

# **Bank SinoPac**

**Financial Statements for the  
Years Ended December 31, 2005 and 2004 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Bank SinoPac

We have audited the accompanying balance sheets of Bank SinoPac as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements of the Financial Industry by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Bank SinoPac as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Public Banks and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases until 2003. However, according to the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions are treated as financing.

We have also audited the consolidated financial statements of Bank SinoPac and subsidiaries as of and for the years ended December 31, 2005 and 2004, on which we have issued unqualified and modified unqualified opinion thereon, respectively.

February 21, 2006

Notice to Readers

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

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

# BANK SINOPAC

## BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2005		2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Note 4)	\$ 8,139,836	1	\$ 8,526,211	2	CALL LOANS AND DUE TO BANKS	\$ 33,523,503	7	\$ 38,967,866	8
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 23)	76,475,233	15	35,964,349	8	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 2, 3, 23 and 24)	9,440,268	2	18,274,840	4
SECURITIES PURCHASED (Notes 2, 6 and 23)	85,593,900	16	94,879,770	20	ACCOUNTS, INTEREST AND OTHER PAYABLES (Notes 2, 13, 21 and 23)	13,176,787	3	16,473,341	3
ACCOUNTS, INTEREST AND OTHER RECEIVABLES, NET (Notes 2, 7, 21 and 23)	24,537,799	5	29,006,814	6	ACCEPTANCES PAYABLE	2,013,120	-	3,004,844	1
ACCEPTANCES	2,013,120	-	3,004,844	1	DEPOSITS AND REMITTANCES (Notes 14 and 23)	398,499,164	76	329,551,843	70
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 2, 3 and 24)	5,849,260	1	17,434,620	4	BANK DEBENTURES (Note 15)	35,800,000	7	32,800,000	7
PREPAYMENTS	219,382	-	401,776	-	DEFERRED TAX LIABILITIES (Notes 2, 20 and 21)	593,768	-	572,510	-
LOANS, DISCOUNTS AND BILLS PURCHASED, NET (Notes 2, 8 and 23)	302,283,944	58	260,718,198	55	OTHER (Notes 2, 20 and 21)	1,869,078	-	3,562,373	1
LONG-TERM INVESTMENTS (Notes 2, 9, 10 and 23)					Total liabilities	494,915,688	95	443,207,617	94
Long-term equity investments - equity method	7,877,839	2	8,222,432	2	CAPITAL STOCK, \$10 PAR VALUE				
Long-term equity investments - cost method	278,290	-	1,015,832	-	Authorized and issued (shares in thousands): 1,972,807 and 1,944,398 as of December 31, 2005 and 2004, respectively	19,728,068	4	19,443,976	4
Unrealized loss	-	-	(247,482)	-	CAPITAL SURPLUS				
Other long-term investments	1,094,300	-	1,014,300	-	Additional paid-in capital	118,226	-	125,030	-
Long-term investments, net	9,250,429	2	10,005,082	2	Donated capital	83	-	83	-
PROPERTIES (Notes 2, 11 and 24)					Other	95	-	95	-
Cost					RETAINED EARNINGS				
Land	2,007,731	-	2,007,731	-	Legal reserve	5,782,921	1	4,497,477	1
Buildings	2,275,918	1	2,265,758	1	Special reserve	282,977	-	282,977	-
Computer equipment	1,429,232	-	1,354,052	-	Unappropriated	1,657,307	-	4,180,069	1
Transportation equipment	40,851	-	48,216	-	UNREALIZED LOSS ON LONG-TERM EQUITY INVESTMENTS	-	-	(264,260)	-
Office and other equipment	1,649,405	-	1,358,461	-	CUMULATIVE TRANSLATION ADJUSTMENT	24,539	-	(31,850)	-
Total cost	7,403,137	1	7,034,218	1	Total stockholders' equity	27,594,216	5	28,233,597	6
Accumulated depreciation	2,572,748	-	2,256,495	-	CONTINGENCIES AND COMMITMENTS (Notes 2, 24 and 28)				
Advances on acquisitions of equipment and construction in progress	88,568	-	57,332	-	TOTAL	\$ 522,509,904	100	\$ 471,441,214	100
Net properties	4,918,957	1	4,835,055	1					
OTHER ASSETS (Notes 2, 12 and 21)	3,228,044	1	6,664,495	1					
TOTAL	\$ 522,509,904	100	\$ 471,441,214	100					

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

(With Deloitte & Touche audit report dated February 21, 2006)

# BANK SINOPAC

## STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Interest (Notes 2, 3, 23 and 28)	\$ 15,854,588	76	\$ 10,713,469	54
Service fees (Notes 2, 17 and 23)	2,025,799	10	2,073,575	11
Income from securities, net (Notes 2, 3 and 18)	1,242,454	6	2,193,195	11
Income from long-term equity investments under the equity method, net (Notes 2 and 9)	-	-	515,809	3
Foreign exchange gain, net (Notes 2 and 28)	1,556,062	8	4,114,272	21
Other	59,710	-	98,933	-
Total operating revenues	<u>20,738,613</u>	<u>100</u>	<u>19,709,253</u>	<u>100</u>
<b>OPERATING COSTS AND EXPENSES</b>				
Interest (Notes 2, 3, 23 and 28)	10,133,113	49	5,781,155	29
Service charges (Note 23)	200,758	1	227,477	1
Provision for trading losses	-	-	3,132	-
Loss from long-term equity investments under the equity method, net (Notes 2 and 9)	441,561	2	-	-
Provision for credit losses (Notes 2, 7 and 8)	761,692	4	540,000	3
Operating and administrative expenses (Notes 2, 19, 20 and 23)	5,350,328	26	5,622,947	28
Loss from derivative financial instruments transactions (Note 28)	949,601	5	2,872,713	15
Realized loss of decline in value for long-term investments (Notes 2 and 9)	312,542	1	-	-
Others	26	-	309	-
Total operating costs and expenses	<u>18,149,621</u>	<u>88</u>	<u>15,047,733</u>	<u>76</u>
OPERATING INCOME	2,588,992	12	4,661,520	24
NONOPERATING INCOME AND GAINS (Note 2)	170,340	1	284,253	1
NONOPERATING EXPENSES AND LOSSES (Note 2)	<u>(94,803)</u>	<u>-</u>	<u>(42,688)</u>	<u>-</u>
INCOME BEFORE INCOME TAX	2,664,529	13	4,903,085	25
INCOME TAX (Notes 2 and 21)	<u>547,365</u>	<u>3</u>	<u>618,270</u>	<u>3</u>
NET INCOME	<u>\$ 2,117,164</u>	<u>10</u>	<u>\$ 4,284,815</u>	<u>22</u>
	<b>2005</b>		<b>2004</b>	
	<b>Pretax</b>	<b>After Tax</b>	<b>Pretax</b>	<b>After Tax</b>
EARNINGS PER SHARE (Note 22)				
Basic earnings per share	<u>\$ 1.30</u>	<u>\$ 1.03</u>	<u>\$ 2.35</u>	<u>\$ 2.05</u>

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

(With Deloitte & Touche audit report dated February 21, 2006)

# BANK SINOPAC

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock (Notes 6 and 16)		Capital Surplus (Notes 2 and 16)	Retained Earnings (Note 16)			Unrealized Loss on Long-term Equity Investments (Notes 2 and 9)	Cumulative Translation Adjustment (Note 2)	Total Stockholders' Equity	
	Shares in Thousands	Amount		Legal Reserve	Special Reserve	Unappropriated				Total
BALANCE, JANUARY 1, 2004	1,944,398	\$ 19,443,976	\$ 125,208	\$ 3,671,307	\$ 282,977	\$ 2,753,899	\$ 6,708,183	\$ (297,567)	\$ 166,872	\$ 26,146,672
Appropriation of 2003 earnings										
Legal reserve	-	-	-	826,170	-	(826,170)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(38,000)	(38,000)	-	-	(38,000)
Bonus to employees	-	-	-	-	-	(19,277)	(19,277)	-	-	(19,277)
Cash dividends - \$0.962 per share	-	-	-	-	-	(1,870,452)	(1,870,452)	-	-	(1,870,452)
Net income for the year ended December 31, 2004	-	-	-	-	-	4,284,815	4,284,815	-	-	4,284,815
Recovery of unrealized loss on long-term equity investments	-	-	-	-	-	-	-	33,307	-	33,307
Change in translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	(198,722)	(198,722)
Realized deferred loss on upstream transaction of long-term equity investments	-	-	-	-	-	(104,746)	(104,746)	-	-	(104,746)
BALANCE, DECEMBER 31, 2004	1,944,398	19,443,976	125,208	4,497,477	282,977	4,180,069	8,960,523	(264,260)	(31,850)	28,233,597
Appropriation of 2004 earnings										
Legal reserve	-	-	-	1,285,444	-	(1,285,444)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(26,847)	(26,847)	-	-	(26,847)
Bonus to employees	-	-	-	-	-	(28,946)	(28,946)	-	-	(28,946)
Cash dividends - \$0.73 per share	-	-	-	-	-	(1,419,416)	(1,419,416)	-	-	(1,419,416)
Stock dividends - \$0.73 per share	141,941	1,419,416	-	-	-	(1,419,416)	(1,419,416)	-	-	-
Capital decrease and cancellation resulting from holding shares of the parent company	(113,532)	(1,135,324)	(6,804)	-	-	(459,857)	(459,857)	-	-	(1,601,985)
Net income for the year ended December 31, 2005	-	-	-	-	-	2,117,164	2,117,164	-	-	2,117,164
Recovery of unrealized loss on long-term equity investments	-	-	-	-	-	-	-	264,260	-	264,260
Change in translation adjustment on long-term equity investments	-	-	-	-	-	-	-	-	56,389	56,389
BALANCE, DECEMBER 31, 2005	<u>1,972,807</u>	<u>\$ 19,728,068</u>	<u>\$ 118,404</u>	<u>\$ 5,782,921</u>	<u>\$ 282,977</u>	<u>\$ 1,657,307</u>	<u>\$ 7,723,205</u>	<u>\$ -</u>	<u>\$ 24,539</u>	<u>\$ 27,594,216</u>

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

(With Deloitte & Touche audit report dated February 21, 2006)

# BANK SINOPAC

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,117,164	\$ 4,284,815
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	465,361	509,557
Expensed assets	1,571	488
Provision for credit and trading losses, and losses on guarantees	761,334	543,132
Provision for allowance for decline in market value of collateral assumed	32,050	3,206
Accrued pension cost	168,025	154,464
Loss (income) from long-term equity investments under the equity method, net	441,561	(515,809)
Realized loss on long-term equity investment reclassified as securities	270,125	-
Cash dividends received from long-term equity investments under the equity method	272	141,041
Realized loss of decline in value for long-term equity investments	42,417	-
Gain on sales of long-term equity investments	-	(53,811)
Loss on disposal of properties, net	8,585	10,143
Gain on disposal of collateral assumed, net	(11,001)	(78,516)
Deferred income taxes	23,014	35,252
Decrease in securities purchased - for trading purposes	9,564,625	19,940,822
Decrease (increase) in accounts, interest and other receivables	4,512,587	(1,671,117)
Decrease (increase) in prepayments	182,394	(233,686)
Increase (decrease) in accounts, interest and other payables	<u>(3,300,600)</u>	<u>2,435,723</u>
Net cash provided by operating activities	<u>15,279,484</u>	<u>25,505,704</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in due from the Central Bank and other banks	(40,510,884)	(11,667,512)
Decrease (increase) in securities purchased under agreements to resell	11,585,360	(17,434,620)
Decrease (increase) in securities purchased - for investing purposes	(1,399,040)	1,654,244
Increase in loans, discounts and bills purchased	(42,340,285)	(50,665,093)
Proceeds from sales of long-term equity investments	54,367	62,811
Acquisition of properties	(513,478)	(358,699)
Proceeds from sales of properties	784	1,597
Acquisition of collateral assumed	(45,035)	(195,265)
Proceeds from sales of collateral assumed	293,431	710,947
Decrease (increase) in other assets	2,983,340	(1,017,167)
Increase in other long-term investments	<u>(80,000)</u>	<u>(1,014,300)</u>
Net cash used in investing activities	<u>(69,971,440)</u>	<u>(79,923,057)</u>

(Continued)

	2005	2004
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in call loans and due to banks	\$ (5,444,363)	\$ (103,244)
Increase (decrease) in securities sold under agreements to repurchase	(8,834,572)	18,274,840
Increase in deposits and remittances	68,947,321	25,264,044
Increase in bank debentures	3,000,000	11,400,000
Increase (decrease) in other liabilities	(1,893,775)	971,534
Remuneration to directors and supervisors and bonus to employees	(51,747)	(57,277)
Cash dividends paid	<u>(1,419,416)</u>	<u>(1,870,452)</u>
Net cash provided by financing activities	<u>54,303,448</u>	<u>53,879,445</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(388,508)	(537,908)
EFFECT OF CHANGES IN EXCHANGE RATE	2,133	(13,066)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,526,211</u>	<u>9,077,185</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,139,836</u>	<u>\$ 8,526,211</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 9,396,770</u>	<u>\$ 5,885,511</u>
Income tax paid	<u>\$ 729,726</u>	<u>\$ 81,175</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Capital decrease and cancellation resulting from holding shares of the parent company	<u>\$ 1,490,917</u>	<u>\$ -</u>

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

(With Deloitte & Touche audit report dated February 21, 2006)

(Concluded)

# **BANK SINOPAC**

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Unless Otherwise Stated)**

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### **1. ORGANIZATION AND OPERATIONS**

Bank SinoPac (the “Bank”) obtained government approval to incorporate on August 8, 1991 and started operations on January 28, 1992. The Bank engages in commercial banking, trust, and established International Division and Offshore Banking Unit (OBU) to manage foreign exchange operations as allowed under the Banking Law.

As of December 31, 2005 and 2004, the Bank had a total of 2,171 and 2,242 employees, respectively.

As of December 31, 2005, the Bank’s operating units included Banking, Trust, International Division of the Head Office, an Offshore Banking Unit (OBU), 44 domestic branches, 2 overseas branches and 1 overseas representative office.

The operations of the Bank’s Trust Department consist of: (1) planning, managing and operating of trust business; and (2) custody of non-discretionary trust fund in domestic and overseas securities and mutual funds. These operations are governed by the Banking Law and the Trust Law.

Under the Financial Holding Company Act, the Bank, National Securities Co., Ltd. (the “NSC”, which was renamed as SinoPac Securities Corporation on June 9, 2002) and SinoPac Securities Co., Ltd. (the “SPS”) established SinoPac Financial Holdings Company Limited (the “SPH”), a financial holding company on May 9, 2002. The parties established the holding company to maximize the benefit of their combined capital, pool their business channels, fully harness the synergy of their diversified business operations and establish one of the most competitive organizations in the Pacific Rim. Since May 9, 2002, the effective date of the shares swap, the Bank has become an unlisted wholly owned subsidiary of SPH. The shares of SPH are traded on the Taiwan Stock Exchange (TSE). SinoPac Securities Corporation (the “SinoPac Securities”, formerly NSC) merged with SPS with SinoPac Securities as the surviving entity on July 22, 2002.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bank’s financial statements were prepared in conformity with Criteria Governing the Preparation of Financial Reports by Public Banks and accounting principles generally accepted in the Republic of China (ROC). In determining the allowance for credit losses, depreciation, assets impairment, pension, income tax losses upon suspended lawsuit and provision for losses on guarantees, the Bank needs to estimate reasonable amounts. The estimates were usually made under uncertain conditions, actual results could differ from those estimates. Since the operating cycle could not be reasonably identified in the banking industry, accounts included in the Bank’s financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized according to the nature of each account, and sequenced by their liquidity. Please refer to Note 27 for maturity analysis of assets and liabilities. Significant accounting policies of the Bank are summarized below:

#### **Basis of Financial Statement Preparation**

The accompanying financial statements include the accounts of the Head Office, OBU, all branches and the representative office. All interoffice transactions and balances have been eliminated.

## **Securities Purchased**

Securities purchased include negotiable certificates of deposit, short-term bills, stocks, beneficiary certificates, treasury bills, floating rate notes, structured instruments and bonds.

