Mega Holdings

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Mega Financial Holding Company   Annual Report 2005

Mega Financial Holding Company

(Formerly CTB Financial Holding Company)

Annual Report 2005

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Message to Shareholders

Shen-Chih Cheng
Chairman

Mega Financial Holding Company (the Company) has entered into its fifth year. Amidst a treacherous environment, the Company has steadily developed and grown into a leading financial holding institution in Taiwan. The strong growth demonstrated by the Company must be attributed to both the increasing business scale and the excellent management performance.

In 2005, the global economy grew with strong momentum to reach an annual growth rate of 3.5% despite threats of soaring oil prices, the avian flu pandemic, and the hurricane disasters that damaged the US economy during the middle of the year. For 2006, the global economy is expected to maintain a steady annual growth of 3.5% with rosy economic outlook in the US and the mainland China. In the first half of the year 2005, the domestic economy recorded a mild growth of 2.73% owing to slow global economic expansion and sluggish export growth caused by out-migration of Taiwan's manufacturing capacity. In the second half of the year, however, the domestic economy recorded a growth rate of 5.39%, thanks to a rebound in production in manufacturing sector, the enhanced export performance and the government's policy on acceleration and expansion of infrastructure. The annual growth of the domestic economy reached 4.09% in 2005.

The year 2005 has witnessed remarkable changes in the domestic financial industry. During the year, the government carried out two public bidding processes on state-owned banks to reduce the number of state-owned banks by one-half, one of the targets for the second phase financial reform. And in 2006, the government will continue to carry out financial reform. In the year ahead, the financial industry will face unprecedented challenges when other factors, such as consumer credit crisis, Taiwan's accession to WTO and industry out-migration, are also expected to have impact on the already difficult situation. How to enhance corporate competitiveness that guarantees a future success has become a major issue for every player in the industry.

In the challenging financial environment of 2005, the Company continued to build business on its solid foundation, and has demonstrated a brilliant performance of NT$22,500 million in earnings after tax and an EPS of NT$2.09, which we believe should meet the expectation of all shareholders.

I. Review of Business Operations in 2005

Continued Expansion

- With the competent authority's approval obtained prior to joining the Company, the International Commercial Bank of China (ICBC) increased the shareholding ratio of its investee, the International Investment Trust Co., Ltd.,(IIT) from 14% to 59% by the end of June 2005. To comply with government regulations, the Company originally proposed to combine its two securities investment trust corporations, IIT and Mega Investment Trust Corporation, before May 2006 as required by the competent authority. Owing to the bond fund issue concerning IIT, the Company has filed a request for a two-year extension of adjustment period for the merger of the two securities investment trust companies.
- To integrate distribution channels for banking assurance, the Company has obtained approval from the competent authority as of January 11, 2005, and has upgraded Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company's direct subsidiary through cash purchase of NT$24 million on September 23, 2005. The new subsidiary was then renamed Mega Life Insurance Agency Co., Ltd.
- The Company also established a wholly-owned subsidiary Mega CTB Venture Capital Co., Ltd. with an initial investment of NT$1,000 million in December 2005. The new subsidiary was setup to assist the Company in developing corporate restructuring business, as well as to create higher profit and added value. After careful assessment of the Company's business interests, the Board of Directors passed a resolution in the board meeting convened on December 16, 2005 to acquire 5 to 26 percent equity stake in the Taiwan Business Bank at a price no more than NT$9 per share. In summary, the investment decisions made by the Company in 2005 will help extend its business domain and enlarge the economic scale.

Consolidation of Subsidiaries

For the year 2005, the Company's priority was to carry out the consolidation of its two bank subsidiaries, Chiao Tung Bank (CTB) and ICBC. After an evaluation conducted by McKinsey & Company, the integration of the two banks was approved by the Steering Committee, and submitted to the competent authority for review and recordation. At the advice of McKinsey & Company, the Company has decided to carry out a full integration of all business lines under Mega Brand instead of dual brand. This new bank will carry a new and neutral brand by the name of Mega International Commercial Bank to become an extremely competitive bank that enjoys a comprehensive synergy. The effective date of the merger between the two banks is tentatively set to be June 26, 2006. At the completion of this merger, the Company is expected to enjoy the synergy produced, and maintain a leading position in the market to create optimum value for shareholders.

Business Performance of Subsidiaries

In line with the Company's medium- and long-term strategy, the subsidiaries of the Company strived to enhance their overall profitability by maintaining a leading position in the corporate banking business, and developing other niche businesses such as consumer banking and wealth management during the year 2005. A summary report is provided below on the overall performance of the Company's subsidiaries over the past year.

- In 2005, the Group has maintained a leading position in corporate banking business, such as commercial loans, foreign exchange business, syndicated loans, bond underwriting, and bills business. The Company also enjoyed significant growth in other business including consumer banking and wealth management. Among the high-growth businesses, mortgage loans outstanding rose by NT$ 48.1 billion or 50.62% to NT$ 177.7 billion in 2005.
- The net fee income of wealth management business also reached a record high of NT$999 million in 2005. Consumer loans had accounted for 7.91% of total loans in 2002, and then grew to 17.70% of total loans in 2005. The market share of the Group's consumer loan business rose from 1.98% in 2002 to 3.44% in 2005, demonstrating a balanced development in business.
- For overseas business in 2005, the earnings before tax generated by our bank subsidiaries' overseas branches and OBUs totaled NT$7.5 billion, accounted for 36% of our bank subsidiaries' total earnings before tax. In addition, our OBU market share reached 20.3%, ranked 1st in the industry. In 2005, the total number of our bank subsidiaries' overseas offices (including the Vietnam and London Office approved by the competent authority in early 2006) reached 28, ranked second in our peer group, a competitive edge that has contributed to the Company's brilliant performance in the overseas market.

II. Business Plan for 2006

Business objectives

The Company had, in the past, positioned itself as a financial holding company that focused on specialized financial service in corporate banking. With its medium- and long-term strategy pointing to a different direction, the Company will continue to build business on its solid foundation to not only maintain a leading position in corporate banking, but further develop diversified services, such as consumer banking, wealth management and syndicated loan business. By continuing to enlarge financial domain, the Company will focus on expanding major business to more than 10% threshold of market share in order to reach its short-term objective of becoming a national champion in Taiwan.

Major operating policies

- To supervise integration and restructuring of subsidiaries
- To focus on management that creates optimum value for shareholders
- To increase institutional shareholdings and enhance competitiveness
- To establish risk data mart and strengthen risk management
- To continue reinforcing assets and liabilities management to enhance operating performance
- To continue establishing common IT platform to enhance efficiency and supervision of all business
- To provide best corporate training and education, and develop core competencies of all staff to realize their full potential

During the past year, the Company achieved strong performance through concerted efforts made by all subsidiaries. As a leading financial holding institution, the Company also hopes to provide a complete blueprint for future while maintaining its high profitability, so that the Company may reach its objective of becoming a leading financial institution in the Asia Pacific region.

Thank you all for your support !

Shen-Chih Cheng
Chairman

Company Overview

I. Historical Overview

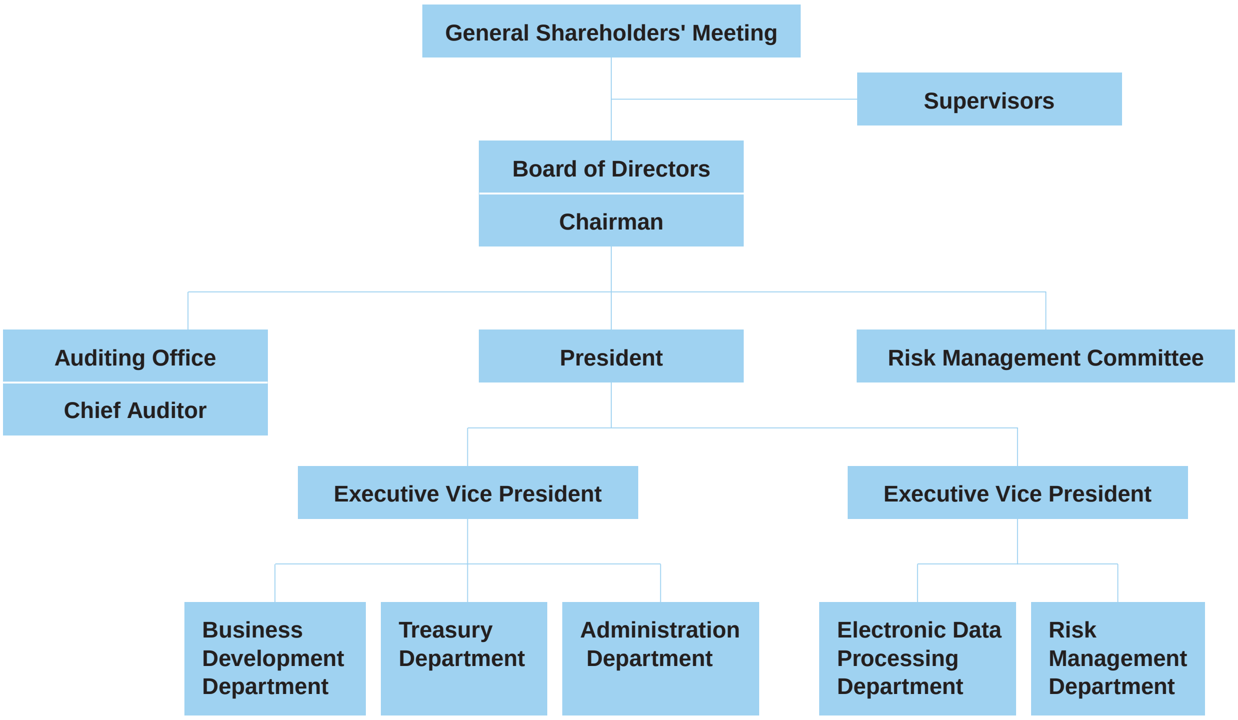
Mega Financial Holding Company (the Company, formerly known as CTB Financial Holding Company) was formed by Chiao Tung Bank Co., Ltd. (CTB) and International Securities Co., Ltd. (IS) through the exchange of shares on February 4, 2002 and has since been listed and traded on the Taiwan Stock Exchange. On August 22, 2002, the Company acquired a 100% equity stake in Chung Hsing Bills Finance Corporation (CHBF) and Barits Securities Corp. (BS) through a share swap. On January 31, 2003, the two subsidiaries, IS and BS, were further combined with the sub-subsidiary, Chung Hsing Securities Corp., to become Barits International Securities Co., Ltd. (BIS.) The integration among the three subsidiaries was undertaken to consolidate the Company's securities businesses and further enhance its competitiveness.

To extend the Company's business domain in financial services, enlarge its economic scale, and to improve overall operating performance, the Company acquired a 100% equity stake in the International Commercial Bank of China (ICBC) and Chung Kuo Insurance Co., Ltd. (CKI) through a share swap and changed the Company's name to Mega Financial Holding Company on December 31, 2002. In order to achieve resource sharing, the Central Securities Investment Trust Corporation, originally an investee of BIS, was upgraded to become the Company's direct subsidiary through cash purchase of controlling shares (93.96% shareholdings as of April 30, 2006) on May 29, 2003, and its name was changed into Mega Investment Trust Corp. in July 2003. In response to a government initiative to lower NPL ratios and promote the specialization of financial institutions, the Company set up Mega Asset Management Co., Ltd. as its 7th subsidiary in December 2003.

By the end of June 2004, the Company’s subsidiary ICBC increased its shareholding ratio of its investee, the International Investment Trust Co., Ltd., from 14% to 59% with approval of its competent authority obtained prior to joining the Company.

To integrate distribution channels for banking assurance, the Company has upgraded Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company’s direct subsidiary through cash purchase of NT$23,945 thousand on September 23, 2005. The new subsidiary was then renamed Mega Life Insurance Agency Co., Ltd. The Company also established Mega CTB Venture Capital Co., Ltd. with an initial investment of NT$1,000 million in December 2005. The new subsidiary was setup to assist the Company in developing business restructuring services, as well as to create higher profit and added value. After careful assessment of the Company’s business interests, the Board of Directors passed a resolution in the board meeting convened on December 16, 2005 to acquire 5 to 26 percent stake in the Taiwan Business Bank for no more than NT$9 per share. In summary, the investment decisions made by the Company in 2005 will help extend its business domain and enlarge the economic scale.

II. Organization Chart



III. Board of Directors & Supervisors

As of April 30, 2006

Name	Position	Age	Note
Shen-Chih Cheng	Chairman	54	
Yeou-Tsair Tsai	Director	54	Representative of the Ministry of Finance of the ROC
Duei Tsai	Director	58	Representative of the Ministry of Finance of the ROC
Ching-Chyi Lai	Director	57	Representative of The Development Fund, Executive Yuan of the ROC
Chih-Chin (Henry) Ho	Director	54	Representative of the Ministry of Finance of the ROC
Chin-Tsair Tsay	Director	64	Representative of the Ministry of Finance of the ROC
Teng-Cheng Liu	Director	55	Representative of the Ministry of Finance of the ROC
Teh-Nan Hsu	Director	63	Representative of Bank of Taiwan
Wen-Wen Hsui Cheng	Director	76	Representative of The First Investment Co., Ltd.
Pei-Chun Tsai	Director	26	Representative of Shun Tai Investments Corp.
Lo-Shan Wang	Director	76	Representative of Chang-Lo Investment Co., Ltd.
Hung-Wen Chien	Director	53	
Sheng-Yen Liu	Director	66	
Pi-Liang Liu	Supervisor	65	Representative of the Ministry of Finance of the ROC
Chuan-Hsun Fu	Supervisor	49	Representative of the Ministry of Finance of the ROC
Neng-Yuan Yu	Supervisor	65	Representative of the Ministry of Finance of the ROC
Lindy Chern	Supervisor	54	

IV. Executive Officers

Name	Age	Position
Yeou-Tsair Tsai	54	Acting President
Joseph J.P. Shieh	45	Executive Vice President
Simon C. Dzeng	48	Executive Vice President
Chung-Cheng Kao	65	Chief Auditor
Yu-Lin Chou	41	Chief Secretary of the Board
Jui-Yun Lin	48	Senior Vice President & Head of Treasury Department
Yung-Ming Chen	56	Senior Vice President & Head of Administration Department
Ching-Tsan Wai	53	Senior Vice President & Head of Business Development Department
Ray Chao	45	Senior Vice President & Head of Electronic Data Processing Department

V. Major Shareholders

April 24, 2006

Name of Shareholder	Number of Common Shares	Percentage of Voting Shares
Ministry of Finance of The ROC	1,104,070,205	11.38
Chinatrust Financial Holding Co., Ltd.	1,085,873,000	11.19
The Development Fund, Executive Yuan of the ROC	675,916,160	6.96
Chinatrust Commercial Bank	566,438,000	5.84
Chunghwa Post Co., Ltd.	301,970,574	3.11
Bank of Taiwan	277,170,670	2.86
Cathay Life Insurance Co., Ltd.	192,629,430	1.98
Templeton Foreign Fund	147,528,000	1.52
Credit Suisse Investment Services (Cayman) Limited	146,998,000	1.51
GMO Emerging Market Fund	102,717,000	1.06
Bureau of Labor Insurance of the ROC	100,329,433	1.03
Templeton Developing Markets Trust	97,438,308	1.00
Total	4,799,078,780	49.44

Note: Shareholders holding more than 1% share of the Company are listed above. The remaining 50.56% shares are held by small investors.

VI. Capital, Shares and Corporate Bonds

April 30, 2006

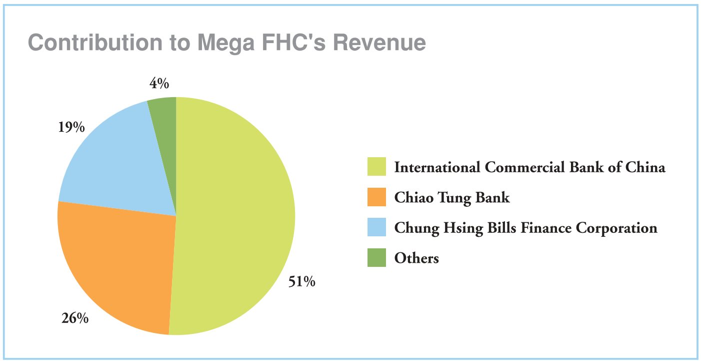
	Number of Shares or Dollar Amount
Paid-in capital	NT$111,694,492,380
Common shares	11,169,449,238 shares
Treasury shares	110,023,000 shares
Outstanding shares	11,059,426,238 shares
Preferred shares	0
Corporate bonds issued	NT$12,900,000,000 bond due December 2007

Operating Report

I. Business Overview

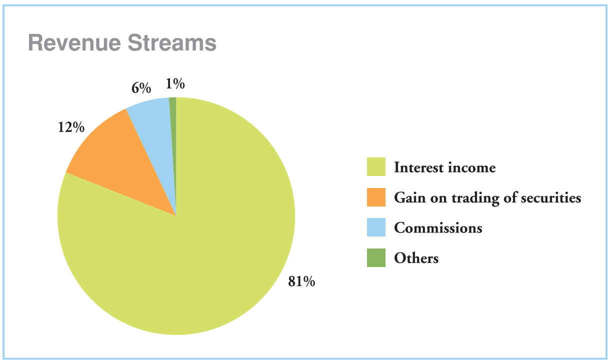
Mega Financial Holding Company

The Company's revenues mainly come from the following three subsidiaries: Chiao Tung Bank Co., Ltd. (CTB), the International Commercial Bank of China (ICBC) and Chung Hsing Bills Finance Corporation (CHBF). The 2005 investment income of the Company amounted to NT$22,383 million, a growth of 2.02% compared to the previous year.



Chiao Tung Bank Co., Ltd. (CTB)

- Lending: In 2005, total lending (loans, guarantees and acceptances) amounted to an average of NT$473,892 million, a drop of 4.87% from the NT$498,174 million recorded in 2004. The decline was mainly attributed to the repayment of government loan amounting to NT$20,000 million. In the syndicated loan market, CTB served as the lead bank in the arrangement of 22 syndicated loans of which CTB's share was NT$14,700 million.
- Long-term equity investments: Total investments in 2005 amounted to an average of NT$26,403 million, an increase of 9.13% compared to NT$24,193 million recorded in 2004.
- Deposits: Total deposits in 2005 reached an average of NT$ 281,505 million, a decline of NT$19,289 million or 6.41% from the NT$300,794 million recorded in 2004.
- Foreign exchange business: Total foreign exchange transactions undertaken by CTB in 2005 amounted to US$72,887 million, a growth of US$5,267 million or 7.79% compared with US$67,620 million recorded in 2004.
- Consumer banking and trust business: The total consumer loans amounted to NT$63,665 million, a growth of 38.98% compared to the previous year. Trust assets in the year 2005 rose to an average of NT$12,132 million, an increase of 51.78% over the year 2004.
- Non-performing loans: The non-performing loans outstanding at the end of 2005 amounted to NT$9,864 million, representing a non-performing loan ratio of 2.24%. The coverage ratio reached 40.63%.



Barits International Securities Co., Ltd. (BIS)

- Securities brokerage: The total revenue from the securities brokerage business amounted to NT$1,135 million, representing a market share of 2.70% (including institutional clients) and ranking 12th in the industry in terms of transaction volume. BIS' margin loans accounted for 3.95% market share, ranking 11th in tits peer group. At the end of 2005, the total number of branch offices of BIS reached 44(including HQ).

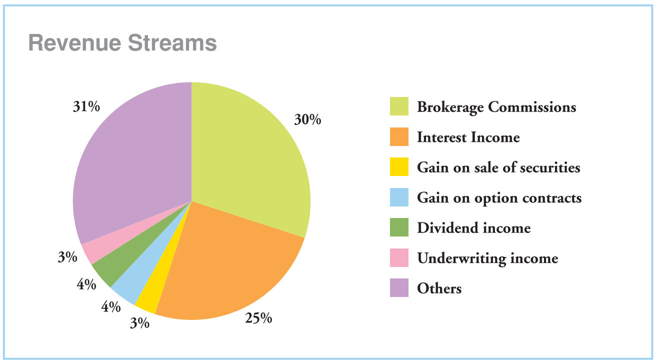
• Securities underwriting: BIS has been providing consulting services to 17 companies for listing on the Taiwan Stock Exchange and 25 companies for listing on the GreTai Securities Market with market shares of 10% and 8% respectively. In 2005, BIS lead managed 7 IPOs, 8 SPOs (excluding underwriting of new issued shares), posting market rankings of 1st and 4th respectively. BIS advised on M&A deals with a total value of NT$1,613 million in 2005, ranking 2nd among securities firms. It has recommended 53 companies to register for trading as an emerging stock on the OTC market, representing a market share of 21% and ranking 5th in the industry.

• Bond underwriting: In 2005, BIS was appointed as lead manager for 6 corporate bond issues and 5 financial debenture issues with total underwriting amount of NT$5,800 million and NT$3,200 million respectively. According to Bloomberg data, BIS was ranked 2nd and 7th by total number of deals and underwriting amount respectively.

• Securities dealing: The operating profits from securities trading for 2005 amounted to NT$506 million, close to NT$502 million recorded in 2004.

• Stock-registration services: A total of 86 companies have appointed BIS as their stock-registration agent in 2005, an increase of 4 companies over the previous year-end. It is ranking 11th in terms of number of clients.

• New financial products: Owing to a pending issue on warrants taxation, BIS has adopted conservative policies and issued only 8 warrants, ranked 20th in 2005. BIS also issued 14 structured products, including 11 PGN and 3 ELN, with a total issue amount of NT$425 million, ranking 9th in its peer group.



Chung Hsing Bills Finance Corporation (CHBF)

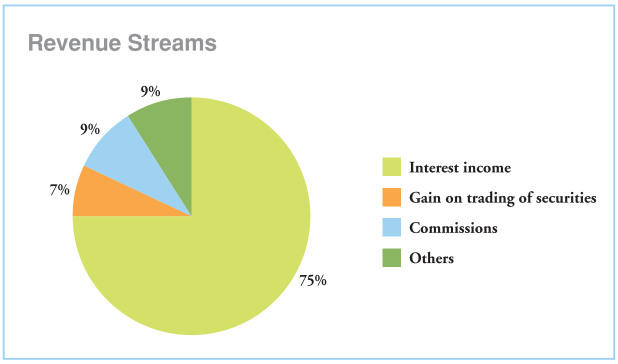
• CHBF's purchases of short-term bills in the primary market in 2005 amounted to NT$1,806,618 million, a growth of 29.84% from NT$ 1,391,399 million recorded in the previous year.

• Guarantee for issuance of commercial paper undertaken by CHBF in 2005 rose to NT$1,554,959 million, representing an increase of 21.66% over NT$1,278,118 million recorded in 2004.

• CHBF's transactions of bills in 2005 amounted to NT$9,038,453 million, an increase of 19.79% compared with NT$7,545,296 million in the previous year.

• CHBF's transactions of bonds in 2005 reached NT$20,275,522 million, an increase of 40.85% over NT$14,394,769 million in the previous year.

• Average outstanding of commercial paper guaranteed by CHBF in 2005 amounted to NT$147,205 million, down by 4.89% compared with NT$154,767 million of 2004.

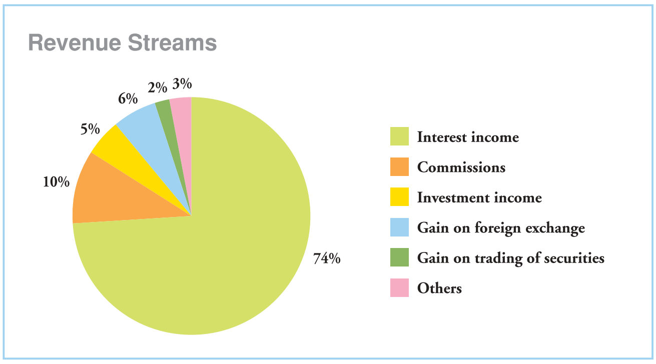


• At the end of 2005, CHBF's payments for overdue credits amounted to NT$848 million, a decline of

NT$1,456 million or 63.19% compared with NT$2,304 million in the previous year. The non-performing loan ratio declined to 0.58% from 1.35% of 2004.

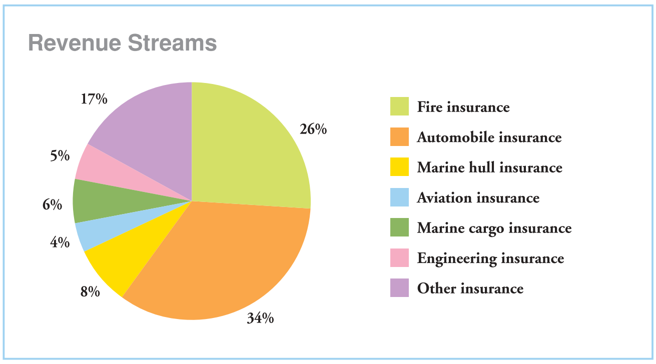
The International Commercial Bank of China

- Deposits: In 2005, total deposits reached an average of NT$728,107 million, an increase of 9.98% over NT$662,031 million recorded in 2004.
- Lending: In 2005, total lending (loans, guarantees and acceptances) amounted to an average of NT$726,983 million, an increase of 4.99% over the NT$692,405 million recorded in 2004.
- Non-performing loans: The non-performing loans outstanding at the end of 2005 amounted to NT$3,300 million, representing a non-performing loan ratio of 0.50%, while the coverage ratio reached 182.38%.
- Foreign exchange business: Total foreign exchange business undertaken in 2005 amounted to US$323,881 million, a growth of 27.78% from the US$253,464 million recorded in 2004.
- Long-term investments: Long-term investments (including investments in equity and other securities) in 2005 amounted to NT$19,758 million, representing an increase of 11.31% over the NT$17,751 million of 2004.
- Trust business: In 2005, trust assets reached NT$139,049 million, a growth of 7.26% compared to the NT$129,642 million recorded in 2004.
- Consumer banking business: As of December 31, 2005, consumer loans outstanding (including credit card loans outstanding) totaled NT$153,929 million, an increase of 11.36% over the NT$138,223 million of 2004.



