



第一金融集團

第一銀行

First Commercial Bank

2005 ANNUAL REPORT

第一銀行 · First Bank

第一銀行 · First Bank



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## **First Commercial Bank**

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## **Spokesperson**

Mr. Po-Chiao Chou

Executive Vice President

## **Auditor Report**

PricewaterhouseCoopers

Tel: 886-2-2729-6666

## **Rating Agency**

Taiwan Ratings Corp.

Tel: 886-2-8722-5800

## Highlights

(in millions)	12.31.2005 NTD	12.31.2004 NTD	12.31.2005 USD
<b>Major financial data at year end</b>			
Total assets	<b>1,501,047</b>	1,462,211	<b>45,680</b>
Loans, bills purchased and discounted	<b>890,573</b>	841,739	<b>27,102</b>
Deposits and remittances	<b>1,187,301</b>	1,152,808	<b>36,132</b>
Common stock	<b>46,216</b>	46,216	<b>1,406</b>
Stockholders' equity	<b>76,843</b>	67,618	<b>2,338</b>
<b>Operating results</b>			
Total revenue	<b>51,501</b>	48,456	<b>1,567</b>
Total expenses	<b>37,900</b>	36,454	<b>1,153</b>
Pre-tax income	<b>13,601</b>	12,002	<b>414</b>
Income tax	<b>3,382</b>	2,035	<b>103</b>
Net income	<b>10,219</b>	9,967	<b>311</b>
<b>Capital adequacy ratio</b>			
BIS capital ratio	<b>10.29%</b>	10.37%	
<b>World rank</b>			
The Banker - by tier 1 capital (12/04)	<b>236</b>	248	
The Banker - by total assets (12/04)	<b>196</b>	189	
<b>Distribution network</b>			
Domestic full/mini/sub-branches	<b>179/6/11</b>	173/6/13	
Overseas branches/rep. offices/OBU	<b>12/3/1</b>	12/3/1	
First Commercial Bank (USA)	<b>1 main office and 4 branches</b>	1 main office and 3 branches	
<b>Number of employees</b>			
	<b>7,192</b>	6,916	

\*NT\$32.86:US\$1.00

## History

First Commercial Bank is one of the largest and oldest financial institutions in Taiwan. The Bank celebrated its 100th anniversary on November 26, 1999.

In coordination with the government's financial liberalization policy, the Bank was privatized on January 22, 1998, making it among the biggest private banks in Taiwan.

- 1899 Savings Bank of Taiwan established
- 1912 Merged with Commercial and Industrial Bank of Taiwan (est. 1910)
- 1923 Merged with Chia-I Bank (est. 1905) and Hsin-Kao Bank (est. 1916)
- 1945 Reversion of Taiwan from Japanese Governance
- 1949 The Bank was renamed First Commercial Bank of Taiwan
- 1967 The Bank started international business
- 1976 The Bank's name was shortened to First Commercial Bank
- 1998 The Bank was privatized
- 1999 Centennial Anniversary
- 2003 First Financial Holding Co. established; The Bank transformed to be a wholly owned subsidiary of FFHC
- 2004 A new corporate structure created due to the organizational reshaping

# Message to Our Shareholders



Michael, C.S. Chang  
Chairman of the Board

## Business Report for 2005

### *Overview of Financial Industry of Taiwan*

Despite the slow growth of the global economy caused by rising international prices of raw materials and petroleum, plus the pressure brought on by the successive interest rate hikes instituted in most countries to prevent a deterioration of the inflation problem, the worldwide economy continued to expand at a moderate rate in 2005. In Taiwan, the economic growth rate slipped somewhat compared with 2004; but with the ongoing implementation of the government's financial reform programs, the financial situation stabilized and by the end of 2005 the loans outstanding amount by major financial institutions jumped 8.04% over the end of 2004. Also, the broadly defined NPL ratio in the banking industry had dropped to 2.24%, reflecting the continued improvement of the NPL situation and the increasing transparency of assets.

The Central Bank hiked the rediscount rate several times in succession, but with an abundance of capital in the market, the NT dollar interest rates rose only moderately. This factor, plus the constant severe competition in the banking industry, made it difficult to widen the spread of interest rates in a short time and hard for the banks to generate more profits. However, thanks to the improvement in asset quality and the cross-sale framework built in financial sector, the profitability of domestic financial institutions bottomed out. Nevertheless, profit growth among the island's local banks was dragged down by the institution of a new reserve system in the last half of 2005 as well as changes in NPL standards. Furthermore, cash- and credit-card turmoil affected the profitability of banks that concentrate primarily on consumer finance, so that no substantial improvement in operating performance was experienced in the overall banking industry.



**Long-I Liao**  
President

According to data published by the Financial Supervisory Commission, the average return on assets (ROA) of Taiwanese banks slipped from 0.63% in 2004 to 0.3% in 2005, and the average return on equity (ROE) dropped from 10.3% to 4.81%.

Thanks to the support and cooperation of our shareholders, our customers, and our entire staff, the Bank was able to maintain an appropriate level of performance in its various business despite the adjusting period of the Bank's organizational restructuring, and to achieve its profit target in 2005. As we continue to readjust our organization and gradually achieve normality, we can look forward to brighter times for our business operations. The Bank's organizational restructuring, results of operating strategies, budget implementation, profitability, and research & development efforts for 2005 are described below:

### ***Performance of the Bank***

## **Organizational Restructuring**

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The Bank followed up the overall corporate restructuring carried out in 2004 by first standardizing the business units and functional centers into seven large regional centers designed to facilitate the unification of loan policy and improve the efficiency of administrative communication. The work force was streamlined and the professionalism of employees upgraded by centralizing and optimizing loan review and collection operations. Under the new organizational framework, professional marketing personnel are able to concentrate on sales and the deepening of customer relations, and to cooperate with support from the strong back-office team in carrying out business development through a division of labor and the common strive toward sustainable operations and the continued achievement of a good profit performance.

## Implementation of Operating Strategies

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### ***Development of New Products***

New products such as "FCB Overseas Fund Collective Management Account", "Your Needs Card", "Motive Card" and "Mail Cash Advance" were developed; "Trustee Service for Proceeds from Building Bulk Dealing", "Factoring", "National Home Loan", and "Second Mortgage Loan" were launched; and the Bank actively pursued opportunities to be the lead bank for syndicated loans in order to increase fee income.

### ***Reinforcement of Brand Image for Wealth Management***

A VIP Wealth Management Center was set up and the Bank's "First Wealth Management" brand was inaugurated. Investment seminars were held on a regular basis to increase customer satisfaction and recognition, and thus to facilitate sales and develop new customer sources.

### ***Deployment of Bases Overseas and Development of Cross-Straits Businesses***

To carry out an overall reinforcement of overseas channels, Arcadia Branch, First Commercial Bank (USA) was established in the United States and an application was submitted to upgrade the Hanoi Representative Office into a full branch; in addition, an overseas branch e-banking system was set up to strengthen electronic service performance and business development capability. Further, the Bank has established correspondent relationships with four government-owned banks, ten incorporated banks, and five city commercial banks, etc. in mainland China, providing a total of 782 correspondent banking network in response to the burgeoning cross-straits economic and trade relations. In addition, the cross-straits marketing team was consolidated and expanded in an all-out effort to develop business in the Greater China area.

### ***Centralization of Back-Office Operations***

The Bank has promoted the centralization of such operations as check collection, remittance, check clearing, and other operations, deposit and remittance operating processes were improved, online banking tax and fee payment service was developed, online application of Internet banking enquiry service with IC bank cards was added, and eATM service was expanded to reinforce the electronic business function so as to facilitate the enhancement of overall operating efficiency.

### ***Strengthening of Risk Management***

In line with the Basel II risk management requirement, the Bank has continued and established the credit, market, and operating risk management tools in order to further strengthen the monitoring and management of different kinds of risk. The Bank's broadly defined NPL ratio at the end of 2005 was 1.72%, the coverage ratio was 52.37%, and asset quality was higher than the average in the banking industry.

### ***Research & Development***

The Bank responded to the changes taking place in the economic and financial situations and to the needs of banking industry development in 2005 by completing a number of research reports related to banking operations and business development. The depth, breadth, applicability, and timeliness of these

research results all evidenced improvement over the past, and the industrial and economic information in the Bank's databanks also showed greater abundance and diversity.

## Growth and Profitability

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- ▶ The average deposits were NT\$1,103,023 million, a target of 99.86% and an increase of NT\$30,517 million over 2004 or a growth of 2.85%.
- ▶ The average loans were NT\$829,111 million, a target of 92.58% and a decrease of NT\$7,806 million from 2004 or a decline of 0.93%.
- ▶ The foreign trade finance totaled US\$173,955 million, and achievement of 116.6%, this amount was up US\$24,230 million over 2004 or a growth of 16.18%.
- ▶ The sale of funds (including domestic and overseas funds, plus overseas securities) reached NT\$223,419 million, an achievement of 78% and an increase of NT\$7,941 million over 2004, a growth of 3.69%.
- ▶ Custodian funds amounted to NT\$259,977 million, reached a target of 61%, a deduction of NT\$9,651 million from 2004 or a decline of 27%, due to the influence of structure notes on domestic bond funds.
- ▶ Revenue and expenses totaled respectively NT\$51,501 million and NT\$37,900 million, yielding a pre-tax income of NT\$13,601 million, a target of 100.71%.

## Business Plans for 2006

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There will be no change in the strength of global economic growth in 2006, and the rate of Taiwan's economic growth for the year is expected to rise above 4%, continuing expanding at a stable pace with. With the improvement in the quality of bank assets, profitability is expected to increase. The Bank will continue with its organizational reengineering program to strengthen its organizational advantage even further, and will strive to optimize business processes and establish a performance orientation with a service culture that puts the customer first. Also among the key tasks in the Bank's operations in 2006 will be to seek strategic alliance partners that excel in asset management and actively search out financial innovative personnel, to devote full efforts to the development of the wealth management business, and to build up an outstanding financial management service platform that leads the industry.

In the face of the intensely competitive market environment, it is not enough just to provide a full spectrum of financial services. We must also continue to enhance our risk management and internal control capabilities, consolidate our already good asset quality, and devote our full efforts to achieving the budget targets.

## *Economic Outlook and Business Targets*

- ▶ Average deposits: NT\$1,143,232 million
- ▶ Average outstanding loans: NT\$905,000 million
- ▶ Foreign trade finance: US\$178,701 million

## Operating Strategies and Directions

- ▶ Enhanced integration of marketing capability and reinforcement of branch marketing capabilities as well as sales discipline, thereby manifesting the overall organizational operating capacity and further upgrading service efficiency.
- ▶ Continued promotion of operation optimization and implementation of branch business process reengineering, the switch from teller to ATM and e-banking services, and centralization of back-office operations, as well as introduction of core information systems so as to enhance working and service efficiency.
- ▶ Continued strengthening of the growth of key products such as trade finance related corporate loans, SME's loans and factoring, so as to improve the Bank's profitability.
- ▶ Focus on cross-straits business opportunities by upgrading overseas branch (especially the Hong Kong Branch) personnel and branch marketing capabilities to promote the Bank into the ideal funds-management partner for Taiwanese companies.
- ▶ Introduction of a credit-rating model and systemic-level planning in line with Basel II so as to reinforce the Bank's risk-management function, maintain a high quality of assets, and lay down a solid foundation for the stable growth of profits in the future.

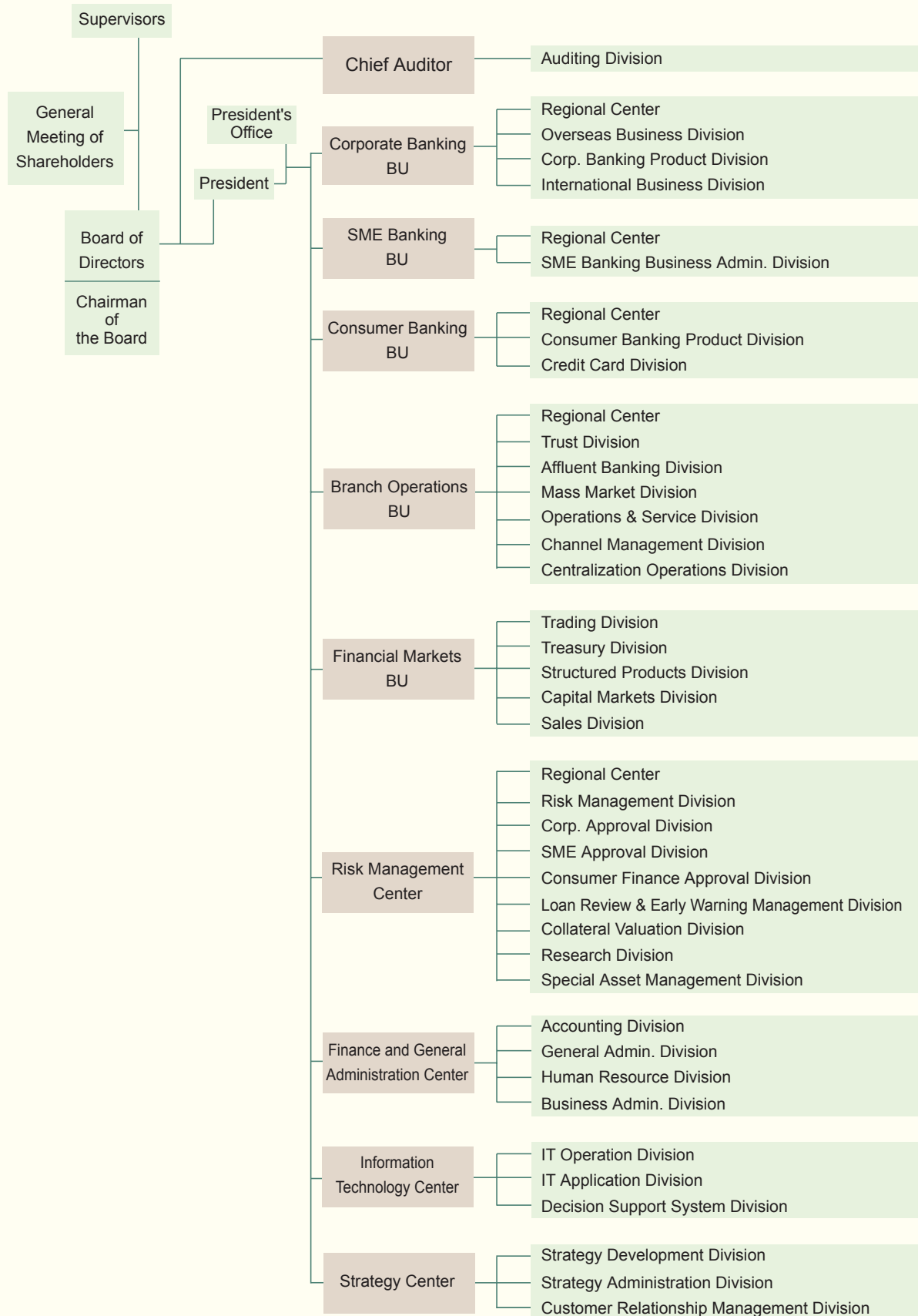
## Credit-rating Results

Rating Co.	Published Date	LT	ST	Outlook
Fitch	March 2005	BBB+	F2	Stable
Taiwan Ratings Co.	July 2005	twAA-	twA-1	Stable
Moody's	September 2005	A3	P-1	Stable
Standard & Poor's	September 2005	BBB+	A-2	Stable

In this new year, we will continue to focus on sales, customer service, and the upgrading of operating efficiency. Among our key development efforts we will also focus on corporate loans, foreign trade finance, financial trading, and asset management, aiming to become a lead bank in Taiwan. In 2007, we hope to be one of the top five Taiwanese banks in terms of profits, and to be among the 20 top banks in Asia. Finally, we will continue working to create sustainable value for our shareholders, our customers, and our employees.



# Organization Chart



# Board of Directors and Supervisors

February 28, 2006

Title	Name	Date of First Appointment	Education and Career Background	Other Current Position
Chairman of the Board	Michael, C.S. Chang	Jan. 16'06	<ul style="list-style-type: none"> <li>■ M.S. Public Finance, National Chengchi University</li> <li>Practicing CPA; Standing Supervisor, FCB;</li> <li>Chairman, Bank of Overseas Chinese;</li> <li>Chairman, Taiwan Business Bank</li> </ul>	Chairman and President, First Financial Holding Co., Ltd. ("FFHC")
Managing Director	Yuan-Chi Chao	Aug. 26'04	<ul style="list-style-type: none"> <li>■ Master of Banking and Finance, New York University</li> <li>President, Dah An Commercial Bank;</li> <li>President, China Development Financial Holding Corp. and China Development Industrial Bank;</li> <li>President, FFHC</li> </ul>	Director, FFHC; Senior Advisor, FCB; Director, First Commercial Bank (USA)
Managing Director	Fan-Chih Wu	May 16'00	<ul style="list-style-type: none"> <li>■ B.A., Chinese Cultural University</li> <li>SVP &amp; General Manager of Dept. of Planning, and Dept. of Circulation, Bank of Taiwan;</li> <li>SVP &amp; Chief Secretary of Secretariat Office and General Auditor, Bank of Taiwan</li> </ul>	Director, FFHC; EVP, Bank of Taiwan
Managing Director	Tien-Yuan Chen	Oct. 22'97	<ul style="list-style-type: none"> <li>■ B.A., Tamkang University</li> <li>Chairman, Taiwan Coca-Cola Co., Ltd.</li> </ul>	Director, FFHC; Chairman, Golden Garden Investment Co., Ltd.; Chairman, Golden Gate Motor Co., Ltd.
Managing Director	Charlie Chen	Dec. 24'04	<ul style="list-style-type: none"> <li>■ B.A., National Taiwan University</li> <li>VP and EVP, ABN AMRO Bank N.V. Taipei Branch; Supervisor, Wistron Corp.</li> </ul>	Advisor, Kenmos Technology Co., Ltd.
Director	Long-I Liao	Oct. 14'04	<ul style="list-style-type: none"> <li>■ B.A., National Taiwan University</li> <li>SVP &amp; General Manager of Business Development Dept., FCB; EVP, FCB;</li> <li>Director, Chang Hwa Commercial Bank</li> </ul>	Chairman, First Insurance Agency Co., Ltd.; Chairman, First P&C Insurance Agency Co., Ltd.; President, FCB
Director	Tsing-Yuan Hwang	July 19'00	<ul style="list-style-type: none"> <li>■ M.A. &amp; Ph.D., Candidate, Nihon University</li> <li>Director, Taiwan Stock Exchange Co.;</li> <li>Representative, Daiwa Securities Co., Ltd. Taipei Office</li> </ul>	Director, FFHC; Head, Asia & Oceania, Daiwa Securities SMBC Co., Ltd.; Director, UMC; Director, Hon Hai Precision Industry Co., Ltd.; Director, President Chain Store Corp.
Director	Chau-Jung Kuo	June 21'02	<ul style="list-style-type: none"> <li>■ Ph.D., in Economics, National Chengchi University</li> <li>Chair and Professor of Dept. of Finance, National Sun Yat-Sen University</li> </ul>	Professor of Dept. of Finance, National Sun Yat-Sen University
Director	Yih-Cheng Yang	July 19'00	<ul style="list-style-type: none"> <li>■ MBA, National Taiwan University</li> <li>Managing Director and Standing Supervisor, Chung-Hua Bills Finance Corp.</li> </ul>	
Director	Yen Tai	Oct. 22'94	<ul style="list-style-type: none"> <li>■ Shanghai College of Law</li> <li>Chief Secretary, Ministry of Finance;</li> <li>Chief Secretary, Ministry of Economic Affairs;</li> <li>SVP, FCB; Director, FFHC</li> </ul>	
Director	Jen-Hui Hsu	July 8'03	<ul style="list-style-type: none"> <li>■ Ph.D. University of Southern California</li> <li>Commissioner of National Treasury Agency;</li> <li>Associate professor and Chair of Dept. of Economics, Shih Hsin University</li> </ul>	Dean and professor of Office of Research & Development, Shih Hsin University
Director	Ruei-Chun Chang	Feb. 12'04	<ul style="list-style-type: none"> <li>■ Ph. D., National Chiao Tung University</li> <li>Deputy Director of Microelectronics and Information Systems Research Center, National Chiao Tung University</li> </ul>	Chief Technology Auditor, Acer Production Value Lab; Professor of Dept. of Computer & Information Science, National Chiao Tung University
Director	Jui-Yu Lu	Feb. 17'05	<ul style="list-style-type: none"> <li>■ National Taipei University</li> <li>AVP &amp; Deputy Manager, FCB;</li> <li>Senior AVP &amp; Manager, FCB</li> </ul>	VP & Department Manager, FCB
Director	Chieh-Shin Sung	Apr. 6'05	<ul style="list-style-type: none"> <li>■ Tsoyin Senior High School</li> <li>Associate, FCB;</li> <li>Chairman, Industrial Union of FCB</li> </ul>	Senior Associate, FCB
Director	Chin-Yuan Kung	Dec. 23'05	<ul style="list-style-type: none"> <li>■ National Taipei University of Technology</li> <li>Chairman, Leader Real Estate Development Co., Ltd.</li> </ul>	Director, FFHC Supervisor, Leader Real Estate Development Co., Ltd.
Standing Supervisor	Yung-Sun Wu	Sep. 16'04	<ul style="list-style-type: none"> <li>■ B.A., Soochow University</li> <li>Professor, Soochow University;</li> <li>Professor and Chair of The Management Science Graduate Institute, National Chiao Tung University;</li> <li>Supervisor, China United Trust &amp; Investment Corp;</li> <li>Supervisor, FFHC</li> </ul>	Advisor, Fuhbic Corp. (Taiwan)
Supervisor	Lung-Cheng Pan	July 19'00	<ul style="list-style-type: none"> <li>■ MBA, The Graduate Institute of Management Sciences, Tamkang University</li> <li>Director, Bureau of Monetary Affairs</li> </ul>	EVP, Central Deposits Insurance Corp.
Supervisor	Fu-Chi Tsai	Apr. 16'04	<ul style="list-style-type: none"> <li>■ B.A., Feng Chia University</li> <li>SVP &amp; General Manager of Dept. of Planning and Dept. of Business I, Bank of Taiwan</li> </ul>	Supervisor, FFHC; EVP, Bank of Taiwan

