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2005 Annual Report

BANK OF OVERSEAS CHINESE, A BANK OF TOUCHING

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Message to shareholders



Chairman Mr. Mike S.E. Chang

Taiwan's macroeconomic situation maintained a state of recovery and stable growth in 2005. Small increases in private consumption and investment led to a continuous growth in banking deposits; the size of this growth, however, was smaller than in past years. The Central Bank instituted repeated interest rate hikes of 0.125 percentage points throughout the four quarters of the year; but funds in the market remained abundant and competition in the banking industry was intense, causing a continuous shrinkage in the gap between deposit and loan interest rates. Furthermore, the major banks continuously wrote off bad loans and increased their coverage of reserves against bad debt. By the end of 2005 domestic banks had cut their non-performing-loan ratio to 2.24% and boosted their coverage to 49.89%. To sum up, although the profitability of Taiwan's banks suffered in comparison with 2004, their asset quality and financial structure had become more solid.

At an Extraordinary Shareholders' Meeting convened by the Bank of Overseas Chinese on Mar. 15, 2005, the Polaris Financial Group succeeded in gaining nine seats on the Board of Directors and the Bank became a formal member of the Polaris Group. Mike S.E. Chang, who was president of the Chang Hwa Commercial Bank at the time, was brought in to serve as vice chairman and president. On Aug. 26, 2005 the BOOC's chairman, Michael C.S. Chang, reached the end of his temporary term of office during the Bank's capital reconstruction and organizational re-engineering process, and was named group vice Chairman. Vice-Chairman Mike S.E. Chang was elevated to the position of chairman, and the position of president was taken over by executive Vice President Chao-hsin Shih who at the time was in charge of the Bank's Financial Banking Group. Thanks to the support of the Board of Directors and the concerted efforts of the entire staff, the BOOC achieved growth in all of its major areas of business in 2005, and the credit ratings designated by the Taiwan Ratings Corp.—long-term rating of twBBB, short-term rating of twA-3, and stable outlook—reflect the confidence of all sectors in our improved structure and healthy operation as well as the manifestation of synergies resulting from our organizational re-engineering.

Deposits in the Bank at the end of 2005 stood at NT\$240,389 million; this was an increase of 5.17% over the end of the previous year, and the percentage of demand deposits in the total rose slightly from 40.72% to 40.79%. Loans outstanding at the end of 2005 amounted to NT\$181,293 million, representing a growth of 11.65% over a year earlier; within the total, loans to small and medium enterprises accounted for NT\$35,602 million, for a growth of 15.30% for the year. Bank-wide foreign exchange transactions totaled US\$39,071 million for the year, up 4.95% over 2004. In its investment business the Bank took advantage of a correct grasp of rising bond prices and a rebounding stock market in 2005 by cautiously manipulating stocks and selling bonds, resulting in an investment profit of NT\$398 million for the year. This was an improvement of 25.71% over 2004. In the field of enhancing asset quality and disposing of NPLs, the Bank worked actively in 2005 to clear up NPLs and increase reserves against bad debt so as to strengthen its financial structure. By the end of the year the Bank's NPL ratio had been brought down to 2.41% and its reserve coverage had been boosted to 43.55%. Its BIS ratio stood at 8.83%. Profit for the year, prior to allocation for reserves, amounted to NT\$2,733,844,000; however, allocations for reserves, losses on bad debt, and increased loss-reduction allocation of assets in response to SFAS No. 35—"Accounting for Assets Impairment"—to a total of NT\$3,517,247,000, resulted in a before-tax loss of NT\$783,403,000, or NT\$0.66 per share.

Besides carrying on with its niche businesses, the Bank worked to increase earnings and reduce risk at the same time by actively deploying its wealth management business. We were issued Taiwan's third wealth management license, and in October of 2005 we signed a strategic alliance contract involving equity investment and business cooperation with New York Life in order to introduce that company's insurance products and the professional insurance training needed to build up a professional insurance team within the BOOC. By combining the advantages of our existing branch network and broad customer base with complementary of resources to achieve maximum synergies, we aim to create a leading model of cooperation between banking and insurance in the Taiwan market. The Bank expanded the promotion of wealth management products in 2005, including the Super Savings Deposit program, Three-in-One Green Paradise program, Easy Loan combined insurance and home loan program, VIP wealth management program, Car Card program, and bonus insurance policy bonus program in cooperation with New York Life. These programs helped to establish the Bank's image for professional wealth management and heighten its service quality, while contributing substantially to fee income. The Smart FP wealth management transaction platform went into operation in January of 2006. This is an online wealth management transaction platform that was carefully designed and developed with an eye to Taiwan's vast pension fund planning market; it provides 24-hour tailor-made financial analysis, immediate asset allocation suggestions, and globalized product choices. It also allows for direct online transactions, and is sure to turn in a fine performance in the new year.

To expand its financial business the Bank obtained licenses for 22 new types of business over the past year, including 14 licenses for interest rate, exchange rate, and equity products that enable the combining of the businesses that are being vigorously promoted by the Bank's TMU with the innovative new products of the Group so as to offer customers a diversity of product options including trade financing, loans, new types of derivative products, and Internet banking. These products satisfy the full spectrum of customer needs while effectively increasing the Bank's income. In the future, we will



President Mr. Johnson C.H. Shih

integrate the Group's existing securities, insurance, investment trust, futures, and information resources and, under a strict risk-control mechanism, establish an e-trading platform and reinforce trading in derivatives so as to expand the Bank's financial trading and create more income.

Organizational re-engineering is an ongoing task, and at the end of 2005 the Bank again readjusted its organizational structure to cope with changes in the domestic and international environments and reinforce its risk control. Besides dividing headquarters units by functional integration into four centers covering administration, operations, risk, and information, along with four business groups encompassing corporate banking, personal banking, wealth management, and financial banking, a Risk Management Division directly supervised by the president was set up to control credit risk, market risk, operating risk, liquidity risk, and capital adequacy in accordance with scale of business and future operating trends. An information re-engineering committee was also set

up to enhance organizational operating efficiency by integration the Bank's IT systems through a strong team with an information background. To speed up promotion of the different fields of business, the Bank implemented a full-function sole manager system for its branches beginning in 2006 in the confidence that this will lead to heightened operating scale and the creation of profit by integrating branch resources and manifesting team marketing capabilities.

During the year 2006 the macroeconomic environment is expected to maintain a state of growth. With the fierce competition in the domestic financial environment and the cash- and credit-card crisis that has spread since the first of the year, the Bank's operating directions for 2006 can be categorized under the following four points:

1. Continued strengthening of the corporate banking business

Corporate banking has long been a mainstream business for the BOOC. Despite the shrinkage in the gap between deposit and loan interest rates, the customer base that has been built up in the corporate banking business remains the Bank's biggest resource and, if properly utilized, the business relationships that derive from corporate banking can make considerable contributions. The Bank will continue strengthening its corporate banking business in the future with priority attention given to small and medium enterprises as well as foreign exchange clients, which have strong potential.

2. Continued reinforcement of the foreign exchange business

The BOOC currently has 55 branches, 28 located from Hsinchu northward and 27 from Taichung southward, and 53 of which are designated foreign exchange units. All are situated in flourishing cities and towns. Thus the BOOC's import, export, and foreign exchange businesses have always occupied an important position among Taiwan's commercial banks. The Bank's foreign exchange business has not only not contracted with the outward migration of domestic enterprises, but has in fact increased. Foreign exchange is the Bank's original niche business; and if it can be appropriately maintained and expanded, and used to complement corporate banking, then it will certainly grow and prosper.

3. Enhancement of the financial banking business

The Bank applied for and acquired 22 new business licenses in 2005, allowing it to expand the scope of its business and offer its customers a diversified choice of instruments. This has had an immediate effect on profit contribution, and will undoubtedly become a key business and the focus of intense promotional efforts in the future.

4. Primary focus on the wealth management business

With a capitalization of approximately NT\$12 billion the Bank's development of the corporate banking business will be limited by the quota restriction on loans to a single client, and this will be an obstacle to business development. Furthermore, the loan business is intimately related to the state of the economy; if the economy turns from prosperity to recession, contract violation risk increases, there will be a negative impact on banking income. The only solution to this, while considering both earnings and risk, is to heighten the ratio of fee income by developing the wealth management business. For overseas financial institutions, the trend in development is already moving slowly from helping customers with debt planning to doing comprehensive debt and asset management for them. This is the direction in which the BOOC will also develop in the future.

We would like to extend our utmost gratitude to you our shareholders for the care and support with which you have favored us over the years. In the future we and our entire staff will work harder than ever, holding firmly to an "integrity, initiative, innovation, efficiency, teamwork" as we continue providing a full spectrum of financial services to the business sector and the public at large. With our entry into the Polaris Financial Group, our vision is to break through the obstacles that surround us, create a new world for ourselves, and transform the BOOC into a professional, efficient, information-oriented, friendly, and considerate bank of the highest quality. In this effort, we beg the continued guidance and support of you our shareholders and all sectors of society.

Chairman

President

Management report

I. Company Introduction

1. Date of establishment: Mar. 1, 1961

2. History of the Bank

- (1) The Bank of Overseas Chinese was established with funds from overseas Chinese and domestic investors in response to the government's appeal for overseas Chinese to return and invest in financial institutions in Taiwan, and thereby help develop business and industry in general and overseas Chinese-invested enterprises in particular. A preparatory office was set up in 1959 and the Bank opened its doors for business on Mar. 1, 1961. Today the Bank has a total of 58 business units and, as of March 2006, 2,118 employees.
- (2) From only NT\$100 million in the beginning, the Bank's capitalization was expanded repeatedly and it was listed on the stock market on Dec. 21, 1998. As of the present time, its equity has increased to NT\$11,944.8 million.
- (3) The BOOC completed a merger with the Beigang Credit Cooperative on Sep. 30, 1997, formally taking over the credit cooperative's business in its entirety and setting a precedent as the first friendly merger between financial institutions in Taiwan.
- (4) To help Taiwanese businesses increase exports to and imports from Hong Kong and mainland China, and to expand its overseas correspondent banking network, the BOOC established a Hong Kong subsidiary—Overseas Chinese Finance Ltd.—in 1999. In that same year, the Bank set up the BOOC International Leasing Co. to strengthen its business operations and provide asset utilization services to corporate clients. In October of 2003, with approval from the Ministry of Finance, the Bank founded the Overseas Chinese Insurance Broker Co., Ltd. in order to offer its customers broader and deeper bank insurance services.
- (5) At the end of 2004 the government's shareholding in the Bank was reduced from 20% to 11.4% of total equity; at the same time the shareholding of the Polaris Financial Group was boosted from 7.38% to 22.12%, making it the biggest shareholder.
- (6) The Polaris Financial Group took over management of the Bank as a result of an election of directors and supervisors held during an Extraordinary Shareholders' Meeting in March of 2005, and the operating team was reorganized. Those newly elected as directors and supervisors are experts and scholars with a background in corporate governance, finance professors, and elite professionals from the fields of finance, insurance, and information. All are thoroughly familiar with corporate governance, making for a strong operating team.
- (7) A contract was signed for an alliance with New York Life in October of 2005, and the two sides initiated cooperation in the field of bank insurance.
- (8) On Dec. 23, 2005 the brokerage business of the Bank's Securities Division (including its Tainan and Hsin Shing branches) was turned over to the Polaris Securities Co.
- (9) The Smart FP wealth guidance system—Taiwan's first online wealth management trading platform—was inaugurated in January of 2006.

3. Major Areas of Financial Business

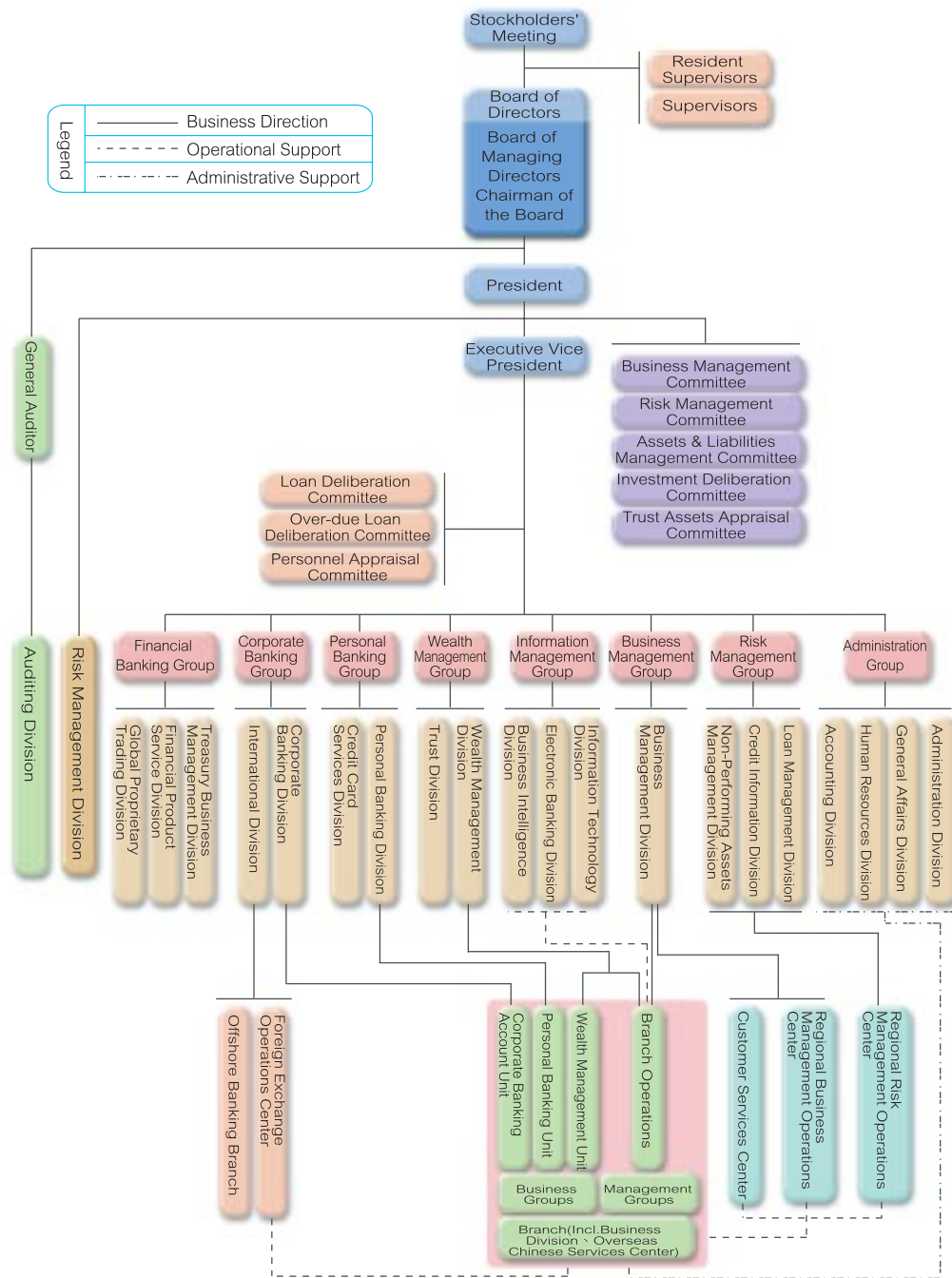
- (1) Corporate banking: General corporate loans, domestic and international factoring, domestic and overseas syndicated loans, C-Plan funds-flow services, for example, Interest-rate hedging, trust,



- and investment banking businesses.
- (2) Personal banking: Policy-type home loans, general home loans, financial-planning home loans, Swift credit loans, Second mortgage loans, VIP credit loans and other general small credit loans.
- (3) Foreign exchange: Foreign-currency cash and traveler's check transactions, foreign-currency deposits, collections and payments for other branches, export and import financing, outward and inward remittances, international factoring, forfeiting, and OBU operations.
- (4) Credit cards: Zodiac Cards, Chen Pao Cards, Diamond Gold Cards, Platinum Cards, IC Combo Cards, affinity cards, and RT Mart, Ministry of National Defense welfare department, and other co-branded cards.
- (5) Financial products: Spot and Forward Fx transactions, Currency Option, Forward Rate Agreement, Cross Currency Swap, Interest Rate Option, Swaption, Fx Margin Trading transaction, Structured products denominated in NT dollars and foreign currencies.
- (6) Wealth management: Structured bonds, non-discretionary trust-fund investment in domestic and foreign securities trust funds, bank insurance.
- (7) Trust: Custodianship of securities investment trust funds, Pecuniary Trust, Real Estate Trust, Securities Trust, Trust of Encumbrance and Related Security interests.
- (8) Others: Virtual account collections, corporate banking, ACH (Automatic Clearing House).

II. BOOC Organization

1. Organization Chart



2. Business Operations of Major BOOC Departments

- ◎ Auditing Division Under the Board of Directors
Inspection of general affairs, finance, accounting, and assets under custodianship, and other matters related to auditing.
- ◎ Risk Management Division
Supervision, planning, and coordination concerning the measuring, monitoring, and control of the BOOC's credit risk, market risk, and operating risk, and handling of matters regarding meetings of the Bank's Risk Management Committee.
- ◎ Administration Group
Planning and execution of the Bank's documentary administration, important matters, legal affairs, service matters, public relations, human resources, and accounting system, and matters not belonging to other units.
 - Administration Division
Safekeeping of chops; receipt and disbursement of documents and management of files; renewal of company and business licenses and change of registration; public relations; procurement and management of printed materials; issuance of shares and other matters related to shares; legal affairs, case consultation, and deliberation; approval and review of contracts; liaison, consultation, and assistance regarding civil and criminal court cases, appeals, administrative appeals, and compulsory enforcement; collection and collation of research and data regarding financial law, and management of legal compliance; and corporate governance and other matters on instructions from the Board of Directors.
 - General Affairs Division
Procurement, distribution, custodianship, and registration of goods; accounting and recording of headquarters expenses; maintenance, management, leasing, and insurance of bank premises; formulation and revision of rules regarding property management; registration and custodianship of property documentation and related contracts; and safety matters.
 - Human Resources Division
Human resources planning, recruitment, and management; formulation of working rules and personnel management regulations; formulation and execution of personnel salaries, evaluation, promotion, and rewards and punishments; planning and implementation of personnel retirement, insurance, and welfare; planning and implementation of training; and management of the personnel training center.
 - Accounting Division
Direction and monitoring of accounting matters; formulation of accounting systems and accounting reports; budget review and compilation; handling of accounts for transactions between headquarters and branches; and compilation and analysis of operating performance.
- ◎ Business Management Group
Bank-wide business management, performance analysis, support for business development, simplification of planning procedures so as to achieve the goal of enhancing efficiency, and formulation of bank-wide operating strategies.
 - Business Management Division
Formulation of operating strategies and targets; formulation and follow-up of employees

suggestions for business and work process improvement; integration of business operations; formulation and revision of major regulations; compilation of business manuals; maintenance and management of the internal control system; outsourcing management; planning and promotion regarding business lobbies and the installation of automated equipment; supervision and management of branch operations and company-wide service quality; establishment of business reporting systems and liaison systems; publication of annual reports and public documents; handling of credit rating matters; establishment of branch units; formulation of the performance evaluation system; follow-up and evaluation of business and profit performance; and matters regarding regional business management operation centers.

©Risk Management Group

Bank-wide credit risk management; maintenance of the Bank's loan asset quality; investigation and evaluation of loans and products; economic and financial research and industrial surveying; and collection of overdue loans.

—Loan Management Division

Compilation of loan policies; analysis, examination, and control of corporate risk, financial risk, and national risk; loan risk assessment and position control, and overall assessment of risk management systems, products, credit risk, and loan review; planning and management of loan risk; and coordination among regional risk management centers.

—Credit Information Division

Surveying, analysis, and research in financial industry risk, country risk, production and sales in major domestic and foreign industries, and market and development trends; establishment and maintenance of industry databanks; analysis and research in regard to domestic and overseas economic, financial, trade, and investment information; formulation and administration of credit investigation rules; planning, management, and supervision of credit investigation operations and operating methods for loan cases; and planning and implementation of the collateral price assessment system.

—Non-Performing Assets Management Division

Strategy formulation, planning, implementation, and management of non-performing-loan assets; examination and follow-up management of NPLs, debt collection, and bad-debt write-offs; management and disposition of assumed collateral; and formulation of bad loan write-off policy.

©Corporate Banking Group

Planning, promotion, and improvement of the Bank's financial services for corporate customers, including loan products, foreign exchange transactions, cash management, and financial-planning products; understanding of clients' needs, for proactive marketing; development and provision of services in regard to the products and clients of the Bank's business groups; maintenance of the Bank's asset quality; and enhancement of operating revenues and profits.

—Corporate Banking Division

Formulation, execution, and management of corporate loan policy, working regulations, and business plans; planning, extension, and management of new corporate banking products and their advertising and promotion; development, planning, marketing, participation in, and management of syndicated loans; planning, implementation, management, and training of corporate banking account officers; coordination in regard to the planning and management of

personal policy-type loans; and installation of corporate banking salespeople in business units, and provision of assistance and supervision for their business development.

—International Division

Planning, promotion, management, and supervision of foreign-exchange businesses; formulation and revision foreign exchange business regulations; contact regarding and establishment of overseas correspondent banking relationships and other relations with international institutions; determination and management of credit quotas for overseas banks; development of forex branches and overseas markets, and planning and management of overseas branches and subsidiary companies; and planning, implementation, and management of telecommunications-related matters.

©Personal Banking Group

Planning, promotion, and advancement of personal loan products and related businesses; understanding of customers' needs for purposes of proactive marketing; development of and provision of services to this Group's customer base; maintenance of the Bank's asset quality; and enhancement of revenues and profits.

—Personal Banking Division

Formulation and management of personal banking loan policy, working rules, and business methods; planning, promotion, management, advertising, and activities for personal loan products and related businesses; management and development of personal banking channels; operational planning, implementation, promotion, and services; and planning, extension, implementation, and training of the personal banking officer system.

—Credit Card Services Division

Planning, implementation, and management regarding credit cards, bank cards, Combo cards, and other card-related businesses; market analysis and marketing planning for credit cards, bank cards, Combo cards, and other card-related businesses, and target-achievement analysis and management; and planning and implementation of collections, credit investigation, card production and issuance, customer service, as well as overdue collection and risk management regarding credit cards, cash cards, and Combo cards.

©Wealth Management Business Group

Financial planning and sales services for the Bank's customers; development of and provision of services for the Group's financial products and customers; maintenance of the Group's customer relationships; and enhancement of operating revenues and profits.

—Wealth Management Division

Establishment of wealth management operating policy and working rules; formulation of wealth management business development policy; management, assessment, and analysis of wealth management services; establishment of a wealth management center; planning, promotion, and training for the wealth management officer system; integration and provision of consultation services for wealth management-related matters; coordination and management of the bank insurance brokerage business; planning and promotion of new wealth management products; product integration for the wealth management business; and cross-marketing for the Bank's various areas of business.

—Trust Division

Handling of trust and affiliated businesses approved by the competent authority; research,

analysis, and planning for the Bank's trust-related businesses; development and promotion of trust products; formulation and revision of rules and methods related to the trust business; handling of money trust, personal securities trust, real estate trust, and insurance fund trust; custodianship of securities investment trust funds; certification and custodianship of securities; trusteeship for the issuance of bonds; and proxy producer.

©Financial Banking Group

Utilization and management of the Bank's capital, integration of financial management, and provision of business consultation; development of and provision of services to the Group's products and customers; maintenance of the Bank's asset quality; and enhancement of revenues and profits.

—Treasury Business Management Division

Market-making for the Bank's financial products, and hedging of positions in accordance with the rules of the competent authority; trading in foreign currency, futures, options, domestic and foreign securities, and other approved derivative products; planning, execution, and management regarding foreign-currency guarantee funds; and planning, formulation, and management in regard to market risk for the Bank's trading positions.

—Financial Product Service Division

Promotion of the Bank's financial products and trading-related businesses; provision of corporate customers with all kinds of market information and financial product trading services, and operation of product solutions needed by them; provision of forex trading and other derivative financial product services to customers connected to other Group businesses; and design and introduction of financial products that meet customers' needs.

—Global Proprietary Trading Division

Analysis, research, and formulation of management policy; management of market and liquidity risk, and formulation of interest and foreign exchange rates; management of the deployment of funds throughout the Bank, and of deployment accounts; operation of liquidity reserve positions, utilization of excess funds, and risk hedging; operation and management of forex trading and use of investment instruments; formulation and execution of investment policy; planning and application for, and management and performance evaluation of, reinvested enterprises; mid- and back-office financial operations; and compilation and management of foreign currency transactions.

©Information Management Group

Operation and development of the Bank's information-related businesses; management and planning of bank-wide information operations; development and maintenance of information systems; operation and promotion of e-banking; and the use of innovative information technology to create the Bank's competitive advantage.

—Information Technology Division

Planning, execution, and management of information development policy and automation operations; maintenance and management of computer software, hardware, and peripheral equipment; assessment and renewal of information equipment; computer program design, online management, and data control, and planning and management of Internet security.

—Electronic Banking Division

Integrated planning and promotion of bank-wide e-banking operations; integrated planning, establishment, and promotion of the flow of funds and data; integrated planning of front- and back-office systems, and platform installation, development, and maintenance; innovation, R&D, and

application of electronic channel technology and e-commerce; and collection and analysis of customer data and behavior.

—Business Intelligence Division

Integrated planning, development, and installation of bank-wide data warehousing systems; development of data mining technology; system integration planning, development, and installation for front- and back-office customer relationship management (CRM) systems; integrated planning, development, and installation of bank-wide management and decision-making support systems; and planning and installation of risk systems.

❖Regional Risk Management Operations Center

Organization of personal banking and corporate banking credit investigation, evaluation, management, and debt management committees to take care of credit investigation, evaluation, post-loan management, and debt management.

❖Regional Business Management Operations Center

Establishment of loan operations and negotiable instruments committees to handle the allocation of loan funds, the centralized handling of negotiable instruments, and the centralized management of chops.

❖Foreign Exchange Operations Center

Provision of support for the forex operations of business units by the establishment of a Foreign Exchange Center under the International Division to handle the centralized management of forex operations and related operations for Bank branches.

❖Customer Services Center

Handling of the Bank's deposit and remittance businesses, e-banking transactions, marketing activities, external consultation and compilation of suggestions for board products, and service as the Bank's window for customer complaints.

❖Business Division

Items of commercial banking and other businesses approved for the BOOC by the central government authorities; establishment of business and operations units to handle business promotion, credit investigation, loan extension, deposits and remittances, foreign exchange, safe-deposit-box leasing, and collection and payment businesses; provision of financing assistance for overseas Chinese and overseas Chinese-invested enterprises in Taiwan and abroad; credit investigation of domestic and overseas companies; provision of information to overseas Chinese returning to invest in Taiwan; and other services to overseas Chinese.

❖Offshore Banking Branch

Acceptance of foreign-currency deposits, extension of foreign-currency loans, specified investment in overseas securities, and related custodianship, agency, and consulting businesses for individuals, corporations, government agencies, and financial institutions in Taiwan and overseas; handling of foreign-currency guarantee fund transactions, US dollar-Renminbi non-deliverable futures (NDFs), and US dollar-Renminbi non-deliverable options (NDOs) for offshore clients; absorption and utilization of funds from the international financial market, and operation of international financial businesses; and development, promotion, and consultation regarding products related to international financial businesses.

