

# **Bank SinoPac**

**Financial Statements for the  
Six Months Ended June 30, 2006 and 2005 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 June 30, 2006 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the six months 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 except that described in the next paragraph. 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.

As stated in Note 12 to the financial statements, the carrying amount of the equity investments accounted for by the equity method as of June 30, 2005 amounted to NT\$1,006,079 thousand, the related investment income for the six months then ended amounted to NT\$17,195 thousand, and additional disclosures about investees stated in Note 36 to the financial statements, are based on the investees' unaudited financial statements.

In our opinion, except for the adjustments in the Bank's financial statements that might have been required had the investees' financial statements mentioned in the third paragraph been audited by independent auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Bank SinoPac as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months 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 accompanying financial statements, effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments", No. 36 "Disclosure and Presentation of Financial Instruments" and other standards amended for harmonising with those two standards.

We have also audited the consolidated financial statements of Bank SinoPac and subsidiaries as of and for the six months ended June 30, 2006, on which we have issued modified unqualified opinion thereon.

August 17, 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 auditors' 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 auditors' report and financial statements shall prevail.*

# BANK SINOPAC

## BALANCE SHEETS JUNE 30, 2006 AND 2005

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

| ASSETS   | 2006                  |                       | %     | LIABILITIES AND STOCKHOLDERS' EQUITY  | 2006                  |                       | %    |
|--|-----------------------|-----------------------|-------|---|-----------------------|-----------------------|------|
|  | Amount                | Amount                |       |   | Amount                | Amount                |      |
| CASH AND CASH EQUIVALENTS (Note 4)   | \$ 9,365,613          | \$ 6,666,644          | 40    | CALL LOANS AND DUE TO BANKS (Note 16)   | \$ 27,512,441         | \$ 32,072,881         | (14) |
| DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 25)                       | 63,301,917            | 56,239,916            | 13    | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6 and 29)                               | 3,812,779             | 1,208,482             | 216  |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6, 25 and 29) | 20,499,217            | 26,301,301            | (22)  | SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Notes 2, 25 and 26)   | 7,740,152             | 18,138,548            | (57) |
| SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 2 and 26)                 | 5,942,111             | 23,215,845            | (74)  | ACCOUNTS, INTEREST AND OTHER PAYABLES (Notes 2, 17, 23 and 25)  | 12,800,946            | 13,924,382            | (8)  |
| ACCOUNTS, INTEREST AND OTHER RECEIVABLES, NET (Notes 2, 3, 7, 23 and 25)         | 22,220,696            | 28,166,272            | (21)  | DEPOSITS AND REMITTANCES (Notes 18 and 25)  | 407,413,585           | 363,678,706           | 12   |
| DISCOUNTS AND LOANS, NET (Notes 2, 8, 25 and 29)                                 | 306,255,200           | 274,067,495           | 12    | BANK DEBENTURES (Notes 2 and 19)  | 36,095,048            | 32,800,000            | 10   |
| AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 3, 9, 10 and 29)                   | 79,951,890            | 59,152,707            | 35    | OTHER FINANCIAL LIABILITIES (Notes 2 and 29)  | 489,155               | 121,250               | 303  |
| HELD-TO-MATURITY INVESTMENTS (Notes 2, 3, 11, 25 and 29)                         | 888,041               | 2,063,123             | (57)  | DEFERRED TAX LIABILITIES (Notes 2 and 23)   | 835,575               | 544,103               | 54   |
| EQUITY INVESTMENTS - EQUITY METHOD (Notes 2, 12 and 29)                          | 8,102,980             | 8,429,948             | (4)   | OTHER LIABILITIES (Notes 2, 3, 22 and 29)   | <u>366,109</u>        | <u>886,620</u>        | (59) |
| OTHER FINANCIAL ASSETS, NET  |                       |                       |       | Total liabilities   | <u>497,065,790</u>    | <u>463,374,972</u>    | 7    |
| Unquoted equity instruments (Notes 2, 3, 13 and 29)                              | 172,922               | 375,074               | (54)  | STOCKHOLDERS' EQUITY (Notes 2, 3 and 20)  |                       |                       |      |
| Non-active market debt instruments (Notes 2, 3, 13 and 29)                       | 1,491,790             | 112,402               | 1,227 | Capital stock, \$10 par value   |                       |                       |      |
| Others (Notes 13 and 29)   | <u>788,408</u>        | <u>81,637</u>         | 866   | Authorized and issued (shares in thousands): 1,972,807 and 2,086,339 as of June 30, 2006 and 2005, respectively | <u>19,728,068</u>     | <u>20,863,392</u>     | (5)  |
| Other financial assets, net  | <u>2,453,120</u>      | <u>569,113</u>        |       | Capital surplus   |                       |                       |      |
| PROPERTIES (Notes 2, 14 and 21)  |                       |                       |       | Additional paid-in capital  | 118,226               | 125,030               | (5)  |
| Cost   |                       |                       |       | Donated capital   | 83                    | 83                    | -    |
| Land   | 2,010,392             | 2,007,731             | -     | Other   | <u>95</u>             | <u>1,861</u>          | (95) |
| Buildings  | 2,331,130             | 2,266,947             | 3     | Total capital surplus   | <u>118,404</u>        | <u>126,974</u>        | (7)  |
| Computer equipment   | 1,450,387             | 1,369,032             | 6     | Retained earnings   |                       |                       |      |
| Transportation equipment   | 38,221                | 45,239                | (16)  | Legal reserve   | 6,280,113             | 5,782,921             | 9    |
| Office and other equipment   | <u>1,664,359</u>      | <u>1,385,691</u>      | 20    | Special reserve   | 282,977               | 282,977               | -    |
| Total cost   | 7,494,489             | 7,074,640             |       | Unappropriated  | <u>2,036,507</u>      | <u>1,547,376</u>      | 32   |
| Less: Accumulated depreciation   | <u>(2,715,519)</u>    | <u>(2,409,034)</u>    | (13)  | Total retained earnings   | <u>8,599,597</u>      | <u>7,613,274</u>      | 13   |
|  | 4,778,970             | 4,665,606             |       | Cumulative translation adjustments  | <u>(24,041)</u>       | <u>(58,591)</u>       | 59   |
| Advances on acquisitions of equipment and construction in progress               | <u>76,298</u>         | <u>291,142</u>        | (74)  | Unrealized gains or loss on financial instruments   | <u>(118,861)</u>      | <u>-</u>              | -    |
|  |                       |                       |       | Other adjustments   | <u>-</u>              | <u>(278,905)</u>      | 100  |
| Net properties   | <u>4,855,268</u>      | <u>4,956,748</u>      |       | Total stockholders' equity  | <u>28,303,167</u>     | <u>28,266,144</u>     |      |
| OTHER ASSETS (Notes 2, 3, 15 and 23)   | <u>1,532,904</u>      | <u>1,812,004</u>      | (15)  | CONTINGENCIES AND COMMITMENTS (Notes 2, 26 and 29)  |                       |                       |      |
| TOTAL  | <u>\$ 525,368,957</u> | <u>\$ 491,641,116</u> |       | TOTAL   | <u>\$ 525,368,957</u> | <u>\$ 491,641,116</u> |      |

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

(With Deloitte & Touche audit report dated August 17, 2006)

# BANK SINOPAC

## STATEMENTS OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|  | <u>2006</u>         | <u>2005</u>         |       |
|--|---------------------|---------------------|-------|
|  | Amount              | Amount              | %     |
| INTEREST REVENUE (Notes 2 and 3)   | \$ 10,196,927       | \$ 7,467,373        | 37    |
| INTEREST EXPENSE   | <u>6,661,267</u>    | <u>4,296,673</u>    | 55    |
| NET INTEREST   | <u>3,535,660</u>    | <u>3,170,700</u>    |       |
| NET REVENUES OTHER THAN INTEREST   |                     |                     |       |
| Commissions and fee revenues, net (Notes 2 and 25)   | 879,210             | 769,194             | 14    |
| Gains (losses) from financial assets and liabilities at fair value through profit or loss (Note 3) | 543,540             | (719,017)           | 176   |
| Realized gains from available-for-sale financial assets  | 247                 | -                   | -     |
| Realized gains from held-to-maturity investments (Note 3)  | -                   | 1,468               | (100) |
| Income from equity investments - equity method (Notes 2 and 12)                                    | 454,909             | 257,689             | 77    |
| Foreign exchange gains (losses), net (Note 2)  | (36,849)            | 1,099,968           | (103) |
| Other provision  | (39,752)            | -                   | -     |
| Gains from unquoted equity instruments   | 20,312              | 7,502               | 171   |
| Other net revenues (Note 3)  | <u>84,520</u>       | <u>67,306</u>       | 26    |
| Total net revenues   | <u>5,441,797</u>    | <u>4,654,810</u>    |       |
| PROVISION FOR LOAN LOSSES  | <u>640,248</u>      | <u>320,000</u>      |       |
| OPERATING EXPENSES (Note 2)  |                     |                     |       |
| Personnel expenses (Notes 21 and 22)   | 1,550,104           | 1,418,967           | 9     |
| Depreciation and amortization (Note 21)  | 234,973             | 230,390             | 2     |
| Others   | <u>872,762</u>      | <u>854,662</u>      | 2     |
| Total operating expenses   | <u>2,657,839</u>    | <u>2,504,019</u>    |       |
| INCOME BEFORE INCOME TAX   | 2,143,710           | 1,830,791           |       |
| INCOME TAX EXPENSE (Notes 2 and 23)  | <u>356,270</u>      | <u>283,415</u>      | 26    |
| INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES  | 1,787,440           | 1,547,376           |       |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGES (NET OF TAX BENEFIT \$17,232) (Note 3)                     | <u>249,067</u>      | <u>-</u>            |       |
| NET INCOME   | <u>\$ 2,036,507</u> | <u>\$ 1,547,376</u> |       |

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# BANK SINOPAC

## STATEMENTS OF INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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|                              | <u>2006</u>    |                      | <u>2005</u>    |                      |
|------------------------------|----------------|----------------------|----------------|----------------------|
|                              | <b>Pretax</b>  | <b>After<br/>Tax</b> | <b>Pretax</b>  | <b>After<br/>Tax</b> |
| EARNINGS PER SHARE (Note 24) |                |                      |                |                      |
| Basic earnings per share     | <u>\$ 1.20</u> | <u>\$ 1.03</u>       | <u>\$ 0.88</u> | <u>\$ 0.74</u>       |

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

(With Deloitte & Touche audit report dated August 17, 2006)

(Concluded)

# BANK SINOPAC

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

|   | Capital Stock       |                      | Capital Surplus<br>(Notes 2 and 20) | Legal Reserve       | Retained Earnings (Note 20) |                     |                     | Cumulative Translation Adjustments<br>(Note 2) | Unrealized Gains (Losses) on Financial Instruments | Other Adjustments<br>(Notes 2 and 12) | Total Stockholders' Equity |
|---|---------------------|----------------------|-------------------------------------|---------------------|-----------------------------|---------------------|---------------------|--|--|---------------------------------------|----------------------------|
|   | Shares in Thousands | Amount (Note 20)     |                                     |                     | Special Reserve             | Unappropriated      | Total               |  |  |                                       |                            |
| BALANCE, JANUARY 1, 2006  | 1,972,807           | \$ 19,728,068        | \$ 118,404                          | \$ 5,782,921        | \$ 282,977                  | \$ 1,657,307        | \$ 7,723,205        | \$ 24,539                                      | \$ -   | \$ -                                  | \$ 27,594,216              |
| Appropriation of 2005 earnings  |                     |                      |                                     |                     |                             |                     |                     |  |  |                                       |                            |
| Legal reserve   | -                   | -                    | -                                   | 497,192             | -                           | (497,192)           | -                   | -  | -  | -                                     | -                          |
| Remuneration to directors and supervisors   | -                   | -                    | -                                   | -                   | -                           | (32,000)            | (32,000)            | -  | -  | -                                     | (32,000)                   |
| Bonus to employees  | -                   | -                    | -                                   | -                   | -                           | (11,601)            | (11,601)            | -  | -  | -                                     | (11,601)                   |
| Cash dividends - \$0.57 per share   | -                   | -                    | -                                   | -                   | -                           | (1,116,514)         | (1,116,514)         | -  | -  | -                                     | (1,116,514)                |
| Net income for the six months ended June 30, 2006   | -                   | -                    | -                                   | -                   | -                           | 2,036,507           | 2,036,507           | -  | -  | -                                     | 2,036,507                  |
| Adjustment on stockholders' equity from cumulative effect of accounting changes           | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | -  | (165)  | -                                     | (165)                      |
| Unrealized revaluation gain (loss) on available-for-sale financial assets                 | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | -  | (3,224)  | -                                     | (3,224)                    |
| Unrealized revaluation gain (loss) on available-for-sale financial assets of subsidiaries | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | -  | (115,472)  | -                                     | (115,472)                  |
| Change in cumulative translation adjustment on equity investments - equity method         | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | (48,580)                                       | -  | -                                     | (48,580)                   |
| BALANCE, JUNE 30, 2006  | <u>1,972,807</u>    | <u>\$ 19,728,068</u> | <u>\$ 118,404</u>                   | <u>\$ 6,280,113</u> | <u>\$ 282,977</u>           | <u>\$ 2,036,507</u> | <u>\$ 8,599,597</u> | <u>\$ (24,041)</u>                             | <u>\$ (118,861)</u>                                | <u>\$ -</u>                           | <u>\$ 28,303,167</u>       |
| BALANCE, JANUARY 1, 2005  | 1,944,398           | \$ 19,443,976        | \$ 125,208                          | \$ 4,497,477        | \$ 282,977                  | \$ 4,180,069        | \$ 8,960,523        | \$ (31,850)                                    | \$ -   | \$ (264,260)                          | \$ 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)         | -  | -  | -                                     | -                          |
| Net income for the six months ended June 30, 2005   | -                   | -                    | -                                   | -                   | -                           | 1,547,376           | 1,547,376           | -  | -  | -                                     | 1,547,376                  |
| Recognition of unrealized loss on long-term equity investments                            | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | -  | -  | (14,645)                              | (14,645)                   |
| Change in translation adjustment on equity investments - equity method                    | -                   | -                    | -                                   | -                   | -                           | -                   | -                   | (26,741)                                       | -  | -                                     | (26,741)                   |
| Change in capital surplus of subsidiaries   | -                   | -                    | 1,766                               | -                   | -                           | -                   | -                   | -  | -  | -                                     | 1,766                      |
| BALANCE, JUNE 30, 2005  | <u>2,086,339</u>    | <u>\$ 20,863,392</u> | <u>\$ 126,974</u>                   | <u>\$ 5,782,921</u> | <u>\$ 282,977</u>           | <u>\$ 1,547,376</u> | <u>\$ 7,613,274</u> | <u>\$ (58,591)</u>                             | <u>\$ -</u>  | <u>\$ (278,905)</u>                   | <u>\$ 28,266,144</u>       |

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

(With Deloitte & Touche audit report dated August 17, 2006)

# BANK SINOPAC

## STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

|   | 2006               | 2005               |
|---|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                    |                    |
| Net income  | \$ 2,036,507       | \$ 1,547,376       |
| Cumulative effect of accounting changes   | (249,067)          | -                  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities      |                    |                    |
| Depreciation and amortization   | 232,940            | 231,154            |
| Amortization on discount (premium) of held-to-maturity financial assets                         | 2,334              | (2,191)            |
| Provision for credit and trading losses   | 677,532            | 322,968            |
| Provision of allowance for decline in market value of collaterals assumed                       | 83                 | 34,451             |
| Unrealized (gain) loss on financial assets and liabilities at fair value through profit or loss | (257,107)          | 498,289            |
| Accrued pension cost  | 12,554             | 3,461              |
| Income form equity investments - equity method  | (454,909)          | (257,689)          |
| Loss on disposal of properties, net   | 3,426              | 2,700              |
| Gains on sale of unquoted equity instruments  | (25,597)           | -                  |
| Impairment of unquoted equity instruments   | 5,532              | -                  |
| Gain (loss) on disposal of collateral assumed, net  | 542                | (1,860)            |
| Deferred income tax   | 241,807            | (28,407)           |
| Decrease in held for trading financial assets   | 10,260,053         | 51,194             |
| Increase (decrease) in held for trading financial liabilities                                   | 2,313,845          | (1,378,639)        |
| Decrease in accounts, interest and other receivables  | 3,933,704          | 2,589,475          |
| Decrease in accounts, interest and other payables   | <u>(3,350,964)</u> | <u>(4,963,990)</u> |
| Net cash provided by (used in) operating activities   | <u>15,383,215</u>  | <u>(1,351,708)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                    |                    |
| Decrease (increase) in due from the Central Bank and other banks                                | 13,173,316         | (20,275,567)       |
| Increase in securities purchased under agreements to resell                                     | (92,851)           | (5,781,225)        |
| Decrease in financial assets designated at fair value through profit or loss                    | 1,131,535          | 614,293            |
| (Increase) decrease in non-active market debt instruments                                       | (783,708)          | 49,118             |
| Increase in discounts and loans   | (4,610,510)        | (13,597,168)       |
| Acquisition of properties   | (137,057)          | (349,420)          |
| Proceeds from sale of properties  | 153                | 460                |
| (Increase) decrease in available-for-sale financial assets                                      | (24,316,606)       | 13,154,238         |
| Acquisition of held-to-maturity financial assets  | (281,508)          | (1,126,242)        |
| Proceeds received from held-to-maturity financial assets matured                                | 977,792            | 913,349            |
| Acquisition of unquoted equity investments  | (164)              | -                  |
| Proceeds from sale of unquoted equity instruments   | 125,597            | -                  |
| Acquisition of collateral assumed   | (2,769)            | (33,686)           |

