

Code: 5830

web page: www.cotabank.com.tw

Taiwan Stock Exchange M.O.P.S web page:
newmops.tse.com.tw

ANNUAL REPORT 2006

COTA COMMERCIAL BANK



COTA Commercial Bank



COTA Commercial Bank

ANNUAL REPORT 2006





CONTENTS

<i>1. To Our Shareholders</i>	1
<i>2. Corporate Profile</i>	5
<i>3. Business Operation</i>	27
<i>4. Capital Arrangement</i>	41
<i>5. Financial Status</i>	43
<i>6. Financial Status Analysis, Operation Performance Analysis, and Risk Management</i>	87
<i>7. Corporate Governance</i>	99
<i>8. The Particular Notes</i>	103
<i>* Chronological Highlights</i>	107
<i>* Head Office and Branches</i>	110



1 ∴

2006

To Our Shareholders



1. To Our Shareholders

In retrospect of year 2006, the uncertain impact of inflation caused by the surge of oil price forced the world leading countries to accept rigid monetary policy that subsequently triggered a suppress effect on consuming expense and economic expansion. However, in response to the constant economic growth in advanced industrialized countries and emerging-market countries, the world economy and foreign trades remained in sound performance. As for Taiwan's domestic economy, the shock of credit and cash cards delinquency problem and negative growth of investment in public sector had reflected a stifled consumer demand market. Fortunately, benefited from the constant expansion of world economy and foreign trades, domestic economy was able to sustain its energy to attain a growth rate in GDP as 4.62%. Yet, the attainment mainly relied on the contribution of foreign trades and was observed a phenomenon of "bright foreign trade but gloomy internal demand". At large, the monitoring indicator which flashed five successive months of "yellow-blue" since Jun, 2006 and thereby turned to a downward signal of "blue" and both leading indicator and coincident indicator which presented downward signal evidenced a weak expansion force for domestic economy.

In prospect of year 2007, world economy could be anticipated to continue its ascending trend. It is, however, presumed to be expanded in soft-landing path although supported by constant expansion of global trades and high economic growth rate in Asian countries. The same impulse is, undoubtedly, expected to nourish domestic economy, and exports as well. Consumer demand will increasingly sprout owing to alleviation of credit and cash cards delinquency shock, vivacity of asset market and improvement of employment. According to the estimate of "Directorate-General of Budget, Accounting and Statistics, ROC", Taiwan's domestic economy growth rate will be figured as 4.30%, presenting an animated state of both foreign and domestic demands. For foreign exchange rate, TWD is likely to appreciate due to the appreciation effect of RMB and hold stability of interest spread between USD and TWD. For interest rate, it might be modest adjustment toward to a neutral monetary policy under the attempt of keeping neutral interest rate and spread by Central Bank of the Republic of China (Taiwan).

With a view to the development of Taiwan's financial environment, financial market reform policy is continued to encourage merger between financial institutions and to expand economy of scale for uplifting international competitive edge. In addition, under the aggressive supervision of "Financial Supervisory Commission, ROC (FSC)" financial market and its quality will exhibit a new atmosphere of sound development. In the interim of credit and cash cards delinquency shock and Rebar event, COTA Bank shall reinforce internal control and risk management, sustain stable developing policy, create core competitive value and lasting complete advantage to cater for a hopeful and challenging coming year.

In 2006, COTA Bank contributed its main achievements to (I) established Offshore Banking Branch (OBU); (II) acquired Fengyuan Credit Cooperative with adding 8 branches to expand economy of scale; (III) established SME Banking Center to enhance to services to SME; (IV) established Wealth Management Center to provide proficient wealth management service; (V) set up “Community Financial Service Network” to support community client service; (VI) launched real estate trust business and real estate payment trust business; (VII) issued TWD2.5 billion subordinated debenture. For 2007, COTA Bank will commit itself to (I) set up southern operation center; (II) fine-tune channels of Central Taiwan branches; (III) built up wealth management information system; (IV) set up Kaohsiung branch and Tainan branch; (V) set up southern consumer banking center.

For major businesses performance as of Dec 31, 2006, our deposits balance with sum of TWD95.7 billion (excluding deposits from banks) increased by TWD13.1 billion compared to previous year; our loans balance with sum of TWD80.5 billion increased by TWD12.7 billion compared to previous year. Both of the deposits and loans with obvious positive growth rate witness our strong ability for business promotion. Yet, extra bad debt reserve accounted for credit and cash cards delinquency shock affect our profit after tax with record only to TWD56 million contributed earning of TWD0.17 per share. Attributed by successful issuance of TWD2.5 billion subordinated debenture, capital adequate ratio (BIS) was enhanced up to a level of 11.42% which apparently furnished our efforts on beefing up healthy organization, upgrading operating performance, and strengthening risk management achieved decent valuation. Besides, Taiwan Ratings Corporation maintained our rating as “twBBB+” for long-term counterparty credit and “twA-2” for short-term credit with outlook “stable” on their press releases of Dec 8, 2006.

Outlook for 2007, COTA Bank is scheduling to continued focus on business lines of SME banking, consumer banking and wealth management, endeavor for better customer service, re-deploy our branches location to satisfy island-wide service channels, apply IT technology to streamline and simplify operation and service procedures, and enhance efficiency of operation and management. So that enables us to provide more satisfied financial services and create extreme benefits to shareholders. Overall, we would like to express our appreciation to our shareholders, directors, supervisor, and elite in all fields. To realize our aim to provide satisfied financial services to our customers, all COTA Bank’s staff would sustain the hard working attitude and service driving spirit inherited from its founder and ever since. We look forward to obtaining continued support and advice from all of you.

Chairman *Chun-Tse Liao*

Cota Commercial Bank Kaohsiung Branch grand opening



2



2006

Corporate Profile



2. Corporate Profile

2-1. Bank Features

2-1-1. Key Data

Bank Name	COTA Commercial Bank, Ltd. (abbreviate as COTA Bank or “the Bank” herein)
Chairman	Chun-Tse Liao
President	Ying-Che Chang
Date of Business Registration	Jan. 1, 1999
Date of Inauguration	Jan. 1, 1999
Location of Head Office	No.32-1, Gongyuan Road, Central District, Taichung City 400, Taiwan, R.O.C.
Number of Employee	1,117
Paid-in Capital	TWD3,431,903,420
Capital Shares	Common Stock in 343,190,342 Shares



2-1-2. Historic Highlights

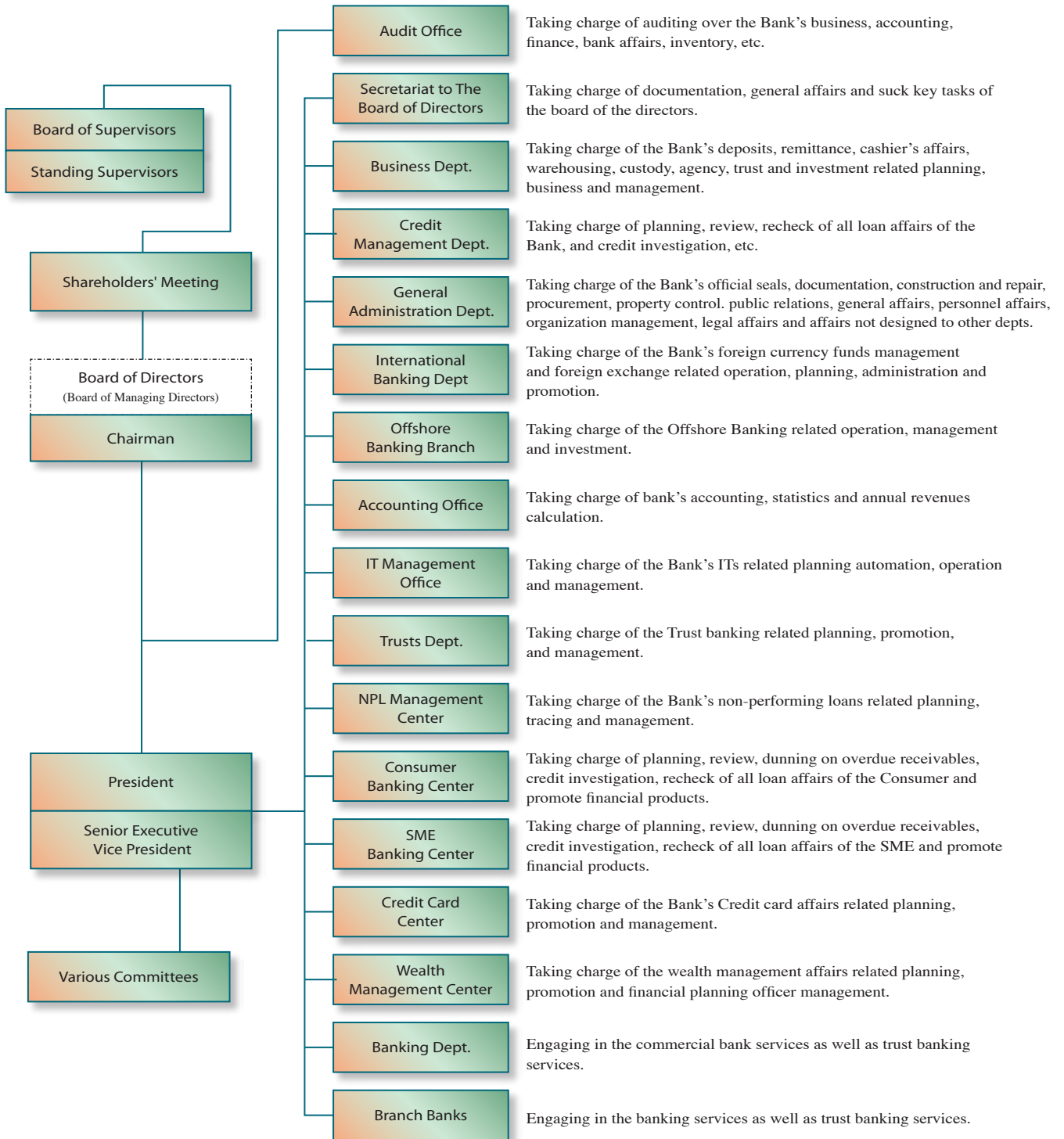
COTA Bank was formerly named “Liability Taichung Third Credit Cooperative”. Founded since 1915, we have consistently conveyed the corporate philosophy featuring as “BRISKNESS, INNOVATION, CORDIALITY and SERVICE”, which were well-sustained to combat in the financial climate characterized by severe competition. In accordance with the promulgation of “Regulations and Criteria Governing Reorganization of Credit Cooperative into Commercial Banks”, COTA Bank set up a reorganization task force and launched reorganization in Dec. 1995. On Jul. 27, 1998, COTA Bank was officially approved by Ministry of Finance to be upgraded into “COTA Commercial Bank”.

In 2005, COTA Bank invited Fengyuan Credit Cooperative to take into account a merge proposal for mutual benefits to enhance competitive capacity by expanding business scale. After sincere bilateral negotiation and consideration, COTA Bank decided to wholly acquire Fengyuan Credit Cooperative. Approved by shareholder meeting of both parties, Fengyuan Credit Cooperative was formally merged with COTA Bank on Jan. 1, 2006.

Outlook for the future, COTA Bank is striving to become a full-array commercial bank in spite of quick-changing financial market. Under the support of shareholders and members of board, and the endeavor of all staffs, we commit ourselves to provide our customer with all-aspect services by constant business growth, scale expansion, and product diversification.

2-2. Organization

2-2-1. Organization chart



2-2-2. Major information of Directors, Supervisors, Executives and Principal Officers.

List of Directors and Supervisors-Data (1)

As of Dec 31, 2006

Title	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
					No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Chairman	Chun-Tse Liao	May 25, 2005	3	Jan 1, 1999	4,293,451	1.32	4,491,024	1.31	10,668	-	-	-	The Society for Professional Management, UK Diploma in Professional Management (Business Management Dr. in P.I.U.) President, Senior Executive Vice President and Chairman of the board of Liability Taichung Third Credit Cooperative, Director of TACB	Supervisor of FDU Personal Insurance Agent Co., Ltd.
Managing Director	Chun-Chuan Wang	May 25, 2005	3	Jan 1, 1999	677,280	0.21	708,445	0.21	53,826	0.02	-	-	Department of English, Tamkang University, President of COTA Bank	
Managing Director	Mu-Chuan Huang	May 25, 2005	3	Jan 1, 2002	1,034,860	0.32	1,373,209	0.40	373	-	-	-	Shinmin Economics and Commercial Senior high school, Senior Executive Vice President of COTA Bank	
Managing Director	Yao-Ting Li	May 25, 2005	3	Jan 1, 1999	1,464,210	0.45	1,531,588	0.45	203,250	0.06	-	-	Taiwan Provincial School of Commerce of Tai-Chung(Now call:National Taichung Institute of Technology), Chairman of Yuan Feng Dyeing & Weaving Co., Ltd., Managing director & President of Fu Shan Dyeing & Weaving Co., Ltd.	
Managing Director	Dong-Po Xie	May 25, 2005	3	Jan 1, 2002	1,139,000	0.35	1,191,413	0.35	183,512	0.05	-	-	Post graduate of University of California in U.S.A., The Hong Kong College of Medicine, Chairman of Cheng Shing Tai Biopharmaceutical Co., Ltd., Chairman of Da Chen Ent., Co., Ltd.	Chairman of Cheng Shing Tai Biopharmaceutical Co.,Ltd. Chairman of Da Chen Ent., Co., Ltd. Director of Yen Sheng Broadcasting Station Director of Tien Sheng Broadcasting Station Representative of Liang Yu Biotechnology Inc. Director of Cheng Hua Medicine Inc. Director of Feng Tzer Electronics Co.,Ltd. Direcotrs of Sicame Commercial Affairs Hotel Inc. Directors of Tung Kai An Leisure Development Inc.
Director & President	Ying-Che Chang	May 25, 2005	3	Jan 1, 2002	1,088,156	0.34	1,236,563	0.36	14,387	-	-	-	Department of International Trade, Feng Chia University, Senior Executive Vice President of COTA Bank	President of COTA Bank

Title	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
					No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	Xian-De Lai	May 25, 2005	3	May 24, 2005	1,092,624	0.34	1,142,903	0.33	64,016	0.02	-	-	National Chung Hsing University, Chairman of Tung Yang Business Co., Ltd.	Chairman of Tung Yang Investment Co., Ltd. Chairman of Tung Yang Business Co., Ltd. Director of Yuan .Sheng Plastic Inc. Supervisor of Man Fu Lou Restaurant Co., Ltd. Director of Kuang Ching Plastic Corporation Managing Director of Taiwan Flour Mills Associate
Director	Ying-Chieh Lai	May 25, 2005	3	Jan 1, 1999	944,841	0.29	988,319	0.29	294,009	0.09	-	-	Murakami Youth School, Certificate of Administration management in Japan, Chairman of Third Credit Cooperative educational foundation	Chairman of Third Credit Cooperative educational foundation Direct of Geng Jeng Industrial Co. Ltd. General Manager of Yu Li De Business Consultants Co. Ltd.
Director	Song-Yue Liao	May 25, 2005	3	May 25, 2005	781,200	0.24	1,625,248	0.47	42,677	0.01	-	-	Hosei University of Tokyo, Japan Chairman of Chuan Cheng Hat Co., Ltd.	Chairman of Chuan Cheng Hat Co., Ltd. Chairman of Jepana Enterprise Co. Ltd. Director of New Zhung Zhuang Investment Co. Ltd., Director of CCH Plus Inc. Director of CCH investment Inc.
Director	Chuan-Sheng Liao	May 25, 2005	3	Jan 1, 1999	897,604	0.28	938,909	0.27	681,824	0.2	-	-	Ph.D. of Manchuria College of Medicine, Superintendent of Jen Ai Hospital, Chairman of Jen Ai Hospital	-
Director	Pi-Jung Hsieh	May 25, 2005	3	Jan 1, 1999	1,999,200	0.62	1,899,233	0.55	1,408,784	0.41	-	-	Taichung Industrial High School, Certification Examinations for Architect, Ministry of Examination, Engineer of Taiwan Railway Electrical Engineering Department.	Architect of Hsieh Pi-jung Architectural Office Director of Ju Hsing International Co., Ltd. Director of Chung Hui Investment Co., Ltd. Director of Tseng Hsin Construction & Development Co., Ltd. Director of Chung Hua Durapanel Industrial Co., Ltd.
Director	Chan-Wen Lin	May 25, 2005	3	Jan 1, 1999	1,423,909	0.44	1,489,432	0.43	-	-	-	-	Taiwan Provincial School of Commerce of Tai-Chung(Now call: National Taichung Institute of Technology), President of Liability Taichung Third Credit Cooperative	Director of FDU Personal Insurance Agent Co., Ltd.
Director	Guo-Zhou Chen	May 25, 2005	3	May 25, 2005	1,528,510	0.47	1,599,380	0.47	-	-	-	-	Nan Ying Vocational High School of Business & Technology Direct of Sino-American Silicon Products Inc.	Director of Nanhai toy Co., Ltd.



Title	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
					No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	Tien-Hsiang Lin	May 25, 2005	3	Jan 1, 2002	990,011	0.30	1,035,568	0.30	139,137	0.04	-	-	Taiwan Provincial School of Commerce of Tai-Chung(Now call:National Taichung Institute of Technology), Chief Audit of COTA Bank	-
Director	Po-Ling Chiang	May 25, 2005	3	Jan 1, 2002	664,468	0.20	695,044	0.20	75,986	0.02	-	-	Taiwan Provincial School of Commerce of Tai-Chung(Now call:National Taichung Institute of Technology), President of Liability Taichung Third Credit Cooperative Senior Executive Vice President of COTA Bank	-
Standing Supervisor	Lien-Kui Wang	May 25, 2005	3	Jan 1, 2002	919,763	0.28	1,104,213	0.32	53,346	0.02	-	-	Civic Education and Leadership, National Taiwan Normal University, Executive vice President of Liability Taichung Third Credit Cooperative, Senior Executive Vice President of COTA Bank	-
Supervisor	Dhe-Chin Lai	May 25, 2005	3	Jan 1, 2002	850,465	0.26	1,041,900	0.30	32,007	0.01	-	-	Shinmin Economics and Commercial Senior high school Executive vice President of Liability Taichung Third Credit Cooperative, Special Assistant of COTA Bank	Direct of FDU Non-Life Insurance Agent Co., Ltd.
Supervisor	Yong-Zhi Wang	May 25, 2005	3	May 25, 2005	960,880	0.30	1,049,372	0.31	1,065	-	-	-	Nanya Institute of Technology, Direct of Sheng Ho Securities(IBTS) Company	-
Supervisor	Guo-Zhao Xiao	May 25, 2005	3	May 25, 2005	75,050	0.02	2,388,713	0.70	-	-	-	-	University of South California, USA, Supervisor of Taiwan Foundation Global Technology Co. Ltd.	-
Supervisor	Zhuang-Tai Wang	May 25, 2005	3	May 25, 2005	659,840	0.20	895,550	0.26	-	-	-	-	Shu-Te Institute of Technology, Chairman of Wang Jiang Property Co. Ltd.	Chairman of Wang Jiang Property Co. Ltd Hui Hsin Enterprise Co., Ltd. Director of Tai Ho Cement Industry Corp. Director of Kun Ting Real Estate Agencies Co., Ltd. Supervisor of Forever Coampion Shoes Co.,Ltd. Chairman of Zhuang-Tai Wang Lane Administration office

List of Directors and Supervisors-Data (2)

As of Dec 31, 2006

Title	Name	Those who possess the necessary experiences more than five years for commercialization law financial or company function	Those who are not, within recent year, employed by this company or board members, supervisor and employee of the affiliated enterprise	Those who don't, within the recent year, hold the shares more than 1% of the issuing amount or inside of the 10 natural person holder before holding the shares above directly or indirectly.	Those who are neither couple nor next of kin's relatives to those mentioned above.	Within the recent year, no board members, supervisor and employee of the legal board who shares more than 5% of the issuing amount, and no board members, supervisor and employee are before 5 of the shares holders.	Within the recent year, no board members, supervisor and manager or more than 5% share holders of the specialized companies, our institutions which affiliate any Financial Function with this company	Within the recent year, no provide any financial, commercial, law, consultant and expert personal affairs of this company, our affiliate relative enterprise to partner's company or any other organizations all board members' supervision, manager along with their couples.	Remark
Chairman	Chun-Tse Liao	V	V	V	V	V	V		
Managing Director	Mu-Chuan Huang	V	V	V	V	V	V	V	
Managing Director	Chun-Chuan Wang	V	V	V	V	V	V	V	
Managing Director	Dong-Po Xie	V	V	V	V	V	V	V	
Managing Director	Yao-Ting Li	V	V	V	V	V	V		
Director	Xian-De Lai	V	V			V	V	V	
Director	Ying-Chieh Lai	V	V	V	V	V	V	V	
Director	Song-Yue Liao	V	V	V	V	V	V		
Director	Chuan-Sheng Liao	V	V		V	V	V	V	
Director	Pi-Jung Hsieh	V	V	V		V	V		
Director	Chan-Wen Lin	V	V	V	V	V	V	V	
Director	Guo-Zhou Chen	V	V	V	V	V	V		
Director	Tien-Hsiang Lin	V	V	V	V	V	V	V	
Director	Po-Ling Chiang	V	V	V	V	V	V	V	
Director	Ying-Che Chang	V		V	V	V	V	V	
Standing Supervisor	Lien-Kui Wang	V	V	V	V	V	V	V	
Supervisor	Dhe-Chin Lai	V	V	V	V	V	V	V	
Supervisor	Yong-Zhi Wang	V	V	V	V	V	V	V	
Supervisor	Guo-Zhao Xiao	V	V	V	V	V	V		
Supervisor	Zhuang-Tai Wang	V	V	V	V	V	V	V	

List of Executives and Principal Officers

As of Dec 31, 2006

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
President	Ying-Che Chang	Jan 1, 2000	1,236,563	0.36	14,387	0.00	-	-	Department of International Trade, Feng Chia University, Senior Executive Vice President of COTA Bank	-
Chief Auditor	Yi-Hsiung Lai	Jan 7, 2002	150,067	0.04	38,579	0.01	-	-	Taiwan Provincial School of Commerce of Tai-Chung, Executive Vice President of COTA Bank	-
Senior Executive Vice President	Chin-Ting Chang	Jan 1, 2004	639,618	0.19	-	-	-	-	NCHU's Continuing Education School, EMBA, Executive Vice President of COTA Bank	-
Senior Executive Vice President	Jung-Hsien Chiu	Jan 1, 2004	715,645	0.21	-	-	-	-	Department of Industrial and Information Management, National Cheng Kung University, Executive Vice President of COTA Bank	-
Deputy Chief Auditor	Shu-Yuan Tsai	Jul 10, 2002	337,289	0.10	-	-	-	-	Taiwan Provincial School of Commerce of Tai-Chung, Accounting Office Chief Secretary of COTA Bank	-
Executive Vice President	Shih-Chien Chin	Jan 1, 2004	180,943	0.05	90,272	0.03	-	-	Department of Applied Math., University of North Texas, USA, Business Department General Manager of COTA Bank	-
Executive Vice President	Chih-Sheng Hsiao	Jan 1, 2004	415,047	0.12	60,615	0.02	-	-	Department of Public Finance Feng Chia University, Credit Management Department General Manager of COTA Bank	-
Executive Vice President & Branch General Manager	Lu-Ku Wang	Jan 1, 2004	149,424	0.04	1,065	0.00	-	-	Shin Min Commercial & Industrial Vocational Senior High School, Taichung branch General Manager of COTA Bank	-
Executive Vice President & Branch General Manager	Tsai-Hsiung Liao	Jan 1, 2004	1,160,033	0.34	511,467	0.15	-	-	Ming Te home Economics and Commercial Senior high school, Xitun Branch General Manager of COTA Bank	-
Executive Vice President	Yun-Ching Wang	Jan 1, 2004	230,392	0.07	149,371	0.04	-	-	Master of Finance, National Chung Hsing University, IT Management Office General Manager of COTA Bank	-
Department General Manager	Kuang-Hsiung Huang	Mar 3, 2006	159,341	0.05	209,470	0.06	-	-	Department of Economics, Feng Chia University, Business Department Deputy General Manager of COTA Bank	-
Department General Manager	Chih-Hui Chen	Sep 27, 2004	6,188	0.00	314,745	0.09	-	-	Department of Computer Science, Feng Chia University, Shalu Branch General Manager of COTA Bank	-
Department General Manager	Wei-Bin Lin	Mar. 16, 2005	42,991	0.01	-	-	-	-	Graduate School of Management, University of California at Riverside, Assistant Vice President of Bank Sinopac	-
Department General Manager	A-Kuai Chen	Feb 21, 2000	225,720	0.07	-	-	-	-	Department of Science, The National Open University, Commissioner of COTA Bank	-
Chief Secretary	Chien-Cheng Hsu	Mar. 3, 2006	288,059	0.08	27,595	0.01	-	-	Department of Business Administration, Tunghai University, Business Department Deputy General Manager of COTA Bank	-
Department General Manager	Chiu-Yun Huang	Jan 1, 2006	33,210	0.01	5,333	0.00	-	-	Department of Finance, R.O.C. Military Academy, Credit Management Department Project Manager of COTA Bank	-
Department General Manager	Huan-Mou Cheng	Jan 1, 2006	148,151	0.04	10,668	0.00	-	-	National Open College of Continuing Education Affiliated to NTIT, NPL Management Center Project Manager of COTA Bank	-
Project Manager	Hung-Tsang Chiang	Jan 1, 2006	87,599	0.03	80,723	0.02	-	-	Department of Public and Management, Supplementary Junior College of the National Open University, Consumer Banking Center Vice President of COTA Bank	-
Department General Manager	Sheng-Li Hung	Jul 1, 2006	41,857	0.01	4,445	0.00	-	-	National Open College of Continuing Education Affiliated to National Taichung institute of Commerce, Nantun Branch General Manager of COTA Bank	-
Project Manager	Shun-Hsien Wong	Jan 1, 2006	187,784	0.05	-	-	-	-	Department of Public Finance Feng Chia University, Credit Card Center Vice President of COTA Bank	-
Branch General Manager	Ho-Shun Chang	Apr 21, 2003	141,193	0.04	13,015	0.00	-	-	Feng-Yuan Commercial & Vocational High School, Zhongzheng Branch General Manager of COTA Bank	-
Branch General Manager	Feng-Jung Yeh	Jul 1, 2006	71,710	0.02	11,303	0.00	-	-	Department of Finance, Chaoyang University of Technology, Yuanlin Branch Deputy General Manager of COTA Bank	-