Short-term bills and treasury bills are stated at cost, which approximates market value. Stocks, beneficiary certificates, structured instruments and bonds are stated at the lower of cost or market value. Market prices are determined as follows: (a) listed stocks - average daily closing prices for the last month of the accounting period; (b) beneficiary certificates (open-end fund) - net asset values as of the balance sheet dates; and (c) GreTai Securities Market (the "GTSM") stocks - average daily closing prices for the last month of the accounting period, published by GTSM; (d) bonds - period-end reference prices published by the GTSM; and (e) structured instruments - period-end prices quoted by counter party.

Cost of securities sold is determined by the moving-average method, except that of short-term bills and treasury bills, which is determined by the specific identification method.

Under accounting principles generally accepted in the ROC, for applying the lower of cost or market method, the SPH's shares held by the Bank should be evaluated separately from the other listed and GTSM stocks.

Pursuant to the directive issued by the Ministry of Finance (the "MOF"), sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases until 2003. However, according to the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the sales and purchases of securities under agreements to repurchase/resell are treated as financing.

## **Nonperforming Loans**

Under guidelines issued by the MOF, the balance of loans and other credits extended by the Bank and the related accrued interest thereon are classified as nonperforming when the loan is six months overdue. In addition, upon approval by the board of directors, those loans which are less than six months overdue will also be classified as nonperforming.

## **Allowance for Credit Losses and Provision for Losses on Guarantees**

In determining the allowance for credit losses and provision for losses on guarantees, the Bank assesses the collectibility on the balances of loans, discounts and bills purchased, accounts, interest and other receivables, and nonperforming loans, as well as guarantees and acceptances as of the balance sheet dates.

Pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" (the "Regulations") issued by the MOF, the Bank evaluates credit losses on the basis of its borrowers'/clients' financial positions, repayments for principal and interest by borrowers/clients, collateral provided, and estimated collectibility.

In accordance with the Regulations stated above, the minimum provision for credit losses should not be less than the aggregate of 50% of the doubtful credits and 100% of the unrecoverable credits. Since July 2005, the Regulations amended the classification of loan assets, which divided the loan assets into different class subjects to assets that require special mention, assets that are substandard, assets that are doubtful, and assets for which there is loss. The minimum allowance for credit losses and provision for losses on guarantees for the aforementioned classes should be 2%, 10%, 50% and 100% of outstanding credits, respectively. The amendments on the classification of loan assets have no significant impact on the Bank's financial statements.

Write-offs of loans falling under the MOF guidelines, upon approval by the board of directors, are offset against the recorded allowance for credit losses.

## **Long-term Investments**

Long-term equity investments are accounted for by the equity method if the Bank has significant influence over the investees. Under this method, investments are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of the investees. On the acquisition date, any difference between the acquisition cost and the equity in the investee is amortized over 15 years. Long-term equity investments are accounted for by the cost method if the Bank does not have significant influence over the investees. Stock dividends result only in an increase in number of shares and are not recognized as investment income.

If an investee issues new shares and the Bank does not acquire new shares in proportion to its current equity in the investee, the resulting increase of the Bank's equity in the investee's net asset is credited to capital surplus. Any decrease of the Bank's equity in the investee's net asset is debited to capital surplus. If capital surplus is not enough for the debiting purpose, the remaining is debited to unappropriated retained earnings.

For listed and GTSM stocks accounted for by the cost method, when the aggregate market value is lower than the total carrying amount, an allowance for decline in market value is provided and the unrealized loss is charged against stockholders' equity. If a decline in the value of an unlisted stock investment is considered as permanent loss, the decline is charged to current income.

Long-term equity investments revaluated by the current value when classified as securities purchased. When the current value of long-term equity investment is lower than the book value, the difference is charged to current income.

Cost of equity investments sold is determined by the weighted-average method. According to an explanation of Accounting Research and Development Foundation of ROC (ARDF), the long-term equity investments can only be sold and transferred by the book value if it is involved in group restructure.

Other long-term investments include subordinated beneficiary certificates - retained interest of securitization and beneficiary certificates - credit card receivables. Retained subordinated beneficiary certificates are evaluated by estimating present value of expected future cash flows with losses recorded as operating cost; gains are not recognized. Beneficiary certificates - credit card receivables are recorded at cost.

## **Financial Asset Securitization**

Under the "Regulations for Financial Asset Securitization", the Bank securitized part of its enterprise loans and entrusted those loans to the commissioned organization for the issuance of the related beneficiary certificates. Thus, the Bank derecognizes the loans and records gain or loss because the control of contractual rights - except for subordinated retained interests for credit enhancement, which were reclassified as long-term investments - on the loans has been surrendered and transferred to a special purpose trustee.

The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The previous carrying amount of the loans should be allocated by applying the ratios of the retained subordinated beneficiary certificates and the part sold to their fair values on the date of sale. Because quotes are not available for loans and retained subordinated beneficiary certificates, the Bank estimates fair value at the present value of expected future cash flows, using management's key assumptions on credit losses and discount rates commensurate to the risks involved.

Subordinated beneficiary certificates - retained interest of securitization, for which quotes are not available, are accounted for as other long-term investments. Interest revenue is recorded when received. The Bank evaluates retained interests by estimating present value of expected future cash flows, with losses recorded as operating cost; gains are not recognized.

## **Properties**

Properties are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred.

Upon sale or disposal of properties, their cost and related accumulated depreciation are removed from the accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method on the basis of service lives initially estimated as follows: buildings, 6 to 55 years; computer equipment, 3 to 5 years; transportation equipment, 5 years; and office and other equipment, 5 to 15 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated on the basis of any remaining salvage value and the estimated additional service lives.

## **Collaterals Assumed**

Collaterals assumed are recorded at cost (included in other assets) and revalued at the lower of cost or net fair value on the balance sheet dates.

## **Derivative Financial Instruments**

### a. Foreign exchange forward

Foreign-currency assets and liabilities arising from forward exchange contracts, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded at the contracted forward rates. Gains or losses arising from the differences between the contracted forward rates and spot rates on settlement are credited or charged to current income. For contracts outstanding on the balance sheet dates, the gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining maturities of the contracts are credited or charged to current income. Receivables arising from forward exchange contracts are offset against related payables on the balance sheet dates.

### b. Forward rate agreements

Forward rate agreements, which are mainly for accommodating customers' needs or managing the Bank's interest rate positions, are recorded by memorandum entries at the contract dates. Gains or losses arising from the differences between the contracted interest rates and actual interest rates upon settlement or on the balance sheet dates are credited or charged to current income.

### c. Currency swaps

Foreign-currency spot-position assets or liabilities arising from currency swaps, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded at spot rates when the transactions occur; while corresponding forward-position assets or liabilities are recorded at the contracted forward rates, with receivables netted against the related payables. The interest part of swap points is amortized during the contract period; for contracts outstanding on the balance sheet date, the gains or losses arising from the valuation of swap points, which are valued at the forward rates available for the remaining period of the contracts, are credited or charged to current income.

### d. Cross-currency swaps

Cross-currency swaps, which are for the purposes of accommodating customers' needs or managing the Bank's exposures, are marked to market on the balance sheet dates. The interest received or paid at each settlement date or balance sheet date is recognized as interest income or expense, which is credited or charged to current income.

Cross-currency swaps, which are for hedging purposes, are recorded at spot rates on the contract dates. The net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the item being hedged.

e. Options

Options bought and/or held and options written, which are mainly for accommodating customers' needs or managing the Bank's currency positions, are recorded as assets and liabilities when the transactions occur. These instruments are marked to market as of the balance sheet dates. The carrying amounts of the instruments, which are recorded either as assets or liabilities, are charged to income when they are not exercised. Gains or losses on the exercise of options are also included in current income.

f. Interest rate swaps

Interest rate swaps, which do not involve exchanges of the notional principals, are not recognized as either assets and/or liabilities on the contract dates. The swaps are entered into for accommodating customers' needs or managing the Bank's interest rate positions. The interest received or paid at each settlement date is recognized as interest income or expense. These instruments are marked to market on the balance sheet dates.

For swaps entered into for hedging purposes, the net interest on each settlement is recorded as an adjustment to interest revenue or expense associated with the item being hedged.

g. Asset swaps

Asset swaps involve exchanging the fixed interest of convertible bonds or fixed rate notes for floating interest. In addition, asset swaps involve exchanging the fixed or floating interest of credit link notes for floating or fixed interest. These transactions are recorded by memorandum entries at the contract dates. Asset swaps are entered into for hedging purposes; they are used to hedge interest rate exposure in convertible bonds, fixed rate notes and credit link notes denominated in foreign currency. Net interest on each settlement or balance sheet date is recorded as an adjustment to interest income or expense associated with the bonds or notes being hedged.

h. Futures

Margin deposits paid by the Bank for interest rate futures contracts entered into for trading purpose are recognized as assets. Gains or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized. The gains and losses are included in current income.

Margin deposits paid by the Bank for interest rate future contracts entered into for hedging purpose are recognized as assets. Gain or losses resulting from marking to market and from the settlement of the interest rate futures contracts are classified as realized or unrealized gains or losses depending on whether the gains or losses had been realized. The gains and losses are adjusted the gains or losses associated with hedging item.

i. Credit default swaps

Credit default swaps involve taking credit risk of denominated bonds and notes. Such transactions are recorded by memorandum entries at the contract dates. The premium received by the Bank for a credit default swap contract on each settlement or balance sheet date is recorded as current income by the accrual method.

j. Commodity - linked interest rate swaps

Commodity - linked interest rate swaps, which do not involve exchanges of notional principals, are recorded by memorandum entries at the contract dates. The discounted values of the differences between the interest income with the floating interest rate and the interest expenses linked to the commodity prices in the future market are recognized and credited or charged to current income before the maturity dates. The gains and losses resulting from the swapped-in and swapped-out are included in current income on the maturity dates.

**Recognition of Interest Revenue and Service Fees**

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection.

Under the MOF regulations, the interest revenue on credits in which agreements have been reached to extend their maturities is recognized upon collection.

Service fees are recorded as revenue upon receipt or substantial completion of activities involved in the earnings process.

**Pension**

Pension expense under defined benefit pension plan is determined on the basis of actuarial calculations. Pension under defined contribution pension plan is expensed during the period when the employees rendered their services.

**Income Tax**

Inter-period income tax allocation is applied, in which tax effects of deductible temporary differences unused loss carryforward and unused investment tax credits are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Tax credits for acquisitions of equipment or technology, research and development expenditures, personnel training expenditures and acquisition of equity investments are recognized as reduction of current income tax.

Adjustments of prior years' tax liabilities are included in the current year's tax expense.

Income tax (10%) on unappropriated earnings after January 1, 1998 is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

SPH adopted the linked-tax system for income tax filings with its qualified subsidiaries, including the Bank, since 2003. The different amounts between tax expense and deferred tax liabilities and assets based on consolidation and SPH with its qualified subsidiaries are adjusted on SPH, related amounts are recognized as accounts receivable or accounts payable.

**Asset Impairment**

The Bank began applying ROC Statement of Financial Accounting Standards (SFAS) No. 35, "Accounting for Asset Impairment," on January 1, 2005, which requires that cash-generating units (CGUs) and certain assets, including long-term investments accounted for by the equity method, properties, goodwill, etc., be subject to an impairment review.

SFAS No. 35 requires the impairment review on long-term investments accounted for by the equity method and properties to be made on each balance sheet date. If assets or CGUs are deemed impaired, then the Bank must calculate their recoverable amounts. An impairment loss should be recognized whenever the recoverable amount of the assets or the CGU is below the carrying amount, and this impairment loss either is charged to accumulated impairment or reduces the carrying amount of the assets or CGUs directly. After the recognition of an impairment loss, the depreciation (amortization) should be adjusted in future periods by the revised asset/CGUs carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate goodwill impairment. Impairment is recorded if the book value exceeds value in use. After the impairment is recognized, the goodwill should still be amortized periodically. The increase in the recoverable amount of goodwill in the period following the recognition of an impairment loss is likely to be an increase in internally generated goodwill rather than the reversal of the impairment loss recognized for the acquired goodwill. Thus, reversal of impairment loss on goodwill is prohibited.

### **Contingencies**

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the amount of the loss cannot be reasonably estimated or the loss is possible, the related information is disclosed in the financial statements.

### **Foreign-currency Transactions**

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Foreign-currency denominated income and expenses are translated into New Taiwan dollars at month-end rates. Foreign-currency assets and liabilities are translated into New Taiwan dollars at closing rates on the balance sheet dates. Realized and unrealized foreign exchange gains or losses are credited or charged to current income. Gains or losses resulting from restatement at period-end of foreign-currency denominated long-term equity investments accounted for by the equity method are credited or charged to "cumulative translation adjustment" under stockholders' equity.

## **3. ACCOUNTING CHANGES**

Under a directive issued by the MOF, sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions are treated as financing. The effect of this accounting change resulted in a decrease of income before income tax for the year ended December 31, 2004 by \$496,910.

The repurchase/resell transactions of the Bank are for daily trading purpose. Since the trading volume is high and the accounting systems for such transactions had been revised for several times, it is hard to trace the historical data and causing the difficulty on calculating the cumulative effect of the change in accounting principle. Thus, the Bank cannot calculate the cumulative effect of the change in accounting principle.

#### 4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2005	2004
Due from other banks	\$ 5,031,135	\$ 4,040,865
Cash on hand	1,724,697	1,707,320
Notes and checks in clearing	<u>1,384,004</u>	<u>2,778,026</u>
	<u>\$ 8,139,836</u>	<u>\$ 8,526,211</u>

#### 5. DUE FROM THE CENTRAL BANK AND BANKS

	<u>December 31</u>	
	2005	2004
Call loans to banks	\$ 59,713,831	\$ 20,843,771
Due from the Central Bank	<u>16,761,402</u>	<u>15,120,578</u>
	<u>\$ 76,475,233</u>	<u>\$ 35,964,349</u>

Due from the Central Bank consists mainly of New Taiwan Dollar (NTD) and foreign currency deposit reserves.

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included \$8,039,649 and \$7,225,313 as of December 31, 2005 and 2004, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserve may be withdrawn momentarily and are noninterest earnings. As of December 31, 2005 and 2004, the actual balances of foreign-currency deposit reserves were \$312,075 and \$86,176, respectively.

#### 6. SECURITIES PURCHASED

	<u>December 31</u>	
	2005	2004
Negotiable certificate of deposit	\$ 69,000,000	\$ 70,480,225
Corporate bonds	7,877,063	4,933,908
Floating rate notes	3,337,067	3,718,142
Bank debentures	2,529,391	1,057,994
Beneficiary certificates	1,605,065	1,733,617
Government bonds	616,183	3,269,457
Listed and GTSM stocks	482,531	1,602,026
Structured instruments	146,600	-
Commercial paper	-	7,176,112
Treasury bills	<u>-</u>	<u>908,289</u>
	<u>\$ 85,593,900</u>	<u>\$ 94,879,770</u>

To comply with the Central Bank's clearing system of Real-time Gross Settlement (RTGS), negotiable certificates of deposit aggregating \$16,000,000 and \$18,500,000 had been provided as collaterals for the daytime overdraft as of December 31, 2005 and 2004, respectively, with pledged amounts that can be adjusted momentarily.

The securities purchased amounting \$3,885,507 and \$3,805,299 as of December 31, 2005 and 2004, respectively, had been sold under agreements to repurchase.