3.Information of Board of Directors, Supervisors and Executives

Apr 11, 2006

Title	Name	Elected Date	Office term	Initial Elected Date	Date of first participation in the Board of Directors (juridical/natural person)	Holding Elected Day		Holding Shares	Shares %	Holding shares by spouse & minor children		Prime Education & Experience	Current positions
						Shares	%			Shares	%		
Chairman [Delegate of Pao Hong Investment Co., Ltd.]	Mike S.E. Chang	2005 3.15	3years	2005 3.15	2003.4.26/ 2005.3.15	5,200,000(1/5)	0.44%	10,606,000(1/5)	0.89%			President of Chang Hwa Bank Supervisor, Taiwan Stock Exchange Department of Business, Tamkang University (Research at University of California, Berkeley)	Chairman, Bank of Overseas Chinese
Managing Director [Delegate of Polaris Securities Co., Ltd.]	William T.Lin	2005 3.15	3years	2005 3.15	2003.4.26/ 2004.4.20	119,344,865(1/4)	9.99%	119,344,865(1/4)	9.99%			Director of China Development Financial Holding Corporation (Dr. of Finance, University of Boston)	Supervisor, Taiwan Stock Exchange Director of Board of Taiwan Futures Exchange Professor, Department of Finance of Tamkang University
Managing Director [Delegate of Polaris Securities Co., Ltd.]	Johnson C.H. Shih	2005 3.15	3years	2005 3.15	2003.4.26/ 2003.4.26	119,344,865(1/4)	9.99%	119,344,865(1/4)	9.99%			General Manager of APEX International Financial Engineering Res.& Tech. Co., Ltd. CEO of Business Division, Polaris Securities Co., Ltd. (University of Phoenix MBA)	President, Bank of Overseas Chinese Director, Taipei Forex Inc.
Managing Director [Delegate of Polaris Securities Co., Ltd.]	Chien Weng	2005 3.15	3years	2005 3.15	2003.4.26/ 2005.3.15	119,344,865(1/4)	9.99%	119,344,865(1/4)	9.99%			Executive Vice President & Chief Secretary of Board of Directors & Spokesman of Polaris Securities Co., Ltd. Director of the Board of Polaris Securities Co., Ltd. (Fu Jen Catholic University, Department of Law)	Executive Vice President, Bank of Overseas Chinese Director, Chinese Products Promotion Center
Managing Director [Delegate of Polaris Securities Co., Ltd.]	Jack Pai	2005 8.26	3years	2005 3.15	2003.4.26/ 2005.8.26	119,344,865(1/4)	9.99%	119,344,865(1/4)	9.99%			Special assistant of president, Polaris Securities Co., Ltd. (University of British Columbia)	Special assistant of president, Polaris Securities Co., Ltd.
Director [Delegate of Development Fund, Executive Yuan]	Gwo-Duan Jou	2005 3.15	3years	2005 3.15	1984.5.5/ 2003.4.26	136,512,000(1/3)	11.43%	136,512,000(1/3)	11.43%			Director, Taiwan Life Insurance Co., Ltd. Senior Adviser Great Chin Insurance Dr. of The University of Connecticut U.S.A.	Chairman, Taiwan Insurance Institute Associate professor, Department of Finance, National Taiwan University
Director [Delegate of Development Fund, Executive Yuan]	Her- Jiun Sheu	2005 3.15	3years	2005 3.15	1984.5.5/ 2005.3.15	136,512,000(1/3)	11.43%	136,512,000(1/3)	11.43%			Dean, Department of Management Science, National Chiao Tung University President, College of Management, National Chi Nan University (Dr. of New York University U.S.A)	Professor, Department of Management Science & Graduate Institute of Finance, National Chiao Tung University
Director [Delegate of Globe Vision Investment Co., Ltd.]	Chih-Chiang Hsu	2005 3.15	3years	2005 3.15	2005.3.15/ 2005.3.15	120,000	0.01%	120,000	0.01%			Finance Dept. Assistant Vice President of Far Glory Group (Department of Public Finance, Feng Chia University)	Assistant Vice President, Finance Dept. Metropolitan Construction
Director [Delegate of The Sherwood Taipei Hotel]	B. V. Riu	2005 3.15	3years	2005 3.15	2005.3.15/ 2005.3.15	30,000,000	2.51%	30,000,000	2.51%			Chairman of The Sherwood Taipei Hotel (Bachelor's degree)	Chairman, The Sherwood Taipei Hotel Chairman, Yihwa International Corp.
Director	Jui-Fu Liu	2005 3.15	3years	2005 3.15	2005.3.15	10,000,000	0.84%	10,000,000	0.84%	5,000,000	0.42%	Chairman of Syscom Computer Engineering Co., Ltd. (Department of Electrical Engineering, National Cheng Kung University)	Chairman, Syscom Computer Engineering Co., Ltd.
Director [Delegate of Pao Hong Investment Co., Ltd.]	Long S-H Tsia	2005 3.15	3years	2005 3.15	2003.4.26/ 2000.11.13	5,200,000(1/5)	0.44%	10,606,000(1/5)	0.89%			Resident Director of Imperial Hotel Co., Ltd. (High School graduate)	Chairman, E Yuan Enterprise Co., Ltd.

Title	Name	Elected Date	Office term	Initial Elected Date	Date of first participation in the Board of Directors (juridical/natural person)	Holding Elected Day		Holding Shares	Shares %	Holding shares by spouse & minor children	Prime Education & Experience	Current positions
						Shares	%					
Director [Delegate of Pao Hong Investment Co., Ltd.]	Wen-Long Lin	2005 3.15	3years	2005 3.15	2003.4.26/ 2001.8.24	5,200,000(1/5)	0.44%	10,606,000(1/5)	0.89%		General Auditor, International Commercial Bank of China. President, Bank of Overseas Chinese (Master, Department of computer, University of New York City)	Chairman, Overseas Chinese Insurance Broker Co., Ltd.
Director [Delegate of Pao Hong Investment Co., Ltd.]	Shaing-Hai Tseng	2005 3.15	3years	2005 3.15	2003.4.26/ 2005.3.15	5,200,000(1/5)	0.44%	10,606,000(1/5)	0.89%		Vice-President, Bank of Overseas Chinese (Tam Kang University)	Vice-president, Bank of Overseas Chinese
Director [[Delegate of Pao Hong Investment Co., Ltd.]	Hsiao-Ling Chou	2005 3.15	3years	2005 3.15	2003.4.26/ 2005.3.15	5,200,000(1/5)	0.44%	10,606,000(1/5)	0.89%		President, Brokerage Division, Polaris Securities Co., Ltd. (Master of Business Administration, City University, State of Washington)	Vice-president, Bank of Overseas Chinese Managing Director, Dan Chin Bills Finance Corp. Director, Overseas Chinese Insurance Broker Co., Ltd. Director, Concord IV Venture Capital Co., Ltd.
Director [Delegate of BOOC's Employee Welfare Committee]	Ying-Choung Lee	2005 3.15	3years	2005 3.15	1993.5.29/ 2005.3.15	27,448	0.00%	27,448	0.00%		Chairman of Industrial Union, Bank of Overseas Chinese (National Taipei Junior Extension college of Business)	Chief commissioner, BOOC's Employee Welfare Committee Chairman, Industrial Union of Bank of Overseas Chinese
Standing Supervisor [Delegate of APEX Investment Co., Ltd.]	Kuo-Ann Lyou	2005 10.20	3years	2005 3.15	2005.3.15/ 2004.8.4	1,500,000	0.13%	1,500,000	0.13%		President of APEX international Co., Ltd. (Master, Department of computer, University of Georgia)	CEO of Chairman's Office, Polaris Securities Group
Supervisor [Yu Win Investment Co., Ltd.]	Chung-Hsing Chen	2005 10.20	3years	2005 3.15	2005.3.15/ 2005.10.20	4,000,000	0.33%	4,000,000	0.33%		President, Fuhwa Bank Chairman, Fuhwa Asset Management Co., Ltd. President, Taiwan Ratings Corporation President, Taiwan Securities & Futures Information Center (Dr. of Law, Southern Methodist University)	Chairman, BOOC Leasing International Co., Ltd
Supervisor [Delegate of Development Fund, Executive Yuan]	Chia-Hua Su	2005 5.1	3years	2005 3.15	1984.5.5/ 2005.5.1	136,512,000(1/3)	11.43%	136,512,000(1/3)	11.43%		Officer, Executive Officer, Auditor, National Treasury Agency Director, ScinoPharm Taiwan Ltd. Supervisor, International Venture Capital Investment Corporation. Supervisor, Sheng Tung Venture Capital Corporation Supervisor, Taiwan Flower Biotechnology Co., Ltd. (Master, Department of Management, Soochow University)	Director of General Affairs, Development Fund, Executive Yuan Auditor, National Treasury Agency

4. Information of President, Executive, Vice President, Deputy Executive President, and Departments

April 12, 2006

Title	Name	Elected Date	Shareholding		Shareholding by Spouse and Minor Children		Share Held through Third Party		Prime Background	Current Positions	Spouse or close relative as managers of the bank		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	Johnson C.H. Shih	2005.10.12	0	0.00%	0	0.00%	0	0.00%	General Manager of APEX International Financial Engineering Res. & Tech. Co., Ltd. CEO of Business Division, Polaris Securities Co., Ltd. University of Phoenix MBA	Director, Taipei Forex Inc.			
General Auditor of Board of Director Auditing Division	Cheng-Hong Wang	2005.10.03	0	0.00%	1,947	0.00%	0	0.00%	Senior Vice President of Information Technology Division, Chang Hwa Bank Senior Vice President of Operations & IT Division, Chang Hwa Bank Department of Bank Insurance, Feng Chia University	Supervisor, Chiao-Fu Real Estate Management Ent. Corp. Supervisor, BOOC Leasing International Corp. Ltd.			
Executive Vice President & Chief Secretary of Board of Directors	Chien Weng	2005.03.16	0	0.00%	0	0.00%	0	0.00%	Executive Vice President & Chief Secretary of Board of Directors & Spokesman of Polaris Securities Co., Ltd. Director of the Board of Polaris Securities Co., Ltd. Fu Jen Catholic University, Department of Law	Director, Chinese Products Promotion Center			
Executive Vice President	Shaing-Hai Tseng	2004.06.01	30,000	0.00%	0	0.00%	0	0.00%	Vice-President, Bank of Overseas Chinese Department of Banking and Finance, Tamkang University				
Executive Vice President	Hsiao-Ling Chou	2005.03.16	0	0.00%	0	0.00%	0	0.00%	President, Brokerage Division, Polaris Securities Co., Ltd. Master of Business Administration, City University, State of Washington	Managing Director, Dah Chin Finance Corporation Director, Overseas Chinese Insurance Broker Co., Ltd. Board member of Director, Concord IV Venture Capital Ltd.			
Executive Vice President	Mark Tsai	2005.09.01	0	0.00%	0	0.00%	0	0.00%	AVP, Learning & Development Center VP, Quality Service, Citibank Taiwan, VP, Operations & Services, Taishin Bank SVP, Trade & Cash Management Operations, Grand Commercial Bank, SVP, Cash Management Operation Center, Chinatrust Commercial Bank, M.S., Shipping, Chinese Culture University				
Executive Vice President	Jiin-Sheng Lo	2005.10.21	120,932	0.01%	0	0.00%	0	0.00%	Manager of Branches, Manager of Business Division, DEVP & Head of Regional Business Center (Region I-north), DEVP & Head of Business Management Division Department of Economics, Feng Chia University	Director, Chiao-Fu Real Estate Management Corp. Chairman, Comm-Trend Venture Capital Corp. Supervisor, Director, Overseas Chinese Finance Ltd.			
Executive Vice President	Huey-Wen Chiang	2005.10.26	0	0.00%	0	0.00%	0	0.00%	Polaris Securities Group Information Technology Division President (CIO) National Cheng Kung University Department Statistics				
Senior Deputy Executive Vice President, Human Resources Division	Cheng-Teh Chang	1996.08.03 2004.11.01	121,377	0.01%	160	0.00%	0	0.00%	Master of Chinese Culture University	Director, Comm-Trend Venture Capital Corp.			
Deputy Executive Vice President, Debt Assets Management Division	Kuo-Tuan Chang	2003.10.31 2004.11.01	62,435	0.00%	26,916	0.00%	0	0.00%	Business Administration, Administration College of National Taipei Institute of Commerce	Director, Chiao-Fu Real Estate Management Corp. Director, BOOC Leasing International Co., Ltd.	Manager	Hsu Chao Chun	Wife

Title	Name	Elected Date	Shareholding		Shareholding by Spouse and Minor Children		Share Held through Third Party		Prime Background	Current Positions	Spouse or close relative as managers of the bank		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
Deputy Executive Vice President, Corporate Banking Group	Arthur Chow	2005.10.24 2006.02.16	0	0.00%	0	0.00%	0	0.00%	Massey University, Master of Business Studies (Banking)	Director, BOOC Leasing International Co., Ltd.			
Deputy Executive Vice President, Corporate Banking Group	Chao-Jen Sun	2005.04.28 2005.10.24	0	0.00%	0	0.00%	0	0.00%	Kinki University Alumni Association	Director, Chiao-Fu Real Estate Management Corp.			
Deputy Executive Vice President, Loan Management Division	Jaw-Peng Chiu	2005.04.26	0	0.00%	0	0.00%	0	0.00%	Department of Banking, National Chengchi University	Director, BOOC Leasing International Co., Ltd.			
Deputy Executive Vice President, Risk Management Division	Daniel C. H. Hsieh	2006.03.03	0	0.00%	0	0.00%	0	0.00%	Graduate School of Finance, National Taiwan University				
Deputy Executive Vice President, Wealth Management Division	Gavin Y. C. Peng	2005.12.26 2006.02.16	0	0.00%	0	0.00%	0	0.00%	Graduated Institute of Management, Fu-Jen Catholic University	Director, Overseas Chinese Insurance Broker Co., Ltd.			
Deputy Executive Vice President, International Division, Offshore Banking Branch	Tzong-Shun Huang	2005.07.19	6,439	0.00%	0	0.00%	0	0.00%	Department of Banking, National Chengchi University				
Senior Vice President, Information Technology Division	Jack C.L.Chen	1997.08.01	51,302	0.00%	86,957	0.00%	0	0.00%	EMBA, National Chengchi University				
Senior Vice President, Business Intelligence Division	Minder Chang	2006.02.16	0	0.00%	0	0.00%	0	0.00%	Vice President, Metaedge Taiwan Ltd. Professional Service Director, Unisys Taiwan Ltd. Department of Mathematics, Tamkang University				
Vice President, General Affairs Division	Eng-Hower Su	2006.03.03	81,943	0.00%	5,996	0.00%	0	0.00%	Department of Business Administration, National Chengchi University				
Vice President, Business Management Division	Chien-Fu Chang	2005.10.24	13,817	0.00%	0	0.00%	0	0.00%	Department of Public Finance, National Chung Hsing University				
Vice President, Administration Division	Chwan-yih Chen	2006.02.16	0	0.00%	0	0.00%	0	0.00%	Department of Cooperative Economics, National Chung Hsing University	Supervisor, Overseas Chinese Insurance Broker Co., Ltd.			
Vice President, Credit Information Division	Ying-Lung Kuo	2005.10.24	13,990	0.00%	0	0.00%	0	0.00%	Department of Banking, National Chengchi University	Director, BOOC Leasing International Co., Ltd. Director, Euroc III Venture Capital Corporation			
Vice President, Accountion Division	Wen-Chu Hou	2005.06.15	0	0.00%	0	0.00%	0	0.00%	Accounting, Soochow University Accounting Manager of Central Insurance Co., Ltd. General Auditor of Central Insurance Co., Ltd.				
Vice President, Credit Card Services Division	James Hsu	2006.03.03	0	0.00%	0	0.00%	0	0.00%	EMBA National Chengchi University				
Vice President Personal Banking Division	Wen-Fa Chung	2005.08.10	0	0.00%	1,947	0.00%	0	0.00%	Department of Industrial Engineering, National Chian Tung University				
Vice President, Treasury Division	Allen C.K.Chiang	2005.06.09	30,461	0.00%	0	0.00%	0	0.00%	B.A., Dnghai University.	Director, Chiao-Fu Real Estate Management Ent. Corp.			
Vice President, Financial Product Service Division	Jack Jen-chieh Lee	2005.06.13	0	0.00%	0	0.00%	0	0.00%	MBA, The Anderson School at UCLA BBA, National Taiwan University				
Vice President, Global Proprietary Trading Division	Shih-Heng Teng	2005.06.13	0	0.00%	0	0.00%	0	0.00%	George Washington University, MBA				
Vice President, Trust Division	Ming-Cheng Lin	2004.05.01	74,679	0.00%	0	0.00%	0	0.00%	Agricultural Economics, National Taiwan University				

5.Total Percentage of Share-Holding by the Bank, Its Directors and Management

Unit : Share ; Dec. 31, 2005

Invested Institutes	Investments		Direct or indirect investment by the Bank, its directors and Management		Total investment	
	Number of Shares	ratio(%)	Number of Shares	ratio(%)	Number of Shares	ratio(%)
Taiwan Securities Central Depository Co., Ltd.	469,639	0.1850	—	—	469,639	0.1850
Taiwan International Merchandise Exchange Corporation	1,400,000	0.7000	—	—	1,400,000	0.7000
Taipei Forex Inc.	600,000	3.0272	—	—	600,000	3.0272
Dah Chin Bills Finance Corp. Financial Information Service Co., Ltd.	32,911,125	10.0000	—	—	32,911,125	10.0000
Debt Instruments Depository and Clearing Co., Ltd. Taiwan	4,550,000	1.1375	—	—	4,550,000	1.1375
Chiao-Fu Real Estate Management Ent. Corp.	2,000,000	0.9976	—	—	2,000,000	0.9976
BOOC Leasing International Co., Ltd.	1,750,000	35.0000	—	—	1,750,000	35.0000
Overseas Chinese Finance Ltd.	19,999,400	99.9970	600	0.003	20,000,000	100.0000
Overseas Chinese Insurance Broker Co., Ltd.	29,999,999	99.999997	1	0.000003	30,000,000	100.0000
China Trust Investment Co., Ltd.	855,000	100.0000	—	—	855,000	100.0000
Concord IV Venture Capital Corp.	2,087,464	0.6612	11,517	0.0036	2,098,981	0.6648
Euroc III Venture Capital Corp.	7,500,000	4.9342	—	—	7,500,000	4.9342
Comm-Trend Venture Capital Corp.	3,000,000	5.0000	—	—	3,000,000	5.0000
Chinese Products Promotion Center	1,906,500	11.3636	1,525,200	9.0909	3,431,700	20.4545
Yun Ling Cooperative Union	9,250	2.4342	—	—	9,250	2.4342
	36	—	—	—	36	—

III.Matters about Shares, Dividend, Bankers' Debenture, Preferred Stock GDR, Employee Subscription Warrant and Merger

1.Sources of Equity Capital

Date	Issuing Price	Approved Capital		Paid-in Capital		Notes	
		No. Shares (1,000)	Amount (NT\$1,000)	No. Shares (1,000)	Amount (NT\$1,000)	Capital Source (NT\$1,000)	Other Notes
Dec. 2004	NT\$10	1,675,200	16,752,000	1,194,480	11,944,800	Capital reduction of 4,550,400 Capital increase of 5,119,200	FSC Jin Guan Jheng Yi 1Zih Document No. 0930149398, issued on Nov. 22, 2004

Type of Shares	Approved Amount			Notes
	Shares in Circulation	Unissued Shares	Total	
Common Shares	1,194,480,000	480,720,000	1,675,200,000	Over-the-counter shares

2.Shareholder Structure

Apr. 11, 2006

Shareholder Structure	Foreign					Total
	Government agencies	Financial institutions	Other legal institutions	Foreign institutions and Individual	Individuals	
Number	3	7	150	262	33,973	34,395
Shares Holding	136,512,303	275,494,097	259,614,448	102,389,316	420,469,836	1,194,480,000
Holding Ratio	11.43%	23.06%	21.74%	8.57%	35.20%	100.00%

3. Distribution of Shareholding

Par Value : NT\$10 Apr.11, 2006

Classification of Shareholding	Number of Shareholders	Shares	%
1 to 999	18,090	4,572,269	0.38%
1,000 to 5,000	8,525	21,182,154	1.77%
5,001 to 10,000	3,119	22,615,003	1.89%
10,001 to 15,000	1,290	16,161,213	1.35%
15,001 to 20,000	738	13,224,975	1.11%
20,001 to 30,000	798	20,617,251	1.73%
30,001 to 50,000	622	24,502,778	2.05%
50,001 to 100,000	583	41,590,303	3.48%
100,001 to 200,000	266	37,391,961	3.13%
200,001 to 400,000	154	43,934,215	3.68%
400,001 to 600,000	72	36,089,813	3.02%
600,001 to 800,000	24	16,861,349	1.41%
800,001 to 1,000,000	19	17,733,456	1.49%
1,000,001 and above	95	878,003,260	73.51%
Total	34,395	1,194,480,000	100.00%

4. Major Shareholders

Apr.11, 2006

Major Shareholders	Shares	Shares	%
Development Fund, Executive Yuan		136,512,000	11.43%
Polaris Securities Co., Ltd.		119,344,865	9.99%
Far Glory Life Insurance Co., Ltd.		96,877,000	8.11%
New York Life International Holding		55,000,000	4.60%
Pao Ting Investment Co., Ltd.		46,900,124	3.93%
Central Insurance Co., Ltd.		44,000,000	3.68%
I Pao Investment Co., Ltd.		38,000,300	3.18%
The Sherwood Taipei Hotel		30,000,000	2.51%
Wan Pao Development Co., Ltd.		24,235,500	2.03%
APEX International Financial Engineering Res.		22,500,000	1.88%

5. Market Price, Per Share, Net Value, Profit, and Dividend for 2004~2005

Unit : NT\$

Items	Year		Year to Date Mar. 31, 2006		
	2004	2005			
Market Price Per Share	Highest	7.30	9.98	8.13	
	Lowest	4.97	5.75	7.20	
	Average	5.81	8.18	7.55	
Net Value Per Share	Before Distribution	10.02	9.48	9.73	
	After Distribution	10.02	9.48	-	
Earnings Per Share	Weighted Average Number of Shares	1,133,967 thousand shares	1,193,964 thousand shares	1,193,964 thousand shares	
	Earnings Per Share	(2.21)	(0.66)	-	
	Cash Dividend	-	-	-	
Dividend Per Share	Stock Grant	Stock Dividend	-	-	-
		Capital Surplus Stock Dividend	-	-	-
	Accumulated Deferred Stock Dividend		-	-	-
	Price/Earning Ratio		(2.63)	(12.39)	-
Analysis of Return on Investment	Dividend Yield		-	-	-
	Cash Dividend Yield Ratio (%)		-	-	-

6. Stock Dividend Policy and Status of Implementation

According to the stipulations of the BOOC Charter, unless otherwise stipulated in the Banking Law, net profit on income that is left when accounts are closed each year following the payment of all taxes should first be used to make up losses from previous years; 30% of the remainder should be allocated as legal reserve and, if necessary, a special reserve can also be allocated. Any profit remaining should be distributed according to the following percentages: (1) 85% as shareholders' bonuses, distributed in accordance with ratio of shares; (2) 5% as directors' and supervisors' compensation; and (3) 10% as employee bonus. Until the legal reserve reaches the amount of capital, the amount of profit distributed as cash may not exceed 15% of capital. Employee bonuses may be distributed in whole or in part in the form of new shares. Pursuant to the Bank's policy of distributing shareholder bonuses via the issuance of both cash and new shares for the purpose of expanding scale and increasing profits while taking consideration of capital adequacy, the ratio of cash issuance may not, in principle, be less than 20%, with the remainder being issued in the form of capital stock. Until the ratio of capital to risk assets reaches the amount stipulated in banking laws and regulations, the maximum amount of profit distributed in the form of cash will be handled in accordance with the Banking Law and the regulations of the competent central government agency.



The front row from left :
President Mr. Johnson C.H. Shih
Chairman of Polaris Financial Group Mr. Wayne Wen-Cheng Pai
Chairman Mr. Mike S. E. Chang

The rear row from left :
Managing Director Mr. William T. Lin
Managing Director Mr. Chien Weng
Managing Director Mr. Jack Pai
Standing Supervisor Mr. Kuo-Ann Lyou

Status of operations

I. Business Scope

01. Deposits
02. Loans
03. Discounting of negotiable instruments
04. Investment in Securities
05. Domestic remittances
06. Commercial paper acceptances
07. Issuance of domestic letters of credit
08. Guarantees for the issuance of corporate bonds
09. Domestic guarantees
10. Agency for collections and payments
11. Sale of government bonds, treasury bills, corporate bonds, and corporate stocks
12. Securities underwriting
13. Custodianship and warehousing services
14. Rental of safe deposit boxes
15. Agency businesses related to items listed on the business license or approved by the central government authority
16. Credit cards
17. Sale of gold bullion, gold coin and silver coin
18. Import and export financing, general outward and inward remittances, foreign-currency deposits, foreign-currency loans, foreign-currency payment guarantees
19. Dealing in financial derivatives approved by the central government authorities
20. Businesses approved by the Trust Business Law
21. Investment of non-discretionary trust funds in domestic and foreign securities
22. Proprietary trading in government bonds
23. Agency for the issuance, transfer, and registration of securities, and payment of dividends and bounces for securities
24. Consulting services for the issuance and sale of stocks
25. Certification of securities
26. Trusteeship for the issuance of bonds and agency related businesses to items
27. Brokering and proprietary dealing in short-term bill
28. Sale of commemorative coins
29. Wealth management
30. Offshore banking
31. Domestic factoring
32. Custodianship of securities investment trust funds
33. Pecuniary trust
34. Real estate trust
35. Securities trust
36. Encumbrance and related collateral rights trust

Professional Team



Chairman Mr. Mike S. E. Chang

Prime Experience & Education :

President of Chang Hwa Bank
Supervisor, Taiwan Stock Exchange

Department of Business, Tamkang University
Research at University of California, Berkeley



President Mr. Johnson C.H. Shih

Prime Experience & Education :

General Manager of APEX International Financial
Engineering Res. & Tech. Co. Ltd.

CEO of Business Division, Polaris Securities Co., Ltd.
University of Phoenix MBA



Executive Vice President Mr. Chien Weng

Prime Experience & Education :

Executive Vice President & Chief Secretary of Board of
Directors & Spokesman of Polaris Securities Co., Ltd.

Director of the Board of Polaris Securities Co., Ltd.
Fu Jen Catholic University, Department of Law



Executive Vice President Ms. Hsiao-Ling Chou

Prime Experience & Education :

President, Brokerage Division, Polaris Securities Co., Ltd.