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
Branch General Manager	Chiang-Chung Chuang	Jul 10, 2002	341,751	0.10	106,693	0.03	-	-	Hsin Sheng Economics and Commercial Senior High School, Consumer Banking Center Commissioner of COTA Bank	-
Branch General Manager	Tai-Yu Chien	Jun 1, 1999	161,188	0.05	74,685	0.02	-	-	Shin Min Commercial & Industrial Vocational Senior High School, Audit Office Researcher of COTA Bank	-
Branch General Manager	Min-Chang Lin	Jul 10, 2002	102,969	0.03	26,672	0.01	-	-	Shin Min Commercial & Industrial Vocational Senior High School, Zhongzheng Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Hsin-De Chang	Apr. 21, 2003	85,647	0.02	12,570	0.00	-	-	Department of Accounting, Chien Kuo College of Commerce, Banking Department General Manager of COTA Bank	-
Branch General Manager	Chang-Lu Liu	Sep 27, 2004	63,386	0.02	2,240	0.00	-	-	Tsao Tun Vocational School, Yuanlin Branch General Manager of COTA Bank	-
Branch General Manager	Tai-An Chen	Nov 8, 1999	424,436	0.12	74,685	0.02	-	-	Ming Te Home Economics and Commercial Senior High School, Nantun Branch General Manager of COTA Bank	-
Branch General Manager	Shih-Tsung Chou	Jul 1, 2006	208,717	0.06	327,084	0.10	-	-	Department of Business Administration, The Overseas Chinese College, Zhenghua Branch General Manager of COTA Bank	-
Branch General Manager	Hung-Ming Lai	Apr. 2, 2001	131,055	0.04	106,693	0.03	-	-	Department of Business Administration, National Taichung Institute of Commerce, Beitun Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Shih-Jung Chen	Jul 10, 2002	286,025	0.08	-	-	-	-	Department of Oceanography, Chinese Culture University, Credit Management Department Deputy General Manager of COTA Bank	-
Branch General Manager	Chih-Peng Yang	Jul 1, 2006	82,571	0.02	19,204	0.01	-	-	Department of Business Administration, National Open College of Continuing Education Affiliated to National Taichung Institute of Commerce, Zhenghua Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Jung-Chieh Chang	Sep 27, 2004	216,816	0.06	48,011	0.01	-	-	Department of Cooperative Economics, Tamkang University, Banking Department Deputy General Manager of COTA Bank	-
Branch General Manager	Hsi-Hsien Wang	Nov 21, 2005	39,963	0.01	-	-	-	-	Soochow University School of Law, Manager of CTCB, Panchiao Branch General Manager of COTA Bank	-
Branch General Manager	Kuo-Jung Lo	Mar 11, 2003	104,996	0.03	-	-	-	-	Department of Public Communication, Shin Hsin University, Vice President of CTCB	-
Branch General Manager	Chi-Shen Huang	Mar. 3, 2006	86,979	0.03	32,007	0.01	-	-	Department of Banking and Insurance, National Taichung Institute of Commerce, Panchiao Branch Deputy General Manager of COTA Branch	-
Branch General Manager	Pi-Li Hsu	Jan 1, 2006	272,303	0.08	183,512	0.05	-	-	Shin Min Commercial and Industrial Vocational Senior High School, Fengyuan Branch Project Manager of COTA Bank	-
Branch General Manager	Chin-Tien Lai	Jan 1, 2006	172,376	0.05	155,697	0.05	-	-	Department of International Trade, Chien Kuo College of Commerce, Taichung Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Yun-Neng Chen	Jan 1, 2006	186,270	0.05	135,982	0.04	-	-	Shin Min Commercial and Industrial Vocational Senior High School, Audit Office Researcher of COTA Bank	-
Branch General Manager	Chung-Lung Tsai	Jan 1, 2006	194,888	0.06	322,214	0.09	-	-	Department of Business Administration, Lin Tung Institute of Commerce, Trusts Department Project Manager of COTA Bank	-
Branch General Manager	Chih-Hung Huang	Jan 1, 2006	172,730	0.05	106,693	0.03	-	-	Department of Applied Commerce, National Taichung Institute of Technology, Chenggong Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Jui-Tang Tai	Jan 1, 2006	38,318	0.01	426	0.00	-	-	Hsin Sheng Economics & Commercial Senior High School, Xitun Branch Deputy General Manager of COAT Bank	-
Branch General Manager	Hung-Yi Hsu	Jul 1, 2006	9,037	0.00	532	0.00	-	-	Department of Business Administration, Lin Tung Institute of Commerce, Dazhi Branch Deputy General Manager of COTA Bank	-
Branch General Manager	Wen-Jung Chen	Jul 1, 2006	110,824	0.03	23,375	0.01	-	-	Department of Business Administration, Chaoyang University of Technology, Nanmen Branch Deputy General Manager of COTA Bank	-

Directors' Remuneration

Unit: TWD as of Dec 31, 2006

Title	Name	Transportation Allowance & Remuneration	Directors' Remuneration from Appropriation of Earnings	Employee Bonus from Appropriation of Earnings				Aggregate Amount of the Aforesaid Items	Total Amount / Net Income (%)	Employee Stock Options	Other Remuneration
				Cash	Stock						
					No. of Shares	Market Price	Amount				
Chairman	Chun-Tse Liao	10,974,000	4,000,619	-	-	-	-	14,974,619	26.39%		
Director	Chun-Chuan Wang										
Director	Mu-Chuan Huang										
Director	Dong-Po Xie										
Director	Yao-Ting Li										
Director	Po-Ling Chiang										
Director	Chan-Wen Lin										
Director	Ying-Chieh Lai										
Director	Tien-Hsiang Lin										
Director	Pi-Jung Hsieh										
Director	Chuan-Sheng Liao										
Director	Song-Yue Liao										
Director	Guo-Zhou Chen										
Director	Xian-De Lai										
Director & President	Ying-Che Chang										

Range of Directors' Remuneration	People of Directors
	Year of 2006
Under 2,000,000	14
2,000,000-5,000,000	1
5,000,000-10,000,000	0
10,000,000-50,000,000	0
Above 50,000,000	0
TOTAL	15

Supervisors' Remuneration

Unit: TWD as of Dec 31, 2006

Title	Name	Transportation Allowance & Remuneration	Supervisors' Remuneration from Appropriation of Earnings	Aggregate Amount of the Aforesaid Items	Total Amount / Net Income (%)	Others Remuneration
Standing Supervisor	Lien-Kui Wang	3,306,000	1,020,051	4,326,051	7.63%	-
Supervisor	Dhe-Chin Lai					
Supervisor	Yong-Zhi Wang					
Supervisor	Guo-Zhao Xiao					
Supervisor	Zhuang-Tai Wang					

Range of Supervisors' Remuneration	People of Supervisors
	Year of 2006
Under 2,000,000	5
2,000,000-5,000,000	0
5,000,000-10,000,000	0
10,000,000-50,000,000	0
Above 50,000,000	0
TOTAL	5

President and Senior Executive Vice Presidents' Remuneration

Unit: TWD as of Dec 31, 2006

Title	Name	Transportation Allowance & Remuneration	Directors' Remuneration from Appropriation of Earnings	Employee Bonus from Appropriation of Earnings			Aggregate Amount of the Aforesaid Items	Total Amount / Net Income (%)	Employee Stock Options	Other Remuneration
				Cash	Stock					
					No. of Shares	Market Price				
President	Ying-Che Chang	5,596,620	3,976,171	-	-	*	183,680	9,756,471	17.1969	
Chief Auditor	Yi-Hsiung Lai									
Senior Executive Vice President	Chin-Ting Chang									
Senior Executive Vice President	Jung-Hsien Chiu									

Range of President and Senior Executive Vice Presidents' Remuneration	People of President and Senior Executive Vice Presidents
	Year of 2006
Under 2,000,000	4
2,000,000-5,000,000	0
5,000,000-10,000,000	0
10,000,000-50,000,000	0
Above 50,000,000	0
TOTAL	4

List of Compensation Paid to President, Executive Vice Presidents and General Managers

Unit: TWD as of Dec 31, 2006

Title	Name	Stock dividends			Cash Dividends	Total Amount / Net Income (%)
		Shares	Price	Amount	Amount	
President	Ying-Che Chang					
Chief Auditor	Yi-Hsiung Lai					
Senior Executive Vice President	Chin-Ting Chang					
Senior Executive Vice President	Jung-Hsien Chiu					
Executive vice President	Shih-Chien Chin					
Executive vice President	Chih-Sheng Hsiao					
Executive vice President	Wu-Yung Chiang					
Chief Secretary	Chien-Cheng Hsu					
Department General Manager	Kuang-Hsiung Huang					
Department General Manager	A-Kuai Chen					
Department General Manager	Chiu-Yun Huang					
Department General Manager	Chih-Hui Chen					
Department General Manager	Hung-Tsang Chiang					
Department General Manager	Shun-Hsien Wong					
Department General Manager	Huan-Mou Cheng					
Department General Manager	Sheng-Li Hung					
Department General Manager	Wei-Bin Lin					
Executive vice President	Lu-Ku Wang					
Branch General Manager	Ho-Shun Chang					
Branch General Manager	Feng-Jung Yeh					
Branch General Manager	Chiang-Chung Chuang					
Branch General Manager	Tsai-Hsiung Liao	188,417	*	1,884,170	-	3.3211
Branch General Manager	Tai-Yu Chien					
Branch General Manager	Min-Chang Lin					
Branch General Manager	Hsin-Dhe Chang					
Branch General Manager	Chang-Lu Liu					
Branch General Manager	Tai-An Chen					
Branch General Manager	Shih-Tsung Chou					
Branch General Manager	Hung-Ming Lai					
Branch General Manager	Shih-Jung Chen					
Branch General Manager	Chih-Peng Yang					
Branch General Manager	Jung-Chieh Chang					
Branch General Manager	Hsi-Hsien Wang					
Branch General Manager	Kuo-Jung Lo					
Branch General Manager	Chi-Shen Huang					
Branch General Manager	Pi-Li Hsu					
Branch General Manager	Chin-Tien Lai					
Branch General Manager	Yun-Neng Chen					
Branch General Manager	Chung-Lung Tsai					
Branch General Manager	Chih Hung Huang					
Branch General Manager	Jui-Tang Tai					
Branch General Manager	Hung-Yi Hsu					
Branch General Manager	Wen-Jung Chen					

2-2-3. Change in Shareholdings of Directors, Supervisors, Executives and Principal Officers

2-2-3-1. Chang in Shareholdings Information

Title	Name	2006		Up To 2007/01/31	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	Chun-Tse Liao	100,971	–	0	–
Managing Director	Chun-Chuan Wang	15,927	–	0	–
Managing Director	Mu-Chuan Huang	282,946	–	0	–
Managing Director	Yao-Ting Li	34,434	–	0	–
Managing Director	Dong-Po Xie	26,786	–	0	–
Director & President	Ying-Che Chang	123,924	–	0	–
Director	Hsien-Te Lai	25,695	–	0	–
Director	Ying-Chieh Lai	22,220	–	0	–
Director	Sung-Yueh Liao	526,471	–	0	–
Director	Chuan-Sheng Liao	21,209	–	0	–
Director	Pi-Jung Hsieh	(144,959)	–	0	–
Director	Chan-Wen Lin	33,486	–	0	–
Director	Kuo-Chou Chen	35,958	–	0	–
Director	Tien-Hsiang Lin	23,282	–	0	–
Director	Po-Ling Chiang	15,626	–	0	–
Standing Supervisor	Lien-Kui Wang	123,756	–	0	–
Supervisor	Dhe-Chin Lai	172,300	–	0	–
Supervisor	Yung-Chih Wang	66,873	–	0	–
Supervisor	Kuo-Chao Hsiao	1,332,850	–	25,292	–
Supervisor	Chuang-Tai Wang	120,134	–	0	–
Chief Auditor	Yi-Hsiung Lai	9,413	–	0	–
Senior Executive Vice President	Chin-Ting Chang	422,329	–	16,535	–
Senior Executive Vice President	Jung-Hsien Chiu	22,047	–	0	–
Deputy Chief Auditor	Shu-Yuan Tsai	12,724	–	0	–
Executive Vice President	Shih-Chien Chin	57,653	–	0	–
Executive Vice President	Chih-Sheng Hsiao	14,041	–	0	–
Executive Vice President & Branch General Manager	Lu-Ku Wang	33,147	–	0	–
Executive Vice President & Branch General Manager	Tsai-Hsiung Liao	31,386	–	0	–
Executive Vice President	Yun-Ching Wang	58,765	–	0	–
Department General Manager	Kuang-Hsiung Huang	7,334	–	0	–

Title	Name	2006		Up To 2007/01/31	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Department General Manager	Chih-Hui Chen	(165,403)	–	0	–
Department General Manager	Wei-Bin Lin	7,691	–	0	–
Department General Manager	A-Kuai Chen	10,116	–	0	–
Chief Secretary	Chien-Cheng Hsu	121,869	–	0	–
Branch General Manager	Chiu-Yun Huang	5,406	–	0	–
Branch General Manager	Huan-Mou Cheng	8,357	–	0	–
Branch General Manager	Hung-Tsang Chiang	5,656	–	0	–
Branch General Manager	Sheng-Li Hung	(144,954)	–	0	–
Branch General Manager	Shun-Hsien Wong	7,964	–	0	–
Branch General Manager	Ho-Shun Chang	7,478	–	0	–
Branch General Manager	Feng-Jung Yeh	5,396	–	0	–
Branch General Manager	Chiang-Chung Chuang	12,770	–	0	–
Branch General Manager	Tai-Yu Chien	8,268	–	0	–
Branch General Manager	Min-Chang Lin	39,239	–	0	–
Branch General Manager	Hsin-The Chang	22,950	–	0	–
Branch General Manager	Chang-Lu Liu	6,218	–	0	–
Branch General Manager	Tai-An Chen	0	–	0	–
Branch General Manager	Shih-Tsung Chou	8,863	–	0	–
Branch General Manager	Hung-Ming Lai	7,150	–	0	–
Branch General Manager	Shih-Jung Chen	10,536	–	0	–
Branch General Manager	Chih-Peng Yang	5,640	–	0	–
Branch General Manager	Jung-Chieh Chang	8,870	–	0	–
Branch General Manager	Hsi-Hsien Wang	5,183	–	0	–
Branch General Manager	Kuo-Jung Lo	6,646	–	0	–
Branch General Manager	Chi-Shen Huang	5,479	–	0	–
Branch General Manager	Pi-Li Hsu	10,180	–	0	–
Branch General Manager	Chin-Tien Lai	7,698	–	0	–
Branch General Manager	Yun-Neng Chen	8,516	–	0	–
Branch General Manager	Chung-Lung Tsai	8,291	–	0	–
Branch General Manager	Chih Hung Huang	7,673	–	0	–
Branch General Manager	Jui-Tang Tai	4,843	–	0	–
Branch General Manager	Hung-Yi Hsu	4,012	–	0	–
Branch General Manager	Wen-Jung Chen	6,275	–	0	–

2-2-3-2. Information of Shareholding Transfer

Name	Shareholding Transfer Reason	Date	Counterparty	Relation between Counterparty and COTA Bank, Director, Supervisor and shareholder whose shareholding more than 10% of the issuing amount	Shares	Price
Wu-Yung Chiang	Disposal	Jan 19, 2006	Chia-Ling Chiang	Manager Related Party	600,000	15.87
Wu-Yung Chiang	Disposal	Jan 19, 2006	Mei-E Chen	Manager Related Party	25,000	15.87
Mei-E Chen	Disposal	Jan 19, 2006	Yi-Ting Chang	Manager Related Party	69,000	15.87
Sheng-Li Hung	Disposal	Apr 10, 2006	–	NONE	150,000	10
Chin-Hsu Lai	Disposal	Apr 10, 2006	–	NONE	100,000	10
Chih-Hui Chen	Disposal	Jun 30, 2006	Keng-Hsuan Chiang	Manager Related Party	170,000	16.10
Pi-Jung Hsieh	Disposal	Sep 4, 2006	Tsung-Hsien Hsieh	Director Related Party	63,411	15.77
Tsai-Pao Hsieh Liu	Disposal	Sep 4, 2006	Tsung-You Hsieh	Director Related Party	63,411	15.77
Pi-Jung Hsieh	Disposal	Oct 4, 2006	Tsung-You Hsieh	Director Related Party	64,667	15.51
Tsai-Pao Hsieh Liu	Disposal	Oct 4, 2006	Tsung-Hsien Hsieh	Director Related Party	63,411	15.51
Pi-Jung Hsieh	Disposal	Nov 10, 2006	Tsung-You Hsieh	Director Related Party	63,897	15.65
Tsai-Pao Hsieh Liu	Disposal	Nov 10, 2006	Tsung-Hsien Hsieh	Director Related Party	63,897	15.65
Tai-An Chen	Disposal	Dec 1, 2006	Yu-Ching Chen	Manager Related Party	5,000	10
Tai-An Chen	Disposal	Dec 1, 2006	Yu-Min Chen	Manager Related Party	9,615	10

2-2-3-3. Shares Pledged Information: NONE

2-2-4. Consolidated Shareholdings: NONE



2-3. Capital Shares and Dividends

2-3-1. Source of Capital

Unit: TWD as of Dec 31, 2006

Date	Issuing price (TWD)	Registered Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Source	Other
Jan, 1999	10	318,373,096	3,183,730,960	318,373,096	3,183,730,960	Transform from the shares of former Credit Cooperative	Approved under the Document No.87736717 of MOF
Jul, 2004	10	324,740,558	3,247,405,580	324,740,558	3,247,405,580	Increase from retained earnings of 63,674,620	Approved under the Document No.0938011008 of MOF
Jul, 2005	10	333,734,078	3,337,340,780	333,734,078	3,337,340,780	Staff stock dividend increase from retained earnings of 16,868,570 Shareholder stock dividend increase from retained earnings of 73,066,630	Approved under the Document No.0940125559 of FSC
Jul, 2006	10	600,000,000	600,000,000	341,190,342	3,431,903,420	Staff stock dividend increase from retained earnings of 17,803,800 Shareholder stock dividend increase from retained earnings of 76,758,840	Approved under the Document No.0950130685 of FSC

As of Dec 31, 2006

Type of Stock	Authorized Stock Capital			Remark
	Outstanding Capital Stock	Un-issued Share	Total	
Common Stock	343,190,342	256,809,658	600,000,000	not on the list of TSEC/OTC

2-3-2. Shareholder Structure

As of Dec 31, 2006

Category	Government Agencies	Financial Institution	Other Institution	Individual	Foreign Institution and Foreigner	Total
Number of Shareholders	2	5	446	67,447	-	67,900
Number of Shares	2,969,966	13,522	8,002,813	332,204,401	-	343,190,342
Percentage	0.87%	-	2.34%	96.79%	-	100%

2-3-3. Distribution of Shareholders' Equity

2-3-3-1. Common Stock/Par Value of TWD10

As of Dec 31, 2006

Tier	Number of Shareholders	Number of Shares	Percentage (%)
1~999	48,670	9,440,197	2.75
1,000~5,000	11,142	18,306,078	5.33
5,001~10,000	1,102	6,785,313	1.98
10,001~15,000	4,135	44,765,706	13.04
15,001~20,000	164	2,778,460	0.81
20,001~30,000	584	13,221,662	3.85
30,001~50,000	726	28,658,578	8.35
50,001~100,000	744	47,189,671	13.75
100,001~200,000	392	52,766,820	15.38
200,001~400,000	164	44,885,247	13.08
400,001~600,000	32	15,345,512	4.47
600,001~800,000	14	9,767,396	2.85
800,001~1,000,000	5	4,717,784	1.37
1,000,001 and above	26	44,561,920	12.99
Total	67,900	343,190,342	100.00

2-3-3-2 Preferred Stock: NONE

2-3-4. Major Shareholders

As of Dec 31, 2006

Name	Number of Shares	Percentage (%)
Chun-Tse Liao	4,491,024	1.31%

Note: Disclose the ratio of holding shares above 1%.

2-3-5. Book Value per Share and Earnings per Share

Item		Year		2006		2005		Up To 2007/03/31 (Footing)	
Market Price	Highest			N/A		N/A		N/A	
	Lowest			N/A		N/A		N/A	
	Average			N/A		N/A		N/A	
Book Value per Share	Before Distribution			15.47		15.90		15.49	
	After Distribution			15.37(Note 2)		15.65		Note 3	
Earnings per Share	Weighted Average Shares			343,190,342		333,734,078		343,190,342	
	Earnings per Share (before adjusted/after adjusted)	0.17	0.16 (Note 3)	0.76	0.74	0.05	Note 3		
Dividend (Note 1)	Cash dividend		0.23		0.225		0.10(Note 2)		
	Stock Dividend	Earning	0.23		0.225		0.00(Note 2)		
		Capital Reserves	NONE		NONE		0.35(Note 2)		
	Dividend in Arrears		0		0		0		
ROI Analysis (Note 4)	P/E Ratio		N/A		N/A		N/A		
	P/D Ratio		N/A		N/A		N/A		
	Cash Dividend Yield		N/A		N/A		N/A		

Note 1: Dividend of series year means each year assigns the earnings of the year before.

Note 2: Distribution number is to be confirmed after the approval of board of directors and the shareholder meeting.

Note 3: Year 2007 not ended.

Note 4: Not need due to non-listed or non-OTC-traded company.

2-3-6. Dividend Policy

The Alternation of dividend policy will affect the market price of stock and the capability for future development. The advantages and disadvantage for that are even more difficult to be anticipated. COTA Bank, formerly as a credit cooperative, used to pay out higher dividend. But nowadays, under intense competition banking environment, we would rather utilize dividend leverage to reach stable growth as well as increase marginal utility of capital. For the goal to align expansion of our business scale, profit and adequate capital ratio, we would adopt the residual dividend policy.

Our dividend policy is carried out by the access of “assignable earning distribution”. After appropriate legal reserve, we distribute the full earnings to the staff and the shareholder. Our shareholders were used to acquire admirable dividend as good as other banks. But for the coming years, the operating capital becomes ultra essential resulting from the need for opening new branches, developing new products, cutting NPL ratio, reducing the overdue loan and growing business scale. It is helpful for COTA Bank’s long-term business expansion by taking use of the accumulative legal earnings reserve.

According to article 35 of COTA Bank’s articles of incorporate, earnings of fiscal year should pay taxes and offset prior year’s losses and appropriate 30pct as legal reverse in turns. The remaining is regulated to distribute as follows:

- (1) Up to 10 % as dividend to the shareholder.
- (2) Up to 3% as remuneration to the director and supervisor.
- (3) 10% as bonus to staff.
- (4) Shareholder bonus.
- (5) Special reserve.