# Executive Officers

March 6, 2006

Title	Name	Date of First Appointment	Education and Career Background	Other Current Position
President	Long-I Liao	Dec. 19'03	■ B.A., National Taiwan University SVP & General Manager of Business Development Dept.; EVP, FCB	Chairman, First Insurance Agency Co., Ltd.; Chairman, First P&C Insurance Agency Co., Ltd.
EVP of Corporate Banking BU	Chin-Yun Wu	Jan. 8'04	■ Tatung Junior College SVP & General Manager of Corporate Banking Dept. and Regional Center, FCB	Advisor & Head of Risk Management Dept., FFHC; Director, CDIB & Partners Investment Holding Corp. Director, First Taisec Securities Inc.
EVP of Consumer Banking BU	Shwu-Mei Shiue	Mar. 6'06	■ B.A., National Taiwan University VP & Deputy General Manager of Credit Analysis and Research Dept.; SVP & General Manager of Treasury Dept. and Personal Banking Dept., FCB	Director, East Asia Real Estate Management Co., Ltd.
EVP of Personal Banking BU	Ying-Hsiung Lin	Jan. 8'04	■ B.A., National Taiwan University SVP & General Manager of Credit Card Dept., Personal Banking Dept. and Business Development Dept., FCB	Advisor & General Manager, FFHC; Director, National Investment Trust Co., Ltd.
EVP of Operation Management BU	Jin-Der Chiang	Jan. 8'04	■ M.A., Tamkang University VP & General Manager of Singapore Branch, FCB; SVP & General Manager of Information Technology Dept. and Savings Dept., FCB	Supervisor, Taipei Forex Incorp.; Director, National Investment Trust Co., Ltd.
EVP of Financial Markets BU	Hsin-Shih Hung	Mar. 6'06	■ B.A., National Taiwan University VP & Deputy General Manager of Int'l Administration Dept. and VP & General Manager of Treasury Dept., FCB	
EVP of Risk Management Center	Abel Liu	Mar. 16'05	■ MBA, Indiana University, Bloomington, Indiana SVP & General Manager, Taishin International Bank; EVP, Hsinchu International Bank	Advisor & General Manager, FFHC; Director, First Taisec Securities Inc.
EVP of General Administration Center	Po-Chiao Chou	Sep. 16'04	■ B.A., National Cheng Kung University VP & General Manager of Accounting Dept. and General Affair Dept., FCB	Supervisor, National Investment Trust Co., Ltd.; Director, Tang Eng Iron Works Co., Ltd.
EVP of Information Technology Center	Jason Ko	Sep. 16'04	■ M.A., George Washington University VP & General Manager, Macoto Bank; SVP & General Manager, Information Technology Division, FCB	Advisor & Head of Information Technology Dept., FFHC

# Banking Operations

## Scope of Operations

### ■ Banking Business Line

1. Receive deposits.
2. Issue financial bonds.
3. Extend loans.
4. Discount bills and notes.
5. Invest in securities.
6. Engage in domestic remittances.
7. Engage in acceptance of commercial drafts.
8. Issue local letters of credit.
9. Guarantee the issuance of corporate bonds.
10. Engage in domestic guarantee business.
11. Act as collecting and paying agent.
12. Act as agent to sell government bonds, treasury bills, corporate bonds and stocks.
13. Act as securities underwriter.
14. Engage in securities trading on its own account.
15. Engage in custodies and warehousing services.
16. Engage in rental safe-deposit box.
17. Engage in agency services related to the business listed on business license or approved by the central competent authorities.
18. Engage in credit card business.
19. Act as agent to sell gold bullions, gold and silver coins.
20. Purchase and sale of gold bullions, gold and silver coins.
21. Engage in import and export of foreign trade, outward and inward remittances, foreign currency deposits, foreign currency loans and guarantee business of foreign currency.
22. Engage in derivative financial products approved by the central competent authorities.
23. Engage in trust business as regulated.
24. Purchase and sale of government bonds.
25. Act as broker, dealer, registrar, and underwriter for short-term debt instruments.

26. Provide financial consultancy service for lending.
27. Act as agent to sell charity lottery tickets approved by the central competent authorities.
28. Engage in wealth management business.

### ■ Trust Business Line

1. Engage in trust business approved by the central competent authority:
  - Money trust
  - Trust of loans and related security interest
  - Trust of securities
  - Trust of real estate
  - Handling discretionary investment business by means of trust
2. Affiliated business
  - Act as agent for issuance, transfer, registration of securities, and for distribution and payment of dividends and bonuses.
  - Provide consultation services for securities issuance and subscription.
  - Provide registration for securities.
  - Act as a registrar for issuance of bonds and securities.
  - Provide custody services.
  - Act as custodian of domestic security investment trust fund.
  - Provide consultation services in connection with investments, financial management and real estate development.
  - Handling full discretionary investment business on a consignment basis.
  - Other related business approved by the central competent authorities.

## Main Figures for Business Operations

		2005		2004	
		NT\$,000	%	NT\$,000	%
<b>Deposits at year end</b>					
Current Deposits	Checking deposits	41,504,160	3.2	34,408,858	2.7
	Demand deposits	221,408,283	17.2	210,542,125	16.8
	Savings deposits	338,847,729	26.3	316,425,163	25.2
	Sub-total	601,760,172	46.7	561,376,146	44.8
Time Deposits	Time deposits	225,999,692	17.5	222,036,093	17.7
	Time savings deposits	315,820,879	24.5	319,329,004	25.5
	Sub-total	541,820,571	42.1	541,365,097	43.2
Others	Due to banks	43,331,896	3.4	49,662,448	4.0
	overdraft on banks	1,424,371	0.1	1,275,379	0.1
	Call loans from banks	99,813,325	7.7	99,969,261	8.0
	Sub-total	144,569,592	11.2	150,907,088	12.0
<b>Total</b>		<b>1,288,150,335</b>	<b>100.0</b>	<b>1,253,648,331</b>	<b>100.0</b>
<b>Loans at year end</b>					
Corporate		488,029,914	55.2	443,063,069	53.0
Consumer		257,627,797	29.1	251,132,939	30.0
In foreign currencies by domestic branches		43,624,476	4.9	48,237,709	5.8
By foreign branches		91,863,562	10.4	90,236,757	10.8
Bills purchased and export-import negotiations		3,296,720	0.4	3,464,729	0.4
<b>Total</b>		<b>884,442,469</b>	<b>100.0</b>	<b>836,135,203</b>	<b>100.0</b>
<b>Foreign Trade and Payment (US\$,000)</b>					
FX buy	Export negotiations and collections	6,536,141	3.8	6,976,426	4.7
	Inward remittances	81,321,248	46.7	70,394,545	47.0
	Sub-total	87,857,389	50.5	77,370,971	51.7
FX sell	Import L/Cs and collections	5,972,786	3.4	6,779,194	4.5
	Outward remittances	79,999,684	46.0	65,575,134	43.8
	Sub-total	85,972,470	49.4	72,354,328	48.3
<b>Total</b>		<b>173,829,859</b>	<b>100.0</b>	<b>149,725,299</b>	<b>100.0</b>
<b>Total Revenue</b>					
Interest income		38,482,512	74.7	35,916,077	74.1
Service income		4,712,278	9.1	4,407,425	9.1
Gain on trading of marketable and trading securities-net		840,603	1.6	1,262,288	2.6
Gain on long-term equity investments valued at the equity method-net		400,284	0.8	270,657	0.6
Foreign exchange gain-net		1,245,158	2.4	897,022	1.9
Other operating income		4,758,390	9.2	4,884,537	10.1
Non-operating income and gain		1,061,977	2.1	818,251	1.7
<b>Total</b>		<b>51,501,202</b>	<b>100.0</b>	<b>48,456,257</b>	<b>100.0</b>
<b>Total Expenses</b>					
Interest expenses		18,486,293	48.8	14,630,001	40.1
Service charges		952,882	2.5	771,217	2.1
Provisions		4,320,502	11.4	7,109,469	19.5
Business and administrative expenses		13,748,022	36.3	13,201,246	36.2
Other operating expenses and losses		47,966	0.1	426,101	1.2
Non-operating expenses and losses		344,402	0.9	315,682	0.9
<b>Total</b>		<b>37,900,067</b>	<b>100.0</b>	<b>36,453,716</b>	<b>100.0</b>

NT\$,000		2005	2004
<b>Trust Business</b>			
Balance at year end	Custodian funds	339,332,594	410,294,902
	Domestic trust assets	68,820,343	89,836,274
	Foreign trust assets	101,684,318	74,891,458
	Trustee accounts	34,575,371	29,494,000
	Family wealth trust	1,359,336	1,026,642
	Corporate employees' saving plan trust	927,387	849,955
	Real estate trust	1,425,522	580,972
	Securities trust	12,315,842	7,068,626
	Project trust	513,461	522,675
	Collective management accounts	4,089,083	511,621
Transaction Volume	Registrar for issuance of securities	1,270,111,414	755,587,670
<b>Investment Business</b>			
	Outright buy and sell (OB/OS)	8,702,069	25,688,885
	Bonds and securities under repurchase/resale agreements (RP/RS)	7,320,357	136,383,554
	Securities underwriting	4,387,500	4,476,000
<b>Credit Card Business</b>			
	Number of cards outstanding	743,013	896,437
	Transaction volume	21,305,000	21,779,000
	Revolving credit card debt	3,717,000	3,022,000

## Corporate Responsibility and Ethical Behavior

To expand its social participation, in 2005 the Bank continuously donated books, sponsored sports activities, provided large scholarships, and held seven high-quality lectures on "The Art of Living in the New Century". In addition, the Bank sponsored a conference by Dr. Robert Engle, winner of the Nobel Prize in economics.



# Macro Overview

## Global Economic Growth Force in 2006 Similar to 2005

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### **Economic Growth**

With high oil prices and worldwide interest rates rising under the pressure of US interest rate increases, the global economy experienced moderate expansion in 2005. While the market anticipates a halt to US interest rate hikes in 2006, there is no clear sign that oil prices will drop. Research institutions predict, therefore, that economic growth in 2006 will be similar to what it was in 2005. The International Monetary Fund (IMF) forecasts that the global economy will grow at a rate of 4.3% for 2006, and Global Insight Inc. puts the growth forecast at 3.4%. In Taiwan, major forecasting institutions are optimistically predicting that the rate of domestic economic growth will be above 4% for the year.

Despite the high international prices of oil and raw materials in 2005, in the absence of substantial expansions of private consumption in major countries, the conditions for large consumer price increases did not exist. The IMF predicts that inflation ratio in the zone of developed countries will fall from 2.2% to 2.0% in 2006; Global Insight, however, has revised its forecast of inflation in major countries and some emerging Asian countries upward. The market, in general, expects that following the winter season the price of oil will weaken in the first half of the year, thus slackening global inflationary pressure. In Taiwan, the Directorate General of Budget, Accounting and Statistics (DGBAS) predicts that the increase in raw materials prices will moderate in 2006, alleviating inflationary pressure for the time being. DGBAS puts its 2006 inflation forecast at 1.5% for CPI and 3.1% for WPI.

DGBAS also predicts that privatization will lead to a slackening in the rate of growth in investment by private companies and government-run enterprises in 2006. The growth of exports and imports will not match that of 2005; however, the reduction in import growth is expected to exceed that of export growth, resulting in a US\$2.8 billion increase in trade surplus compared with 2005. Thanks to an improved employment situation, private consumption is expected to continue expanding at an annual rate of 3.1%. Overall, private capital spending in Taiwan is expected to remain weak in 2006, leaving economic growth dependent on private consumption and external trade. The domestic economy will maintain a stable expansion this year, growing at a rate that is forecast to reach 4.08%.

### **Interest Rates**

Although Taiwan is maintaining a stable rate of economic growth, there is still upward pressure on prices and real interest rates remain low; under these conditions, the Central Bank has announced to take a neutral stance in monetary policy. In addition, the market expectation is that the United States will bring at least a temporary end to its rate hikes in 2006 and that further increases in raw materials prices are unlikely. This will ease the rise of interest rate. The Central Bank, however, will move to reduce the interest rate gap between Taiwan and the U.S. by hiking the island's rates in 2006, and is expected to be cautious about the rise pace, so as not to boost the appreciation of the NT dollar.

### **Foreign Exchange Rates**

While the double deficits in the U.S. exerted a repeated influence on the weak U.S. dollar in 2005, the rise of U.S. interest rates led to a wide gap with other economic bloc and remained supportive to the greenback value. In 2006, the Euro zone will continue to experience upward pressure on prices and interest rates; and with the recovery of the economy in Japan, which is expected to break away from its ultra-loose monetary policy. In addition, the market expects that the U.S. will bring a temporary halt to its interest rate increases and that the pressure of double deficits will continue in 2006, bringing weakness to the dollar. Those factors, plus a continuing high level of expectation that China's RMB currency will appreciate further, will result in upward pressure on the NT dollar.

### **Uncertainties**

With no appreciable reduction in tensions across the Taiwan Straits, the development of cross-straits political and economic relations will continue to be an important factor affecting Taiwan's economy. In addition, whether economic expansion continues in the U.S., whether the force for global economic recovery continues to exist, whether Asian currencies follow the RMB upward, the development of the bird flu epidemic, the evolution of the domestic political situation, natural disasters, and other factors will all affect Taiwan's economy during this year.

In sum, the economic performance and the pace of interest rate hikes in the U.S., and the international prices of crude oil and other commodities, are expected to be the key factors influencing global economic expansion in 2006. A halt to the U.S. interest rate hikes and a cessation of rises in global materials prices would mitigate against major rises in global interest rate levels and alleviate excessive worries about economic growth performance. However, the potential harm that a RMB-led appreciation of Asian currencies would do to Taiwan's export performance and domestic economic growth continues to call for attention.

### **Prospects and Challenges of Taiwan's Financial Industry**

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### **Financial Results**

Under the continued implementation of the government's financial reform policy, the average non-performing-loan (NPL) ratio in Taiwan's banking industry dropped from 8.85% in 2002 to 2.24% in 2005. Despite that improvement in asset quality, however, there has been no appreciable enhancement in overall operating performance because of the impact of the cash- and credit-card turmoil afflicting some banks that concentrate on consumer finance. To use the average return on assets (ROA) of Taiwan's banks as an example, the figure deteriorated from 0.63% in 2004 to 0.30% in 2005; in the international banking industry, by contrast, the lowest level is about 1%. At the same time, the average return on equity (ROE) of Taiwan's banks plummeted from 10.30% to 4.81%, compared with the international level of around 15% to 20%.



**Banking Scale  
Compare with Other  
Asian Countries**

In terms of scale, Taiwan's top five banks have assets in the range of US\$30 billion to US\$70 billion each. This is too small to place them in the ranks of the world's 100 biggest banks; and among the 300 largest banks in Asia, the banks in Hong Kong, South Korea, and Singapore have assets that are 2.12 times, 2.76 times, and 4.67 times those of Taiwan's banks. In terms of market share, Taiwan's top five banks had 37% of total assets in the island's banking industry, much lower than corresponding figures of 89% for South Korea, 76% for Hong Kong, and 73% for Singapore. In sum, Taiwan's banks are relatively small in size; besides the operating cost inferiority that this implies, this situation also affects the international competitiveness of the banks.

**The Coming Financial  
Reform**

In the second financial reform being carried out by the Financial Supervisory Commission, two major targets in banking consolidation are expected to be achieved by the end of this year: a reduction by half in the 14 financial holding companies currently operating in Taiwan, and at least one financial institution taken over by foreign investors or listed on a foreign stock market. It can be expected from this that Taiwan's financial industry will create banks that are both large and outstanding; and, besides upgrading the international competitiveness of Taiwan's banks and generating opportunities for development on the international stage, this could also rectify the excessive competition in the domestic financial environment. It could also encourage "small but good" banks to continue exploiting their competitive niches and coexisting in prosperity with larger banks, thereby giving their customers a greater diversity of high-quality financial services.

In addition to the encouragement of consolidation in the financial holding industry, the rise of the China's market, with the large numbers of Taiwanese companies operating there, presents a niche market that cannot be ignored. In the future, the government's controls on and accompanying measures for the development of financial institutions doing business in China will influence the development of the island's finance industry. Further, the high economic growth and savings rates in China led to a continuation of the participation of foreign investors in mergers and acquisitions of banks there in 2005; over the long term this will bring about a corresponding increase in the competitiveness of Chinese banks, and Taiwanese banks should be thinking about how to keep their existing customers among outstanding Taiwanese businesses while recruiting new ones.

Faced with the trend toward internationalization, not only will large Asian banks compete for the Chinese market but foreign-invested banks will also struggle for a foothold there. If Taiwanese banks can carry through and meet the targets of financial reform, effecting further consolidation and creating large and outstanding banks, they will in this way enhance their international visibility and strengthen their competitiveness.

# Business Plans for 2006

## **Corporate Banking BU**

### **Developing into the finest consultant for corporate finance**

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- High-profit and commission fee products will be marketed so as to enhance the efficiency ratio of resource. These will include factoring, foreign trade finance, syndicated loans, and cash management.
- The Bank's domestic channels and broad customer base will be optimized, and Taiwanese businesses in the Greater China area will be targeted for opportunities to expand the foreign trade finance and derivatives businesses. We will also work to establish strategic alliances with foreign banks for the undertaking of financing projects for Taiwan-invested companies in mainland China.
- E-financing function will continue to be expanded so as to facilitate service channel.

## **SME Banking BU**

### **Establishment of a highly productive SME platform that puts the customer first, to provide unique services for Taiwan's small and medium enterprises**

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- Multiple marketing channels will be used to adequately provide fast and professional services so as to fulfill the financing needs of customers during their different business growth cycles and build up long-term and reliable business relationships with them.
- A broad range of price-competitive packaged product will be offered, with tailor-made and full-package products for different customer segments.
- Continuous efforts will be devoted to upgrading the knowledge skills of salespeople; carrying out a sales performance management and reward system; clearly setting sales goals and building a marketing culture.
- The newly introduced SME credit rating system will be used to establish differential pricing and services for clients with different levels of risk so as to achieve a balance between risk and profit.

## **Financial Markets BU**

### **Moving into the top-three Taiwanese banks by providing diversified and innovative products and services**

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- A complete product line will be established and customized products designed to create business opportunities to achieve a win-win situation for the Bank and its customers.
- Marketing team capabilities will be reinforced so as to enhance the Bank's professional image.
- The Bank will manifest its ability to manage financial assets and liabilities in line with FAS No. 34 so as to enhance operating performance.