As of December 31, 2005 and 2004, the aggregate market values or reference prices of corporate bonds, floating rate notes, bank debentures, beneficiary certificates, government bonds, listed and GTSM stocks and structured instruments were as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Corporate bonds	\$ 7,985,165	\$ 5,185,383
Floating rate notes	3,333,790	3,719,933
Bank debentures	2,524,740	1,060,705
Beneficiary certificates	1,757,306	1,750,534
Government bonds	617,728	3,283,653
Listed and GTSM stocks	492,428	2,205,949
Structured instruments	136,680	-

The Bank originally held 216,542,894 shares of SPH. In the stockholders' meeting of SPH on June 11, 2004, the appropriation of 2003 earnings was resolved and the Bank got appropriation through cash dividend of \$108,163, and stock dividend of \$99,523 (9,952,311 shares). The Bank held 226,495,205 shares of SPH with carrying amounts of \$2,896,922 after the appropriation. To deal with SPH's shares held by the Bank, the board of directors (hereinafter the "Board") of SPH resolved to sell 144,361,929 shares through the securities exchange market. The Bank had sold 109,929,965 shares of SPH. The remaining 116,565,240 shares of SPH held by the Bank did not abide with the Financial Holding Company Act, which requires those shares to be (i) reissued to the employees of SPH or SPH's subsidiaries within three years, (ii) used for equity conversion, or (iii) sold on a stock exchange or GTSM. In the event that shares are not reissued or sold, such shares should be cancelled which causes the SPH's capital stock to decrease, and the alteration registration should be completed. According to the explanations of ARDF, if the Bank does not receive any proceeds from SPH for those cancelled shares, the Bank needs to decrease its capital based on the capital decrease ratio while SPH follows the regulation to cancel and decrease its capital stock. The Bank got approval from the authorities for the cancellation of capital stock, resulting in decreasing of capital stock of the Bank by \$1,135,324. The date for capital decreasing is on August 26, 2005.

## 7. ACCOUNTS, INTEREST AND OTHER RECEIVABLES

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Accounts receivable	\$ 22,785,565	\$ 27,033,063
Interest receivable	1,162,391	722,044
Forward exchange receivable, net	206,746	623,536
Accrued revenue	163,345	395,676
Cash dividends receivable - related party	102,577	-
Receivable from related party for allocation of linked-tax system	97,082	96,582
Tax refundable	23,036	125,972
Other	<u>91,327</u>	<u>60,352</u>
	24,632,069	29,057,225
Less - allowance for credit losses	<u>94,270</u>	<u>50,411</u>
	<u>\$ 24,537,799</u>	<u>\$ 29,006,814</u>

The balances of the accounts receivable as of December 31, 2005 and 2004 included \$22,613,133 and \$26,586,160, respectively, representing accounts receivable from other parties in the factoring business.

## 8. LOANS, DISCOUNTS AND BILLS PURCHASED

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Overdrafts	\$ 1,121,424	\$ 1,423,774
Short-term loans	73,653,846	68,235,712
Medium-term loans	56,458,628	44,368,939
Long-term loans	168,245,394	143,437,315
Import and export negotiations	1,496,326	2,546,397
Bills purchased	906	273
Nonperforming loans	<u>2,903,286</u>	<u>1,880,686</u>
	303,879,810	261,893,096
Less - allowance for credit losses	<u>1,595,866</u>	<u>1,174,898</u>
	<u>\$ 302,283,944</u>	<u>\$ 260,718,198</u>

As of December 31, 2005 and 2004, the balances of nonaccrual loans were \$3,056,614 and \$2,199,037, respectively. The unrecognized interest revenues on nonaccrual loans amounted to \$62,123 and \$67,845 for the years ended December 31, 2005 and 2004, respectively.

For the years ended December 31, 2005 and 2004, the Bank had not written off credits for which legal proceedings had not been initiated.

The details of and changes in allowance for credit losses of loans, discounts and bills purchased for the years ended December 31, 2005 and 2004, respectively, were summarized below:

	<b>For the Year Ended December 31, 2005</b>		
	<b>For Losses on Particular Loans</b>	<b>For Losses on the Overall Loan Portfolio (Excluding Particular Loans)</b>	<b>Total</b>
Balance, January 1	\$ 331,625	\$ 843,273	\$ 1,174,898
Provision	684,192	77,500	761,692
Write-off	(333,938)	-	(333,938)
Recovery of written-off credits	9,550	-	9,550
Reclassifications	(150,257)	139,211	(11,046)
Result from change of foreign exchange rate	1,802	-	1,802
Other	(7,092)	-	(7,092)
Balance, December 31	<u>\$ 535,882</u>	<u>\$ 1,059,984</u>	<u>\$ 1,595,866</u>

	<b>For the Year Ended December 31, 2004</b>		
	<b>For Losses on Particular Loans</b>	<b>For Losses on the Overall Loan Portfolio (Excluding Particular Loans)</b>	<b>Total</b>
Balance, January 1	\$ 593,239	\$ 951,702	\$ 1,544,941
Provision	540,000	-	540,000
Write-off	(932,811)	-	(932,811)
Recovery of written-off credits	24,721	-	24,721
Reclassifications	108,670	(108,429)	241
Result from change of foreign exchange rate	(11,712)	-	(11,712)
Other	9,518	-	9,518
Balance, December 31	<u>\$ 331,625</u>	<u>\$ 843,273</u>	<u>\$ 1,174,898</u>

As of December 31, 2005 and 2004, allowances for credit losses and provisions for losses on guarantees of the Bank were \$1,690,136 and \$1,258,123, respectively.

## 9. LONG-TERM INVESTMENTS

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<u>Long-term equity investments</u>		
Equity method - unlisted stocks	\$ 7,877,839	\$ 8,222,432
Cost method		
Listed and GTSM stocks	-	640,758
Unlisted stocks	<u>278,290</u>	<u>375,074</u>
	<u>278,290</u>	<u>1,015,832</u>
	8,156,129	9,238,264
Less unrealized losses	<u>-</u>	<u>247,482</u>
	<u>8,156,129</u>	<u>8,990,782</u>
<u>Other long-term equity investments</u>		
Subordinated beneficiary certificates of securitization (Note 10)	<u>1,094,300</u>	<u>1,014,300</u>
	<u>\$ 9,250,429</u>	<u>\$ 10,005,082</u>

The market values of listed and GTSM stocks which included Mega Financial Holding Co., Ltd., Ruentex Industries Limited and China Television Co., Ltd. were \$88,487, \$162,280 and \$142,509 as of December 31, 2004, respectively.

Income from (loss on) long-term equity investments for the years ended December 31, 2005 and 2004 were summarized as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
<u>Equity method</u>		
SinoPac Bancorp	\$ 468,658	\$ 313,658
SinoPac Leasing Corporation	(798,375)	179,566
SinoPac Capital Limited (H.K.)	(111,922)	22,314
SinoPac Financial Consulting Co., Ltd.	<u>78</u>	<u>271</u>
Income from (loss on) long-term equity investments under the equity method, net	<u>\$ (441,561)</u>	<u>\$ 515,809</u>

The net income of SinoPac Bancorp for the years ended December 31, 2005 and 2004, amounted to \$547,638 and \$395,632, respectively, were translated into NTD at the average exchange rate for the respective periods. The difference between the translated net income of SinoPac Bancorp and the one recognized by the Bank was generated from some different accounting treatments between ROC GAAP and US GAAP (please see Note 35 and Table 6).

The subsidiary, SinoPac Financial Consulting Co., Ltd., was not included in the Bank's consolidated entities since it is immaterial to the consolidated financial statements of the Bank and subsidiaries.

Realized losses amounted to \$270,125 arising from market values lower than costs were recognized for the year ended December 31, 2005, when long-term equity investment accounted for by the cost method were reclassified as securities purchased.

For the year ended December 31, 2005, realized loss of decline in value of long-term equity investments accounted for by cost method recognized by the Bank amount to \$42,417, which are summarized as follows:

<b>Investee</b>	<b>Amount</b>
Prudence International Fund Ltd.	\$ 14,400
Z-Com, Inc.	5,229
Taiwan Leader Advanced Technology Co., Ltd.	5,788
Mondex Taiwan Inc.	<u>17,000</u>
	<u>\$ 42,417</u>

As of December 31, 2004, part of the unrealized loss on long-term equity investments (included in stockholders' equity as deductions) resulting from market value decline of GTSM stocks held by an investee accounted for by the equity method amounted to \$16,778.

## 10. SECURITIZATION

- a. Characteristic, gain (loss) recognized and key economic assumptions used in measuring retained interests

In August 2004, the Bank sold part of its enterprise loans under securitization transactions. The Bank entrusted these loans to Fuhwa Bank for issuing beneficiary certificates. The terms and key economic assumptions used in measuring retained interests were as follows:

<b>Terms</b>	<b>Enterprise Loans Under Securitization</b>
Date of issuance	August 3, 2004
Carrying amount of enterprise loans	\$4,900,000
Gain (loss) on securitization	-

December 31, 2005

<b>Series of Certificates</b>	<b>Senior</b>				<b>Subordinated</b>
	<b>First Tranche</b>	<b>Second Tranche</b>	<b>Third Tranche</b>	<b>Fourth Tranche</b>	<b>Fifth Tranche</b>
Principal amount	\$ 1,188,100	\$ 534,100	\$ 441,000	\$ 122,500	\$ 1,014,300
Annual interest	Floating interest rate plus 0.4% (Note)	Floating interest rate plus 0.6% (Note)	Floating interest rate plus 1.0% (Note)	Floating interest rate plus 1.2% (Note)	-
<b>Key assumptions used in measuring retained interests</b>					
Expected weighted-average life (in years)			3		
Expected credit losses (annual rate)			-		
Discounted rate for residual cash flows			1.433%		

December 31, 2004

Series of Certificates	Senior				Subordinated
	First Tranche	Second Tranche	Third Tranche	Fourth Tranche	Fifth Tranche
Principal amount	\$ 2,788,100	\$ 534,100	\$ 441,000	\$ 122,500	\$ 1,014,300
Annual interest	Floating interest rate plus 0.4% (Note)	Floating interest rate plus 0.6% (Note)	Floating interest rate plus 1.0% (Note)	Floating interest rate plus 1.2% (Note)	-
Key assumptions used in measuring retained interests					
Expected weighted-average life (in years)			3		
Expected credit losses (annual rate)			-		
Discounted rate for residual cash flows			1.175%		

Note: Floating rate is the average rate of the 90-day short-term bills in the secondary market of Telerate Information Inc., at 11:00 a.m. of Taipei time two working days prior to the first day of interest period of financial assets (shown on page 6165).

The investors of the subordinated certificates have a right over any remaining interest paid after fixed interest has been paid to the holders of the senior certificates in accordance with the principal amount. Any prepayment of principal shall be paid to the tranche in the order mentioned above. When the debtors fail to pay on schedule, the investors and Fuhwa Bank have no recourse to the other assets of the Bank. The Bank has a right over the subordinated certificates. The value of the subordinated certificates is subject to credit and interest rate risks on the transferred financial assets.

b. Sensitivity analysis

As of December 31, 2005 and 2004, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in these assumptions were as follows:

	Enterprise Loans	
	December 31	
	2005	2004
Carrying amount of retained interest	\$ 1,014,300	\$ 1,014,300
Weighted-average life (in years)	3	3
Discount rate of residual cash flows (annual rate)	1.433%	1.175%
Impact on fair value of 10% adverse change	(71)	(55)
Impact on fair value of 20% adverse change	(213)	(171)

- c. The securitized enterprise loans had not resulted in any credit losses as of December 31, 2005 and 2004; thus, the expected static pool credit losses (total amount of actual credit losses and expected credit losses divided by securitized enterprise loans) are equal to the expected credit losses. The Bank anticipates that no credit losses would result from the securitized enterprise loans since there has been no default on those loans.

d. Cash flows

For the year ended December 31, 2005, the prepayments of principal before due date resulted in the cash inflow amounted to \$1,600,000. For the year ended December 31, 2004, cash flows from the securitization trust included proceeds from new securitizations \$3,595,309 and current cash reserve \$18,531, respectively.

**11. PROPERTIES**

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Cost	\$ 7,403,137	\$ 7,034,218
Accumulated depreciation		
Buildings	534,587	459,053
Computer equipment	1,030,134	911,008
Transportation equipment	33,229	37,654
Office and other equipment	<u>974,798</u>	<u>848,780</u>
	<u>2,572,748</u>	<u>2,256,495</u>
	4,830,389	4,777,723
Advances on acquisitions of equipment and construction in progress	<u>88,568</u>	<u>57,332</u>
	<u>\$ 4,918,957</u>	<u>\$ 4,835,055</u>

**12. OTHER ASSETS**

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Guarantee deposits	\$ 1,021,658	\$ 1,511,744
Value of options purchased	916,996	3,910,028
Collateral assumed, net	639,622	909,067
Computer system software	196,038	211,266
Revaluation of derivative assets	138,904	26,401
Other	<u>314,826</u>	<u>95,989</u>
	<u>\$ 3,228,044</u>	<u>\$ 6,664,495</u>

As of December 31, 2005 and 2004, guarantee deposits included \$588,928 and \$975,692, respectively, which were provided by government bonds and certificates of deposit.

**13. ACCOUNTS, INTEREST AND OTHER PAYABLES**

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Accounts payable	\$ 8,944,992	\$ 10,601,110
Interest payable	1,581,512	1,114,411
Notes and checks in clearing	1,384,004	2,778,026
Accrued expenses	855,435	1,014,941
Tax payable	115,238	101,489

(Continued)

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Collections payable	\$ 101,087	\$ 63,077
Payable to related-party for allocation of linked-tax system	22,284	358,168
Other	<u>172,235</u>	<u>442,119</u>
	<u>\$ 13,176,787</u>	<u>\$ 16,473,341</u>

The balances of the accounts payable as of December 31, 2005 and 2004 included \$8,767,767 and \$10,399,058, respectively, representing costs of accounts receivable acquired from other parties in the factoring business.

#### 14. DEPOSITS AND REMITTANCES

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Checking	\$ 6,454,933	\$ 5,779,417
Demand	60,889,882	52,867,111
Savings - demand	81,592,834	74,431,567
Time	152,595,922	104,635,386
Negotiable certificates of deposit	21,672,800	25,782,900
Savings - time	74,873,426	65,594,035
Inward remittances	177,863	222,410
Outward remittances	<u>241,504</u>	<u>239,017</u>
	<u>\$ 398,499,164</u>	<u>\$ 329,551,843</u>

#### 15. BANK DEBENTURES

	<b>December 31</b>		<b>Maturity Date</b>	<b>Terms</b>
	<b>2005</b>	<b>2004</b>		
First dominant bank debenture issued in 2001	\$ 5,000,000	\$ 5,000,000	2001.12.20-2006.12.20 Principal is repayable on maturity date.	Fixed interest rate of 3.08%. Interest is paid annually.
First subordinated bank debenture issued in 2002	2,000,000	2,000,000	2002.12.23-2008.03.23 Principal is repayable on maturity date.	Floating interest rate except for the first two years fixed at 2.15%. Interest is paid semiannually.
First dominant bank debenture issued in 2003	1,000,000	1,000,000	2003.02.14-2008.02.14 Principal is repayable on maturity date.	3.65% minus 6-month LIBOR. Interest is paid semiannually.
Second dominant bank debenture issued in 2003	500,000	500,000	2003.03.19-2008.09.19 Principal is repayable on maturity date.	3.48% minus 6-month LIBOR. Interest is paid semiannually.
Third dominant bank debenture issued in 2003	1,500,000	1,500,000	2003.05.09-2008.11.09 Principal is repayable on maturity date.	4.15% minus 6-month LIBOR except for the first year fixed at 2.50%. Interest is paid semiannually.
Fourth dominant bank debenture issued in 2003	400,000	400,000	2003.05.09-2008.11.09 Principal is repayable on maturity date.	2% plus 180-day-NTD CP rate in secondary market and minus 6-month LIBOR. Interest is paid semiannually.