Before the legal reserve is accumulated up to the total capital, the highest cash dividend is limited to not over 15%.

2-3-7. The influence of stock dividend to market price and earning per share

As no financial forecast required being announced, no disclose is needed.

2-3-8. Staff Bonus and Remuneration to Director and Supervisor

In accordance to the article 35 of COTA Bank’s Articles of Incorporate

2-3-9. Buy Back Stock: NONE

2-3-10. The recent-year subsidiary to hold or disposal the COTA Bank stock situation: NONE

2-4. Issuance of Bank Debentures

Type of Bank Debenture	First Issuance of Bank Debentures 2006
Date Approved by Central Competent Authority, Document No.	Executive Yuan, Financial Supervisory Commission September 9, 2005 Chin Kuan Yin (3) No.0940024574
Date of Issue	March 28, 2006
Denomination	500 thousand/1 million/5 million/10 million
Issue and Transaction Place	Taiwan, R.O.C.
Currency	TWD
Par Value	100
Total Issuance Amount	2,500,000,000,
Interest Rate	Type A First 5 years 3.3%, Last 5 years 5% Type B First 5 years, bank's index rate plus 120bps Last 5 years, bank's index rate plus 250bps
Tenor	10 years, maturity on Mar 28, 2016
Priority of Repayment	The right to receive payment for sums due under the debenture (including principal and interest) takes precedence only over that of bank shareholders for distribution of surplus assets and is subordinate to the claims of all other creditors of the Bank.
Guarantee Institution	None
Trustee	None
Underwriter	Jih-Sun Securities Co., Ltd./ Grand Cathay Securities Corporation
Certifying Lawyer	None
Certifying CPA	Chuan-Chuan Wu / Chun-Man Chen
Certifying Financial Institution	Hwa-Tai Commercial Bank, Trust Dept.
Term of Redemption	Principal paid upon maturity or The Bank is entitled to redeem by an announcement from Feb 1, 2011 to Mar 28, 2011
Unredeemed Balance	2,500,000,000
Preceding Year's Paid-in capital	3,337,341,000
Preceding Year's Post-Audit Net Value	5,224,445,831
Performance Status	Normal
Sellback or Early Redemption conditions	The Bank is entitled to redeem by an announcement from Feb 1, 2011 to Mar 28, 2011 or Principal paid upon maturity
Rollover and Exchange Conditions	None
Restrictive Conditions	Subordinated
Capital Utilization plan	Raise the Bank's own capital and risk asset ratios
Amount of Registered Issuance Plus Outstanding Balance Already Issued as Ratio of Net Final Value of Issuance in Preceding Year.	47.85%
Whether or not recorded as qualified capital and type	Yes, Tier 2 Capital
Name of Rating Institution Date of Rating, and Rating Given	Taiwan Ratings Corporation Dec 8, 2006 Long-term: 『twBBB+』 Short-term: 『twA-2』 Prospect for rating: 『Stable』

2-5. Merger and Acquisition (M&A)

2-5-1. Certified Public Accountant's Opinion on Reasonable Dealing Price

* Abridgment (details as refer to Chinese Version)

Unit: TWD million

Acquiring Company	Acquired Company	Dealing Price A	Adjusted Net Worth B	Premium C=A-B	Branch Count D	Per Branch Value E=C/D	Per Br. Average Value
COTA Bank	Fengyuan Credit Cooperative	340	193~(51)	147~391	8	18~49	33
Sampling Company	Fuhwa Bank	126	(95)~(115)	221~241	8	28~30	29
	Taishin Bank	1,400	925~638	475~762	12	40~64	52

Note 1: Dealing Price = TWD200 (stock in per share M&A price) * 1,702,000 (shares) = TWD340 millions

Note 2: Fengyuan Credit Cooperative owns 8 branches (Fengpei Branch as suspension of business)

The bilateral agreement for M&A price is TWD200 per share (Making total amount: TWD0.34 billions). The price is considered reasonable.

EnWise CPAs & Co.

CPA: Sporn Chen

Jul 15, 2005

2-5-2. Certified Public Accountant's Opinion on Reasonable Dealing Price

Unit: TWD thousand

Company	Fengyuan Credit Cooperative	
Address	No.151 , Chung Cheng Road, Fengyuan City	
Chairman	Hsing-yu Huang	
Paid-in Capital	166,627,800	
Business Item	In Accordance with "The Credit Cooperatives Act of The Republic of China"	
Product Item	Deposits, Loans and Agency Service	
Latest Financial Statements	Total Assets	8,105,510
	Total Liabilities	7,910,496
	Total Stockholders' Equity	195,014
	Revenue, Income and Gains	176,695
	Operating Margin	87,796
	Income before Income Tax	(125,762)
	Net Income	(112,713)
	Basic EPS (in TWD dollar)	(66.08)



3 ∴

2006

Business Operation



3. Business Operation

3-1. Business Report

3-1-1. Comparison over the Past Five Years

3-1-1-1. Deposits

COTA Bank is constant to develop the deposits volume. At the end of 2006, total deposits in the bank stood at TWD13.155 billion for a growth rate of 15.93%. In order to enhance the structure of quality and quantity, we intend to expand the deposits in the public and to focus on the corporate salary remittance service. We will not only to improve the functions of Internet banking and phone banking, but also to explore new customers in the market. In the deposits structure, our demand deposits stood at TWD32.814 billion that was the 34.28% of the total deposits. Our time deposits stood at TWD62.899 billion that was the 65.72% of the total deposits. In addition, we also have perspective business strategy and company appearance that can assist us to expand our business territory.

Structure of Deposits

Unit: TWD million

Item \ Year	2006		2005		2004		2003		2002	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Checking Deposits	1,566	1.63	1,577	1.91	1,348	1.83	1,279	1.97	1,025	1.82
Demand Deposits	8,260	8.63	6,036	7.31	5,211	7.09	4,569	7.02	3,226	5.74
Demand Savings Deposits	22,988	24.02	19,258	23.32	17,028	23.17	15,453	23.77	12,661	22.50
Time Deposits	17,129	17.90	15,312	18.54	13,069	17.78	9,102	14.00	6,715	11.94
Time Savings Deposits	45,770	47.82	40,396	48.92	36,843	50.13	34,620	53.24	32,633	58.00
Remittances	24	0.00	3	0.00	0	0.00	0	0.00	0	0.00
Total	95,737	100.00	82,582	100.00	73,499	100.00	65,023	100.00	56,260	100.00

3-1-1-2. Loans

The amount of loans outstanding at the end of 2006 totaled TWD81.930 billion, compared with the end of 2005; this was an increase of TWD12.426 billion, for an increase rate of 17.88%, mainly from acquirement of Fengyuan Credit Cooperative and smooth business progress. COTA Bank promoted several products lined with market dynamic and seasonal change. In the corporate section, we take the advantage of “Small and Medium Business Credit Guarantee Fund” to assist small and medium companies to develop their business and assist them to grow.

Structure of Loans

Unit: TWD million

Item \ Year	2006		2005		2004		2003		2002	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Overdrafts	155	0.19	40	0.06	42	0.07	42	0.07	60	0.13
Bill Discount	345	0.42	296	0.43	285	0.45	210	0.36	94	0.2
Car Loans	6,369	7.77	4,031	5.80	1,814	2.88	1,175	2.03	629	1.33
Mortgage loans	24,581	30.00	19,168	27.58	14,660	23.26	23,287	22.92	12,484	26.33
Other Unsecured Loans	26,986	32.94	27,157	39.07	27,096	42.99	25,063	43.23	16,278	34.33
Other Secured Loans	22,738	27.75	12,720	25.49	17,635	27.98	17,029	29.37	17,193	36.26
Allowances for Bad Debt	(648)	(-0.79)	(626)	(0.9)	(689)	(1.09)	(649)	(1.12)	(734)	(1.55)
Sub Total	80,526	98.28	67,786	97.53	60,843	96.54	56,157	96.86	46,004	97.03
Acceptance receivable	22	0.03	11	0.11	14	0.02	11	0.02	10	0.02
Guarantee receivable	734	0.90	1,081	1.56	1,477	2.35	1,162	2.00	10	0.02
Allowances for Bad Debt	648	0.79	626	0.9	689	1.09	649	1.12	734	1.55
Total	81,930	100.00	69,504	100.00	63,023	100.00	57,979	100.00	47,411	100.00

Remark: This column includes loan business and credit card business which are not collected

In order to improve the efficiency of our internal resources to meet customer demand, we will develop financial products combined with deposits and wealth management. Further, in accordance with national economic development, we will plan to launch project loans under “Small and Medium Business Credit Guarantee Fund” for helping small and medium companies grow steadily, and try to enhance our competition and reduce loan risk by such strategy.

3-1-1-3. Wealth Management

Wealth Management of COTA Bank primarily focused on providing customers as an agency with trust businesses such domestic/overseas trust funds, real estate trust funds, and non-discretionary investment in domestic/foreign securities and insurance as well.

Unit: TWD million

Business Item		2006	2005	2004	2003
Domestic Trust Funds	Number of Funds	21	14	13	12
	Trust Amount	646	469	398	246
Overseas Trust Funds	Number of Funds	11	2	-	-
	Trust Amount	653	100	-	-
Trust	Real Estate Trust	200	-	-	-
	Certifying	77	143	392	295
Insurance	Life Insurance Revenue	136	314	526	518
Agency	Property Insurance Revenue	0.1	0.9	0.9	-

3-1-2. Business Plan for 2007

3-1-2-1. Operating Plan

3-1-2-1-1. Organization Development

- ❖ To reallocate Kaohsiung, Tainan Branches and the third in Northern Taiwan
- ❖ To streamline operation process and develop to improve service efficiency
- ❖ To restructure organization and responsibilities to escalate human resource efficiency
- ❖ To enhance communication between Headquarter and branches to improve management performance
- ❖ To establish operation analysis system and enhance control of financial market movement in order to promote business planning ability

- ❖ To enhance data security protection mechanism in order to maintain IT operation's correctness, confidentiality, completeness and usability
- ❖ To improve COTA Bank's risk management ability conforming to BASEL II
- ❖ To rebuild new server system in place of TANDEM server; integrate inter-bank remittance, ATM, IC-card function to IBM server
- ❖ To transfer credit card system to new self-developed credit card system
- ❖ To develop web-bank multi-functional service function and set up wealth-management and foreign exchange trading platform to meet customer's satisfactions
- ❖ To manage actively COTA Bank's fixed asset to improve resource-utility revenue
- ❖ To implement budget execution system to improve the Bank's resource-utility efficiency
- ❖ To propagate and deal with regulation and policies in relation to finance
- ❖ To continue building E-missive system, shorten internal communication time, and advance administrative efficiency in order to benefit internal knowledge management
- ❖ To launch financial professional course to advance colleague's competence

3-1-2-1-2. Asset & Liabilities management and Funding

- ❖ To review funding cost, modulate financial structure, and exalt profit with hedge instruments
- ❖ To accommodate customers with financial network service, increase demand deposit proportion and service fee proportion to decrease funding cost
- ❖ To advance savings & loan market shares to secure funding resource
- ❖ To control funding gap, lower liquidity risk, and improve funding efficiency
- ❖ To adjust savings & loan quality to fill the profit of the bank
- ❖ To diversify investment in compliance with the regulations to lower efficiently funding operation risk
- ❖ To control NPL ratio under domestic average level

3-1-2-1-3. Consumer Banking

- ❖ To target VIP customer group and provide tailor-made services
- ❖ To innovate new consumer banking financial product and focus on risk-lowering and competitive advantages
- ❖ To expand personnel in southern area in order to complete all-island work team, and also train sales personnel to boost sales team capacity
- ❖ To better loan platform, credit investigation procedure, and real estate appraise procedure in order to implement "customer segmentation" strategy
- ❖ To target economic scale by standardizing and automating back office operation procedure to lower operation cost

- ❖ To streamline personal credit investigating procedure and focus on balancing quantity & quality of credit under risk control first rule
- ❖ To better pre-risk review and post-risk management to examine consumer banking credit investigation operation status and asset quality regularly
- ❖ To maintain consumer banking center's optimal business model to adapt to external competence and the change of regulation

3-1-2-1-4. Corporate Banking

- ❖ To accommodate regulatory policy to help small and medium business grow and also utilize credit guarantee scheme to lower credit risk
- ❖ To cooperate with domestic known machine producer to help quality small and medium business with capital expenditure financing
- ❖ To provide enterprise with whole credit investigation project and strategy to meet financing need in line of governmental economy developing policy
- ❖ To advance service to small and medium financing with project loans according to governmental policy for small and medium business
- ❖ To enhance communication among business unit, loan department and credit department to strengthen case procedure and management
- ❖ To improve COTA Bank's risk management ability conforming to BASEL II and upgrade asset quality with strict NPL ratio control.
- ❖ To better employee competence, marketing ability and servicing quality & performance with profession training

3-1-2-1-5. International Banking & Foreign Exchange Business

- ❖ To enhance international financial activities and take part in international syndication loan in order to advance COTA Bank's reputation
- ❖ To strengthen cross-strait and triangle trade financial business and expand OBU profit margin
- ❖ To continue building global remittance network and promote trade financing business for higher profit
- ❖ To allocate adequately foreign exchange investment exposure and target high-rating overseas securities for foreign exchange financial operation revenue
- ❖ To enforce foreign exchange professional know-how and training due to new UCP rule change
- ❖ To provide client with convenient E-financial service by building foreign exchange web bank trading function.
- ❖ To apply southern area branch for authorized foreign exchange bank to service southern area customers

3-1-2-1-6. Wealth Management

- ❖ To accelerate financial product innovation and diversification and capture market trend to increase service fee profit.
- ❖ To lift COTA Bank market competence by implementing “Specific & Professional” service scheme
- ❖ To enhance relationship with clients by holding periodical wealth management seminars to lift the bank’s image
- ❖ To continue developing quality financial product to fit client’s wealth diversification necessity
- ❖ To build customer management scheme and utilize data mining system to target customer group
- ❖ To league alternative industries and cooperate with other financial organizations to expand wealth management business scale
- ❖ To train brilliant financial consultants with basic & advanced wealth consultant knowledge and help acquire professional certificates

3-1-2-1-7. Credit Card Business

- ❖ To cohere with authorization regulation of “Credit Card NPL ratio” to enhance bad debt recovering

3-1-2-2. Major Business Plans

COTA Bank plans to form Tainan and Kaohsiung Branches with anticipation to extend scope in southern Taiwan and lift market shares by increasing business units to 26 from 24 to expand service breadth & depth. Due to Dual-Card crisis, COTA Bank will take strategies to better margin and asset quality, hoping to stabilize business development in this harshly competitive market. According to social consuming type change, COTA Bank will create customer-oriented product in place of product-oriented product to support profit margin.

Unit: TWD million

Business Item	2007 Budget	2006	Increasing Volume	
			Amount	%
Average Balance of deposits	95,000	89,370	5,630	6.30
Average balance of loans	78,000	74,330	3,670	4.94
Wealth Management (Trust Amount)	2,000	1,301	699	53.70
Wealth Management (Insurance Revenue)	130	137	-7(note)	-4.92

Note: Interest rate hike in 2006 and bullish FX & stock markets making insurance agency commission down

3-1-2-3. Main Business Operation Target

3-1-2-3-1. Deposits

Due to TWD interest hike in a row last year, at the end of Dec 2006, the amount of deposits and remittances in the bank totaled TWD95,000 million, increase by TWD5,630 million for a growth of 6.30%. In order to support wealth management business, the bank will focus on the personal account numbers. Major strategy follows:

- (1) Strengthen to expand low-cost demand deposit;
- (2) Encourage promotion on E-trade platform for cross-bank money transfer, tax paying and other financial service to down counter-teller trade volume;
- (3) Continue developing dispersible investment products to advance service fee profit.

Unit: TWD million

Business Item	2007 Budget		2006 footing		Increasing Volume	
	average	%	average	%	Amount	%
Check Deposits	1,400	1.47	1,299	1.46	101	7.79
Demand Deposits	6,800	7.16	6,069	6.79	731	12.05
Demand Saving Deposit	24,140	25.41	20,969	23.46	3,171	15.12
Time Deposit	16,197	17.81	16,230	18.16	687	4.23
Time Saving Deposit	45,743	48.15	44,803	50.13	940	2.1
Total	95,000	100.00	89,370	100.00	5,630	6.30

3-1-2-3-2. Loans

Try to improve loan quality and structure, enhance risk management and move up actively consumer and corporate banking loan with hope to lift profit. At the end of Dec 2006, loans record average amount as TWD78,000 million, increased by TWD3,670 million for a growth rate of 4.7%. Main strategy as follows:

- (1) Help quality small and medium business with capital expenditure loan;
- (2) Aggressively expand market shares by implementing new service system;
- (3) Open various project loans in coincidence with governmental policy;
- (4) Continue bad debt recovery, lower NPL ratio and lift cover ratio under BASEL II regulation;
- (5) Combine real estate trust and promote building loan and OBU loan business;
- (6) Strengthen client relationship;
- (7) Lift BIS ratio and capital utility rate.

3-1-2-3-3. Wealth Management

COTA Bank started insurance agency company to meet client investment need and increase commission revenue. The bank also planed to expand scope by training financial consultants and increasing framing. At the end of Dec 2006, trust asset revenue budget totaled TWD2,000 million for a growth rate of 53.73%. The bank plans to open foreign trust and enhance real estate trust business with hope to reach score. As for insurance agency, average premium totaled TWD137 million at the end of Dec 2006. With whole landscape, the bank will provide customer with various investment products and maintain competence in the future.

Unit: TWD million

Business Item			2007 budget	2006 footing	Increase	
					Amount	%
Trust Funds	Domestic	Asset Balance	900	648	252	38.81
		Commission	7	5	2	39.21
	Overseas	Asset Balance	1,100	653	448	68.55
		Commission	14	7	7	99.40
Insurance Agency	Life Insurance	Premium	130	137	-7	-4.60
		Commission	3.4	3.5	-0.1	-3.08
	Property Insurance	Premium	0.7	0.67	0.03	4.63
		Commission	0.2	0.18	0.02	11.11

3-1-3. Market analysis

As the government has encouraged M&A of financial institutions, the merger actions between financial holding companies and financial institutions are keeping happen. However, observed from overseas financial market, the key issue for a financial institution to survive is not really the scale but competitive edge. Due to the financial institute credit crisis and duel-card impact last year, COTA Bank will enhance internal and risk control, and take stable growth strategy with hope to keep ongoing competence.

Under this over competitive environment by the Financial Holding Institution growing, COTA Bank acquired Fengyuan Cooperative on Jan 1, 2006, increasing eight business units to help build whole island channel. Moreover, we still not only continue to strengthen our competitive ability, but also develop a more comprehensive and effective local bank in Taiwan. Besides, our business strategy in the future is conservative. We are not going to merge with poor quality bank or to join the Financial Holding unless our customers, stockholders and staffs have more advantage.

3-1-4. Financial Commodity Research and Development

3-1-4-1. Major Financial Product and New-created Units in recently two years

- ❖ Set up SME Banking Center in Jan, 2006
- ❖ Set up Wealth Management Center and Offshore Banking Branch in Jul, 2006

3-1-4-2. Financial Product Research and Development

- ❖ Promoted and developed small and medium company loans business to help client's competitive advantage.
- ❖ Built up Remittance, Account and Financial Consultant data base to help analyzing customer consuming behavior.
- ❖ Developed structured consumer banking products
- ❖ Developed derivatives financial products
- ❖ Developed factoring and real estate securitization products
- ❖ Built up Wealth Management Center and wealth management system
- ❖ Prepared to set up Southern office of Credit Management Department and Southern Consumer Banking Center

3-1-5. Long/Short Term Business Development Plan

3-1-5-1. Orientation and Aspiration

With the vision to strengthen competitive edge and conform to ever-lasting operating niche, COTA Bank commit itself to expand the business scale, raise market share, increase return of equity in order to become a concise and sophisticated professional commercial bank.

3-1-5-2. Short Term Business Development Plan

- ❖ To set up wealth management program and train professional wealth and trust specialist consultant to provide diversified investment and wealth management services.
- ❖ To aggressively promote fee income business lines to raise percentage of fee income to business revenue.
- ❖ To apply the license of bills finance to expand business scale.
- ❖ To create and develop consumer banking products in line with market movement and seasonal funds need.
- ❖ To build up corporate vision Internet banking to further provide cash management service.
- ❖ To develop a better financial service network in order to expand services into the communities

- ❖ To strengthen our risk control ability by regularly checking on operation in consumer trust sales in order to enhance our management structure by adjusting lending policies.
- ❖ To strengthen business in international finance service by increasing earning share of OBU.

3-1-5-3. Long Term Business Development Plan

- ❖ To expand product services, promote the business scale of corporate banking and consumer banking.
- ❖ To implement the appraisal management of individual performance, enhance team work building as well as business revenue.
- ❖ To streamline work flow, simplify processing reform, improve efficiency of operation and cut down operating costs and expenses.
- ❖ To establish the special task force to collect market information and convey research regarding risk control and implementation of BASEL II by periodical meeting.
- ❖ To align the structure of organization continuously, build up operating function of professional division of work and effective services.
- ❖ To build up management information system and electronic information platform to integrate IT system into complete effect as a whole.
- ❖ To build up financial service network and cultivate in the communities
- ❖ To increase the market share in lending and saving market in order to ensure the resources of fund is stable and perform effectively.
- ❖ To reduce the cost of operation standardized the operation procedure in the back office operation.

3-2. Human Capital

Information of Educational Background for Employees in Recent Two Years

Year		Up to Jan 31, 2007	2006	2005
Item				
Number of Employee		1,112	1,117	961
Average Age		35.68	34.66	34.13
Average Seniority		9.94	8.92	10.66
Structure of Education	PHD	0	0	0
	Graduate	29	29	28
	University/College	796	799	690
	Senior High School	282	284	239
	Below	5	5	4

Certificated Proficiency Tests of Employees	Total (Up to Jan 31, 2007)
Basic Proficiency Test for Bank Lending Personnel	301
Advanced Proficiency Test for Bank Lending Personnel	21
Basic Proficiency Test for International Banking Personnel	175
Proficiency Test for Bank Internal Control Personnel	582
Proficiency Test for Financial Planning Personnel	250
Proficiency Test for Trust Operations Personnel	471
Proficiency Test for Risk Management Personnel	2
Proficiency Test for Obligation & Debt Collection Personnel	126
Securities Investment Analysts	2
Senior Securities Specialist	62
Securities Specialist	57
Future Specialist	38
Securities Investment Trust & Consulting Professionals	54
Life Insurance Specialist	379
Investing Insurance Specialist	190
Asset Insurance Specialist	232
PRM	1

3-3. Responsibility and Ethical Code

COTA Bank is a famous financial institution in central Taiwan that set up around 92 years and upgraded from Taichung Third Credit Cooperatives. Accumulating experience from long term and stable operation, we have great image and sound reputation in central Taiwan. In order to repay for society support, we set up “COTA Culture & Education Foundation” to develop the public welfare of old persons concern as well as be the sponsor of society welfare, arts appreciation and communities care like as: Children Creative Drawing Contest, Day of No-Driving, Centennial Activity of Taichung Train Station etc., we pay full intention to participate and support. In order to create higher value of bank and under the foundation of stable operation and seek for better turning point, COTA Bank merged Fen-Yuan Credit Cooperatives, we combine the sources of both parties not only break the limit of operation scale but also have better asset quality and ability of getting profit that earns highest value of shareholders, employees and customers.

3-4. IT Equipment

COTA Bank uses IBM UNIX server for Business System, Testing System and Utility System separately and TANDEM for Internet banking. Software includes Demand Deposits System, Time Deposit System, Cash Card System, Bill Payments System, Credit System, Trust Business System, Checks Clearing System, ATM & Chip-Card System, Internet Banking System, Automatic Phone Voice Service System, Personnel & Wages System, Correspondent System, Credit Checking System, Chops System, Messaging System, Information Transmitting System, E-Document System, Online System (Appraisal, Credit Information, Expense Analysis, Report Management, Staff Card Management), Accounting System, Safe System and the above-mentioned systems were all developed by ourselves. Foreign Exchange System of both DBU and OBU were already launched this year. New Credit Card System expects to start in this year 2007. COTA Bank uses Mirror Disks to protect all transactions data completely and keeps duplicates of disc and magnetic film every working day also for CD-ROM periodically. To enhance secure transactions, we set up strictly control and management of Internet banking platform. Furthermore, we dispose another control room and backup system to prevent any damage from disaster.