### **Consumer Banking BU**

#### **Creating new value, surpassing competitive rivals, and achieving new records of performance**

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- The customer maintenance management mechanism will be reinforced and the Bank's channel advantage will be utilized to deeply cultivate CRM marketing and develop new accounts.
- Products involving high interest-spread products will be developed and cooperative marketing and strategic alliances will be used to promote second mortgage loans and other products.
- The primary focus of promotion will be placed on the I-First Card, which combines the functions of ATM and credit cards, and substantive paybacks will be offered to attract customers. Activities promoting card use will be carried out with the aim of reinforcing customer loyalty.
- Databanks will be used to market income-bearing products to different customer segments, and a strategy of differentiation will be used to issue co-branded cards in small-segment markets.

### **Branch Operations BU**

#### **Enhancing service quality and reinforcing competitive advantage through professionalism, innovation, care, low cost and high efficiency**

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- The maximum return will be created with a customer orientation and heartfelt services, holding unswervingly to the goal of becoming a model of financial service.
- Taking good customer relations as a foundation for development, the vast branch network will be used to cultivate the customer base and provide trust, insurance, and other core products, expand the Bank's full line of financial products, and strengthen its competitiveness.
- A standardized, centralized, automated, and diversified service platform will be built, using an optimized service system, to provide abundant support for the development of business and the reinforcement of service quality.

# Business Operating Strategy

## **Reinforcement of Advantages**

- Through the widespread network and a huge customer base, the Bank continues to carry out joint marketing with the products and sales points offered by the financial group.
- The trade finance products are being vigorously developed in line with the opening-up policy of business relations across the Taiwan Straits, so as to maintain the Bank's leadership position in the market.
- The Bank will make full use of its advantage in the domestic funds custodianship and sales market in order to increase risk-free commission income.
- Appreciable results have been achieved in the improvement of asset quality, bringing the Bank's broadly defined NPL ratio down to 1.72% at the end of 2005.
- Synergies will be maximized through cross-marketing and resource integration; besides reinforcing operating performance and service quality, this will also help to enhance the Bank's competitiveness and corporate image.

## **Working on Weak Spots**

- With margins being squeezed by intense price competition in the market and a contraction in interest-rate spread, in the future, the Bank will work to boost profits by strengthening the sale of high-margin and fee-generating products.
- International financial specialists will be developed so as to heighten competitiveness and product innovation capability as well as the depth of the Bank's internationalization.
- A performance-oriented remuneration system will be established to mobilize our sales team for business expansion.
- IT capabilities will be reinforced, with professional teams working out the integration of different trading platforms, so as to improve transaction efficiency and reduce costs.

## **Grasping of Opportunities**

- Cooperation with overseas offices will be strengthened and a cross-straits offshore financing platform will be designed so as to increase opportunities for business with Taiwanese companies overseas.
- The Bank works toward the establishment of the management information system to facilitate strategy mapping and product planning.
- The Bank's wealth management brand image will be reinforced, customer satisfaction and identification with the Bank will be enhanced, the Bank's operating base in the Greater China area will be expanded, and a Hong Kong-based wealth management platform will be planned.

## **Dealing with Potential Threats**

- Reinforcing risk management, enhancing operating structure and competitive edge, and moving toward internationalization.
- Strengthening customer relationship management, enhancing professional financial skills, developing new financial products, and creating greater value-added service.
- Introducing advanced systems, re-engineering operational process and installing large scale of software and hardware technology.

# Risk Management Overview

## Risk Governance

"The First Commercial Bank Risk Management Policy" has been established in accordance with the governance structure of "The Risk Management Policy and Guiding Principles for the First Financial Holding Company", the operating strategies of the Bank, and the relevant laws and regulations of the competent authorities.

**The Board of Directors:** the highest level of risk management oversight.

**The Risk Management Committee:** reviews risk-related proposals bank-wide, the risk management system, risk exposures and limits of authorization, etc.

**The Risk Management Center:** consists of eight divisions, seven regional centers and a risk management department; in charge of credit risk, market risk, operational risk and integrated risk.

## Risk Measurement, Control and Disclosure

### Credit Risk

#### Strategy and Process

Various internal and external modeling techniques for the scoring and rating of credit risk are gradually being introduced in order to quantify credit risk within the Bank's risk tolerance, and establish objective review standards that conform to the implementation of Basel II. On line credit granting process using credit tools is available so far for the products of corporate banking and credit cards.

#### Risk Assessment and Reporting

In making credit decisions, a number of factors are considered. We set concentration limits for "a person", "a related person" and "a related enterprise", and the guidelines for "loans by borrower", "loans by conglomerate", "loans by country" and "loans by stocks", etc. The relevant credit risk analysis reports have to be submitted to the Risk Management Committee and the Board of Directors for their reviews regularly. For credit-rating products, their implementation of rating policy and the category of customer's rating score have to be submitted to the Risk Management Committee periodically.

#### Risk Exposure

##### Risk assets of on-balance sheet December 31, 2005

Loans by counterparty	Risk weight	NT\$,000
Central government	0%	0
Local governments	10%	2,210,926
Domestic banks	20%	27,166,561
Residential mortgages	50%	132,663,799
Others	100%	605,041,494
<b>Total</b>		<b>767,082,781</b>

##### Risk assets of off-balance sheet December 31, 2005

Item	NT\$,000
Off-balance sheet transactions	54,666,728
Derivative financial instruments	2,160,103
Bonds and securities sold under repurchase agreements (RP)	39,339
Bonds and securities purchased under resale agreements (RS)	0
<b>Total</b>	<b>56,866,170</b>

## Market Risk

### Strategy and Process

- Risk management units and business operating lines are governed by different management and maintain independence, so as to assess the product risk objectively.
- The business decision and finance budget are assessed broadly; various market indices and limits are established and updated subject to market changes.
- Management methods and monitoring procedures are established in accordance with the nature and characteristics of each specific product.
- The market risk reports are regularly reviewed by the Board of Directors or high-level managers to effectively control risk and adjust risk management policy at any time.
- Risk-hedging: The excessive concentration of transactions in similar trading products and with the same counterparty is avoided. Trading positions must be squared or hedged by derivative deals to minimize risk exposures.

### Risk Assessment and Reporting

- Assets and derivative products on or off the balance sheet are at risk of potential losses caused by unfavorable changes in market prices. The "market price" referred to encompasses interest rates, equity, foreign exchange rates, and commodity prices, etc.
- The risk-measuring tools of VAR and Greeks are employed to evaluate and control risk.
- The reports on market risk will be provided to the management executives used as references for policy making, process managing and risk tolerance.

The market risk exposures, and the capital charges measured by the standardized approach as of December 31, 2005

Risk type	Capital charge (in NT\$,000)	Risk assets (in NT\$,000)
Interest rate risk	2,610,991	32,637,387
Equity position risk	556,984	6,962,300
Foreign exchange risk	175,897	2,198,713
Commodity risk	0	0
Treatment of option	42,538	531,725
Total	3,386,410	42,330,125

## Operational Risk

### Strategy and Process

- Predictable and unpredictable operating losses are differentiated and established.
- When errors occur, improvements should be made immediately so that the errors will not be repeated or enlarged.
- A good risk management culture and environment will be built up.
- The scope of operational risk under control includes:
  - (a) Establishment of risk control points and monitoring processes for business procedures
  - (b) Implementation of internal controls and auditing
  - (c) Automated trading systems
  - (d) Outsourced operations
  - (e) Daily operational tracks of different business lines

- (f) Records of fines or compensation levied by the supervisory agencies, and of amicable settlements
- Risk-hedging:
  - (a) Preparation of the emergency back-up facilities and a business continuity planning process
  - (b) Submission of crisis management reports to the Risk Management Committee on a scheduled and unscheduled basis

#### Risk Assessment and Reporting

- Identifying and evaluating the categories, causes and forms of potential losses.
- Identifying operating risk by a standard operating method.
- Continued follow-up and improvement carried out for different links in the chain of risk.
- Risk control reports are submitted to management levels on a scheduled basis.
- Each unit has to appoint a supervisor accountable for risk reporting and policy implementation.

## Liquidity Management

To protect the interests of customers and maintain an appropriate level of liquidity, the Bank has appropriated deposit reserves and liquidity reserves in accordance with the rules established by the Central Bank. Sources and allocation of capital are handled on the principles of diversification and stability. In the utilization of capital excessive concentration is avoided, and the principles in holding assets have to meet the nature of liquidity and profits-generating. When necessary, the Bank may use such liabilities management tools as call loans from other banks, bonds and securities sold under repurchase agreements, the issuance of negotiable certificates of deposit or applying for financing from the Central Bank.

### Risk Exposure

#### Analysis of funding structure at maturity - by New Taiwan dollars December 31, 2005

	Total	Duration and amounts outstanding (in NT\$ millions)				
		0-30 days	31-90 days	91-180 days	181 days -1 year	over 1 year
Funds flow-in	1,261,883	312,747	101,365	128,370	95,213	624,188
Funds flow-out	1,370,187	197,267	205,892	204,072	291,709	471,247
Gap	(108,304)	115,480	(104,527)	(75,702)	(196,496)	152,941

note: This table represents the funds denominated in New Taiwan dollars and held by the head office and all branches. Those denominated in foreign currencies are not included.

#### Analysis of funding structure at maturity - by foreign currency December 31, 2005

	Total	Duration and amounts outstanding (in US\$ thousands)				
		0-30 days	31-90 days	91-180 days	181 days -1 year	over 1 year
Assets	6,108,430	2,142,082	1,903,975	1,023,489	283,739	755,145
Liabilities	6,138,808	2,572,662	1,623,772	767,742	801,742	372,890
Gap	(30,378)	(430,580)	280,203	255,747	(518,003)	382,255
Accumulated gap	(30,378)	(430,580)	(150,377)	105,370	(412,633)	(30,378)

note: This table represents the funds denominated in foreign currencies and stated in equivalent US dollars.

# Corporate Governance

Item	Operation	Deficiency with the Corporate Governance Best-Practice Principles for Banks, and the Reasons
<b>A. Ownership Structure and Shareholders' Equity</b>		
<ol style="list-style-type: none"> <li>1. the handling of shareholders' suggestions and disputes</li> <li>2. updating the details of major shareholders of controlling stake in the bank</li> <li>3. risk assessment and firewalls established against the operations with the affiliates</li> </ol>	<ol style="list-style-type: none"> <li>1. The Bank's sole shareholder is First Financial Holding Co.; communication channels are open.</li> <li>2. The bank is owned by a single shareholder, and the structure is quite simple.</li> <li>3. The subject matters are governed by "The Rule for Personnel, Information and Business Exchanges between First Commercial Bank and its investee Companies."</li> </ol>	fully compliant for 1, 2 and 3
<b>B. Organization and Responsibilities of the Board of Directors</b>		
<ol style="list-style-type: none"> <li>1. establishing independent director(s)</li> <li>2. evaluating the independence of the CPAs periodically</li> </ol>	<ol style="list-style-type: none"> <li>1. None</li> <li>2. When the Bank employs CPAs to audit financial condition and tax filing each year, it will seek independent statement from the auditor and submits the commissioning of the auditor to the Board of Directors for approval.</li> </ol>	<ol style="list-style-type: none"> <li>1. subject to the implementation of relevant laws and regulations</li> <li>2. fully compliant</li> </ol>
<b>C. Organization and Responsibilities of Supervisors</b>		
<ol style="list-style-type: none"> <li>1. establishing independent supervisors</li> <li>2. communications with supervisors by bank employees, and by shareholders</li> </ol>	<ol style="list-style-type: none"> <li>1. None</li> <li>2. The standing supervisor's door is always open, and the Bank's website contains a standing supervisor's mail box, allowing for free communication with the standing supervisor or other supervisors by employees, and by the interested parties.</li> </ol>	<ol style="list-style-type: none"> <li>1. subject to the implementation of relevant laws and regulations</li> <li>2. fully compliant</li> </ol>
<b>D. Communications with Interested Parties</b>		
	<p>The Bank's internal website contains a discussion forum and president's mailbox; and bank-wide videoconferences are held regularly, providing for open communication with employees. To protect the interests of customers, the Bank has established "The Consumer Protection Principles and Implementation Guidelines for First Commercial Bank" and has set up a customer feedback hotline, providing for open communication with customers.</p>	fully compliant



Item	Operation	Deficiency with the Corporate Governance Best-Practice Principles for Banks, and the Reasons
<b>E. Disclosure of Information</b>		
1. setting up a website 2. use of other methods	1. Annual Report, major financial statements and corporate governance are publicized on the Bank's website. 2. The Bank has set up an English website, where Annual Report, and monthly financial information, etc. are available. A spokesperson system has also been established; Mr. Pao-Chiao Chou, EVP is appointed spokesperson.	1 and 2, fully compliant
<b>F. Establishment of Audit Committee and Other Special Committees</b>	None	subject to the implementation of relevant laws and regulations
<b>G. Description of the Bank's Corporate Governance</b> (including its deficiency with the Corporate Governance Best-Practice Principles for Banks, and the reasons):		
All are disclosed as above.		
<b>H. Please describe the systems and measures adopted by the Bank in regard to social responsibility (including human rights, employee rights, environmental protection, community participation, supplier relations, monitoring, and material relationship rights), and its implementation of social responsibility:</b>		
<p>The Bank has requited the society in recent years with sponsoring numerous cultural and sports activities. It has also provided large scholarships to encourage learning, and has held numerous quality lectures on "The Art of Living" as well as art performances. The Bank has also donated money to help the victims of typhoons and the South Asian tsunami in order to fulfill its social responsibility. These activities will continue to be organized in the future.</p>		
<b>I. Other Information</b>		
<ul style="list-style-type: none"> <li>■ Continuing education of directors and supervisors: In addition to offering opportunities of advanced education in accordance with the individual wishes of directors, the Bank also provides the relevant information of continuing education programs for their reference.</li> <li>■ Attendance of directors and supervisors at the Board meetings: They prepared well to attend the meetings, and provided sufficient and valuable opinions at appropriate times.</li> <li>■ Abstaining from the meetings involving director's or supervisor's own interest: They exercised a high degree of self-discipline to withdraw from the proposal discussion, in order to avoid the conflict of interest as regulated by "The Guideline for the Board of Directors Meetings of First Commercial Bank."</li> <li>■ Risk control policy and implementation: The Bank has established a risk management policy and has set up a mechanism for risk identification, risk assessment, risk oversight and risk control via a management system with an integrated framework. The Risk Management Committee is in charge of risk review, risk oversight and coordination of all risk related business activities. The risk governance includes risk identification, risk assessment, risk monitor and risk control. The primary goal of a consolidated risk management system, adopting a risk-centric approach business operating policy, is to achieve business targets in order to maximize shareholder returns.</li> <li>■ Consumer-protection policy: The Bank has set up "The Consumer Protection Principles and Implementation Guidelines for First Commercial Bank" to assure that consumer interests are protected.</li> </ul>		

# Significant Financial Information

## Condensed balance sheet

NT\$,000	12.31.2005	12.31.2004	12.31.2003	12.31.2002	12.31.2001
Cash and cash equivalents, due from					
Central Bank and other banks	157,635,062	164,558,112	164,451,494	202,299,950	169,244,524
Marketable and trading securities	316,192,950	312,279,207	271,553,432	169,437,666	140,326,941
Loans, bills purchased and discounted-net	890,572,554	841,739,112	860,015,753	845,690,454	881,813,772
Prepayments	829,418	1,158,571	1,111,718	2,181,002	3,467,679
Accounts receivables-net	24,853,884	31,078,586	38,172,807	26,557,317	26,893,130
Long-term investments	66,297,706	63,322,645	56,974,837	17,916,921	14,387,205
Properties and equipments	23,848,515	24,136,348	25,427,654	26,901,248	27,622,713
Others assets	20,817,298	23,938,845	24,799,622	18,881,615	12,387,166
<b>Total assets</b>	<b>1,501,047,387</b>	<b>1,462,211,426</b>	<b>1,442,507,317</b>	<b>1,309,866,173</b>	<b>1,276,143,130</b>
Due to Central Bank and other banks	102,111,931	102,129,745	124,149,358	79,954,611	75,279,486
Payables on bonds and securities under					
repurchase agreements	15,395,150	18,397,061	-	-	-
Deposits and remittances	1,187,301,126	1,152,808,272	1,137,152,238	1,082,496,151	1,046,123,627
Payables-net	48,829,555	47,410,489	53,086,792	45,134,269	45,994,320
Advance collections	1,070,980	1,335,792	1,688,744	1,206,598	1,062,891
Financial bonds payable, funds borrowed					
from Central Bank and other banks	59,533,168	59,494,541	55,476,965	30,799,378	10,556,187
Other liabilities	9,962,477	13,017,620	13,052,025	12,990,420	12,983,679
<b>Total liabilities</b>	<b>1,424,204,387</b>	<b>1,394,593,520</b>	<b>1,384,606,122</b>	<b>1,252,581,427</b>	<b>1,192,000,190</b>
Common stock	46,216,000	46,216,000	46,216,000	38,216,000	38,216,000
Capital reserve	14,193,869	11,256,164	24,683,945	22,896,897	22,950,160
Retained earnings	16,231,462	9,967,095	(13,306,619)	(4,075,242)	22,758,358
Cumulative translation adjustment	201,669	178,647	307,869	247,091	218,422
<b>Total stockholders' equity</b>	<b>76,843,000</b>	<b>67,617,906</b>	<b>57,901,195</b>	<b>57,284,746</b>	<b>84,142,940</b>
<b>Total liabilities and stockholders' equity</b>	<b>1,501,047,387</b>	<b>1,462,211,426</b>	<b>1,442,507,317</b>	<b>1,309,866,173</b>	<b>1,276,143,130</b>

## Condensed statement of income

NT\$,000	2005	2004	2003	2002	2001
Operating income	50,439,225	47,638,006	47,259,028	53,619,211	73,553,538
Operating expenses	37,555,665	36,138,034	66,806,779	83,940,525	68,131,742
Operating profit (loss)	12,883,560	11,499,972	(19,547,751)	(30,321,314)	5,421,796
Non-operating income (loss)	717,575	502,569	662,868	(2,179,555)	(1,854,301)
Income (loss) before income tax	13,601,135	12,002,541	(18,884,883)	(32,500,869)	3,567,495
Net income (loss)	10,218,955	9,967,095	(13,306,619)	(24,724,311)	3,150,610
Earnings (losses) per share (\$)	2.21	2.16	(3.32)	(6.47)	0.82

## Financial Ratios (%)

	2005	2004	2003	2002	2001
<b>Financial structure</b>					
Debt ratio (total liabilities to total assets )	94.84	95.33	95.94	95.57	93.36
Deposits to net worth	1,545.10	1,704.89	1,963.95	1,800.14	1,242.26
Fixed assets to net worth	31.04	35.70	43.92	46.96	32.83
<b>Solvency</b>					
Liquidity reserve ratio	31.22	30.50	28.13	19.11	13.09
<b>Operating performance</b>					
Loans to deposits	75.01	73.02	75.63	78.12	84.29
NPL ratio	1.72	1.27	1.46	3.77	8.72
Total assets turnover (times)	0.03	0.03	0.03	0.04	0.06
<b>Profitability</b>					
ROA (net income to average total assets)	0.69	0.69	(0.97)	(1.89)	0.25
ROE (net income to average shareholders' equity )	14.15	15.88	(23.10)	(34.96)	3.77
Profit margin ratio (net income to operating revenue)	20.26	20.92	(28.16)	(46.11)	4.28
<b>Cash flows</b>					
Cash flow adequacy ratio	648.25	589.01	516.64	377.89	303.21
<b>Capital adequacy</b>					
Capital adequacy ratio	10.29	10.37	8.96	8.99	9.28
Tier one capital ratio	8.16	7.85	6.22	6.59	8.89
Tier two capital ratio	2.86	3.75	4.01	3.99	1.73
<b>Market share</b>					
Assets	5.30	6.04	6.30	6.18	6.19
Net worth	4.47	4.43	3.63	3.45	5.28
Deposits	5.41	6.00	6.34	6.39	6.28
Loans	5.18	5.55	6.16	6.19	6.07

## Report of Independent Accountants

PRICEWATERHOUSECOOPERS 

資誠會計師事務所

To: The Board of Directors and Stockholders of First Commercial Bank Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Commercial Bank Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended in conformity with "The Guidelines Governing the Preparation of Financial Reports by Public Banks", "The Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

The Bank has prepared the consolidated financial statements (not presented herein) for the year 2005 and 2004. In our report dated March 17, 2006, we expressed an unqualified opinion with an explanatory paragraph on those consolidated financial statements.