(Continued)

	<u>December 31</u>		<b>Maturity Date</b>	<b>Terms</b>
	<b>2005</b>	<b>2004</b>		
First subordinated bank debenture issued in 2003	\$ 2,500,000	\$ 2,500,000	2003.06.18-2008.12.18 Principal is repayable on maturity date.	180-day CP rate in secondary market plus 0.3%. Interest is paid semiannually.
Fifth dominant bank debenture issued in 2003	1,000,000	1,000,000	2003.08.11-2010.08.11 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Sixth dominant bank debenture issued in 2003	700,000	700,000	2003.08.20-2009.02.20 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Seventh dominant bank debenture issued in 2003	800,000	800,000	2003.09.16-2008.09.16 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Eighth dominant bank debenture issued in 2003	500,000	500,000	2003.09.16-2008.09.16 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Ninth dominant bank debenture issued in 2003	300,000	300,000	2003.09.22-2008.09.22 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually
Tenth dominant bank debenture issued in 2003	1,000,000	1,000,000	2003.11.05-2008.11.05 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Eleventh dominant bank debenture issued in 2003	1,000,000	1,000,000	2003.11.14-2008.11.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Twelfth dominant bank debenture issued in 2003	500,000	500,000	2003.11.21-2008.11.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Thirteenth dominant bank debenture issued in 2003	500,000	500,000	2003.11.28-2008.11.28 Principal is repayable on maturity date.	Floating rate except for the first year fixed at 4%. Interest is paid semiannually.
Fourteenth dominant bank debenture issued in 2003	2,200,000	2,200,000	2003.12.02-2009.06.02 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Second subordinated bank debentures issued in 2003	3,600,000	3,600,000	2004.03.18-2009.09.18 Principal is repayable on maturity date.	Fixed interest rate of 2.3%, interest is paid semiannually.
First dominant bank debentures issued in 2004	500,000	500,000	2004.04.26-2009.10.26 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Second dominant bank debentures issued in 2004	300,000	300,000	2004.04.28-2009.10.28 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Third dominant bank debentures issued in 2004	500,000	500,000	2004.04.29-2009.04.29 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Fourth dominant bank debentures issued in 2004	200,000	200,000	2004.05.14-2009.05.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fifth dominant bank debentures issued in 2004	300,000	300,000	2004.05.17-2009.05.17 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Sixth dominant bank debentures issued in 2004	500,000	500,000	2004.05.17-2009.05.17 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Seventh dominant bank debentures issued in 2004	200,000	200,000	2004.05.21-2009.05.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Eighth dominant bank debentures issued in 2004	500,000	500,000	2004.05.21-2011.05.21 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.

(Continued)

	<u>December 31</u>		<u>Maturity Date</u>	<u>Terms</u>
	<u>2005</u>	<u>2004</u>		
Ninth dominant bank debentures issued in 2004	\$ 300,000	\$ 300,000	2004.06.03-2009.06.03 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Tenth dominant bank debentures issued in 2004	500,000	500,000	2004.06.07-2009.06.07 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Eleventh dominant bank debentures issued in 2004	200,000	200,000	2004.06.15-2009.06.15 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Twelfth dominant bank debentures issued in 2004	500,000	500,000	2004.06.15-2010.06.15 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually with simple interest based on actual days.
Thirteenth dominant bank debentures issued in 2004	300,000	300,000	2004.06.30-2009.06.30 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fourteenth dominant bank debentures issued in 2004	500,000	500,000	2004.07.09-2010.07.09 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Fifteenth dominant bank debentures issued in 2004	500,000	500,000	2004.07.13-2011.07.13 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
First subordinated bank debentures issued in 2004	1,500,000	1,500,000	2004.09.14-2010.06.14 Principal is repayable on maturity date.	Floating rate. Interest is paid semiannually.
Second subordinated bank debentures issued in 2004	500,000	500,000	2004.09.14-2010.06.14 Principal is repayable on maturity date.	Index rate plus 0.50%. Interest is reset semiannually since the issuance date. Interest is paid semiannually.
First subordinated debentures issued in 2005	3,000,000	-	2005.12.13-2011.06.13 Principal is repayable on maturity date.	Index rate plus 0.35%. Interest is reset semiannually since the issuance date. Interest is paid semiannually.
	<u>\$ 35,800,000</u>	<u>\$ 32,800,000</u>		

## 16. STOCKHOLDERS' EQUITY

### a. Capital stock

The capitalization of retained earnings in 2004 had been approved by the authority, and the authorized and issued capital increased from \$19,443,976 to \$20,863,392 on July 6, 2005. Pursuant to the Financial Holding Company Act, the 116,565,240 shares of SPH, which were held by the Bank for three years as of May 8, 2005, has been cancelled and subsequently decreased the SPH's capital stock. In addition, the alteration registration has been completed. Because the Bank did not receive the proceeds from SPH for those cancelled shares, it had to decrease its capital according to the capital decrease ratio. The capital stock decreased by \$1,135,324 (please see Note 6), and the capital stock after capital decrease amounted to \$19,728,068.

### b. Capital surplus

Under the Company Law, the component of capital surplus arising from issuance of shares in excess of par value and donation can, except in the year it arises, be transferred to common stock, if approved by stockholders. This distribution can be made only within specified limits. These restrictions are in accordance with regulations issued by Securities and Futures Bureau (SFB), Financial Supervisory Commission, Executive Yuan, ROC.

Capital surplus arising from equity-accounted long-term equity investment cannot be distributed for any purpose.

c. Retained earnings and dividend policy

The Bank's Articles of Incorporation provide that the Bank may declare dividends or make other distributions from earnings after it has:

- 1) Deducted any deficit of prior years;
- 2) Paid all outstanding taxes;
- 3) Set aside 30% of remaining earnings as legal reserve;
- 4) Set aside any special reserve or retained earnings allocated at its option;
- 5) Allocated at least 1% of the remaining earnings as employee bonus.

To comply with the Bank's globalization strategy, strengthen its market position, integrate its diversified business operation and be a major local bank, the Bank has adopted the "Balanced Dividend Policy". Under this policy, dividends available for distribution are determined by referring to its capital adequacy ratio (CAR). Cash dividends may be declared if the Bank's CAR is above 12% and stock dividends may be declared if the CAR is equal to or less than 12%. However, the Bank may make a discretionary cash distribution even if the CAR is below 12%, if approved at the stockholders' meeting, for the purpose of maintaining the cash dividends at a certain level in any given year.

Cash dividends and cash bonus are paid when approved by the stockholders, while the distribution of stock dividends requires the additional approval of the authorities.

Under the Company Law, the appropriation for legal reserve is made until the reserve equals the aggregate par value of the outstanding capital stock of the Bank. This reserve is only used to offset a deficit. When its balance reaches 50% of aggregate par value of the outstanding capital stock of the Bank, and the Bank have no earnings, the legal reserve over 50% can be distributed as stock dividend or bonus, or, the Bank have no deficit, the Bank can retain the legal reserve up to 25% of the outstanding capital and transferred the remaining legal reserve to common stock. In addition, the Banking Law provides that, before the balance of the reserve reaches the aggregate par value of the outstanding capital stock, annual cash dividends, remuneration to directors and supervisors and bonus to employees should not exceed 15% of aggregate par value of the outstanding capital stock of the Bank.

Under the Financial Holding Company Act, the board of directors is empowered to execute the authority in stockholders' meeting, which is under no jurisdiction in the related regulations in the Company Law.

On April 28, 2005 and April 14, 2004, the board of directors which execute rights and functions of stockholders' meeting resolved the appropriation of 2004 and 2003 earnings, respectively, as follows:

	<b>Earnings Appropriation</b>		<b>Dividends Per Share (New Taiwan Dollars)</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Legal reserve	\$ 1,285,444	\$ 826,170		
Remuneration to directors and supervisors	26,847	38,000		
Bonus to employees - cash	28,946	19,277		
Cash dividends	1,419,416	1,870,452	\$0.73	\$0.962
Stock dividends	<u>1,419,416</u>	<u>-</u>	0.73	-
	<u>\$ 4,180,069</u>	<u>\$ 2,753,899</u>		

The appropriation of 2005 earnings has not yet been resolved by the board of directors as of February 21, 2006, the date of auditors' report. The related information regarding the proposed and resolved earnings appropriation can be found at the SEC Market Observation Post System (M.O.P.S.) website.

In addition, had the aforementioned remuneration to directors and supervisors and bonus to employees (included in the appropriation of 2004 and 2003 earnings) been recognized as expenses, the basic EPS (after tax) for 2004 would have been decreased from NT\$2.05 to NT\$2.03 per share, and the basic EPS (after tax) for 2003 would have been decreased from NT\$1.32 to NT\$1.30 per share.

## 17. SERVICE FEES

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Mutual funds	\$ 622,008	\$ 652,836
Loan documentation fee	476,931	439,054
Factoring and financing	318,179	342,935
Import and export	239,179	243,049
Custody	195,977	226,116
Other	<u>173,525</u>	<u>169,585</u>
	<u>\$ 2,025,799</u>	<u>\$ 2,073,575</u>

## 18. INCOME FROM SECURITIES, NET

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Short-term bills		
Interest revenue	\$ 825,174	\$ 1,350,036
Capital gain, net	<u>5,632</u>	<u>2,259</u>
	<u>830,806</u>	<u>1,352,295</u>
Bonds		
Capital gain, net	<u>215,866</u>	<u>202,770</u>
Stocks and beneficiary certificates		
Dividend revenue	102,577	108,163
Capital gain, net	92,511	529,482
Dividend distributed form mutual funds	<u>459</u>	<u>485</u>
	<u>195,547</u>	<u>638,130</u>
Structured instruments		
Gain from structured instruments	<u>235</u>	<u>-</u>
	<u>235</u>	<u>-</u>
	<u>\$ 1,242,454</u>	<u>\$ 2,193,195</u>

## 19. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

	For the Years Ended	
	December 31	
	2005	2004
Personnel expenses		
Salaries and wages	\$ 2,480,004	\$ 2,713,845
Pension	168,025	154,464
Labor insurance and national health insurance	123,271	116,298
Other	20,911	37,775
Depreciation	371,366	403,386
Amortization	96,915	104,817

## 20. PENSION

For the Bank's employees choose the pension mechanism regulated by the Labor Standard Law, the retirement payments shall be paid to employees on the basis of the following standard: (i) a lump sum payment of retirement payments equal to two base units shall be paid for each year of service (ii) provided that each year of service exceeding fifteen years shall be entitled to only one base unit of wage (iii) and that the maximum payment shall be forty-five base units. Any fraction of a year which is equal to or more than six months shall be counted as one year of service, and any fraction of a year which is less than six months shall be counted as half a year of service.

For the Bank's employees choosing the pension mechanism regulated by the Labor Pension Act, the retirement payments is paid according to the related rulings of this Act.

The Bank's employees contribute a compulsory amount equivalent to 4% of their salaries to the employees' pension fund, and the Bank also makes monthly contributions to the severance payment fund. The Labor Pension Act took effect on July 1, 2005, therefore the aforementioned employees' pension fund ceased to contribute, and the employees received their cumulative contributions and related interest thereon.

The Labor Pension Act took effect on July 1, 2005, and the Bank's employees, who were on service before July 1, 2005, could choose the pension mechanism either under the Labor Standard Law or under this Act. For those employees who choose the pension mechanism regulated by the Labor Standard law, their seniority prior to the enforcement of Labor Pension Act shall be maintained. The newly hired employees, who were hired after July 1, 2005, could only be regulated by the Labor Pension Act.

Since July 1, 2005, for those employees who still choose to be subjected to the Labor Standard Law, the Bank makes monthly contributions, equal to 4% of employee salaries, to the severance payment fund. If the employees quit willingly, they still can receive the severance payment based on the severance payment criteria.

For those employees who choose to be subjected to the Labor Pension Act, the Bank ceases to contribute into severance payment fund. The cumulated contributions generated before applying Labor Pension Act is summed up in the balance at that month and retained in the severance payment fund. The employees will receive severance payments according to severance payment criteria when they quit willingly.

The Bank applied defined contribution plan regulated by Labor Pension Act after July 1, 2005. Under this Act, the Bank contributed 6% of the employee salaries to the Labor Insurance Administration (according to this Act, the contribution rate by the employer to the Labor Pension Fund per month shall not be less than 6% of the employee's monthly wages). For the year ended 2005, the pension expense under the defined contribution pension plan amounted to \$35,969, which were contributed to personal pension accounts.

Information related to defined benefit pension plan of the Bank is disclosed as follows:

- a. The changes in the pension fund were summarized below:

	<b>For the Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Balance, January 1	\$ 1,280,049	\$ 1,084,416
Contributions	171,165	207,428
Benefits paid	(637,810)	(49,817)
Interest revenue	<u>38,297</u>	<u>38,022</u>
Balance, December 31	<u>\$ 851,701</u>	<u>\$ 1,280,049</u>

The ending balances as of December 31, 2005 and 2004 consisted of:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Contributions by the Bank	\$ 851,701	\$ 802,255
Contributions by employees	<u>-</u>	<u>477,794</u>
	<u>\$ 851,701</u>	<u>\$ 1,280,049</u>

- b. Net pension costs for the years ended December 31, 2005 and 2004 were summarized below:

	<b>For the Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Service cost	\$ 113,158	\$ 133,236
Interest cost	40,344	35,611
Expected return on plan assets	(30,049)	(27,164)
Net amortization and deferral	<u>8,603</u>	<u>9,743</u>
Net pension cost	<u>\$ 132,056</u>	<u>\$ 151,426</u>

- c. The reconciliations of the funded status of the plan and accrued pension cost as of December 31, 2005 and 2004 were as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Benefit obligation		
Vested benefit obligation	\$ 123,385	\$ 124,258
Nonvested benefit obligation	<u>602,509</u>	<u>674,572</u>
Accumulated benefit obligation	725,894	798,830
Additional benefit based on future salaries	<u>335,544</u>	<u>299,250</u>
Projected benefit obligation	1,061,438	1,098,080
Fair value of plan assets	<u>(853,803)</u>	<u>(802,204)</u>
Funded status	207,635	295,876
Unrecognized net transition obligation	(24,887)	(29,865)

(Continued)

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Un-amortized prior service cost	\$ (428)	\$ (556)
Un-amortized pension loss	<u>(59,444)</u>	<u>(146,898)</u>
Accrued pension cost	<u>\$ 122,876</u>	<u>\$ 118,557</u>
d. Vested benefit	<u>\$ 251,460</u>	<u>\$ 259,289</u>
e. Actuarial assumptions		
1) Discount rate used in determining present value	3.5%	3.5%
2) Expected rate of return on plan assets	2.5%	3.5%
3) Future salary increase rate	2.5%	2.5%

## 21. INCOME TAX

Under a directive issued by the MOF, a financial holding company and its domestic subsidiaries with over 90% of shares issued was held by the financial holding company for 12 months within the same tax year, may choose to adopt the linked-tax system for income tax filings. SPH and some of its subsidiaries, including the Bank (collectively, the “Group”), had adopted the linked-tax system since 2003 income tax filings and 2002 unappropriated earnings tax filings.

a. The components of income tax were as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Current income tax payable	\$ 352,481	\$ 524,250
Separate taxes on short-term bills interest revenue	195,570	74,089
Foreign income taxes over limitation	5,294	58,563
Change in deferred income taxes	23,014	35,252
Prior year’s adjustment	<u>(28,994)</u>	<u>(73,884)</u>
Income tax	<u>\$ 547,365</u>	<u>\$ 618,270</u>

Income tax was based on taxable income from all sources. Foreign income taxes paid can be used as credits against the domestic income tax obligations to the extent of domestic income tax applicable to the foreign-source income.

- b. Reconciliation of tax on pretax income at statutory rate and current income tax payable:

	<b>For the Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Tax on pretax income at 25% statutory rate	\$ 666,132	\$ 1,225,761
Add (deduct) tax effects of:		
Tax-exempt income	1,395	(182,210)
Permanent difference	(325,777)	(497,096)
Temporary difference	15,256	(8,625)
Investment tax credit	<u>(4,525)</u>	<u>(13,580)</u>
Current income tax payable	<u>\$ 352,481</u>	<u>\$ 524,250</u>

- c. Deferred income tax assets (liabilities) consisted of the tax effects of the following:

	<b>For the Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Investment income under the equity method	\$ (659,900)	\$ (541,076)
Deferred pension cost	30,649	29,593
Unrealized foreign exchange loss (gain)	82,038	(14,472)
Other	<u>(46,555)</u>	<u>(46,555)</u>
Deferred income tax liabilities	<u>\$ (593,768)</u>	<u>\$ (572,510)</u>
Deferred income tax assets (included in other assets)	<u>\$ 3,993</u>	<u>\$ 5,587</u>

- d. The estimated receivables and payable from adopting the linked-tax system of income tax filing were as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Receivable from related party	<u>\$ 97,082</u>	<u>\$ 96,582</u>
Payable to related party	<u>\$ 22,284</u>	<u>\$ 358,168</u>

- e. The related information under the Integrated Income Tax System was as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Balances of imputed tax credit account	<u>\$ 139,615</u>	<u>\$ 95,182</u>

The projected imputed tax ratio for earnings in 2005 is 8.42%, which is based on the estimated balance of Imputation Credit Account on the dividend distribution date. The actual imputed tax ratio for earnings in 2004 was 5.00%.