Chung Kuo Insurance Co., Ltd.

- Direct written business: Total direct written premiums income of 2005 amounted to NT$6,835 million, an increase of NT$638 million or 10.30% compared to the NT$6,197 million of 2004.
- Inward reinsurance business: Reinsurance premiums income of 2005 reached NT$1,112 million, an increase of NT$100 million or 9.89% from the NT$1,012 million of 2004.



Mega Investment Trust Corp. (MITC)

- In 2005, the total operating revenue generated by MITC amounted to NT$166 million. The operating profit amounted to NT$38 million after deducting NT$128 million of operating expenses. The net income after tax reached NT$32 million, a decrease of 65.63% from the previous year.

- Total assets under management by the end of 2005 was recorded at NT$32,020 million, a decrease of 26.91% from the previous year.

Mega Asset Management Co., Ltd. (MAMC)

- In 2005, MAMC purchased 5 NPL portfolios worth NT$10,053 million through non-competitive negotiation.
- In 2005, MAMC disposed of non-performing loans with net annual recovery of NT$366 million, representing net operating profit of NT$293 million or an achievement rate of 110.51%.

Mega CTB Venture Capital Co., Ltd.

The subsidiary, setup in December, 2005, made the first investment of NT$18,000 thousand on December 28th, 2005. It recorded an after tax loss of NT$2,068 thousand and an EPS of -NT$0.40, owing to no operating revenue generated in 2005.

Mega Life Insurance Agency Co., Ltd.

In 2005, the insurance commission income generated by the subsidiary amounted to NT$203 million, representing a growth of 61.5% from NT$126 million recorded in 2004.

II. Risk Management

Organization Structure

As the highest authority and the policy-making body for the Company's risk management, the Board of Directors defines the duties and responsibilities concerning risk management and takes ultimate responsibility for the Group's risk management system and its effective operation. The Risk Management Committee, which reports to the Board, takes charge of formulating the policy and guidelines of risk management for the Group and evaluating various risks within the Group. The Risk Management Department, which reports to the President of the Company, is responsible for collecting, measuring, analyzing, monitoring, controlling, and reporting all risk information within the Group. Finally, the Auditing Office of the Board takes charge of evaluating the effectiveness of internal control systems and the efficiency of the Group's operations as well as making recommendations as it deems appropriate.

Risk Management Policy

The risk management policy for the Company and its subsidiaries aims to build a mechanism for identifying, monitoring and controlling risks emerging from various businesses and ensuring all operational risks are reduced to tolerable level in order to create maximum profits and returns on shareholder's equity. Also, seeking to establish a risk management mechanism that conforms to international standards, the Company has evaluated, with the assistance of outside consultants, its current risk management operation based on Basel II requirements and international best practices. Internal training sessions will also be held to develop risk management consciousness and foster such culture in the Group.

III. Operating Policies in 2006

Mega Financial Holding Co., Ltd.

- Continue to conduct integration and restructuring of subsidiaries to establish a customer-oriented structure, strengthen distribution channels and optimize cross-selling effectiveness.
- Focus on core business by seeking appropriate merger opportunities, pursuing effective and strategic management of investment portfolio to enhance shareholders value.
- Raise institutional shareholdings by strong commitment to corporate governance and investor's relationship management to build on reputation and stabilize management.
- Establish risk data mart and strengthen risk management.
- Continue reinforcing assets and liabilities management, funds utilization and Group's income tax planning to enhance operating performance.
- Continue establishing a common IT platform integrating information system and e-commercial business of subsidiaries, to reduce operational costs and expand customer base.
- Provide best corporate training and education, and develop core competencies of all staff to realize their full potential.

Banking Business

The two bank subsidiaries, Chiao Tung Bank (CTB) and the International Commercial Bank of China (ICBC), are expected to merge in 2006. During the year, aside from strengthening their existing business advantages, the two banks will integrate their resources and unify their various operating processes so as to shorten the adjustment period of the merger. The two banks' operating policies in 2006 are highlighted below.

- Continue to consolidate the bases of their corporate finance, investment banking, and other businesses, enhance their market competitiveness, and create maximum profit.
- Take full advantages of the cross-selling of the Mega Financial Group, provide comprehensive financial services to their clients, and optimize the benefit of Group synergy.
- Continue to strengthen the review of lending operations and the management of investee enterprises, so as to improve the quality of their assets.
- Assess the possibility of setting up representative offices or branches in other major financial centers to increase their global reach and raise profits contributed from overseas.
- Upgrade such electronic banking products as Global eBanking, On-line Foreign Exchange, Web ATM, to make online banking more convenient and to attract more customers to choose CTB and ICBC to manage their funds.
- Strengthen growth in the foreign exchange business to safeguard ICBC's leading position in this business.
- Continue to grasp opportunities in the direct financing market, and further devise overseas fund-raising plans to meet the needs of local businesses.

- Put in place a risk management structure that complies with BASEL II, to reinforce the banks risk management system.

Bills Finance Business

- Expand short-term notes business by increasing customers' utilization of credit lines, participating in Note Issuance Facility (NIF) programs guaranteed by leading banks in Taiwan.
- Fully utilize the Kondor+ system to conduct interest rate derivatives and equity transaction.
- Get involved in asset-backed commercial paper programs by taking advantage of CHBF's competition edges in distribution network and sound credit rating.
- Widen interest spread by obtaining low cost funding and developing fixed rate commercial paper (FRCP) business.

Securities Business

- Expand distribution network by continuing to pursue attractive acquisitions and adjust the distribution network based on performance of each branch.
- Maintain its leading position in the domestic capital market by actively developing financial consulting services and engaging in underwriting of Taiwan-based companies' IPO on the Hong Kong Stock Exchange.
- Deliver integrated wealth management solutions to our clients, aiming at becoming the best asset management platform for domestic and overseas Chinese.
- In line with the government's pace in market deregulation, continue to provide a full suite of products and services tailored to customer needs.

Non-life Insurance Business

- Increase operating profits by developing distinctive products, selecting quality business, raising retention ratio and strictly controlling loss ratio.
- Improve financial income by enhancing market and industry research, planning of investment strategy and timely adjustment to investment portfolio.

Financial Reports

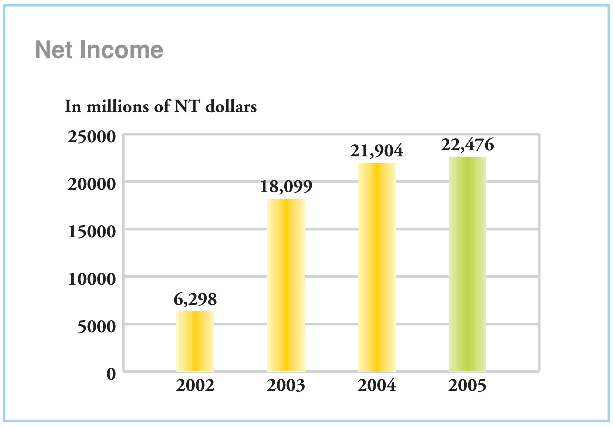
I. Financial Highlights

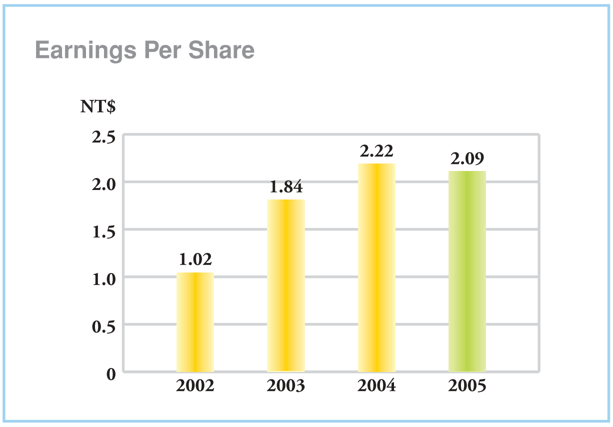
Mega Financial Holding Co., Ltd. and Subsidiaries

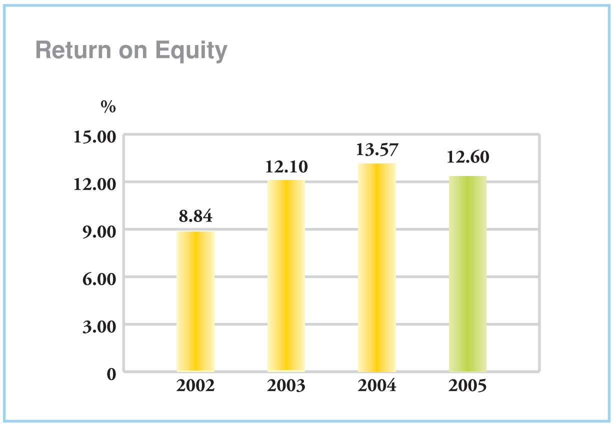
In millions of dollars, except per share amount

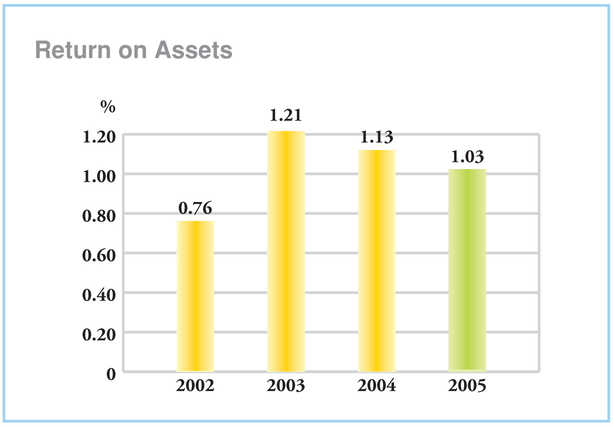
	2005		2004	2003
	US$	NT$	NT$	NT$
Financial Condition				
Paid-in capital	3,458	113,657	113,657	113,972
Shareholders’ equity	5,845	192,052	166,368	156,533
Total assets	68,121	2,238,460	2,120,905	1,763,306
Profit and Loss				
Total revenue	2,946	96,811	85,547	83,518
Operating profit	752	24,707	22,819	19,884
Net income	684	22,476	21,904	18,099
Per Common Share				
Shareholders’ equity per share	-	17.28	16.58	15.97
Earnings per share	-	2.09	2.22	1.84
Dividends declared per share				
Stock dividend	-	-	-	0.40
Cash dividend	-	1.5315	1.5356	0.40
Financial Ratios				
Capital adequacy ratio	-	119.46%	108.42%.	114.25%
Return on assets	-	1.03%	1.13%	1.21%
Return on equity	-	12.60%	13.57%	12.10%
Net income to operating revenues	-	22.33%	26.00%	21.67%
Double leverage ratio	-	104.57%	116.68%	119.80%

- The Company’s paid-in capital reached NT$3,458 million as of December 31, 2005, ranking first in the industry.
- The Company had total assets of NT$2,238,460 million as of December 31, 2005, ranking third among the financial holding companies in Taiwan.
- The Company’s consolidated revenue increased NT$11,264 million or 13.17% in 2005 to NT$96,811 million, placing 4th in its peer group.
- In 2005, the Company's consolidated net income after tax rose NT$572 million or 2.61% to a then-record NT$22,476 million, ranking first among the financial holding companies in Taiwan.









II. Credit Ratings

Company	Credit Rating Agency	Long-Term	Outlook	Short-Term	Financial Strength Ratings	Date of Issuance
Mega Financial Holding Company	Taiwan Ratings Corp.	twAA	Stable	twA-1		Dec. 20, 2005
	Moody's	Baa1				Sep. 2005
Chiao Tung Bank	Taiwan Ratings Corp.	twAA+	Stable	twA-1		Dec. 22, 2004
	Moody's	A3	Positive	P-2	D-	Oct. 2005
	S & P	A	Stable	A-2		Nov. 6, 2005
The International Commercial Bank of China	Moody's	A2		P-1	C-	Apr. 2005
	S & P	A	Stable	A-1	B	Sep. 28, 2005
Chung Hsing Bills Finance Corporation	Taiwan Ratings Corp.	twAA	Stable	twA-1		Oct. 19, 2005
Barits International Securities Co., Ltd.	Taiwan Ratings Corp.	twAA-	Stable	twA-1		Oct. 19, 2005
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA-	Stable			Oct. 19, 2005
	S & P	BBB+	Stable			Oct. 18, 2005

- The long-term credit rating of both the International Commercial Bank of China and Chiao Tung Bank were upgraded by S&P from A- to A in 2005, while the short-term rating of both banks were upgraded from A-2 to A-1 as well.
- The outlook for Chiao Tung Bank's A3/P-2/ D- ratings has been revised to positive by Moody's, in view of its upcoming merger with the International Commercial Bank of China.

III. Financial Performance Review

The Company's consolidated operating revenues in 2005 was generated mainly from interest income, premiums income, fees income, and gain on trading of securities. Operating expenses of 2005 comprised primarily interest expenses, provisions expenses, and business & administrative expenses. Net income after tax increased by NT$572,059 thousand or 2.61%, and reached NT$22,476 million in 2005, primarily due to improved credit performance experienced by bank subsidiaries in 2005. The provision for credit losses was NT$4,745,989 thousand in 2005, a decline of NT$5,720,205 thousand from NT$10,466,194 thousand in 2004. Foreign exchange gain rose by NT$1,103,643 thousand or 56.45%, and amounted to NT$3,058,448 thousand in 2005. These were partly offset by the NT$882,477 thousand increase in business & administrative expenses and NT$1,024,865 thousand income tax expense, as well as NT$3,301,330 thousand decrease in gain on trading of securities.

Financial performances of the Company's subsidiaries are analyzed as follows:

- Chiao Tung Bank Co., Ltd. enhanced its net income after tax by 3.36% in 2004 thanks to improved asset quality, decreased provision for loan losses, and effective collection of NPL.
- The International Commercial Bank of China recorded a growth of 11.85% in earnings compared to the year 2004 thanks to improved asset quality and lowered provision for loan losses.
- Barits International Securities Co., Ltd. achieved a growth of 303.27% in the net income after tax from 2004. The increase was due to NT$1,041,960 thousand recovery of valuation loss on marketable securities.
- Chung Hsing Bills Finance Corporation (CHBF) has seen a decline of 19.64% in net income after tax compared to the year 2004. Interest expenses from Repo transactions increased due to rising interest rates. And furthermore, fierce competition in bills market also led to shrinking interest spread. To improve the performance, CHBF has adopted such strategies as increasing customer's utilization of credit line in bills guarantee business, improving bond trading techniques, and developing new financial products that would exploit new profit sources.
- Chung Kuo Insurance Co., Ltd. (CKI) has experienced a reduction of 64.61% in profitability compared to the year 2004 because of growing claims and declining financial income for the year 2005. CKI proposed to improve its profitability by exploring niche markets, enhancing renewal rate, and selecting quality business.
- Mega Investment Trust Corp. has seen a drop of 65.63% in earnings compared with the year 2004. The decrease was due to decrease in management fee incomes as a result of the decline in assets under management. The company plans to improve its performance by providing better service to customers, optimizing sales effectiveness, and enhancing fund performance.
- Mega Asset Management Corporation has improved its profitability by 24.10% compared with the year 2004 because of growing gains on disposal of NPLs in 2005.
- Net income after-tax of Mega Life Insurance Agency Co., Ltd. declined by 32.53% compared with the year 2004 because of an increase in profit sharing ratio, applied to its affiliates in sale of life insurance.

• Mega CTB Venture Capital Co., Ltd. suffered a loss of NT$2,068 thousand in 2005 mainly because the company was setup in December 2005 with no operating revenue. A venture capital firm relies mostly on long-term investments. Therefore, the first few years of operation rarely witness significant growth in profitability. Nevertheless, the company will work on turning deficit to surplus by seeking quality investment targets.

Performance Breakdown by Company

Expressed in millions of NT$, except EPS in NT$

Company	Operating Revenues			Net Income After Tax			2005 EPS
	2005	2004	Change (%)	2005	2004	Change (%)	
Mega FHC & subsidiaries	96,811	85,547	13.17	22,476	21,904	2.61	2.09
Mega FHC (stand alone)	22,387	21,941	2.03	22,530	21,904	2.86	2.09
Chiao Tung Bank	22,357	23,126	(3.33)	6,326	6,120	3.36	2.36
Barits International Securities Co., Ltd.	3,737	3,996	(6.48)	586	145	303.27	0.44
Chung Hsing Bills Finance Corp.	8,716	9,215	(5.42)	4,382	5,454	(19.64)	2.01
International Commercial Bank of China	46,595	38,377	21.41	11,392	10,185	11.85	3.06
Chung Kuo Insurance Co., Ltd.	12,300	11,756	4.63	188	531	(64.61)	0.53
Mega Investment Trust Corporation	166	218	(23.85)	32	93	(65.63)	1.06
Mega Asset Management Co., Ltd.	423	259	63.32	201	162	24.10	1.00
Mega Life Insurance Agency Co., Ltd.	204	126	61.90	13	20	(32.53)	6.73
Mega CTB Venture Capital Co., Ltd.	-	-	-	(2)	-	-	(0.40)

IV. Consolidated Financial Statements and Notes

English Translation of a Report Originally Issued in Chinese

Report of Independent Auditors

The Board of Directors and Stockholders
Mega Financial Holding Co., Ltd.
(Formerly known as CTB Financial Holding Co., Ltd.)

We have audited the accompanying consolidated balance sheets of Mega Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations for Audit and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and auditing standards generally accepted in the Republic of China on Taiwan. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mega Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2004 and 2005, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by Public Listed Banks", "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", "Guidelines for Preparation of Financial Reports by Securities Firms", "Guidelines for Preparation of Financial Reports by Futures Commission Merchants", "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

Diwan, Ernst & Young

March 17, 2006
Taipei, Taiwan
Republic of China

Notice to Readers

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

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2005

ASSETS	Notes	December 31, 2004	December 31, 2005	
		NT$	NT$	US$
Cash and cash equivalents	II & IV-1	$64,688,233	$50,448,875	$1,535,267
Due from the Central Bank and other banks	IV-2 & V	213,294,345	181,291,606	5,517,091
Securities purchased, net	II, IV-3, V & VI	497,011,851	559,640,328	17,031,051
Receivables, net	II, IV-4 & V	116,049,779	129,376,306	3,937,197
Bills, discounts and loans, net	II, IV-5 & V	1,031,438,120	1,096,796,912	33,377,873
Long-term equity investments	II, IV-6 & VI	38,108,349	38,530,582	1,172,568
Other long-term investments	IV-7 & V	109,768,354	130,732,211	3,978,461
Property and equipment	II,IV-8&VI			
Land (including revaluation increment)		13,157,411	14,315,826	435,661
Land improvements (including revaluation increment)		3,267	3,267	99
Buildings and structures (including revaluation increment)		12,514,265	13,009,467	395,906
Machinery		1,755,480	1,878,645	57,171
Computers		2,214,042	2,295,100	69,845
Transportation equipment		301,582	297,098	9,042
Miscellaneous equipment and leasehold improvements		1,598,227	1,682,299	51,196
Less: Accumulated depreciation		(7,648,243)	(8,439,873)	(256,843)
Less: Accumulated impairment		-	(37,682)	(1,147)
Prepayment for equipment and machinery on order		111,684	65,603	1,996
Total Property and Equipment, Net		24,007,715	25,069,750	762,926
Other assets	VI	26,538,480	26,573,716	808,695
TOTAL ASSETS		$2,120,905,226	$2,238,460,286	$68,121,129

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

Expressed in Thousands of Dollars

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	December 31, 2004	December 31, 2005	
		NT$	NT$	US$
Liabilities				
Short term debts	IV-9	$25,308,888	$17,070,765	$519,500
Bills and bonds sold under repurchase agreements	II & IV-10	250,636,709	308,175,153	9,378,428
Due to the Central Bank and other banks	IV-11 & V	244,097,749	317,904,567	9,674,515
Payables	IV-12	99,549,618	101,991,921	3,103,832
Deposits and remittances	IV-13 & V	1,033,515,216	1,092,008,660	33,232,156
Funds borrowed from the Central Bank and other banks	IV-14	136,297,888	51,143,985	1,556,421
Bank debentures payable, net	IV-15	85,438,020	81,230,910	2,472,030
Corporate bonds payable, net	II & IV-16	50,107,476	22,900,000	696,896
Accrued pension liability	II & IV-17	1,645,837	1,796,415	54,669
Other liabilities	II & V	27,939,774	52,185,478	1,588,116
Total Liabilities		1,954,537,175	2,046,407,854	62,276,563
Stockholders' Equity				
Equity attributable to stockholders of the Company				
Capital stock	IV-18			
Common stock		113,657,296	113,657,296	3,458,834
Capital surplus	II			
Additional paid-in capital		46,402,120	46,402,120	1,412,116
Capital surplus - treasury stock		2,353	-	-
Adjustments arising from equity-accounted long-term investments		2,340	450,158	13,699
Total capital surplus		46,406,813	46,852,278	1,425,815
Retained earnings	II & IV-19			
Legal reserve		7,521,240	9,711,653	295,546
Special reserve		381,624	377,611	11,492
Unappropriated retained earnings		23,636,939	26,214,995	797,778
Total retained earnings		31,539,803	36,304,259	1,104,816
Equity adjustments				
Unrealized loss on the decline in market value of long-term equity investments		(4,855)	(43,111)	(1,312)
Cumulative translation adjustments		12,543	481,603	14,656
Net loss not recognized as pension cost		(14,500)	(48,373)	(1,472)
Treasury stock	II & IV-20	(25,229,049)	(6,080,355)	(185,038)
Total equity attributable to stockholders of the Company		166,368,051	191,123,597	5,816,299
Minority interest		-	928,835	28,267
Total Stockholders' Equity		166,368,051	192,052,432	5,844,566
Commitments and Contingent Liabilities	VII	-	-	-
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$2,120,905,226	$2,238,460,286	$68,121,129

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2004 and 2005

Expressed in Thousands of Dollars, Except Per Share Amounts

	Notes	For the Years Ended December 31, 2004	For the Years Ended December 31, 2005	
		NT$	NT$	US$
Operating Revenues	II			
Stock management income		$9,274	$9,055	$276
Interest income		49,271,192	60,910,111	1,853,625
Premiums income		7,143,182	7,902,760	240,498
Reinsurance commissions income		436,722	562,007	17,103
Reinsurance payments refund		1,580,041	1,197,214	36,434
Recovered premiums and reserves		1,681,751	1,914,546	58,264
Recovered special reserve		297,501	303,033	9,222
Recovered indeterminate claim reserve		35,720	41,080	1,250
Fees income		9,120,423	7,823,767	238,094
Underwriting income		205,223	170,575	5,191
Gain on issuance of stock warrants		230,774	1,185,837	36,088
Gain on options contracts		1,325	234,893	7,148
Futures commission income		61,076	-	-
Gain on sale of securities		677,584	249,935	7,606
Warehousing and transportation income		2,269	1,916	58
Gain on trading of securities		9,832,617	6,531,287	198,761
Investment income accounted for under equity method		637,740	128,729	3,917
Gain on real estate investments		45,667	140,079	4,263
Foreign exchange gain		1,954,805	3,058,448	93,075
Gain on investments in trusts		137,353	11,089	337
Rental income on operating assets		170,977	156,657	4,767
Other operating revenues		2,013,643	4,278,428	130,202
Total Operating Revenues		85,546,859	96,811,446	2,946,179
Operating Expenses	II & IV-21			
Interest expense		(21,997,452)	(34,145,661)	(1,039,125)
Insurance expense		(3,920,020)	(4,233,702)	(128,841)
Commissions expense		(885,073)	(1,087,568)	(33,097)
Insurance claims		(3,445,999)	(3,571,286)	(108,682)
Provision for unearned premium reserve		(1,922,005)	(1,929,327)	(58,714)
Provision for special reserve		(262,731)	(304,663)	(9,271)
Disbursements for stabilization fund		(10,980)	(12,349)	(376)
Provision for unclaim reserve		(41,332)	(48,667)	(1,481)
Service charges		(729,621)	(812,630)	(24,730)
Expenses on issuance of stock warrants		(3,402)	(1,273,998)	(38,770)
Futures commission expense		-	(13,133)	(399)
Loss on futures contracts		(146,536)	(73,076)	(2,224)
Loss on real estate investments		(19,537)	-	-
Provisions expense		(10,466,194)	(4,745,989)	(144,431)
Rental expense on operating assets		-	(3,488)	(106)
Business and administrative expenses		(18,085,025)	(18,967,502)	(577,222)
Other operating expenses		(791,711)	(881,379)	(26,822)
Total Operating Expenses		(62,727,618)	(72,104,418)	(2,194,291)
Operating Profit		22,819,241	24,707,028	751,888
Non-Operating Income		2,160,783	1,911,181	58,161
Non-Operating Expenses		(1,280,487)	(1,344,733)	(40,923)

