prior to common shares, but junior to Series B and C preferred shares |
|                     | Voting Right                                 | Not eligible for voting or election, but can be elected                        |   |   |
|                     | Others                                       | Same with common shares and has the refusal for new stocks from cash injection |   |   |
| Outstanding shares  | Number of shares of redemption or conversion | None   |   |   |
|                     | Total amount to be redeemed or converted     | NT\$4.0 Billion  | NT\$15.0 Billion  | NT\$14,000,000,022  |

| Items  |   | Issuing Date | 2000.06.30<br>Series B        | 2005.09.28<br>Series C   | 2006.03.22<br>Series D<br>Private Placement   |
|--|---|--------------|-------------------------------|--|---|
| Outstanding shares   | Redemption or conversion clause                           |              | Six years from the issue date | Seven years from the issue date                                    | <p>1. During the period from the third anniversary from the Issue Date and thereafter, the holders of Series D Preferred Stock will be entitled to convert their Series D Preferred Stock into Common Stock at the ratio of 1:1.</p> <p>2. During the period from the tenth anniversary from the Issue Date and thereafter, the Company will be entitled to redeem, from time to time, a part or all of the then outstanding Series D Preferred Stock at the actual issue price.</p> <p>3. If the Series D Preferred Stock are not redeemed nor converted into Common Stock after the tenth anniversary from the Issue Date, the annual fixed dividend payments will be increased to 7.5%</p> |
|  |   |              |                               |  |   |
| Market Price   | Year 2003   | Highest      | -                             | -  | -   |
|  |   | Lowest       | -                             | -  | -   |
|  |   | Average      | -                             | -  | -   |
|  | Year 2004   | Highest      | -                             | -  | -   |
|  |   | Lowest       | -                             | -  | -   |
|  |   | Average      | -                             | -  | -   |
|  | Year 2005   | Highest      | -                             | 30.20  | -   |
|  |   | Lowest       | -                             | 29.00  | -   |
|  |   | Average      | -                             | 29.81  | -   |
|  | Year 2006<br>March 31                                     | Highest      | -                             | 30.40  | -   |
|  |   | Lowest       | -                             | 29.50  | -   |
|  |   | Average      | -                             | 30.04  | -   |
| Others   | Total amount of conversion shares up to the published day | N/A          | N/A                           | 0  |   |
|  | Terms and conditions                                      | -            | -                             | -  |   |
| Dilution \ Impact on current shareholders and preferred shareholders |   | -            | -                             | Up to 2006.03.31, If 100% were converted, dilution would be 12.50% |   |



Wisdom is Perspective,  
seeing the future and distant prospects.



III Business Operations

## I. Business Plan

### Taishin Financial Holding Co., Ltd.

#### 1. Operation Plan for the Current Fiscal Year

##### **(1) Expanding Scale via M&A and Demonstrating Efficiency of Integration**

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

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

##### **(2) Introducing Foreign Shareholders to Strengthen Capital Structure and Boost Business Competitiveness**

The introduction of foreign shareholders, New Bridge Capital and Nomura, has led to more internationalized composition of the company's shareholders, strengthened its financial structure, and boosted its capital adequacy ratio. In the future, it will join hands with foreign partners in exploring domestic and overseas markets, as well as enhance international business and management capability.

##### **(3) Strengthening Risk Management, Internal Control, and Management Capability**

The company will invite a number of noted international consultants to help us meet the requirements of Basel II Capital Accord, achieving management of credit and operational risks via internal ratings-based approach and advanced measurement approach, respectively, to attain optimal risk management. In the future, we will focus on the cultivation of quality clients and lowering of risk, by strengthening international credit ratings system and screening good clients.

##### **(4) Setting Up Complete System of Corporate Banking, Retail Banking, Wealth Management, and Assets Management**

- A. In reference to the functional responsibility system of international financial institutions, we will implement the system in coordination with each business group's operations.
- B. We will develop assets-management business for Chinese people worldwide.
- C. Under the premise of strengthened risk management, we will pursue steady business growth and upgrade the quality of client services.
- D. We will establish lending service network for Taiwanese businessmen worldwide and strengthen the provision of investment-banking related services to our clients.
- E. We will achieve reasonable and effective allocation of the short- and long-term funds of the financial holding firm.

## 2. Industry Conditions

### (1) Market Conditions

#### A. Consolidation is an inevitable trend

The government has announced that in the second-stage financial reform, it hopes to halve the existing domestic 14 financial holding firms via encouragement of mergers by the end of 2006, so as to strengthen their competitiveness. At the beginning of 2006, Chinatrust Financial Holding announced its investment in Mega Financial Holding, causing a stir in the financial market, which has sparked speculation for its possible exemplary effect on M&A among financial holding firms. The recent double-card debt turmoil has forced some banks with smaller market shares to withdraw from the retail banking market successively, a development which is expected to accelerate M&A among domestic banks this year.

#### B. Effect of Consumer Banking Crunch

Due to the effect of the double-card debt turmoil from the second half of 2005, the financial industry has become increasingly conservative towards unsecured personal loans, including credit card-, cash card-, and small-amount unsecured loans, which has impacted not only profit margins of financial businesses but also domestic consumption and economic growth.

In the face of the double-card bad-debt problem, banks resort to debt negotiation mechanism, formulating debt repayment plans for heavier debtors via negotiation, so as to liquidate bad assets, in compliance with fairness, justice, and the overall needs of the society. In the future, consumer banking will resume normal operation, away from cut-throat price competition, and with the acknowledgement of “users pay” principle, banks may resume annual-fee system, enhance the handling fees for merchants, and raise the minimum repayment amount every month.

#### C. Wealth management will have a fresh start after consolidation

With the increasingly pluralized and internationalized financial products, rich client groups have growing demand for assets management, notably Taiwanese clients and overseas Taiwanese businessmen who have formed as a client group with tremendously high demand potential.

Due to the advantage of cross selling after the promulgation of the Law of Financial Holding Firms in November 2001, wealth management has become a niche business for financial holding firms, prompting many banks to set up wealth-management department. Clients, however, often incurred loss for investments in complicated financial products, such as structured products, structured notes, and investment-type insurance policies, leading to numerous controversies. As a result, the regulator intervened to regulate the market. In July 2005, it promulgated “Noticeable Items for Banks in Handling Wealth-Management Business” and “Noticeable Items for Securities Firms in Handling Wealth-Management Business.” In addition, on November 5, 2005, it launched a wealth-management system, with the aim of having wealth-management operators understand the conditions of clients’ assets, so as to sell them products with risks commensurate with their individual conditions. They cannot sell overly complicated structured products to clients who are unable to reach the threshold. In response to the changes of the new system, in the future besides the pursuit of higher profits, operators should also carry out risk management faithfully, so as to protect the interests of clients.

#### D. Development of investment banking business

In order to cope with the trend of financial liberalization, internalization, and pluralized channels for fund raising by enterprises, the company has adopted the strategy to pluralize its profit sources, for which the development of investment-banking business is an essential component.

The business boasts extensive scope, including assistance to enterprises in floating corporate bonds, assistance to enterprises for share listing, assistance for corporate M&A, planning for conversion of debts to shares, floating of commercial papers, interest swaps, transfer of loans, assistance to municipal governments for floating public bonds, sales of various financial products to clients via professional wealth-management staffers, and acceptance of the entrustment of clients for management of various mutual funds and utilization of funds. With growing overseas investments among Taiwanese businessmen, exchanges between domestic and foreign financial products have become increasingly active and businesses of domestic enterprises have become more and more internationalized, which, plus the rapid accumulation of wealth among local people, have led to more pluralized and in-depth demand for wealth management in the market.

## E. Tapping Overseas Markets

This year many domestic financial operators intensified their deployment in overseas markets in unison, in order to boost the momentum for their operation and profit making. In view of the limited scale of the domestic consumer banking market, Chinatrust Financial Holding, for instance, will expand its development in overseas markets, zeroing in on the consumer banking markets in countries such as Indonesia and the Philippines, featuring consumption types similar to that of Taiwan. Cathay Financial Holding plans to tap both life-insurance and banking markets in China and Vietnam. Backed by the resources of Taipei Fubon Bank and Fubon Bank (Hong Kong), Fubon Financial Holding will spare no effort in developing businesses related to Taiwanese businessmen in Zhujiang Delta in Guangdong Province of China. According to the statistics of the Banking Bureau, Financial Supervisory Commission, domestic banks now boast overseas branches and representative offices totaling 117, including 25 in the U.S., the highest, followed, in descending order, by Hong Kong, Vietnam, Singapore, and China. Vietnam, Hong Kong, and China will be the main destinations in the global deployment of domestic banks.

### **(2) Trends of Development in the Financial Products**

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

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

## **3. Long term and Short term Business Development Plan**

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

Under the goal and the three strategies, the company has adopted a number of concrete measures, including:

### **(1) Expansion of operational scale via M&A to lower costs and increase business points**

Via business cooperation with Chang Hwa Bank, the company will achieve balanced development between corporate and retail banking businesses and become the domestic bank with the largest number of business points, including 270 on the island, the highest among peers, and nine overseas.

### **(2) Introduction of foreign capital to strengthen the composition of shareholders and capital**

After the introduction of the investments by New Bridge Capital of the U.S. and Nomura of Japan, the company will carry out close cooperation with the foreign partners to jointly explore domestic and overseas markets, in addition to the enhancement of the company’s international business and management capability, thereby bridging Taishin Holdings and the international financial market.

### **(3) Strengthening risk management, internal control, and management capability for a large-scale international financial institution**

The company will focus business development on the cultivation of quality clients and strengthen internal credit ratings system, so as to solicit good clients and lower risks.

#### **(4) Establishing complete systems for corporate banking, retail banking, wealth management, and assets management**

In reference to the functional responsibility system at international financial institutions, the company will implement the system with business groups as the units for business operation, and will endeavor to upgrade the quality of client services under the premise of balanced emphasis on risk management and business growth.

With the joining of international-class partners, in the future the company will focus its efforts not only on development of businesses in the domestic market but also on securities and financial businesses in the regional market. We have strong confidence to develop Taishin Holdings into one of the most internationalized financial groups in Taiwan.

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

### **1. Operation Plan for the Current Fiscal Year**

#### **(1) Retail Banking and Consumer Financing**

- A. Credit Cards
  - a. Providing differentiated benefits and services to satisfy the needs of different client groups.
  - b. Intensifying risk management to enhance assets quality.
  - c. Setting differentiated interest rates to strengthen competitiveness.
  - d. Developing new-function cards and young client groups to boost market shares.
- B. Cash Cards
  - a. Enhancing assets quality.
  - b. Providing optimal products to different clients according to their best benefits.
  - c. Operation and system reengineering.
  - d. Sophisticated regional management.
- C. Various Consumer Financial Products
  - a. Implementing the business strategy of "client segmentation," raising the outstanding loans of low-risk clients, and determining credit lines of clients according to their evaluated grades.
  - b. Instituting consumption-loan specialists at branches, fully exercising the client-service function of branch channels.
  - c. Standardizing back-office operational procedures, boosting the efficiency of the overall loan-extension working flow.
- D. Commercial Finance
  - Provision of quality corporate services and integrated e-commerce and e-payment services.
- E. e-payment products
  - a. Establishing the market share and profile transportation ticketing products.
  - b. Promoting Visa financial chip cards, increasing handling-charge incomes, and boosting product cross-sales.

#### **(2) Corporate and Enterprise Banking**

- A. Promoting the business for purchasing accounts receivables and letters of credit
  - Targeting mainly at the bank's credit extension clients, including their domestic and overseas companies, plus the overseas companies of other clients; purchasing their accounts receivables and letters of credit associated with their substantial trade business, in the hope of gradually expanding the client base
- B. Promoting trading-based and self-paying trade financing business
  - Cultivating quality and good-potential clients, offering OBU (offshore banking units) clients services of export/import financing, foreign exchange and credit extension, financial derivatives, secured letters of credit;

# III. Business Operations

actively promoting financing services for the bank's credit extension clients in their efforts to expand business in the greater Chinese community (Taiwan, Hong Kong, and Mainland China) and Vietnam; and actively increasing financial vehicles for flexible use by overseas Taiwanese businessmen, so as to boost the bank's handling charge income, diversify and lower credit extension risks, and push international financing business among the bank's credit extension clients, thereby making our OBU the fund manipulation and logistics center for overseas Taiwanese businessmen.

C. Intensifying domestic and overseas syndicated loan business and project consulting service satisfying clients' needs for syndicated loans and project financing. In addition to active solicitation of domestic and overseas syndicated loan businesses, actively striving for international syndicated loan businesses for the overseas subsidiaries of quality credit extension clients, so as to increase the handling charge income and interest income, as well as developing international markets with domestic enterprises jointly. Taking part in international syndicated loan projects for offshore subsidiaries of Taiwanese companies arranged by nonmainland Chinese financial institutions and their overseas branches.

D. Promoting e-commerce for corporate banking

Expanding corporate banking online service platform, adding e-Trade function, on top of the original inquiry and money transfer functions, and planning e-banking service for the Hong Kong branch, so that clients can inquire their account information at any time and carry out most trading activities on-line via the online service platform.

## **(3) Wealth Management and Trust**

A. Wealth Management

- a. Utilizing innovative wealth management planning system and emphasizing the "client-oriented" business concept to create comprehensive customized solution programs for clients.
- b. Enhancing the business and professional capabilities of financial consultants for servicing high-assets clients via persistent education and training.
- c. Actively recruiting experienced excellent financial consultants and helping them develop their business and professional capabilities to enhance their productivity.
- d. Deep cultivating high assets clients and developing comprehensive financial services tailored to their financial needs.

B. Trust

- a. Continuously promoting trust business for education and business startup of children.
- b. Developing pluralized securities trust businesses, actively boosting market share to obtain leading status in the market.
- c. Expanding life goal wealth management trust business, enhancing the added value of trust business and expanding the magnitude of product line.
- d. Actively soliciting money trust business of large corporate bodies.
- e. Actively soliciting custodianship business for domestic mutual funds and creating lasting fund-custodianship income.
- f. Actively developing excellently performing new series mutual funds, so as to achieve complete product lines and help investors realize maximum profit potential.
- g. Developing pluralized securities.
- h. Offering entrustors opportunities to buy secondary market products.
  - i. Expanding the magnitude of the product lines and platform for individual and collective accounts, so as to pluralize products.
  - j. Providing abundant mutual-fund product lines on the concept of assets allocation, and continuously introducing domestic and foreign mutual funds with excellent performance.
- k. Maintaining steady growth of assets under the management of mutual funds, and creating steady management income.
  - l. Developing agency business for foreign mutual funds.

## 2. Industry Conditions

### (1) Status of Market Supply and Demand and Growth Potential

In 2006, due to the rising interest rates, persistently high energy prices, threat of terrorist attacks, and the shadow of the new strain of bird's flu, growth momentum for both the domestic and foreign economies will slacken and competition in the financial market will intensify, driving down interest differential for loans and various charges. In addition, due to the implementation of the financial accounting standards No. 34 and the new underwriting system needs of corporate bodies for corporate banking products have changed, leading to change in the growth of the domestic corporate banking market. Meanwhile, the continuous outward transplantation of domestic industries has fostered the growth potential for international financing business. Therefore, domestic banks should actively develop new financial products to meet the needs of corporate clients and sustain their business growth, such as international financing for Taiwanese businesses, risk-hedging products, and financing related to M&A (merger and acquisition) among various industries, in the hope of stimulating growth in the domestic corporate banking market. Due to the continuation of the card-debt problem, conditions are unfavorable for the development of the domestic consumer banking market in the short term.

### (2) Future Trend

- A. Due to the financial problem and social concern triggered by the card debt problem, financial institutions will pay more attention to the balanced development among retail banking, corporate banking, and wealth management.
- B. Financial institutions will also emphasize risk management mechanism featuring precision technology.
- C. Financial institutions will develop differentiated products and services for different client groups.

### (3) Competitive Niches of the Bank

- A. The bank leads peers in the innovation and marketing of consumer financial products.
- B. In view of the supplementary advantages and conditions of the bank and Chang Hwa Bank, the two banks can step up cooperation in the future, to create high synergy.
- C. The bank possesses good management and responding flexibility.

## 3. Research and Development

### (1) R&D Achievements in the Recent Two Years

| R&D items   | R&D achievements  | Dates |
|---|---|-------|
| Credit-card payment benefits for golfing  | Provision of preferential golfing rates in cooperation with five major domestic golf courses  | 94/10 |
| Conversion of credit-card bonus points into cash-discount coupons at convenience stores | Card holders can convert 500 bonus points into NT\$30 cash discount coupon via Taishin ATM at 2,000 convenience stores island-wide.       | 94/07 |
| Credit-card designated installment payment function                                     | Taishin credit-card holders can utilize their existing cards to enjoy installment payment service without having to apply for a new card. | 94/06 |

### (2) Future R&D Plan

- A. Retail Banking and Consumer Financing
  - a. Develop credit card payment function and channels.
  - b. Develop credit card mobile payment function via handset
  - c. Develop third generation cash cards, "independent interest savings card."
  - d. Develop customized e-payment platform



# III. Business Operations

## B. Corporate and Enterprise Banking

- a. Establish strategic alliance with foreign banks for providing pluralized loan solution programs to Taiwanese businesses in mainland China.
- b. In line with the trend of pluralized financial products, develop structured loans via combination with new financial products, to further satisfy the needs of clients.
- c. In line with the trend of globalization, expand offshore banking and overseas business point services, so as to meet the needs of Taiwanese businesses for global deployment.
- d. Develop corporate assets management business; via self development or cooperation with foreign or domestic assets management companies, develop pluralized domestic and foreign financial products suited to investments by corporate bodies and offer them quality services, such as mutual funds, private equity funds, corporate trust, and domestic and overseas discretionary account operations.

## 4. Long term and Short term Business Development Plan

### (1) Retail Banking and Consumer Financing

#### A. Short-Term Business Development Plan

- a. Enhance contribution of clients and relationship and assets of business dealings.
- b. Provide persistent education and training, to strengthen the business and professional capabilities of financial consultants.
- c. Expand credit card merchant channel, such as convenience stores, and strengthen credit card payment function.
- d. Continue to develop differentiated benefits to satisfy the needs of different client groups and boost income.
- e. Deep cultivate businesses of existing clients according to their values.
- f. Develop versatile transportation ticket products.
- g. Segment and create Visa financial chip card client groups, different from credit card client groups.
- h. Develop consumer financial products and create product competitive edges.
- i. Establish unified credit risk rating system and strengthen capabilities for evaluation of various rating systems and risk management.
- j. Set up client centered debt negotiation mechanism to achieve a win-win outcome for clients and the company.
- k. Enhance average productivity of salespersons for small and medium enterprise business, focusing on the sales and expertise for three major products.
- l. Institute special staffers for small and medium enterprise business at the sales channels of the financial holding firm.

#### B. Long-Term Business Development Plan

- a. Boost market share for wealth management to 10%.
- b. Continue to develop new and pluralized trust businesses.
- c. Utilize segmented client group management to deep cultivate client needs and enhance client loyalty and marketing benefits.
- d. Continue to deep-cultivate existing channels to develop pluralized cooperative opportunities.
- e. Set up the optimal profit and risk model.
- f. Shift “product centered” business strategy to “client centered” strategy.
- g. Ascertain client needs via market survey and plan new products/new services/new functions, so as to create market segmentation.
- h. Carry out risk based pricing for different client groups.
  - i. Develop customized e-payment platform to provide the most valuable e-payment services to our clients.
  - j. Become the best debt negotiation team for unsecured loans in Taiwan.
- k. Develop e-commerce products to provide the most valuable e-payment services to small and medium enterprises.

**(2) Corporate and Enterprise Banking**

- A. Short-Term Business Development Plan
  - a. Comprehensive client marketing
  - b. Continue to introduce or develop new financial products, to meet the overall needs of clients.
  - c. Develop domestic peer and assets management businesses.
  - d. Take part in forums sponsored by international professional magazines to augment Taishin's profile in corporate banking market.
  - e. Strengthen risk management mechanism.
- B. Long-Term Business Development Plan
  - a. Win clients' trust with integrated marketing and deep-cultivated services, so as to augment clients' contribution.
  - b. Continue to inspect standard work flows of various corporate banking products to lower operational risks.
  - c. Intensify promotion of accounts receivables business and cash-management products, and provide loans and fund manipulation services to Taiwanese businesses in the greater Chinese market.
  - d. Step up the promotion of overseas businesses, actively strive for the establishment of Vietnamese branch, and cultivate overseas client groups.

**(3) Wealth Management and Trust Business**

- A. Short-Term Business Development Plan
  - a. Deep cultivate high assets clients, and develop comprehensive financial services to meet their various financial needs.
  - b. Develop pluralized securities.
  - c. Expand magnitude of product lines by developing products for collective and individual accounts.
  - d. Consolidate leading status for sales of securities.
  - e. Develop new products for segmented markets.
- B. Long-Term Business Development Plan
  - a. Actively recruit experienced excellent financial consultants and help them develop their business and professional capabilities to enhance their productivity.
  - b. Provide abundant mutual-fund product lines on the concept of assets allocation, and continuously introduce domestic and foreign mutual funds with excellent performance.
  - c. Maintain steady growth of assets under the management of mutual funds, and create steady management income.
  - d. Institute domestic and offshore tax planning specialists and establish strategic alliance.

**(4) Service Quality and Human Resources**

- A. Short-Term Business Development Plan.
  - a. Continue to promote ISO quality management and work-flow improvement.
  - b. Augment organizational efficacy and employee productivity.
  - c. Strengthen employee skills, enhance their productivity, and cut down employee turnover.
  - d. Promote "five-heart" grade service program to upgrade service quality and forge quality service oriented corporate culture.
- B. Long-Term Business Development Plan
  - a. Continue to discover, evaluate and train talents; lay the foundation for the sustainable development of the company via talent cultivation.
  - b. Strengthen performance management with equal emphasis on performance evaluation and development potential.
  - c. Employee vocational skill development plan.

## Taiwan Securities Co., Ltd.

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### 1. Operational Plan for the Current Fiscal Year

#### (1) Brokerage Business

In 2005, the company continued to score growth for brokerage business, boosting its market share to 5.24%, ranking third place in the market. In 2006, the company will endeavor to integrate resources of business points, enhance operational benefits, demonstrate new type services at business points, expand magnitude of wealth management business, and install integrated e-Service financial trading platform.

#### (2) Securities Dealership Business

In view of the possible slowdown in economic growth in 2006, the company plans to get hold of profit making opportunities via proper utilization of our own funds and rigorously carry out risk management to assure steady growth of profits. In addition, we will intensify exchanges between R&D department and trading department, so as to effectively integrate investment platform and upgrade quality of investments.

#### (3) Underwriting Business

Over the past years, the company has secured a leading status for underwriting business, in terms of both quantity and quality, among major domestic securities firms. In 2006, with both operators and clients having gradually become accustomed to the new underwriting system, the number of companies for IPO (initial public offering) is expected to increase over 2005. In the future, with the continuous positioning as an investment bank focusing on small and medium enterprises, the company will assist with our expertise quality companies with sound fundamentals and small and medium enterprises in niche industries to list their shares on the centralized and over the counter markets and provide them tailor made financial planning. In addition, we will integrate resources of the financial holding firm to develop large-scale cases for fund raising, thereby making us a partner to business groups. In order to secure our leading status in the market, in line with the market trend we will develop assets-based securities, so as to increase the depth of our product lines. Meanwhile, via the methods of constant education/training and seminars, we will intensify knowledge management and upgrade the quality of our personnel, so as uphold our marketing competitiveness.

#### (4) Agency for Stock Affairs

The market for stock affair agency has become increasingly mature and competitive. However, via active integration of the resources of the underwriting department and the Corporate Banking Group of Taishin Bank, the company will endeavor to solicit clients with the offering of integrated niche services, so as to attain the goal of increasing the number of companies and shareholders for stock affair agency business.

#### (5) Bond Business

The company will develop its bond business in pluralized directions. In addition to offering clients good services for bond trading, the company also provides corporate clients the best service for fund raising in the domestic and overseas bond markets. With the pluralized development of investment vehicles worldwide and the rollout of more and more fixed yield products, the company will dedicate to the development of interest rate- and bond-related derivative products and the business of securitized products, so as to provide clients the best pluralized services.

#### (6) Derivative Products

In 2005, due to the languid trading in the capital market, willingness among investors to engage in the warrant market dropped. Under the premise of maintaining its gross margins, Taiwan Securities endeavored to uphold its existing market share and volume for warrant issuance, made investments actively, and rigorously carried out risk management, enabling its profits to maintain steady growth.

#### (7) Entrustment Business

In order to satisfy the needs of clients for investment in various domestic and foreign securities, the company has dedicated to the installation of integrated product platform, offering investors a channel to invest in various overseas financial products, including mutual funds, stocks, and other securities. In the future, we will actively increase our

offerings and set up a more close knit and complete cross border service channel for financial products, so as to satisfy the investment and wealth-management needs of clients via the provision of more pluralized products. To address the need of investors for investing in the domestic market, the company will actively develop various investment products and provide clients with various investments information via the CRM mechanism and the support of the R&D team of Taiwan Securities Investment Advisory Co., Ltd.

## 2. Industry Conditions

Since the fourth quarter of 2005, foreign capital has gradually returned to the Taiwanese market, enabling the TAIEX index to hit new high in the year at year end. Looking ahead in 2006, the current of M&A among financial holding firms will persist and the securities-market system will link up with the international market further. In the face of the implementation of the financial accounting standards No. 34, cross Taiwan Strait political turbulence, soaring oil prices, and the threat of bird's flu, the market is expected to become increasingly competitive. Confronted with the rigorous ordeal, securities firms must reflect deeply how to cope with the challenges of outflow of industry funds and irrational price competition. Except joining financial holding firms or organizing strategic alliances, securities firms still have to cultivate their individual features and business niche and continue to internationalize their operations, so that they can achieve sustainable development in the highly competitive market in the future.

## 3. Research and Development

### (1) Research and Development Achievements

In 2005, the company continued to issue various derivative products, such as equity linked notes and warrants, including 72 kinds of call and put warrants, with accumulated issuance value topping NT\$2.354 billion, ranking third place among the peers, a full manifestation of our R&D achievements.

### (2) Research and Development Plan

Currently, gross margins for investing in many derivative products are not high due to taxation problem, which also block the issuance of many new products. As a result, in addition to investments in and development of existing financial products, Taiwan Securities has also been actively communicating with the regulator, in order to effectively solve the taxation problem, so that the company can expand the magnitude of its investments in and risk hedging operation for derivative products.

## 4. Long term and Short term Business Development Plan

### (1) Short-Term Business Development Plan

- A. Brokerage Business: The 2006 Business Development Plan lists several items for the development goal and direction of the business.
  - a. Offering new type services at business points, via development of sophisticated business points and planning of new type concept outlets.
  - b. Expanding the magnitude of wealth management business, via integration of resources under Taishin Financial Holding.
  - c. Implementation of e-Service via installation of e-Service platform and further strengthening of e-trading function.
- B. Derivative Product Business: Negotiation and communication with the regulator for solving the taxation problem.
- C. Bond Business: Expanding the product line of interest rate and bond derivatives, offering clients various fixed yield investment vehicles.
- D. Entrustment Business: Actively building up the front-, middle- and rear-end trading system platform and CRM system, so as to provide client more complete services for trading of financial products.

# III. Business Operations

## (2) Long-Term Business Development Plan

- A. Brokerage Business: There are several key points for the long-term brokerage business development plan.
  - a. New type services for business points: the formation of wealth management securities firm.
  - b. Continuing expansion of the magnitude and depth of wealth management business.
  - c. Improvement and innovation of e-Service: electronic trading for overseas markets and development of experience platform for wealth management financial products.
- B. Derivative Product Business: Stepping up the contact with overseas markets, engaging in related research, and formulation of plans for investment in overseas derivative markets.
- C. Bond business: Actively stepping into overseas markets, increasing trading in overseas bonds, and introducing non NT dollar fixed yield products, so as to provide clients multiple currency-denominated investment vehicles.
- D. Entrustment Business: Further increasing transaction items and markets, and providing clients pluralized quality financial products.

## Taishin Bills Finance Co., Ltd.

### 1. Operating Plans for the Current Fiscal Year

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

#### (1) Credit Extension

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

#### (2) Trading Business

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

#### (3) Information Technology

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

#### (4) Management

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

**(5) New Financial Products**

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

**(6) Others**

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

**2. Industry Conditions****(1) Review of International and Domestic Economic Situation**

Since the fourth quarter of 2005, situation of domestic consumer prices and employment, critical for domestic consumption, has continued to improve. Meanwhile, despite contraction of the nation's trade surplus in the first three quarters of 2005, due to lower export growth than import growth, decline in the trade surplus has been improved since the third quarter, owing to marked upturn in export growth and import slowdown. In the aspect of investments, the nation's persistently low prime lending rates have stimulated enterprise investments, due to the low interest burden for funds. The various promising factors have created a rosy outlook for the economy.

On the international front, related economic statistics show that despite soaring international energy prices, major economies, such as the U.S., Europe, and Japan, managed to score steady growth. In 2005, surge in foreign trade surplus and forex reserves of China has fostered strong pressure on renminbi to reevaluate. The development of cross Taiwan Strait trade and Taiwanese investments in China will hinge on changes in China's economic policy.

**(2) Review of the Financial Market**

Along with the economic upturn, in order to stem overheated realty markets and inflation, central banks in the U.K., Australia, and the European Central Bank (ECB) haven't changed their policy of continuous interest rate hikes. By February 2006, the Fed Fund Rate had advanced to 4.75%.

In view of the moderate recovery strength of Taiwan's economy and the moderate scale of Inflation, our Central Bank of China still stuck to the policy of hiking interest rates at gradual pace and resorted to open market operation to induce short term interest rate on the money market to climb to 1.5% as of the end of 2005, up from 1.2% at the beginning of the year, with its pace of interest hike lagging behind the U.S. by one quarter at a scale only half of the latter's.

**(3) Financial Innovation on the Rise**

Thanks to the push by the regulator and operators, qualifications for bills finance firms to engage in the business of derivative products have been relaxed. On August 12, 2005, the regulator promulgated "Measures Governing Investments by Bills Finance Firms in Bonds and Equity Products," allowing bills finance firms to engage in various products in the capital market. The Taipei Bills Finance Association will also actively plan the opening of various new businesses, including foreign currency denominated bills, foreign currencies, and foreign bonds. Furnished with the advantage in taxation burden, the assets based securities attracted substantial interest from investors. As the first securitized product issued in the form of short term ABCP (assets based commercial paper), the trust bond assets based commercial paper with specific targets of Taishin Bank was floated on November 14, 2005, whose business potential needs further cultivation.

**(4) Outlook of Supply and Demand**

The Directorate General of Budget, Accounting and Statistics, under the Executive Yuan, predicts that consumer price index will rise 1.71% in 2006, much lower than the original expectation. However, judging from the interest for one year time deposits, real interest rates remain low, as a result of which further interest hikes by the CBC is expected. The interest rates will still be raised gradually, at a scale commensurate with CPI growth. Interest rate hikes have an adverse effect on bills finance firms, as shrinking interest differential will cut into the yields of their bills holdings. Immersed in excess idle funds, banks resort to low interest rates to push loans, squeezing the needs for the issuance of short term bills, which may also lead to contraction in income from handling fees. Bills finance firms will have to offset erosion in their profits with other capital gains.

With the economy picking up moderately, political disruption diminishing, and funds flowing in, the Taiwanese stock market advanced at a moderate pace early this year, gradually strengthening the confidence among investors. We plan to properly boost our position for investments in convertible bonds, so as to obtain higher capital gains. For long term fixed yield bonds, we need to carefully observe the flow of funds and engage in periodic investments so as to control risks.

# III. Business Operations

## 3. Research and Development

- (1) We will develop the certifying, underwriting, brokerage, and dealership business of ABCP (assets-based commercial papers), in the hope of expanding the sources of steady bills supply and profits, offering more flexible fundraising channels to enterprises, and increasing participation in the money market, so as to provide comprehensive services to our clients.
- (2) The company will assist the regulator in carrying out the feasibility study for the establishment of U.S. dollar-denominated money market, in order to help clients achieve more flexible fund allocation, invigorates the market, and increase participation in the money market.
- (3) The company will research and develop equity based financial products, in order to pluralize our offerings and diversify risks deriving from concentration on interest related products, so as to boost our profits.
- (4) The company will research and develop credit based financial products. In addition to carrying out adequate risk management works in advance via intensified credit investigation, diversified credit extension, and restriction on individual credit line, the company can take advantage of credit derivative products to avoid credit-extension risks.

## 4. Long term and Short term Business Development Plan

### (1) Short term goals

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

### (2) Medium term goals

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

### (3) Long term goals

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

## Taishin Asset Management Co., Ltd.

### 1. Operating Plans for the Current Fiscal Year

The company's vision is to become the most outstanding and trustworthy asset management firm. Although the company is yet small in scale and its short-term goal is to dispose only of the Taishin Bank's bad debt, the aspiration of its management is to become the most outstanding, most trustworthy AMC.

- (1) The company's profit target is to achieve the same level of profit as other major enterprises under the holding company.
  - A. Continued disposition of bad debt purchased from the Taishin Bank.
  - B. The purchase or commissioned disposition model will be used depending on Taishin Bank's progress in disposing of its bad debt.



- C. Solicitation of management and disposition of the assets of asset management companies that have purchased bad debt.
- D. Purchase of part of the bad debt of other banks and, depending on the company's financial situation, participation in the purchase of bad debt on the market.

## 2. Industry Conditions

Due to the near exhaustion of domestic corporate debts, asset management companies have gradually shifted their bidding targets from corporate debts to consumer-banking debts. Statistics show that during the period from early November to early December, 2005, eight banks sold nine batches of bad debts via public bidding, majority of which were unsecured cash and credit card debts, and only one bank offered corporate debts. In response to the market change, asset management companies will actively bid for consumer banking bad debts. Moreover, asset management companies can exercise a more active function by taking advantage of its ample fund and manpower to participate in corporate restructuring, thereby contributing to domestic financial and corporate reform.

## 3. Long term and Short term Business Development Plan

### (1) Purchase of Non performing Loans

- A. Continued disposal of bad debt purchased from Taishin Bank.
- B. Cooperation with other companies in bidding for bad assets. This will increase business sources on the one hand, while providing an understanding of the price evaluation model used by other companies, their asset management know-how, and their planning of returns on the other.
- C. Purchasing by price negotiation. The Company will cooperate with other private AMC firms in individual projects, using the choice of projects to gain an easier grasp of capital planning, risk evaluation, and investment results.
- D. Establishment of a team to focus on bidding for NPL assets secured by land in the Greater Taipei area, and expansion of the land development business through the arrangement of this debt.

### (2) Agency Business

- A. Continued service as agency for the disposition of the Taishin Bank's NPLs.
- B. Continued service as agency for the disposition of the Taishin Bank's idle assets.
- C. Continued service as agency for the collection of bad debts for enterprises related to the Taishin Holdings.
- D. Pursuit of the management and disposition of bad assets of asset management companies that have already been purchased.

### (3) Long-term Business Development Plans

Other business items will be developed in line with the purchase of bad assets: price assessment services, real estate consulting, leasing, and land development.

## Taishin Marketing Consultant Co., Ltd.

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### 1. Operating Plans for the Current Fiscal Year

- (1) Establishment of business units in secondary towns and cultivation of customers there.
- (2) Creation of innovative marketing methods to increase sales channels and expand market share.

### 2. Industry Conditions

Current business locations enjoy the advantage of having a banking brand, and they thus concentrate mainly on serving existing customers and providing service channel sales. In the future, the Company will promote direct sales, an operating strategy which will lower fixed unit costs and expand the development of the customer base.

## 3. Long-term and Short-term Business Development Plan

### (1) Short-term Development Plan

The Company will set up business locations in prosperous second-class towns, and at suitable locations will operate together with automated ATM service areas. This operating strategy will lower unit fixed costs, have the advantage of expanding the scope of customer development, and will increase product market share.

### (2) Long-term Development Plan

The marketing network will be expanded and integrated, with the Company first setting up business locations to develop the market in places with good potential, and, when sufficient operating scale is achieved, will apply for the establishment of branches to serve the public.

## Taisin Venture Capital Co., Ltd.

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### 1. Operating Plans for the Current Fiscal Year

In 2006, the company plans to invest in another five companies or take part in capital increment plans of its invested companies, with projected investments reaching NT\$270 million, of which NT\$100 million has been committed. In the year, the company will also step up the divestment of its shareholdings and carry out liquidation of its assets, which is expected to be completed within the year and enable the company to collect NT\$45.8 million of fund. Meanwhile, after the government expands the investment scope of venture capital firms, the company will actively invest in the stocks of listed companies with undervalued share prices and promising business outlooks, so as to boost the profit making opportunities of the company. To fund the aforementioned plans, the company intends to carry out capital increment of NT\$250 million in the second half of 2006.

### 2. Industry Conditions

Judging from the overall development trend for global industries, high tech industries will remain the mainstream of industrial development in the future; but the market slump of the past few years has caused under valuation of numerous enterprises with high growth potential, and only long term deployment of venture investment will be able to provide a firm grasp of the opportunities presented by long term regional and industrial growth.

Taiwan's overall corporate competitiveness is strengthened by the industrial cluster effect, and investment in Taiwanese companies or Chinese companies overseas can spur their growth and investment in Taiwan and bring in substantial returns. The field of investment that the Company plans to establish will be focused primarily on high tech industries, with investment in high tech industries in Taiwan accounting for 80% of overall investment.

### 3. Research and Development

The Company carries out investment in accordance with the stipulations of the Scope and Guidelines for Venture Capital Industry. The scope of venture investment contained in the Scope and Guidelines pinpoints primarily technology enterprises, other venture investment enterprises, general manufacturing enterprises, and service industries. For this reason, the Company's R&D work is limited to the industries and enterprises given above and individual company projects. Investment is undertaken only after possible industrial and company risks are studied and the feasibility of the project submitted.

Venture investment is the vanguard of the corporate financing business, with new start-ups having good potential first being pinpointed, capital loans then being provided by commercial banks, and stock underwriters then providing guidance for listing on the TSE or OTC markets, thereby bringing greater benefits of integration to the holding company. With excessive production by global industries over the past five years and the prices of technology shares being generally low, venture capital firms worldwide have been seeking new industrial directions. In Taiwan, the venture

capital association has contacted the government authorities on numerous occasions about the business restrictions that are imposed on venture capital enterprises, and once the government relaxes these restrictions the Company will vigorously seek out TSE- and OTC-listed Taiwanese companies that have undervalued stocks but good business prospects for investment with the aim of increasing profit opportunities.

#### 4. Long term and Short term Business Development Plan

In its short term business development the Company will continue cooperating with Taishin Holdings Wholesale Banking Group to increase the screening of investment cases, and will invest in companies with cash income above 12% so as to increase the Company's annual cash flow. Once the government further opens up the scope of venture investment, the Company will also work vigorously to pinpoint TSE- and OTC-listed companies that have undervalued stocks but good business prospects for investment, so as to boost profit opportunities.

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

## Chung Hwa Bank Co., Ltd.

### 1. Industry Conditions

#### (1) Status of the Financial Industry

Following the implementation of the "Law of Financial Holding Firms" on November 1, 2001, the Ministry of Finance instantly started to accept applications for the set-up of financial holding firms and approved the formation of 14 financial holding firms during the period from December 6, 2001 to January 2, 2003. With the completion of the first stage financial reform, the government began to push the second-stage reform from late October 2004, aiming to achieve four major goals:

- A. having three financial institutions at least boost their market shares over 10% by the end of 2005.
- B. cutting the number of state owned financial institutions to six by the end of 2005.
- C. halving the number of financial holding firms by the end of 2006.
- D. having at least one financial institution introduce foreign participation in its management or list their shares overseas by the end of 2006.

Under the trend of financial liberalization and internationalization, plus overly homogeneous features of their operations, domestic banks are confronting even more rigorous challenges. Therefore, they should accelerate organizational restructuring, intensify risk management, emphasize corporate governance, and actively enhance the ratio of handling fees in their revenues via the development of new financial products, so as to upgrade their operating efficiency and international competitiveness.

#### (2) Development Trend of the Financial Industry

- A. development in the direction of internationalization and liberalization under the WTO framework.
- B. M&A among peers and cross industry integration.
- C. accelerated march into the Chinese market to service Taiwanese businesses and support their further development.
- D. emergence of online banking as a mainstream trend.
- E. provision of customized services, integrated services, and wealth management services via cross selling.
- F. enhancing ratio of handling fees in revenue and satisfying risk hedging and financial planning needs of top notch clients via the launch of innovative financial products.

## 2. Research and Development

### (1) Short Term Business Development Plan

Developing and improving financial products, enlivening fund utilization, and increasing handling-fee income, so as to boost profits.

### (2) Long Term Development Plan

Intensifying development and promotion of profit-making products, strengthening service channels, expanding overseas business, stepping up personnel cultivation, and boosting marketing efficacy.

## II. Market and Business Conditions

### Taishin Financial Holding Co., Ltd.

#### 1. Market Analysis

##### (1) Qualitative Changes in the Market

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

##### (2) Major Competitors in Domestic and Overseas Markets

There are currently 14 financial holding companies operating in Taiwan, and each of the major competitors has its own operating characteristics. Cathay Financial Holding Co. Ltd, Fubon Financial Holding Co. Ltd., Chinatrust Financial Holdings Co. Ltd., First Financial Holding Co., and Hua Nan Financial Holdings Co. Ltd. are all strong competitors in the financial banking industry.

The main overseas competition comes from American and European banks such as Citibank and HSBC. Japan too has passed a financial holding company law and related regulations, and has set up a number of holding companies; but these companies are burdened by bad debt and other operating encumbrances, and do not yet constitute a threat to Taiwanese companies. American and European holding companies, with their relatively mature operating models, product lines, and marketing, pose more serious challenges to Taiwan's financial holding companies, especially following the island's accession to WTO membership.

#### 2. Competition Strategy

##### (1) Expanding Business Territory and Creating Synergies

Use of M&A and cross industry alliances: 1. Expansion of operating territory and creation of business opportunities; 2. Cross industry operation to heighten asset management capability, profitability, and rate of return; 3. Creation of business integration and enhancement of marketing efficiency; and 4. Establishment of an economic scale of operation to lower fixed unit costs.

##### (2) Strengthening of Operations and Strict Control of Risk

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

**(3) Reinforcement of Products and Full Services**

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

**(4) Customer Orientation and Professional Division of Labor**

In depth management of customer data and differentiation of customer categories, adoption of an orientation toward customer needs, development of integrated complementary products suitable for individual customer groups, establishment of exclusive business teams for different customer groups, training of business personnel in complete product know-how, and provision of customers with one-stop-shopping financial services.

**(5) Reinforcement of Human Resources and Cultivation of Manpower**

Implementation of on the job training and job rotation to enhance the quality of Company staff, cultivation of personnel, and accelerated promotion of the rate of use of automated equipment to save on personnel costs. Enhancement of the company's image, and cultivation and attraction of first-rate international financial specialists are the main purposes.

**3. Competitive Niche****(1) Integration of Service Channels**

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

**(2) Provision of a Diversified Product Range**

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

**(3) Harmonization of Cultures**

Differences in corporate culture can be exploited to stimulate even greater power. The Company will hold firmly to a consistent customer-centric attitude in providing clients with friendly, professional consultation services.

**4. Favorable and Unfavorable Prospects****(1) Favorable Factors**

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

**(2) Unfavorable Factors**

- A. There are 14 financial holding companies in Taiwan and competition among them is intense, and there is concern about the high degree of similarity among their product development and packaging.
- B. There is a need for further integration of the marketing cultures of the various subsidiaries operating under the flags of financial holding companies.

### (3) Countermeasures

- A. Special attention to the deepening of customer relationships, and innovation of products to satisfy the total needs of customers.
- B. Strengthening of the customer-oriented division of labor with the aim of providing customers with even better service.

## Taishin International Bank Co., Ltd.

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### 1. Market Analysis

The company has been actively establishing branches in major cities of the nation, possessing 105 business points throughout the island now. Meanwhile, in line with the trend of financial internalization, in addition to the establishment of the international financial business branch, the company has also set up the Hong Kong branch and a representative office in Vietnam.

In 2006, owing to pickup in interest rates, soaring energy prices, terrorist attacks, and shadow of new strain of bird's flu, growth strength of both domestic and overseas economies will slacken, aggravating competition in the financial market, which is expected to drive down interest differential and handling fees for loans. In addition, due to the implementation of the financial accounting standards No. 34 and the new underwriting system, needs of institutional clients for corporate banking products change, leading to change in the growth of the domestic corporate banking market. In addition, continuing outward transplantation of domestic industries fosters the growth potential for international financial business. Therefore, banks should actively develop new financial products to meet new financial needs of institutional clients, such as international financing for Taiwanese businesses, risk-hedging products, and services supporting M&A in various industries, so as to sustain their business development and future growth of the corporate banking market. The continuation of the card debt problem which erupted in 2005 will run counter to the development of the domestic consumer banking market in the short term.

### 2. Competitive Strategy

- (1) Due to the financial problem and social concern triggered by the card debt problem, financial institutions will pay more attention to the balanced development among retail banking, corporate banking, and wealth management.
- (2) Financial institutions will also emphasize risk management mechanism featuring precision technology.
- (3) Financial institutions will develop differentiated products and services for different client groups.

### 3. Favorable and Unfavorable Factors

#### (1) Favorable Factors

- A. The consumer financing crisis has prompted banks to emphasize the expertise for risk management.
- B. Most banks have retreated from the unsecured consumer financing market, alleviating competitive pressure in this sector.
- C. The government will open up specific money trust business for banks.

#### (2) Unfavorable Factors

- A. Policy control and interference have become increasingly rigorous, impeding the operation of free market mechanism.
- B. Some clients excessively expand their credits, dragging down the overall credit quality in the market.
- C. Overall, homogeneous offerings spark acute price competition among peers.
- D. Glut of funds and continuous interest hikes by the Central Bank of China depressed average interest differential.
- E. Outward transplantation of small and medium enterprises leads to erosion in the client base.