March 17, 2006

# Balance Sheet

as of December 31, 2005 and 2004

NT\$,000	Note	2005	2004
<b>Assets</b>			
Cash and cash equivalents	3(1)	\$ 38,036,433	\$ 23,668,827
Amounts due from Central Bank and other banks	3(2),4	119,598,629	140,889,285
Marketable and trading securities	3(3),5	316,192,950	312,279,207
Accounts receivables	3(4),9(2)	24,853,884	31,078,586
Prepayments		829,418	1,158,571
Loans, bills purchased and discounted-net	3(5),4	890,572,554	841,739,112
Long-term equity investments	3(6)	8,273,024	11,856,536
Other long-term investments	3(7)	58,024,682	51,466,109
Properties and equipments	3(8),3(18)		
Cost			
Land		7,054,603	6,982,855
Buildings		7,843,596	7,685,319
Machinery and equipments		3,258,411	3,140,659
Transportation equipments		875,520	782,469
Other equipments		1,783,275	1,846,339
Leasehold improvements		590,568	599,889
Sub-total		21,405,973	21,037,530
Appraisal increments		9,435,761	9,656,690
Less: Accumulated depreciation		(7,132,659)	(6,647,436)
Construction in progress and prepayments for equipments		139,440	89,564
Properties and equipments-net		23,848,515	24,136,348
Intangible assets	3(9)	203,767	164,952
Non-operating assets	3(9)	8,153,451	8,311,220
Other assets	3(9),3(25),5,9(2)	1,567,710	1,766,777
Deferred expenses	3(9),3(22)	10,892,370	13,695,896
Total other assets		20,817,298	23,938,845
Total assets		\$ 1,501,047,387	\$ 1,462,211,426
<b>Liabilities and Stockholders' Equity</b>			
<b>Liabilities</b>			
Amounts due to Central Bank and other banks	3(10),4	\$ 102,111,931	\$ 102,129,745
Payables on bonds and securities under repurchase agreements	3(11)	15,395,150	18,397,061
Payables	3(12),3(22),9(2)	48,829,555	47,410,489
Advance collections		1,070,980	1,335,792
Deposits and remittances	3(13),4	1,187,301,126	1,152,808,272
Financial bonds payable	3(14)	59,300,000	59,300,000
Funds borrowed from Central Bank and other banks		233,168	194,541
Other liabilities	3(15),3(16),9(2)	9,962,477	13,017,620
Total liabilities		1,424,204,387	1,394,593,520
<b>Stockholders' Equity</b>			
Common stock	3(17)	46,216,000	46,216,000
Capital reserve	3(18)	14,193,869	11,256,164
Legal reserve	3(19)	2,990,128	-
Unappropriated earnings	3(20),3(22)	13,241,334	9,967,095
Cumulative translation adjustment	3(6)	201,669	178,647
Total stockholders' equity		76,843,000	67,617,906
Total liabilities and stockholders' equity		\$ 1,501,047,387	\$ 1,462,211,426

\*NT\$32.86:US\$1.00

# Statement of Income

for the years ended December 31, 2005 and 2004

NT\$,000	Note	2005		2004	
<b>Operating income</b>	3(6),4				
Interest income	9(2)	\$ 38,482,512		\$ 35,916,077	
Service income		4,712,278		4,407,425	
Gain on trading of marketable and trading securities-net		840,603		1,262,288	
Gain on long-term equity investments valued at the equity method-net	3(6)	400,284		270,657	
Foreign exchange gain-net	9(2)	1,245,158		897,022	
Other operating income	3(26)	4,758,390		4,884,537	
<b>Total operating income</b>		<b>50,439,225</b>		<b>47,638,006</b>	
<b>Operating expenses</b>	3(5),3(6),4				
Interest expenses	9(2)	18,486,293		14,630,001	
Service charges		952,882		771,217	
Provisions	3(5)	4,320,502		7,109,469	
Business and administrative expenses		13,748,022		13,201,246	
Other operating expenses and losses	3(6)	47,966		426,101	
<b>Total operating expenses</b>		<b>37,555,665</b>		<b>36,138,034</b>	
<b>Operating profit</b>		<b>12,883,560</b>		<b>11,499,972</b>	
<b>Non-operating income and gain</b>					
Gain on disposal of assets		300,833		350,591	
Rental income		187,517		210,733	
Other non-operating income		573,627		256,927	
<b>Total non-operating income and gain</b>		<b>1,061,977</b>		<b>818,251</b>	
<b>Non-operating expenses and losses</b>					
Loss on disposal of properties and equipments		64,204		64,363	
Other non-operating expenses and losses		280,198		251,319	
<b>Total non-operating expenses and losses</b>		<b>344,402</b>		<b>315,682</b>	
<b>Income before income tax</b>		<b>13,601,135</b>		<b>12,002,541</b>	
Income tax expense	3(22)	(3,382,180)		(2,035,446)	
<b>Net income</b>		<b>\$ 10,218,955</b>		<b>\$ 9,967,095</b>	
<b>Earnings per share</b>	3(23)	<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>
		\$2.94	\$2.21	\$2.60	\$2.16

# Statement of Changes in Stockholders' Equity

for the years ended December 31, 2005 and 2004

NT\$,000	Retained Earnings					Cumulative translation adjustment	Total
	Common stock	Capital reserve	Legal reserve	Unappropriated (deficit) earnings			
Balance at January 1, 2004	\$46,216,000	\$24,683,945	\$ -	\$(13,306,619)	\$ 307,869	\$57,901,195	
Accumulated losses covered							
by capital reserve	-	(13,306,619)	-	13,306,619	-	-	
Appraisal increments written-off							
due to disposal of land	-	(121,162)	-	-	-	(121,162)	
Net income for 2004	-	-	-	9,967,095	-	9,967,095	
Cumulative translation adjustment	-	-	-	-	(129,222)	(129,222)	
Balance at December 31, 2004	\$46,216,000	\$11,256,164	\$ -	\$ 9,967,095	\$ 178,647	\$67,617,906	
Balance at January 1, 2005	\$46,216,000	\$11,256,164	\$ -	\$ 9,967,095	\$ 178,647	\$67,617,906	
Appropriation and distribution of 2004 net income:							
Legal reserve	-	-	2,990,128	(2,990,128)	-	-	
Bonus to employees	-	-	-	(488,388)	-	(488,388)	
Cash dividends	-	-	-	(3,466,200)	-	(3,466,200)	
Net income for 2005	-	-	-	10,218,955	-	10,218,955	
Appraisal increments written-off							
due to disposal of land	-	(166,426)	-	-	-	(166,426)	
Reduction of reserve for land value							
incremental tax to capital reserve	-	3,104,131	-	-	-	3,104,131	
Cumulative translation adjustment	-	-	-	-	23,022	23,022	
Balance at December 31, 2005	\$46,216,000	\$14,193,869	\$2,990,128	\$13,241,334	\$ 201,669	\$76,843,000	

# Statement of Cash Flows

for the years ended December 31, 2005 and 2004

NT\$,000	2005	2004
<b>Cash flow from operating activities</b>		
Net income	\$10,218,955	\$9,967,095
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation - fixed assets	894,227	786,417
Depreciation - non-operating assets	49,788	45,878
Amortization	129,167	115,349
Provision for doubtful accounts	4,320,502	7,109,469
Allowance for doubtful accounts reclassified to other income	(37,210)	-
Gain on disposal of mortgage-backed securities	-	(5,203)
Gain on disposal of long-term equity investments	(742,850)	(23,679)
Loss on impairment-long term investments	-	385,284
Gain from long-term equity investments accounted for under equity method	(400,284)	(270,657)
Cash dividends from long-term equity investments under equity method	130,853	37,568
Gain on disposal of fixed assets-net	(236,629)	(281,119)
Loss (gain) on disposal of foreclosed assets	5,490	(1,112)
Loss on devaluation of foreclosed assets	1,643	-
Changes in assets and liabilities		
Decrease in accounts receivables	6,258,237	7,558,606
Decrease (increase) in prepayments	329,153	(46,853)
Decrease in advance collections	(264,812)	(352,952)
Increase in other assets	(28)	(312,827)
Decrease in deferred income tax assets	2,793,450	1,850,623
Increase (decrease) in payables	1,419,066	(5,676,303)
Increase (decrease) in other liabilities	104,793	(281,540)
Increase in accrued pension liabilities	175,397	264,148
Revaluation of derivative financial instruments-net	(247,970)	58,039
Net cash provided by operating activities	24,900,938	20,926,231
<b>Cash flow from investing activities</b>		
Increase in marketable and trading securities	(3,913,743)	(40,725,775)
(Increase) decrease in loans, bills purchased and discounted	(53,307,381)	6,241,988
Proceeds from sales of mortgage-backed securities	-	4,572,697
Proceeds from sales of long-term equity investments	4,478,146	135,492
Increase in other long-term investments	(6,558,573)	(6,629,466)
Purchase of properties and equipments	(818,895)	(734,341)
Proceeds from disposals of properties and equipments	304,176	350,287
Proceeds from sales of foreclosed assets	19,715	32,703
Purchase of foreclosed assets	-	(821)
Decrease in refundable deposits	286,858	28,873
Increase in intangible assets	(156,933)	(86,163)
Increase in long-term equity investments	(173)	-
Net cash used in investing activities	(59,666,803)	(36,814,526)



NT\$,000	2005	2004
<b>Cash flow from financing activities</b>		
Decrease in amounts due to Central Bank and other banks	\$ (17,814)	\$ (22,019,613)
(Decrease) increase in payables on bonds and securities under repurchase agreements	(3,001,911)	18,397,061
Increase in deposits and remittances	34,492,854	15,656,034
Increase in funds borrowed from Central Bank and other banks	38,627	17,576
Increase in financial bonds payable	-	4,000,000
Increase (decrease) in guarantees and margin deposits	50,813	(102,388)
Decrease in appropriated loan fund	(61,747)	(169,736)
Cash dividends to stockholders	(3,466,200)	-
Bonus to employees	(488,388)	-
Net cash provided by financing activities	27,546,234	15,778,934
Net effect of foreign exchange rate changes on cash	296,581	215,979
Net (decrease) increase in cash and cash equivalents, amounts due from Central Bank and other banks	(6,923,050)	106,618
Cash and cash equivalents, amounts due from Central Bank and other banks at beginning of year	164,558,112	164,451,494
Cash and cash equivalents, amounts due from Central Bank and other banks at end of year	\$157,635,062	\$ 164,558,112
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	\$ 17,740,084	\$ 14,681,368
Cash paid for income taxes during the year	\$ 1,256,999	\$ 967,685

# Notes to Financial Statements

(Expressed in thousands of New Taiwan dollars, except otherwise stated)

## 1. Significant Accounting Policy

### (1) Preparation of financial statements

The accompanying financial statements include head office account, branch account and offshore banking unit account, and all inter-office accounts have been eliminated.

The Bank adopts the Statement of Financial Accounting Standard No. 28, "Financial Statement Disclosure Standards for Banks," whereby assets and liabilities are not required to be classified under current or non-current categories.

### (2) Marketable and trading securities

Marketable and trading securities are stated at the lower of cost or market value. Cost of securities is calculated based on the moving-average method. Market value of trading securities is determined based on the closing price as of the balance sheet date. Market value of all other listed and OTC securities and closed-ended mutual funds are determined by the weighted average closing prices during the last month of the fiscal year. Market value of open-ended mutual funds is stated at the funds' net asset value as of the balance sheet date.

Trading bonds, except for those purchased in the OTC exchange market, which are determined by the closing price at the balance sheet date or the average price as stipulated by the OTC, are stated at par value, net of amortization of discounts or premiums.

### (3) Investments under repurchase or resale agreements

Investments in bonds and short-term bills under resale or repurchase agreements are accounted for under the financing method and recorded as investments on bonds and securities under resale agreements/payables on bonds and securities under repurchase agreements. Upon settlement under the repurchase agreements, the difference between the selling price and the repurchase price is recognized as interest expense. Upon settlement under the resale agreements, the difference between the purchase cost and the resale price is recorded as interest income.

### (4) Allowance for doubtful accounts

In accordance with "The Guideline for Evaluating Credit Risk" and "The Guideline for Credit Portfolio Classification", allowance for doubtful accounts is determined by evaluating the recoverability of the outstanding balances of various loans and receivables. Before June 30, 2005, loan assets are classified into four categories: (1) pass (2) substandard (3) doubtful and (4) loss. Allowance for bad loans is provided at 0.04%, 1%, 50%, and 100% on loans classified under categories 1, 2, 3, and 4, respectively.

Moreover, starting from July 1, 2005, in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", loan assets are classified into five categories: (1) normal (except for this category, others are classified into non-performing loans and evaluated by the guarantees and the length of overdue loans) (2) special attention (3) substandard (4) doubtful (5) unrecoverable. Allowance for bad loans is provided at 0%, 2%, 10%, 50% and 100% on loans classified under categories 1, 2, 3, 4 and 5, respectively.

Upon the approval of the Board of Directors, the overdue loans are written off in accordance with the guideline of "The Procedure for Handling Non-Performing Loans, Overdue Receivables, and Bad Debts".

### (5) Long-term investments

Long-term investments in listed company in which the Bank owns less than 20% of common stock and has no ability to exercise significant influence over the investee, are stated at the lower of cost or market value. Any unrealized loss is recorded as a contra account of stockholders' equity. Investments of unlisted securities are stated at cost. Any permanent loss in value of investment is recognized in the current period.

Investments in which the Bank owns at least 20% of common stock or has the ability to exercise significant influence are accounted for using the equity method and the difference between the investment cost and net book value is amortized over five years. In addition, the cumulative translation adjustment resulted from evaluation of investee's foreign investments are accounted for under the equity method is recognized proportionally in the stockholders' equity based on the Bank's percentage of ownership.

When disposing long-term equity investments, the cost is calculated under the weighted average method and any gain or loss is recognized in current operations.

Majority owned subsidiaries meeting the following criteria are consolidated:

- \* The total assets or operating income of a subsidiary constitute 3% of the Bank's respective non-consolidated totals.
- \* When the combined total assets or operating income of all non-consolidated subsidiaries constituting more than 30% of the Bank's respective non-consolidated totals, they are consolidated unless the combined total assets or operating income of all non-consolidated subsidiaries constituting less than 20% of the respective non-consolidated totals.

- \* All foreign banking subsidiaries are consolidated.
- \* For FCB Leasing Co., Ltd. (FLC) and First Insurance Agency Co., Ltd. (FIA), wholly owned subsidiaries, the percentages of the total assets and operating income to the Bank's respective non-consolidated totals are as follows:

Subsidiary	% of The Bank's total assets	% of The Bank's total operating income
FLC	0.74	1.75
FIA	0.03	1.47
Total	0.77	3.22

As the percentage of the Bank's total assets and operating income is insignificant, therefore it is not included in the consolidated financial statements.

Long-term bonds are stated at cost. Premiums or discounts on bond are amortized under the straight-line method. Cost of long-term bond is determined under the moving-average method.

#### **(6) Properties and equipments/non-operating assets**

Properties and equipment are stated at cost plus appraisal incremental. Depreciation is computed on the straight-line basis using the estimated useful lives of the assets plus an additional year as salvage value except for leasehold improvements. Amortization of leasehold improvement is determined under the straight-line basis over the shorter of lease term or 5 years. The useful lives of major properties and equipments are between 3 to 55 years.

Major renewals and improvements are capitalized and depreciated while maintenance and repairs are expensed as incurred.

Rental assets or idle assets are classified under other non-operating assets. Depreciation for current period is recognized as "non-operating expenses and losses" and valued at the lower of book values or net realizable values as of the balance sheet date.

#### **(7) Foreclosed assets**

Foreclosed assets are stated at the lower of cost or net realizable values.

#### **(8) Deferred expenses**

Deferred expenses primarily consist of deferred tax assets (please refer to Note (17) Income tax). The cost of issuing financial bonds is amortized under the straight-line method over the lives of the bonds. Other deferred expenses aside from those listed above are stated at acquisition cost and amortized under the straight-line method over 5 years.

#### **(9) Intangible assets**

Intangible assets comprise computer software expenditures and are amortized over 3 years under the straight-line method.

#### **(10) Reserve for guarantees**

Reserve for guarantees is provided based on the net of guarantees and margin deposits, acceptances and letters of credit.

#### **(11) Reserve for losses in securities trading**

Reserve for trading securities on own account is provided based on 10% of the excess of monthly gains over losses with a maximum \$200,000. Such reserve can only be used to offset losses over gains arising from securities trading in accordance with "Rules Governing Securities Firms".

#### **(12) Pension plan**

Under the defined benefit pension plan, the Bank recognizes net periodic pension cost, which includes service cost, interest cost, expected return on plan assets, and the amortization of unrecognized transition obligation and pension gains or losses, based on an actuarial valuation. Under the defined contribution pension plan, the Bank should contribute pension fund and recognize as current pension cost based on an accrual basis.

#### **(13) Foreign currency transactions and translations of financial statements**

Foreign currency transactions are recorded in New Taiwan dollars at exchange rates prevailing on the transaction dates. Differences between actual payments or receipts and recorded transaction amounts are recognized as foreign exchange gains or losses in the current period. Assets and liabilities denominated in foreign currencies are revalued using the spot exchange rates notified by the Central Bank of China on the balance sheet date. Foreign exchange gains or losses are either included in the current year statement of income, or for long-term investments, recognized as cumulative translation adjustment of the stockholders' equity.

When the financial statements of overseas operating units are translated into New Taiwan dollars, all assets and liabilities accounts are translated at exchange rates prevailing on the balance sheet date. Retained earnings at beginning of year is carried forward from last year, balances of all other accounts of stockholders' equity are translated using historical exchange rates. Any differences resulting from translation are recorded as cumulative translation adjustment, an adjustment account of stockholders' equity.

#### **(14) Derivative financial instruments**

- 1) Derivative financial instruments held for trading purposes

Assets or liabilities resulting from derivative financial instruments held for trading purpose are valued at fair values on the balance sheet date.

Both realized and unrealized changes in fair values

are recognized as trading profit or loss in the current period.

## 2) Derivative financial instruments held for hedging purposes

For derivative financial instruments held for hedging purposes, profit or loss is recognized in the current period and the carrying value of the hedged assets or liabilities is adjusted accordingly. When a derivative financial product is used to hedge risks associated with commitments or forecasted transactions, gain or loss arising from the derivative financial instrument is deferred until the gain or loss from the transaction being hedged is realized. When a derivative financial instrument contract is settled prior to maturing, the realized gain or loss is deferred and amortized over the remaining period until profit or loss relating to the hedged assets or liabilities is realized.

### (15) Impairment of assets

When circumstance changes or occurrence indicates that an asset's recoverable amount is less than its carrying value more likely than not, an impairment loss should be recognized. The recoverable amount of an asset is the higher of its 'fair value less costs to sell' or its 'value in use'. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. The value in use is the present value of the future cash flows expected to be derived from an asset.

When previous impairment of assets no longer exists, the carrying amount of the asset shall be increased to the extent of the impairment provision recognized for the asset in prior years.

### (16) Recognition of interest income

Interest income on loans is recognized on an accrual basis. However, recognition of interest is suspended under the following conditions:

- \* Loans are reclassified as overdue loans; or
- \* The interests are noted on reference books as agreed upon by bail-out projects, and by extension of maturities.

### (17) Income tax

The Bank adopted the Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax," whereby tax is provided based on accounting income after adjusting for permanent differences and inter- and intra-period allocations. The income tax effect of taxable temporary differences was recorded as a deferred tax liability. The income tax effect of deductible temporary differences, losses available for carryforward and income tax credits are recorded as deferred tax assets whose

realization is valued at the balance sheet date and any portion not realizable shall be accounted for as an allowance. Over or under provision of previous year's income tax is included in current year's income tax.

In accordance with the Income Tax Act, the Bank and the parent company, First Financial Holding Co. file consolidated income tax and undistributed earnings returns jointly.

The accounting policy adopted by the Bank for linked tax system of income tax filing is complied with the rules stipulated under the ARDF of the ROC effective October 3, 2003.

### (18) The statement of cash flows

The cash in the statement of cash flows consists of cash and cash equivalents, and due from Central Bank and other banks.

### (19) Financial assets securitization transaction

According to "Financial Asset Securitization Act" and "Trust Law", the Bank transferred its residential mortgage loans and the accompanying obligations to Deutsche Bank AG., Taipei Branch (the Trustee) for a special purpose trust. The Trustee raised funds by issuing trust certificates for the Bank. Under this arrangement, the Bank lost control of the transferred assets, which were removed from the loan portfolio, and the net amount of service assets and recourse liabilities was recognized. The portion of subordinate trust certificates held for credit enhancement was recorded in other long-term investments.