(Continued)

# BANK SINOPAC

## STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

|  | 2006                | 2005                |
|--|---------------------|---------------------|
| Proceeds from sale of collateral assumed                   | \$ 61,333           | \$ 170,999          |
| (Increase) decrease in other financial assets              | (101,428)           | 4,105               |
| (Increase) decrease in other assets                        | <u>(23,873)</u>     | <u>132,161</u>      |
| Net cash used in investing activities                      | <u>(14,880,748)</u> | <u>(26,124,585)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                     |                     |
| Decrease in call loans and due to banks                    | (9,857,304)         | (11,030,060)        |
| Decrease in securities sold under agreements to repurchase | (1,700,116)         | (136,292)           |
| Increase in deposits and remittances                       | 12,760,663          | 38,261,938          |
| Increase in other financial liabilities                    | 153                 | 7,125               |
| Decrease in other liabilities                              | (436,843)           | (13,750)            |
| Bonus to employees   | (11,601)            | (24,900)            |
| Cash dividends paid  | -                   | (1,419,416)         |
| Remuneration to directors and supervisors                  | <u>(32,000)</u>     | <u>(26,847)</u>     |
| Net cash provided by financing activities                  | <u>722,952</u>      | <u>25,617,798</u>   |
| EFFECTS OF CHANGES IN EXCHANGE RATE                        | 358                 | (1,072)             |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS           | 1,225,777           | (1,859,567)         |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD             | <u>8,139,836</u>    | <u>8,526,211</u>    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                   | <u>\$ 9,365,613</u> | <u>\$ 6,666,644</u> |
| <b>SUPPLEMENTAL INFORMATION</b>                            |                     |                     |
| Interest paid  | <u>\$ 6,322,187</u> | <u>\$ 3,845,086</u> |
| Income tax paid  | <u>\$ 162,125</u>   | <u>\$ 169,067</u>   |

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

(With Deloitte & Touche audit report dated August 17, 2006)

(Concluded)

# **BANK SINOPAC**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

**(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 June 30, 2006 and 2005, the Bank had a total of 2,213 and 2,168 employees, respectively.

As of June 30, 2006, 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.

On July 21, 2006, the boards of directors of the Bank resolved a merger with International Bank of Taipei Co., Ltd. (IBT) in order to boost the operating performance through cross selling of pooling business channels, as well as harnessing the synergy of integration of diversified business operations. Under this merger, the Bank will acquire the assets and liabilities of IBT through a share swap at ratio of 1.175 shares of the Bank to swap for 1 share of IBT, on which the Bank will be the surviving entity and IBT will be the Company ceasing to exist. The preliminary effective date of the share swap and merger’s recording date will be November 13, 2006.

## **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 fair value of certain financial assets, allowance for credit losses, depreciation, assets impairment, pension, income tax, losses upon suspended lawsuit and provision for losses on guarantees, the Bank needs to make estimates based on judgment and available information. 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 28 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.

### **Financial Instruments at Fair Value Through Profit or Loss**

Financial instruments at fair value through profit or loss consist of any financial asset and liability that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss and financial assets and liabilities which should be classified as held for trading. Those instruments are required to be recognized at fair value and to be measured at fair value through profit or loss on the balance sheet date. The Bank uses trade date accounting when recording transaction.

Derivative instruments transaction which do not meet the specified criteria to obtain hedge accounting treatment are classified as financial assets or liabilities held for trading when the fair value of a derivative is positive, it is carried as an asset and where negative as a liability.

Fair value are determined as follows: (a) listed stocks and GreTai Securities Market (the "GTSM") stocks - closing prices as of the balance sheet date; (b) beneficiary certificates (open-end fund) - net asset values as of the balance sheet dates; (c) bonds - period-end reference prices published by the GTSM or Bloomberg; and (d) for the financial instruments without active markets, fair value is determined using valuation techniques.

Any financial asset and any financial liability may be designated as financial instruments at fair value through profit or loss to eliminate measurement anomalies for items that provide a natural offset of each other. Besides, the set of financial assets, financial liabilities or combined by both of them managed according to the Bank's risk management policies and investment strategies will be designated as financial instruments at fair value through profit or loss.

### **Repurchase and Reverse Repurchase Transactions**

Securities purchased under agreement to resell (reverse repurchase) agreements and securities sold under agreements to repurchase are generally treated as collateralized financing transactions. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are carried at fair value. Unrealized gains or losses on available-for-sale financial assets are reported in equity attribute to the Bank's shareholders. On disposal of an available-for-sale financial asset, the accumulated, unrealized gain or loss in equity attributable to the Bank's shareholders is transferred to net profit and loss for the period. The Bank uses trade date accounting when recording available-for-sale portfolio transactions.

Dividend income from equity securities is recognized on ex-dividend dates. Cash dividends received a year after investment acquisition are recognized as income, otherwise as a reduction of the carrying value of the investments. The effective interest rate method of amortization and accretion is used, the straight line method is used if there is no significant difference.

If an available-for-sale financial asset is determined to be impaired, the accumulative unrealized loss previously recognized in equity attributable to the Bank shareholders is recognized as impairment loss and reported in income statement. For equity investments, loss reversal is adjusted to the equity attributable to the Bank shareholders. For debt investments, loss reversal is credited to current income.

### **Nonperforming Loans**

Under guidelines issued by the Banking Bureau of Financial Supervisory Commission (the Banking Bureau), 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 overdue and shall be authorized by a resolution passed by the board of directors.

Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, are classified as other financial assets.

### **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 discounts and loans, accounts receivables, interest receivables, other receivables, and other financial assets, 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 Banking Bureau, 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 Banking Bureau guidelines, upon approval by the board of directors, are offset against the recorded allowance for credit losses.

## **Held-to-Maturity Investments**

Held-to-maturity investments are carried at amortized cost, which are valued by interest method, otherwise use the straight line method if there is no significant difference. At initial recognition, the costs of the financial assets are valued at fair value of the financial assets together with acquire or issue costs. The net profit and loss of the held-to-maturity investments for the period are reported in to income statement when on disposal, impairment or amortization. The Bank uses trade date accounting when recording transaction.

If a held-to-maturity financial asset is determined to be impaired, the impairment loss is recognized and reported in income statement. For equity investments, loss reversal is adjusted to the equity attributable to the Bank's shareholders. For debt investments, loss reversal is credited to current income.

## **Equity Investments - Equity Method**

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. Goodwill is not amortized but test annually for impairment since January 1, 2006. Until December 31, 2005, any difference between the acquisition cost and the equity in the investee is amortized over 15 years. 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.

## **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 available-for-sale financial assets - 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 are accounted for as available-for-sale financial assets. Interest revenue is recorded when received. The Bank evaluates retained interests by estimating present value of expected future cash flows, with reported in unrealized gain or loss equity attribute to the Bank's shareholders.

## **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, and resulting loss is charged to current income.

### **Other Financial Assets**

Non-active market debt instruments are those which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. Non-active market debt instruments are carried at amortized cost. The accounting treatment of non-active market debt instruments is similar to the one of held-to maturity investments but there's no prohibition on sale of non-active market debt instruments.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measure, are measured at cost. If there is objective evidence that a financial asset is impaired, an impairment loss is recognized and reversal of impairment loss is prohibited.

### **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. Contracts outstanding on the balance sheet dates are measured at fair value through profit or loss.

#### 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 are credited or charged to current income. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

#### 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. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

#### 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 is recognized as interest income or expense, which is credited or charged to current income. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

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.

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. Net interest on each settlement is recorded as current income or expense. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

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.

i. Credit default swaps

Credit default swaps involve taking credit the 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 is recorded as current income by the accrual method. On balance sheet dates, outstanding contracts are measured at fair value through profit or loss.

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 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 Translations**

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars equivalents using the closing exchange rate. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

Unrealized exchange differences on non-monetary financial assets (investments in equity instruments) are a component of the change in their entire fair value. For a non-monetary financial asset classified as held for trading, unrealized exchange differences are recognized in the income statement. For non-monetary financial investments, which are classified as available-for-sale, unrealized exchange differences are recorded directly in equity until the asset is sold or becomes impaired. Except for the initial investment cost, gains or losses resulting from restatement at period-end of foreign-currency denominated equity investments accounted for by the equity method are credited or charged to “cumulative translation adjustment” under stockholders’ equity.

## **Hedge Accounting**

Non-trading derivatives, which are used primarily as a risk management tool for hedging interest rate risk arising on on-balance sheet liabilities, are accounted for on the same basis as the underlying items being hedged.

In order to qualify as a hedge, a derivative must effectively reduce any risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. Changes in the fair value of the derivative must be highly correlated with changes in the fair value of the underlying hedged item over the life of the hedged contract. At the inception of the hedge, there must be formal designation and documentation of the hedging relationship, the Bank’s risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged items, overall risk management objectives and strategies and how the entity will assess the hedging instrument’s effectiveness.

A fair value hedge that meets all the hedge accounting criteria is accounted for as follows:

- a. The gain or loss from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount (for a non-derivative hedging instrument) is recognised immediately in profit or loss, and
- b. The carrying amount of the hedged item is adjusted through profit or loss for the corresponding gain or loss attributable to the hedged risk.

## **Reclassifications**

Certain 2005 accounts have been reclassified to conform to the 2006 financial statements presentation.

### 3. ACCOUNTING CHANGES

Effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 “Accounting for Financial Instruments”, No. 36 “Disclosure and Presentation of Financial Instruments” and other standards amended for harmonising with those two standards.

- a. The amount of the cumulative effect resulting from the change to new accounting principles

The Bank properly reclassifies the financial assets and financial liabilities when adopting aforementioned new accounting standards and related amendments to existing standards. The effects of the financial assets and liabilities at fair value through profit or loss and derivative of fair value hedge are included in cumulative effect of accounting changes. The effects of the fair value change of available-for-sale financial assets are included in stockholders’ equity adjustments.

The cumulative effect of accounting changes are as follows:

|  | <b>Cumulative<br/>Effect of<br/>Accounting<br/>Changes,<br/>After Tax</b> | <b>Stockholders’<br/>Equity<br/>Adjustments,<br/>After Tax</b> |
|--|---|--|
| Financial assets at fair value through profit or loss      | \$ 699,229  | \$ -   |
| Available-for-sale financial assets                        | -   | (89,113)   |
| Financial liabilities at fair value through profit or loss | <u>(450,162)</u>  | <u>-</u>   |
|  | <u>\$ 249,067</u>   | <u>\$ (89,113)</u>   |

- b. Reclassification

Under an explanation issued by Accounting Research and Development Foundation of the Republic of China (ARDF of ROC), when the Bank adopts Statement of Financial Accounting Standard No. 34 effective on January 1, 2006, the Bank needs to reclassify the comparative financial statements for the year ended 2005 instead of restating. The Bank shall state the different valuation method in the notes to the financial statements.

The different valuation method of financial instruments the Bank applies are summarized as follows:

- 1) Securities purchased

Securities which are acquired principally for the purpose of sale in the near term 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 and; (b) GTSM stocks - average daily closing prices for the last month of the accounting period, published by GTSM.

- 2) Long-term investments

Long-term equity investments are accounted for by the cost method if the Bank does not have significant influence over the investees. 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.

3) 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.

4) 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.

5) 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.

6) 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.

Certain 2005 accounts have been reclassified to conform 2006 financial statements presentation and new accounting standards' requirement:

|  | <u>June 30, 2005</u>    |                         |
|--|-------------------------|-------------------------|
|  | <u>Before</u>           | <u>After</u>            |
|  | <u>Reclassification</u> | <u>Reclassification</u> |
| <u>Balance sheets</u>                                      |                         |                         |
| Securities purchased                                       | \$ 82,283,202           | \$ -                    |
| Accounts, interest and other receivables, net              | 1,546,592               | -                       |
| Long-term equity investments - cost method                 | 736,927                 | -                       |
| Other long-term investments                                | 1,094,300               | -                       |
| Financial assets at fair value through profit or loss      | -                       | 26,301,301              |
| Available-for -sale financial assets                       | -                       | 59,152,707              |
| Held-to-maturity investments                               | -                       | 2,063,123               |
| Non-active market debt instruments                         | -                       | 112,402                 |
| Unquoted equity instruments                                | -                       | 375,074                 |
| Other assets   | 2,343,586               | -                       |
| Other liabilities - others                                 | 1,208,482               | -                       |
| Financial liabilities at fair value through profit or loss | -                       | 1,208,482               |
|  | <u>\$ 89,213,089</u>    | <u>\$ 89,213,089</u>    |

|   | <b>For the Six Month Ended<br/>June 30, 2005</b> |                                   |
|---|--|-----------------------------------|
|   | <b>Before<br/>Reclassification</b>               | <b>After<br/>Reclassification</b> |
| <u>Income statement</u>   |  |                                   |
| Interest revenue  | \$ 7,088,294                                     | \$ 7,467,373                      |
| Loss on derivative financial instruments transactions                                     | (836,986)  | -                                 |
| Income from securities, net   | 510,693  | -                                 |
| Gain (loss) from financial assets and liabilities at fair value<br>through profit or loss | -  | (719,017)                         |
| Realized gain from held-to-maturity investments   | -  | 1,468                             |
| Other net revenues  | -  | 12,177                            |
|   | <u>\$ 6,762,001</u>                              | <u>\$ 6,762,001</u>               |

#### 4. CASH AND CASH EQUIVALENTS

|                              | <b>June 30</b>      |                     |
|------------------------------|---------------------|---------------------|
|                              | <b>2006</b>         | <b>2005</b>         |
| Due from other banks         | \$ 6,937,022        | \$ 4,132,299        |
| Cash on hand                 | 1,675,675           | 1,750,191           |
| Notes and checks in clearing | <u>752,916</u>      | <u>784,154</u>      |
|                              | <u>\$ 9,365,613</u> | <u>\$ 6,666,644</u> |

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

|                           | <b>June 30</b>       |                      |
|---------------------------|----------------------|----------------------|
|                           | <b>2006</b>          | <b>2005</b>          |
| Call loans to banks       | \$ 52,033,505        | \$ 37,383,931        |
| Due from the Central Bank | <u>11,268,412</u>    | <u>18,855,985</u>    |
|                           | <u>\$ 63,301,917</u> | <u>\$ 56,239,916</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 \$8,958,555 and \$7,559,083 as of June 30, 2006 and 2005, 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 earning. As of June 30, 2006 and 2005, the balances of foreign-currency deposit reserves were \$80,998 and \$94,854, respectively.