## Taiwan Securities Co., Ltd.

### 1. Market Analysis

In the first half of 2005, due to the impact of new underwriting system, withdrawal of foreign capital, and slackening economy, stock market trading volume contracted. However, in the second half, despite the impact of the double card debt turmoil, the stock market gradually picked up on the opening of various financial products and return of foreign investors. In 2006, under the government's mainland Chinese policy of "active management and effective opening," the overall market still faces many uncertain factors, highlighting the importance of pluralized investment vehicles and fostering the emergence of new risk hedging financial products as mainstream products in the market. Therefore, how to provide comprehensive wealth management services and pluralized products to meet the needs of consumers will be a development focus for securities firms in the future.

### 2. Business Target

In 2006, in addition to further enhancing the market share of channel agency, the company will also continue to cooperate with banking channels, in order to maximize benefits of cross-selling, and actively develop new products to meet the pluralized needs of clients. In addition, Taiwan Securities already obtain approval for engagement in wealth management business, further expanding its business scope. Regarding underwriting business, the company will continue to assist small and medium businesses to list their shares on the centralized or over the counter market. We will also actively integrate resources of the financial holding firm to develop large scale fundraising business, making the company a business partner of business groups. Regarding securities dealership, we will strictly manage risks and intensify exchanges with the R&D department and the trading department of the financial holding firm, so as to effectively integrate trading platforms and enhance trading performance. As a result, we deeply believe Taiwan Securities will continue to grow and expand in 2006.

### 3. Favorable and Unfavorable Factors

#### (1) Favorable Factors

- A. Market Development: In 2006, M&A in the Taiwanese financial market will flourish and the domestic financial industry will continuously expand the market for new financial products. Owing to the synergy created by the financial holding firm, the company has been rapidly expanding its market share by taking advantage of the edge of large scale complete services. In the future, we will intensify cross selling, which will make considerable contribution to the enhancement of the company's profits.
- B. Business Development: In 2005, the company obtained approval of the Financial Supervisory Commission to undertake wealth management business. Afterwards the company has combined the complete product and service resources of the financial holding firm to offer clients overall wealth management services, in the hope of establishing the company's brand image in the market. Meanwhile, the company also intensifies its own investment in overseas securities market to further pluralize its businesses, in the belief that only via pluralized business development can the company cope with the competition in the securities market in the future and satisfy the needs of clients.
- C. Pluralized Products: In 2006, the company will dedicate to the development of wealth-management business, plan customized structured products, and continue to apply for the rollout of various new financial products, so as to meet the needs of clients for pluralized investments and markets.
- D. Credit Ratings: In view of the adequate capital structure and level of the company, plus improvement in its risk management mechanism, continuing growth in brokerage points, and benefits from joining the financial holding firm, in December 2005 Fitch Ratings upgraded the credit rating for Taiwan Securities to A (tw), a move which will not only lower the company's costs for fund raising and application and issuance of financial products but also expand the space for the company's future business development.



## (2) Unfavorable Factors

Economic Factors: Despite recovery of the Taiwanese stock market in late 2005 due to the massive influx of foreign capitals, there still exists much uncertainty in the development Taiwan's general economy in 2006, which will affect investment willingness among domestic and foreign investors. In addition, due to the continuous M&A in the financial industry, competition among securities firms will pick up, further squeezing profits of securities firms. Under the situation, the company has to carry out pluralized business development, continue providing investors various new financial products to increase income sources, and intensify risk-management capability, in order to maintain agile management under the uncertain environment.

## Taishin Bills Finance Co., Ltd.

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### 1. Market Analysis

The Directorate General of Budget, Accounting, and Statistics predicts that annual growth rate of the consumer price index in 2006 will hit 1.71%, indicating a lower inflationary pressure than the original expectation. Real interest rate, represented by one year time deposits, though, remain too low, and, therefore, further interest rate hikes by the Central Bank of China is foreseeable. The scale of interest rate hikes will hinge on CPI growth rate and the hikes will be carried out in a gradual manner.

Interest hikes have an adverse effect on bills finance firms, as their yields from bills holdings will decrease along with contraction of interest differential. Due to flooding of idle funds, banks resort to low interests to push loans, squeezing the need for the issuance of short term bills and contracting income from handling fees, which erodes steady profits and brings about the need to compensate the loss with other capital gains.

Owing to moderate economic upturn, decrease of political interference, and abundant funds, the stock market has picked up moderately from the beginning of the year, considerably boosting confidence among investors. We plan to properly expand the investment position in convertible bonds to obtain higher capital gains. However, in comparison to investment in long term fixed yield bonds, we need to observe carefully changes in the holding of such bonds and invest in a periodic manner, so as to control risks.

### 2. Business Targets

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

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

### 3. Favorable and Unfavorable Factors

#### (1) Favorable Factors

- A. The strength of the economic recovery has slackened from last year, and the Central Bank has not readjusted its loose money policy by an appreciable amount; in the future the capital environment will remain stable for a time, and this will favor the development of the monetary market.
- B. The successive opening up of new businesses by the government increases the diversity of businesses in which bills finance companies can engage, and Taishin's vigorous inauguration of new types of business will enhance cross industry competitiveness.



- C. Fitch Ratings heightened its credit rating of Taishin Bills Finance in 2004, to an international long-term foreign currency rating of BBB and a domestic rating of twA. Among all the bills finance companies, this is an outstanding performance and it will have a positive impact on the Company's image and its business development.
- D. The integration of the resources of the Taishin Holdings facilitates the development of various businesses, and an increase in sources of both bills and capital can be expected.

## **(2) Unfavorable Factors**

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

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

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### **1. Market Analysis**

To get rid of the long-term deficiencies in the financial system, the government proposed the "Two Five Eight Financial Reform Program" calling for a reduction of the non performing loan ratio in the financial system to under 5% within two years; and with continuous efforts and vigorous NPL clearance by domestic financial institutions, the NPL ratio had been cut to 2.19% by the end of 2005, with a total amount of NT\$381.3 billion.

### **2. Business Targets**

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

The short-, medium- and long-term plans that the AMC has set to capture a foothold in this business are as follows:

#### **(1) Short-term goals**

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

#### **(2) Medium-term goals**

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

#### **(3) Long-term goals**

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

## 3. Favorable and Unfavorable Factors

### (1) Favorable Factors

The writing off of bad loans by financial institutions provides abundant business opportunities to the Company. Before the establishment of asset management companies, the disposal of bad loans by financial institutions had to be done through a lengthy judicial procedure. Now, under the government policy of vigorous disposal of bad loans by financial institutions, all of the financial institutions are seeking other channels for the disposal of bad debt; and asset management companies, under authority granted by law, can use more efficient purchasing procedures to help financial institutions to improve their NPL ratios with a short period of time. For this reason, asset management companies will play a vital role in the disposal of bad loans in the future.

Asset management companies can also perform a more active function by providing funding assistance and becoming involved in corporate reorganization for companies that are still operationally viable. This is beneficial to domestic financial and corporate reform.

### (2) Unfavorable Factors

Competitors are constantly increasing their efforts to capture the market for the disposition of bad debt. Under the government's strategy of forcing financial institutions to lower their NPLs, all of the financial institutions have faced sore trials; and asset management companies, with their effective model of bad debt purchasing and disposition, have attracted many financial institutions to use this channel to sell off their bad debt. At the same time, this situation has attracted the attention of other domestic and foreign companies, leading inevitably to increased competition. This will exert competitive pressure on the Company's future development.

With the Company's professional operating team, however, and with its understanding of the domestic market, it should be able to maintain a good operating performance in this increasingly competitive environment.

## Taishin Marketing Consulting Co., Ltd.

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### 1. Market Analysis

Competition in the financial industry will become increasingly acute in the future. With interest differential bound to shrink in the future, due to the emergence of consumer awareness, our business development in the future will focus on non-interest service income.

### 2. Business Targets

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

### 3. Favorable and Unfavorable Factors

#### (1) Favorable Factors

With banks being limited in the number of their business locations, and with their operating costs kept at a high level, the Taishin Marketing Consultant's operating strategy is to establish business locations in prosperous secondary cities and, where appropriate, to operate together with ATM automated service areas. This kind of operating strategy has the advantages of reducing unit fixed costs, expanding the development of the customer base, and increasing product market share.

#### (2) Unfavorable Factors

- A. With locations far from metropolitan areas, the recruitment and training of good personnel is difficult.
- B. In the direct marketing system, base salaries are relatively low and staff turnover is high.

## Taisin Venture Capital Co., Ltd.

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### 1. Market Analysis

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

### 2. Business Targets

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

### 3. Favorable and Unfavorable Factors

#### (1) Favorable Factors

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

#### (2) Unfavorable Factors

##### A. Decline of Taiwan's Economy, and Weak Investment Willingness

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

##### B. Cancellation of Tax Incentives for Venture Investment

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

# III. Business Operations

## Chung Hwa Bank Co., Ltd.

### 1. Market Analysis

Due to the strong economic growth momentum in North America and Asian countries, the latest data released by Global Insight, an economic forecast institution, show that in 2005 the global economy still scored robust growth of 3.5%. With the push of the global economic growth, pickup in the domestic manufacturing output, exports upturn, and accelerated execution of the government's expanded public construction projects, Taiwan's economy scored better performance quarter by quarter in 2005, racking up 4.1% growth for the entire year, compared with 6.1% in 2004.

### 2. Favorable and Unfavorable Development Factors

#### (1) Favorable Development Factors

- A. trend of interest hikes which is conducive to revenue growth for banks.
- B. growth of the global economy.
- C. favorable market environment for the development of wealth management business.

#### (2) Unfavorable Development Factors

- A. Interest rate hikes will boost the fund costs of banks and increase the risk of non performing loans.
- B. Other financial institutions are stepping into the wealth-management market.
- C. Uncertain cross Taiwan Strait relationship will impede the effort of domestic banks to service Taiwanese businesses in China.

## III. Corporate Responsibility and Ethical Behavior

In its operation, Taishin Financial Holding emphasizes not only business performance, but also the social responsibility of "feed what you get from society back into society." In activities in the fields of humanities and arts, social benefit, and environmental protection aiming to upgrade life quality and sustain life continuity, we not only make active participation and contribution, but also brighten and amplify our social feedback with good idea and innovation. In other words, Taishin Financial Holding donates not only its money, but also its "heart."

The headquarters building of Taishin Financial Holding was inaugurated at the end of 2005. We have arranged a number of events at the "Taishin Arts and Literature Center" on the second floor of the building, including "Personal Exhibition of Shih Kung Chung Hao" and "Exhibition of Finalist Works of Taishin Arts Award." The Taishin Arts Award was founded by Taishin Bank Cultural and Arts Foundation in 2005, giving the highest award and honor to the winners in the two fields of local visual and performing arts and thereby establishing eternal historical status for Taiwanese contemporary arts by putting them on historical record. In response to the government's effort to salvage the indigenous movie industry, Taishin Financial Holding also supports the indigenous film "Fishing Luck" by purchasing its tickets. Via substantial feedback to the society and communities, we hope to further realize the combination of arts, enterprise, society, and community, thereby promoting the Taiwanese contemporary arts in cooperation with the arts and cultural circle and boosting the interaction with communities. In 2005, Taishin Financial Holding continued to sponsor various high-class performing arts activities, such as the international-class musical "Phantom of the Opera" and the Bee Gees concert, ushering Taiwanese audience to international-class musical gala banquets. We also single-handedly sponsored the "Concert of Outstanding Chinese Musicians," and donated admission tickets to the "Association for Caring the Blind" and the "Sunshine Foundation," in the hope of helping the blind and facial-injury patients to experience beauty of the world via music. In addition, we sponsored a number of other events, including the concert of Vienna Philharmonic and 2005 Taipei Lantern Festival.

Regarding social benefit, in response to the campaign of the government for donating to the Asian Tsunami victims, Taishin Financial Holding made substantial donation to help the victimized areas carry out reconstruction works. The financial holding firm also converted e-Commerce to e-Charity and joined hands with its affiliate PayEasy.com to conduct “Caring Taiwan” series activities for the areas shattered by the 921 earthquake. By taking advantage of the corporate Internet resources and love, we successfully helped residents in the victimized areas develop independent local industries, including preserved plum fruit, plant dyeing, orange farming, and dried longan in Chungliao village and “Assam black tea” in Yuchih village, both in Nantou county. From 2005, under the auspices of “Caring Taiwan” series and the concept of “one village/township one year,” we also launched the fund-raising program for the “teenage karate team of Kuohsing village,” in the hope of helping children in the 921-earthquake inflicted areas to rebuild their life via athletic education. In the future, Taishin financial holding will continue to fulfill its commitment to the homeland of Taiwan via the “Caring Taiwan” series activities.

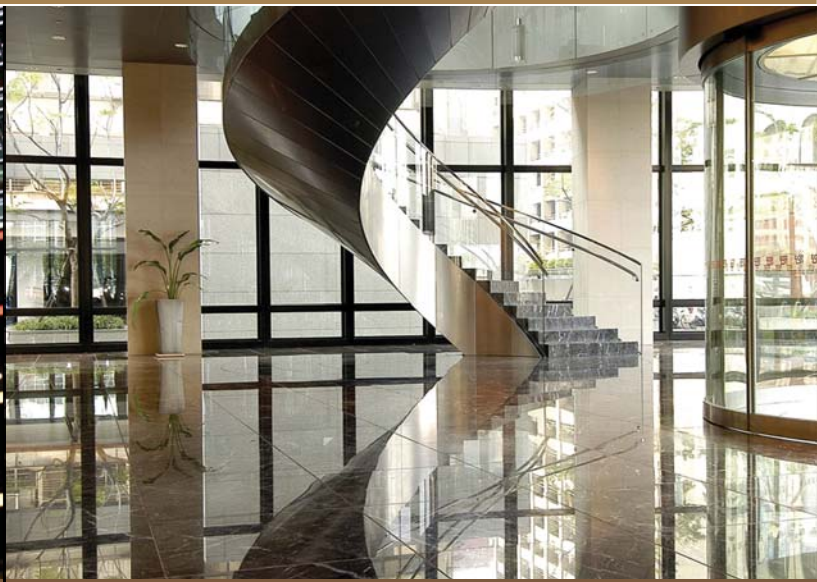
In order to feed back to the society, every year Taishin Financial Holding regularly mobilizes its banking, securities and other subsidiaries to sponsor “blood-donation loving” activities during summer and winter vacations, encouraging employees and clients to take part. In order to help learning-retarded children, subsidiary Taiwan Securities launches “Taiwan Securities Trio Charitable Program,” allowing investors to demonstrate their charity, at the same time when placing orders for stock trading. Moreover, Taiwan Securities held “Feedback Day of Taiwan Securities—Charitable Carnival for Inspiring Love and Life Strength” at the Etong Park of Taipei city, wherein Taiwan Securities employees demonstrated their infinite love and donated their income from charitable sales, along with donation from the company’s “Trio Charitable Program,” to “ROC Life Caring Association.”

Taishin Financial Holding also provided assistance to the holding of various financial and business management academic seminars, such as 2005 All People Wealth-Management Exposition, the third Financial Research Academic Seminar, 2005 International Economic, Financial, and Accounting Seminar of National Taiwan University, the Second Asiamoney Taiwan Forum 2005, APIEC (Asia-Pacific Innovation and Entrepreneurship Conference) in partnership with MIT (Massachusetts Institute of Technology) and Epoch Foundation, 2005 Summit Forum for Financial Celebrities, Daily Life Wealth-Management Exposition of the United Daily News Group. Taiwan Securities subsidized the ROC Securities Analyst Association to invite ACIIA (Association of Chartered International Investment Analysts) to undertake qualification certifications of securities analysts in Taiwan. We also invited the ACCIA chairman to hold explanation session for the certification and seek the opportunity to join ACIIA, so as promote the internationalization of the nation’s securities analysis business and upgrade the quality of securities analysts.

Taishin Holdings and its subsidiaries also sponsored related seminars on college campuses, including the 10th national college “financial workshop,” seminar on Internet technology and control reform, and national AIESEC meeting. Meanwhile, Taishin Financial Holding joined hands with College of Management, National Taiwan University, in the establishment of the “Taishin Financial Holding-NTU College of Management Research Scholar” scholarship, offering NT\$3.6 million of fund to encourage young college scholars to dedicate to teaching and research works, in the hope of cultivating next-generation renowned management teachers.

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

IV Execution of Fund Utilization Plan



Wisdom is Communication,  
sharing information to accomplish future needs.

## I. Content of Plan

Cash capital increment contained in the fund utilization plan has been executed completely.

## II. Status of Execution

Outlay of the fund: The fresh fund has been used to buy up B special shares of Chang Hwa Commercial Bank, in order to upgrade our values via joint growth and further boost the company's competitive edge, thereby accelerating the pace of internationalization.





Wisdom is Be your Partner,  
to satisfy your demand and create value.



V Financial Statements

## INDEPENDENT AUDITORS' REPORT

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

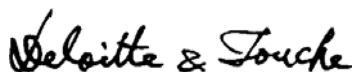
We have audited the accompanying consolidated balance sheets of Taishin Financial Holding Co., Ltd. ("Taishin Financial Holding") and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Taishin Financial Holding and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Chang Hwa Commercial Bank Co., Ltd., a consolidated subsidiary, which statements reflect total assets constituting 57.78% (NT\$1,357,541,056 thousand) of the consolidated total assets as of December 31, 2005, and the net operating revenues constituting 12.95% (NT\$11,050,021 thousand) of the consolidated net operating revenues for the period from October 3, 2005 (date of share acquisition) to December 31, 2005. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Chang Hwa Commercial Bank Co., Ltd., is based solely on the report of such other auditors.

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

In our opinion, based on the results of our audits and the audit report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taishin Financial Holding and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants and accounting principles generally accepted in the Republic of China.

As mentioned in Note 1, the consolidated financial statements as of and for the year ended December 31, 2005 included entities not previously included in the consolidated financial statements as of and for the year ended December 31, 2004. This change in reporting entity is in compliance with the amended Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements."

As mentioned in Note 3 to the consolidated financial statements, effective January 1, 2004, Taishin International Bank Co., Ltd. and Taishin Bills Finance Co., Ltd. have treated securities trading under repurchase or resell agreements as financing transactions in conformity with the Guidelines Governing the Preparation of Financial Reports by Public Banks and Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies.



March 1, 2006

### Notice to Readers

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

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

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

### CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

|  | 2005                   |                  | 2004                 |                  |
|--|------------------------|------------------|----------------------|------------------|
|  | Amount                 | %                | Amount               | %                |
| <b>OPERATING REVENUES</b>  |                        |                  |                      |                  |
| Interest income (Notes 2 and 36)   | \$ 59,967,641          | 70               | \$ 38,382,435        | 65               |
| Fee income (Notes 3 and 36)  | 12,347,028             | 15               | 11,436,393           | 20               |
| Net gains on trading bills and securities (Note 2)                       | 2,656,701              | 3                | 2,371,401            | 4                |
| Investment income recognized under the equity method<br>(Notes 2 and 13) | 27,652                 | -                | 694,244              | 1                |
| Other operating revenues   | 10,315,131             | 12               | 6,107,719            | 10               |
| <b>Total operating revenues</b>  | <b>85,314,153</b>      | <b>100</b>       | <b>58,992,192</b>    | <b>100</b>       |
| <b>OPERATING COSTS</b>   |                        |                  |                      |                  |
| Interest expenses (Note 36)  | 17,305,020             | 20               | 9,014,216            | 15               |
| Service charges  | 5,324,009              | 6                | 6,295,193            | 11               |
| Loss on trading bills and securities (Note 2)                            | 533,221                | 1                | 454,022              | 1                |
| Investment loss recognized under the equity method<br>(Notes 2 and 13)   | 74,417                 | -                | 59,639               | -                |
| Provision for loans and other loss (Note 2)                              | 36,919,237             | 43               | 6,850,400            | 11               |
| Other operating costs (Note 32)  | 2,884,839              | 4                | 1,044,650            | 2                |
| <b>Total operating costs</b>   | <b>63,040,743</b>      | <b>74</b>        | <b>23,718,120</b>    | <b>40</b>        |
| <b>GROSS INCOME</b>  | <b>22,273,410</b>      | <b>26</b>        | <b>35,274,072</b>    | <b>60</b>        |
| <b>OPERATING EXPENSES (Note 32)</b>                                      | <b>25,454,366</b>      | <b>30</b>        | <b>20,540,993</b>    | <b>35</b>        |
| <b>OPERATING (LOSS) INCOME</b>   | <b>( 3,180,956)</b>    | <b>( 4)</b>      | <b>14,733,079</b>    | <b>25</b>        |
| <b>NONOPERATING INCOME</b>   | <b>1,282,181</b>       | <b>2</b>         | <b>428,322</b>       | <b>1</b>         |
| <b>NONOPERATING EXPENSES</b>   | <b>601,298</b>         | <b>1</b>         | <b>367,617</b>       | <b>1</b>         |
| <b>(LOSS) INCOME BEFORE INCOME TAX</b>                                   | <b>( 2,500,073)</b>    | <b>( 3)</b>      | <b>14,793,784</b>    | <b>25</b>        |
| <b>ESTIMATED INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 32)</b>           | <b>1,317,673</b>       | <b>2</b>         | <b>( 3,489,222)</b>  | <b>( 6)</b>      |
| <b>CONSOLIDATED NET (LOSS) INCOME</b>                                    | <b>\$ ( 1,182,400)</b> | <b>( 1)</b>      | <b>\$ 11,304,562</b> | <b>19</b>        |
| <b>ALLOCATED TO</b>  |                        |                  |                      |                  |
| Taishin Financial Holding's shareholders                                 | \$ ( 2,913,562)        | ( 3)             | \$ 11,304,562        | 19               |
| Minority interest  | 1,731,162              | 2                | -                    | -                |
|  | <b>\$ ( 1,182,400)</b> | <b>( 1)</b>      | <b>\$ 11,304,562</b> | <b>19</b>        |
|  | <u>Before Tax</u>      | <u>After Tax</u> | <u>Before Tax</u>    | <u>After Tax</u> |
| <b>(LOSS) EARNINGS PER SHARE (Notes 2 and 35)</b>                        |                        |                  |                      |                  |
| Basic  | \$ (1.00)              | \$ (0.68)        | \$ 3.20              | \$ 2.43          |
| Diluted  | \$ (0.96)              | \$ (0.65)        | \$ 2.94              | \$ 2.24          |

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

(With Deloitte &amp; Touche audit report dated March 1, 2006)

# V. Financial Statements

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

DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

| ASSETS  | 2005             |     | 2004           |      |
|---|------------------|-----|----------------|------|
|   | Amount           | %   | Amount         | %    |
| Cash and cash equivalents (Notes 2 and 5)                       | \$ 73,113,723    | 3   | \$ 12,756,402  | 1    |
| Call loans to banks   | 85,689,007       | 4   | 4,298,347      | -    |
| Due from Central Bank (Note 6)                                  | 56,748,118       | 2   | 15,673,291     | 2    |
| Short-term investments, net (Notes 2 and 7)                     | 394,783,660      | 17  | 134,084,685    | 16   |
| Trading securities, net (Notes 2, 8 and 37)                     | 20,897,770       | 1   | 18,337,634     | 2    |
| Securities purchased under resell agreements (Notes 2, 3 and 9) | 23,947,026       | 1   | 23,065,981     | 3    |
| Receivables, net (Notes 2 and 10)                               | 147,453,312      | 6   | 105,252,058    | 12   |
| Margin loans receivable (Notes 2 and 11)                        | 16,156,365       | 1   | 15,306,766     | 2    |
| Prepayments   | 1,726,535        | -   | 1,119,265      | -    |
| Loans, net (Notes 2, 12 and 36)                                 | 1,373,836,629    | 59  | 475,913,701    | 55   |
| LONG-TERM INVESTMENTS (Notes 2 and 13)                          |                  |     |                |      |
| Long-term investments under equity method                       | 1,036,727        | -   | 5,642,016      | 1    |
| Long-term investments under cost method                         | 14,007,370       | 1   | 3,777,366      | -    |
|   | 15,044,097       | 1   | 9,419,382      | 1    |
| Allowance for valuation loss on long-term investments           | -                | -   | ( 44)          | -    |
| Long-term investments in bonds                                  | 1,702,973        | -   | -              | -    |
| Other long-term investments                                     | 1,114,568        | -   | 339,512        | -    |
| Long-term investments, net                                      | 17,861,638       | 1   | 9,758,850      | 1    |
| OTHER FINANCIAL ASSETS (Notes 2, 14 and 37)                     | 34,295,535       | 1   | 22,993,315     | 3    |
| PROPERTY AND EQUIPMENT (Notes 2, 15 and 37)                     |                  |     |                |      |
| Cost  |                  |     |                |      |
| Land  | 28,706,470       | 1   | 11,832,465     | 1    |
| Buildings   | 14,784,220       | 1   | 5,606,975      | 1    |
| Machinery equipment   | 8,210,232        | -   | 3,753,398      | 1    |
| Transportation equipment  | 991,129          | -   | 362,738        | -    |
| Miscellaneous equipment   | 1,937,840        | -   | 544,283        | -    |
| Leasehold improvements  | 1,562,572        | -   | 984,610        | -    |
|   | 56,192,463       | 2   | 23,084,469     | 3    |
| Accumulated depreciation  | ( 10,248,282)    | -   | ( 3,495,577)   | ( 1) |
| Prepayments for buildings and equipment                         | 1,187,111        | -   | 1,550,375      | -    |
| Property and equipment, net                                     | 47,131,292       | 2   | 21,139,267     | 2    |
| OTHER ASSETS (Notes 2, 3, 16, 33 and 37)                        | 55,776,774       | 2   | 5,100,609      | 1    |
| TOTAL   | \$ 2,349,417,384 | 100 | \$ 864,800,171 | 100  |

| LIABILITIES AND SHAREHOLDERS' EQUITY                                   | 2005                    |            | 2004                  |            |
|--|-------------------------|------------|-----------------------|------------|
|  | Amount                  | %          | Amount                | %          |
| <b>LIABILITIES</b>   |                         |            |                       |            |
| Short-term borrowings (Note 17)  | \$ 2,830,000            | -          | \$ 2,810,000          | -          |
| Commercial paper payable, net (Note 18)                                | 3,322,048               | -          | 9,053,196             | 1          |
| Securities sold under repurchase agreements (Notes 2, 3 and 19)        | 85,636,430              | 4          | 96,608,002            | 11         |
| Current portion of long-term payables (Notes 2 and 24)                 | -                       | -          | 7,181,325             | 1          |
| Due to banks (Note 20)   | 170,889,296             | 7          | 29,465,417            | 3          |
| Payables (Notes 2 and 21)  | 99,828,636              | 4          | 33,624,707            | 4          |
| Advance receipts   | 1,472,982               | -          | 544,442               | -          |
| Deposits and remittances (Notes 22 and 36)                             | 1,713,190,543           | 73         | 546,703,441           | 63         |
| Bank notes (Note 23)   | 64,350,000              | 3          | 29,850,000            | 4          |
| Corporate bonds payable, net of current portion (Notes 2 and 24)       | 38,934,195              | 2          | 21,026,930            | 2          |
| Appropriated loan fund   | 528,650                 | -          | 164,340               | -          |
| Long-term liabilities (Note 25)  | 2,496,603               | -          | 499,826               | -          |
| Other liabilities (Notes 2 and 26)                                     | 23,537,438              | 1          | 13,359,081            | 2          |
| <b>Total liabilities</b>   | <b>2,207,016,821</b>    | <b>94</b>  | <b>790,890,707</b>    | <b>91</b>  |
| <b>TAISHIN FINANCIAL HOLDING SHAREHOLDERS' EQUITY</b>                  |                         |            |                       |            |
| Capital stock  |                         |            |                       |            |
| Common stock (Note 28)   | 51,232,093              | 2          | 44,072,921            | 5          |
| Preferred stock (Note 28)  | 9,000,000               | -          | 4,000,000             | -          |
| Capital surplus (Notes 29 and 31)                                      |                         |            |                       |            |
| Additional paid-in capital in excess of par                            | 21,960,097              | 1          | 14,607,925            | 2          |
| Treasury stock transactions  | 2,483,718               | -          | 2,056,735             | -          |
| Retained earnings (Notes 30 and 33)                                    |                         |            |                       |            |
| Legal reserve  | 2,264,406               | -          | 1,133,950             | -          |
| Special reserve  | 40,534                  | -          | 10,508                | -          |
| Unappropriated earnings  | ( 2,688,496)            | -          | 11,535,815            | 2          |
| Unrealized loss on valuation of long-term investments (Notes 2 and 13) | -                       | -          | ( 44)                 | -          |
| Cumulative translation adjustments                                     | 10,919                  | -          | ( 40,489)             | -          |
| Net loss not recognized as pension cost                                | ( 867)                  | -          | -                     | -          |
| Treasury stock (Notes 2, 13 and 31)                                    | ( 3,024,369)            | -          | ( 3,467,857)          | -          |
| <b>Total Taishin Financial Holding shareholders' equity</b>            | <b>81,278,035</b>       | <b>3</b>   | <b>73,909,464</b>     | <b>9</b>   |
| <b>MINORITY INTERESTS</b>  | <b>61,122,528</b>       | <b>3</b>   | <b>-</b>              | <b>-</b>   |
| <b>Total shareholders' equity</b>                                      | <b>142,400,563</b>      | <b>6</b>   | <b>73,909,464</b>     | <b>9</b>   |
| <b>TOTAL</b>   | <b>\$ 2,349,417,384</b> | <b>100</b> | <b>\$ 864,800,171</b> | <b>100</b> |

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

(With Deloitte & Touche audit report dated March 1, 2006)

# V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

|   | Capital Stock |                 | Capital Surplus                             |                             | Retained Earnings |
|---|---------------|-----------------|---|-----------------------------|-------------------|
|   | Common Stock  | Preferred Stock | Additional Paid-in Capital in Excess of Par | Treasury Stock Transactions | Legal Reserve     |
| BALANCE, JANUARY 1, 2004  | \$ 37,561,133 | \$ 4,000,000    | \$ 12,943,198                               | \$ 576,011                  | \$ 404,436        |
| Convertible bonds converted to common stock   | 3,897,653     | -               | 3,248,253                                   | -                           | -                 |
| Taishin Financial Holding's stock held by subsidiaries, which were subsequently subscribed by subsidiaries' employees | -             | -               | -   | 229,587                     | -                 |
| Taishin Financial Holding's shares sold by subsidiaries   | -             | -               | -   | 926,368                     | -                 |
| Taishin Financial Holding's cash dividends received by subsidiaries   | -             | -               | -   | 324,769                     | -                 |
| Appropriation of 2003 earnings  |               |                 |   |                             |                   |
| Legal reserve   | -             | -               | -   | -                           | 729,514           |
| Dividends on preferred stock B - 6.05%  | -             | -               | -   | -                           | -                 |
| Employee bonuses  | 113,830       | -               | -   | -                           | -                 |
| Remunerations to directors and supervisors  | -             | -               | -   | -                           | -                 |
| Stock dividends - 6%  | 2,500,305     | -               | ( 1,583,526)                                | -                           | -                 |
| Cash dividends - \$1.2 per share  | -             | -               | -   | -                           | -                 |
| Translation adjustments on long-term equity investments   | -             | -               | -   | -                           | -                 |
| Net income in 2004  | -             | -               | -   | -                           | -                 |
| BALANCE, DECEMBER 31, 2004  | 44,072,921    | 4,000,000       | 14,607,925                                  | 2,056,735                   | 1,133,950         |
| Convertible bonds converted to common stock   | 465,127       | -               | 305,000                                     | -                           | -                 |
| Taishin Financial Holding's stock held by subsidiaries, which were subsequently subscribed by subsidiaries' employees | -             | -               | -   | ( 31,703)                   | -                 |
| Taishin Financial Holding's shares sold by subsidiaries   | -             | -               | -   | 152,485                     | -                 |
| Taishin Financial Holding's cash dividends received by subsidiaries   | -             | -               | -   | 306,201                     | -                 |
| Preferred stocks C  | -             | 5,000,000       | 10,000,000                                  | -                           | -                 |
| Appropriation of 2004 earnings  |               |                 |   |                             |                   |
| Legal reserve   | -             | -               | -   | -                           | 1,130,456         |
| Special reserve   | -             | -               | -   | -                           | -                 |
| Dividends on preferred stock B - 6.05%  | -             | -               | -   | -                           | -                 |
| Employee bonuses  | 237,650       | -               | -   | -                           | -                 |
| Remunerations to directors and supervisors  | -             | -               | -   | -                           | -                 |
| Stock dividends - 14.59%  | 6,456,395     | -               | ( 2,894,245)                                | -                           | -                 |
| Cash dividends - \$1.3 per share  | -             | -               | -   | -                           | -                 |
| Recovery of unrealized loss on valuation of long-term equity investments  | -             | -               | -   | -                           | -                 |
| Translation adjustments on long-term equity investments   | -             | -               | -   | -                           | -                 |
| Net loss not recognized as pension cost   | -             | -               | -   | -                           | -                 |
| Changes in holding percentage between subsidiaries  | -             | -               | ( 58,583)                                   | -                           | -                 |
| Effect from first-time consolidated entity  | -             | -               | -   | -                           | -                 |
| Equity investment in chang Hua bank   | -             | -               | -   | -                           | -                 |
| Net loss in 2005  | -             | -               | -   | -                           | -                 |
| BALANCE, DECEMBER 31, 2005  | \$ 51,232,093 | \$ 9,000,000    | \$ 21,960,097                               | \$ 2,483,718                | \$ 2,264,406      |

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated March 1, 2006)

## Retained Earnings

| Special Reserve | Unappropriated Earnings | Unrealized Loss on Valuation of Long-Term Investments | Cumulative Translation Adjustments | Net Loss Not Recognized as Pension Cost | Treasury Stock  | Minority Interest | Total          |
|-----------------|-------------------------|---|------------------------------------|---|-----------------|-------------------|----------------|
| \$ 10,508       | \$ 7,295,139            | \$ ( 44)  | \$ 33,757                          | \$ -                                    | \$ ( 5,284,890) | \$ -              | \$ 57,539,248  |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | 7,145,906      |
| -               | -                       | -   | -                                  | -                                       | 842,466         | -                 | 1,072,053      |
| -               | -                       | -   | -                                  | -                                       | 974,567         | -                 | 1,900,935      |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | 324,769        |
| -               | ( 729,514)              | -   | -                                  | -                                       | -               | -                 | -              |
| -               | ( 242,000)              | -   | -                                  | -                                       | -               | -                 | ( 242,000)     |
| -               | ( 189,709)              | -   | -                                  | -                                       | -               | -                 | ( 75,879)      |
| -               | ( 189,709)              | -   | -                                  | -                                       | -               | -                 | ( 189,709)     |
| -               | ( 916,779)              | -   | -                                  | -                                       | -               | -                 | -              |
| -               | ( 4,796,175)            | -   | -                                  | -                                       | -               | -                 | ( 4,796,175)   |
| -               | -                       | -   | ( 74,246)                          | -                                       | -               | -                 | ( 74,246)      |
| -               | 11,304,562              | -   | -                                  | -                                       | -               | -                 | 11,304,562     |
| 10,508          | 11,535,815              | ( 44)   | ( 40,489)                          | -                                       | ( 3,467,857)    | -                 | 73,909,464     |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | 770,127        |
| -               | -                       | -   | -                                  | -                                       | 192,466         | -                 | 160,763        |
| -               | -                       | -   | -                                  | -                                       | 251,022         | -                 | 403,507        |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | 306,201        |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | 15,000,000     |
| -               | ( 1,130,456)            | -   | -                                  | -                                       | -               | -                 | -              |
| 30,026          | ( 30,026)               | -   | -                                  | -                                       | -               | -                 | -              |
| -               | ( 242,000)              | -   | -                                  | -                                       | -               | -                 | ( 242,000)     |
| -               | ( 297,062)              | -   | -                                  | -                                       | -               | -                 | ( 59,412)      |
| -               | ( 297,062)              | -   | -                                  | -                                       | -               | -                 | ( 297,062)     |
| -               | ( 3,562,150)            | -   | -                                  | -                                       | -               | -                 | -              |
| -               | ( 5,751,993)            | -   | -                                  | -                                       | -               | -                 | ( 5,751,993)   |
| -               | -                       | 44  | -                                  | -                                       | -               | -                 | 44             |
| -               | -                       | -   | 51,408                             | -                                       | -               | -                 | 51,408         |
| -               | -                       | -   | -                                  | ( 867)                                  | -               | -                 | ( 867)         |
| -               | -                       | -   | -                                  | -                                       | -               | -                 | ( 58,583)      |
| -               | -                       | -   | -                                  | -                                       | -               | 471,398           | 471,398        |
| -               | -                       | -   | -                                  | -                                       | -               | 58,919,968        | 58,919,968     |
| -               | ( 2,913,562)            | -   | -                                  | -                                       | -               | 1,731,162         | ( 1,182,400)   |
| \$ 40,534       | \$ ( 2,688,496)         | \$ -  | \$ 10,919                          | \$ ( 867)                               | \$ ( 3,024,369) | \$ 61,122,528     | \$ 142,400,563 |

# V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2005 AND 2004  
(In Thousands of New Taiwan Dollars)

|   | 2005            | 2004          |
|---|-----------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                 |               |
| Consolidated net (loss) income  | \$ ( 1,182,400) | \$ 11,304,562 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities |                 |               |
| Provision for loans and other loss  | 45,180,158      | 6,961,338     |
| Reversal of valuation loss on assumed collaterals and residuals                         | ( 3,593)        | ( 49,536)     |
| Provision for (reversal of) decline in market value of short-term investments           | 12,739          | ( 13,512)     |
| Recovery of loans written off   | 3,453,187       | 2,521,027     |
| Depreciation and amortization   | 3,153,534       | 2,319,295     |
| Loss on sales and disposals of property and equipment                                   | 28,215          | 78,941        |
| Loss on asset impairments   | 82,640          | -             |
| Deferred revenue on loans receivable  | ( 33,287)       | -             |
| Investment loss (income) recognized under equity method, net                            | 46,765          | ( 634,605)    |
| Cash dividends distributed by equity-method investees                                   | 6,546,980       | 235,768       |
| Gain on sales of investments  | ( 255,958)      | ( 627,904)    |
| Permanent loss on long-term investments   | 117,313         | 90,201        |
| Deferred income tax (benefit) expense   | ( 13,281,530)   | 2,056,167     |
| Accrued interest compensation   | 12,883          | 90,941        |
| Net changes in operating assets and liabilities   |                 |               |
| Short-term investments for trading purpose  | 2,732,372       | ( 46,674,406) |
| Trading securities  | 5,342,789       | ( 5,992,727)  |
| Securities purchased under resell agreements  | 6,841,947       | ( 10,366,956) |
| Margin loans receivable   | ( 365,898)      | ( 1,463,110)  |
| Receivables and prepayments   | ( 1,807,535)    | 13,183,449    |
| Other financial assets  | 1,794,347       | ( 1,978,726)  |
| Other assets  | ( 4,727,388)    | ( 1,733,779)  |
| Payables and advances receipts  | 15,519,784      | ( 28,634,241) |
| Loans payable   | 587,018         | -             |
| Long-term payables  | ( 6,408)        | ( 55,752)     |
| Debit item for consigned trades   | 49,144          | 119,200       |
| Securities sold under repurchase agreements   | ( 17,196,399)   | 58,353,713    |
| Received guarantee deposits from securities   | ( 283,447)      | 1,229,818     |
| Payable for securities guarantee  | ( 325,434)      | 1,387,559     |
| Futures commission merchant's equity  | ( 12,725)       | -             |
| Other current liabilities   | ( 117,824)      | 128,190       |
| Other liabilities   | ( 5,124,647)    | 4,175,751     |
| Other   | ( 32,387)       | ( 344,271)    |
| Net cash provided by operating activities   | 46,744,955      | 5,666,395     |

(Continued)



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

### CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004  
(In Thousands of New Taiwan Dollars)

|   | 2005                  | 2004                  |
|---|-----------------------|-----------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                       |                       |
| (Increase) decrease in due from Central Bank                        | \$ ( 12,709,890)      | \$ 2,216,518          |
| (Increase) decrease in call loans to banks                          | ( 974,009)            | 866,633               |
| Increase in short-term investments                                  | ( 88,235,049)         | ( 36,740,071)         |
| Increase in loans (including delinquent loans)                      | ( 107,363,259)        | ( 123,092,953)        |
| Decrease (increase) in long-term investments                        | 6,937,495             | ( 275,018)            |
| Proceeds from sales of property and equipment                       | 591,492               | 651,038               |
| Purchase of property, equipment and deferred assets                 | ( 2,921,750)          | ( 2,470,152)          |
| Increase in refundable deposits                                     | ( 136,810)            | ( 2,047)              |
| (Increase) decrease in refundable collaterals                       | ( 2,115,266)          | 752,800               |
| Decrease (increase) in operating deposits                           | 435,000               | ( 390,000)            |
| (Increase) decrease in settlement funds                             | ( 55,171)             | 9,141                 |
| Proceeds from subsidiary's capital reduction                        | 39,870                | -                     |
| Other   | ( 26,694)             | 174,504               |
|   | <u>( 206,534,041)</u> | <u>( 158,299,607)</u> |
| Net cash used in investing activities                               |                       |                       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |                       |                       |
| Decrease in short-term borrowings                                   | ( 290,432)            | ( 1,891,000)          |
| (Decrease) increase in commercial paper payable                     | ( 6,125,395)          | 2,574,624             |
| Increase in long-term liabilities                                   | 1,996,777             | -                     |
| Increase (decrease) in due to banks                                 | 35,125,887            | ( 22,339,970)         |
| Issue of preferred stock  | 15,000,000            | -                     |
| (Redemption) issue of European Convertible Bonds                    | ( 7,181,325)          | 7,181,325             |
| Issuance costs of bonds   | ( 17,115)             | -                     |
| Issue of subordinated corporate bonds                               | 18,650,000            | 7,000,000             |
| Increase in bank notes  | 14,700,000            | 11,100,000            |
| Increase (decrease) in appropriated loan fund                       | 10,260                | ( 86,076)             |
| Increase in deposits and remittances                                | 143,851,512           | 126,748,193           |
| Increase (decrease) in guarantee deposits received                  | 39,820                | ( 4,418)              |
| (Decrease) increase in securities sold under repurchase agreements  | ( 6,847,368)          | 26,970,501            |
| Remunerations to directors and supervisors and bonuses to employees | ( 339,920)            | ( 265,570)            |
| Cash dividends  | ( 12,185,708)         | ( 4,710,034)          |
| Sales of treasury stock   | 646,857               | 3,012,986             |
| Cash paid to merge other company                                    | ( 36,836,768)         | -                     |
| Other   | ( 267,562)            | ( 2)                  |
|   | <u>159,929,520</u>    | <u>155,290,559</u>    |
| Net cash provided by financing activities                           |                       |                       |

(Continued)

# V. Financial Statements

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

YEARS ENDED DECEMBER 31, 2005 AND 2004  
(In Thousands of New Taiwan Dollars)

|  | 2005                 | 2004                 |
|--|----------------------|----------------------|
| CASH AND CASH EQUIVALENTS RECEIVED FROM MERGER   | \$ 26,813,919        | \$ -                 |
| EFFECT FROM FIRST-TIME CONSOLIDATED ENTITY   | 33,402,968           | -                    |
| NET INCREASE IN CASH AND CASH EQUIVALENTS  | 60,357,321           | 2,657,347            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR   | 12,756,402           | 10,099,055           |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | <u>\$ 73,113,723</u> | <u>\$ 12,756,402</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION  |                      |                      |
| Cash paid during the year  |                      |                      |
| Interest   | <u>\$ 25,863,757</u> | <u>\$ 8,687,331</u>  |
| Income tax   | <u>\$ 4,939,600</u>  | <u>\$ 370,821</u>    |
| NONCASH INVESTING AND FINANCING ACTIVITIES   |                      |                      |
| Convertible bonds converted to common stocks (including accrued interest compensation payable) | <u>\$ 700,128</u>    | <u>\$ 7,145,906</u>  |
| Treasury stock   | <u>\$ 443,488</u>    | <u>\$ 1,817,033</u>  |
| INFORMATION OF INVESTMENT IN CHANG HWA BANK'S PREFERRED STOCK B                                |                      |                      |
| Total investments  | \$ 36,844,375        | \$ -                 |
| Less issuance costs  | <u>( 7,507)</u>      | <u>-</u>             |
| Net cash paid  | <u>\$ 36,836,868</u> | <u>\$ -</u>          |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 1, 2006)

(Concluded)

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

#### 1. ORGANIZATION AND CONSOLIDATION POLICY

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

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

On October 3, 2005, Taishin Financial Holding acquired the private placement of 1,400,000 thousand shares of preferred stock B issued by Chang Hwa Commercial Bank Co., Ltd. ("Chang Hwa Bank"). The ownership interests with voting rights held by Taishin Financial Holding and subsidiaries amounted to 22.81% which allowed them to take over half of the seats in the board of directors of Chang Hwa Bank as of December 31, 2005. Thus, Taishin Financial Holding had controlling interest in Chang Hwa Bank.