Fair value of the subordinate trust certificates is estimated based on expected prepayment rate, expected weighted average lives, expected default rate and discount rate of residual cash flows. Interest on subordinate trust certificates received from the Trustee are recorded as interest income. The certificates' value is assessed on future discounted cash flows, and the difference arising from valuation is recognized as valuation loss.

Service assets are recorded as other assets and amortized under the straight-line method over the set service lives.

### (20) Use of estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of financial statements. Actual results could differ from those estimates.

## 2. Change in Accounting Policy and its Impact

Effective January 1, 2004, in accordance with "Guidelines Governing the Preparation of Financial Reports by Public Banks", the Bank changed the method of accounting for investments in bonds and securities under resale and repurchase agreements from the sales method to the financing method. As a result of the change in accounting principle, the 2004 net income was decreased by \$299,129.

The Bank had adopted the newly announced Statement of Financial Accounting Standard No. 35 "The Impairment of Assets", effective January 1, 2005. This change of accounting policy has no significant effect on financial statements for the year ended December 31, 2005.

## 3. Summary of Significant Accounts

### (1) Cash and cash equivalents

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Cash in vault	\$ 8,864,414	\$ 9,028,210
Checks for clearance	25,091,694	10,036,998
Due from other banks	4,080,325	4,603,619
Total	<u>\$ 38,036,433</u>	<u>\$ 23,668,827</u>

### (2) Due from Central Bank and other banks

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Reserve for deposits maintained with Central Bank - account A	\$ 12,521,400	\$ 21,048,781
Reserve for deposits maintained with Central Bank - account B	29,038,509	28,444,022
Reserve for deposits - foreign currency	122,864	107,249
Deposits from foreign branches maintained with foreign Central Banks	523,587	636,713
Deposits of national treasury account	926,905	999,505
Call loans to banks and bank overdrafts	74,642,951	87,839,243
Inter-bank clearing fund	1,822,413	1,813,772
Total	<u>\$ 119,598,629</u>	<u>\$ 140,889,285</u>

Under the Banking Law, statutory reserve for deposits maintained with the Central Bank is based on monthly average deposit amount and may not be used for any other proposes.

### (3) Marketable and trading securities

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Certificates of deposit	\$ 228,875,821	\$ 241,009,960
Marketable securities	71,729,058	48,034,144
Commercial papers (note 1)	-	1,520,421
Trading securities-dealing (note 2)	15,588,071	21,714,682
Total	<u>\$ 316,192,950</u>	<u>\$ 312,279,207</u>

note 1: Total amounts for repurchase agreements as of December 31, 2005 and 2004 were \$0 and \$940,184, respectively.

note 2: Total amounts for repurchase agreements as of December 31, 2005 and 2004 were \$15,395,150 and \$17,456,877, respectively.

note 3: Please refer to note 5 for the pledge of marketable and trading securities.

#### (4) Accounts receivables

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Interest receivable	\$ 5,803,525	\$ 5,338,653
Acceptances receivable	7,009,459	6,874,933
Credit card consumption advanced receivable	5,106,762	4,306,937
Forward exchange contracts receivable-net	2,061,755	12,315,682
Accounts receivables	1,871,129	467,795
Income tax refund	1,998,745	1,716,431
Receivable from securities sold	876,590	-
Accrued income	216,140	184,061
Other receivables	202,500	200,350
Sub-total	<u>25,146,605</u>	<u>31,404,842</u>
Less: Allowance for doubtful accounts	<u>( 292,721)</u>	<u>(326,256)</u>
Net	<u>\$ 24,853,884</u>	<u>\$ 31,078,586</u>

As of December 31, 2005 and 2004, the reserve for losses on the acceptances receivable was included in the reserve for losses on guarantees, which amounted to \$450,518 for both years and was recorded in "other liabilities".

#### (5) Loans, bills purchased and discounted

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Bills discounted	\$ 5,482,397	\$ 5,068,000
Overdrafts	1,465,029	1,557,715
Short-term loans	268,392,254	250,567,964
Medium-term loans	269,233,318	250,106,988
Long-term loans	336,572,751	325,369,807
Bills purchased and import-export negotiations	3,296,720	3,464,729
Overdue loans	14,238,501	13,641,944
Sub-total	<u>898,680,970</u>	<u>849,777,147</u>
Less: Allowance for doubtful accounts	<u>(8,108,416)</u>	<u>(8,038,035)</u>
Net	<u>\$ 890,572,554</u>	<u>\$ 841,739,112</u>

As of December 31, 2005 and 2004, the loans and overdue loans without interest recorded totaled \$14,115,475 and \$13,498,762, respectively. The interests accruable not recorded in 2005 and 2004 amounted to \$458,714 and \$427,916, respectively.

Proper legal claims against debtors have been filed, before any written-offs were conducted in years of 2005 and 2004.

The Bank has assessed the adequacy of allowance for doubtful accounts by considering specific doubtful loan risk and loan portfolio risk. The details and movements in allowance for doubtful accounts, including accounts receivables, other receivables, bills purchased and discounted, loans and overdue loans, are as follows:

	<u>For the year ended December 31, 2005</u>		
	<u>Provision for specific loans</u>	<u>General provision for overall loan portfolio</u>	<u>Total</u>
Beginning balance	\$ 2,069,075	\$ 6,295,216	\$ 8,364,291
Provision for the year	4,320,502	-	4,320,502
Write-offs	(4,404,876)	-	(4,404,876)
Translation difference and others	1,905,602	(1,784,382)	121,220
Ending balance	<u>\$ 3,890,303</u>	<u>\$ 4,510,834</u>	<u>\$ 8,401,137</u>

For the year ended December 31, 2004

	Provision for specific loans	General provision for overall loan portfolio	Total
Beginning balance	\$ 2,331,520	\$ 3,398,775	\$ 5,730,295
Provision for the year	4,213,028	2,896,441	7,109,469
Write-offs	(4,369,671)	-	(4,369,671)
Translation difference and others	(105,802)	-	(105,802)
Ending balance	\$ 2,069,075	\$ 6,295,216	\$ 8,364,291

## (6) Long-term equity investments

1) Long-term equity investments:

	December 31, 2005		December 31, 2004	
	Amount	Percentage of ownership	Amount	Percentage of ownership
<b>Equity method</b>				
First Commercial Bank (USA)	\$ 1,249,593	100.00	\$ 1,193,733	100.00
East Asia Real Estate Management Co., Ltd.	10,248	30.00	8,740	30.00
FCB Leasing Co., Ltd.	696,796	100.00	604,209	99.97
First Insurance Agency Co., Ltd.	274,493	100.00	197,970	99.99
Sub-total	2,231,130		2,004,652	
<b>Cost method</b>				
Taiwan Power Company	\$ 2,187,531	0.84	\$ 2,187,531	0.84
Tang Eng Iron Works Co., Ltd.	246,340	7.04	246,340	7.04
CDIB & Partners Investment Holding Corp.	400,000	3.96	400,000	3.96
Taiwan Assets Management Co., Ltd.	-	-	3,000,000	17.03
Others	453,750	-	454,104	-
Sub-total	3,287,621		6,287,975	
<b>The lower of cost or market value method</b>				
Chang Hwa Commercial Bank	\$ 1,283,366	3.51	\$ 1,283,366	3.51
Taiwan Business Bank	734,936	2.42	1,469,878	5.62
Hua Nan Financial Holding Co., Ltd.	701,235	2.53	701,235	2.53
Taiwan Development & Trust Corp.	34,736	5.79	34,736	5.79
Taiwan Cooperative Bank	-	-	74,694	0.14
Sub-total	2,754,273		3,563,909	
Total	\$ 8,273,024		\$ 11,856,536	

2) Investment income and cumulative translation adjustment under equity method are as follows:

	2005	2004
Investment income	\$ 400,284	\$ 270,657
Cumulative translation adjustment	(43,126)	(17,650)

## (7) Other long-term investments

	December 31, 2005	December 31, 2004
Bonds	\$ 26,647,285	\$ 27,577,136
Corporate bonds	2,572,712	5,563,185
Financial bonds	13,389,141	12,199,225
Subordinate trust certificates	292,697	292,697
Convertible preferred stock	2,000,000	2,000,000
Trust certificates	11,338,870	3,835,733
CMS structured notes	1,807,300	-
Sub-total	58,048,005	51,467,976
Discount for amortization-net	(23,323)	(1,867)
Net	\$ 58,024,682	\$ 51,466,109

As of December 31, 2005, Constant Maturity Swap Spread Range Accrual Notes (CMS structured notes) invested by the Bank is a principal guaranteed instrument with par value of US\$55 million and bears either fixed interest rate ranging from 5.1% to 6.35% or 3 months LIBOR plus spread.

### (8) Properties and equipments-net

	<b>December 31, 2005</b>			
	Cost	Appraisal increments	Accumulated depreciation	Book value
Land	\$ 7,054,603	\$ 9,378,869	\$ (1,620)	\$ 16,431,852
Buildings	7,843,596	56,892	(2,594,909)	5,305,579
Machinery and equipments	3,258,411	-	(2,243,770)	1,014,641
Transportation equipments	875,520	-	(478,369)	397,151
Other equipments	1,783,275	-	(1,344,868)	438,407
Leasehold improvements	590,568	-	(469,123)	121,445
Construction in progress and prepayments for equipments	139,440	-	-	139,440
	<b>\$ 21,545,413</b>	<b>\$ 9,435,761</b>	<b>\$ (7,132,659)</b>	<b>\$ 23,848,515</b>
	<b>December 31, 2004</b>			
	Cost	Appraisal increments	Accumulated depreciation	Book value
Land	\$ 6,982,855	\$ 9,599,540	\$ (1,211)	\$ 16,581,184
Buildings	7,685,319	57,150	(2,362,521)	5,379,948
Machinery and equipments	3,140,659	-	(2,073,740)	1,066,919
Transportation equipments	782,469	-	(420,396)	362,073
Other equipments	1,846,339	-	(1,340,952)	505,387
Leasehold improvements	599,889	-	(448,616)	151,273
Construction in progress and prepayments for equipments	89,564	-	-	89,564
	<b>\$ 21,127,094</b>	<b>\$ 9,656,690</b>	<b>\$ (6,647,436)</b>	<b>\$ 24,136,348</b>

The Bank revalued its land and buildings in accordance with the relevant regulations. As of December 31, 2005 and 2004, the appraisal increments totaled \$15,772,836 and \$16,346,551 (including non-operating assets), respectively; and the reserves for land appraisal incremental tax were \$5,630,103 and \$8,862,243, respectively.

### (9) Other assets

	<b>December 31, 2005</b>	December 31, 2004
Intangible assets	<b>\$ 203,767</b>	\$ 164,952
Non-operating assets		
At cost		
Land	468,823	532,056
Buildings	1,602,409	1,579,733
Others	295,804	11,793
Sub-total	<b>2,367,036</b>	2,123,582
Appraisal increments	<b>6,337,075</b>	6,689,861
Total cost and appraisal increments	<b>8,704,111</b>	8,813,443
Less: accumulated depreciation	<b>(550,660)</b>	(502,223)
Net book value for non-operating assets	<b>8,153,451</b>	8,311,220
(to be continued)		



Other non-operating assets		
Foreclosed assets		
At cost	402,923	546,468
Less: accumulated impairment	(227,519)	(302,524)
Net book value for foreclosed assets	175,404	243,944
Refundable deposits	584,253	871,111
Other assets to be adjusted	55,050	160,750
Derivative financial instruments revaluation	749,356	486,630
Service assets	3,619	4,342
Others	28	-
	1,567,710	1,766,777
Deferred expenses		
Other deferred expenses	13,168	23,244
Deferred income tax assets-net	10,879,202	13,672,652
	10,892,370	13,695,896
Total	\$ 20,817,298	\$ 23,938,845

The Ministry of Finance approved the Bank's takeover of five credit departments of Farmers' and Fishermen's Associations in Taiwan effective from September 14, 2001. The acquired assets together with the indebtedness were transferred to the Bank. The RTC Fund has partially reimbursed the losses suffered by the Bank.

The remaining portions of disputed assets and liabilities, under current investigation, have been temporarily recorded in "other assets to be adjusted" and "other liabilities to be adjusted", respectively. Upon settlement, the balance will be transferred to appropriate accounts and any deficiency will be compensated by the RTC fund.

Effective January 1, 2005, the Bank adopted the SFAS No.35, "Accounting for Asset Impairment". An impairment loss of \$1,643 was recognized for the year ended December 31, 2005.

#### (10) Due to Central Bank and other banks

	December 31, 2005	December 31, 2004
Due to Central Bank	\$ 201,614	\$ 187,913
Due to other banks	672,621	697,192
Overdraft on banks	1,424,371	1,275,379
Call loans from banks	99,813,325	99,969,261
Total	\$ 102,111,931	\$ 102,129,745

#### (11) Payables on bonds and securities under repurchase agreements

	December 31, 2005	December 31, 2004
Bonds under repurchase agreements	\$ 15,395,150	\$ 17,456,877
Securities under repurchase agreements	-	940,184
Total	\$ 15,395,150	\$ 18,397,061

Based on the repurchase agreements as of December 31, 2005 and 2004, the Bank is obliged to repurchase the above bonds and securities at selling price plus mark-up. The repurchase amounts of the bonds were \$15,430,146 and \$17,495,808, respectively, and the repurchase amounts of the securities were \$0 and \$940,391, respectively.

#### (12) Payables

	December 31, 2005	December 31, 2004
Accounts payable	\$ 26,985,759	\$ 16,120,205
Interest payable	3,807,172	3,036,970
Forward exchange contracts payable-net	2,020,800	12,089,888
Bank acceptances	7,296,636	7,137,593
Collections for customers	992,396	1,019,004
Accrued expenses	2,328,288	2,221,580
Dividends payable	215,464	220,359
Other payables	5,183,040	5,564,890
Total	\$ 48,829,555	\$ 47,410,489

### (13) Deposits and remittances

	<b>December 31, 2005</b>	December 31, 2004
Checking account deposits	\$ 41,504,160	\$ 34,408,858
Demand account deposits	221,408,283	210,542,125
Time deposits	216,179,892	212,464,993
Negotiable certificates of deposit	9,819,800	9,571,100
Savings account deposits	697,327,884	684,719,423
Remittances and drafts issued	53,021	87,150
Remittances outstanding	1,008,086	1,014,623
Total	<b>\$ 1,187,301,126</b>	<b>\$ 1,152,808,272</b>

### (14) Financial bonds payable

The issuances of senior and subordinated financial bonds were approved by the meetings of the Board of Directors on June 22, 2001, October 3, 2002 and November 14, 2003, respectively with a purpose to improve the Bank's capital adequacy ratio and to finance long- and medium-term operating capital. The projected issuances of \$50, \$30 and \$20 billion were approved by MOF. The subordinated bonds are subordinate to creditors, but take precedence over shareholders in case of liquidation. The details of each issuance are as follows:

	<b>First issuance, 2001</b>
Issuance date	September 12, 2001
Amount	NT\$10 billion
Price	At par
Coupon rate	4%
Interest and repayment term	Interest is paid annually and principal is paid 20%, 30%, 50% on the 5th, 6th, 7th year, respectively.
Maturity	7 years
	<b>First to Fourth issuance, 2002</b>
Issuance dates	March 4, July 9, December 10, and December 19, 2002
Amount	NT\$20.5 billion
Price	At par
Coupon rate	NT\$10.5 billion of par value are at fixed interest rate (3.2%~3.9%), the rest of NT\$10 billion of par value either at floating interest rate or reverse floating rate with minimum yield rate of 0%.
Interest and repayment term	For fixed interest rate, interest is paid annually. For floating interest rate, interest is paid either quarterly, or semi-annually. Principal is repaid on maturity date.
Maturity	5 years to 5 years and 7 months
	<b>First to Ninth issuance, 2003</b>
Issuance dates	January 20, February 25, May 2, September 10, October 27, November 13, 2003
Amount	NT\$24.8 billion
Price	At par
Coupon rate	NT\$3 billion of par value are at fixed interest rate (2.9%~3.0%), the rest of NT\$21.8 billion of par value with either floating interest rate or reverse floating interest rate, and minimum yield rate is 0%. Interest rate indicator is USD 6M LIBOR or 90 days commercial paper interest rate or IRS rate.
Interest and repayment term	For fixed interest rate, interest is paid annually. For floating interest rate, interest is paid either quarterly, or semi-annually. Principal is repaid on maturity date.
Maturity	4 years to 8 years

	<b>First issuance, 2004</b>
Issuance date	May 25, 2004
Amount	NT\$4 billion
Price	At par
Coupon rate	NT\$0.5 billion of par value are at fixed interest rate 4%, the rest of NT\$3.5 billion of par value with floating interest rate, and minimum yield rate is 0.5%. Interest rate indicator is USD 6M LIBOR.
Interest and repayment term	Interest is paid semi-annually and the principal is repaid on maturity date.
Maturity	7 years

As of December 31, 2005 and 2004, interest rates of the above financial bonds are between 0% ~ 5.494% and 0% ~ 5.744%, respectively.

#### (15) Other liabilities

	<b>December 31, 2005</b>	December 31, 2004
Reserve for land appraisal incremental tax	\$ 5,630,103	\$ 8,862,243
Guarantees and margin deposits	1,383,178	1,332,365
Accrued pension liabilities	1,374,209	1,198,812
Appropriated loan fund	382,677	444,424
Reserve for losses on guarantees	450,518	450,518
Reserve for losses in securities trading	200,000	200,000
Revaluation of derivative financial instruments	443,347	428,591
Other liabilities to be adjusted	25,125	57,566
Others	73,320	43,101
Total	<b>\$ 9,962,477</b>	<b>\$ 13,017,620</b>

According to Tai-Tsai-Tax Ruling No. 9304511790 of Ministry of Finance dated February 4, 2005, the Bank reclassified reserve for land appraisal incremental tax of \$3,104,131 to reserve for land appraisal increments, due to the reduction in tax rate.

#### (16) Pension plan

1) The Bank has, in accordance with the provision of the Labor Standards Law, stipulated a defined benefit pension plan for providing retirement benefits covering all full-time employees hired before the implementation of the Labor Pension Act on July 1, 2005. The defined benefit plan will continue to apply to the employees who chose to remain with the defined benefit plan. Upon retirement, pension payments are calculated based on total years of service and average salary of the six months prior to retirement. Each employee accrues two units for every year of service for the first 15 years and one unit for every year of service thereafter, with a maximum of 45 units. The Bank deposited 10% of monthly salaries in the designated account with Central Trust of China. As of December 31, 2005 and 2004, the net periodic pension cost under defined benefit pension plan were \$713,734 and \$693,340, respectively and the balances of pension fund deposited in Central Trust of China were \$2,824,130 and \$2,366,533, respectively.

2) Actuarial assumptions used:

	<b>2005</b>	2004
Discount rate	<b>2.50%</b>	3.00%
Rate of increase in salaries	<b>1.75%</b>	2.00%
Rate of return on plan assets	<b>2.50%</b>	3.00%

3) The reconciliation of the plan's status to balance sheet amounts is shown below:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Benefit obligation:		
Vested benefit obligation	\$ 2,958,886	\$ 2,492,997
Non-vested benefit obligation	1,226,873	1,029,806
Accumulated benefit obligation	<u>4,185,759</u>	<u>3,522,803</u>
Additional benefits based on future salaries	819,830	838,704
Projected benefit obligation	<u>5,005,589</u>	<u>4,361,507</u>
Fair value of plan assets	<u>(2,899,776)</u>	<u>(2,429,289)</u>
Funded status	2,105,813	1,932,218
Unrecognized pension gain	( 779,674)	(779,426)
Accrued pension cost	<u>\$ 1,326,139</u>	<u>\$ 1,152,792</u>
Vested benefit	<u>\$ 3,452,022</u>	<u>\$ 3,022,132</u>

4) Net periodic pension costs

	<u>2005</u>	<u>2004</u>
Service cost	\$ 634,525	\$ 634,925
Interest cost	134,834	106,564
Expected return on plan assets	(81,006)	(65,965)
Amortization of unrecognized pension gain	18,788	17,816
Net periodic pension costs	<u>\$ 707,141</u>	<u>\$ 693,340</u>

5) Starting from July 1, 2005, the Bank has, in accordance with the Labor Pension Act, stipulated a defined contribution pension plan for eligible local employees. For the employees who chose to apply to the Act, the Bank should contribute no less than 6% of the employees' monthly salaries and wages and deposit the pension amount into each employee's personal pension account with the Bureau of Labor Insurance. Furthermore, the employees can choose monthly or lump sum pension payments calculated by the principal and accrued return in the employee's personal pension account. The pension costs for the year ended December 31, 2005 was \$33,255.