Master of Business Administration, City University, State of Washington



Executive Vice President Mr. Shaing-Hai Tseng

Prime Experience & Education :

Vice-President, Bank of Overseas Chinese

Department of Banking and Finance, Tamkang University



Executive Vice President Mr. Mark Tsai

Prime Experience & Education :

AVP, Learning & Development Center
VP, Quality Service, Citibank Taiwan,
VP, Operations & Services, Taishin Bank

SVP, Trade & Cash Management Operations, Grand Commercial Bank,
SVP, Cash Management Operation Center, Chinatrust Commercial Bank,
M.S., Shipping, Chinese Culture University



Executive Vice President Mr. Jii-Sheng Lo

Prime Experience & Education :

Manager of Branches, Manager of Business Division,
DEVP & Head of Regional Business Center (Region I-north),

DEVP & Head of Business Management Division
Department of Economics, Feng Chia University



Executive Vice President Ms. Huey-Wen Chiang

Prime Experience & Education :

Polaris Securities Group Information Technology
Division President(CIO)

National Cheng Kung University Department Statistics



General Auditor Mr. Cheng-Hong Wang

Prime Experience & Education :

Senior Vice President of Information Technology
Division, Chang Hwa Bank

Senior Vice President of Operations & IT Division,
Chang Hwa Bank
Department of Bank Insurance, Feng Chia University

II. Market and Business Conditions

1. Deposits, Loans, Foreign Exchange, Investment and Securities Dealing

(1) Deposits

Unit : NT\$1,000

Item	2005		2004		Increase/decrease		
	Amount	Ratio %	Amount	Ratio %	Amount of Increase/decrease	Growth	Percentage
Demand Deposits	98,051,408	40.79%	93,078,706	40.72%	4,972,702	5.34%	0.07%
Checking Deposits	5,431,360	2.26%	4,444,342	1.94%	987,018	22.21%	0.32%
Demand Deposits	21,957,100	9.13%	18,822,152	8.23%	3,134,948	16.66%	0.90%
Demand Savings Deposits	48,187,658	20.05%	45,217,407	19.78%	2,970,251	6.57%	0.26%
Foreign Exchange Demand Deposits	22,475,290	9.35%	24,594,804	10.76%	(2,119,514)	(8.62%)	(1.41%)
Time Deposits	142,338,077	59.21%	135,494,736	59.28%	6,843,341	5.05%	(0.07%)
Time Deposits	32,150,645	13.37%	25,795,607	11.29%	6,355,038	24.64%	2.09%
Time Saving Deposits	69,643,961	28.97%	71,470,010	31.27%	(1,826,049)	(2.55%)	(2.30%)
Deposits from the Directorate General of Post Remittances and Saving Banks	17,946,459	7.47%	19,533,897	8.55%	(1,587,438)	(8.13%)	(1.08%)
Foreign Exchange Time Deposits	22,597,012	9.40%	18,695,223	8.18%	3,901,789	20.87%	1.22%
Total	240,389,485	100%	228,573,442	100.00%	11,816,043	5.17%	-

* The BOOC's share of the overall deposit market in 2005 was 1.16%.

To boost competitiveness in the deposit business and cope with the trend of rising interest rates, the Bank strengthened its absorption of deposits in 2005 and worked to readjust its deposit structure by replacing time deposits with demand deposits, thereby raising the ratio of demand deposits and reducing the cost of funds.

The total amount of deposits in the Bank at the end of 2005 was NT\$240,389,485,000, up 5.17% over the end of 2004. The amount of demand deposits stood at NT\$98,051,408,000, which was 5.34% more than the NT\$93,078,706,000 worth of demand deposits at the end of the previous year. Demand deposits accounted for 40.79% of all deposits at year-end 2005, an increase of 0.07% over a year earlier, marking an improvement in deposit structure that helps to lower the cost of funds and strengthen business competitiveness.

(2) Loans

Unit : NT\$1,000

Item	2005		2004		Increase/decrease		
	Amount	Ratio %	Amount	Ratio %	Amount of Increase/decrease	Growth	Percentage
Purchase of bill, Discounted & Imports, Exports	2,863,211	1.58%	3,220,404	1.98%	(357,193)	(11.09%)	(0.40%)
Short-term loans & Overdrafts	52,217,879	28.80%	41,262,899	25.41%	10,954,980	26.55%	3.39%
Short-term secured loans & overdrafts	16,511,851	9.11%	16,423,002	10.11%	88,849	0.54%	(1.01%)
Medium-term loans	32,548,207	17.95%	24,706,464	15.22%	7,841,743	31.74%	2.74%
Medium-term secured loans	16,292,061	8.99%	16,414,652	10.11%	(122,591)	(0.75%)	(1.12%)
Long-term loans	9,106,878	5.02%	9,917,428	6.11%	(810,550)	(8.17%)	(1.08%)
Long-term secured loans	48,091,677	26.53%	41,374,894	25.48%	6,716,783	16.23%	1.05%
Overdue Loans	3,660,740	2.02%	9,057,406	5.58%	(5,396,666)	(59.58%)	(3.56%)
Bills purchased, discounted & Loans-Net	181,292,504	100.00%	162,377,149	100.00%	18,915,355	11.65%	0.00%

The amount of the BOOC's loans outstanding at the end of 2005 totaled NT\$181,292,504,000; this was an increase of NT\$18,915,355,000 over a year earlier, for a growth rate of 11.65%. The Bank has always emphasized loans to small and medium enterprises, especially loans under the SME Credit Guarantee Fund program. The amount of loans extended under this program in 2005 reached 13,159 cases with a total value of NT\$13.3 billion. In 2004, the BOOC won the branch bank award for outstanding performance in the credit guarantee loan business.

(3) Foreign Exchange

Unit : US\$1,000

Item	2005	2004	Growth
Export Financing	4,597,762	4,400,766	4.48%
Import Financing	1,950,533	1,905,612	2.36%
Outward Remittances	16,410,811	15,325,690	7.08%
Inward Remittances	16,111,670	15,596,494	3.30%
Total	39,070,776	37,228,562	4.95%

After the BOOC began doing business on Mar. 1, 1961, it became one of the first banks in Taiwan to engage in the foreign exchange business. Over the more than four decades since that time the Bank has accumulated a rich store of forex experience and has established an intensive correspondent banking network with other financial institutions throughout the world. The Bank also commands a major share of the L/C business in Taiwan.

The forex transactions undertaken by the Bank in 2005 totaled US\$39,070,776,000, for an increase of 4.95% over the US\$37,228,562,000 in transactions undertaken during the previous year. Of the total 2005 amount, export negotiations accounted for US\$4,597,762,000, up 4.48%, and import financing made up US\$1,950,533,000, for a growth of 2.36%. Outward remittances totaled US\$16,410,811,000, an increase of 7.08%, and inward remittances amounted to US\$16,111,670,000, for a growth of 3.30%.

(4) Investment

Unit : NT\$1,000

Item	2005	2004	Growth
	Amount	Amount	
Capital Market	397,527	316,232	25.71%

The Bank vigorously pursued the investment business in 2005, taking advantage of the stock-market rebound in the second half of the year to increase profits by dealing cautiously in stocks. It also took advantage of rising bond prices in 2005, selling out bonds held by the Bank. Profits on these dealings reached NT\$397,527,000 for the year, an increase of NT\$81,295,000 over the NT\$316,232,000 earned in 2004 for a profit growth of 25.71%.

(5) Trust

The business operations currently undertaken by the Trust Division include non-discretionary investment in domestic and foreign securities, structure bonds, and auxiliary trust businesses such as certification, proxy production, trusteeship for corporate bonds, and custodianship.

The funds and structure bonds businesses are the main sources of earnings for the Trust Department at the present time. The volume of these two businesses reached NT\$9,724,584,000 (not including domestic bond funds with a value of NT\$6,296,497,000) in 2005; compared with the NT\$5,308,681,000 in this business undertaken in 2004 (not including NT\$5,021,454,000 worth of

domestic bond funds), this was an increase of NT\$4,415,903,000. Stock certification was carried out for 194 companies during the year, 26 less than in 2004; and proxy production was handled for 54 companies, down two companies from 2004.

(6) Bond

Unit : NT\$1,000

Type of Transaction	2005	2004	Growth
Average Daily RP Transactions	367,828	1,288,105	(71.44%)
Average Daily Bonds Transactions	156,663	47,913	226.97%

Because of the rising trend in interest rates in the market in 2005, the Bank's bond business focused on trading and its bondholding position did not change much. The average daily value of conditional trading was NT\$367,828,000, down 71.44% from 2004. The average daily value of bond buying and selling in 2005 was NT\$156,663,000, an increase of 226.97% over the previous year. If there are no concerns about inflation and if prices remain stable, the Central Bank may bring an end to its interest rate increases in the second half of 2006; the Bank's bond business will, in principle, continue to concentrate on trading and its position in government bonds will be built up in order to maintain a stable interest income and steady profits.

(7) Personal Banking

Unit : NT\$1,000

Item	2005	2004	Growth
Home loans	40,685,919	33,760,160	20.51%
Credit Loan	3,252,911	2,970,643	9.50%

To increase operating revenues, in 2005 the Bank began promoting small loans with large interest-rate gaps, such as "Quick Loans" and "Subordinated Home Decoration Loans," along with the "VIP Program" to boost outstanding personal credit loan assets. In the area of home loans, besides continuing to promote the general home loan business the Bank also introduced the "Worry-free Home Loan/Insurance Program" matched with life insurance so as to increase income from insurance premiums. Credit loans outstanding at the end of 2005 stood at approximately NT\$3,252,911,000, up 9.50% from a year earlier, while outstanding home loans totaled about NT\$40,685,919,000, an increase of 20.51% over the end of 2004.

(8) Credit Cards

The number of BOOC-issued credit cards in circulation at the end of 2005 was 820,270, for a growth of 6.34% from 2004. The amount of consumption using these cards during the year reached NT\$23,893.55 million, for a consumption of NT\$5,700 for each valid card. This ranked the BOOC 6th in Taiwan and first among domestic banks, since the top five positions were all held by foreign banks.

(9) Wealth Management

Taiwan's economy benefited from the global economic recovery in 2005, which stimulated exports, production, and a large increase in investment, resulting in substantial growth of the domestic economy. With the skyrocketing of international crude oil prices, however, central banks in many countries boosted interest rates to suppress inflation, and this caused Taiwan's economic growth to moderate along with that of the rest of the world. Overall, however, the island's economy manifested a substantial growth process in 2005. The BOOC's wealth management business expanded along with the economy as the Bank moved to offer convenient and considerate products and services that met customers' needs, and conscientiously took advantage of each meeting with a customer. After being in business for just over a year, the Wealth Management Division turned in a brilliant performance.

Item	2005	2004	Growth
No. of Financial Planning Customers	92,003	61,445	49.73%
Total Customer Assets	NT\$135.3billion	NT\$120.2billion	12.56%
Volume of Financial Planning Business	NT\$11.7billion	NT\$6.8billion	72.06%

Once all of the relevant systems, personnel, and platforms are in place, the Bank will continue to integrate product units and concentrate its marketing capabilities for the introduction of competitive products that meet the needs of the times. Dedicated financial planning consultants will offer integrated services to satisfy customers' differentiated needs. The wealth management business is expected to experience explosive growth in the future.

(10) Financial Trading

The Global Proprietary Trading Division, which is an expansion of the former Treasury Division, focuses on proprietary trading in various kinds of financial products, mainly foreign exchange, stocks, government bond and interest rate transactions, and derivative products related to interest and foreign exchange rates.

Performance in these areas in 2005 is given in the following table:

Type of Trading	Trading Volume	Target Achievement Ratio
Foreign Exchange	79,431	121.46%
Stocks	91,951	91.95%
Government Bonds and Interest Rates	2,448	9.79%
Derivatives	9,154	52.30%
Total	184,007	89.03%

Unit : NT\$1,000

(11) Services to Overseas Chinese

The provision of services to overseas Chinese is one of the objectives for which the BOOC was founded, and it is one of the few banks in Taiwan that has a specific unit charged with the provision of a full spectrum of services to overseas Chinese. The Bank has always maintained a high degree of coordination with and support for the government's policies regarding overseas Chinese. For example, it donates to the Overseas Chinese Loan Guarantee Fund to help overseas Chinese raise Start-up capital, and participates actively in the organizing of large conferences and other activities of the World Chinese Traders Conference, World Chinese Banking Amity Conference, and World Taiwanese Chambers of Commerce with the aim of gaining a deep understanding of the needs of overseas Chinese and Taiwanese businesses and of providing necessary services in a timely fashion. The Bank also provides financial services of all kinds to overseas Chinese enterprises that invest in Taiwan.

2. Business Ratios

Year	2005		2004	
	Amount	Ratio (%)	Amount	Ratio (%)
Interest Income	7,359	79.06	6,710	77.97
Commission Income	1,217	13.08	1,338	15.55
Profit from Bills Trading	398	4.27	317	3.68
Profit from Investment	51	0.55	37	0.43
Profit on Currency Exchange	235	2.52	161	1.87
Other Operating Income	49	0.52	43	0.50
Operating Income	9,309	100.00	8,606	100.00

Unit : NT\$ Million

Interest income accounted for 79.06% of total operating income in 2005, for an increase of 1.09 percentage points over the previous year. The profit from currency exchange amounted to 2.52%, for an increase of 0.65 percentage points; and income from commission fees was 13.08%, down 2.47 percentage points from the previous year.

3. Operating Plans for 2006**(1) Corporate Loans**

- a. The Project Financing department will provide services to reinforce differentiated competitiveness in different target markets, and to satisfy customers' needs for medium-sized and large syndicated project loans and project loans.
- b. Loan customers will be actively developed, and special promotions used to heighten the ratio of SME loans.
- c. The factoring business will be promoted in line with customers' real trading foundation.
- d. Trade financial of a self-compensating nature will be promoted and, in combination with overseas offices, services to Taiwanese companies in mainland China will be strengthened in order to pursue cross-strait trade financing opportunities.

e. Innovation and readjustment of the product structure will be continued with the aim of achieving enhancement of profit, quality, and quantity in the corporate banking business.

f. The Bank's TMU business will be integrated with the resources of the Group in the capital market business so as to satisfy customer needs for full-spectrum services and give expression to the Bank's full-spectrum corporate financial management service function.

(2) Foreign Exchange

The Bank will hold firmly to its outstanding tradition as a professional forex bank and develop the forex business vigorously in order to strengthen its competitiveness in the export business and remain solidly at the forefront in market share. The Bank's Offshore Banking Branch was approved by the Financial Supervisory Commission in 2005, and inaugurated factoring and loan businesses for Taiwanese enterprises. In the future, operations will emphasize the provision of cross-straits (including Taiwan, Hong Kong, and mainland China) financial services including trade financing, loans, new types of forex derivatives, and Internet banking.

(3) Trust

a. Integrated products that combine trust, insurance, funds, and deposits will be developed.

b. Trends in financial development will be observed and grasped, and planning and assessment for the introduction of new financial products will be carried out.

c. The trust custodianship business will be inaugurated to increase commission fee income.

d. New trust businesses will be developed to satisfy customers' needs for investment and financial planning, tax planning, and assurance planning for children:

(a) Personal securities trust

(b) Real estate and above-ground rights trust

(c) Insurance premium trust

(d) Non-discretionary individual management and utilization money trust

(4) Consumer Banking

a. High-profit products featuring high interest gap and small amount will be introduced to meet market needs; besides satisfying customers' demand for loans, this business can boost the Bank's profit and increase risk-free commission fee income.

b. Credit investigation, review, and centralized monitoring will be carried out thoroughly in order to control risk effectively and maintain good asset quality.

c. The training of personal banking agents will be strengthened to give them professional loan know-how, their market sensitivity will be intensified, and they will be assisted with certification testing in order to upgrade their professional capabilities.

d. Customer service and telephone collection departments will be established to handle post-loan management.

(5) Electronic Banking

a. Functions of Internet prearranged funds transfer and transfer from consolidated to time deposits will be added.

b. A dynamic code mechanism will be set up.

c. SML funds-flow information services will be established.

(6) Credit Cards

a. Innovation, sophistication, and custom tailoring will be used to target customer groups for card

promotion plans.

b. The quarterly large-scale campaign mechanism will be used to increase amount and frequency of consumption.

c. CRM will be used to carry out the graded management of customers and different benefit enhancements will be designed to meet the needs of different groups and consolidate member loyalty.

d. Base rule checking and dynamic parameter adjustment will be used to prevent transactions with fake cards.

e. Loan policies will be formulated and a credit review and rating evaluation system will be established to compare risk coefficients and lower the non-performing-loan ratio and reduce losses from bad assets.

(7) Wealth Management

a. Banking insurance will be the focus of this business.

b. An intelligent financial planning system will be constructed to help agents cultivate customer relations.

c. An optimum channel operating model will be established to integrate Group resources.

d. Strategic alliances will be set up with professional international asset management institutions.

e. The customer-oriented operating model will be deepened and target groups will be expanded.

f. Working process improvement will be continued and differentiated service quality will be created.

(8) Bonds

With the slowdown in the pace of Taiwan's economic growth, there will be a chance that the interest-rate hikes by the Central Bank will come to an end at the end of the year, and so the operating plan for this year calls for the Bank to enter the market step by step and increase its bond position as the market responds to interest rises. This will not only increase the volume of RP transactions but will also boost profits from buying and selling through range trading.

(9) Financial Trading

a. The amount of trading in financial instruments with other banks will be expanded and the derivatives trading and price quotation mechanism will be reinforced.

b. Externally procured software will be used to simplify working procedures and enhance the efficiency of position monitoring so as to realize real-time monitoring.

c. With a complete risk control system, the scale of various types of trading will be expanded.

d. An electronic foreign-currency guarantee fund trading platform will be established, along with product packages.

e. The overseas derivatives trading business will be instituted.

(10) Financial Marketing

a. Design capability for financial products will be reinforced and all kinds of product solutions will be offered to satisfy customers' needs.

b. SME customers will be cultivated and offered strategic services for various kinds of derivatives hedging.

c. The volume for forex transactions with large corporate customers will be enlarged and key customers will be solicited with the aim of becoming their primary bank for financial trading.

d. Hedging products for and other derivatives trading with customers in the financial industry will be developed.

e. Various kinds of structured package products for hedging purposes will be introduced and asset allocation services for customers will be enhanced.

(1) Investment in Domestic and Foreign Securities

a. Investment in Domestic Securities

(a) In the field of NT Dollar bonds and financial debentures, short-term notes featuring good credit and high-income will be established in accordance with the amount of redemptions so as to maintain a suitable asset pool level and interest income, and to avoid interest risk.

(b) In the field of NT Dollar convertible bond asset swaps, objects will be chosen that offer a high rate of return, are healthy, and that have fluid circulation, with attention given to credit and interest-rate risk.

(c) In the field of NT dollar convertible bonds (CBs), the Bank will constantly seek out large-type CBs that are healthy and have fluid circulation as its primary objects of investment so as to avoid stock market fluctuations to a suitable extent.

(d) In handling capital increments via cash injection (IPOs and SPOs), the Bank will work through financial institutions and issuing companies to choose high-quality companies and use short-term holding to boost earnings.

(e) In the asset securitization business, the Bank will choose high-quality assets and studies securitized products in order to continuously establish investment positions with fixed returns.

b. Investment in Overseas Securities

(a) The Bank will take advantage of the ending of interest-rate hikes by the Federal Reserve to increase its ratio of investment in fixed-rate bonds so as to expand its interest rate gap.

(b) The Bank will use its abundant amounts of foreign-currency capital to heighten its foreign-currency bond position and improve the efficiency of its funds utilization.

(c) The Bank will undertake trading in products that are not highly related to credit spread, including CLOs and other arbitrage bonds.

(d) The Bank will maintain the credit quality of its overall asset portfolio, with individual investment instruments all being required to be at least investment grade.

4. Market Analysis

(1) Macroeconomic Environment

Taiwan's domestic economy maintained in a state of recovery in 2005 thanks to continued stimulation by strong global economic performance. The island's export growth was particularly vibrant beginning in the second half of the year due to the approach of the shopping season together with depreciation of the New Taiwan Dollar, and performance in the manufacturing industry was better than expected. Economic growth for the year reached 4.09%. The global economy is predicted to maintain a trend of expansion in 2006 and domestic orders are strong, especially for cell phones, NBs, LCD TVs, and other mainstream products in the international market. Taiwan's economy, with the advantage of a complete contract manufacturing structure and supply chains encompassing upstream IC design, parts production, and end products, is expected to continue expanding. The Directorate General of Budget, Accounting and Statistics

(DGBAS) forecasts the growth of the domestic economy in 2006 at 4.25%, representing an improved performance compared with 2005.

According to data compiled by the Ministry of Finance's Department of Statistics, Taiwan's export volume amounted to US\$189.4 billion in 2005, an increase of 8.8% over the previous year. Imports totaled US\$181.6 billion, for a growth of 8.2%. The island's trade surplus for the year was US\$7.8 billion, 27.2% more than in 2004.

Prices in Taiwan were affected by the continuing high level of international raw materials prices in 2005, and the consumer price index (CPI) rose 2.3% for the year. The most striking increase was for petroleum products, which saw prices rise 8%. Continuing high prices of crude oil and industrial raw materials at the start of 2006 are putting upward pressure on import and domestic-demand prices, and DGBAS predicts that wholesale prices on the island will rise by 1.2% for the year. Consumer prices will be affected by the gradual emergence of the effects of high oil prices; but with intense competition in the market, the room for producers to raise prices will be limited and prices are forecast to rise by only a moderate 1.7% in 2006, less than that of 2.3% in 2005.

(2) Current Status and Future Prospects of the Finance Industry

The development of Taiwan's domestic financial industry began in the years 1945-1949, when the government took over and reorganized financial institutions from the era of Japanese occupation. The Central Trust of China resumed operations in Taiwan and other financial institutions that had followed the government from mainland China followed one after the other. The establishment of new private commercial banks was opened up in 1990 and the Ministry of Finance approved the establishment of 16 new banks along with a number of others that were transformed from trust and investment companies, credit cooperatives, and small and medium business banks. With the proliferation of banks, however, each one could command only a small share of the market, and the situation was worsened by the high similarity of their business. The intense competition that came with financial liberalization contracted the room for banking profits.

After the Asian financial crisis broke out in 1997, corporate defaults and falling real estate prices brought on a deterioration of banking assets. The problem of bad assets cast a black shadow over the industry's operations, and the allocation of reserves against losses along with the writing off of bad loans eroded profitability even more. Fortunately, the government has been carrying out continuous financial reform since 1999. Besides slashing business taxed for financial institutions to help them write off bad debt, the government set up a Resolution Trust Corporation (RTC), passed a Financial Holding Companies Act, implemented the two-five-eight policy, and inaugurated the second stage of financial reform. This led to an appreciable improvement in asset quality beginning in 2003, and profitability turned strongly upward once again.

According to the Central Bank's monthly report on financial statistics, financial institutions in the Taiwan area (including domestic banks, Taiwan branches of foreign banks, credit cooperatives, the credit departments of farmers' and fishermen's associations, trust and investment companies, bills finance companies, and the savings department of the post office) numbered 405 at the end of December 2005, and the number of branches reached 5,853. The total was eight banks less than at the end of 2004, while the number of branches was up by 22. In the future, the only way to step up the pace of linkage with the international community and move

toward internationalization while enhancing operating efficiency and competitiveness is to take the road of banking consolidation. Under the guidance of the government and with impetus from market forces, this trend will further accelerate and will be especially pronounced this year among the 14 financial holding companies that have been organized. Individual banks will accelerate their own organizational re-engineering and the reinforcement of their risk management, while at the same time strengthening the development of new financial products, so as to provide innovative products and differentiated services in the hope of finding a way out of the attacks that are coming from all side by establishing unique operating models.

(3) Factors Favorable and Unfavorable to the BOOC's Competitive Niche and Development Vision, and Countermeasures

Although the BOOC does not belong to a financial holding company and has assets that are small relative to those of a financial group, it was one of the first private banks in Taiwan to inaugurate the foreign exchange business. It has built up a large store of forex experience and has established close correspondent relations with the major financial institutions of the world, and in this area always occupies an important position among the island's banks. The BOOC has also worked constantly to cultivate relations with small and medium enterprises over the years, and charges itself to be a specialist in SME loans with a strong SME customer base. Last year, with a new operating team and with the injection of securities, investment trust, insurance, information, and financial engineering resources from the owning group, the BOOC reaped rich results in terms of new financial products, wealth management, and derivative operations. Under its virtual financial holding framework, the Bank enjoys the infusion of group resources like those of banks that operate under the flags of financial holding companies.

Favorable and unfavorable factors for the Bank's development vision, and countermeasures:

a. Favorable Factors

- (a) Improving financial structure: The Bank moved to augment its capital and heighten its capital adequacy by raising funds for capital increases in 2002, 2003, and 2004 through such channels as cash injection and the issuance of subordinated financial debentures. The total amount of funds raised reached NT\$11.419 billion, bringing the Bank's capital adequacy ratio above 10%; at the end of 2005, the ratio stood at 8.83%. With this improvement in financial structure, the Taiwan Ratings Corp. adjusted the Bank's credit rating to twBBB, making it easier to institute new areas of business, create more profit, and increase the Bank's value.
- (b) The accelerated disposition of bad assets and the writing off of bad loans, resulting in an appreciable improvement in the asset structure: To speed up the disposal of bad assets, the Bank continued selling bad debt in 2005 and allocated increased reserves against bad loans. By the end of 2005 the bank's NPL ratio had dropped to 2.41% and its coverage had risen to 43.55%.
- (c) Government efforts to enhance the development of the domestic financial market: Following the Asian financial turmoil that erupted in 1997 the government poured its full efforts into helping the domestic banking industry weather the crisis by lowering the business tax on financial institutions and providing incentive measures to encourage banking consolidation. The response to the more recent outbreak of cash- and credit-card turmoil also shows the government's assistance for the domestic financial industry and its determination to maintain

stability in the domestic financial system.

b. Unfavorable Factors

- (a) Intense competition among domestic banks and shrinkage of interest rate spreads in the loan business: With the international oil price remaining at a high level, worries about inflation are continuing to ferment; the U.S. Federal Reserve has hiked interest rates repeatedly and Taiwan's Central Bank has boosted interest rates every quarter beginning at the end of 2004, leading to a steady rise in deposit rates. With a lot of idle funds in the market and with competition among banks remaining fierce, loan interest rates have kept at a low level and the spread between deposit and loan interest rates has contracted.
- (b) The squeeze on non-holding-company banks caused by intense market competition: There are still 14 financial holding companies and 45 banks in Taiwan, leading to a plethora of competitors with a high similarity of products. Commercial banks that are not part of financial holding groups and do not have access to the resources of such groups are particularly vulnerable to this squeeze.
- (c) The prevalence of direct financing and the steady reduction of indirect financing, and the resulting need to develop new businesses in order to enlarge the space for business expansion: Because of the diversification of fund-raising channels, and especially with the steady maturing of the domestic capital market, enterprises have turned to capital increases, the issuance of corporate bonds, and other direct means of financing to raise the funds they need. This has led to a weakening of indirect financing, and to cope with this trend banks needs more than ever to develop a diverse range of products and new types of business to satisfy customer needs and increase profits.
- (d) The outward migration of industries: Enterprises in Taiwan are continuously moving to mainland China and Southeast Asia, but the BOOC is unable to establish branches and serve companies overseas because of legal restrictions. This affects the Bank's business development.
- (e) The Basel II rules are not only steadily increasing the scale of banks' self-owned capital, but are also imposing stricter requirements for risk control: The Basel II rules have stricter demands for allocating capital according for risk-based assets and stricter rules for measuring the credit risk of loans and for calculating operating risk; as a result, the BOOC has to continuously increase capital and be stricter in risk control for all areas of business.

c. Countermeasures

- (a) Continuous reinforcement of the capital structure and strengthening of the operating system: Capital increases are planned to acquire the capital needed for sustained operation, and capital adequacy is constantly heighten to reinforce the financial structure and operating system.
- (b) Reinforcement of internal automation and the development of digitization so as to lower operating costs and heighten operating efficiency: The Bank will strive toward international information system integration and server system upgrading with the aim of reinforcing IT platforms and enhancing efficiency.
- (c) Infusion of resources from the owning group, facilitating the development of new financial products and the expansion of business, and adding non-interest income: The infusion of resources from the owning group can help the Bank develop new types of financial products

and appropriately increase its trading position in financial products. In addition, wealth management and forex trading platforms will come on line and the Group's internal channels will help promote business.