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

|   |                  |               |
|---|------------------|---------------|
| Total price paid by Taishin Financial Holding and subsidiaries  |                  | \$ 36,844,375 |
| The fair value of Chang Hwa Bank's net assets acquired by Taishin Financial Holding and subsidiaries      |                  |               |
| Cash and cash equivalents   | \$ 26,813,919    |               |
| Due from banks and Central Bank   | 108,781,589      |               |
| Bill and securities purchased, net  | 190,375,130      |               |
| Loans, net  | 840,016,127      |               |
| Long-term investments, net  | 18,145,583       |               |
| Property and equipment, net   | 25,217,170       |               |
| Receivables and prepayments   | 36,850,822       |               |
| Other assets  | 22,314,313       |               |
| Securities sold under repurchase agreements   | ( 13,058,513)    |               |
| Due to banks  | ( 106,220,078)   |               |
| Deposits and remittances  | ( 1,022,635,589) |               |
| Bank notes  | ( 20,000,000)    |               |
| Payables and advanced receipts  | ( 50,219,874)    |               |
| Other liabilities   | ( 11,405,811)    |               |
| Fair value of Chang Hwa Bank's net assets prior to Taishin Financial Holding and subsidiaries' investment | 44,974,788       |               |
| Cash received by Chang Hwa Bank from issuing preferred stocks - B   | 36,560,493       |               |
| Fair value of Chang Hwa Bank's net assets after Taishin Financial Holding and subsidiaries' investment    | 81,535,281       |               |
| Less equities attributed to stockholders of preferred stock - A   | ( 6,275,753)     |               |
| Equities attributed to stockholders of common stock and preferred stocks - B                              | 75,259,528       |               |
| Multiplied by percentage of ownership interests acquired by Taishin Financial Holding and subsidiaries    | 22.81%           |               |
| Fair value of Chang Hwa Bank's net assets acquired by Taishin Financial Holding and subsidiaries          | \$ 17,168,136    | ( 17,168,136) |
| Difference between investment cost and fair value of net assets acquired (goodwill)                       |                  | \$ 19,676,239 |

# V. Financial Statements

As of December 31, 2005 and 2004, Taishin Financial Holding and subsidiaries have 17,633 and 9,969 employees, respectively.

Taishin Bank began preparations for its establishment as a commercial bank on October 4, 1990, and started its business operations on March 23, 1992. Taishin Bank provides customers with (a) general commercial banking services - commercial lending, foreign exchange transactions, installment and term loans, wire transfers, marketable security investments, receivable factoring, offshore banking business, etc.; and (b) various financial instruments - letters of credit, bankers' acceptances, checking and savings accounts, credit cards, derivative instruments, etc.; Taishin Real-Estate Management Co., Ltd. ("Taishin Real-Estate") was established in August, 1995 and its operations are audits and consultations of construction plans, contract witness, and assessments and trades of real estate, etc.; PayEasy Digital Integration Co., Ltd. ("PayEasy Digital"), established in April, 2000, provides advertising agent and data processing services; Taishin International Finance Co., Ltd. ("Taishin International Finance") was established in January, 1999 and its operations are import and export of foreign exchange, trade financing, guarantee and acceptance; Taishin Insurance Agency Co., Ltd. ("Taishin Insurance Agency") was founded in September 1996 and provides life insurance agent service. Taishin Insurance Agency acquired 97.6% equity interest of Taisin Non-Life Insurance Agency Co., Ltd. ("Taisin Non-Life Insurance") in 1999 and 100% equity interest of Taishin Insurance Brokers Co., Ltd. ("Taishin Insurance Brokers") in 2002.

Taiwan Securities was incorporated in October 1988, and was approved to establish 59 branches (including head office, Kaohsiung, Taichung, Ilan, Tainan, and etc.). Taiwan Securities' operations are security underwriting, brokerage, margin lending and security transfer services, and other operations approved by the relevant authorities. Taiwan Securities is approved to operate brokerage and dealing services related to futures from March 2004.

Taiwan Futures Co., Ltd. ("Taiwan Futures") began preparations for its establishment on March 1, 1997 and was approved by Ministry of Economic Affairs ("MOEA"), ROC on September 1, 1997 with registered capital stock of \$200,000 thousand. Taiwan Futures obtained the permission from Securities and Futures Bureau, Ministry of Finance, ROC on October 28, 1997 and began to provide brokers and consulting of futures transaction services on December 26, 1997.

Shin Ze Asset Management Co., Ltd. ("Shin Ze") began preparations for its establishment on May 9, 2002, and was licensed to operate on February 18, 2003. Shin Ze's operations are collection, evaluation, auction, and management of delinquent loans and business management advisory.

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

Taishin Bills Finance commenced the preparatory work relating to its formation as a bills finance company on April 1, 1997 according to the ROC Company Law, the ROC Banking Law, Rules Governing Bills Finance Companies and other regulations. As of January 19, 1998, Taishin Bills Finance obtained the permission to operate and commenced operations on March 5, 1998. Taishin Bills Finance is engaged in the following operations: brokerage and dealing in short-term bills and bonds; underwriting and certifying of, and providing guarantees and endorsements on commercial paper; brokerage of interbank loans between financial institutions; and other businesses approved by the Ministry of Finance ("MOF").

Taishin Asset Management Co. Ltd. ("Taishin AMC"), was approved to establish by MOEA on August 14, 2002 in accordance with the Company Law and other related laws, and obtained Business Certificate on August 27, 2002. Taishin AMC's operations are acquisition, evaluation, auction, and management of delinquent loans.

Taishin Marketing Consultant Co., Ltd. ("Taishin Marketing") was approved to establish on November 20, 1998. Its operations are investment and enterprising consulting, agent services, acquisition of accounts receivable, real estates and leasing.

Taisin Venture Capital Investment Co., Ltd. ("Taisin Venture Capital") was approved to establish on September 25, 2003. Its major operations are investments in start-up businesses.

Chang Hwa Bank was incorporated under the Banking Act of the Republic of China, Securities and Exchange Law, and other related laws of the Republic of China. It mainly engages in the following businesses:

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

Chang Hwa Bank's headquarter is located in Taichung City, Taiwan, with branch operations at important sites in and out of the country to expand businesses. As of December 31, 2005, Chang Hwa Bank's operations include not only the head office and trust departments, but also 170 domestic branches, an international financing branch, five agents conducting securities brokerage activities, six overseas branches (New York, Los Angeles, Tokyo, London, Hong Kong and Singapore), and a representative office in China.

Chang-Yin Insurance Agent Co., Ltd. ("Chang-Yin Insurance Agent") was approved to establish on October 3, 2001, and its main operation is to provide life insurance agent service. Cheng-Yin Insurance Broker Co., Ltd. ("Cheng-Yin Insurance Broker") was approved to establish on April 7, 2003, and its main operation is to provide property insurance broker service.

### Consolidation Policy

Since January 1, 2005, in accordance with the amended SFAS No. 7, "Consolidated financial Statement," all investees in which Taishin Financial Holding and subsidiaries have controlling interests should be included in the consolidation. However, the consolidated financial statements of 2004 only included investees in which Taishin Financial Holding had ownership interests of over 50% and whose total assets and operating revenues were over 10% of Taishin Financial Holding and subsidiaries' assets and operating revenues. Thus, the consolidated entities in 2005 are different from those in 2004.

Taishin Financial Holding acquired the controlling interest in Chang Hwa Bank in 2005. Since October 3, 2005, the revenues and expenses of Chang Hwa Bank were included in the consolidated financial statements of 2005. Chang Hwa Bank was included in the consolidated entities for the year ended December 31, 2005.

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

Subsidiaries included in the consolidated financial statements as of December 31, 2005 were as follows:

| Investors' Names          | Subsidiaries' Names      | Ownership Interest (%) | Consolidated as of December 31, 2005 | Consolidated as of December 31, 2004 | Note  |
|---------------------------|--------------------------|------------------------|--------------------------------------|--------------------------------------|---|
| Taishin Financial Holding | Taishin Bank             | 100.00                 | Yes                                  | Yes                                  | -   |
| Taishin Financial Holding | Taiwan Securities        | 100.00                 | Yes                                  | Yes                                  | -   |
| Taishin Financial Holding | Taishin Bills Finance    | 100.00                 | Yes                                  | Yes                                  | -   |
| Taishin Financial Holding | Taishin AMC              | 100.00                 | Yes                                  | No                                   | Consolidation is not required on December 31, 2004 due to neither the total assets nor total operating revenue of the subsidiaries individually reached 10% of those of the parent. |
| Taishin Financial Holding | Taishin Marketing        | 100.00                 | Yes                                  | No                                   | Same as above   |
| Taishin Financial Holding | Taisin Venture Capital   | 100.00                 | Yes                                  | No                                   | Same as above   |
| Taishin Financial Holding | Chang Hwa Bank           | 22.55                  | Yes                                  | No                                   | As Taishin Financial Holding acquired controlling interest in Chang Hwa Bank during 2005, it was included in the consolidated financial statements since October 3, 2005.           |
| Taishin Bank              | Chang Hwa Bank           | 0.27                   | Yes                                  | No                                   | Same as above   |
| Taishin Bank              | Taishin Real-Estate      | 60.00                  | Yes                                  | No                                   | Consolidation is not required on December 31, 2004 due to neither the total assets nor total operating revenue of the subsidiaries individually reached 10% of those of the parent. |
| Taishin Bank              | Taishin Insurance Agency | 54.07                  | Yes                                  | No                                   | Same as above   |
| Taishin Bank              | PayEasy Digital          | 66.67                  | Yes                                  | No                                   | Same as above   |

# V. Financial Statements

| Investors' Names         | Subsidiaries' Names           | Ownership Interest (%) | Consolidated as of December 31, 2005 | Consolidated as of December 31, 2004 | Note  |
|--------------------------|-------------------------------|------------------------|--------------------------------------|--------------------------------------|---|
| Taishin Bank             | Taishin International Finance | 99.99                  | Yes                                  | No                                   | Same as above   |
| Taishin Bank             | Taiwan Futures                | 10.00                  | Yes                                  | No                                   | Same as above   |
| Taiwan Securities        | Anew Holding                  | 100.00                 | Yes                                  | No                                   | Same as above   |
| Taiwan Securities        | Taiwan Futures                | 90.00                  | Yes                                  | No                                   | Same as above   |
| Taiwan Securities        | Shin Ze                       | 51.00                  | Yes                                  | No                                   | Same as above   |
| Taishin AMC              | Taishin Real-Estate           | 40.00                  | Yes                                  | No                                   | Same as above   |
| Taishin Insurance Agency | Taisin Non-Life Insurance     | 97.60                  | Yes                                  | No                                   | Same as above   |
| Taishin Insurance Agency | Taishin Insurance Brokers     | 100.00                 | Yes                                  | No                                   | Same as above   |
| Anew Holding             | Taiwan Securities-HK          | 100.00                 | Yes                                  | No                                   | Same as above   |
| Chang Hwa Bank           | Chang-Yin Insurance Agent     | 100.00                 | Yes                                  | No                                   | As Taishin Financial Holding acquired controlling interest in Chang Hwa Bank during 2005, it was included in the consolidated financial statements since October 3, 2005. |
| Chang Hwa Bank           | Chang-Yin Insurance Broker    | 100.00                 | Yes                                  | No                                   | Same as above   |

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

| Investors' Names  | Subsidiaries' Names              | Ownership Interest (%) | Consolidated as of December 31, 2005 | Consolidated as of December 31, 2004 | Note  |
|-------------------|----------------------------------|------------------------|--------------------------------------|--------------------------------------|---|
| Taishin Bank      | Dah An Leasing Co., Ltd.         | 99.00                  | No                                   | No                                   | Dah An Leasing Co., Ltd. was an equity method investee of Taishin Bank on December 31, 2005. Because its capital stock only reached 0.14% of the consolidated capital stock, its total assets, \$198,984 thousand, only reached 0.01% of the consolidated total and it barely had operating activities, it was not included in the consolidated financial statements as of December 31, 2005. Consolidation was not required on December 31, 2004 due to neither the total assets nor total operating revenues reached 10% of those of Taishin Bank.  |
| Taiwan Securities | Taiwan Managed Futures Co., Ltd. | 100.00                 | No                                   | No                                   | Taiwan Managed Futures Co., Ltd. was an equity method investee of Taiwan Securities on December 31, 2005. Because its capital stock only reached 0.14% of the consolidated capital stock and its total assets, \$179,561 thousand, and total operating revenues, \$4,043 thousand, only reached 0.01% and 0.004% of the consolidated total, it was not included in the consolidated financial statements as of December 31, 2005. Consolidation was not required on December 31, 2004 due to neither the total assets nor total operating revenues reached 10% of those of Taiwan Securities. |

| Investors' Names  | Subsidiaries' Names                             | Ownership Interest (%) | Consolidated as of December 31, 2005 | Consolidated as of December 31, 2004 | Note   |
|-------------------|---|------------------------|--------------------------------------|--------------------------------------|--|
| Taiwan Securities | Taiwan Securities Investment Advisory Co., Ltd. | 92.00                  | No                                   | No                                   | Taiwan Securities Investment Advisory Co., Ltd. was an equity method investee of Taiwan Securities on December 31, 2005. Because its capital stock only reached 0.21% of the consolidated capital stock and its total assets, \$374,385 thousand, and total operating revenues, \$74,658 thousand, only reached 0.02% and 0.09% of the consolidated total, it was not included in the consolidated financial statements as of December 31, 2005. Consolidation was not required on December 31, 2004 due to neither the total assets nor total operating revenues reached 10% of those of Taiwan Securities. |
| PayEasy Digital   | PayEasy Travel Agency Co., Ltd.                 | 100.00                 | No                                   | No                                   | PayEasy Travel Agency Co., Ltd. was an equity method investee of PayEasy Digital on December 31, 2005. Because it was established in June 2005, its capital stock only reached 0.01% of the consolidated capital stock and it had no operating activities; it was not included in the consolidated financial statements as of December 31, 2005.   |
| Anew Holdings     | TSC Capital Limited                             | 100.00                 | No                                   | No                                   | TSC Capital Limited was an equity method investee of Anew Holdings on December 31, 2005. Because its capital stock only reached 0.06% of the consolidated capital stock, its total assets, \$86,796 thousand, only reached 0.004% of the consolidated total and it didn't have operating revenues, it was not included in the consolidated financial statements as of December 31, 2005. Consolidation was not required on December 31, 2004 due to neither the total assets nor total operating revenues reached 10% of those of Anew Holdings.   |
| Anew Holdings     | Tai Chen (BVI) Co.                              | 100.00                 | No                                   | No                                   | Tai Chen (BVI) Co. was an equity method investee of Anew Holdings on December 31, 2005. Because its capital stock only reached 0.000007% of the consolidated capital stock and its total assets, \$1,992 thousand, only reached 0.0001% of the consolidated total, and it did not have any operating revenue, it was not included in the consolidated financial statements as of December 31, 2005. Consolidation was not required on December 31, 2004 due to neither the total assets nor total operating revenues reached 10% of those of Anew Holdings.  |

# V. Financial Statements

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of Preparation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in the Republic of China. In preparing financial statements in conformity with these regulations, guidelines and principles, management may make certain estimates and assumptions. Actual results could differ from these estimates due to changes in operating conditions and assumptions.

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

### Current/Noncurrent Assets and Liabilities

According to SFAS No. 28, "Disclosures in the Financial Statements of Banks," Taishin Bank and Chang Hwa Bank need not disclose current and noncurrent assets and liabilities. Generally, except for the above description, current assets are unrestricted cash and cash equivalents and other assets to be converted into cash, sold, or consumed either in one year or in one operating cycle. Liabilities to be liquidated in one year or in one operating cycle are recorded as current liabilities. All other assets and liabilities are classified as noncurrent.

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

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, unrestricted deposits, and treasury bills, banker's acceptances, and commercial papers with maturities of three months or less.

### Short-Term Investments

Short-term investments include all kinds of securities purchased. These are recorded at acquisition cost and stated at the lower of cost or market value on the balance sheet date, if the market value is available. If the market price is lower than cost, an allowance for market decline is provided; if the market price recovers, the valuation allowance is reversed. The moving average method is used to determine the cost of investments sold.

### Trading Securities

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

### Securities Purchased/Sold Under Resell/Repurchase Agreements

Repurchase and resell agreements are treated as financing transactions if the risk and reward are carried by the seller. Otherwise, they are treated as trading transactions. Under the financing criterion, the transaction under a repurchase agreement is recorded at its sales price and listed as a liability while that under a resell agreement is recorded at its purchase price and listed as an asset.

For Taishin Bank, Chang Hwa Bank and Taishin Bills Finance, in conformity with Ministry of Finance (MOF) regulations, bonds and other short-term securities under repurchase or resell agreements were accounted for as outright sales and purchases. However, since



2004, repurchase and resell agreements have been recognized as financing transactions to conform to the Guidelines Governing the Preparation of Financial Reports by Public Banks and the Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies.

### **Credit Facilities Receivable**

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

### **Allowances for Bad Debts and Losses on Guarantees**

Allowances for bad debts and losses on guarantees are accrued on the basis of Taishin Bank, Chang Hwa Bank and Taishin Bills Finance managements' estimate of the collectibility of loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities. The management assesses the collectibility of its credit portfolio on the basis of such factors as the borrowers'/clients' delinquent status, and financial condition and provides for losses, taking into account the value of collateralized assets, in accordance with regulations issued by the Ministry of Finance (MOF). These rules states that, if the loans, discounts, bills purchased, accounts receivable, interest receivables, guarantees, advances and other credit facilities are deemed uncollectible, full provisions should be made and the loss should be recognized as an expense currently. If the possibility of collection is deemed low, provisions of at least 50% of the credit should be made and the loss should be recognized as an expense currently.

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

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

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

Loans are recorded at outstanding principal amounts. The interest income on loans is recognized on an accrual basis.

When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to non-accrual loan accounts, and the accrual of interest income ceases. A gain will be recognized when the delinquent interest is collected.

Write-off of bad debts is made on the basis of impossibility of collection and low value of collateral assets and when approved by the Board of Directors.

Under SFAS No. 28, "Disclosures in the Financial Statements of Banks," a loan that is recovered after being written off in the current period is recorded as a reduction of allowance for loan loss.

Service income of real-estate management companies is recognized when income is realized or realizable according to the contracts.

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

Taiwan Securities' revenue recognition policies are as follows:

- (a) Brokerage commission, gain on sale of securities and futures commission: recognized on trading day.
- (b) Interest on margin loans and bonds purchased under resell agreements: accrued in the term of the financing and trading contract.
- (c) Underwriting commission: purchasing commission is recognized when the commission is received; underwriting commission is recognized at the end of the underwriting contracts.
- (d) Transfer agent fees: recognized monthly according to the contracts.
- (e) Gains on futures contracts and options contracts: contracts for trading purpose are evaluated on a daily basis and income is recognized when contracts are settled.

# V. Financial Statements

## Long Term Investments

Long-term investments are recorded at acquisition cost. For investments acquired through a share swap and eligible for the regulations of the letters issued by the Accounting Research and Development Foundation on October 29, 2001 (Ref. No. (90) GI-MI 182) and on July 12, 2002 (Ref. No. (91) GI-MI 202), the book value of the investees is defined as assets (net of permanent devaluation, if any) less liabilities. The moving average cost is used to determine the cost of investments sold. Investments in companies in which Taishin Financial Holding's ownership interest with voting rights is 20% or more or in which Taishin Financial Holding has significant influence over the investee are valued using the equity method, and the difference between cost and fair value of investment is amortized in five to twenty years by using straight-line method. Investments in companies in which Taishin Financial Holding's ownership is less than 20% or over which Taishin Financial Holding does not have significant influence are valued using the cost method. For investments valued using the equity method, any permanent impairment loss is recognized as current loss.

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

Under the cost method, investments in shares with quoted market prices are stated at the lower of cost or market value, and any unrealized loss is recognized as a reduction of shareholders' equity. For investments in shares with no quoted market prices, any permanent devaluation is recognized as current loss. The book value after recognizing loss is recorded as new cost.

## Financial Asset Securitization

Taishin Bank and Chang Hwa Bank uses special-purpose trust services in accordance with the Statute for Financial Asset Securitization. Trustee institutions with mortgage loans and related rights transferred from Taishin Bank and Chang Hwa Bank issued beneficiary securities and transferred the related funds to Taishin Bank and Chang Hwa Bank. In these transactions, Taishin Bank and Chang Hwa Bank transfer the beneficiary rights on loans to securities buyers and gives up the control over loan contracts. Unless subordinate beneficiary securities are accounted for as other long-term investments for the purpose of credit enhancement, these certificates are excluded from loans and are recognized as income or expense upon the sale of related assets.

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

Subordinate beneficiary securities, which are not traded in the public market, are accounted for as other long-term investments. Interest income is recognized when Taishin Bank and Chang Hwa Bank receive interest from trustee institutions. The value of subordinate beneficiary securities is evaluated at the present value of future cash flows on the balance sheet date. Loss on valuation will be recognized as a deduction from interest income, but gain will not be recognized.

## Property and Equipment

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

Depreciation is calculated using the straight-line method over useful lives based on guidelines prescribed by the government, and leasehold improvements are depreciated over the lease terms.

An impairment loss is recognized when future recoverable values of property and equipment are less than their carrying values. The loss is reversed and a gain is recognized when future recoverable values of these property and equipment recover afterward. The reversed book value should be less than the book value if no impairment has happened.

## Deferred Charges, Goodwill and Other Assets

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

Goodwill resulting from a merger is amortized on a straight-line basis over five to twenty years.

Taiwan Securities buys branches of other security companies. The excess of the purchase price (cash) over net assets bought is accounted as a franchise, which is amortized on a straight-line basis over ten years.

An impairment loss is recognized when future recoverable values of deferred charges, goodwill, and other assets are less than their carrying values. The loss is reversed and a gain is recognized when future recoverable values of these assets recover afterward. The reversed book value should be less than the book value if no impairment has happened. However impairment loss of goodwill cannot be reversed.

### Assumed Collaterals and Residuals

Assumed collaterals and residuals are recorded at cost. These are stated at the lower of cost or realizable value on the balance sheet date. An impairment loss is recognized when future recoverable values of assumed collaterals and residuals are less than their carrying values. The loss is reversed and a gain is recognized when future recoverable values of these assumed collaterals and residuals recover afterward. The reversed book value should be less than the book value if no impairment has happened.

### Stock Warrant Liabilities

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

### Corporate Bonds Payable

Taishin Financial Holding and its subsidiaries issued corporate bonds, some at par value and the others at premium, and recognized interest expense at their yield rate through the outstanding period. The direct and necessary cost of bond issuance is charged to "deferred bond issue cost" and amortized during the period from the issue date to the redemption expiry date. Taishin Financial Holding and its subsidiaries adopt book-value method in the case that the convertible bondholders exercise the conversion option. The conversion price in excess of the par value of common stock will be credited to "capital surplus - additional paid-in capital."

### Pensions

Pension cost is based on actuarial calculations for Defined Benefit Pension Plan and based on the amount of pension fund contributions for Defined Contribution Pension Plan.

According to the Labor Standards Law, Taishin Financial Holding and subsidiaries have funded employee pension plans at amounts equal to 2% to 15% of total salaries. The total pension fund balances were \$2,617,642 thousand and \$1,003,521 thousand as of December 31, 2005 and 2004, respectively.

The Labor Pension Regulation, effective on July 1, 2005, allows employees to choose between the pension plan based on the Labor Standards Law and the pension plan under the Labor Pension Regulation with the employment seniorities prior to the adoption of this regulation being retained. Since July 1, 2005, Taishin Financial Holding and subsidiaries fund the retirement plan monthly at amounts equal to 6% of salaries and wages of employees who chose the pension plan under the Labor Pension Regulation. Such pension fund is deposited in personal retirement account of employees, and total pension costs recognized by Taishin Financial Holding and subsidiaries are \$491,263 thousand in 2005.

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

### Treasury Stock

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

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

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

# V. Financial Statements

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

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

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

## Foreign Currency Transactions

Transactions negotiated in foreign currencies (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by applying prevailing exchange rates when foreign currency receivables and payables are settled, are credited or charged to income. On the balance sheet date, foreign-currency assets and liabilities are restated at the exchange rates prevailing on the balance sheet date, and resulting gains or losses are credited or charged to current income. Foreign-currency long-term investments are restated at the exchange rates prevailing on the balance sheet date, and resulting translation adjustments are reported as a separate component of shareholders' equity.

## Derivative Financial Instruments

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

Interest rate swaps (“IRS”) involve no exchange of principal either at the contract start or maturity, rather, they involve the periodic exchange of interest payments, between the floating and the fixed interest rates, arising from an underlying notional principal amount. The exchanged interest received or paid on each settlement of hedging IRSs is computed on the accrual basis and recognized in the current period as interest income or expense of the hedged item. Trading IRSs are evaluated at their fair value at the balance sheet date, and resulting gains or losses are credited or charged to current income.

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

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

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

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

For forward rate agreements, the notional amounts are recorded on the contract starting dates using memorandum entries. Present value of interest gains or losses arising from the differences between the contracted interest rates and actual interest rates upon settlement or as of the balance sheet dates are credited or charged to current income.

Asset swap for trading purpose is linked to certain bond and related price difference between the market floating rates and the bond's

coupon rate during the bond outstanding period. Taishin Bills Finance recognizes the gain or loss arising from the difference between the fixed interest receivables and the interest payables as of settlement dates or balance sheet dates as income or expense in the current period.

Taiwan Securities and Taiwan Futures engage in futures brokerage and receive commission income recorded as "other commission in futures".

Taiwan Securities records the deposits paid for futures contracts under futures deposits - self-owned capital. Futures contracts are evaluated on a daily basis and the gain or loss is recognized upon settlement in the current period. Futures contracts are classified as hedging purpose or trading purpose, and their gains or losses are classified as realized or unrealized based on their realizations.

### Income Tax

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

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

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

### Reclassifications

Certain accounts of consolidated financial statements for the year ended December 31, 2004 have been reclassified to be consistent with the 2005 financial statement presentation.

## 3. REASONS AND EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

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

For Taishin Bank and Taishin Bills Finance, securities under repurchase or resell agreements are accounted for as outright sales and purchases. However, since 2004, repurchase and resell agreement have been considered financing transactions in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks and Guidelines Governing the Preparation of Financial Reports by Public Bills Finance Companies. This change in accounting principle resulted in increases in the net income of Taishin Bank by \$487,806 thousand and of Taishin Bills Finance by \$524,732 thousand for the year ended December 31, 2004. Because repurchase and resell agreements were numerous and of various dates, making the compilation of historical data difficult, the cumulative effect of the change in accounting principle on the beginning retained earnings of 2004 was not disclosed in the financial statements.

## 4. PRO FORMA FINANCIAL INFORMATION

Assuming that Taishin Financial Holding acquired controlling ownership in Chang Hwa Bank on January 1, 2005 or 2004, the proforma financial information of the consolidated entity would be as follows:

|  | 2005           | 2004          |
|--|----------------|---------------|
| Operating revenue                      | \$ 116,306,375 | \$ 98,986,117 |
| (Loss) income before tax               | ( 53,416,391)  | 15,460,282    |
| Net (loss) income                      | ( 40,209,402)  | 11,823,585    |
| (Loss) earnings per share (in dollars) | ( 0.80)        | 2.27          |

The above pro forma consolidated financial information is only for reference. It does not indicate the real or future financial conditions and operating results if Taishin Financial Holding had acquired ownership in Chang Hwa Bank on January 1, 2005 or 2004.

# V. Financial Statements

## 5. CASH AND CASH EQUIVALENTS

|                                 | December 31          |                      |
|---------------------------------|----------------------|----------------------|
|                                 | 2005                 | 2004                 |
| Cash in vault and working funds | \$ 12,735,601        | \$ 5,445,320         |
| Checks for clearing             | 22,579,396           | 1,361,329            |
| Demand deposits                 | 55,846               | 193,905              |
| Checking deposits               | 52,208               | 58,183               |
| Time deposits                   | 4,057,209            | 1,421,500            |
| Due from banks                  | 31,151,511           | 3,601,798            |
| Others                          | 2,481,952            | 674,367              |
|                                 | <u>\$ 73,113,723</u> | <u>\$ 12,756,402</u> |

As of December 31, 2005 and 2004, the interest rates of time deposits range from 1.025 % to 4.30% and from 0.975% to 2.50% per annum, respectively.

## 6. DUE FROM CENTRAL BANK

|                              | December 31          |                      |
|------------------------------|----------------------|----------------------|
|                              | 2005                 | 2004                 |
| Reserve for checking account | \$ 17,038,007        | \$ 4,064,642         |
| Reserve for demand account   | 39,305,864           | 11,291,699           |
| Reserve for foreign deposit  | 108,619              | 116,290              |
| Others                       | 295,628              | 200,660              |
|                              | <u>\$ 56,748,118</u> | <u>\$ 15,673,291</u> |

Taishin Bank and Chang Hwa Bank are required to maintain reserve balances in the Central Bank. These reserves amounted to \$56,452,490 thousand and \$15,472,631 thousand as of December 31, 2005 and 2004, respectively.

## 7. SHORT-TERM INVESTMENTS

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2005                  | 2004                  |
| Commercial papers                          | \$ 29,505,509         | \$ 18,919,114         |
| Negotiable certificate of deposits         | 243,990,996           | 48,519,869            |
| Treasury bills                             | 751,450               | 13,058,690            |
| Bonds                                      | 108,071,343           | 44,475,995            |
| Stocks and funds                           | 11,644,553            | 9,111,017             |
| Others                                     | 832,548               | -                     |
| Less allowance for decline in market value | ( 12,739)             | -                     |
|  | <u>\$ 394,783,660</u> | <u>\$ 134,084,685</u> |

## 8. TRADING SECURITIES

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2005                 | 2004                 |
| <b>Dealing</b>                             |                      |                      |
| Domestic                                   |                      |                      |
| TSE stocks                                 | \$ 2,096,019         | \$ 5,466,571         |
| GTSM stocks                                | 436,708              | 543,963              |
| TIGER stocks                               | 324,986              | 587,186              |
| Bonds                                      | 7,227,239            | 7,256,531            |
| Overseas                                   |                      |                      |
| European Convertible Bonds                 | \$ 869,602           | \$ 399,778           |
| Less allowance for decline in market value | ( 314,546)           | -                    |
|  | <u>10,640,008</u>    | <u>14,254,029</u>    |
| <b>Underwriting</b>                        |                      |                      |
| Domestic                                   |                      |                      |
| TSE stocks                                 | 661                  | 163,147              |
| GTSM stocks                                | 20,375               | 75,463               |
| Bonds                                      | 664,850              | 2,386,150            |
| Overseas                                   |                      |                      |
| European Convertible Bonds                 | 69,657               | 564,699              |
| Less allowance for decline in market value | -                    | ( 31,466)            |
|  | <u>755,543</u>       | <u>3,157,993</u>     |
| <b>Hedge position</b>                      |                      |                      |
| TSE stocks                                 | 1,829,324            | 791,657              |
| GTSM stocks                                | 29,426               | 138,844              |
| Less allowance for decline in market value | ( 11,832)            | ( 4,889)             |
|  | <u>1,846,918</u>     | <u>925,612</u>       |
| <b>Others</b>                              | <u>7,655,301</u>     | <u>-</u>             |
|  | <u>\$ 20,897,770</u> | <u>\$ 18,337,634</u> |

Trading securities - others amounting to \$7,655,301 thousand are trading securities of Chang Hwa Bank as of December 31, 2005.

For trading securities pledged as collaterals, please refer to Note 7.

Of the trading securities, bonds under repurchase agreements have face values aggregating \$6,345,600 thousand and \$5,329,400 thousand as of December 31, 2005 and 2004, respectively.

## 9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

|                    | December 31   |               |
|--------------------|---------------|---------------|
|                    | 2005          | 2004          |
| Ending balance     | \$ 23,947,026 | \$ 23,065,981 |
| Interest rates (%) | 0.950~1.900   | 0.945~2.250   |

# V. Financial Statements

## 10. RECEIVABLES, NET

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2005                  | 2004                  |
| Notes and accounts receivable                    | \$ 120,272,881        | \$ 91,904,855         |
| Acceptance receivable                            | 10,495,425            | 2,067,823             |
| Revenue receivable                               | 397,342               | 392,855               |
| Interest receivable                              | 8,091,883             | 3,355,872             |
| Tax refund receivable                            | 1,118,369             | 722,841               |
| Other receivables                                | 9,171,173             | 7,839,143             |
| Less   |                       |                       |
| Allowance for valuation of tax refund receivable | ( 8,532)              | -                     |
| Allowance for receivable                         | ( 2,085,229)          | ( 1,031,331)          |
|  | <u>\$ 147,453,312</u> | <u>\$ 105,252,058</u> |

## 11. MARGIN LOANS RECEIVABLE

Chang Hwa Bank, Taiwan Securities and its consolidated subsidiaries have engaged in margin lending business. As of December 31, 2005 and 2004, receivables for margin loans are \$16,156,365 thousand and \$15,306,766 thousand, respectively.

## 12. LOANS

As of December 31, 2005 and 2004, the details of loans are as follows:

|                                | 2005                    | 2004                  |
|--------------------------------|-------------------------|-----------------------|
| Short-term loans               | \$ 476,225,647          | \$ 163,742,372        |
| Medium-term loans              | 414,646,492             | 151,697,190           |
| Long-term loans                | 493,546,197             | 159,451,458           |
| Overdrafts                     | 496,886                 | 624,800               |
| Delinquent loans               | 16,758,681              | 3,147,055             |
| Bills discounted               | 9,179,160               | 478,217               |
| Gross loans                    | 1,410,853,063           | 479,141,092           |
| Less allowance for loan losses | ( 37,016,434)           | ( 3,227,391)          |
|                                | <u>\$ 1,373,836,629</u> | <u>\$ 475,913,701</u> |

### Allowance for Loan Losses

Allowance for loan losses is as follows:

|  | Year Ended December 31, 2005 |                                |  |                      |
|--|------------------------------|--------------------------------|--|----------------------|
|  | Receivables                  | For Losses on Particular Loans | For Losses on the Overall Loan Portfolio | Total                |
| Balance, January 1, 2005                 | \$ 613,145                   | \$ 925,216                     | \$ 2,302,175                             | \$ 3,840,536         |
| Effect of first-time consolidated entity | 604,509                      | 49,496,426                     | 1,347,755                                | 51,448,690           |
| Provision for loan losses                | 444,920                      | 9,577,291                      | 26,849,034                               | 36,871,245           |
| Reclassification in 2005                 | -                            | 350,000                        | -  | 350,000              |
| Loans written off                        | ( 57,392)                    | ( 57,275,278)                  | -  | ( 57,332,670)        |
| Recovery of loans written off            | 2,718                        | 3,450,469                      | -  | 3,453,187            |
| Difference of translation                | -                            | ( 6,654)                       | -  | ( 6,654)             |
| Balance, December 31, 2005               | <u>\$ 1,607,900</u>          | <u>\$ 6,517,470</u>            | <u>\$ 30,498,964</u>                     | <u>\$ 38,624,334</u> |



|   | Year Ended December 31, 2004 |                                |  |                     |
|---|------------------------------|--------------------------------|--|---------------------|
|   | Receivables                  | For Losses on Particular Loans | For Losses on the Overall Loan Portfolio | Total               |
| Balance, January 1, 2004  | \$ 161,954                   | \$ 564,515                     | \$ 2,548,955                             | \$ 3,275,424        |
| Reclassification of the beginning balance                           | 607,383                      | -                              | ( 607,383)                               | -                   |
| Additional from the 10 <sup>th</sup> Credit Cooperative of Hsin-Chu | 53,934                       | 240,268                        | -  | 294,202             |
| (Reversal of) provision for loan losses                             | ( 164,796)                   | 6,140,222                      | 424,916                                  | 6,400,342           |
| Loans written off   | ( 45,330)                    | ( 8,540,816)                   | ( 64,313)                                | ( 8,650,459)        |
| Recovery of loans written off                                       | -                            | 2,521,027                      | -  | 2,521,027           |
| Balance, December 31, 2004  | <u>\$ 613,145</u>            | <u>\$ 925,216</u>              | <u>\$ 2,302,175</u>                      | <u>\$ 3,840,536</u> |

### 13. LONG-TERM INVESTMENTS

|   | December 31      |                        |                  |                        |
|---|------------------|------------------------|------------------|------------------------|
|   | 2005             |                        | 2004             |                        |
|   | Carrying Value   | Ownership Interest (%) | Carrying Value   | Ownership Interest (%) |
| <b>Equity method</b>                            |                  |                        |                  |                        |
| Taishin AMC                                     | \$ -             | -                      | \$ 984,689       | 100.00                 |
| Taishin Marketing                               | -                | -                      | 4,916            | 100.00                 |
| Taisin Venture Capital                          | -                | -                      | 951,466          | 100.00                 |
| Taishin Insurance Agency                        | -                | -                      | 507,309          | 60.00                  |
| Taishin International Finance                   | -                | -                      | 198,979          | 99.99                  |
| PayEasy Digital                                 | -                | -                      | 67,948           | 66.67                  |
| Taishin Real-Estate                             | -                | -                      | 71,012           | 60.00                  |
| Anew Holdings                                   | -                | -                      | 1,420,200        | 100.00                 |
| Shin Ze   | -                | -                      | 81,990           | 51.00                  |
| Taiwan Futures                                  | -                | -                      | 491,602          | 100.00                 |
| Dah An Leasing Co., Ltd.                        | 155,950          | 99.00                  | 161,028          | 99.00                  |
| Taishin Venture Capital Investment Co., Ltd.    | 47,475           | 26.17                  | 34,749           | 5.00                   |
| An Hsin Real-Estate Management Co., Ltd.        | 37,060           | 30.00                  | 29,968           | 30.00                  |
| Taiwan Securities Investment Advisory Co., Ltd. | 338,834          | 92.00                  | 331,013          | 92.00                  |
| Taiwan Managed Futures Co., Ltd.                | 177,978          | 100.00                 | 187,398          | 100.00                 |
| Taishin Investment Trust Co., Ltd.              | 130,698          | 45.00                  | 135,249          | 45.00                  |
| Tai Chen (BVI) Co.,                             | 65,405           | 100.00                 | -                | -                      |
| TSC Capital Limited                             | 74,023           | 100.00                 | -                | -                      |
| PayEasy Travel Service Co., Ltd.                | 9,304            | 100.00                 | -                | -                      |
| Less treasury stock                             | -                | -                      | ( 17,500)        | -                      |
|   | <u>1,036,727</u> |                        | <u>5,642,016</u> |                        |
| <b>Cost method</b>                              |                  |                        |                  |                        |
| Debt Instruments Depository and Clearing Co.    |                  |                        |                  |                        |
| Taiwan  | 120,005          | 5.99                   | 100,000          | 4.99                   |
| Broadcasters Market Research Co., Ltd.          | 1,390            | 1.00                   | 5,000            | 1.00                   |
| Taishin Leasing and Financing Co., Ltd.         | 247,399          | 19.95                  | 247,399          | 19.95                  |
| Dah Chung Bill Finance Corp.                    | 939,026          | 18.80                  | 939,026          | 18.80                  |
| Taipei Financial Center Corp.                   | 356,009          | 1.45                   | 356,009          | 2.09                   |
| Hwan Hwa Security Finance Co., Ltd.             | 40,482           | 0.61                   | 271,810          | 4.11                   |
| Taiwan Fixed Network Co., Ltd.                  | 140,000          | 0.22                   | 140,000          | 0.22                   |

# V. Financial Statements

|  | December 31    |                        |                |                        |
|--|----------------|------------------------|----------------|------------------------|
|  | 2005           |                        | 2004           |                        |
|  | Carrying Value | Ownership Interest (%) | Carrying Value | Ownership Interest (%) |
| Harbinger Ventures Capital Investment Co., Ltd.    | 67,000         | 3.35                   | 67,000         | 3.35                   |
| Apex Venture Capital Corp.                         | 29,275         | 4.67                   | 50,000         | 4.67                   |
| Kaohsiung Mass Rapid Transit Co.                   | 50,000         | 0.50                   | 50,000         | 0.50                   |
| United Venture Capital Co., Ltd.                   | 40,000         | 4.52                   | 40,000         | 4.52                   |
| TKS Venture Capital Co., Ltd.                      | 39,216         | 4.90                   | 39,216         | 4.90                   |
| Grand Pacific Venture Capital Co., Ltd.            | 30,000         | 5.00                   | 30,000         | 5.00                   |
| Jihsun Venture Capital Investment Co., Ltd.        | 30,000         | 5.00                   | 30,000         | 5.00                   |
| Universal Venture Fund, Inc.                       | 11,905         | 1.49                   | 25,000         | 1.49                   |
| Concord IV Venture Capital Co., Ltd.               | 95,063         | 6.25                   | 76,000         | 5.00                   |
| Taiwan Futures Exchange, Inc.                      | 52,196         | 2.36                   | 27,050         | 1.36                   |
| Taipei Forex Inc.                                  | 1,600          | 0.81                   | 1,600          | 0.81                   |
| Pacific Securities Co., Ltd.                       | 112,029        | 2.77                   | 132,334        | 2.77                   |
| Da Chiang, Inc.                                    | 70,625         | 4.31                   | 88,875         | 4.31                   |
| T.K. Venture Capital Corp.                         | 50,000         | 3.33                   | 50,000         | 3.33                   |
| Concord III Venture Capital Co., Ltd.              | 44,640         | 4.46                   | 44,640         | 4.46                   |
| Concord VII Venture Capital Co., Ltd.              | 35,000         | 4.73                   | 35,000         | 4.73                   |
| Taiwan Asset Management Corp.                      | 2,157,942      | 0.57                   | 100,000        | 0.57                   |
| Taiwan Financial Asset Service Corp.               | 100,000        | 5.88                   | 50,000         | 2.94                   |
| Lien An Co., Ltd.                                  | 2,500          | 10.00                  | 1,250          | 5.00                   |
| Financial Information Service Co., Ltd.            | 91,000         | 2.28                   | 91,000         | 2.28                   |
| Taipei Smart Card Co., Ltd.                        | 16,000         | 3.20                   | 16,000         | 3.20                   |
| Asia Pacific Broadband Telecom                     | 588,488        | 0.92                   | 294,000        | 0.46                   |
| Taiwan High Speed Rail Co., Ltd. (preferred stock) | 1,600,000      | -                      | 300,000        | -                      |
| Chi-Long Technology Co., Ltd.                      | 9,500          | 4.13                   | -              | -                      |
| Paget Reinsurance International Ltd.               | 34             | -                      | -              | -                      |
| Teco Nanotech Co.                                  | 5,753          | 2.39                   | -              | -                      |
| First Bio Venture Capital Corporation              | 19,500         | 7.50                   | -              | -                      |
| Twinmos Technologies Inc.                          | 1,241          | 0.13                   | -              | -                      |
| PC Home Ventures Fund I Corp.                      | 9,792          | 3.03                   | -              | -                      |
| Sparq Corp.  | 176,000        | 0.42                   | -              | -                      |
| First Telecom Co., Ltd.                            | 17,881         | 0.71                   | -              | -                      |
| Inspire I.T. Co., Ltd.                             | 2,000          | 0.48                   | -              | -                      |
| Double Edge International Co., Ltd.                | 30,000         | 8.47                   | -              | -                      |
| Li-Churn Technology Co. Ltd.                       | 7,000          | 2.04                   | -              | -                      |
| SETTV  | 126,000        | 2.61                   | -              | -                      |
| Century Development Corp.                          | 90,796         | 3.03                   | -              | -                      |
| Kwan-Hwa Venture Capital Corp.                     | 40,000         | 6.67                   | -              | -                      |
| Taiwan Security Central Depository Co., Ltd.       | 18,582         | 0.45                   | 18,582         | 0.45                   |
| Fubon Security Finance Co., Ltd.                   | 4,127          | 0.08                   | 4,127          | 0.08                   |
| Entie Securities Finance Co.                       | 6,222          | 0.12                   | 6,222          | 0.12                   |
| Noble Tech Venture Capital Co., Ltd.               | 36,000         | 10.00                  | 36,000         | 10.00                  |
| Accesstek Incorporation                            | 1,658          | 0.17                   | -              | -                      |
| Infopro Co., Ltd.                                  | 1,608          | 0.74                   | 1,608          | 0.74                   |
| Chinese Automobile Co., Ltd.                       | 3              | -                      | 3              | -                      |
| Taiwan Integrative Shareholder Service Company     | 8,300          | 2.77                   | 8,300          | 2.77                   |
| Expand Channel Multimedia, Inc.                    | 615            | 0.23                   | 615            | 0.23                   |
| Cheun Chang Development Ltd.                       | 27,995         | 19.00                  | -              | -                      |
| Hwei-Yang Venture Capital Investment Co., Ltd.     | 30,000         | 1.54                   | -              | -                      |

|   | December 31          |                        |                     |                        |
|---|----------------------|------------------------|---------------------|------------------------|
|   | 2005                 |                        | 2004                |                        |
|   | Carrying Value       | Ownership Interest (%) | Carrying Value      | Ownership Interest (%) |
| Chi-Ting Venture Capital Investment Co., Ltd.                       | 30,000               | 1.30                   | -                   | -                      |
| Real Tone Technology Co.  | 676                  | 0.70                   | -                   | -                      |
| Victor Taichung Machinery Co., Ltd.                                 | 311                  | 0.07                   | -                   | -                      |
| Ideal Elethermal Inc.   | 1,085                | 0.18                   | -                   | -                      |
| Metro Taipei Consulting Service Limited                             | 5,200                | 10.22                  | -                   | -                      |
| Taiwan Credit Cooperative   | -                    | -                      | 100                 | 1.03                   |
| The National Federation of Credit Cooperative, ROC                  | -                    | -                      | 3,600               | 2.39                   |
| Taiwan Business Bank Co., Ltd.                                      | 1,084,417            | 3.38                   | -                   | -                      |
| MasterLink Securities Co., Ltd.                                     | 665,710              | 4.39                   | -                   | -                      |
| Sim 2 Travel Inc.   | 11,730               | 4.73                   | -                   | -                      |
| Chung Yan Special Opportunity Venture Capital Co., Ltd.             | 100,000              | 14.29                  | -                   | -                      |
| MaxEmil Photonics Corp.   | 10,997               | 0.61                   | -                   | -                      |
| TangEng Iron Works Co., Ltd.  | 218,947              | 5.98                   | -                   | -                      |
| Taiwan Power Co., Ltd.  | 2,279,705            | 0.71                   | -                   | -                      |
| Taiwan Television Enterprise  | 125,279              | 7.25                   | -                   | -                      |
| Taipei Gas Co., Ltd.  | 444                  | 9.00                   | -                   | -                      |
| ING Chang Hwa Bank Securities Investment & Trust Co., Ltd.          | 40,812               | 9.14                   | -                   | -                      |
| CDIB & Partners Investment Holding Corp.                            | 500,000              | 4.95                   | -                   | -                      |
| Core Pacific - Yamaichi Int'l (HK) Ltd.                             | 279,418              | 6.51                   | -                   | -                      |
| Financial Eolution Co., Ltd.  | 19,285               | 5.13                   | -                   | -                      |
| Taiwan Stock Exchange Corp.   | 218,331              | 3.00                   | -                   | -                      |
| Taiwan Sugar Corp.  | 524,615              | 0.41                   | -                   | -                      |
| Taiwan Agriculture Industry Co., Ltd.                               | 40                   | 0.01                   | -                   | -                      |
| China Chemical Pharmaceutical Co., Ltd.                             | 7,425                | 0.65                   | -                   | -                      |
| Taiwan Motor Transportation Co., Ltd.                               | 100                  | -                      | -                   | -                      |
| Taiwan Forex, Inc.  | 7,000                | 3.53                   | -                   | -                      |
| Financial Information Service Co., Ltd.                             | 46,446               | 1.16                   | -                   | -                      |
|   | <u>14,007,370</u>    |                        | <u>3,777,366</u>    |                        |
| Add long-term investments in bonds                                  | 1,702,973            |                        | -                   |                        |
| Add other long-term investments                                     | 1,114,568            |                        | 339,512             |                        |
| Less allowance for decline in market value of long-term investments | -                    |                        | ( 44)               |                        |
|   | <u>\$ 17,861,638</u> |                        | <u>\$ 9,758,850</u> |                        |

Based on investees' audited financial statements for the years ended December 31, 2005 and 2004, the investment income (loss) recognized under equity method are as follows:

|   | 2005  | 2004       |
|---|-------|------------|
| Taishin AMC                                     | \$ -  | \$ 185,675 |
| Taishin Marketing                               | -     | 1,457      |
| Taishin Insurance Agency                        | -     | 264,240    |
| Taishin Real-Estate                             | -     | 26,743     |
| Taishin International Finance                   | -     | 49,686     |
| PayEasy Digital                                 | -     | 18,500     |
| Taiwan Securities Investment Advisory Co., Ltd. | 7,821 | 2,088      |
| Dah An Leasing Co., Ltd.                        | -     | 33,310     |

# V. Financial Statements

|  | 2005                | 2004              |
|--|---------------------|-------------------|
| An Hsin Real-Estate Management Co., Ltd.     | 12,342              | 7,139             |
| Taiwan Futures                               | -                   | 60,863            |
| Cheun Chang Development Co., Ltd.            | 5,765               | -                 |
| Anew Holdings                                | -                   | 25,814            |
| Shin Ze                                      | -                   | 18,480            |
| Tai Chen (BVI) Co.                           | 1,724               | -                 |
| Taishin Investment Trust Co., Ltd.           | -                   | 249               |
|  | <u>27,652</u>       | <u>694,244</u>    |
| Dah An Leasing Co., Ltd.                     | ( 5,077)            | -                 |
| Taisin Venture Capital                       | -                   | ( 40,145)         |
| Taishin Venture Capital Investment Co., Ltd. | ( 43,528)           | ( 6,893)          |
| Taishin Investment Trust Co., Ltd.           | ( 4,551)            | -                 |
| TSC Capital Limited                          | ( 11,144)           | -                 |
| PayEasy Travel Service Co., Ltd.             | ( 696)              | -                 |
| Taiwan Managed Futures Co., Ltd.             | ( 9,421)            | ( 12,601)         |
|  | <u>( 74,417)</u>    | <u>( 59,639)</u>  |
|  | <u>\$ ( 46,765)</u> | <u>\$ 634,605</u> |

As of December 31, 2004, a total of 1,319 thousand shares of Taishin Financial Holding was held by Taishin Real-Estate and with a carrying value of \$17,500 thousand. Based on SFAS No. 30, "Accounting for Treasury Stocks," the common shares of Taishin Financial Holding acquired by its subsidiary were recorded as treasury stock, which amounted to \$17,500 thousand based on ownership interest as of December 31, 2004.