#### (17) Capital stock

The Bank's paid-in capital was \$46,216,000, consisting of 4,621,600 thousand shares of common stock, with par value of NT\$10 dollars per share.

#### (18) Capital reserve

Capital reserve mainly includes appraisal increments, paid-in capital in excess of par value from the issuance of stock, and donation income.

As stipulated, if there are not any losses recorded, the capital reserve, resulting from value received in excess of par value of the issuance of stock and donation income, can be appropriated for capital increase, limited to a maximum of 10% of the paid up capital. However, the other accounts under the capital reserve will be appropriated and used to cover the losses only.

The revaluation of land will be recorded in original subject asset accounts for adjusting and in other liabilities - reserve for land appraisal incremental tax and capital reserve - reserve for land appraisal increments. The gains or losses on disposal will be recognized, and the subject accounts of other liabilities and capital reserve will be settled off as well.

#### (19) Legal reserve and special reserve

1) Legal reserve

Accordingly to the Company Law, legal reserve can only be used to offset accumulated losses and be capitalized. However, when the accumulated reserves have reached or exceeded 50% of share capital, up to 50% of legal reserve can be capitalized.

## 2) Special reserve

Pursuant to the regulations of the Securities & Futures Bureau, Financial Supervisory Commission, Executive Yuan, except for setting aside legal reserve, the Bank is required to set aside a special reserve in an amount equal to the net change in the reduction of stockholders' equity in the current year from its annual net income and undistributed earnings of prior year. Such special reserve is not available for dividend distribution. In subsequent year(s), if the year-end balances of such items are no longer resulted in a reduction in stockholders' equity, the special reserve previously set aside will then be available for distribution.

## (20) Unappropriated earnings

1) As stipulated by the Bank's Articles of Incorporation, the annual net income after income tax should be first used to offset accumulated losses, then a provision of 30% of it should be set aside as legal reserve, the Bank can also set aside a special reserve for specific business purposes. The remaining earnings are to be distributed as follows:

- 1% to 8% as bonus to employees.
- Dividend and bonus to shareholders as proposed by the Board of Directors after considering the capital adequacy ratio and the need for business development, and approved by the shareholders' meeting.  
(The Board of Directors function in an acting capacity of the meeting of stockholders).

## 2) Dividend policy for the next three years

Banking is a fully developed industry and the Bank, operating under a solid financial base, has maintained a secured income. The Bank has set up its dividend policy based on capital adequacy ratio so as to build up its capital adequacy ratio and to enhance its competitiveness. The dividend will be paid in the form of cash or stock.

If the legal reserve is less than the capital or the capital adequacy ratio is below the statutory ratio stipulated by the Banking Law, the maximum amount of cash dividend distribution has to be subject to the stipulations set out by the Banking Law and the governing authorities.

3) The appropriation of 2004 earnings has been resolved by the Board of Directors. Details are summarized below:

	Appropriation of earnings		Earnings per share (in dollars)	
	2004	2003	2004	2003
Legal reserve	\$ 2,990,128	\$ -	\$ -	\$ -
Cash dividends for common stock	3,466,200	-	0.75	-
Bonus to employees	488,388	-	-	-
	<u>\$ 6,944,716</u>	<u>\$ -</u>	<u>\$ 0.75</u>	<u>\$ -</u>

4) The appropriation of bonus to employees of 2004 had no difference from the resolve by the Board of Directors.

5) The appropriation of bonus to employees of 2005 can be referred on the Market Observation Post System after the approval of the shareholders' meeting.

## (21) Personnel, depreciation and amortization expenses

	For the year ended December 31,	
	2005	2004
Personnel	\$ 8,957,112	\$ 8,459,393
Salaries	7,746,239	7,342,803
Labor and health insurances	296,598	280,137
Pension	746,989	700,985
Others	167,286	135,468
Depreciation	894,227	786,417
Amortization	129,167	115,349

## (22) Income tax

### 1) Income tax reconciliation:

	<u>December 31, 2005</u>	December 31, 2004
Income tax refund	\$ (1,115,077)	\$ (827,258)
Linked tax system of income tax filing receivable from parent company	-	(5,638)
Income tax payable - foreign branches	260,025	130,852
Increase in deferred income tax assets	2,793,450	1,850,623
Income tax adjustment - foreign branches	326,580	132,102
Over-provision of income tax in prior year	(6,059)	(84,094)
Tax on interest income separately taxed	8,184	11,601
Prepaid income tax	1,115,077	827,258
Income tax expense in current year	<u>3,382,180</u>	<u>2,035,446</u>
10% income tax levied on unappropriated earnings	-	-
Income tax expense	<u>\$ 3,382,180</u>	<u>\$ 2,035,446</u>

### 2) Deferred income tax assets-net:

As of December 31, 2005 and 2004, the income tax effects of temporary differences, that gave rise to the deferred tax assets and liabilities are as follows:

	<u>December 31, 2005</u>		December 31, 2004	
	Amount	Income tax effects	Amount	Income tax effects
Temporary differences				
Allowance for doubtful accounts	\$ 2,783,987	\$ 695,997	\$ 2,783,987	\$ 695,997
Loss carryforwards (expiring in 2008)	42,008,435	10,502,109	51,920,056	12,980,014
Accumulated impairment of foreclosed assets	227,519	56,880	452,526	113,132
Others	895,551	223,888	977,491	244,372
	<u>\$ 45,915,492</u>	<u>11,478,874</u>	<u>\$ 56,134,060</u>	<u>14,033,515</u>
Investment tax credits		58,613		55,761
Offshore entities		142,046		129,040
Deferred income tax assets		11,679,533		14,218,316
Allowance for deferred income tax assets		(800,331)		(545,664)
Deferred income tax assets-net		<u>\$ 10,879,202</u>		<u>\$ 13,672,652</u>

### 3) As of December 31, 2005, details of tax credits are as follows:

	<u>Amount</u>	Available period (year)
Training costs	\$ 38,962	2005~2008
Investment tax credit from investment in Taiwan Cement Corporation	19,651	2005
Total	<u>\$ 58,613</u>	

### 4) Imputed tax system and related information

	<u>December 31, 2005</u>	December 31, 2004
Imputed tax credits for shareholders	\$ 178,806	\$ 316,137
Imputed tax credit rate of estimated (actual) earnings appropriation	<u>1.35%</u>	<u>3.17%</u>

### 5) Unappropriated retained earnings were as follows:

	<u>December 31, 2005</u>	December 31, 2004
Before June 30, 1998	\$ -	\$ -
After June 30, 1998	13,241,334	9,967,095
	<u>\$ 13,241,334</u>	<u>\$ 9,967,095</u>

### 6) The tax authorities have examined and approved the Bank's income tax filings for all years through 2001.

### (23) Earnings per share

	January 1 to December 31, 2005				
	Amount		Adjusted weighted average outstanding common stock (in thousand shares)	Earnings per share	
	Before tax	After tax		Before tax	After tax
Net income	<b>\$ 13,601,135</b>	<b>\$10,218,955</b>	<b>4,621,600</b>	<b>\$ 2.94</b>	<b>\$ 2.21</b>

	January 1 to December 31, 2004				
	Amount		Adjusted weighted average outstanding common stock (in thousand shares)	Earnings per share	
	Before tax	After tax		Before tax	After tax
Net income	\$12,002,541	\$ 9,967,095	4,621,600	\$ 2.60	\$ 2.16

### (24) Capital adequacy ratio

The minimum capital adequacy ratio, a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures, is 8% as required by the Banking Law and other relevant rules and regulations in order to ensure a sound financial standing for banks. If the said ratio is less than the prescribed ratio, the bank's ability to distribute surplus profits may be restricted by the central competent authority.

The capital adequacy ratio of the Bank was 10.29% and 10.37% as of December 31, 2005 and 2004, respectively.

### (25) Asset securitization transactions

On March 2, 2004, the carrying value for residential mortgage backed securitization was \$4,572,697, and the loans were accordingly transferred to a special purpose trust. The issuance of senior trust certificates in three classes totaled \$4,280,000. The details are as follows:

- Class A: Par value of \$3,910,000, and the coupon rate is ARM index plus 0.25%.
- Class B: Par value of \$220,000, and the coupon rate is ARM index plus 0.55%.
- Class C: Par value of \$150,000, and the coupon rate is ARM index plus 0.65%.

note: The ARM index is the one-year average fixed savings deposit rate of seven major banks in Taiwan. Furthermore, the Bank purchased subordinate trust certificates of \$292,697 for credit enhancement purpose. If debtors fail to fulfill the principal repayments or the interest payments at maturity, investors and the Trustee have no recourse with the Bank. The holders of subordinate trust certificates are subordinate to the investors of trust certificates of Class A, B and C. The value of the subordinate trust certificates will fluctuate subject to the effects of credit risk, prepayment rate and interest risk. As of December 31, 2005 and 2004, the Bank recognized the interest from subordinate trust certificates with amount of \$42,752 and \$45,446, respectively.

#### 1) Major assumptions in measuring retained interests

	<b>December 31, 2005</b>	December 31, 2004
Expected prepayment rate	<b>59%</b>	45%
Expected weighted average lives (in years)	<b>7</b>	7
Expected default rate	<b>0.022%</b>	0.021%
Discount rate for residual cash flows	<b>3.6%</b>	3.6%

## 2) Sensitivity analysis

As of December 31, 2005 and 2004, if there are adverse changes of 10%~20% in the major assumptions, the sensitivity of the fair values for the residual cash flows are as follows:

	<b>December 31, 2005</b>	December 31, 2004
Carrying value of retained interests	<b>\$ 292,697</b>	\$ 292,697
Expected weighted average lives (in years)	<b>7</b>	7
Expected prepayment rate	<b>59%</b>	45%
Impact on fair value of a 10% adverse change	<b>(15,191)</b>	(11,233)
Impact on fair value of a 20% adverse change	<b>(28,820)</b>	(21,306)
Expected default rate	<b>0.022%</b>	0.021%
Impact on fair value of a 10% adverse change	<b>(391)</b>	(533)
Impact on fair value of a 20% adverse change	<b>(782)</b>	(1,066)
Discount rate of residual cash flows	<b>3.60%</b>	3.60%
Impact on fair value of a 10% adverse change	<b>(5,549)</b>	(565)
Impact on fair value of a 20% adverse change	<b>(10,959)</b>	(1,125)

## 3) Expected loss rate for static-group

	<u>Actual default rate</u>	<u>Expected default rate</u>
Residential mortgages backed securitization		
January 1, 2005~December 31, 2005	0.00%	0.022%
January 1, 2004~December 31, 2004	0.00%	0.021%

## 4) Cash flows

	<u>2005</u>	<u>2004</u>
Cash flows from securitization in (out)		
Proceeds from loans securitization	<b>\$ -</b>	\$ 4,572,697
Service income	<b>6,342</b>	11,831
Other cash flows received on retained interests	<b>40,187</b>	56,558
Required reserves (part of refundable deposits)	-	(98,939)
Reserve allocated by the service agency	-	(5,968)

## 5) Recognizing and measurement of service assets

As of December 31, 2005 and 2004, the service assets were \$5,463, respectively, and the amortized amounts were \$1,844 and \$1,121, respectively.

## (26) Other operating income

	<u>2005</u>	<u>2004</u>
Bad debts recoverable amount	<b>\$ 4,013,695</b>	\$ 4,839,783
Gain on disposal of long-term investments	<b>742,850</b>	23,679
Others	<b>1,845</b>	21,075
Total	<b>\$ 4,758,390</b>	\$ 4,884,537



#### 4. Related Party Transactions

##### (1) Details of related parties

Name of related party	Nature of relationship
First Financial Holding Co., Ltd. ("FFHC")	Parent company
Bank of Taiwan	An institution director of FFHC
Hua Nan Commercial Bank, Ltd.	An institution director of FFHC
Golden Garden Investment Co., Ltd.	An institution director of FFHC
First Commercial Bank (USA)	Wholly-owned subsidiary
FCB Leasing Co., Ltd	Wholly-owned subsidiary
First Insurance Agency Co., Ltd.	Wholly-owned subsidiary
East-Asia Real Estate Management Co., Ltd (EAREM)	Investee accounted for under the equity method
Franklin Templeton First Taiwan Securities Investment Trust Enterprise ("FTFT")	Investee accounted for under the equity method (note 1)
The First Education Foundation	The Bank is the major contributor of the Foundation (over one third of the Foundation's receipts)
First Taisec Securities Inc.	Subsidiary of FFHC
Mingtai Fire & Marine Insurance Co., Ltd. ("MFMI")	Subsidiary of FFHC (note 2)
National Investment Trust Co., Ltd. ("NITC")	Subsidiary of FFHC
First Financial Asset Management Co., Ltd.	Subsidiary of FFHC
First Venture Capital Co., Ltd.	Subsidiary of FFHC
First Financial Management Consulting Co., Ltd.	Subsidiary of FFHC
First P&C Insurance Agency Co., Ltd.	Subsidiary of FFHC
13 people including Yuan-Chi Chao, etc.	The Bank's directors
3 people including Yung-Sun Wu, etc.	The Bank's supervisors
285 people including Long-I Liao, etc.	The Bank's managers
24 people including Yuan-Shan Chao, etc.	Spouses of the Bank's directors, supervisors, chairman and president, and relatives within second degree of kinship of the Bank's chairman and president

note 1: The related party relationship has been terminated since November 2, 2004.

note 2: The related party relationship has been terminated since September 2, 2005.

##### (2) Major transactions with related parties

###### 1) Due from banks

	As of and for the year ended December 31, 2005			
	Highest balance	Ending balance	Interest income	Interest rate (%)
Bank of Taiwan	\$ 7,500,000	\$ -	\$ 6,568	1.210~1.390
Hua Nan Commercial Bank, Ltd	5,000,000	-	3,943	1.270~1.450
		\$ -	\$ 10,511	

	As of and for the year ended December 31, 2004			
	Highest balance	Ending balance	Interest income	Interest rate (%)
Bank of Taiwan	\$ 8,200,000	\$ 1,000,000	\$ 7,392	0.950~1.210
Hua Nan Commercial Bank, Ltd	6,000,000	-	3,550	0.925~1.150
		\$ 1,000,000	\$ 10,942	

###### 2) Due to banks

	As of and for the year ended December 31, 2005			
	Highest balance	Ending balance	Interest income	Interest rate (%)
Bank of Taiwan	\$ 8,800,000	\$ -	\$ 2,466	1.210~1.390
Hua Nan Commercial Bank, Ltd	4,000,000	-	1,821	1.210~1.450
		\$ -	\$ 4,287	

As of and for the year ended December 31, 2004

	Highest balance	Ending balance	Interest income	Interest rate (%)
Bank of Taiwan	\$ 11,500,000	\$ 1,000,000	\$ 6,758	0.950~1.210
Hua Nan Commercial Bank, Ltd.	4,000,000	1,000,000	1,576	0.975~1.210
		<u>\$ 2,000,000</u>	<u>\$ 8,334</u>	

### 3) Deposits

	December 31, 2005		December 31, 2004	
	Ending balance	Percentage	Ending balance	Percentage
FFHC	\$ 6,209,313	0.5	\$ 5,198,167	-
First Venture Capital Co., Ltd	325,839	-	23,391	-
First Insurance Agency Co, Ltd	323,411	-	256,246	-
EAREM	185,009	-	486,202	-
Others	5,867,548	0.5	9,485,453	1
	<u>\$ 12,911,120</u>	<u>1</u>	<u>\$ 15,449,459</u>	<u>1</u>

The deal details by each related party were not specifically prepared because none of them accounted for more than 10% of each respective account. Interest rates were at market rates.

### 4) Loans

	December 31, 2005		December 31, 2004	
	Ending balance	Percentage	Ending balance	Percentage
FCB Leasing Co., Ltd.	\$ 5,201,000	1	\$ 4,855,000	1
Others	3,621,896	-	4,947,773	1
	<u>\$ 8,822,896</u>	<u>1</u>	<u>\$ 9,802,773</u>	<u>2</u>

The deal details by each related party were not specifically prepared because none of them accounted for more than 10% of each respective account. Interest rates were at market rates.

### 5) Other receivables

	December 31, 2005		December 31, 2004	
	Ending balance	Percentage	Ending balance	Percentage
FFHC	\$ -	-	\$ 5,638	-

This is the receivable from consolidated income tax return with the parent company.

### 6) Securities under resale or repurchase agreements

	December 31, 2005		December 31, 2004	
	Securities under resale or repurchase agreements	Interest expense of securities under repurchase agreements	Securities under resale or repurchase agreements	Interest expense of securities under repurchase agreements
FFHC	\$ 400,000	\$ 294	\$ -	\$ -

Terms and conditions of transactions are at arms length.

### 7) Information about related parties as debtors and guarantors

Classification	December 31, 2005		
	Accounts	Balance	Estimated loss amount
Consumer loans (note 1)	-	\$ 3,001,776	None
Mortgages for employees	-	3,794,222	None
Other loans (note 2)	-	10,851,955	None
Credit secured by related parties as guarantors	-	4,117,715	4,494
		December 31, 2004	
Classification	Accounts	Balance	Estimated loss amount
Consumer loans (note 1)	-	\$ 2,841,218	None
Mortgages for employees	-	4,288,605	None
Other loans (note 2)	-	16,887,797	None
Credit secured by related parties as guarantors	-	5,248,668	105,071

note 1: "Consumer loans" are defined by the Banking Law, No. 32.

note 2: "Other loans" represent the credits granted to the related parties excluding consumer loans and mortgages for employees.

8) Foreign exchange trading

	December 31, 2005		December 31, 2004	
	Contracted amount	Payable to related parties	Contracted amount	Payable to related parties
Bank of Taiwan	\$ 998,922	\$ (12,758)	\$ 605,958	\$ (13,758)
Hua Nan Commercial Bank, Ltd.	824,142	(1,284)	1,499,073	(45,347)
Total	\$ 1,823,064	\$ (14,042)	\$ 2,105,031	\$ (59,105)

9) Interest rate swap

	December 31, 2005		December 31, 2004	
	Notional Principle	Gain/loss on IRS	Notional Principle	Gain/loss on IRS
FCB Leasing Co., Ltd	\$ 141,000	\$ 340	\$ -	\$ -

10) Marketable and trading securities

The Bank purchased structured bonds owned by NITC from security broker. Those bonds have the face value of \$6.5 billions and the cost totals \$6,090,722.

11) Long-term investment

The Bank has sold its Taiwan Asset Management stocks for \$3,601,164 (cost \$3,000,000) to FFHC.

## 5. Pledged Assets

Total assets with restrictions on use as of December 31, 2005 and 2004 are as follows:

	December 31, 2005	December 31, 2004	Pledged Purpose
Marketable and trading securities	\$ 1,260,900	\$ 1,312,200	Guarantees for the court and trust fund reserves
Refundable deposits	584,253	871,111	Guarantees for the court and rental deposits
Total	\$ 1,845,153	\$ 2,183,311	

## 6. Commitments and Contingent Liabilities

The outstanding commitments and contingent liabilities of the Bank as of December 31, 2005 and 2004 are as follows:

(1) Major commitments and contingent liabilities

	December 31, 2005	December 31, 2004
Unused loan commitments	\$ 43,372,309	\$ 35,309,108
Credit commitments for credit cards	37,749,003	80,175,126
Unused letters of credit issuance	26,383,366	31,296,852
Guarantees	31,274,943	34,401,906
Collections receivables from customers	150,614,512	151,860,152
Collections payables to customers	6,583,119	10,590,461
Travelers' checks consignment-in	645,962	653,476
Payables on bills guaranteed	7,080,120	7,178,962
Trust assets	225,710,663	204,782,223
Customers' securities under custody	536,530,185	670,998,877
Book-entry for government bonds under management	95,900,700	86,191,600
Depository for short-term marketable securities under management	35,973,717	39,773,575

- (2) The Trust Division of the Bank engages in planning and management of all trust businesses under the Banking Law and Trust Business Law. In addition, it provides customers with the investments of domestic and overseas mutual funds, and custodian service.