## 6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | <u>June 30</u>       |                      |
|---|----------------------|----------------------|
|   | <u>2006</u>          | <u>2005</u>          |
| <u>Held for trading financial assets</u>                                |                      |                      |
| Corporate bonds   | \$ 9,041,073         | \$ 5,308,664         |
| Forward contracts   | 3,637,362            | 1,624,129            |
| Bank debentures   | 1,762,493            | 270,191              |
| Interest rate swap  | 1,346,563            | 761                  |
| Beneficiary certificates  | 953,826              | 1,295,364            |
| Structured instruments  | 648,345              | 146,517              |
| Premium paid on option contracts  | 126,930              | 1,328,529            |
| Assets based securities   | 571,488              | 505,286              |
| Listed stock  | 478,833              | 1,919,013            |
| Government bonds  | 237,613              | 157,317              |
| Commercial papers   | 89,890               | 9,592,706            |
| Negotiable certificates of deposit                                      | 60,389               | -                    |
| Treasury bills  | -                    | 1,307,204            |
|   | <u>18,954,805</u>    | <u>23,455,681</u>    |
| <u>Financial assets designated at fair value through profit or loss</u> |                      |                      |
| Fixed rate loans  | 1,003,760            | -                    |
| Corporate bonds   | 378,048              | -                    |
| Credit linked notes   | 161,606              | 2,845,620            |
| Government bonds  | 998                  | -                    |
|   | <u>1,544,412</u>     | <u>2,845,620</u>     |
|   | <u>\$ 20,499,217</u> | <u>\$ 26,301,301</u> |

The Bank held 116,565,240 shares of SPH with carrying amounts of \$1,490,918. Those 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 of ROC, 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.

As of June 30, 2006, financial assets designated at fair value through profit or loss aggregating \$998 had been pledged to the GTSM for the bond settlement reserves for electronic bond trading system.

Held-for-trading financial assets as of June 30, 2006 and 2005 with a total face amount of \$2,687,810 and \$6,330,260 were sold under agreement to repurchase.

|   | <u>June 30</u>      |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| <u>Held for trading financial liabilities</u> |                     |                     |
| Forward contracts                             | \$ 2,000,127        | \$ -                |
| Interest rate swap contracts                  | 1,158,279           | 18,099              |
| Premiums received on option contracts         | 574,895             | 1,188,119           |
| Cross-currency swap contracts                 | 65,732              | -                   |
| Structured instruments                        | 2,487               | 2,264               |
| Others  | <u>11,259</u>       | <u>-</u>            |
|   | <u>\$ 3,812,779</u> | <u>\$ 1,208,482</u> |

The Bank engages in derivative transactions mainly for accommodating customers' needs and managing its exposure positions. 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 contract amounts (or notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions were as follows:

|                               | <u>June 30</u> |               |
|-------------------------------|----------------|---------------|
|                               | 2006           | 2005          |
| Cross-currency swap contracts | \$ 11,056,800  | \$ 31,139,430 |
| Interest rate swap contracts  | 169,838,190    | 109,996,046   |
| Currency swap contracts       | 222,637,851    | 223,249,630   |
| Forward contracts             |                |               |
| Buy                           | 64,480,716     | 95,875,761    |
| Sell                          | 58,251,221     | 86,622,122    |
| Options                       |                |               |
| Long position                 | 56,241,210     | 89,331,957    |
| Short position                | 60,578,876     | 85,829,532    |

The gains on held for trading financial assets and liabilities for the six months ended June 30, 2006 were \$518,681, and the losses for the six months ended June 30, 2005 were \$719,017.

## 7. ACCOUNTS, INTEREST AND OTHER RECEIVABLES, NET

|   | <u>June 30</u>       |                      |
|---|----------------------|----------------------|
|   | 2006                 | 2005                 |
| Accounts receivable - factoring                                   | \$ 18,516,326        | \$ 23,448,985        |
| Acceptances   | 1,875,841            | 2,318,196            |
| Interest receivable   | 1,132,646            | 924,998              |
| Accounts receivable   | 283,282              | 927,890              |
| Accrued revenue   | 241,452              | 171,893              |
| Receivable from related party for allocation of linked-tax system | 160,235              | 97,082               |
| Tax refundable  | 5,922                | 125,684              |
| Others  | <u>40,939</u>        | <u>172,976</u>       |
|   | 22,256,643           | 28,187,704           |
| Less - allowance for credit losses                                | <u>35,947</u>        | <u>21,432</u>        |
|   | <u>\$ 22,220,696</u> | <u>\$ 28,166,272</u> |

## 8. DISCOUNTS AND LOANS

|  | <b>June 30</b>        |                       |
|--|-----------------------|-----------------------|
|  | <b>2006</b>           | <b>2005</b>           |
| Import and export negotiations             | \$ 1,914,268          | \$ 2,030,427          |
| Overdrafts                                 | 1,122,760             | 1,172,475             |
| Accounts receivable - financing            | 3,471,404             | -                     |
| Short-term loans                           | 67,519,836            | 65,093,021            |
| Medium-term loans                          | 49,186,737            | 46,937,218            |
| Long-term loans                            | 181,441,939           | 158,236,018           |
| Nonperforming loans transferred from loans | <u>3,440,030</u>      | <u>1,956,778</u>      |
|  | 308,096,974           | 275,425,937           |
| Less - allowance for credit losses         | <u>1,841,774</u>      | <u>1,358,442</u>      |
|  | <u>\$ 306,255,200</u> | <u>\$ 274,067,495</u> |

As of June 30, 2006 and 2005, the balances of nonaccrual interest loans were \$3,747,623 and \$2,256,955, respectively. The unrecognized interest revenues on nonaccrual interest loans amounted to \$39,505 and \$33,686 for the six months ended June 30, 2006 and 2005, respectively.

For the six months ended June 30, 2006 and 2005, 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 loans for the six months ended June 30, 2006 and 2005, respectively, were summarized below:

|   | <b>For the Six Months Ended<br/>June 30, 2006</b> |                            |                     |
|---|---|----------------------------|---------------------|
|   | <b>Specific<br/>Reserve</b>                       | <b>General<br/>Reserve</b> | <b>Total</b>        |
| Balance, January 1                          | \$ 535,882  | \$ 1,059,984               | \$ 1,595,866        |
| Provision                                   | 343,321   | 296,927                    | 640,248             |
| Write-off                                   | (393,017)   | -                          | (393,017)           |
| Recovery of written-off credits             | 570   | -                          | 570                 |
| Reclassifications                           | 177,113   | (176,541)                  | 572                 |
| Result from change of foreign exchange rate | (1,901)   | -                          | (1,901)             |
| Others                                      | <u>(564)</u>                                      | <u>-</u>                   | <u>(564)</u>        |
| Balance, June 30                            | <u>\$ 661,404</u>                                 | <u>\$ 1,180,370</u>        | <u>\$ 1,841,774</u> |

|   | <b>For the Six Months Ended<br/>June 30, 2005</b> |                            |                     |
|---|---|----------------------------|---------------------|
|   | <b>Specific<br/>Reserve</b>                       | <b>General<br/>Reserve</b> | <b>Total</b>        |
| Balance, January 1                          | \$ 331,625  | \$ 843,273                 | \$ 1,174,898        |
| Provision                                   | 320,000   | -                          | 320,000             |
| Write-off                                   | (199,629)   | -                          | (199,629)           |
| Recovery of written-off credits             | 2,738   | -                          | 2,738               |
| Reclassifications                           | 59,380  | 2,414                      | 61,794              |
| Result from change of foreign exchange rate | <u>(1,359)</u>                                    | <u>-</u>                   | <u>(1,359)</u>      |
| Balance, June 30                            | <u>\$ 512,755</u>                                 | <u>\$ 845,687</u>          | <u>\$ 1,358,442</u> |

As of June 30, 2006 and 2005, allowances for credit losses and provisions for losses on guarantees of the Bank were \$1,956,486 and \$1,379,874, respectively.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|   | <u>June 30</u>       |                      |
|---|----------------------|----------------------|
|   | <u>2006</u>          | <u>2005</u>          |
| Negotiable certificate of deposit                       | \$ 77,584,475        | \$ 55,200,235        |
| Subordinated beneficiary certificates of securitization | 1,014,240            | 1,014,300            |
| Bank debentures   | 758,866              | -                    |
| Government bonds  | <u>594,309</u>       | <u>2,938,172</u>     |
|   | <u>\$ 79,951,890</u> | <u>\$ 59,152,707</u> |

The available-for-sale financial assets amounting to \$421,838 and \$304,104 as of June 30, 2006 and 2005 had been provided to GTSM as bond payment settlement reserves for electronic bond trading system and to court for provisional seizure.

To comply with the Central Bank's clearing system of RTGS, face amount of negotiable certificates of deposit aggregating \$18,000,000 and \$8,000,000 had been provided as collaterals for the daytime overdraft as of June 30, 2006 and 2005, respectively, with pledged amounts that can be adjusted momentarily.

The available-for-sale financial assets amounting \$52,614 and \$408,219 as of June 30, 2006 and 2005, respectively, had been sold under agreements to repurchase.

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

June 30, 2006

| Series of Certificates                               | Senior                                  |   |   |   | Subordinated  |
|--|---|---|---|---|---------------|
|  | First Tranche                           | Second Tranche                          | Third Tranche                           | Fourth Tranche                          | Fifth Tranche |
| 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) | -             |
| 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              |   |   | 1.563%                                  |   |               |

June 30, 2005

| Series of Certificates                               | Senior                                  |   |   |   | Subordinated  |
|--|---|---|---|---|---------------|
|  | First Tranche                           | Second Tranche                          | Third Tranche                           | Fourth Tranche                          | Fifth Tranche |
| Principal amount                                     | \$ 2,188,100                            | \$ 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) | -             |
| 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              |   |   | 1.282%                                  |   |               |

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 June 30, 2006 and 2005, 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:

|  | <u>Enterprise Loans</u> |              |
|--|-------------------------|--------------|
|  | <u>June 30</u>          |              |
|  | <u>2006</u>             | <u>2005</u>  |
| Carrying amount of retained interest               | \$ 1,014,240            | \$ 1,104,300 |
| Weighted-average life (in years)                   | 3 years                 | 3 years      |
| Discount rate of residual cash flows (annual rate) | 1.563%                  | 1.282%       |
| Impact on fair value of 10% adverse change         | (87)                    | (121)        |
| Impact on fair value of 20% adverse change         | (241)                   | (247)        |

c. The expected credit losses for the six months ended June 30, 2006 are \$60.

d. Cash flows

For the six months ended June 30, 2005, the prepayments of principal before due date resulted in the cash inflow amounted to \$300,000.

## 11. HELD-TO-MATURITY FINANCIAL ASSETS

|  | <u>June 30</u>    |                     |
|--|-------------------|---------------------|
|  | <u>2006</u>       | <u>2005</u>         |
| Floating rate notes                                | \$ 359,008        | \$ -                |
| Bank debentures                                    | 245,422           | 925,682             |
| Government bonds                                   | 203,611           | 741,261             |
| Beneficiary certificates - credit card receivables | 80,000            | 80,000              |
| Corporate bonds                                    | -                 | 316,180             |
|  | <u>\$ 888,041</u> | <u>\$ 2,063,123</u> |

To comply with Hong Kong branch's clearing system of real-time gross settlement, government bonds included in held-to-maturity financial assets had been provided as collaterals as of June 30, 2006 and 2005.

The held-to-maturity financial assets amounting \$186,546 as of June 30, 2005, had been sold under agreement to repurchase.

## 12. EQUITY INVESTMENTS - EQUITY METHOD

|  | <u>June 30</u>      |                     |
|--|---------------------|---------------------|
|  | <u>2006</u>         | <u>2005</u>         |
| SinoPac Bancorp                        | \$ 5,956,969        | \$ 5,401,013        |
| SinoPac Leasing Corporation            | 1,181,370           | 2,022,856           |
| SinoPac Capital Limited (H.K.)         | 962,265             | 1,003,615           |
| SinoPac Financial Consulting Co., Ltd. | 2,376               | 2,464               |
|  | <u>\$ 8,102,980</u> | <u>\$ 8,429,948</u> |

Income from equity investments for the six months ended June 30, 2006 and 2005, respectively, were summarized as follows:

|  | <b>For the Six Months Ended<br/>June 30</b> |                   |
|--|---|-------------------|
|  | <b>2006</b>                                 | <b>2005</b>       |
| <u>Equity method</u>                   |   |                   |
| SinoPac Bancorp                        | \$ 281,119                                  | \$ 209,341        |
| SinoPac Leasing Corporation            | 82,270                                      | 31,153            |
| SinoPac Capital Limited (H.K.)         | 91,399                                      | 17,179            |
| SinoPac Financial Consulting Co., Ltd. | <u>121</u>                                  | <u>16</u>         |
|  | <u>\$ 454,909</u>                           | <u>\$ 257,689</u> |

The net income of SinoPac Bancorp for the six months ended June 30, 2005 amounted to \$247,625 was 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. Upon the adoption of accounting standards effective on January 1, 2006, those different accounting treatments have been eliminated.

The aforementioned income from equity investments under the equity method were recognized on the basis of investees' audited financial statements for the same period, except for the investment income of SinoPac Financial Consulting Co., Ltd. for the six months ended June 30, 2006 and 2005 and that of SinoPac Capital Limited (H.K.) for the six months ended June 30, 2005 which were based on the unaudited financial statements for the same period. The carrying amounts of the investments accounted for by the equity method as of June 30, 2005 totalling \$1,006,009, and the related investment income \$17,195, for the six months then ended were based on the investees' unaudited financial statements for the same period. The Bank believes that any adjustments that some have to be made to these investments and investment income if such financial statements had been audited.

The Bank believes that the adjustment is immaterial to the investment and investment income of SinoPac Financial Consulting Co., Ltd. if such financial statements had been audited.

As of June 30, 2006, part of the unrealized gains or losses on financial instruments (included in stockholders' equity as deductions) resulting from valuation of available-for-sale financial assets held by an investee accounted for by the equity method. The unrealized gains or losses on financial instruments recognized from the investee as of June 30, 2006 amounted to \$115,472.

### 13. OTHER FINANCIAL ASSETS

|                                    | <b>June 30</b> |             |
|------------------------------------|----------------|-------------|
|                                    | <b>2006</b>    | <b>2005</b> |
| Unquoted equity instruments        |                |             |
| Unlisted equity investments        | \$ 172,922     | \$ 375,074  |
| Non-active market debt instruments |                |             |
| Floating rate notes                | 1,185,317      | 50,115      |
| Assets based securities            | 306,473        | 62,287      |

(Continued)

|   | <b>June 30</b>      |                   |
|---|---------------------|-------------------|
|   | <b>2006</b>         | <b>2005</b>       |
| Other financial assets                                |                     |                   |
| Hedged derivative financial instruments               | \$ 606,556          | \$ -              |
| Nonperforming loans transferred from other than loans | 75,456              | -                 |
| Excess margin   | 81,606              | 65,289            |
| Short-term advancement                                | 23,234              | 14,746            |
| Others  | <u>1,556</u>        | <u>1,602</u>      |
|   | <u>\$ 2,453,120</u> | <u>\$ 569,113</u> |

(Concluded)

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at cost.