Expressed in Thousands of Dollars, Except Per Share Amounts

	Notes	For the Years Ended December 31, 2004	For the Years Ended December 31, 2005	
		NT$	NT$	US$
Income before Income Tax from Continuing Operations		23,699,537	25,273,476	769,126
Income Tax Expense	II & IV-22	(1,795,406)	(2,820,271)	(85,827)
Consolidated Net Income from Continuing Operations	III	21,904,131	22,453,205	683,299
Cumulative Effect of Changes in Accounting Principles(Net of Tax)		-	22,985	699
Consolidated Net Income		$21,904,131	$22,476,190	$683,998
Consolidated Net Income Attributed to				
Stockholders of the Company		21,904,131	22,529,693	685,626
Minority interest		-	(53,503)	(1,628)
		$21,904,131	$22,476,190	$683,998
Earnings Per Share (in dollars)	IV-23			
Basic earnings per share				
Income before income tax from continuing operations		$2.41	$2.35	$0.0715
Consolidated net income		$2.22	$2.09	$0.0636
Diluted earnings per share				
Income before income tax from continuing operations		$2.13	$2.25	$0.0685
Consolidated net income		$1.97	$2.00	$0.0609
Consolidated basic earnings per share attributed to				
Stockholders of the Company		$2.22	$2.09	$0.0636
Minority interest		-	-	-
		$2.22	$2.09	$0.0636
Consolidated diluted earnings per share attributed to				
Stockholders of the Company		$1.97	$2.01	$0.0612
Minority interest		-	(0.01)	(0.0003)
		$1.97	$2.00	$0.0609
Pro forma information based on the assumption that shares of the Company held by its subsidiaries are not treated as treasury stock and that the investment gain or loss on Chiao Tung Bank's equity-accounted investees is recognized in the current period				
Income before income tax from continuing operations		$24,337,622	$25,274,186	$769,147
Consolidated net income		$22,542,216	$22,453,915	$683,321
Earnings per share (in dollars)				
Basic earnings per share				
Income before income tax from continuing operations		$2.47	$2.35	$0.0715
Consolidated net income		$2.29	$2.09	$0.0636
Diluted earnings per share				
Income before income tax from continuing operations		$2.19	$2.25	$0.0685
Consolidated net income		$2.03	$2.00	$0.0609
Consolidated basic earnings per share attributed to				
Stockholders of the Company		$2.29	$2.09	$0.0636
Minority interest		-	-	-
		$2.29	$2.09	$0.0636
Consolidated diluted earnings per share attributed to				
Stockholders of the Company		$2.03	$2.01	$0.0612
Minority interest		-	(0.01)	(0.0003)
		$2.03	$2.00	$0.0609

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
(Formerly CTB FINANCIAL HOLDING CO., LTD.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2004 and 2005

	Common Stock		
	No. of Shares	Amount	Capital Surplus
Balance as of January 1, 2004	11,397,171	$113,971,716	$46,576,329
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(314,420)	(128,484)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	79,057
Treasury stock reissued to employees	-	-	(78,658)
Reissuance of treasury stock held by subsidiaries	-	-	(42,724)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	1,293
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
Balance as of December 31, 2004	11,365,729	113,657,296	46,406,813
Appropriation of 2004 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Conversion of euro convertible bonds	-	-	(18,953)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	16,600
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	447,818
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Consolidated net income attributed to stockholders of the Company			
for the year ended December 31, 2005	-	-	-
Minority interest	-	-	-
Consolidated net income attributed to minority interest			
for the year ended December 31, 2005	-	-	-
Balance as of December 31, 2005	11,365,729	$113,657,296	$46,852,278

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

Expressed in Thousands of New Taiwan Dollars / Thousand Shares

Equity Attributable to stockholders of the Company								
Retained Earnings			Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Treasury Stock	Minority Interest	Total Stockholders' Equity
Legal Reserve	Special Reserve	Unappropriated Retained Earnings						
$5,697,916	$405,703	$18,920,504	$(18,750)	$606,770	$(9,340)	$(29,618,266)	$-	$156,532,582
1,823,324	-	(1,823,324)	-	-	-	-	-	-
-	-	(15,000,338)	-	-	-	-	-	(15,000,338)
-	-	(151,763)	-	-	-	-	-	(151,763)
-	-	(24,282)	-	-	-	-	-	(24,282)
-	-	(176,531)	-	-	-	619,435	-	-
-	-	-	-	-	-	(2,431,355)	-	(2,431,355)
-	-	-	-	-	-	3,294,514	-	3,373,571
-	-	(35,537)	-	-	-	2,364,700	-	2,250,505
-	-	-	-	-	-	541,923	-	499,199
-	(24,079)	24,079	-	-	-	-	-	-
-	-	-	-	-	-	-	-	1,293
-	-	-	13,895	-	-	-	-	13,895
-	-	-	-	(594,227)	-	-	-	(594,227)
-	-	-	-	-	(5,160)	-	-	(5,160)
-	-	21,904,131	-	-	-	-	-	21,904,131
7,521,240	381,624	23,636,939	(4,855)	12,543	(14,500)	(25,229,049)	-	166,368,051
2,190,413	-	(2,190,413)	-	-	-	-	-	-
-	-	(16,937,523)	-	-	-	-	-	(16,937,523)
-	-	(171,363)	-	-	-	-	-	(171,363)
-	-	(27,418)	-	-	-	-	-	(27,418)
-	-	(628,933)	-	-	-	19,056,482	-	18,408,596
-	(4,013)	4,013	-	-	-	-	-	-
-	-	-	-	-	-	92,212	-	108,812
-	-	-	-	-	-	-	-	447,818
-	-	-	(38,256)	-	-	-	-	(38,256)
-	-	-	-	469,060	-	-	-	469,060
-	-	-	-	-	(33,873)	-	-	(33,873)
-	-	22,529,693	-	-	-	-	-	22,529,693
-	-	-	-	-	-	-	982,338	982,338
-	-	-	-	-	-	-	(53,503)	(53,503)
$9,711,653	$377,611	$26,214,995	$(43,111)	$481,603	$(48,373)	$(6,080,355)	$928,835	$192,052,432

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
(Formerly CTB FINANCIAL HOLDING CO., LTD.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2005

	Common Stock		
	No. of Shares	Amount	Capital Surplus
Balance as of January 1, 2005	11,365,729	$3,458,834	$1,412,259
Appropriation of 2004 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Conversion of euro convertible bonds	-	-	(577)
Reversal of special reserve for valuation gain on the			
Company's stock held by its subsidiaries	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	505
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	13,628
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Consolidated net income attributed to stockholders of			
the Company for the year ended December 31, 2005	-	-	-
Minority interest	-	-	-
Consolidated net income attributed to minority interest for			
the year ended December 31,2005	-	-	-
Balance as of December 31, 2005	11,365,729	$3,458,834	$1,425,815

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

Expressed in Thousands of US Dollars / Thousand Shares

	Equity Attributable to stockholders of the Company									
	Retained Earnings			Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Treasury Stock	Minority Interest	Total Stockholders' Equity
	Legal Reserve	Special Reserve	Unappropriated Retained Earnings						
	$228,887	$11,614	$719,322	$(148)	$382	$(441)	$(767,774)	$-	$5,062,935
	66,659	-	(66,659)	-	-	-	-	-	-
	-	-	(515,445)	-	-	-	-	-	(515,445)
	-	-	(5,215)	-	-	-	-	-	(5,215)
	-	-	(833)	-	-	-	-	-	(833)
	-	-	(19,140)	-	-	-	579,930	-	560,213
	-	(122)	122	-	-	-	-	-	-
	-	-	-	-	-	-	2,806	-	3,311
	-	-	-	-	-	-	-	-	13,628
	-	-	-	(1,164)	-	-	-	-	(1,164)
	-	-	-	-	14,274	-	-	-	14,274
	-	-	-	-	-	(1,031)	-	-	(1,031)
	-	-	685,626	-	-	-	-	-	685,626
	-	-	-	-	-	-	-	29,895	29,895
	-	-	-	-	-	-	-	(1,628)	(1,628)
	$295,546	$11,492	$797,778	$(1,312)	$14,656	$(1,472)	$(185,038)	$28,267	$5,844,566

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
(Formerly CTB FINANCIAL HOLDING CO., LTD.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2005

Expressed in Thousands of Dollars

	For Year Ended December 31, 2004	For Year Ended December 31, 2005	
	NT$	NT$	US$
Cash Flows from Operating Activities			
Net income attributed to stockholders of the Company	$21,904,131	$22,529,693	$685,626
Minority interest loss	-	(53,503)	(1,628)
Consolidated net income	21,904,131	22,476,190	683,998
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:			
Depreciation and provisions expense	8,791,049	4,241,824	129,088
Gain on disposal of assets, net	(4,226,957)	(3,223,814)	(98,108)
Loss on asset impairment	-	53,101	1,616
Effect of change in the accounting principle for equity-accounted investment gain or loss	-	(22,985)	(699)
Investment income accounted for under equity method	(637,740)	(128,729)	(3,917)
Cash dividends received from investees accounted for under equity method	160,868	121,640	3,702
Provision of allowance for bad debts, net	2,053,995	1,334,007	40,597
Increase in securities purchased for trading purposes	(221,208,614)	(81,020,580)	(2,465,629)
Increase in receivables	(26,639,502)	(12,949,957)	(394,095)
Increase in liability on bonds sold under repurchase agreements	206,347,167	41,089,033	1,250,427
Increase in payables	13,877,142	3,335,558	101,508
Net change in deferred income tax assets/liabilities, net	555,589	154,344	4,697
Increase in accrued pension liability	11,471	121,192	3,688
Net change in forward exchange receivable/payable for trading purposes	384,445	(538,566)	(16,390)
Net cash provided by (used in) operating activities	1,373,044	(24,957,742)	(759,517)
Cash Flows from Investing Activities			
Decrease in due from the Central Bank and other banks	4,580,970	30,694,258	934,092
Increase in bills, discounts and loans	(88,661,891)	(68,995,065)	(2,099,667)
Decrease in long-term investments, net	2,434,809	1,842,971	56,085
Acquisition of property and equipment	(2,614,152)	(1,419,558)	(43,200)
Proceeds from disposal of property and equipment	2,755,501	393,653	11,980
Decrease (increase) in other assets	61,252	(1,709,854)	(52,035)
Decrease in securities purchased for non-trading purposes	-	150,000	4,565
Decrease in net forward exchange receivable for non-trading purposes	342,490	116,650	3,550
Net cash used in investing activities	(81,101,021)	(38,926,945)	(1,184,630)
Cash Flows from Financing Activities			
Increase (decrease) in short-term debts	4,275,113	(2,482,577)	(75,550)
Increase in due to the Central Bank and other banks	15,427,592	22,723,397	691,521
Increase in deposits and remittances	65,438,135	105,113,977	3,198,843
Decrease in funds borrowed from the Central Bank and other banks	(8,177,833)	(61,053,819)	(1,857,998)
Increase (decrease) in bank debentures payable	11,117,677	(4,207,110)	(128,031)
Increase (decrease) in long-term liabilities	9,597,708	(8,495,179)	(258,527)
Increase in other liabilities	7,221,244	14,060,356	427,887

Expressed in Thousands of Dollars

	For Year Ended December 31, 2004	For Year Ended December 31, 2005	
	NT$	NT$	US$
Distribution of cash dividends and bonus	(14,312,653)	(16,392,541)	(498,860)
Purchase of treasury stock	(2,431,355)	-	-
Proceeds from sale of treasury stock	2,741,905	-	-
Net cash provided by financing activities	90,897,533	49,266,504	1,499,285
Effect of Initial Consolidation of Subsidiaries	-	136,237	4,146
Effect of Exchange Rate Changes	(632,182)	242,588	7,382
Net Increase / (Decrease) in Cash and Cash Equivalents	10,537,374	(14,239,358)	(433,334)
Cash and Cash Equivalents, Beginning of Period	54,150,859	64,688,233	1,968,601
Cash and Cash Equivalents, End of Period	$64,688,233	$50,448,875	$1,535,267
Supplemental Information:			
Interest paid	$21,965,832	$14,243,948	$433,474
Income tax paid	$860,386	$1,662,807	$50,603
Investing and Financing Activities not Affecting Cash Flows:			
Conversion of corporate bonds	$3,373,570	$19,058,085	$579,978
Reissuance of treasury stock held by its subsidiaries to employees	$499,199	$-	$-
Disposal of the Company's stock by its subsidiaries	$-	$108,812	$3,311

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

MEGA FINANCIAL HOLDING CO., LTD.
(Formerly CTB FINANCIAL HOLDING CO., LTD.)
AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2004 and 2005
(Expressed in thousand dollars unless otherwise stated)

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

I. ORGANIZATION AND OPERATIONS

Mega Financial Holding Co., Ltd. (the “Company”) was formed by Chiao Tung Bank Co., Ltd. (“CTB”) and Barits International Securities Co., Ltd. (“BIS”; formerly known as International Securities Co., Ltd.) on February 4, 2002 pursuant to the Financial Holding Company Act and other related Company Laws. CTB and BIS were simultaneously acquired by the Company through a share swap. On August 22, 2002, Chung Hsing Bills Finance Corporation (“CHBF”) and Barits Securities Co., Ltd (“BS”) were acquired by the Company through a second share swap. On December 31, 2002, the Company acquired a 100% equity stake both in The International Commercial Bank of China (“ICBC”), an investee of the Company originally accounted for under the equity method with a 28% equity interest, and Chung Kuo Insurance Co., Ltd. (“CKI”) through a further share swap and changed its name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd. The Company’s shares have been publicly traded on the Taiwan Stock Exchange since February 4, 2002. The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies. Background of the Company’s subsidiaries is summarized below.

1. CTB was established in Mainland China in 1907, five years before the founding of the Republic of China (ROC), and moved to Taiwan along with the central government of ROC in 1949. CTB resumed its operation in 1960 to continue its role of assisting the ROC government in implementing economic development programs. CTB’s shares were publicly traded on the Taiwan Stock Exchange since September 1996 and the bank completed its privatization process in September 1999. On February 4, 2002, CTB became a wholly-owned subsidiary of the Company through share swap pursuant to the Financial Holding Company Act and was therefore delisted from the Taiwan Stock Exchange. As an industrial development bank, CTB is mainly engaged in extending medium- and long-term loans, equity and venture capital investments, international banking and trust related business. In line with the government’s economic policy and economic development programs, CTB also assists major industries in developing strategies for improving the industrial infrastructure and promotes industrial development of the nation.
2. BIS (formerly known as International Securities Co., Ltd.) was incorporated on October 19, 1989, and became a wholly-owned subsidiary of the Company on February 4, 2002 through share swap. On October 31, 2002, BIS’ Board of Directors passed a resolution to merge with BS. On November 28, 2002, the merger was formally approved by the Securities and Futures Commission (“SFC”) with the effective merger date set on January 31, 2003. BIS is the surviving company after the merger. On January 30, 2003, BIS further acquired all operations and properties of Chung Hsing Securities Corp. Principal activities of BIS include underwriting, brokerage and proprietary trading of securities, margin trading of securities and bills, issuance of stock warrants, and brokerage of overseas securities.
3. Barits Holding Limited (“BHL”), registered in British Virgin Islands, is 100% owned by BIS with an investment amount of NT$896,070 thousand. BHL is mainly involved in asset management and venture capital activities.
4. Barits International Futures Co., Ltd. (“BIF”) is 100% owned by BIS with an investment amount of NT$2,365,250 thousand. BIF is mainly engaged in brokerage of domestic and foreign futures trading, proprietary trading of domestic futures contracts, and settlement and consulting services for domestic futures trading.
5. Barits Ho Chong Securities Company Ltd., registered in Hong Kong, is 100% owned by BHL with an investment amount of HK$60,000 thousand. Barits Ho Chong Securities Company Ltd. is mainly engaged in brokerage of marketable securities.
6. Barits International Asset Management Corporation (BVI), registered in British Virgin Islands, is 100% owned by BHL with an investment amount of HK$116,260 thousand. BVI is mainly engaged in investment consulting services.
7. Barits Securities (Hong Kong) Ltd., registered in Hong Kong, is 100% owned by BHL with an investment amount of HK$80,000 thousand. Barits Securities (Hong Kong) Ltd. is mainly engaged in investment consulting services.
8. Barits Global Asset Management Ltd., Cayman registered in British Cayman Islands, is 100% owned by BHL with an investment amount of HK$29,097 thousand. Barits Global Asset Management Ltd., Cayman is mainly engaged in asset management services.
9. CHBF, established on May 3, 1976, became a wholly-owned subsidiary of the Company through share swap on August 22, 2002 and was delisted from the Taiwan Stock Exchange accordingly. CHBF is mainly engaged in proprietary trading, brokerage and underwriting of short-term notes and bills and financial debentures, provision of guarantees for short-term notes and bills,

arrangement of inter-bank call loans, corporate financial consulting and proprietary trading of government bonds and corporate bonds.

10. International Commercial Bank of China ("ICBC"), formerly known as Bank of China, was restructured on December 17, 1971 in accordance with the Chinese commercial banking regulations. Shares of ICBC were originally traded on the Taiwan Stock Exchange. On December 31, 2002, ICBC became a wholly-owned subsidiary of the Company through share swap and was delisted from the Taiwan Stock Exchange accordingly. ICBC's major activities include foreign exchange and related operations, trade finance and guarantees, trust related business and other commercial banking business related to international trade.

11. International Commercial Bank of Cathay (Canada) ("ICBC Canada"), a wholly-owned subsidiary of ICBC, was established in Canada with a capital base of NT$634,207 thousand. ICBC Canada is mainly engaged in accepting deposits, extension of credits, negotiation of import/export bills, collections and foreign exchange related businesses.

12. Yung Shing Industries Co. ("Yung Shing") is 95.22% owned by ICBC with an investment amount of NT$95,219 thousand. The principal activities of Yung Shing include agency services for industrial and mining related businesses, import and export related businesses, services requested by customers (e.g. data processing, packaging and printing), editing, binding and copying of documents, and credit card agency services.

13. Cathay Investment & Development Corporation (Bahamas) ("CIDC Bahamas"), registered in the Commonwealth of the Bahamas, is 100% owned by ICBC with an investment amount of NT$200 thousand. CIDC Bahamas is mainly engaged in international investment and development activities.

14. Initially established by Bank of China (predecessor of ICBC) in November 1931, Chung Kuo Insurance Co., Ltd (CKI) merged with the Central Trust of China's Non-life Insurance Department in February 1972 and became a direct investee company of the Ministry of Finance (MOF). CKI completed its privatization process on May 5, 1994 and became a wholly-owned subsidiary of the Company through share swap on December 31, 2002. CKI is primarily engaged in general insurance business.

15. International Commercial Bank Of China Public Co., Ltd. ("ICBCPC"), a wholly-owned subsidiary of ICBC, was established in Thailand in March 2005 with a capital base of 4 billion Thai baht. ICBCPC is mainly engaged in accepting deposits, negotiation of import/export bills, collections, exchange of foreign currencies and extension of credits.

16. International Investment Trust Co., Ltd. ("IIT") is a subsidiary of ICBC, in which ICBC's equity interest increased to 59.13% in the six-month period ended June 30, 2005. IIT is primarily engaged in investment trust related businesses.

17. Mega Asset Management Co., Ltd. ("MAM") was established by the Company on December 5, 2003 with a capital base of NT$2 billion. MAM is primarily engaged in purchases, evaluations, auctions, and management of financial institutions' loan assets.

18. CTB I Venture Capital Co., Ltd. ("CTB I Venture Capital") is 40% owned jointly by CTB, BIS and CKI with a total investment amount of NT$400 million. CTB I Venture Capital is primarily engaged in venture capital activities. CTB I Venture Capital is regarded as a subsidiary in which the Company has controlling power due to the Company's significant influence over its financial, operational, and personnel policies.

19. Mega CTB Venture Capital Co., Ltd. ("Mega CTB Venture Capital") was established by the Company on December 13, 2005 with an initial investment of NT$1 billion. Mega CTB Venture Capital is primarily engaged in venture capital investments as well as providing operational, managerial and consulting services.

20. The total number of employees for the Company and its subsidiaries amounted to 7,277 and 7,319 on December 31, 2004 and 2005, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by Public Listed Banks", "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", "Guidelines for Preparation of Financial Reports by Securities Firms", "Guidelines for Preparation of Financial Reports by Futures Commission Merchants", "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan. Due to the characteristics of the banking industry, its business cycle cannot be accurately defined. Hence, the accounts on the accompanying consolidated financial statements are not categorized into current and non-current items but are stated in order of their liquidity. The significant accounting policies adopted are summarized below.

1. Foreign currency transactions and translation of foreign branches' financial statements

The accompanying financial statements are stated in New Taiwan dollars. Translation of New Taiwan dollar amounts into U.S. dollars as of December 31, 2005 are included in the financial statements solely for the convenience of the readers, using the official closing rate of the Central Bank of China on December 31, 2005 of NT$32.86 to US$1. These translations should not be construed as a representation that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

2. Basis for preparation of consolidated financial statements

(1) Annual and interim consolidated financial statements are prepared as required by the governing authorities. For the fiscal years ended on and before December 31, 2004, apart from the bank, insurance and securities subsidiaries, the Company was required to consolidate accounts of the investee companies of which the Company directly or indirectly held more than 50% of the common stocks and whose individual total assets or total operating revenues accounted for more than 10% of the Company's respective unconsolidated amounts. Where the combined total assets or total operating revenues of all the subsidiaries which did not meet the above-mentioned consolidation requirements exceeded 30% of the Company's respective unconsolidated amounts, accounts of the subsidiaries with individual total assets or total operating revenues exceeding 3% of the Company's respective unconsolidated amounts should also be included in the consolidated financial statements. Beginning January 1, 2005, pursuant to the newly revised Statement of Financial Accounting Standards (SFAS) No. 7, "Consolidated Financial Statements", the Company is required to consolidate accounts of the investee companies of which the Company directly or indirectly holds more than 50% of the common stocks, unless the Company considers that the individual total asset or total operating revenue amounts of the investees are immaterial. Under the newly revised SFAS No. 7, the prior year financial statements are not required to be restated retroactively.

(2) The shares of CTB and BIS held by the Company are accounted for in accordance with the rule stipulated by the Accounting Research and Development Foundation of the Republic of China (ARDF), which is summarized below:

Capital expenditure incurred by the Company to acquire equity interest in a financial institution through share swap is stated at the book value of the respective financial institution's assets less the book value of its liabilities. The par value of the new shares issued is recorded as common stock, and the amount in excess of the par value is recorded as capital surplus.

As ICBC was the Company's affiliate before joining the Company through share swap, its shares held by the Company are accounted for in accordance with the ARDF's rule, which is summarized below:

The Company's equity investment in a financial institution is stated at the book value of the respective financial institution's net assets. When the book value of the financial institution's net assets exceeds the par value of the Company's issued shares, the excess is recorded as capital surplus. Conversely, when the net assets' book value is less than the par value of the Company's issued shares, the difference is accounted for by issuing new shares at discount.

(3) CHBF, BS and CKI were acquired by the Company through share swap. The business combination of the three subsidiaries was accounted for by the pooling-of-interests method in accordance with the rule stipulated in the ARDF's Letter (90) Chi-Mi-Tze No. 079.

(4) The merger of BIS and BS, in which BIS was the surviving entity, was accounted for in accordance with the rule stipulated in the ARDF's Letter (91) Chi-Mi-Tze No. 244. Under the rule, the book value of BIS' long-term investments in BS was treated as the cost of the new shares issued for acquisition of BIS.

(5) All significant inter-company transactions and the respective balances have been eliminated from the consolidated financial statements.

(6) The names of the subsidiaries that are included in the consolidated financial statements and the Company's percentage of ownership in each subsidiary are set forth below:

		Ownership (%)	
Investor	Subsidiary	December 31, 2004	December 31, 2005
The Company	CTB	100.00	100.00
The Company	BIS	100.00	100.00
BIS	BHL	100.00	100.00
BIS	BIF	100.00	100.00
BHL	Barits Ho Chong Securities Company Ltd.	100.00	100.00
BHL	Barits International Asset Management Corporation, BVI	100.00	100.00
BHL	Barits Securities (Hong Kong) Ltd.	100.00	100.00
BHL	Barits Global Asset Management Ltd., Cayman	100.00	100.00
The Company	CHBF	100.00	100.00
The Company	ICBC	100.00	100.00
ICBC	ICBC Canada	100.00	100.00
ICBC	Yung Shing	95.22	95.22
ICBC	CIDC Bahamas	100.00	100.00
ICBC	ICBCPC	-	100.00
ICBC	IIT	-	59.13
The Company	CKI	100.00	100.00
The Company	MAM	100.00	100.00
CTB, BIS and CKI	CTB I Venture Capital	40.00	40.00
The Company	Mega CTB Venture Capital	-	100.00

(7) Changes in the subsidiaries that are included in the consolidated financial statements for the year ended December 31, 2004 and 2005 are set forth below:

December 31, 2004	Addition	Elimination	December 31, 2005
CTB	-	-	CTB
BIS	-	-	BIS
CHBF	-	-	CHBF
ICBC	-	-	ICBC
CKI	-	-	CKI
BHL	-	-	BHL
Barits Ho Chong Securities Company Ltd.	-	-	Barits Ho Chong Securities Company Ltd.
Barits International Asset Management Corporation, BVI	-	-	Barits International Asset Management Corporation, BVI
Barits Securities (Hong Kong) Ltd.	-	-	Barits Securities (Hong Kong) Ltd.
Barits Global Asset Management Ltd., Cayman	-	-	Barits Global Asset Management Ltd., Cayman
ICBC Canada	-	-	ICBC Canada
-	BIF	-	BIF
-	ICBC Canada	-	ICBC Canada
-	Yung Shing	-	Yung Shing
-	CIDC Bahamas	-	CIDC Bahamas
-	MAM	-	MAM
-	CTB I Venture Capital	-	CTB I Venture Capital
-	ICBCPC	-	ICBCPC
-	IIT	-	IIT
-	Mega CTB Venture Capital	-	Mega CTB Venture Capital

As BIF, Yung Shing, CIDC Bahamas, MAM, CTB I Venture Capital, ICBCPC, IIT and Mega CTB Venture Capital meet the consolidation requirements stipulated in the newly revised SFAS No. 7, “Consolidated Financial Statements”, the accounts of these subsidiaries are included in the Company’s consolidated financial statements, beginning January 1, 2005. Under the newly revised SFAS No. 7, the consolidated financial statements of the Company as of and for the years ended December 31, 2004 are not required to be restated retroactively. Please see Note V for details of the significant transactions between the above-mentioned subsidiaries during the years December 31, 2004.