3-5. Labor-Capital Relation

To stabilize the quality of staff life and improve the efficiency, COTA Bank takes care of the welfare for staff with regard to give birth, marriage and funeral affairs, medical treatment and accidents.

(1) Group Insurance

In accordance with laws and decrees, COTA Bank applies Labor Insurance and National Health Insurance for all staff. We will give cash and medical payment through Bureau of Labor Insurance and Bureau of National Health Insurance separately if any accident. Moreover, we have accident insurance with Shin Kong Life too.

(2) Bonus

Depends on operations, COTA Bank provides extra bonus at Lunar New Year, Dragon Boat Festival and Mid-Autumn Festival each year. The net earnings by fix ratio are used to be bonus for staff with good performance after covering prior years' deficits, pay income tax, legal reserves and distribute dividends.

(3) Incentive Interest Rate

COTA Bank provides favorable interest rate of deposits or loan for all staff.

(4) Security and Hygiene

To prevent occupational disaster and ensure staff health, COTA Bank takes care of security and hygiene in accordance with related laws of worker safety sanitation.

(5) Staff Proficiency Training

To enhance the level of our employee of profession, we are holding training courses and professional lessons.

COTA Bank pension fund is pursuant to old version and updated version (from Mar. 1, 1998) of “Staff Retirement Plan”. The benefit payments and credits suit separately by the above-mentioned plans and based on the years of service and final salary. In accordance with Labor Law, we will calculate 15% of total salaried employees by month (exclude appointed managerial employee) to be retirement payment that was deposited in the pension account in the Central Trust of China. We have another account for appointed management that calculated 8% of their salary each month. Till end of January 2007, under the survey of all employees, there are 462 staff (41.55% of employees) chose the old system or didn’t make decision temporarily, 650 staff (58.45% of employees) chose new system. COTA Bank has no any argument between labors and capital at present.

3-5-2. Damage from Argument between Labor and Capital in Recent Two Years

All personnel management and staff welfares of COTA Bank are conformed to Labor Law. We retain agreeable labor-capital relationship and never suffered damage from arguments and wish so for future.

3-6. Significant Contracts

Nature of Contract	Concern Party	Contractual Period	Major Content
Deposit Insurance Contract	Central Deposit Insurance Corp.	Engaged on Aug. 15, 1995	To enhance protection of customer deposits
Bank Comprehensive Insurance	Fubon Insurance Co., Ltd.	From Apr. 1, 2006 to Apr. 1, 2007	1.Staff unfaithful behavior 2.Asset of branches 3.Asset in transit 4.Forged drafts and securities 5.Forged cash 6.Damage of equipment 7.Fault of securities or contracts

3-7. Apply for Securitization and Related Information in Recent Year: NONE

4 ∴

2006

Capital Arrangement



4. Capital Arrangement

COTA Bank was approved by competent authority in 2005 to issue subordinated bank debenture for TWD2.5 billion and have completely released to market on Mar.28, 2006. The purposes of issuing were as follows:

- (1) Enrich the Bank medium and long term capital as well as reduce the liquidity risk to provide high quality capital to enterprises medium and long term syndication loan, SME project loan for plants or equipment and consuming banking loan.
- (2) In coordinate with the establishment of International Banking Department to develop foreign exchange loan business.
- (3) Strengthen regulatory capital and increase BIS ratio.



5 

2006

Financial Status



5. Financial Status

5-1. Summarized Balance Sheet and Income Statement over the Past Five Years

5-1-1. Balance Sheet

Unit: USD thousand

Descriptions	Year	Financial data during 2002~2006				
		2006	2005	2004	2003	2002
Cash, due from banks, deposit with the Central Bank		507,408	434,092	293,800	277,555	213,365
Marketable securities		120,656	91,212	194,565	88,695	167,994
Bank draft, discounts and loans		2,466,353	2,062,872	1,906,294	1,652,738	1,330,624
Receivables		37,562	54,751	23,425	12,130	11,578
Long-term investments		7,381	6,507	5,759	5,410	4,709
Fixed assets		43,799	30,972	32,186	28,429	27,989
Other assets		46,641	35,480	46,779	45,627	47,888
Due to Central bank and other banks		20,303	12,416	14,703	13,977	10,463
Deposits & remittance		2,932,207	2,513,145	2,302,825	1,913,692	1,627,271
Other liabilities		114,638	28,835	25,110	37,115	24,771
Share capital		105,112	101,562	101,745	93,700	92,087
Capital reserve		46,287	45,989	46,778	43,940	43,184
Retained earnings	Before allocation	11,254	13,938	11,647	8,160	6,371
	After allocation	(Note)	8,562	6,381	3,848	1,924
Total assets		3,229,801	2,715,885	2,502,808	2,110,584	1,804,147
Total liabilities	Before allocation	3,067,148	2,554,396	2,342,638	1,964,784	1,662,505
	After allocation	(Note)	2,557,217	2,345,086	1,967,222	1,666,952
Total Shareholders' equity	Before allocation	162,652	161,490	160,170	145,800	141,642
	After allocation	(Note)	158,991	157,722	143,362	137,195

Note: Allocation of 2006 profits is pending subject to the approval in the 2007 Shareholders' general meeting

5-1-2. Concise Income Statement

Unit: USD thousand

Descriptions	Year	Financial data during 2002~2006				
		2006	2005	2004	2003	2002
Operating revenues		105,125	86,031	71,573	69,818	81,002
Operating expenses		103,766	79,029	63,860	61,976	75,148
Operating income		1,359	7,002	7,713	7,842	5,854
Non-operating income		1,386	2,453	1,191	523	427
Non-operating expenditures		157	125	124	859	888
Net income (loss) before tax		2,587	9,330	8,780	7,506	5,393
Income tax (profit)		849	1,590	1,229	1,303	(978)
Net income (loss)		1,738	7,740	7,550	6,203	6,370
Earnings per share (loss) (USD)	Before adjustment	0.0052	0.0231	0.0231	0.0206	0.0216
	After adjustment	(Note)	0.0225	0.0226	0.0203	0.0213

Note: Allocation of 2006 profits is pending subject to the approval in the 2007shareholders general meeting

5-1-3. Certified Public Accountants' Names and Opinions

1. Certified public accountants: Chuan-Chuan Wu and Chun-Man Chen for 2002~2006
2. Opinions: unqualified opinion for 2002~2005 and modified unqualified opinion for 2006



5-2. Analysis on Major Financial Ratios during 2002~2006

Descriptions	Year	Financial analysis during 2002~2006				
		2006	2005	2004	2003	2002
Operating Capability	Loans to deposits ratio (%)	84.79	82.48	83.72	86.73	82.54
	Overdue loan ratio (%)	2.95	2.78	2.68	3.78	6.28
	Interest expense to average balance of deposits ratio (%)	1.57	1.31	1.18	1.51	2.38
	Interest income to average balance of loans ratio (%)	3.81	3.68	3.51	4.00	6.48
	Total assets turnover (times)	0.02	0.02	0.03	0.03	0.05
	Average operating revenue per employee(USD thousands)	93.54	89.53	82.37	95.92	121.98
	Average earnings per employee (USD thousand)	1.56	8.06	8.68	8.53	9.58
Profitability	Return on first capital type assets (%)	1.64	5.95	5.62	5.23	3.94
	ROA (%)	0.06	0.36	0.37	0.38	0.36
	ROE (%)	1.07	5.89	5.57	5.18	4.60
	Net income ratio (%)	2.83	13.75	12.27	10.75	6.66
	EPS(loss)(USD)	0.0052	0.0231	0.0231	0.0206	0.0216
Growth Rate	Asset growth rate (%)	18.15	11.72	11.39	14.97	4.16
	Profitability growth rate (%)	(72.45)	9.41	9.87	36.77	115.91
Liquid Reserves Ratio (%)		13.06	11.24	13.32	10.52	11.47
Capital Adequacy	First capital type assets (USD thousand)	155,874	159,442	158,631	144,356	139,496
	Capital net worth(USD thousand)	227,191	156,051	155,360	140,755	141,478
	Total risk-based assets(USD thousand)	1,989,567	1,657,284	1,405,714	1,109,446	1,101,604
	Capital adequacy ratio (%)	11.42	9.42	11.05	12.69	12.84
	First capital type to risk weighted risk-based assets ratio (%)	7.83	9.62	11.28	13.01	12.73
	Second capital type to risk weighted risk-based assets ratio (%)	3.96	0.15	0.20	0.16	0.62
	Third capital type to risk weighted risk-based assets ratio (%)	0.00	0.00	0.00	0.00	0.00
	Common stock to total assets ratio (%)	5.04	5.95	6.40	6.91	7.85
Secured Loans to Related Parties(USD thousand)		29,295	26,485	17,277	18,952	22,179
Secured Loans to Related Parties to Total Outstanding Loans Ratio (%)		1.17	1.25	0.88	1.11	1.65
Operation Scale	Market share of assets (%)	0.28	0.24	0.25	0.25	0.24
	Market share of net worth (%)	0.25	0.26	0.30	0.32	0.31
	Market share of deposits (%)	0.38	0.35	0.39	0.36	0.33
	Market share of loan (%)	0.46	0.39	0.38	0.39	0.34

Note:

1. Important financial ratios up to the quarter immediately preceding the prospectus' printing date: not need for the non-listed and non-OTC-traded company
2. Ratio changes disclosure for recent two years: (No analysis for changes less than 20%)
 - 2-1 The decrease 6,000 (USD thousands) of net income after tax causes the decrease of average operating revenue per employee, ROA, ROE, and EPS.
 - 2-2 The decrease 6,800 (USD thousands) of net income before tax reduces the first capital type to risk weighted risk-based assets ratio and profitability growth rate.
 - 2-3 The decrease 6,000 (USD thousands) of net income after tax and the increase 4,700 (USD thousands) of net operation revenue result in the decline 4.31% of net income ratio.
 - 2-4 The asset growth rate increases 6.43%, due to the merger with Fengyuan Credit Cooperative and the issuance of subordinate financial debentures.
 - 2-5 The increase 70,000 (USD thousands) of capital net worth is the result of the issuance of subordinate financial debentures.
 - 2-6 Capital adequacy ratio rises 2% because capital net worth expands more than total risk-based assets.
 - 2-7 Tier 2 capital to risk weighted risk-based assets ratio grows 3.81%, due to the issuance of subordinate financial debentures of TWD2.5 billion.

5-3. Supervisors' Audit Report

COTA Commercial Bank Co., Ltd., Supervisor's Audit Report for Year 2006

Mar. 01, 2007

To: Shareholders' General Meeting of Year 2007

The Business Report, Financial Statement and Proposal on Profit Allocation of Fiscal 2006, worked out and submitted by COTA Bank board of directors have been duly audited by KPMG Certified Public Accountants Peat, Marwick, Mitchell, and further verified by us. This Report duly submitted in accordance with Article 219 of the Company Law.

Standing Supervisor: Lien- Kui Wang

Supervisor: Dhe-Chin Lai

Supervisor: Yong-Zhi Wang

Supervisor: Guo-Zhao Xiao

Supervisor: Zhuang-Tai Wang

5-4. Financial Statements for Year 2006

Independent Auditors' Report

The Board of Directors
COTA Commercial Bank Co., Ltd.:

We have audited the balance sheets of COTA Commercial Bank Co., Ltd. (the Company) as of Dec 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of COTA Commercial Bank Co., Ltd. as of Dec 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with "Regulations Governing Financial Reporting for Financial Institutions" and Republic of China generally accepted accounting principles.

As described in Note 3 to the financial statements, commencing Jan 1, 2006, the Company adopted statement of Financial Accounting Standards No.34 (SFAS 34) "Accounting for Recognition and Measurement of Financial Instruments" and No.36 (SFAS 36) "Disclosure and Presentation of Financial Instruments". In accordance with SFAS No. 34, the financial assets and liabilities at the beginning of 2006 were revalued based on either fair value or net amortized cost. As the result of adoption of SFAS No.34, the revaluation differences, which were accounted for either as cumulative effect of change in accounting principle or adjustment to shareholders' equity, amounted to TWD9,211 and TWD71,486 thousands, respectively.



Jan 31, 2007

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

See accompanying notes to financial statements.

COTA Commercial Bank Co., Ltd.
Balance Sheets
Dec 31, 2006 and 2005
(Expressed in TWD thousands)

	2006	2005	Change of percentage
Assets			
Cash and cash equivalents (note 4)	2,678,385	2,923,691	(8)
Due from Central Bank and call loans to other banks (note 5)	13,888,478	11,340,571	22
Financial assets measured at fair value through profit or loss (note 6)	476,169	190,835	150
Bonds and bills purchased under resale agreements (note 6)	1,397,851	2,184,610	(36)
Receivables, net (note 7)	1,226,422	1,695,543	(28)
Loans, net (note 8)	80,526,434	67,785,961	19
Available-for-sale financial assets, net (notes 6 and 9)	889,701	509,130	75
Held-to-maturity financial assets, net (notes 6 and 10)	1,219,801	114,480	966
Other financial assets (notes 6 and 11)	196,892	212,000	(7)
Premises and equipment, net (note 12)	1,430,028	1,017,724	41
Goodwill (note 13)	154,027	-	-
Deferred income tax (note 22)	92,668	110,640	(16)
Other assets (note 14)	1,276,133	1,169,425	9
Total Assets	<u>105,452,989</u>	<u>89,254,610</u>	18
Liabilities and Stockholders' Equity			
Liabilities:			
Due to Central Bank and other banks (note 15)	662,901	407,993	63
Financial liabilities measured at fair value through profit or loss (note 16)	311	-	-
Payables (note 17)	782,689	611,171	28
Deposits and remittances (note 18)	95,736,553	82,581,945	16
Subordinate financial debentures (note 19)	2,495,830	-	-
Accrued pension liability (note 20)	173,728	143,785	21
Other liabilities	290,382	203,170	41
Total liabilities	<u>100,142,394</u>	<u>83,948,064</u>	19
Stockholders' equity (note 21):			
Common stock	3,431,904	3,337,341	3
Capital reserve	1,511,256	1,511,202	-
Retained earnings:			
Statutory reserve	277,907	201,605	38
Undistributed earnings	60,167	256,398	(77)
	<u>338,074</u>	<u>458,003</u>	<u>(26)</u>
Equity adjustments			
Cumulative foreign currency translation adjustments	10	-	-
Unrealized gains on financial instruments	40,377	-	-
Unrecognized pension cost	(11,026)	-	-
	<u>29,361</u>	<u>-</u>	<u>-</u>
Total stockholders' equity	<u>5,310,595</u>	<u>5,306,546</u>	-
Commitments and contingencies (note 27)			
Total Liabilities and Stockholders' Equity	<u>105,452,989</u>	<u>89,254,610</u>	18

See accompanying notes to financial statements.

COTA Commercial Bank Co., Ltd.
Statements of Income
For the Years Ended Dec 31, 2006 and 2005
(Expressed in TWD thousands, except for per share data)

	2006	2005	Change of percentage
Interest income (note 25)	2,885,453	2,310,424	25
Less: interest expense (note 25)	<u>1,403,121</u>	<u>990,897</u>	42
Net interest income	1,482,332	1,319,527	12
Non-interest income, net			
Service fees income, net	357,889	390,516	(8)
Gain on financial assets or liabilities measured at fair value through profit and loss	33,020	18,565	78
Realized gain on available-for-sale financial assets	71,974	-	-
Foreign exchange gains	6,497	37,469	(83)
Losses on sale of non-performing loans	(2,864)	-	-
Other non-interest income, net	<u>54,209</u>	<u>83,282</u>	(35)
Net revenue	<u>2,003,057</u>	<u>1,849,359</u>	8
Bad debt expense (note 8)	<u>612,984</u>	<u>295,151</u>	108
Operating expense:			
Personnel expenses	853,563	816,863	4
Depreciation and amortization expenses	64,872	56,324	15
Other general and administrative expense	<u>396,385</u>	<u>374,446</u>	6
Total operating expense	<u>1,314,820</u>	<u>1,247,633</u>	5
Income from continuing operations before income taxes	75,253	306,575	(75)
Income tax expense (note 22)	<u>27,730</u>	<u>52,235</u>	(47)
Income from continuing operations	47,523	254,340	(81)
Cumulative effect of changes in accounting principle (note 3)	<u>9,211</u>	<u>-</u>	-
Net income	<u><u>56,734</u></u>	<u><u>254,340</u></u>	(78)

	2006		2005	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS (in TWD) (note 23)				
Income from continuing operations	0.22	0.14	0.92	0.76
Cumulative effect of changes in accounting principle	<u>0.03</u>	<u>0.03</u>	<u>-</u>	<u>-</u>
	<u><u>0.25</u></u>	<u><u>0.17</u></u>	<u><u>0.92</u></u>	<u><u>0.76</u></u>
Basic EPS – retroactively adjusted			<u><u>0.89</u></u>	<u><u>0.74</u></u>

See accompanying notes to financial statements.

COTA Commercial Bank Co., Ltd.
Statements of Changes in Stockholders' Equity
For the Years Ended Dec 31, 2006 and 2005
(Expressed in TWD thousands)

	Common stock	Capital reserve	Retained earnings		Cumulative foreign currency translation adjustments	Unrealized gains on financial instruments	Unrecognized pension cost	Total
			Statutory reserve	Undistributed earnings				
Balance as of January 1, 2005	3,247,406	1,493,007	129,311	242,414	-	-	-	5,112,138
Appropriation and distribution of 2004 earnings:								
Statutory reserve	-	-	72,294	(72,294)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	(5,060)	-	-	-	(5,060)
Cash dividends	-	-	-	(73,067)	-	-	-	(73,067)
Stock dividends	73,067	-	-	(73,067)	-	-	-	-
Employee profit sharing capitalized	16,868	-	-	(16,868)	-	-	-	-
Reserve for land revaluation increment tax reversed to increase capital reserve	-	18,195	-	-	-	-	-	18,195
Net income for 2005	-	-	-	254,340	-	-	-	254,340
Balance as of Dec 31, 2005	3,337,341	1,511,202	201,605	256,398	-	-	-	5,306,546
Appropriation and distribution of 2005 earnings:								
Statutory reserve	-	-	76,302	(76,302)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	(5,341)	-	-	-	(5,341)
Cash dividends	-	-	-	(76,759)	-	-	-	(76,759)
Stock dividends	76,759	-	-	(76,759)	-	-	-	-
Employee profit sharing capitalized	17,804	-	-	(17,804)	-	-	-	-
Miscellaneous overpayment by shareholders	-	54	-	-	-	-	-	54
Unrealized gains on available-for-sale financial assets	-	-	-	-	-	40,377	-	40,377
Changes in cumulative foreign currency translation adjustments	-	-	-	-	10	-	-	10
Unrecognized pension cost	-	-	-	-	-	-	(11,026)	(11,026)
Net income for 2006	-	-	-	56,734	-	-	-	56,734
Balance as of Dec 31, 2006	<u>3,431,904</u>	<u>1,511,256</u>	<u>277,907</u>	<u>60,167</u>	<u>10</u>	<u>40,377</u>	<u>(11,026)</u>	<u>5,310,595</u>

See accompanying notes to financial statements.

COTA Commercial Bank Co., Ltd.
Statements of Cash Flows
For the Years Ended Dec 31, 2006 and 2005
(Expressed in TWD thousands)

	2006	2005
Cash flows from operating activities:		
Net income	56,734	254,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,872	56,786
Provision for loan losses and other reserves	612,984	295,151
Accrued pension cost	53,362	54,531
Loss on disposal of properties, net	136	759
Increase in financial assets measured at fair value through profit or loss	(285,334)	(18,565)
Increase in financial liabilities measured at fair value through profit or loss	311	-
Provision for valuation of foreclosed properties	-	3,528
Gain on disposal of foreclosed properties, net	(7,540)	(51,597)
Loss on disposal of non-performing loans	2,864	-
Increase (decrease) in receivables	180,480	(146,469)
Decrease in deferred income tax	17,972	43,892
Increase in other assets	(15,585)	(71,058)
Increase in payables	31,702	173,219
Pension payment	(61,392)	(64,786)
Increase in other liabilities	5,015	1,700
Net cash provided by operating activities	<u>656,581</u>	<u>531,431</u>
Cash flows from investing activities:		
Increase in due from Central Bank and call loans to other banks	(2,378,362)	(3,965,166)
Increase in loans	(9,618,036)	(8,058,539)
Decrease (increase) in available-for-sale financial assets	(312,304)	509,895
Purchase of held-to-maturity financial assets	(1,097,621)	-
Decrease in bonds and bills purchased under resale agreements	786,759	2,721,375
Decrease (increase) in other financial assets	15,108	(30,000)
Purchase of property and equipment	(24,051)	(30,524)
Proceeds from sale of property and equipment	-	1,002
Proceeds from sale of foreclosed properties	20,210	311,539
Decrease in certificate of deposit-restricted	100,000	-
Increase in other assets	(42,138)	(13,612)
Net cash provided by acquiring Fengyuan Credit Cooperative (note 30)	3,592,100	-
Net cash used in investing activities	<u>(8,958,335)</u>	<u>(8,554,030)</u>
Cash flows from financing activities:		
Increase in deposits and remittances	5,347,717	9,082,682
Increase in subordinate financial debentures	2,495,830	-
Increase in other liabilities	40,029	3,224
Increase (decrease) in due to Central Bank and other banks	254,908	(61,298)
Odd lot trading to overpay	54	-
Cash dividends paid	(76,759)	(75,054)
Remuneration to directors and supervisors	(5,341)	(5,060)
Net cash provided by financing activities	<u>8,056,438</u>	<u>8,944,494</u>
Effect of exchange rate changes	<u>10</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(245,306)	921,895
Cash and cash equivalents at beginning of year	2,923,691	2,001,796
Cash and cash equivalents at end of year	<u><u>2,678,385</u></u>	<u><u>2,923,691</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<u>1,306,259</u>	<u>936,905</u>
Income tax	<u>24,935</u>	<u>19,265</u>

See accompanying notes to financial statements.

COTA Commercial Bank Co., Ltd.
Notes to Financial Statements
Dec 31, 2006 and 2005

(Expressed in TWD thousands, unless otherwise stated)

1. Organization and operations

COTA Commercial Bank Co., Ltd. (the Company) was established in 1915 as a credit cooperative. Effective Jan 1, 1999, the Company changed its status to commercial bank and its name to COTA Commercial Bank Co., Ltd. in accordance with the Company Law and the Banking Law. Pursuant to a stockholder's resolution on Sep 17, 2005 and as approved by the regulatory authorities, the Company merged Fengyuan Credit Cooperative on Jan 1, 2006. The Company has 24 domestic branches and an offshore banking unit currently.

The Company is engaged in:

- Receiving deposits, extending loans, investing in bills and bonds, processing funds remittance, acceptances and guarantees, issuing letters of credit and providing other agency business (except for issuing foreign letters of credit and providing foreign guarantees);
- Buying and selling foreign currencies and traveler's checks;
- Credit card related services;
- Trust and fiduciary services;
- Foreign exchange service as authorized by the Central Bank;
- Commercial banking business related to international trade
- As of Dec 31, 2006 and 2005, the Company employed 1,117 and 961 people, respectively.

2. Summary of Significant Accounting Policies

The accompanying financial statements were prepared in accordance with "Regulations Governing Financial Reporting for Financial Institutions", the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling and generally accepted accounting principles of the Republic of China. Significant accounting policies are summarized as below:

(a) Basis of financial statements

The financial statements include accounts of the headquarters and all branches. All inter-office account balances and transactions have been eliminated while preparing the financial statements.

As required by the Banking Law and the Rules Governing Trust and Investment Companies and for the

purpose of internal management, the Company maintains separate accounts and prepares separate sets of financial statements for its own funds and for the funds it administers on behalf of thrusters. All the entrusted assets are booked in the memo account.

(b) Foreign currency transactions

The transactions of the Company are recorded in TWD. Non-derivative foreign currency transactions of the Company are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Resultant exchange differences are included in the income statement. Commencing Jan 1, 2006, the Company adopted statement of Financial Accounting Standards No.14 (SFAS 14) "Accounting for foreign currency translation", non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange ruling at the balance sheet date. Any exchange differences resulting from fair value variation through profit and loss are included in the income statement, and exchange differences resulting from fair value variation through equity are accounted for under equity adjustments.

The assets and liabilities of offshore banking unit reported in functional currencies are translated into TWD at the exchange rates prevailing on the balance sheet date, and revenues, costs and expenses are translated at the rate of exchange prevailing on the date of the transaction. Translation differences resulting from the translation of these financial statements into TWD, net of income taxes, are recorded as foreign currency translation adjustment, a separate component of stockholders' equity.