- (d) Use of strategic alliances to upgrade professional quality and open up marketing channels: The Bank will constantly seek out strategic partners overseas so as to extend its operations to include all kinds of peripheral financial businesses.
- (e) Inauguration of factoring and loan businesses with Taiwanese enterprises in mainland China through the Bank's Offshore Banking Branch: The Bank will go through its financial subsidiary in Hong Kong and strengthen services to Taiwanese companies in mainland China by promoting financial businesses that feature self-compensating trading, thereby pursuing cross-straits (including Hong Kong) business opportunities including trade financing, loans, new types of derivative products, and Internet banking, and satisfying customers' needs for a full range of services.
- (f) Readjustment of the organizational structure to upgrade the level of the risk-control mechanism and fully grasp risks of all types: In addition to setting up a Risk Management Group in the headquarters office to maintain the quality of loan assets and handle the assessment of loans and other products, the Bank has moved to establish a more reasonable and consistent risk control mechanism by installing a Risk Management Division directly under the supervision of the president. Further, in response to the appropriate heightening of trading positions in financial trading, the Bank uses externally procured software to reinforce the derivatives trading and price-quotation mechanism, thereby providing a full range of high-quality support and management for mid- and back-office risk-control systems.

5. Development of Financial Products, and Business Development

- (1) Development of Financial Products
- Expansion of the Treasury Marketing Unit (TMU) business.
 - Development of an electronic trading platform for Margin-trading.
 - Strengthening of R&D in derivative products, and of the price-quotation capability.
- (2) Addition of Business Units
- The Wealth Management Division was established on Dec. 5, 2004 to promote the Bank's wealth management business.
 - The Financial Product Service Division was set up on June 7, 2005 exclusively to promote trading in forex, interest rate, and other derivatives with customers, and to help corporate clients with the planning of financial risk-hedging products as well as spot and forward forex trading.
 - Global Proprietary Trading Division was inaugurated on June 8, 2005 to handle trading in forex, futures, options, and other approved derivative products.
 - The Electronic Banking Division was established on Nov. 12, 2005 and charged with the centralized handling of the electronic banking business.
 - To integrate the Bank's customer data, analyze market segmentation, and improve marketing to customers, the Bank established the Business Intelligence Division on Nov. 14, 2005 to handle the unified management of customer relationships.

- The Customer Service Center was set up on Nov. 7, 2005 to upgrade service quality and unify customer service windows bank-wide.
- The Risk Management Division was established on Dec. 23, 2005 to strengthen the Bank's risk management by integrating the control of credit risk, market risk, and operating risk.

(3) R&D Spending and Results

- a. Results of R&D work:
- Planning and establishment of the Smart FP wealth guidance system.
 - Planning and establishment of an integrated bank-wide MIS system.
 - Planning and establishment of a bank-wide KPI system.
 - Establishment of a centralized operating systems for credit investigation and examination, debt management, loans, foreign exchange, and notes.
- b. Future R&D plans:
- Research will be carried out in economic development and financial market trends, and information technology will be combined with financial innovation to provide customers with various kinds of financial planning services.
 - Packages that combine TMU, derivative products, and corporate loans will be formulated in order to establish a competitive operating model.
 - Differentiated products and services will be worked out to attract customers, and the wealth management business will be developed and cultivated.
 - A renewal of core banking systems will be formulated and information re-engineering will be carried out.
 - Customer relationship management and e-commerce systems will be formulated and set up.
 - In response to the implementation of Basel II at the end of 2006, a credit risk standards law is expected to be completed around mid-September, 2006.

6. Long- and Short-term Business Development Plans

- (1) Short-term Business Development Plans
- Continued strengthening of the corporate loan business
The Bank will focus on SMEs in the promotion of its corporate-loan business, and will give priority to foreign-exchange clients that have been screened for potential.
 - Continuous strengthening of the foreign-exchange business
The BOOC is Taiwan's first private bank to have a foreign-exchange license, and forex is its existing niche advantage. Mutually beneficial relations with corporate customers can create greater profits.
 - Upgrading of the financial business
In combination with the Group's product development capability, along with the acquisition of licenses for 22 types of business in 2005, the Bank has expanded its business scope.
 - Primary emphasis on the wealth-management business
 - Boosting of the ratio of commission fee income.
 - Continued reinforcement of the depth and breadth of the wealth-management platform so as to provide a complete range-allocation services.
 - Planning for a regional wealth-management bank.
 - Planning for the development of collective management accounts.

(e) Provision of integrated services by dedicated wealth-management officers to satisfy customers' needs for differentiated services.

(f) Vigorous pursuit of the custodial banking and other businesses to expand the Bank's share of the wealth-management market.

e. Vigorous development of the personal banking business

The Bank will vigorously promote the personal banking business in order to increase profits. It will meet market demand by offering tailor-made products for specific customer groups, and will engage in cross-marketing in combination with the Group's resources so as to upgrade synergies and competitiveness.

f. Continued improvement of operating procedures

Improvement of processes and operations will be promoted and a corporate culture of outstanding service will be created; in addition, "promotion of the good and prevention of the bad" will be carried out to control and lower operating costs while enhancing customer satisfaction and improving profitability.

(2) Medium- and Long-term Business Development Plans

a. Full-spectrum corporate banking business

(a) Financial banking businesses will be consolidated and a full spectrum of financial planning services directed at corporate clients will be established.

(b) The structure of loan assets will be reinforced and the interest spread broadened.

(c) Reinforcement of the structure of loan assets and widening of the interest-rate spread.

Adjustment of the asset structure away from loans to government agencies, government-run enterprises, and call loan clients, and toward loans to small and medium enterprises so as to broaden the gap between deposit and loan interest rates.

b. Development of the foreign-exchange business

(a) Maintenance and expansion of the development of the foreign exchange business and its mutually reinforcing relationship with the corporate banking business so as to create higher profits.

(b) Financing: The Bank will participate actively in the international syndicated loans and credit link loan businesses.

(c) Strengthening of foreign exchange risk control; since the control of operating risk is one of the three pillars of Basel II, the control of forex operating risk will be listed as one of the Bank's key future tasks.

(d) In line with the TMU's development of packaged loans, provision of customers with more efficient financial planning channels and strengthening of services to customers; in addition, increasing of foreign-currency capital sources through the inauguration of DBU and OBU consolidated foreign-currency loans.

(e) Active development of an e-Factoring platform to provide customers with online purchasing, prepayment, repayment, and enquiry.

(f) New types of derivative products: In view of the expansion of the scale of fluctuations on the international forex market in recent years, and of the constantly increasing pressure of Renminbi revaluation, the OBU will develop new kinds of derivative products to help clients avoid risk.

(g) Forex specialists will be developed to consolidate the BOOC's niche as a specialist bank and strengthen its advantage and image as a professional forex bank.

c. New Financial Products

(a) Inauguration of the foreign derivatives trading business, with the establishment of a 24-hour trading mechanism and the overall upgrading of trading capabilities for foreign-currency exchange-rate and interest-rate derivatives so as to achieve the goals of diversifying risk and enhancing trans-national trading.

(b) The number of outstanding traders will be increased, the scale of trading will be expanded, new trading channels will be developed, and opportunities for profit in the market will be grasped.

(c) Application to engage in forex operations on behalf of clients so as to serve the Bank's VIP financial-planning customers.

(d) An electronic trading platform for forex guarantee funds will be set up and developed into a market leader.

(e) The scale of trading will be expanded and outstanding traders added, new trading channels will be developed, and profit opportunities in the market will be grasped.

(f) Derivative product development and price-quotation capabilities will be strengthened, and proprietary trading items will be increased.

d. Wealth Management

(a) Consolidation of existing sources of income and maintenance of the Bank's competitive advantage.

(b) Differentiated products and services will be used to recruit customers, and the wealth management business will be developed and cultivated.

(c) Exclusive insurance products will be developed in cooperation with the New York Life Group so as to boost the profit margin.

(d) Professional consulting capabilities will be enhanced and a differentiated competitive advantage will be created so as to reinforce the BOOC's image as a professional wealth management bank.

(e) Active development of niche businesses so as to enhance operating performance.

(f) Cultivation and establishment of a full-spectrum wealth-management team.

e. Promotion of the personal banking business.

(a) Active recruitment of personal banking specialists and organizing of training programs so as to strengthen the professional abilities and sales skills of sales agents.

(b) Establishment of electronic procedures for credit investigation, price estimation, and review so as to provide speed and risk controls in loan cases.

(c) Mapping out of a performance incentive program so as to enhance working productivity and capability.

(d) The assignment of specialists to specific tasks so as to provide a full spectrum of after sales services.

III. Employee Data for the Past Two Years and at Publication of Annual Report

1. Basic Employee Structure

Item		Fiscal		2004		2005		Mar.31, 2006	
No. of Employees	Staff			1,783		2,045		2,015	
	Guards, Janitors, Technicians			109		106		103	
	Total			1,892		2,151		2,118	
Average Age(Years)				36.87		36.52		36.87	
Average Seniority(Years)				11.65		9.54		9.83	
Education	Master Degree	69	3.65%	114	5.30%	124	5.85%		
	Bachelor Degree	751	39.69%	939	43.66%	953	45%		
	Junior College	709	37.47%	769	35.75%	764	36.07%		
	Senior High School	343	18.13%	307	14.27%	260	12.28%		
	Under Senior High School	20	1.06%	22	1.02%	17	0.80%		
	Total	1,892	100%	2,151	100%	2,118	100%		
Professional Certification Held by BOOC Employees	QIA(Qualified Internal Auditor) CIA(Certified Internal Auditor)	2 cases		4 cases		4 cases			
	RFC(Registered Financial Consultants)	1 case		1 case		1 case			
	Non-financial licenses	41 cases		63 cases		63 cases			
	Insurance licenses	2,382 cases		2,436 cases		2,381 cases			
	Licenses awarded after testing by the Taiwan Academy of Banking and Finance	2,656 cases		2,804 cases		2,774 cases			
	Basic test for bank internal control	1,087 cases		1,160 cases		1,150 cases			
	Futures trust investment licenses	531 cases		663 cases		648 cases			
	Trust managers' and supervisors' licenses	-		370 cases		370 cases			
	Other financial license	16 cases		23 cases		23 cases			

※ The above data do not include the chairman and sales personnel.

2. Employee behavior and ethical rules:

All of the Bank's employees carry out their operations in accordance with the Bank's working rules and related laws, and also observe other norms and standards.

3. Working environment and protection of employee safety:

Occupational safety and health rules are observed, and group insurance and other welfare measures are used to protect the safety of employees.

IV. Corporate Responsibility and Ethical Behavior

The BOOC and the Charity Foundation of BOOC carry out the principle of corporate payback to society and, in pursuit of the goals of "compassion, kindness, service, and sacrifice," participate in charity and other public-benefit activities every year so as to fulfill their social responsibility and disseminate their warmth and care. These activities included the following in 2005:

- The Bank supported the "Jade Mountain Climb and Cleanup" campaign to propagate respect for nature and publicize the intimate relationship to human life of protecting the environment.
- Support was provided for the "Love and Power" campaign to pursue the interests of different groups, including children, women, the elderly, youth, and the physically and mentally handicapped.
- The "Send Hope to the Homeland" garden party was given support in order to show care for the children of indigenous peoples.
- Sponsorship was given to the "Warm New Year's Food - Delivery of Love" program to show care for low-income elderly people living alone.
- Social welfare groups were supported in expressing care for children who had lost their parents, the children of disadvantaged families, impoverished vegetable people, and senile oldsters.

V. Information Equipment

1. Major Information Hardware

UNISYS mainframes: Online banking systems and interbank random code systems.

IBM servers: Fund systems bills and bonds system, collective negotiable instruments operating system, Gateway, and China Steel L/Cs

Dell servers: Internet banking and risk control systems.

COMPAQ servers: Internet securities trading system, Internet operations.

NEC servers: Human resources system

HP servers: Wealth management, e-factoring, financial systems, financial dealing management systems, credit card credit investigation systems, collection systems, Basel II.

OTS servers: Voice recognition systems.

NCR and Diebold ATMs: Automatic cash dispensers.

EMC and Cisco equipment: Storage and network equipment.

2. Major Information Software

UNISYS proprietary software: MCP, COMS, SYSTEMF, etc.

IBM proprietary software: OS/400, SQL/400, etc.

Operating systems for different platforms and development systems: UNIX OS, Windows OS,

Open BSD, Red Hat, VSM, Visual Studio Net. Etc.

3. Future Development and Procurement Plans

Hardware investment: This will focus mainly on the renewal of UNISYS mainframes and be done in coordination with the needs of information re-engineering and remote back-up.

Software investment: This will focus on the improvement of accounting speed and the diversification of the interest-calculation system, with priority given to solving the problems of 2021.

4. Emergency Back-up and Security Measures

- (1) If the hardware and software facilities of online mainframes and servers (including online mainframe and Internet banking servers) should be severely damaged by man-made or irresistible natural disasters so that they cannot be repaired quickly, then the use of remote mainframes and servers would be necessary to restore information operations.
- (2) If the hardware or software of a mainframe or server (including an online mainframe or Internet banking server) should break down, then a different mainframe should be substituted on the spot or systems should be rebuilt so that information operations can be restored.
- (3) If the Bank has not yet set up any one of the remote back-up models described above, in the event of a natural disaster or major breakdown of the mainframe or server hardware or software so that online operations become impossible, then all that could be done for a central online mainframe at the present time would be to use the "substitution of a backup mainframe for the central online mainframe" as demanded by the situation. For the Internet banking servers, all that could be done would be to take steps to restore operations on the spot.
- (4) When the Information Technology Division decides, based on the severity of a disaster, that restoration at a remote location is necessary, to assure effective direction the head of the Division will first make a verbal report and then set up a provisional disaster restoration team. The team will follow the Division's set procedure in filling out the related forms and restoring the normal operation of central information systems.
- (5) Entry into computer rooms is handled by door control and digital video surveillance systems. The rooms also have automatic sensors and fire-detection systems, along with monitoring systems to report whether peripheral cold-water machines, air-conditioning equipment, UPS, electrical equipment, and other facilities are operating normally. Further, there are temperature and humidity sensing and warning systems.

VI. Labor-Management Relations

1. Employee Welfare Measures and Status of Implementation

The employee welfare measures currently in place at the BOT include preferential deposit interest rates, employee insurance, bonuses at the time of the three main annual festivals, birthday bonuses, employee home loans, consumer loans, educational scholarships for employees' children, and employee welfare subsidies. Other measures are implemented as needed.

2. Retirement System

- (1) In line with the inclusion of banks into the scope of application of the Labor Standards Law and the Labor Pension Act, and to allow employees to retire without having to worry about their livelihood, the Bank uses a retirement system that exceeds the criteria in the Labor Standards Law for the original retirement system and allocates funds for deposit in individual Labor Insurance Bureau accounts for workers who choose the new retirement system.
- (2) The Bank's Retirement Reserve Supervisory Committee was approved by the Taipei City Government on May 21, 1998, and retirement funds are deposited with the Central Trust of China on a monthly basis in accordance with the regulations.

3. Labor-Owner Communication

The case of litigation between the Bank and retired personnel about the preferential interest rate for the retirement fund account should not come under the item of labor-ownership communication; if necessary, supplementary information will be provided.

The Bank currently uses the following two methods of communication between labor and ownership :

(1) Scheduled Meetings

Meetings between labor and ownership are organized according to the Implementation Rules for Labor-Ownership Meetings to provide for the exchange of opinions regarding labor-ownership relations and increase mutual understanding so as to advance harmony and solidarity.

(2) Unscheduled Meetings

The BOOC's different units can call cadre meetings on an irregular basis when necessary to strengthen the internal exchange of opinions.

VII. Advanced Education and Training

The BOOC compiles annual plans for employee education and training. In addition to the original "Incentive Measures for Employee Training and Professional Licenses," the Bank has newly approved "CFP Certified Financial Planning Consultant License Incentive Measures" designed to encourage all staff members to learn by offering training and incentives.

The Bank budgeted NT\$11,030,000 for training in 2005, and actual spending on training during the year amounted to NT\$8,713,000. This gave each employee an average of more than NT\$4,000 for education and training. A total of 117 in-house training courses with a total of 6,992 participants was held during the fiscal year, along with 200 outside courses having a total of 908 trainees.

Funds Utilization Plans and Status of Implementation

I. Content of Plan

Previous capital increase or issuance of bank debentures, uncompleted former capital increases or issuances of bank debentures, and analysis of the unrealized results of funds utilization plans for the past three fiscal years:

A capital restructuring plan involving a capital increase of NT\$5,119,200,000 was completed on Dec. 27, 2004. In addition to effecting a major improvement in the Bank's ratio of capital to risk assets and strengthening its financial structure, this is expected to enhance the Bank's competitiveness relative to other banks, facilitate the development of business in the future, and increase operating income and generate profits.

II. Status of Implementation

Explanation, in regard to the above projects, of completed business expansions and increases in business locations, augmentation of operating capital, acquisition of other financial institutions or reinvestment in other companies, contents of plans for the expansion or new construction of fixed assets, sources of funds, proposed utilization, and potential results:

The funds raised for the current capital increase were used primarily to make up for losses suffered in past years, rebuild the Bank's capital, augment operating funds, and heighten the capital adequacy ratio and lower the non-performing-loan ratio, thereby helping to achieve the smooth promotion of business in various areas.

Financial Highlights

I. Summary of Assets and Liabilities, and Statement, for the Past Five Years

1. Brief Balance Sheets

Unit : NT\$1,000

Item	Fiscal	Financial Information in Recent 5 Years				
		2005	2004	2003	2002	2001
Cash & cash equivalents, due from the Central Bank of China and call loan to banks		29,816,913	24,219,909	23,768,847	43,722,660	40,058,717
Securities purchased-net		22,852,004	31,572,897	32,211,901	21,751,240	27,381,930
Bills and loans-net		179,329,780	159,365,836	176,734,779	172,459,646	167,287,082
Receivables-net		10,218,954	12,979,602	9,484,815	10,095,132	11,513,590
Long-term investments		7,290,581	8,405,971	3,837,275	4,386,891	2,751,448
Premises and equipment		8,306,692	8,585,574	8,480,530	8,655,421	8,844,447
Other assets		12,346,901	13,385,531	12,064,408	4,843,003	5,630,366
Due to the Central Bank of China and commercial banks		3,274,207	1,222,703	1,639,393	2,026,676	1,462,216
Deposits, drafts and remittances		240,508,918	228,712,278	236,339,614	235,849,367	236,663,225
Banker's acceptances and funds borrowed and banker's debenture		4,707,490	4,679,761	5,362,874	1,688,281	1,151,247
Other liabilities		10,343,740	11,927,456	13,870,398	14,395,614	13,574,816
Capital stock		11,944,800	11,944,800	11,376,000	11,376,000	16,752,000
Capital reserve		303,622	172,104	178,440	178,440	185,690
Retained earnings	Before appropriation	(922,805)	(139,402)	(2,187,463)	(788,354)	(7,350,830)
	After appropriation	(Note)	(139,402)	(2,187,463)	(788,354)	(7,350,830)
Shareholders' equity		1,853	(4,380)	3,299	(877)	2,279
Total assets		270,161,825	258,515,320	266,582,555	265,913,993	263,467,580
Total liabilities	Before appropriation	258,834,355	246,542,198	257,212,279	255,148,784	253,878,441
	After appropriation	(Note)	246,542,198	257,212,279	255,148,784	253,878,441
Total shareholders' equity	Before appropriation	11,327,470	11,973,122	9,370,276	10,765,209	9,589,139
	After appropriation	(Note)	11,973,122	9,370,276	10,765,209	9,589,139

Note: As the shareholders' meeting has not yet been held, there are no post-distribution figures for 2005 income.

2. Income Summary

Unit : NT\$1,000

Fiscal Item	Financial Information in Recent 5 Years					Current Fiscal Year as of the end of Mar. 31, 2006
	2005	2004	2003	2002	2001	
Operating Income	9,308,564	8,605,621	10,318,538	11,728,951	16,517,047	2,630,119
Operating Cost	9,610,933	11,224,272	11,823,577	12,322,053	19,539,627	2,737,646
Net Operating Income (losses)	(302,369)	(2,618,651)	(1,505,039)	(593,102)	(3,022,580)	(107,527)
Earning Before Tax from Continued Operations	(480,426)	116,312	105,930	(27,672)	(42,805)	13,034
Gain (Loss) from Continued Operations	(782,795)	(2,502,339)	(1,399,109)	(620,774)	(3,065,385)	(94,493)
Gain (Loss) from Discontinued Operations	(782,795)	(2,502,339)	(1,399,109)	(620,774)	(3,065,385)	(94,493)
Gain (Loss) from Discontinued Operations	-	-	-	-	-	-
Extraordinary Gain or Loss	-	-	-	-	-	-
Cumulative Effect of Changes in Accounting Principles	(608)	-	-	-	-	97,865
Net Income (losses)	(783,403)	(2,502,339)	(1,399,109)	(620,774)	(3,065,385)	3,372
Loss per Share (dollars)	(0.66)	(2.21)	(1.23)	(0.37)	(1.83)	-

II. Financial Analysis for the Past Five Years

Item	Year (Note)	Financial Analysis of Recent 5 years					Current Fiscal Year as of the end of Mar. 31, 2006
		2001	2002	2003	2004	2005	
Operating efficiency	Ratio of loans to deposit (%)	70.69	73.12	74.78	69.68	74.56	83.00
	NPL ratio (%)	17.80	13.98	10.15	5.28	2.41	2.67
	Ratio of interest expenditures to annual average deposits (%)	4.34	2.44	1.43	1.13	1.38	1.65
	Ratio of interest income to average amount of loans outstanding (%)	7.18	5.09	3.22	3.25	3.38	3.37
	Total assets turnover (time)	0.06	0.04	0.04	0.03	0.04	0.04
	Average operating revenue per employee (NT\$1,000)	8,367.30	6,242.12	5,410.87	4,546.02	4,325.54	4,964.83
	Average profit per employee (NT\$1,000)	(1,552.88)	(330.37)	(733.67)	(1,321.89)	(364.03)	1.59
Profitability	Rate of return on Tier I capital (%)	-	-	-	-	-	-
	Return on total assets (%)	(1.17)	(0.23)	(0.53)	(0.95)	(0.30)	-
	Return on shareholders' equity (%)	(27.56)	(6.10)	(13.90)	(23.45)	(6.72)	0.03
	Net Income ratio (%)	(18.56)	(5.30)	(13.56)	(29.08)	(8.42)	0.13
	Earnings (losses) per share (NT\$1,000)	(1.83)	(0.37)	(1.23)	(2.21)	(0.66)	-
Growth rate	Rate of asset growth	1.22	0.93	0.25	(3.03)	4.51	(0.45)
	Rate of profit growth	16.61	(79.75)	125.38	78.85	68.69	51.72
Liquidity reserve ratio (%)		18.14	15.14	16.52	19.89	13.13	10.29
Capital adequacy	Total amount of Tier I capital (NT\$1,000)	9,410,699	10,586,769	9,192,558	11,801,738	11,024,571	11,024,571 (Nde)
	Qualifying capital (NT\$1,000)	9,191,998	10,268,710	13,441,930	16,837,487	14,225,802	14,225,802 (Nde)
	Total risk-weighted exposures (NT\$1,000)	181,981,399	185,648,609	167,158,210	159,783,065	161,052,444	161,052,444 (Nde)
	Capital adequacy ratio	5.05	5.53	8.04	10.54	8.83	8.83 (Nde)
	Ratio of Tier I capital to risk-based assets	5.17	5.70	5.50	7.39	6.85	6.85 (Nde)
	Ratio of Tier II capital to risk-based assets	0.36	0.30	3.08	3.68	2.49	2.49 (Nde)
	Ratio of Tier III capital to risk-based assets	0.00	0.00	0.00	0.00	0.00	0.00 (Nde)
Shareholders' equity to total assets ratio		3.64	4.05	3.51	4.63	4.19	4.32
Total secured loans by related parties (NT\$1,000)		2,017,236	1,669,884	1,898,107	1,391,501	2,338,830	2,605,037
Ratio of total secured loans by related parties to total loans		1.23	1.00	1.09	0.86	1.29	1.39
Operation Scale	Market share of asset	1.03	1.03	0.95	0.87	0.77	-
	Market share of net worth	0.53	0.67	0.57	0.68	0.58	-
	Market share of deposit	1.20	1.18	1.12	1.02	1.19	-
	Market share of loan	1.23	1.30	1.26	1.02	1.03	-

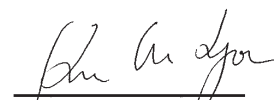
Note: Data for 2005.

III. Supervisors' Report


TO SHAREHOLDERS OF BANK OF OVERSEAS CHINESE

In accordance with Article 219 of the ROC Company Law, we hereby certify that 2005 financial reports submitted by the Board of Directors of Bank which have been examined by Diwan, Ernst & Young and that together with the Report of Business and Statement of covering for loss have been duly examined and accepted by us.

Standing Supervisor :


 Kuo-Ann Lyou

Supervisor :


 Chia-Hua Su

Supervisor :


 Chung-Hsing Chen

Mar. 21, 2006

IV. Financial Statements for the Most Recent Fiscal Year, Including Auditors' Report, Two-year Balance Sheets, Statement of Income, Statement of Changes in Shareholders' Equity, Statement of Cash Flows, and Notes and Attachments.

English Translation of Report Originally Issued in Chinese
REPORT OF INDEPENDENT AUDITORSThe Board of Directors and Shareholders
Bank of Overseas Chinese

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

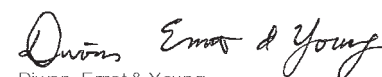
We conducted our audit in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China ("R.O.C."). Those standards require that we plan and perform the audit to obtain reasonable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

As described in Note IV.10 to the financial statements, the Bank entered into a contract to sell its non-performing loans to assets management company from October, 2003 to June, 2005. According to the Financial Institutions Merger Act, the total related loss amounted to NT\$11,937,380 thousand will be deferred and then amortized within five years. As of December 31, 2005 and 2004, the balance of unamortized loss was NT\$8,450,180 thousand and NT\$8,459,821 thousand, respectively. According to general accepted accounting principle in the R.O.C., loss occurred in selling non-performing loans should be recognized as an expenses in the corresponding period. If these losses were recognized as an expenses, other assets will decrease NT\$8,450,180 thousand and NT\$8,459,821 thousand as of December 31, 2005 and 2004, respectively, while accumulated deficit will increase NT\$8,450,180 thousand and NT\$8,459,821 thousand as of December 31, 2005 and 2004, respectively. Additionally, loss before income tax would be decrease NT\$9,641 thousand and increase NT\$3,517,311 thousand for the years ended December 31, 2005 and 2004, respectively.

In our opinion, except for the effect of not recognizing loss in selling of non-performing loan as an expenses in the corresponding period as discussed in the preceding paragraph, the financial statements referred in the first paragraph present fairly, in all material respects, the financial position of Bank of Overseas Chinese as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with "Regulations Governing the Preparation of Financial Reports by Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

As described in Note III to the financial statements, before December 31, 2004, partial investment of the Bank which are accounted for by the equity method and deferred the recognition of investment income (loss) in the following year. Effective from January 1, 2005, according to the amended R.O.C. Statement of Financial Accounting Standards (SFAS) No. 5 "Long-term Investments in Equity Securities", the Bank recognized the investment income (loss) by the equity method at the same corresponding period, and effective from January 1, 2005, the Bank also adopted the R.O.C. SFAS No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets.