As of December 31, 2005 and 2004, investment details of trust assets are listed as follows:

**Balance Sheet of Trust Account as of December 31, 2005**

<b>Trust assets</b>		<b>Trust liabilities</b>	
Bank deposits	\$ 1,184,804	Payables	\$ -
Short-term investments	223,444,647	Other liabilities	-
Accounts receivables	8,435	Trust capital	225,710,663
Real estate	1,072,777		
<b>Total</b>	<b>\$ 225,710,663</b>	<b>Total</b>	<b>\$ 225,710,663</b>

**Property List of Trust Account as of December 31, 2005**

<b>Trust assets</b>	
Short-term investments	
Common stock	\$ 12,355,616
Bonds	35,674,055
Mutual funds	175,290,376
Trust certificates	124,600
Real estate	1,072,777
<b>Total</b>	<b>\$ 224,517,424</b>

**Balance Sheet of Trust Account as of December 31, 2004**

<b>Trust assets</b>		<b>Trust liabilities</b>	
Bank deposits	\$ 1,237,194	Payables	\$ 300
Short-term investments	202,942,993	Other liabilities	-
Accounts receivables	21,064	Trust capital	204,781,923
Real estate	580,972		
<b>Total</b>	<b>\$ 204,782,223</b>	<b>Total</b>	<b>\$ 204,782,223</b>

**Property List of Trust Account as of December 31, 2004**

<b>Trust assets</b>	
Short-term investments	
Common stock	\$ 8,019,373
Bonds	28,762,513
Mutual funds	166,098,795
Discretionary mandates	52,312
Trust certificates	10,000
Real estate	580,972
<b>Total</b>	<b>\$ 203,523,965</b>

- (3) Due to the collapse of Tung Xin building caused by an earthquake on September 21, 1999, the residents filed a legal claim for loss of personal properties against Hong Cheng Building Co., Ltd., Hong Ku Construction Co., Ltd., (including its directors and supervisors), Dah Lin Architect Co., and the Bank. As of December 31, 2005, the case was still pending under the Taipei District Court. However, the Bank's attorney believes that, the Bank will prevail in this case because there was no evidence found between the cause of collapse and the Bank's maintenance construction work, and because of the lack of malicious misconduct or negligence on the part of the Bank. Accordingly, no provision was made for the contingent liability in the financial statements.

(4) As of December 31, 2005, the estimated future minimum lease commitments are as follows:

Fiscal year	Amount
2006	\$ 371,904
2007	362,484
2008	252,284
2009	147,507
2010 and after	58,008
	\$ 1,192,187

(5) As of December 31, 2005, the Bank has signed construction contracts totaling \$32,546, of which \$31,809 were paid. It was recorded in "construction in progress and prepayments for equipments".

## 7. Significant Losses from Natural Disasters: None.

## 8. Subsequent Events

The former acting Chairman of the Bank, Mr. Yuan-Chi Chao, was relieved of his duty on January 16, 2006. The managing director, Mr. Michael C. S. Chang, has been elected as Chairman on the same date.

## 9. Others

### (1) Fair value of financial instruments

	December 31, 2005	
	Book value	Fair value
<b>Financial assets</b>		
Financial assets with book value equal to fair value	\$ 1,071,488,420	\$ 1,071,488,420
Marketable and trading securities	316,192,950	316,498,080
Long-term equity investments	8,273,024	19,603,952
Other long-term investments	58,024,682	58,391,304
Trading purpose		
FX contracts (forward and swap)	1,936,052	1,936,052
FX margin trading	119,975	119,975
Non-delivery forward	5,728	5,728
FX options-long position	25,493	25,493
Linked options-long position	334	334
Cross currency swap contracts (excluding the notional principle)	171,609	171,609
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	551,625	551,625
Non-trading purpose		
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	60,005	33,532
<b>Financial liabilities</b>		
Financial liabilities with book value equal to fair value	\$ 1,411,000,074	\$ 1,411,000,074
Accrued pension liabilities	1,374,209	2,105,813
Trading purpose		
FX contracts (forward and swap)	2,006,360	2,006,360
FX margin trading	8,674	8,674
Non-delivery forward	5,766	5,766
FX options-short positions	12,159	12,159
Bond options-short positions	721	721
Linked options-short positions	334	334
Cross currency swap contracts (excluding the notional principle)	159,262	159,262
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	270,870	270,870
Non-trading purpose		
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	94,294	1,311,854

	December 31, 2004	
	Book value	Fair value
<b>Financial assets</b>		
Financial assets with book value equal to fair value	\$ 1,025,783,774	\$ 1,025,783,774
Marketable and trading securities	312,279,207	313,978,853
Long-term equity investments	11,856,536	24,343,896
Other long-term investments	51,466,109	52,321,646
Trading purpose		
FX contracts (forward and swap)	12,293,426	12,293,426
FX margin trading	1,526	1,526
Non-delivery forward	20,730	20,730
Options contracts-long positions	191,430	191,430
Cross currency swap contracts (excluding the notional principle)	295,199	295,199
Non-trading purpose		
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	137,823	(964,134)
<b>Financial liabilities</b>		
Financial liabilities with book value equal to fair value	\$ 1,369,437,423	\$ 1,369,437,423
Accrued pension liabilities	1,198,812	1,932,218
Trading purpose		
FX contracts (forward and swap)	11,866,440	11,866,440
FX margin trading	203,583	203,583
Non-delivery forward	19,865	19,865
Options contracts-short positions	191,511	191,511
Cross currency swap contracts (excluding the notional principle)	237,080	237,080
Non-trading purpose		
Interest rate related contracts (interest rate swap and assets swap excluding the bond principal)	35,520	(118,957)

The methods and assumptions used in calculation of the fair value of financial instruments are summarized as follows:

- 1) As the instruments are closed to maturity, the fair values of short-term financial instruments are approximately equal to their carrying values (after deducting allowance for doubtful accounts) as stated on the balance sheet date. This method is applicable to all financial instruments except for the items listed in the following paragraphs.
- 2) Interest rates for most of the medium- and long-term loans are floating. Discount rate of future cash flow is based on the actual current rate. The fair value is approximately equal to its carrying value (after deducting allowance for doubtful accounts).
- 3) Marketable and trading securities are valued at market prices when the market prices are readily available; otherwise fair value is estimated based on financial or other information.
- 4) Long-term investments are valued at market prices when the market prices are readily available; otherwise fair value is estimated based on financial or other information.
- 5) Fair value of accrued pension liability is estimated based on the amount of pension plan funded status to be provided as defined in the relevant actuarial reports on December 31, 2005 and 2004.
- 6) Assuming that contract terminates on balance sheet date, fair value of derivative financial instruments is estimated based on the amount of receivable or payable. In general, it includes unrealized gain or loss on outstanding contracts.

## (2) Derivative financial instruments

1) Contracted amounts or notional principal and credit risk (expressed in thousands)

Financial Instruments	December 31, 2005		December 31, 2004	
	Notional principal	Credit risk	Notional principal	Credit risk
Trading purpose				
FX swap contracts	\$ 56,483,376	\$ 390,475	\$ 71,574,761	\$ 1,042,853
Forward contracts	28,483,809	325,369	17,136,154	145,777
FX margin trading	3,334,360	3,929	2,468,963	5,829
Non-delivery forward	691,756	46,023	1,136,491	7,507
FX options-short positions	858,549	-	3,501,165	-
Bond options-short positions	98,580	-	-	-
Linked options-short positions	11,592	-	-	-
FX options-long options	1,419,078	25,493	3,498,054	191,430
Linked options-long options	11,592	334	-	-
Cross currency swap contracts	10,082,262	171,609	8,492,703	295,199
Interest rate swap contracts	56,295,744	551,625	-	-
Non-trading purpose				
Interest rate swap	46,485,419	431,060	45,453,891	668,659
Assets swap (credit risk amount, not including principal)	2,760,240	11,679	5,654,704	1,549

2) Types and conditions of derivative financial instruments

(a) Trading conditions

The Bank has entered into asset-backed swap contracts, while conducting the deals of overseas convertible bonds. The structured swap contracts were made to swap the fixed rates of bonds into floating rates of bonds. The counterparties of the bond deals retain the right to repurchase the convertible bonds based on conditions of the relevant contracts. Under this arrangement, the Bank has an interest income stream, however, it also takes on credit risks of both the bond issuers and the swap counterparties. Convertible bonds in asset swap transactions were recorded as "marketable and trading securities" and "long-term investments" and totaled \$378,613, \$2,381,627 and \$0, \$5,654,704 respectively as of December 31, 2005 and 2004.

The accounts receivables and payables balances arising from foreign exchange forward contracts, non-delivery forward contracts, FX margin trading and foreign exchange swap contracts are netted and accounted for as "accounts receivables" and "payables."

(b) Credit risk

The Bank's exposure from financial instruments is measured at fair value of contracted instruments with a positive position at the balance sheet date. Credit risk is the risk that counterparties of any financial instruments may not be able to fulfill their obligations at the due date. With proper credit risk evaluation and control in place, the Bank anticipates a relatively low risk of non-performance by those counterparties for the reason that they are either internationally recognized financial institutions or companies in compliance with the credit requirements.

(c) Market Risk

Market risks are related to the probability of variations in the value of a financial instrument because of fluctuation in market prices. The Bank has established specific detailed policy to control the market risk on interest rates and foreign exchange rates. Options are dealt on a back-to-back basis in order to lower the market risk.

(d) Liquidity Risk

The liquidity risk will have an impact on the potential changes in market value of an instrument. If there is insufficient market activity, the Bank may not be able to timely unwind its position to avoid serious loss. The Bank mainly holds instruments with high liquidity and has also established appropriate risk exposure limits for such transactions. Therefore, the Bank has effectively managed its liquidity risk in view of the fact that the possibilities of those derivative financial instruments that may not be able to be disposed at a reasonable market price moderately low.

(e) The uncertainty of the amount and period of future cash flow

The use of derivative financial instruments was mainly driven by customer's demand and as well as the Bank's needs for fund management or hedge purposes. Funding borrowed from money market is principally for the purpose to square the position. They did not involve any contracts of high leverage. As to the asset-backed swap contracts, the cash flow is determined by the amount against the difference between fixed and floating interest rate. As a result, the effect on cash flow is relatively minor.

3) Purpose of holding derivative financial instruments

The Bank holds or issues financial instruments for both trading and non-trading purposes. The foreign exchange swap contracts for non-trading purpose were used to hedge against exchange rate resulting from the Bank's assets and liabilities, whereas the asset-backed swaps contracts were to hedge against interest rate risk of the Bank's assets (net). The Bank's FX businesses mainly include spots, forward, swap, currency options and margin trading. The currency options are conducted on a back-to-back basis in order to hedge the market risk. The Bank aims to mitigate the losses of potential market fluctuations to a minimum. The financial instruments held or issued by the Bank have highly negative correlation to the fair value fluctuation of hedged products and the effectiveness of hedging is reviewed on a regular basis.

4) Disclosure of net gains (losses) from the transactions

Transaction gains and losses from the derivative transactions are recorded as interest income or expenses, foreign exchange gain and derivative gain or loss are summarized as follows:

	<u>2005</u>	<u>2004</u>
Interest income	\$ 570,112	\$ 1,093,459
Interest expenses	(357,053)	(298,275)
Foreign exchange gain-net	1,481,302	801,461
Derivative (loss) gain-net	(236,144)	95,561
	<u>\$ 1,458,217</u>	<u>\$ 1,692,206</u>

**(3) Financial instruments with off-balance sheet credit risk**

1) The Bank has a large number of credit commitments originated from the loan business and issuance of credit cards. The terms for most of the loans fall within a year with interest rate ranging from 2.35%~ to 13.00%. However, the highest interest rate charged for the credit card receivables is up to 18.25%. In addition, the Bank provides financial guarantees and commercial guarantees, which guarantee performance to the third parties, and their maturity term varies.

2) The contract amounts of financial instruments held by the Bank with off-balance sheet credit risk are as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Financial guarantees and letters of credit	\$ 57,658,309	\$ 65,698,758
Unused loan commitments	43,372,309	35,309,108
Credit commitments for credit cards	37,749,003	80,175,126

3) As a guarantor, the Bank's commitments will not be utilized, unless the customers fail to honor the obligations. Hence, the contract amount does not represent future cash outflow, which means that the future cash demand may be less than the contract amount. Assuming that the credit has fully been used and the value of the collateral or other guarantee has impaired, the credit risk is the same as the contract amount, which represents the maximum possible loss to the Bank.

4) Prior to providing loan commitments, financial guarantees and commercial letters of credit, the Bank performs strict credit evaluation. Any draw down of the credit is made on the basis of the evaluation results and proper collateral is required according to the Bank's policy. The Bank's collateralized loans accounted for 52.48% of its total loans. Most collateral is in the form of real estate, cash, securities or other assets. The Bank has the right to dispose the collateral in case of default. Credit commitments for credit cards do not require collateral, but the Bank regularly evaluates the cardholder's credit status, and if necessary, will adjust the cardholder's credit limit.



#### (4) Financial instruments with significant concentration risk on credits

1) Concentration risk on credits is caused by the financial instruments being significantly exposed to any single customer or a group of counterparties that engage in business activities of similar commercial and economic nature, since the inability to fulfill their contractual obligation during market downturn or other unanticipated situations is also similar. The Bank does not engage in activities that are significantly exposed to any individual customer or counterparty. However, the credit extended to counterparties that represent more than 5% of the Bank's total loans, bills purchased and discounted, and overdue loans are classified below.

##### 2) Credit risk-by counterparty

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Loans (including overdue loans) by counterparty		
Private enterprises	\$ 408,850,267	\$ 383,151,644
Personal	293,148,812	292,329,405
Government organizations	54,342,678	52,245,867
State-owned corporations	41,357,812	25,088,558
Non-profit organizations	3,088,525	4,227,923
Others	4,387,315	980,000
Offshore entities	93,505,561	91,753,750
	<u>\$ 898,680,970</u>	<u>\$ 849,777,147</u>

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Loans (including overdue loans) by geographical region		
Asia	\$ 874,857,034	\$ 825,672,763
Europe	468,835	384,001
North America	18,672,513	17,972,356
Central America	4,358,338	5,477,751
Oceania	324,250	270,276
	<u>\$ 898,680,970</u>	<u>\$ 849,777,147</u>

Please refer to Note 9(3) for the Bank's collateral policy. If the counterparty fails to honor the commitments and the collateral is completely worthless, the possible loss incurred is equal to the contract value.

##### 3) Assets quality of loans

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Non-performing loans	\$ 15,482,324	\$ 10,759,402
Overdue loans	14,238,501	13,641,944
Non-performing loan ratio (%) (note 1)	1.72	1.27
Loans under surveillance (note 2)	-	7,837,665
Loans under surveillance/gross loans (%)	-	0.92
Reserve for loans and overdue loans	8,108,416	8,038,035
Write-offs of doubtful accounts	4,404,876	4,369,671

note 1: Non-performing loans ratio = non-performing loans / (gross loans + overdue loans)

note 2: Loans under surveillance are as follows (applicable before June 30, 2005):

- Medium- and long-term installment loans, where the repayments are more than three months (inclusive) but less than six months overdue;
- Other loans, where principal repayments are less than three months overdue and the interests are more than three months (inclusive) but less than six months overdue; or
- Loans, which meet the criteria of NPLs, but are exempt from the reporting to MOF. This includes:
  - Loans repaid in installments as agreed upon;
  - Loans, which are indemnified by the Credit Guarantee Funds, or secured by sufficient deposits;
  - Loans, related to the rescue program for victims in the earthquake on September 21, 1999 in Taiwan with maturities extended;
  - Loans, of which collaterals have been auctioned and proceeds from the auctions are not yet distributed; and
  - Loans, which are specifically approved by the MOF.

note 3: Write-offs of doubtful account = Accumulated write-offs of doubtful accounts during the period from January 1 to December 31 for the respective year.

#### 4) Profile of concentration risk on credits

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Amounts of credits to related parties	\$ 17,647,953	\$ 24,017,620
Ratio of credits to related parties	1.91%	2.74%
Ratio of credits secured by stock	0.31%	0.44%
Industry concentration (Top 3 industries)		
Manufacturing	24.30%	24.40%
Retail	10.39%	10.32%
Transport, warehousing and communication	3.20%	3.16%

note: The total credits include bills purchased and import-export negotiations, loans, bills discounted, acceptances receivables and guarantees.

#### 5) Net position for foreign currency transactions

There is no significant net position for foreign currency transactions as of December 31, 2005 and 2004.

### (5) Average value and average interest rates of interest-earning assets and interest-bearing liabilities

	<u>2005</u>		<u>2004</u>	
	Average value (note 1)	Average rate of return (%)	Average value (note 1)	Average rate of return (%)
<b>Assets</b>				
Certificates of deposit	\$ 261,426,640	1.34	\$ 215,331,161	1.21
Due from banks (note 2)	75,945,496	2.71	77,511,358	1.52
Due from Central Bank	46,691,844	0.95	53,527,387	1.01
Marketable and trading securities	65,774,162	3.40	73,309,524	3.26
Loans, bills purchased and discounted	832,569,011	3.34	838,881,748	3.18
Credit card revolving consumption loans	3,496,649	16.61	3,039,566	16.90
Bonds and securities purchased under resale agreements	11,781	1.41	61,970	1.10
Long-term bond investments	52,409,869	1.81	49,186,934	1.39
<b>Liabilities</b>				
Due to Central Bank	\$ 311,607	-	\$ 282,513	-
Due to banks	152,352,025	2.65	160,510,487	1.43
Deposits	1,092,537,049	1.12	1,062,412,455	0.92
Negotiable certificates of deposit	10,486,258	1.17	10,093,783	0.91
Funds borrowed from banks	239,707	0.47	181,888	0.53
Financial bonds payable	59,300,000	2.73	57,715,301	3.49
Payables on bonds and securities under repurchase agreements	16,408,600	0.85	24,309,319	0.72

note 1: The average value of these assets and liabilities is calculated on a daily basis.

note 2: This represents due from banks under "cash and cash equivalents", and call loans to banks under "due from Central Bank and other banks".

### (6) Financial information on interest sensitivity

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)	94.02	88.98
Ratio of interest-rate-sensitive gap to net worth (%)	(75.67)	(157.00)

note 1: Interest-rate-sensitive assets and liabilities represent interest-earning assets and interest-bearing liabilities, of which the earnings and costs will fluctuate by the effect of interest rate changes in the market.

note 2: Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities (with maturity less than one year)

note 3: Interest-rate-sensitive gap = Interest-rate-sensitive assets - interest-rate-sensitive liabilities

## (7) Net position for major foreign currency transactions

	December 31, 2005			December 31, 2004		
	Currency (in thousands)		NTD	Currency (in thousands)		NTD
Net position for major foreign	USD	\$ 33,255	\$ 1,092,759	USD	\$ 20,245	\$ 643,143
currency transactions (market risk)	CAD	14,218	400,999	CAD	14,315	377,612
	HKD	90,722	384,498	JPY	1,245,704	385,047
	GBP	3,976	225,105	HKD	83,449	340,855
	SGD	6,395	126,202	SGD	8,767	170,374

note 1: The major foreign currencies are the top 5 currencies by position, which is expressed in New Taiwan dollars after exchange rate conversion.

note 2: Net position represents an absolute value of each currency.

## (8) Analysis on profitability and duration of assets and liabilities

### 1) Profitability

	December 31, 2005	December 31, 2004
Return on total assets (%)	0.92	0.83
Return on stockholders' equity (%)	18.83	19.12
Profit margin ratio (%)	26.97	25.19

### 2) Liquidity analysis of assets and liabilities (expressed in thousands of New Taiwan dollars)

	December 31, 2005					
	Total	0~30 days	31~90 days	91~180 days	181 days~1 year	Over 1 year
Assets	1,261,883,000	312,747,000	101,365,000	128,370,000	95,213,000	624,188,000
Liabilities	1,370,187,000	197,267,000	205,892,000	204,072,000	291,709,000	471,247,000
Gap	(108,304,000)	115,480,000	(104,527,000)	(75,702,000)	(196,496,000)	152,941,000
Cumulative gap	(108,304,000)	115,480,000	10,953,000	(64,749,000)	(261,245,000)	(108,304,000)

note: This table represents the assets and liabilities denominated in New Taiwan dollars and held by the head office and local branches. Those denominated in foreign currencies are not included.