Taishin Bank's ownership interest in Taishin Insurance Agency decreased from 60.00% to 54.07% because Taishin Insurance Agency announced employee stock bonuses on April 11, 2005. The decrease in ownership interest resulted in the decrease of Taishin Bank's equity in net assets of Taishin Insurance Agency by \$58,334 thousand. Taishin Financial Holding decreased its capital surplus by \$58,334 thousand accordingly.

As of December 31, 2005, Chang Hwa Bank sold its ownership interest of Taiwan Business Bank in the amount of \$1,044,404 thousand with proceeds amounting to \$1,226,706 thousand and recognized gain on disposal of the investment of \$182,302 thousand as other operating revenue.

Other long-term investments were from the securitization transactions of mortgage loans and credit card receivables entrusted by Taishin Bank in the first quarter of 2004 and in the second quarter of 2005, respectively. In the two sales, Taishin Bank reserved D beneficiary securities with carrying value of \$339,512 thousand and \$400,000 thousand, respectively. In addition, Chang Hwa Bank also entrusted its mortgage loans to other bank in the fourth quarter of 2005 and reserved D beneficiary securities with carrying value of \$375,056 thousand.

## Taishin Bank - Information on Beneficiary Securities of Entrusted Mortgage Loans

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

| Security Features       | A   | B   | C  |
|-------------------------|---|---|--|
| Issue amount            | \$ 3,850,000  | \$ 350,000  | \$ 185,000   |
| Issue price             | Coupon value  | Coupon value  | Coupon value   |
| Interest rate per annum | ARMS* rate on the interest-determination date plus 0.25%.<br>If securities are not redeemed by the issuer on the first exercise date, interest rate is ARMS rate plus 0.375%. | ARMS rate on the interest-determination date plus 0.60%.<br>If securities are not redeemed by the originator on the first exercise date, interest rate is ARMS rate plus 0.90%. | ARMS rate on the interest-determination date plus 0.85%.<br>If securities are not redeemed by the originator on the first exercise date, interest rate is ARMS rate plus 1.275%. |

\*Note: "ARMS" means adjustable rate mortgages.

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

(a) Assumptions used to evaluate retained interests

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

(b) Sensitivity analysis

| Rights of Residential Mortgages                   |            |            |
|---|------------|------------|
| December 31                                       |            |            |
|   | 2005       | 2004       |
| Present value of retained interests               | \$ 339,021 | \$ 339,540 |
| Projected principal repayment rate (% per annum)  | 25.00%     | 20.00%     |
| Estimated weighted average number of years        | 13.83      | 14.83      |
| Influence of 10% unfavorable change in fair value | \$( 112)   | \$( 433)   |
| Influence of 20% unfavorable change in fair value | \$( 190)   | \$( 763)   |
| Estimated loss rate of credit (% per annum)       | 1.20%      | 1.42%      |
| Influence of 10% unfavorable change in fair value | \$( 1,536) | \$( 4,812) |
| Influence of 20% unfavorable change in fair value | \$( 3,063) | \$( 9,586) |

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

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

| Rights of Residential Mortgages                      |        |              |
|--|--------|--------------|
| Years Ended December 31                              |        |              |
|  | 2005   | 2004         |
| Proceeds from new securitization                     | \$ -   | \$ 4,724,512 |
| Other cash inflows from retained interests           | 25,316 | 28,485       |
| Reserved cash (accounted for as refundable deposits) | 16,000 | 16,000       |

### Taishin Bank - Information on Beneficiary Securities of Entrusted Credit Card Receivables

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

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

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

# V. Financial Statements

Taishin Bank holds D security, with face value of \$400,000 thousand, and the right to claim residual interests after paying fixed interests of A, B, and C security. If the borrowers are not able to repay the loans on maturity, investors and HSBC - Taipei Branch do not have recourse to Taishin Bank's other assets. The right to claim loan principal follows the investors' rights, and its value depends on the credit risks, advanced principal payments, and interest risks on the principal transferred.

(a) Assumptions used to evaluate retained interests

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

(b) Sensitivity analysis

|   | Rights of Credit Card Receivables |
|---|-----------------------------------|
|   | December 31, 2005                 |
| Present value of retained interests               | \$ 421,599                        |
| Projected principal repayment rate                | 17.60%                            |
| Estimated weighted average number of years        | 0.47                              |
| Influence of 10% unfavorable change in fair value | \$( 70,742)                       |
| Influence of 20% unfavorable change in fair value | \$( 141,484)                      |
| Estimated loss rate of credit (% per annum)       | 4.80%                             |
| Influence of 10% unfavorable change in fair value | \$( 15,999)                       |
| Influence of 20% unfavorable change in fair value | \$( 31,997)                       |

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

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

|  | Rights of Credit Card Receivables |
|--|-----------------------------------|
|  | Year Ended December 31, 2005      |
| Proceeds from new securitization                     | \$ 9,500,000                      |
| Other cash inflows from retained interests           | 458,857                           |
| Reserved cash (accounted for as refundable deposits) | 250,000                           |

## Chang Hwa Bank - Information on Beneficiary Securities of Entrusted Mortgage Loans

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

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

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

## (a) Assumptions used to evaluate retained interests

|  | Rights of Residential Mortgages |  |
|--|---------------------------------|--|
|  | Year Ended December 31, 2005    |  |
| Projected principal repayment rate (% per annum)   | 45.00%                          |  |
| Estimated weighted average number of years         | 3.416                           |  |
| Estimated loss rate of credit (% per annum)        | 2.00%                           |  |
| Present value of remaining cash flow (% per annum) | 3.20%                           |  |

## (b) Sensitivity analysis

|  | Rights of Residential Mortgages |         |
|--|---------------------------------|---------|
|  | December 31, 2005               |         |
| Present value of retained interest                   | \$                              | 376,554 |
| Estimated weighted average number of years           |                                 | 3.416   |
| Projected principal repayment rate (% per annum)     |                                 | 45%     |
| Influence of 10% adverse change in fair value        | \$(                             | 12,179) |
| Influence of 20% adverse change in fair value        | \$(                             | 31,356) |
| Estimated loss rate of credit (% per annum)          |                                 | 2.00%   |
| Influence of 10% adverse change in fair value - 2.2% | \$(                             | 10,767) |
| Influence of 20% adverse change in fair value - 2.4% | \$(                             | 18,854) |

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

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

|  | Rights of Residential Mortgages |       |
|--|---------------------------------|-------|
|  | Year Ended December 31, 2005    |       |
| Proceeds from new securitization                     | \$                              | -     |
| Reserved cash (accounted for as refundable deposits) |                                 | -     |
| Other cash inflows from retained interest            |                                 | 7,246 |
| Income from securitization                           |                                 | 3,892 |

## 14. OTHER FINANCIAL ASSETS

|                                   | December 31          |                      |
|-----------------------------------|----------------------|----------------------|
|                                   | 2005                 | 2004                 |
| Refundable deposits (Note 37)     | \$ 7,408,886         | \$ 3,408,340         |
| Refundable collaterals (Note 37)  | 15,700,619           | 13,779,840           |
| Assumed collaterals and residuals | 1,461,051            | 400,456              |
| Operating deposits (Note 37)      | 1,235,000            | 1,946,387            |
| Settlement funds (Note 37)        | 474,458              | 348,814              |
| Buy option premium                | 1,440,700            | 2,672,669            |
| Margin deposit funds              | 3,754,244            | -                    |
| Others                            | 2,820,577            | 436,809              |
|                                   | <u>\$ 34,295,535</u> | <u>\$ 22,993,315</u> |

# V. Financial Statements

## Operating Deposits

### *Taiwan Securities*

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

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

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

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

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

million for trading Class II Stocks on the OTC exchange.

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

### *Taishin Bills Finance*

As stipulated in Article 36 of the Rules Governing Bills Finance Companies and Article 3 of Regulations Governing the Use and Management of Set-aside Deposits by Bills Finance Businesses, bills finance companies should provide operating deposits equal to 5% of capital stock to the Central Bank.

As stipulated in Article 9 of the Rules Governing Securities Firms, securities companies should provide operating deposits to OTC.

### *Taiwan Futures*

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

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

## Settlement Funds

### *Taiwan Securities*

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

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

### *Taiwan Futures*

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

Initial deposit: \$40 million.

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

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

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



## Customers' Margin Accounts

### Taiwan Futures

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

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

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

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

Taiwan Futures customers' margin accounts are detailed as follows:

|  | December 31 |                  |
|--|-------------|------------------|
|  | 2005        |                  |
| Bank deposits  | \$          | 2,749,080        |
| Clearing balance of futures clearing houses            |             |                  |
| Bank deposits  |             | 1,035,420        |
| Receivable (payable) from daily clearing difference    | (           | 78,905)          |
| Other clearing balance of futures commission merchants |             |                  |
| Bank deposits  |             | 52,256           |
| Income and loss from unwashed positions                | (           | 3,607)           |
|  | \$          | <u>3,754,244</u> |

## 15. PROPERTY AND EQUIPMENT

|  | December 31          |                          |                      |                      |
|--|----------------------|--------------------------|----------------------|----------------------|
|  | 2005                 |                          |                      | 2004                 |
|  | Cost                 | Accumulated Depreciation | Carrying Value       | Carrying Value       |
| Land (including reappraised appreciation)      | \$ 28,706,470        | \$ -                     | \$ 28,706,470        | \$ 11,832,465        |
| Buildings (including reappraised appreciation) | 14,784,220           | 3,024,289                | 11,759,931           | 4,993,400            |
| Machinery equipment                            | 8,210,232            | 3,566,942                | 4,643,290            | 2,197,096            |
| Transportation equipment                       | 991,129              | 717,594                  | 273,535              | 184,123              |
| Miscellaneous equipment                        | 1,937,840            | 1,593,400                | 344,440              | 166,565              |
| Leasehold improvements                         | 1,562,572            | 1,346,057                | 216,515              | 215,243              |
| Prepayments for building and equipment         | 1,187,111            | -                        | 1,187,111            | 1,550,375            |
|  | <u>\$ 57,379,574</u> | <u>\$ 10,248,282</u>     | <u>\$ 47,131,292</u> | <u>\$ 21,139,267</u> |

As of December 31, 2005 and 2004, insurance coverages for property and equipment are \$19,828,063 thousand and \$7,163,786 thousand, respectively. Please refer to Note 37 for property and equipment pledged as collaterals.

Interest expenses capitalized by Taiwan Securities are \$10,312 thousand and \$13,097 thousand for the years ended December 31, 2005 and 2004, respectively.

Chang Hwa Bank reappraised its land in years 1956, 1961, 1962, 1968, 1970, 1971, 1975, 1980, 1987, 1991, 1992, 1997, and 2001 and reappraised its buildings in year 1977. The total amounts in reappraised appreciation are as follows:

|           |                      |
|-----------|----------------------|
| Land      | \$ 17,600,470        |
| Buildings | 108,475              |
|           | <u>\$ 17,708,945</u> |

# V. Financial Statements

The amounts of reappraised appreciation shown above decreased as properties were sold, disposed and called-in by local government. The balances of reappraised appreciation is as follows:

|                        | December 31, 2005    |                  |
|------------------------|----------------------|------------------|
|                        | Land                 | Buildings        |
| Property and equipment | \$ 12,591,376        | \$ 83,774        |
| Non-operating assets   | 4,612,151            | 10,808           |
|                        | <u>\$ 17,203,527</u> | <u>\$ 94,582</u> |

As of December 31, 2005, the reserve for value-added tax after land reappraisal amounted to \$5,750,705 thousand and was recognized as other liabilities.

In October 2003, Chang Hwa Bank has signed contracts for the construction of the information management building. As of December 31, 2005, the total signed contracts amounted to \$724,980 thousand. The payment in the amount of \$662,101 thousand was made in accordance with the progress of construction. The unpaid amount is \$62,879 thousand.

In December 2002, Chang Hwa Bank signed contracts for the construction of Shining Branch. As of December 31, 2005, the signed contract amounted to \$29,460 thousand and was fully unpaid.

In May 2005, Chang Hwa Bank signed contracts for the construction of Dounan Branch. As of December 31, 2005, the total signed contracts amounted to \$42,860 thousand. The payment in the amount of \$6,946 thousand was made in accordance with the progress of construction. The unpaid balance is \$35,914 thousand.

## 16. OTHER ASSETS

|                                      | December 31          |                     |
|--------------------------------------|----------------------|---------------------|
|                                      | 2005                 | 2004                |
| Deferred income tax assets (Note 31) | \$ 25,212,908        | \$ 235,541          |
| Goodwill from merger                 | 20,681,040           | 2,001,388           |
| Deferred charges                     | 2,421,697            | 2,406,972           |
| Rental and idle assets, net          | 6,048,373            | 326,311             |
| Debit item for consigned trades, net | 1,170,528            | 28,180              |
| Others                               | 242,228              | 102,217             |
|                                      | <u>\$ 55,776,774</u> | <u>\$ 5,100,609</u> |

### Goodwill from Merger

Taishin Bank merged with Dah An Bank through a share swap in February 2002, in which Taishin Bank issued new shares to acquire the total assets and liabilities of Dah An Bank. The difference between the fair value of the new shares issued by Taishin Bank and the fair value of net assets acquired was recognized as goodwill. As of December 31, 2005, the unamortized amount is \$884,938 thousand with no material impairment loss.

Taishin AMC acquired 40% interest ownership of Taishin Real-Estate in April 2003. The difference between the purchase price and the net assets acquired was recognized as goodwill. As of December 31, 2005, the unamortized amount is \$4,186 thousand.

Taishin Bank acquired the net assets of the 10th Credit Cooperative of Hsin-Chu in October 2004. The acquisition price exceeding the net assets of 10th Credit Cooperative of Hsin-Chu was recognized as goodwill. As of December 31, 2005, the unamortized amount is \$267,336 thousand.

Taiwan Securities undertook all assets and liabilities of other securities firms and acquired 51% interest ownership of Shin Ze. The difference between total purchase price and net assets acquired were recognized as goodwill. As of December 31, 2005 the unamortized goodwill is \$94,294 thousand.

On October 3, 2005, Taishin Financial Holding and Taishin Bank acquired 22.81% interest in net assets of Chang Hwa Bank. The difference between investment cost and fair value of net assets was recognized as goodwill and will be amortized within 20 years by straight-line method and subject to impairment test. The amortization of 2005 is \$245,953 thousand, and unamortized balance was \$19,430,286 thousand as of December 31, 2005. Upon the performance of the asset impairment test, Chang Hwa Bank was taken as one cash generating unit on the basis of the consolidated financial statements. Its operating assets, including Taishin Financial Holding's goodwill from the merger, the long-term investment under equity method and other non-operating assets were evaluated using estimated recoverable amounts determined as the higher of the value in use and fair value less costs to sell.

The major assumptions in estimating the value in use were based on the historical profit performance and ability to generate cash flows in the future under normal business operations.

Under the going concern assumption, the estimated cash flows in the future were discounted at the rate of cost of capital to calculate the value in use. Based on the result of the test, there was no material impairment of assets as of December 31, 2005.

### Rental and Idle Assets

|  | December 31         |                   |
|--|---------------------|-------------------|
|  | 2005                | 2004              |
| Rental land                                      | \$ 5,184,779        | \$ 200,070        |
| Rental buildings                                 | 1,151,287           | 164,461           |
| Less accumulated depreciation - rental buildings | ( 317,720)          | ( 38,2200)        |
| Less accumulated impairment - rental land        | ( 76,604)           | -                 |
|  | <u>5,941,742</u>    | <u>326,311</u>    |
| Idle land  | 112,554             | -                 |
| Idle buildings                                   | 1,735               | -                 |
| Less accumulated depreciation - idle buildings   | ( 1,623)            | -                 |
| Less accumulated impairment - idle land          | ( 6,035)            | -                 |
|  | <u>106,631</u>      | <u>-</u>          |
|  | <u>\$ 6,048,373</u> | <u>\$ 326,311</u> |

As of December 31, 2005 and 2004, casualty insurance coverage for Taiwan Securities' rental assets are \$875,533 thousand and \$85,366 thousand, respectively. Please refer to Note 37 for rental assets pledged as collaterals.

The lease periods of Chang Hwa Bank's rental asset contracts are from one to fifteen years. As of December 31, 2005, the estimated rent revenues for the following five years are as follows:

| Fiscal year |            |   |
|-------------|------------|---|
| 2006        | \$ 141,076 |   |
| 2007        | 101,224    |   |
| 2008        | 64,666     |   |
| 2009        | 19,114     |   |
| 2010        | 111,864    | (including rental revenues after the 5 <sup>th</sup> year with the net present value of \$101,160 thousand) |

### Debit Item for Consigned Trades

Security brokerage accounts with debit (credit) balances as of December 31, 2005 and 2004 were as follows:

|  | December 31       |                   |
|--|-------------------|-------------------|
|  | 2005              | 2004              |
| Debits   |                   |                   |
| Settlement accounts receivable                         | \$ 6,701,764      | \$ 1,954,713      |
| Security receivable paid for customers                 | -                 | 7,897,117         |
| Price receivable of securities purchased for customers | 8,428,983         | 4,391,019         |
| Security receivable sold through consignment           | -                 | 4,719,847         |
| Settlement prices                                      | ( 899,930)        | 1,135,002         |
| Cash in bank settlements                               | 1,259,154         | 1,954,713         |
| Margin transaction                                     | 9,286             | 42,244            |
|  | <u>15,499,257</u> | <u>20,139,942</u> |

# V. Financial Statements

## Credits

Securities deliverable purchased for customers  
 Price payable of securities sold for customers  
 Securities payable sold through consignment  
 Settlement accounts payable  
 Marginal and securities borrowers payable

| December 31         |                   |
|---------------------|-------------------|
| 2005                | 2004              |
| \$ -                | \$ 7,897,117      |
| 9,393,636           | 4,719,847         |
| -                   | 4,719,846         |
| 4,820,458           | 2,704,696         |
| 114,635             | 70,256            |
| <u>14,328,729</u>   | <u>20,111,762</u> |
| <u>\$ 1,170,528</u> | <u>\$ 28,180</u>  |

## 17. SHORT-TERM BORROWINGS

### Unsecured short-term loans

| December 31         |                     |
|---------------------|---------------------|
| 2005                | 2004                |
| <u>\$ 2,830,000</u> | <u>\$ 2,810,000</u> |

As of December 31, 2005 and 2004, interest rates on unsecured short-term loans range from 1.420% to 1.614% and 1.200% to 1.35% per annum, respectively. Please refer to Note 37 for pledged assets

## 18. COMMERCIAL PAPER PAYABLE

### Guarantee and acceptance institution

International Bills Finance Co.  
 Chung Hsing Bills Finance Co.  
 Taiwan Bills Finance Co.  
 Fubon Bills Finance Co.  
 Grand Bills Finance Co.  
 Polyvest Bills Finance Co.  
 E. Sun Bills Finance Co.  
 China Bill Finance Co.  
 United Bills Finance Co.  
 Hua Nan Bills Finance Co.  
 Ta Ching Bills Finance Co.  
 Chinatrust Bills Finance Co.  
 Taishin Bills Finance  
 Dan Chung Bills Finance Corp.  
 Sinopac Bank Co., Ltd.  
 Taiwan Bank Co., Ltd.

| December 31         |                     |
|---------------------|---------------------|
| 2005                | 2004                |
| \$ 350,000          | \$ 1,850,000        |
| -                   | 1,200,000           |
| 200,000             | 300,000             |
| 200,000             | 1,500,000           |
| 230,000             | 500,000             |
| -                   | 140,000             |
| 250,000             | 150,000             |
| 995,000             | 950,000             |
| -                   | 120,000             |
| -                   | 500,000             |
| 200,000             | 350,000             |
| 400,000             | 200,000             |
| -                   | 600,000             |
| -                   | 100,000             |
| -                   | 600,000             |
| <u>500,000</u>      | <u>-</u>            |
| 3,325,000           | 9,060,000           |
| ( 2,952)            | ( 6,804)            |
| <u>\$ 3,322,048</u> | <u>\$ 9,053,196</u> |

Unguaranteed  
 Less discounts on short-term bills payable

As of December 31, 2005 and 2004, interest rates for commercial paper payable ranged from 1.140% to 1.658% and 0.682% to 1.170% per annum, respectively. Please refer to Note 37 for pledged assets.

## 19. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

|                   | December 31   |               |
|-------------------|---------------|---------------|
|                   | 2005          | 2004          |
| Ending balance    | \$ 85,636,430 | \$ 96,608,002 |
| Interest rate (%) | 1.050~2.800   | 0.775~2.400   |

## 20. DUE TO BANKS

|                         | December 31           |                      |
|-------------------------|-----------------------|----------------------|
|                         | 2005                  | 2004                 |
| Due to the Central Bank | \$ 203,096            | \$ 38,475            |
| Due to other banks      | 50,575,304            | 277,217              |
| Call loans from banks   | 116,544,865           | 28,826,048           |
| Bank overdraft          | 3,566,031             | 323,677              |
|                         | <u>\$ 170,889,296</u> | <u>\$ 29,465,417</u> |

## 21. PAYABLES

|                            | December 31          |                      |
|----------------------------|----------------------|----------------------|
|                            | 2005                 | 2004                 |
| Interest payable           | \$ 6,797,220         | \$ 2,214,853         |
| Dividend and bonus payable | 341,128              | 4,211                |
| Accrued expenses           | 5,242,717            | 3,784,256            |
| Notes and accounts payable | 65,622,380           | 20,306,614           |
| Acceptance payable         | 10,808,330           | 2,075,093            |
| Collections payable        | 692,701              | 105,956              |
| Others                     | 10,324,159           | 5,133,724            |
|                            | <u>\$ 99,828,635</u> | <u>\$ 33,624,707</u> |

## 22. DEPOSITS AND REMITTANCES

|   | December 31             |                       |
|---|-------------------------|-----------------------|
|   | 2005                    | 2004                  |
| Checking deposits                           | \$ 46,108,921           | \$ 4,222,615          |
| Demand deposits                             | 227,572,815             | 53,880,595            |
| Time deposits                               | 426,039,270             | 173,969,791           |
| Negotiable certificates of deposits         | 26,551,400              | 12,322,400            |
| Savings deposits                            | 884,351,336             | 247,755,664           |
| Deposits transferred from the Postal Bureau | 101,530,095             | 54,180,260            |
| Remittances and drafts issued               | 1,036,706               | 372,116               |
|   | <u>\$ 1,713,190,543</u> | <u>\$ 546,703,441</u> |

## 23. BANK NOTES

### Taishin Bank

Taishin Bank has issued bank notes to enhance its capital ratio and raise medium to long-term operating funds. Details of the bank notes are as follows (including \$150,000 thousand and \$250,000 thousand held by other subsidiary as of December 31, 2005 and 2004, respectively):

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

# V. Financial Statements

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

(\$'000)

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

The floating rate is determined at the 90-day commercial paper fixing rate in the secondary market, provided on page 6165 of the Money Line Telerate at 11.00 am on the interest-determination day.

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

(e) Under the approval of the MOF in 2003, Taishin Bank was authorized to issue \$15 billion in bank notes and has partially issued \$10.1 billion in bank notes as follows:

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

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

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

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

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

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

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

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

# V. Financial Statements

The original issue terms are applicable from the issue date to July 6, 2005. Since July 6, 2005, the interest rate is determined at the 180-day commercial paper fixing rate in the secondary market on the second last business date in Taipei before the interest-bearing period. The 180-day commercial paper fixing rate in the secondary market is shown on page 6165 of the Moneyline Telerate at 11.00 am (Taipei time). If the rate is not shown on page 6165 of the Moneyline Telerate, the 180-day commercial paper fixing rate in the secondary market is determined by JP Morgan Chase Bank-Taipei Branch.

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

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

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

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



- (i) Note a: (i)「T」: Between two interest-determination dates, the number of days with interest rate falling within the ranges of interest rates shown after item (iii) below.
- (ii) 「N」: The number of days between two interest-determination dates.
- (iii) The interest-determination period is between nine months before and one day before the interest payment date; interest rate ranges mentioned above are as follows:

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

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

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

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

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

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

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

# V. Financial Statements

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

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

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

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

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

i) Put option and redemption policies

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

ii) Terms of exercising put option or redemption rights

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

iii) Exercise of put option by the noteholders

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

iv) Exercise of redemption right by Taishin Bank

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

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

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

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

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

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

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

### Chang Hwa Bank

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

| Bond | Interest Rate and Maturity Date  | Issue Amount      |
|------|--|-------------------|
| A    | 5-year term, interest payable yearly, annual interest 3.30%, maturity date: March 15, 2007.  | \$ 1,000 million  |
| B    | 7-year term, interest payable yearly, annual interest 3.85%, maturity date: March 15, 2009.  | \$ 4,000 million  |
| C    | 7-year term, based on the Bank's variable one year regular savings' rate +1.00%, interest payable monthly according to actual number of days, maturity date: March 15, 2009. | \$ 14,000 million |
| D    | 10-year term, interest payable yearly, annual interest rate for the first 5 years is 3.90%, and 4.60% for the last 5 years, maturity date: March 15, 2012.                   | \$ 1,000 million  |

# V. Financial Statements

## 24. CORPORATE BONDS PAYABLE

|   | December 31          |                      |
|---|----------------------|----------------------|
|   | 2005                 | 2004                 |
| Unsecured European Convertible Bonds - par                                | \$ 266,085           | \$ 8,164,816         |
| Unsecured European Convertible Bonds - premiums                           | 142                  | 2,105                |
| Unsecured subordinated corporate bonds - par                              | 33,650,000           | 15,000,000           |
| Unsecured corporate bonds - par   | 5,000,000            | 5,000,000            |
|   | <u>38,916,227</u>    | <u>28,166,921</u>    |
| Add interest compensation payables - unsecured European Convertible Bonds | 17,968               | 41,334               |
| Less current portion of bonds payable                                     | -                    | ( 7,181,325)         |
|   | <u>\$ 38,934,195</u> | <u>\$ 21,026,930</u> |

To expand business operations and increase recognized income from investees, Taishin Financial Holding and Taishin Bills Finance issued bonds with the approval of authorities and the details are as follows:

### Unsecured European Convertible Bonds (I)

- (a) Issue amount: US\$220,000 thousand (including additional issue of US\$20,000 thousand).
- (b) Denomination: US\$1 thousand.
- (c) Issue date: April 17, 2003.
- (d) Issue price: 100% of the principal amount of the bonds; additional amount issued at 101% of par value.
- (e) Maturity: 5 years from the issue date.
- (f) Coupon rate: 0% per annum.
- (g) Conversion method
  - i) Conversion object: Taishin Financial Holding's common shares.
  - ii) Conversion period
 

Except for the closed period (as defined by relevant ROC laws), bonds may be converted from after 90 days of the issue date until the 30th day before the maturity date.
  - iii) Pricing
    - Conversion price per share of NT\$21.33 dollars was determined on the pricing date (based on the fixed rate of NT\$34.81:US\$1).
    - Taishin Financial Holding should change the conversion price in accordance with any events specified in the Trust Deed.
    - Under the approval of the board of directors, the conversion price per share was modified to NT\$14.84 dollars since August 4, 2005 in accordance with events specified in the Trust Deed.
- (h) Redemption at the bondholders' option
 

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

  - i) Taishin Financial Holding's common shares cease to be listed or admitted for trading on the Taiwan Stock Exchange.
  - ii) The power control structure of Taishin Financial Holding changes.
  - iii) Bond issue is on its third anniversary.
- (i) Redemption at Taishin Financial Holding's option
  - i) At maturity
 

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

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

- The closing price of Taishin Financial Holding's common shares listed on the Taiwan Stock Exchange for 30 consecutive trading days exceeds 130% of the conversion price.
- Over 95% of the bonds have been redeemed or converted.
- Taishin Financial Holding is obligated to pay additional tax because of certain changes in the tax laws in the ROC or in another jurisdiction having authority over Taishin Financial Holding's.

## (j) Redemption on maturity

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

## (k) Interest compensation payable

The difference between the redemption price and face value of the bonds is amortized by the effective interest (2.40%) method and is credited to the reserve for bond redemption accounts. Interest compensation payables were \$17,968 thousand and \$41,334 thousand on December 31, 2005 and 2004, respectively.

As of December 31, 2005 and 2004, options exercised on unsecured European Convertible Bonds (I) amounted to US\$211,900 thousand and US\$189,186 thousand, respectively.

## (l) Trading market

Luxembourg Stock Exchange.

**Unsecured European Convertible Bonds (II)**

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

(b) Denomination: US\$1 thousand.

(c) Issue date: April 28, 2004.

(d) Issue price: 100% of principal

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

(f) Coupon rate: 0% per annum.

## (g) Conversion method

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

## II) Conversion period

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

## III) Pricing

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

## (h) Redemption at the bondholders' option

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

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

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

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

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

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

# V. Financial Statements

(j) Redemption on maturity

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

(k) Trading market

Luxembourg Stock Exchange.

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

## Unsecured Subordinated Corporate Bonds

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

| Item                    | Bond | AA  | AB                      | AC                      | AD                      | AE                      | AF                      | AG                      | AH                      | AI                      | AJ                      | AK                      | AL                      | BA                      |
|-------------------------|------|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Issue amount            |      | 4,500 million   | 500 million             | 500 million             | 200 million             | 300 million             | 300 million             | 200 million             | 450 million             | 200 million             | 200 million             | 200 million             | 200 million             | 250 million             |
| Face value              |      | 10 or 50 million  |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Issue price             |      | Par value   |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Duration                |      | 2003.12.12 ~ 2010.12.12   | 2003.12.15 ~ 2010.12.15 | 2003.12.16 ~ 2010.12.16 | 2003.12.17 ~ 2010.12.17 | 2003.12.18 ~ 2010.12.18 | 2003.12.19 ~ 2010.12.19 | 2003.12.22 ~ 2010.12.22 | 2003.12.23 ~ 2010.12.23 | 2003.12.24 ~ 2010.12.24 | 2003.12.25 ~ 2010.12.25 | 2003.12.26 ~ 2010.12.26 | 2003.12.29 ~ 2010.12.29 | 2003.12.12 ~ 2010.12.12 |
| Interest payment        |      | Payable annually from the issue date.   |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Interest accrual        |      | From the issuance date, the interest will be accrued on fixed and simple interest rate.   |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Coupon rate             |      | 3.5%  |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Redemption on maturity: |      | In cash at par value.   |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |
| Other                   |      | 1. The interest payments rely on the amounts accrued by Taishin Financial.<br>2. The bonds are bearer, but could be converted into registered bonds upon holders' request.<br>3. If Taishin Financial's consolidated capital adequacy ratio (CAR) is less than the standard set under relevant regulations, Taishin Financial should stop paying interest on and redeeming the bonds until the consolidated CAR conforms to the requirements. |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |                         |

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

## Unsecured Subordinated Corporate Bonds - 2004 (I)

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

## Unsecured Subordinated Corporate Bonds - 2004 (II)

- (a) Issue amount: \$5,000,000 thousand.
- (b) Denomination: \$10,000 thousand.
- (c) Issue date: June 21, 2004.

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

#### **Unsecured Subordinated Corporate Bonds - 2005 (I)**

- (a) Issue amount: \$12,000,000 thousand, and divided into Bond A and Bond B according to the issue dates. The total issue amount for Bond A and Bond B was \$11,500,000 thousand and \$500,000 thousand, respectively.
- (b) Denomination: \$10,000 thousand.
- (c) Maturity: Both Bond A and B mature 7 years from the issue date. Bond A was issued on September 20, 2005 and will mature on September 20, 2012. Bond B was issued on September 21, 2005 and will mature on September 21, 2012.
- (d) Issue price: Both Bond A and B were issued at 100% of the principal.
- (e) Coupon rate: 2.70% per annum for both Bond A and B.
- (f) Interest payment: Simple interest per annum from the issue date for both Bond A and B.
- (g) Redemption on maturity: In cash for both Bond A and B.
- (h) Other: Taishin Financial Holding should suspend the payment of interest and principal when its capital adequacy ratio is lower than the lowest limit (100%) until the ratio meet the standards set by relevant authorities (the part of interest could be cumulative and the interest of the principal in the extension period could be calculated at coupon rate).

#### **Unsecured Subordinated Corporate Bonds - 2005 (II)**

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

#### **Unsecured Subordinated Corporate Bonds - 2005 (III)**

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

# V. Financial Statements

## Unsecured Corporate Bonds

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

|  | December 31         |                     |
|--|---------------------|---------------------|
|  | 2005                | 2004                |
| First issue of unsecured corporate bonds (I)   | \$ 1,200,000        | \$ 1,200,000        |
| Second issue of unsecured corporate bonds (II) | 1,300,000           | 1,300,000           |
| Third issue of unsecured corporate bonds (III) | 1,000,000           | 1,000,000           |
| Fourth issue of unsecured corporate bonds (IV) | 1,500,000           | 1,500,000           |
|  | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |

## Unsecured Bonds (I)

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

## Unsecured Bonds (II)

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

## Unsecured Bonds (III)

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



**Unsecured Bonds (IV)**

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

**25. LONG TERM LIABILITIES**

|                                 | 2005                | 2004              |
|---------------------------------|---------------------|-------------------|
| China Bills Finance Co.         | \$ 500,000          | \$ -              |
| International Bills Finance Co. | 500,000             | 500,000           |
| Hua Nan Bills Finance Co.       | 500,000             | -                 |
| Ta Ching Bills Finance Co.      | 500,000             | -                 |
| Chung Hsing Bills Finance Co.   | 500,000             | -                 |
|                                 | <u>2,500,000</u>    | <u>500,000</u>    |
| Less discounts                  | ( 3,397)            | ( 174)            |
|                                 | <u>\$ 2,496,603</u> | <u>\$ 499,826</u> |

As of December 31, 2005 and 2004 interest rates on long-term liabilities listed above ranged from 1.639% to 1.862% and 1.561% per annum, respectively.

**26. OTHER LIABILITIES**

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2005                 | 2004                 |
| Payable for securities financing guarantee     | \$ 2,224,697         | \$ 2,550,131         |
| Sell option premium                            | 1,586,854            | 2,463,175            |
| Securities financing guarantee deposits-in     | 1,851,548            | 2,134,995            |
| Reserve for guarantee liabilities              | 952,463              | 1,145,191            |
| Deferred income                                | 259,438              | 337,571              |
| Accrued pension liability                      | 2,708,846            | 285,965              |
| Reserve for trading losses                     | 491,255              | 340,216              |
| Reserve for default losses                     | 226,519              | 97,166               |
| Reserve for bad debt                           | 13,923               | -                    |
| Reserve for value-added tax for land appraisal | 5,750,705            | -                    |
| Refundable deposits                            | 1,564,069            | 3,500                |
| Derivative financial instrument liabilities    | 127,724              | 3,684,059            |
| Warrants issued                                | 360,764              | 217,222              |
| Futures commission merchants' equity           | 3,611,604            | -                    |
| Others   | 1,807,029            | 99,890               |
|  | <u>\$ 23,537,438</u> | <u>\$ 13,359,081</u> |

# V. Financial Statements

## Warrants

Details of warrants issued by Taiwan Securities are as follows:

|                              | December 31  |              |
|------------------------------|--------------|--------------|
|                              | 2005         | 2004         |
| Warrants issued              | \$ 1,553,961 | \$ 1,435,767 |
| Gain on change in fair value | ( 451,758)   | ( 113,276)   |
| Market value                 | 1,102,203    | 1,322,491    |
| Repurchased warrants         | 634,352      | 1,073,567    |
| Gain on change in value      | 107,087      | 31,702       |
| Market value                 | 741,439      | 1,105,269    |
|                              | \$ 360,764   | \$ 217,222   |

Taiwan Securities issued American warrants, which are exercisable within one year or six months after listing on market and will be settled in cash payments or securities issuance at the option of Taiwan Securities. As of December 31, 2005, the warrants issued and warrants repurchased, excluding unexercisable warrants, are as follows:

| Warrants | Name of Warrants                       | Number of Units Issued | Exercisable as of December 31, 2005 | Number Repurchased Warrants | Issue Date | Issue Price Per Share | Exercise Price Per Share | Market Value Per Share |
|----------|--|------------------------|-------------------------------------|-----------------------------|------------|-----------------------|--------------------------|------------------------|
| TS86     | Chung Hung Steel                       | 25,000,000             | 17,550,000                          | 779,000                     | 94/06/24   | 1.568                 | 23.18                    | 0.01                   |
| TS87     | EMIC                                   | 25,000,000             | 17,550,000                          | ( 7,449,000)                | 94/06/30   | 1.373                 | 20.70                    | 0.01                   |
| TS88     | SIS                                    | 25,000,000             | 17,550,000                          | ( 5,047,000)                | 94/07/07   | 1.572                 | 25.20                    | 0.22                   |
| TS89     | PI                                     | 2,800,000              | 19,650,000                          | ( 1,161,000)                | 94/07/13   | 0.616                 | 78.00                    | 0.07                   |
| TS90     | QDI                                    | 25,000,000             | 17,550,000                          | ( 4,060,000)                | 94/07/15   | 1.671                 | 24.00                    | 0.02                   |
| TS91     | KINPO                                  | 25,000,000             | 17,550,000                          | ( 4,857,000)                | 94/07/21   | 1.472                 | 21.98                    | 0.01                   |
| TS92     | LITE-ON IT                             | 25,000,000             | 17,550,000                          | ( 6,451,000)                | 94/07/22   | 0.776                 | 91.95                    | 0.01                   |
| TS93     | CPT                                    | 25,000,000             | 17,550,000                          | ( 7,344,000)                | 94/07/25   | 1.373                 | 18.75                    | 0.07                   |
| TS94     | TBB                                    | 25,000,000             | 17,550,000                          | ( 7,171,000)                | 94/07/27   | 1.373                 | 17.93                    | 0.02                   |
| TS95     | Silitech                               | 25,000,000             | 17,550,000                          | 14,031,000                  | 94/07/28   | 1.572                 | 175.50                   | 1.72                   |
| TS96     | Wistron                                | 28,000,000             | 19,650,000                          | ( 2,590,000)                | 94/08/02   | 0.527                 | 47.63                    | 0.64                   |
| TS97     | ESMT                                   | 28,000,000             | 19,650,000                          | ( 7,983,000)                | 94/08/04   | 0.796                 | 90.00                    | 0.01                   |
| TS98     | Premier                                | 28,000,000             | 19,650,000                          | 13,586,000                  | 94/08/08   | 0.676                 | 63.38                    | 0.20                   |
| TS99     | CCI                                    | 28,000,000             | 19,650,000                          | 4,272,000                   | 94/08/10   | 1.174                 | 162.00                   | 3.03                   |
| TSA1     | FTC                                    | 25,000,000             | 17,550,000                          | 15,689,000                  | 94/08/12   | 1.97                  | 204.00                   | 1.57                   |
| TSA2     | Realtek                                | 28,000,000             | 19,650,000                          | 11,496,000                  | 94/08/15   | 0.477                 | 54.90                    | 0.23                   |
| TSA3     | SIS                                    | 28,000,000             | 19,650,000                          | 1,992,000                   | 94/08/17   | 0.477                 | 39.00                    | 0.14                   |
| TSA4     | Cheng Vei Precision Industry Co., Ltd. | 28,000,000             | 19,650,000                          | 12,874,000                  | 94/08/18   | 1.572                 | 134.70                   | 1.88                   |
| TSA5     | TSRC                                   | 25,000,000             | 17,550,000                          | 6,806,000                   | 94/08/19   | 1.771                 | 23.63                    | 0.33                   |
| TSA6     | CMC                                    | 25,000,000             | 17,550,000                          | ( 6,471,000)                | 94/08/25   | 1.472                 | 19.05                    | 0.16                   |
| TSA7     | Tung Ho Steel                          | 25,000,000             | 17,550,000                          | 11,082,000                  | 94/09/02   | 1.87                  | 31.73                    | 0.02                   |
| TSA8     | Optimax                                | 28,000,000             | 19,650,000                          | 8,972,000                   | 94/09/08   | 0.875                 | 89.85                    | 0.30                   |
| TSA9     | PPT                                    | 28,000,000             | 19,650,000                          | 13,731,000                  | 94/09/12   | 0.577                 | 53.10                    | 4.50                   |
| TSB1     | TGP                                    | 28,000,000             | 19,650,000                          | 13,207,000                  | 94/09/15   | 1.373                 | 138.00                   | 0.17                   |
| TSB2     | Chung Hung Steel                       | 25,000,000             | 17,550,000                          | 5,509,000                   | 94/09/19   | 1.472                 | 18.23                    | 0.02                   |
| TSB3     | TBB                                    | 28,000,000             | 19,650,000                          | ( 6,021,000)                | 94/09/20   | 0.975                 | 13.23                    | 0.07                   |
| TSB4     | Wistron                                | 28,000,000             | 19,650,000                          | 7,468,000                   | 94/09/22   | 0.477                 | 53.10                    | 0.38                   |
| TSB5     | Transcend                              | 28,000,000             | 19,650,000                          | 15,372,000                  | 94/09/23   | 0.875                 | 92.40                    | 0.26                   |
| TSB6     | CDIBH                                  | 25,000,000             | 17,550,000                          | 13,883,000                  | 94/09/27   | 1.273                 | 17.40                    | 0.22                   |
| TSB7     | SIS                                    | 20,000,000             | 14,050,000                          | 4,130,000                   | 94/09/29   | 2.368                 | 31.88                    | 0.55                   |

| Warrants | Name of Warrants                       | Number of Units Issued | Exercisable as of December 31, 2005 | Number Repurchased Warrants | Issue Date | Issue Price Per Share | Exercise Price Per Share | Market Value Per Share |
|----------|--|------------------------|-------------------------------------|-----------------------------|------------|-----------------------|--------------------------|------------------------|
| TSB8     | ESMT                                   | 28,000,000             | 19,650,000                          | 10,241,000                  | 94/10/03   | 0.577                 | 58.28                    | 0.32                   |
| TSB9     | WAH LEE                                | 28,000,000             | 19,650,000                          | 11,417,000                  | 94/10/05   | 0.875                 | 93.45                    | 0.58                   |
| TSC1     | MSI                                    | 25,000,000             | 17,550,000                          | 15,971,000                  | 94/10/05   | 2.268                 | 31.65                    | 0.96                   |
| TSC2     | Everlight                              | 28,000,000             | 19,650,000                          | 7,992,000                   | 94/10/07   | 0.716                 | 78.90                    | 1.50                   |
| TSC3     | BENQ                                   | 28,000,000             | 19,650,000                          | 532,000                     | 94/10/11   | 0.477                 | 45.90                    | 0.32                   |
| TSC4     | CMFC                                   | 25,000,000             | 17,550,000                          | 10,058,000                  | 94/10/13   | 1.174                 | 14.10                    | 0.98                   |
| TSC5     | YA HSIN                                | 28,000,000             | 19,650,000                          | ( 8,307,000)                | 94/10/17   | 0.477                 | 45.75                    | 0.40                   |
| TSC6     | SNC                                    | 28,000,000             | 19,650,000                          | 11,587,000                  | 94/10/17   | 0.477                 | 45.08                    | 0.58                   |
| TSC7     | UMC                                    | 20,000,000             | 14,050,000                          | ( 5,950,000)                | 94/10/19   | 2.169                 | 29.78                    | 1.05                   |
| TSC8     | ASIA                                   | 25,000,000             | 17,550,000                          | ( 4,709,000)                | 94/10/21   | 2.368                 | 291.00                   | 2.20                   |
| TSC9     | KINPO                                  | 25,000,000             | 17,550,000                          | 15,727,000                  | 94/10/27   | 1.273                 | 16.95                    | 1.42                   |
| TSD1     | LITE-ON IT                             | 28,000,000             | 19,650,000                          | 12,042,000                  | 94/10/27   | 0.477                 | 51.00                    | 0.51                   |
| TSD2     | MIC                                    | 28,000,000             | 19,650,000                          | 10,197,000                  | 94/11/04   | 0.577                 | 63.15                    | 0.58                   |
| TSD3     | SUNPLUS                                | 28,000,000             | 19,650,000                          | 14,210,000                  | 94/11/07   | 0.477                 | 45.90                    | 0.79                   |
| TSD4     | CCI                                    | 28,000,000             | 19,650,000                          | 12,942,000                  | 94/11/10   | 1.373                 | 152.25                   | 3.21                   |
| TSD5     | TGP                                    | 28,000,000             | 19,650,000                          | 13,203,000                  | 94/11/10   | 0.875                 | 91.95                    | 1.31                   |
| TSD6     | EMIC                                   | 25,000,000             | 17,550,000                          | 8,547,000                   | 94/11/16   | 1.074                 | 12.56                    | 1.46                   |
| TSD7     | INVENTEC                               | 25,000,000             | 17,550,000                          | 16,224,000                  | 94/11/21   | 1.87                  | 24.75                    | 3.30                   |
| TSD8     | TBB                                    | 25,000,000             | 17,550,000                          | 15,461,000                  | 94/11/21   | 0.975                 | 12.24                    | 0.43                   |
| TSD9     | Novatek                                | 20,000,000             | 14,050,000                          | 675,000                     | 94/11/23   | 1.97                  | 240.75                   | 1.67                   |
| TSE1     | Cheng Vei Precision Industry Co., Ltd. | 20,000,000             | 14,050,000                          | 12,540,000                  | 94/11/24   | 1.273                 | 164.25                   | 1.07                   |
| TSP2     | VIS                                    | 12,500,000             | 8,800,000                           | 7,837,000                   | 94/10/03   | 2.567                 | 34.50                    | 2.23                   |

### Reserve for Trading Losses

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

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

#### *Taiwan Securities*

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

### Reserve for Default Losses

#### *Taiwan Securities and Chang Hwa Bank*

According to the Rules Governing Securities Firms, effective July 1, 2000, securities brokers' reserve for contract loss was changed from 2% of their monthly commission income to 0.0028% of the transaction amount. This reserve may be used only to offset loss from brokerage trading or for items approved by the Securities and Futures Bureau.