We have also audited the consolidated financial statement of Bank of Overseas Chinese as of and for the year ended December 31, 2005 and have issued a qualified opinion thereon.


Diwan, Ernst & Young
March 10, 2006
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and 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 practice to audit or review such financial statements are those generally accepted and applied in the Republic of China.

BANK OF OVERSEAS CHINESE

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004
(Expressed in Thousands of Dollars)

ASSETS	New Taiwan dollars		US dollars
	December 31		(Note II)
	2005	2004	December 31 2005
Cash and Cash Equivalents (Notes II and IV)	\$7,937,137	\$8,212,799	\$241,544
Due from the Central Bank of China and Call Loans to Banks (Notes II and IV)	21,879,776	16,007,110	665,848
Securities Purchased-net (Notes II, IV, VI and X)	22,852,004	31,572,897	695,435
Receivables-net (Notes II and IV)	9,803,170	12,475,992	298,331
Prepayments (Notes II and IV)	415,784	503,610	12,653
Bills and Loans-net (Notes II, IV, V and X)	179,329,780	159,365,836	5,457,388
Long-term Investments-net (Notes II, III, IV, VI and X)			
Equity securities under the equity method	311,820	295,262	9,490
Equity securities under the cost method	494,206	552,206	15,040
Bonds	6,484,555	7,558,503	197,339
Premises and Equipment (Notes II, III, IV, V and VII)			
Cost:			
Land	4,529,317	4,522,258	137,837
Building	3,987,276	3,954,029	121,341
Furniture and fixtures	989,016	1,030,500	30,098
Transportation equipment	21,975	18,412	669
Miscellaneous equipment	421,136	473,179	12,816
Revaluation increment	716,985	716,985	21,819
Subtotal	10,665,705	10,715,363	324,580
Less: Accumulated depreciation	(2,116,185)	(2,147,787)	(64,400)
Less: Allowance for asset impairment	(317,661)	-	(9,667)
Construction in progress and procurement	74,833	17,998	2,277
Premises and Equipment-net	8,306,692	8,585,574	252,790
Other Assets (Notes II, III and IV)	12,346,901	13,385,531	375,743
TOTAL ASSETS	\$270,161,825	\$258,515,320	\$8,221,601
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Due to the Central Bank of China and Commercial Banks (Notes IV and X)	\$3,274,207	\$1,222,703	\$99,641
Payables (Note IV)	7,323,050	6,539,537	222,856
Advances	247,396	238,012	7,529
Deposits and Remittances (Notes IV, V and X)	240,508,918	228,712,278	7,319,200
Banker's Debenture (Note IV)	4,500,000	4,500,000	136,945
Banker's Acceptances and Funds Borrowed (Notes IV and X)	207,490	179,761	6,314
Accrued Pension Liability (Notes II and IV)	1,043,159	1,462,116	31,746
Other Liabilities (Notes II and IV)	1,730,135	3,687,791	52,651
Total Liabilities	258,834,355	246,542,198	7,876,882
SHAREHOLDERS' EQUITY:			
Capital Stock (Note IV)	11,944,800	11,944,800	363,506
Capital Reserve (Notes II and IV)			
Reserve for assets revaluation	302,901	171,383	9,218
Others	721	721	22
Retained Earnings (Note IV)			
Legal reserve	20,920	20,920	637
Accumulated deficit (Note IV)	(943,725)	(160,322)	(28,720)
Unrealized Loss on Long-term Investments (Notes II and IV)	(969)	(2,800)	(30)
Cumulative Translation Adjustments (Notes II and IV)	3,770	(632)	115
Treasury Stock (Notes II and IV)	(948)	(948)	(29)
Total Shareholders' Equity	11,327,470	11,973,122	344,719
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$270,161,825	\$258,515,320	\$8,221,601

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

BANK OF OVERSEAS CHINESE

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(Expressed in Thousands of Dollars, Except Per Share Amounts)

Items	New Taiwan dollars		US dollars
			(Note II)
	2005	2004	2005
OPERATING INCOME (Note II):			
Interest revenue	\$7,359,372	\$6,710,038	\$223,961
Commissions and handling fees	1,217,192	1,338,097	37,042
Gains on sales of securities-net	397,527	316,232	12,098
Investment income-net	51,137	37,090	1,556
Profit on exchange-net	234,742	161,096	7,144
Other operating income	48,594	43,068	1,478
Total	9,308,564	8,605,621	283,279
OPERATING COST:			
Interest expense	3,268,380	2,712,645	99,464
Commissions and handling charges	376,501	397,220	11,458
Provisions for possible losses (Note II)	734,598	3,085,376	22,355
Operating and administrative expenses (Note IV)	3,028,172	2,998,531	92,154
Other operating expenses (Note IV)	2,203,282	2,030,500	67,050
Total	9,610,933	11,224,272	292,481
NET OPERATING LOSS	(302,369)	(2,618,651)	(9,202)
NON-OPERATING INCOME:			
Gains on disposal of premises and equipment (Note II)	9	102,296	-
Reversal of provision for losses on guarantees (Note II)	32,623	17,674	993
Others (Note V)	100,925	32,378	3,072
Total	133,557	152,348	4,065
NON-OPERATING EXPENSES:			
Loss on disposal of premises and equipment (Note II)	12,049	2,714	367
Loss on asset impairment (Notes II and III)	580,549	-	17,667
Others	21,385	33,322	651
Total	613,983	36,036	18,685
LOSS BEFORE INCOME TAX	(782,795)	(2,502,339)	(23,823)
INCOME TAX (Notes II and IV)	-	-	-
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Notes III and IV)	(608)	-	(19)
LOSS PER SHARE (Note IV) (In Dollars)	\$(0.66)	\$(2.21)	\$(0.02)
LOSS BEFORE INCOME TAX	\$(0.66)	\$(2.21)	\$(0.02)
INCOME TAX	-	-	-
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	-	-	-
NET LOSS	\$(0.66)	\$(2.21)	\$(0.02)
PRO FORMA INFORMATION ON EARNINGS AS IF UNCONSOLIDATED SUBSIDIARIES'			
INVESTMENT IN THE BANK IS NOT TREATED AS TREASURY STOCK (Notes II and IV)			
NET LOSS	\$(782,922)	\$(2,501,253)	\$(23,826)
LOSS PER SHARE (In Dollars)	\$(0.66)	\$(2.21)	\$(0.02)

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

BANK OF OVERSEAS CHINESE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
 (In thousands of New Taiwan Dollars)

Items	Capital Stock	Capital Reserve	Retained Earnings		Unrealized Loss on Long-Term Investments	Cumulative Translation Adjustments	Treasury Stock	Total
			Legal Reserve	Accumulated Deficit				
Balance, January 1, 2004	\$11,376,000	\$178,440	\$20,920	\$(2,208,383)	\$(2,528)	\$7,408	\$(1,581)	\$9,370,276
Net loss from January 1 to June 30, 2004	-	-	-	(2,466,231)	-	-	-	(2,466,231)
Make up the accumulated loss	(4,550,400)	-	-	4,550,400	-	-	-	-
Issuance of common stock by cash	5,119,200	-	-	-	-	-	-	5,119,200
Net loss from July 1 to December 31, 2004	-	-	-	(36,108)	-	-	-	(36,108)
Unrealized loss on long-term investments (Notes II and IV)	-	-	-	-	(272)	-	-	(272)
Translation adjustments (Note II)	-	-	-	-	-	(8,040)	-	(8,040)
Write-off capital reserve from disposal of Land	-	(6,336)	-	-	-	-	-	(6,336)
Treasury stock	-	-	-	-	-	-	633	633
Balance, December 31, 2004	11,944,800	172,104	20,920	(160,322)	(2,800)	(632)	(948)	11,973,122
Net loss for 2005	-	-	-	(783,403)	-	-	-	(783,403)
Unrealized loss on long-term investments (Notes II and IV)	-	-	-	-	1,831	-	-	1,831
Translation adjustments (Note II)	-	-	-	-	-	4,402	-	4,402
Increase in capital reserves by reducing the reserve for increment tax on land value (Note IV)	-	131,518	-	-	-	-	-	131,518
Balance, December 31, 2005	\$11,944,800	\$303,622	\$20,920	\$(943,725)	\$(969)	\$3,770	\$(948)	\$11,327,470

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

BANK OF OVERSEAS CHINESE
STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
 (In thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(783,403)	\$(2,502,339)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for possible losses	734,598	3,085,376
Depreciation	158,763	180,405
Amortization	49,914	49,195
Amortization on disposal of non-performing loans	2,202,100	1,085,100
Other loss on investment	-	16,379
(Gains) Loss on disposal of premises and equipment	12,040	(99,582)
(Gains) Loss on disposal of long-term investment	9,715	(4,208)
Investment income recognized by the equity method	(14,510)	(634)
Loss on asset impairment	580,549	-
(Increase) decrease in receivables	2,471,822	(3,826,837)
Decrease in prepayments	87,826	39,950
(Increase) Decrease in securities purchased for trading purposes	(4,926,400)	334,664
Increase (decrease) in accrued pension liability	(418,957)	78,577
Increase in deferred tax asset	-	(72,613)
Increase in payables	783,513	283,758
Increase in advances	9,384	119,846
Adjustment of changes in exchange rates	(12,310)	(35,423)
Net cash provided by (used in) operating activities	944,644	(1,268,386)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in due from the Central Bank of China and call loans to banks	(6,172,666)	2,038,223
Decrease in securities purchased for non-trading purposes	13,565,297	253,741
Proceeds from disposal of long-term investments	4,135,801	3,255,727
Increase in long-term investments	(2,713,568)	(7,821,411)
Cash received from investee's capital reduction	4,185	27,371
(Increase) Decrease in bills and loans	(20,092,514)	14,723,893
Proceeds from disposal of premises and equipment	7,286	153,484
Acquisition of premises and equipment	(230,553)	(228,657)
Increase in deferred charges	(63,702)	(56,985)
Increase in other assets	(1,696,282)	(2,620,542)
Net cash provided by (used in) investing activities	(13,256,716)	9,724,844
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in due to the Central Bank of China and commercial banks	2,051,504	(416,690)
Increase (decrease) in deposits and remittances	11,796,640	(7,627,336)
Increase (decrease) in Banker's acceptances and funds borrowed	27,729	(683,113)
Decrease in other liabilities	(1,851,773)	(2,394,657)
Issuance of common stocks by cash	-	5,119,200
Net cash provided by (used in) financing activities	12,024,100	(6,002,596)
EFFECT OF CHANGES IN EXCHANGE RATE	12,310	35,423
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(275,662)	2,489,285
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,212,799	5,723,514
CASH AND CASH EQUIVALENTS, END OF YEAR	\$7,937,137	\$8,212,799
SUPPLEMENT DISCLOSURES OF CASH FLOWS INFORMATION:		
Interest expenses paid	\$3,178,771	\$2,804,654

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

English Translation of Report Originally Issued in Chinese

BANK OF OVERSEAS CHINESE
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

(In thousands of Dollars unless otherwise stated)

I. ORGANIZATION AND OPERATIONS

Bank of Overseas Chinese (the Bank) was founded by Overseas Chinese in line with the Government's policy of encouraging investments in financial institutions. In 1959, a preparatory committee was established and the Bank commenced its operations in March 1961.

It is engaged mainly in the following operations:

- (1) Accepting deposits;
- (2) Extending loans and discount;
- (3) Investing in funds and securities;
- (4) Handling remittances and providing guarantee service;
- (5) Acting as a trustee or an agent;
- (6) Other related financial operations authorized by the Banking Law.

The Bank's stock was traded over-the-counter in Republic of China (R.O.C.) since December 1998.

As of December 31, 2005 and 2004, the Bank employed 2,152 and 1,893 employees, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with Regulations Governing the Preparation of Financial Reports of Public Banks, Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. The significant accounting policies are summarized as follows:

1. Basis for Preparation of Financial Statements

The accompanying financial statements include the accounts of the head office and all of the branches. All inter-branch transactions and balances have been eliminated when the financial statements were prepared.

Under amended R.O.C. Statement of Financial Accounting Standards (SFAS), No. 7 "Consolidated Financial Statements" effective from January 1, 2005, the Bank is required to include the accounts of all subsidiaries, which are more than 50% owned or controlled, in its annual consolidated financial statements.

2. Securities Purchased

Securities purchased are carried at the lower of cost or market value on a portfolio basis. When market value is lower than the cost, a provision is made for the impairment loss. The reversal of unrealized losses on investments in future periods would be recognized within the limit of the unrealized loss. When stocks are sold, the cost is calculated based on the weighted-average method for equity securities. For other securities, the cost is calculated by specific identifies method based on individual assessment.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of

"Securities sold under repurchase agreements." The difference between the selling or purchase price and the contracted repurchase or resale price is accounted for as interest expense or interest income.

3. Long-term Investments**(1) Investments In Equity Securities**

The equity method is used for long-term equity investment where the Bank has control, joint control or significant influence over the investee enterprises. These investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Bank's share of the investee's net assets. Cash dividends received are accounted for as a reduction in the carrying amount of the investments. Stock dividends received are accounted for the increase in number of shares held by the Bank without impact to the carrying amount of the investments and net income. If an investee's capital reserve increases because of property revaluation, the Bank will recognize the proportional increase in the carrying amount of the investment and the gain will be included in the capital reserve in the shareholders' equity. The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 years.

Other long-term equity investments are accounted for by the cost method. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments is below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stocks, provisions are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered.

(2) Investments In Bonds

Investments in bonds are stated at cost adjusted for the amortization of premiums or discounts over the periods from the acquisition to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income or interest expense. Investments in bonds are evidence indicating a decline in the value of an investment is not temporary, and the possibility of recovery is considered remote, the investment is devalued to reflect the market, and the resulting loss is recognized in the period incurred. Cost of bonds upon maturity or disposal is determined by the specification method.

4. Allowances for Doubtful Accounts

The allowances for doubtful accounts on receivables, bills and loans etc. are provided based on collectability review and rates adopted by the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans, the bank evaluated its doubtful accounts and provide the allowance as impossible to obtain repayment the full losses, doubtful of receive sum of 50% losses. Since July, 2005, the bank shall evaluated unsound credit assets based on the above regulations. The minimum standard for loan loss provision shall be the sum of 2% of the balance of Category II credits assets (Special Mention), 10% of the balance of Category III credit assets (Substandard), 50% of the balance of Category IV credit assets (Doubtful), and the full balance of Category V credit assets (Losses). Balances of uncollectible accounts are written of against allowance for probable losses only upon the approval by the Bank's board of directors.

5. Bills and Loans

Bills and loans are stated at the principal amount outstanding.

Bills and loans are placed on overdue loans when payments of principal or interest are overdue for six months or if, have performed the relevant legal proceeding, when they are placed on overdue loans the accrual of income is discontinued, subsequent interest payments are credited to income when received.

6. Premises and Equipment

Premises and equipment are stated at cost plus a revaluation increment less accumulated depreciation. Major improvements and renewals are capitalized as cost, and repairs and maintenance are expensed as incurred. Relevant promulgated principle should be applied if impairment has been found. Upon sale or disposal of premises and equipment, the related cost, revaluation increment, accumulated depreciation and accumulated impairment are written off from the books, and any gain or loss is credited to or charged against non-operating income.

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Building	5 - 60	Years
Furniture and fixtures	5 - 15	Years
Transportation equipment	3 - 5	Years
Miscellaneous equipment	3 - 5	Years

When an impairment loss on a specified asset is identified, the related depreciation is recalculated based on the adjusted value over the estimated useful lives.

The residual value of a premises or equipment that is still in use at the end of the original estimated useful life is depreciated using the straight-line method over its revised estimated useful life.

7. Unamortized expenses

Unamortized expenses are amortized by the straight-line method over five years.

8. Foreclosed property

Foreclosed properties are stated at cost. However, when a decline in value of foreclosed properties are considered not recoverable, the allowance for the decline in net realizable value is provided.

9. Asset impairment

Since January 1, 2005, the Bank assesses impairment for all its assets within the scope of R.O.C. SFAS No. 35 "Accounting for Asset Impairment" if indicators for impairment are found. Accordingly, the Bank compares the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and writes down the carrying amount to the recoverable amount where applicable. The recoverable amount is defined as the higher of the net fair value or value in use.

For recognized impairment loss, the Bank assesses, at each balance sheet date, whether there is any evidence indicating that the impairment may no longer exist or may have decreased. If such evidence is found, the Bank re-estimates the recoverable amount of the asset. If the recoverable amount increases, the Bank reverses the recognized impairment loss to the extent of the carrying amount as if no impairment loss had been recognized with respect to such asset.

Impairment loss (reversal) is classified as non-operating loss (income).

10. Employees Pension Plan

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefit payments for each employee are based on such employee's years of service and final average compensation. The Bank has established two employee retirement fund committees to supervise the employees' retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the Bank's financial statements.

The Labor Pension Act of the R.O.C. (the "Act"), which adopts a defined contribution scheme, since July 1, 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis 6% of the employees' monthly wages. The related net pension cost are recorded based on the actual contributions made to the pension funds.

The Bank accounts for employees pension plan adopted the R.O.C. SFAS No.18 "Accounting for pensions", for employees under defined benefit pension plan, which requires actuarial determination of pension assets or obligations. The unrecognized obligation at transition are amortized by the straight-line method over twenty years.

11. Reserves for Possible Losses

Reserve for losses on stock brokerage transactions:

Pursuant to the regulations issued by the Ministry of Finance, a reserve for possible losses on stock brokerage transactions is based on 0.0028% of the amount of total stock traded derived from stock brokerage business until such reserve reached the amount of NT\$200,000 thousand.

Reserve for losses on guarantees:

A reserve is computed within the limit allowed by the relevant laws and regulations based on the balance of guarantees. The reserve is used to cover possible losses on such business.

Reserve for losses on trading securities:

Pursuant to the regulations, 10% of the gain derived from trading securities is reserved for possible loss on trading securities. The reserve can only be used to offset trading losses.

12. Treasury Stock

The treasury stock is stated at the acquisition cost except for the donated treasury stock, which is stated at market value. When the treasury stock is sold, the cost is computed by weighted-average-method, while gain or loss of selling treasury stock is credited to or charged against Capital Reserve. Cost of treasury stock is shown as a deduction to shareholders' equity on the balance sheets.

Since 2002, the Bank accounts for the stocks held by subsidiary companies as treasury stocks.

13. Recognition of Interest Revenue and Service Fees Income

Interest income for loans is recognized on an accrual basis except for loans classified as non-accrual loans. The accrual of income from non-accrual loans is discontinued; subsequent interest payments are credited to income upon collection.

Under the regulations of the Ministry of Finance, the interest income on credits covered by agreements that extend their maturity is recognized upon collection.

Service fees income is recognized when the services are rendered.

14. Income Tax

The Bank adopted the R.O.C. SFAS No. 22 "Accounting for income taxes" for interperiod and intraperiod income tax allocation. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforward and investment tax credits are recognized as deferred tax assets. Valuation allowance for deferred tax assets will be set up for their reliability.

Tax credits generated from acquisitions of certain equipment or technology, research and development expenditure, personnel training expenditure and equity investment acquisition, are recognized in the current period.

Income taxes on undistributed earnings are charged at 10% rate and recorded as expense in the year in which shareholders approve the retention of the earnings.

15. Foreign-currency Transactions

The Bank maintains its accounts at the currencies in which transactions are denominated. Foreign currencies revenues and expenses are recorded in New Taiwan Dollars at the exchange rates prevailing on the transaction dates. At the end of each month, those foreign-currency denominated assets and liabilities other than those using forward foreign exchange contracts to hedge the exposure, are restated at the prevailing exchange rates and the resulting differences are recorded as follows: 1) For long-term equity investments - as cumulative translation adjustment in the shareholders' equity; 2) For other long-term investments - as cumulative translation adjustments in the shareholders' equity if restated New Taiwan dollar amounts are lower than the carrying amount. Otherwise, no adjustment is made; 3) For other assets and liabilities - credited or charged to current income.

16. Derivative Financial Instruments

Forward Contracts

Assets and liabilities arising from trading forward contracts are recorded at the contracted forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited to or charged against income. At balance sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward rate available for the remaining period of each contract and the contracted forward rate are credited to or charged against income. The balances of accounts receivable and payables caused by forward contracts are netted on the balance sheet date, and the differences are treated as an asset or liability.

Currency Swaps

Currency swap for not-trading purpose is by nature a money market instrument. It represents two foreign exchange transactions dealt simultaneously, that is, one spot transaction and a forward transaction with same amount but opposite direction. The difference between spot and forward exchange rates are recorded as prepayment or receive-in-advance on trade date, and amortized into revenue or expense as time decay.

Interest Rate Swaps

Interest rate swaps represents agreements between two parties to exchange periodic interest payments, most often fixed vs. floating, are based on a notional principal amount. The differential to be received or paid is recorded as an adjustment of income.

Options

For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are market-to-market and the gains and losses are recognized in current period. Gains or losses on the exercise of options are recognized in current period.

17. Commitments and Contingent Liabilities

A loss is recognized if it is probable that an asset will be impaired or a liability will be incurred and the amount of loss can be reasonably estimated. Where it is possible that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability in the footnotes to the financial statements.

18. Statements Convenience Translation into US Dollars

The Bank's balance sheets and statements of income are stated in New Taiwan dollars ("NT\$"). Translation of the December 31, 2005 New Taiwan dollar amounts into US dollar amounts is provided solely for the convenience of the readers, using the 10:00 AM buying rate of NT \$32.86 to US\$1, as provided by the Central Bank of China on December 31, 2005. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

III. ACCOUNTING CHANGES

As described in Note IV. 7, effective from January 1, 2005, the Bank recognized the investment income (loss) of Chiao-Fu Real Estate Management Ent. Corp. by equity method at the same corresponding period. Such change in accounting principles increased net loss by NT\$ 608 thousand for the year ended December 31, 2005.

The Bank adopted the R.O.C. SFAS No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets since January 1, 2005. No retroactive adjustment is required under R.O.C. SFAS No. 35. Such change in accounting principles decreased the Bank's premises and equipment and other assets by NT\$ 317,661 thousand and NT\$262,888 thousand, respectively, as of December 31, 2005 and increased the Bank's net loss and loss per share before tax by NT\$ 580,549 thousand and NT\$ 0.49 dollar, respectively, for the year ended December 31, 2005.

IV. BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Cash	\$3,265,531	\$3,144,679
Post-dated checks for clearance	3,098,772	1,535,150
Due from commercial banks	1,572,834	3,532,970
Total	\$7,937,137	\$8,212,799

Due from commercial banks of NT\$492,900 thousand and NT\$476,520 thousand at December 31, 2005 and 2004, respectively, was pledged to other bank as deposit for transaction reserve.

2. DUE FROM THE CENTRAL BANK OF CHINA AND CALL LOANS TO BANKS

	December 31	
	2005	2004
Due from the Central Bank of CHINA		
Deposit reserve account	\$1,798,876	\$1,011,279
General account	4,935,358	4,754,637
Call loans to banks	15,145,542	10,241,194
Total	\$21,879,776	\$16,007,110

3. SECURITIES PURCHASED-NET

	December 31	
	2005	2004
Government and corporate bonds	\$16,780,842	\$8,916,402
Stocks of listed companies and mutual funds	2,781,860	85,197
Certificates of deposit	3,400,000	22,600,000
Total	22,962,702	31,601,599
Less: Allowance for decline in market price of securities	(110,698)	(28,702)
Net	\$22,852,004	\$31,572,897

(1) Securities purchased of NT\$611,600 thousand and NT\$767,700 thousand at December 31, 2005 and 2004, respectively, were placed with other parties as collateral for business reserve and guarantees.

(2) Certificates of deposit account of NT\$900,000 thousand and NT\$4,200,000 thousand at December 31, 2005 and 2004, respectively, was pledged to the Central Bank of China as deposit for business reserve.

(3) As of December 31, 2005 and 2004, certain of the Bank's investments in government and corporate bonds were pledged under repurchase agreements with carrying amount of NT\$841,185 thousand and NT\$2,351,891 thousand, respectively.

4. RECEIVABLES-NET

	December 31	
	2005	2004
Accounts receivable	\$6,133,085	\$9,036,818
Accrued interest receivable	944,747	813,111
Customers' liabilities under acceptances	1,666,172	1,846,034
Tax refundable	446,929	368,090
Others	704,009	568,783
Total	9,894,942	12,632,836
Less: Allowance for doubtful accounts	(91,772)	(156,844)
Net	\$9,803,170	\$12,475,992

5. PREPAYMENTS

	December 31	
	2005	2004
Prepaid expenses	\$27,004	\$27,338
Inter-bank clearing funds	170,065	306,417
Advances	67,107	72,330
Others	151,608	97,525
Total	\$415,784	\$503,610

6. BILLS AND LOANS-NET

	December 31	
	2005	2004
Inward-outward documentary bills purchased	\$2,837,321	\$3,218,891
Discounts	25,890	1,513
Loans	174,553,827	149,677,576
Overdrafts	214,726	421,763
Overdue Loans	3,660,740	9,057,406
Total	181,292,504	162,377,149
Less: Allowance for doubtful accounts	(1,962,724)	(3,011,313)
Net	\$179,329,780	\$159,365,836

(1) Overdue loans, where the accrual of interest ceased, amounted to NT\$3,660,740 thousand and NT\$9,057,406 thousand at December 31, 2005 and 2004, respectively. Unrecognized interests are NT\$172,378 thousand and NT\$571,974 thousand for the years ended December 31, 2005 and 2004, respectively.

(2) The additional information of bills and loans by type of industry and geographic region is shown as Note X.

(3) The following are summaries of the changes in the allowance for doubtful accounts for the years ended December 31, 2005 and 2004, respectively.

	Allocated allowance	Unallocated portion	Total
2005			
Balance, beginning of year	\$1,665,025	\$1,346,288	\$3,011,313
Provision for doubtful account	130,909	-	130,909
Reclassification	1,011,594	(1,011,594)	-
Write-off	(1,474,127)	-	(1,474,127)
Recoveries	289,576	-	289,576
Effects of exchange rates changes	5,053	-	5,053
Balance, end of year	\$1,628,030	\$334,694	\$1,962,724
2004			
Balance, beginning of year	\$4,174,568	\$177,600	\$4,352,168
Provision for doubtful account	1,410,492	1,168,688	2,579,180
Reclassification	217,614	-	217,614
Write-off	(4,387,872)	-	(4,387,872)
Recoveries	258,664	-	258,664
Effects of exchange rates changes	(8,441)	-	(8,441)
Balance, end of year	\$1,665,025	\$1,346,288	\$3,011,313

The Bank's financial statements include allowance for doubtful accounts based on information available to the Bank, including defaults to the extent of which can be determined or estimated. However, any adjustments that might be required when related contingent liabilities become probable or determinable in the future are not included.