(8) Details of the Company’s subsidiaries that are not included in the consolidated financial statements are set forth below:

Investor	Subsidiary	Ownership (%)		Business Scope
		12/31/04	12/31/05	
The Company	Mega International Securities Investment Trust Corporation	93.95	93.96	Issuance of mutual funds
The Company	Chung Yin Insurance Agency Company	(Note)	100.00	Insurance brokerage
CTB	CTB Financial Management & Consulting Co., Ltd.	100.00	100.00	Management consulting
BIS	Barits International Investment Services Corporation	100.00	100.00	Securities investment consulting
ICBC	Cathay Investment & Warehousing Co. S.A.	100.00	100.00	Storage and warehousing of imported commodities
ICBC	China Products Trading Company	68.27	68.27	Transportation and storage of farming products and by-products, and investments in the related businesses
ICBC	Chung Yin Insurance Agency Company	100.00	(Note)	Insurance brokerage
ICBC	Ramlett Finance Holdings, Inc.	100.00	100.00	Real estate investments
ICBC and CKI	Cathy Insurance Company, Inc.	56.09	56.09	General insurance
Yung Shing	Win Card Co., Ltd.	100.00	100.00	Business management
Yung Shing	ICBC Assets Management & Consulting Co., Ltd.	100.00	100.00	Investment consulting

As the individual total asset or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Company’s consolidated financial statements although the Company holds more than 50% equity interest in these subsidiaries.

<Note> In September 2005, the Company acquired all shares of Chung Yin Insurance Agency Co., Ltd., which was renamed as Mega Life Insurance Agency Co., Ltd. on September 23, 2005, from one of the subsidiaries, ICBC.

3. Cash and cash equivalents

Cash and cash equivalents include cash, unrestricted bank deposits, and short-term investments in highly liquid instruments, which can be readily converted into cash without significant penalty and of which the values will not be significantly affected by fluctuation in interest rates. The above-mentioned short-term investments include treasury bills, negotiable certificates of deposit, commercial papers and banker’s acceptances with maturity of three months or less.

4. Securities purchased

Securities purchased, including certificates of time deposit, commercial papers, bonds, securities held for operations, listed stocks, mutual funds, and bills and bonds purchased under resell agreements, are initially stated at cost and restated at the lower of cost or market value at year-end. That is, the average closing price at year-end is compared with the cost. If the market price at year-end is not available, the most recent market price is used in the comparison. Upon disposal of the securities, costs of the stocks and mutual funds are determined by the weighted-average method whereas costs of the other securities are determined by the specific identification method.

Pursuant to the rules stipulated in the Letter (91) Tai-Tsai-Tseng (2) No. 000599 issued by the Securities and Futures Commission (SFC) of MOF, emerging stocks held by securities firms are required to be recorded at cost as “securities held for proprietary trading” and are valued by the cost method. Article 14 of the “Guidelines for Preparation of Financial Reports by Securities Firms” which requires securities held for operations by the securities firms to be valued by the lower of cost or market value method is not applicable.

5. Bills and bonds sold or purchased under repurchase or resell agreements

Bills and bonds sold under repurchase agreements for financing purposes are credited to “bills and bonds sold under repurchase agreements”, and the difference between the selling price and repurchase price is charged to interest expense. Bills purchased under resell agreements for financing purposes are debited to “bills and bonds purchased under resell agreements” under “securities purchased”, and the difference between the purchase price and resell price is credited to interest income.

6. TAIEX Index Options and equity options

Transactions of TAIEX Index Options and equity options are stated at the premiums on the option contracts. The Company’s position in the option contracts is marked to market monthly and the variation in the option position is recorded under “options bought”, “liability on options written” and “unrealized gain (loss) on option contracts”.

Upon exercise of the options, the difference between the spot price and the strike price is credited or charged to current income. On the balance sheet date, the difference between the closing price of the outstanding option contracts and their cost is also credited or charged to current income.

7. Margin deposits for futures trading - own capital

Margin deposits are guarantee deposits paid for futures and options trading using the Company’s own capital. The Company’s position in the futures contracts is marked to market daily and the variation in the margin deposits is recorded under “margin deposits for futures trading - own capital” and “unrealized gain (loss) on futures contracts”.

Upon settlement of the futures contracts or exercise of the option contracts, the difference between the spot price and the contracted price is credited or charged to current income. On the balance sheet date, the difference between the closing price of the outstanding contracts and the average price is also credited or charged to current income.

8. Non-accrual loans

The loans and other credit facilities that are not repaid at maturity are reclassified to non-accrual loans with the amount of accrued interest.

9. Allowances for doubtful accounts

(1) Allowances for doubtful accounts are provided based on the balances of bills, discounts, loans, receivables and non-accrual loans on the balance sheet date and their collectibility.

(2) Pursuant to the “Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts” promulgated by the MOF, the recoverability of the loans extended is assessed based on the financial condition of the borrowers, credit history, the borrowers’ ability to pay interest and principal in a timely manner and the appraised values of the collaterals.

(3) Allowances for doubtful loans are provided according to the regulations stated in (2) above as follows: 50% for the loans that are difficult to recover, and 100% for the uncollectible loans.

(4) Balances of uncollectible accounts are written off upon the approval by the Board of Directors.

10. Margin trading of securities

(1) Margin loans extended to stock investors are recorded as “marginal receivables” and the stocks purchased by the borrowers are held by BIS as collaterals. The collaterals are recorded in the memorandum account and are returned to the borrowers when the loans are repaid.

(2) Guarantee deposits received from stock investors on short sales are recorded as “margin deposits on short sales”. The proceeds from short sales (less the securities transaction tax and service charges) are held by BIS as guarantee deposits which are recorded as “payables on proceeds from short sales”. The stocks lent to the customers are recorded in the memorandum account. When the stocks are returned to BIS, the margin deposits and proceeds from the short sales are returned to the customers accordingly.

(3) Loans borrowed by BIS from other securities lenders when BIS has insufficient fund to conduct margin trading are recoded as “margin loans from other securities lenders”. When BIS has insufficient stocks to conduct short selling, the guarantee deposits paid for the stocks borrowed from other securities lenders are recorded as “deposits paid to other securities lenders”. The proceeds from short sales are then paid to the securities lenders as additional guarantees and are recorded as “refinancing guarantees receivable”.

11. Long-term equity investments

(1) The shares of CTB and BIS held by the Company are accounted for in accordance with the rule stipulated by the Accounting Research and Development Foundation of the Republic of China (ARDF), which is summarized below:

Capital expenditure incurred by the Company to acquire equity interest in a financial institution through share swap is stated at the book value of the respective financial institution’s assets less the book value of its liabilities. The par value of the new shares issued is recorded as common stock, and the amount in excess of the par value is recorded as capital surplus.

As ICBC was the Company’s affiliate before joining the Company through share swap, its shares held by the Company are accounted for in accordance with the ARDF’s rule, which is summarized below:

The Company’s equity investment in a financial institution is stated at the book value of the respective financial institution’s net assets. When the book value of the financial institution’s net assets exceeds the par value of the Company’s issued shares, the excess is recorded as capital surplus. Conversely, when the net assets’ book value is less than the par value of the Company’s issued shares, the difference is accounted for by issuing new shares at discount.

(2) CHBF, BS and CKI were acquired by the Company through share swap. The business combination of the three subsidiaries was accounted for by the pooling-of-interests method in accordance with the rule stipulated in the ARDF’s Letter (90) Chi-Mi-Tze No. 079.

(3) The merger of BIS and BS, in which BIS was the surviving entity, was accounted for in accordance with the rule stipulated in the ARDF’s Letter (91) Chi-Mi-Tze No. 244. Under the rule, the book value of BIS’ long-term investments in BS was treated as the cost of the new shares issued for acquisition of BS.

(4) If any financial institutions which are originally the Company’s affiliated companies subsequently wish to become the Company’s subsidiaries through swap of all their outstanding shares, the new shares are issued at discount when the book value of the respective financial institutions’ net assets is less than the par value of the Company’s issued shares. The cost of the swapped shares recorded by the respective financial institutions is based on the original book value of the swapped shares. The affiliated companies referred to above are defined as the financial institutions of which the Company holds more than 25% of the total voting shares or total capital, or in which the Company holds more than half of their directors’ seats, either appointed or elected directly or indirectly.

(5) For the investee companies of which the Company holds more than 20% of the voting shares or over which the Company can exercise significant influence, the equity method is applied. For the investee companies of which the Company holds more than 50% of the voting shares or which meet the requirements stipulated in Article 5 of the “Guidelines for Preparation of Financial Reports by Financial Holding Companies”, the investment gain (loss) on these investee companies is recognized in the current period.

(6) Unrealized gains (losses) resulting from the downstream transactions with the investees accounted for under the equity method are eliminated based on the Company’s percentage of shareholding. Where the Company has controlling power over the investees, the unrealized gains (losses) are fully eliminated and are recognized only upon realization.

(7) Unrealized gains (losses) resulting from the upstream transactions with the investees accounted for under the equity method are eliminated based on the Company’s percentage of shareholding.

(8) The impairment in the long-term equity investments accounted for by the equity method is accounted for in accordance with the SFAS No. 35, “Accounting for Asset Impairment”.

(9) Where the Company holds less than 20% of the voting shares and cannot exercise significant influence over the investee companies, the lower of cost or market value method is applied in valuation of the equity investments if the investee companies are listed companies. The unrealized loss on the decline in market value of the listed stocks is accounted for as a deduction from stockholders’ equity and is reversed when the market price recovers. For equity investments in unlisted companies, the cost method is applied. When the decline in market value of the unlisted stocks is confirmed with sufficient evidence and the probability of a recovery in market value is remote, the book value is written down and investment loss is recognized.

(10) The cost on disposal of equity investments is calculated using the weighted-average method.

12. Capital expenditure and revenue expenditure

Expenditures incurred on the acquisition of property and equipment are capitalized. Leasehold improvements, expenditures on bond issuance and other deferred charges are amortized and charged to expenses over the prescribed periods. All other expenditures are charged to income as incurred.

13. Leases

All leases are treated as operating leases. Leasehold improvements are stated at cost and amortized over the lease period on a reasonable and systematic basis.

14. Valuation and depreciation of property and equipment

Except for land, property and equipment are depreciated on a straight-line basis according to their value after revaluation increment. Gains (losses) on disposal of property and equipment are recorded in the period incurred as non-operating income (expenses).

15. Asset impairment

(1) Pursuant to SFAS No. 35, the Company assesses indicators for impairment for all its assets within the scope of SFAS No. 35 on each balance sheet date. If impairment indicators exist, the Company shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company shall assess, on each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company is required to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

(2) A goodwill-allocated CGU or group of CGUs is tested for impairment each year, regardless of whether an impairment indicator exists. Any impairment loss is recognized to reduce the carrying amount of the assets of the CGU or the group of CGUs in the following order:

(a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and

(b) if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

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

16. Rental assets

Properties leased out as operating leases are recorded as "rental assets" at cost. Depreciation of the rental assets is calculated based on the estimated useful life using the straight-line method. The resulting rental income after deducting depreciation expense is recorded as non-operating income.

17. Intangible assets

Excess of the price paid for acquisition of a company over the book value of its identifiable assets is accounted for as "intangible assets - goodwill" which is amortized on a straight-line basis over five years.

18. Liability on issuance of stock warrants/repurchase of stock warrants issued

Issuance of stock warrants and its subsequent valuation are accounted for by the fair value method and are recorded as "liability on issuance of stock warrants". For the warrants issued by BIS that use the derivative products issued by BIS as the hedge instruments, if the unrealized gain arising from the increase in the market value of the hedge instruments exceeds the loss arising from the variation in the warrants' value upon valuation on the balance sheet date, the excess amount is deferred. Conversely, if the loss arising from the variation in the warrants' value exceeds the unrealized gain arising from the increase in the market value of the hedge instruments, the excess amount is recognized as current loss. For the warrants that are issued under repurchase agreements, the repurchase amount is recorded under "repurchase of stock warrants issued" which is a contra account of "liability on issuance of stock warrants". At expiration of the warrants, the amount of the unexercised warrants is reversed after being revalued by the fair value method. A gain on the unexercised expired stock warrants is recognized accordingly.

19. Convertible bond asset swaps

The underlying assets of the convertible bond asset swaps are the convertible bonds underwritten by BIS or those held by BIS for proprietary trading. As the asset swap transactions are off-balance-sheet activities, they are recorded by memorandum entries on the contract date. Premiums paid for the options bought are classified as assets and the balance of the premiums upon exercise of the options are treated as the cost of the convertible bonds acquired. Premiums received on the options written are classified as liabilities, and the options are marked to market on the balance sheet date. The resultant gain (loss) is credited or charged to current income.

20. Exchangeable bank debentures

The costs incurred by the Company's bank subsidiaries on the issuance of exchangeable bank debentures are recorded as deferred expenses which are amortized over two years. When the holders of the exchangeable bank debentures exercise their exchange rights, the asset and liability accounts related to the exchangeable bank debentures are written off and gains (losses) are recognized accordingly.

21. Structured financial instruments

The structured financial instruments issued by BIS include equity-linked notes (ELN) and principal-guaranteed notes (PGN).

The equity-linked notes (ELN) issued by BIS comprise fixed income securities and options. The fixed income securities are classified as liabilities whereas the options are classified as assets. The amount received from the counterparty on the contract date is the present value of the contract principal amount discounted by the estimated discount rate less the balance of the option premiums. The interest expense implied in the fixed income securities is amortized by the interest method or the straight-line method during the contract period and is recorded as gain (loss) on ELN. The options are valued by the fair value method on the balance sheet date. Where there is an increase in the fair value of the option, the resultant gain is recognized in the current period. Where there is a decrease in the fair value of the option, recognition of the loss is deferred if the unrealized gain on the individual hedged position exceeds the decrease in the fair value. On the other hand, the loss is charged to the current income if the decrease in the fair value exceeds the unrealized gain on the individual hedged position. When the individual hedged position is disposed of, the loss that is deferred shall be charged to the current income based on the percentage of realization. The fair value of the options equals the market price of the financial instruments with identical terms or the value calculated by the option pricing model.

The principal-guaranteed notes (PGN) issued by BIS comprise fixed income securities and options. They are both classified as liabilities and are listed separately in the financial statements. The present value of the fixed income securities is the product of the contract notional amount and the principal-guaranteed rate (contract notional amount x principal-guaranteed rate), discounted by the estimated interest rate. The interest expense implied in the fixed income securities is amortized by the interest method or the straight-line method during the contract period and is recorded as gain (loss) on PGN. The options are valued by the fair value method. That is, the value of the options equals the contract notional amount less the value of the fixed income securities. Where there is an increase in the fair value of the option, recognition of the loss is deferred when the unrealized gain on the individual hedged position exceeds the increase in the fair value. On the other hand, the loss is charged to the current income when the increase in the fair value exceeds the unrealized gain on the individual hedged position. When the individual hedged position is disposed of, the loss that is deferred shall be charged to the current income based on the percentage of realization. Where there is a decrease in the fair value of the option, the resultant gain is credited to the current income. The fair value of the options equals the market price of the financial instruments with identical terms or the value calculated by the option pricing model.

Acquisition of the fixed income securities is initially stated at cost and restated by the lower of cost or market value method on the valuation date. These securities are required to be kept by the custodians as specified in the contract. Interest income on these securities is recognized on an accrual basis during the contract period. The discount/premium on acquisition of these securities is amortized on a systematic basis.

22. Corporate bonds payable

(1) Conversion of euro convertible bonds (ECB) is accounted for by the book value method. That is, the unamortized premium, issuance cost and the face value of the bonds are netted at the date of conversion, and the resulting net amount is reversed accordingly. Where the above net amount exceeds the par value of the issued stock, the excess amount is recorded as capital surplus. Issuance of the ECBs is recorded at the spot exchange rate at the date of issuance. On the balance sheet date, adjustments are made based on the spot exchange rate on that date. The resulting difference is recorded as current gain (loss). Upon conversion of the ECBs, the difference between the spot exchange rate on the conversion date and the contracted exchange rate is recorded as capital surplus, while the difference between the spot exchange rate on the conversion date and that on the most recent balance sheet date is recorded as current gain (loss).

(2) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date in accordance with the interest method. If the interest method and straight-line method do not result in material difference, the straight-line method is also acceptable. Premium or discount on convertible corporate bonds with redemption options is required to be amortized over the period from the date of issuance to the expiry date of the redemption right.

23. Reserves for liabilities and losses

Reserves for liabilities and losses are mainly provided for guarantee liabilities and trading losses. Reserve for guarantee liabilities is estimated at 1% of the ending balance of guarantee accounts but the amount of such reserve cannot exceed the total guarantee commissions received for the current year. Pursuant to the Rules Governing the Administration of Securities Firms (RGASF), 10% of the excess of gains on proprietary trading of securities over its losses must be set aside as reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT$200 million (US$6.32 million). Such reserve can only be used to offset the excess of securities trading losses over gains. As required by the SFC, securities firms are also required to set aside an amount equal to 0.028‰ of the monthly brokerage trading volume as reserve for default losses until the balance of such reserve reaches NT$200 million (US$6.32 million). Such reserve can only be used to offset default losses or other losses as approved by the SFC.

24. Insurance reserves

The insurance reserves set aside pursuant to the "Regulations on Setting Reserves for Insurance Industry" (RSRII) promulgated by the Department of Insurance on December 24, 2002 are set forth below.

(1) Unearned premium reserve

Other than certain insurance types on which the unearned premium reserve is set aside based on the rules other than the RSRII, the unearned premium reserve on the others is set aside based on the 1/365 method in accordance with Article 5 of the RSRII and reviewed by the actuaries. The above reserving method was approved by the Department of Insurance in June 2003.

(2) Special reserve

The special reserve is set aside in accordance with the Insurance Law and other related regulations. The provision amount reviewed by the actuaries and the amount of the reserve reversed are charged and credited to current income respectively according to the insurance category.

(3) Claim reserve

The claim reserve is provided in accordance with the Insurance Law and other related regulations. For the retained business, the claim reserve for losses incurred but not reported is set aside on a policy-by-policy basis. The provision amount is debited to "insurance claims" or "reinsurance claims" and credited to "claim reserve". In the following year when the claim reserve is released, adjustment is made to the provision based on the actual amount of the claims, and the released amount is debited to "claim reserve" and credited to "insurance claims" or "reinsurance claims". For losses not incurred and not reported, the claim reserve is set aside based on the retained earned premiums and the prescribed provision rate. The provision amount is debited to "provision for claim reserve" and credited to "claim reserve". In the following year when the claim reserve is released, adjustment is also made to the provision based on the actual amount of the claims, and the released amount is debited to "claim reserve" and credited to "recovered claim reserve."

25. Pensions

Pensions are accounted for in accordance with the Statement of Financial Accounting Standards (SFAS) No. 18, "Accounting for Pensions". Minimum accrued pension liability and net pension cost are recognized based on actuarial calculations. Prior service costs and pension gain (loss) are amortized on a straight-line basis over the average remaining service years of the employees.

The ROC Labor Pension Act (the "Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

26. Income taxes

(1) Inter-period and intra-period income taxes are allocated in accordance with the SFAS No. 22, "Accounting for Income Taxes". Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, loss carryforwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected realizability of the deferred income tax assets.

(2) Income tax credits are accounted for in accordance with the SFAS No. 12, "Accounting for Income Tax Credits". Recognition of income tax credits arising from acquisitions of equipment and technology is deferred, whereas those arising from research and development, staff training and equity investments are recognized in the current period. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense for the year when the tax is levied.

(3) Projected income tax is estimated based on the expected taxable income. Any difference between the tax estimated by the Company and that assessed by the National Tax Administration (NTA) is treated as an adjustment to the income tax expense for the year when the income tax is assessed by the NTA.

(4) Pursuant to Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law, the tax returns of the Company's domestic subsidiaries can be filed jointly with the Company if the Company holds more than 90% of the outstanding shares of these subsidiaries and the holding period exceeds twelve months. Under the joint tax return scheme, only the subsidiaries' returns on corporate income tax and the 10% tax surcharge on surplus retained earnings can be filed jointly with the Company. Other tax matters shall be handled separately by the Company and its domestic subsidiaries.

27. Capital surplus

(1) Pursuant to the Company Law, capital surplus arising from share issue premium and donations can be capitalized with the stockholders' resolution. However, according to the SFC regulations, capital surplus arising from share issue premium generated by cash injection is allowed to be capitalized only once a year and is subject to a specified limit. In addition, capitalization is prohibited in the year when the cash is injected.

(2) As per the rule stipulated by SFC, capital surplus arising from share swap between financial institutions can be appropriated as cash dividends and capitalized in the year of the share swap according to Section 4 of Article 47 of the Financial Holding

Company Act, if the capital surplus arises from the unappropriated earnings generated prior to share swap. In addition, the capitalization amount is not subject to the limit stipulated in Article 8 of the Securities and Exchange Law.

28. Special reserve

If there are any negative stockholders' equity items recorded by the Company, such as unrealized losses on declines in market value of long-term equity investments and cumulative translation adjustments, the Company is required to set aside a special reserve with an amount equal to the total amount of the negative items but not exceeding the limits listed below before the earnings are appropriated.

(1) The special reserve set aside for the negative stockholders' items which occur in the current year should not exceed the sum of after-tax net income generated in that year plus the unappropriated retained earnings accumulated for previous years.

(2) The special reserve set aside for the negative stockholders' items which occur in previous years should not exceed the amount of the unappropriated retained earnings accumulated for previous years less the amount of special reserve set aside in (1).

According to the regulation stipulated by SFC, the Company is required to set aside a special reserve with an amount equal to the excess of the book value of the Company's shares held by its subsidiaries over their market value, and the reserve cannot be appropriated. If the market value recovers in the future, the special reserve can be reversed by the recovered amount in proportion to the percentage of shareholding.

29. Treasury stock

(1) Costs incurred on the stock buyback are debited to "treasury stock". The book value of the treasury stock is computed based on the weighted-average book value of the common stock and preferred stock bought back, and is computed separately for different reasons of the buyback. When treasury stock is retired, "treasury stock" is credited, and "capital surplus - share issue premium" and "common stock" are debited according to the ratio of retiring treasury stock to total issued stock. Where the book value of the retiring treasury stock exceeds the sum of its par value and share issue premium, the difference is debited to capital surplus arising from treasury stock of the same kind. If the capital surplus is insufficient to cover the difference, retained earnings are debited for the remaining amount. Where the book value of the retiring treasury stock is less than the sum of its par value and share issue premium, the difference is credited to the capital surplus arising from treasury stock of the same kind. When the securities holders exercise the right of conversion by returning the treasury stock, it should be recorded at the book value of the securities converted, and the book value of the securities converted is considered as the disposal price of the treasury stock.

(2) Under the SFC's regulation, a financial institution's shares, which are originally bought back in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law and are subsequently transformed into the Company's shares in accordance with Article 31 of the Financial Holding Company Act because the respective financial institution becomes the Company's subsidiary, are still treated as treasury stock of the respective financial institution and are recorded as a negative item under stockholders' equity. Those shares should also be accounted for as the Company's treasury stock. When a financial institution holds the shares of another financial institution, which is incorporated into a financial holding company through share swap, and the former consequently becomes the stockholder of the respective financial holding company, the original accounting treatment for those shares should be maintained. As per the SFC's regulation, the Company's shares held by its subsidiaries are treated as treasury stock of the Company.

(3) Shares of the Company held by its subsidiaries are required to be stated in the financial statements as treasury stock of the Company for the accounting periods ending on and after December 31, 2002.

30. Earnings per share

(1) Earnings per share are computed in accordance with the SFAS No. 24, "Earnings Per Share". Basic earnings per share are computed for the simple capital structure, and basic and diluted earnings per share are computed for the complex capital structure. Basic earnings per share are computed by dividing the net income (loss) attributed to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing the net income (loss) attributed to common stockholders, taking into account the dilutive effects of dividends and interest expense on potential common shares and other income and expenses arising from conversion of the convertible bonds, by the weighted-average number of common shares outstanding plus the weighted-average number of potential common shares to be converted from the convertible bonds.

(2) Any capital increase through cash injection is incorporated in the calculation on a weighted-average basis according to the circulation period. Where there is capitalization of retained earnings or capital surplus, basic earnings per share for prior and current years are adjusted retroactively.

(3) The decrease in the number of outstanding shares resulting from buyback of treasury stock is accounted for on a weighted-average basis.

31. Foreign currency transactions

Foreign currency transactions are recorded in the respective functional currencies. Profit and loss items denominated in foreign currencies are converted into New Taiwan dollars at the spot exchange rate prevailing on the transaction date. The foreign currency denominated assets and liabilities arising from transactions other than currency forwards are translated into New Taiwan dollars at month end at the spot exchange rate prevailing on that date. The resultant translation differences are accounted for as follows:

(1) The translation differences arising from foreign currency denominated long-term equity investments accounted for by the equity method are recorded as cumulative translation adjustments under stockholders' equity.

(2) The translation differences arising from foreign currency denominated long-term equity investments accounted for by the cost method are recorded as cumulative translation adjustments under stockholders' equity if the initial investment cost exceeds the translated amount. Where the translated amount exceeds the initial investment cost, no adjustments are made.

(3) The translation differences arising from other foreign currency denominated assets and liabilities are credited or charged to income for the current month.

32. Derivative financial instruments

(1) Currency forwards

Foreign currency denominated assets and liabilities arising from the currency forward contracts undertaken for purposes other than trading are recorded at the contracted forward rates on the contract starting dates. Upon settlement, gains (losses) on the forward contracts are credited or charged to current income. On the balance sheet dates, gains (losses) on the outstanding forward contracts arising from the differences between the forward rates prevailing over the respective remaining contract periods and the contracted forward rates are credited or charged to current income. Balances of the receivables and payables arising from the forward contracts are netted at year-end, and the net amount is recorded as an asset or liability.

(2) Interest rate swaps

As no principals are exchanged upon settlement of interest rate swaps, the transactions are recorded in the memorandum account on the contract starting dates. For interest rate swap contracts undertaken for purposes other than trading, interest received or paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to interest income or expense of the hedged items.