(c) Asset impairment

Effective Jan 1, 2005, the Company adopted Statement of Financial Accounting Standards No.35 (SFAS 35) "Accounting for Asset Impairment". In accordance with SFAS 35, the recoverable amount (individual assets or cash generating units other than goodwill) of an asset is estimated and compared with the carrying amount on the balance sheet date whenever there is an indication that the asset may be impaired. An impairment loss is recognized when the recoverable amount is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior period estimation, the carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior period.

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

(d) Financial instruments

The Company has adopted SFAS No.34 “Accounting for Financial Instruments” since Jan 1, 2006. In accordance with SFAS No.34, financial instruments are categorized into financial assets measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets; financial assets carried at cost and debt investments without active market.

The Company adopted settlement date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the original recognized amount.

Financial instruments which the Company held or issued are classified into the following categories in accordance with the purpose of holding or issuing after the initial recognition:

1. Financial instruments measured at fair value through profit or loss:

Financial instruments are classified as held for trading if they are acquired or incurred principally for the purpose of selling or being repurchased in the near term. Except for the derivatives that the Company held for hedging purposes and the hedging results are considered effective, the Company’s derivatives are classified into this account.

2. Available-for-sale financial assets:

The fair value is measured and the resulting gain or loss from such measurement is recognized directly in equity. If there is objective evidence that an available-for-sale financial asset is impaired, the carrying amount of the asset is reduced and impairment loss is recognized. Impairment loss recognized in profit and loss for an investment in equity instrument classified as available-for-sale is not reversed through profit and loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previous recognized impairment loss is reversed through the profit and loss.

3. Held-to-maturity financial assets:

The amortized cost, interest income and interest expense of held-to-maturity financial assets are determined by using the effective interest rate method. If there is objective evidence that a held-to-maturity financial asset is impaired, the carrying amount of the asset is reduced and impairment loss is recognized. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previous recognized impairment loss is reversed through the profit and loss. The carrying value after the reversal should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

4. Financial assets carried at cost:

Equity instruments with no quoted market price and whose fair value that cannot be reliably measured are stated at cost. If there is objective evidence that financial assets carried at cost is impaired, the carrying amount of the assets is reduced and impairment loss is recognized. The impairment losses may not be reversed subsequently.

5. Debts investment without active market:

Debt investments not quoted in an active market are carried at amortized cost using the effective interest method. If there is objective evidence that an impairment loss has been incurred on the balance sheet date, impairment loss is recognized. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previous recognized impairment loss is reversed through the profit and loss. The carrying value after the reversal shall not exceed the amortized balance of the assets assuming no impairment loss was recognized in prior period.

Prior to Dec 31, 2005, the investments held by the Company are classified into bills or securities purchased or long-term investments based on the intention of the investments. These investments are booked at the cost originally acquired and valued at the lower of total cost or market. The market value of listed securities are determined by the average closing prices of the last month of the accounting period and the open-end fund investments is by the unit net worth on balance sheet date. The unrealized loss of long-term investment resulting from the decline in market value below cost is charged against stockholders' equity, and the unrealized loss of bills and securities purchased which resulted from the decline in market value below cost is recognized through profit and loss currently.

(e) Derivative financial instruments

As of Dec 31, 2005, foreign-currency-denominated assets and liabilities on forward exchange contracts for trading are initially recorded at forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates on settlement are credited or charged to profit or loss. For contracts outstanding as of the balance sheet dates, gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current results. On balance sheet dates, the balances of the receivables and payables under the contracts are netted out, and the resultant amount is classified either as an asset or a liability.

(f) Deposit in Central Bank

Deposit in Central Bank includes statutory deposits and certificate deposits. Statutory deposits are made according to relevant reserve regulations prescribed by the government.

(g) Repurchase and resale agreements

Investment securities with repurchase or resale agreements are accounted for using the financing method. Interest income or expenses on the trading of these securities are determined based on the difference between the cost and the price stated on repurchase or resale agreements.

(h) Allowance for loan losses

According to related regulations issued by the Ministry of Finance, the Company shall classify credit assets on and off balance sheet. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five."

The Company shall evaluate credit assets on and off balance sheet and shall allocate sufficient loan loss provision and reserves against liability on guarantees. The minimum standard for loan loss provision shall be the sum of 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

In addition, the loss provision of credit card receivables shall be the sum of 2%, 50% and 100% of the current minimum payment overdue for the periods within three months, six months, and over six months, respectively.

The write-off of non-performing loans and non-accrual loans shall be authorized by a resolution passed by the Board of Directors. The amount provided under the loan loss provision shall be used to offset, and, if such amount is insufficient, the deficiency shall be recognized as a loss in the current year.

In accordance with Business Tax Law, the Company provides 3% of operating revenue as allowance for bad debts with a view to writing off the default accounts starting July 1, 1999, and for the following years until the NPL (non-performing loan) ratio is lower than 1%.

(i) Premises and equipment

Premises and equipment are stated at cost except that certain lands have been revalued in accordance with relevant laws and regulations. Revaluation increment is recorded as an addition to the carrying amount of the land and a corresponding capital reserve is recorded after the consideration of applicable reserve for taxes. Major additions, improvement, and replacement are capitalized, while maintenance and repairs are charged to current earnings. Interests incurred in acquisition of property before they are ready for the intended use are capitalized as part of the acquisition costs.

Depreciation is provided on the straight-line method using government-announced useful lives that approximate the economic lives of the assets. Premises and equipment still in use after full depreciation may continue to be depreciated over estimated remaining useful lives. Useful lives of major premises and equipment are as follows:

Buildings and premises	11 to 60 years
Operating equipment	1 to 5 years
Transportation equipment	3 to 5 years
Miscellaneous equipment	3 to 15 years

Gain or loss on disposal of premises and equipment is recorded as other non-interest income or expenses.

(j) Assets under operating lease

Assets leased to other parties under operating lease are stated at cost. Depreciation is provided on the straight-line method and is recognized as other non-interest income or expenses.

(k) Idle assets

Idle assets are stated at the lower of historical cost or net realizable value. Depreciation is recognized as other non-interest income or expenses.

(l) Deferred charges

Capital expenditures for equipment repair and software expenses are amortized over a period of 3 to 5 years using the straight-line method.

(m) Foreclosed assets

Foreclosed assets are stated at the estimated net realizable value and are re-assessed on balance sheet date. The excess of cost over market is recognized as current loss. Under Article 76 of the Banking Law, foreclosed assets should be disposed of within four years.

(n) Goodwill

Goodwill represents the excess of costs over the net fair value of acquired tangible assets, identifiable intangible assets and liabilities of assumed in the acquisition of Fengyuan Credit Cooperative on Jan 1, 2006. Goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually in accordance with the amended SFAS No.1 “Conceptual Framework of Financial Accounting and Preparation of Financial Statement”.

(o) Subordinate financial debentures

The Company issued subordinate financial debentures at discount with a lump-sum payment at maturity, and the interest expenses are computed and recorded at face value multiplied by the stated interest rate on a monthly basis. The discount is amortized over the estimated outstanding period of bonds issuance using the straight-line method and recognized as current interest expense. The related annual fee paid is recognized as operating expense.

(p) Employee retirement plans

The Company has established a non-contributory defined benefit employee retirement plan covering all regular employees. According to the plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments and are based on the years of service and the level of pay at retirement.

The Company contributes, on the monthly basis, an amount equal to 15% of payroll of non-management employees to a pension fund maintained with Central Trust of China to cover the pension obligation for the employees. On the other hand, the Company contributes, on the monthly basis, an amount equal to 8% of payroll of management level employees to another independent fund to cover pension obligation for such employees.

Under the defined benefit plan, the Company follows ROC Statement of Financial Accounting Standards No. 18 (SFAS No. 18), "Accounting for Pensions", in accounting for its employee retirement obligation; therefore, pension costs are actuarially determined and include current service cost and amortization of transition obligation at initial adoption of SFAS No.18, and, under certain circumstances, of actuarial gains and losses. If the accumulated benefit obligation exceeds the fair value of plan assets at the balance sheet date, a minimum liability is recognized based on the actuarial report as of that date.

Starting Jul 1, 2005, the Company, in accordance with a new labor pension system prescribed by the government, contributes 6% of salaries to individual pension accounts managed by the Bureau of Labor Insurance. This new system is a defined contribution plan where the contribution amount is recognized as periodic pension cost. The new plan applies to all employees that elect for the new pension system and all employees hired after Jul 1, 2005

(q) Reserve for guarantee liability

Reserve for guarantee liability is provided by evaluating the status of guarantees outstanding and acceptances receivable at year end.

(r) Revenue recognition

Interest income is recognized under the accrual basis. Accrual of interest is suspended for overdue receivables and is not recognized until collected.

(s) Income tax

Income tax is calculated based on accounting income. Under the asset and liability approach of ROC SFAS No.22, the amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effect of taxable temporary differences is recorded as deferred tax liability. The tax effects of deductible temporary differences, operating loss carry forwards and tax credits is recognized as deferred tax assets. An allowance is provided on deferred tax assets that may not be realized in the future. Deferred income tax assets and liabilities are classified as current or non-current based on the classification of the asset or liability related to the deferred item or, for items not directly related to an asset or liability, the timing of recognition of the deferred item for income tax purposes.

According to the revised Income Tax Law that became effective Jan 1, 1998, undistributed earnings are subject to an additional 10% corporate income surtax. The surtax payable is recorded as the Company's income tax expense in the year when the earnings are resolved to be retained by the stockholders.

The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act") on January 1, 2006. The alternative minimum tax imposed under AMT Act is a supplement tax levied at a rate of 10% when the income tax payable determined pursuant to the Income Tax Law is below the minimum amount computed under the AMT Act.

(t) Commitments and contingencies

When losses from commitments and contingencies are deemed probable and the amount can be reasonably estimated, such losses are recorded currently; other commitments and contingencies are disclosed with regard to the nature and the range of possible losses, if any.

(u) Earnings per share (EPS)

Earnings per share (EPS) are computed based on the weighted-average number of common shares outstanding during the period. Retroactively computed EPS for the previous year is also presented if there is capitalization of retained earnings in current year.

3.Changes in Accounting Policies

The Company adopted Statement of Financial Accounting Standards. No.35 “Accounting for Asset Impairment” in 2005. The Company determined that there was no indication of impairment of the Company’s assets. Effective Jan 1, 2006, the Company adopted ROC SFAS No.34 “Accounting for Financial Instruments”, SFAS No. 36 “Disclosure and Presentation of Financial Instruments”, and the amended SFAS No.1 “Conceptual Framework of Financial Accounting and Preparation of Financial Statements”. In accordance with SFAS No.34, the financial assets and liabilities at the beginning of 2006 were revalued based on either fair value or net amortized cost. As the result of adoption of SFAS No.34, the revaluation differences, which were accounted for either as cumulative effect of change in accounting principle or adjustment to shareholders’ equity, amounted to TWD9,211 and TWD71,486 thousands, respectively. The reclassified financial instruments were further explained in Note 6.

4.Cash and Cash Equivalents

	Dec 31, 2006	Dec 31, 2005
Cash	1,026,763	817,881
Checks awaiting clearance	287,182	163,174
Deposits in other banks	<u>1,364,440</u>	<u>1,942,636</u>
	<u>2,678,385</u>	<u>2,923,691</u>

5.Due from Central Bank and Call Loans to Other Banks

	Dec 31, 2006	Dec 31, 2005
Deposit reserve - checking accounts	442,494	288,387
Deposit reserve - demand accounts	2,504,478	2,143,193
Deposit reserve - foreign currency deposits	1,306	657
Certificate of deposits	7,105,000	8,105,000
Call loans to banks	3,597,800	691,188
Deposits with Financial Information Service Co., Ltd.	<u>237,400</u>	<u>112,146</u>
	<u>13,888,478</u>	<u>11,340,571</u>

According to the statutory reserve requirement, the Company deposits funds with Central Bank. Deposits in checking account are interest-free and can be withdrawn without restriction; interest is accrued on demand account which cannot be withdrawn except for the monthly adjustment on the required level of reserve.

6. Financial Assets Measured at Fair Value Through Profit or Loss:

	Dec 31, 2006	Dec 31, 2005
Financial instruments held for trading purpose:		
Stock shares	111,133	158,785
Beneficiary certificates	364,936	32,050
Forward contracts	98	-
Call options	2	-
	<u>476,169</u>	<u>190,835</u>

Under SFAS No. 34, investment in securities evaluated by the lower of cost or market value amounting to TWD2,997,235 thousands as of Dec 31, 2005, shall be reclassified as the following categories in accordance with the purpose of holding: financial assets measured at fair value through profit or loss-TWD190,835 thousands; available-for-sale financial assets-TWD497,310 thousands; held-to-maturity financial assets-TWD114,480 thousands; debts investment without active market-TWD10,000 thousands and bonds and bills purchased under resale agreements-TWD2,184,610 thousands. In addition, long-term investments evaluated at cost or lower-of-cost-or-market method, amounting to TWD11,820 thousands, were reclassified as available-for-sale financial assets.

7. Receivables

	Dec 31, 2006	Dec 31, 2005
Credit card accounts receivable	922,646	1,461,027
Interest receivable	240,873	181,072
Tax refund receivable	31,128	20,418
Acceptances receivable	21,631	10,615
Forward exchanges receivable – foreign currencies	-	619
Accrued income	1,007	952
Other	33,305	29,970
	<u>1,250,590</u>	<u>1,704,673</u>
Less: allowance for loan losses	<u>(24,168)</u>	<u>(9,130)</u>
	<u>1,226,422</u>	<u>1,695,543</u>

8.Loans

	Dec 31, 2006	Dec 31, 2005
Exchanges and export bills negotiated	19,452	4,230
Overdrafts	154,558	40,166
Short-term loans	15,074,367	13,139,186
Medium-term loans	34,416,222	30,536,769
Long-term loans	29,530,163	23,083,178
Nonperforming loans	1,979,470	1,608,335
	<u>81,174,232</u>	<u>68,411,864</u>
Less: allowance for loan losses	<u>(647,798)</u>	<u>(625,903)</u>
	<u>80,526,434</u>	<u>67,785,961</u>

The movements in allowance for loan losses for the years ended Dec 31, 2006 and 2005 were as follows:

	Unrecovery risk for particular loans	Un-recovery risk for the overall loan portfolio (excluding particular loans)	Total
<u>2006</u>			
Balance at beginning of year	609,347	25,686	635,033
Current provisions	581,044	31,940	612,984
Allowance related to acquisition of the Fengyuan Credit Cooperative	55,655	-	55,655
Recoveries of loans previously charged-off	78,756	-	78,756
Loans charged-off	<u>(710,462)</u>	<u>-</u>	<u>(710,462)</u>
Balance at end of year	<u>614,340</u>	<u>57,626</u>	<u>671,966</u>
<u>2005</u>			
Balance at beginning of year	684,497	18,220	702,717
Current provisions	287,685	7,466	295,151
Recoveries of loans previously charged-off	98,799	-	98,799
Loans charged-off	<u>(461,634)</u>	<u>-</u>	<u>(461,634)</u>
Balance at end of year	<u>609,347</u>	<u>25,686</u>	<u>635,033</u>

Accrual of interest that has been suspended for nonperforming loans amounted to 1,245 and TWD1,282 thousands, respectively as of Dec 31, 2006 and 2005. In addition, the Company had not written off any loans without launching a legal action.

9. Available-for-Sale Financial Assets

	Dec 31, 2006	Dec 31, 2005
Stock	44,091	11,820
Government bonds	174,290	224,844
Corporate bonds	<u>671,320</u>	<u>272,466</u>
	<u>889,701</u>	<u>509,130</u>

10. Held-to-Maturity Financial Assets

	Dec 31, 2006	Dec 31, 2005
Government bonds	437,230	114,480
Corporate bonds	612,804	-
Negotiable certificates of time deposits	2,000	-
Short-term notes and bills	<u>167,767</u>	<u>-</u>
	<u>1,219,801</u>	<u>114,480</u>

11. Other Financial Assets

	Dec 31, 2006	Dec 31, 2005
Financial assets carried at cost	186,892	202,000
Debts investment without active market	<u>10,000</u>	<u>10,000</u>
	<u>196,892</u>	<u>212,000</u>

(a) Financial assets carried at cost:

Such assets represented the following equity investments:

Imitate	2006		2005	
	Book Value	Ownership%	Book Value	Ownership%
Bank-Union Life Insurance Agent Co., Ltd.	1,000	19.99	1,000	19.99
Taiwan Asset Management Corp.	100,000	0.57	100,000	0.57
Taiwan Financial Asset Service Corp.	50,000	2.94	50,000	2.94
Banks-Union General Insurance Agent Co., Ltd.	1,000	20.00	1,000	20.00
Bank of Panhsin - Preferred Stock	4,639	0.08	20,000	1.00
Sunny Asset Management Corporation	30,000		30,000	
Total	<u>253</u>		<u>-</u>	
	<u>186,892</u>		<u>202,000</u>	

The Company previously held the shares of Debt Instruments Depository and Clearing Co., Ltd. which was merged into Taiwan Securities Central Depository Co., Ltd. in 2006. The merged company was thereafter renamed as Taiwan Depository & Clearing Corporation (TDCC). The Company received a refund of investment amounting to 15,361 thousands as a result of re-organization of TDCC in 2006 and currently hold 230 thousand shares of TDCC.

The Company sold to Sunny Asset Management Corporation certain non-performing loans at book value of TWD3,121 thousands for TWD4 thousands in cash accompanied with Sunny Asset Management Corporation 25.3 thousand shares with a value of TWD253 thousands.

(b) Bond portfolios with no active market

	Dec 31, 2006	Dec 31, 2005
Financial debentures - Panhsin Bank	<u>10,000</u>	<u>10,000</u>

12.Premises and Equipment

(a) Cost

	Dec 31, 2006	Dec 31, 2005
Land	690,424	461,916
Buildings	572,009	476,785
Operating equipment	245,422	171,612
Transportation equipment	19,392	17,176
Miscellaneous equipment	175,995	152,048
Revaluation increment of land	<u>212,782</u>	<u>84,978</u>
	1,916,024	1,364,515
Less: accumulated depreciation	(488,112)	(346,791)
Prepayments for equipment	<u>2,116</u>	<u>-</u>
	<u>1,430,028</u>	<u>1,017,724</u>

(b) Revaluation of property

The Company revalued all the held, respectively land in 1965 and 1983. The net amount of land value increment after provision for land value increment tax is recorded as capital reserve. As of Dec 31, 2006 and 2005, such capital reserve was reflected in the financial statements as follows:

	Dec 31, 2006	Dec 31, 2005
Land value increment	130,692	91,988
Less: provision for land value increment tax	<u>(63,398)</u>	<u>(26,694)</u>
	<u>67,294</u>	<u>67,294</u>

(c) Other

Insurance coverage on the property and equipment was TWD595,479 and TWD531,029 thousands as of Dec 31, 2006 and 2005, respectively. No property or equipment was pledged as a security or lien.

13. Goodwill

Goodwill represents the excess of costs over the net fair value of acquired tangible assets, identifiable intangible assets and liabilities of assumed in the acquisition of Fengyuan Credit Cooperative on Jan 1, 2006. Goodwill acquired in a purchase business combination is not amortized amounting to TWD154,027 thousand.

14. Other Assets

	Dec 31, 2006	Dec 31, 2005
Deferred pension cost	156,154	129,207
Deferred charges	63,479	49,445
Idle assets, net of depreciation	55,904	9,790
Assets under lease, net of depreciation and impairment	782,842	709,911
Foreclosed assets, net of impairment	21,329	-
Office supplies	3,308	2,186
Prepaid expenses	119,404	102,876
Refundable deposits	67,383	156,882
Other	<u>6,330</u>	<u>9,128</u>
	<u>1,276,133</u>	<u>1,169,425</u>

15. Due to Central Bank and Other Banks

	Dec 31, 2006	Dec 31, 2005
Bank deposits	325,551	355,637
Overdrafts on banks	-	11,955
Call loans from banks	<u>337,350</u>	<u>40,401</u>
	<u>662,901</u>	<u>407,993</u>

16. Financial Liabilities Measured at Fair Value through Profit or Loss

	Dec 31, 2006	Dec 31, 2005
Forward contracts	253	-
Sell option	<u>58</u>	<u>-</u>
	<u>311</u>	<u>-</u>

17. Payables

	Dec 31, 2006	Dec 31, 2005
Interest payable	233,721	136,859
Collections payable	63,458	69,136
Checks awaiting clearance	287,182	163,174
Accrued expenses	111,687	183,690
Dividends payable	1,182	1,012
Acceptance drafts	24,760	10,615
Other	<u>60,699</u>	<u>46,685</u>
	<u>782,689</u>	<u>611,171</u>

18. Deposits and Remittances

	Dec 31, 2006	Dec 31, 2005
Checking accounts	1,481,731	1,526,176
Cashiers' checks	83,530	51,152
Check guaranteed for payment	135	135
Demand deposits	8,260,199	6,035,754
Time deposits	16,964,668	15,170,080
Postal deposits accepted	164,370	142,540
Demand savings deposits	22,987,891	19,257,497
Term savings deposits	45,770,093	40,395,537
Remittances	<u>23,936</u>	<u>3,074</u>
	<u>95,736,553</u>	<u>82,581,945</u>

The interest rates of the above deposits ranged 0.13%~2.28% and 0.20%~2.02% in 2006 and in 2005, respectively.

19. Subordinate Financial Debentures

In order to increase the capital adequacy and raise medium- and long-term operating funds, the board of directors of the Company resolved to issue subordinate financial debentures in a total amount of TWD2,500,000 thousand on Aug 12, 2005, which was approved by the authority on Sep 9, 2005. The Company issued these debentures on Mar 28, 2006, and the subscription was completed during the year. The details were as follows:

Bond	Issue conditions	Dec 31, 2006
95-1 A	10-year term, interest payable annually, annual interest rate for the first 5 years is 3.3%, and 5% for the last 5 years, maturity date: Mar 28, 2016	968,000
951- B	10-year term, interest payable annually, base on the Company's term savings deposits regular rate+0.12% for the first 5 years, and +0.25% for the last 5 years, maturity date: Mar 28, 2016	1,532,000
Less: unamortized discount		<u>(4,170)</u>
		<u>2,495,830</u>

20.Pension

The Company performed an actuarial assessment of its employee pension liability on Dec 31, 2006 and 2005, according to the original system of a defined benefit plan. The reconciliation between the funded status of the plan and accrued pension liability is as follows:

	Dec 31, 2006	Dec 31, 2005
Benefit obligation:		
Vested benefit obligation	(378,960)	(340,213)
Non-vested benefit obligation	<u>(152,848)</u>	<u>(123,741)</u>
Accumulated benefit obligation	(531,808)	(463,954)
Additional benefits based on future level of salaries	<u>(159,404)</u>	<u>(133,007)</u>
Projected benefit obligation	(691,212)	(596,961)
Fair value of plan assets	<u>358,080</u>	<u>320,169</u>
Funded status	(333,132)	(276,792)
Unrecognized loss	170,430	96,300
Unrecognized net transition obligation	156,154	165,914
Additional minimum liability	<u>(167,180)</u>	<u>(129,207)</u>
Accrued pension liabilities	<u>(173,728)</u>	<u>(143,785)</u>

The components of net periodic pension cost for 2006 and 2005 are as follows:

	2006	2005
Service cost	33,527	33,863
Interest cost	20,597	18,539
Expected return on plan assets	(8,116)	(4,191)
Amortization and deferral	<u>7,354</u>	<u>6,320</u>
Net pension cost	<u>53,362</u>	<u>54,531</u>

Actuarial assumptions for 2006 and 2005 were as follows:

	2006	2005
Discount rate	2.75%	3.5%
Rate of increase in future compensation	2.00%	2.0%
Expected long-term rate of return on plan assets	2.75%	3.5%

In addition, pension expense under the new labor pension system as a defined contribution plan of the Company amounted to TWD14,724 thousand and TWD3,698 thousand for the years ended Dec 31, 2006 and 2005, respectively.

21. Stockholders' Equity

(a) Common stock

As of Dec 31, 2006 and 2005, the Company's authorized capital were TWD6,000,000 and TWD3,337,341 thousand, with TWD10 par value, respectively. Total outstanding shares were 343,190 and 333,734 thousand, respectively.

It was resolved in the stockholders' meetings on Jun 9, 2006 and May 24, 2005 to increase capital through a capitalization of retained earnings amounting to TWD94,563 and TWD89,935 thousand, respectively. The increases had been approved by the government are throaty.