The tax credits allocable to shareholders are based on the balance of Imputation Credit Account on the dividend distribution date. Thus, the 2005 projected imputed tax ratio may vary from the actual ratio.

- f. Income tax returns through 2001, except those for 1996, had been examined by the tax authorities. On the income tax returns for the aforementioned years, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to the period when those bonds were held by other investors. The Bank appealed on the decision of the tax authorities. Nevertheless, on the basis of conservative principles, in 2001, the Bank recognized \$111,209 as part of income tax expenses to reflect accrued liabilities and any assets written off in relation to the foregoing withholding taxes.

In January 2004, the Bank reached an agreement with the Taipei National Tax Administration (TNTA) on the above appealing cases, in which TNTA would refund 65% of the withholding tax denied on the interest income on bonds to the Bank. Consequently, the Bank accrued 35% of the withholding tax denied on the interest income on bonds as income tax expenses for 2003 and 2002, which were not refunded by tax authorities. The Bank also reversed the accrued income tax expenses on interest income on bonds amounting to \$74,022.

Under the Integrated Income Tax System, noncorporate and ROC-resident stockholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

## 22. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per shares (EPS, in dollars) were summarized as follows:

	<u>Numerator (Amounts)</u>		<u>Denominator (Shares in Thousands)</u>	<u>EPS</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>After Tax</u>
<u>For the year ended December 31, 2005</u>					
Basic EPS					
Net income belongs to common stockholders	<u>\$ 2,664,529</u>	<u>\$ 2,117,164</u>	2,046,836	<u>\$ 1.30</u>	<u>\$ 1.03</u>
<u>For the year ended December 31, 2004</u>					
Basic EPS					
Net income belongs to common stockholders	<u>\$ 4,903,085</u>	<u>\$ 4,284,815</u>	2,086,339	<u>\$ 2.35</u>	<u>\$ 2.05</u>

The EPS has been adjusted for the distribution of stock dividends. For the year ended December 31, 2004, the pretax EPS has been adjusted from \$2.52 to \$2.35, the after tax EPS has been adjusted from \$2.20 to \$2.05, respectively.

## 23. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes of financial statements, relationship with the Bank and significant transactions between the Bank and related parties for years ended December 31, 2005 and 2004 were summarized as follows:

a. Related parties

<u>Name</u>	<u>Relationship with the Bank</u>
SinoPac Financial Holdings Company Limited (SPH)	Parent company
SinoPac Securities Corporation (SinoPac Securities)	Subsidiary of SPH
SinoPac Marketing Consulting Co., Ltd. (SinoPac Marketing Consulting)	Subsidiary of SPH
SinoPac Call Center Co., Ltd. (SinoPac Call Center)	Subsidiary of SPH
SinoPac Venture Capital Co., Ltd. (SinoPac Venture Capital)	Subsidiary of SPH
SinoPac Asset Management International (SinoPac Asset Management)	Subsidiary of SPH
SinoPac Life Insurance Agent Co., Ltd. (SPLIA)	Subsidiary of SPH
SinoPac Property Insurance Agent Co., Ltd. (SPPIA)	Subsidiary of SPH
AnShin Card Services Company Limited (AnShin Card Services)	Subsidiary of SPH
SinoPac Securities Investment Trust Co., Ltd. (SinoPac Investment Trust)	Subsidiary of SPH
Far East National Bank (FENB)	Overseas affiliate of the Bank
SinoPac Leasing Corporation (SPL)	Subsidiary
RSP Information Service Company Limited (RSP Information)	Affiliate of the Bank
SinoPac Capital Ltd.	Overseas affiliate of the Bank
Grand Capital International Limited (Grand Capital)	Subsidiary of SPL
Fortune Investment Co., Ltd. (Fortune Investment)	Director of the Bank
China Television Co., Ltd. (China Television)	The Bank is a director of the Company (the director resigned on November 2004)
Ruentex Development Co., Ltd. (Ruentex Development)	Related party in substance
Wal Tech International Corporation (Wal Tech International)	Affiliate
SinoPac Asia Limited	Subsidiary of SinoPac Securities
Formosa Plastic Corporation (Formosa Plastic)	Related party in substance
SinoPac Futures Corporation (SinoPac Futures)	Subsidiary of SinoPac Securities
SinoPac Securities (Cayman) Holdings	Subsidiary of SinoPac Securities
Panasonic Taiwan Co., Ltd. (PTW)	Same chairperson with SPH (the chairperson resigned on May 2005)
SinoPac Managed Futures Co., Ltd. (SinoPac Managed Futures)	Affiliate
SinoPac Columbus Fund	Managed by subsidiary of SPH, SinoPac Investment Trust
SinoPac New Century Fund	Managed by subsidiary of SPH, SinoPac Investment Trust
International Bank of Taipei Co., Ltd. (International Bank of Taipei)	Subsidiary of SPH (became a wholly owned subsidiary of SPH since December 26, 2005)

(Continued)

Name	Relationship with the Bank
Other	The Bank's directors, supervisors, managers and their relatives, department chiefs, the investees accounted for by the equity method and their subsidiaries, and the investees of SPH's other subsidiaries, etc.
Other	Related parties under the control of the Bank but without transactions, please refer to Table 6

b. Significant transactions between the Bank and related parties

1) Loans

	Ending Balance	% of Total	Interest Rate	Interest Revenue	% of Total
For the year ended <u>December 31, 2005</u>					
SPL	\$ 558,000	0.18%	1.58%-1.72%	\$ 18,341	0.12%
SinoPac Securities	500,000	0.17%	1.53%	459	-
SinoPac Asia Limited	230,607	0.08%	4.92%-4.99%	3,725	0.02%
Formosa Plastic Corporation	101,252	0.03%	3.04%	3,367	0.02%
Others	829,869	0.27%	1.58%-7.40%	12,473	0.08%
For the year ended <u>December 31, 2004</u>					
SPL	1,006,000	0.39%	1.56%-4.70%	23,260	0.22%
SinoPac Securities	500,000	0.19%	1.42%	8	-
Wal-Tech International	213,000	0.08%	1.31%-1.56%	867	0.01%
Grand Capital	296,828	0.11%	1.83%	8,496	0.08%
Others	45,098	0.02%	1.75%-12.30%	9,639	0.09%

2) Deposits

	Ending Balance	% of Total	Interest Rate	Interest Expense	% of Total
For the year ended <u>December 31, 2005</u>					
SPH	\$ 3,040,618	0.76%	0%-4.50125%	\$ 30,374	0.30%
SinoPac Securities	1,244,444	0.31%	0.3%-4.91%	12,805	0.13%
SinoPac Venture Capital	547,291	0.14%	0.30%	1,812	0.02%
SinoPac Futures Corporation	257,329	0.06%	0.3%-1.94%	13,317	0.13%
SinoPac Securities (Cayman)	227,727	0.06%	4.05%-4.25%	4,035	0.04%
Others	3,051,121	0.77%	0%-6.475%	23,830	0.24%

(Continued)

	<b>Ending Balance</b>	<b>% of Total</b>	<b>Interest Rate</b>	<b>Interest Expense</b>	<b>% of Total</b>
For the year ended <u>December 31, 2004</u>					
SPH	\$ 1,977,289	0.60%	0.30%-2.60%	\$ 37,133	0.64%
SinoPac Securities	1,367,757	0.41%	0.002%-4.53%	17,471	0.30%
PTW	871,504	0.26%	0.3%-4.28%	1,664	0.03%
SinoPac Futures Corporation	705,185	0.21%	0.3%-1.35%	8,005	0.14%
SinoPac Managed Futures	187,534	0.06%	0.3%-1.4%	2,929	0.05%
Others	1,700,684	0.52%	0.3%-6.475%	16,611	0.29%

3) Due from banks and other receivables

	<b>Ending Balance</b>		<b>% of Total</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Call loans to banks - IBT	\$ 279,600	\$ 319,170	0.47%	1.53%
Due from banks - FENB	63,413	44,283	1.26%	0.18%
Other receivables	33,173	218,413	0.14%	0.75%

4) Securities purchased

	<b>December 31, 2005</b>	<b>% of Total</b>
Structured instruments - SinoPac Securities	\$ 146,600	0.17%
Beneficiary certificates - SinoPac New Century Fund	50,000	0.06%
Beneficiary certificates - SinoPac Columbus Fund	36,000	0.04%

5) Guarantees

The Bank had provided guarantees on commercial papers issued by SinoPac Securities and Wal Tech International. The aggregate face amounts of commercial paper were as follows:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
SinoPac Securities	\$ 35,000	\$ 35,000
Wal Tech International	-	140,000
	<u>\$ 35,000</u>	<u>\$ 175,000</u>

Guarantees and credits on Wal Tech International were collateralized by the following assets provided by SPL, Wal Tech International and Grand Capital:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Properties - carrying amount	<u>\$ 1,104,568</u>	<u>\$ 1,114,160</u>

Guarantees and credits on SinoPac Securities were collateralized by the following assets provided by SinoPac Securities:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Properties and leased assets - carrying amount	\$ 1,173,521	\$ 1,183,912
Certificates of deposit	<u>830,000</u>	<u>1,160,000</u>
	<u>\$ 2,003,521</u>	<u>\$ 2,343,912</u>

Guarantees and credits on Fortune Investment were collateralized by the following assets provided by Fortune Investment:

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Properties - carrying amount	\$ 40,064	\$ 40,064
Stocks - fair value	8,253	8,010

6) Long-term investments

In coordination with restructure of the parent company - SPH, the Bank transferred the following long-term equity investments which are accounted for by cost method to SinoPac Venture Capital at book value in 2005.

	<b>Shares in Thousands</b>	<b>Book Value</b>
Prudence International Fund Ltd.	\$ 5,000	\$ 35,600
Taiwan Leader Advanced Technology Co., Ltd.	1,103	10,766
Z-Com, Inc.	1,196	8,001

The Bank have purchased beneficiary certificates - credit card receivables from AnShin Card Services. The maturity and fixed interest rate of the beneficiary certificates are February 20, 2009 and 3%, respectively, and the principal was as follows:

	<b>December 31, 2005</b>
Beneficiary certificates - credit card receivables - AnShin Card Services	<u>\$ 80,000</u>

7) Revenues and expenses

	<b>Amount</b>		<b>% of Total</b>	
	<b>For the Years Ended December 31</b>		<b>For the Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Service fees	\$ 22,556	\$ 7,163	1.11%	0.35%
Service charges	-	1,595	-	0.70%
Project popularizing expense	410	4,152	0.20%	2.21%

8) Short-term bills and bonds sold under agreements to repurchase

	<u>Face Amount</u>		<u>Cost</u>	
	<u>December 31</u>		<u>December 31</u>	
	2005	2004	2005	2004
SPH				
Short-term bonds sold under agreements to repurchase	\$ -	\$ 630,000	\$ -	\$ 700,000
Other				
Short-term bills and bonds sold under agreements to repurchase	67,500	1,000	75,001	1,011

9) Lease

a) The Bank as a lessee

The Bank had leased certain office premises from related parties under several contracts for various periods ranging from 1 to 15 years, with rentals paid monthly. The related information was summarized as follows:

Lessor	<u>Rental Expenses</u>		Lease Term	Payment Frequency
	<u>For the Years</u>			
	<u>Ended</u>			
	<u>December 31</u>			
	2005	2004		
SPL	\$ 65,541	\$ 6,191	February 2020	Rentals paid monthly
China Television	4,975	9,950	July 2005	Rentals paid monthly
Ruentex Development	3,672	3,566	September 2010	Rentals paid monthly
SinoPac Securities	-	2,085	-	Rentals paid monthly

b) The Bank as a lessor

Lessee	<u>Rental Income</u>		Lease Term	Payment Frequency
	<u>For the Years</u>			
	<u>Ended</u>			
	<u>December 31</u>			
	2005	2004		
SPL	\$ 3,324	\$ -	May 2010	Rentals received monthly
SinoPac Call Center	2,592	2,160	October 2006	Rentals received monthly
SinoPac Securities	2,469	2,545	November 2008	Rentals received monthly
SinoPac Marketing Consulting	1,870	2,387	May 2007	Rentals received monthly
SinoPac Asset Management	363	-	June 2010	Rentals received monthly
AnShin Card Services	243	180	November 2005	Rentals received monthly

10) Professional advisory charges

The Bank had entered into several professional advisory contracts with its investees. The professional advisory charges paid for the years ended December 31, 2005 and 2004 amounted to \$127,327 and \$231,020, respectively.

11) Due from/to affiliates

As of December 31, 2005 and 2004, the Bank's receivables from AnShin Card Services amounted to \$30,535 and \$25,725, respectively.

As of December 31, 2005 and 2004, the Bank's estimated receivables resulting from the adoption of the linked-tax system amounted to \$97,082 and \$96,582, respectively, and the estimated payables resulting from the adoption of the linked-tax system as of December 31, 2005 and 2004 amounted to \$22,284 and \$356,168, respectively.

As of December 31, 2005, the Bank's dividends receivable from SPH amounted to \$102,577.

12) Asset transactions

For the year ended December 31, 2004, the Bank purchased convertible corporate bonds amounting to \$247,900, which had been paid before December 31, 2004, from SinoPac Securities.

13) Derivative financial instruments

	<u>December 31, 2005</u>		
<b>FENB</b>	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
Interest rate swap contracts	\$ 32,850	\$ -	\$ (102)
Currency swap contracts	423,420	62	62
Forward contracts	19,506	1,044	(1)

	<u>December 31, 2005</u>		
<b>SPL</b>	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
Interest rate swap contracts	\$ 80,000	\$ 1,941	\$ 1,941

	<u>December 31, 2005</u>		
<b>SinoPac Capital Ltd.</b>	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
Interest rate swap contracts	\$ 522,769	\$ -	\$ (717)
Currency swap contracts	522,765	28	19

For transactions between the Bank and related parties, the terms are similar to those transacted with unrelated parties except for the preferential interest rates offered to employees for savings and loans up to prescribed limits.

Under the Banking Law, except for government and consumer loans, credit extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

## 24. SIGNIFICANT CONTINGENCIES AND COMMITMENTS

In addition to those disclosed in Note 28, financial instruments, significant contingencies and commitments of the Bank, are summarized as follows:

a. Lease contract

The Bank leases certain office premises under several contracts for various periods ranging from one to fifteen years, with rentals paid monthly, quarterly or semiannually. Rentals for the next five years are as follows:

<b>Year</b>	<b>Amount</b>
2006	\$ 264,846
2007	220,615
2008	166,676
2009	133,542
2010	95,060

Rentals for the years beyond 2010 amount to \$604,318, the present value of which is about \$507,216 as discounted at the Bank's one-year time deposit rate of 1.99% on January 1, 2006.

b. Equipment purchase contract

The Bank has entered into contracts to purchase computer hardware and software for \$87,459, of which \$55,477 has been paid as of December 31, 2005.

c. Interior decoration contract

The Bank has entered into interior decoration contracts for \$35,412, of which \$31,216 has been paid as of December 31, 2005.

d. Short-term bills and bonds sold under agreements to repurchase

As of December 31, 2005, short-term bills and bonds with a total face amount of \$8,851,528 were sold under agreements to repurchase at \$9,462,770 between January and March 2006.

e. Short-term bills and bonds purchased under agreements to resell

As of December 31, 2005, short-term bills and bonds with a total face amount of \$5,400,200 were purchased under agreements to resell at \$5,854,056 on January 2006.

f. The Securities and Futures Investors Protection Center (SFIPC) is believed by investors to be filing a lawsuit against the Bank in the ground that Procomp Informatics Ltd. provided US\$10 million deposit with the Bank's Sungshan Branch and limited the usage as a condition for short-term loan to Addie International Limited granted by SPL and for helping Procomp Informatics Ltd. window-dressing its financial statements. As of June 29, 2005, the SFIPC filed additional lawsuit against the Bank, SPL and all other parties related to Procomp Informatics Ltd. Case for compensation in the amount of \$4,467,129. As a matter of fact, the Bank was authorized to engage in financing activities and did not help Procomp Informatics Ltd. window-dressing its the financial statements. According to the Bank attorney's opinion, the claims from SFIPC is without sufficient reason and the Bank does not need to compensate the investors for the damage.