(3) Foreign exchange swaps

Foreign exchange swaps are on-balance-sheet transactions. Accrued interest income and prepaid interest expense are calculated based on the spot rate and forward rate on the contract starting dates and are recorded accordingly.

(4) Cross-currency swaps

Cross-currency swap contracts used for non-trading purposes are recorded in the memorandum account at the notional principal amounts on the contract starting dates. Difference between the interest received and paid upon each settlement is recorded as an adjustment to income or expense of the hedged items.

(5) Forward rate agreements (FRA)

Forward rate agreements are used to lock in at an interest rate for a specified period in the future and are recorded in the memorandum account at the notional principal amounts or the contract amounts on the contract starting dates. Losses on FRAs are assessed at the end of each month and recognized as interest expense. For FRAs used for trading purposes, difference between the interest received and paid is recorded as an adjustment to the interest expense. For FRAs undertaken for hedging purposes, the difference is amortized against deferred interest income (expense) over the contract period. The memorandum account is reversed upon settlement of the contract.

(6) Futures

Futures are traded according to the regulation set by the Taiwan Futures Exchange. Only the notional principal amount or contract amount is recorded in the memorandum account on the contract starting date. Deposits and brokerage commissions paid are debited to "refundable deposits" and "service charges", respectively. Loss on the futures contracts is assessed at the end of each month and is recognized as "unrealized loss on derivative financial instruments" and "loss on trading of securities - valuation of futures contracts" for the contracts entered into for trading and hedging purposes, respectively. At expiration of the contracts, the memorandum account is reversed and the commissions paid are charged to "realized gain (loss) on derivative financial instruments" and "gain (loss) on trading of securities held for long term" for the contracts entered into for trading and hedging purposes, respectively.

(7) Options

An option gives the buyer, in return for paying a premium, the right, but not the obligation, to buy or sell a specified amount of an underlying asset at a specified price on or before the expiration date. The notional principal amount or the contract amount is recorded in the memorandum account on the contract starting date. Premiums paid for options bought are recorded as "premiums for options bought", whereas those received for options written are recorded as " premiums for options written". Loss on the option contracts is assessed at the end of each month. For the contracts entered into for trading purposes, the loss is recognized as "unrealized loss on derivative financial instruments". For those entered into for hedging purposes, the loss is recognized as "foreign exchange loss - valuation of options" for currency options and "loss on trading of securities - valuation of options" for interest rate options. At the beginning of the following month, the journal entries made at the end of the previous month are reversed. At expiration or settlement of the option contracts, the memorandum account is reversed. For the options written for trading purposes, the difference between the premiums received when the options are written and the premiums paid upon settlement of the contracts is recorded as "realized gain on derivative financial instruments" when the premiums received exceed the premiums paid. Conversely, the difference is recorded as "realized loss on derivative financial instruments". For the option contracts entered into for hedging purposes, the difference is recorded as "realized foreign exchange gain (loss)" for currency options and "gain (loss) on trading of securities held for long term" for interest rate options.

(8) Non-delivery forwards (NDF)

As the principal amounts are not exchanged upon settlement of the NDFs, the notional principal amounts are recorded in the memorandum account. Upon settlement of the contracts or the balance sheet dates, gains (losses) arising from the differences between the contracted forward rates and the spot rates prevailing on the settlement dates are credited or charged to current income.

(9) Financial asset securitization

The corporate loan assets of ICBC have been entrusted to trustees or transferred to special purpose companies (SPC) under the Financial Asset Securitization Act, and special purpose trusts were established for the purpose of the asset securitization. In accordance with the asset securitization plan, beneficial securities were issued by the trustees or SPCs on the basis of the above loan assets to raise funds which were delivered to ICBC. In addition, ICBC's beneficial interests in the above loan assets were transferred to the purchasers of the beneficial securities and its controlling power in the loan agreements was lost accordingly. Other than the subordinated beneficial securities which were retained by ICBC due to credit enhancement and were reclassified to "investments - beneficial securities", the remaining loans were eliminated from ICBC's balance sheet, and gains (losses) were recognized accordingly.

In computing the gains (losses) on the above loans disposed of under the asset securitization plan, the carrying value of these loans is based on the fair values of these loans and retained interests on the transfer date. As no market prices are quoted for these loans and retained interests, which can be used as the fair values, their fair values are estimated to be equal to the present values of their projected future cash flows by taking into account the probabilities of occurrence of losses and early repayments of these loans and other related risks.

The interest income on the subordinated beneficial securities held by ICBC is recognized upon its receipt from the trustees.

33. Recognition of interest income, service fees and financial income

(1) Bank subsidiaries

Interest income from loans is recorded on an accrual basis. Interest income from non-accrual loans is not recognized until such loans are collected. Service fees are recognized on an accrual basis.

(2) Securities subsidiaries

Interest income and expenses arising from securities margin trading, bonds sold under repurchase agreements and those purchased under resell agreements, and interest-bearing securities are recorded under the respective accounts in the income statement. Financial income or expenses derived from activities other than those mentioned above are recorded as non-operating income or expenses.

34. Collaterals assumed

Collaterals assumed are initially stated at the prices paid for the collaterals and are restated at the lower of cost or net realizable value on the balance sheet date.

35. Contingent losses

At the balance sheet date, if any asset is considered to be potentially impaired or potential obligations have been incurred, the contingent losses which can be reasonably estimated are recorded as losses for the current year. If the amount of the losses cannot be reasonably estimated or the potential losses have been incurred, disclosure of the contingent losses in the notes to the financial statements is required.

36. Premiums income and acquisition cost of insurance policies

The premiums income derived from underwriting business is recognized in the year when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognized accordingly. Income and expenses derived from received and ceded reinsurance business are recorded on the date on which the bills are received. The associated expenses and income such as reinsurance commission expenses/income and reinsurance service charges/fee income are also recorded accordingly. In line with the matching principle, the unearned premium reserve, special reserve and claim reserve set aside for received and ceded reinsurance business are incorporated into the respective reserves set aside for underwriting business.

III. CHANGES IN ACCOUNTING PRINCIPLES

1. Effective from January 1, 2005, the consolidated financial statements of the Company and its subsidiaries are prepared in accordance with the newly revised SFAS No. 7, "Consolidated Financial Statements". Prior year financial statements are not required to be restated retroactively to account for the changes in the consolidation entities due to the adoption of the newly revised SFAS No. 7. The changes in the consolidation entities do not have any effect on the Company's consolidated net income for the year ended December 31, 2005.

2. Effective from January 1, 2005, the Company and its subsidiaries adopted the SFAS No. 35, "Accounting for Asset Impairment" to account for the impairment of their assets. Under the SFAS No. 35, retroactive adjustments are not required for the asset impairment occurring prior to January 1, 2005. Such a change in the accounting principle resulted in decreases in long-term equity investments accounted for by the equity method, property and equipment, and other assets by NT$2,944 thousand (US$90 thousand), NT$37,682 thousand (US$1,147 thousand) and NT$14,675 thousand (US$447 thousand), respectively, as of December 31, 2005. In addition, the consolidated net income and after-tax basic earnings per share attributed to stockholders of the Company decreased by NT$55,301 thousand (US$1,683 thousand) and NT$0.0051, respectively, for the year ended December 31, 2005.

3. In line with the newly revised SFAS No. 5, "Accounting for Long-Term Equity Investments", effective from January 1, 2005, the investment gain (loss) on CTB's equity-accounted investees in which CTB holds less than 50% equity interest and does not have controlling power is recognized in the current period. Prior to January 1, 2005, recognition of such investment gain (loss) was deferred for one year. The cumulative effect of such a change in the accounting principle was a gain of NT$22,985 thousand (US$699 thousand). In addition, as a result of such a change in the accounting principle, the consolidated net income and after-tax basic earnings per share attributed to stockholders of the Company for the year ended December 31, 2005 decreased by NT$10,472 thousand (US$319 thousand) and NT$0.001, respectively.

IV. DETAILS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Cash on hand	$9,631,298	$ 9,879,216	300,646
Bank deposits	9,760,414	7,920,749	241,045
Petty cash	508,813	51,665	1,572
Checks for clearance	5,787,781	9,161,799	278,813
Foreign currency on hand	331,928	299,652	9,119
Cash equivalents	1,015,678	369,974	11,259
Due from banks	37,652,321	22,765,820	692,813
Total	$64,688,233	$50,448,875	1,535,267

2. Due from the Central Bank and other banks

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Banks' overdrafts	$794	$-	$-
Call loans to banks	155,486,282	156,267,096	4,755,542
Due from the Central Bank	57,819,651	25,029,346	761,696
Less: Allowance for bad debts	(12,382)	(4,836)	(147)
Total	$213,294,345	$181,291,606	5,517,091

As of December 31, 2004 and 2005, the deposit reserves placed in the Central Bank amounted to NT$ 27,734,002 thousand and NT$24,227,681 thousand (US$737,300 thousand), respectively. The deposit reserves are determined monthly based on the average daily balances of the customers' deposits over the month and the prescribed rates. The deposit reserve A and the foreign currency reserve bear no interest and can be withdrawn without restrictions, whereas deposit reserve B are subject to certain withdrawal restrictions.

3. Securities purchased

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Certificates of time deposits	$197,020,905	$211,477,524	$6,435,713
Marketable securities	121,047,465	146,077,310	4,445,445
Bankers' acceptances	281,476	296,329	9,018
Commercial papers	95,190,519	112,638,337	3,427,825
Treasury bills	6,236,459	6,904,262	210,111
Options bought	104,585	26,391	803
Government bonds	8,561,137	9,766,988	297,230
Trust funds and trust receipts	1,937,008	-	-
Bank debentures	8,339,673	9,735,921	296,285
Corporate bonds	2,323,131	9,062,597	275,794
Securities held for operations	48,849,616	46,088,731	1,402,579
Bills and bonds purchased under resell agreements	8,187,140	7,753,812	235,965
Total	$498,079,114	559,828,202	17,036,768
Less: Allowance for loss on decline in market value	(1,067,263)	(187,874)	(5,717)
Securities purchased, net	$497,011,851	$559,640,328	$17,031,051

Please refer to Note VI for details of the above assets pledged by the subsidiaries for loans.

4. Receivables

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Notes receivable	$655,017	$406,109	12,359
Accounts receivable	42,381,774	49,623,125	1,510,138
Tax refund receivable	1,469,737	1,597,883	48,627
Accrued income	790,170	245,217	7,462
Interest receivable	8,871,737	9,723,510	295,907
Acceptances receivable	9,870,822	11,113,155	338,197
Premiums receivable	638,468	547,373	16,658
Indemnity refundable on reinsurance ceded	174,794	363,967	11,076
Receivables from banks	106,058	31,032	944
Marginal receivables	10,526,932	10,390,045	316,191
Deposits paid to other securities lenders	288	3,146	96
Refinancing guarantees receivable	8,418	15,341	467
Accrued margin deposits for futures	332,672	1,336	40
Forward exchange receivable - foreign currencies	97,343,607	98,415,788	2,995,003
Payables on forward exchange purchased	(60,853,057)	(63,328,615)	(1,927,225)
Receivables on reinsurance operations	131,833	156,255	4,755
Other receivables	5,495,911	11,385,516	346,486
Total	117,945,181	130,690,183	3,977,181
Less: Allowance for bad debts	(1,895,402)	(1,313,877)	(39,984)
Receivables, net	$116,049,779	$129,376,306	3,937,197

5. Bills, discounts and loans

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Exchange bills and import and export bills negotiated	$15,408,784	$13,504,157	$410,960
Bills and notes discounted	155,411	204,191	6,214
Short-term loans	178,726,235	175,311,746	5,335,111
Short-term secured loans	73,287,743	83,398,775	2,538,003
Overdrafts	448,538	438,638	13,349
Secured overdrafts	1,054,475	1,459,040	44,402
Medium-term loans	202,354,995	234,611,723	7,139,736
Medium-term secured loans	170,140,450	189,109,259	5,754,999
Long-term loans	105,035,785	112,605,886	3,426,838
Long-term secured loans	280,436,821	284,052,496	8,644,324
Non-accrual loans	16,485,480	12,646,222	384,852
Total	1,043,534,717	1,107,342,133	33,698,787
Less: Allowance for bad debts - bills, discounts, loans and overdrafts	(7,736,958)	(6,449,729)	(196,279)
Less: Allowance for bad debts – non-accrual loans	(4,359,639)	(4,095,492)	(124,635)
Bills, discounts and loans, net	$1,031,438,120	$1,096,796,912	$33,377,873

6. Long-term equity investments

Investee Company	December 31, 2004		December 31, 2005		
	NT$	Percentage of Shareholding	NT$	US$	Percentage of Shareholding
Equity method:					
Mega International Securities Investment Trust Corporation	$466,454	93.95%	$428,900	$13,052	93.96%
Mega Asset Management Co., Ltd.	2,086,886	100.00%	(Note)		
CTB Financial Management & Consulting Co., Ltd.	39,675	100.00%	40,948	1,246	100.00%
Barits International Futures Co., Ltd.	431,072	100.00%	(Note)		
Cathay Investment & Development Corporation (Bahamas)	907,987	100.00%	(Note)		
Barits International Investment Services Corp.	331,329	100.00%	334,649	10,184	100.00%
Yung Shing Industries Co.	447,995	95.22%	(Note)		
Cathay Insurance Company, Inc.	8,439	56.09%	7,007	213	56.09%
CTB I Venture Capital Co., Ltd.	396,475	40.00%	(Note)		
Euroc II Venture Capital Corp.	203,741	25.00%	-	-	-
Grand Cathay Venture Capital Co., Ltd.	572,309	25.00%	-	-	-
Grand Cathy II Venture Capital Corp.	185,547	25.00%	-	-	-
Taiwan Finance Holding Corporation	1,352,499	24.55%	1,396,886	42,511	24.55%
Quartz Frequency Technology Ltd.	744	23.02%	744	23	23.02%
Everstrong Iron & Foundry & Mfg. Corp.	21,320	22.22%	24,347	741	22.22%
United Investments Corp.	175,285	22.60%	153,408	4,669	22.60%
China Real Estate Management Co., Ltd.	80,458	20.00%	93,458	2,844	20.00%
IP fundseven limited	-	-	147,753	4,496	25.00%
Mega Life Insurance Agency Co., Ltd.	-	-	35,451	1,079	100.00%
Others	138,164	-	264,612	8,053	-
Subtotal	7,846,379		2,928,163	89,111	
Less: Accumulated impairment	-		(744)	(23)	
	7,846,379		2,927,419	89,088	
Cost method:					
Listed companies	5,186,579		8,443,344	256,949	
Less: Allowance for loss on decline in market value	(515,676)		(549,492)	(16,722)	
Listed companies – net	4,670,903		7,893,852	240,227	
Non-listed companies, net	25,591,067		27,709,311	843,253	
Subtotal	30,261,970		35,603,163	1,083,480	
Total	$38,108,349		$38,530,582	$1,172,568	

(Note) To be included in the Company's consolidated financial statements for the year 2005.

(1) For the above investees in which the Company holds more than 50% equity interest, neither the total assets and operating revenues of each individual investee exceed 10% of the Company's respective unconsolidated amounts nor the combined total assets or operating revenues of all these investees exceed 30% of the Company's respective unconsolidated amounts. Therefore, accounts of these investees were not included in the consolidated financial statements as of and for the year ended December 31, 2004. In line with the newly revised SFAS No. 7, the accounts of the above investees in which the Company holds more than 50% equity interest were not included in the consolidated financial statements as of and for the year ended December 31, 2005 as their total asset and operating revenue amounts are immaterial.

(2) As Quartz Frequency Technology Ltd. has incurred consecutive losses and failed to provide the 2004 audited financial statements, the Company has set aside NT$744 thousand (US$23 thousand) of impairment loss for the year ended December 31, 2005 based on the book value of its investment in Quartz Frequency Technology Ltd. as per the SFAS No. 35, "Accounting for Asset Impairment".

(3) The effect of the SFAS No. 35, "Accounting for Asset Impairment" on the equity accounted investee company, China Real Estate Management Co., Ltd., led to a decrease of income for the year 2005 by $11,000 thousand (US$335 thousand), which also led to a decrease of NT$2,200 thousand (US$67 thousand) in both the Bank's equity accounted long-term investment as of December 31, 2005 and net income for the year 2005.

(4) Please refer to Note VI for details of the above investments pledged as collaterals.

7. Other long-term investments

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Long-term investments in bonds	$109,539,016	$130,569,284	$3,973,502
Real estate investments	171,284	162,927	4,959
Long-term receivables	58,054	-	-
Total	$109,768,354	$130,732,211	$3,978,461

(1) Long-term investments in bonds

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
European bank debentures	$1,095,388	$804,643	$24,487
US government bonds	3,309,008	2,984,993	90,840
Singapore government bonds	430,600	376,143	11,447
Domestic government bonds	97,937,641	114,037,693	3,470,411
Thailand bonds	1,011,728	1,374,047	41,815
Bank debentures	1,569,469	3,474,959	105,750
Beneficial securities	1,105,586	1,070,000	32,562
Others	3,079,596	6,446,806	196,190
Total	$109,539,016	$130,569,284	$3,973,502

(2) Real estate investments

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Costs			
Land	$47,765	$45,585	$1,387
Buildings and equipment	188,315	187,276	5,699
Revaluation increment	487	344	11
Subtotal	236,567	233,205	7,097
Less: Accumulated depreciation	(65,283)	(70,278)	(2,138)
Real estate investments, net	$171,284	$162,927	$4,959

(a) Investments in buildings and equipment were revalued on June 30, 1975.

(b) Please refer to Note IV-8, property and equipment, for details of the insurance coverage for real estate investments.

(c) None of the above real estate investments has been pledged as collaterals.

(3) Long-term receivables

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Chung Hsing Securities Corporation	$58,054	$-	$-

BIS acquired all the operations and properties of Chung Hsing Securities Corporation (CHS) for a consideration of NT$4,222,296 thousand on January 30, 2003. CHS was liquidated accordingly. The liquidation was completed in February 2005.

8. Property and equipment

(In Thousands of NT Dollars)

	December 31, 2004			
	Cost	Revaluation Increment	Accumulated Depreciation	Balance
Land	$11,142,270	$2,015,141	$-	$13,157,411
Land improvements	2,849	418	3,224	43
Buildings and structures	12,466,820	47,445	3,771,997	8,742,268
Machinery	1,755,480	-	874,876	880,604
Computers	2,214,042	-	1,654,828	559,214
Transportation equipment	301,582	-	200,201	101,381
Miscellaneous equipment	1,266,911	-	962,226	304,685
Leasehold improvements	331,316	-	180,891	150,425
Subtotal	29,481,270	2,063,004	7,648,243	23,896,031
Prepayments for equipment	29,693	-	-	29,693
Machinery on order	81,991	-	-	81,991
Total	$29,592,954	$2,063,004	$7,648,243	$24,007,715

(In Thousands of NT Dollars)

	December 31, 2005				
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Balance
Land	$11,702,976	$2,612,850	$-	$37,682	$14,278,144
Land improvements	2,849	418	3,243	-	24
Buildings and structures	12,962,022	47,445	4,173,027	-	8,836,440
Machinery	1,878,645	-	1,045,089	-	833,556
Computers	2,295,100	-	1,734,825	-	560,275
Transportation equipment	297,098	-	208,937	-	88,161
Miscellaneous equipment	1,365,507	-	1,074,849	-	290,658
Leasehold improvements	316,792	-	199,903	-	116,889
Subtotal	30,820,989	2,660,713	8,439,873	37,682	25,004,147
Prepayments for equipment	46,465	-	-	-	46,465
Machinery on order	19,138	-	-	-	19,138
Total	$30,886,592	$2,660,713	$8,439,873	$37,682	$25,069,750

(In Thousands of US Dollars)

	December 31, 2005				
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Balance
Land	$356,147	$79,514	$-	$1,147	$434,514
Land improvements	86	13	99	-	-
Buildings and structures	394,462	1,444	126,994	-	268,912
Machinery	57,171	-	31,804	-	25,367
Computers	69,845	-	52,795	-	17,050
Transportation equipment	9,042	-	6,358	-	2,684
Miscellaneous equipment	41,555	-	32,710	-	8,845
Leasehold improvements	9,641	-	6,083	-	3,558
Subtotal	937,949	80,971	256,843	1,147	760,930
Prepayments for equipment	1,414	-	-	-	1,414
Machinery on order	582	-	-	-	582
Total	$939,945	$80,971	$256,843	$1,147	$762,926

(1) As required by the government regulations, the land and other property and equipment of the Company's subsidiaries were revalued in 1975, 1991 and 1995. As of December 31, 2004 and 2005, the revaluation increments for land and other property and equipment amounted to NT$2,063,004 thousand and NT$2,660,713 thousand (US$80,971 thousand), respectively, and were recorded under property and equipment. Reserve for land revaluation increment tax amounted to NT$1,062,479 thousand and NT$1,005,606 thousand (US$30,603 thousand) as of December 31, 2004 and 2005, respectively, and was recorded under "other liabilities".

(2) In accordance with the SFAS No. 35, "Accounting for Asset Impairment", ICBC recognized an impairment loss of NT$37,682 thousand (US$1,147 thousand) on the land located in Douliu, Yunlin County for the nine months ended December 31, 2005.

(3) As of December 31, 2004 and 2005, the insurance coverage for the property and equipment and real estate investments was NT$13,603,541 thousand and NT$13,051,605 thousand (US$397,188 thousand), respectively.

(4) Please refer to Note VI for details of the property and equipment pledged as collaterals.

9. Short-term debts

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Bank overdrafts	$918,000	$-	$-
Short-term loans	5,723,395	3,691,190	112,331
Commercial paper payable, net	16,448,876	10,483,571	319,037
Liability on issuance of stock warrants, net	65,962	3,146	96
Margin loans from other securities lenders	5,538	5,197	158
Margin deposits on short sales	995,119	1,315,872	40,045
Payables on proceeds from short sales	1,151,998	1,571,789	47,833
Total	$25,308,888	$17,070,765	$519,500

(1) As at December 31, 2004 and 2005, the interest rates ranged from 0.78% to 5.27% and 0.73% to 1.389% for short-term loans, and 1.18% to 3.90% and 1.20% to 2.67% for commercial paper payable, respectively.

(2) Please refer to Note VI for details of the assets pledged by the Company and its subsidiaries for loans.

10. Bills and bonds sold under repurchase agreements

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Treasury bills	$6,248,148	$6,763,287	$205,821
Government bonds	123,353,756	161,384,911	4,911,288
Bank debentures	7,610,046	23,918,755	727,899
Corporate bonds	13,645,512	26,272,771	799,537
Commercial paper	83,296,433	85,066,640	2,588,760
Negotiable certificates of deposits	13,035,976	2,002	60
Others	3,446,838	4,766,787	145,063
Total	$250,636,709	$308,175,153	$9,378,428

11. Due to the Central Bank and other banks

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Due to the Central Bank	$154,398,803	$165,397,122	,$5,033,388
Due to other banks	17,708,417	12,663,839	385,388
Overdrafts on banks	3,236,764	5,057,639	153,915
Call loans from banks	68,753,765	91,930,695	2,797,647
Due to Chunghwa Post	-	42,855,272	1,304,177
Total	$244,097,749	$317,904,567	$9,674,515

12. Payables

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Notes payable	$2,018,001	$259,936	$7,910
Accounts payable	15,993,061	17,447,946	530,978
Collections for others	1,014,787	1,574,053	47,902
Accrued expenses	3,510,106	3,801,342	115,683
Taxes payable	2,880,859	1,915,078	58,280
Interest payable	4,431,959	6,013,196	182,994
Acceptances	10,366,173	11,283,337	343,376
Commissions payable	66,151	105,280	3,204
Dividends payable	7,547,486	8,998,464	273,842
Insurance claims payable	49,563	60,206	1,832
Due from other insurers	268,355	415,903	12,657
Forward exchange payable	462,450	-	
Forward exchange payable - foreign currencies	92,033,752	98,255,874	2,990,136
Receivables on forward exchange sold	(55,139,440)	(63,500,274)	(1,932,448)
Other payables	13,429,957	14,803,562	450,504
Payables on reinsurance operations	273,019	342,583	10,426
Accounts under custody	343,379	215,435	6,556
Total	$99,549,618	$101,991,921	$3,103,832

13. Deposits and remittances

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Checking account deposits	$40,247,665	$29,034,336	$883,577
Demand deposits	203,878,519	240,231,593	7,310,761
Time deposits	428,900,385	393,516,621	11,975,551
Savings deposits	353,844,092	420,440,096	12,794,890
Remittances	6,644,555	8,786,014	267,377
Total	$1,033,515,216	$1,092,008,660	$33,232,156

14. Funds borrowed from the Central Bank and other banks

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Funds borrowed from the Central Bank	$91,631,972	$51,143,985	$1,556,421
Funds borrowed from other banks	44,665,916	-	-
Total	$136,297,888	$51,143,985	$1,556,421

15. Bank debentures payable

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Bank debentures	$85,438,020	$81,230,910	$2,472,030
Less: Discounts	-	-	-
Bank debentures payable, net	$85,438,020	$81,230,910	$2,472,030

(1) In January 2004, ICBC obtained the approval from the MOF to issue a series of bank debentures totaling NT$20 billion. Five batches of general bank debentures totaling NT$3,900 million were issued in the first half of 2004 with the issuing periods ranging from 5 to 7 years, the interest payable semi-annually, and the principal to be repaid in lump sum at maturity. In addition, the coupon rates for the first six months from the issue date ranged from 2.254% to 3.8% per annum, and the subsequent coupon rates are adjusted based on the formula specified in the contract. The sixth and seventh batch was issued as subordinated bank debentures, totaling NT$7,200 million, for a period of five years seven months and five years six months with the principal to be repaid in lump sum at maturity, respectively. The interest on the sixth and seventh batch is fixed at 2.7% and 2.85% per annum and is payable annually, respectively.