#### *Taiwan Futures*

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

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## Reserve for Bad Debt

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

## Futures Commission Merchants' Equity

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

|     | December 31      |                     |                  |                   |
|-----|------------------|---------------------|------------------|-------------------|
|     | 2005             |                     | 2004             |                   |
|     | Foreign Currency | New Taiwan Dollar   | Foreign Currency | New Taiwan Dollar |
| NTD | \$ -             | \$ 3,554,164        | \$ -             | \$ -              |
| USD | \$984            | 32,332              | -                | -                 |
| JPY | 89,615           | 25,056              | -                | -                 |
| GBP | 1                | 12                  | -                | -                 |
| EUR | 1                | 40                  | -                | -                 |
|     |                  | <u>\$ 3,611,604</u> |                  | <u>\$ -</u>       |

## 27. PENSION

Taishin Financial Holding and subsidiaries charge pension costs based on actuarial valuation of its defined benefit pension plan. The status of employee pension plan as of December 31, 2005 and 2004 are summarized as follows:

|  | 2005                   | 2004                 |
|--|------------------------|----------------------|
| Actuarial present value of benefit obligations                 |                        |                      |
| Vested benefits  | \$ ( 1,250,123)        | \$ ( 1,557)          |
| Non-vested benefits  | ( 3,482,937)           | ( 881,933)           |
| Accumulated benefit obligations                                | ( 4,733,060)           | ( 883,490)           |
| Additional benefits estimated for future compensation increase | ( 1,574,440)           | ( 665,374)           |
| Projected benefit obligations                                  | ( 6,307,500)           | ( 1,548,864)         |
| Plan assets at fair value                                      | 2,638,239              | 1,004,327            |
|  | ( 3,669,261)           | ( 544,537)           |
| Unrecognized net transition obligations                        | 75,868                 | 49,545               |
| Unrecognized pension losses                                    | 934,403                | 252,049              |
| Deferred pension costs   | ( 1,568)               | ( 2,024)             |
| Unrecognized net loss on pension costs                         | ( 867)                 | -                    |
| Unamortization of unrecognized pension losses                  | ( 6,406)               | -                    |
| Additional pension liabilities                                 | ( 14,727)              | -                    |
| Prepaid pension costs  | ( 26,288)              | ( 40,998)            |
| Accrued pension liabilities                                    | <u>\$ ( 2,708,846)</u> | <u>\$ ( 285,965)</u> |

As of December 31, 2005 and 2004, the vested benefits of pension plan amount to \$1,306,299 thousand and \$886 thousand, respectively. The assumptions used in the actuarial computations are summarized as follows:

|  | 2005        | 2004        |
|--|-------------|-------------|
| Discount rate                                  | 2.50%~3.25% | 3.25%       |
| Rate of increase in future compensation levels | 2.00%~4.25% | 3.00%~3.50% |
| Expected rates of return on plan assets        | 2.50%~3.25% | 3.25%       |

Net periodic pension costs in 2005 and 2004 are as follows:

|   | 2005              | 2004              |
|---|-------------------|-------------------|
| Service costs                               | \$ 779,657        | \$ 219,570        |
| Interest costs                              | 158,630           | 40,171            |
| Expected returns on plan assets             | ( 78,253)         | ( 29,784)         |
| Amortization of net transition obligations  | 16,015            | 3,685             |
| Amortization of unrecognized pension losses | 2,856             | 4,464             |
| Settlement income                           | ( 7,369)          | -                 |
| Total net periodic pension costs            | <u>\$ 871,536</u> | <u>\$ 238,106</u> |

## 28. CAPITAL STOCK

As of December 31, 2005, Taishin Financial Holding's authorized capital is \$100,000,000 thousand, registered capital stock was \$60,149,993 thousand, divided into 5,123,209 thousand common stock and 900,000 thousand preferred stock at NT\$10.00 dollars par value.

Detail of outstanding capital stock as of December 31, 2005 is as follows:

|  | Common Stock         | Preferred Stock     | Total                |
|--|----------------------|---------------------|----------------------|
| First share swap                                 | \$ 23,000,000        | \$ 7,000,000        | \$ 30,000,000        |
| Less cancellation of preferred shares - A        | -                    | ( 3,000,000)        | ( 3,000,000)         |
| Second share swap                                | 13,316,236           | -                   | 13,316,236           |
| Add convertible bonds converted to common shares | 5,799,867            | -                   | 5,799,867            |
| Add issue of preferred shares - C                | -                    | 5,000,000           | 5,000,000            |
| Add stock dividends distributed                  | 9,308,180            | -                   | 9,308,180            |
| Less cancellation of treasury stock              | ( 192,190)           | -                   | ( 192,190)           |
|  | <u>\$ 51,232,093</u> | <u>\$ 9,000,000</u> | <u>\$ 60,232,093</u> |

On February 18, 2002, Taishin Financial Holding issued 2,300,000 thousand common stock; 300,000 thousand preferred stock - A, and 400,000 thousand preferred stock B to acquire all the issued common stock preferred stock - A and preferred stock B, respectively, of Taishin Bank through a share swap at a 1:1 ratio.

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

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

Taishin Financial Holding's group capital adequacy ratio was 94.10% as of December 31, 2005.

Preferred stock - B amounting to \$4,000,000 thousand with a cumulative, non-participating, and non-convertible dividend at 6.05% per annum are redeemable on June 30, 2006 at NT\$10.00 dollars par value. Preferred stock - B has preference over common stock in dividend distribution.

As of September 28, 2005, preferred stock - C amounting to 15,000,000 thousand (5,000,000 shares) was issued with a cumulative, non-participating and non-convertible dividend at 3.5% per annum, are redeemable on September 28, 2012 at NT\$30.00 dollars per share. Preferred stock - C has preference over common stock but inferior to preferred stock B in dividend distribution.

## 29. CAPITAL SURPLUS

Taishin Financial Holding's capital surplus as of December 31, 2005 is \$24,443,815 thousand, which includes additional paid-in capital of \$1,178,201 thousand from the unappropriated earnings of the financial institutions that swapped shares from Taishin Financial Holding. Under Article 47-4 of the ROC Financial Holding Company Act, distribution of the portion from the original financial institutions' unappropriated earnings is not limited to the guidelines under Article 241-1 of the ROC Company Law.

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## 30. DISTRIBUTION OF EARNINGS AND DIVIDEND POLICY

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

- (a) Payment of income taxes.
- (b) Offset of prior year's losses, if any.
- (c) Legal reserve and if needed, special reserve.
- (d) Dividends to holders of preferred stock B and preferred stock - C at 6.05% and 3.5% per annum based on the NT\$10.00 dollars par value and NT\$30.00 dollars of issue price, respectively.
- (e) 1% to 8% as bonuses to employees and 3% as remuneration to directors and supervisors.
- (f) The remainder, together with the unappropriated retained earnings of previous years, as dividends.

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

In their meeting on June 10, 2005, the shareholders approved the appropriation of the 2004 earnings proposed by the Board of Directors and resolved to distribute from the 2004 earnings cash dividends of NT\$1.30 dollars per share; stock dividends of \$6,456,395 thousand; preferred stock dividends of \$242,000 thousand; bonuses to employees of \$59,412 thousand in cash and of \$237,650 thousand in stock (23,765 thousand shares); and remunerations to directors and supervisors of \$297,062 thousand. The basic earnings per share in 2003 was NT\$2.80 dollars, which would have been NT\$2.65 dollars had the bonuses to employees and remunerations to directors and supervisors been treated as current expenses.

The appropriation of the 2005 earnings has not been approved by the Board of Directors as of March 1, 2006, the date of the accompanying independent auditors' report. Information of earnings appropriation can be accessed online through the Market Observation Post System (MOPS) on the Web site of the Taiwan Stock Exchange.

Under Article 31 of the ROC Financial Holding Company Act, Taishin Financial Holding's subsidiaries holding its parent company's shares for investing purpose should not exercise shareholders' rights on these shares, except for appropriation of earnings and legal reserve and capitalization of capital surplus.

## 31. TREASURY STOCK

In Thousands of Shares

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

|                            | Years Ended December 31, 2004 |          |          |                |
|----------------------------|-------------------------------|----------|----------|----------------|
|                            | Beginning Balance             | Increase | Decrease | Ending Balance |
| Stock held by subsidiaries | 364,715                       | 16,931   | 128,404  | 253,242        |

As of December 31, 2005, the treasury stock held by subsidiaries is summarized as follows:

|              | Shares<br>(In Thousands) | Original Cost (In Dollars)<br>(Per Share) |
|--------------|--------------------------|---|
| Taishin Bank | \$ 254,131               | \$11.90                                   |

These treasury shares were held by Taishin Financial Holding's subsidiaries by means of a share swap made under Article 31 of the ROC Financial Holding Company Act and related rules. The average market price per share of Taishin Financial Holding in December 2005 was \$17.84 dollars.

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

Under Articles 38 and 31 of the ROC Financial Holding Company Act, subsidiaries and investees in which a subsidiary's ownership is

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

In compliance with Article 31 of the ROC Financial Holding Company Act, Taishin Financial Holding's subsidiaries, Taishin Bank and Taiwan Securities, released their holdings of Taishin Financial Holding's shares under the resolutions of the subsidiaries' boards of directors dated October 21 and October 27, 2003, respectively.

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

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

### 32. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation and amortization expenses for the years ended December 31, 2005 and 2004 are summarized as follows:

| Nature                     | Function | 2005           |                   | 2004           |                   |
|----------------------------|----------|----------------|-------------------|----------------|-------------------|
|                            |          | Operating Cost | Operating Expense | Operating Cost | Operating Expense |
| Personnel expenses         |          |                |                   |                |                   |
| Salary                     |          | 236,870        | 10,216,337        | -              | 8,385,527         |
| Labor and health insurance |          | -              | 647,314           | -              | 508,531           |
| Pension                    |          | -              | 1,362,799         | -              | 255,868           |
| Others                     |          | -              | 526,819           | -              | 313,437           |
| Depreciation               |          | -              | 1,162,833         | -              | 818,535           |
| Amortization               |          | -              | 1,996,971         | -              | 1,500,760         |

### 33. INCOME TAX

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

Taishin Financial Holding and its subsidiaries' income tax expenses for the years ended December 31, 2005 and 2004 are as follows:

|  | 2005           | 2004          |
|--|----------------|---------------|
| (Loss) income before income tax  | \$( 6,024,191) | \$ 27,891,822 |
| Permanent differences  |                |               |
| Gain on trading securities   | ( 1,371,153)   | ( 2,266,662)  |
| Gain on sale of tax-exempt collateralized land                                 | ( 56,031)      | -             |
| Gain on sale of long-term investments  | ( 22,996)      | -             |
| Difference on repurchase or resell agreements accounted for as outright sales  | ( 449,466)     | ( 524,732)    |
| Interest on short-term negotiable instrument, separately taxed at 20%          | ( 1,632,639)   | ( 1,042,102)  |
| Loss on trading bonds  | 11,908         | 18,742        |
| Gain on conversion of corporate bonds  | ( 82,606)      | ( 109,568)    |
| Tax-exempt investment income   | ( 27,478)      | 142,911       |
| Operating expenses for tax-exempt bond transactions                            | 53,801         | 48,560        |
| Unrealized loss on (reversal of) trading securities and short-term investments | 290,023        | ( 23,203)     |
| Tax-exempt income from offshore banking unit                                   | ( 928,840)     | ( 114,014)    |
| Investment loss (income) recognized under the equity method                    | 2,470,572      | ( 11,753,314) |

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|   | 2005                          | 2004                       |
|---|-------------------------------|----------------------------|
| Dividend income   | ( 1,103,149)                  | ( 849,598)                 |
| Unrealized loss on decline in market value of long-term investments   | 95,924                        | 90,201                     |
| Unrealized loss on decline in market value of short-term investments  | 5,291                         | -                          |
| Unrealized (gain) loss on derivative instrument   | ( 1,032,380)                  | 198,506                    |
| Expense in excess of tax limit  | 129,516                       | 164,651                    |
| Gain on exchange of warrants and related premium  | 2,304,592                     | 1,530,815                  |
| Others  | ( 109,998)                    | 432,822                    |
|   | <u>( 1,693,858)</u>           | <u>( 14,055,985)</u>       |
| Temporary differences   |                               |                            |
| Reversal of decline in market value of assumed collaterals and residuals                                    | ( 8,793)                      | ( 110,762)                 |
| Investment loss (gain) recognized under the equity method - foreign investee                                | 33,265                        | ( 25,814)                  |
| Provision for guarantee loss in excess of tax limit   | 34,202                        | 144,359                    |
| Deferred provision for organization cost  | ( 6,171)                      | ( 6,020)                   |
| Adjustment for recovered creditor's right cost  | ( 73,204)                     | -                          |
| Provision for bad debt loss in excess of tax limit  | 17,801,480                    | 145,038                    |
| Valuation of derivative instruments   | 11,736                        | 63,639                     |
| Loss on impairment  | 82,640                        | -                          |
| Provision for pension liability   | 17,267                        | ( 3,226)                   |
| Interest capitalization from purchase of creditor's right   | 6,009                         | -                          |
| Capitalization of law enforcement fee   | 2,400                         | -                          |
| Others  | 184,284                       | 74,443                     |
|   | <u>18,119,834</u>             | <u>281,657</u>             |
| Taxable income  | 10,401,785                    | 14,117,494                 |
| Tax rate  | -                             | -                          |
| Current income tax payable  | 2,781,408                     | 1,366,995                  |
| Deferred income tax (benefit) expense   | ( 4,517,736)                  | 2,353,991                  |
| Investment credit   | ( 34,642)                     | ( 95,708)                  |
| Tax on interest income on short-term negotiable instrument, separately taxed at 20%                         | 352,314                       | 246,298                    |
| Income tax benefit - linked tax system  | ( 540,644)                    | ( 297,823)                 |
| Additional 10% income tax on unappropriated earnings  | 358,795                       | 52,756                     |
| Adjustment of prior year's tax estimates  | ( 36,709)                     | ( 137,287)                 |
| Adjusted tax in accordance with Letter No. Tai-Tsai-0930454947  | ( 5,132)                      | -                          |
| Income tax of subsidiaries  | 27,959                        | -                          |
| Income tax expense transferred from withholding tax on bond interest income carried over from prior holders | 4,867                         | -                          |
| Others (income tax of Chang Hwa Bank)   | 291,847                       | -                          |
| Estimated income tax (benefit) expense  | <u><u>\$ ( 1,317,673)</u></u> | <u><u>\$ 3,489,222</u></u> |

As of December 31, 2005 and 2004, the details of Taishin Financial Holding and subsidiaries are as follows:

|   | 2005      | 2004     |
|---|-----------|----------|
| Assets  |           |          |
| Provision for decline in market value of collaterals and residuals taken over | \$ 5,366  | \$ 6,265 |
| Deferred benefit of collaterals and residuals taken-over                      | 14,920    | -        |
| Deferred bond issue cost  | 972       | 1,324    |
| Deferred provision for organization cost                                      | 1,774     | 3,199    |
| Allowance for bad debts in excess of tax limit                                | 4,795,906 | 345,537  |
| Provision for guarantee loss in excess of tax limit                           | 84,898    | 76,348   |



|   | 2005                 | 2004              |
|---|----------------------|-------------------|
| Capitalization of law enforcement fee                               | 1,107                | -                 |
| Capitalization of interest on loans purchased                       | 3,359                | -                 |
| Loss carryforwards  | 19,587,228           | -                 |
| Investment loss recognized under equity method                      | 956                  | -                 |
| Pension cost in excess of tax limit                                 | 8,303                | 3,986             |
| Loss on securities trading default                                  | 40,656               | 24,292            |
| Loss on impairment  | 326,502              | -                 |
| Others  | 1,785,995            | 16,575            |
| Less allowance  | ( 1,278,779)         | -                 |
| Deferred income tax assets  | <u>25,379,163</u>    | <u>477,526</u>    |
| Liabilities   |                      |                   |
| Unrealized exchange gains   | 41,953               | -                 |
| Valuation on derivative instruments                                 | 2,055                | 6,455             |
| Investment income recognized under equity method - foreign investee | 31,785               | 40,101            |
| Others  | <u>90,462</u>        | <u>195,429</u>    |
| Deferred income tax liabilities                                     | <u>166,255</u>       | <u>241,985</u>    |
| Net deferred income tax assets                                      | <u>\$ 25,212,908</u> | <u>\$ 235,541</u> |

Based on the amended ROC Income Tax Law, information on the imputation credit accounts (ICA) is as follows:

|                | December 31, 2005         |                               |                                    |                       |                                 |                 |
|----------------|---------------------------|-------------------------------|------------------------------------|-----------------------|---------------------------------|-----------------|
|                | Taishin Financial Holding | Taishin Bank and Subsidiaries | Taiwan Securities and Subsidiaries | Taishin Bills Finance | Chang Hwa Bank and Subsidiaries | Others          |
| Balance of ICA | <u>\$ 444,680</u>         | <u>\$ 536,281</u>             | <u>\$ 80,001</u>                   | <u>\$ 10,056</u>      | <u>\$ 69,581</u>                | <u>\$ 7,805</u> |

|                | December 31, 2004         |                  |                   |                       |
|----------------|---------------------------|------------------|-------------------|-----------------------|
|                | Taishin Financial Holding | Taishin Bank     | Taiwan Securities | Taishin Bills Finance |
| Balance of ICA | <u>\$ 294,459</u>         | <u>\$ 55,118</u> | <u>\$ 941,472</u> | <u>\$ 82,285</u>      |

The imputed tax credit rates are as follows:

|      | December 31, 2005         |                               |                                    |                       |                                 |                  |
|------|---------------------------|-------------------------------|------------------------------------|-----------------------|---------------------------------|------------------|
|      | Taishin Financial Holding | Taishin Bank and Subsidiaries | Taiwan Securities and Subsidiaries | Taishin Bills Finance | Chang Hwa Bank and Subsidiaries | Others           |
| 2005 | <u>NA</u>                 | <u>NA~33.33%</u>              | <u>NA~41.01%</u>                   | <u>1.34%</u>          | <u>NA~33.33%</u>                | <u>NA~34.50%</u> |
|      | December 31, 2004         |                               |                                    |                       |                                 |                  |
|      | Taishin Financial Holding | Taishin Bank                  | Taiwan Securities                  | Taishin Bills Finance |                                 |                  |
| 2004 | <u>2.33%</u>              | <u>0.52%</u>                  | <u>33.99%</u>                      | <u>12.53%</u>         |                                 |                  |

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

As of December 31, 2005, Taishin Financial Holding's 2002 income tax returns had been examined and cleared by the tax authorities. The income tax returns of Taishin Bank through 2002 had been examined and cleared by the tax authorities. The income tax returns of Taishin Real-Estate, Taishin Insurance Agency, and PayEasy Digital through 2003 had been examined and cleared by the tax authorities.

In regard to the goodwill amortization of \$635,098 thousand from the merger of the First Credit Cooperative of Tainan and Dah An Bank reported in the 2002 income tax returns of Taishin Bank, the tax authorities had disapproved the related expense due to the reason that the goodwill resulted from negotiations of the dealing parties rather than a purchase from open market. Taishin Bank was filing an appeal to a high court.

The income tax returns of Taiwan Securities through 2000 had been examined and cleared by the tax authorities. The income tax returns of Taiwan Futures and Shin Ze through 2003 had been examined and cleared by the tax authorities.

The income tax returns of Taishin Bills Finance through 2002 had been examined and cleared by the tax authorities.

The income tax returns of Taishin AMC through 2002 had been examined and cleared by the tax authorities.

The income tax returns of Taishin Marketing through 2002 had been examined and cleared by the tax authorities.

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

The income tax returns of Chang Hwa Bank and Chang-Yin Insurance Agency through 2002 had been examined and cleared by the tax authorities. The income tax returns of Chang-Yin Insurance Broker had not been examined and cleared by the tax authorities.

Information on unappropriated earnings is as follows:

|                         | December 31, 2005         |                               |                                    |                       |                                 |                   |
|-------------------------|---------------------------|-------------------------------|------------------------------------|-----------------------|---------------------------------|-------------------|
|                         | Taishin Financial Holding | Taishin Bank and Subsidiaries | Taiwan Securities and Subsidiaries | Taishin Bills Finance | Chang Hwa Bank and Subsidiaries | Others            |
| Unappropriated earnings |                           |                               |                                    |                       |                                 |                   |
| Until 1997              | \$ -                      | \$ 237                        | \$ 26,200                          | \$ -                  | \$ -                            | \$ -              |
| From 1998               | 2,682,496                 | (3,034,756)                   | 821,356                            | 613,632               | (36,144,985)                    | 319,281           |
|                         | <u>\$ 2,682,496</u>       | <u>\$ (3,034,519)</u>         | <u>\$ 874,556</u>                  | <u>\$ 613,632</u>     | <u>\$ (36,144,985)</u>          | <u>\$ 319,281</u> |

As stipulated in the Ministry of Finance Letter No. (91) Tai-Tsai-Tax 0910454466, the denominator to be used in the imputed tax credit ratio should include the unappropriated earnings generated from 1998 of the financial institutions that established Taishin Financial through a share swap (these earnings are credited to the capital surplus of the financial holding company). As of December 31, 2005, the capital surplus of Taishin Financial Holding included \$1,085,666 thousand of these post-1998 earnings.

## 34. STOCK-BASED EMPLOYEE COMPENSATION PLAN

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

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

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

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

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

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

The quantity and weighted-average exercise price of the stock warrants under the plan of 2005 are as follows:

|                                      | Plan of 2005 |   |
|--------------------------------------|--------------|---|
|                                      | Unit         | Weighted Average Exercise Price (Dollars) |
| Outstanding units, beginning balance | -            | \$ -                                      |
| Units granted                        | 150,000      | 23.55                                     |
| Units exercised                      | 2,220        | 23.55                                     |
| Outstanding units, ending balance    | 147,780      |   |
| Exercisable units, ending balance    | -            |   |

The quantity and weighted-average exercise price of the stock warrants under the plan 2004 are as follows:

|                                      | Plan of 2004 |   |        |   |
|--------------------------------------|--------------|---|--------|---|
|                                      | 2005         |   | 2004   |   |
|                                      | Unit         | Weighted Average Exercise Price (Dollars) | Unit   | Weighted Average Exercise Price (Dollars) |
| Outstanding units, beginning balance | 77,116       | \$ 24.40                                  | -      | \$ -                                      |
| Units granted                        | -            | -   | 77,549 | 24.40                                     |
| Units exercised                      | 8,067        | 21.20                                     | 433    | 24.40                                     |
| Outstanding units, ending balance    | 69,049       |   | 77,116 |   |
| Exercisable units, ending balance    | -            |   | -      |   |

Disclosures of the outstanding units of the stock warrants as of December 31, 2005 were as follows:

|              | Exercise Price (Dollars) | Outstanding Units | Expected Weighted Average Outstanding Period | Weighted Average Exercise Price (Dollars) | Exercisable Unit | Weighted Average Exercise Price (Dollars) |
|--------------|--------------------------|-------------------|--|---|------------------|---|
| Plan of 2005 | \$ 23.55                 | 147,780           | 9.59 years                                   | \$ 23.55                                  | -                | \$ -                                      |
| Plan of 2004 | 21.20                    | 69,049            | 3.63 years                                   | 21.20                                     | -                | -   |
|              |                          | <u>216,829</u>    |  |   |                  |   |

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Had Taishin Financial Holding recognized the compensation cost of its stock-based employee compensation plan under the fair value method, the related method and assumptions, as of December 31, 2005 would have been as follows:

| Valuation Model | Binomial                     | Plan of 2005 | Plan of 2004 |
|-----------------|------------------------------|--------------|--------------|
| Assumptions     | Dividend yield               | 14.48%       | 15.00%       |
|                 | Expected price volatility    | 32.65%       | 39.39%       |
|                 | Risk-free interest rate      | 1.94%        | 2.36%        |
|                 | Expected outstanding periods | 9.59 years   | 3.63 years   |

|                          |   | The Year Ended<br>December 31, 2005 |
|--------------------------|---|-------------------------------------|
| Net loss (in thousands)  | Net loss recognized in financial statements | \$( 2,913,562)                      |
|                          | Pro forma net loss                          | ( 3,094,949)                        |
| Basic EPS (in dollars)   | Net loss recognized in financial statements | \$( 0.68)                           |
|                          | Pro forma net loss                          | ( 0.72)                             |
| Diluted EPS (in dollars) | Net loss recognized in financial statements | \$( 0.65)                           |
|                          | Pro forma net loss                          | ( 0.69)                             |

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

## 35. EARNINGS PER SHARE

|  | Year ended December 31, 2005 |                |   |                                 |           |
|--|------------------------------|----------------|---|---------------------------------|-----------|
|  | Income (Numerator)           |                | Shares in<br>Thousands<br>(Denominator) | Earnings Per Share<br>(Dollars) |           |
|  | Pre-Tax                      | Post-Tax       |   | Pre-Tax                         | Post-Tax  |
| Consolidated income (of the parent company's shareholders)           | \$( 4,456,506)               | \$( 2,913,562) |   |                                 |           |
| Less preferred stock dividends                                       | ( 378,644)                   | ( 378,644)     |   |                                 |           |
| Basic earnings per share   |                              |                |   |                                 |           |
| Net loss of common shareholders                                      | ( 4,835,150)                 | ( 3,292,206)   | 4,830,644                               | \$ (1.00)                       | \$ (0.68) |
| Dilutive effect of common shares - convertible bonds                 | 5,476                        | 5,476          | 204,001                                 |                                 |           |
| Dilutive effect of common shares - employee stock warrants           | -                            | -              | 2,085                                   |                                 |           |
| Diluted earnings per share   |                              |                |   |                                 |           |
| Net loss of common shareholders and effect of dilutive common shares | \$( 4,829,674)               | \$( 3,286,730) | 5,036,730                               | \$ (0.96)                       | \$ (0.65) |

|  | Year ended December 31, 2004 |               |   |                                 |          |
|--|------------------------------|---------------|---|---------------------------------|----------|
|  | Income (Numerator)           |               | Shares in<br>Thousands<br>(Denominator) | Earnings Per Share<br>(Dollars) |          |
|  | Pre-Tax                      | Post-Tax      |   | Pre-Tax                         | Post-Tax |
| Consolidated income (of the parent company's shareholders) | \$ 14,793,784                | \$ 11,304,562 |   |                                 |          |
| Less preferred stock dividends                             | ( 242,000)                   | ( 242,000)    |   |                                 |          |
| Basic earnings per share                                   |                              |               |   |                                 |          |
| Net income of common shareholders                          | 14,551,784                   | 11,062,562    | 4,547,472                               | \$ 3.20                         | \$ 2.43  |

|  | Year ended December 31, 2004 |                      |   |                                 |                |
|--|------------------------------|----------------------|---|---------------------------------|----------------|
|  | Income (Numerator)           |                      | Shares in<br>Thousands<br>(Denominator) | Earnings Per Share<br>(Dollars) |                |
|  | Pre-Tax                      | Post-Tax             |   | Pre-Tax                         | Post-Tax       |
| Dilutive effect of common shares - employee stock warrants             | -                            | -                    | 4,176                                   |                                 |                |
| Diluted earnings per share   |                              |                      |   |                                 |                |
| Net income of common shareholders and effect of dilutive common shares | <u>\$ 14,629,050</u>         | <u>\$ 11,139,828</u> | <u>4,977,083</u>                        | <u>\$ 2.94</u>                  | <u>\$ 2.24</u> |

Earnings per share in 2004 had been retroactively adjusted for the effect of the distribution of stock dividends and employee bonuses in 2004.

### 36. RELATED-PARTY TRANSACTIONS

Names and relationships of related parties are as follows:

| Name   | Relationship   |
|--|--|
| Dah An Leasing Co., Ltd.                               | Equity-method investee   |
| An Hsin Real-Estate Management Co., Ltd.               | Same as above  |
| Taishin Venture Capital Investment Co., Ltd.           | Same as above  |
| Shin Kong Computer Service Co., Ltd.                   | Its president is Taishin Bank's chairman   |
| Taishin Bank Employee's Welfare Institution            | Its president is Taishin Financial Holding's CEO   |
| Shin Kong Synthetic Fibers Corp.                       | Its chairman is a member of the immediate family of Taishin Financial Holding's chairman |
| Taiwan Securities Investment Trust Co., Ltd.           | Same as above  |
| Shin Kong Life Insurance Co., Ltd.                     | Same as above  |
| Shin Kong Spinning Co., Ltd.                           | Same as above  |
| Shin Kong Fire & Marine Insurance Co., Ltd.            | Same as above  |
| Shin Kong Financial Holding Co., Ltd.                  | Same as above  |
| Wang Tien Woollen Textile Co., Ltd.                    | Same as above  |
| The Great Taipei Gas Corp.                             | Same as above  |
| Taiwan Leasing & Financing Co., Ltd.                   | Same as above  |
| Centillion Venture Capital Corp.                       | Same as above  |
| Jupiter Venture Capital Co., Ltd.                      | Same as above  |
| Mercury Venture Capital Co., Ltd.                      | Same as above  |
| Shin Kong Investment Trust Co., Ltd.                   | Same as above  |
| Shin Kong Co., Ltd.                                    | Same as above  |
| Shinshen Co., Ltd.                                     | Same as above  |
| Taiwan Securities Investment Advisory Co., Ltd.        | Related party in substance   |
| Taiwan Managed Futures Co., Ltd.                       | Same as above  |
| Tai Chen (BVI) Co., Ltd.                               | Same as above  |
| Taiwan Securities (Hong Kong) Co., Ltd.                | Same as above  |
| TSC Capital Limited                                    | Same as above  |
| PayEasy Travel Service Co., Ltd.                       | Same as above  |
| Taishin International Investment Development Co., Ltd. | Same as above  |
| International Bank of Taipei                           | Same as above  |
| Shin Kong Life Real Estate Service Co., Ltd.           | Same as above  |
| Taiwan Shin Kong Securities Co., Ltd.                  | Same as above  |
| Taishin Leasing & Financing Co., Ltd.                  | Same as above  |
| Fu Mei Co., Ltd.                                       | Same as above  |
| Ming Huang Investment Co., Ltd.                        | Same as above  |
| Cheun Chang Development Ltd.                           | Same as above  |
| CyberSoft Digital Service Corp.                        | Same as above  |

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| Name   | Relationship  |
|--|---------------|
| Heng Chang Development Co., Ltd.               | Same as above |
| Taiwan Business Bank Co., Ltd.                 | Same as above |
| The First Commercial Bank Co., Ltd.            | Same as above |
| Shin Kong Commercial Bank Co., Ltd.            | Same as above |
| Cerberus Asia Capital Management, Co., Ltd.    | Same as above |
| Cerberus I Asia Capital Management Co., Ltd.   | Same as above |
| Nanko Industrial Co., Ltd.                     | Same as above |
| Cerberus III Asia Capital Management Co., Ltd. | Same as above |

## Material Transactions with Related Parties

### Loans, Deposits and Guaranteed Loans

| Item   | Year Ended December 31, 2005 |                |  |  |
|--|------------------------------|----------------|--|--|
|  | Ending Balance               | Highest Amount | Interest and Service Charge Rate (Per Annum %) | Interest and Service Revenue (Expense) |
| <b>Loans to related parties</b>                        |                              |                |  |  |
| Shin Kong Synthetic Fibers Corp.                       | \$ 1,276,923                 | \$ 1,276,923   | 1.300~3.400                                    | \$ 17,699                              |
| Wang Tien Woollen Textile Co., Ltd.                    | 180,000                      | 200,000        | 2.100~3.000                                    | 2,463                                  |
| Fu Mei Co., Ltd.                                       | 203,000                      | 426,000        | 1.980~2.400                                    | 4,504                                  |
| Ming Huang Investment Co., Ltd.                        | 160,000                      | 160,000        | 2.540~2.670                                    | 4,100                                  |
| Taishin Leasing & Financing Co., Ltd.                  | 243,000                      | 350,000        | 1.670~7.690                                    | 3,114                                  |
| Taishin International Investment Development Co., Ltd. | 139,000                      | 323,000        | 1.670~1.880                                    | 2,305                                  |
| Others   | 874,281                      |                |  | 57,607                                 |
|  | <u>\$ 3,076,204</u>          |                |  | <u>\$ 91,792</u>                       |
| <b>Guarantee for loans of related parties</b>          |                              |                |  |  |
| Others   | \$ 21,590                    |                |  | \$ 5,810                               |
| <b>Deposits from related parties</b>                   |                              |                |  |  |
| Shin Kong Life Insurance Co., Ltd.                     | \$ 1,596,131                 |                | 0.000~1.950                                    | \$( 4,938)                             |
| Shin Kong Fire & Marine Insurance Co., Ltd.            | 422,611                      |                | 0.000~1.800                                    | ( 457)                                 |
| Dah An Leasing Co., Ltd.                               | 166,066                      |                | 0.150~0.150                                    | ( 249)                                 |
| Jupiter Venture Capital Co., Ltd.                      | 263,438                      |                | 0.150~2.000                                    | ( 1,867)                               |
| Mercury Venture Capital Co., Ltd.                      | 352,119                      |                | 0.150~2.000                                    | ( 2,568)                               |
| Taishin Bank Employee's Welfare Institution            | 245,120                      |                | 0.150~1.550                                    | ( 2,770)                               |
| Taiwan Securities Investment Trust Co., Ltd.           | 130,177                      |                | 0.150~1.890                                    | ( 2,166)                               |
| Centillion Venture Capital Corp.                       | 201,275                      |                | 0.150~1.230                                    | ( 515)                                 |
| Shin Kong Synthetic Fibers Corp.                       | 229,630                      |                | 0.000~1.800                                    | ( 2,128)                               |
| Others   | 1,407,840                    |                |  | ( 10,103)                              |
|  | <u>\$ 5,014,407</u>          |                |  | <u>\$( 27,761)</u>                     |

As of December 31, 2005, the balance of deposits from and lending to related parties of Chang Hwa Bank amounted to \$2,501,141 thousand and \$38,300,864 thousand, respectively, with the interest rate ranged from 0.000% to 13.000% and 1.440% to 10.000%, respectively.

| Item   | Year Ended December 31, 2004 |                |  |  |
|--|------------------------------|----------------|--|--|
|  | Ending Balance               | Highest Amount | Interest and Service Charge Rate (Per Annum %) | Interest And Service Revenue (Expense) |
| <b>Loans to related parties</b>                |                              |                |  |  |
| ShinKong Co., Ltd.                             | \$ 550,000                   | \$ 550,000     | 1.400~1.550                                    | \$ 3,251                               |
| Shinshen Co., Ltd.                             | 1,425,000                    | 1,425,000      | 3.700~3.860                                    | 53,415                                 |
| Shin Kong Synthetic Fibers Corp.               | 1,163,846                    | 1,403,077      | 0.600~2.950                                    | 22,604                                 |
| Wang Tien Woollen Textile Co., Ltd.            | 250,000                      | 580,000        | 3.000~3.200                                    | 11,036                                 |
| Tan Asian Plastics Co., Ltd.                   | 200,000                      | 514,700        | 1.600~3.750                                    | 5,156                                  |
| Ming Huang Investment Co., Ltd.                | 160,000                      | 160,000        | 2.450~2.620                                    | 3,918                                  |
| Fu Me Co., Ltd.                                | 213,000                      | 223,994        | 2.200~2.400                                    | 4,809                                  |
| Taiwan Shin Kong Securities Co., Ltd.          | 100,000                      | 290,000        | 1.700~2.450                                    | 4,825                                  |
| Others   | 420,962                      |                |  | 12,156                                 |
|  | <u>\$ 4,482,808</u>          |                |  | <u>\$ 121,170</u>                      |
| <b>Guarantees for loans of related parties</b> |                              |                |  |  |
| Shin Kong Synthetic Fibers Corp.               | \$ 21,166                    | \$ 908,052     | 0.500~0.600                                    | \$ 4,447                               |
| Others   | 1,564                        |                |  | 3,647                                  |
|  | <u>\$ 22,730</u>             |                |  | <u>\$ 8,094</u>                        |
| <b>Deposits from related parties</b>           |                              |                |  |  |
| Shin Kong Life Insurance Co., Ltd.             | \$ 941,866                   |                | 0.000~2.150                                    | \$( 14,047)                            |
| Taishin Insurance Agency                       | 433,091                      |                | 0.000~0.150                                    | ( 467)                                 |
| Taiwan Futures                                 | 1,546,315                    |                | 0.000~1.300                                    | ( 4,611)                               |
| Jupiter Venture Capital Co., Ltd.              | 132,924                      |                | 0.000~1.350                                    | ( 1,104)                               |
| Mercury Venture Capital Co., Ltd.              | 151,094                      |                | 0.000~1.350                                    | ( 1,225)                               |
| Shin Kong Synthetic Fibers Corp.               | 199,948                      |                | 0.000~0.650                                    | ( 2,241)                               |
| Taishin Investment Trust Co., Ltd.             | 198,286                      |                | 0.000~1.400                                    | ( 1,075)                               |
| Dah An Leasing Co., Ltd.                       | 165,152                      |                | 0.000~0.150                                    | ( 95)                                  |
| Others   | 1,903,736                    |                |  | ( 8,948)                               |
|  | <u>\$ 5,672,412</u>          |                |  | <u>\$( 33,813)</u>                     |

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

### Trading Securities

| Related Parties                       | Year Ended December 31, 2005        |                                  |                     |                             |                |                             |
|---------------------------------------|-------------------------------------|----------------------------------|---------------------|-----------------------------|----------------|-----------------------------|
|                                       | Purchase Price (Accumulated Amount) | Sales Price (Accumulated Amount) | Repurchase Price    |                             | Resell Price   |                             |
|                                       |                                     |                                  | Ending Balance      | Interest Rate (Per Annum %) | Ending Balance | Interest Rate (Per Annum %) |
| Shin Kong Life Insurance Co., Ltd.    | \$ -                                | \$ -                             | \$ 1,796,860        | 1.150~1.450                 | \$ -           | -                           |
| Shin Kong Financial Holding Co., Ltd. | -                                   | -                                | 349,220             | 1.150~1.450                 | -              | -                           |
|                                       | <u>\$ -</u>                         | <u>\$ -</u>                      | <u>\$ 2,146,080</u> |                             | <u>\$ -</u>    |                             |

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| Related Parties                       | Year Ended December 31, 2004              |  |                     |                                |                   |                                |
|---------------------------------------|---|--|---------------------|--------------------------------|-------------------|--------------------------------|
|                                       | Purchase Price<br>(Accumulated<br>Amount) | Sales Price<br>(Accumulated<br>Amount) | Repurchase Price    |                                | Resell Price      |                                |
|                                       |   |  | Ending<br>Balance   | Interest Rate<br>(Per Annum %) | Ending<br>Balance | Interest Rate<br>(Per Annum %) |
| Shin Kong Life Insurance Co., Ltd.    | \$ 454,060                                | \$ 3,799,277                           | \$ 2,873,410        | 0.880~1.150                    | \$ -              | -                              |
| Shin Kong Financial Holding Co., Ltd. | -   | -                                      | 501,712             | 0.830~1.140                    | -                 | -                              |
| Others                                | 197,550                                   | 194,944                                | -                   | -                              | -                 | -                              |
|                                       | <u>\$ 651,610</u>                         | <u>\$ 3,994,221</u>                    | <u>\$ 3,375,122</u> |                                | <u>\$ -</u>       |                                |

## Other Material Transactions and Liability Contracts with Related Parties

| Item                                    | Related Party  | December 31 |                        |              |                        |
|---|--|-------------|------------------------|--------------|------------------------|
|   |  | 2005        |                        | 2004         |                        |
|   |  | Amount      | Percentage of Item (%) | Amount       | Percentage of Item (%) |
| Bonds purchased under resell agreements | Taishin Leasing and Financing Co., Ltd.                | \$ -        | -                      | \$ 1,056,614 | 5                      |
|   | Taishin International Investment Development Co., Ltd. | -           | -                      | 788,350      | 3                      |
| Operating Expenses                      | CyberSoft Digital Service Corp.                        | 532,351     | 2                      | 474,337      | 2                      |

As of December 31, 2005 and 2004, Taisin Venture Capital Investment holds 9,849,343.64 units and 17,095,569.71 units of beneficiary certificates issued by Shin Kong Investment Trust in the amount of \$146,896 thousand and \$245,000 thousand, respectively.