#### 14. PROPERTIES

|  | <b>June 30</b>      |                     |
|--|---------------------|---------------------|
|  | <b>2006</b>         | <b>2005</b>         |
| Cost   | \$ <u>7,494,489</u> | \$ <u>7,074,640</u> |
| Accumulated depreciation   |                     |                     |
| Buildings  | 572,683             | 496,576             |
| Computer equipment   | 1,064,219           | 969,973             |
| Transportation equipment   | 31,658              | 36,306              |
| Office and other equipment   | <u>1,046,959</u>    | <u>906,179</u>      |
|  | <u>2,715,519</u>    | <u>2,409,034</u>    |
|  | 4,778,970           | 4,665,606           |
| Advances on acquisitions of equipment and construction in progress | <u>76,298</u>       | <u>291,142</u>      |
|  | <u>\$ 4,855,268</u> | <u>\$ 4,956,748</u> |

#### 15. OTHER ASSETS

|   | <b>June 30</b>      |                     |
|---|---------------------|---------------------|
|   | <b>2006</b>         | <b>2005</b>         |
| Collateral assumed, net of accumulated impairment | \$ 580,432          | \$ 741,022          |
| Guarantee deposits                                | 512,683             | 491,101             |
| Prepaid expenses                                  | 181,543             | 235,683             |
| Computer system software                          | 167,118             | 204,731             |
| Suspense account                                  | 36,511              | 30,057              |
| Idle assets                                       | 27,777              | 27,960              |
| Other deferred assets                             | 22,247              | 25,766              |
| Prepaid interest                                  | -                   | 50,125              |
| Others  | <u>4,593</u>        | <u>5,559</u>        |
|   | <u>\$ 1,532,904</u> | <u>\$ 1,812,004</u> |

## 16. CALL LOANS AND DUE TO BANKS

|  | <u>June 30</u>       |                      |
|--|----------------------|----------------------|
|  | <u>2006</u>          | <u>2005</u>          |
| Call loans   | \$ 23,778,274        | \$ 28,009,462        |
| Redeposits from the directorate general of postal remittance | 3,649,674            | 3,959,853            |
| Due to banks   | 58,485               | 55,750               |
| Due to the Central Bank                                      | <u>26,008</u>        | <u>47,816</u>        |
|  | <u>\$ 27,512,441</u> | <u>\$ 32,072,881</u> |

## 17. ACCOUNTS, INTEREST AND OTHER PAYABLES

|                              | <u>June 30</u>       |                      |
|------------------------------|----------------------|----------------------|
|                              | <u>2006</u>          | <u>2005</u>          |
| Accounts payable - factoring | \$ 5,700,037         | \$ 8,102,130         |
| Acceptance payable           | 1,875,841            | 2,318,196            |
| Interest payable             | 1,920,605            | 1,346,893            |
| Dividends payable            | 1,116,514            | -                    |
| Notes and checks in clearing | 752,916              | 784,154              |
| Accrued expenses             | 680,007              | 653,719              |
| Accounts payable             | 275,962              | 180,379              |
| Tax payable                  | 96,613               | 304,205              |
| Others                       | <u>382,451</u>       | <u>234,706</u>       |
|                              | <u>\$ 12,800,946</u> | <u>\$ 13,924,382</u> |

## 18. DEPOSITS AND REMITTANCES

|                                    | <u>June 30</u>        |                       |
|------------------------------------|-----------------------|-----------------------|
|                                    | <u>2006</u>           | <u>2005</u>           |
| Checking                           | \$ 5,554,576          | \$ 5,616,456          |
| Demand                             | 56,241,812            | 57,789,740            |
| Savings - demand                   | 76,806,181            | 73,494,918            |
| Time                               | 173,448,021           | 116,209,431           |
| Negotiable certificates of deposit | 15,107,600            | 39,575,900            |
| Savings - time                     | 79,290,086            | 70,624,094            |
| Inward remittances                 | 870,866               | 208,899               |
| Outward remittances                | <u>94,443</u>         | <u>159,268</u>        |
|                                    | <u>\$ 407,413,585</u> | <u>\$ 363,678,706</u> |

## 19. BANK DEBENTURES

|  | <u>June 30</u> |              | <u>Maturity Date</u>  | <u>Terms</u>  |
|--|----------------|--------------|---|---|
|  | <u>2006</u>    | <u>2005</u>  |   |   |
| First dominant bank debenture issued in 2001       | \$ 5,000,000   | \$ 5,000,000 | 2001.12.20-2006.12.20<br>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<br>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       | 1,000,014      | 1,000,000    | 2003.02.14-2008.02.14<br>Principal is repayable on maturity date. | 3.65% minus 6-month LIBOR. Interest is paid semiannually.   |
| Second dominant bank debenture issued in 2003      | 500,059        | 500,000      | 2003.03.19-2008.09.19<br>Principal is repayable on maturity date. | 3.48% minus 6-month LIBOR. Interest is paid semiannually.   |
| Third dominant bank debenture issued in 2003       | 1,500,800      | 1,500,000    | 2003.05.09-2008.11.09<br>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      | 418,020        | 400,000      | 2003.05.09-2008.11.09<br>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. |
| First subordinated bank debenture issued in 2003   | 2,500,000      | 2,500,000    | 2003.06.18-2008.12.18<br>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       | 1,009,047      | 1,000,000    | 2003.08.11-2010.08.11<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually  |
| Sixth dominant bank debenture issued in 2003       | 705,697        | 700,000      | 2003.08.20-2009.02.20<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually  |
| Seventh dominant bank debenture issued in 2003     | 807,171        | 800,000      | 2003.09.16-2008.09.16<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually  |
| Eighth dominant bank debenture issued in 2003      | 504,432        | 500,000      | 2003.09.16-2008.09.16<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually  |
| Ninth dominant bank debenture issued in 2003       | 302,828        | 300,000      | 2003.09.22-2008.09.22<br>Principal is repayable on maturity date. | Coupon rate at 2.55% for the first year of the issuance and 5% minus index rate for the years thereon.  |
| Tenth dominant bank debenture issued in 2003       | 1,009,513      | 1,000,000    | 2003.11.05-2008.11.05<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Eleventh dominant bank debenture issued in 2003    | 1,008,658      | 1,000,000    | 2003.11.14-2008.11.14<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Twelfth dominant bank debenture issued in 2003     | 505,132        | 500,000      | 2003.11.21-2008.11.21<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Thirteenth dominant bank debenture issued in 2003  | 504,485        | 500,000      | 2003.11.28-2008.11.28<br>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  | 2,225,207      | 2,200,000    | 2003.12.02-2009.06.02<br>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<br>Principal is repayable on maturity date. | Fixed interest rate of 2.3%, interest is paid semiannually.   |
| First dominant bank debentures issued in 2004      | 539,337        | 500,000      | 2004.04.26-2009.10.26<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually with simple interest based on actual days.                 |

(Continued)

|  | <b>June 30</b>       |                      | <b>Maturity Date</b>  | <b>Terms</b>  |
|--|----------------------|----------------------|---|---|
|  | <b>2006</b>          | <b>2005</b>          |   |   |
| Second dominant bank debentures issued in 2004     | \$ 302,963           | \$ 300,000           | 2004.04.28-2009.10.28<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Third dominant bank debentures issued in 2004      | 505,520              | 500,000              | 2004.04.29-2009.04.29<br>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     | 202,122              | 200,000              | 2004.05.14-2009.05.14<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Fifth dominant bank debentures issued in 2004      | 302,895              | 300,000              | 2004.05.17-2009.05.17<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Sixth dominant bank debentures issued in 2004      | 506,164              | 500,000              | 2004.05.17-2009.05.17<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Seventh dominant bank debentures issued in 2004    | 201,884              | 200,000              | 2004.05.21-2009.05.21<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Eighth dominant bank debentures issued in 2004     | 520,371              | 500,000              | 2004.05.21-2011.05.21<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually with simple interest based on actual days.                       |
| Ninth dominant bank debentures issued in 2004      | 303,509              | 300,000              | 2004.06.03-2009.06.03<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Tenth dominant bank debentures issued in 2004      | 509,391              | 500,000              | 2004.06.07-2009.06.07<br>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   | 203,220              | 200,000              | 2004.06.15-2009.06.15<br>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    | 511,881              | 500,000              | 2004.06.15-2010.06.15<br>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 | 306,339              | 300,000              | 2004.06.30-2009.06.30<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Fourteenth dominant bank debentures issued in 2004 | 510,119              | 500,000              | 2004.07.09-2010.07.09<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| Fifteenth dominant bank debentures issued in 2004  | 519,042              | 500,000              | 2004.07.13-2011.07.13<br>Principal is repayable on maturity date. | Floating rate. Interest is paid semiannually.   |
| First subordinated bank debentures issued in 2004  | 1,549,128            | 1,500,000            | 2004.09.14-2010.06.14<br>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<br>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<br>Principal is repayable on maturity date. | Index rate plus 0.35%. Interest is reset semiannually since the issuance date. Interest is paid semiannually. |
|  | <u>\$ 36,095,048</u> | <u>\$ 32,800,000</u> |   |   |

(Concluded)

## 20. 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, can 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 long-term equity investment accounted for by equity method 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 which allocated stockholders' dividends 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 10% and stock dividends may be declared if the CAR is equal to or less than 10%. However, the Bank may make a discretionary cash distribution even if the CAR is below 10%, 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 15% 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 June 2, 2006, and April 28, 2005, the board of directors which execute rights and functions of stockholders' meeting resolved the appropriation of 2005 and 2004 earnings, respectively, as follows:

|   | <u>Earnings Appropriation</u> |                     | <u>Dividends Per Share<br/>(New Taiwan Dollars)</u> |             |
|---|-------------------------------|---------------------|---|-------------|
|   | <u>2005</u>                   | <u>2004</u>         | <u>2005</u>   | <u>2004</u> |
| Legal reserve                             | \$ 497,192                    | \$ 1,285,444        |   |             |
| Remuneration to directors and supervisors | 32,000                        | 26,847              |   |             |
| Bonus to employees - cash                 | 11,601                        | 28,946              |   |             |
| Cash dividends                            | 1,116,514                     | 1,419,416           | \$0.57  | \$0.73      |
| Stock dividends                           | -                             | 1,419,416           | -   | 0.73        |
|   | <u>\$ 1,657,307</u>           | <u>\$ 4,180,069</u> |   |             |

## 21. PERSONNEL EXPENSE, DEPRECIATION AND AMORTIZATION

|   | <u>For the Six Months<br/>Ended June 30</u> |              |
|---|---|--------------|
|   | <u>2006</u>                                 | <u>2005</u>  |
| Personnel expenses                            |   |              |
| Salaries and wages                            | \$ 1,300,991                                | \$ 1,204,369 |
| Pension                                       | 87,668                                      | 82,063       |
| Labor insurance and national health insurance | 76,271                                      | 59,149       |
| Others  | 85,174                                      | 73,386       |
| Depreciation                                  | 186,931                                     | 182,570      |
| Amortization                                  | 48,042                                      | 47,820       |

## 22. PENSION

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.

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.

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 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 six months ended June 30, 2006, the pension expense amounted to \$40,578, which was 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 Six Months Ended<br/>June 30</b> |                     |
|--------------------|---|---------------------|
|                    | <b>2006</b>                                 | <b>2005</b>         |
| Balance, January 1 | \$ 851,701                                  | \$ 1,280,049        |
| Contributions      | 49,453                                      | 119,426             |
| Benefits paid      | (24,222)                                    | (34,918)            |
| Interest revenue   | <u>7,831</u>                                | <u>20,597</u>       |
| Balance, June 30   | <u>\$ 884,763</u>                           | <u>\$ 1,385,154</u> |

The ending balances as of June 30, 2006 and 2005 consisted of:

|                            | <b>June 30</b>    |                     |
|----------------------------|-------------------|---------------------|
|                            | <b>2006</b>       | <b>2005</b>         |
| Contributions by the Bank  | \$ 884,763        | \$ 864,696          |
| Contributions by employees | <u>-</u>          | <u>520,458</u>      |
|                            | <u>\$ 884,763</u> | <u>\$ 1,385,154</u> |

b. The changes in the accrued pension cost (included in other liabilities) were summarized below:

|  | <b>For the Six Months Ended<br/>June 30</b> |                   |
|--|---|-------------------|
|  | <b>2006</b>                                 | <b>2005</b>       |
| Balance, January 1                         | \$ 125,821                                  | \$ 121,606        |
| Provision under defined benefit plans      | 43,941                                      | 79,458            |
| Provision under defined contribution plans | 40,578                                      | -                 |
| Contributions                              | <u>(71,965)</u>                             | <u>(75,997)</u>   |
| Balance, June 30                           | <u>\$ 138,375</u>                           | <u>\$ 125,067</u> |

Pension expenses including domestic and overseas branches amounted to \$87,668 and \$82,063 for the six months ended June 30, 2006 and 2005, respectively.

### 23. INCOME TAX

Under a directive issued by the MOF, a financial holding company and its domestic subsidiaries which 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 adopted the linked-tax system for income tax filings with its qualified subsidiaries since 2003.

The accounting treatment applied by the Group to the income tax is to adjust in SPH's book the difference between the combined current/deferred taxes and the total of each Group member's current/deferred. Related payables and receivables were recorded in each of the Group members' books.

a. The components of income tax were as follows:

|   | <b>For the Six Months Ended</b> |                   |
|---|---------------------------------|-------------------|
|   | <b>June 30</b>                  |                   |
|   | <b>2006</b>                     | <b>2005</b>       |
| Current income tax payable                          | \$ (33,138)                     | \$ 221,214        |
| Separate taxes on short-term bills interest revenue | 149,661                         | 88,584            |
| Change in deferred income taxes                     | 241,807                         | (28,407)          |
| Foreign income taxes over limitation                | -                               | 2,043             |
| Income tax on unappropriated earnings               | <u>(2,060)</u>                  | <u>(19)</u>       |
|   | <u>\$ 356,270</u>               | <u>\$ 283,415</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 Six Months Ended</b> |                   |
|--|---------------------------------|-------------------|
|  | <b>June 30</b>                  |                   |
|  | <b>2006</b>                     | <b>2005</b>       |
| Tax on pretax income at 25% statutory rate | \$ 535,928                      | \$ 457,688        |
| Add (deduct) tax effects of:               |                                 |                   |
| Tax-exempt income                          | (23,308)                        | (44,128)          |
| Permanent difference                       | (309,881)                       | (230,742)         |
| Temporary difference                       | (234,527)                       | 39,508            |
| Investment tax credit                      | <u>(1,350)</u>                  | <u>(1,112)</u>    |
| Current income tax payable                 | <u>\$ (33,138)</u>              | <u>\$ 221,214</u> |

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

|  | <u>June 30</u>      |                     |
|--|---------------------|---------------------|
|  | <u>2006</u>         | <u>2005</u>         |
| Investment income under the equity method                            | \$ (769,916)        | \$ (608,807)        |
| Deferred pension cost  | 31,499              | 30,461              |
| Unrealized foreign exchange loss and gain from financial instruments | (67,835)            | 80,798              |
| Cumulated effect of accounting change                                | 17,232              | -                   |
| Carryforward of tax losses   | 49,020              | -                   |
| Effect on linked-tax system  | (49,020)            | -                   |
| Others   | <u>(46,555)</u>     | <u>(46,555)</u>     |
| Deferred income tax liabilities, net                                 | <u>\$ (835,575)</u> | <u>\$ (544,103)</u> |
| Deferred income tax assets (included in other assets)                | <u>\$ 4,285</u>     | <u>\$ 5,535</u>     |

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

|                               | <u>June 30</u>    |                  |
|-------------------------------|-------------------|------------------|
|                               | <u>2006</u>       | <u>2005</u>      |
| Receivable from related party | <u>\$ 160,235</u> | <u>\$ 97,082</u> |

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

|  | <u>June 30</u> |                  |
|--|----------------|------------------|
|  | <u>2006</u>    | <u>2005</u>      |
| Balances of imputed tax credit account | <u>\$ 61</u>   | <u>\$ 14,474</u> |

The actual imputed tax ratio for earnings in 2005 and 2004 are 16.35% and 4.9957%, respectively.

- f. Income tax returns through 2002, 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 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.

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.