## (9) Extraordinary items

Director or employee is facing charges brought by prosecutors for violating regulations in the business operation in recent year. (note 1)	<p>1. On August 10, 2004, the employee of FCB, Ms. Lin, made the false deposits with total amount of \$12,000 into the following accounts in the FCB's branch.</p> <p>(1) Name: Mr. Lo, amount: \$9,000 withdrawn by Mr. Lo on the same day. (The Bank suffered loss of \$9,000.)</p> <p>(2) Name: Mr. Lee, amount: \$3,000 not withdrawn by Mr. Lee. (The Bank suffered no loss.)</p> <p>2. The prosecutors of Taiwan Taipei District Prosecutors Office has charged the suspect, Ms. Lin, for the fraud and forgery on November 24, 2005.</p>
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A civil fine was imposed by the Financial Supervisory Commission, Executive Yuan, for violation of regulations in recent year. (note 2)	None
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Request for corrective action was issued by the Financial Supervisory Commission, Executive Yuan, for acts of business negligence in recent year.	None
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Losses incurred over NT\$50 million individually or in aggregate due to employee fraud, major incident, or damage by the neglect of "Safety Standards Set Forth in Financial Institutions" in recent year.	None
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Others	None
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note 1: "Recent year" means the fiscal year audited.

note 2: It represents that the fine is imposed by the Bureau of Monetary Affairs, the Securities and Futures Bureau or the Insurance Bureau, Financial Supervisory Commission, Executive Yuan.

**(10) Capital adequacy ratio (expressed in thousands of New Taiwan dollars, %)**

	<b>December 31, 2005</b>	December 31, 2004
1. Tier one capital	\$ 70,708,293	\$ 65,022,068
2. Tier two capital	24,794,616	31,101,798
3. Tier three capital	-	-
4. Subtraction of capital	(6,352,142)	(10,182,592)
Net eligible capital (1+2+3+4)	<u>\$ 89,150,767</u>	<u>\$ 85,941,274</u>
Total risk-weighted assets	<u>\$ 866,279,079</u>	<u>\$ 828,624,622</u>
Capital adequacy ratio (%)	<u>10.29</u>	<u>10.37</u>
Ratio of debt to net worth (%)	<u>1,853.40</u>	<u>2,062.46</u>

note: Capital adequacy ratio = net eligible capital / total risk-weighted assets. Capital adequacy ratio is computed at end of June and of December, respectively in accordance with the Banking Law, No.44, and the regulation of Tai-Tsai-Jung Ruling No. 0090345106 dated Oct. 16, 2001. In disclosure of the 1st or 3rd quarter financial report, the capital adequacy ratio applied is the latest one computed in June or in December. A note to it is needed.

**(11) Duration analysis of assets and liabilities**

	<b>December 31, 2005</b>				
	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
<b>Assets</b>					
Certificates of deposit	\$ 173,875,821	\$ 55,000,000	\$ -	\$ -	\$ 228,875,821
Due from banks (note)	71,264,056	6,309,120	1,150,100	-	78,723,276
Marketable and trading securities	5,824,162	6,577,694	12,325,970	62,589,303	87,317,129
Due from Central Bank	15,916,678	29,039,000	-	-	44,955,678
Loans, bills purchased and discounted, and overdue-net	247,225,868	71,404,280	91,167,860	488,882,962	898,680,970
Long-term bond investments	553,436	755,955	1,481,706	55,233,585	58,024,682
Total	<u>\$ 514,660,021</u>	<u>\$ 169,086,049</u>	<u>\$ 106,125,636</u>	<u>\$ 606,705,850</u>	<u>\$ 1,396,577,556</u>
<b>Liabilities</b>					
Due to Central Bank	\$ 201,614	\$ -	\$ -	\$ -	\$ 201,614
Due to banks	96,159,817	5,651,920	98,580	-	101,910,317
Deposits and remittances	435,183,866	200,323,960	298,856,500	243,117,000	1,177,481,326
Negotiable certificates of deposit	2,456,800	4,298,000	2,564,000	501,000	9,819,800
Financial bonds payable	-	-	-	59,300,000	59,300,000
Funds borrowed from Central Bank and other banks	233,168	-	-	-	233,168
Payables on bonds and securities under repurchase agreements	13,309,579	1,647,425	438,146	-	15,395,150
Total	<u>\$ 547,544,844</u>	<u>\$ 211,921,305</u>	<u>\$ 301,957,226</u>	<u>\$ 302,918,000</u>	<u>\$ 1,364,341,375</u>

note: The amount includes due from other banks under "cash and cash equivalents" and call loans to banks and bank overdrafts under "due from Central Bank and banks".

	December 31, 2004				
	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
<b>Assets</b>					
Certificates of deposit	\$201,800,119	\$ 37,051,008	\$ 2,000,000	\$ 158,833	\$ 241,009,960
Due from banks (note)	78,051,958	13,564,936	825,968	-	92,442,862
Marketable and trading securities	6,771,519	4,687,063	8,483,280	51,327,385	71,269,247
Due from Central Bank	24,619,814	28,444,000	-	1,800,000	54,863,814
Loans, bills purchased and discounted, and overdue-net	227,161,898	71,571,976	75,879,912	475,163,361	849,777,147
Long-term bond investments	130,806	288,283	3,077,968	47,969,052	51,466,109
<b>Total</b>	<b>\$538,536,114</b>	<b>\$ 155,607,266</b>	<b>\$ 90,267,128</b>	<b>\$ 576,418,631</b>	<b>\$1,360,829,139</b>
<b>Liabilities</b>					
Due to Central Bank	\$ 187,913	\$ -	\$ -	\$ -	\$ 187,913
Due to banks	91,299,552	8,259,680	2,001,384	381,216	101,941,832
Deposits and remittances	421,862,524	185,115,008	302,310,728	233,948,912	1,143,237,172
Negotiable certificates of deposit	3,432,100	2,126,000	3,389,000	624,000	9,571,100
Financial bonds payable	-	-	-	59,300,000	59,300,000
Funds borrowed from Central Bank and other banks	194,541	-	-	-	194,541
Payables on bonds and securities under repurchase agreements	14,823,882	2,222,387	1,350,792	-	18,397,061
<b>Total</b>	<b>\$531,800,512</b>	<b>\$ 197,723,075</b>	<b>\$ 309,051,904</b>	<b>\$ 294,254,128</b>	<b>\$1,332,829,619</b>

note: The amount includes due from other banks under "cash and cash equivalents" and call loans to banks and bank overdrafts under "due from Central Bank and banks".

## (12) Financial statements presentation

According to "The Guidelines Governing the Preparation of Financial Reports by Public Banks", certain accounts of last year ended 2004 have been reclassified to conform with the presentation of the 2005 financial statements.

## 10. Segmental financial information

### (1) Industrial information

The Bank engages only in banking business. The disclosure of industrial information is not required.

### (2) Geographical information

The revenues and tangible assets of the Bank's foreign branches represented less than 10% of those of the Bank's for the years ended December 31, 2005 and 2004, respectively. The disclosure of geographical information is not required.

### (3) Revenue from exporting

Revenue from transactions in exports handled by domestic operating units with customers accounted for less than 10% of the Bank's total operating revenue in 2005 and 2004, respectively.

### (4) Major customer information

The Bank doesn't have any single customer, which contributes to the Bank's revenues of more than 10% in 2005 and 2004, respectively.

# Domestic Offices Appointed to Conduct International Business

## International Business Division

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## Chang-Chun Branch

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## Chang-Hua Branch

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## Chang-Tai Branch

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Taipei Hsien 241, Taiwan  
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## Cheng-Tung Branch

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## Chi-Cheng Branch

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## Chia-Yi Branch

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## Chien-Cheng Branch

40, Cheng Teh Rd., Sec. 1,  
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Tel: (02)2555-6231

## Chien-Kuo Branch

161, Min Sheng E. Rd., Sec. 2,  
Taipei 104, Taiwan  
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## Chu-Ko Branch

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## Chung-Ho Branch

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## Chung-Kang Branch

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## Chung-Li Branch

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## Chung-Lun Branch

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## Chung-Shan Branch

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## Feng-Yuan Branch

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## Fu-Hsing Branch

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## Hsi-Chih Branch

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## Hsin-Tien Branch

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**Kwang-Fu Branch**

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**Min-Sheng Branch**

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**Nanking-East-Road Branch**

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**Shih-Mao Branch**

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**Tun-Hua Branch**

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**Tung-Men Branch**

216, Tung Men St.,  
Hsin Chu 300,  
Taiwan  
Tel: (03)524-9211

**Yen-Chi Branch**

289, Chung Hsiao E. Rd., Sec. 4,  
Taipei 106, Taiwan  
Tel: (02)2731-5741

**Yuan-Lin Branch**

26, Yu-Ying Rd., Yuan Lin,  
Chang Hua Hsien 510, Taiwan  
Tel: (04)832-8811

**Yuan-Shan Branch**

53, Min Chuan W. Rd.,  
Taipei 104, Taiwan  
Tel: (02)2597-9234

**Yun-Ho Branch**

161, Chung Cheng Rd.,  
Tainan 700, Taiwan  
Tel: (06)223-1141

**Yung-Chun Branch**

400, Chung Hsiao E. Rd., Sec. 5,  
Taipei 110, Taiwan  
Tel: (02)2720-8696

## Domestic Offices and Locations

Name of Office	Location
■ Business Division	Taipei
■ An-Ho	Taipei
■ Chang-Chun	Taipei
■ Cheng-Tung	Taipei
■ Chien-Cheng	Taipei
■ Chien-Kuo	Taipei
■ Chi-Lin	Taipei
■ Chien-Tan	Taipei
■ Ching-Mei	Taipei
■ Chung-Hsiao-Road	Taipei
■ Chung-Lun	Taipei
■ Chung-Shan	Taipei
■ Fu-Hsing	Taipei
■ Hsi-Men	Taipei
■ Hsin-Wei	Taipei
■ Hsin-Ya	Taipei
■ Hsin-Yi	Taipei
■ Jen-Ai	Taipei
■ Jen-Ho	Taipei
■ Kang-Chian	Taipei
■ Ku-Ting	Taipei
■ Kwang-Fu	Taipei
■ Li-Shan	Taipei
■ Min-Chuan	Taipei
■ Min-Sheng	Taipei
■ Mu-Cha	Taipei
■ Nan-Kang	Taipei
■ Nanking-East Road	Taipei
■ Nan-Men	Taipei
■ Nei-Hu	Taipei
■ Pa-Teh	Taipei
■ Pei-Tou	Taipei
■ Shih-Lin	Taipei
■ Shih-Mao	Taipei
■ Shuang-Yuan	Taipei
■ Sung-Chiang	Taipei
■ Sung-Shan	Taipei
■ Sung-Mao	Taipei
■ Ta-An	Taipei
■ Ta-Chih	Taipei
■ Ta-Tao-Cheng	Taipei
■ Ta-Tung	Taipei
■ Tien-Mu	Taipei
■ Tun-Hua	Taipei
■ Tung-Hu	Taipei
■ Wan-Hua	Taipei
■ Wan-Lung	Taipei
■ Yen-Chi	Taipei
■ Yuan-Shan	Taipei
■ Yung-Chun	Taipei
■ Chung-Ho	Chungho, Taipei
■ Lien-Cheng	Chungho, Taipei
■ Hsi-Chih	Hsichih, Taipei
■ Dan-Feng	Hsinchuang, Taipei
■ Hsin-Chuang	Hsinchuang, Taipei
■ Tou-Chien	Hsinchuang, Taipei
■ Chi-Cheng	Hsintien, Taipei
■ Hsin-Tien	Hsintien, Taipei
■ Lu-Chou	Luchou, Taipei
■ Hua-Chiang	Panchiao, Taipei

■ Pan-Chiao	Panchiao, Taipei
■ Pu-Chain	Panchiao, Taipei
■ Chang-Tai	Sanchung, Taipei
■ Chung-Yang	Sanchung, Taipei
■ San-Chung-Pu	Sanchung, Taipei
■ Shu-Lin	Shulin, Taipei
■ Tai-San	Taisan, Taipei
■ Tu-Cheng	Tucheng, Taipei
■ Wu-Ku	Wuku, Taipei
■ Wu-Ku Ind. Zone	Wuku, Taipei
■ Ying-Ko	Yingko, Taipei
■ Shuang-Ho	Yunggho, Taipei
■ Yung-Ho	Yunggho, Taipei
■ Keelung	Keelung
■ Sao-Chuan-Tou	Keelung
■ Tsao-Tien-Wei	Keelung
■ I-Lan	I Lan
■ Lo-Tung	Lotung, I Lan
■ Su-Ao	Suao, I Lan
■ Pei-Tao	Taoyuan
■ Tao-Yuan	Taoyuan
■ Chung-Li	Chungli, Taoyuan
■ Hsi-Li	Chungli, Taoyuan
■ Nei-Li	Chungli, Taoyuan
■ Ping-Cheng	Chungli, Taoyuan
■ Nan-Kan	Luchu, Taoyuan
■ Lung-Tan	Lungtan, Taoyuan
■ Ta-Nan	Pateh, Taoyuan
■ Ta-Hsi	Tahsi, Taoyuan
■ Ta-Yuan	Tayuan, Taoyuan
■ Chu-Ko	Hsinchu
■ Chu-Pei	Hsinchu
■ Chu-Tung	Hsinchu
■ Hsin-Chu	Hsinchu
■ Kuan-Hsi	Hsinchu
■ Tung-Men	Hsinchu
■ Chu-Nan	Miaoli
■ Miao-Li	Miaoli
■ Tou-Fen	Miaoli
■ Chin-Hua	Taichung
■ Ching-Shui	Taichung
■ Chung-Kang	Taichung
■ Chung-Ko	Taichung
■ Feng-Yuan	Taichung
■ Nan-Taichung	Taichung
■ Pei-Taichung	Taichung
■ Pei-Tun	Taichung
■ Sha-Lu	Taichung
■ Ta-Chia	Taichung
■ Ta-Li	Taichung
■ Ta-Ya	Taichung
■ Taichung	Taichung
■ Tai-Ping	Taichung
■ Tung-Shih	Taichung
■ Nan-Tou	Nantou
■ Pu-Li	Nantou
■ Tsao-Tun	Nantou
■ Chang-Hua	Changhua
■ Ho-Mei	Changhua
■ Hsi-Hu	Changhua
■ Lu-Kang	Changhua
■ Pei-Dou	Changhua

■ Yuan-Lin	Changhua
■ Chia-Yi	Chiayi
■ Hsin-Hsi	Chiayi
■ Hsing-Chia	Chiayi
■ Pu-Tzu	Chiayi
■ Hsi-Lo	Yunlin
■ Hu-Wei	Yunlin
■ Dou-Liu	Yunlin
■ Dou-Nan	Yunlin
■ Pei-Kang	Yunlin
■ An-Nan	Tainan
■ Chi-Ku	Tainan
■ Chia-Li	Tainan
■ Chih-Kan	Tainan
■ Chin-Cheng	Tainan
■ Chu-Hsi	Tainan
■ Fu-Chiang	Tainan
■ Hsin-Hua	Tainan
■ Hsin-Ying	Tainan
■ Kuei-Jen	Tainan
■ Ma-Tou	Tainan
■ Nan-Hsi	Tainan
■ Nan-Science-Park	Tainan
■ Shan-Hua	Tainan
■ Shyue-Chia	Tainan
■ Tainan	Tainan
■ Ta-Wan	Tainan
■ Yen-Shui	Tainan
■ Yun-Ho	Tainan
■ Yung-Kang	Tainan
■ Chi-Hsien	Kaohsiung
■ Chi-Shan	Kaohsiung
■ Chien-Cheng	Kaohsiung
■ Chien-Hsi	Kaohsiung
■ Ding-Tai	Kaohsiung
■ Feng-Shan	Kaohsiung
■ Hsiao-Kang	Kaohsiung
■ Hsin-Hsing	Kaohsiung
■ Kang-Shan	Kaohsiung
■ Kao-Ko	Kaohsiung
■ Kaohsiung	Kaohsiung
■ Lin-Yuan	Kaohsiung
■ Ling-Ya	Kaohsiung
■ Lu-Chu	Kaohsiung
■ Nan-Tzu	Kaohsiung
■ Shih-Chuan	Kaohsiung
■ Po-Ai	Kaohsiung
■ San-Min	Kaohsiung
■ Tso-Ying	Kaohsiung
■ Tz-Beng	Kaohsiung
■ Wan-Nei	Kaohsiung
■ Wu-Chia	Kaohsiung
■ Wu-Fu	Kaohsiung
■ Yen-Cheng	Kaohsiung
■ Chao-Chou	Pingtung
■ Chang-Chih	Pingtung
■ Heng-Chun	Pingtung
■ Ping-Tung	Pingtung
■ Wan-Luan	Pingtung
■ Tung-Kang	Pingtung
■ Hua-Lien	Hualien
■ Tai-Tung	Taitung
■ Peng-Hu	Penghu

■ Office appointed to conduct international business



# Business Network



## Overseas Branches

### ■ El Salvador Branch

63a Av. Sur Y Alameda Roosevelt  
Lobby 2-3 CTRO Financiero Gigante  
San Salvador, El Salvador, C.A.  
Tel: 503-2211-2121  
Fax: 503-2211-2130

### ■ Guam Branch

330, Hernan Cortes Ave.  
Hagatna, Guam 96910 U.S.A.  
P.O.Box 2461, Hagatna 96932, Guam  
Tel: 1-671-472-6864/5  
Fax: 1-671-477-8921

### ■ Ho Chi Minh City Branch

2 Fl., 88, Dong Khoi Street, District 1  
Ho Chi Minh City, Vietnam  
Tel: 84-8823-8111  
Fax: 84-8822-1747

### ■ Hong Kong Branch

The Hong Kong Club Building, 7/F  
3A, Chater Road, Central, Hong Kong  
Tel: 852-2868-9008  
Fax: 852-2526-2900

### ■ London Branch

Bowman House, 29, Wilson Street  
London EC2M 2SJ, U.K.  
Tel: 44-20-7417-0000  
Fax: 44-20-7417-0011

### ■ Los Angeles Branch

515, South Flower St., Suite 1050  
Los Angeles, CA 90071, U.S.A.  
Tel: 1-213-362-0200  
Fax: 1-213-362-0244

### ■ New York Agency

750, Third Avenue, 34 Floor  
New York, N.Y. 10017, U.S.A.  
Tel: 1-212-599-6868  
Fax: 1-212-599-6133

### ■ Palau Branch

P.O.Box 1605, P.D.C. Building,  
MADALAI  
Koror, Palau 96940  
Tel: 680-488-6297  
Fax: 680-488-6295

### ■ Phnom Penh Branch

263, Ang Duong Street  
Phnom Penh, Cambodia  
Tel: 855-23-210-026  
Fax: 855-23-210-029

### ■ Singapore Branch

#01-02 ONG Building  
76, Shenton Way  
Singapore 079119  
Tel: 65-6221-5755  
Fax: 65-6225-1905

### ■ Tokyo Branch

AIG Building, 13 Floor  
1-3 Marunouchi, 1-Chome, Chiyoda-Ku  
Tokyo 100-0005, Japan  
Tel: 81-3-3213-2588  
Fax: 81-3-3213-5377

### ■ Vancouver Branch

Suite 100-5611, Cooney Road  
Richmond, B.C. V6X 3J6, Canada  
Tel: 1-604-207-9600  
Fax: 1-604-207-9638

## Overseas Representative Offices

### ■ Bangkok Representative Office

Sathorn City Tower, 9 Floor  
175, South Sathorn Road  
Tungmahamek, Sathorn  
Bangkok 10120, Thailand  
Tel: 66-2-679-5291  
Fax: 66-2-679-5295

### ■ Hanoi Representative Office

198, Tran Quang Khai, 15 Fl., Suite 1507  
Hanoi, Vietnam  
Tel: 84-4936-2111  
Fax: 84-4936-2112

### ■ Shanghai Representative Office

China Insurance Building, 11 Fl., Unit 05-07  
166, Pudong Lu Jia Zui East Road  
Shanghai 200120, China  
Tel: 86-21-6888-6868  
Fax: 86-21-6888-6363

## Subsidiary

### First Commercial Bank (USA)

#### ■ Main Office

200 E. Main Street  
Alhambra, CA 91801, U.S.A.  
Tel: 1-626-300-6000  
Fax: 1-626-300-5972

#### ■ Arcadia Branch

1309 S. Baldwin Ave.  
Arcadia, CA 91007, U.S.A.  
Tel: 1-626-254-1828  
Fax: 1-626-254-1883

#### ■ City of Industry Branch

18725 E. Gale Ave. #150  
City of Industry, CA 91748, U.S.A.  
Tel: 1-626-964-1888  
Fax: 1-626-964-0066

#### ■ Irvine Branch

4250, Barranca Parkway, Suite E  
Irvine, CA 92604, U.S.A.  
Tel: 1-949-654-2888  
Fax: 1-949-654-2899

#### ■ Silicon Valley Branch

1141 S. De Anza Blvd.  
San Jose, CA 95129, U.S.A.  
Tel: 1-408-253-4666  
Fax: 1-408-253-4672



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