(b) Capital reserve

Capital reserve as of Dec 31, 2006 and 2005 was as follows:

	Dec 31, 2006	Dec 31, 2005
Statutory reserve and special reserve transferred in	1,061,892	1,061,892
Net revaluation increment of land	67,294	67,294
Additional paid-in capital	380,620	380,620
Other	1,450	1,396
	<u>1,511,256</u>	<u>1,511,202</u>

In accordance with the ROC Company Law, capital reserve is exclusively used for offsetting prior losses and conversion to capital, and cannot be distributed as cash dividends. According to the ROC Company Law and relevant securities exchange regulations, a capital increase using capital reserve has to be reserves arisen from issuing stock or donated assets received and cannot exceed 10% of a company's paid-in capital in any year. Capital reserve arisen from long-term equity investments cannot be used to offset prior losses or converted to capital.

(c) Statutory reserve and earnings distribution

The Company's articles of incorporation stipulate that net income should be distributed as follows:

- to pay income tax;
- to offset prior years' deficit, if any;

- to appropriate 30% as statutory reserve;
- to appropriate stockholders' regular dividends that do not exceed 10% of capital;
- to appropriate 10% as employee profit sharing.

The remaining balance is retained or appropriated based on the resolution by the Company's stockholders.

According to the Banking Law, cash dividends are limited to 15% of total capital until the balance of statutory reserve reaches the amount of capital.

The distributions of earnings for 2005 and 2004 were resolved in the stockholders meeting held on Jun 9, 2006 and May 24, 2005, respectively. The details were as follows:

	2005	2004
Dividend per share (in TWD)		
Cash	0.23	0.225
Stock	<u>0.23</u>	<u>0.225</u>
	<u>0.46</u>	<u>0.450</u>
Employees' profit sharing - stock	17,804	16,868
Directors' and supervisors' remuneration	<u>5,341</u>	<u>5,060</u>
	<u>23,145</u>	<u>21,928</u>

The proposal for the distribution of 2006 earnings has yet to be presented to the stockholders meeting. The information regarding earnings distribution will be posted on the market observation posting system after the meeting.

22. Income Tax

The Company is subject to an income tax rate of 25%. The components of income tax expense for 2006 and 2005 were summarized as follows:

	2006	2005
Current	9,758	8,343
Deferred	<u>17,972</u>	<u>43,892</u>
	<u>27,730</u>	<u>52,235</u>

The differences between 'expected' income tax expense calculated at the statutory income tax rate and the income tax expense in the accompanying financial statements were reconciled as follows:

	2006	2005
Expected income tax expense	18,813	76,644
10% surtax on undistributed earnings	138	3,235
Alternative minimum tax	6,240	-
Investment tax credits	(1,676)	(1,126)
Tax effect of tax-exempt gains from sale of marketable securities and land	(31,014)	6,417
Tax on interest income separately taxed	(131)	(881)
Under accrual of prior year's income tax	2,573	1,498
Adjustment to prior year's deferred tax assets	73,632	(1,147)
Reversal of allowance for deferred tax assets	(41,162)	(32,473)
Other adjustments	<u>317</u>	<u>68</u>
Income tax expense	<u>27,730</u>	<u>52,235</u>

Deferred income tax expense (benefit) for 2006 and 2005 were the tax consequences of the following temporary differences and credits:

	2006	2005
Unrealized gain (loss) on exchange	(9,427)	7,708
Loss carryforwards	65,094	40,827
Unrealized gain on foreclosed properties	-	26,413
Amortization of goodwill	3,850	-
Reversal of pension cost	1,155	2,564
Reversal of allowance for deferred tax assets	(41,162)	(32,473)
Other	<u>(1,538)</u>	<u>(1,147)</u>
	<u>17,972</u>	<u>43,892</u>

Deferred income tax assets and liabilities as of Dec 31, 2006 and 2005, represented the tax effects of the following temporary differences and credits:

	Dec 31, 2006	Dec 31, 2005
Accrued pension liability	-	1,155
Amortization of goodwill	(3,850)	-
Allowance for loan losses	67,052	67,052
Unrealized loss on foreclosed properties	28,310	28,310
Loss carryforwards	8,773	73,867
Investment tax credits	1,538	-
Unrealized exchange loss	1,345	-
Valuation allowance	<u>(10,500)</u>	<u>(51,662)</u>
	92,668	118,722
Unrealized exchange gains	<u>-</u>	<u>(8,082)</u>
Deferred income tax assets, net	<u>92,668</u>	<u>110,640</u>

In accordance with ROC Income Tax Law, assessed net losses can be carried forward for five years. Loss carry forwards available to the Company as of Dec 31, 2006 amounting to TWD35,091 thousand were the result of loss incurred in 2006 and will expire in 2011.

The ROC tax authorities had examined and assessed the Company's income tax returns for all years through 2003.

Imputation credit account (ICA) and creditable ratio

Beginning in 1998, the imputed income tax system was implemented by the ROC government. Under the system, the income tax paid at the corporate level can be used to offset the ROC resident stockholders' individual income tax. The Company is required to establish an Imputation Credit Account (ICA) to maintain a record of the corporate income tax paid and imputation credit it has allocated to each stockholder. The credit available to ROC resident stockholders is calculated by multiplying the dividends by the creditable ratio. The creditable ratio is calculated by dividing the balance of ICA by earnings retained since Jan 1, 1998.

Undistributed retained earnings:

	Dec 31,	
	2006	2005
Undistributed retained earning - 1998 and after	<u>60,167</u>	<u>256,398</u>
Imputation credit account (ICA)	<u>7,954</u>	<u>20,016</u>
	2006	2005
The creditable ratio on retained earnings	13.22%(Expected)	9.13%(Actual)

23. Earnings Per Share

	2006		2005	
	Before income tax	After income tax	Before income tax	After income tax
Primary earnings per share:				
Income from continuing operations	<u>75,253</u>	<u>47,523</u>	<u>306,575</u>	<u>254,340</u>
Cumulative effect of change in accounting principle	<u>9,211</u>	<u>9,211</u>	<u>-</u>	<u>-</u>
Net income	<u>84,464</u>	<u>56,734</u>	<u>306,575</u>	<u>254,340</u>
Weighted-average outstanding shares	<u>343,190</u>	<u>343,190</u>	<u>333,734</u>	<u>333,734</u>
Primary earnings per share (in dollar)	<u>0.25</u>	<u>0.17</u>	<u>0.92</u>	<u>0.76</u>
Earnings per share retroactively adjusted:				
Net income			<u>306,575</u>	<u>254,340</u>
Weighted-average outstanding shares			<u>343,190</u>	<u>343,190</u>
Primary earnings per share (in dollar)			<u>0.89</u>	<u>0.74</u>

24. Disclosure of Financial Instruments

(a) Fair value of financial instruments:

Financial instruments	Dec 31, 2006		Dec 31, 2005	
	Book value	Fair value	Book value	Fair value
Assets:				
Fair value represented by book value	99,784,953	99,784,953	86,087,258	86,087,258
Financial assets measured at fair value through profit or loss	476,169	476,169	190,835	190,835
Available-for-sale financial assets	889,701	889,701	509,130	509,130
Held-to-maturity financial assets	1,219,801	1,219,801	114,480	114,480
Other financial assets	196,892	196,892	212,000	212,000
Liabilities:				
Fair value represented by book value	97,182,143	97,182,143	83,601,109	83,601,109
Financial liabilities measured at fair value through profit or loss	311	311	-	-
Subordinate financial debentures	2,495,830	2,495,830	-	-

(b) Assumptions used to estimate the fair market value of financial instruments are categorized as follows:

- (i) Fair value of short-term financial instruments was estimated in accordance with the carrying amount. Since the expiration date of the short-term financial instrument was relatively short, its carrying value is adopted as a reasonable basis in estimating the fair value. The method was applied to cash and cash equivalents, due from the Central Bank and call loans to banks, bonds and bills purchased under resale agreements, bonds and bills sold under repurchase agreements, receivables, payables, deposits from the Central Bank and other banks, and other liquid financial assets.
- (ii) Fair value of financial assets measured at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets is determined by transaction price quoted in an active market, when available; if otherwise, valuation techniques are applied. The estimates and assumptions applied in valuation techniques are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.
- (iii) Deposits and loans are classified as interest-bearing financial assets or liabilities. Most of these financial assets and liabilities have floating interest rate, their book value are equivalent to the fair value.
- (iv) Financial assets carried at cost under the classification of other financial assets are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Because debt investments without active market have no quoted market price, its fair value is represented by its carrying value.
- (v) The subordinate debenture was financial liability with floating interest rate, their fair value equal to their carrying value.
- (vi) The Company computed the fair value of each individual forward foreign currency contracts by using the expected exchange rate at the future maturity date, and whose rate was generated from Reuters (Associated Press), a quoted pricing system.

(c) The fair value of financial assets and liabilities evaluated under the quoted market price or other valuation techniques by the Company were as follows:

	Dec 31, 2006	
	Based on quoted market prices	Determined value by using valuation techniques
Financial instruments		
Assets:		
Financial assets measured at fair value through profit or loss	476,069	100
Available-for-sale financial assets	889,701	-
Held-to-maturity financial assets	-	1,219,801
Other financial assets	-	196,892
Liabilities:		
Financial liabilities measured at fair value through profit or loss	-	311
Subordinate financial debentures	-	2,495,830

For the year ended Dec 31, 2006, gain arising from the fair value evaluation of financial instruments by using valuation techniques amounted to TWD162 thousands.

(d) Financial risk information:

(i) Market risk

The market risk refers to the fluctuation in market indicators, e.g., fluctuation in interest rate, exchange rate, stock market index and commodity price. The Company manages market risk through its risk management system and believes that the system is effective.

The Company held government bonds of fix rate that fair value changes with market rate.

The Company's foreign currency position mainly was in USD. When TWD appreciate one tenth, the Company would incur a loss of TWD2,528 thousand because of its foreign currency position on Dec 31, 2006.

(ii) Credit risk

The financial instruments acquired or issued by the Company are subject to risk of financial loss resulting from the failure of a customer or counterparty to settle their contractual obligations as and

when they fall due. The implementation and execution of credit risk management is assigned and supervised by credit operating units in order to evaluate and control the potential credit risk from various transactions

Strict credit assessment is conducted when the Company issues loan commitments, financial guarantees and letter of credits. The Company's practice is to require appropriate collaterals as necessary before granting of loans depending on the credit assessment. As of Dec 31, 2006, the ratio of secured loans to total outstanding loans granted is approximately 64.35%. Most of the collaterals provided for loans, financial guarantees and letter of credits are real estate properties, cash, marketable securities or other properties. In the event of customer defaults, the Company can forcibly execute its rights on the collaterals or rights on other guarantees to protect its creditor's right which in return, helps to minimize the Company's credit risk.

Concentration of credit risk exists when the counterparties to financial instrument transactions are individuals or groups engaged in similar activities with similar economic characteristics, which would cause their ability to meet contractual obligations to be simultaneously affected by changes in economic or other conditions. The Company implements the maximum credit limit for a customer or counterparty in various industries, enterprises and territories to avoid inappropriate concentration of risk.

■ Concentration of credit extensions:

	Dec 31, 2006	Dec 31, 2005
Credit extensions to interested parties	956,476	870,323
Ratio of credit extensions to interested parties	1.17%	1.25%
Ratio of credit extensions secured by pledges of stock shares	0.16%	0.29%

	Dec 31, 2006		Dec 31, 2005	
	Industry	Ratio	Industry	Ratio
Industry concentration (the biggest three industries of lending)	Manufacturing	6.28%	Manufacturing	8.27%
	Transportation, warehousing and communication	3.02%	Real estate and leasing	2.41%
	Constructions	2.53%	Utilities	2.38%

- The Company's contracted amounts of financial instruments with off-balance-sheet credit risks were as follows:

	Dec 31, 2006
Unused lines of credit	<u>9,697,963</u>
Credit commitment on credit cards	<u>2,952,210</u>
Guarantee on loans and unused L/C balance	<u>929,067</u>

(iii) Liquidity risk

Liquidity risk includes market liquidity risk and fund liquidity risk. Because there is an active market for the Company's holding of stock, beneficiary certificates, government bonds and corporate bonds which can be sold at fair value readily, the Company is able to manage liquidity risk effectively.

The basic principle in managing liquidity risk is to match the time-to-maturity for assets and liabilities and to monitor the duration gap. The liquidity reserve ratio for the Company was 13.06% as of Dec 31, 2006, and the operating capital of the Company is sufficient to meet cash needs for all contractual obligations. The management therefore expects that there is no liquidity risk concerning inability to raise capital to meet existing contractual obligations.

As of Dec 31, 2006, analysis for time-to-maturity of the Company's assets and liabilities was as follows: (classified into TWD and USD assets/liabilities)

	Total	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
(in thousands of TWD)						
Capital inflow	102,447,000	9,149,000	9,992,000	9,169,000	10,164,000	63,973,000
Capital outflow	114,200,000	13,914,000	10,464,000	13,664,000	30,228,000	45,930,000
Maturity gap	(11,753,000)	(4,765,000)	(472,000)	(4,495,000)	(20,064,000)	18,043,000
(in thousands of USD)						
Capital inflow	135,729	65,586	55,135	15,008	-	-
Capital outflow	135,729	91,872	32,672	7,887	3,298	-
Maturity gap	-	(26,286)	22,463	7,121	(3,298)	-

As of Dec 31, 2005, analysis for time-to-maturity of the Company's TWD assets and liabilities was as follows:

(in TWD millions)	Total	0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Asset	88,798	12,142	7,605	7,391	7,100	54,560
Liability	96,867	39,621	9,820	11,812	26,344	9,270
Maturity gap	(8,069)	(27,479)	(2,215)	(4,421)	(19,244)	45,290
Cumulative maturity gap	(8,069)	(27,479)	(29,694)	(34,115)	(53,359)	(8,069)

(iv) Cash flow risk from interest rate fluctuation

As of Dec 31, 2006, the Company's analysis of interest-sensitive assets and liabilities were as follows:

	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-sensitive assets	61,610,000	8,348,000	2,785,000	21,623,000	94,366,000
Interest-sensitive liabilities	17,598,000	44,312,000	29,483,000	4,293,000	95,686,000
Gap	44,012,000	(35,964,000)	(26,698,000)	17,330,000	(1,320,000)
Stockholders' equity					5,310,595
Ratio of interest-sensitive assets to liabilities					98.62%
Ratio of gap to stockholders' equity					(24.86%)

	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-sensitive asset	106,719	14,809	-	-	121,528
Interest-sensitive liability	80,895	7,820	3,199	-	91,914
Gap	25,824	6,989	(3,199)	-	29,614
Stockholders' equity					-
Ratio of interest-sensitive assets to liabilities					132.22%
Ratio of gap to stockholders' equity					-

As of Dec 31, 2005 the Company's analysis of interest-sensitive assets and liabilities were as follows:

Ratio of interest - sensitive assets to liabilities	80.18%
Ratio of gap to shareholder equity	(297.89%)

(v) Risk management and hedge strategies

The risk management structure of the Company takes the Board of Directors as the decision making body and the effective operation of the Company's risk management policies as the ultimate objective to optimize its earnings and return for stockholders.

Strategies and policies are continuously monitored and reviewed to ensure that all major risks in various aspects of the Company's operation are effectively managed.

25. Related-party Transactions

(a) Related parties and relationship with the Company

Parties	Relationship
Management (each individual deposit and loans not exceeding 1% of total deposits and loans)	Including directors, supervisors, managers and their spouses and immediate family members

(b) Significant transactions with related parties

(i) Loans

As of Dec 31, 2006 and 2005, loans to related parties amounted to approximately TWD128,476 and TWD104,675 thousand, respectively, representing 0.16% and 0.15% of total loans at each date. Interest resulting from such loans was 2,482 and 2,143 thousands, respectively, both representing 0.09% of total interest income for 2006 and 2005. The range of interest rates was approximately 2.11%~4.90% and 2.3%~4.69% p.a., respectively.

(ii) Deposits

As of Dec 31, 2006 and 2005, deposits from related parties were approximately TWD240,888 and TWD274,563 thousand, respectively, representing 0.25% and 0.33% of total deposits at each date. Interest resulting from such deposits was TWD4,178 and TWD3,448 thousand, respectively, representing 0.30% and 0.35% of total interest expense for 2006 and 2005. The range of interest rate was approximately 0.13%~2.28% and 0.20%~2.02%, respectively. The range of interest rate for employee demand savings deposits was approximately 9.90%~10.16% and 9.43%~9.90% p.a., respectively.

(iii) As of Dec 31, 2006 and 2005, details of loans or guarantees that involved related parties were as follows:

Classification	Dec 31, 2006		
	Accounts	Amount	Potential
Consumer loan borrowers	72	28,915	1
Employee mortgage loan borrowers	104	233,669	148
Other loan borrowers	146	693,892	None
Related parties as guarantors for loans	32	75,609	"
Related parties as providers of collateral	16	40,259	"

Classification	Dec 31, 2005		
	Accounts	Amount	Potential
Consumer loan borrowers	67	25,825	3
Employee mortgage loan borrowers	89	190,931	136
Other loan borrowers	110	653,567	None
Related parties as guarantors for loans	72	251,843	300
Related parties as providers of collateral	36	144,603	None

26. Pledged Assets

Pledged for:

Guarantee deposits for provisional actions against defaulted loans and deposit for trust business (recorded as available-for-sale financial assets and Held-to-maturity financial assets)

Deposit for remittance clearance (recorded as other financial assets)

	Dec 31, 2006	Dec 31, 2005
Guarantee deposits for provisional actions against defaulted loans and deposit for trust business (recorded as available-for-sale financial assets and Held-to-maturity financial assets)	96,200	90,100
Deposit for remittance clearance (recorded as other financial assets)	-	100,000
	96,200	190,100

27. Significant Commitment and Contingencies

As of Dec 31, 2006 and 2005, the Company's significant commitments and contingent liabilities were as follows:

	Dec 31, 2006	Dec 31, 2005
Collections received	11,057,803	9,504,331
Guarantees	953,827	1,499,642
Bonds and bills purchased under resale agreements	1,397,851	2,184,610
Traveler's checks held on consignment	87,870	81,560

In accordance with Article 17 of the Trust Enterprise Law, balance sheet and trust property under the Company's trust accounts are disclosed as follows:

Trust Assets	Dec 31, 2006		Dec 31, 2005		Balance Sheet Dec 31, 2006	
	Dec 31, 2006	Dec 31, 2005	Trust Liabilities	Dec 31, 2006	Dec 31, 2005	
Deposit in bank	1,900	-				
Investment in mutual fund	<u>1,299,099</u>	<u>568,301</u>	Fund balance	<u>1,300,999</u>	<u>568,301</u>	
Total trust assets	<u>1,300,999</u>	<u>568,301</u>	Total trust liabilities	<u>1,300,999</u>	<u>568,301</u>	

Operating leases

The Company has entered into various operating lease agreements for domestic banking premises.

As of Dec 31, 2006 the estimated rental commitments for the next five years are as follows:

Fiscal Year	Amount
2007	25,421
2008	20,630
2009	14,738
2010	8,030
2011	<u>1,920</u>
	<u>70,739</u>

28. Significant Disaster Loss: None

29. Significant Subsequent Events: None

30. Other Matters

(a) Personnel expenses, depreciation, and amortization for the years ended Dec 31, 2006 and 2005, were summarized as follows:

Function	2006			2005		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel Expenses:						
Salaries	-	725,623	725,623	-	707,389	707,389
		725,623				
Labor and health insurance	-	49,151	49,151	-	39,463	39,463
Pension	-	68,086	68,086	-	58,230	58,230
Other personnel expenses	-	10,703	10,703	-	11,781	11,781
Depreciation expenses	-	41,960	41,960	-	36,317	36,317
Amortization expenses	-	22,912	22,912	-	20,007	20,007

(b) The Company acquired the business of Fengyuan Credit Cooperative on Jan 1, 2006 by paying cash to its members, assets acquired and liabilities assumed were as follows:

Due from Central Bank	169,545
Held-to-maturity financial assets	7,700
Receivables	29,061
Loans, net	3,417,719
Available-for-sale financial assets	27,890
Foreclosed properties	33,999
Premises and equipment, net	430,349
Other assets	126,485
Payables	(139,816)
Deposits and remittances	(7,806,891)
Other liabilities	(42,168)
Subtotal	(3,746,127)
Goodwill	154,027
Net cash equivalents provided by the acquisition	<u>(3,592,100)</u>

(c) Capital Adequacy/ratio

	Dec 31, 2006	Dec 31, 2005
Capital adequacy	7,417,797	5,127,821
Total risk-weighted assets	64,959,369	54,458,360
Capital adequacy ratio	11.42%	9.42%
Tier I capital/ Total risk-weighted assets	7.83%	9.62%
Tier II capital/ Total risk-weighted assets	3.96%	0.15%
Tier III capital/ Total risk-weighted assets	-	-
Shareholders' equity/Total assets	5.03%	5.95%

(d) Average values and average interest rates of the Company's interest-bearing assets and liabilities were as follows:

	2006		2005	
	Average value	Average interest rate (%)	Average value	Average interest rate (%)
Assets				
Due from other banks	1,078,940	1.66	218,690	1.20
Call loans to other banks	1,410,827	4.99	559,503	3.48
Due from Central Bank	9,283,343	1.62	8,942,814	1.37
Investment Securities (listed securities excluded)	-	-	3,125,306	3.09
Bonds and bills purchased under resale agreements	1,417,544	1.49	-	-
Available-for-sale financial assets	967,924	2.24	-	-
Held-to-maturity financial assets	773,422	1.88	-	-
Loans	74,330,022	3.38	62,771,938	3.30
Liabilities				
Banks deposits	375,341	-	555,150	-
Call loans from banks	195,009	-	74,122	-
Subordinate financial debentures	1,910,959	3.28	-	-
Demand deposits	6,149,218	0.19	5,049,661	0.20
Demand savings deposits	20,407,391	0.60	16,886,995	0.66
Time deposits	60,943,752	1.89	53,142,216	1.57
Staff savings deposits	561,737	7.78	460,870	7.74

(e) Primary foreign currency assets

Dec 31, 2006		Dec 31, 2005	
Original currency	Equivalent TWD amount	Original currency	Equivalent TWD amount
USD	826,230	USD	789,304
JPY	13,360	EUR	14,961
EUR	12,408	JPY	4,093
NZD	1,486	NZD	3,636
CAD	1,322	AUD	1,688

(f) Asset quality

	Dec 31, 2006		Dec 31, 2005	
	Amount	Overdue loans ratio	Amount	Overdue loans ratio
Overdue loans-Type I	1,834,019	2.26%	1,473,396	2.15%
Overdue loans-Type II	558,799	0.69%	427,562	0.63%
Total overdue loans	2,392,818	2.95%	1,900,958	2.78%
Allowance for loan losses	647,797	-	625,903	-
Longs charged-off	710,462		461,634	-
Overdue loans with renegotiated repayment periods	257,930		Not applicable	
Overdue receivables with renegotiated settlement periods	7,910		Non applicable	

(g) Concentration of credit extension: please refer to note 24-(d).

(h) Information of interest sensitivity: please refer to note 24-(d).