## 24. EARNINGS PER SHARE

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

|  | <u>Numerator (Amounts)</u> |                     | <u>Denominator<br/>(Shares in<br/>Thousands)</u> | <u>EPS (NT\$)</u> |                      |
|--|----------------------------|---------------------|--|-------------------|----------------------|
|  | <u>Pretax</u>              | <u>After Tax</u>    |  | <u>Pretax</u>     | <u>After<br/>Tax</u> |
| For the six months ended<br><u>June 30, 2006</u>         |                            |                     |  |                   |                      |
| Basic EPS  |                            |                     |  |                   |                      |
| Income before cumulative effect<br>of accounting changes | \$ 2,143,710               | \$ 1,787,440        | 1,972,807  | \$ 1.09           | \$ 0.91              |
| Cumulative effect of accounting<br>change                | <u>231,835</u>             | <u>249,067</u>      | 1,972,807  | <u>0.11</u>       | <u>0.12</u>          |
| Net income to common stockholders                        | <u>\$ 2,375,545</u>        | <u>\$ 2,036,507</u> | 1,972,807  | <u>\$ 1.20</u>    | <u>\$ 1.03</u>       |
| For the six months ended<br><u>June 30, 2005</u>         |                            |                     |  |                   |                      |
| Basic EPS  |                            |                     |  |                   |                      |
| Net income to common<br>stockholders                     | <u>\$ 1,830,791</u>        | <u>\$ 1,547,376</u> | 2,086,339  | <u>\$ 0.88</u>    | <u>\$ 0.74</u>       |

## 25. RELATED-PARTY TRANSACTIONS

In addition to the disclosure in other footnotes, relationship with the Bank and significant transactions between the Bank and related parties 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                        |

(Continued)

| <u>Name</u>   | <u>Relationship with the Bank</u>  |
|---|--|
| 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   |
| Ruentex Development Co., Ltd. (Ruentex Development)         | Related party in substance   |
| Wal Tech International Corporation (Wal Tech International) | 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. (IBT)                | Subsidiary of SPH (became a wholly owned subsidiary of SPH since December 26, 2005)  |
| Formosa Plastic Corporation (Formosa Plastic)               | Director of International Bank of Taipei   |
| SinoPac Asia Securities (Asia) Limited                      | Affiliate of SinoPac Securities  |
| SinoPac Futures Corporation (SinoPac Futures)               | Subsidiary of SinoPac Securities   |
| SinoPac Managed Futures Co., Ltd. (SinoPac Managed Futures) | Affiliate of SinoPac Securities  |
| SinoPac Securities (Cayman) Holding                         | Subsidiary of SinoPac Securities   |
| 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 5<br>(Concluded)   |

b. Significant transactions between the Bank and related parties

1) Loans

|   | <b>Ending<br/>Balance</b> | <b>% of<br/>Total</b> | <b>Interest<br/>Rate</b> | <b>Interest<br/>Revenue</b> | <b>% of<br/>Total</b> |
|---|---------------------------|-----------------------|--------------------------|-----------------------------|-----------------------|
| <u>For the six months ended<br/>June 30, 2006</u> |                           |                       |                          |                             |                       |
| SinoPac Securities                                | \$ 700,000                | 0.23%                 | 1.65                     | \$ 306                      | -                     |
| SPL   | 394,000                   | 0.13%                 | 1.73-1.79                | 3,427                       | 0.03%                 |
| Formosa Plastic                                   | 90,920                    | 0.03%                 | 2.24-2.66                | -                           | -                     |
| Wal Tech International                            | 20,000                    | 0.01%                 | 1.73-1.79                | 82                          | -                     |
| Others  | 1,660,104                 | 0.54%                 | 0-10.65                  | 8,044                       | 0.08%                 |
| <u>For the six months ended<br/>June 30, 2005</u> |                           |                       |                          |                             |                       |
| SinoPac Securities                                | 745,000                   | 0.27%                 | 1.3                      | 248                         | -                     |
| SPL   | 543,500                   | 0.20%                 | 1.50-4.70                | 13,941                      | 0.20%                 |
| Wal-Tech International                            | 328,500                   | 0.12%                 | 1.50-3.14                | 2,745                       | 0.04%                 |
| Grand Capital                                     | 234,639                   | 0.09%                 | 4.135                    | 117                         | 0.10%                 |
| Others  | 773,461                   | 0.28%                 | 1.82-7.15                | 10,122                      | 0.04%                 |

2) Deposits

|  | <b>Ending<br/>Balance</b> | <b>% of<br/>Total</b> | <b>Interest Rate</b> | <b>Interest<br/>Expense</b> | <b>% of<br/>Total</b> |
|--|---------------------------|-----------------------|----------------------|-----------------------------|-----------------------|
| For the six months ended<br><u>June 30, 2006</u> |                           |                       |                      |                             |                       |
| SPH  | \$ 2,152,689              | 0.53%                 | 0.3-8.13             | \$ 57,847                   | 0.87%                 |
| SinoPac Securities                               | 1,710,741                 | 0.42%                 | 0.01-5               | 11,146                      | 0.17%                 |
| SinoPac Securities (Asia) Limited                | 912,438                   | 0.22%                 | 0.1-5                | 193                         | -                     |
| AnShin Card Services                             | 812,920                   | 0.20%                 | 0.3-2.15             | 111                         | -                     |
| SinoPac Securities (Cayman)<br>Holdings          | 229,728                   | 0.06%                 | 2.15-5.20            | 6,095                       | 0.09%                 |
| Others   | 9,355,523                 | 2.29%                 | 0-8                  | 79,234                      | 1.19%                 |
| For the six months ended<br><u>June 30, 2005</u> |                           |                       |                      |                             |                       |
| SinoPac Securities                               | 1,030,096                 | 0.28%                 | 0.002-1.35           | 8,641                       | 0.20%                 |
| SPH  | 292,732                   | 0.08%                 | 0.3-5.75             | 11,433                      | 0.27%                 |
| SinoPac Futures                                  | 203,867                   | 0.06%                 | 0.3-1.64             | 4,228                       | 0.10%                 |
| SinoPac Managed Futures                          | 187,533                   | 0.05%                 | 0.3-1.64             | 1,286                       | 0.03%                 |
| SinoPac Venture Capital                          | 154,531                   | 0.04%                 | 0.3-1.335            | 950                         | 0.02%                 |
| Others   | 2,484,097                 | 0.68%                 | 0-6.675              | 11,986                      | 0.28%                 |

3) Due from banks, call loans to banks and other receivables

|                           | <b>Ending Balance</b> |              | <b>% of Total</b> |             |
|---------------------------|-----------------------|--------------|-------------------|-------------|
|                           | <b>June 30</b>        |              | <b>June 30</b>    |             |
|                           | <b>2006</b>           | <b>2005</b>  | <b>2006</b>       | <b>2005</b> |
| Call loans to banks - IBT | \$ -                  | \$ 1,899,079 | -                 | 5.08%       |
| Due from banks - FENB     | 19,172                | 73,585       | 0.28%             | 0.18%       |
| Other receivables         | 196,439               | 219,390      | 0.89%             | 0.78%       |

4) Financial assets at fair value through profit or loss

|  | <b>Ending Balance</b> |             | <b>% of Total</b> |             |
|--|-----------------------|-------------|-------------------|-------------|
|  | <b>June 30</b>        |             | <b>June 30</b>    |             |
|  | <b>2006</b>           | <b>2005</b> | <b>2006</b>       | <b>2005</b> |
| Structured instruments - SinoPac Securities            | \$ -                  | \$ 146,600  | -                 | 0.56%       |
| Beneficiary certificates - SinoPac New Century<br>Fund | 61,023                | 50,000      | 0.30%             | 0.19%       |
| Beneficiary certificates - SinoPac Columbus<br>Fund    | 53,141                | 36,000      | 0.26%             | 0.14%       |
| Others   | 635,764               | 878,720     | 3.10%             | 3.34%       |

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:

|                    | <u>June 30</u> |             |
|--------------------|----------------|-------------|
|                    | <u>2006</u>    | <u>2005</u> |
| SinoPac Securities | \$ 35,000      | \$ -        |

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

|                              | <u>June 30</u> |              |
|------------------------------|----------------|--------------|
|                              | <u>2006</u>    | <u>2005</u>  |
| Properties - carrying amount | \$ 1,099,772   | \$ 1,109,364 |

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

|  | <u>June 30</u>      |                     |
|--|---------------------|---------------------|
|  | <u>2006</u>         | <u>2005</u>         |
| Properties and leased assets - carrying amount | \$ 1,168,325        | \$ 1,178,716        |
| Certificates of deposit                        | <u>930,000</u>      | <u>830,000</u>      |
|  | <u>\$ 2,098,325</u> | <u>\$ 2,008,716</u> |

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

|                              | <u>June 30</u> |             |
|------------------------------|----------------|-------------|
|                              | <u>2006</u>    | <u>2005</u> |
| Properties - carrying amount | \$ 40,064      | \$ 43,400   |
| Stocks - fair value          | 8,795          | 8,813       |

6) Held-to-maturity financial assets

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:

|   | <u>June 30</u>   |                  |
|---|------------------|------------------|
|   | <u>2006</u>      | <u>2005</u>      |
| Beneficiary certificates - credit card receivables - AnShin Card Services | <u>\$ 80,000</u> | <u>\$ 80,000</u> |

7) Revenues and expenses

|                              | <u>Amount</u>                   |             | <u>% of Total</u>   |             |
|------------------------------|---------------------------------|-------------|---------------------|-------------|
|                              | <u>For the Six Months Ended</u> |             | <u>For the Six</u>  |             |
|                              | <u>June 30</u>                  |             | <u>Months Ended</u> |             |
|                              | <u>2006</u>                     | <u>2005</u> | <u>2006</u>         | <u>2005</u> |
| Service fees                 | \$ 8,336                        | \$ 13,881   | 0.82%               | 1.61%       |
| Project popularizing expense | 131                             | 260         | -                   | 0.60%       |

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

|  | <u>Face Amount</u> |              | <u>Cost</u>    |              |
|--|--------------------|--------------|----------------|--------------|
|  | <u>June 30</u>     |              | <u>June 30</u> |              |
|  | <u>2006</u>        | <u>2005</u>  | <u>2006</u>    | <u>2005</u>  |
| SPH  |                    |              |                |              |
| Short-term bonds sold under agreements to repurchase | \$ 71,900          | \$ 1,642,700 | \$ 80,000      | \$ 1,875,933 |
| Others   |                    |              |                |              |
| Short-term bonds sold under agreements to repurchase | 253,472            | 4,000        | 281,272        | 4,013        |

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 Six Months</u> |             |                |                      |
|                     | <u>Ended June 30</u>      |             |                |                      |
|                     | <u>2006</u>               | <u>2005</u> |                |                      |
| SPL                 | \$ 35,490                 | \$ 34,905   | February 2020  | Rentals paid monthly |
| Ruentex Development | 1,800                     | 1,848       | September 2010 | Rentals paid monthly |

b) The Bank as a lessor

| Lessee                       | <u>Rental Income</u>      |             | Lease Term    | Payment Frequency        |
|------------------------------|---------------------------|-------------|---------------|--------------------------|
|                              | <u>For the Six Months</u> |             |               |                          |
|                              | <u>Ended June 30</u>      |             |               |                          |
|                              | <u>2006</u>               | <u>2005</u> |               |                          |
| SPL                          | \$ 3,054                  | \$ -        | May 2010      | Rentals received monthly |
| SPH                          | 2,214                     | -           | May 2010      | Rentals received monthly |
| SinoPac Call Center          | 1,296                     | 1,296       | October 2006  | Rentals received monthly |
| SinoPac Securities           | 1,234                     | 1,234       | November 2008 | Rentals received monthly |
| SinoPac Marketing Consulting | 899                       | 937         | May 2007      | Rentals received monthly |
| SinoPac Asset Management     | 363                       | -           | June 2010     | Rentals received monthly |
| AnShin Card Services         | 122                       | 122         | December 2006 | Rentals received monthly |
| SinoPac Venture Capital      | 5                         | -           | June 2010     | Rentals received monthly |
| WalTech International        | 30                        | -           | June 2006     | 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 six months ended June 30, 2006 and 2005 amounted to \$47,575 and \$64,566, respectively.

11) Due from/to affiliates

As of June 30, 2006 and 2005, the Bank's receivables from AnShin Card Services amounted to \$33,733 and \$26,676, respectively.

As of June 30, 2006 and 2005, the Bank's estimated payables resulting from the adoption of the linked-tax system as of June 30, 2006 and 2005 amounted to \$160,235 and \$97,082, respectively.

As of June 30, 2006, the cash dividends payable resulting from the appropriation of 2005 earnings amounted to \$1,116,514.

12) Asset transactions

For the six months ended June 30, 2005, the Bank purchased structured instruments from SinoPac Securities amounted to \$146,474.

13) Derivative financial instruments

|                              | <u>June 30, 2006</u>                      |                    |                   |
|------------------------------|---|--------------------|-------------------|
| <b>FENB</b>                  | <b>Contract<br/>(Notional)<br/>Amount</b> | <b>Credit Risk</b> | <b>Fair Value</b> |
| Interest rate swap contracts | \$ 32,399                                 | \$ 810             | \$ (81)           |

|                              | <u>June 30, 2006</u>                      |                    |                   |
|------------------------------|---|--------------------|-------------------|
| <b>SPL</b>                   | <b>Contract<br/>(Notional)<br/>Amount</b> | <b>Credit Risk</b> | <b>Fair Value</b> |
| Interest rate swap contracts | \$ 80,000                                 | \$ -               | \$ (1,081)        |

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.

## 26. SIGNIFICANT CONTINGENCIES AND COMMITMENTS

In addition to those disclosed in Note 29, financial instruments, significant contingencies and commitments of the Bank, are summarized as follows:

a. Lease contract

The Bank leased 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:

| Year                        | Amount     |
|-----------------------------|------------|
| July 1 to December 31, 2006 | \$ 143,083 |
| 2007                        | 250,053    |
| 2008                        | 195,017    |
| 2009                        | 156,184    |
| 2010                        | 110,968    |

Rentals for the years beyond 2011 amount to \$621,133, the present value of which is about \$519,138 as discounted at the Bank's one-year time deposit rate of 2.061% on July 1, 2006.

b. Equipment purchase contract

The Bank had entered into contracts to buy computer hardware and software for \$141,087, of which \$54,368 had already been paid as of June 30, 2006.

c. Interior decoration contract

The Bank had entered into interior decoration contracts for \$19,971, of which \$17,976 has already been paid as of June 30, 2006.

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

As of June 30, 2006, short-term bills and bonds with a total face amount of \$7,203,745 were sold under agreements to repurchase at \$7,757,435 between July 2006 and September 2006.

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

As of June 30, 2006, short-term bills and bonds with a total face amount of \$5,498,300 were purchased under agreements to resell at \$5,949,808 in July 2006 and September 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 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.

g. The SFIPC is believed by investors to be filing a lawsuit against the Bank in the ground that National Aerospace Fasteners Corporation provided accounts receivable - factoring with the Bank's Tunpei Branch to window-dress its financial statements. The SFIPC claims the Bank as a joint tortfeasor and

files lawsuit against the Bank and all other parties for compensation in the amount of \$457,902. The Bank considers the aforementioned accounts receivable - factoring as truly accounts receivable financing activity and enter a plea on such charges on June 19, 2006.

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

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

|  | <b><u>For the Six Months<br/>Ended June 30, 2006</u></b> |                             |
|--|--|-----------------------------|
|  | <b>Average<br/>Balance</b>                               | <b>Average<br/>Rate (%)</b> |
| <u>Interest-earning assets</u>                             |  |                             |
| Due from other banks                                       | \$ 4,793,038   | 4.66                        |
| Call loans (placement)                                     | 33,905,023   | 3.97                        |
| Due from the Central Bank                                  | 8,651,842  | 1.50                        |
| Financial assets at fair value through profit or loss      | 31,954,249   | 2.26                        |
| Available-for-sale financial assets                        | 72,859,715   | 1.57                        |
| Discounts and loans  | 294,573,030  | 3.70                        |
| Accounts receivable - factoring                            | 8,839,336  | 5.16                        |
| Held-to-maturity investments                               | 1,486,526  | 4.15                        |
| Securities purchased under agreement to resell             | 12,218,455   | 1.41                        |
| Other financial assets                                     | 1,191,639  | 5.95                        |
| <u>Interest-bearing liabilities</u>                        |  |                             |
| Due to other banks   | 3,899,903  | 2.10                        |
| Call loans (taken)   | 20,441,304   | 3.79                        |
| Demand deposits  | 52,682,151   | 1.87                        |
| Savings - demand deposits                                  | 79,948,531   | 0.48                        |
| Time deposits  | 156,693,427  | 2.56                        |
| Savings - time deposits                                    | 77,393,337   | 1.93                        |
| Negotiable certificates of deposit                         | 20,507,871   | 1.47                        |
| Securities sold under agreement to repurchase              | 9,339,637  | 2.60                        |
| Bank debentures  | 35,819,776   | 1.32                        |
| Financial liabilities at fair value through profit or loss | 622,064  | 2.70                        |

|  | <b>For the Six Months<br/>Ended June 30, 2005</b> |                             |
|--|---|-----------------------------|
|  | <b>Average<br/>Balance</b>                        | <b>Average<br/>Rate (%)</b> |
| <u>Interest-earning assets</u>                 |   |                             |
| Due from other banks                           | \$ 5,113,621                                      | 2.48                        |
| Call loans (placement)                         | 33,265,366  | 2.02                        |
| Due from the Central Bank                      | 7,311,159   | 1.50                        |
| Securities purchased                           | 78,217,858  | 1.45                        |
| Securities purchased under agreement to resell | 18,184,786  | 1.16                        |
| Loans, discounts and bills purchased           | 271,861,210                                       | 3.30                        |
| Accounts receivable from factoring             | 11,982,011  | 4.09                        |
| Other long-term investments                    | 1,080,967   | 2.91                        |
| <u>Interest-bearing liabilities</u>            |   |                             |
| Due to other banks                             | 86,518  | 4.01                        |
| Call loans (taken)                             | 29,444,902  | 2.16                        |
| Demand deposits                                | 91,339,907  | 0.63                        |
| Savings - demand deposits                      | 73,234,742  | 0.48                        |
| Time deposits                                  | 101,165,419                                       | 1.82                        |
| Savings - time deposits                        | 67,996,528  | 1.55                        |
| Negotiable certificates of deposit             | 29,991,856  | 1.19                        |
| Bank debentures                                | 32,800,000  | 2.05                        |
| Securities sold under agreement to repurchase  | 16,489,085  | 1.15                        |

## 28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity of assets and liabilities of the Bank is based on the remaining period from the 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.