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

## Due from Related Parties and Due to Related Parties

The detail of Taishin Financial Holding and subsidiaries' due from related parties is as follows:

| Name of Related Parties         | Department         | Highest Balance For the year | Ending Balance | Maximum Limit                                     | Interest Rate % | Interest Income |
|---------------------------------|--------------------|------------------------------|----------------|---|-----------------|-----------------|
| First Commercial Bank Co., Ltd. | Head office        | NT\$5,000,000                | -              | None  | 1.21~3.29       | NT\$ 5,467      |
|                                 | OBU                | US\$ 86,876                  | US\$ 71,696    | US\$80,000 over night and 180 days                | 0.04~4.89       | US\$ 1,974      |
|                                 | Singapore branch   | US\$ 20,000                  | US\$ 20,000    | US\$40,000 over night and 180 days for US\$40,000 | 2.36~4.34       | US\$ 220        |
|                                 | New York branch    | US\$ 35,000                  | US\$ 35,000    | US\$40,000 over night and 180 days for US\$50,000 | 2.27~3.53       | US\$ 208        |
|                                 | Los Angeles branch | US\$ 20,000                  | US\$ 20,000    | US\$40,000 over night and 180 days for US\$20,000 | 2.36            | US\$ 149        |
|                                 | London branch      | US\$ 10,000                  | -              | US\$40,000 over night and 180 days for US\$20,000 | 2.24            | US\$ 11         |



| Name of Related Parties        | Department         | Highest Balance For the year | Ending Balance | Maximum Limit                                     | Interest Rate % | Interest Income |
|--------------------------------|--------------------|------------------------------|----------------|---|-----------------|-----------------|
| Taiwan Business Bank Co., Ltd. | Head office        | NT\$4,000,000                | NT\$2,000,000  | None  | 1.15~1.49       | NT\$ 10,311     |
|                                | OBU                | US\$119,832                  | US\$ 35,000    | US\$80,000 over night and 180 days for US\$40,000 | 0.03~7.25       | US\$ 1,849      |
|                                | Singapore branch   | US\$ 15,000                  | -              | US\$40,000 over night and 180 days for US\$20,000 | 2.33~4.135      | US\$ 395        |
|                                | New York branch    | US\$ 20,000                  | US\$ 9,000     | US\$80,000 over night and 180 days                | 2.55~4.00       | US\$ 335        |
|                                | Los Angeles branch | US\$ 34,000                  | US\$ 34,000    | US\$40,000 over night and 180 days for US\$20,000 | 4.24            | US\$ 164        |
|                                | London branch      | US\$ 500                     | -              | US\$40,000 over night and 180 days for US\$20,000 | 3.15            | -               |
|                                |                    | EUR€ 2,200                   | -              | US\$40,000 Over night and 180 days                | 2.17            | EUR€ 1          |

The detail of Taishin Financial Holding and subsidiaries' due to related parties is as follows:

| Name of Related Parties         | Department         | Highest Balance For the year | Ending Balance | Maximum Limit             | Interest Rate % | Interest Income |
|---------------------------------|--------------------|------------------------------|----------------|---------------------------|-----------------|-----------------|
| First Commercial Bank Co., Ltd. | Head office        | NT\$2,000,000                | -              | According to counterparts | 1.19~1.45       | NT\$ 4,852      |
|                                 | OBU                | US\$ 37,000                  | -              | According to counterparts | 0.035~5.45      | US\$ 277        |
|                                 | Singapore branch   | US\$ 10,000                  | US\$ 10,000    | According to counterparts | 1.85~4.465      | US\$ 58         |
|                                 | New York branch    | US\$ 70,000                  | US\$ 70,000    | According to counterparts | 2.51~3.75       | US\$ 605        |
|                                 | Los Angeles branch | US\$ 30,000                  | US\$ 30,000    | According to counterparts | 2.53~2.635      | US\$ 444        |
|                                 | London branch      | US\$ 15,000                  | -              | According to counterparts | 3.65~4.01       | US\$ 5          |
|                                 |                    | EUR€ 3,000                   | EUR€ 3,000     | According to counterparts | 2.26            | EUR€ 23         |
| Taiwan Business Bank Co., Ltd.  | Head office        | NT\$3,000,000                | -              | According to counterparts | 1.21~1.45       | NT\$ 8,941      |
|                                 | OBU                | US\$126,375                  | US\$ 35,000    | According to counterparts | 1.90~5.60       | US\$ 1,324      |
|                                 | Singapore branch   | US\$ 853                     | -              | According to counterparts | 0.045~0.05      | -               |
|                                 | New York branch    | US\$ 40,000                  | -              | According to counterparts | 2.61~3.785      | US\$ 272        |
|                                 | Los Angeles branch | US\$ 25,000                  | US\$ 25,000    | According to counterparts | 2.74~4.09       | US\$ 363        |
|                                 | London branch      | US\$ 28,000                  | US\$ 7,70      | According to counterparts | 3.17~3.247      | US\$ 391        |
|                                 |                    | EUR€ 800                     | -              | According to counterparts | 2.05            | EUR€ 1          |

### 37. PLEDGED ASSETS

As of December 31, 2005 and 2004 the assets pledged were as follows:

| Pledged Assets                       | Description                         | December 31   |               |
|--------------------------------------|-------------------------------------|---------------|---------------|
|                                      |                                     | 2005          | 2004          |
| Refundable collaterals               | Bonds, certificates of time deposit | \$ 15,700,619 | \$ 13,779,840 |
| Refundable deposits                  | Cash, bonds                         | 7,408,886     | 3,408,340     |
| Operating deposits                   | Cash, bonds, bank notes             | 1,235,000     | 1,946,387     |
| Settlement funds                     | Cash                                | 474,458       | 348,814       |
| Trading securities - trading         | Corporate bonds                     | 167,000       | 207,000       |
| Trading securities - dealing         | Bonds, marketable equity security   | 329,000       | 2,222,666     |
| Certificates of time deposit pledged | -                                   | 48,500        | 83,429        |
| Property and equipment, net          | Land and buildings                  | 1,309,213     | 1,311,244     |
| Rental assets, net                   | Land and buildings                  | 245,422       | 299,985       |

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## 38. CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2005 and 2004, Taishin Financial Holding and subsidiaries have the following contingent liabilities and commitments, in addition to those mentioned in "Derivative Instruments" (Note 40):

|   | 2005          | 2004          |
|---|---------------|---------------|
| Guarantees                                      | \$ 74,251,951 | \$ 36,178,969 |
| Letters of credit                               | 38,036,647    | 8,036,492     |
| Trust assets                                    | 139,108,870   | 120,675,974   |
| Unpaid equipment purchase contracts             | 883,351       | 1,568,110     |
| Unused loan commitments (excluding credit card) | 126,545,520   | 114,110,456   |
| Unused loan commitments (credit card only)      | 401,133,693   | 439,207,191   |

As of December 31, 2005 please refer to Note 9 for the details of unpaid construction contracts of Chang Hwa Bank.

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

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

(b) As of December 31, 2005, the estimated future lease payments under the lease contracts are as follows:

|      | Amount     |  |
|------|------------|--|
| 2006 | \$ 418,873 |  |
| 2007 | 272,949    |  |
| 2008 | 115,038    |  |
| 2009 | 87,653     |  |
| 2010 | 226,542    | (Including lease payments after the 5 <sup>th</sup> year with the net present value of NT\$117,981 thousand) |

As of December 31, 2005 Chang Hwa Bank has the following major commitments relating to trust and payables activities:

|   | Amount        |
|---|---------------|
| The liabilities that resulted from trust agencies | \$ 53,431,913 |
| Property held for trust                           | 30            |
| Traveler's checks received on consignment         | 635,646       |
| The collection payable for customers              | 104,232,799   |
| Government bonds agencies                         | 24,809,300    |
| Short-term bills and securities agencies          | 31,467,932    |
| Underwriting of securities                        | 579,414       |

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

As of December 31, 2005, the estimated future lease payments of Taiwan Securities and its subsidiaries under the significant lease contracts is \$354,873 thousand.

## 39. SUBSEQUENT EVENTS

In order to enhance the financial structure and the capital adequacy ratio, with the approval in the special shareholders' meeting on December 28, 2005, Taishin Financial Holding decided to issue common stock, preferred stock D and unsecured convertible bonds with private placements aggregating not more than \$35 billion. On January 26, 2006 and February 6, 2006, the board of directors approved the issue of \$7 billion unsecured convertible bonds at par value, as well as 555,556 thousand shares of common stock and 777,778 thousand shares of preferred stock D at NT\$18.00 dollars per share. The total amount for the private placement was \$31 billion.

Taiwan Securities planned to merge with Dong Shi Securities Co., Ltd., and is now negotiating on the merger and price with Dong Shi Securities Co., Ltd.

#### 40. DERIVATIVE INSTRUMENTS

Taishin Financial Holding engages in nontrading and interest rate swaps to manage its capital risk.

##### *Contract (Notional) Amount and Credit Risk*

| Financial Instrument | December 31     |             |                 |             |
|----------------------|-----------------|-------------|-----------------|-------------|
|                      | 2005            |             | 2004            |             |
|                      | Contract Amount | Credit Risk | Contract Amount | Credit Risk |
| Interest rate swaps  | \$ 250,000      | \$ -        | \$ 10,000,000   | \$ -        |

Credit risk refers to the counter-party's default on contracts. The above credit risk amounts shown above pertain to contracts with a positive fair value on balance sheet date. They represent Taishin Financial Holding's potential loss, considering potential exposures and credit risk factors, if the counter-parties breach the contracts.

The counter-party of Taishin Financial Holding in its derivative transactions is Taishin Bank, Taishin Financial Holding's wholly owned subsidiary. Therefore, Taishin Financial Holding anticipates low possibilities of defaults by counter-party.

##### **Market Price Risk**

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

|                    | December 31 |            |
|--------------------|-------------|------------|
|                    | 2005        | 2004       |
| Interest rate risk | \$ 6,875    | \$ 106,300 |

##### **Liquidity Risk, Cash Flow Risk and Uncertainty on Future Cash Demand**

The expected cash inflows and outflows as a result of using nontrading-based derivative financial instruments are as follows:

| Financial Instrument | Period                                 | Amount   |
|----------------------|--|----------|
| Interest rate swaps  | December 31, 2005 to December 31, 2006 | \$ 2,175 |

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

Taishin Financial Holding has sufficient working capital to engage in derivative transactions and therefore does not require material additional cash inflows.

##### **Presentation of Derivative Transactions in Financial Statements**

The gain or loss from cross-currency swaps and interest rate swaps is recognized as interest revenues or interest expenses in the income statement. The actual net gain (loss) on derivative transactions is shown below:

|                      | December 31 |             |
|----------------------|-------------|-------------|
|                      | 2005        | 2004        |
| Cross-currency swaps | \$ -        | \$ ( 1,989) |
| Interest rate swaps  | 58,839      | 39,710      |

# V. Financial Statements

## Fair Value of Financial Instruments

| Financial Instrument  | December 31           |                       |                      |                      |
|---|-----------------------|-----------------------|----------------------|----------------------|
|   | 2005                  |                       | 2004                 |                      |
|   | Carrying Value        | Fair Value            | Carrying Value       | Fair Value           |
| <b>Financial assets</b>                                       |                       |                       |                      |                      |
| Financial assets with fair value equal to carrying value      | \$ 117,399,298        | \$ 117,399,298        | \$ 98,153,920        | \$ 98,153,920        |
| Nontrading financial assets                                   | 119                   | 119                   | 5,655                | 5,655                |
|   | <u>\$ 117,399,417</u> | <u>\$ 117,399,417</u> | <u>\$ 98,159,575</u> | <u>\$ 98,159,575</u> |
| <b>Financial liabilities</b>                                  |                       |                       |                      |                      |
| Financial liabilities with fair value equal to carrying value | \$ 36,191,303         | \$ 36,191,303         | \$ 24,331,467        | \$ 24,331,467        |
| Nontrading financial liabilities                              | -                     | -                     | -                    | -                    |
|   | <u>\$ 36,191,303</u>  | <u>\$ 36,191,303</u>  | <u>\$ 24,331,467</u> | <u>\$ 24,331,467</u> |

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

- The fair value of short-term financial instruments is determined at their carrying values on the balance sheet date because of their short maturities. The fair value of refundable deposits is also based on carrying value because these have no due dates.
- The market value of long-term equity investments is not available for reference, other information is used to estimate the fair value. The carrying value of Taishin Financial Holding's long-term equity investments equaled to its fair value. In addition, the book value of long-term equity investment in Chang Hwa Bank's private placement of preferred stock B amounted to \$36,557,298 thousand as of December 31, 2005. As of December 31, 2005, Taishin Financial Holding's long-term equity investment in Chang Hwa Bank's private placement of preferred stock - B in 1,400,000 thousand shares amounts to \$36,557,298 thousand. Assuming preferred stock - B was converted to common stock at the ratio of 1 for 1 in accordance with the issuing terms, but at the stock closing price of Chang Hwa Bank on December 31, 2005, the value of the investment would be \$23,044,000 thousand. However, after the test on asset impairment was performed with recoverable amounts from the tested assets, there is no material impairment on assets under the test as of December 31, 2005. Please refer to Note 13 for further information.
- The fair value of derivative financial instruments is the amount that Taishin Financial Holding expects to obtain or has to pay, if Taishin Financial Holding terminates these contracts on balance sheet date, which normally unrealized gain or loss from the unsettled contracts.

## TAISHIN BANK

Taishin Bank engages in various derivative instruments, including forward exchange contracts, currency swap agreements, cross-currency swaps, interest rate swaps, options, forward interest rate agreements, futures contracts, etc. to fulfill customers' needs, as well as to manage Taishin Bank's asset and liability positions and credit risk.

## Trading-Based Derivative Financial Instrument

### Contract (Notional) Amount and Credit Risk

| Financial Instrument       | December 31     |             |                 |              |
|----------------------------|-----------------|-------------|-----------------|--------------|
|                            | 2005            |             | 2004            |              |
|                            | Contract Amount | Credit Risk | Contract Amount | Credit Risk  |
| Currency swaps             | \$ 158,647,195  | \$ 788,233  | \$ 289,582,596  | \$ 1,131,668 |
| Forward exchange contracts | 51,075,366      | 521,980     | 69,629,574      | 488,316      |
| Interest rate swaps        | 1,186,071,029   | 2,880,048   | 669,534,907     | 2,598,495    |
| Cross-currency swaps       | 51,249,337      | 536,175     | 58,568,439      | 812,227      |
| Currency options           | 62,647,734      | 913,518     | 198,619,022     | 2,494,021    |
| Interest rate options      | 149,979,250     | 125,568     | 47,929,945      | 29,071       |
| Future options             | 782             | -           | 925             | -            |
| Commodity options          | 1,908,585       | 38,402      | -               | -            |

| Financial Instrument             | December 31     |             |                 |             |
|----------------------------------|-----------------|-------------|-----------------|-------------|
|                                  | 2005            |             | 2004            |             |
|                                  | Contract Amount | Credit Risk | Contract Amount | Credit Risk |
| Forward interest rate agreements | 25,425,000      | 4,486       | 20,962,650      | 5,735       |
| Interest rate futures            | 7,491,557       | -           | 1,492,592       | -           |
| Index futures                    | 214,642         | -           | 107,964         | -           |
| Credit default swaps             | 15,781,850      | 124,294     | -               | -           |

Credit risk refers to the counter-party's default on contracts. The credit risk amounts listed above pertain to contracts with a positive fair value on balance sheet date. They represent the companies' potential loss, considering potential exposures and credit risk factors, if the counter-parties breach the contracts. It is Taishin Bank's policy to enter into derivative transactions with creditworthy financial institutions and trade within given credit limits. Therefore, Taishin Bank anticipates low possibilities of defaults by counter-parties.

### Market Price Risk

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

|                    | December 31         |                     |
|--------------------|---------------------|---------------------|
|                    | 2005                | 2004                |
| Exchange rate risk | \$ 82,663           | \$ 346,953          |
| Interest rate risk | 1,754,082           | 1,728,168           |
|                    | <u>\$ 1,836,745</u> | <u>\$ 2,075,121</u> |

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

Taishin Bank's expected cash inflows on trading-based derivative financial instruments are as follows:

| Financial Instrument       | Period                                 | Amount         |
|----------------------------|--|----------------|
| Currency swaps             | December 31, 2005 to December 31, 2006 | \$( 1,260,720) |
| Forward exchange contracts | December 31, 2005 to December 31, 2006 | 112,007        |
| Interest rate swaps        | December 31, 2005 to December 31, 2006 | 466,856        |
| Cross-currency swaps       | December 31, 2005 to December 31, 2006 | ( 28,448)      |
| Currency options           | December 31, 2005 to December 31, 2006 | 76,674         |

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

Taishin Bank has sufficient working capital to engage in derivative transactions and therefore do not require material additional cash inflows.

### Net Gains and Losses on Derivative Transactions

The net gains (losses) on trading-based derivative transactions are as follows:

|                            | Years Ended December 31 |                |
|----------------------------|-------------------------|----------------|
|                            | 2005                    | 2004           |
| Forward exchange contracts | \$ 3,823,363            | \$( 1,230,834) |
| Currency swaps             | 684,757                 | 393,763        |
| Interest rate swaps        | 999,846                 | 1,298,673      |
| Cross-currency swaps       | ( 83,648)               | 46,535         |
| Currency options           | ( 240,028)              | ( 481,821)     |
| Interest rate options      | ( 22,561)               | 154,793        |
| Future options             | ( 9,123)                | ( 108)         |

# V. Financial Statements

|                                  | Years Ended December 31 |                   |
|----------------------------------|-------------------------|-------------------|
|                                  | 2005                    | 2004              |
| Commodity options                | 1,747                   | -                 |
| Forward interest rate agreements | 11,471                  | ( 4,874)          |
| Interest rate futures            | 27,586                  | 6,635             |
| Index futures                    | ( 51,699)               | 34,070            |
| Credit default swaps             | ( 9,539)                | -                 |
|                                  | <u>\$ 5,132,172</u>     | <u>\$ 216,832</u> |

## Nontrading-Based Derivative Financial Instrument

### Contract (Notional) Amount and Credit Risk

| Financial Instrument | December 31     |             |                 |             |
|----------------------|-----------------|-------------|-----------------|-------------|
|                      | 2005            |             | 2004            |             |
|                      | Contract Amount | Credit Risk | Contract Amount | Credit Risk |
| Currency swaps       | \$ 63,934,895   | \$ 264,430  | \$ 125,934,798  | \$ 627,935  |
| Cross-currency swaps | 5,424,570       | 58,996      | 4,723,009       | 424,234     |
| Interest rate swaps  | 17,600,000      | 43,826      | 66,942,481      | 235,101     |
| Currency options     | -               | -           | 15,836,657      | 68,444      |

Credit risk refers to the risk arising from the counter-party's default on contracts. The credit risk amounts listed above pertain to contracts with a positive fair value on balance sheet date. They represent Taishin Bank's potential loss, considering potential exposures and credit risk factors, if the counter-parties breach the contracts. It is Taishin Bank's policy to enter into derivative transactions with creditworthy financial institutions and trade within given credit limits. Therefore, Taishin Bank anticipates low possibilities of defaults by counter-parties.

### Market Price Risk

Market price risk refers to the risk arising from exchange rate and interest rate fluctuations in the market. Taishin Bank and subsidiaries enter into derivative transactions with reputable international financial institutions to minimize the specified risk. Therefore, the market price risk is not expected to be significant.

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

The expected cash inflows and outflows as a result of using nontrading-based derivative financial instruments is as follows:

| Financial Instrument | Period                                 | Amount    |
|----------------------|--|-----------|
| Currency swaps       | December 31, 2005 to December 31, 2006 | \$ 16,285 |
| Interest rate swaps  | December 31, 2005 to December 31, 2006 | 42,567    |
| Cross-currency swaps | December 31, 2005 to December 31, 2006 | ( 86,135) |

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

Taishin Bank has sufficient working capital to engage in derivative transactions and therefore does not require material additional cash inflows.

### Presentation of Derivative Transactions in Financial Statements

The gain or loss from currency swap, cross-currency swap and interest rate swap contracts is recognized as interest revenues or interest expenses and the gain or loss from credit default swaps and options is recognized as "gain or loss on derivatives" in the income statement. The net gain or loss on engaging in derivative transactions listed above for the years ended December 31, 2005 and 2004 is shown below:

|                       | 2005         | 2004          |
|-----------------------|--------------|---------------|
| Currency swaps        | \$ ( 73,613) | \$ ( 221,504) |
| Cross-currency swaps  | ( 24,133)    | ( 44,390)     |
| Interest rate swaps   | 26,282       | 323,118       |
| Currency options      | -            | 145,701       |
| Interest rate options | -            | ( 66,089)     |

### Fair Value of Financial Instruments

| Financial Instrument   | December 31           |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2005                  |                       | 2004                  |                       |
|  | Carrying Value        | Fair Value            | Carrying Value        | Fair Value            |
| <b>Assets</b>  |                       |                       |                       |                       |
| Financial assets in which fair value is equal to carrying value      | \$ 274,472,487        | \$ 274,472,487        | \$ 227,001,264        | \$ 227,001,264        |
| Trading financial assets   |                       |                       |                       |                       |
| Forward exchange   | 143,377               | 143,377               | -                     | -                     |
| Currency options   | 963,519               | 963,519               | 2,570,245             | 2,570,245             |
| Cross-currency swaps   | -                     | -                     | 8,133                 | 8,133                 |
| Interest rate swaps  | 1,013,275             | 1,013,275             | -                     | -                     |
| Interest rate options  | 436,318               | 436,318               | 101,996               | 101,996               |
| Future options   | -                     | -                     | 429                   | 429                   |
| Forward interest rate agreements                                     | 929                   | 929                   | -                     | -                     |
| Nontrading financial assets  |                       |                       |                       |                       |
| Currency swaps   | -                     | -                     | 1,867,444             | 1,892,829             |
| Cross-currency swaps   | 44,092                | 47,188                | 48,628                | 28,695                |
| Interest rate swaps  | 90,685                | 131,130               | 100,938               | ( 174,735)            |
| Trading securities   |                       |                       |                       |                       |
| Marketable equity securities and beneficiary certificates            | 4,779,745             | 4,943,711             | 6,990,969             | 8,217,740             |
| Long-term investments  |                       |                       |                       |                       |
| Marketable equity securities   | 3,302,551             | 4,805,295             | 3,060,034             | 6,545,341             |
| Loans (including delinquent loans)                                   | 537,121,510           | 537,121,510           | 478,213,701           | 478,213,701           |
|  | <u>\$ 822,368,488</u> | <u>\$ 824,078,739</u> | <u>\$ 719,963,781</u> | <u>\$ 724,405,638</u> |
| <b>Liabilities</b>   |                       |                       |                       |                       |
| Financial liabilities in which fair value is equal to carrying value | \$ 103,477,759        | \$ 103,477,759        | \$ 85,416,806         | \$ 85,416,806         |
| Trading Liabilities  |                       |                       |                       |                       |
| Currency swaps   | 15,220                | 15,220                | 19,567                | 19,567                |
| Cross-currency swaps   | 63,032                | 63,032                | -                     | -                     |
| Forward exchange contracts   | -                     | -                     | 685,554               | 685,554               |
| Currency options   | 895,344               | 895,344               | 2,106,867             | 2,106,867             |
| Interest rate options  | 648,578               | 648,578               | 355,812               | 355,812               |
| Future options   | -                     | -                     | 497                   | 497                   |
| Commodity options  | 2,070                 | 2,070                 | -                     | -                     |
| Interest rate swaps  | -                     | -                     | 47,553                | 47,553                |
| Forward interest rate agreements                                     | -                     | -                     | 4,874                 | 4,874                 |
| Non-trading liabilities  |                       |                       |                       |                       |
| Currency swaps   | 496,539               | 236,068               | -                     | -                     |
| Deposits and remittances   | 670,564,247           | 670,564,247           | 560,977,028           | 560,977,028           |
|  | <u>\$ 776,162,789</u> | <u>\$ 775,902,318</u> | <u>\$ 649,614,558</u> | <u>\$ 649,614,558</u> |

# V. Financial Statements

Taishin Bank adopts the following methods and assumptions to determine the fair values of financial instruments:

The fair value of the short-term financial instruments is determined at their carrying values on the balance sheet dates because of the short maturities of these instruments. The method applies to cash and cash equivalents, call loans to banks, due from Central Bank, receivables, payables, and due to banks.

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

The fair value of trading securities and long-term investments is measured at quoted market prices for these instruments. If market price is not available, the fair value is determined in accordance with financial models, market practices or other reasonable financial information.

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

The fair value of derivative financial instruments is the amounts that Taishin Bank expected to obtain or has to pay, if Taishin Bank terminates these contracts on balance sheet date. Ordinarily, the fair value of the derivative financial instruments includes unrealized gain or loss. The fair value of majority of Taishin Bank's derivative financial instruments is based on quotations from other financial institutions.

## TAIWAN SECURITIES AND SUBSIDIARIES

### Warrants

#### Information about Issued Warrants

See Note 26.

#### Credit Risk

Since Taiwan Securities has collected sufficient amounts for the issue of warrants, there is no significant credit risk.

#### Market Price Risk

Using the delta hedging method, Taiwan Securities buys certain securities upon issuing warrants to avoid market price risks. Taiwan Securities will sell or buy securities depending on the change in delta values. However, because of the cost of transactions, liquidity of object securities, and avoidance of buying at high level and selling at low level, Taiwan Securities has authorized its hedge traders to buy or sell only within a fixed range.

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

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

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

Taiwan Securities owns American options for trading purposes because of present lower interest rates. To avoid the fall in the currency purchasing power, Taiwan Securities invests in instruments with returns higher than time deposit interest rates. Taiwan Securities has assessed the present domestic capital market and the future securities market before issuing warrants to increase the flexibility of capital arrangement and be free from the decrease of purchasing power caused by inflation, interest rate, etc.

#### Presentation of Derivative Transactions in the Financial Statement

|  | Years Ended December 31 |              |
|--|-------------------------|--------------|
|  | 2005                    | 2004         |
| Gain on issue of warrants                                  | \$ 2,009,955            | \$ 2,212,185 |
| Loss on sale of securities - hedge - Taiwan Stock Exchange | ( 179,966)              | ( 422,242)   |
| (Loss) gain on sale of securities - hedge - OTC Exchange   | ( 3,754)                | 6,964        |
| Loss on issue of warrants                                  | ( 1,367,271)            | ( 947,575)   |
| Issuance cost of warrants                                  | ( 3,633)                | ( 2,200)     |
| (Loss) gain on valuation of securities - hedge             | ( 6,943)                | 27,135       |
| Loss on sale of warrants                                   | -                       | ( 314)       |



## Futures and Options Contracts

### Contract (Notional) Amount and Credit Risk

|   | Unsettled Position | December 31   |            |   |            |
|---|--------------------|---|------------|---|------------|
|   |                    | 2005  |            | 2004  |            |
|   |                    | Contracted Amount or Premium of Payment (Requirement) | Fair Value | Contracted Amount or Premium of Payment (Requirement) | Fair Value |
| TAIEX Futures                                 | Call               | \$ 33,369   | \$ 33,444  | \$ -  | \$ -       |
| TAIEX Futures                                 | Put                | 19,288  | 19,785     | 317,272   | 327,964    |
| TAIEX Options                                 | Call               | 1,460   | 1,096      | -   | -          |
| TAIEX Options                                 | Put                | 1,637   | 1,299      | 183   | 173        |
| Hong Kong Stock Option                        | Put                | 16,845  | 3,226      | -   | -          |
| 30-Day Commercial Paper Interest Rate Futures | Call               | -   | -          | 65,004  | 64,964     |
| 30-Day Commercial Paper Interest Rate Futures | Call               | -   | -          | 8,117   | 8,116      |
| Electronic Sector Index Futures               | Call               | -   | -          | 4,575   | 4,618      |
| Finance Sector Index Futures                  | Put                | -   | -          | 15,193  | 15,690     |

Taiwan Securities and Taiwan Futures have futures contracts traded in the Taiwan Futures Exchange. The counter-parties to the contracts should maintain sufficient contract deposits if the market price fluctuates. Therefore, Taiwan Securities and Taiwan Futures anticipate low possibilities of defaults by counter-parties.

### Market Price Risk

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

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

Taiwan Securities' and Taiwan Futures' unsettled futures can be settled at reasonable prices; thus, liquidity risk is not significant.

Taiwan Securities' and Taiwan Futures' index futures and option contracts are deposit transactions, in which the deposits have already been paid before trading. Unsettled futures contracts are evaluated by daily basis. Taiwan Securities and Taiwan Futures have sufficient working capital to maintain their margin level. Consequently, the risk of raising money and liquidity is not significant.

Taiwan Securities' and Taiwan Futures' futures brokers have sufficient operating capital. Thus, the risk of defaults on contracts is not significant. Each futures contract has its market value and can be traded on the Taiwan Futures Exchange. Thus, liquidity risk is not significant.

Category and Purpose of the Derivative Financial Instrument and Strategy to Achieve the Purpose

Since March 2004, Taiwan Securities has 10-year government bond futures contracts for trading purpose to increase investments and use capital more effectively. Taiwan Securities has Taiwan stock index futures contracts for nontrading purpose in order to hedge the risk from marketable securities trading in the open market. Taiwan Securities invests in derivative instruments with market prices that are highly inversely related to the market prices of hedged items.

### Presentation of Derivative Transactions in the Financial Statements

The information on futures contracts is as follows:

|  | 2005      | 2004      |
|--|-----------|-----------|
| <u>As of December 31</u>               |           |           |
| Assets                                 |           |           |
| Futures deposits - self-owned capital  | \$ 55,915 | \$ 35,873 |
| Liabilities                            |           |           |
| Put option                             | -         | 173       |
| <u>For the years Ended December 31</u> |           |           |
| Trading                                |           |           |
| Gain (Loss) on futures contracts       | 9,130     | ( 14,106) |
| Gain on option contracts               | 14,872    | -         |
| Nontrading                             |           |           |
| Loss on futures contracts              | -         | ( 4,872)  |

# V. Financial Statements

## Interest Rate Swaps

### Contract (Notional) Amount and Credit Risk

|                     | December 31                 |             |                             |             |
|---------------------|-----------------------------|-------------|-----------------------------|-------------|
|                     | 2005                        |             | 2004                        |             |
|                     | Contract or Notional Amount | Credit Risk | Contract or Notional Amount | Credit Risk |
| Nontrading          |                             |             |                             |             |
| Interest rate swaps | \$ 4,650,000                | \$ -        | \$ 2,850,000                | \$ -        |

Since the agreement is made for one to five years with a reputable bank, Taiwan Securities anticipates low possibilities of defaults by counter-parties.

### Market Price Risk

Market price risk refers to the risk of interest rate changes in the market. Taiwan Securities engages in interest rate swaps for nontrading purposes to hedge bond interest risks. Derivative gain (loss) on interest rate will largely offset the gain (loss) on the hedged item; thus, the market price risk is not significant.

Taiwan Securities has an interest rate swap for trading purposes with market price risk estimated according to PVBP (present value of basis point). Taiwan Securities has set up the stop loss limit for the swap. Consequently, the market price risk is not significant.

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

Interest rate swaps involve the exchange of fixed rate payments of obligations without the exchange of notional amounts. The loss on these swaps was \$32,642 thousand for the year ended December 31, 2005. Since the amount is immaterial, there is no significant cash flow risk.

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

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

The interest rate swap for trading purposes is used to generate earnings from interest rate fluctuations by noting market trends.

### Presentation of Derivative Transactions in the Financial Statement

At the start of an interest rate swap contract, a memorandum entry is made to note the transaction. The difference between interest receivable and payable will be recognized as gain or loss in the current period. For the years Ended December 31, 2005 and 2004, the interest rate swap amounts are recorded as follows:

|  | 2005      | 2004   |
|--|-----------|--------|
| IRS interest expense   | \$ 2,791  | \$ -   |
| Trading purpose  |           |        |
| Gain (loss) on derivative instruments - (loss) gain on valuation |           |        |
| - interest rate swap - trading                                   | ( 32,642) | 11,144 |
| Assets of derivative instruments -                               |           |        |
| Interest rate swap   | 24,759    | 22,453 |

## Convertible Bond Swaps

### Contract (Notional) Amount and Credit Risk

|                         | December 31                 |             |                             |             |
|-------------------------|-----------------------------|-------------|-----------------------------|-------------|
|                         | 2005                        |             | 2004                        |             |
|                         | Contract or Notional Amount | Credit Risk | Contract or Notional Amount | Credit Risk |
| Convertible bonds       |                             |             |                             |             |
| IRS and option exchange | \$ 2,051,717                | \$ -        | \$ 904,400                  | \$ -        |

Taiwan Securities enters into IRS agreements with a reputable corporation or bank. The asset swap contract involves swapping contracted interest return for interest expense and interest compensation to traders. A bondholder has the right to buy convertible bonds for a fixed price and receive premiums during the contract term.

Since Taiwan Securities assesses traders' credit and has collected sufficient premium. Therefore, Taiwan Securities anticipates low possibilities of defaults by counter-parties.

### Market Price Risk

Taiwan Securities engages in IRS and asset swap options. Interest rates swap is the swapping of contracted interest return for interest expense and interest compensation to traders. Thus, there is no significant market price risk. In addition, traders have the right to buy convertible bonds at a fixed price during the contract term. Because Taiwan Securities and subsidiaries have acquired convertible bonds, it does not have significant market price risk.

Liquidity Risk, Cash Flow Risk, Future Cash Demand and Period Uncertainty

Taiwan Securities engages in IRS and asset swap options in which the underlying asset is a convertible bond by an underwriter or holder. Taiwan Securities receives payments for derivative trading. Further, the term of contracts provide swapping contracted interest return for interest expense and interest compensation to traders, and Taiwan Securities and subsidiaries have the right to buy convertible bonds from traders before the due date. Thus, Taiwan Securities and subsidiaries do not have significant cash flow risks and additional financing need. For its option trading, Taiwan Securities and subsidiaries have convertible bonds bought from asset swapping traders, underwriter or holder to settle; thus, there are no significant cash flow risk and additional financing needed.

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

When Taiwan Securities uses IRS for asset swap trades and receives payments from selling convertible bonds, gain and loss on selling convertible bonds to traders and contracting to swap contracted interest return for interest expense and interest compensation to traders in the contracted term are presented in the current period. Taiwan Securities sells convertible bonds swap option and receives premiums, and traders have the right to buy convertible bonds at a fixed price in contracted terms. Gain and loss from valuing an option and premium realized are recognized in the current period.

### Presentation of Derivative Transaction in the Financial Statement

|   | 2005       | 2004      |
|---|------------|-----------|
| <u>As of December 31</u>                        |            |           |
| Derivative financial instrument assets          |            |           |
| Asset swap options                              | \$ 125,913 | \$ 58,213 |
| IRS for asset swaps                             | 1,027      | -         |
| Deferred losses on option                       | 23         | 850       |
| Derivative financial instrument liabilities     |            |           |
| IRS for asset swaps                             | 45,181     | 20,610    |
| Asset swap options                              | 64,541     | 17,827    |
| <u>For the years Ended December 31</u>          |            |           |
| Gain (loss) on derivative financial instruments |            |           |
| Gain (loss) on valuation of option              | 37,381     | ( 49,974) |
| Gain on exercise                                | 4,745      | 1,240     |
| Gain on valuation of IRS                        | 28,442     | 6,379     |

### Structured Notes Transactions

#### Contract (Notional) Amount and Credit Risk

|   | December 31                 |             |                             |             |
|---|-----------------------------|-------------|-----------------------------|-------------|
|   | 2005                        |             | 2004                        |             |
|   | Contract or Notional Amount | Credit Risk | Contract or Notional Amount | Credit Risk |
| Equity-linked notes                               |                             |             |                             |             |
| Fixed-income transactions and option transactions | \$ 9,000                    | \$ -        | \$ 35,350                   | \$ -        |
| Breakeven notes                                   |                             |             |                             |             |
| Fixed-income transactions and option transactions | -                           | -           | 2,000                       | -           |

# V. Financial Statements

Taiwan Securities engages in equity-linked notes transactions by collecting premium from traders to invest in fixed-income instruments; its traders sell assets options of the equity-linked objects to Taiwan Securities. Since Taiwan Securities collects sufficient premium from traders on the starting date of the contract, it believes there is minimum credit risks.

## Market Price Risk

Since Taiwan Securities hedges their risk on equity-linked notes by purchasing stock of the equity-linked objects and managing its position according to hedging strategy, the market price risk is not significant.

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

Transaction counter-parties have the right to early settle the transactions based on the contracts. Taiwan Securities' working capital is sufficient. Therefore, whether settlement is early or not, Taiwan Securities does not have significant cash flow risk and no additional finance is needed.

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

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

Taiwan Securities engages in equity-linked notes on the basis of a certain understanding of the price trends of embedded assets and buys linked stocks to hedge market price risk.

## Presentation of Derivative Transactions in the Financial Statement

|   | 2005     | 2004     |
|---|----------|----------|
| <u>As of December 31</u>                                    |          |          |
| Current assets  |          |          |
| Equity-linked note assets - option                          | \$ 7,224 | \$ 392   |
| Deferred loss on equity-linked note assets                  | -        | 143      |
| Current liabilities   |          |          |
| Equity-linked note liabilities - fixed-income instruments   | 9,042    | 36,646   |
| Equity-linked note liabilities - premium                    | 187      | 1,014    |
| Breakeven note liabilities - option                         | -        | 8        |
| <u>For the years Ended December 31</u>                      |          |          |
| Gain (loss) on derivative financial instruments             |          |          |
| Loss on equity-linked notes                                 | ( 145)   | ( 214)   |
| Gain (loss) on settlement of equity-linked notes in advance | 1,159    | ( 2,095) |
| Gain on valuation   | 4,424    | 4,401    |

## Options

### Contract (Notional) Amount

|                       | December 31                 |                             |
|-----------------------|-----------------------------|-----------------------------|
|                       | 2005                        | 2004                        |
|                       | Contract or Notional Amount | Contract or Notional Amount |
| Trading               |                             |                             |
| Interest rate options | \$ 300,000                  | \$ 1,450,000                |
| Bond options          | 1,700,000                   | -                           |

### Credit Risk

Credit risk refers to the risk arising from the inability of the counter-party's present or future cash flow to meet the terms of Taiwan Securities' financial instrument contracts when due. Taiwan Securities enters into derivative transactions only with creditworthy financial institutions. Therefore, Taiwan Securities anticipates low possibilities of defaults by counter-parties.

### Market Price Risk

The market price risk refers to the risk arising from interest-rate fluctuations in the market. Taiwan Securities engages in interest rate options and debt security options and receive premiums computed on the basis of trends in market interest rates and yield rates. Therefore, the market price risk is not expected to be significant.

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

Taiwan Securities has a net loss of \$10,913 thousand on interest rate options for the year ended December 31, 2005. Because the amount is immaterial, Taiwan Securities does not anticipate significant cash flow risk and do not require material additional cash outflows.

In addition, Taiwan Securities has a net loss of \$7,213 thousand on bond options for the year ended December 31, 2005. Because the amount is immaterial, Taiwan Securities does not anticipate significant cash flow risk and do not require material additional cash outflows.

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

Taiwan Securities engages in trading-based interest rate options and debt securities options to have earnings on the premiums and the differences resulting from interest rate fluctuations.

### Presentation of Derivative Transaction in the Financial Statement

|  | 2005      | 2004     |
|--|-----------|----------|
| <u>As of December 31</u>                             |           |          |
| Derivative financial instrument assets               |           |          |
| Interest rate options - premiums                     | \$ 2,957  | \$ -     |
| Derivative financial instrument liabilities          |           |          |
| Interest rate options - trading                      | -         | 15,181   |
| Bond options - trading                               | 7,848     | -        |
| <u>For the years Ended December 31</u>               |           |          |
| Gain (loss) on derivative financial instrument       |           |          |
| Loss on valuation of bond options - trading          | ( 7,282)  | ( 2,753) |
| Loss on valuation of interest rate options - trading | ( 30,608) | ( 3,406) |
| Gain on valuation of bond options - hedge            | 69        | -        |
| Gain on maturity of bond options - trading           | 19,695    | -        |

### Fair Value of Financial Instruments

Taiwan Securities and its subsidiaries use the following methods and assumptions to determine the fair values of financial instruments:

The fair values of the short-term financial instruments are determined at their carrying values on the balance sheet date because of their short maturities. The method applies to cash and cash equivalents, short-term investments, trading securities, bonds purchased/sold under resell/repurchase agreements, marginal receivables, other receivables, operating deposits, settlement funds, guarantee deposits paid, short-term borrowings, commercial paper payables, securities financing guarantee deposit-in, and payable for securities financing guarantee.

Trading securities are measured at quoted market prices for these instruments. If market prices are not available, the fair values are determined in accordance with financial models, market practices or other reasonable financial information.

# V. Financial Statements

## Specific Risks of Futures Dealing and Brokerage Business

### Futures Dealing

When engaging in futures contracts, Taiwan Securities must pay deposits equaling to a certain percentage of the trading amount before transactions. Taiwan Securities calculates deposits and premiums based on the market value of unsettled future contracts each trading day. When the market value of deposits declines to the required limit, deposits will be supplemented or contracts will be settled by Taiwan Securities.

### Futures Brokerage

Taiwan Futures' operation is futures and options contracts agent. When engaging in futures transactions, Taiwan Futures collects deposits and premiums from its clients. When deposits and premiums are not sufficient to cover losses, material financing risks may exist. Taiwan Futures keeps a specific amount of deposits according to individual client's case; when necessary, Taiwan Futures controls risks by increasing deposits or decreasing the amount of transactions.

As of December 31, 2005, Taiwan Securities' Futures-dealing department and Taiwan Futures had 41 and 2,077 unsettled futures and options contracts and had paid guarantee deposits of \$36,394 thousand and \$55,915 thousand, respectively.

## TAISHIN BILLS FINANCE

Taishin Bills Finance engages in derivative transactions to manage asset and liability positions and risk.

### Trading-Based Derivative Financial Instrument

#### Contract (Notional) Amount and Credit Risk

| Financial Instrument | December 31     |             |                 |             |
|----------------------|-----------------|-------------|-----------------|-------------|
|                      | 2005            |             | 2004            |             |
|                      | Contract Amount | Credit Risk | Contract Amount | Credit Risk |
| Interest rate swaps  | \$ 6,900,000    | \$ 11,889   | \$ 5,900,000    | \$ 12,563   |
| Bond options         | -               | -           | 400,000         | 241         |
| Asset swaps          | 1,229,700       | 5,486       | 929,000         | 27,582      |

Credit risk refers to the risk on counter-party's default on contracts. The credit risk amounts listed above pertain to contracts with a positive fair value on balance sheet date. They represent Taishin Bills Finance's potential loss, considering potential exposures and credit risk factors, if the counter-parties breach the contract.

Taishin Bills Finance's policy is to enter into derivative transactions with creditworthy financial institutions and trade within given credit limits. Thus, Taishin Bills Finance anticipates low possibilities of defaults by counter-parties.

#### Market Price Risk

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

|                    | December 31 |       |
|--------------------|-------------|-------|
|                    | 2005        | 2004  |
| Interest rate risk | \$ 6        | \$ 65 |

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

Taishin Bills Finance's expected cash inflow and outflow on derivative transactions are as follows:

| Financial Instrument | Period                                 | Amount     |
|----------------------|--|------------|
| Asset swaps          | December 31, 2005 to December 31, 2006 | \$ 640,760 |
| Interest rate swaps  | December 31, 2005 to December 31, 2006 | 4,700      |

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

Taishin Bills Finance has sufficient working capital to engage in derivative transactions and therefore does not require material additional cash inflows.

### Nontrading-Based Derivative Financial Instruments

#### Contract (Notional) Amount and Credit Risk

| Financial Instruments              | December 31     |             |                 |             |
|------------------------------------|-----------------|-------------|-----------------|-------------|
|                                    | 2005            |             | 2004            |             |
|                                    | Contract Amount | Credit Risk | Contract Amount | Credit Risk |
| Interest rate swaps                | \$ 5,300,000    | \$ 8,197    | \$ 5,300,000    | \$ 15,662   |
| Upper limit of interest rate swaps | 2,500,000       | 10,152      | 2,500,000       | 11,733      |

Credit risk refers to the risk arising from a counter-party's default on contracts. The credit risk amounts listed above pertain to contracts with a positive fair value on the balance sheet date. It represents Taishin Bills Finance's potential loss, considering potential exposures and credit risk factors, if the counter-parties breach the contracts.

#### Market Price Risk

The market price risk refers to the risk arising from interest rate fluctuations in the market. Taishin Bills Finance engages in derivative transactions with reputable financial institutions or clients to minimize the specified risk. Therefore, the market price risk is not expected to be significant.

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

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

| Financial Instrument               | Period                                 | Amount   |
|------------------------------------|--|----------|
| Interest rate swaps                | December 31, 2005 to December 31, 2006 | \$ 3,035 |
| Upper limit of interest rate swaps | December 31, 2005 to December 31, 2006 | 12,941   |

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

Taishin Bills Finance has enough working capital to engage in derivative transactions and therefore does not require material additional cash inflows.

### Presentation of Derivative Transactions in Financial Statements

Taishin Bills Finance classifies the gain or loss on nontrading-based interest rate swap and upper limit interest rate swap contracts as interest income or interest expenses in the income statement. The net gains on these interest rate swap and interest rate swaps with upper limits are \$31,523 thousand and \$45 thousand, \$40,822 thousand and \$0 thousand, for the years ended December 31, 2005 and 2004, respectively.

# V. Financial Statements

Taishin Bills Finance classifies the gain or loss on trading-based interest rate swaps, assets swaps, and bond option contracts as other income or expense in the income statement. The net gains (losses) on these interest rate swaps, asset swaps and bond option contracts are \$2,146 thousand, \$0 thousand and (\$8,507) thousand for the year ended December 31, 2005, and \$25,028 thousand, \$339 thousand, and (\$8,202) thousand for the year ended December 31, 2004.

## Futures Contracts

Taishin Bills Finance does not engage in futures contracts for the year ended December 31, 2005.

The details of Taishin Bills Finance's futures contracts for the year ended December 31, 2004 are as follows:

The purpose for Taishin Bills Finance owning trading-based derivative financial instruments is to arbitrage.

As of December 31, 2004, the trading-based futures contracts of Taishin Bills Finance are all settled. Taishin Bills Finance classifies the guarantee deposits paid for futures contracts, \$8,421 thousand, as other current financial assets.

The gain or loss on futures contracts listed above are recognized as other operating revenue.

## Fair Value of Financial Instruments

| Nonderivative Financial Instrument                                   | December 31          |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | 2005                 |                      | 2004                 |                      |
|  | Carrying Value       | Fair Value           | Carrying Value       | Fair Value           |
| <b>Financial assets</b>  |                      |                      |                      |                      |
| Financial assets in which fair value is equal to carrying value      | \$ 20,058,962        | \$ 20,058,962        | \$ 12,062,638        | \$ 12,062,638        |
| Trading securities and other short-term investments                  | 49,837,256           | 49,911,589           | 54,720,446           | 54,885,141           |
|  | <u>\$ 69,896,218</u> | <u>\$ 69,970,551</u> | <u>\$ 66,783,084</u> | <u>\$ 66,947,779</u> |
| <b>Financial liabilities</b>   |                      |                      |                      |                      |
| Financial liabilities in which fair value is equal to carrying value | \$ 62,954,769        | \$ 62,954,769        | \$ 60,136,763        | \$ 60,136,763        |

| Derivative Financial Instrument          | December 31     |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2005            |                 | 2004            |                 |
|  | Carrying Value  | Fair Value      | Carrying Value  | Fair Value      |
| <b>Trading-based financial assets</b>    |                 |                 |                 |                 |
| Bond options                             | \$ -            | \$ -            | \$ 241          | \$ 241          |
| Interest rate swaps                      | 4,747           | 4,747           | 9,534           | 9,534           |
| Asset swaps                              | 2,868           | 2,868           | ( 3,150)        | ( 3,150)        |
|  | <u>\$ 7,615</u> | <u>\$ 7,615</u> | <u>\$ 6,625</u> | <u>\$ 6,625</u> |
| <b>Nontrading-based financial assets</b> |                 |                 |                 |                 |
| Interest rate swaps                      | \$ 1,410        | \$ 1,410        | \$ 2,609        | \$ 2,609        |
| Swap options with upper limit            | 698             | 698             | 698             | 698             |
|  | <u>\$ 2,108</u> | <u>\$ 2,108</u> | <u>\$ 3,307</u> | <u>\$ 3,307</u> |

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

The fair value of short-term financial instruments is determined at their carrying values on the balance sheet date because of their short maturities. The method applies to cash and cash equivalents, call loans to banks, receivables, securities purchased/sold under resell/repurchase agreements, guarantee deposits and pledged marketable securities, short-term borrowings, commercial paper payable, call loans from banks, corporate bonds payable and other payables.