(2) On December 10, 2001, ICBC issued five-year subordinated bank debentures totaling NT$6.7 billion with the principal to be repaid at maturity. Interest on the subordinated bank debentures is fixed at 2.99% per annum, payable annually.

(3) On May 27, 2003, ICBC issued zero coupon exchangeable notes of US$218,373 thousand exchangeable for 144,760 common shares of Cathay Financial Holding Co., Ltd. (Cathay). These notes were issued at their face value of US$1,000 per note for a period of 5 years. The yield rate at redemption and maturity was compounded at 1% per annum. These notes were exchangeable,

at the option of the note holders, at any time on or after June 26, 2003 and on or prior to April 28, 2008 for common shares of Cathay at an exchange price stipulated in the offering memorandum. Unless previously redeemed, repurchased, cancelled or exchanged, these notes would be redeemed at maturity at a price based on the yield rate at maturity. As of December 31, 2005, bank debentures on account had been either exchanged by the holders or redeemed by the Company.

(4) As of December 31, 2004 and 2005, CTB issued Bank debentures is NT$64,909,466 thousand and NT$63,430,910 thousand (US$1,930,338 thousand), respectively. Please refer to Table 12 for a detail list of Bank debentures issued.

16. Corporate bonds payable

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Domestic unsecured corporate bonds	$25,000,000	$22,900,000	$696,896
Euro convertible bonds (ECB)	25,107,476	-	-
Corporate bonds payable, net	$50,107,476	$22,900,000	$696,896

(1) The Company issued its first domestic unsecured corporate bonds in December 2002 with a total amount of NT$15 billion and the principal to be repaid at maturity. In December 2005, the Company redeemed Bond C upon its maturity at $2,100 thousand. Please refer to Table 13 for details of the terms on coporate bonds.

(2) In June 2003, CHBF issued its first unsecured corporate bonds totaling NT$5 billion with the principal to be repaid at maturity. Details are as follows:

Bonds	Trustee	Issue Period	Interest Rate	Total Issue Amount	December 31, 2004	December 31, 2005		Method of Interest Payment	Method of Principal Repayment
First unsecured corporate bonds	Bank SinoPac	Jun 17, 2003 ~ Jun 30, 2008	1.48%	NT$5,000,000	NT$5,000,000	NT$5,000,000	US$152,161	Simple interest payable semi-annually	Principal to be repaid in lump sum at maturity

(3) In April and May 2004, BIS issued its first domestic unsecured corporate bonds for the 2004 fiscal year with a total amount of NT$5 billion for a period of 3 years with the principal to be repaid at maturity. Please refer to Table 14 for details of the terms on the corporate bonds.

(4) In September 2003 and February 2004, the Company issued ECBs of US$690 million and US$200 million, respectively, exchangeable for the treasury stock of the Company that was transformed from the common shares of ICBC. Please refer to Tables 15 and 16 for details of the terms on the issuance and conversion of the ECBs. The ECBs maturity were on September and August 2005 separately.

17. Pensions

(1) Reconciliation of the funded status of the plan to the carrying amount of accrued pension liability is as follow:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Benefit obligations			
Vested benefit obligation (VBO)	$(2,975,722)	$(3,826,466)	$(116,448)
Non-vested benefit obligation	(3,434,815)	(3,817,294)	(116,168)
Accumulated benefit obligation (ABO)	(6,410,537)	(7,643,760)	(232,616)
Effects of future salary increments	(1,703,457)	(1,749,524)	(53,242)
Projected benefit obligation (PBO)	(8,113,994)	(9,393,284)	(285,858)
Fair value of plan assets	6,385,466	6,942,128	211,264
Fund status	(1,728,528)	(2,451,156)	(74,594)
Unrecognized net transition obligation	299,071	278,256	8,468
Unrecognized prior service costs	64,078	58,874	1,792
Unrecognized loss (gain) on plan assets	(221,914)	418,199	12,726
Additional accrued pension liability	(58,544)	(100,588)	(3,061)
Accrued pension liability	$(1,645,837)	$(1,796,415)	(54,669)

(2) Pension costs consist of the following:

	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
Service cost	$564,614	$592,928	18,044
Interest cost	217,539	250,062	7,610
Projected return on plan assets	(86,354)	(110,935)	(3,376)
Net amortization and deferral	(67,818)	(48,985)	(1,491)
Net pension costs	$627,981	$683,070	20,787

(3) Actuarial assumptions

	December 31, 2004	December 31, 2005
Discount rate	3.00%-3.50%	2.50%-3.50%
Increase in future salary level	2.00%-3.00%	1.75%-4.00%
Projected long-term rate of return on plan assets	2.50%-3.50%	2.75%-3.50%

18. Capital stock

As of December 31, 2004 and 2005, the Company's authorized capital was NT$120 billion (US$3.6 billion) with the paid-in capital amounting to NT$113,657,296 thousand (US$3,458,834 thousand), which was divided into 11,365,729 thousand shares of common stock with a par value of NT$10 per share.

19. Appropriation of earnings and dividend policy

(1) Dividends are distributed not only in accordance with the Company's Articles of Incorporation which regulate the appropriation of retained earnings but also the business development needs of the Company. This principle is applied for the stability of the Company's operations and business financing requirements. According to the Company's Articles of Incorporation, the after-tax net income shall be used to offset the accumulated deficit first and then be appropriated to the legal reserve at the rate regulated by the governing authority. The remainder shall be appropriated to the special reserve, if necessary, and an appropriated portion can be retained according to the Company's financing requirements. Any remaining income will be distributed in the following order based on the resolution of the stockholders.

(a) Dividends

Cash dividends should not exceed 50% of the total distributed amount, and the remainder will be in the form of stock dividends.

(b) Remuneration to directors and supervisors

Remuneration to directors and supervisors should not exceed 1% of the total distributed amount.

(c) Bonus to employees

Bonus to employees ranges from 0.02% to 0.16% of the total distributed amount and can be distributed in the form of cash or stocks based on the stockholders' resolution. Employees of the affiliated companies may be entitled to the Company's stock bonus at the Board's discretion.

(2) Appropriation of the 2003 earnings was resolved by the Board and the stockholders on April 20, 2004 and June 11, 2004, respectively. Appropriation of the 2004 earnings was resolved by the Board and the stockholders on April 22, 2005 and June 10, 2005, respectively. Details of the earnings appropriation are set forth below.

	Appropriated Amount			Dividend per Share (in dollars)		
	2003	2004		2003	2004	
	NT$	NT$	US$	NT$	NT$	US$
Cash dividends	$15,000,338	$16,937,523	$515,445	$1.5356	$1.5315	$0.0466
Remuneration to directors and supervisors	151,763	171,363	5,215			
Cash bonus to employees	24,282	27,418	833			

(3) The after-tax basic earnings per share for 2004 and 2003 are determined using the formula presented below. After the distribution of employees' bonus and remuneration of directors and supervisors has been taken into consideration, the after-tax basic earnings per share for 2004 and 2003 decreased from NT$2.22 to NT$2.20 and NT$1.84 to NT$1.82 respectively.

$$\frac{\text{After-tax net income for 2004} - \text{Cash bonus to employees} - \text{Stock dividends to employees} - \text{Remuneration to directors and supervisors}}{\text{Weighted-average number of shares outstanding during 2004}}$$

= (21,904,131 – 27,418 – 171,363) /9,854,174 = 2.20

$$\frac{\text{After-tax net income for 2003} - \text{Cash bonus to employees} - \text{Stock dividends to employees} - \text{Remuneration to directors and supervisors}}{\text{Weighted-average number of shares outstanding during 2003}}$$

= (18,099,076 – 24,282 – 151,763) / 9,827,475 = 1.82

(4) Information relating to the appropriation of the Company's 2005 earnings is available from the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

20. Treasury stock

Reasons for stock buyback (in thousand shares)	Balance, Jan. 1, 2005	Increase (Decrease)	Balance, Dec 31, 2004	Increase (Decrease)	Balance, Dec 31, 2005
Shares of the Company held by itself					
Shares bought back to be reissued to employees	132,010	(21,987)	110,023	-	110,023
Shares bought back for maintaining the Company's creditability and stockholders' rights	31,442	(31,442)	-	-	-
Shares of ICBC originally held by the Company and treated as treasury stock due to swap of 100% shares	1,398,545	(177,213)	1,221,332	(1,025,052)	196,280
Shares of the Company held by its subsidiaries					
Shares of the Company held by CTB	30,000	(30,000)	-	-	-
Shares of the Company held by CKI	5,080	-	5,080	(5,080)	-
Total	1,597,077	(260,642)	1,336,435	(1,030,132)	306,303

Reasons for stock buyback (in thousand dollars)	Balance, Jan. 1, 2004		Increase (Decrease)		Balance, Dec 31, 2004		Increase (Decrease)		Balance, Dec 31, 2005	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Shares of the Company held by itself										
Shares bought back to be reissued to employees	$2,364,701	$71,963	$66,655	$2,028	$2,431,355	$73,991	$-	$-	$2,431,355	$73,991
Shares bought back for maintaining the Company's creditability and stockholders' rights	619,435	18,851	(619,435)	(18,851)	-	-	-	-	-	-
Shares of ICBC originally held by the Company and treated as treasury stock due to swap of 100% shares	25,999,995	791,235	(3,294,514)	(100,259)	22,705,481	690,976	(19,056,481)	(579,929)	3,649,000	111,047
Shares of the Company held by its subsidiaries										
Shares of the Company held by CTB	541,923	16,492	(541,923)	(16,492)	-	-	-	-	-	-
Shares of the Company held by CKI	92,212	2,806	-	-	92,212	2,806	(92,212)	(2,806)	-	-
Total	$29,618,266	$901,347	$(4,389,217)	$(133,574)	$25,229,048	$767,773	$(19,148,693)	$(582,735)	$6,080,355	$185,038

(1) For the purpose of reissuing the Company's shares to its employees, the Company bought back a total of 132,010 thousand shares of its issued stock in May, June, July, September and October 2002, and 110,023 thousand shares of its issued stock in April and May 2004 in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law. The above treasury stock is required to be reissued to the Company's employees within three years from the date on which the treasury stock was purchased. The shares which are not reissued to the employees before the end of the three-year period are treated as the unissued shares of the Company and should be retired accordingly. The 132,010 thousand shares bought back in 2002 were all reissued to the Company's employees in August 2004. As of December 31, 2005, the treasury stock held by the Company amounted to NT$2,431,355 thousand (US$73,991 thousand), representing 110,023 thousand shares.

(2) To maintain its creditability and stockholders' rights, the Company bought back its issued shares in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law during the period from October 4, 2003 to December 3, 2003 for a price ranging from NT$16 (US$0.49) to NT$20 (US$0.61) per share. As of December 31, 2003, shares bought back by the Company amounted to NT$619,435 thousand (US$18,851 thousand), representing 31,442 thousand shares. Under Section 4 of Article 28-2 of the Securities and Exchange Law, the above treasury stock is required to be retired within six months from the date on which the shares are bought back. The above-mentioned shares were all retired on March 10, 2004.

(3) The Securities and Exchange Law sets a ceiling on the outstanding shares allowed to be bought back at 10% of the total issued shares of a company and the amount of shares bought back cannot exceed the sum of the retained earnings plus share issue premium and realized capital surplus. The ceiling on the shares allowed to be bought back by the Company as of December 31, 2005 was 1,136,573 thousand shares or NT$82,328,768 thousand (US$2,505,440 thousand). As of December 31, 2005, the Company's treasury stock amounted to 110,023 thousand shares or NT$2,431,355 thousand (US$73,991 thousand).

(4) On November 7, 2002, the Company acquired a 28% equity stake in ICBC, totaling 1,043,734 thousand shares. As ICBC joined the Company on December 31, 2002 through swap of 100% shares, the 1,043,734 thousand shares acquired on November 7, 2002 were transformed into the Company's treasury stock which represented 1,398,544 thousand shares of the Company's stock. The original acquisition cost of the above treasury stock was NT$25,999,995 thousand with a book value of NT$18.59 per share. The treasury stock of the Company is treated as the underlying asset for issuing euro-convertible bonds. Please refer to note IV.16 for further explanation. As discussed in the note, both the convertible bonds had expired on August 13 and September 24, 2005 respectively and a total of 1,202,265 thousand shares were exchanged for. As of December 31, 2005 and 2004, the outstanding balance in the Company's treasury stock was 196,280 thousand shares and 1,221,332 thousand shares with a market price of NT$21.68 (US$0.66) and NT$21.28 dollar respectively.

(5) In October 2000 and October 2001, CTB respectively bought back 30 million shares of treasury stock in compliance with Section 1 of Article 28-2 of the Securities and Exchange Law, and is obliged to reissue these shares to its employees no later than

October 2003 and October 2004, respectively. As CTB became a wholly-owned subsidiary of the Company on February 4, 2002 through share swap, the above treasury stock was transformed into the Company's shares which are also treated as treasury stock of the Company.

As CTB did not reissue the 30 million shares bought back in 2000 to its employees within three years, those shares were treated as CTB's unissued shares and were required to be retired under Section 4 of Article 28-2 of the Securities and Exchange Law. Therefore, CTB decreased its capital stock by NT$300 million by retiring the aforementioned 30 million shares on December 18, 2003. As resolved by CTB's Board of Directors on February 17, 2004, the remaining 30 million shares bought back in 2001 were all reissued to its employees as of June 30, 2004.

(6) CKI previously acquired shares of CTB as short-term investments. As CTB joined the Company as a wholly-owned subsidiary through share swap, these CTB's shares were transformed into the Company's shares. In addition, CKI was incorporated into the Company through share swap on December 31, 2002. Accordingly, these CTB's shares held by CKI are treated as treasury stock of the Company, which is required to be disposed of before November 2005. CKI sold 5,080 thousand shares that all of the Company's treasury stock for NT$108,812 thousand (US$3,311 thousand) during the year ended December 31, 2005 with a gain of NT$16,600 thousand (US$505 thousand) which was reclassified to capital surplus.

(7) Treasury stock of the Company is prohibited from being pledged as collateral and is not entitled to dividends and voting rights.

21. Expenses relating to employment, depreciation and amortization

Expenses relating to employment, depreciation and amortization summarized by function for the nine months ended December 31, 2004 and 2005 are as follows:

	December 31, 2004			December 31, 2005			
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	
	NT$	NT$	NT$	NT$	NT$	NT$	US$
Employment	$-	$10,467,542	$10,467,542	$-	$11,539,187	$11,539,187	$351,162
Salaries and wages	-	8,953,084	8,953,084	-	9,414,975	9,414,975	286,518
Labor and health insurance	-	530,767	530,767	-	558,101	558,101	16,984
Pension	-	636,857	636,857	-	750,983	750,983	22,854
Others	-	346,834	346,834	-	815,128	815,128	24,806
Depreciation	-	1,014,403	1,014,403	3,856	1,069,494	1,073,350	32,664
Amortization	-	501,205	501,205	465	213,861	214,326	6,522

22. Income taxes

The income taxes of the Company and its subsidiaries are computed in accordance with the SFAS No. 22, "Accounting for Income Taxes" on an individual basis. However, their annual returns on corporate income tax and the 10% tax surcharge on surplus retained earnings are filed jointly under Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law. The receipts (disbursements) arising from the joint tax return scheme are recorded as "other receivables (payables)", and adjustments are made on a reasonable, systematic, and consistent basis to the current year's deferred income tax assets (liabilities) or income tax refund receivable (income tax payable) based on the above amount of receipts (disbursements). The amount recorded under "other receivables (payables)" is eliminated from the consolidated financial statements.

(1) The income taxes comprise the following:

Item	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Income tax payable – current period	$1,295,755	$2,702,956	$82,257
10% tax on unappropriated retained earnings	385,368	451,857	13,751
Separate tax expenses	134,089	247,385	7,528
Income tax expense incurred by foreign branches	1,021,366	381,993	11,625
Deferred income tax benefit	(59,067)	(43,458)	(1,323)
Adjustments of prior years' income tax	(453,213)	(525,215)	(15,983)
Withholding taxes on interest income			
from bonds pertaining to former purchasers	3,606	5,940	181
Effect of joint filing of income tax returns	(532,498)	(401,187)	(12,209)
Total	$1,795,406	$2,820,271	$85,827

(2) Imputation tax credit

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Account balance of imputation tax credit	$34,744	$58,860	$1,791

	2004 (Actual)	2005 (Estimated)
Estimated (actual) tax credit rate for individual stockholders	0.97%	0.22%

The tax credit rate for individual stockholders is computed as follows:

$$\frac{\text{Stockholders' account balance of imputation tax credit as of the dividend distribution date}}{\text{Cumulative unappropriated retained earnings recorded in the book (including capital surplus arising from the subsidiaries' unappropriated earnings for 1998 and the years between 1998 and the share swap)}}$$

(3) Unappropriated retained earnings

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
1997 and before	$-	$-	$-
1998 and onwards	23,636,939	26,214,995	797,778
Total	$23,636,939	$26,214,995	$797,778

(4) Assessment of income tax returns

(a) As of December 31, 2005, the Company's income tax returns through 2002 had been assessed by the NTA. However, an additional tax of NT$5,129 thousand (US$156 thousand) was levied on the Company as the NTA reduced the amounts of interest and operating expenses filed by the Company. The Company did not agree with the NTA's assessment and had filed a tax appeal. As of the date the financial statements were issued, the appeal was still under review.

(b) As of December 31, 2005, CTB's income tax returns through 2002 had been assessed by the NTA.

(c) BIS' income tax returns through 2001 had been assessed by the NTA. Additional income taxes of NT$29,751 thousand, NT$72,209 thousand and NT$51,305 thousand were levied by the NTA for 1999, 2000 and 2001, respectively, as the NTA revised downward the withholding taxes paid on the interest income from bonds pertaining to former purchasers, revised upward the premium income received from issuance of stock warrants, and disagreed with the expenses recognized for the securities transactions. BIS did not agree with the assessments and filed tax appeals on its 1999, 2000 and 2001 tax returns. The NTA maintained its original assessment on the 1999 and 2001 tax return. BIS again did not agree with the assessment and filed another appeal. On September 23, 2005, BIS has made a tax payment of 50% of the total tax expense assessed by NTA which amounted to NT$33,269 thousand. The appeal for 1999 tax returns has yet to be heard.

(d) As of December 31, 2005, CHBF's income tax returns through 2002 had been assessed by the NTA. Based on the NTA's reassessment, 60% of the withholding taxes that had been paid by CHBF would be refunded. The provision set aside by CHBF for withholding taxes on interest income from bonds pertaining to former purchasers based on the unassessed income tax returns amounted to NT$523,775 thousand (US$15,940 thousand), which was recorded as contra account of "other receivables". Such account balance has been adjusted accordingly with the tax refund receivable account in the preparation of the consolidated financial statements.

(e) ICBC's income tax returns through 2001 have been assessed by the NTA. However, ICBC did not agree with the NTA's assessments on the income tax returns filed for 1996, 1997, 1998 and 2000 and has filed a tax appeal. In addition, the withholding taxes paid by ICBC on the interest income from bonds pertaining to former purchasers during the years from 1996 to 2002 amounted to NT$248,971 thousand, which has been recorded in ICBC's book in prior years.

In 2004, ICBC settled with the NTA on the assessment of the tax appeal with respect to the aforementioned withholding taxes and agreed that 65% of the withholding taxes that had been paid on the interest income from bonds pertaining to former purchasers would be refunded. ICBC has made necessary adjustments.

(f) CKI's income tax returns through 2002 have been assessed by the NTA. The tax returns assessed by NTA are not materially different from those filed by CKI.

(g) MAM and CTB I Venture Capital's income tax returns through 2002 have been assessed by the NTA.

23. Basic earnings per share

(In thousand shares)	Year Ended December 31, 2004	Year Ended December 31, 2005
Beginning balance of outstanding shares	9,800,095	10,029,294
Less: Treasury stock purchased	(69,555)	-
Add:Treasury stock reissued to the employees of the Company's subsidiaries	50,680	725,990
Add:Treasury stock reissued to the employees of the Company's subsidiaries	24,262	-
Add: Treasury stock reissued to the Company's employees	48,692	-
Add: Treasury stock sold by CKI	-	2,255
Weighted-average number of shares outstanding	9,854,174	10,757,539

(In thousand dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Consolidated net income from continuing operations	$23,699,537	$21,904,131	$25,273,476	$769,126	$22,453,205	$683,299
Cumulative effect of changes in accounting principles	-	-	22,985	699	22,985	699
Consolidated net income	$23,699,537	$21,904,131	$25,296,461	$769,825	$22,476,190	$683,998
Consolidated net income attributed to						
Stockholders of the Company	$23,699,537	$21,904,131	$25,349,964	$771,453	$22,529,693	$685,626
Minority interest	-	-	(53,503)	(1,628)	(53,503)	(1,628)
	$23,699,537	$21,904,131	$25,296,461	$769,825	$22,476,190	$683,998

(In dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Basic earnings per share						
Consolidated net income from continuing operations	$2.41	$2.22	$2.35	$0.0715	$2.09	$0.0636
Cumulative effect of changes in accounting principles	-	-	-	-	-	-
Consolidated net income	$2.41	$2.22	$2.35	$0.0715	$2.09	$0.0636

(In dollars)	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
After-tax basic earnings per share attributed to			
Stockholders of the Company	$2.22	$2.09	$0.0636
Minority interest	-	-	-
	$2.22	$2.09	$0.0636

(1) Diluted earnings per share

(In thousand shares)	Year Ended December 31, 2004	Year Ended December 31, 2005
Beginning balance of outstanding shares	9,800,095	10,029,294
Add: Shares converted from ECBs	50,680	725,990
Add:Treasury stock reissued to the employees of the Company's subsidiaries	24,262	-
Add: Treasury stock reissued to the Company's employees	48,692	-
Add: Treasury stock sold by CKI	-	2,255
Less: Treasury stock purchased	(69,555)	-
Weighted-average number of shares outstanding	9,854,174	10,757,539
Dilutive effects of potential common shares:		
0.1% ECBs	1,025,410	299,324
0.625% ECBs	229,552	160,342
Weighted-average number of shares outstanding for diluted earnings per share	11,109,136	11,217,205

(In thousand dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Consolidated net income from continuing operations	$23,699,537	$21,904,131	$25,273,476	$769,126	$22,453,205	$683,299
Cumulative effect of changes in accounting principles	-	-	22,985	699	22,985	699
Consolidated net income	$23,699,537	$21,904,131	$25,296,461	$769,825	$22,476,190	$683,998
Consolidated net income attributed to						
Stockholders of the Company	$23,699,537	$21,904,131	$25,349,964	$771,453	$22,529,693	$685,626
Minority interest	-	-	(53,503)	(1,628)	(53,503)	(1,628)
	$23,699,537	$21,904,131	$25,296,461	$769,825	$22,476,190	683,998

(In dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Diluted earnings per share						
Consolidated net income from continuing operations	$2.13	$1.97	$2.25	$0.0685	$2.00	$0.0609
Cumulative effect of changes in accounting principles	-	-	-	-	-	-
Consolidated net income	$2.13	$1.97	$2.25	$0.0685	$2.00	$0.0609

(In dollars)	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
After-tax diluted earnings per share attributed to			
Stockholders of the Company	$1.97	$2.01	$0.0612
Minority interest	-	(0.01)	(0.0003)
	$1.97	$2.00	0.0609

The above diluted earnings per share amounts are computed based on the current conversion price of the ECBs.

(2) Pro forma information based on the assumptions that shares of the Company held by its subsidiaries are not treated as treasury stock and that the investment gain or loss on subsidiaries' equity-accounted investees is recognized in the current period:

(a) Basic earnings per share

(In thousand shares)	Year Ended December 31, 2004	Year Ended December 31, 2005
Beginning balance of outstanding shares	9,800,095	10,029,294
Add: Shares converted from ECBs	50,680	725,990
Add: Treasury stock reissued to the employees of the Company's subsidiaries	30,000	-
Add: Shares of the Company held by its subsidiaries and treated as treasury stock	5,080	5,080
Add: Treasury stock reissued to the employees	48,692	-
Less: Treasury stock bought back to be reissued to employees	(69,555)	-
Weighted-average number of shares outstanding	9,864,992	10,760,364

(In thousand dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Consolidated net income from continuing operations	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321
Consolidated net income	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321
Consolidated net income attributed to						
Stockholders of the Company	$24,337,622	$22,542,216	$25,327,689	$770,777	$22,507,418	$684,949
Minority interest	-	-	(53,503)	(1,628)	(53,503)	(1,628)
	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321

(In dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Basic earnings per share						
Consolidated net income from continuing operations	$2.47	$2.29	$2.35	$0.0715	$2.09	$0.0636
Consolidated net income	$2.47	$2.29	$2.35	$0.0715	$2.09	$0.0636

(In dollars)	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
After-tax basic earnings per share attributed to			
Stockholders of the Company	$2.29	$2.09	$0.0636
Minority interest	-	-	-
	$2.29	$2.09	$0.0636

(b) Diluted earnings per share

(In thousand shares)	Year Ended December 31, 2004	Year Ended December 31, 2005
Beginning balance of outstanding shares	9,800,095	10,029,294
Add: Shares converted from ECBs	50,680	725,990
Add: Treasury stock reissued to the employees of the Company's subsidiaries	30,000	-
Add: Shares of the Company held by its subsidiaries and treated as treasury stock	5,080	5,080
Add: Treasury stock reissued to the employees	48,692	-
Less: Treasury stock bought back to be reissued to employees	(69,555)	-
Weighted-average number of shares outstanding	9,864,992	10,760,364
Dilutive effects of potential common shares:		
0.1% ECBs	1,025,410	299,324
0.625% ECBs	229,552	160,342
Weighted-average number of shares outstanding for diluted earnings per share	11,119,954	11,220,030

(In thousand dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Consolidated net income from continuing operations	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321
Consolidated net income	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321
Consolidated net income attributed to						
Stockholders of the Company	$24,337,622	$22,542,216	$25,327,689	$770,775	$22,507,418	$684,949
Minority interest	-	-	(53,503)	(1,628)	(53,503)	(1,628)
	$24,337,622	$22,542,216	$25,274,186	$769,147	$22,453,915	$683,321

(In dollars)	Year Ended December 31, 2004		Year Ended December 31, 2005			
	Pre-tax	After-tax	Pre-tax		After-tax	
	NT$	NT$	NT$	US$	NT$	US$
Diluted earnings per share						
Consolidated net income from continuing operations	$2.19	$2.03	$2.25	$0.0685	$2.00	$0.0609
Consolidated net income	$2.19	$2.03	$2.25	$0.0685	$2.00	$0.0609

(In dollars)	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
After-tax diluted earnings per share attributed to	$2.03	$2.01	$0.0612
Stockholders of the Company	-	(0.01)	(0.0003)
Minority interest	$2.03	$2.00	$0.0609

The above diluted earnings per share amounts are computed based on the current conversion price of the ECBs.