|   | <u>June 30, 2006</u>        |   |  |  |   |                                  |                       |
|---|-----------------------------|---|--|--|---|----------------------------------|-----------------------|
|   | <u>Due in<br/>One Month</u> | <u>Due Between<br/>One Month and<br/>Three Months</u> | <u>Due Between<br/>Three Months<br/>and Six Months</u> | <u>Due Between<br/>Six Months and<br/>One Year</u> | <u>Due Between<br/>One Year and<br/>Seven Years</u> | <u>Due After<br/>Seven Years</u> | <u>Total</u>          |
| <u>Assets</u>   |                             |   |  |  |   |                                  |                       |
| Cash and cash equivalent                              | \$ 9,365,613                | \$ -  | \$ -   | \$ -   | \$ -  | \$ -                             | \$ 9,365,613          |
| Due from the Central Bank and other banks             | 58,488,876                  | 3,975,133   | 837,908  | -  | -   | -                                | 63,301,917            |
| Financial assets at fair value through profit or loss | 20,499,217                  | -   | -  | -  | -   | -                                | 20,499,217            |
| Receivables   | 9,496,054                   | 9,879,582   | 2,349,337  | 432,083  | 63,640  | -                                | 22,220,696            |
| Securities purchased under agreements to resell       | 5,042,111                   | 900,000   | -  | -  | -   | -                                | 5,942,111             |
| Discounts and loans                                   | 25,101,686                  | 24,020,847  | 17,787,333   | 17,935,202   | 44,486,033  | 178,765,873                      | 308,096,974           |
| Non-active market debt instruments                    | -                           | -   | -  | -  | 1,167,800   | 323,990                          | 1,491,790             |
| Available-for-sale financial assets                   | 58,000,540                  | 10,637,146  | 6,314,361  | 3,687,851  | 1,311,992   | -                                | 79,951,890            |
| Held-to-maturity investments                          | 83,442                      | -   | -  | -  | 480,615   | 323,984                          | 888,041               |
|   | <u>\$ 186,077,539</u>       | <u>\$ 49,412,708</u>                                  | <u>\$ 27,288,939</u>                                   | <u>\$ 22,055,136</u>                               | <u>\$ 47,510,080</u>                                | <u>\$ 179,413,847</u>            | <u>\$ 511,758,249</u> |

(Continued)

| <b>June 30, 2006</b>                                       |                             |   |  |  |   |                                  |                       |
|--|-----------------------------|---|--|--|---|----------------------------------|-----------------------|
| <u>Liabilities</u>   | <b>Due in<br/>One Month</b> | <b>Due Between<br/>One Month and<br/>Three Months</b> | <b>Due Between<br/>Three Months<br/>and Six Months</b> | <b>Due Between<br/>Six Months and<br/>One Year</b> | <b>Due Between<br/>One Year and<br/>Seven Years</b> | <b>Due After<br/>Seven Years</b> | <b>Total</b>          |
| Call loans and due to banks                                | \$ 22,983,950               | \$ 1,673,390  | \$ 1,275,579   | \$ 1,579,522                                       | \$ -  | \$ -                             | \$ 27,512,441         |
| Securities sold under agreements to repurchase             | 7,057,280                   | 682,872   | -  | -  | -   | -                                | 7,740,152             |
| Payables   | 7,087,082                   | 3,718,276   | 1,113,005  | 745,141  | 137,442   | -                                | 12,800,946            |
| Financial liabilities at fair value through profit or loss | 3,812,779                   | -   | -  | -  | -   | -                                | 3,812,779             |
| Deposits and remittances                                   | 95,550,993                  | 89,931,141  | 91,640,767   | 90,234,293   | 40,056,391  | -                                | 407,413,585           |
| Bank debentures  | -                           | -   | 5,000,000  | -  | 31,095,048  | -                                | 36,095,048            |
|  | <u>\$ 136,492,084</u>       | <u>\$ 96,005,679</u>                                  | <u>\$ 99,029,351</u>                                   | <u>\$ 92,558,956</u>                               | <u>\$ 71,288,881</u>                                | <u>\$ -</u>                      | <u>\$ 495,374,951</u> |

(Concluded)

| <b>June 30, 2005</b>   |                            |  |                                 |                       |
|--|----------------------------|--|---------------------------------|-----------------------|
| <u>Assets</u>  | <b>Due in<br/>One Year</b> | <b>Due Between<br/>One Year and<br/>Five Years</b> | <b>Due After<br/>Five Years</b> | <b>Total</b>          |
| Cash and cash equivalent   | \$ 6,666,644               | \$ -   | \$ -                            | \$ 6,666,644          |
| Due from the Central Bank and other banks                            | 56,239,916                 | -  | -                               | 56,239,916            |
| Securities purchased   | 82,283,202                 | -  | -                               | 82,283,202            |
| Receivables  | 29,734,296                 | -  | -                               | 29,734,296            |
| Securities purchased under agreements to resell                      | 23,215,845                 | -  | -                               | 23,215,845            |
| Loans, discounts and bills purchased (excluding nonperforming loans) | 80,669,681                 | 29,013,080   | 163,788,000                     | 273,470,761           |
| Other long-term investments  | -                          | 1,094,300  | -                               | 1,094,300             |
|  | <u>\$ 278,809,584</u>      | <u>\$ 30,107,380</u>                               | <u>\$ 163,788,000</u>           | <u>\$ 472,704,964</u> |
| <u>Liabilities</u>   |                            |  |                                 |                       |
| Call loans and due to banks  | \$ 28,113,028              | \$ -   | \$ -                            | \$ 28,113,028         |
| Securities sold under agreements to repurchase                       | 18,138,548                 | -  | -                               | 18,138,548            |
| Payables   | 13,924,382                 | -  | -                               | 13,924,382            |
| Deposits and remittances   | 357,210,941                | 10,427,618   | -                               | 367,638,559           |
| Bank debentures  | -                          | 30,300,000   | 2,500,000                       | 32,800,000            |
|  | <u>\$ 417,386,899</u>      | <u>\$ 40,727,618</u>                               | <u>\$ 2,500,000</u>             | <u>\$ 460,614,517</u> |

## 29. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments

|   | June 30            |                         |                    |                         |
|---|--------------------|-------------------------|--------------------|-------------------------|
|   | 2006               |                         | 2005               |                         |
|   | Carrying<br>Amount | Estimated<br>Fair Value | Carrying<br>Amount | Estimated<br>Fair Value |
| <u>Assets</u>   |                    |                         |                    |                         |
| Financial assets - with fair values approximating carrying amounts      | \$ 100,824,415     | \$ 100,824,415          | \$ 114,162,993     | \$ 114,162,993          |
| Financial assets at fair value through profit or loss                   | 20,499,217         | 20,499,217              | 26,301,301         | 28,135,201              |
| Available-for-sale financial assets                                     | 79,951,890         | 79,951,890              | 59,152,707         | 59,151,549              |
| Discounts and loans   | 308,096,974        | 308,096,974             | 275,425,937        | 275,425,937             |
| Held-to-maturity financial assets                                       | 888,041            | 879,141                 | 2,063,123          | 2,052,884               |
| Equity investment-equity method   | 8,102,980          | 8,102,980               | 8,429,948          | 8,429,948               |
| Other financial assets  | 2,453,120          | 2,453,120               | 569,113            | 569,113                 |
| <u>Liabilities</u>  |                    |                         |                    |                         |
| Financial liabilities - with fair values approximating carrying amounts | 455,370,511        | 455,370,511             | 427,510,312        | 427,510,312             |
| Financial liabilities at fair value through profit or loss              | 3,812,779          | 3,812,779               | 1,208,482          | 1,208,482               |
| Other financial liabilities   | 489,155            | 489,155                 | 121,250            | 121,250                 |
| Other liabilities   | 366,109            | 366,109                 | 886,620            | 886,620                 |

Effective on January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments", No. 36 "Disclosure and Presentation of Financial Instruments" and other standards amended for harmonising with those two standards. The amount of the cumulative effect resulting from the change to new accounting principles refers to Note 3.

### b. Methods and assumptions applied in estimating the fair values disclosures for financial instruments are as follows:

- 1) The carrying amounts of cash and cash equivalent, due from the Central Bank and other banks, securities purchased under agreements to resell, receivable, call loans and due to banks, payables, securities sold under agreements to repurchase, and remittances approximate their fair values because of the short maturities of these instruments.
- 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and hedged derivative financial instruments, fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using available indirect data and appropriate valuation methodologies.
- 3) Discounts and loans, and deposits 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) When unquoted equity instruments which the Bank does not have significant influence over the investees do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.
- 5) Forward contracts' and interest rate swap contracts' fair values are based on estimates using present value techniques. Options' fair value are based on estimates using Black Scholes model.
- 6) Fair value of forward contracts are estimated based on the forward rates provided by Reuters or the Associated Press.

Fair value of structured instruments are provided by the counter parties. All outstanding contracts are based on match basis and market risks will be offset.

Fair value of interest rate swap contracts and cross currency swap contracts are estimated based on the market quotation provided by Reuters.

- c. For the six months ended June 30, 2006 and 2005, gains on valuation of financial assets and liabilities at fair value through profit or loss were \$156,546 and \$2,486, respectively.
- d. Interest revenue of financial assets and liabilities other than those at fair value through profit or loss amounted to \$9,839,099 and \$6,897,774, respectively, for the six months ended June 30, 2006 and 2005. Interest expense of financial assets and liabilities other than those at fair value through profit or loss amounted to \$6,425,913 and \$3,963,198, respectively, for the six months ended June 30, 2006 and 2005. Unrealized gains or losses on available-for-sale financial assets amounted to \$3,389 were charged to stockholders' equity for the six months ended June 30, 2006.
- e. Commissions and fee revenues, net amounting to \$879,210, which is consisted of revenues of \$1,011,380 and charges of \$132,170 for the six months ended June 30, 2006.
- f. Realized gain and gain on valuation of financial assets and liabilities at fair value through profit or loss were \$286,433 and \$257,107, respectively, for the six months ended June 30, 2006.
- g. Financial risk information

1) Market risk

The Bank sets up risk managing indicators according to the characters of the products to achieve the goal of risk management. The Bank evaluates market risk exposure limits approved by the board of directors and informs related units when over the limits timely.

Fair value of financial assets and financial liabilities determined based upon quoted market prices or estimates summarized as follows:

|  | <u>Quoted<br/>Market Prices</u> | <u>Fair Value<br/>Based on<br/>Estimates</u> |
|--|---------------------------------|--|
|  | <b>June 30, 2006</b>            |  |
| <u>Financial assets</u>                                    |                                 |  |
| Financial assets at fair value through profit or loss      | \$ 12,852,843                   | \$ 7,646,374                                 |
| Available-for-sale financial assets                        | 78,937,650                      | 1,014,240                                    |
| Held-to-maturity investments                               | 808,041                         | 80,000                                       |
| Other financial assets                                     | 181,852                         | 2,271,268                                    |
| <u>Financial liabilities</u>                               |                                 |  |
| Financial liabilities at fair value through profit or loss | 2,802,564                       | 1,010,215                                    |

The Bank establishes various specialist committees in head office and oversea branches to perform the role of implementing the risk management policies and procedures. Each sub-risk management team reviews limits on monitoring and managing risk exposures under the respective supervision and reports to head office management team.

Market risk reports which include the monitor of outstanding position limitation of loss and quantitative measures of risk indicators are provided to risk management sector to manage risk exposure, risk premium and capital allocation. The indicators are calculated by the valuation models. The Bank uses the value-at-risk approach and Monte Carlo simulation method to derive quantitative measures for the trading book market risks under normal condition since 2005.

The Bank formally document in writing its intention to apply hedge accounting and follow the requirement of related accounting standards. Risk management sector should assess the effectiveness of the hedge relationship periodically.

2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. 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 June 30, 2006 and 2005, ratios of secured loans to total loans both were 72%. Ratio of secured financial guarantees and standby letters of credits were from 15.2% to 22.3%. 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. 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 maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

The maximum credit exposure of the financial instruments held by the Bank equaled the book value except which analysed as follows:

| Items   | June 30         |                         |                 |                         |
|---|-----------------|-------------------------|-----------------|-------------------------|
|   | 2006            |                         | 2005            |                         |
|   | Carrying Amount | Maximum Credit Exposure | Carrying Amount | Maximum Credit Exposure |
| Off-balance-sheet credit risk                     |                 |                         |                 |                         |
| Financial guarantees and standby letter of credit | \$ -            | \$ 11,755,636           | \$ -            | \$ 12,367,164           |
| Undrawn loan commitments                          | -               | 2,157,507               | -               | 3,737,235               |

The Bank applied the ROC SFAS No. 34 "Accounting for Financial Instruments" since January 1, 2006, thus the relative illustration of the cumulative effect of changes in accounting principles and equity adjustments refer to Note 3.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure on a continuous basis. On June 30, 2006 and 2005, the Bank's most significant concentrations of credit risk were summarized as follows:

| Credit Risk Profile by Counterparty | June 30               |                         |                       |                         |
|-------------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                                     | 2006                  |                         | 2005                  |                         |
|                                     | Carrying Amount       | Maximum Credit Exposure | Carrying Amount       | Maximum Credit Exposure |
| Private sector                      | \$ 88,322,874         | \$ 88,322,874           | \$ 85,809,309         | \$ 85,809,309           |
| Consumer                            | 219,140,020           | 219,140,020             | 186,918,628           | 186,918,628             |
| Government                          | <u>1,788,301</u>      | <u>1,788,301</u>        | <u>2,698,000</u>      | <u>2,698,000</u>        |
|                                     | <u>\$ 309,251,195</u> | <u>\$ 309,251,195</u>   | <u>\$ 275,425,937</u> | <u>\$ 275,425,937</u>   |

| Credit Risk Profile by Industry Sector | June 30              |                         |                      |                         |
|--|----------------------|-------------------------|----------------------|-------------------------|
|  | 2006                 |                         | 2005                 |                         |
|  | Carrying Amount      | Maximum Credit Exposure | Carrying Amount      | Maximum Credit Exposure |
| Electricity industry                   | \$ 24,669,284        | \$ 24,669,284           | \$ 24,091,131        | \$ 24,091,131           |
| Wholesale trade                        | 10,783,581           | 10,783,581              | 8,775,227            | 8,775,227               |
| Insurance and real estate activities   | <u>9,749,994</u>     | <u>9,749,994</u>        | <u>3,452,726</u>     | <u>3,452,726</u>        |
|  | <u>\$ 45,202,859</u> | <u>\$ 45,202,859</u>    | <u>\$ 36,319,084</u> | <u>\$ 36,319,084</u>    |

| Credit Risk Profile by Region | June 30               |                         |                       |                         |
|-------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                               | 2006                  |                         | 2005                  |                         |
|                               | Carrying Amount       | Maximum Credit Exposure | Carrying Amount       | Maximum Credit Exposure |
| Domestic area                 | \$ 297,701,719        | \$ 297,701,719          | \$ 266,784,362        | \$ 266,784,362          |
| Asia                          | 6,891,138             | 6,891,138               | 2,963,049             | 2,963,049               |
| North America                 | <u>3,519,277</u>      | <u>3,519,277</u>        | <u>3,566,163</u>      | <u>3,566,163</u>        |
|                               | <u>\$ 308,112,134</u> | <u>\$ 308,112,134</u>   | <u>\$ 273,313,574</u> | <u>\$ 273,313,574</u>   |

### 3) Liquidity risk

As of June 30, 2006 and 2005, the liquidity reserve ratio was 36.23% and 28.69%, respectively. The Bank has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of the derivative financial instruments held by the Bank fail to liquidate quickly with minimal loss in value.

The management policy of the Bank is to match in the contractual maturity profile and interest rate of its assets and liabilities. As a result of the uncertainty, the maturities and interest rates of assets and liabilities usually didn't fully match. The gap may arise potential gain or loss.