Trading securities and other short-term investments are measured on the basis of their quoted market prices. If market prices are not available, the fair values are determined in accordance with financial models, market practices or other reasonable financial information.



The fair values of derivative financial instruments are the amounts Taishin Bills Finance expects to obtain or has to pay if it closes these contracts on balance sheet date. Ordinarily, the fair values of the derivative financial instruments include unrealized gain or loss. The fair values of majority of the derivative financial instruments of Taishin Bills Finance were based on quotes from other financial institution.

## CHANG HWA BANK AND SUBSIDIARIES

Chang Hwa Bank is a party to a variety of derivative instruments such as forward foreign exchange contracts, foreign exchange swap contracts, and interest rate swap contracts in response to its customers' trading activities and in the management of its risk exposure to fluctuations in foreign exchange and financing needs.

Pursuant to the "Appointed Bank Regulations" established by the Central Bank of the Republic of China, Chang Hwa Bank is eligible to engage in forward foreign currency transactions. Chang Hwa Bank engages in two kinds of forward transactions – fixed due date and flexible due date. Based on the number of transaction days, there are 30, 60, 90, 120, 150, and 180-day instruments. There are also various terms that can be negotiated with Chang Hwa Bank's funding department. The counterparties to such transactions are Chang Hwa Bank's customers and other banks.

Chang Hwa Bank uses foreign exchange swap contracts and interest rate swap contract to buy or sell float-rate US dollars and others. Chang Hwa Bank can use working capital efficiently and use swap transactions in order to hedge its risks.

Chang Hwa Bank calculates the credit risk of derivative products according to the rules defined by the Ministry of Finance. Credit risk is the risk that counterparties to any financial transactions may not be able to fulfill their obligations on the due date. Chang Hwa Bank's exposure to credit risk from financial instruments is measured at fair value of contracted instruments with a positive position at the balance sheet date. Credit risk amounts represent the sum of positive positions after offsetting negative positions under the netting agreements. The sum of the positive positions refers to the possibility that an accounting loss to Chang Hwa Bank may occur as a direct result of counterparties' failure to meet their contractual obligations. To limit credit exposure arising from such transactions, Chang Hwa Bank evaluates the credit standing of counterparties in accordance with Chang Hwa Bank's policies and procedures of credit monitoring and approval. Certain instruments require counterparties to maintain collateral under Chang Hwa Bank's custody for all or part of the exposure. In addition, credit limits and security deposit requirements are placed and imposed on counterparties to minimize risks Chang Hwa Bank may be exposed to. Within the credit policy, Chang Hwa Bank only maintains its transactions with counterparties who have excellent credit standing. Consequently, Chang Hwa Bank does not anticipate any significant loss due to credit risk.

Market risk is the risk of loss resulting from exchange rate fluctuations. Chang Hwa Bank's contractual positions of forward exchange contracts are offset by short-term foreign currency transactions or foreign currency swaps. As a result, future market fluctuations in exchange rates should not result in significant changes in the value of trading instruments, and overall market risk shall be considered with the aforementioned credit risk. Chang Hwa Bank engaged in foreign exchange swaps and interest rate swaps in order to make an efficient use of Chang Hwa Bank's funds between local and foreign currency. Chang Hwa Bank conducts foreign exchange swaps and interest rate swaps, with the exchange of principal, through other foreign financial institutions to lock in borrowed foreign funds for hedging purposes. As market risk caused by exchange rate fluctuations is offset by the exchange gains/losses resulted from hedged foreign assets and liabilities, market risk is not considered significant. Overall market risk shall be considered with the aforementioned credit risk.

## Trading-Based Derivative Financial Instrument

### Contract (Notional) Amount and Credit Risk

| Financial Instrument       | December 31, 2005          |                    |
|----------------------------|----------------------------|--------------------|
|                            | Contract Amounts<br>(US\$) | Credit Risk (NT\$) |
| Forward exchange contracts | \$ 599,688                 | \$ 252,680         |

The credit risk counted by Chang Hwa Bank is according to the regulations stipulated by MOF.

# V. Financial Statements

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

Chang Hwa Bank's expected cash inflows on trading-based derivative financial instruments are as follows:

| Financial Instrument       | Period                                 | Amount         |
|----------------------------|--|----------------|
| Forward exchange contracts | December 31, 2005 to December 31, 2006 | \$ 112,700,000 |

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

According to Chang Hwa Bank's holding policies, it is likely for Chang Hwa Bank not to settle a forward exchange contract with an unpleasant price in the market. Additionally, the exchange rates are fixed for the forward exchange contracts and Chang Hwa Bank does not anticipate any significant cash flow risk.

## Presentation of Derivative Transactions in Financial Statements

Chang Hwa Bank nets off the balance of receivables and payables resulted from forward exchange contracts on balance sheet date. The net amount is classified either as a receivable or payable. Transaction gains and losses from Chang Hwa Bank's derivative transactions are recorded under exchange gain or loss.

The book values as of December 31, 2005 and exchange gain/loss on derivative transactions for the year ended December 31, 2005 are as follows:

| As of December 31                      |  |            |
|--|--|------------|
| Balance sheet account                  |  |            |
| Receivables on forward exchange sold   |  | \$ 138,759 |
| Payables on forward exchange purchased |  | 109,515    |
| <u>For the year Ended December 31</u>  |  |            |
| Exchange gains or losses, net          |  | 177,653    |

## Nontrading-Based Derivative Financial Instrument

### Contract (Notional) Amount and Credit Risk

| Financial Instrument                         | December 31, 2005       |                    |
|--|-------------------------|--------------------|
|  | Contract Amounts (US\$) | Credit Risk (NT\$) |
| FX swap contracts                            | \$1,043,494             | \$ 230,977         |
| Non-delivery deposit forward (NDF) contracts | 169,000                 | 20,542             |
| Interest rate swap contracts of assets       | 1,075                   | 16,236             |

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

FX swap contracts and FX and interest rate swap contracts are under Chang Hwa Bank's operation, and the estimation of cash needed is \$72,248,025 thousand within one year. The above amount is estimation, and the uncertainty will be affected by the exchange and interest rates. Generally, the longer the maturity of a financial instrument, the less certain it becomes.

Chang Hwa Bank engages in interest rate swap contracts of assets and gives up the increase of bond price in the future to exchange a fixed interest rate for a floating rate. Chang Hwa Bank's expected future net cash in-flows will be US\$27,570 thousand, EUR€5,000 thousand, JP¥670,000 thousand in 2006; NT\$600,000 thousand, US\$27,000 thousand and EUR€4,000 thousand in 2007; NT\$300,000 thousand, US\$2,500 thousand and EUR€3,000 thousand in 2008; US\$5,000 thousand in 2009; NT\$2,800,000 thousand, US\$10,000 thousand in 2010.

Chang Hwa Bank's projected working capital is adequate to meet its operation needs; on that account, there is no significant need for cash. In addition, the exchange rate is fixed for the FX swap contracts and FX and interest rate swap contracts and Chang Hwa Bank does not anticipate any significant cash flow risk.

### Presentation of Derivative Transactions in Financial Statements

Chang Hwa Bank nets off the balance of receivables and payables resulted from FX swap contracts, FX and interest rate swap contracts, and NDF contracts on balance sheet date. The net amount is classified either as a receivable or payable. Transaction gains and losses from Chang Hwa Bank's derivative transactions are recorded under interest income or expense, and foreign exchange gain or loss

The book values as of December 31, 2005 and the interest income/expense on derivative transactions for the year ended December 31, 2005 are as follows:

| As of December 31                          |           |
|--|-----------|
| Forward exchange contracts receivable, net | \$ 14,855 |
| Receivables on forward exchange sold       | 108,481   |
| Payables on forward exchange purchased     | 251,133   |
| <u>For the year Ended December 31</u>      |           |
| Interest income                            | 110,808   |
| Interest expense                           | 106,084   |
| Exchange gains or losses, net              | 11,981    |

### Options

Chang Hwa Bank engages in option transactions with international banks that qualify under the risk management assessment of Chang Hwa Bank, therefore credit risk is considered low. In order to eliminate the potential market risk, Chang Hwa Bank will buy opposite options at the same time when the clients buy their options.

The gain and loss from option transactions for the year ended December 31, 2005 is recorded under other operating loss of \$6,830 thousand. As of December 31, 2005, the nominal amounts of the call option contracts are US\$30,678 thousand, EUR€28,000 thousand, JPY¥128,700 thousand, NZD\$384 thousand and the nominal amounts of the put option contracts are US\$30,678 thousand, EUR€28,000 thousand, JPY¥128,700 thousand, NZD\$384 thousand.

### Fair Market Value of Financial Instruments

|  | December 31, 2005 |                   |
|--|-------------------|-------------------|
|  | Book Value        | Fair Market Value |
| <b>Financial Assets</b>  |                   |                   |
| Financial assets in which fair value is equal to carrying value      | \$ 1,047,580,795  | \$ 1,047,580,795  |
| Trading financial assets   |                   |                   |
| Forward exchange   | 138,759           | 138,759           |
| Nontrading financial assets currency swap and cross-currency swaps   | 123,336           | 123,336           |
| Marketable securities  | 246,681,790       | 247,131,652       |
| Long-term investments  | 10,736,029        | 16,368,751        |
| Premiums of options bought   | 40,863            | 40,863            |
| <b>Financial Liabilities</b>   |                   |                   |
| Financial liabilities in which fair value is equal to carrying value | 1,250,505,369     | 1,250,505,369     |
| Trading Liabilities  |                   |                   |
| Forward exchange   | 109,515           | 109,515           |
| Non-trading liabilities  |                   |                   |
| Currency swaps and cross-currency swaps                              | 251,133           | 251,133           |
| Bank notes   | 20,000,000        | 20,575,547        |
| Premiums from options sold   | 40,863            | 40,863            |

# V. Financial Statements

The fair value for financial products as disclosed by Chang Hwa Bank and subsidiaries is for products whose fair value differs significantly from the book value and is the market price receivable when sold in open markets. When market price cannot be obtained from open markets or when no market price exists, the recoverability of financial products and other relevant information are then used to estimate fair value. The methods and assumptions are as follows:

- (a) Cash and cash equivalents, due from banks and Central Bank of China, and receivables (excluding long-term forward contracts, FX swap contracts, FX and interest rate swap contracts and NDF) and prepaid expenses (belong to financial assets) are approximately equal to book values. For those short-term instruments, the book value is a reasonable estimate of fair market value because of the short maturity of those instruments.
- (b) Forward exchange contracts, FX swap contracts, FX and interest rate swap contracts and NDF: The fair values of FX swap contracts and FX and interest rate swap contracts are estimated by obtaining quotes from the Reuters Quoting system and other brokers. The fair value of a forward exchange contract is calculated by using its forward rate for the remaining maturity of every individual contract.
- (c) Marketable securities: The fair market value is based on either the end-of-month average quoted closing price of the reported accounting period or the latest settlement price at the end of the fiscal year. The fair market value of open-ended mutual funds is measured by the net asset value of the mutual funds on the balance sheet date. If a quoted market price is not available, a reasonable estimate of fair market value is based on financial or other data.
- (d) Loans, bills discounted and purchased: The fair market values of loans, bills discounted and purchased are estimated based on certain characteristics of banking industry. The book value is a reasonable estimate of fair market value, taking into account the current credit-worthiness of the borrowers. The fair market values of fixed-rate loans with medium to long term maturity are estimated by discounting the future cash flows using the current rates. Chang Hwa Bank and subsidiaries' fixed-rate loans merely represented a small portion of total loan receivables. In addition, the maturity for the above fixed-rate loans is less than three years. It is not practicable to calculate present value for each transaction; therefore, the fair value of the fixed-rate loan is estimated using book value, taking into account the current credit-worthiness of the borrowers.
- (e) Long-term investments: Chang Hwa Bank and subsidiaries evaluate the fair market value of long-term investments based on the market price if available. If a quoted market price is not available, a reasonable estimate of fair market value is based on financial or other data.
- (f) Financial assets - others: Such as guarantee deposits, pledged properties and guarantee deposits received for option Chang Hwa Bank possessed are estimated using market prices for similar financial products or other valuation methods to achieve the best valuation.
- (g) Bonds and short-term bills sold under repurchase agreements, due to banks and Central Bank of China, payables (which exclude long-term forward exchange contracts, FX swap contracts and FX and interest rate swap contracts), and financing from Central Bank and other banks: The above products' fair value approximates book values at the balance sheet date. For those short-term instruments, the book value is a reasonable estimate of fair market value because of the short maturity until realization.
- (h) Deposits and remittances payable: The fair market values of deposits and remittances payable are estimated based on certain characteristics of banking industry. A large portion of Chang Hwa Bank and subsidiaries' deposit liabilities is made with floating interest rate and the maturities for most of those deposit liabilities are less than one year. On that account, the book value is a reasonable estimate of fair market value. The fair market values of long-term deposits are estimated by discounting the future cash flows using the current rates. Chang Hwa Bank long-term deposits merely represent a small portion of total deposit liabilities. In addition, the remaining maturities for most of long-term deposits are less than three years. It is not practical to calculate the present value for each transaction; therefore, the fair market values of long-term deposits are estimated using book values.
- (i) Debentures: Refer to the bank notes issued by Chang Hwa Bank. The fair values of bank notes with fixed rates are estimated by discounting the expected future cash flow, taking the characteristics of the banking industry into consideration. For debentures with floating rates, book values are reasonable estimates of fair values.
- (j) Financial liabilities-others: For those commitments to extend credit, standby letters of credit, financial guarantees written, and guarantee deposits paid for option the carrying amount is a reasonable estimate of fair value. Since the maturity of those transactions is varied and the amounts for such transactions are merely a small portion of total financial liabilities, it is not practicable for Chang Hwa Bank and subsidiaries to calculate present value of those transactions.

#### 41. CONDENSED BALANCE SHEETS AND STATEMENTS OF INCOME AND IMPORTANT FINANCIAL NOTES OF SUBSIDIARIES

##### Taishin Bank

##### Balance Sheet

|  | December 31           |                       |
|--|-----------------------|-----------------------|
|  | 2005                  | 2004                  |
| <b>Assets</b>                                  |                       |                       |
| Cash and due from Central Bank and other banks | \$ 37,108,639         | \$ 30,926,122         |
| Bills and securities purchased, net            | 115,077,894           | 84,513,696            |
| Loans, net                                     | 537,121,510           | 478,213,701           |
| Long-term investments, net                     | 8,722,335             | 8,106,442             |
| Property and equipment, net                    | 18,655,393            | 17,642,245            |
| Receivables and prepayments                    | 109,351,714           | 104,344,189           |
| Other assets                                   | 25,224,257            | 19,161,813            |
|  | <u>\$ 851,261,742</u> | <u>\$ 742,908,208</u> |
| <b>Liabilities</b>                             |                       |                       |
| Due to banks                                   | \$ 19,491,570         | \$ 24,675,417         |
| Deposits and remittances                       | 670,564,247           | 560,977,028           |
| Bank notes                                     | 44,700,000            | 30,100,000            |
| Payables and advance receipts                  | 40,522,151            | 31,770,896            |
| Other liabilities                              | 24,913,962            | 35,727,589            |
|  | <u>800,191,930</u>    | <u>683,250,930</u>    |
| <b>Shareholder's equity</b>                    |                       |                       |
| Capital stock                                  | 34,353,524            | 31,753,524            |
| Capital surplus                                | 11,292,909            | 11,314,079            |
| Retained earnings                              | 5,428,715             | 16,589,675            |
| Equity adjustment                              | ( 5,336)              | -                     |
|  | <u>51,069,812</u>     | <u>59,657,278</u>     |
|  | <u>\$ 851,261,742</u> | <u>\$ 742,908,208</u> |

##### Income Statement

|   | December 31           |                      |
|---|-----------------------|----------------------|
|   | 2005                  | 2004                 |
| Operating revenue                             | \$ 61,986,986         | \$ 49,370,695        |
| Operating cost and expense                    | ( 68,750,606)         | ( 36,275,875)        |
| Operating (loss) income                       | ( 6,763,620)          | 13,094,820           |
| Nonoperating income                           | 822,556               | 284,381              |
| Nonoperating expense                          | ( 185,876)            | ( 163,019)           |
| (Loss) income before income tax               | ( 6,126,940)          | 13,216,182           |
| Estimated income tax benefit (expense)        | 2,351,816             | ( 2,738,475)         |
| Net (loss) income                             | <u>\$( 3,775,124)</u> | <u>\$ 10,477,707</u> |
| Pre-tax (loss) earnings per share (dollars)   | <u>\$( 2.10)</u>      | <u>\$ 4.60</u>       |
| After-tax (loss) earnings per share (dollars) | <u>\$( 1.32)</u>      | <u>\$ 3.63</u>       |

# V. Financial Statements

## Important Financial and Business Overview

### Asset Quality

|  | December 31  |              |
|--|--------------|--------------|
|  | 2005         | 2004         |
| Nonperforming loans (NPLs, including delinquent loans) | \$ 7,488,138 | \$ 4,959,693 |
| Delinquent loans                                       | 2,540,831    | 3,147,055    |
| NPL ratio  | 1.34%        | 1.03%        |
| Surveillance loans                                     | N/A          | 716,104      |
| Surveillance loan ratio                                | N/A          | 0.15         |
| Allowance for loans and delinquent loans               | 23,242,230   | 3,227,391    |
| Bad debts written off                                  | 18,660,698   | 8,650,459    |

Note a: As of December 31, 2005, NPL is defined in the Letter issued by the Bureau of Monetary Authority (BOMA) on January 6, 2004 (ref. no. Tai-Tsai-Ron 0928011826). As of December 31, 2005, NPL is defined in the Letters issued by the BOMA on February 16, 1994 (ref. no. Tai-Tsai-Ron 832292834) and on December 1, 1997 (ref. no. Tai-Tsai-Ron 86656564).

Note b: NPL ratio = NPL (including delinquent loans) ÷ (Loans+Delinquent loans)

Note c: Surveillance loans include (i) long-term installment loans, with principal repayment overdue more than three months but less than six months, (ii) the principal repayment of other loans overdue is less than three months but interest payments are overdue more than three months but less than six months, (iii) delinquent loans to be excluded from NPL, as allowed by BOMA.

Note d: The amounts of bad debts written off are cumulative from January 1 to December 31, 2005 and 2004, respectively.

### Concentration of Credit Risk

If the counter-parties of financial instrument transactions are individuals or groups engaged in similar business activities or activities in the same region, which may impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions, credit risk concentration may occur. Taishin Bank does not transact with a single customer but with individuals in similar geographic locations and companies in the same industry.

Taishin Bank's contract amounts with prominent aggregate attributes of credit risk are as follows:

|  | December 31   |               |
|--|---------------|---------------|
|  | 2005          | 2004          |
| Loans to parties with common interests               | \$ 15,145,000 | \$ 18,848,000 |
| Percentage of loans to parties with common interests | 2.47%         | 3.73%         |
| Percentage of loans secured by stocks                | 4.35%         | 5.96%         |

| Item                                     | December 31             |       |                         |       |
|--|-------------------------|-------|-------------------------|-------|
|  | 2005                    |       | 2004                    |       |
|  | Industry                | %     | Industry                | %     |
| Approved credit concentration<br>(Top 3) | Manufacturing           | 11.94 | Manufacturing           | 11.29 |
|  | Finance and insurance   | 5.35  | Finance and insurance   | 6.81  |
|  | Wholesale and retailing | 2.99  | Wholesale and retailing | 2.99  |

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

Note b: Percentage of loans to parties with common interests = Loans to parties with common interest ÷ Total loans.

Note c: Percentage of loans secured by stocks = Loans secured by stocks ÷ Total loans.

Note d: Loans to parties with common interests is defined by the Banking Law.

### Policy of Allowance for Loans, Nonaccrual Loans and Loss of Investment

Provision for Bad Debts and Losses on Guarantees - Provisions for bad debts and losses on guarantees are accrued in consideration of Taishin Bank's estimates of collectibility of loans, discounts, bills purchased, account receivables, interest receivables, guarantees, advances and other credit facilities. Taishin Bank assesses the collectibility of its credit portfolio on the basis of such factors as delinquent status, and financial condition and provides for loss, taking into account the value of collateralized assets, in accordance with "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Nonaccrual Loans and Bad Debts" issued by the Ministry of Finance. Based on these rules, if the loans, discounts, bills purchased, account receivables, interest

receivables, guarantees, advances and other credit facilities are deemed uncollectible, they should be provided for in full and a loss should be recognized as an expense currently. If the recovery possibility is deemed low, at least 50% of the loan amount should be provided for and the loss should also be recognized as current expense.

Since July 2005, the rule was modified to classify deteriorating loans into "special-mentioned," "substandard," "doubtful," and "uncollectible" categories. Provisions should be made at 2%, 10%, 50%, and 100%, respectively, for each loan category as the minimum standard of the allowance for bad loans and guarantees. This modification has immaterial effect on the financial statements. Taishin Bank writes off the uncollectible loans after the board of directors' approval.

Loss on Bills and Securities Purchased - Trading securities, including listed stocks, mutual funds, and other kinds of securities, are recorded at acquisition cost and carried at the lower of aggregate cost or market value. If the market value is lower than cost, a valuation allowance for market decline is provided; if market value recovers, valuation allowance is reversed. Changes in valuation allowance are recognized as income or loss in the current period. The moving average method is used in determining the cost of trading securities sold.

Loss on Long-Term Equity Investments - Long-term equity investments are recorded at acquisition cost. Investees in which Taishin Bank holds an ownership interest of 20% or more or on which Taishin Bank has significant influence are valued using the equity method, and those in which the Bank holds an ownership interest of less than 20% or does not have significant influence on are valued by the cost method. Under the equity method, any permanent devaluation is recognized as current loss. Under the cost method, if the investee is a listed or over-the-counter company, the investment is stated at the lower of cost or market value, and any unrealized loss on valuation is charged to the shareholders' equity. If the investee's shares have no quoted market prices and there is evidence indicating that the value of investment is deemed permanently impaired, a loss allowance will be provided and loss is charged to current expense.

Under the equity method, if Taishin Bank's ownership interest in its investee changes because it does not subscribe to new shares issued by its investee according to the same percentage of ownership interest or because of other reasons, and the change of ownership interest results in the increase or decrease of its invested net assets, this change should be adjusted to additional paid-in capital and long-term equity investments; if the additional paid-in capital resulted from long-term investments is insufficient, the difference should be debited to retained earnings. Taishin Bank recognizes its investees' unrealized loss on valuation of long-term investments and cumulative translation adjustments proportional to its ownership interest in the investees.

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

### **Interest-Earning Assets and Interest-Bearing Liabilities**

The average interest-earning assets, interest-bearing liabilities and average interest rates for the years ended December 31, 2005 and 2004 are as follows:

|   | 2005          |                         | 2004          |                         |
|---|---------------|-------------------------|---------------|-------------------------|
|   | Average Value | Average Interest Rate % | Average Value | Average Interest Rate % |
| <b>Assets</b>                                       |               |                         |               |                         |
| Due from the Central Bank                           | \$17,444,162  | 1.06                    | \$18,186,835  | 1.12                    |
| Trading security - bills                            | 68,519,907    | 2.46                    | 60,754,354    | 1.25                    |
| Trading security - bonds                            | 27,178,354    | 2.78                    | 27,364,787    | 3.26                    |
| Due from banks                                      | 11,744,660    | 2.30                    | 6,721,973     | 2.33                    |
| Loans   | 521,116,289   | 6.85                    | 397,965,968   | 6.01                    |
| Accounts receivable                                 | 53,101,896    | 13.46                   | 50,014,790    | 15.81                   |
| <b>Liabilities</b>                                  |               |                         |               |                         |
| Due to banks  | 25,289,060    | 2.19                    | 27,464,992    | 1.37                    |
| Demand deposits                                     | 173,729,239   | 0.47                    | 153,083,484   | 0.41                    |
| Time deposits (including NCD)                       | 374,440,004   | 1.68                    | 282,512,949   | 1.28                    |
| Deposits transferred from the Postal Bureau         | 52,985,643    | 1.84                    | 49,065,135    | 1.53                    |
| Bank notes  | 39,499,595    | 2.87                    | 24,191,257    | 3.93                    |
| Trading securities sold under repurchase agreements | 23,498,782    | 1.09                    | 27,065,758    | 0.80                    |

# V. Financial Statements

## Market Risk Sensitivity

|   | December 31 |           |
|---|-------------|-----------|
|   | 2005        | 2004      |
| Ratio of interest-sensitive assets to liabilities | 107.41%     | 73.20%    |
| Ratio of interest sensitivity gap to net assets   | 41.17%      | (220.73%) |

Note a: Ratio of interest-sensitive assets to interest-sensitive liabilities = 
$$\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$$
  
(Assets and liabilities due within one year)

Note b: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

## Main Foreign Currency Position

(Foreign currency and NT dollars in thousands)

|  | December 31       |                    |                   |                    |                   |                    |
|--|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|  | 2005              |                    | 2004              |                    |                   |                    |
|  | Original Currency | New Taiwan Dollars | Original Currency | New Taiwan Dollars | Original Currency | New Taiwan Dollars |
| The main foreign currency net position (market risk) | HKD 148,985       | \$ 631,241         | USD 84,576        | \$ 2,699,421       | JPY 6,707,261     | 2,085,287          |
|  | USD 9,620         | 316,028            | JPY 6,707,261     | 2,085,287          | GBP 8,904         | 547,481            |
|  | JPY 541,034       | 151,323            | GBP 8,904         | 547,481            | HKD 119,161       | 489,131            |
|  | EUR 2,140         | 83,414             | HKD 119,161       | 489,131            | EUR 9,505         | 413,663            |
|  | CAD 1,827         | 51,639             | EUR 9,505         | 413,663            |                   |                    |

Note a: The main foreign currency refers to the five highest amounts resulting from conversion of the foreign currencies into New Taiwan dollars.

Note b: The main foreign net position is at the absolute values of the currencies.

## Profitability

|                                 | Years Ended December 31 |        |
|---------------------------------|-------------------------|--------|
|                                 | 2005                    | 2004   |
| Return on total assets (Note a) | (0.77%)                 | 2.02%  |
| Return on net worth (Note b)    | (11.06%)                | 26.01% |
| Profit margin (Note c)          | (6.08%)                 | 21.22% |

Note a: Return on total assets = 
$$\frac{\text{Income before tax}}{\text{Average assets}}$$

Note b: Return on net worth = 
$$\frac{\text{Income before tax}}{\text{Average net worth}}$$

Note c: Profit margin = 
$$\frac{\text{Net income}}{\text{Operating revenue}}$$

## Maturity Analysis of Assets and Liabilities

|                 | December 31, 2005 |  |                |               |                 |                  |
|-----------------|-------------------|--|----------------|---------------|-----------------|------------------|
|                 | Total             | Period Remaining until Due Date and Amount Due |                |               |                 |                  |
|                 |                   | 0~30 Days                                      | 31~90 Days     | 91~180 Days   | 181 Days~1 Year | More Than 1 year |
| Asset           | \$ 768,170,000    | \$ 137,953,000                                 | \$ 105,073,000 | \$ 41,416,000 | \$ 70,083,000   | \$ 413,645,000   |
| Liability       | 768,170,000       | 239,520,000                                    | 65,146,000     | 83,062,000    | 145,992,000     | 234,450,000      |
| Gap             | -                 | (101,567,000)                                  | 39,927,000     | (41,646,000)  | (75,909,000)    | 179,195,000      |
| Accumulated gap | -                 | (101,567,000)                                  | (61,640,000)   | (103,286,000) | (179,195,000)   | -                |

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



**Special Recorded Items**

| Item  | Reason and Amount  |
|---|--|
| Within the past year, the person in charge or employee violated the law in the course of business operations and was sued by the public prosecutor in the recent year.  | None   |
| Within the past year, a fine was levied on Taishin Bank for violating the Banking Law.  | Taishin Bank violated Bank Law Article 45-1 when its currency position exceeded the limit stipulated by Central Bank for a long time. Taishin Bank was fined \$10 million by the Financial Supervisory Commission, Executive Yuan, with the Letters on December 23, 2005 (ref. No. 09460011871)  |
| Within the past year, Taishin Bank committed a misdemeanor, resulting in the Ministry of Finance's (MOF) subjecting Taishin Bank to corrective measures.  | Taishin Bank has not yet set up management policy in accordance with "Regulations on the Bank's Dealings with Wealth Management Business" and "Regulations on the Bank's Sales of Financial Products to Clients of Nonwealth Management Business". This was checked by the Financial Supervisory Commission, Executive Yuan, with the Letters on September 19, 2005 (ref. no. 0940022346). |
| Within the past year, there was an actual loss of more than \$50,000 thousand due to a major employee fraud, workplace accidents or failure to comply with financial institutions' guidelines for sound operations. | None   |
| Others  | None   |

Note: The "past year" refers to the period from January 1, 2005 to December 31, 2005.

**Capital Adequacy**

|                              | December 31   |               |
|------------------------------|---------------|---------------|
|                              | 2005          | 2004          |
| Tier I capital               | \$ 45,917,537 | \$ 53,674,909 |
| Tier II capital              | 31,383,808    | 21,014,042    |
| Tier III capital             | -             | -             |
| Deduction items              | 8,722,335     | 8,106,442     |
| Capital                      | 68,579,010    | 66,582,509    |
| Risk weighted assets         | 674,472,011   | 575,370,862   |
| Capital adequacy ratio       | 10.17%        | 11.57%        |
| Liability to net asset ratio | 1,566.86%     | 1,145.29%     |

Note : Capital adequacy ratio = Capital ÷ Risk weighted assets

This ratio is calculated in accordance with Article 44 of the Banking Law and the letters issued by the BOMA on October 16, 2001 (ref. no. Tai-Tsai-Ron 0090345106) and on December 9, 2003 (ref. no. Tai-Tsai-Ron 0928011668).

**Trust Accounts**

Under Article 3 of the Trust Law, Taishin Bank can offer trust services. The items and amounts of trust accounts were as follows:

|   | December 31           |                       |
|---|-----------------------|-----------------------|
|   | 2005                  | 2004                  |
| Special purpose trust accounts - foreign and domestic investments | \$ 111,901,668        | \$ 94,538,392         |
| Special purpose monetary fund - master                            | 1,563,342             | 614,159               |
| Special purpose monetary fund - stand-alone                       | 895,170               | 3,029,459             |
| Special purpose cover fund - stand-alone                          | 1,559,648             | -                     |
| Specific monetary fund - stand-alone                              | 2,567,399             | 2,209,434             |
| Special cover fund - stand-alone                                  | 19,308,625            | 18,593,918            |
| Real estate securitization  | -                     | 604,459               |
| Real estate trust   | 466,718               | 500,059               |
| Monetary mutual trust fund  | 846,300               | 586,094               |
|   | <u>\$ 139,108,870</u> | <u>\$ 120,675,974</u> |

# V. Financial Statements

## Loans to Parties with Common Interests

| Item  | Number of Customers | Ending Balance | Amount of Possible Loss |
|---|---------------------|----------------|-------------------------|
| Personal loans (Note a)                                 | 1,480               | 223,104        | 1,066                   |
| Employees' mortgage loans                               | 717                 | 2,215,729      | -                       |
| Other loans to parties with common interests (Note b)   | 377                 | 12,706,458     | -                       |
| Loans with guarantors having common interests           | 595                 | 3,566,212      | -                       |
| Loans with collateral providers having common interests | 905                 | 6,264,696      | -                       |

Note a: Personal loan is defined by the Banking Act of the Republic of China.

Note b: Personal loans and employees' mortgage loans are not included.

Note c: Parties with common interest are defined by the Banking Law.

## Taishin Bills Finance

### Balance Sheet

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2005                 | 2004                 |
| <b>Assets</b>  |                      |                      |
| Cash and cash equivalents                            | \$ 4,080,340         | \$ 2,010,835         |
| Call loans to banks                                  | 190,000              | 425,000              |
| Trading securities                                   | 49,837,256           | 53,840,446           |
| Other short-term investments                         | -                    | 880,000              |
| Other current assets                                 | 473,908              | 658,473              |
| Trading securities purchased under resell agreements | 7,662,544            | 984,514              |
| Property and equipment, net                          | 346,781              | 462,973              |
| Other assets   | 7,761,049            | 8,073,774            |
|  | <u>\$70,351,878</u>  | <u>\$67,336,015</u>  |
| <b>Liabilities</b>                                   |                      |                      |
| Short-term borrowings                                | \$ -                 | \$ 1,800,000         |
| Trading securities sold under repurchase agreements  | 40,735,911           | 48,113,417           |
| Due to banks   | 16,641,000           | 5,090,000            |
| Other current liabilities                            | 580,839              | 134,450              |
| Bonds payable  | 5,000,000            | 5,000,000            |
| Other liabilities                                    | 521,623              | 479,357              |
|  | <u>63,479,373</u>    | <u>60,617,224</u>    |
| <b>Shareholder's equity</b>                          |                      |                      |
| Capital stock - common stock                         | 5,140,000            | 5,140,000            |
| Retained earnings                                    | 1,732,505            | 1,578,791            |
|  | <u>6,872,505</u>     | <u>6,718,791</u>     |
|  | <u>\$ 70,351,878</u> | <u>\$ 67,336,015</u> |

### Income Statement

|                                       | December 31       |                   |
|---------------------------------------|-------------------|-------------------|
|                                       | 2005              | 2004              |
| Revenue                               | \$ 1,781,370      | \$ 1,829,715      |
| Expenses                              | ( 1,032,019)      | ( 997,322)        |
| Income before income tax              | 749,351           | 832,393           |
| Income tax expense                    | ( 136,572)        | ( 176,978)        |
| Net income                            | <u>\$ 612,779</u> | <u>\$ 655,415</u> |
| Pretax earnings per share (dollar)    | \$ 1.46           | \$ 1.62           |
| After-tax earnings per share (dollar) | <u>\$ 1.19</u>    | <u>\$ 1.28</u>    |

## Important Financial and Business Overview

### Capital Adequacy

|                              | December 31 |         |
|------------------------------|-------------|---------|
|                              | 2005        | 2004    |
| Capital adequacy ratio       | 13.00%      | 15.47%  |
| Liability to net asset ratio | 923.67%     | 902.20% |

Note: Capital adequacy ratio = Capital ÷ Risk weighted assets.

This ratio is calculated every June 30 and December 31. The ratios disclosed for March 31 and September 30 are those for December 31 and June 30, respectively.

### Asset Quality

|   | December 31 |         |
|---|-------------|---------|
|   | 2005        | 2004    |
| Nonperforming loans (NPL, including delinquent loans) | \$ -        | \$ -    |
| Delinquent loans                                      | -           | -       |
| NPL ratio   | -           | -       |
| Allowance for loans and delinquent loans              | 464,667     | 443,451 |

Note: NPL ratio = NPL (including those in delinquent loans, and in notes and accounts receivable) ÷ (Guarantees and endorsed notes receivable + NPL)

### Business Highlights

|   | December 31   |               |
|---|---------------|---------------|
|   | 2005          | 2004          |
| Guarantees and endorsed notes   | \$ 12,507,500 | \$ 13,806,100 |
| Ratio of guarantees and endorsed notes to net assets (after appropriation of last year's earnings)                          | 2.00          | 2.28          |
| Short-term securities sold under repurchase agreements  | 40,735,911    | 48,113,417    |
| Ratio of short-term securities sold under repurchase agreements to net assets (after appropriation of last year's earnings) | 6.51          | 7.93          |

### Concentration of Credit Risks

|  | December 31 |            |
|--|-------------|------------|
|  | 2005        | 2004       |
| Loans to parties with common interests               | \$ 345,000  | \$ 673,000 |
| Percentage of loans to parties with common interests | 2.76%       | 4.87%      |
| Percentage of loans secured by stocks                | 20.02%      | 25.48%     |

# V. Financial Statements

| Item                          | Industry  | December 31 |          |
|-------------------------------|---|-------------|----------|
|                               |   | 2005 (%)    | 2004 (%) |
| Approved credit concentration | Agriculture, forestry, fishery and animal husbandry | 1.60        | -        |
|                               | Mining  | -           | -        |
|                               | Manufacturing                                       | 22.18       | 20.59    |
|                               | Utilities   | -           | -        |
|                               | Construction  | 1.92        | 2.97     |
|                               | Wholesale and retailing, food and beverage          | 12.39       | 10.88    |
|                               | Transportation, warehousing and communications      | 2.08        | 2.64     |
|                               | Finance, insurance and leasing                      | 14.31       | 19.35    |
|                               | Finance, insurance and securities brokerage         | 11.60       | 9.42     |
|                               | Finance, insurance and real estate                  | 5.03        | 5.49     |
|                               | Finance, insurance and investment                   | 28.49       | 28.26    |
|                               | Service industry                                    | 0.40        | 0.40     |
|                               | Others  | -           | -        |
|                               |   | 100.00      | 100.00   |

Note a: Percentage of loans to parties with common interests = Loans to parties with common interests ÷ Total loans.

Note b: Percentage of loans secured by stocks = Loans secured by stocks ÷ Total loans.

Note c: Loans include guarantees, endorsed notes and NPL (including those in delinquent loans, and in notes and accounts receivable).

## Summary of Reinvestments

None.

## Policy of Allowance for Loans, Delinquent Loans and Investment

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

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

Credit facilities deemed unrecoverable are written off with the approval of the Board of Directors.

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

## Special Recorded Items

| Item  | Reason and Amount |
|---|-------------------|
| Within the past year, the person in charge or employee violated the law in the course of business operations and was sued by the public prosecutor in the recent year.  | None              |
| Within the past year, a fine was levied on Taishin Bills Finance for violating the Law Governing Bills Finance Business.  | None              |
| Within the past year, Taishin Bills Finance committed a misdemeanor, resulting in the Ministry of Finance's (MOF) subjecting Taishin Bills Finance to corrective measures.  | None              |
| Within the past year, there was an actual loss of more than \$50,000 thousand due to a major employee fraud, workplace accidents or failure to comply with financial institutions' guidelines for sound operations. | None              |
| Others  | None              |

Note: The "past year" refers to the period from December 31, 2004 to December 31, 2005.

**Profitability**

|                        | December 31 |        |
|------------------------|-------------|--------|
|                        | 2005        | 2004   |
| Return on total assets | 1.09%       | 1.91%  |
| Return on net worth    | 11.03%      | 12.50% |
| Profit margin          | 42.07%      | 45.49% |

|                                  |   |
|----------------------------------|---|
| Note a: Return on total assets = | $\frac{\text{Income before tax}}{\text{Average assets}}$    |
| Note b: Return on net worth =    | $\frac{\text{Income before tax}}{\text{Average net worth}}$ |
| Note c: Profit margin =          | $\frac{\text{Income before tax}}{\text{Operating revenue}}$ |

**Liquidity**

Analysis of maturities of assets and liabilities as of December 31, 2005:

|                       | 1~30 Days              | 31~90 Days             | 91~180 Days            | 181 Days~<br>1 Year    | More Than<br>1 Year   |
|-----------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|
| Cash used in          |                        |                        |                        |                        |                       |
| Bills position        | \$ 7,347,077           | \$ 10,674,475          | \$ 5,318,111           | \$ 2,170,815           | \$ -                  |
| Bonds position        | 299,962                | -                      | 999                    | 148,709                | 23,877,108            |
| Deposits              | 227,040                | 1,015,500              | 945,100                | 1,083,800              | 808,900               |
| Call loans to banks   | 190,000                | -                      | -                      | -                      | -                     |
| R.S                   | 1,590,319              | 6,072,225              | -                      | -                      | -                     |
|                       | <u>9,654,398</u>       | <u>17,762,200</u>      | <u>6,264,210</u>       | <u>3,403,324</u>       | <u>24,686,008</u>     |
| Cash provided by      |                        |                        |                        |                        |                       |
| Call loans from banks | 16,141,000             | 999,186                | -                      | -                      | 5,000,000             |
| R.P                   | 37,511,269             | 3,181,739              | 42,903                 | -                      | -                     |
| Self-owned capital    | -                      | -                      | -                      | -                      | 6,872,505             |
|                       | <u>53,652,269</u>      | <u>4,180,925</u>       | <u>42,903</u>          | <u>-</u>               | <u>11,872,505</u>     |
| Net flow              | <u>\$ (43,997,871)</u> | <u>\$ 13,581,275</u>   | <u>\$ 6,221,307</u>    | <u>\$ 3,403,324</u>    | <u>\$ 12,813,503</u>  |
| Accumulated net flow  | <u>\$ (43,997,871)</u> | <u>\$ (30,416,596)</u> | <u>\$ (24,195,289)</u> | <u>\$ (20,791,965)</u> | <u>\$ (7,978,462)</u> |

Note: R.S means trading securities purchased under resell agreements and R.P means trading securities sold under repurchase agreements.

**Market Risk Sensitivity**

|   | December 31 |           |
|---|-------------|-----------|
|   | 2005        | 2004      |
| Ratio of interest-sensitive assets to liabilities | 64.08%      | 76.94%    |
| Ratio of interest sensitivity gap to net assets   | (302.54%)   | (188.76%) |

Note:

- Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.
- Ratio of interest-sensitive assets to interest-sensitive liabilities = 
$$\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$$
  
(Assets and liabilities due within one year)
- Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

# V. Financial Statements

## Maturity analysis of Assets and Liabilities

The maturity analysis of Taishin Bills Finance's assets and liabilities are as follows:

|   | 1~30 Days            | 31~180 Days          | 181 Days ~<br>1Year | More Than 1 Year     | Total                |
|---|----------------------|----------------------|---------------------|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |                     |                      |                      |
| Cash and call loans to banks (including deposits in Central Bank) | \$ 417,040           | \$ 1,960,600         | \$ 1,083,800        | \$ 808,900           | \$ 4,270,340         |
| Trading securities, net   | 7,647,039            | 15,993,585           | 2,319,524           | 23,877,108           | 49,837,256           |
| Bonds and bills purchased under resell agreement                  | 1,590,319            | 6,072,225            | -                   | -                    | 7,662,544            |
|   | <u>\$ 9,654,398</u>  | <u>\$ 24,026,410</u> | <u>\$ 3,403,324</u> | <u>\$ 24,686,008</u> | <u>\$ 61,770,140</u> |
| <b>Liabilities</b>  |                      |                      |                     |                      |                      |
| Short-term liabilities payable                                    | \$ -                 | \$ 499,186           | \$ -                | \$ -                 | \$ 499,186           |
| Bonds and bills sold under repurchase agreement                   | 37,511,269           | 3,224,642            | -                   | -                    | 40,735,911           |
| Due to banks  | 16,141,000           | 500,000              | -                   | -                    | 16,641,000           |
| Bonds payable   | -                    | -                    | -                   | 5,000,000            | 5,000,000            |
|   | <u>\$ 53,652,269</u> | <u>\$ 4,223,828</u>  | <u>\$ -</u>         | <u>\$ 5,000,000</u>  | <u>\$ 62,876,097</u> |

## Interest-Earning Assets and Interest-Bearing Liabilities

The average interest-earning assets, interest-bearing liabilities and average interest rates for the year ended December 31, 2005 are as follows:

|  | Average Value | Average Interest Rate % |
|--|---------------|-------------------------|
| <b>Assets</b>                          |               |                         |
| Time deposits                          | \$ 6,281,220  | 1.5645                  |
| Deposits in banks                      | 38,834        | -                       |
| Deposits in Central Bank               | 4,175         | -                       |
| Call loans to banks                    | 150,370       | 1.3274                  |
| Financing commercial papers            | 15,625,038    | 1.2073                  |
| Trading commercial papers              | 23,865        | 1.0282                  |
| Negotiable certificate of deposits     | 15,343,478    | 1.1615                  |
| Treasury bills                         | 4,585,200     | 1.1980                  |
| Government bonds                       | 13,911,446    | 1.7255                  |
| Bank notes                             | 4,964,598     | 1.3236                  |
| Corporate bonds                        | 3,703,032     | 1.3025                  |
| Other bonds                            | 1,124,740     | -                       |
| Bills purchased under resell agreement | 992,764       | 1.3508                  |
| Bonds purchased under resell agreement | 1,201,448     | 1.3566                  |
| Other short-term investments           | 528,666       | -                       |
| <b>Liabilities</b>                     |               |                         |
| Short-term borrowings                  | 52,055        | -                       |
| Short-term bills payable               | 175,890       | 1.1972                  |
| Due to banks                           | 9,121,014     | 1.3116                  |
| Bills sold under repurchase agreements | 30,040,879    | 1.2350                  |
| Bonds sold under repurchase agreements | 19,101,167    | 1.1761                  |
| Bonds payable                          | 5,000,000     | 2.0645                  |

## Taiwan Securities

### Balance Sheet

|   | December 31          |                      |
|---|----------------------|----------------------|
|   | 2005                 | 2004                 |
| <b>Assets</b>   |                      |                      |
| Cash and cash equivalents                             | \$ 646,297           | \$ 787,014           |
| Short-term investments                                | 810,000              | 1,240,048            |
| Bonds purchased under resell agreements               | 6,291,967            | 16,482,681           |
| Trading securities                                    | 12,994,845           | 18,535,491           |
| Marginal receivables                                  | 15,672,386           | 15,306,766           |
| Other current assets                                  | 2,135,001            | 1,357,169            |
| Long-term investments                                 | 3,048,998            | 2,721,987            |
| Property and equipment                                | 2,950,088            | 3,026,582            |
| Other assets  | 2,935,894            | 2,869,535            |
| Debit item for consigned trades, net                  | -                    | 28,180               |
|   | <u>\$ 47,485,476</u> | <u>\$ 62,355,453</u> |
| <b>Liabilities</b>                                    |                      |                      |
| Short-term borrowings                                 | \$ 2,830,000         | \$ 3,310,000         |
| Commercial paper payable                              | 2,428,615            | 9,053,196            |
| Bonds sold under repurchase agreements                | 13,655,441           | 22,678,382           |
| Warrant issuance liabilities                          | 360,764              | 217,222              |
| Securities financing guarantee deposit-in             | 1,851,548            | 2,134,995            |
| Payable for securities financing guarantee            | 2,224,697            | 2,550,131            |
| Other current liabilities                             | 2,221,089            | 2,103,355            |
| Long-term liabilities                                 | 2,496,603            | 499,826              |
| Other liabilities                                     | 676,446              | 533,172              |
| Credit item for consigned trades, net                 | 20,964               | -                    |
|   | <u>28,766,167</u>    | <u>43,080,279</u>    |
| <b>Shareholder's equity</b>                           |                      |                      |
| Capital stock - common stock                          | 13,255,044           | 13,255,044           |
| Capital surplus                                       | 2,082,283            | 2,076,860            |
| Retained earnings                                     | 3,368,780            | 4,176,269            |
| Unrealized loss on valuation of long-term investments | -                    | ( 44)                |
| Cumulative translation adjustments                    | 13,202               | ( 40,489)            |
| Treasury stock  | -                    | ( 192,466)           |
|   | <u>18,719,309</u>    | <u>19,275,174</u>    |
|   | <u>\$ 47,485,476</u> | <u>\$ 62,355,453</u> |

### Income Statement

|   | December 31       |                     |
|---|-------------------|---------------------|
|   | 2005              | 2004                |
| Revenue                                     | \$ 7,786,456      | \$ 9,198,010        |
| Expense                                     | ( 6,335,809)      | ( 6,370,834)        |
| Income before income tax                    | 1,450,647         | 2,827,176           |
| Income tax expense                          | ( 858,131)        | ( 862,261)          |
| Net income                                  | <u>\$ 592,516</u> | <u>\$ 1,964,915</u> |
| Pretax basic earnings per share (dollar)    | <u>\$ 1.10</u>    | <u>\$ 2.17</u>      |
| After-tax basic earnings per share (dollar) | <u>\$ 0.45</u>    | <u>\$ 1.51</u>      |

# V. Financial Statements

## Capital Adequacy

|                        | December 31 |         |
|------------------------|-------------|---------|
|                        | 2005        | 2004    |
| Capital adequacy ratio | 279.26%     | 279.04% |

Note: Capital adequacy ratio = Capital ÷ Risk weighted assets. The ratio is calculated on June 30 and December 31. The ratios disclosed in the first and the third quarters are those as of the preceding December 31 and June 30.