V. RELATED PARTY TRANSACTIONS

1. Names of the related parties and their relationship with the Company

Related Party	Relationship with the Company
Chunghwa Post Co., Ltd. (Chunghwa Post) (formerly known as Directorate General of Postal Remittances and Savings Bank)	Director of the Company
Bank of Taiwan (BOT)	Director of the Company
United Microelectronics Corporation (UMC)	Director and supervisor of the Company
Mega Investment Trust Co., Ltd. (MITC)	Subsidiary of the Company
Chung Hsing Securities Corporation (CHS)	Indirect subsidiary of the Company (Operations sold to BIS on January 31, 2003)
Win Card Co., Ltd. (Win Card)	Indirect subsidiary of the Company
Taiwan Finance Holding Corporation (TFC)	Investee accounted for under equity method
Mega Asset Management Co., Ltd. (MAM)	Subsidiary of the Company
Barits International Futures Co., Ltd. (BIF)	Indirect subsidiary of the Company
Hoan Insurance Agency Co., Ltd. (Hoan)	The Company's director is also the director of Hoan. (Effective as of June 2, 2000)
Other related parties	The Company's directors, supervisors, managers, their relatives, associated companies and substantial related parties

2. Significant transactions with related parties

Related party transactions with an amount exceeding NT$100 million (US$3.01 million) are set forth below.

(1) Deposits

Details of the related parties' deposits placed with CTB and ICBC and recorded under "deposits and remittances" are as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Chunghwa Post	$57,036,967	$50,674,488	$1,542,133
Others (individual amounts accounting for less than 10% of the total amount)	83,032,302	73,190,901	2,227,355
Total	$140,069,269	$123,865,389	$3,769,488

(2) Credits extended

Details of the credits extended to the related parties by CTB and ICBC and recorded under "bills, discounts and loans" are as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
Others (individual amounts accounting for less than 10% of the total amount)	$17,622,454	$20,929,741	$636,937

(3) Sales of securities and bonds

	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
BOT	$274,620,701	$197,473,427	$6,009,538
UMC	47,621,993	149,778,425	4,558,077
CHS	91,278,133	2,546,282	77,489
Chunghwa Post	51,142,838	106,450,639	3,239,521
MITC	5,411,753	-	
MAM	1,864,542	-	
Other related parties	1,772,749	2,178,055	66,283
Total	$473,712,709	$458,426,828	$13,950,908

Terms and conditions on the above transactions are not materially different from those with non-related parties.

(4) Investments in bonds

In Thousands of NT Dollars

	December 31, 2004				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	$300,000	Jun 10, 2003 –	1.7675	$2,978	$6,758
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			

In Thousands of NT Dollars

	December 31, 2005				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	$300,000	Jun 10, 2003 –	0.27-1.7675	$455	$2,779
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			
UMC	$200,000	Jun 18, 2003 –	0.13	$140	$43
The third domestic unsecured corporate bonds (Bond A-20)		Jun 18, 2008			

In Thousands of US Dollars

	December 31, 2005				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	$9,130	Jun 10, 2003 –	0.27-1.7675	$14	$85
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			
UMC	$6,086	Jun 18, 2003 –	0.13	$5	$1
The third domestic unsecured corporate bonds (Bond A-20)		Jun 18, 2008			

(5) Margin deposits for futures trading – own capital

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
BIF	$313,217	$-	$-

(6) Guarantee for issuance of commercial paper

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
MITC	$100,000	$-	$-

(7) Liability on bonds sold under repurchase agreements

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
MITC	$949,433	$765,768	$23,304

(8) Transactions with other financial institutions

(a) Due from banks / call loans to banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2004	TFC	$500,000	$-	1.005~1.09	$267

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2005	TFC	$400,000	$-	1.33~1.47	$334

In thousands of US dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2005	TFC	$12,173	$-	1.33~1.47	$10

(b) Due to other banks /call loans from banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Year ended December 31, 2004	Chunghwa Post	$58,484,216	$46,522,745	0.10-2.15	$799,032
	BOT	1,500,000	-	0.95-1.16	547
			$46,522,745		$799,579
Year ended December 31, 2005	Chunghwa Post	$52,041,162	$41,251,124	0.01-2.23	$787,656
	BOT	2,000,000	-	1.20-1.50	818
			$41,251,124		$788,474

In Thousands of US Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Year ended December 31, 2005	Chunghwa Post	$1,583,724	$1,255,360	0.01-2.23	$23,970
	BOT	60,864	-	1.20-1.50	25
			$1,255,360		$23,995

(c) Overdrafts on banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Year ended December 31, 2004	BOT	$2,250,000	$918,000	1.75-2.00	$14,263
Year ended December 31, 2005	BOT	$2,465,000	$1,696,700	2.00-2.50	$18,471

In Thousands of US Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Expense
Year ended December 31, 2005	BOT	$75,015	$51,634	2.00-2.50	$562

(9) Collaterals

Collaterals		December 31, 2004	December 31, 2005	
		NT$	NT$	US$
BOT	Certificates of time deposit, negotiable certificates of deposit, government bonds and corporate bonds	$4,733,976	$4,170,016	$126,902

(10) Refundable deposits

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
BOT	$106,966	$105,655	$3,215

(11) Others

(a) As of December 31, 2004 and 2005, the amount authorized by MAM to its related parties, CHBF, and China bills finance corporation, to issue a promissory note is $355,000 thousand and $400,000 thousand (US$12,173 thousand) with time deposits of $0 and $102,600 thousand as underlying assets.

(b) In the year 2005, MAM has entered the auction for non-performing loan of one of its related party, Taiwan Finance Holding Corporation, and the bid price of $185,000 thousand (US$5,630 thousand), as stated in the loan sale and purchase agreement, is recorded under the loan receivable purchased account.

(c) In September 2004, CHBF entered into a contract with MAM for sale of its non-performing loans (NPL). The NPLs sold amounted to NT$2,270,845 thousand with a gain of NT$522,892 thousand.

(d) On July 29, 2004, CTB sold its NPLs and the associated real estate property to MAM in an open bid. The book values of the NPLs and real estate property sold were NT$3,512,164 thousand and NT$571,499 thousand, respectively, with a loss of NT$512,852 thousand made on the sale.

(e) ICBC sold its NPLs to MAM in September 2004 in an open bid with a gain of NT$175,700 thousand which was recorded under “other operating revenues”.

(f) For the years ended December 31, 2004 and 2005, the securities purchased from TFC amounted to NT$542,117 thousand and NT$99,917 thousand (US$3,041 thousand), respectively, and the bills and bonds purchased from (sold to) TFC under resell (repurchase) agreements amounted to NT$0 and NT$99,917 thousand (US$3,040 thousand), respectively.

(g) ICBC has been outsourcing its credit card operations to Win Card Co., Ltd. since 2001. The operational costs incurred for the years ended December 31, 2004 and 2005 were NT$450,899 thousand and NT$423,104 thousand (US$12,876 thousand), respectively, which were recorded as business expenses. ICBC paid part of the costs on Win Card’s behalf, which resulted in a receivable from Win Card of NT$8,418 thousand and NT$13,058 thousand (US$397 thousand) as of December 31, 2004 and 2005, respectively. Additionally, ICBC has a lease agreement with Win Card, which is effective from January 2001 to January 2008 with the rent payable quarterly. The rental income for the years ended December 31, 2004 and 2005 was NT$10,418 thousand and NT$9,656 thousand (US$294 thousand), respectively.

(h) The insurance coverage provided by CKI for Hoan Insurance Agency Co., Ltd.’s premiums received under custody was NT$513,546 thousand and NT$720,499 thousand (US$21,926 thousand) for the years ended December 31, 2004 and 2005, respectively. And the associated commission expense was NT$125,387 thousand and NT$182,197 thousand (US$5,545 thousand), respectively. As of December 31, 2004 and 2005, premiums receivable from the above transactions amounted to NT$12,487 thousand and NT$18,412 thousand (US$560 thousand), respectively, and commissions payable amounted to NT$19,904 thousand and NT$33,975 thousand (US$1,034 thousand), respectively.

VI. PLEDGED ASSETS

Asset	Carrying Value		
	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Securities purchased	$12,229,299	$46,712,167	$1,421,551
Long-term investments and stocks of the Company's subsidiaries	24,185,547	11,233,811	341,869
Property and equipment	2,856,689	3,766,507	114,623
Other assets	389,957	317,698	9,668
Total	$39,661,492	$62,030,183	$1,887,711

VII. COMMITMENTS AND CONTINGENT LIABILITIES

1. The Company

(1) As of December 31, 2005, the total amount of the contracts entered into by the Company for the set up of information system, risk management consulting and the advertising campaign for enhancing the Group's image was NT$99,979 thousand (US$3,043 thousand), and the accrued amount on the above expenditures was NT$37,879 thousand (US$1,153 thousand).

(2) The Company has entered into several operating lease agreements for its offices. Rents are based on the actual floor area of the rental property and are payable monthly or quarterly according to the terms of the respective lease agreements. Guarantee deposits paid by the Company (listed under "other assets") amounted to NT$1,664 thousand (US$50 thousand). As of December 31, 2005, the rents payable for the next five years were as follows:

Year	Amount	
	NT$	US$
2006	$6,654	202
2007	4,159	127
Total	$10,813	$329

2. The subsidiaries

(1) Chiao Tung Bank (CTB)

(a) As of December 31, 2004 and 2005, CTB's commitments and contingent liabilities were as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Trust liabilities	$9,716,029	$15,930,089	$484,787
Customers' securities under custody	195,783,969	188,656,491	5,741,220
Guarantee effects	4,680	1,076	33
Travelers' checks consigned-in	278,823	250,809	7,633
Investments for customers	600,347	600,347	18,270
Collections for customers	217,014,279	200,554,277	6,103,295
Agency loans payable	9,789,221	8,374,444	254,852
Government bonds under custody	184,772,900	168,092,000	5,115,399
Commercial papers under custody	18,185,836	13,998,235	425,996
Certified notes payable	78,993,380	73,530,272	2,237,683
Guarantees issued	68,103,306	55,042,328	1,675,055
Letters of credit	21,450,529	15,390,860	468,377
Contra account-futures bought	15,585,268	2,514,878	76,533
Options written	14,791,068	1,294,448	39,393
Payables on interest rate swaps	-	6,572,000	200,000
Contra account-receivables on interest rate swaps	-	6,572,000	200,000
Total	$835,069,635	$757,374,554	$23,048,526

(b) The following information is disclosed in accordance with Article 17 of the Trust Law Enforcement Rules.

a. Balance sheet of trust accounts

Trust Assets	Dec 31, 2004	Dec 31, 2005		Trust Liabilities and Equities	Dec 31, 2004	Dec 31, 2005	
	NT$	NT$	US$		NT$	NT$	US$
Bank deposits	$84,611	$321,356	$9,780	Trust capital			
Refundable deposit	-	9,720	296	Pecuniary trust	$8,618,936	$13,200,273	$401,713
Short-term investments			-	Securities trust	305,291	1,432,537	43,595
Stocks	331,073	2,664,185	81,077	Real estate trust	791,802	1,297,279	39,479
Mutual funds	8,546,709	10,675,568	324,880				
Receivables	-	6,120	186				
Real estate Properties			-				
Land	289,589	1,544,203	46,993				
Buildings	464,047	584,235	17,780				
Construction in process	-	124,702	3,795				
Total Trust Assets	$9,716,029	$15,930,089	$484,787	Total Trust Liabilities and Equities	$9,716,029	$15,930,089	$484,787

b. Trust property

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Demand deposits	$55,232	$101,838	$3,099
Time deposits	29,379	219,518	6,681
Refundable deposit	-	9,720	296
Overseas mutual funds	4,042,612	6,012,266	182,966
Domestic mutual funds	4,504,097	4,663,302	141,914
Overseas stocks	-	1,338,154	40,723
Domestic stocks	331,073	1,326,031	40,354
Receivables	-	6,120	186
Land	289,589	1,544,203	46,993
Buildings	464,047	584,235	17,780
Construction in progress	-	124,702	3,795
Total	$9,716,029	$15,930,089	$484,787

(c) In January 2002, CTB's Singapore Branch assigned its entire participation in a syndicated loan facility granted to an Indonesian customer to a third party. In October 2002, a stockholder of the Indonesian customer brought legal action against the consortium of 57 banks participating in the syndicated loan facility, including CTB's Singapore Branch. The stockholder claimed among others that the loan facility granted by the consortium banks was illegal. In 2003, a district court in South Jakarta passed its summary judgement and ruled in favor of the plaintiff on some of the claims. The consortium banks were advised by their lawyers that the district court's ruling did not appear to have a strong legal basis and thus have filed for an appeal. The appeal has yet to be heard. CTB's Singapore Branch has assessed and provided for the potential claims payable resulting from the lawsuit based on the summary judgement of the district court.

(2) Barits International Securities Co., Ltd. (BIS)

(a) BIS has entered into proxy delivery agreements with Grand Cathay Securities and Fubon Securities. Under these agreements, Grand Cathay Securities and Fubon Securities agree to be BIS' first and second proxies. If BIS is unable to fulfill its obligations to the Taiwan Stock Exchange, the proxies must act upon the said obligations. BIS has reciprocated by agreeing to act as the first or second proxy for Grand Cathay Securities and Fubon Securities.

(b) Two of BIS' former brokers conducted a fraudulent transaction in November 1994 and embezzled NT$56,823 thousand from Lu-Kang Credit Cooperative (LKCC) accordingly by taking advantage of LKCC's operational flaws when it was dealing with the settlement of the above transaction. LKCC claimed that they had to pay the NT$56,823 thousand in advance for BIS and thus, cancelled BIS' NT$60 million time deposit placed with LKCC without BIS' consent and deducted NT$56,823 thousand from the cancelled deposit. BIS filed a lawsuit against LKCC for return of the NT$56,823 thousand as well as execution of provisional seizure of the properties of the said securities brokers' joint guarantors.

The NT$56,823 thousand was recorded by BIS under "other assets – other receivables". For executing the provisional seizure, BIS pledged NT$19,000 thousand time deposit to the Court, which is recorded under "other assets – guarantee deposits paid".

Per the ruling stated in Docket #14 of Designation Appellate 3, the Tai-chung Branch of The Taiwan High Court has ruled against the company of all charges. BIS filed an appeal to the High Court on May 20, 2005, which has yet to be heard. BIS has set aside NT$24,172 thousand (US$736 thousand) as an allowance for bad debts as recommended by its legal consultant.

(c) As a result of a dispute on a rental property located at Section 4 of Chunghsiao East Road, Taipei, the lessee brought legal action against BIS, claiming NT$5,860 thousand (US$178 thousand) for compensation plus 5% annual interest calculated from the date on which the lawsuit was filed to the date on which the compensation is paid. The case is pending the court's ruling.

(d) BIS has entered into several operating lease agreements for its branch offices. As of December 31, 2005, the annual minimum rents payable (excluding the adjustments for the consumer price index) for the next five years were as follows:

Year	Amount	
	NT$	US$
2006	$43,647	$1,328
2007	35,937	1,094
2008	26,347	802
2009	18,169	553
2010	3,360	102
After 2011	560	17
Total	$128,020	$3,896

(e) As of December 31, 2004 and 2005, the checks written by BIS and pledged to the Taiwan Stock Exchange as guarantee deposits for settlement of securities transactions amounted to NT$30 million (US$913 thousand).

(f) BIS' 1999, 2000 and 2001 income tax returns had been assessed by the NTA. However, BIS did not agree with the NTA's assessments and has filed tax appeals.

(3) Chung Hsing Bills Finance Corporation (CHBF)

As of December 31, 2004 and 2005, CHBF's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Bills and bonds sold under repurchase agreements	$198,555,812	$238,966,913	$7,272,274
Guarantees for commercial papers	167,749,600	144,404,600	4,394,540
Bills and bonds purchased under resell agreements	4,550,240	-	-
Total	$370,855,652	$383,371,513	$11,666,814

(4) International Commercial Bank of China (ICBC)

As of December 31, 2005, ICBC had the following commitments and contingent liabilities which were not stated in the accompanying financial statements:

(a) Collections and guarantee assets and liabilities

	December 31, 2005	
	NT$	US$
Securities sold under repurchase agreements	$6,731,516	$204,854
Securities purchased under resell agreements	375,300	11,421
Trust and security held for safekeeping		
(including trustee amount of NT$139,064,821 thousand (US$4,195,017 thousand)	560,772,150	17,065,495
Travelers' checks consigned-in	2,460,848	74,889
Collections for customers and agency loans payable	90,600,004	2,757,152
Guarantees for commercial paper, customs duties and performance bonds	94,790,315	2,884,672
Letters of credit	51,137,629	1,556,227
Government bonds under custody and consignment of goods	213,803,346	6,506,493
Loan commitments	383,179,347	11,660,966
Credit card lines	69,350,517	2,110,484
Certified notes paid	16,092,295	489,723

(b) The following information is disclosed in accordance with Article 17 of the Trust Law Enforcement Rules.

Balance sheet of trust accounts

Trust Assets	December 31, 2005		Trust Liabilities and Equities	December 31, 2005	
	NT$	US$		NT$	US$
Cash	$10,139,689	$308,572	Trust capital		
Investments in stocks	22,762,752	692,719	Pecuniary trust	$163,367,778	$4,971,630
Investments in bonds	68,090,924	2,072,152	Securities trust	2,716,026	82,654
Investments in mutual funds	61,670,236	1,876,757	Real estate trust	735,617	22,387
Other assets	4,155,820	126,471			
Total Trust Assets	$166,819,421	$5,076,671	Total Trust Liabilities and Equities	$166,819,421	$5,076,671

Trust property

	December 31, 2005	
	NT$	US$
Investments in stocks	$22,762,752	$692,719
Investments in bonds	68,090,924	2,072,152
Investments in mutual funds	61,670,236	1,876,757
Other assets	4,155,820	126,471
Total	$156,679,732	$4,768,099

(c) ICBC has entered into several lease agreements for a number of its branch offices. Rents are based on the actual floor area of the leasehold property and are payable monthly, quarterly or semi-annually according to the terms of the respective lease agreements. All the lease agreements will expire by the end of August 2021 and are renewable. Deposits paid for these lease agreements amounted to NT$137,651 thousand (US$4,189 thousand) as of December 31, 2005 and were recorded under "other assets". The annual rents payable for the next five years are as follows:

Year	Amount	
	NT$	US$
2006	$196,382	$5,976
2007	136,888	4,166
2008	95,174	2,896
2009	62,444	1,900
2010	52,885	1,609

(d) As of December 31, 2005, contracts signed by ICBC for renovation of its branch offices and purchase of equipment amounted to NT$18,594 thousand (US$566 thousand) and the accrued expenses on these contracts were NT$7,475 thousand (US$227 thousand).

(5) Chung Kuo Insurance Co., Ltd. (CKI)

As of December 31, 2004 and 2005, the unutilized portion of the letters of credit issued by CKI for reinsurance was US$232,914 and US$59,771, respectively.

(6) Mega Investment Trust Co., Ltd. (MITC)

(a) In July 1999, the former Chairman of MITC together with the former Chairman of Tung-Kang Credit Cooperative (TKCC) and other staff of TKCC embezzled MITC's time deposits placed with TKCC of NT$220 million and NT$430 million from MITC's mutual funds. The District Court of Pingtung indicted the above persons in August 1999. As of December 31, 2005, the ruling made by the High Court was that MITC's former Chairman was not guilty while the others were sentenced to 14 months to 12 years of imprisonment. The persons found guilty have lodged an appeal.

(b) MITC's former Chairman together with a number of TKCC's staff embezzled MITC's time deposits placed with TKCC and pledged the said deposits as collaterals for loans. As a result, MITC incurred a contingent liability of NT$195 million. According to the information provided by TKCC, the interest on the aforementioned loans was all paid up as of May 1999 with the interest rate ranging from 7.25% to 7.9%. However, the fact is that interest on the loans had not been paid since June 1999. The interest on the loans accrued from June 1999 to January 2000 amounted to approximately NT$1,853 thousand. To safeguard its rights, upon maturity of the pledged time deposits in January 2000, the creditor bank used the pledged time deposits to compensate for the principal of the loans, and the interest on the pledged time deposits of NT$1,230 thousand for the corresponding period to compensate for the interest on the loans. The amount of shortage was deducted from the demand deposits. Clarification of the above dispute is pending the Court's ruling.

(c) As of December 31, 2005, details of the property rented by MITC under operating lease were set forth below.

Lessor	Location of the Leasehold Property	Lease Period	Rent per Month		Method of Payment	Year	Minimum Lease Payment	
BIS	9th Floor, 100	Nov 1, 2003 ~	NT$832	US$25	Monthly	2006	NT$9,988	US$304
	Roosevelt Rd.,	Oct 31, 2013				2007	9,988	304
	Section 2, Taipei					2008	9,988	304
						2009	9,987	304
						2010 and onwards	38,285	1,165
							NT$78,236	US$2,381

(7) Mega Asset Management Co., Ltd. (MAM)

(a) Details of the assets rented by MAM under operating lease as of December 31, 2005 are set forth below:

Lessor	Leasehold Asset	Lease Period	Rent per Month		Accrued Rent for the Following Years	
CHBF	12th Floor of CHBF's head office located on Chunghsiao East Rd., Taipei	Dec 1, 2003 ~ Nov 30, 2008	NT$482	US$15	NT$16,876	US$514
Easyrent	Cars for business use	Feb 2, 2004 ~ Feb 1, 2007	24	1	313	10
EasyRent	Cars for business use	Jan 1, 2005 ~ Dec 31, 2007	61	2	1,462	44
Total					NT$18,651	US$568

(b) Details of the contract entered into by MAM for setup of the asset management system as of December 31, 2005 are set forth below:

Vendor	Contract Amount (including tax)		Amount Paid		Amount Accrued	
	NT$	US$	NT$	US$	NT$	US$
Cybersoft Digital Service Corp.	$5,418	$165	$3,251	$99	$2,167	$66

(c) As of December 31, 2005, details of the loan sale and purchase agreements for non-performing loan which MAM entered into are set forth below:

Contract Amount		Amount Paid		Amount Accrued	
NT$	US$	NT$	US$	NT$	US$
$213,783	$6,506	$43,279	$1,317	$170,504	$5,189

(d) In March 2005, MAM entered into revolving commercial paper facility agreements with CHBF and International Bills Finance Corporation for a total limit of NT$200 million (US$6,087 thousand). Under the agreements, MAM can issue commercial paper within the specified limit during the agreement period (three years).

(8) Mega CTB Venture Capital Co., Ltd. ("Mega CTB Venture Capital")

Mega CTB Venture Capital Co., Ltd had delegated CTB Financial Management & Consulting Co., Ltd. to manage, invest and reinvestment all assets of the company as well as to provide operation, management and consultation services. As stated in the contract, Mega CTB Venture Capital Co., Ltd. is obliged to pay CTB Financial Management 2% of the average paid-in capital for the year, as operating expense for the services received, on a quarterly basis.

VIII. SIGNIFICANT DISASTER LOSS

None.

IX. SIGNIFICANT SUBSEQUENT EVENTS

1. The Company

None.

2. The subsidiaries

None.

X. OTHERS

1. Derivative financial instruments

A. Derivative financial instruments undertaken by CTB, CHBF and ICBC

(1) CTB, CHBF and ICBC have undertaken derivative financial instruments for hedging and non-hedging purposes. The derivative financial instruments undertaken for hedging purposes are to hedge the existing exposure of CTB, CHBF and ICBC by entering into back-to-back transactions. Those for non-hedging purposes are undertaken for profit seeking.

(2) The derivative financial instruments undertaken by CTB, CHBF and ICBC are mainly for risk hedging purposes by taking certainty, profitability and liquidity into account.