7. INVESTMENTS IN EQUITY SECURITIES

December 31

Investees	2005		2004	
	Book Value	Percentage of ownership	Book Value	Percentage of ownership
Investment accounted for under the equity method:				
BOOC Leasing International Co., Ltd.	\$148,232	99.997	\$148,267	99.997
Overseas Chinese Finance Limited.	119,206	100.00	109,042	100.00
Chiao-Fu Real Estate Management Ent. Corp.	12,363	35.00	7,380	35.00
Overseas Chinese Insurance Broker Co., Ltd.	14,962	100.00	10,123	100.00
Comm-Trend Ventures Capital Corp.	18,026	11.36	23,250	11.36
Subtotal	312,789		298,062	
Less: Unrealized losses on long-term investments	(969)		(2,800)	
Net	311,820		295,262	
Investment accounted for under the cost method:				
Chinese Products Promotion Center	925	2.43	925	2.43
China Trust Investment Co., Ltd.	927	0.66	927	0.66
Taiwan Securities Central Depository Co., Ltd.	1,850	0.19	1,850	0.19
Taipei Forex Inc.	6,000	3.03	6,000	3.03
Wallant International Trade Inc.	-	2.50	-	2.50
Dah Chin Bills Finance Corp.	300,000	10.00	300,000	10.00
Taiwan International Merchandise Exchange Corporation	14,000	0.70	14,000	0.70
Yun Ling Cooperative Union	4	-	4	-
Concord IV Venture Capital Co., Ltd.	75,000	4.93	75,000	4.93
Core Pacific World Co., Ltd.	-	-	58,000	5.00
Euroc III Venture Capital Corp.	30,000	5.00	30,000	5.00
Financial Information Service Co., Ltd.	45,500	1.14	45,500	1.14
Debt Instruments Depository and Clearing Co., Ltd. Taiwan	20,000	1.00	20,000	1.00
Subtotal	494,206		552,206	
Total	\$806,026		\$847,468	

(1) Since August 1988, the Bank has 35% of equity interest in Chiao-Fu Real Estate Management Ent. Corp., which accounted for by the equity method and deferred the recognition of investment income (loss) in the following year. Effective from January 1, 2005, the Bank has adopted the amended R.O.C. SFAS No.5, "Long-term Investments in Equity Securities", which recognizing the investment income (loss) at the same corresponding period and recognized the investment loss amounted to NT\$608 thousand for the year ended December 31, 2004, and recognized of investment income amounted to NT\$5,591 thousand for the year ended December 31, 2005.

(2) In 1999, the Bank set up a 100% owned subsidiary, Overseas Chinese Finance Limited. The authorized capital of the subsidiary was HKD\$30,000 thousand, which is accounted for by the equity method.

(3) In April 1999, the Bank set up BOOC Leasing International Co., Ltd., which the authorized capital was NT\$200,000 thousand. The Bank invested NT\$199,994 thousand and held 99.997% ownership in BOOC Leasing International Co., Ltd.

(4) In July 2003, the Bank set up a 100% owned subsidiary, Overseas Chinese Insurance Broker Co., Ltd. The authorized capital of the subsidiary was NT\$8,550 thousand, which is accounted for by the equity method.

(5) Due to the losses incurred by Wallant International Trade Inc., the Bank has fully appropriated the allowance for investment value decline against the original carrying value.

(6) During 2004, the Core Pacific World Co., Ltd., one of the investee, reduced its capital stock and refund to the Bank the investment amounted to NT\$58,000 thousand. The Bank sold residual shares and recognized loss amounted to NT\$9,715 thousand in June 2005.

(7) In September, 2004, the investee of Landmark Venture Capital Corp. resolved to split off and restructure as a new Company, Comm. Trend Ventures Capital Corp., the Bank owned 11.36% (NT\$23,250 thousand) and joint owned more than 20% with its subsidiary, the equity method of accounting was applied. And then in June 2005, the shareholders of Comm-Trend Ventures Capital Corp. resolved to reduce its capital stock and refund to the Bank the investment amounted to NT\$4,185 thousand.

8. OTHER LONG-TERM INVESTMENTS

	December 31	
	2005	2004
Bonds		
Domestic Bonds		
Government Bond	\$1,424,195	\$1,184,350
Corporate Bonds	2,240,739	3,804,937
Financial Institution Bonds	60,000	220,000
Subtotal	3,724,934	5,209,287
Foreign Bonds	2,459,621	2,349,216
Others	300,000	-
Total	\$6,484,555	\$7,558,503

As of December 31, 2005 and 2004, long-term investment in bonds of NT\$0 thousand and NT\$889,504 thousand, respectively, was placed with counter parties as collateral for trading guarantees.

9. PREMISES AND EQUIPMENT

(1) The Bank revalued certain of its premises and equipment in 1976, 1981 and 1994. The revaluation was based on prescribed price indices and multiples in accordance with government regulations. Changes in the revaluation increment up to December 31, 2005 are summarized as follows:

	Gross Revaluation Increment	Estimated Land Increment Tax	Capital Reserve
Revaluation increment in 1976	\$30,313	\$10,451	\$19,862
Revaluation increment in 1981	216,454	55,716	160,738
Revaluation increment in 1994	510,841	318,663	192,178
Capital increase from capital reserve in 1977	-	-	(18,741)
Capital increase from capital reserve in 1982	-	-	(158,928)
Write-off from disposal	(40,623)	(18,247)	(6,336)
Capital increase from capital reserve	-	-	(17,390)
Capital reserves of land value increment tax	-	(131,518)	131,518
Balance at December 31, 2005	\$716,985	\$235,065	\$302,901

(2) According to the amended Land Tax Act effective from February 2005, the tax rate on land value increment was reduced. Therefore, the Bank decreased its reserve for land value increment tax and transferred the same amount to its capital reserve.

(3) No mortgage was made on the Bank's premises and equipment.

(4) As of December 31, 2005 and 2004, the insurance coverage of above-mentioned premises and equipment are NT\$4,100,200 thousand and NT\$4,109,477 thousand, respectively.

10. OTHER ASSETS

	December 31	
	2005	2004
Deferred charges	\$151,064	\$123,591
Refundable deposits	756,822	751,786
Foreclosed property - net	1,703,912	2,603,562
Deferred pension costs	387,256	552,525
Deferred income tax assets-net	893,911	893,911
Unamortized loss on selling of non-performing loans	8,450,180	8,459,821
Others	3,756	335
Total	\$12,346,901	\$13,385,531

In order to mitigate future delinquencies, the Bank entered into certain contract and sold its non-performing loans to COLONY CAPITAL ASIA PACIFIC LTD, TAIWAN ASSET MANAGEMENT CORPORATION, ORIX TAIWAN CORPORATION, and FAREAST ASSET MANAGEMENT CORPORATION, the related loss amounted to NT\$5,142,510 thousand, NT\$4,602,411 thousand and NT\$2,192,459 thousand, for the year 2003, 2004 and 2005, respectively. According to Financial Institutions Merger Act, article 15, the above related loss totaled NT\$11,937,380 thousand will be deferred and then amortized within five years. The amortized loss totaled NT\$2,202,100 thousand and NT\$1,085,100 thousand was recorded as other operating expense during 2005 and 2004, respectively.

11. DUE TO THE CENTRAL BANK OF CHINA AND COMMERCIAL BANKS

	December 31	
	2005	2004
Due to the Central Bank of China	\$16,751	\$13,860
Due to commercial banks	204,233	203,386
Overdrafts from banks	1,253,223	1,005,457
Call loans from banks	1,800,000	-
Total	\$3,274,207	\$1,222,703

12. PAYABLES

	December 31	
	2005	2004
Accounts payable	\$4,076,883	\$3,026,902
Accrued expenses	218,045	315,939
Accrued interest	859,756	770,147
Acceptances	1,737,619	1,862,791
Others	430,747	563,758
Total	\$7,323,050	\$6,539,537

13. DEPOSITS AND REMITTANCES

	December 31	
	2005	2004
Deposits from the Directorate General of Postal Remittances and Saving Banks	\$17,946,459	\$19,533,897
Check deposits	5,431,360	4,444,342
Demand deposits	44,432,390	43,416,956
Time deposits	54,747,657	44,490,829
Savings deposits	117,831,619	116,687,418
Outward remittances	73,475	60,327
Remittances payable	45,958	78,509
Total	\$240,508,918	\$228,712,278

14. BANKER'S ACCEPTANCES AND FUNDS BORROWED

	December 31	
	2005	2004
Borrowed funds-the Central Bank of China	\$207,490	\$179,761

15. BANKER'S DEBENTURE

	December 31	
	2005	2004
Subordinate Banker's debenture	\$4,500,000	\$4,500,000

In September, 2003, the Bank issued six-year subordinate banker's debenture amounting to

NT\$4,500,000 thousand with a floating interest rate of 1.25% plus the average floating interest rate for one-year time saving deposit of Chunghwa Post Co., Ltd. and Bank of Taiwan. The subordinate banker's debenture are repayable at maturity, and the interests are payable semiannually.

16. OTHER LIABILITIES

	December 31	
	2005	2004
Securities sold under repurchase agreements	\$841,185	\$2,532,552
Reserve for land value increment tax	235,065	366,583
Reserve for losses on guarantees	3,353	35,968
Reserve for losses on stock brokerage transactions	-	22,597
Reserve for losses on trading securities	193,374	167,739
Guarantee and margin deposits	417,580	525,296
Others	39,578	37,056
Total	\$1,730,135	\$3,687,791

17. PENSION

(1)The following is a summary of the components of pension expenses for 2005 and 2004:

	December 31	
	2005	2004
Defined benefit pension cost	\$195,754	\$214,159
Defined contribution pension cost	17,541	-
Total	\$213,295	\$214,159

(2)The Bank adopted the R.O.C. SFAS No. 18 "Accounting for pensions" which requires actuarial determination of pension assets or obligations. The following is the reconciliation between the funded status and amounts recognized:

	December 31	
	2005	2004
Pension benefit obligation		
Vested	\$(401,237)	\$(755,206)
Non-vested	(682,821)	(724,380)
Accumulated benefit obligation	(1,084,058)	(1,479,586)
Value of future salary projections	(308,217)	(347,029)
Projected benefit obligation	(1,392,275)	(1,826,615)
Fair value of plan assets	40,899	17,470
Projected benefit obligation in excess of plan assets	(1,351,376)	(1,809,145)
Unrecognized net obligation at transition	624,034	680,764
Unrecognized prior service cost	94,793	103,967
Unrecognized pension (benefit) loss	(23,354)	114,823
Additional minimum pension liability	(387,256)	(552,525)
Accrued pension liability	\$(1,043,159)	\$(1,462,116)

(3)As of December 31, 2005 and 2004, the vested benefit, based on the Bank's pension plan, amounted to NT\$401,237 thousand and NT\$755,206 thousand, respectively.

(4)The major actuarial assumptions used were:

	2005	2004
Discount rate	3.50%	3.50%
Growth rate in compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	3.50%	3.50%

(5)The following is a summary of the components of net pension expenses for 2005 and 2004:

	2005	2004
Service cost	\$74,190	\$88,847
Interest cost	61,986	59,785
Expected return on plan assets	(6,326)	(377)
Amortization of net obligation at transition	65,904	65,904
Net pension expenses	\$195,754	\$214,159

18. CAPITAL STOCK

On January 1, 2004, the Bank had an authorized capital stock of NT \$16,752,000 thousand, divided into 1,675,200 thousand shares at NT \$10 dollars par value, the Bank's outstanding capital stock is amounted to NT\$11,376,000 thousand.

The shareholders of the Bank resolved on April 26, 2003, to increase the Bank's capital stock in the amount of NT\$5,000,000 thousand by issuing 500,000 thousand preferred shares via private auction. However, due to current situation and external factor, the Bank's shareholders' resolved to withdrawn the resolution in their special meeting on October 8, 2004.

The shareholders also resolved at their special meeting on October 8, 2004 to make up its accumulated deficit as of June 30, 2004 totaled NT\$4,674,614 thousand by reducing NT\$4,550,400 thousand of capital stock, and increase 511,920 thousand new shares by cash at NT\$10 dollars per share, after issuing the new shares, the Bank's outstanding capital stock amounted to NT\$11,944,800 thousand. The change of the capital mentioned-above had approved by authority-in-charge.

19. DISTRIBUTION OF RETAINED EARNINGS

The Bank's Articles of Incorporation provides that its annual net income shall be distributed, first, to make up for prior years' losses, if any; and then 30% of the remainder shall be set aside as legal reserve. A special reserve and a dividend may be appropriated, if necessary. If there is any remainder, the following distribution shall apply: extra bonus to shareholders 85%, compensation to directors and supervisors 5%, and bonus to employees 10%, and cash dividends declaration, if any, should not exceed the limit of 15% of paid-in capital, until such retention of legal reserve reached the amount of paid-in capital.

The appropriations of earnings shall be resolved by the shareholders at their annual meeting to be held in the following year and given effect to in the financial statements of that year.

The Company Law stipulate that the Bank must retain part of its annual net income as legal reserve and cash dividends declared, if any, should not exceed the limit of 15% of paid-in

capital, until such retention of legal reserve reached the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reached one-half of the paid-in capital, up to 50% there of may be transferred to capital stock.

In order to prevent an impairment of working capital, based on the regulations of authority-in-charge, a portion of the retained earnings equal to the deduction account of shareholders' equity, if any, becomes unavailable for dividend distribution.

The information regarding 2004 and 2003 of the motion to make up accumulated deficit and resolution of shareholders' meeting were posted on the Market Observation Post System Website.

20. TREASURY STOCK

The Bank's own stocks held by subsidiary companies are treated as treasury stock in accordance with R.O.C. SFAS No.30. As of December 31, 2005 and 2004, the Bank's own stocks held by BOOC Leasing International Co., Ltd. totaled all 516 thousand shares with a carrying value of NT\$3,488 thousand and NT\$3,007 thousand, respectively and market value of NT\$7.64 dollars and NT\$5.83 dollars per share.

21. INCOME TAX

(1)The income tax returns for the years prior to 2001 (except 2000) have been finalized by the tax authorities.

(2)The reconciliation between income tax payable and income tax expense are as follows:

	2005	2004
Income tax payable	\$-	\$-
Prior year income tax adjustments	-	(72,614)
Deferred income tax benefit (expenses):		
Allowance for bad debts	(298,070)	(313,472)
Operating loss carryforward	(69,266)	597,847
Loss on asset impairment	79,415	-
Other income tax benefit	11,831	55,004
Valuation allowance	276,090	(266,765)
Income tax expenses	\$-	\$-

(3)Deferred tax liabilities and assets resulting from the following timing differences:

	December 31	
	2005	2004
a Deductible temporary differences:		
Allowance for bad debts	\$284,840	\$1,477,122
Loss on asset impairment	317,661	-
Others	614,455	575,007
Operating loss carryforwards	\$14,588,967	\$14,866,033
Income tax credit	\$4,732	\$2,763

	2005	2004
↳ Deferred tax assets	\$3,956,213	\$4,232,303
Less: Valuation allowance	(3,062,302)	(3,338,392)
Net	\$893,911	\$893,911

(4)As of December 31, 2005, the Bank unused tax credits was NT\$4,732 thousand, and the expiration year ended of 2009.

(5)As of December 31, 2005 and 2004, the related information of shareholders' deductible income tax is as follows:

	December 31	
	2005	2004
Shareholders' deductible income tax account	\$112,520	\$107,660
Accumulated deficit after 1998	\$(943,725)	\$(160,322)
Creditable ratio for earnings distribution to R.O.C. resident shareholders	-%	-%

22. LOSS PER SHARE

(1)The computation of loss per share is as follows:

	2005	2004
Weighted-average shares(In thousand shares)	1,193,964	1,133,967
Loss before income tax	\$(782,795)	\$(2,502,339)
Income tax	-	-
Cumulative effect of changes in accounting principles	(608)	-
Net loss	\$(783,403)	\$(2,502,339)
Loss per share: (In New Taiwan Dollars)		
Loss before income tax	\$(0.66)	\$(2.21)
Income tax	-	-
Cumulative effect of changes in accounting Principles	-	-
Net loss	\$(0.66)	\$(2.21)

Pro forma information on earnings is set out as follows: (If subsidiaries' investment in Bank is not treated as treasury stock)

	2005	2004
Net Loss	\$(782,922)	\$(2,501,253)
Loss per share (In New Taiwan Dollars)	\$(0.66)	\$(2.21)

(2)Estimated earnings per share after consideration of distribution of employee bonus and compensation to directors as required by the Securities and Futures Bureau:

No change. (For the Bank has accumulated deficit in recent two years).

23. OPERATING EXPENSES

The following is a summary of the components of personnel, depreciation and amortization expenses for the years ended December 31, 2005 and 2004.

	For the years ended December 31,	
	2005	2004
Personnel expenses		
Salary expenses	\$1,438,594	\$1,461,649
Insurance expenses	102,402	96,128
Pension expenses	213,295	214,159
Others	70,604	64,955
Depreciation expenses	158,763	180,405
Amortization expenses	49,914	49,195

V. RELATED PARTIES TRANSACTIONS

1. Name and relation of related parties are as follows:

Name of related parties	Relationship
Chiao-Fu Real Estate Management Ent. Corp.	Investee is accounted for under equity method
Oversens Chinese Insurance Broker Co., Ltd.	Investee is accounted for under equity method
BOOC Leasing International Co., Ltd.	Investee is accounted for under equity method
Overseas Chinese Finance Limited.	Investee is accounted for under equity method
Charity Foundation of Bank of Overseas Chinese Development Fund, Executive Yuan	The Bank is the major sponsor of the foundation
Polaris Securities Co., Ltd.	Director of the Bank
Paohong Investment Co., Ltd.	Director of the Bank
Globe Vision Investment Co., Ltd.	Director of the Bank
The Sherwood Taipei Hotel	Director of the Bank
BOOC's Employee Welfare Committee	Director of the Bank
YuWin Investment Co., Ltd.	Supervisor of the Bank
APEX Investment Co., Ltd.	Supervisor of the Bank
Mike S.E. Chang	Director of the Bank
Michael C.S. Chang	Director of the Bank
William T. Lin	Managing Director of the Bank
Chiao-Fu Real Estate Management Ent. Corp.	Investee is accounted for under equity method
Jack C.Y. Pai	Managing Director of the Bank
Chiao-Hsing Shih	Managing Director and President of the Bank
Chien Wong	Managing Director of the Bank
Wen-Long Lin	Director of the Bank
Gwo Duan Jou	Director of the Bank
Her-Jiun Sheu	Director of the Bank
Chih-Chiang Sheu	Director of the Bank

Name of related parties	Relationship
B.V. Lyou	Director of the Bank
Jui-Fu Liu	Director of the Bank
Long-S-H Tsai	Director of the Bank
Shaing-Hai Tseng	Director of the Bank
Hsiao-Ling Chou	Director of the Bank
Ying-Choung Lee	Director of the Bank
Song-Sing Chen	Supervisor of the Bank
Kuo-Ann Lyou	Standing Supervisor of the Bank
Chia Hua Su	Supervisor of the Bank
Sen-Sen Tsai	Director of the Bank
Others	Certain directors, supervisors, managers and relatives of the Bank

2. Significant account balances and transactions with the related parties are summarized as follows:

(1) Loans and deposits

Account	December 31			
	2005		2004	
	Amount	Percentage	Amount	Percentage
Loans	\$462,982	0.26%	\$105,194	0.07%
Deposits	3,083,969	1.39%	722,747	0.35%

Transactions with related parties are similar to those with third parties dealt with in the ordinary course of business, except for employees have bargain rate for saving accounts and housing loans

(2) Directors or supervisors as guarantees are summarized as follows:

Name	Debtor	Category	Balance
2004			
Kuo-Ann Lyou	Ho Chuan Chang	Medium-term Loan	\$1,316
2004			
Sen-Sen Tsai	Tiang Kuo Chiang	Long-term Secured Loan	\$3,422
Kuo-Ann Lyou	Ho Chuan Chang	Medium-term Loan	1,587

(3) Based on the resolution of Bank's shareholders at their annual meeting on June 10, 2005 to sell its securities division, the Bank entered into a contract with Polaris Securities Co., Ltd. to transfer the operation and assets of its securities division at July 20, 2005, the related transfer prices amounted to NT\$69,000 thousand, and resulted gain amounted to NT\$12,662 thousand

was recognized as non-operating income.

(4) The Bank provided guarantees to its subsidiary-Overseas Chinese Finance Limited amounted to HK\$15,600 thousand as of December 31, 2005.

The Bank present its transaction or account balance with related parties, in the aggregate, except for which represents the amount over certain percentage of account balance.

VI. ASSETS PLEDGED OR MORTGAGED

See Note IV.

VII. CONTINGENT LIABILITIES AND COMMITMENTS

As of December 31, 2005, in addition to Note V.2.(4), the Bank had the following contingent liabilities and commitments, which are not included in the above-mentioned financial statements:

1. Trust, collection and guarantee:

Items	Amount
Securities sold under repurchase agreement	\$841,464
Bills for collection	24,042,799
Commitments to syndicated loan	752,517
Guarantees on duties and contracts	5,508,247
Unused commercial letters of credit	5,873,368
Travelers' checks for sale	458,263
Trust and securities held for safekeeping (included trustee amount of NT\$13,799,137 thousand)	17,190,521
Loan commitments	4,290,525
Credit card lines commitments	82,385,708
Total	\$141,343,412

2. In accordance with S17 of the Trust Laws, the assets and liabilities managed under the Bank's Trust are as follows:

Balance Sheet Based on Trust					
December 31					
	Trust Assets		Trust Liabilities		
	2005	2004	2005	2004	
Trust funds	\$13,799,137	\$8,052,624	Trust liabilities	\$13,799,137	\$8,052,624
Total Assets	\$13,799,137	\$8,052,624	Total Liabilities	\$13,799,137	\$8,052,624

Details of Trust Properties

Item	December 31,	
	Amount	
	2005	2004
Trust funds	\$13,799,137	\$8,052,624

3. The Bank has entered into certain contracts to purchase premises and equipment totaling NT\$149,024 thousand of which prepayments of NT\$74,833 thousand were made.

4. The Bank is a lessee under certain operating lease agreements covering premises and equipment. The future minimum lease payments, for the years subsequent to December 31, 2005 are as follows:

Year	Amount
2006	\$89,701
2007	73,412
2008	34,184
2009	23,742
2010	9,488
Total	\$230,527

5. Derivative Financial Instruments

In a normal course of business, the Bank is a party to a variety of off-balance-sheet and derivative instruments including forward exchange contracts, currency swaps, and interest rate swaps. These financial instruments involve to varying degrees of risks. The related information is as follows:

(1) Notional and Credit Risk Amounts for Derivative Financial Instruments

Derivative Financial Instruments	December 31					
	2005			2004		
	Notional Amount	Credit Risk	Fair Value	Notional Amount	Credit Risk	Fair Value
For Trading Purpose:						
Foreign Exchange Contracts						
Commitments to purchase	\$2,542,248	\$60,451	\$2,497,697	\$2,712,124	\$6,520	\$2,679,291
Commitments to sell	3,410,205	36	3,354,727	1,219,716	14,391	1,211,305
Option contracts						
Buy	621,816	1,150	3,209	148,737	98	201
Sell	102,510	-	129	317,680	-	1,028
For Non-trading purpose						
Currency swaps	21,929,752	-	21,941,906	2,231,534	-	2,231,534
Interest rate swaps	160,000	-	-	1,415,112	42,501	-
Structured deposit	300,000	-	-	-	-	-
Option contracts						
Buy	102,510	31	129	-	-	-
Sell	621,815	-	3,209	142,956	-	192

Credit risk is the possibility of loss from the failure of counterparty to fully perform under the term of a derivative financial instrument.

Foreign exchange contracts constitute agreements to exchange designated currencies at a

specified date at a predetermined price. The Bank enters into foreign exchange contracts to provide foreign exchange to its clients as hedging instruments. All client positions are entered into under the approved credit limits and under the similar policies and procedures used for lending activities to ensure that exposure to all clients is actively monitored and controlled. Certain clients are required to provide collateral, generally cash, before entering into these transactions and as deemed necessary over the lives of the contract to reduce the Bank's credit exposure on these positions.

As of December 31, 2005 and 2004, the maturity dates of outstanding currency swap contacts ranged from four days to six months and from three days to thirty-five days, respectively. The purpose that the Bank deals in currency swap transactions is for managing cash flow. The counterparties that the Bank dealt with are all prestige international banks and all under the credit limits the Bank grant to every counter party. So, the Bank assumes very little credit risks.

Interest rate swaps represent agreements between two parties for the exchange of periodic interest payments, mostly for the fixed vs. floating rate by based on a notional principal amount. As of December 31, 2005 and 2004, the maturity dates of the outstanding interest rate swaps ranged from one year and seven months to two years and nine months and from ten and half months to five years and six months, respectively. The interest rates swaps are the combination of Assets Swaps and Euro Convertible Bonds. As a consequence, the Bank assumes both credit risks of bond issuers and counterparties. The measure of bond issuers' credit risk is the maximum losses, i.e. the principal amount and the put premium; the Bank would suffer if the bond issuers default. However, public-listed companies issue all the Euro Convertible Bonds the Bank purchased and the principal amounts are also under the control of credit limits used in lending activities. For the counterparties' credit risks, the counterparties the Bank dealt with are all rated at least 'A' class by S&P and also approved by the board of director. So, the Bank assumes very limited credit risks in doing interest rate swaps.

For option contracts, represent agreements to exercise of option at a fixed date. The buyer paid premiums to seller to obtain a exercising right of option, then decided to exercise of option whether or not on the due date. The credit risk depends on the buyer and seller, the credit risk of the buyer, when it exercise of option, while the seller did not fulfill an obligation, the maximum loss is the amount of premiums. When the seller requested to fulfill an obligation and the party of gathering premiums, and therefore have no credit risk.

(2) Market Risk

Market risk is the potential loss arising from adverse future changes in market rates and prices, such as interest rate, foreign currency exchange rate, and price of equity securities. As of December 31, 2005 and 2004, the related risk for the Bank's derivative financial instruments is limited to a less extent.

(3) Liquidity Risk, Cash Flow Risk and the Uncertainty of the Future Cash Flow as to the Amount and Period.

The net expected cash flow generated from engaging in varieties of derivative products was

mainly from forward and interest rate swap contracts. The expected cash flow from forward contracts might be affected by exchange rates; however, the expected cash flow from other products was by netting settlement, so the Bank assumed very limited cash flow risk. Besides, the above-mentioned cash flow was uncertain and would be highly affected by the changes of foreign exchange rate and interest rate. The longer the time horizontalizes, the higher the uncertainty it has.

The liquidity of forward exchange contracts that are entered by the Bank with customers could be low. However, the Bank provides this financial instrument to its customers as a hedge instrument and also requires customers to provide the related trading documents to execute the trade. Since the Bank and customers both commit to perform according to the term of forward exchange contract, the liquidity risk of the forward exchange contract would be immaterial. In the meantime, the Bank also enters forward exchange contracts with international financial institutions. The liquidity risk of this type of transaction is very low because it could buy or sell forward exchange contracts at any time on secondary market. There are no liquid secondary market for currency swap and interest rate swap markets; however, transactions that the Bank entered are for hedging purpose, so the Bank assumed very little liquidity risks.

(4) The policies for disclosed gains or losses of derivative financial instruments on financial statements are summarized as follows:

Assets and liabilities arising from trading forward contracts are recorded at the contract forward rate. Upon settlement, gains or losses caused by the difference between the spot rate at the settlement date and the contracted forward rate are credited or charged to income. At balance-sheet date, the gains or losses on outstanding forward contracts arising from the differences between the forward rate available for the remaining period of each contract and the contracted forward rate are credited or charged to income. The balances of account receivable and payable caused by forward contracts are netted on the balance-sheet date, and the difference are treated as an asset or liability.

The assets and liabilities denominated in foreign currency aroused from spot transaction part of currency swaps are recorded as spot exchange rate, and the forward part of currency swap transactions are recorded as forward exchange rate. The differences between spot and forward exchange rates are amortized over the contract period by straight-line method as addition interest income or expenses.