## 25. CAPITAL ADEQUACY RATIO

The Banking Law and Regulations Governing Capital Adequacy of Banking Enterprises require the Bank to maintain a capital adequacy ratio of at least 8%. Pursuant to such law and regulations, if the Bank's capital adequacy ratio falls below 8%, the MOF may impose certain restrictions on level of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

As of December 31, 2005 and 2004, the Bank's non-consolidated capital adequacy ratios were 13.01% and 12.64%, respectively, and the consolidated capital adequacy ratios were 10.94% and 11.25%, respectively.

## 26. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by the daily average balances of interest-earning assets and interest-bearing liabilities.

	<b>For the Years Ended December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Average Balance</b>	<b>Average Rate (%)</b>	<b>Average Balance</b>	<b>Average Rate (%)</b>
<u>Interest-earning assets</u>				
Due from other banks	\$ 4,816,799	3.06	\$ 4,539,653	1.02
Call loans (placement)	38,730,745	2.66	12,399,828	1.63
Due from the Central Bank	7,540,379	1.50	7,417,488	1.56
Securities purchased	75,520,989	1.63	122,114,201	1.43
Securities purchased under agreement to resell	18,014,965	1.25	9,475,174	1.07
Loans, discounts and bills purchased	274,496,877	3.46	242,487,403	3.22
Accounts receivable from factoring	11,499,315	4.40	12,467,985	3.84
Other long-term investments	1,212,319	2.91	418,468	1.26
<u>Interest-bearing liabilities</u>				
Due to banks	49,287	1.43	65,130	1.18
Call loans (taken)	32,900,616	2.74	40,230,715	1.32
Demand deposits	52,553,535	1.33	77,011,852	0.42
Savings - demand deposits	73,882,276	0.48	69,575,428	0.48
Time deposits	118,754,307	1.92	104,436,485	1.14
Savings - time deposits	69,976,912	1.63	62,923,792	1.51
Negotiable certificates of deposit	28,527,012	1.26	27,718,490	1.01
Securities sold under agreement to repurchase	13,465,088	1.58	12,344,902	1.01
Bank debentures	32,956,164	1.84	28,245,628	2.66

## 27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity of assets and liabilities of the Bank is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements, and, in cases where there are no specified maturity dates, based on expected dates of collection or settlement.

	<b>December 31, 2005</b>			<b>Total</b>
	<b>Due in One Year</b>	<b>Due Between One Year and Five Years</b>	<b>Due After Five Years</b>	
<u>Assets</u>				
Cash and cash equivalent	\$ 8,139,836	\$ -	\$ -	\$ 8,139,836
Due from the Central Bank and other banks	76,475,233	-	-	76,475,233
Securities purchased	85,593,900	-	-	85,593,900
Receivables	26,654,420	-	-	26,654,420
Securities purchased under agreements to resell	5,849,260	-	-	5,849,260
Loans, discounts and bills purchased (excluding nonperforming loans)	89,566,324	33,561,200	177,849,000	300,976,524
Other long-term investments	-	1,094,300	-	1,094,300
	<u>\$ 292,278,973</u>	<u>\$ 34,655,500</u>	<u>\$ 177,849,000</u>	<u>\$ 504,783,473</u>

<u>Liabilities</u>				
Call loans and due to banks	\$ 33,523,503	\$ -	\$ -	\$ 33,523,503
Securities sold under agreements to repurchase	9,440,268	-	-	9,440,268
Payables	15,189,907	-	-	15,189,907
Deposits and remittances	384,408,164	14,091,000	-	398,499,164
Bank debentures	5,000,000	26,800,000	4,000,000	35,800,000
	<u>\$ 447,561,842</u>	<u>\$ 40,891,000</u>	<u>\$ 4,000,000</u>	<u>\$ 492,452,842</u>

	<b>December 31, 2004</b>			<b>Total</b>
	<b>Due in One Year</b>	<b>Due Between One Year and Five Years</b>	<b>Due After Five Years</b>	
<u>Assets</u>				
Cash and cash equivalent	\$ 8,526,211	\$ -	\$ -	\$ 8,526,211
Due from the Central Bank and other banks	35,964,349	-	-	35,964,349
Securities purchased	94,879,770	-	-	94,879,770
Receivables	32,062,069	-	-	32,062,069
Securities purchased under agreement to resell	17,434,620	-	-	17,434,620
Loans, discounts and bills purchased (excluding nonperforming loans)	80,960,544	30,414,866	148,637,000	260,012,410
Other long-term investments	-	1,014,300	-	1,014,300
	<u>\$ 269,827,563</u>	<u>\$ 31,429,166</u>	<u>\$ 148,637,000</u>	<u>\$ 449,893,729</u>

<u>Liabilities</u>				
Call loans and due to banks	\$ 38,967,866	\$ -	\$ -	\$ 38,967,866
Securities sold under agreement to repurchase	18,274,840	-	-	18,274,840
Payables	19,478,185	-	-	19,478,185
Deposits and remittances	320,427,843	9,124,000	-	329,551,843
Bank debentures	-	23,900,000	8,900,000	32,800,000
	<u>\$ 397,148,734</u>	<u>\$ 33,024,000</u>	<u>\$ 8,900,000</u>	<u>\$ 439,072,734</u>

## 28. FINANCIAL INSTRUMENTS

### a. Derivative financial instruments

The Bank engages in derivative transactions mainly for accommodating customers' needs and managing its exposure positions. It also enters into cross currency swaps, interest rate swaps, futures, foreign currency options and asset swaps to hedge the effects of foreign exchange or interest rate fluctuations on its foreign-currency assets and liabilities. The Bank's strategy is to hedge most of the market risk exposures using hedging instruments with market value changes that have a highly negative correlation with the changes in the market of the exposures being hedged. The Bank also reassesses the hedge effectiveness of these instruments periodically.

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. The Bank enters into contracts with customers that have satisfied the credit approval process and have provided the necessary collateral. The transactions are then made within each customer's credit limit, and guarantee deposits may be required, depending on the customers' credit standing. Transactions with other banks are made within the trading limit set for each bank on the basis of the bank's credit rating and its worldwide ranking. The associated credit risk has been considered in the evaluation of provision for credit losses. In addition, the Bank has entered into futures contracts with international futures and options exchanges, and therefore, no significant credit risk is expected.

The contract amounts (or notional amounts), credit risks and fair values of outstanding contracts were as follows:

Financial Instruments	December 31					
	2005			2004		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
For hedging purposes:						
Interest rate swap contracts	\$ 12,616,000	\$ 68,613	\$ (361,497)	\$ 16,084,437	\$ 279,484	\$ 279,484
Cross-currency swap contracts	14,300,000	152,354	21,380	14,300,000	1,195,636	1,190,878
For the purposes of accommodating customers' needs or managing the Bank's exposures:						
Forward contracts						
- Buy	55,643,571	408,981	74,202	97,593,843	258,822	(2,026,583)
- Sell	49,634,061	318,631	104,305	97,408,876	1,720,095	1,698,365
Forward rate agreement						
- Buy	-	-	-	1,900,000	-	(486)
Currency swap contracts	193,492,848	470,554	110,878	180,604,017	1,810,078	(134,145)
Interest rate swap contracts	129,845,616	134,726	(9,329)	69,916,423	921,464	(19,206)
Cross-currency swap contracts	9,473,375	77,962	452	13,675,871	80,880	3,288
Interest rate futures contracts						
- Long position	367,462	-	475	-	-	-
- Short position	1,169,066	-	(2,469)	95,751	-	501
Commodity - linked interest rate swap contracts	115,632	219	-	-	-	-
Credit-linked deposit	4,300,000	-	(43,978)	-	-	-

Financial Instruments	December 31					
	2005			2004		
	Contract (Notional) Amount	Credit Risk	Value of Options Purchased/ Written	Contract (Notional) Amount	Credit Risk	Value of Options Purchased/ Written
For the purposes of accommodating customers' needs or managing the Bank's exposures:						
Options						
- Long position	\$ 52,616,576	\$ 369,175	\$ 916,996	\$ 149,271,260	\$ 150,288	\$ 3,910,028
- Short position	55,810,711	-	866,096	133,169,281	-	2,551,603
Equity options contract						
- Long position	146,600	9,556	-	-	-	-
- Short position	146,600	-	821	-	-	-

The fair value of each contract is determined using the quotations from Reuters Information System. The fair value of each future contract refers to the closing price published by international futures and options exchanges as of the balance sheet date.

As of December 31, 2005 and 2004, the Bank entered into asset swap contracts for hedging purposes, with notional amounts at \$1,204,700 and \$2,102,502, respectively. Since the Bank entered into these contracts with counter-parties with splendid worldwide ranking and credit rating, in significant credit risk is expected.

As of December 31, 2005 and 2004, the Bank entered into credit default swap contracts for the purposes of accommodating customers' needs, with notional amounts at \$359,059 and \$377,132. Since the Bank entered into these contracts with counter-parties with splendid worldwide ranking and credit rating, in significant credit risk is expected. Since the Bank entered into future contracts with Taiwan Future Exchange, in significant credit risk is expected.

The notional amounts of derivative contracts are used solely for the purpose of calculating receivables and payables to all contract-parties. Thus, the notional amounts does not represent the actual cash inflows or outflows. The possibility that derivative financial instruments held or issued by the Bank cannot be sold at reasonable prices is remote; thus, in significant cash demand is expected.

The gains (losses) on derivative financial instruments for the years ended December 31, 2005 and 2004 were as follows:

	Account	For the Years Ended	
		December 31	
		2005	2004
For hedging purposes:			
Cross-currency swap contracts			
- Realized	Interest revenue	\$ 252,649	\$ 286,447
	Interest expense	(459,472)	(192,934)
Interest rate swap contracts			
- Realized	Interest revenue	48,325	133,063
	Interest expense	(88,297)	(26,397)
	Income from derivative financial instruments transactions	12,669	-
	Foreign exchange gain	41,967	-
Interest rate futures contracts	Loss on derivative financial instruments transactions	-	(7,195)
Options contracts	Income from derivative financial instruments transactions	-	20,101
		<u>(192,159)</u>	<u>213,085</u>
For the purposes of accommodating customers' needs or managing the Bank's exposures:			
Forward contracts			
- Realized	Interest revenue	260,306	71,640
	Interest expense	(83,018)	(14,463)
- Realized	Foreign exchange gain (loss)	274,395	(8,784)
- Unrealized	Foreign exchange gain (loss)	539,171	(580,888)
- Unrealized	Gain (loss) on derivative financial instruments transactions	(1,972)	30,474

(Continued)

	Account	For the Years Ended	
		December 31	
		2005	2004
Forward rate agreements			
- Realized	Loss on derivative financial instruments transactions	\$ (487)	\$ (3,513)
- Unrealized	Income from derivative financial instruments transactions	486	3,039
Currency swap contracts			
- Realized	Interest revenue	2,160,289	778,153
	Interest expense	(1,748,995)	(728,396)
- Unrealized	Income (loss) from derivative financial instruments transactions	92,224	(9,014)
Interest rate swap contracts			
- Realized	Interest revenue	738,541	230,603
	Interest expense	(787,770)	(285,815)
- Realized	Income from derivative financial instruments transactions	10,575	78,746
- Unrealized	Income from derivative financial instruments transactions	8,980	22,662
Foreign-currency options contracts			
- Realized	Loss on derivative financial instruments transactions	(409,989)	(3,247,298)
	Foreign exchange gain (loss)	(244,412)	3,675,154
- Unrealized	Gain (loss) on derivative financial instruments transactions	(660,359)	273,996
Interest rate futures contracts			
- Realized	Loss on derivative financial instruments transactions	(2,422)	(40,710)
- Unrealized	Gain (loss) on derivative financial instruments transactions	(2,495)	949
Cross-currency swap contracts			
- Realized	Interest revenue	408,070	33,199
	Interest expense	(406,123)	(31,715)
- Unrealized	Loss on derivative financial instruments transactions	(2,836)	(224)
Credit default swap contracts			
- Realized	Income from derivative financial instruments transactions	4,900	5,274
Commodity-linked interest rate swap contracts			
- Realized	Income from derivative financial instruments transactions	1,125	-
		<u>148,184</u>	<u>253,069</u>
Net gains		<u>\$ (43,975)</u>	<u>\$ 466,154</u>

b. Fair value of nonderivative financial instruments

	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 116,992,212	\$ 116,992,212	\$ 93,810,866	\$ 93,810,866
Securities purchased	85,593,900	85,625,144	94,879,770	95,770,783
Loans, discounts and bills purchased	302,283,944	302,283,944	260,718,198	260,718,198
Long-term equity investments	8,156,129	8,156,129	8,990,782	8,990,782
Other long-term investments	1,094,300	1,094,300	1,014,300	1,014,300
Guarantee deposits	1,021,658	1,016,155	1,511,744	1,515,942
<u>Liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	58,137,406	58,137,406	76,619,402	76,619,402
Deposits and remittances	398,499,164	398,499,164	329,551,843	329,551,843
Bank debentures	35,800,000	35,800,000	32,800,000	32,800,000
Other liabilities	25,824	25,824	134,782	134,782

Methods and assumptions applied in estimating the fair values of nonderivative financial instruments are as follows:

- 1) The carrying amounts of cash and cash equivalent, due from the Central Bank and other banks, acceptances, receivables, securities purchased under agreements to resell, call loans and due to banks, securities sold under agreements to repurchase, payables, acceptances payable and remittances, approximate their fair values because of the short maturities of these instruments.
- 2) The fair values of securities purchased, long-term equity investments and other long-term investments are based on their market prices if these market prices are available. Otherwise, fair values are estimated at their carrying amounts.
- 3) Loans, discounts and bills purchased, deposits, bank debentures and funds received for subloans are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on the carrying amount, which is net of allowance for credit losses.
- 4) The fair values of government bonds submitted as guarantee deposits are based on market values while those of certificates of deposit are estimated at their carrying amounts. Fair values of other guarantee deposits and guarantee deposits received are estimated at their carrying amounts since such deposits do not have specific due dates.

Certain financial instruments and all nonfinancial instruments are excluded from disclosure requirement. Accordingly, the aggregate fair values presented above do not necessarily represent the total values of the Bank.

c. Financial instruments with off-balance-sheet credit risks

The Bank had significant credit commitments principally relating to customer financing activities. The terms of most of the credit commitments were under seven years. (For the years ended December 31, 2005 and 2004, the interest rates of the loans both ranged from and 0.01% to 20.00%) The Bank also issues financial guarantees and standby letters of credit to guarantee the performance of a customer obligations to a third party. The term of these guarantees were usually less than one year, and their maturity dates are not concentrated in any particular period.

The contract amounts of financial instruments with off-balance-sheet credit risk as of December 31, 2005 and 2004 were as follows:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Financial guarantees and standby letters of credit	\$ 13,531,309	\$ 14,409,729
Undrawn loan commitments	4,605,736	4,172,889

Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The Bank's maximum credit risk relative to these commitments is the amount of the commitment assuming that the customer uses the full amount of the commitment and the related collateral or other security turns out to be worthless.

The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2005 and 2004, ratios of secured loans to total loans were 70% and 71%, respectively. Collaterals held vary but may include cash, inventories, marketable securities, and other properties. When the customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising out of the guarantees given.