## Limitation and Execution of Financial Ratios As Stipulated in the Futures Trading Law

In accordance with the "Guidelines Governing the Preparation of Financial Reports by Futures Commission Merchants" stipulated by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, major financial ratios of Taiwan Securities and Taiwan Futures as of December 31, 2005 and 2004 were disclosed as follows to show financial status, operating results and cash flow information:

### Taiwan Securities

| Items  | December 31, 2005         |            |                |
|--|---------------------------|------------|----------------|
|  | Calculation               | Ratio      | Benchmark      |
| Shareholders' equity/<br>(Total liabilities - futures<br>trader equity - loss on trading<br>securities - reserve of penalty) | $\frac{401,516}{574}$     | 699.51     | ≥ 1            |
| Current assets/<br>Current liabilities   | $\frac{382,511}{574}$     | 666.40     | ≥ 1            |
| Shareholders' equity/<br>Minimum issued capital  | $\frac{401,516}{400,000}$ | 100.38%    | ≥ 60%<br>≥ 40% |
| Adjusted Net Capital/<br>Guarantee deposit needed for<br>unsettled position  | $\frac{386,563}{1,350}$   | 28,634.30% | ≥ 20%<br>≥ 15% |

| Items  | December 31, 2004         |            |                |
|--|---------------------------|------------|----------------|
|  | Calculation               | Ratio      | Benchmark      |
| Shareholders' equity/<br>(Total liabilities - futures<br>trader equity - loss on trading<br>securities - reserve of penalty) | $\frac{392,925}{258}$     | 152,296.51 | ≥ 1            |
| Current assets/<br>Current liabilities   | $\frac{372,101}{258}$     | 144,225.19 | ≥ 1            |
| Shareholders' equity/<br>Minimum issued capital  | $\frac{392,925}{400,000}$ | 98.23%     | ≥ 60%<br>≥ 40% |
| Adjusted Net Capital/<br>Guarantee deposit needed for<br>unsettled position  | $\frac{337,879}{30,386}$  | 1,111.96%  | ≥ 20%<br>≥ 15% |



**Taiwan Futures**

| Items  | December 31, 2005             |         |                            |
|--|-------------------------------|---------|----------------------------|
|  | Calculation                   | Ratio   | Benchmark                  |
| Shareholders' equity/<br>(Total liabilities - futures<br>trader equity - loss on trading<br>securities - reserve of penalty) | $\frac{803,698}{163,445}$     | 4.92    | $\geq 1$                   |
| Current assets/<br>Current liabilities   | $\frac{4,528,442}{3,835,186}$ | 1.18    | $\geq 1$                   |
| Shareholders' equity/<br>Minimum issued capital  | $\frac{803,698}{230,000}$     | 349.43% | $\geq 60\%$<br>$\geq 40\%$ |
| Adjusted Net Capital/<br>Guarantee deposit needed for<br>unsettled position  | $\frac{772,962}{911,056}$     | 84.84%  | $\geq 20\%$<br>$\geq 15\%$ |

| Items  | December 31, 2004             |         |                            |
|--|-------------------------------|---------|----------------------------|
|  | Calculation                   | Ratio   | Benchmark                  |
| Shareholders' equity/<br>(Total liabilities - futures<br>trader equity - loss on trading<br>securities - reserve of penalty) | $\frac{491,603}{123,198}$     | 3.99    | $\geq 1$                   |
| Current assets/<br>Current liabilities   | $\frac{3,639,060}{3,253,009}$ | 1.12    | $\geq 1$                   |
| Shareholders' equity/<br>Minimum issued capital  | $\frac{491,603}{215,000}$     | 228.65% | $\geq 60\%$<br>$\geq 40\%$ |
| Adjusted Net Capital/<br>Guarantee deposit needed for<br>unsettled position  | $\frac{429,965}{717,151}$     | 59.95%  | $\geq 20\%$<br>$\geq 15\%$ |

**Chang Hwa Bank****Balance Sheet**

|  | 2005                    | 2004                    |
|--|-------------------------|-------------------------|
| Assets                                   |                         |                         |
| Cash and due from banks and Central Bank | \$ 175,093,259          | \$ 127,348,849          |
| Marketable securities, net               | 246,681,790             | 218,013,666             |
| Loans, net                               | 834,512,929             | 879,231,370             |
| Mutual funds and long-term investments   | 10,736,029              | 13,007,383              |
| Property and equipment, net              | 25,024,975              | 24,188,169              |
| Receivables and prepayments              | 35,734,894              | 34,176,347              |
| Other assets                             | 28,611,158              | 17,190,184              |
| Total assets                             | <u>\$ 1,356,395,034</u> | <u>\$ 1,313,155,968</u> |

# V. Financial Statements

|   | 2005                    | 2004                    |
|---|-------------------------|-------------------------|
| <b>Liabilities</b>                          |                         |                         |
| Securities sold under repurchase agreements | \$ 12,794,440           | \$ 10,712,573           |
| Due to banks                                | 134,491,011             | 121,311,530             |
| Deposits accepted and remittances payable   | 1,049,039,538           | 1,028,406,605           |
| Subordinated debentures                     | 20,000,000              | 20,000,000              |
| Payables and advanced receipts              | 52,798,400              | 43,234,803              |
| Other liabilities                           | 10,867,327              | 14,666,124              |
| <b>Total liabilities</b>                    | <b>1,279,990,716</b>    | <b>1,238,331,635</b>    |
| <b>Shareholders' equity</b>                 |                         |                         |
| Capital                                     | 63,594,756              | 49,594,756              |
| Capital surplus                             | 47,471,713              | 21,340,112              |
| Retained earnings                           | ( 34,924,183)           | 3,441,324               |
| Equity adjustments                          | 262,032                 | 448,141                 |
| <b>Total equity</b>                         | <b>76,404,318</b>       | <b>74,824,333</b>       |
| <b>Total liabilities and equity</b>         | <b>\$ 1,356,395,034</b> | <b>\$ 1,313,155,968</b> |

## Income Statement

|  | 2005                    | 2004                |
|--|-------------------------|---------------------|
| Operating revenues                     | \$ 42,739,548           | \$ 39,993,925       |
| Operating expenses                     | ( 90,809,518)           | ( 38,310,109)       |
| Operating income                       | ( 48,069,970)           | 1,683,816           |
| Non-operating income                   | 303,412                 | 202,071             |
| Non-operating expenses                 | ( 176,006)              | ( 240,221)          |
| Incomes before income taxes            | ( 47,942,564)           | 1,645,666           |
| Estimated income tax benefit (expense) | 11,426,810              | ( 392,267)          |
| <b>Net (loss) income</b>               | <b>\$ ( 36,515,754)</b> | <b>\$ 1,253,399</b> |

## Important Financial and Business Overview

### Asset Quality

|                                | 2005          | 2004          |
|--------------------------------|---------------|---------------|
| Non-performing loans (NPLs)    | \$ 14,127,027 | \$ 34,451,065 |
| Non-accrual loans              | 14,129,844    | 65,161,883    |
| NPLs/gross loans               | 1.67%         | 3.87%         |
| Surveillance loans             | N/A           | 34,744,225    |
| Surveillance loans/gross loans | N/A           | 3.90%         |
| Allowance for loan losses      | 13,748,252    | 11,111,365    |
| Loans written-off              | 59,550,872    | 13,630,720    |

Note a:(1) Before June 30, 2005, NPL is defined in the Letter issued by the Bureau of Monetary Authority (BOMA) on February 16, 1994 (ref. no. Tai-Tsai-Ron 832292834), and on December 1, 1997 (ref. no. Tai-Tsai-Ron 86656564).

(2) After July 1, 2005, NPL is defined in the Act one of Letter issued by the Bureau of Monetary Authority (BOMA) on January 6, 2004 (ref. no. Tai-Tsai-Ron 0928011826)

Note b: NPL ratio = NPL (including delinquent loans) ÷ (Loans + Delinquent loans)

Note c: Surveillance loans only suitable by June 30, 2005, include (i) long-term installment loans, with principal repayment overdue more than three months but less than six months, (ii) the principal repayment of other loans overdue is less than three months but interest payments are overdue more than three months but less than six months, (iii) delinquent loans to be excluded from NPL, as allowed by BOMA.

Note d: The amounts of bad debts written off were cumulative from January 1 to December 31 of 2005 and 2004, respectively.

**Concentration of Credit Risk**

| Item   | 2005                    |       | 2004                    |       |
|--|-------------------------|-------|-------------------------|-------|
| Loans to parties with common interests               | \$49,028,369            |       | \$9,337,863             |       |
| Percentage of loans to parties with common interests | 5.58%                   |       | 1.08%                   |       |
| Percentage of loans secured by stocks                | 1.32%                   |       | 0.67%                   |       |
| Approved credit concentration (Top 3)                | Industry                | Ratio | Industry                | Ratio |
|  | Social service          | 31%   | Social service          | 31%   |
|  | Manufacturing           | 26%   | Manufacturing           | 25%   |
|  | Wholesale and retailing | 10%   | Wholesale and retailing | 11%   |

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

Note b: Percentage of loans to parties with common interests = Loans to parties with common interest ÷ Total loans.

Note c: Percentage of loans secured by stocks = Loans secured by stocks ÷ Total loans.

Note d: Loans to parties with common interests is defined by the Banking Law.

**Policy of Allowance for Loans, Nonaccrual Loans and Loss of Investment**Loan, and Overdue Receivable

The allowance is determined by evaluating the collectibility of the outstanding balances of various loans and receivables at the balance sheet date.

According to "Rules for Bank Assets Evaluation, Loss Reserve Provision, and Disposing of Overdue Loans, Non-accrual Loans and Bad Debts" issued by the Ministry of Finance, Chang Hwa Bank writes off the uncollectible loans from the allowance for doubtful accounts or reserve for guarantee liabilities after the board of directors' approval.

Marketable Securities

Marketable securities are stated at the lower of cost or fair market value. The fair market value for listed equity securities is the average closing price for the last month of the reported accounting period. Unlisted securities' equivalent market price is the latest settlement price at the end of the fiscal year. The market value of open-ended mutual funds is measured by the net asset value of the mutual fund on the balance sheet date.

Long-Term Equity Investments

Investments in shares of listed public companies where Chang Hwa Bank's ownership is less than 20% of the investees' voting shares are stated at the lower of cost or fair market value. Unrealized loss on valuation of long-term investments is presented as an equity deduction. Investments in shares of non-listed companies are stated at cost. When the fair market value of the investment declines and the chance of recovery is remote, Chang Hwa Bank adjusts its book value to the new fair market value and recognizes an investment loss.

**Interest-Earning Assets and Interest-Bearing Liabilities**

The average interest-earning assets, interest-bearing liabilities and average interest rates as of December 31, 2005 and 2004 were as follows:

|   | 2005           |                         | 2004           |                         |
|---|----------------|-------------------------|----------------|-------------------------|
|   | Average Value  | Average Interest Rate % | Average Value  | Average Interest Rate % |
| <b>Assets:</b>                              |                |                         |                |                         |
| Time deposits purchased                     | \$ 152,823,338 | 1.32                    | \$ 149,348,331 | 1.32                    |
| Due from banks                              | 105,708,333    | 2.51                    | 89,434,445     | 1.47                    |
| Due from Central Bank of China              | 38,811,873     | 1.01                    | 45,500,930     | 1.08                    |
| Marketable securities-bonds and bills       | 54,156,750     | 2.87                    | 45,237,026     | 2.80                    |
| Loan, discounts and bills purchased         | 837,406,640    | 3.01                    | 800,775,950    | 2.89                    |
| <b>Liabilities:</b>                         |                |                         |                |                         |
| Due to and call loans from banks            | 160,411,155    | 2.28                    | 135,309,442    | 1.43                    |
| Demand deposits                             | 488,134,590    | 0.58                    | 452,215,193    | 0.50                    |
| Time deposits                               | 485,348,079    | 1.63                    | 494,934,639    | 1.30                    |
| Deposits transferred from the Postal Bureau | 52,305,600     | 1.85                    | 57,694,871     | 1.65                    |
| Financing from banks                        | 4,318,745      | 2.54                    | 3,465,388      | 1.65                    |
| Bank notes                                  | 20,000,000     | 3.03                    | 20,000,000     | 2.84                    |

Note a: the average value is defined as daily average value of interest-earning assets and interest-bearing liabilities.

Note b: Interest-earning assets and interest-bearing liabilities are disclosed by the accounting category or its quality.

# V. Financial Statements

## Market Risk Sensitivity

|   | 2005    | 2004      |
|---|---------|-----------|
| Ratio of interest-sensitive assets to liabilities | 100.55% | 79.17%    |
| Ratio of interest sensitivity gap to net assets   | 6.58%   | (246.63%) |

Note a: Interest-sensitive assets and liabilities are defined as interest-earning assets and interest-bearing liabilities which revenues or costs will be affected by the change of interest rate.

Note b: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(Assets and liabilities due within one year)

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

## Main Foreign Currency Position

(Foreign currency and NT dollars in thousands)

|  | 2005              |                    | 2004              |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | Original Currency | New Taiwan Dollars | Original Currency | New Taiwan Dollars |
| The main foreign currency net position (market risk) | USD 65,295        | \$ 2,145,594       | USD 47,697        | \$ 1,515,238       |
|  | EUR 17,074        | 664,561            | EUR 16,267        | 702,994            |
|  | GBP 8,966         | 507,621            | GBP 8,654         | 529,160            |
|  | SGD 15,487        | 305,631            | JPY 1,277,812     | 394,972            |
|  | JPY 121,249       | 33,780             | SGD 15,709        | 305,290            |

Note a: The main foreign currency refers to the five highest amounts resulting from conversion of the foreign currencies into New Taiwan dollars.

Note b: The main foreign net position is at the absolute values of the currencies.

## Profitability

|                        | 2005     | 2004  |
|------------------------|----------|-------|
| Return on total assets | (3.59%)  | 0.12% |
| Return on net worth    | (63.40%) | 2.21% |
| Profit margin          | (85.44%) | 4.11% |

Note a: Return on total assets =  $\frac{\text{Income before tax}}{\text{Average assets}}$

Note b: Return on net worth =  $\frac{\text{Income before tax}}{\text{Average net worth}}$

Note c: Profit margin =  $\frac{\text{Net income}}{\text{Operating revenue}}$

## Demand Deposits, Time Deposits and Foreign Currency Deposits

|  | December 31    |                |
|--|----------------|----------------|
|  | 2005           | 2004           |
| Demand deposits  | \$ 511,089,990 | \$ 488,027,188 |
| Demand deposit/total deposits                          | 51.18%         | 50.19%         |
| Time deposits  | 487,524,390    | 484,259,717    |
| Time deposits/total deposits                           | 48.82%         | 49.81%         |
| Foreign currency - denominated deposits                | 120,390,181    | 100,444,460    |
| Foreign currency - denominated deposits/total deposits | 12.06%         | 10.33%         |

Note a: Demand deposits and time deposits include foreign currency - denominated deposits and deposits in Central Bank.

Note b: Deposits do not include deposits transferred from the Postal Bureau

**Small and Medium Enterprise Loans and Consumer Loans**

|   | December 31    |                |
|---|----------------|----------------|
|   | 2005           | 2004           |
| Small and medium enterprise loans             | \$ 158,751,919 | \$ 163,917,873 |
| Small and medium enterprise loans/Total loans | 18.71%         | 18.41%         |
| Consumer loans                                | 206,092,490    | 201,198,394    |
| Consumer loans/ Total loans                   | 24.30%         | 22.60%         |

Note a: Small and medium enterprises are distinguished with the standard defined by the Ministry of Economic Affairs, ROC.

Note b: Consumer loans include loans for acquiring house or car, repairing house, employee's welfare and other consumer loans for individuals (not including revolving credit of credit card.)

**The Maturity Analysis of Assets and Liabilities**

|                 | Total           | December 31, 2005                     |                |                |                     |                |
|-----------------|-----------------|---------------------------------------|----------------|----------------|---------------------|----------------|
|                 |                 | Amount Remaining to the Maturity Date |                |                |                     |                |
|                 |                 | Within 30 Days                        | 31~90 Days     | 91~180 Days    | 181 Days~<br>1 Year | Over 1 Year    |
| Assets          | \$1,110,205,000 | \$ 245,176,000                        | \$ 102,575,000 | \$ 128,813,000 | \$ 83,770,000       | \$ 549,871,000 |
| Liabilities     | 1,149,390,000   | 185,627,000                           | 150,604,000    | 112,968,000    | 206,024,000         | 494,167,000    |
| Gap             | (39,185,000)    | 59,549,000                            | (48,029,000)   | 15,845,000     | (122,254,000)       | 55,704,000     |
| Accumulated gap |                 | 59,549,000                            | 11,520,000     | 27,365,000     | (94,889,000)        | (39,185,000)   |

Note: This table only includes amounts denominated in New Taiwan Dollars of Chang Hwa Bank and its branches.

**Special Recorded Items**

| Item  | Cases and amount   |
|---|--|
| Management or any employee being involved in lawsuit for any fault in business in one year                                | None   |
| The Bank being fined for disobeying the Banking Law in one year   | None   |
| The Bank being punished by MOF for any fault in one year  | The Non-performing loans filled in the "Monthly report of loan balance" were less than the real amounts, which affected the finance supervision and the accuracy of statistic figures.                 |
| The Bank incurred losses over \$50,000 thousand for management or employee fraud or for any security incident in one year | On December 23, 2005, an employee of some branch of Chang Hwa Bank stole and sold customer's trustee funds. This case is still being investigated by the Bureau of Investigation, Ministry of Justice. |
| Others  | None   |

Note: One year means from January 1, 2005 to December 31, 2005.

**Capital Adequacy**

|                              | December 31   |               |
|------------------------------|---------------|---------------|
|                              | 2005          | 2004          |
| Tier I capital               | \$ 56,692,692 | \$ 64,179,911 |
| Tier II capital              | 35,140,089    | 24,166,671    |
| Tier III capital             | -             | -             |
| Deduction items              | 7,358,000     | 10,037,399    |
| Qualified Capital            | 84,474,781    | 78,309,183    |
| Risk-weighted assets         | 766,117,323   | 769,210,704   |
| Capital adequacy ratio       | 11.03%        | 10.18%        |
| Liability to net asset ratio | 1,675.29%     | 1,654.99%     |

# V. Financial Statements

## Trust Accounts

Disclosures of trust assets and liabilities and assets register as required by the Article 17 of ROC Trust Law were as follows:

Balance Sheet of Trust  
As at December 31, 2005

| Trust Assets            |                      | Trust Liabilities           |                      |
|-------------------------|----------------------|-----------------------------|----------------------|
| Bank deposits           | \$ 279,541           | Trust capital               |                      |
| Insurance claims        | 351,200              | Money trust                 | \$ 52,430,888        |
| Short-term investments  |                      | Insurance claims            | 351,200              |
| Common stocks           | 110,717              | Marketable securities trust | 111,053              |
| Investments in funds    | 52,210,467           | Real estate trust           | 534,897              |
| Interest receivables    | 76                   | Management fees payables    | 37                   |
| Land                    | 379,571              | Income tax payables         | 8                    |
| Building and property   | 669                  | Unrealized capital gains    | 838                  |
| Construction in process | 99,672               | Unrealized capital losses   | ( 888)               |
|                         |                      | Current gains and losses    | 6,409                |
|                         |                      | Cumulative gains and losses | ( 2,529)             |
| <b>Total</b>            | <b>\$ 53,431,913</b> | <b>Total</b>                | <b>\$ 53,431,913</b> |

Trust Assets Register  
As at December 31, 2005

| Investments             | Book Value           |
|-------------------------|----------------------|
| Bank deposits           | \$ 279,541           |
| Insurance claims        | 351,200              |
| Short-term investments  |                      |
| Common stocks           | 110,717              |
| Investments in funds    | 52,210,467           |
| Interest receivables    | 76                   |
| Land                    | 379,571              |
| Building and property   | 669                  |
| Construction in process | 99,672               |
| <b>Total</b>            | <b>\$ 53,431,913</b> |

## Related Party Credit Transaction

| Category  | Account  | Balance as of<br>December 31, 2005 | Probable Loss |
|---|----------|------------------------------------|---------------|
| Consumers loans                                   | \$ 1,676 | \$ 622,848                         | \$ -          |
| Employee loans for house purchase                 | 3,370    | 5,786,863                          | -             |
| Loans for other related parties                   | 1,660    | 42,618,659                         | -             |
| Loans guaranteed by related parties               | 2,378    | 2,676,254                          | -             |
| Loans with collateral provided by related parties | 518      | 939,106                            | -             |

### Concentrations of Credit Risk of Financial Instruments

Concentrations of credit risk are most likely resulting from exposures with an individual counterpart. Group concentrations of credit risk exist if a number of counterparts are engaged in similar activities or activities in the same region have similar economic characteristics that would cause their inability to meet contractual obligations. The Chang Hwa Bank maintains trading positions in a number of markets and with a variety of counterparts or obligors. The Chang Hwa Bank's significant group concentrations of credit risk were summarized in categories of similar industries and regional concentrations as follows:

|                              | December 31           |                       |
|------------------------------|-----------------------|-----------------------|
|                              | 2005                  | 2004                  |
| Loans - regional             |                       |                       |
| Domestic                     | \$ 774,376,594        | \$ 814,938,788        |
| America                      | 41,701,747            | 42,454,549            |
| Europe                       | 8,052,928             | 7,961,224             |
| South and East Asia          | 12,686,142            | 13,527,468            |
| Other                        | 11,443,770            | 11,460,706            |
| Total                        | <u>\$ 848,261,181</u> | <u>\$ 890,342,735</u> |
| Loans - industry             |                       |                       |
| Manufacturing                | \$ 247,371,449        | \$ 242,097,715        |
| Construction and real estate | 46,071,161            | 41,453,086            |
| Governmental                 | 70,302,838            | 74,835,557            |
| Financial institutions       | 39,121,938            | 37,639,566            |
| Others institutions          | 189,674,619           | 233,600,058           |
| Individuals                  | 255,719,176           | 260,716,753           |
| Total                        | <u>\$ 848,261,181</u> | <u>\$ 890,342,735</u> |

The above loans include accounts of import bill negotiated, export bill negotiated, bills and notes discounted, loans and delinquent receivable. The Chang Hwa Bank will incur a transaction loss equal to the carrying amounts, if a counterpart is unable to fulfill its obligation and collateral promised by the counterpart is completely worthless.

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

(In NT\$ Million; %)

| Transaction Party  | Relationship            | Total of Crediting, Endorsement and Other Transaction | As Proportion Financial Holding's Net Equity |
|--|-------------------------|---|--|
| Chunghwa Pos Co., Ltd.                                   | Same related enterprise | 51,871  | 63.82%                                       |
| National Treasury Agency of Ministry of Finance          | Same related enterprise | 40,000  | 49.21%                                       |
| Formosa Plastics Co., and related parties                | Same related enterprise | 35,353  | 43.50%                                       |
| Bureau of Labor Insurance                                | Same related enterprise | 29,820  | 36.69%                                       |
| Taishin Financial Holding Co., Ltd., and related parties | Same related enterprise | 26,402  | 32.48%                                       |
| Lin Yuan Group   | Same related enterprise | 19,479  | 23.97%                                       |
| The Supervisory Board of Labor Pension Fund              | Same related enterprise | 14,509  | 17.85%                                       |
| Chi Mei Co., and related parties                         | Same related enterprise | 13,000  | 15.99%                                       |
| Chinatrust Co., and related parties                      | Same related enterprise | 12,630  | 15.54%                                       |
| Tatung Co., and related parties                          | Same related enterprise | 11,421  | 14.05%                                       |
| Uni-President Co., and related parties                   | Same related enterprise | 10,164  | 12.50%                                       |
| China Airline Co., and related parties                   | Same related enterprise | 9,960   | 12.25%                                       |
| Shin Kong Co., and related parties                       | Same related enterprise | 8,249   | 10.15%                                       |
| Oriental and related parties                             | Same related enterprise | 8,084   | 9.95%  |
| ELANSat c., and related parties                          | Same related enterprise | 7,791   | 9.59%  |
| Construction and Planning Agency, Ministry of Interior   | Same related enterprise | 7,400   | 9.10%  |
| Giga and related parties                                 | Same related enterprise | 7,380   | 9.08%  |
| Taipower Co., Ltd.                                       | Same related enterprise | 6,600   | 8.12%  |
| BenQ Co., and related parties                            | Same related enterprise | 6,153   | 7.57%  |

# V. Financial Statements

| Transaction Party  | Relationship            | Total of Crediting, Endorsement and Other Transaction | As Proportion Financial Holding's Net Equity |
|--|-------------------------|---|--|
| Mega Financial Holding Co., Ltd.                         | Same related enterprise | 5,930   | 7.30%  |
| Union and related parties                                | Same related enterprise | 5,793   | 7.13%  |
| Shin Kong Chi-Shin Fund                                  | Same related enterprise | 5,746   | 7.07%  |
| Central Deposit Insurance Co.                            | Same related enterprise | 5,650   | 6.95%  |
| UMC, and related parties                                 | Same related enterprise | 5,635   | 6.93%  |
| Arima Computer Co., and related parties                  | Same related enterprise | 5,622   | 6.92%  |
| Taipei City Government                                   | Same related enterprise | 5,600   | 6.89%  |
| Aurora Co., and related parties                          | Same related enterprise | 5,556   | 6.84%  |
| Long Bon Development Co., and related parties            | Same related enterprise | 5,486   | 6.75%  |
| The Management Board of Public Service Pension Fund      | Same related enterprise | 5,286   | 6.50%  |
| TSMC   | Same related enterprise | 5,073   | 6.24%  |
| Bureau of National Health Insurance                      | Same related enterprise | 5,000   | 6.15%  |
| Ever Green Co., and related parties                      | Same related enterprise | 4,954   | 6.10%  |
| First International Computer Inc., and related parties   | Same related enterprise | 4,697   | 5.78%  |
| Ford Lio Ho Motor Co., and related parties               | Same related enterprise | 4,676   | 5.75%  |
| YoSun Industrial Co., and related parties                | Same related enterprise | 4,674   | 5.75%  |
| Quanta Computer Inc., and related parties                | Same related enterprise | 4,648   | 5.72%  |
| National security Funds                                  | Same related enterprise | 4,586   | 5.64%  |
| Taiwan High Speed Rail Co.                               | Same related enterprise | 4,582   | 5.64%  |
| Walsin Lihwa Co., and related parties                    | Same related enterprise | 4,377   | 5.39%  |
| Wintech Microelectronics Co., Ltd. and related parties   | Same related enterprise | 4,179   | 5.14%  |
| MassMutual Mercuries Life Co., Ltd.                      | Same related enterprise | 4,124   | 5.07%  |
| Taiwan International Securities Co., and related parties | Same related enterprise | 4,076   | 5.01%  |
| Shung Ye Trading Co., and related parties                | Same related enterprise | 3,792   | 4.67%  |
| Hon Hai Precision Ind. Co., Ltd., and related parties    | Same related enterprise | 3,773   | 4.64%  |
| LG Co., and related parties                              | Same related enterprise | 3,750   | 4.61%  |
| Taipei Financial Center Co.                              | Same related enterprise | 3,698   | 4.55%  |
| Media Technology Inc., and related parties               | Same related enterprise | 3,633   | 4.47%  |
| Bureau of High Speed Rail                                | Same related enterprise | 3,513   | 4.32%  |
| Hon Tai and related parties                              | Same related enterprise | 3,339   | 4.11%  |
| Yuanta Core Pacific, and related parties                 | Same related enterprise | 3,277   | 4.03%  |
| Mosel Vitelic Inc., and related parties                  | Same related enterprise | 3,210   | 3.95%  |

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



## 42. Taishin Financial Holding's trading securities held as of December 31, 2005

(In Thousands, Except for Percentage and Shares)

| Owner                     | Type and Name of Marketable Security                | Issuer's Relationship to the Owner | Accounts Recorded                            | December 31, 2005 |                |        | Market Value | Note |
|---------------------------|---|------------------------------------|--|-------------------|----------------|--------|--------------|------|
|                           |   |                                    |  | Shares (Units)    | Carrying Value | %      |              |      |
| Taishin Financial Holding | Bonds under resell agreements<br>Government bond    | -                                  | Securities purchased under resell agreements | 1,311,100,000     | 1,372,617      |        |              |      |
|                           | Negotiable certificate of deposits                  | Parent and subsidiary              | Short-term investments                       | 1,350,000,000     | 1,350,000      |        |              |      |
|                           | Stock<br>Taishin Bank                               | Parent and subsidiary              | Long-term investments                        |                   |                |        |              |      |
|                           | Common stock  |                                    |  | 3,035,352,429     | 44,011,432     | 100.00 |              |      |
|                           | Preferred stock                                     |                                    |  | 400,000,000       | 4,000,000      | 100.00 |              |      |
|                           | Taiwan Securities                                   | Parent and subsidiary              | Long-term investments                        | 1,325,504,447     | 18,713,690     | 100.00 |              |      |
|                           | Taishin Bills Finance                               | Parent and subsidiary              | Long-term investments                        | 514,000,000       | 6,872,506      | 100.00 |              |      |
|                           | Taishin AMC   | Parent and subsidiary              | Long-term investments                        | 75,000,000        | 1,209,490      | 100.00 |              |      |
|                           | Taishin Marketing                                   | Parent and subsidiary              | Long-term investments                        | 100,000           | 5,666          | 100.00 |              |      |
|                           | Taisin Venture Capital Investment                   | Parent and subsidiary              | Long-term investments                        | 100,000,000       | 905,503        | 100.00 |              |      |
|                           | Chang Hwa Bank                                      |                                    |  |                   |                |        |              |      |
|                           | Preferred stock                                     |                                    |  | 1,400,000,000     | 36,557,298     | 22.55  |              |      |
|                           | Debt Instruments Depository and Clearing Co. Taiwan | Cost-method investee               | Long-term investments                        | 10,000,000        | 100,000        | 4.99   |              |      |
|                           | Broadcasters Market Research Co., Ltd.              | Cost-method investee               | Long-term investments                        | 500,000           | 1,390          | 1.00   |              |      |
|                           | Metro Taipei Consulting Service Limited             | Cost-method investee               | Long-term investments                        | 220,000           | 2,200          | 4.22   |              |      |
|                           |   |                                    |  | 112,379,175       |                |        |              |      |

# V. Financial Statements

## 43. Information on investees' names, locations, etc. as of and for the year ended December 31, 2005

| Investor                          | Investees' Names                             | Investees' Location  | Principal Business Activities   |
|-----------------------------------|--|--|---|
| Taishin Financial Holding         | Taishin Bank                                 | 1Fl., No. 44, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                    | Commercial bank business, trust, and bills discounting  |
|                                   | Taiwan Securities                            | 1Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei, Taiwan                    | Securities brokerage, margin lending, and underwriting financial products   |
|                                   | Taishin Bills Finance                        | 10F, No. 118, Ren-Ai Rd., Sec. 4, Taipei, Taiwan                         | Bills finance   |
|                                   | Taishin AMC                                  | 6Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                    | Acquisition of delinquent loans, evaluation, auction, and management  |
|                                   | Taishin Marketing                            | 6Fl., No. 135, Sec. 4, Bate Rd., Taipei, Taiwan                          | Investment and enterprise operating consultant and agency   |
|                                   | Taisin Venture Capital Investment            | 12Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                   | Investment start-up   |
| Taishin Bank                      | Chang Hwa Bank                               | No. 38, Chi-Yo Rd, Sec. 2 Taichung, Taiwan                               | Commercial bank business, trust, and bills discounting  |
|                                   | Taishin Real-Estate                          | 3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                    | Audit and consulting of construction plan, contract witness   |
|                                   | Taishin Insurance Agency                     | 6Fl., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan                     | Life insurance agency   |
|                                   | Taishin International Finance                | 4001B, 40th Fl., Tower II, Lippo Center, 89 Queensway Central, Hong Kong | Import and export of foreign exchange, trade financing, guarantee and acceptance  |
|                                   | PayEasy Digital                              | 13Fl., No. 11, Sec. 1, Jungshan N. Rd., Taipei, Taiwan                   | Investment and enterprise operating consultant, information software and data processing, advertising, international trade, agency and network services |
|                                   | Dah An Leasing Co., Ltd.                     | 6F, No. 23, Chang An E Rd., Sec. 1, Taipei, Taiwan                       | Leasing and retailing of machinery, mobile, aircraft, marine and components   |
|                                   | Taishin Venture Capital Investment Co., Ltd. | 10Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                   | Investment start-up   |
|                                   | An Hsin Real-Estate Management Co., Ltd.     | 10F, No. 97, Tunhwa S. Rd., Sec. 2, Taipei, Taiwan                       | Construction consultation, real estate appraisalment  |
|                                   | Taiwan Futures                               | 5Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei, Taiwan                    | Futures brokering   |
|                                   | Chang Hwa Bank                               | No. 38, Chi-Yo Rd, Sec. 2 Taichung, Taiwan                               | Commercial bank business, trust, and bills discounting  |
| Taisin Venture Capital Investment | Taishin Venture Capital Investment Co., Ltd. | 10Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                   | Investment start-up   |
| Taishin AMC                       | Taishin Real-Estate                          | 3Fl., No. 46, Sec. 2, Jungshan N. Rd., Taipei, Taiwan                    | Audit and consulting of construction plan, contract witness   |

(In Thousands, Except for Percentage and Shares)

|            | Investment Amount           |   | Ending Balance |                              |               | Net Income<br>(Loss) of Current<br>Period | Recognized<br>Income<br>(Loss) of<br>Current Period                                     | Note |
|------------|-----------------------------|---|----------------|------------------------------|---------------|---|---|------|
|            | End of<br>Current<br>Period | End of<br>Last Period                           | Shares         | Ownership<br>Interest<br>(%) | Book Value    |   |   |      |
| 48,982,363 | 48,982,363                  | Common stock<br>3,035,352,429                   | 100.00         | 44,005,432                   | ( 3,775,124)  | ( 4,349,696)                              | Subsidiary  |      |
| 17,400,824 | 17,400,824                  | Preferred stock<br>400,000,000<br>1,325,504,447 | 100.00         | 4,000,000<br>18,713,690      | -<br>592,516  | -<br>462,061                              | Subsidiary  |      |
| 6,371,010  | 6,371,010                   | 514,000,000                                     | 100.00         | 6,872,506                    | 612,780       | 612,714                                   | Subsidiary  |      |
| 750,000    | 750,000                     | 75,000,000                                      | 100.00         | 1,209,490                    | 408,384       | 380,602                                   | Subsidiary  |      |
| 2,000      | 2,000                       | 100,000   | 100.00         | 5,666                        | 750           | 750                                       | Subsidiary  |      |
| 1,000,000  | 1,000,000                   | 100,000,000                                     | 100.00         | 905,503                      | ( 47,857)     | ( 47,857)                                 | Subsidiary  |      |
| 36,568,000 | -                           | 1,400,000,000                                   | 22.55          | 36,557,298                   | ( 36,515,754) | ( 13,755)                                 |   |      |
| 30,000     | 30,000                      | 6,000,000                                       | 60.00          | 186,788                      | 199,903       | 119,736                                   | Subsidiary  |      |
| 1,500      | 1,500                       | 39,360,000                                      | 54.07          | 685,530                      | 423,827       | 236,623                                   | Subsidiary  |      |
| 127,314    | 127,314                     | 29,999,700                                      | 99.99          | 182,084                      | ( 11,523)     | ( 11,523)                                 | Subsidiary  |      |
| 34,000     | 34,000                      | 5,400,000                                       | 66.67          | 95,099                       | 54,672        | 35,243                                    | Subsidiary  |      |
| 198,000    | 198,000                     | 19,800,000                                      | 99.00          | 194,067                      | ( 5,128)      | ( 5,077)                                  | Subsidiary  |      |
| 26,325     | 45,000                      | 2,632,500                                       | 5.00           | 8,962                        | ( 142,218)    | ( 7,111)                                  | Investee on which Taishin Bank has significant influence                                |      |
| 15,000     | 15,000                      | 2,100,000                                       | 30.00          | 37,060                       | 41,792        | 12,342                                    | Investee on which Taishin Bank has significant influence                                |      |
| 40,000     | 40,000                      | 4,000,000                                       | 6.15           | 49,458                       | 62,095        | 5,969                                     | Investee on which Taishin Bank has Significant influence                                |      |
| 307,814    | -                           | 16,500,000                                      | 0.27           | 278,182                      | ( 36,515,754) | 1,769                                     | Investee on which Taishin Bank has significant influence                                |      |
| 172,068    | 188,260                     | 11,144,250                                      | 21.17          | 38,513                       | ( 142,218)    | ( 36,417)                                 | Investee on which Taisin Venture Capital Investment Co., Ltd. has Significant influence |      |
| 39,600     | 39,600                      | 4,000,000                                       | 40.00          | 128,712                      | 199,903       | 78,030                                    | Subsidiary  |      |

# V. Financial Statements

| Investor   | Investees' Names                                | Investees' Location  | Principal Business Activities   |
|--|---|--|---|
| Taishin Insurance Agency                               | Taishin Non-Life Insurance Agency Co., Ltd.     | 9F~4., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan                                    | Nonlife insurance agency  |
|  | Taishin Insurance Brokers Co., Ltd.             | 9F~4., No. 23, Sec. 1, Changan E. Rd., Taipei, Taiwan                                    | Insurance brokers   |
| PayEasy Digital  | PayEasy Travel Agency Co., Ltd.                 | 13-1Fl., No. 11, Sec. 1, Jungshan N. Rd., Taipei, Taiwan                                 | Travel agency   |
| An Hsin Real-Estate Management Co., Ltd.               | Riches Asset Management Service Company         | 10Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan                                     | Acquisition of delinquent loans and related evaluation auction, and management  |
|  | Riches Asset Management Service Company         | 10Fl., No. 97, Sec. 2, Tunhwa S. Rd., Taipei, Taiwan                                     | Consumption on delinquent loans, evaluation, auction, and management  |
| Taishin Venture Capital Investment Co., Ltd.           | HD. Strategic Partner Co.                       | P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | Investment  |
| Taiwan Securities                                      | Anew Holdings                                   | P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | Management of the overseas investment business  |
|  | Taiwan Futures                                  | 2Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei  | Brokers of futures transactions   |
|  | Taiwan Securities Investment Advisory Co., Ltd. | 5Fl., No. 90, Sec. 1, Jian Guo N. Rd., Taipei  | Securities investment consultant and publications of investment   |
|  | Shin Ze   | 4Fl., No. 100, Sec. 3, Minsheng E. Rd., Song Shan Dis., Taipei, Taiwan                   | Collection of delinquent loans, evaluation, auction, and management. Management on late posting payment, investment, business management consultant |
|  | Taiwan Managed Futures Co., Ltd.                | 9Fl., No. 123, Sec. 2, Nanjing E. Rd., Taipei  | Management of futures transactions  |
|  | Taishin Investment Trust Co., Ltd.              | 11Fl., No. 96, Sec. 1, Jian Guo N. Rd., Taipei   | Securities issuance and investment  |
|  | Anew Holdings                                   | Tai Chen (BVI)   | Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands   |
| Taiwan Securities (Hong Kong) Co., Ltd.                |   | 40th Floor, Tower II, Lippo Center, 89 Queensway Central, Hong Kong                      | Brokers, under-writers, and investment consultant   |
| TSC Capital  |   | 40th Floor, Tower II, Lippo Center, 89 Queensway Central, Hong Kong                      | Consultant  |
| Taiwan Securities (Hong Kong) Co., Ltd. Nominee United |   | 40th Floor, Tower II, Lippo Center, 89 Queensway Central, Hong Kong                      | Trust agent business  |

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

(In Thousands, Except for Percentage and Shares)

|             | Investment Amount           |                       | Ending Balance |                              |             | Net Income<br>(Loss) of Current<br>Period | Recognized<br>Income<br>(Loss) of<br>Current Period | Note  |
|-------------|-----------------------------|-----------------------|----------------|------------------------------|-------------|---|---|---|
|             | End of<br>Current<br>Period | End of<br>Last Period | Shares         | Ownership<br>Interest<br>(%) | Book Value  |   |   |   |
|             | 2,440                       | 2,440                 | 439,200        | 97.60                        | 13,897      | 3,095                                     | 2,841   | Subsidiary  |
|             | 2,000                       | 2,000                 | 2,700,000      | 100.00                       | 70,541      | 40,654                                    | 40,420  | Subsidiary  |
|             | 10,000                      | -                     | 1,000,000      | 100.00                       | 9,304       | ( 696)                                    | ( 696)  | Subsidiary  |
|             | 1,222                       | 5,500                 | 550,000        | 55.00                        | 1,504       | ( 586)                                    | ( 365)  | Subsidiary  |
|             | 7,014                       | 7,000                 | 701,282        | 70.13                        | 13,257      | 9,716                                     | 6,433   | Subsidiary  |
|             | 76,201                      | 76,201                | 4,420,000      | 30.93                        | 76,201      | -   | -   | Investee on which Taishin<br>Venture Capital<br>Investment Co., Ltd. has<br>significant influence |
|             | 1,310,540                   | 1,310,540             | 39,894,691     | 100.00                       | 1,440,582   | US\$( 1,034)                              | ( 33,265)   | Subsidiary  |
|             | 608,960                     | 360,020               | 60,896,000     | 93.69                        | 752,964     | 62,095                                    | 56,140  | Subsidiary  |
|             | 338,529                     | 338,529               | 27,599,513     | 92.00                        | 338,834     | 7,758                                     | 7,821   | Subsidiary  |
|             | 25,500                      | 25,500                | 2,550,000      | 51.00                        | 69,475      | ( 12,800)                                 | ( 7,415)  | Subsidiary  |
|             | 200,000                     | 200,000               | 20,000,000     | 100.00                       | 177,978     | ( 9,413)                                  | ( 9,421)  | Subsidiary  |
|             | 135,000                     | 135,000               | 13,500,000     | 45.00                        | 130,698     | ( 10,114)                                 | ( 4,551)  | Investee on which Taiwan<br>Securities Co., Ltd. has<br>significant influence                     |
| US\$ 10     | US\$ 10                     |                       | 10,000         | 100.00                       | US\$ 1,991  | US\$ 53                                   | US\$ 53   | Subsidiary  |
| HK\$288,600 | HK\$288,600                 |                       | 288,600        | 100.00                       | US\$ 39,580 | HK\$( 5,789)                              | US\$( 744)  | Subsidiary  |
| HK\$ 20,000 | HK\$ 20,000                 |                       | 20,000         | 100.00                       | US\$ 2,253  | HK\$( 2,693)                              | US\$ 346  | Subsidiary  |
| -           | -                           |                       | 3              | 100.00                       | -           | -   | -   | Subsidiary  |



## **Taishin Holdings**

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