The Bank applied appropriate way to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

|  | June 30, 2006         |   |  |  |  |                          |                       |
|--|-----------------------|---|--|--|--|--------------------------|-----------------------|
|  | Due in<br>One Month   | Due Between<br>One Month<br>and<br>Three Months | Due Between<br>Three Months<br>and<br>Six Months | Due Between<br>Six Months<br>and<br>One Year | Due Between<br>One Year and<br>Seven Years | Due After<br>Seven Years | Total                 |
| <u>Assets</u>  |                       |   |  |  |  |                          |                       |
| Cash and cash equivalents                                  | \$ 9,365,613          | \$ -  | \$ -   | \$ -   | \$ -                                       | \$ -                     | \$ 9,365,613          |
| Due from the Central Bank and other banks                  | 58,488,876            | 3,975,133                                       | 837,908  | -  | -  | -                        | 63,301,917            |
| Financial assets at fair value through profit or loss      | 20,499,217            | -   | -  | -  | -  | -                        | 20,499,217            |
| Accounts, interest and other receivables                   | 9,496,055             | 9,879,581                                       | 2,349,337  | 432,083                                      | 63,640                                     | -                        | 22,220,696            |
| Discounts and loans  | 25,101,685            | 24,020,847                                      | 17,787,333                                       | 17,935,202                                   | 44,486,033                                 | 178,765,874              | 308,096,974           |
| Available-for-sale financial assets                        | 58,000,540            | 10,637,146                                      | 6,314,361  | 3,687,851                                    | 1,311,992                                  | -                        | 79,951,890            |
| Held-to-maturity investments                               | 83,442                | -   | -  | -  | 480,615                                    | 323,984                  | 888,041               |
|  | <u>\$ 181,035,428</u> | <u>\$ 48,512,707</u>                            | <u>\$ 27,288,939</u>                             | <u>\$ 22,055,136</u>                         | <u>\$ 46,342,280</u>                       | <u>\$ 179,089,858</u>    | <u>\$ 504,324,348</u> |
| <u>Liabilities</u>   |                       |   |  |  |  |                          |                       |
| Call loans and due to banks                                | \$ 22,983,950         | \$ 1,673,390                                    | \$ 1,275,579                                     | \$ 1,579,522                                 | \$ -                                       | \$ -                     | \$ 27,512,441         |
| Accounts, interest and other receivables                   | 7,087,082             | 3,718,276                                       | 1,113,005  | 745,141                                      | 137,442                                    | -                        | 12,800,946            |
| Financial liabilities at fair value through profit or loss | 3,812,779             | -   | -  | -  | -  | -                        | 3,812,779             |
| Deposits and remittance                                    | 95,550,993            | 89,931,141                                      | 91,640,767                                       | 90,234,293                                   | 40,056,391                                 | -                        | 407,413,585           |
| Bank debentures  | -                     | -   | 5,000,000  | -  | 31,095,048                                 | -                        | 36,095,048            |
| Hedge derivative financial liabilities                     | -                     | -   | -  | -  | 295,048                                    | -                        | 295,048               |
|  | <u>129,434,804</u>    | <u>95,322,807</u>                               | <u>99,029,351</u>                                | <u>92,558,956</u>                            | <u>71,583,929</u>                          | <u>-</u>                 | <u>487,929,847</u>    |
| Net liquidity gap  | <u>\$ 51,600,624</u>  | <u>\$ (46,810,100)</u>                          | <u>\$ (71,740,412)</u>                           | <u>\$ (70,503,820)</u>                       | <u>\$ (25,241,649)</u>                     | <u>\$ 179,089,858</u>    | <u>\$ 16,394,501</u>  |

#### 4) Cash flow risk and fair value risk arising from interest rate fluctuations

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest risk. The risk is considered to be material to the Bank, and the Bank enters into interest rate swap contracts to manage the risk.

#### h. Fair value hedge

The Bank enters into interest rate swap contracts and cross currency swap contracts to hedge the risk the interest rate fluctuation of the bank debenture.

| Hedged Items    | Hedging Instruments | June 30              |                   |                      |                     |
|-----------------|---------------------|----------------------|-------------------|----------------------|---------------------|
|                 |                     | 2006                 |                   | 2005                 |                     |
|                 |                     | Notion Amount        | Fair Value        | Notion Amount        | Fair Value          |
| Bank debentures | Interest rate swap  | \$ 11,200,000        | \$ (208,097)      | \$ 16,410,160        | \$ 197,961          |
|                 | Cross currency swap | 14,300,000           | 503,145           | 14,300,000           | 1,423,142           |
|                 |                     | <u>\$ 25,500,000</u> | <u>\$ 295,048</u> | <u>\$ 30,710,160</u> | <u>\$ 1,621,103</u> |

### 30. MARKET RISK CONTROL AND HEDGE STRATEGY

The Bank documents the risk management policies, including overall operating strategies and risks control philosophy. The Bank's overall risk management policies are to minimize the possibility of potential unfavorable factors. The board of directors approves the documentation of overall risk management policies and specific risk management policies; including exchange rate risk, interest rate risk, credit risk, derivative instruments transactions and managements. The board of directors review the policies annually, and review the operation to make sure the Bank's policies are executed properly.

### 31. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

#### a. Asset quality

June 30, 2006

(In Thousands of New Taiwan Dollars, %)

| Item   | Amount       | Overdue Loans/<br>Outstanding<br>Loan Balance |
|--|--------------|---|
| Overdue loans - class A  | \$ 3,717,396 | 1.20%   |
| Overdue loans - class B  | 298,048      | 0.10%   |
| Total overdue loans  | 4,015,444    | 1.30%   |
| Overdue loans with debt negotiation exempted from reporting as a non-performing loan       | -            | -   |
| Overdue receivables with debt negotiation exempted from reporting as a non-performing loan | -            | -   |

Note 1: Overdue loans represent the amounts of reported overdue loans pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrued Loans" issued by the MOF.

Note 2: Overdue loans - class A and class B represent the amounts of reported overdue loans as required by the Banking Bureau letters dated April 19, 2005 (Ref. No. 0941000251).

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

Note 4: Overdue loans and receivables with debt negotiated terms which have been performed are exempted from reporting as non-performing loan under the requirement issued by the Banking Bureau dated April 25, 2006 (Ref. No. 0951000270).

June 30, 2005

(In Thousands of New Taiwan Dollars, %)

| Item   | June 30, 2005 |
|--|---------------|
| Overdue loans (including nonperforming loans) (Note 1) | \$2,888,593   |
| Nonperforming loans                                    | 1,956,778     |
| Overdue loans ratio (Note 2)                           | 1.05          |
| Classified loans (Note 3)                              | 373,249       |
| Ratios of classified loans to total loans              | 0.13          |
| Allowance for credit losses                            | 1,358,442     |
| Write-off amounts of credits (Note 4)                  | 199,629       |

Note 1: 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).

Note 2: 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 June 30, 2005 was 0.90%.

Note 3: Loans subject to observation are mid-term and long-term loans repayable in installments repayment on which is delinquent for more than six months but less than six months; other loans (the repayment of) principal on which is overdue by less than six months and interest thereon is overdue by more than six months but less than six months 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.

Note 4: Write-off amounts of credits = Accumulated write-off amounts of credits for the six months ended June 30, 2006.

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

|   | June 30, 2006             |            | June 30, 2005             |            |
|---|---------------------------|------------|---------------------------|------------|
| Credit extensions to interested parties               | 4,479,736                 |            | 4,197,864                 |            |
| Ratios of credit extensions to interested parties     | 1.27%                     |            | 1.30%                     |            |
| Ratios of credit extensions secured by pledged stocks | 0.11%                     |            | 0.14%                     |            |
| Industry concentration                                | Industry                  | Percentage | Industry                  | Percentage |
|   | Consumer                  | 78.64%     | Consumer                  | 78.57%     |
|   | Manufacturing             | 9.06%      | Manufacturing             | 9.11%      |
|   | Wholesaling and retailing | 3.94%      | Wholesaling and retailing | 3.85%      |

Note 1: Consist of loans, discounts and bills purchased (including import and export bill negotiations), acceptances and guarantees.

Note 2: Ratio of credit extensions to interested parties = Credit extensions to interested parties/Total credit extensions.

Note 3: Ratio of credit extensions secured by pledged stocks = Credit extensions secured by pledged stocks/Total credit extensions.

Note 4: Consist of the following industries required by the Central Bank: Agriculture, forestry, fishing and grazing; mining and soil excavation; manufacturing; utility and gas; construction; wholesale, retail, food and beverage; shipping, storage and communications; finance, insurance and real estate; general services and other.

c. Interest rate sensitivity information

**Interest Rate Sensitivity (New Taiwan Dollars)**  
**June 30, 2006**

(In Millions of New Taiwan Dollars, %)

| Items  | 1 to 90 Days<br>(Included) | 91 to 180 Days<br>(Included) | 181 Days to<br>One Year<br>(Included) | Over One Year | Total      |
|--|----------------------------|------------------------------|---------------------------------------|---------------|------------|
| Interest-rate sensitive assets                         | \$ 350,882                 | \$ 16,195                    | \$ 9,439                              | \$ 17,117     | \$ 393,633 |
| Interest-rate sensitive liabilities                    | 160,287                    | 132,415                      | 49,531                                | 15,406        | 357,639    |
| Interest-rate-sensitive gap                            | 190,595                    | (116,220)                    | (40,092)                              | 1,711         | 35,994     |
| Net worth  |                            |                              |                                       |               | 28,059     |
| Ratio of interest-rate sensitive assets to liabilities |                            |                              |                                       |               | 110.06%    |
| Ratio of interest-rate sensitive gap to net worth      |                            |                              |                                       |               | 128.28%    |

Note 1: The above amounts included only New Taiwan dollar amounts held by the onshore branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in New Taiwan dollars).

**Interest Rate Sensitivity (USD)**  
**June 30, 2006**

(In Thousands of U.S. Dollars, %)

| Items  | 1 to 90 Days<br>(Included) | 91 to 180 Days<br>(Included) | 181 Days to<br>One Year<br>(Included) | Over One Year | Total        |
|--|----------------------------|------------------------------|---------------------------------------|---------------|--------------|
| Interest-rate sensitive assets                         | \$ 2,328,050               | \$ 175,018                   | \$ 73,914                             | \$ 147,707    | \$ 2,724,689 |
| Interest-rate sensitive liabilities                    | 1,655,715                  | 1,251,640                    | 147,273                               | 721           | 3,055,349    |
| Interest-rate-sensitive gap                            | 672,335                    | (1,076,622)                  | (73,359)                              | 146,986       | (330,660)    |
| Net worth  |                            |                              |                                       |               | 3,947        |
| Ratio of interest-rate sensitive assets to liabilities |                            |                              |                                       |               | 89.18%       |
| Ratio of interest-rate sensitive gap to net worth      |                            |                              |                                       |               | (8,377.5%)   |

Note 1: The above amounts include only USD amounts held by the onshore branches, OBU and offshore branches of the Bank, excludes contingent assets and contingent liabilities.

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in U.S. dollars)

d. Profitability

(%)

| Items                  |                   | Six Months Ended | Six Months Ended |
|------------------------|-------------------|------------------|------------------|
|                        |                   | June 30, 2006    | June 30, 2005    |
| Return on total assets | Before income tax | 0.45             | 0.38             |
|                        | After income tax  | 0.39             | 0.32             |
| Return on net worth    | Before income tax | 8.50             | 6.48             |
|                        | After income tax  | 7.29             | 5.48             |
| Profit margin          |                   | 37.42            | 33.24            |

Note 1: Return on total assets = Income before (after) income tax/Average total assets

Note 2: Return on net worth = Income before (after) income tax/Average net worth

Note 3: Profit margin = Income after income tax/Total operating revenues

Note 4: Income before (after) income tax represents income for the six months ended June 30, 2006 and 2005.

e. Maturity analysis of asset and liabilities

**Maturity Analysis of Asset and Liabilities (In New Taiwan Dollars)**  
June 30, 2006

(In Millions of New Taiwan Dollars)

|                                  | Total      | The Amount of Remaining Period to Maturity |            |             |              |             |
|----------------------------------|------------|--|------------|-------------|--------------|-------------|
|                                  |            | 1-30 Days                                  | 31-90 Days | 91-180 Days | 181-365 Days | Over 1 Year |
| Main capital inflow on maturity  | \$ 509,017 | \$ 165,628                                 | \$ 32,468  | \$ 46,108   | \$ 36,467    | \$ 228,346  |
| Main capital outflow on maturity | 512,933    | 98,931                                     | 99,270     | 86,806      | 118,165      | 109,761     |
| Gap                              | (3,916)    | 66,697                                     | (66,802)   | (40,698)    | (81,698)     | 118,585     |

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

**Maturity Analysis of Assets and Liabilities (In U.S. Dollars)**  
June 30, 2006

(In Thousands of U.S. Dollars)

|                             | Total        | The Amount of Remaining Period to Maturity |              |              |              |             |
|-----------------------------|--------------|--|--------------|--------------|--------------|-------------|
|                             |              | 1-30 Days                                  | 31-90 Days   | 91-180 Days  | 181-365 Days | Over 1 Year |
| Capital inflow on maturity  | \$ 7,268,813 | \$ 2,326,548                               | \$ 2,034,407 | \$ 1,109,524 | \$ 1,682,174 | \$ 116,160  |
| Capital outflow on maturity | 7,358,129    | 2,813,900                                  | 1,618,646    | 1,613,277    | 1,306,570    | 5,736       |
| Gap                         | (89,316)     | (487,352)                                  | 415,761      | (503,753)    | 375,604      | 110,424     |

Note A: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Note B: If the overseas assets amounting to at least 10% of the total assets, there should be additional disclosures.

June 30, 2005

(In Million of New Taiwan Dollars)

|                 | Total      | The Amount of Remaining Period to Maturity |            |             |              |             |
|-----------------|------------|--|------------|-------------|--------------|-------------|
|                 |            | 1-30 Days                                  | 31-90 Days | 91-180 Days | 181-365 Days | Over 1 Year |
| Assets          | \$ 475,504 | \$ 159,905                                 | \$ 39,065  | \$ 19,146   | \$ 18,943    | \$ 238,445  |
| Liabilities     | 477,800    | 114,716                                    | 93,604     | 59,362      | 53,602       | 156,516     |
| Gap             | (2,296)    | 45,189                                     | (54,539)   | (40,216)    | (34,659)     | 81,929      |
| Accumulated gap | (2,296)    | 45,189                                     | (9,350)    | (49,566)    | (84,225)     | (2,296)     |

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

### 32. STATEMENT OF CAPITAL ADEQUACY

(%)

|  | June 30, 2006 | June 30, 2005 |
|--|---------------|---------------|
| Net eligible capital   | \$ 37,562,670 | \$ 32,867,401 |
| Total risk-weighted assets                                   | 293,844,100   | 282,579,747   |
| Capital adequacy ratios                                      | 12.78         | 11.63         |
| Ratios of tier 1 capital to risk-weighted assets             | 9.63          | 10.00         |
| Ratios of tier 2 capital to risk-weighted assets             | 3.24          | 2.91          |
| Ratios of tier 3 capital to risk-weighted assets             | -             | -             |
| Ratios of the deduction from capital to risk-weighted assets | (0.09)        | (1.28)        |
| Ratios of common stockholders' equity to total assets        | 5.39          | 5.75          |

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

#### a. Balance sheets and trust properties of trust accounts

#### Balance Sheets of Trust Accounts June 30, 2006 and 2005

| Trust Assets  | 2006                 | 2005                 | Trust Liabilities       | 2006                 | 2005                 |
|---|----------------------|----------------------|-------------------------|----------------------|----------------------|
| Bank deposits                                       | \$ 1,278,138         | \$ 921,567           | Payables                | \$ 1,365             | \$ 499               |
| Short-term investments                              | 63,901,049           | 53,289,807           | Trust capital           | 69,441,004           | 56,983,798           |
| Receivables   | 59,274               | 126                  | Cumulative earnings     | <u>1,427,250</u>     | <u>1,246,544</u>     |
| Prepayments   | 95                   | 31                   |                         |                      |                      |
| Properties  | 5,266,890            | 3,409,435            |                         |                      |                      |
| Net asset value of collective investment trust fund | <u>364,173</u>       | <u>609,875</u>       |                         |                      |                      |
| Total trust assets                                  | <u>\$ 70,869,619</u> | <u>\$ 58,230,841</u> | Total trust liabilities | <u>\$ 70,869,619</u> | <u>\$ 58,230,841</u> |

**Trust Properties of Trust Accounts  
June 30, 2006 and 2005**

| <b>Investment Portfolio</b>                         | <b>2006</b>              | <b>2005</b>              |
|---|--------------------------|--------------------------|
| Bank deposits                                       | \$ 1,278,138             | \$ 921,567               |
| Short-term investments                              |                          |                          |
| Bonds   | 12,805,707               | 9,935,269                |
| Common stock  | 4,850,349                | 4,315,633                |
| Funds   | 46,220,060               | 39,038,905               |
| Security on custody                                 | 24,933                   | -                        |
|   | <u>63,901,049</u>        | <u>53,289,807</u>        |
| Receivables   | 59,274                   | 126                      |
| Prepayments   | 95                       | 31                       |
| Properties  |                          |                          |
| Land  | 4,208,787                | 2,599,567                |
| Buildings   | -                        | 7,947                    |
| Construction in process                             | 1,058,103                | 801,921                  |
|   | <u>5,266,890</u>         | <u>3,409,435</u>         |
| Net asset value of collective investment trust fund | <u>364,173</u>           | <u>609,875</u>           |
| <br>Total   | <br><u>\$ 70,869,619</u> | <br><u>\$ 58,230,841</u> |

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

**34. INFORMATION RELATED TO BORROWERS, GUARANTORS AND COLLATERAL PROVIDERS AS INTEREST PARTIES**

June 30, 2006

| Category                            | Account Volume | Amounts    | Situation of Exercise |         |
|-------------------------------------|----------------|------------|-----------------------|---------|
|                                     |                |            | Normal                | Overdue |
| Consumer loans (Note 1)             | 273            | \$ 247,993 | \$ 247,993            | -       |
| Loans for employees' house mortgage | 233            | 565,306    | 565,306               | -       |
| Other borrowers (Note 2)            | 628            | 4,133,931  | 4,133,931             | -       |
| Guarantees                          | 476            | 1,872,329  | 1,872,329             | -       |
| Collateral providers                | 1,061          | 8,759,647  | 8,759,647             | -       |

June 30, 2005

| Category                            | Account Volume | Amounts    | Possibility of Loss (Note 3) |
|-------------------------------------|----------------|------------|------------------------------|
| Consumer loans (Note 1)             | 384            | \$ 266,265 | -                            |
| Loans for employees' house mortgage | 247            | 597,870    | -                            |
| Other borrowers (Note 2)            | 635            | 3,813,934  | -                            |
| Guarantees                          | 501            | 2,143,141  | -                            |
| Collateral providers                | 1,151          | 6,503,754  | -                            |

Note 1: Consumer loans were regulated in the Banking Law Article 32.