The notional amount is not recorded for interest rate swaps. In the meantime, the differential to be received or paid which was calculated by fixed vs. floating is recorded as adjustment of interest income.

For option contracts, only memo entries of notional principal amounts are made on the contract date. Premiums paid or received are recorded as assets or liabilities. As of the balance sheet date, outstanding option contracts are marked-to-market and the gains and losses are recognized in the current statement of income. Gains and losses on the exercise of options are recognized in current statement of income.

(5) Off-Balance-Sheet Credit Risk

The Bank entered into certain transactions with customers to repurchase or resell securities or short-term notes for business purpose. The Bank also provides a various type of loans and

credit card services. The term for the related loans is various and depends on the credit status of the borrowers. In 2005 and 2004, the interest rates for credit card loans are 19.71% and 14.27%-19.76%, respectively.

The Bank also provides guarantees for loans and commercial letters of credit services. These guarantees represent an irrevocable obligation to pay a third-party beneficiary in the event a customer fails to meet a financial or performance obligation and the dates of guarantees for maturity are not in one particular period.

(6) A summary of the contract amount of each significant class of off-balance-sheet credit related financial instruments outstanding appear in the table below.

	December 31	
	2005	2004
Securities sold under repurchase agreements	\$841,464	\$2,534,753
Loan commitments	4,290,525	4,474,571
Credit card lines commitments	82,385,708	80,818,617
Guarantees and commercial letters of credit	11,381,615	12,874,712

These financial instruments will not fully pay before maturity. Therefore, the total contractual amounts of these contracts does not necessarily represent future cash requirement. The maximum amount of possible losses for the above off-balance-sheet credit related financial instruments approximate to those contractual amounts if borrowers failed to perform according to the terms of the contract and the value of existing collateral became worthless.

The Bank will evaluate customers' credit status when provided securities sold under agreement to repurchase, securities purchased under agreement to resell, loan commitments, and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans and the Bank retains the legal right to foreclose or liquidate the collateral. Generally, these collateral include cash, real estate, securities, or other properties. Credit card lines are not secured and may be cancelled by the Bank after periodically reviewed customers' credit status.

6. As of December 31, 2005, the significant pending legal issue arising from normal business is as followed:

The Bank bought NT\$215,442 thousand of Government Bonds from third party; while Bank of Taiwan claimed that its employees stole those Bonds and then sold to the Bank. In April 2002, Bank of Taiwan submitted a petition to Taipei District Court to claim for the return of NT\$215,442 thousand plus interest derived. This lawsuit is still in the process in the Court. The Bank believes that the effect of this lawsuit was limited and immaterial to its financial statements.

VIII. SIGNIFICANT DISASTER LOSS

None.

IX. SIGNIFICANT SUBSEQUENT EVENT

None.

X. OTHERS

1. Fair Value of Financial Instruments

As of December 31, 2005 and 2004, except for the table summarized below, the carrying amounts of financial assets and liabilities reported on the balance sheets are approximately equal to their carrying values.

Financial Asset	December 31,			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Securities purchased	\$22,852,004	\$23,168,177	\$31,572,897	\$32,171,059
Long-term investments	7,290,581	7,330,343	8,405,971	8,439,620

Fair value amounts of marketable securities and long-term investment were based on quoted market prices, if available. If quoted market prices did not exist, fair values were estimated using book or other financial resources.

2. Concentration Aggregation of Credit Risk

(1) When counterparties of financial instrument transactions are significantly concentrated in one particular person or most of the counterparties perform the similar business or have the similar business characteristic, the Bank is exposed to credit risk while counterparties fail to live up the terms of the contract under certain economic circumstance. The Bank mitigates the above risk by diversifying counterparties and customers. The below table summarizes the above risk by type of industry and geographic region.

	December 31	
	2005	2004
Loan (exclude bill purchase and overdue loans)		
Geographic Region		
Domestic	\$163,742,639	\$141,740,623
South East Asia	2,273,255	1,253,045
North America	1,352,846	1,081,528
Others	7,425,703	6,025,656
Total	\$174,794,443	\$150,100,852
Industry type		
Electronics	\$13,285,457	\$12,106,530
Construction	7,398,686	5,631,403
Others	154,110,300	132,362,919
Total	\$174,794,443	\$150,100,852
Credit card		
Platinum card	\$1,918,888	\$-
Gold card	1,022,745	2,357,141
Regular card	1,754,676	2,308,964
Business card	4,518	5,811
Total	\$4,700,827	\$4,671,916

The amount of possible losses for the above credit related loans approximate to those notional amounts if borrowers failed to perform in accordance with the terms of the contract and the value of existing collateral became worthless.

(2) Maturity analysis of assets and liabilities:

(In thousands of New Taiwan Dollars)

	Due in one month	Due after one month before six months	Due after six months before one year	Due after one year after seven years	Due after seven years	Total
December 31, 2005						
Assets						
Marketable securities-bonds	350,830	1,015,800	2,728,944	11,514,689	1,170,579	16,780,842
Due from and call loans to banks	16,438,376	120,000	160,000	-	-	16,718,376
Bills and loans	16,799,447	47,352,525	13,117,947	51,237,475	46,354,156	174,861,550
Long-term investment-bonds	-	60,005	846,127	4,188,495	1,389,928	6,484,555
Liability						
Due to commercial banks	104,233	100,000	-	-	-	204,233
Time deposits	37,400,957	43,934,026	34,770,734	4,457,000	-	120,562,717
Negotiable certificates of time deposits	1,157,700	1,587,200	1,084,000	-	-	3,828,900
Deposits from the Directorate						
General of Postal Remittances and Savings Banks	2,552,285	5,710,022	9,684,152	-	-	17,946,459
Banker's acceptances and fund borrowed	8,430	8,324	16,326	56,503	117,907	207,490
Banker's debenture	-	-	-	4,500,000	-	4,500,000
December 31, 2004						
Assets						
Marketable securities-bonds	917,251	192,957	158,840	6,533,648	1,113,706	8,916,402
Due from and call loans to banks	12,735,324	278,840	160,000	600,000	-	13,774,164
Bills and loans	17,181,884	33,974,648	15,924,414	43,989,118	39,103,118	150,173,182
Long-term investment-bonds	-	381,216	1,540,717	5,446,975	189,595	7,558,503
Liability						
Due to commercial banks	103,386	100,000	-	-	-	203,386
Time deposits	33,056,829	39,184,910	33,788,576	5,852,024	-	111,882,339
Negotiable certificates of time deposits	1,141,200	1,346,400	1,590,900	-	-	4,078,500
Deposits from the Directorate						
General of Postal Remittances and Savings Banks	2,726,657	6,287,740	10,519,500	-	-	19,533,897
Banker's acceptances and fund borrowed	-	17,886	16,247	81,718	63,910	179,761
Banker's debenture	-	-	-	4,500,000	-	4,500,000

(3) Average balances and average interest rate of interest-earning assets and interest-bearing liabilities

	2005		2004	
	Carrying Value balance	Average rate	Average balance	Average rate
Assets				
Due from banks	\$2,810,025	2.03%	\$3,029,816	1.33%
Call loans to banks	10,088,784	3.09%	4,575,253	1.89%
Due from the Central Bank of China	16,578,594	1.22%	30,773,361	1.21%
Securities purchased-bonds	15,805,390	2.96%	9,136,156	4.54%
Loans	159,127,035	3.38%	151,285,725	3.25%
Long-term investments-bonds	7,203,891	2.96%	3,954,564	2.67%
Liabilities				
Due to banks	204,502	1.46%	221,813	1.30%
Overdrafts from banks	1,040,080	0.05%	1,074,101	0.06%
Call loans from banks	1,456,608	1.33%	280,887	1.03%
Demand deposits	85,663,818	0.76%	84,474,208	0.61%
Time deposits (including negotiable certificates of time deposits)	118,506,040	1.75%	117,472,095	1.43%
Deposits from the Directorate General of Postal Remittances and Savings Banks	18,881,085	1.82%	20,564,528	1.60%
Bankers' acceptances and funds borrowed	78,219	3.78%	1,058,023	1.35%
Banker's debenture	4,500,000	2.80%	4,500,000	2.71%

(4) Regulatory capital ratio

Pursuant to the regulations of Banking Law, the ratio of bank's shareholders' equity to its risk weighted assets shall not be less than 8%; if the said ratio is less than the prescribed ratio, the Bank's power to distribute surplus profits may be restricted by the authority in charge.

The ratio of Bank's shareholders' equity to its risk weighted assets as of December 31, 2005 and 2004 are 8.83% and 10.54%, respectively. The equation to calculate such ratios are listed below:

$$= \frac{\text{Eligible capital} - \text{Deduction item}}{\text{Weighted risk assets} + \text{Capital charges for market risk positions}} \times 12.5$$

XI. SEGMENTS INFORMATION

The Bank's operations all belong to one business segment Banking.

V. Influence on the Bank's Financial Status of Working Capital Problems Encountered by the Bank or Its Related Enterprises During the Most Recent Fiscal Year and Up to Date of Publication of the Annual Report :

None

Financial Conditions and

Operating Results

I. Financial Status

Unit : NT\$1,000

Item	Year		Dec. 31, 2005		Dec. 31, 2004		Increase(Decrease)		explain
	Amount	%(Note 1)	Amount	%(Note 1)	Amount	%(Note 2)			
Due from the Central Bank of China and call loans to banks	21,879,776	8.10	16,007,110	6.19	5,872,666	36.69		Deposits in the Central Bank Deposits in the reserve account increased NT\$800 million; loans to other banks increased NT\$4.9 billion	
Securities purchased-net	22,852,004	8.46	31,572,897	12.21	(8,720,893)	(27.62)		Government bonds and financial debentures increased NT\$7.9 billion; stocks and funds increased NT\$2.7 billion; time certificates of deposit decreased NT\$19.2 billion	
Bills and loans-net	179,329,780	66.38	159,365,836	61.65	19,963,944	12.53		Loans increased NT\$24.9 billion; amounts for collection decreased NT\$5.4 billion	
Due to the Central Bank of China and commercial banks	3,274,207	1.21	1,222,703	0.47	2,051,504	167.78		Overdrafts from other banks increased NT\$200 million; loans; loans from other banks increased NT\$1.8 billion	

Note1 : % represents the same type of ratio in relative reports.

Note2 : % represents the percentage of change calculated from the last year as 100 percent.

II. Analysis of Operating Results

Unit : \$1,000

Item	Year		2005		2004		Increase (Decrease)		Change in %
	Amount	%(Note 1)	Amount	%(Note 1)	Amount	%(Note 1)			
Operating income	9,308,564		8,605,621		702,943			8.17%	
Operating cost	9,610,933		11,224,272		(1,613,339)			(14.37%)	
Operating profit (loss)	(302,369)		(2,618,651)		2,316,282			88.45%	
Non-operating income	133,557		152,348		(18,791)			(12.33%)	
Non-operating expense	613,983		36,036		577,947			1,603.80%	
Loss before income tax	(782,795)		(2,502,339)		1,719,544			68.72%	
Income tax	-		-		-			-	
Accumulated effect of changes in accounting principles	(608)		-		(608)			(100%)	
Net loss	(783,403)		(2,502,339)		1,718,936			(68.69%)	

Analysis of changes in increase/decrease ratios :
After-tax net loss for 2005 amounted to NT\$783,403,000, down NT\$1,718,936,000 from 2004 mainly because of a reduction of NT\$2,350,778,000 in allocations for reserves compared with the previous year.

III. Cash Liquidity

1. Liquidity Analysis for 2004 & 2005

Item	Year	2005	2004	Percentage Increase (Decrease)
Cash Flow Ratio		8.55%	Note	Note
Cash Flow Adequacy Ratio		1,149.10%	2,073.46%	(924.36%)
Cash Reinvestment Ratio		1.20%	Note	Note

Note : The ratio is negative.

Analysis of changes in increase/decrease ratios :

Net cash flow from business activities in 2005 was up from the previous period because of an increase in amortization for losses from the sale of bad debt, and accounts receivable declined, causing the cash flow ratio and cash reinvestment ratio to increase compared with the previous period. In addition, a trend of annual increases in capital spending over the past five years has caused a reduction in the cash flow adequacy ratio.

2. Cash Liquidity Analysis for 2005

Unit : NT\$1,000

Beginning Cash Balance	Estimated Net Operating Cash Flow	Estimated Cash Outflow	Estimated Cash Balance/Shortage	Remedy for Estimated Cash Shortage	
				Investment Project	Financing Project
①	②	③	①+②-③		
7,937,137	3,695,627	1,982,796	9,649,968	-	-

IV. Influence of Major Expenditures on the Bank's Financial Operations During the Most Recent Fiscal Year:None

V. Reinvestment Policy for the Most Recent Fiscal Year, Main Causes of Resulting Profits or Losses, Plans for Improvement, and Investment Plans for the Next Year

The Bank's reinvestment in finance-related enterprises is carried out in coordination with government policy, and its investment in non-financial enterprises, and cross-industry investment, is carried out in consideration of current law and targeted at enterprises that fit in with the Bank's business as well as at cross-industry investment. To enhance the Bank's investment performance, and the reasonableness and necessity of its reinvestment policy, methods of improvement and response are formulated and opportunities to sell shares are sought out under the precondition of profit maximization.

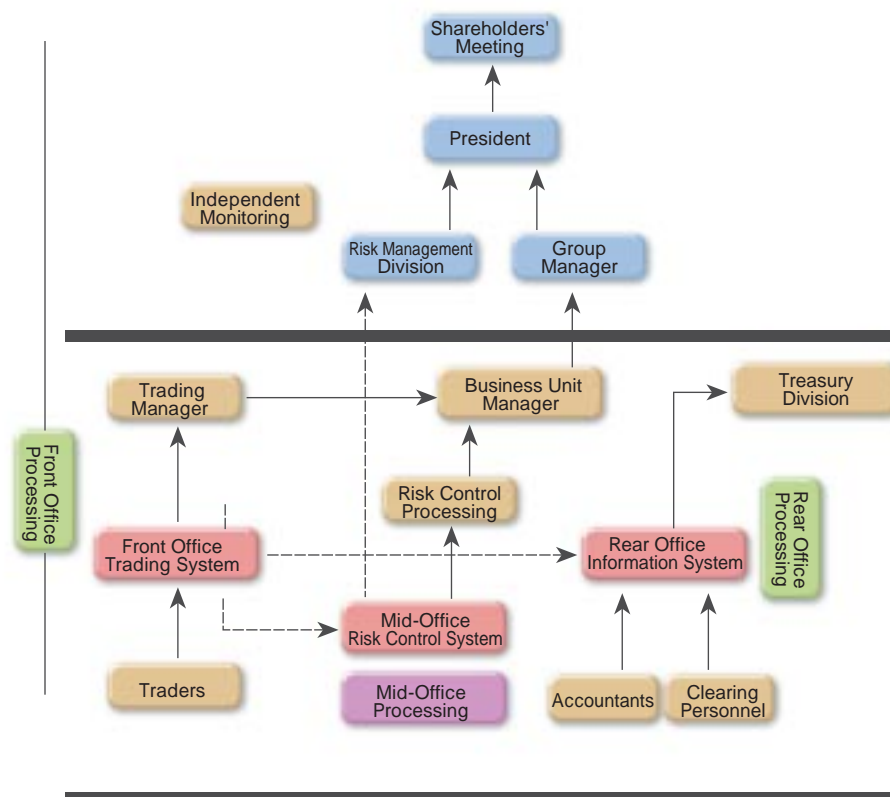
In 2005 the Bank assessed the operating status of the Core Pacific World Co., Ltd., which was performing poorly in terms of return on investment, and, in consideration of the likelihood that it would be difficult to find buyers for its shares in the future, sold all of its shares in that company and recognized an investment loss of NT\$9,715,000. In this way the Bank was able to recover its original investment capital quickly and avoid a continuous expansion of losses on the investment.

Under the stipulations of current laws and its internal management rules, the Bank strengthens the monitoring and management of reinvested enterprises through the regular evaluation of investment performance so as to facilitate follow-up investment and management strategies.

VI. Risk Management

1. Risk Management Organizational Framework and Policy

(1) Organizational Framework of Risk Management



To establish a rational and consistent risk management mechanism, the BOOC has set up a Risk Management Division directly under the supervision of the President, as well as a Risk Management Group within the Bank's headquarters to control and maintain the quality of loan assets and assess loan cases and products.

The Risk Management Division monitors capital adequacy in accordance with the Bank's business scale, credit risk, market risk, and operating risk, as well as future operating trends, and establishes a management mechanism for the measurement and monitoring of liquidity positions in order to measure, monitor, and control liquidity risk. The Division's responsibilities are as follows:

A. Organizes meetings of the Risk Management Committee and related matters, and collates and reports the risk assessment reports of the different business units (including credit risk, liquidity risk, market risk, financial risk, country risk, goodwill risk, legal risk, and operating risk).

B. Credit Risk Management

- a. Credit risk management
 - (a) Maintains a grasp of clients' credit quality through constant review of financial data and industry trends.
 - (b) Maintains systems and models for the estimation of credit risk.
- b. Credit investment portfolio
 - (a) Actively manages the Bank's financial trading and credit positions as well as derivatives trading activities.
 - (b) Manages the potential indirect risks of derivative products.
- c. Policies and strategies
 - (a) Handles independent review, monitoring, and assessment of risk ratings and risk management procedures.
 - (b) Considers, within market risk management, country and trading partner risks as well as asset allocation methods.
- d. Special credit

Actively manages the assessment of commercial risk.
- e. Personal consumption credit risk
 - (a) Gives authorization for and monitors credit risk.
 - (b) Grasps external economic trends so as to predict the risk exposure of clients' portfolios.
 - (c) Clearly expresses government restrictions and directions.

C. Market Risk Management

- a. Market risk management
 - (a) Measures, monitors, and controls the market risk of business units.
 - (b) Defines and establishes authorization limits framework.
 - (c) Monitors continuously.
 - (d) Carries out pressure tests.
 - (e) Expresses market risk factors for new products.
 - (f) Implements risk assessment.
 - (g) Measures country and trading partner risk through the commissioning of credit risk management.
- b. Model measurement
 - (a) Develops measurement and capital allocation methods in market and credit risk management.
 - (b) Tests and authorizes the use of new models, and verifies models annually.
- c. Policy, reporting, and analysis
 - (a) Formulates policy on management processes for controlling market risk.
 - (b) Categorizes, analyzes, and interprets information concerning corporate and market risk.
 - (c) Carries out constant follow-up and monitoring.
 - (d) Carries out management and investor segmentation.

D. Operating Risk Management

- a. Monitoring of operating risk: Analyzes the causes of and losses resulting from operating risk incidents.
- b. Full reporting: Designs models for studying market risk and integrates different risk factors; uses unified platform tools so that when a system platform is completed the model can reinforce data reporting and analysis capability, and improve risk and financial management.

(2) Risk Management Policy

All sorts of innovative financial products have been introduced along with the rapid changes taking place in the financial market and with the intensification of competition in the banking industry, bringing risks to financial companies in more complex forms than were encountered in the past. It is a bank's nature to earn profits from the assumption of risk; the prime task for banks, therefore, is to find a balance between risk and return, and between business development and risk control. Good risk control can reduce to a minimum the impact that a bank must face and bear in the fiercely competitive environment of the future, while inappropriate risk control can lead a bank to extinction. The BOOC follows the rules of the Ministry of Finance and the Bank for International Settlements in evaluating its operating risks, approving risk quotas for different areas of business, and pressing management units to adopt necessary measures to assure the Bank's operating security and improve its operating performance. In addition, the Bank assures the effective implementation of risk management policies by convening meetings of the following evaluation committees on a regular basis so as to determine the effectiveness and shortcomings of risk management and flexibly adjust risk management measures whenever necessary.

- A. Loan Examination Committee: Holds meetings once a week, with the vice president in charge of loans presiding; sets loan policy directions and assesses credit risk of major loans.
- B. Past-Due Loan Examination Committee: Holds meetings each week, with a vice president presiding; examines non-performing loans and loans for collection, formulates NPL policy, and takes care of other matters as directed by higher authorities.
- C. Investment Examination Committee: Holds meetings once a month, with the official in charge of the Wealth Business Group presiding; responsible for reviewing and formulating structural adjustments for the Bank's investment portfolio, mapping out short-, medium-, and long-term investment programs, and carrying out comparative analysis of investment costs and benefits.
- D. Operations and Risk Management Committee: Meets every six months, with the president presiding; integrates risk management systems for various areas of business, formulates operating strategies and guiding principles, and readjusts the Bank's operating and management strategies whenever necessary to reduce operating risk.
- E. Assets and Liabilities Management Committee: Meets once a month, with the president or a designated vice president presiding, to carry out the following tasks:
 - a. Reviews readjustment programs for the Bank's assets and liabilities structure and pricing strategy, and analyzes interest rate, foreign exchange rate, and term sensitivity.

- b. Establishes short-, medium-, and long-term programs for the raising and utilization of funds.
- c. Plans an appropriate level of liquidity, and liquidity structure, to be maintained by the Bank.
- d. Formulates effective utilization measures for New Taiwan Dollar and foreign-currency funds.
- e. Assesses the appropriation of reserves and analyzes the adequacy of the Bank's ratio of capital to risk-based assets.
- f. Carries out capital costs/benefit comparative analysis, and coordinates operating strategies for various areas of business.
- g. Provides guidance for the Bank's funds deployment units in their financial market operations.
- h. Handles other major matters regarding the Bank's assets and liabilities management. If necessary, the Treasury Business Management Division convenes a funds meeting, with the president presiding, to review whether or not to adjust posted interest rates and intra-bank interest rates.

2. Risk Measurement and Control Methods, and Quantitative Exposure Information**(1) Risk Management Targets and Policies****A. Credit Risk**

The Bank's loan policy stipulates internal and external loan targets, loan authorization limits, loan quotas, principles for lending to materially interested parties and for the implementation of loan policy, and principles for delimitation among management units as the Bank's highest guiding principles for the extension of loans. Loan-extension criteria, directions, and authorization rules are established in accordance with this policy to serve as loan-extension standards. In addition, the vice president in charge of loans convenes meetings of the Loan Examination Committee to set loan policy directions, assess credit risk for major loans, and oversee management units in adopting the following essential measures:

- a. Establishment of industry loan quotas
 - The Bank sets quota ratios for loans to major industries by referring to loans to the industries by other financial institutions, and by weighing the bank's room for business growth as well as credit risk. Limiting conditions or notices are established for loans to industries with poor prospects and high risks, and to high-tech industries, the construction industry, building financing, and land financing, which are subject to drastic changes.
- b. Control of loans to affiliated and associated parties
 - Ceilings for total loans and unsecured loans are approved, in consideration of financial status and level of external credit ratings, for affiliated and associated parties whose loan quota reaches NT\$1 billion. Long-term bond investment undertaken by the Treasury Business Management Division and sales projects undertaken by the Trust Division are controlled by inclusion within the risk ceilings.
- c. Diversification of large loan risk
- d. Establishment of industry loan limits

Scheduled announcements are made, for the reference of business units, of industries for which business relations should be strengthened because of their good prospects, and of industries that should be watched closely because of their poor prospects and high risk.

e.Limits on loans secured by stocks and vacant land

The ceiling on the ratio of loans secured by stocks to total loans is set at 5%, and the bank-wide ceiling on stocks used as collateral is set at 10% of the total issued shares of an individual stock-issuing company. Stocks are accepted as collateral in accordance with the BOOC Rules for the Use of Stocks as Collateral.

f.Use of credit rating as a major condition for loans

Except for government loans and other exceptions, normal business relations can be carried on with customers with credit ratings of A1 to A4. For A5 customers, special attention must be devoted to business transactions. No business transactions will, in principle, be carried on with new customers having a credit rating of A6, while the quotas for old A6 customers should be frozen.

g.Attention to post-loan monitoring

B.Operating Risk

To provide customers with high-quality financial services and avoid the risk of direct or indirect losses caused by inappropriate or erroneous human or information system handling internally or by the occurrence of incidents externally, thereby affecting the interests of customers, the Bank has established a compliance officer system and, for the business it undertakes, has set up complete management, internal control, and auditing systems.

The Bank's operating risk is handled as follows:

a.Operating standards

Operating standards and business manuals have been established for different operations and have been published on the Bank's internal website to facilitate reading by employees at any time. The standards are reviewed whenever necessary and revised in regard to potential points of risk.

b.Graded responsibility

Detailed grades of responsibility have been established, clearly setting the scope of responsibility for personnel at different levels.

c.Standardized operating procedures

Standardized operating procedures have been set up to enhance the efficiency and accuracy of operations and lower operating risk.

d.Internal controls

An internal controls system has been established, with control points and firewalls set up for different operations so as to prevent internal malpractice.

e.Auditing and inspection

Self examinations are carried out regularly and auditing units carry out general and special inspections irregularly so as to assure the quality of business.

f.Education and training

Staff skills training has been strengthened to instill a correct working attitude and enhance

professional know-how.

g.Customer service management

Designated units are responsible for customer complaints and for the disposition and reporting of abnormal situations so as to strengthen customer service management and avoid the repeated occurrence of complaints and abnormal situations.

C.Market Risk

a.General market risk procedures for different financial products

Trading units

When a price enquiry is received from a customer, a judgment is made as to whether the current market price is reasonable and the transaction is carried out via telephone or fax; the customer's desires are confirmed, a transaction sheet is printed, and a confirmation document is faxed to the customer.

Clearing units

(a)Transaction and confirmation documents are input into computers for the production of transaction reports.

(b)Establishment and management of contracts are carried out for different financial products.

(c)Unsquarred positions are assessed in regard to market price on a regular basis, and the results of the assessment are submitted to the president.

(d)Exposure analysis is carried out for different financial products, and risk assessment reports are produced and submitted to the president on a regular basis.

Accounting units

(a)Attention is paid as to whether the handling of accounts is done in conformity with accounting principles.

(b)Attention is paid to the influence of off-book items on capital adequacy.

(c)The units are responsible for the recording of accounts.

Auditing units

(a)The rationality of internal controls for trading in different financial products is determined on a scheduled basis.

(b)The conformance of the handling procedures of trading units, clearing units, and accounting units is examined on a scheduled basis.

Ranking officials/president, vice president, or designated ranking official

(a)A ranking official is normally designated as the person authorized to check reports.

(b)When abnormalities appear in market price assessment reports, a report is submitted to the Board of Directors and necessary measures are adopted.

Board of Directors

(a)The Board establishes operating strategies and working procedures.

(b)A ranking manager is designated to pay attention to the exposure of different financial products.

(c)Assessment is made on a scheduled basis of whether the trading performance and risk assumption of different financial products are within the Bank's parameters.

b.Organizational framework of market risk for different financial productsBoard of Directors

- (a) Establishes operating strategies and working procedures.
- (b) Designates ranking officials without trading decision-making responsibility to pay attention at all times to the supervision and control of transaction risk for different financial products.
- (c) Assesses, on a scheduled basis, whether the performance of trading in different financial products conforms to established operating strategies and whether the assumption of risk is within the Bank's permitted parameters.

Ranking manager/president, vice president, or designated authorized person

- (a) Evaluates, on a scheduled basis, whether current risk management procedures are appropriate and whether risk management is carried out according to those procedures.
- (b) When market price assessment reports reveal an abnormality, submits a report to the Board of Directors immediately and adopts necessary countermeasures.
- (c) Checks reports related to trading in different products.