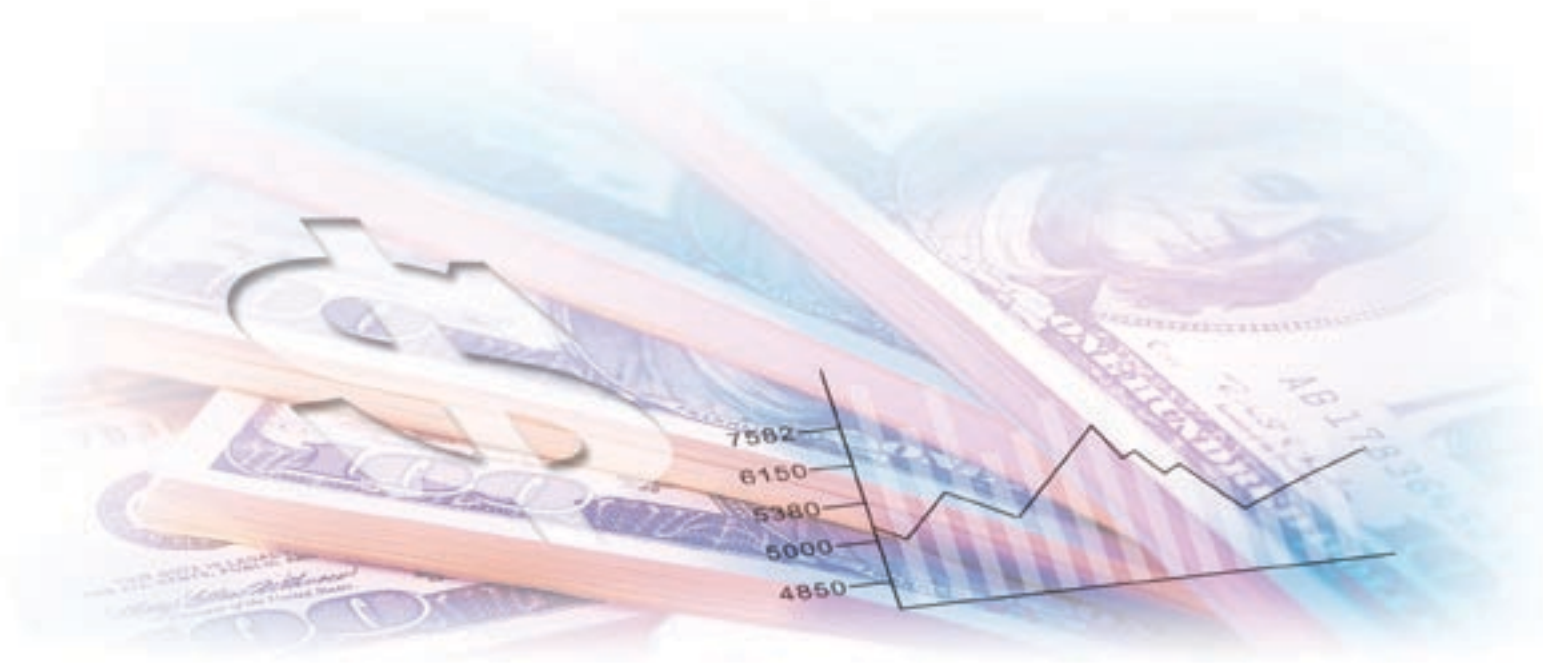
(i) Profitability

	Dec 31, 2006	Dec 31, 2005
The ratio of return before income tax on assets	0.09%	0.36%
The ratio of return on assets, net of tax	0.06%	0.30%
The ratio of return before income tax on Shareholders' equity	1.59%	5.89%
The ratio of return on shareholders' equity, net of tax	1.07%	4.88%
Net income ratio	2.83%	13.75%

(j) The maturity analysis of assets and liabilities: please refer to note 24-(d).

(k) Reclassification:

Certain accounts in the end of 2005 financial statements have been reclassified to conform to the presentations adopted in 2006. This reclassification did not have significant influence on the 2005 financial statements.



6

2006

*Financial Status Analysis,
Operation Performance Analysis,
and Risk Management*



6. Financial Status Analysis, Operation Performance Analysis, and Risk Management

6-1. Financial Status

Unit: USD thousand

Item \ Year	2006	2005	Difference	
			Amount	(%)
Total Asset	3,229,801	2,715,885	513,916	18.15
Total Liability	3,067,148	2,554,396	512,752	19.29
Total Shareholders' Equity	162,652	161,490	1,162	0.07

Note: No analysis presented due to changes less than 20%

6-2. Operation Performance

Unit: USD thousand

Item \ Year	2006	2005	Difference Amount	Increase / Decrease Ratio (%)
Operating expenses	103,674	79,029	24,645	30.46
Operating income	1,359	7,002	(5,643)	(80.72)
Non-operating income	1,386	2,453	(1,067)	(43.88)
Non-operating expenditures	157	125	32	24.53
Income before income tax	2,587	9,330	(6,743)	(72.44)
Net income	1,738	7,740	(6,002)	(77.69)

Note: Ratio Changes Disclosure

1. Operating revenues increased compared with previous year due primarily to sell the stock's profit of TACB ,dispose the profit of financial asset and increasing values of loan, meanwhile, the marketing rate is growth.
2. Operating expenses increased because the credit and cash cards delinquency shock, writing off more reserves against bad debts and merge the staff's salary of Fengyuan Credit Cooperative for promoting the quality of asset compared with previous year.
3. Non-operating income decreased, due primarily to the profit from the sale of foreclosed properties compared with previous year, on the hand, revenues of rent and dividends payable overdue 5 years transfer to revenues in this year.
4. Non-operating expenditures increased, due primarily to sale the loss of NPL (Sunny AMC) compared with previous year.

6-3. Cash Flow

1-1-1. Cash Flow Analysis

Item \ Year	2006	2005	Increase / Decrease Ratio (%)
cash flow adequacy ratio	440.41%	376.45%	16.99%
cash reinvestment ratio	7.05%	7.85%	(10.42%)

Note: No analysis presented due to changes less than 20%

6-3-2. Cash Flow Analysis for Next Year

Unit: USD thousand

Initial Cash Residual (1)	Estimated Yearly Operating Cash Flow (2)	Estimated Yearly Cash Outflow (3)	Estimated Residual Cash Amount(deficiency) (1)+(2)-(3)	Cash Deficiency Contingency Plan	
				Investment plan	Financial Management Plan
82,033	(50,175)	38,373	70,231	-	-

Note 1: COTA Bank estimate about USD50,175 thousand from cash flow from operating activities of year.

Note 2: The estimation cash inflow about USD38,373 thousands in 2006, due to decrease in cash used of deposits/loan to other banks about USD193,651 and capital expenditure and bills purchased about USD155,278

6-4. Impact of Capital Expenditure in Recent Year

6-4-1. Funding source and utilization of capital expenditure: NONE

6-4-2. Expected benefit from capital expenditure: NONE

6-5. Reinvestment Policy, Improvement Plan and Investment Plan in Next Year

6-5-1. Reinvestment Policy and Improvement Plan

Regarding new reinvestment, the authorized unit shall submit proposal to Asset and Liability and Risk Management Committee for discussion and then get approval from Standing Committee of Board. The authorized unit shall closely monitor operation and financials of invested companies and report to Asset and Liability and Risk Management Committee in timely basis to ensure investment performance. Due to the credit and cash cards delinquency shock, the NPL resulting from jobless claim and low-income compensation has increased in 2006. COTA Bank transfer these liabilities as capital totaling around USD7,749.46 to invest "Sunny Asset Management Corporation". Besides, another investment of Taiwan cooperative bank amount around 62 million shares. Among which, 4 million shares was sold at the end of 2006 because it has reached our target price.

6-5-2. Investment Plan in Next Year

In 2007, economic growth rate is expected to maintain the same level as last year. There will be a national president election in 2008; the ruling party will adopt some actions to stimulus economy. The trough of economic cycle is still moderately. COTA Bank will dynamically adjust equities and mutual fund position according to financial market change and industry situation. As for domestic bonds, the interest rate differentials between foreign and local market is high. There is still some room for local interest rate hike. COTA Bank will increase bond portfolio gradually to mitigate market risk. Also, we will continuously search good investment target for boosting investment income.

6-6. Risk Management

6-6-1. Risk Management Organization and Policy

COTA Bank does not have specific risk management department at present. The risk management policy including market risk, credit risk, liquidity risk, operation risk and legal risk are performed separately by relevant operation units. The internal auditor will review risk management, compliance and internal control policy. The auditing result will be reported and follow up on a regular basis.

The purpose of risk management is to ensure asset safety, shareholder's value and duly transaction procedure. To this end, all the trading, settlement and operation procedures should comply with the risk management policy. The safety and liquidity will be the first priority concern, then profitability, growth ability and social welfare.

6-6-2. Risk Control Measurement and Quantitative Information

6-6-2-1. General Disclosure

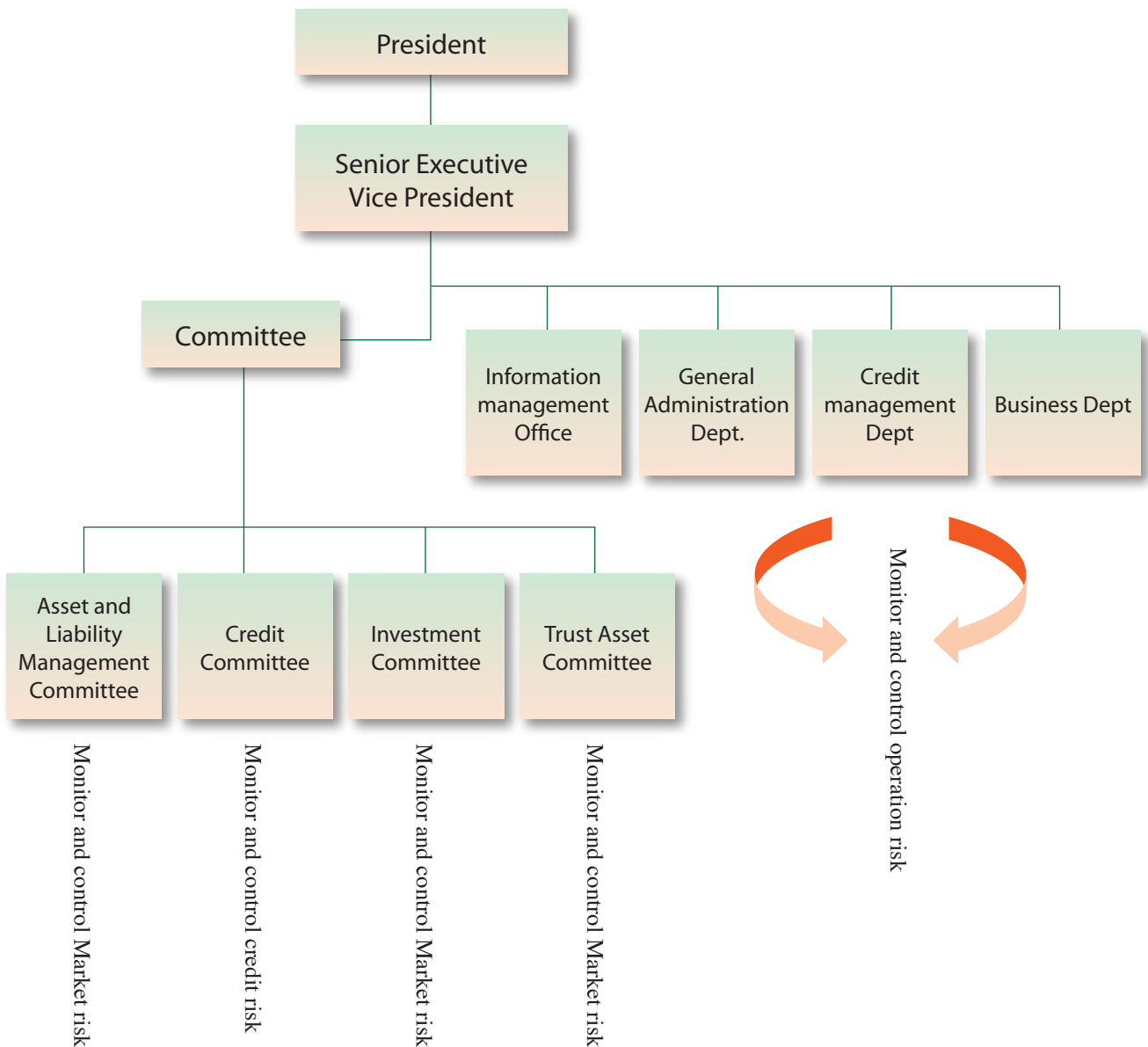
6-6-2-1-1. Policy and Procedures

We believe that a bank's success relies on a comprehensive risk control system. To strengthen the risk management system, COTA Bank establish several functional committees to set up various risk control policies including credit risk, market risk and operation risk and monitor implementation of those risk policies. The Business Line which directly executes those risk control policies are defined as BL Risk Unit. Listed below are various functional committees and relevant responsibility:

- Asset and Liability Management Committee
 - Monitor and control interest rate, FX and market risk
 - Evaluate and analyze realized or unrealized potential losses derived from items on both balance sheet and off balance sheet
 - Develop various strategies or methods to alleviate risk
- Credit Committee
 - Monitor and control credit risk and review loan project above certain exposure limit
 - Improve non-performing loan and lower down NPL ratio
 - Follow the external regulation and internal credit rules to fortify credit analysis and diversify credit exposure.
 - Set up Credit Policy to reinforce loan account management and to ensure loan asset quality.
- Investment and Trust Asset Committee
 - Monitor and control market price, interest rate, FX rate risk.
 - Set up Marketable Securities Investment Policy and relevant guidelines to enhance fund management efficiency

- According to macroeconomic environment and financial market change, set up dynamical management target and regularly assess investment portfolio to achieve effective risk control
- Trust Asset Committee evaluates market price fluctuation of trust asset on a regular basis and take prompt action to decrease or transfer risk if it is necessary.
- Business/Credit/IT/Affairs related management departments
 - Monitor and control operation risk.
 - Supervise various operation risks to avoid any loss resulted from internal procedures error, fault and mistakes of IT system and operating personnel as well as external events.

6-6-2-1-2. Risk Management Organization Chart



6-6-2-1-3. The Scope of Risk Management Report and Measurement

Currently, COTA Bank adopts standard method to measure credit risk and market risk as well as respectively required capital. For credit risk, the required capital is calculated basing on possible losses caused by counterpart default. The measurement of credit risk is to sum up the different transaction amount on/off-balance sheet weighted by specific risk factor. For market risk, the required capital is calculated basing on possible losses caused by market price fluctuation such as interest rate, FX rate and stock price change.

6-6-2-1-4. Hedge Policy and Procedure of Evaluating Hedge Effectiveness

Asset and Liability Management Committee monitor and control various market risks and develop strategies or methods to alleviate risk. Credit Review Committee review loan project via prudent credit analysis in order to avoid default risk and diversify credit exposure to ensure asset quality. Investment Committee observe macroeconomic environment and financial market change, regularly assess investment portfolio and take prompt action to decrease or transfer risk if it is necessary.

6-6-2-2. Disclosure of Credit Risk

6-6-2-2-1. On-Balance Sheet Items: Risk-weighted Asset

Unit: USD thousand as of Dec 31, 2006

Item	Risk Weight	Risk Oriented Asset
Cash, Due from Central Bank, Medium-term loan (Central Government)	0%	0
Medium-term loan(Local Government)	10%	1,525
Due from banks	20%	41,581
Medium-loan (Housing loan)	50%	565,095
Short / Medium / long-term loan (Corporate)	100%	1,310,278
Total		1,918,479

6-6-2-2-2. Off-Balance Sheet Items: Risk-weighted Asset

Unit: USD thousand as of Dec 31, 2006

Item	Risk-weighted Asset
Ordinary off-balance transactions	20,909
Financial derivative instruments	40
Re-purchase agreement (RP)	-
Re-sale agreement (RS)	2
Total	20,951

6-6-2-2-3. Status of Asset Securitization: NONE

6-6-3. Revelation of Risk-adjusted Asset Value

Unit: USD thousand as of Dec 31, 2006

Risk Category	Capital Requirement	Risk-weighted Asset
Interest rate risk	1,289	16,108
Equity risk	2,333	29,168
Foreign exchange risk	2,030	25,374
Commodity risk	-	-
Option applied simple method	-	-
Total	5,652	70,650

6-6-4. Liquidity Risk

6-6-4-1. Analysis of Maturity of Lines of Credit

According to maturity of lines of credit, the ratio of short-term loan and medium-term loan was 62.59%. In addition the ratio of secured loans was 66.17%. It is apparent that COTA Bank reduces loan risk and has good quality of assets.

Unit: USD million as of Dec 31, 2006

Assortments of Lines of Credit		Sub-total	Period & Amount to Maturity					Total
			0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year	
Short-term Loan & Overdraft	Unsecured	210	40	79	25	66	0	458
	Secured	248	35	24	61	128	0	
Medium-term Loan	Unsecured	566	11	2	4	17	532	1,055
	Secured	489	8	14	30	79	358	
Long-term Loan	Unsecured	42	0	1	0	1	40	905
	Secured	863	4	1	0	5	853	
Total		2,418	98	121	120	296	1,783	2,418

Note: Non-including non-performing loans and foreign exchange where above

6-6-4-2. Analysis of Concentration of Credit Risk:

In order to reduce the significant concentration of risk of credit extensions, COTA Bank were generally based on the credit risk diversification principle for lines of credit and industries. Analysis of lines of credit of main object and industries were as follows:

Analysis of Lines of Credit of Main Object

Unit: USD thousand

Item \ Year	Dec 31, 2006		Dec 31, 2005	
	Amount	Ratio to Outstanding of Loans (%)	Amount	Ratio to Outstanding of Loans (%)
Private Enterprises	366,983	14.76	315,094	15.14
Public Enterprises	134,763	5.42	92,118	4.43
Non-profit Organization	12,129	0.49	13,390	0.64
Government Agencies	106,738	4.29	195,922	9.42
Private Persons	1,865,574	75.04	1,464,394	70.37
Total	2,486,187	100.00	2,080,918	100.00

Note: Including non-performing loans where above.

Analysis of Lines of Credit of Private/Public Enterprises

Dec 31, 2006		Dec 31, 2005	
Category	Ratio (%)	Category	Ratio (%)
Agricultural/Forestry/Fishery/Ranch	0	Agricultural/Forestry/Fishery/Ranch	0
Mining industry & Quarry	0	Mining industry & Quarry	0
Manufacturing	6.28	Manufacturing	8.27
Water & Power	2.04	Water & Power	2.38
Construction	2.53	Construction	1.69
Whole Sale & Retail	2.07	Whole Sale & Retail	1.94
Accommodation & Repast	0.38	Accommodation & Repast	0.34
Carriage, Warehousing & Communication	3.02	Carriage, Warehousing & Communication	0.58
Banking & Insurance	0.01	Banking & Insurance	0.23
Real Estate & Leasing	2.12	Real Estate & Leasing	2.41
Society Service	1.72	Society Service	1.73

Note 1: Including non-performing loans and foreign exchange where above.

Note 2: Industries Summary of credit extension was based on "The credit extension objects and purpose analysis" of Central Bank of China (Taiwan) which came of the total credit extension ratio of the summary of public/private enterprises where above.

Analysis of Lines of Credit to Related Parties

COTA Bank shall conform to the laws when dealing with the loan business and paying attention to the movement of loans. According to analysis of lines of credit to related parties in 2006, the ratio of credit line outstanding was only 1.17%. This ratio in 2006 was less than in 2005.

Unit: USD thousand

Assortment	Year	Dec 31, 2006		Dec 31, 2005	
		Amount	Ratio to Outstanding of Loans (%)	Amount	Ratio to Outstanding of Loans (%)
Consumer Loans		888	0.04	791	0.04
Mortgage Loans for Employees		7,167	0.28	5,813	0.27
Other Transactions of Credit Lines to Affiliated Parties		21,256	0.85	19,872	0.94
Total		29,311	1.17	26,476	1.25

Note 1: Lines of credit to related parties which are in accordance with Banking Law.

Note 2: Ratio of lines of credit to related parties to total credit lines = Lines of credit (defined by Banking Law) / Total credit lines.

Note 3: Total credit lines include remittance bills, loans, discounts (include import/export negotiation), acceptance receivables and guarantee receivables.

Analysis of Credit Lines

According the analysis of lines of credit (I) TWD 1,000,001 ~ 5,000,000: 28.72% (II) under TWD 1,000,000: 25.32% (III) over TWD 500,000,001: 3.33%. The ratio under TWD 50,000,000 was 83.05%. It is apparent that COTA Bank diversifies the credit lines and assumes low risks.

Unit: USD thousand

Tier	Year	Dec 31, 2006		Dec 31, 2005	
		Amount	Ratio to Outstanding of Loans (%)	Amount	Ratio to Outstanding of Loans (%)
TWD1~1,000,000		629,525	25.32	466,981	22.44
TWD1,000,001~5,000,000		714,089	28.72	619,933	29.79
TWD5,000,001~10,000,000		276,876	11.14	211,503	10.16
TWD10,000,001~50,000,000		444,227	17.87	351,948	16.91
TWD50,000,001~100,000,000		146,003	5.87	105,234	5.06
TWD100,000,001~500,000,000		192,772	7.75	218,807	10.52
Over TWD500,000,001		82,695	3.33	106,512	5.12
Total		2,486,187	100.00	2,080,918	100.00

Note: Including non-performing loans and foreign exchange where above.

Analysis of Collateral Assortments

According the analysis of collateral assortments (I) collateral as immovable: 56.99% (II) non-collateral: 33.22% (III) collateral as stocks: 0.16%. Over 50% was collateral as immovable and collateral as moveable. Compared with the end of 2005, the ratio of non-collateral at the end of 2006 was decrease of 16.07%. It is apparent that COTA Bank is conservative and keeps in moderation, and assumes lower risks.

Unit: USD thousand

Assortment \ Year	Dec 31, 2006		Dec 31, 2005	
	Amount	Ratio to Outstanding of Loans (%)	Amount	Ratio to Outstanding of Loans (%)
Non-collateral	825,911	33.22	823,554	39.58
Collateral as Stocks	4,043	0.16	6,147	0.29
Collateral as Certificate of deposits	14,763	0.60	18,807	0.90
Collateral as Immoveable - Land	264,594	10.64	167,285	8.04
Collateral as Immoveable - Building & Land	1,152,282	46.35	927,998	44.60
Collateral as Moveable Property	205,605	8.27	127,693	6.14
Checks Receivable	11,210	0.45	9,434	0.45
Guarantee	7,779	0.31	0	0
Others	0	0	0	0
Total	2,486,187	100.00	2,080,918	100.00

Note: Including non-performing loans and foreign exchange where above.

6-6-4-3. Liquidity Risk Management

In order to maintain adequate liquidity, COTA Bank makes legal reserve and liquidity reserve according to Central Bank's regulation and furthermore closely monitors the impact of liquidity gap on banking operation. COTA Bank's liquidity is healthy as evidenced by its current ratio of 10.54%, higher than regulator's minimum requirement of 7%. Besides, with the purpose of preventing liquidity risk, COTA Bank set up liquidity risk indicator. Prompt and following necessary actions could be duly performed when the indicator is close to warning-level to avoid liquidity problem.

- A. Borrowing short-term loans: call loans due to bank, RP, due to central bank, discount
- B. Issuing NCD or bank debentures
- C. Increasing deposits by adjusting interest rate of deposits or inter-branch accounts
- D. Sell short-term investments not including in liquidity reserves
- E. Suspend increasing new loans or deferring matured liability
- F. Sell loan assets

To deal with fluctuating macro-economic environment and financial market, COTA Bank establishes Asset and Liability and Risk Management Committee to dynamically adjust business strategy and asset/liability structure

for achieving efficient cash management. To this end, COTA Bank utilized various ratios such as loan to deposit ratio, current asset to total asset ratio, current asset to total deposit ratio and maturity tenor analysis to measure bank's liquidity level.

6-6-4-4. Maturity Analysis of Assets and Liabilities

In order to achieve operation goal, the utmost strategy of asset management is to balance the relationship between rate of return and security and to focus on liquidity. Most of asset in COTA Bank is extension of credit including medium-term loan and long-term loan. Most of liability is time deposit. The liquid gap in COTA Bank under one year is negative. It means the value of short-term loan is more than liquidity asset. On the other hand, the liquid gap over one year is positive because the value of medium-term and long-term is smaller than non-liquid asset. Including TWD10 billions of commitment credit line accumulated gap for each period is around negative TWD22.1billions. The percentage of time deposit rollover is 80. The percentage of change in liquid asset balance is below twenty. It can cover the gap of liability gap less than one year. Because assets and liabilities management in a short term is active and the liquidity of our cash flow is good, COTA Bank uses surplus cash flow to invest re-sell agreements. Goodwill is the usual resource of long-term cash flow in COTA Bank.

Asset and Liability Due Date Analysis- Local Currency

Unit: TWD million and as of Dec 31, 2006

Item	Total	Amount Due To Date of Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More than 1 Year
Asset	102,447	9,149	9,992	9,169	10,164	63,973
Liability	114,200	13,914	10,464	13,664	30,228	45,930
Gap	(11,753)	(4,765)	(472)	(4,495)	(20,064)	18,043

Note: Foreign currency not included

Asset and Liability Due Date Analysis- Foreign Currency

Unit: USD thousand as of Dec 31, 2006

Item	Total	Amount Due To Date of Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More than 1 Year
Asset	135,729	65,586	55,135	15,008	0	0
Liability	135,729	91,872	32,672	7,887	3,298	0
Gap	0	(26,286)	22,463	7,121	(3,298)	0
Accumulative Gap	0	(26,286)	(3,823)	3,298	0	0

Note: All currencies exchange into US Dollars

6-7. Major Guidelines for Unforeseeable Events Handling

6-7-1. Purpose

To prevent the Bank from or reduce damage of unforeseeable events, a guideline of contingency plan is set up to obtain prompt recovery.