## 29. INFORMATION ON CONCENTRATIONS OF RISK

The Bank has no credit risk concentration arising from any counter-party or groups of counter-parties engaged in similar business activities. Industries that accounted for 5% or more of the outstanding loans as of December 31, 2005 and 2004 were as follows:

	<u>December 31</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Natural person	\$ 202,048,058	66	\$ 170,893,952	65
Manufacturing	50,433,500	17	46,467,640	18

The net positions on major foreign-currency transactions as of December 31, 2005 and 2004 were as follows:

	<b>December 31</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Foreign-currency Amounts (in Thousand)</b>	<b>New Taiwan Dollar Amounts (in Thousand)</b>	<b>Foreign-currency Amounts (in Thousand)</b>	<b>New Taiwan Dollar Amounts (in Thousand)</b>
Net positions of major foreign-currency with market risk	JPY 3,945,804	\$ 1,103,247	MYR 108,238	\$ 909,116
	CAD 19,719	556,771	JPY 2,872,678	893,404
	USD 15,946	523,827	USD 25,064	799,961
	AUD 21,530	482,910	THB 638,683	523,911
	EUR 3,024	117,813	EUR 10,114	440,071

### 30. MAJOR RISK EXPOSURE SITUATIONS, MANAGEMENT POLICY AND PRACTICE OF CREDIT RISK, MARKET RISK, LIQUIDITY RISK, OPERATING RISK AND LEGAL RISK

#### a. Credit risks

##### 1) Assets quality

(In Thousands of New Taiwan Dollars, %)

<b>Item</b>	<b>December 31, 2005</b>	<b>December 31, 2004</b>
Overdue loans (including nonperforming loans) (A)	3,070,340	\$1,942,504
Nonperforming loans	2,903,286	1,880,686
Overdue loans ratio (B)	1.01%	0.74%
Classified loans (C)	-	820,014
Ratios of classified loans to total loans	-	0.31%
Allowance for credit losses	1,595,866	1,174,898
Write-off amounts of credits (D)	341,030	932,811

A: a. Before June 30, 2005, overdue loans (including non-accrual loans) represent the amounts of reported overdue loans as required by the MOF letters dated February 16, 1994 (Ref. No. Tai-Tsai-Zong-832292834) and December 1, 1997 (Ref. No. Tai-Tsai-Zong-86656564).

b. Since July 1, 2005, overdue loans (including non-accrual loans) represent the amounts of reported overdue loans as required by the MOF letters dated January 6, 2004 (Ref. No. Tai-Tsai-Zong 928011826)

B: Overdue loans ratio = Overdue loans (including nonperforming loans)/(Outstanding loan balance + Nonperforming loans). If overdue loans (including nonperforming loans)/Total credits, the overdue loans ratio as of December 31, 2005 and 2004 were 0.88% and 0.62%, respectively.

C: Loans subject to observation are mid-term and long-term loans repayable in installments repayment on which is delinquent for more than three months but less than six months; other loans(the repayment of) principal on which is overdue by less than three months and interest thereon is overdue by more than three months but less than six months; loans that would normally be required to be reported as an overdue loan but for having been exempted from such reporting (including loans for which an agreement has been reached to repay such loan in installments, loans for which a credit insurance fund will cover such repayment as evidenced by a sufficient certificate of deposit or reserve, loans for which repayment has, by agreement, been extended due to the September 21, 1999 earthquake, loans for which the collateral has been sold at auction and the proceeds of such auction are yet to be distributed, and loans extended under other approved exempt loan programs).

D: Write-off amounts of credits = Accumulated write-off amounts of credits for the years ended December 31, 2005 and 2004.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

	December 31, 2005		December 31, 2004	
Credit extensions to interested parties	4,021,871		4,065,567	
Ratios of credit extensions to interested parties	1.15		1.30	
Ratios of credit extensions secured by pledged stocks	0.13		1.25	
Industry concentration	Industry	Percentage	Industry	Percentage
	Natural person	76.44	Natural person	77.47
	Manufacturing	9.45	Manufacturing	9.00
	Wholesaling and retailing	4.48	Wholesaling and retailing	3.96

A: Consist of loans, discounts and bills purchased (including import and export bill negotiations), acceptances and guarantees.

B: Ratio of credit extensions to interested parties = Credit extensions to interested parties/Total credit extensions.

C: Ratio of credit extensions secured by pledged stocks = Credit extensions secured by pledged stocks/Total credit extensions.

D: The amounts of credit extensions to interested parties are required to be computed pursuant to the Banking Law.

3) Policy of provision on credit losses: Please refer to Note 2.

4) Concentrations of risk: Please refer to Note 29.

b. Market risk

1) Average amount and average interest rate of interest-earning assets and interest-bearing liabilities: Please refer to Note 26.

2) Interest rate sensitivity

Item	December 31, 2005	December 31, 2004
Ratio of interest-rate sensitive assets to liabilities	95.76%	86.02%
Ratio of interest-rate sensitive gap to net worth	(53.55%)	(143.04%)

A: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by changes of interest rates.

B: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (with maturities of less than one year in New Taiwan Dollars).

C: Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities

3) Net positions of the major foreign-currency: Please refer to Note 29.

c. Liquidity risk

1) Profitability

Item	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004
Return on total assets	0.54%	1.11%
Return on net worth	9.55%	18.03%
Profit margin	10.21%	21.74%

A: Return on total assets = Income before income tax/Average total assts

B: Return on net worth = Income before income tax/Average net worth

C: Profit margin = Income after income tax/Total operating revenues

D: Income after income tax represents income for the years ended December 31, 2005 and 2004.

2) Maturity analysis of assets and liabilities

**December 31, 2005**

**(In Millions of New Taiwan Dollars)**

	Total	Amount for the Remaining Period Prior to the Maturity Date				
		0-30 Days	31-90 Days	91-180 Days	181 Days to One Year	Over One Year
Assets	\$ 493,666	\$ 144,671	\$ 44,977	\$ 37,765	\$ 28,332	\$ 237,921
Liabilities	494,724	104,833	92,679	85,972	102,115	109,125
Gap	(1,058)	39,838	(47,702)	(48,207)	(73,783)	128,796
Accumulated gap	(1,058)	39,838	(7,864)	(56,071)	(129,854)	(1,058)

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

d. Operating risk and litigation risk

**Matters Requiring Special Notation  
December 31, 2005**

Causes (Note)	Summary and Amount
Within the past one year, a responsible person or professional employee, in the course of business, violated the law, resulting in an indictment by a prosecutor.	None
Within the past one year, a fine was levied on the Bank for violations of the related regulations.	None
Within the past one year, misconduct occurred that resulted in the Financial Supervisory Commission imposing strict corrective measures.	<p>1. The Financial Supervisory Commission (FSC) imposed strict corrective measures on the factory business transacted at Tunpei Branch on July 13, 2005. FSC consider the Tunpei Branch helped the client increase bank deposits in false, window dress the financial statements and insufficient disclosure with respect to letters for confirmation on bank deposits with restricted usage from auditors. On December 23, 2005, FSC restricted the Bank for accepting any factoring business from new clients and only dealing within the credit limited for existing clients for the period of January to June 2006. The Bank has filing the appeal on the matter of punishment, and asked the related business units follow the rulings established by FSC. For the disclosure requirement, the Bank has set up a standard operating procedure for all business units to follow.</p> <p>2. The Bank's affiliate company, Grand Capital International Limited (Grand Capital), had granted short-term loans to Addie International Limited. On October 26, 2004, the FSC imposed strict corrective measure on the significant weakness of Grand Capital's related controls. Some employees involved in the significant weakness of the aforementioned loans had been punished, and the Bank had followed the FSC's instructions to strengthen plan on the investees' management.</p>

(Continued)

Causes (Note)	Summary and Amount
Within the past one year, the loss from one incident or the total losses from employee corruption, periodic events of a material nature, or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded NT\$50 million dollars.	None
Other	<p>Cause of the case: The Securities and Futures Investors Protection Center (SFIPC) added the Bank and SPL as additional defendants for joint and several compensation liabilities to the Procomp Informatics Ltd. case on the ground that Procomp Informatics Ltd. provided US\$10 million deposit with the Bank's Sunshan Branch and limited the usage as a condition for short-term loan to Addie International Limited granted by SPL.</p> <p>The value of the object of litigation: \$4,470,000.</p> <p>Period to bring up a litigation state - first session was August 1, 2005.</p> <p>Main parties: SFIPC, Procomp Informatics Ltd., Yeh Shu-Fei, the Bank and SPL.</p> <p>Status: Under the investigation on first court instance.</p>

Note: The term "within the past one year" means the one year prior to the balance sheet date.

### 31. STATEMENT OF CAPITAL ADEQUACY

Item	December 31, 2005	December 31, 2004
Capital adequacy ratios (Note)	13.01%	12.64%
Ratios of debt to net worth	1,793.55%	1,569.79%

Note: Capital adequacy ratio = Eligible capital/Risk-weighted assets. Pursuant to the Banking Law and related regulations, the capital adequacy ratio should be computed at the end of June and December, respectively. The consolidated capital adequacy ratios were 10.94% and 11.25% as of December 31, 2005 and 2004, respectively.

### 32. INFORMATION REGARDING THE TRUST BUSINESS UNDER THE TRUST LAW

a. Balance sheets and trust properties of trust accounts

**Balance Sheets of Trust Accounts  
December 31, 2005 and 2004**

Trust Assets	2005	2004	Trust Liabilities	2005	2004
Bank deposits	\$ 1,131,051	\$ 1,526,957	Payables	\$ 853	\$ 597
Short-term investments	54,612,144	53,750,053	Trust capital	59,476,180	57,312,037
Receivables	105,562	24,006	Cumulative earnings	<u>1,370,221</u>	<u>1,331,519</u>
Prepayments	52	51			
Properties	4,407,411	2,584,352			
Net asset value of collective investment trust fund	<u>591,034</u>	<u>758,734</u>			
Total trust assets	<u>\$ 60,847,254</u>	<u>\$ 58,644,153</u>	Total trust liabilities	<u>\$ 60,847,254</u>	<u>\$ 58,644,153</u>

**Trust Properties of Trust Accounts  
December 31, 2005 and 2004**

Investment Portfolio	2005	2004
Bank deposits	<u>\$ 1,131,051</u>	<u>\$ 1,526,957</u>
Short-term investments		
Bonds	11,820,584	9,567,983
Common stock	4,375,413	4,102,773
Funds	<u>38,416,147</u>	<u>40,079,297</u>
	<u>54,612,144</u>	<u>53,750,053</u>
Receivables	<u>105,562</u>	<u>24,006</u>
Prepayments	<u>52</u>	<u>51</u>
Properties		
Land	3,206,006	2,103,676
Buildings	470,160	6,677
Construction in process	<u>731,245</u>	<u>473,999</u>
	<u>4,407,411</u>	<u>2,584,352</u>
Net asset value of collective investment trust fund	<u>591,034</u>	<u>758,734</u>
Total	<u>\$ 60,847,254</u>	<u>\$ 58,644,153</u>

b. The contents of operations of the trust business under the Trust Law: Please refer to Note 1.

### 33. INFORMATION RELATED TO BORROWERS, GUARANTORS AND COLLATERAL PROVIDERS AS INTEREST PARTIES

December 31, 2005

Category	Account Volume	December 31, 2005	Possibility of Loss
Consumer loans (A)	324	\$ 261,291	-
Loans for employees' family mortgage	232	571,409	-
Other borrowers (B)	636	3,937,322	-
Guarantees	512	1,851,242	-
Collateral providers	1,110	7,133,505	-

December 31, 2004

Category	Account Volume	December 31, 2005	Possibility of Loss (Note C)
Consumer loans (A)	499	\$ 304,697	-
Loans for employees' family mortgage	264	658,353	-
Other borrowers (B)	621	2,862,331	-
Guarantees	491	2,331,963	-
Collateral providers	1,274	5,316,600	-

A: Consumer loans were regulated in the Banking Law Article 32.

B: Except for consumer loans and loans for employees' family mortgage, the credits that borrowers as interest parties.

C: The interest parties mentioned above is regulated in the banking Law Article 33-1.

### 34. CROSS SELLING INFORMATION

The Bank has contracted with SinoPac Securities for the sharing of operating equipment and premises, and the allocation of expenses. The related information were summarized as follows:

Item	The Bank	SinoPac Securities	Total	Terms of Allocation
For the year ended <u>December 31, 2005</u>				
Rentals	<u>\$ 2,295</u>	<u>\$ 1,665</u>	<u>\$ 3,960</u>	On the basis of actual square measures used.
For the year ended <u>December 31, 2004</u>				
Rentals	<u>\$ 13,098</u>	<u>\$ -</u>	<u>\$ 13,098</u>	On the basis of actual square measures used.

In February 2003, the Bank had entered into contracts with SPLIA and SPPIA, respectively, for cross selling business. The contracts refer to the rules of promoting cross selling business and how to allocate the related expenses to sites, personnel, and equipments and how to calculate the related compensation. For the year ended December 31, 2005, the Bank charged SPPIA \$3,160 of service fees, and charged SPLIA \$38,970 of promoting bonus under cross selling business.

### 35. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the SFB for the Bank and investees:

1) Financing provided: Table 1;

2) Endorsement/guarantee provided: Table 2;

3) Marketable securities held: Table 3;

4) Marketable securities acquired and disposed of, at costs or prices of at least NT\$300 million or 10% of the issued capital: None;

- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the issued capital: Table 4;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 10% of the issued capital: Table 5;
- 7) Allowance for service fees to related-parties amounting to at least NT\$5 million: None;
- 8) Receivables from related parties amounting to at least NT\$300 million or 10% of the issued capital: None;
- 9) Sale of nonperforming loans amounting to at least NT\$5 billion: None;
- 10) Other significant transactions which may affect the decisions of users of financial reports: None;
- 11) Names, locations, and other information of investees on which the Bank exercises significant influence: Table 6;
- 12) Derivative financial transactions: The derivative financial instruments of the Bank are disclosed in Note 28, and the derivative financial instrument transactions of Far East National Bank (“FENB”, a wholly owned subsidiary of SinoPac Bancorp, which is a wholly owned subsidiary of the Bank) are summarized below:

FENB engages in derivative financial instrument transactions mainly for accommodating customers’ needs and managing its exposure positions.

FENB is exposed to credit risk if the counter-parties default on the contracts on maturity date. FENB enters into contracts with customers that have satisfied its credit approval process and have provided the necessary collateral. Transactions are made within each customer’s credit line; guarantee deposits may be required, depending on the customer’s credit standing. Transactions with other banks are made within the trading limit set for each bank based on the bank’s credit rating and its worldwide ranking. The associated credit risk has been considered in the evaluation of provision for credit losses.

As of December 31, 2005, the contract amounts (or notional amounts), credit risks and fair values of outstanding contracts were as follows:

<b>Financial Instruments</b>	<b>December 31, 2005</b>		
	<b>Contract (Notional) Amount</b>	<b>Credit Risk</b>	<b>Fair Value</b>
For the purpose of accommodating customers’ needs or managing FENB’s exposures:			
Interest rate swap contracts	\$ 32,850	\$ -	\$ (102)
Currency swap contracts	423,420	62	62
Forward contracts			
- Sell	19,506	1,044	(1)

Financial Instruments	December 31, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value
For the purpose of accommodating customers' needs or managing FENB's exposures:			
Options			
- Long position	\$ 478,755	\$ 478,755	\$ 480,739
- Short position	15,959	479	(16,250)

The fair value of each contract is determined on the basis of quotations from Reuters or the Telerate Information System.

The notional amounts of derivative contracts are used solely for the purpose of calculating receivables and payables to all contract parties. Thus, the notional amounts do not represent the actual cash inflows or outflows. The possibility that derivative financial instruments held or issued by FENB cannot be sold at reasonable prices is remote; thus, no significant cash demand is expected.

The gains and losses on derivative transactions for the years ended December 31, 2005 and 2004 were insignificant.

b. Information related to investment in Mainland China: None.

### 36. SEGMENT AND GEOGRAPHIC INFORMATION

The Bank engages only in banking activities as prescribed by the Banking Law and has no single customer that accounts for 10% or more of the Bank's operating revenues. Thus, no industrial and customorial information disclosure is required.