Auditing units

Handles assessment in accordance with the Bank's internal auditing methods

- (a) Scheduled review of the adequacy of internal controls regarding derivatives trading.
- (b) Scheduled review of the compliance of trading units with the bank's procedures and of the consistency of trading certification and contracts, and execution of market price estimation and auditing reports on unlevelled positions.

Accounting units

- (a) Determine, on a scheduled basis, the appropriateness of internal controls on trading in different financial products.
- (b) Direct attention to the affect of off-book items on capital adequacy.
- (c) Examine reports on trading in different financial products.
- (d) Are responsible for the entry of accounts.

Clearing units

- (a) Enter transaction and confirmation documents into the computer, and produce transaction charts; also produce entry slips and reports.
- (b) Sign transaction confirmation documents and safeguard legal contracts and other documents (including ISDA contracts).
- (c) Establish and safeguard transaction contract files.
- (d) Print the results of unsquared position assessment carried out in regard to market price, and submit them to the president for checking.
- (e) Analyze whether risk exposure positions are excessively concentrated in respect to individual product markets, terms, currency, transaction partner, and guarantee funds or collateral.
- (f) Produce effective and timely risk assessment reports and submit them to the president for checking, and provide constant monitoring and management.

c. The scope of the Bank's funds utilization encompasses foreign currency, domestic and overseas securities, asset swaps, and financial derivatives. Market risk includes primarily exchange-rate risk, interest-rate risk, and price risk.

The Bank's strategies for the control of market risk produced by different trading instruments are as follows:

- (a) Risk management methods adopted to improve the utilization of funds, heighten operating revenue, and control exchange-rate risk:
 - (aa) In regard to position limits, ceiling amounts are placed on single transactions by each trader, and on accumulated transaction amounts for individual traders; at the same time, limits are also placed on total position exposure for trading rooms.
 - (bb) In regard to stop-loss stipulations, daily loss ceilings are established for individual traders, and accumulated monthly loss ceilings are placed on trading rooms.
 - (cc) In regard to risk assessment, clearing personnel assess trading position profits or losses according to real-time exchange rates, and submit reports to the manager of the Treasury Business Management Division for checking.
- (b) Investment in domestic and foreign securities: The following risk strategies are adopted to cope with market risk arising from changes in the prices of invested securities:
 - (aa) In regard to investment quotas, in accordance with the rules governing investment in domestic securities the amount of purchases by the domestic securities investment team is limited to a daily quota, while sales are unrestricted. Investment in foreign securities is limited by the competent authority to a ceiling of US\$300 million or the equivalent amount in other currencies.
 - (bb) In regard to stop-loss, for investment in domestic securities stop-loss should be adopted immediately if unrealized losses in an individual stock reach 15%. For investment in foreign securities, when unrealized losses on an individual trade reach 3% of cost or US\$150,000, stop-loss should be adopted immediately.
 - (cc) In the assessment of market price, clearing units use market prices as the basis for scheduled assessments, and submit assessment reports to members of the Investment Deliberation Committee and to the president.
- (c) Stock index futures and options: To cope with market risk resulting from changes in the prices of invested instruments, trading in stock index futures and options is carried out for hedging purposes and the following risk control strategies are adopted:
 - (aa) In regard to trading quotas, the amount of hedging should conform to the rules stipulated by the competent authority: "The hedging position of banks engaging in futures trading should conform to total market value of unsquare positions plus premium of put option and exercise value of selling call option, but is not in excess of the total market value of underlying securities for futures marked at closing price on the previous banking day".
 - (bb) In the assessment of market prices, the clearing units base their daily assessments on prices quoted on the Taiwan Stock Exchange, and produce at least two risk assessment reports per month for submission to the Investment Deliberation Committee and the president.
 - (cc) In stop-loss operations, when losses from investment in stock index futures made for hedging purposes reaches the amount of the original guarantee, stop-loss should be effected.

(d) Asset swaps:

(aa) In regard to trading limits, according to the BOOC regulations governing asset swaps, the amount of transactions with a single trading partner may not exceed NT\$400 million.

(bb) In regard to credit violations, should a credit abnormality or violation occur, a report should be submitted immediately to the Investment Commission and necessary remedial steps taken.

(cc) In regard to market price assessment, market prices provided by trading partners are taken as the basis of assessment, with assessment carried out at least twice a month and assessment reports compiled for the president to check.

(2) Amount to Credit of Risk Assets :

A. Book items—amount of credit risk-based assets

Dec. 31, 2005		
Item	Risk Weighting	Amount of Risk-Based Assets
Debt secured by BOOC CDs	0%	-
Due from local governments	10%	1,174,059
Debt with maturity under 1 year due from banks of non-OECD countries, or debt guaranteed by such banks	20%	6,606,846
Debt secured by residential real estate	50%	29,142,488
Debt due from general enterprises	100%	108,157,712
Total		145,081,105

B. Off-Balance Sheet Item—Credit Risk of Risk Assets

Dec. 31, 2005	
Item	Amount for Risk Assets
General off-balance sheet transactions	6,524,343
Derivatives	429,132
Re-purchase Debt (RP)	35,379
Re-sale Investment (RS)	-
Total	6,988,854

(3) Market Risk Capital Accrual and Amount of Risk Assets

Dec. 31, 2005		
Type of risk	Accrual capital	Amount of Risk Assets
Interest rate risk	474,911	5,936,388
Equity share risk	149,272	1,865,900
Foreign exchange risk	39,483	493,538
Commodity risk	-	-
Options handled by simple method	52,802	660,025
Total	716,468	8,955,850

(4) Maturity Analysis of Assets and Liabilities

A. Analysis of New Taiwan Dollar Maturity Structure

		Dec. 31, 2005					Unit : NT\$1,000
Item	Total	Outstanding Amount by Remaining Time to Maturity					
		1-30Days	31-90Days	91-180Days	181Days-1 Year	Over 1 year	
Major Capital Inflows at Maturity	220,971,888	107,639,067	10,791,443	9,077,211	6,991,048	86,473,119	
Major Capital Inflows at Maturity	210,373,398	74,027,403	11,907,127	82,241,155	26,591,928	15,605,785	
Gap	10,598,490	33,611,664	(1,115,684)	(73,163,944)	(19,600,880)	70,867,334	

Note : This chart contains only those NT Dollar amounts in BOOC headquarters and domestic and overseas branches.

B. Analysis of U.S. Dollar Maturity Structure

		Dec. 31, 2005					Unit : NT\$1,000
Item	Total	Outstanding Amount by Remaining Time to Maturity					
		1-30Days	31-90Days	91-180Days	181Days-1 Year	Over 1 year	
Assets	2,663,802	555,776	172,044	268,666	70,168	1,597,148	
Liabilities	2,641,270	439,839	131,714	749,080	89,152	1,231,485	
Gap	22,532	115,937	40,330	(480,414)	(18,984)	365,663	
Accumulated Gap	22,532	115,937	156,267	(324,147)	(343,131)	22,532	

3. Impact on the BOOC's Financial Business of Major Changes in Domestic and Overseas Policies and Laws, and Countermeasures.

Taiwan's Statement of Accounting Standards No. 34, "Accounting Regulations for Financial Instruments," was implemented in 2006. This Statement mandates major changes in methods of recognition and measurement of financial instruments. In response to the implementation of Statement No. 34 and in conformity with the stipulations of the competent authority, in 2005 the BOOC set up a task force comprised of personnel from related units to make monthly progress reports on its work to the Board of Managing Directors. The task force also calculates profit and loss on investment positions each month in accordance with the stipulations of Statement No. 34, and all investment positions are now recognized and measured under new categories as required by the Statement. The new calculation of profit and loss is similar to that of the original method, so the impact on the Bank is limited.

4. Impact on the BOOC's Financial Business of Changes in Technology and Industry, and Countermeasure :

None

5. Impact of Changes in the BOOC Image on the Bank, and Countermeasures

With the BOOC's successful capital restructuring through the reduction and then increase of capital, and with the sale of bad debt, its asset quality has greatly improved and its credit rating has been upgraded by the Taiwan Ratings Corp. By the end of 2005 the Bank's non-performing-loan (NPL) ratio had fallen to 2.41% and all of its operating indexes were moving in a positive direction. This development has a positive influence in enhancing the Bank's image.

Since the Polaris Financial Group took over the Bank's operation, internal and external resources have been integrated to upgrade operating performance. In addition, a strategic alliance with New York Life Taiwan was announced in October of 2005, and in the future the two partners will engage in a full range of business cooperation from banking insurance to asset management. The BOOC received licenses for 22 new businesses in 2005; and following receipt of a wealth management license in October of 2005, the Bank inaugurated the "Smart FP Polaris Wealth Guidance System"—an online wealth management platform—in January of 2006 to provide investment suggestions by an international-class professional team. The new platform also permits real-time trading online. The BOOC's operating team and its entire staff of employees have taken up their battle positions and, filled with a strong confidence, are devoting their full energies to the promotion of business in order to transform the BOOC and create profit, thereby requiring the support of its shareholders and the general public.

6. Expected Benefits and Potential Risks Resulting from Mergers and Acquisitions :

None.

7. Expected Benefits and Potential Risks Resulting from the Expansion of Business Units :

None.

8. Risks Arising from the Concentration of Business

(1) The risks of concentration of the forex business include the following:

- a. Operating risk: The lengthening of operating time increases the risk of error in document transmission.
- b. Professional risk: The lack of a full understanding of forex operations by business unit personnel leads to the risk of low professional quality.
- c. KYC risk: The reduction in opportunities for operating center personnel to contact customers lowers customer confidence and the sensitivity of related business relations.

Countermeasures:

- a. Strengthening of forex personnel training, and provision of assistance to strengthen their ability to communicate, coordinate, and solve problems.
- b. Implementation of an employee rotation system accompanied by remote back-up measures.

(2) Risks Arising from the Concentration of Financial Trading

Since the Treasury Business Management Division is charged with proprietary trading in various kinds of financial instruments, the risks it faces are comprised mainly of the market risks for those instruments. Market risk is the same as price risk; it refers to the risk of changes in the prices of financial instruments caused by market factors such as changes in interest

rates, stock prices, and forex rates.

Under the Bank's risk control system, the Board of Directors is responsible for approving, and reviewing on a scheduled basis, the operating strategies and important policies for various kinds of trading in financial instruments. The Board of Directors also bears ultimate responsibility for assuring the establishment of an appropriate and effective internal controls system. Managerial-level personnel are responsible for carrying out operating policies and strategies approved by the Board of Directors and developing procedures for distinguishing, measuring, monitoring, and controlling bank risks, establishing appropriate internal control policies, and monitoring their effectiveness and appropriateness. In addition, the Bank strives to maintain the operation of an effective and appropriate internal controls system by establishing a conformance officer system and risk management mechanism in accordance with law so that the unit's business activities conform to external and internal regulations, and so that the unit's risk will be controlled within the scope which the Bank is able to undertake.

The Bank's Auditing Division is subordinate to the Board of Directors as an independently operating unit that carries out its auditing work in a spirit of independence to assure the effective implementation of auditing work and carry out internal auditing in a thorough manner. The Bank also strictly requires its traders to keep their trading within the set limits. Position limits are established for different instruments; stop-loss limits are set for individual traders, and the traders are required to follow stop-loss rules. Risk control personnel carry out market price assessments for all trading positions and report the assessment results for review to a manager, designated by the Board of Directors, who is not responsible for making trading decisions. This is designed to keep risks within acceptable limits.

9. Influence on and Risk to the BOOC by Changes in Operating Rights :

None.

VII. The Crisis Management Mechanism

A Crisis Management Team has been set up in BOOC headquarters:

1. This team, established by the Business Administration Division, consists of one convener (the president) and one deputy convener (the VP in charge of the Headquarters Crisis Management Team, plus a number of other members. When the team is established, the Business Administration Division should designate an assigned person to take charge of the establishment of an independent file for each case, the convening of meetings, and case monitoring and record-keeping, and to be responsible for the timely reporting of progress in handling cases.
2. Whenever a headquarters business unit turns a major crisis incident over to the Headquarters Crisis Management Team, the team should immediately ask for a meeting of its members to discuss countermeasures and come to a conclusion on the case, after which the convener should submit a report to the BOOC chairman.

Status of Corporate Governance Operations

Status of Corporate Governance, Deviations from Corporate Governance Best-Practice Principles for Banks, and Reasons

Item	Operation	Deviations from Corporate Governance Best-Practice Principles for Banks, and Reason
<p>1. Equity Structure and Shareholder Rights</p> <p>(1) Method of handling shareholder suggestions and disputes</p> <p>(2) Grasp of major shareholders with control over the bank and name list of parties with ultimate control of the major shareholders</p> <p>(3) Establishment of risk control mechanism and firewall with associated enterprises</p>	<p>(1) The Bank maintains a Shareholders' Mailbox and hotline, and designated personnel handle shareholder suggestions and explain the results of disposition.</p> <p>(2) The Bank has a full grasp of major shareholders with control over the Bank, and of the name list of parties with ultimate control of the major shareholders.</p> <p>(3) The Bank handles investment or loan relations with associated enterprises with caution through its auditing and verification mechanism and through compliance with law, as well as through its own governing regulations. Loans to materially interested parties are kept within the limits specified in the Banking Law through computer monitoring.</p>	<p>(1) Fully compliant.</p> <p>(2) Fully compliant.</p> <p>(3) Fully compliant.</p>
<p>2. Organization and Responsibilities of the Board of Directors</p> <p>(1) Establishment of independent directors</p> <p>(2) Scheduled assessment of the independence of CPAs</p>	<p>(1) This will be implemented after an implementation plan is drafted.</p> <p>(2) The Bank has assessed its CPAs as having a substantial understanding of the Bank's accounting system; except for coordinating with the CPA office in rotating duties and switching CPAs, therefore, the Bank takes no other action to charge CPAs.</p>	<p>(1) Will be implemented after an implementation plan is drafted.</p> <p>(2) Fully compliant.</p>
<p>3. Organization and Responsibilities of Supervisors</p> <p>(1) Establishment of independent supervisors</p> <p>(2) Status of communication between supervisors and bank employees and shareholders</p>	<p>(1) This will be implemented after an implementation plan is drafted.</p> <p>(2) The Bank maintains an open and convenient complaints channel for communication by employees, supervisors, and shareholders.</p>	<p>(1) Will be implemented after an implementation plan is drafted.</p> <p>(2) Fully compliant.</p>
<p>4. Establishment of Channels of Communication with Materially Interested Parties</p>	<p>The Bank maintains open channels of communication with all materially interested parties</p>	<p>Fully compliant.</p>
<p>5. Disclosure of Information</p> <p>(1) Establishment of a website where information on financial operations and corporate governance is disclosed</p> <p>(2) Use of other means of disclosure (including the establishment of an English website, the appointment of a designated person to handle the collection and disclosure of bank information, implementation of a spokesperson system, and the placing of the proceedings of corporate briefings on the website)</p>	<p>(1) The BOOC's external website: www.booc.com.tw.</p> <p>(2) An operating system for the reporting of public information on the Web has been established and placed under the charge of a specially designated unit so as to enhance the accuracy and timeliness of information disclosure. A spokesperson system has also been established for the timely and proper disclosure of information.</p>	<p>(1) Fully compliant.</p> <p>(2) Fully compliant.</p>
<p>6. Operation of Auditing and Other Functional Committees</p>	<p>The Bank has established a Loan Deliberation Committee, Over-due Loan Deliberation Committee, Investment Deliberation Committee, Assets and Liabilities Management Committee, Business Management Committee, and Risk Management Committee, comprised of the president, vice presidents in charge of the areas concerned, and heads of relevant units. Major strategies and bank affairs are implemented following discussion by the committees.</p>	<p>The Bank has not yet set up an auditing committee; however, major directions, strategies, and bank affairs are carried out in accordance with resolutions reached by the Board of Managing Directors, Board of Directors, and the committees listed at left.</p>
<p>7. Explain the status of your bank's corporate governance and its deviation from Corporate Governance Best-Practice Principles for Banks, and reasons for same</p>		
<p>8. Describe the systems and measures adopted by the Bank in regard to social responsibility (including human rights, employee rights, environmental protection, community participation, supply-chain relations, oversight and materially interested party rights), and status of social responsibility fulfillment. All of the Bank's personnel policies are based on the precondition of employee welfare, and the rights of current employees are fully protected.</p> <p>9. Other important information that will aid in understanding the status of your bank's corporate governance (such as further education for directors and supervisors, attendance of directors and supervisors at Board of Directors meetings, risk management policy and implementation of risk measurement standards, implementation of consumer and customer protection policy, withdrawal of directors from issues in which they are materially interested, procurement by the bank of liability insurance for directors and supervisors, and social responsibility):</p> <p>(1) Further education for directors and supervisors: The Bank submits monthly reports on this and publishes them on its public website.</p> <p>(2) Attendance of directors and supervisors at Board of Directors meetings: The record of directors' and supervisors' attendance at Board of Directors meetings is excellent.</p> <p>(3) Implementation of risk management policy and risk measurement standards: For details on implementation of the Bank's risk management policy and risk measurement standards, see the explanation on pages 92 through 103.</p> <p>(4) Implementation of consumer and customer protection policy: The BOOC's Credit Card Division maintains a 24-hour customer service hotline, (02) 2311-8365, as well as another service hotline, 0800-058-365, to handle customer complaints.</p> <p>(5) Withdrawal of directors from cases in which they are materially interested: The Bank's directors all have the realization that they must withdraw from cases in which they are materially interested.</p> <p>(6) Procurement by the Bank of liability insurance for directors and supervisors: The Bank has taken care of liability insurance and related matters for its directors and supervisors.</p> <p>(7) Social responsibility: The BOOC has always strongly emphasized social responsibility; the Charity Foundation of BOOC works on the principle of paying back to society, and, in pursuit of the objectives of "compassion, benevolence, service, and sacrifice," participates each year in blood drives and other social-benefit activities.</p>		

Special Note

I. Statement of Internal Controls


Statement of Internal Controls System Bank of Overseas Chinese


On behalf of the Bank of Overseas Chinese, we declare that during the period of Jan. 1, 2005 through Dec. 31, 2005 the Bank did, in fact, comply with the provisions of the "Implementation Rules for Banks' Internal Control and Auditing Systems" by establishing an internal controls system and carrying out risk management, and by having its auditing carried out by an impartial and independent auditing unit, with reports submitted on a regular basis to the Board of Directors and Supervisors. In its operation of the securities business, the Bank assessed the effectiveness of the design and implementation of its internal controls system in accordance with the items for judgment of the effectiveness of internal controls systems as contained in the "Guidelines for the Establishment of Internal Controls Systems by Securities and Futures Enterprises" as promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission. Careful assessment shows that with the exception of the items listed in the accompanying chart, the Bank's units did effectively carry out internal controls and legal compliance during the period. This Statement of Internal Controls will become an important part of the Bank's Annual Report and its public announcements, and will be made public. Any fraudulence, undisclosed items, or illegality in the public content described above will incur legal responsibility under Articles 20, 32, 171, and 174 of the Securities Transaction Law.

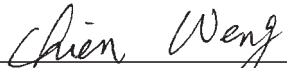
Submitted to the Financial Supervisory Commission, Executive Yuan.

Attestor: Bank of Overseas Chinese

 , Chairman

 , President

 , General Auditor

 , Group Compliance Officer

Mar. 13, 2006

Points for Strengthening in the BOOC's Internal Controls System, and Improvement Plans

Base date: Dec. 31, 2005

Points to be Strengthened	Improvement Measures	Estimated Time of Completion
1.The amount of collateral taken over by the Bank is too large, and influences capital liquidity. Improvements are being actively undertaken	1.Disposition of collateral taken over by the Bank is handled centrally by the Non-Performing Assets Management Division. The status of disposition is reported monthly and disposition plans are reviewed and revised. Preliminary improvement has been made. 2.If there is no progress in the Bank's own disposition efforts, the assets are disposed of through public tender. If this is ineffective, the sale is handled through brokers or bank auction houses.	End of 2006 End of 2006
2.The Bank plans capital increments or the issuance of subordinated debentures to improve the financial structure and raise the BIS ratio.	While the self-owned capital ratio and risk assets ratio calculated by the Bank itself conform to the legal requirement, the Bank moves to improve its financial structure by carrying out capital increments or the issuance of subordinated debentures, in accordance with changes in the capital market and the Bank's business development, so as to heighten the Bank's ratio of self-owned capital.	
3.The Bank's ratio of conversion of old home loans to index-type home loans is lower than that of the average in the banking industry, whether calculated by number of loans or by total amount. The Bank is boosting the rate of conversion.	To speed up conversion, the Bank will focus first on borrowers of more than NT\$1 million and notify them by telephone or by mail, asking them to convert their loans as quickly as possible and offering such incentives as exemption from conversion fees or a reduction in interest rates.	A conversion ratio higher than the average in the banking industry is expected to be achieved in 2006.
4.Real estate owned by the Bank and leased or used by the Bank itself, and listed as cost, exceeds the legally stipulated ratio to net worth of 20%. The Bank will continue improving.	The Bank has planned to sell idle assets, or convert them to a training center or use them for file storage.	Planning is expected to be completed in May 2006, whereupon the ratio of book value of the Bank's real estate that is not used by the Bank itself to the Bank's net worth will fall to within 20%.
5.The Bank is moving to improve the quality of price-estimation tools used for investment in domestic securities and to handle the "New Taiwan Dollar Conversion of Corporate Bond Assets Business."	The Bank purchased a conversion price estimation system for New Taiwan Dollar conversion of corporate bond assets from an IT company in September of 2005, and the supplier is now testing the system.	March 2006
6.The current center server cannot meet the need for the resumption of information operations following damage to the server, and no remote back-up measures are in place. This will be improved in line with the information re-engineering project.	Coordination with the overall work of the information improvement engineering project is still under formulation.	Action will be taken once a concrete re-engineering plan is mapped out.

II. Legal Violations Resulting in Punishment and Major Deficiencies During the Past Two Years, and Status of Improvement

Case	Summary and Amount
Violations committed during the past two years by officials and employees, resulting in indictments	None
Violations of law resulting in fines imposed by the Ministry of Finance during the past two years	According to Tai Cai Rong (Er) Zih Document No. 0938010509, dated Apr. 7, 2004: In soliciting Wang × × as a home-loan customer, the BOOC Hua Chung Branch, without his permission, obtained his credit information file from the Joint Credit Information Center in violation of Article 18 of the Computer Processed Personal Protection Law. A fine of NT\$20,000 was imposed on the chairman of BOOC in accordance with Article 38 of the Act. According to Financial Supervisory Commission Jin Guan Yin (Er) Zih Document No. 932000927, dated Sep. 21, 2004: The Bank's Sep. 10, 2003 investment in the Polaris Global Long-Short Strategy Principle Guaranteed Fund issued by the × × Investment Trust Co. violated Point 4 of the "Categories and Amounts for Investment in Securities by Commercial Banks" as contained in Article 74-1 of the Banking Law. A fine of NT\$1 million was imposed on the Bank.
Deficiencies resulting in severe disciplinary action by the Ministry of Finance during the past two years	None
Security incidents occurring during the past two years as a result of staff malpractice, major unexpected incidents, or failure to observe the Guidelines for the Maintenance of Security in Financial Institutions, the actual losses from which exceeded NT\$50 million during one or both of the years	None
Other matters designated by the Ministry of Finance for exposure	None

Booc Headquarters Offices and Branches Network

NAME	ADDRESS	TEL NO.	FAX NO.
Head Office & Business Division	#8 Hsiang Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23715181	+886-2-23814056
Overseas Chinese Service Division	2F, #8, Hsiang Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23715181	+886-2-23814056
Offshore Banking Branch	8F, #8, Hsiang Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23715181	+886-2-23895073
Securities Division	2F, #102, Heng Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23113348	+886-2-23112961
Credit Card Division	15F, #228, Sec.2, Chung Shan Rd., Chung Ho City, Taipei Hsien, Taiwan 235 R.O.C.	+886-2-82411166	+886-2-82411260
Fu Hsing Branch	#1 Fu Hsing North Rd., Taipei, Taiwan 100 R.O.C.	+886-2-27514092	+886-2-27752584
Trust Division	4F, #102, Heng Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23113348	+886-2-23112961
International Operations Division	8F, #8, Hsiang Yang Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23715181	+886-2-23832248
Keelung Branch	#132, Hsin-1 Rd., Taipei, Taiwan 201 R.O.C.	+886-2-24241231-5	+886-2-24274623
Lo Tung Branch	#42, Chung Cheng North Rd., Lo Tung Chen, Hlan Hsien., Taipei, Taiwan 103 R.O.C.	+886-3-9566166	+886-3-9566128
Taipei Branch	#67, Sec.1, Chung Ching North Rd., Taipei, Taiwan 265 R.O.C.	+886-2-2558566-7	+886-2-25588421
Chung Shan Branch	#133, Sec.2, Chung Shan North Rd., Taipei, Taiwan 104 R.O.C.	+886-2-25316331-4	+886-2-25631402
Shyh Lin Branch	#281, Sec.4, Cheng Te Rd., Taipei, Taiwan 111 R.O.C.	+886-2-28823720	+886-2-28823729
East District Branch	#24, Chi Lin Rd., Taipei, Taiwan 104 R.O.C.	+886-2-25219950-9	+886-2-25511509
Sung Shan Branch	#3, Sec.5, Nanking East Rd., Taipei, Taiwan 105 R.O.C.	+886-2-27530321	+886-2-27530320
Ta An Branch	#333, Sec.2, Tun Hwa South Rd., Taipei, Taiwan 106 R.O.C.	+886-2-27323188	+886-2-27380146
Min Shen Branch	#74, Sec.3, Min Chun East Rd., Taipei, Taiwan 105 R.O.C.	+886-2-25030077	+886-2-25033326
Chung Hsiao Branch	#61, Sun Teh Rd., Taipei, Taiwan 110 R.O.C.	+886-2-27591616	+886-2-27274718
Chung Cheng Branch	#158, Sec.1, Hsin Sheng Rd., Taipei, Taiwan 100 R.O.C.	+886-2-23975726	+886-2-23576720
Tun Hwa Branch	#376, Sec.1, Tun Hwa South Rd., Taipei, Taiwan 106 R.O.C.	+886-2-27007799	+886-2-27047579
Neihu Branch	7F #5, 22 Lane 513 Sec., Ruelguang Rd., Taipei, Taiwan 114 R.O.C.	+886-2-26599008	+886-2-26599018
Nan Kang Branch	#29-3, Hsing, Tung St., Taipei, Taiwan 115 R.O.C.	+886-2-26537890	+886-2-26536213
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Chung Ho Branch	#172, Jian-I Rd., Chung Ho City, Taipei Hsien, Taiwan 235 R.O.C.	+886-2-82265698	+886-2-82265695
Hua Chung Branch	1F-3, #228, Sec.2, Chung Shan Rd., Chung Ho City, Taipei Hsien, Taiwan 235 R.O.C.	+886-2-82411166	+886-2-82411244
Pan Chiao Branch	#26, Chu Yung Rd., Pan Chiao City, Taipei Hsien, Taiwan 220 R.O.C.	+886-2-29561188	+886-2-29614552
Shu Lin Branch	#153, Sec.1, Chung Shan Rd., Taipei Hsien, Taiwan 238 R.O.C.	+886-2-26759668	+886-2-26759633
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Feng Yuan Branch	#13, Feng Chung Rd., Feng Chung City, Taichung Hsien, Taiwan 420 R.O.C.	+886-4-25276111	+886-4-25276306
Taichung Branch	#428, Sec.1, Taichung Kang Rd., Taichung, Taiwan 403 R.O.C.	+886-4-23131861	+886-4-23139410
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