6-7-2. Organization

- Contingency task force is organized to handle unforeseeable events. President is the chief convener of this task force.
- Auditing Office is processed as a report center of unforeseeable events.
- Chief Auditor is designed to be emergency contact person of head office; branch general manager is designed to be emergency contact person of branches.

6-7-3. Process

Emergency contact person should immediately report the situation and processing flow of unforeseeable events to head office report center.

Head office report center should conduct

- a. Report to the convener of contingency task force.
- b. Recall related offices to draw contingency plan to process unforeseeable event.
- c. Report to the authorities concerned.

6-8. Other Significant Items: NONE



7

2006

Corporate Governance



7. Corporate Governance

7-1. Status of COTA Bank’s corporate governance and comparison with “The Principles of Corporate Governance” of banking

As of Dec 31, 2006

Item	Status of Operation	Differences from General Guideline of Banking and Reasons
<p>I. Bank’s equity structure and shareholder’s right</p> <p>(1) Method to deal with suggestion of shareholder or argument.</p> <p>(2) Status of controlling the roster of major shareholders who own a relatively high percentage of shares and who have an actual control over the company, and of the ultimate controllers of those major shareholders.</p> <p>(3) Establishment of the firewalls and risk control with affiliated enterprises</p>	<p>(1) To entrust the appropriate corporate departments to handle matters pursuant to shareholder’s suggestion immediately. Protected shareholder’s equity. Justly dealing shareholder Court case accusation.</p> <p>(2) Trace the roster of major shareholders monthly.</p> <p>(3) No affiliated enterprise.</p>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) Could not be compared</p>
<p>II. The composition and duty of board of directors</p> <p>(1) Establishment of Independent director.</p> <p>(2) Status of regular evaluation of the independence of the auditing CPA.</p>	<p>(1) Have not implemented. (15 directors)</p> <p>(2) Annual assessment.</p>	<p>(1) Difference; have not implemented.</p> <p>(2) No difference</p>
<p>III. The composition and duty of board of directors</p> <p>(1) Establishment of independent supervisor.</p> <p>(2) Status of communication among supervisors, shareholder and staff of the bank</p>	<p>(1) Have not implemented. (5 supervisors)</p> <p>(2) Supervisors may investigate the operational and financial condition of the Bank from time to time, and set up the directory of members for easy communicate.</p>	<p>(1) Difference; have not implemented.</p> <p>(2) No difference</p>
<p>IV. Status of communication with relative party.</p>	<p>Easy communication channels go by face to face/telephone/written/Internet.</p>	<p>No difference</p>
<p>V. Public disclosure of information</p> <p>(1) Set up website to disclosure financial report and corporate governance information.</p> <p>(2) Other method of public disclosure of information adopted (ex. provide English versions of information website, appoint personnel exclusively responsible for gathering and disclosing information, and establish a spokesperson system, process of conference call record in website.)</p>	<p>(1) www.cotabank.com.tw as our website to disclosure financial report.</p> <p>(2) Designed Senior executive vice as spokesperson represented the Bank in public issues. Accounting Office is responsible for collecting and disclosure the information.</p>	<p>(1) Partial difference; have not including corporate governance information.</p> <p>(2) No difference</p>

VI. Status of set up committees with various functions likes Audit Committee.	Have not implemented	Difference; have not implemented.
VII. Please describe any difference between corporate governance with “The Principles of Corporate Governance”. Partial guidelines have not implemented.		
VIII. Please describe the social responsibility measure and implement situation: Advocates the human rights law spirit. According to labor standard law protect the staff rights and establishes the staff fraternity, provides the staff welfare. Responds the government environmental protection policy. Continues to participate in support society public welfare, academic culture and community concern activity and so on, Besides donates establishes three credit cooperative educational foundation implement the public welfare activity, insist on “Taken from the society, Benefit of community” the business spirit. For instance, assistance the children creative drawing competition in the Taichung, the car free day in Taichung, intercontinental cup baseball invitational tournament activity and so on.		
IX. Other information regarding corporate governance. (Members of the board of directors and supervisors participate in training courses, meeting record of Supervisors’ and directors’ attendance, policy of risk management and the status of standard of risk measurement, consumers protection and the policy of relationship management, the rights of and relationships between interested persons voluntarily refuse, contracted for the independent directors and independent supervisors of duty insurance.): 1. Members of the board of directors and supervisors participate in training courses: Since June,2005, after board of directors meeting, Taiwan Securities and Futures Institute have arranged 18-hr administration courses for us. Also, they inform directors and supervisors of any related information. 2. Meeting record of supervisors’ and directors’ attendance: Besides extraordinary board meetings, we convene a quadrate conference every three months and invite supervisors to attend as observers. 3. The policy of risk management and standard of risk management: We obey rules of government and BIS to make policies of risk management to ensure our safety of administration and achievements. 4. Consumer’s protection and the policy of corporate governance: Abided by standard of government of the Bank Association, we set up rules to follow the contract and provide complaint phone line and e-mail box to protect and satisfy consumers. 5. The rights of and relationships between interested persons voluntarily refuse: Members of the board of directors should refuse to vote on interested persons. 6. Contracted for the independent directors and independent supervisors of duty insurance: We haven’t bought duty insurance.		

Note 1: Members of the board of directors and supervisors participate in training courses, please refer to “Sample for the rules of directors and supervisors on TSE or OTC participate in training courses” promulgated by TAIWAN STOCK EXCHANGE CORPORATION.

Note 2: Statement should include the policy of risk management, standard of risk measurement, consumer’s protection and the policy of corporate governance.

7-2. Information on the certified public accountant

7-2-1. Information on the professional fees of the certified public accountant

7-2-1-1 Non-auditing services account for a proportion equal to one-quarter or more of the fees paid for auditing: None

7-2-1-2 Whether the issuer changes its accounting firm and the amount of fees paid for auditing services during the year in which the change is made are lower than for the previous year: None

7-2-1-3 Whether the amount of fees paid for auditing services is lower than for the previous year by fifteen percent or more: None

7-2-2 Information on replacement of certified public accountant: None

7-2-3 Where the bank's chairman, president, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None





8

2006

The Particular Notes



8. The Particular Notes

8-1. Data of Affiliated Firms: NONE

8-2. Implementation of the Internal Control System

8-2-1. We have conduct self-evaluation on the effectiveness of the design and execution of our internal control system pursuit to obey the regulation of internal control and auditing promulgated by the competent authority.

8-2-2. For year 2006, the internal control system has performed effectively without major deficit.

8-3. Cases or Penalties due to infliction of Laws and Regulations over the Past Two Years: NONE

8-4. Records of Directors or Supervisors Held Different Opinions for Important Resolutions in the Recent Year: NONE

8-5. The Conditions of Private Securities Place in the Recent Year: NONE

8-6. The Conditions of Subsidiaries hold or Disposal the Stock of COTA Bank in the Recent Year: NONE

8-7. Major Resolutions of Shareholders Meeting or Board of Directors Meeting in Recent Year:

Year	2004	2005	2005	2006
Nature of Shareholders Meeting	Shareholders' General Meeting	Shareholders' General Meeting	Shareholders' Extraordinary Meeting	Shareholders' Extraordinary Meeting
Convoking Date	May 07, 2004	May 24, 2005	Sep 17, 2005	Jun 09,2006
Major Resolutions	<ul style="list-style-type: none"> ■2003 surplus earnings increment to issue the new stocks assignment ■Standing rules revised 	<ul style="list-style-type: none"> ■2004 surplus earnings increment and employee bonus to issue the new stocks assignment ■Standing rules revised ■Reelection of directors and supervisors 	<ul style="list-style-type: none"> ■Acquired the business operation and balance of Fengyuan Credit Cooperative ■Release the directors from non-competition restrictions. 	<ul style="list-style-type: none"> ■2005 surplus earnings increment and employee bonus to issue the new stocks assignment ■Standing rules revised ■Release the directors from non-competition restrictions.

8-8. Other: None

Statement of Internal Control

Feb. 12, 2007

On behalf of the COTA Commercial Bank, we declare that during the period of Jan 1, 2006 through Dec 31, 2005 the Bank of COTA Commercial Bank did conform to the provisions of the "Guidelines for the establishment of internal control and internal audit systems" by establishing an internal controls system and undertaking risk management, and by having auditing carried out by an impartial and independent auditing unit, with reports submitted on a regular basis to the Board of Directors and Supervisors. Careful assessment shows that with the exception of items listed in the attached chart, the internal control systems of and compliance with laws and regulations by the different units were all implemented effectively. This statement form part of the annual report and publicly disclosed. We understand that we are legally bound to SEC ordinance no.20, 32, 171 and 174.

Attested by

Chairman : Chun-Tse Liao

President : Ying-Che Chang

**Compliance Officer : Yi-Hsiung Lai
and Chief Auditor**

Items for Improvement and Plan Table of Internal control

As of Dec 31, 2006

Items for Improvement	Improvement Measure	Target Date
<p>1. Constant minimizing the ratios of NPL, expected the ratios to be less than 2.5%.</p>	<ol style="list-style-type: none"> 1. NPL Management Center should actively superintend all branches to dun the overdue in haste. 2. Strengthen credit preview and afterward management, training ability of credit review and preventing occurrence of overdue loans. 3. Align credit review policies and develop diversified loan products, example as form SME Banking Center to enhance SME loan and finance management. 4. Set up internal auditing procedures in line with new launched business. Firmly carry out internal auditing. 5. Disperse risk and increase loan outstanding to lower the ratios of NPL. 	<p>1. Launch active write-off to reach the general banking standards according to the plan of NPL management.</p>
<p>Prepared to set up Tainan and Kaohsiung Branch. The appraisal migration original branches to North megalopolis. Expand business scale to over TWD 130 billion.</p>	<ol style="list-style-type: none"> 1. Expand and move the branches to outer county city to diversified regional risk. 2. Consider interest rate risk, control interest rate pricing policy and floating funds. 3. Enhance training of the wealth management and account officer to expand new business and reduce risk of operation. 4. Strengthen internal culture integration, quality of services and ceremonial training. 5. Keep providing auditing training courses for personnel and strengthen concept of internal control and relative law. 	<p>Carefully execute in the new business year.</p>

Chronological Highlights

1999.01.01	COTA Commercial Bank Co., Ltd. Officially inaugurated business services.
1999.01.02	Mr. Liao Chun-Tse, Mr. Yen Chun-chi, Mr. Lin Ping-Chih, Mr. Yang Chao-Hui and Mr. Wu Wen-Hua were elected the managing directors in the first board of directors meeting of the first session, Mr. Liao Chun-Tse elected the chairman and Mr. Wang Chun-chuan appointed the General Manager.
1999.01.03	Started up foreign exchange services with trading of USD, JPY, HKD in cash and traveler checks.
1999.01.14	Held a press conference for COTA Bank's officially opening.
1999.01.15	Hosted COTA Commercial Bank grand opening cocktail party.
1999.02.05	Started up comprehensive deposit services.
1999.03.16	Totally replaced stock certificates of Taichung Third Credit Cooperative into common share certificates of COTA Commercial Bank Co., Ltd.
1999.03.25	Donated the TWD54.2 million Taichung Third Credit Cooperative public welfare fund to COTA Cultural & Educational Foundation in full, and duly elected directors and supervisors of the Foundation.
1999.03.25	Started up guarantee services
1999.04.14	Relocated head office, approved by Ministry of Finance under doc. no. Tai-Tsai-Jung 88112588, to 32~1 Park Avenue, Taichung on Jul 1.
1999.05.05	Held preparatory meeting for COTA Cultural & Educational Foundation.
1999.05.25	Held the member representative banquet for Taichung Third Credit Cooperative.
1999.06.10	Signed a contract to team up with Shanghai Commercial Savings Bank to jointly promote foreign exchange services
1999.07.28	allied with Bank of Panhsin, Yanghsin Commercial Bank, Hua Tai Commercial Bank and Kaohsin Commercial Bank to jointly set up "Financial Development Alliance"
1999.09.03	Set up three additional branches, Zhanghua Branch, Yuanlin Branch and Fengyuan Branch as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung-Tze 88744410.
1999.09.17	Director and General Manager Wang Chun-chuan resigned from the concurrent post of General Manager.
1999.11.29	The board of directors appointed Mr. Chang Ying-Che as the General Manager in its 6 th extraordinary meeting of the first session.
2000.01.01	General manager Chang Ying-Che inaugurated
2000.01.01	Passed the Y2K testing
2000.04.26	Set up Fengyuan Branch
2000.05.10	Held 2000 shareholders' general meeting.
2000.05.19	Set up Zhanghua Branch.
2000.07.07	Set up Yuanlin Branch.
2000.10.21	Chairman, MR. Liao Chun-Tse, was conferred an Outstanding Enterprise Leader and honorary administrator of Committee on Outstanding Enterprise Manager.
2000.11.01	Chairman, MR. Liao Chun-Tse, was conferred an award of Golden Merchant
2000.11.03	Wenhsin Branch spin into two mini branches as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung 89759294.
2001.01.05	Started business for Credit card.
2001.04.02	Set up Wenhsin Mini Branch and Beitun Mini Branch.
2001.04.12	Beitun Branch moved to Shalu Town, Taichung country and renamed as Shalu Branch.
2001.05.28	Savings Dept. renamed Taichung Branch as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung 90192708.
2001.06.01	Started business of insurance agency.
2001.06.19	Held 2001 shareholders' general meeting and elected second session directors and supervisors.
2001.06.21	Started Trust business as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung (3)-Tze 90746774.
2001.07.17	Started Internet banking services as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung- (3)-Tze 90234040.
2001.07.25	Special Assistant Lai Te-Chiang retired.
2001.08.01	Established Taipei Branch as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung (3) 90303504.
2001.08.23	Stared Internet Banking services.
2001.09.17	Senior executive vice president Wang Lien-Kuei retired.

2001.09.24	Savings Dept. renamed Taichung Branch.
2001.09.24	Business of Corporate Banking centralized.
2001.09.28	Added Hsinchu city and Hsinchu Hsien to be business area as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung (3) 90721973.
2001.10.26	COTA Bank was rated by Taiwan Ratings co.
2001.11.09	Yuanlin Branch was achieved TWD1 billion for business of loan.
2001.12.10	Supervisor Mr. Lai Su-Lang passed away.
2001.12.31	Senior executive vice president Chiang Po-ling retired, Chief auditor Lin Tien-Hsiang retired.
2002.01.01	Mr. Liao Chun-Tse, Mr. Wang Chun-chuan, Mr. Wu Wen-Hua, Mr. Chiang Po-ling and Mr. Lin Ping-Chih were elected as managing directors in the board of directors meeting. Mr. Liao Chun-Tse elected as the chairman.
2002.02.01	Set up Consumer Banking center and NPL Management center.
2002.02.01	Credit Card center was combined into Consumer Banking center.
2002.03.11	Set up Taipei Branch.
2002.03.11	Chairman, MR. Liao Chun-Tse, was conferred an honorary consultant of The Republic of Honduras Honduras consulate general Taipei office.
2002.04.01	Started car loans by Consumer banking center.
2002.05.09	Held 2002 shareholders' general meeting.
2002.06.27	Added Taoyuan hsien to be business area as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung- (3)-Tze 0913000230.
2002.08.12	Chairman, MR. Liao Chun-Tse, was conferred an Outstanding Businessman in the 3rd session.
2002.09.01	Started index-linked home loan services
2002.09.16	Started Cash card services by Consumer Banking center.
2002.10.02	Started Trust business.
2003.02.17	Zhongzheng Branch moved to Taoyuan city and renamed Taohyuan Branch, Wenhsin Mini Branch moved to old Zhongzheng Branch address and renamed Zhongzheng Mini Branch as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung- (3)-Tze 0920005698.
2003.02.19	Started phone selling by Trust Dept.
2003.04.18	General Manager, MR. Chang Ying-Che, was conferred an Outstanding Enterprise Manager.
2003.04.21	Zhongzheng Mini Branch reopened for business.
2003.05.06	Held 2003 shareholders' general meeting.
2003.05.31	Director Lin Ping-Chih demised.
2003.06.19	Standing Supervisor Lin Chia-Chu passed away.
2003.07.25	Set up Taoyuan Branch.
2003.09.16	Added Taipei and Taipei hsien to be business area as approved by Ministry of Finance under doc. no. Tai-Tsai-Jung- (3)-Tze 0920033399.
2003.10.20	Director Liao Chun-Chao passed away.
2003.11.21	COTA Bank was rated by Taiwan Ratings co.
2003.12.08	Started offset interest-free home loans.
2003.12.20	Held ocean concert in highway rest-station of Qingshui.
2003.12.26	COTA Bank was selected as the director of Taiwan cooperative bank.
2003.12.31	The profit in business of insurance agency was achieved TWD10 million.
2004.01.01	Started up chip ATM card services.
2004.01.14	Launched credit card consuming statement on-line enquiry service in Internet banking.
2004.01.15	Launched re-circulating ATM.
2004.02.16	Launched broadband transmission intra bank network.
2004.05.04	Provided personnel training for account officer.
2004.05.07	Held 2004 shareholders' general meeting.
2004.07.01	Established consultants of wealth management.
2004.07.05	Renewed core computer systems.
2004.07.06	Added Taipei city as business area as approved by FSC under doc. no. (3)0930022905.



2004.07.15	Set up the day as the base day for COTA Bank 2003 fiscal year surplus earnings increment to issue the new stocks assignment.
2004.07.27	Relocated Shalu branch to Panchiao branch as approved by FSC under doc. no. (3)0930023291.
2004.08.01	Senior executive vice president Huang Mu-Chuan retired.
2004.09.01	Centralized collateral re-pricing to Credit Management Dept. Set up on-line newsletter service operation system.
2004.10.01	Launched TAIEX Index Fund Transaction System by Trust Dept.
2004.10.26	The latest credit rating of COTA Bank was issued by Moody's Investors Service: Long term rating of banking deposit is from Baa2.tw to A3.tw; Short term rating of banking deposit as tw-2.
2004.11.04	The 58 th Financial Commerce Champion was made award to General Manager Chang Ying-Che.
2004.11.09	Director Wu Wen-Hua relieved the responsibility.
2004.11.11	Panchiao branch opened
2004.11.24	FSC approved COTA Bank to set up International Banking Department.
2004.12.22	The latest credit rating of COTA Bank was issued by Taiwan Ratings Company: Long term rating of liabilities is from twBB+ to twBBB+ Short term rating of liabilities is from twB to twA-2 Prospect for rating is stable
2004.12.30	All ATMs, matched with the next generation chip ATM card specification, were completed changing.
2005.03.16	Established International Banking Department
2005.05.06	Issued century anniversary chip credit card of Taichung train station.
2005.05.24	Held 2005 shareholders' general meeting and elected 3rd session directors and supervisors
2005.05.25	Mr. Liao Chun-Tse, Mr. Hang Mu-Chuan, Mr. Wang Chun-Chuan, Mr. Hsieh Tung-Po, Mr. Li Yao-Ting were elected as the managing directors in the board of directors. Mr. Liao Chun-Tse was elected as the chairman
2005.09.09	Issued subordinated bank debenture for TWD2.5 billion as approved by FSC under doc. no. (3)0940024574
2005.09.17	Held 2005 shareholders' extraordinary meeting and approved to acquired Fengyuan Credit Cooperative
2005.11.04	Joint as member of SMEG (Small and Medium Business Credit Guarantee Fund)
2005.11.17	Acquired Fengyuan Credit Cooperative as approved by FSC under doc. no. (3)0943001682.
2005.12.12	Relocated Credit Card Center to 339, Dazhi Road., Taichung City.
2005.12.27	The latest credit rating of COTA Bank was issued by Taiwan Ratings Company : Long term rating of liabilities is "twBBB+" Short term rating of liabilities is "twA-2" Prospect for rating was stable
2006.01.01	The effective day of Fengyuan Credit Cooperative merged into COTA Bank. Added six branches: Fengxin branch, Zhongshan branch, Fengle branch, Fengdong branch, Shiqian branch and Sanmin branch.
2006.01.03	Launched Electronic Official Document System
2006.01.03	Six Branches in Fengyuan started up foreign exchange services in cash and traveler checks.
2006.04.01	Established North Area Office of Credit Management Dept.
2006.06.09	Held 2006 shareholder' general meeting.
2006.06.14	FSC approved COTA Bank to set up wealth management banking business.
2006.07.01	Established Wealth Management Center.
2006.07.06	FSC approved COTA Bank to set up OBU.
2006.09.22	Trusts Dept .moved to 2F. No.339, Dajhih Rd., East District, Taichung City 401, Taiwan
2006.12.08	The latest credit rating of COTA was issued by Taiwan Ratings Company: Long term rating of liabilities is twBBB+ Short term rating of liabilities is twA-2 Prospect for rating is stable

Head Office and Branches

Unit	Address	TEL	FAX
Head Office	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245171	886-4-22275237
Trust Dept.	2F., .339, Dazhi Road., East District, Taichung City 401, Taiwan	886-4-22807366	886-4-22809021
International Banking Dept.	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Offshore Banking Branch	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Consumer Banking Center	10F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22384596	886-4-22384591
SME Banking Center	11F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22370028	886-4-22372595
Wealth Management Center	2F., .339, Dazhi Road., East District, Taichung City 401, Taiwan	886-4-22800361	886-4-22809747
Credit Card Center	2F., .339, Dazhi Road., East District, Taichung City 401, Taiwan	886-4-22805288	886-4-22805099
Taichung Branch	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245161	886-4-22234491
Banking Dept.	32-1 Gongyuan Road, Central District, Taichung City 400, Taiwan	886-4-22211186	886-4-22229536
Zhongzheng Mini Branch	330 Zhongzheng Road, Central District, Taichung City 400, Taiwan	886-4-22241115	886-4-22229359
Chenggong Branch	580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22304100	886-4-22304701
Xitun Branch	458 Sec. 2, Henan Road, Xitun District, Taichung City 407, Taiwan	886-4-27062968	886-4-27063816
Guoguang Branch	333 Sec. 3, Fusing Road, South District, Taichung City 402, Taiwan	886-4-22245111	886-4-22229281
Dazhi Branch	339 Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22815998	886-4-22815977
Linsen Branch	99 Linsen Road, West District, Taichung City 403, Taiwan	886-4-23725151	886-4-23723024
Nanmen Branch	75 Nanmen Road, South District, Taichung City 402, Taiwan	886-4-22871146	886-4-22862412
Jinhua Branch	255 Jinhua North Road, North District, Taichung City 404, Taiwan	886-4-22333550	886-4-22335164
Nantun Branch	410 Nantun Road, Nantun District, Taichung City 408, Taiwan	886-4-24718500	886-4-24758522
Beitun Mini Branch	751 Sec. 4, Wunsin Road, Beitun District, Taichung City 406, Taiwan	886-4-22426565	886-4-22417153
Fengyuan Branch	214 Yuanhuan E. Road, Fengyuan City, Taichung County 420, Taiwan	886-4-25151788	886-4-25151895
Zhanghua Branch	181 Sec. 2, Zhongzheng Road, Zhanghua City, Zhanghua County 520, Taiwan	886-4-7298686	886-4-7298585
Yuanlin Branch	189 Sec. 1, Datong Road, Yuanlin Town, Zhanghua County 510, Taiwan	886-4-8383888	886-4-8383666
Taipei Branch	246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87512588	886-2-87512788
Taoyuan Branch	9 Sec. 2, Chenggong Road, Taoyuan City, Taoyuan County 330, Taiwan	886-3-3470505	886-3-3357373
Panchiao Branch	260 Minzu Road, Panchiao City, Taipei County 220, Taiwan	886-2-89536001	886-2-89536011
Fengxin Branch	151, Zhongzheng Road., Fengyuan City, Taichung County 420, Taiwan	886-4-25224281	886-4-25269539
Sanmin Branch	58, Zhongxiao Street., Fengyuan City, Taichung County 420, Taiwan	886-4-25234894	886-4-25269559
Shiqian Branch	353, Zhongshan Rd., Fengyuan City, Taichung County 420, Taiwan	886-4-25261181	886-4-25269540
Zhongshan Branch	9, Daming Road., Fengyuan City, Taichung County 420, Taiwan	886-4-25277155	886-4-25269553
Fengdong Branch	330, Xiangyang Road., Fengyuan City, Taichung County 420, Taiwan	886-4-25225072	886-4-25269550
Fengle Branch	693, Zhongzheng Road., Fengyuan City, Taichung County 420, Taiwan	886-4-25287055	886-4-25269562
Kaohsiung Branch	1, Wenfu Rd., Zuoying District, Kaohsiung City 813, Taiwan	886-7-3505685	886-7-3506733



COTA Commercial Bank

2006