The geographic information about the Bank for the year ended December 31, 2005 is as follows:

	Domestic	United States	Hong Kong	Adjustments and Eliminations	Total
Revenues from third parties	<u>\$ 17,984,323</u>	<u>\$ 541,707</u>	<u>\$ 2,212,583</u>	<u>\$ -</u>	<u>\$ 20,738,613</u>
Segment income	<u>\$ 1,906,137</u>	<u>\$ 262,888</u>	<u>\$ 495,504</u>	<u>\$ -</u>	<u>\$ 2,664,529</u>
Investment income under the equity method					-
Income before income tax					<u>\$ 2,664,529</u>
Identifiable assets	<u>\$ 463,298,390</u>	<u>\$ 15,191,405</u>	<u>\$ 36,142,270</u>	<u>\$ -</u>	<u>\$ 514,632,065</u>
Long-term equity investments under the equity method					<u>7,877,839</u>
Total assets					<u>\$ 522,509,904</u>

The geographic information about the Bank for the year ended December 31, 2004 is as follows:

	<b>Domestic</b>	<b>United States</b>	<b>Hong Kong</b>	<b>Adjustments and Eliminations</b>	<b>Total</b>
Revenues from third parties	<u>\$ 17,656,637</u>	<u>\$ 405,578</u>	<u>\$ 1,131,229</u>	<u>\$ -</u>	<u>\$ 19,193,444</u>
Segment income	<u>\$ 3,918,082</u>	<u>\$ 366,972</u>	<u>\$ 102,222</u>	<u>\$ -</u>	<u>\$ 4,387,276</u>
Investment income under the equity method					<u>515,809</u>
Income before income tax					<u>\$ 4,903,085</u>
Identifiable assets	<u>\$ 200,289,302</u>	<u>\$ 13,874,502</u>	<u>\$ 249,054,978</u>	<u>\$ -</u>	<u>\$ 463,218,782</u>
Long-term equity investments under the equity method					<u>8,222,432</u>
Total assets					<u>\$ 471,441,214</u>

## BANK SINOPAC AND INVESTEES

FINANCING PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(In Thousands of New Taiwan Dollars)

No.	Financier	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate (%)	Financing Type	Transaction Amount	Financing Reasons	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limits
											Item	Value		
1	SinoPac Capital (B.V.I.) Ltd.	SinoPac Capital Ltd.	Short-term borrowings	\$ 145,242 (Note 1)	\$ 145,242 (Note 1)	US 4.21%-4.75% HK 4.18%-4.38%	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 246,375 (Note 1)	\$ 246,375 (Note 1)
2	SinoPac Leasing Corporation	Wal Tech International Corporation	Other receivables - related parties	433,500	179,000	2.1%-2.2%	Short-term financing	-	Repay of borrowings	895	-	-	568,000	11,534,409

Note 1: Foreign-currency amounts were translated to New Taiwan dollars at the exchange rate as of the balance sheet date.

## BANK SINOPAC AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(In Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Individual Endorsement/Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Endorsement/Guarantee Amount Collateralized by Properties	Ratio of Accumulated Amount of Endorsement/Guarantee to Net Asset Value of the Latest Financial Statement (Note 4)	Maximum Endorsement/Guarantee Amounts Allowable
		Name	Nature of Relationship						
1	SinoPac Leasing Corporation	Grand Capital International Limited	Subsidiary	(Note 2)	\$ 4,560,787 (Note 1)	\$ 4,390,776 (Note 1)	\$ -	12.38%	(Note 3)
		Wal Tech International Corporation	Affiliate	(Note 2)	338,500	10,000	-	0.03%	(Note 3)

Note 1: Foreign-currency amounts were translated to New Taiwan dollars at the exchange rate as of the balance sheet date.

Note 2: The limit on individual endorsement or guarantee amount is up to 200% of the net asset value (Note 4) of the Corporation. But no limit applied on any subsidiary of the Corporation. As of December 31, 2005, the limit was \$2,269,005.

Note 3: The maximum amount of endorsement or guarantee amounts is up to 500% of the net asset value (Note 4) of the Corporation. But no limit applied on any subsidiary of the Corporation. As of December 31, 2005, the maximum allowance was \$5,672,511.

Note 4: The net asset value of SinoPac Leasing Corporation was based on its audited financial statements as of December 31, 2005.

## BANK SINOPAC AND INVESTEES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2005

(In Thousands of New Taiwan Dollars)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2005				Note
				Shares/Units/ Face Amount (In Thousand)	Carrying Amount (Note 1)	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
SinoPac Bancorp	<u>Stock</u> Far East National Bank	Subsidiary	Long-term equity investments	180	\$ 5,964,254	100.00%	\$ 5,964,254	Note 3
	SinoPac Financial Services (USA) Ltd.	Subsidiary	Long-term equity investments	2.5	26,306	100.00%	26,306	Note 3
Far East Capital Corporation	<u>Stock (common stock)</u> PCRS Capital Partners, LLC	Investee accounted for by the cost method	Long-term equity investments	-	1,353	4.00%	1,353	Note 5
	TVIA, Inc.	Investee accounted for by the cost method	Long-term equity investments	33	2,409	0.20%	2,409	Note 5
	<u>Stock (preferred stock)</u> AgraQuest, Inc.	-	Long-term equity investments	100	891	0.80%	891	Note 5
	Silicon Motion, Inc.	-	Long-term equity investments	11	1,806	0.10%	1,806	Note 5
	Zone Reactor, Inc.	-	Long-term equity investments	300	1,106	1.50%	1,106	Note 5
	SinoPac Leasing Corporation	<u>Stock</u> Grand Capital International Limited	Subsidiary	Long-term equity investments	29,900	547,418	100.00%	547,418
Global Securities Finance Corp.		Investee accounted for by the cost method	Long-term equity investments	1,423	15,664	0.19%	15,442	Note 3
Z-Com, Inc.		Investee accounted for by the cost method	Long-term equity investments	1	10	0.001%	-	Note 4
SinoPac Capital Limited	<u>Stock</u> SinoPac Capital (B.V.I.) Ltd.	Subsidiary	Long-term equity investments	4,450	199,639	100.00%	431,024	Note 3
	SinoPac Insurance Brokers Ltd.	Subsidiary	Long-term equity investments	100	1,280	100.00%	1,862	Note 3
	SinoPac (Hong Kong) Nominees Ltd.	Subsidiary	Long-term equity investments	0.001	0.004	100.00%	0.004	Note 3
	HC	-	Short-term investments	7,998	53,207	1.72%	56,250	Note 2
	Suga International	-	Short-term investments	7,080	43,410	3.11%	23,967	Note 2
	ZZNode	-	Short-term investments	12,004	29,974	3.00%	23,395	Note 2
	Norstar	-	Short-term investments	6,908	56,882	0.71%	70,242	Note 2
	Hans Energy	-	Short-term investments	21,000	48,948	0.80%	44,486	Note 2
	Bestfield Enterprise Ltd.	-	Short-term investments	38	49,275	-	49,275	Note 2
	China-Metal	-	Short-term investments	300	1,805	0.03%	2,764	Note 2
	Wealthmark	-	Short-term investments	15,327	35,066	5.11%	38,962	Note 2
	Magna Chi	-	Short-term investments	16	65,700	-	65,700	Note 2
		<u>Fund</u> China Enterprise Capital	-	Short-term investments	US\$ 1,000	32,850	-	32,850

(Continued)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statement Account	December 31, 2005				Note	
				Shares/Units/ Face Amount (In Thousand)	Carrying Amount (Note 1)	Percentage of Ownership	Market Value or Net Asset Value (Note 1)		
SinoPac Capital (B.V.I.) Ltd.	<u>Stock</u> Cyberpac Holding Ltd. (B.V.I.)	Subsidiary	Long-term equity investments	4,000	\$ 131,400	100.00%	\$ 1,678	Note 3	
	Shanghai International Asset Management (Hong Kong) Co., Ltd.	Subsidiary	Long-term equity investments	4,800	37,071	60.00%	40,649	Note 3	
	Pinnacle Investment Management Ltd.	Subsidiary	Long-term equity investments	200	6,570	100.00%	3,739	Note 3	
	RSP Information Service Company Limited	Subsidiary	Long-term equity investments	1,000	4,212	100.00%	2,063	Note 3	
Allstar Venture Ltd. (B.V.I.)	<u>Venture fund</u> InveStar Excelsus Venture Capital (Int'l) Inc., LDC	-	Long-term investments	1,529	57,557	6.25%	57,557	Note 3	
	UOB Venture Technology Investments Limited	-	Long-term investments	26	35,369	8.62%	35,369	Note 3	
	MDS Life Sciences Technology Fund - Barbados	-	Long-term investments	50	26,108	25.00%	26,108	Note 3	
	Biotechnology Development Fund II, L.P.	-	Long-term investments	-	14,910	2.30%	14,910	Note 3	
	North America Venture Fund II, L.P.O.	-	Long-term investments	-	11,960	2.07%	11,960	Note 3	
	<u>Stock (common stock)</u> Enhance Biotech	Investee accounted for by the cost method	Long-term equity investments	104	1,984	42.00%	1,984	Note 5	
	DiCon Fiberoptics, Inc.	Investee accounted for by the cost method	Long-term equity investments	221	6,976	0.20%	6,976	Note 5	
	<u>Stock (preferred stock)</u> Tanox	-	Long-term equity investments	9	4,825	0.08%	4,825	Note 5	
	Altor	-	Long-term equity investments	100	1,708	0.87%	1,708	Note 5	
	Phytoceutica, Inc.	-	Long-term equity investments	200	8,475	1.45%	8,475	Note 5	
	Immusol, Inc.	-	Long-term equity investments	25	10,075	0.05%	10,075	Note 5	
	Wal Tech International Corporation	<u>Stock</u> Intellisys Corp.	Subsidiary	Long-term equity investments	7,197	78,701	62.58%	98,073	Note 3
		Multiwin Asset Management Co., Ltd.	Investee accounted for by the equity method	Long-term equity investments	1,800	10,947	30.00%	10,947	Note 3
Webi & Neti Internet Services Inc.		Investee accounted for by the cost method	Long-term equity investments	63	477	2.63%	477	Note 3	
SynTest Technologies, Inc., Taiwan		Investee accounted for by the cost method	Long-term equity investments	79	354	0.35%	430	Note 3	
Taiwan Leader Advanced Technology Co., Ltd.		Investee accounted for by the cost method	Long-term equity investments	1,575	15,000	1.53%	15,370	Note 3	
Ruentex Resources Integration Co., Ltd.		A subsidiary of Bank SinoPac's supervisor and investee accounted for by the cost method	Long-term equity investments	2,361	24,114	2.47%	24,941	Note 3	
SonicEdge Industries Corporation		Investee accounted for by the cost method	Long-term equity investments	290	1,238	1.16%	1,239	Note 3	
Maximum Venture I, Inc., Taiwan		Investee accounted for by the cost method	Long-term equity investments	17,500	175,350	8.33%	158,935	Note 3	
Silicon Motion Inc.	Investee accounted for by the cost method	Long-term equity investments	13	6,219	-	5,228	Note 6		
Intellisys Corp.	<u>Stock</u> Orion Financial Tech. Ltd.	Investee accounted for by the cost method	Long-term equity investments	81	-	2.31%	21	Note 3	

Note 1: Foreign-currency amounts were translated to New Taiwan dollars at the exchange rate as of the balance sheet date.

Note 2: Market prices of listed and over-the-counter stocks were determined by average daily closing prices in December 2005.

Note 3: Net asset values were based on the investees' unaudited or unreviewed financial statements for the latest period.

Note 4: Net asset values were based on the investees' audited or reviewed financial statements for the latest period.

Note 5: Net asset values were based on the carrying amounts.

Note 6: Market prices were determined at the closing prices on December 31, 2005.

## BANK SINOPAC AND INVESTEES

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE ISSUED CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

Company Name	Property	Transaction Date	Transaction Amount	Condition of Payment	Counter-party	Relationship	Prior Transaction of Related Counter-party (Note 2)				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
SinoPac Leasing Corporation	Zhonglun buildings	December 29, 2004	\$ 734,817 (Including input tax NT\$34,991 thousand)	Paid	Li-Seng Develop Company	-	-	-	\$ -	-	For business use	-	
	Superficies of Zhonglun buildings	December 29, 2004	1,102,226 (Including input tax NT\$52,487 thousand)	Paid	Li-Seng Develop Company	-	-	-	-	-	For business use	-	

Note 1: For SinoPac Leasing Corporation, the amount were included in advances on acquisitions of equipment at acquisition date, but classified as property held for lease and superficies from 2005.

Note 2: The Zhonglun buildings and superficies were build by SinoPac Leasing Corporation, therefore, there were no prior transaction of related counter-party information.

**BANK SINOPAC AND INVESTEES**

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT COST OF AT LEAST NT\$300 MILLION OR 10% OF THE ISSUED CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

**(In Thousands of New Taiwan Dollars)**

Company Name	Property	Transaction Date	Acquisition Date	Carrying Amount	Transaction Amount	Collection Terms	Gain (Loss) of Disposal	Counter-party	Relationship	Price Reference	Purpose of Disposal	Other Terms
SinoPac Leasing Corporation	Property hold for lease - land	March 4, 2005	June 28, 2001	\$ 231,040	\$ 184,443	Collected	\$ (46,596)	AnHong Co., Ltd.	-	Appraisal report of real estate	For business	-
	Property hold for lease - building	March 4, 2005	June 28, 2001	103,639	95,016 (Note 1)	Collected	(13,148)	AnHong Co., Ltd.	-	Appraisal report of real estate	For business	-

## BANK SINOPAC AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee (Note 2)	Investment Gains (Loss)	Note
				December 31, 2005 (Note 1)	December 31, 2004 (Note 1)	Shares (Thousand)	Percentage of Ownership (%)	Carrying Amount (Note 2)			
Bank SinoPac	SinoPac Bancorp	California	Stock holding	US\$ 112,306	US\$ 112,306	20	100.00	\$ 5,871,192	\$ 548,938	\$ 468,658	Subsidiary
	SinoPac Leasing Corporation	Taipei	Leasing aircraft and machinery equipment	\$ 999,940	\$ 999,940	176,689.62	99.7683	1,106,265	(798,181)	(798,375)	Subsidiary
	SinoPac Capital Limited	Hong Kong	Lending and financing	HK\$ 229,998	HK\$ 229,998	229,998	99.9991	898,128	(285,990)	(111,922)	Subsidiary
	SinoPac Financial Consulting Co., Ltd.	Taipei	Investment advisory and business management advisory	\$ 1,940	\$ 1,940	194	97.00	2,255	80	78	Subsidiary
SinoPac Bancorp	Far East National Bank	California	Commercial bank	US\$ 112,714	US\$ 112,714	180	100.00	5,964,254	572,714	-	Affiliate
	SinoPac Financial Services (USA) Ltd.	California	Securities brokerage	US\$ 25	US\$ 25	2.5	100.00	26,306	(15,197)	-	Affiliate
Far East National Bank	Far East Capital Corporation	California	Investment bank	US\$ 3,500	US\$ 3,500	350	100.00	54,815	(2,997)	-	Affiliate
SinoPac Leasing Corporation	Grand Capital International Limited	British Virgin Islands	Oversea trading, leasing, lending and financing	US\$ 29,900	US\$ 29,900	29,900	100.00	547,418	(944,971)	-	Affiliate
SinoPac Capital Limited	SinoPac Capital (B.V.I.) Ltd.	British Virgin Islands	Financial advisory	US\$ 4,450	US\$ 4,450	4,450	100.00	199,639	18,712	-	Affiliate
	SinoPac Insurance Brokers Ltd.	Hong Kong	Insurance brokerage	HK\$ 300	HK\$ 300	100	100.00	1,280	1,131	-	Affiliate
	SinoPac (Hong Kong) Nominees Ltd.	Hong Kong	Custody securities	HK\$ 0.001	HK\$ 0.001	0.001	100.00	0.004	-	-	Affiliate
SinoPac Capital (B.V.I.) Ltd.	Cyberpac Holding Ltd. (B.V.I.)	British Virgin Islands	Investment and advisory	US\$ 4,000	US\$ 4,000	100	100.00	131,400	5,584	-	Affiliate
	Shanghai International Asset Management (Hong Kong) Co., Ltd.	Hong Kong	Asset management	HK\$ 10,000	HK\$ 10,000	4,800	60.00	37,071	11,040	-	Affiliate
	Pinnacle Investment Management Ltd. RSP Information Service Company Limited	Hong Kong Hong Kong	Asset management, trust and consulting General trading and providing interest - based service	US\$ 200 HK\$ 999,999	US\$ 200 HK\$ 999,999	200 1,000	100.00 100.00	6,570 4,212	136 (19)	-	Affiliate
Wal Tech International Corporation	Intellisys Corp.	Taipei	Computer and peripheral system integration engineering, software development and design	258,836	258,836	7,197	62.58	78,701	527	-	Affiliate
	Multiwin Asset Management Co., Ltd.	Taipei	Asset management	18,000	18,000	1,800	30.00	10,947	5,308	-	Investee under significant influence held by the Bank's affiliate

Note 1: The original investment amounts were expressed in respective foreign currencies denominated.

Note 2: Foreign-currency amounts were translated at the exchange rate as of the balance sheet date, except for foreign-currency-denominated income and expenses, which were translated to New Taiwan dollars at the average exchange rate for the year ended December 31, 2005.