Note 2: Except for consumer loans and loans for employees' house mortgage, the credits that borrowers as interest parties.

Note 3: The interest parties mentioned above is regulated in the banking Law Article 33-1.

### 35. CROSS SELLING INFORMATION

In February 2003, the Bank had contracts with SinoPac Securities, 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 six months ended June 30, 2006, the Bank charged SinoPac Securities for \$346 as marketing and opening accounts under cross selling business. For the six months ended June 30, 2006, the Bank charged SPPIA for \$1,781 as service fees, and charged SPLIA for \$2,889 as incentive rewards and for \$2,712 as promoting rewards, respectively, under cross selling business.

### 36. 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: None;
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 10% of the issued capital: None;
- 7) Financial asset securitization: Please refer to Note 10;
- 8) Allowance for service fees to related-parties amounting to at least NT\$5 million: None;
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the issued capital: None;
- 10) Sale of nonperforming loans amounting to at least NT\$5 billion: None;
- 11) Other significant transactions which may affect the decisions of users of financial reports: None;
- 12) Names, locations, and other information of investees on which the Bank exercises significant influence: Table 4;
- 13) Derivative financial transactions: Except the disclosure in other footnotes, the derivative financial instruments of the Bank are disclosed in Notes 6 and 29, 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 June 30, 2006 and 2005, the contract amounts (or notional amounts), credit risks and fair values of outstanding contracts were as follows:

| <b>Financial Instruments</b>  | <b>June 30, 2006</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  | \$ 32,399                         | \$ 810             | \$ (80)           |
| Currency swap contracts   | 32,399                            | 810                | 81                |
| <b>Financial Instruments</b>  | <b>June 30, 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: |                                   |                    |                   |
| Forward contracts   |                                   |                    |                   |
| - Buy   | \$ 474,270                        | \$ 18,971          | (\$ 14,654)       |
| - Sell  | 52,871                            | 2,174              | 843               |

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.

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

**BANK SINOPAC AND INVESTEEES**

**FINANCING PROVIDED  
SIX MONTHS ENDED JUNE 30, 2006  
(In Thousands of New Taiwan Dollars)**

| No. | Financing Name              | Counter-party                      | Financial Statement Account        | Maximum Balance for the Period (Note 1) | Ending Balance (Note 1) | 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 Leasing Corporation | Wal-Tech International Corporation | Other receivable - related parties | \$ 184,000                              | \$ 179,000              | 2.25%-2.40%       | Short-term financing | \$ -               | Repay of borrowings | \$ 895                 | -          | \$ -  | \$ 300,000                                 | \$ 890,195                                  |

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

## BANK SINOPAC AND INVESTEEES

ENDORSEMENT/GUARANTEE PROVIDED  
SIX MONTHS ENDED JUNE 30, 2006  
(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)   | \$ 3,515,888<br>(Note 1)       | \$ 3,177,253<br>(Note 1) | -   | 142.77%  | (Note 3)  |
|     |                                | Wal Tech International Corporation  | Affiliate              | (Note 2)   | 20,000                         | 20,000                   | -   | 0.09%  | (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 June 30, 2006, the limit was \$4,450,976.

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 June 30, 2006, the limit was \$11,127,440.

Note 4: The net asset value of SinoPac Leasing Corporation was based on its audited financial statements as of June 30, 2006.

TABLE 3

## BANK SINOPAC AND INVESTEEES

## MARKETABLE SECURITIES HELD

JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

| Name of Holding Company                                   | Type and Name of Marketable Securities                    | Relationship  | Financial Statement Account        | June 30, 2006                                 |                                |                            |  | Note    |
|---|---|---|------------------------------------|---|--------------------------------|----------------------------|--|---------|
|   |   |   |                                    | Shares/Units/<br>Face Amount<br>(In Thousand) | Carrying<br>Amount<br>(Note 1) | Percentage of<br>Ownership | Market Value or<br>Net Asset Value<br>(Note 1) |         |
| SinoPac Bancorp   | <u>Stock</u><br>Far East National Bank                    | Subsidiary  | Equity investments - equity method | 180   | \$ 6,130,943                   | 100.00%                    | \$ 6,130,943                                   | Note 3  |
|   | SinoPac Financial Service (USA) Ltd.                      | Subsidiary  | Equity investments - equity method | 2.5   | 20,950                         | 100.00%                    | 20,950   | Note 3  |
| Far East Capital Corporation                              | <u>Stock (common stock)</u><br>PCRS Capital Partners, LLC | -   | Unquoted equity investments        | -   | 1,334                          | 4.00%                      | 1,334  | Note 5  |
|   | TVIA, Inc.  | -   | Unquoted equity investments        | 33  | 1,112                          | 0.20%                      | 1,112  | Note 5  |
|   | Metropolos Digital  | -   | Unquoted equity investments        | 1,257   | -                              | 8.00%                      | -  |         |
|   | <u>Stock (preferred stock)</u><br>AgraQuest, Inc.         | -   | Unquoted equity investments        | 100   | 875                            | 0.80%                      | 875  | Note 5  |
|   | Silicon Motion, Inc.                                      | -   | Unquoted equity investments        | 11  | 1,782                          | 0.10%                      | 1,782  | Note 5  |
|   | Zone Reactor, Inc.  | -   | Unquoted equity investments        | 23  | 1,091                          | 1.50%                      | 1,091  | Note 5  |
|   | iPhysician Net, Inc.                                      | -   | Unquoted equity investments        | 115   | -                              | 0.30%                      | -  |         |
|   | Softknot Corporation                                      | -   | Unquoted equity investments        | 250   | -                              | 2.00%                      | -  |         |
|   | SinoPac Leasing Corporation                               | <u>Stock</u><br>Grand Capital International Limited | Subsidiary                         | Equity investments - equity method            | 29,900                         | 615,866                    | 100.00%  | 615,866 |
| <u>Fund</u><br>SinoPac Global Fixed Income Portfolio Fund |   | Affiliate   | Trading financial assets - current | 10,000  | 99,936                         | -                          | 99,936   | Note 6  |
| SinoPac Capital Limited                                   | <u>Stock</u><br>SinoPac Capital (B.V.I.) Ltd.             | Subsidiary  | Equity investments - equity method | 4,450   | 144,173                        | 100.00%                    | 178,611  | Note 3  |
|   | SinoPac Insurance Brokers Ltd.                            | Subsidiary  | Equity investments - equity method | 100   | 1,251                          | 100.00%                    | 1,539  | Note 3  |
|   | SinoPac (Hong Kong) Nominees Ltd.                         | Subsidiary  | Equity investments - equity method | 0.001   | 0.004                          | 100.00%                    | 0.004  | Note 3  |
|   | HC-shares   | -   | Trading financial assets           | 7,998   | 52,383                         | 1.72%                      | 58,717   | Note 2  |
|   | Suga International  | -   | Trading financial assets           | 7,030   | 42,436                         | 3.08%                      | 13,929   | Note 2  |
|   | ZZNode  | -   | Trading financial assets           | 12,004  | 50,071                         | 3.00%                      | 30,043   | Note 2  |
|   | Norstar   | -   | Trading financial assets           | 6,908   | 56,001                         | 0.64%                      | 77,799   | Note 2  |
|   | Hans Energy   | -   | Trading financial assets           | 21,000  | 48,192                         | 0.80%                      | 33,286   | Note 2  |
|   | China-Metal   | -   | Trading financial assets           | 300   | 1,777                          | 0.03%                      | 3,629  | Note 2  |
|   | TPV   | -   | Trading financial assets           | 450   | 12,899                         | 0.02%                      | 13,796   | Note 2  |
|   | FIH   | -   | Trading financial assets           | 200   | 13,256                         | 0.00%                      | 13,848   | Note 2  |
| Wealthmark  | -   | Trading financial assets                            | 15,327                             | 34,523  | 5.11%                          | 36,441                     | Note 2   |         |

(Continued)

| Name of Holding Company       | Type and Name of Marketable Securities  | Relationship | Financial Statement Account                           | June 30, 2006                                 |                                |                            |  | Note   |
|-------------------------------|---|--------------|---|---|--------------------------------|----------------------------|--|--------|
|                               |   |              |   | Shares/Units/<br>Face Amount<br>(In Thousand) | Carrying<br>Amount<br>(Note 1) | Percentage of<br>Ownership | Market Value or<br>Net Asset Value<br>(Note 1) |        |
| SinoPac Capital (B.V.I.) Ltd. | Magna Chip  | -            | Available-for-sale financial assets                   | 16  | \$ 64,797                      | -                          | \$ 64,797                                      | Note 2 |
|                               | Bestfield Enterprises Ltd.  | -            | Financial assets at fair value through profit or loss | 38  | 48,598                         | -                          | 61,889   | Note 2 |
|                               | FerroChina Ltd.   | -            | Financial assets at fair value through profit or loss | 2,300   | 32,874                         | -                          | 53,943   | Note 2 |
|                               | <u>Fund</u><br>China Enterprise Capital                                       | -            | Available-for-sale financial assets                   | 20  | 32,398                         | -                          | 45,475   | Note 5 |
|                               | <u>Stock</u><br>Shanghai International Asset Management (Hong Kong) Co., Ltd. | Subsidiary   | Equity investments - equity method                    | 4,800   | 36,561                         | 60.00%                     | 23,657   | Note 3 |
|                               | Pinnacle Investment Management Ltd.   | Subsidiary   | Equity investments - equity method                    | 200   | 6,480                          | 100.00%                    | 3,653  | Note 3 |
|                               | RSP Information Service Company Limited                                       | Subsidiary   | Equity investments - equity method                    | 1,000   | 4,154                          | 100.00%                    | 1,826  | 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 GreTai Securities Market stocks were determined by average daily closing prices in June 2006.

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 or NAV on June 2006.

(Concluded)

## BANK SINOPAC AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 10% OF THE ISSUED CAPITAL

FOR THE SIX MONTHS ENDED JUNE 30, 2006

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

| Company Name                                  | Type and Name of Marketable Securities            | Financial Statement Account           | Counter-party | Relationship | Beginning Balance                            |        | Acquisition                                   |            | Disposal                                      |        |                    |                            | Ending Balance                                |            |
|---|---|---------------------------------------|---------------|--------------|--|--------|---|------------|---|--------|--------------------|----------------------------|---|------------|
|   |   |                                       |               |              | Shares/Units/<br>Face Value<br>(in Thousand) | Amount | Shares/Units/<br>Face Amount<br>(in Thousand) | Amount     | Shares/Units/<br>Face Amount<br>(in Thousand) | Amount | Carrying<br>Amount | Gain (Loss) on<br>Disposal | Shares/Units/<br>Face Amount<br>(in Thousand) | Amount     |
| SinoPac Financial Holdings<br>Company Limited | Stocks (preferred)<br>SinoPac Leasing Corporation | Equity investments -<br>equity method | -             | Affiliate    | -  | \$ -   | 10,000  | \$ 100,000 | -   | \$ -   | \$ -               | \$ -                       | 10,000  | \$ 100,000 |

## BANK SINOPAC AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE SIX MONTHS ENDED JUNE 30, 2006  
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| Investor Company              | Investee Company   | Location               | Main Businesses and Products                           | Original Investment Amount |                        | Balance as of June 30, 2006 |                             |                          | Net Income (Loss) of the Investee (Note 2) | Investment Gains (Loss) (Note 2) | Invested by the Same Person, the Same Related Person | Note       |
|-------------------------------|--|------------------------|--|----------------------------|------------------------|-----------------------------|-----------------------------|--------------------------|--|----------------------------------|--|------------|
|                               |  |                        |  | June 30, 2006 (Note 1)     | June 30, 2005 (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                      | \$ 5,956,969             | \$ 281,666                                 | \$ 281,119                       | -  | Subsidiary |
|                               | SinoPac Leasing Corporation                                    | Taipei                 | Leasing and installment sales                          | 999,940                    | 999,940                | 176,689.62                  | 99.7683                     | 1,181,370                | 98,166                                     | 82,270                           | -  | Subsidiary |
|                               | SinoPac Capital Limited  | Hong Kong              | Financial advisory                                     | HK\$ 229,998               | HK\$ 229,998           | 229,998                     | 99.9991                     | 962,265                  | 84,081                                     | 91,399                           | -  | Subsidiary |
|                               | SinoPac Financial Consulting Co., Ltd.                         | Taipei                 | Investment advisory and business management advisory   | \$ 1,940                   | \$ 1,940               | 194                         | 97.00                       | 2,376                    | 124  | 121                              | -  | Subsidiary |
| SinoPac Bancorp               | Far East National Bank<br>SinoPac Financial Service (USA) Ltd. | California             | Commercial bank  | US\$ 112,714               | US\$ 112,714           | 180                         | 100.00                      | 6,130,943                | 262,460                                    | -                                | -  | Affiliate  |
|                               |  | California             | Securities brokerage                                   | US\$ 25                    | US\$ 25                | 2.5                         | 100.00                      | 20,950                   | (14,649)                                   | -                                | -  | Affiliate  |
| Far East National Bank        | Far East Capital Corporation                                   | California             | Investment bank  | US\$ 3,500                 | US\$ 3,500             | 350                         | 100.00                      | 58,426                   | 1,976                                      | -                                | -  | Affiliate  |
| SinoPac Leasing Corporation   | Grand Capital International Limited                            | British Virgin Islands | Leasing and installment sales                          | US\$ 29,900                | US\$ 29,900            | 29,900                      | 100.00                      | 615,866                  | 75,640                                     | -                                | -  | 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                      | 144,173                  | 6,336                                      | -                                | -  | Affiliate  |
|                               | SinoPac Insurance Brokers Ltd.                                 | Hong Kong              | Insurance brokerage                                    | HK\$ 300                   | HK\$ 300               | 100                         | 100.00                      | 1,251                    | (294)                                      | -                                | -  | 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. | Shanghai International Asset Management (Hong Kong) Co., Ltd.  | Hong Kong              | Asset management                                       | HK\$ 10,000                | HK\$ 10,000            | 4,800                       | 60.00                       | 36,561                   | (673)                                      | -                                | -  | Affiliate  |
|                               | Pinnacle Investment Management Ltd.                            | Hong Kong              | Asset management, trust and consulting                 | US\$ 1,560                 | US\$ 1,560             | 200                         | 100.00                      | 6,480                    | (28)                                       | -                                | -  | Affiliate  |
|                               | RSP Information Service Company Limited                        | Hong Kong              | General trading and providing internet - based service | HK\$ 1,000                 | HK\$ 1,000             | 1,000                       | 100.00                      | 4,154                    | (204)                                      | -                                | -  | 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 June 30, 2006.