(3) The contract amounts (notional principal amounts) of the derivative financial instruments undertaken, the associated credit risk and their fair values are set forth below:

In Thousands of NT Dollars

Financial Instrument	December 31, 2004 Contract Amount	Credit Risk	Fair Value
Trading purposes			
Currency forwards	$300,474,282	$1,317,005	$717,548
Interest rate swaps	40,433,236	379,094	373,058
Foreign exchange swaps	23,202,934	112,554	(765,546)
Cross-currency swaps	14,425,116	32,910	(36,622)
Financial futures	540,056	-	(32)
Interest rate futures	2,725,000	-	(50)
Currency options	14,673,388	138,957	(321,682)
Interest rate options	200,000	-	(2,008)
Non-delivery forwards	540,056	-	(23,286)
Non-trading purposes			
Interest rate swaps	106,109,046	335,499	(1,246,404)
Cross-currency swaps	52,115,209	163,648	(556,685)
Currency options	27,620,227	-	-

In Thousands of NT Dollars

Financial Instrument	December 31, 2005 Contract Amount	Credit Risk	Fair Value
Trading purposes			
Currency forwards	$346,027,567	$549,543	$141,217
Interest rate swaps	73,147,591	530,784	5,599,876
Foreign exchange swaps	19,007,145	31,348	(3,808)
Cross-currency swaps	23,914,573	2,432	2,070
Financial futures	52,438	-	322
Options	4,140,486	56,979	-
Non-delivery forwards	98,580	-	(33)
Non-trading purposes			
Currency forwards	24,228,993	-	249,561
Interest rate swaps	122,558,736	989,563	(582,669)
Foreign exchange swaps	-	-	-
Cross-currency swaps	43,696,568	331,908	(87,473)
Options	492,900	12,007	12,007

In Thousands of US Dollars

Financial Instrument	December 31, 2005 Contract Amount	Credit Risk	Fair Value
Trading purposes			
Currency forwards	$10,530,358	$16,724	$4,298
Interest rate swaps	2,226,037	16,153	170,416
Foreign exchange swaps	578,428	954	(116)
Cross-currency swaps	727,772	74	63
Financial futures	1,596	-	10
Options	126,004	1,734	-
Non-delivery forwards	3,000	-	(1)
Non-trading purposes			
Currency forwards	$737,340	-	$7,595
Interest rate swaps	3,729,724	30,115	(17,732)
Foreign exchange swaps	-	-	-
Cross-currency swaps	1,329,780	10,101	(2,662)
Options	15,000	365	365

(a) The currency forward, interest rate swap, cross-currency swap and currency option contracts undertaken by CTB and ICBC for trading purposes are mainly for hedging customers' as well as CTB's and ICBC's exposures and currency exposures arising from foreign currency funding requirements. Non-delivery forward, interest rate swap and cross-currency swap contracts undertaken by CTB, CHBF and ICBC for non-trading purposes are mainly for hedging interest rate and exchange rate exposures arising from foreign currency denominated assets. CTB, CHBF and ICBC aim to utilize the derivative financial instruments to hedge most of their market risk by undertaking derivative contracts of which the fair values are inversely proportional to those of the hedged items. CTB, CHBF and ICBC also perform periodic review on their positions.

(b) The above credit risk amounts are based on the contracts with positive fair values at the balance sheet date and represent the possible loss that will be incurred by CTB and ICBC in the event that the counterparties default.

(c) Before entering into financial derivative transactions, credit history and credit rating of the customers are reviewed. The transactions can then be conducted within the approved credit limits. Adequate collaterals and guarantee deposits are required from the customers to cover the realized or potential loss of such transactions.

(d) The above-mentioned credit risk pertains to the risk that the counterparties may default on maturity dates. As the counterparties of CTB, CHBF and ICBC are all financial institutions with good credit ratings, credit risk is considered to be remote.

(e) Fair values of currency forwards are determined based on the exchange rates published in the inquiry system of Reuters or the Associated Press.

(f) Fair values of cross-currency swaps are determined based on the rates quoted in the Bloomberg Information System.

(g) Net gains (losses) of CTB, ICBC and CHBF and their disclosures in the income statement.

Financial Instrument	Year Ended Dec 31, 2004	Year Ended Dec 31, 2005		Income Statement Disclosure
	NT$	NT$	US$	
Financial futures	$(22,069)	$3,451	$105	Gain (loss) on derivative financial instruments
Interest rate futures	36,505	2,717	83	Gain (loss) on derivative financial instruments
Currency options	405,486	703,652	21,414	Gain (loss) on derivative financial instruments
Non-delivery forwards	9,714	4,076	124	Gain (loss) on derivative financial instruments
Currency forwards	(1,699,768)	1,448,851	44,092	Foreign exchange gain (loss)/ interest income (expense)
Interest rate swaps, foreign exchange swaps and cross-currency swaps	787,725	382,303	11,634	Interest income (expense)
Forward rate agreements	-	1,415	43	Gain (loss) on derivative financial instruments

(h) Market risk and cash flow risk

1) Market risk arises from the fluctuations in interest rates and exchange rates.

2) As the forward exchange rates are determined by the spot exchange rates and the interest rates on the respective currencies, CTB and ICBC compute the forward exchange rate for each future period at the end of each month based on the closing spot exchange rate published by the Central Bank on that date and the interest rate on the respective currency on the same date. The resulting forward exchange rate at maturity of each contract is then used to determine its fair value.

3) As CTB's and ICBC's position in currency forwards matches with their spot and forward exchange position, fluctuations in exchange rates will not result in significant gains (losses) and changes in cash flows. The aforementioned interest rate swap, foreign exchange swap and cross-currency swap contracts were undertaken by CTB, CHBF and ICBC to hedge their interest rate and foreign exchange risks arising from their foreign currency denominated assets or liabilities. The gains (losses) arising from the fluctuations in interest rates and exchange rates are mostly offset by the gains (losses) on the hedged items. As a result, market risk and changes in cash flows are assessed to be minimal.

(i) Liquidity risk and the amount, timing and uncertainty of future cash requirements

1) CTB and ICBC have entered into numerous financial derivative transactions of which the notional principal amounts are the bases for computing the amounts receivable from/payable to counterparties upon settlement. Therefore, the notional principal amounts are neither the actual amounts delivered nor the actual amounts of cash requirements of CTB and ICBC. As the derivative financial instruments issued or held by CTB and ICBC are likely to be sold at a reasonable price, it is expected that there are no significant cash requirements upon maturity of these contracts.

2) Derivative financial instruments employed by CTB and ICBC are all denominated in major foreign currencies. Thus, liquidity risk is considered to be low. The working capital of CTB and ICBC is expected to be adequate to support their future cash needs.

(j) The purposes and strategies of holding derivative financial instruments

The above financial derivative contracts are undertaken for risk hedging purposes. By entering into reverse transactions, the risk exposure is minimized.

B. Financial instruments undertaken by BIS

(1) Fair values of financial instruments

In Thousands of NT Dollars

Non-Derivative Financial Instrument	December 31, 2004		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$4,184,345	$4,184,345	$3,326,190	$3,326,190
Short-term investments, net	753,404	753,987	1,465,014	1,467,567
Bonds purchased under resell agreements	1,669,390	1,669,390	2,170,857	2,170,857
Securities held for operations, net	32,027,543	28,468,676	26,623,397	27,475,146
Deposits from client	-	-	1,091,964	1,091,964
Guarantee deposits receivable from trading of futures	-	-	1,336	1,336
Receivables, net	12,244,937	12,244,937	12,366,911	12,366,911
Restricted assets	903,563	903,563	976,004	976,004
Long-term investments	1,205,574	1,205,574	794,699	794,699
Other Assets	1,881,038	1,881,038	1,999,929	1,999,929

In Thousands of NT Dollars

Non-Derivative Financial Instrument	December 31, 2004		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Short-term loans	5,123,395	5,123,395	2,670,082	2,670,082
Short-term bills payable, net	3,696,443	3,696,443	1,418,386	1,418,386
Bonds sold under repurchase agreements	22,866,915	22,866,915	23,544,846	23,544,846
Futures traders' equity	-	-	1,073,019	1,073,019
Payables	4,758,824	4,758,824	4,467,146	4,464,146
Long-term liabilities	5,000,000	5,000,000	5,000,000	5,000,000
Guarantee deposits received	815,440	815,440	2,350	2,350
Accrued pension liability	46,680	46,680	75,494	75,494
Other liabilities	202,743	202,743	245,590	245,590

In Thousands of US Dollars

Non-Derivative Financial Instrument	December 31, 2005	
	Carrying Value	Fair Value
Assets		
Cash and cash equivalents	$101,223	$101,223
Short-term investments, net	44,584	44,661
Bonds purchased under resell agreements	66,064	66,064
Securities held for operations, net	810,207	836,127
Deposits from client	33,231	33,231
Guarantee deposits receivable from trading of futures	41	41
Receivables, net	376,352	376,352
Restricted assets	29,702	29,702
Long-term investments	24,184	24,184
Other Assets	60,862	60,862
Liabilities		
Short-term loans	81,256	81,256
Short-term bills payable, net	43,165	43,165
Bonds sold under repurchase agreements	716,520	716,520
Futures traders' equity	32,654	32,654
Payables	135,945	135,853
Long-term liabilities	152,161	152,161
Guarantee deposits received	72	72
Accrued pension liability	2,297	2,297
Other liabilities	7,474	7,474

In Thousands of NT Dollars

Derivative Financial Instrument	December 31, 2004		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Options bought - futures	$104,585	$104,585	$26,391	$26,391
Margin deposits for futures trading – own capital	313,217	313,217	1,012,084	1,012,084
Derivative financial instrument assets - OTC	26,329	26,329	680,260	680,260
Deferred losses on derivative financial instruments	67,019	67,019	400,725	400,725
Liabilities				
Liability on issuance of stock warrants	164,682	164,682	65,800	65,800
Repurchase of stock warrants issued	(98,721)	(98,721)	(62,654)	(62,654)
Liability on options written - futures	240,420	240,420	141,702	141,702
Derivative financial instrument liabilities - OTC	183,682	183,682	502,931	502,931

In Thousands of US Dollars

Derivative Financial Instrument	December 31, 2005	
	Carrying Value	Fair Value
Assets		
Options bought - futures	$803	$803
Margin deposits for futures trading – own capital	30,800	30,800
Derivative financial instrument assets - OTC	20,702	20,702
Deferred losses on derivative financial instruments	12,195	12,195
Liabilities		
Liability on issuance of stock warrants	2,002	2,002
Repurchase of stock warrants issued	(1,907)	(1,907)
Liability on options written - futures	4,312	4,312
Derivative financial instrument liabilities - OTC	15,305	15,305

The methods and assumptions adopted by BIS to estimate the fair values of the above financial instruments are summarized below.

(a) Fair values of the short-term financial instruments are estimated to be equal to their carrying values on the balance sheets. As maturity of these instruments is short, it is reasonable that their fair values equal their carrying values.

(b) Fair values of short- and long-term equity investments, securities held for operations, liability on issuance of stock warrants, options contracts and other derivative financial instruments equal their quoted market prices, if available. If the quoted market prices are not available, their fair values are estimated using financial information or other information.

(2) Derivative financial instruments

(A) Stock warrants

1) Please see 7) below for details of stock warrants issued by BIS.

2) The purpose of issuing derivative financial instruments is to generate reasonable profits by controlling the risk within a tolerable limit.

3) Credit risk

As proceeds from the stock warrants issued by BIS have all been received, there is no credit risk.

4) Market risk

BIS is in a short position for the stock warrants issued, which is in reverse to the investors' position. As the investors may exercise their option rights before expiration of the contracts because of the fluctuations in the underlying securities' fair values, BIS' position is exposed to market risk. To reduce the uncertainty, BIS mainly adopts delta and vega risk hedging strategies which are summarized below.

a. Delta risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the underlying securities and are supplemented by the title certificates of the underlying securities.

(ii) Risk hedging strategy

The dynamic hedging method is adopted by referring to the delta risk value calculated using BIS' risk model. Under this method, when the values of the underlying securities fluctuate, BIS will trade the underlying securities or the title certificates of those securities to maintain its position in gains (losses) on the stock warrants to be neutral to the delta risk.

b. Vega risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the warrants listed in the domestic market with the same underlying securities (including the warrants issued by BIS) and are supplemented by the convertible bonds issued by the companies of the underlying securities.

(ii) Risk hedging strategy

The strategy adopted in vega hedge is primarily through buying the significantly underpriced stock warrants with the same underlying securities, of which the price volatility will partly offset the price volatility of the stock warrants issued by BIS.

As convertible bonds involve the risk of early redemption by the bond issuers, coupled with the liquidity risk (large difference between the buying and selling prices) and the interest rate risk, the hedging strategy would become complicated and inefficient if convertible corporate bonds are used as hedge instruments. Therefore, convertible bonds will not be used as the primary hedge instruments unless the underlying securities of the stock warrants issued show volatile price movements, and the terms on the convertible bonds and their liquidity meet the risk hedging requirements of BIS.

5) Amount and timing of future cash flows

When the options on the stock warrants are exercised by the warrant holders, BIS can opt to settle the contracts by cash or by delivery of the underlying securities. As a result, cash inflows or outflows will occur, respectively. The amount and timing of the cash flows depend on the amount of the stock warrants exercised by the warrant holders and the exercise date.

6) Accounting policies

Issuance of stock warrants and its subsequent valuation are accounted for by the fair value method and are recorded as "liability on issuance of stock warrants". For the warrants that use the derivative products issued by BIS as the hedge instruments, if the unrealized gain arising from the increase in the market value of the hedge instruments exceeds the loss arising from the variation in the warrants' value upon valuation at year-end, the excess amount is deferred. Conversely, if the loss arising from the variation in the warrants' value exceeds the unrealized gain arising from the increase in the market value of the hedge instruments, the excess amount is recognized as current loss. For the warrants that are issued under repurchase agreements, the repurchase amount is recorded under "repurchase of stock warrants issued" which is a contra account of "liability on issuance of stock warrants". At expiration of the warrants, the amount of the unexercised warrants is reversed after being revalued by the fair value method. A gain on the unexercised expired stock warrants is recognized accordingly.

7) Fair values and carrying values

The stock warrants issued by BIS are all American-style warrants with the contract periods ranging from six months to one year, starting from the date on which the warrants are listed in the market. The warrants can be settled by either cash or delivery of securities at BIS' discretion. Details of the stock warrants outstanding as of December 31, 2004 and 2005 are set forth below:

December 31, 2004 (Amounts are expressed in thousands of NT dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
41	Walsin Lihwa Corp.	Common shares	Nov 19, 2004	$59,430	$(2,430)	$57,000	30,000	$51,290	$(2,439)	$48,851	$20.75
42	Hsinchu International Bank	Common shares	Nov 22, 2004	58,200	(3,200)	55,000	25,000	49,365	505	49,870	25.08
43	BenQ Corp.	Common shares	Nov 23, 2004	52,682	-	52,682	20,000	-	-	-	53.25
				$170,312	$(5,630)	$164,682		$100,655	$(1,934)	$98,721	

December 31, 2005 (Amounts are expressed in thousands of NT dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
49	Transcend Information, Inc.	Common shares	Jul 28, 2005	$26,080	$(25,680)	$400	40,000	$18,450	$(18,103)	$347	$132.15
50	Foxconn Technology Co., Ltd.	Common shares	Oct 7, 2004	35,910	29,490	65,400	30,000	44,869	17,438	62,307	220.50
				$61,990	$3,810	$65,800		$63,319	$(665)	$62,654	

December 31, 2005 (Amounts are expressed in thousands of US dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
49	Transcend Information, Inc.	Common shares	Jul 28, 2005	$794	$(781)	$12	40,000	$561	$(551)	$11	$4.02
50	Foxconn Technology Co., Ltd.	Common shares	Oct 7, 2004	1,093	897	1,990	30,000	1,365	531	1,896	6.71
				$1,887	$116	$2,002		$1,926	$(20)	$1,907	

8) Supplementary disclosures

Gains (losses) arising from "liability on issuance of stock warrants", "repurchase of stock warrants issued" and "securities held for risk hedging" for the years ended December 31, 2004 and 2005 are set forth below.

a. Valuation gain (loss)

	Valuation Gain (Loss)			Financial Statement Account
	Year Ended Dec 31, 2004	Year Ended Dec 31, 2005		
	NT$	NT$	US$	
Gain on variation in value of repurchase of stock warrants issued	$5,630	$374,775	$11,405	Gain on issuance of stock warrants
Loss on variation in value of repurchase of stock warrants issued	-	(925,118)	(28,153)	Loss on issuance of stock warrants
Valuation gain on repurchase of stock warrants issued	-	697,125	21,215	Gain on issuance of stock warrants
Valuation loss on repurchase of stock warrants issued	(1,934)	(58,966)	(1,794)	Loss on issuance of stock warrants
Deferred losses on stock warrants	66,983	596	18	Deferred losses on stock warrants

b. Gain (loss) on sale

	Gain (Loss) on Sale			Financial Statement Account
	Year Ended Dec 31, 2004	Year Ended Dec 31, 2005		
	NT$	NT$	US$	
Gain on resell of stock warrants repurchased	$(100,074)	$67,089	$2,042	Gain on issuance of stock warrants
Loss on resell of stock warrants repurchased	-	(289,431)	(8,808)	Loss on issuance of stock warrants
Securities held for risk hedging	154,833	110,705	3,369	Gain (loss) on sale of securities – risk hedging

c. Gain (loss) at maturity

	Gain (Loss) at Maturity			Financial Statement Account
	Year Ended Dec 31, 2004	Year Ended Dec 31, 2005		
	NT$	NT$	US$	
Gain on stock warrants exercised at maturity	$212,560	$46,488	$1,415	Gain on issuance of stock warrants
Gain on unexercised expired stock warrants	12,584	360	11	Gain on issuance of stock warrants

(B) Futures and options

1) Proprietary trading of futures contracts

a. BIS has been engaged in proprietary trading of futures contracts since December 2003. Details of the futures contracts outstanding as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid	Fair Value
		NT$	NT$
Purchase of January 2005 Taiwan Stock Index Futures	101	$121,366	$124,998
Sale of February 2005 Taiwan Stock Index Futures	5	6,260	6,185

December 31, 2005

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value	
		NT$	US$	NT$	US$
Purchase of January 2006 Taiwan Stock Index Futures	412	$540,638	$16,453	$543,428	$16,538
Sale of January 2006 Taiwan Stock Index Futures	6	1,972	60	1,979	60
Sale of January 2006 Electronic Sector Index Futures	425	495,006	15,064	492,830	14,998
Sale of February 2006 Taiwan Stock Index Futures	1	330	10	329	10
Sale of February 2006 Taiwan Stock Index Futures	7	9,232	281	9,212	280
Purchase of March 2006 Taiwan Stock Index Futures	94	121,683	3,703	123,798	16,538

b. Details of the futures contracts outstanding for the Company's subsidiary - BIS as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

None.

December 31, 2005

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value	
		NT$	US$	NT$	US$
Purchase of January 2006 Taiwan Stock Index Futures	2	$658	$20	$660	$20
Sale of February 2006 Taiwan Stock Index Futures	2	659	20	658	20
Purchase of January 2006 Electronic Sector Index Futures	17	19,706	600	19,713	600
Sale of January 2006 Electronic Sector Index Futures	24	27,916	850	27,840	847
Purchase of January 2006 Finance Sector Index Futures	29	26,020	792	25,926	789
Sale of February 2006 Finance Sector Index Futures	8	7,188	219	7,171	218
Sale of March 2006 Finance Sector Index Futures	6	5,369	163	5,365	163
Purchase of January 2006 Taiwan Stock Index Futures	55	72,267	2,199	72,545	2,208
Sale of February 2006 Taiwan Stock Index Futures	16	21,120	643	21,056	641
Sale of March 2006 Taiwan Stock Index Futures	31	39,989	1,217	40,827	1,242
Sale of June 2006 Taiwan Stock Index Futures	1	6,578	200	1,314	40

c. The consolidated loss resulting from transactions relating to futures contracts undertaken by BIF and its indirect subsidiaries for the year 2004 and 2005 amounted to 115,594 thousands and 35,473 thousands (US$1,079 thousand) respectively under "loss from futures contracts" account. The consolidated non-operating profit from futures contracts for the two corresponding period is $0 and $164 (US$5 thousand) respectively.

2) Proprietary trading of TAIEX Index Options and equity options

a. Details of the TAIEX Index Option contracts outstanding as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid	Fair Value
		NT$	NT$
Purchase of January 2005 TAIEX Index 5600 Call Options	20	$520	$570
Purchase of January 2005 TAIEX Index 6000 Call Options	383	2,651	4,385
Purchase of January 2005 TAIEX Index 6300 Call Options	902	1,874	3,202
Purchase of January 2005 TAIEX Index 6400 Call Options	406	492	842
Purchase of January 2005 TAIEX Index 5500 Put Options	61	48	8
Purchase of January 2005 TAIEX Index 5700 Put Options	19	18	9
Purchase of January 2005 TAIEX Index 6000 Put Options	616	3,745	1,509
Purchase of January 2005 TAIEX Index 6200 Put Options	16	179	105
Purchase of February 2005 TAIEX Index 6000 Call Options	13	117	179

Purchase of February 2005 TAIEX Index 6300 Call Options	54	198	340
Purchase of February 2005 TAIEX Index 6400 Call Options	36	102	158
Purchase of February 2005 TAIEX Index 5600 Put Options	1	2	1
Purchase of February 2005 TAIEX Index 5700 Put Options	16	42	21
Purchase of February 2005 TAIEX Index 5800 Put Options	5	20	10
Purchase of February 2005 TAIEX Index 5900 Put Options	10	75	31
Purchase of March 2005 TAIEX Index 6300 Call Options	10	70	90
Purchase of September 2005 TAIEX Index 6000 Call Options	2	41	59
Sale of January 2005 TAIEX Index 5900 Call Options	52	698	796
Sale of January 2005 TAIEX Index 6100 Call Options	188	973	1,542
Sale of January 2005 TAIEX Index 6200 Call Options	1,552	5,244	8,614
Sale of January 2005 TAIEX Index 6500 Call Options	171	115	175
Sale of January 2005 TAIEX Index 5400 Put Options	9	4	-
Sale of January 2005 TAIEX Index 5600 Put Options	347	576	68
Sale of January 2005 TAIEX Index 6100 Put Options	47	245	193
Sale of February 2005 TAIEX Index 6100 Call Options	18	122	188
Sale of February 2005 TAIEX Index 6200 Call Options	2	10	16
Sale of March 2005 TAIEX Index 6100 Call Options	10	97	144

December 31, 2005

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value	
		NT$	US$	NT$	US$
Purchase of January 2006 TAIEX Index 5100 Call Options	100	$6,650	$202	$7,500	$228
Sale of January 2006 TAIEX Index 5100 Put Options	1,419	214	7	128	4
Purchase of January 2006 TAIEX Index 5200 Put Options	10	2	-	1	-
Purchase of January 2006 TAIEX Index 5300 Put Options	10	2	-	1	-
Purchase of January 2006 TAIEX Index 5500 Put Options	37	9	-	6	-
Purchase of January 2006 TAIEX Index 5700 Put Options	24	9	-	4	-
Purchase of January 2006 TAIEX Index 5900 Put Options	1,099	320	10	335	10
Purchase of January 2006 TAIEX Index 6000 Put Options	942	1,362	41	344	10
Sale of January 2006 TAIEX Index 6000 Call Options	128	2,995	91	3,744	114
Purchase of January 2006 TAIEX Index 6200 Put Options	863	1,392	42	777	24
Purchase of January 2006 TAIEX Index 6300 Put Options	1,183	1,925	59	1,627	50
Purchase of January 2006 TAIEX Index 6800 Call Options	5,024	8,827	269	8,415	256
Sale of January 2006 TAIEX Index 5600 Put Options	3	1	-	1	-
Sale of January 2006 TAIEX Index 6100 Call Options	340	5,536	168	8,211	250
Sale of January 2006 TAIEX Index 6100 Put Options	90	55	2	52	2
Sale of January 2006 TAIEX Index 6200 Call Options	205	2,074	63	4,049	123
Sale of January 2006 TAIEX Index 6300 Call Options	1,059	8,776	267	16,679	508
Sale of January 2006 TAIEX Index 6400 Put Options	2,565	7,671	233	6,284	191
Sale of January 2006 TAIEX Index 6400 Call Options	1,296	11,069	337	14,904	454
Sale of January 2006 TAIEX Index 6500 Put Options	4,712	18,294	557	18,848	574
Sale of January 2006 TAIEX Index 6500 Call Options	69	590	18	566	17
Sale of January 2006 TAIEX Index 6600 Put Options	439	2,695	82	2,766	84
Sale of January 2006 TAIEX Index 6600 Call Options	2,927	16,303	496	15,513	472
Sale of January 2006 TAIEX Index 6700 Call Options	228	724	22	707	22
Sale of January 2006 TAIEX Index 6900 Call Options	100	81	2	76	2
Sale of January 2006 TAIEX Index 7000 Call Options	7	3	-	3	-
Sale of February 2006 TAIEX Index 6000 Call Options	10	170	5	293	9
Purchase of February 2006 TAIEX Index 6200 Put Options	7	27	1	15	-
Sale of February 2006 TAIEX Index 6100 Call Options	110	1,491	45	2,833	86
Purchase of February 2006 TAIEX Index 6600 Put Options	13	161	5	116	4
Sale of February 2006 TAIEX Index 6200 Call Options	20	202	6	428	13
Purchase of February 2006 TAIEX Index 6700 Put Options	10	157	5	110	3
Sale of February 2006 TAIEX Index 6300 Call Options	283	2,413	73	4,910	149
Sale of February 2006 TAIEX Index 6400 Call Options	954	5,552	169	13,070	398
Sale of February 2006 TAIEX Index 6500 Call Options	149	616	19	1,565	48
Sale of February 2006 TAIEX Index 6600 Call Options	517	1,870	57	3,903	119
Sale of February 2006 TAIEX Index 6800 Call Options	531	1,253	38	1,938	59
Purchase of March 2006 Put Options- CMC Magnetics	10	30	1	1	-
Purchase of March 2006 Call Options-TaTung Co.	10	30	1	7	-
Purchase of March 2006 Call Options-Walsin	10	30	1	1	-
Purchase of March 2006 Put Options-YangMing	10	30	1	1	-
Sale of March 2006 Put Options- NanYa Technology Corp.	10	31	1	23	1
Sale of March 2006 Call Options- NanYa Platics	30	137	4	167	5

Sale of March 2006 Call Options-Evergreen	10	32	1	24	1
Sale of March 2006 Put Options-BenQ	20	78	2	90	3
Purchase of March 2006 Call Options-Chinatrust	10	30	1	3	-
Sale of March 2006 Call Options-BenQ	19	159	5	133	4
Sale of March 2006 Call Options-BenQ	20	90	3	68	2
Sale of March 2006 Put Options-Au optronics Corp.	10	36	1	19	1
Sale of March 2006 TAIEX Index 6000 Call Options	109	1,235	38	3,325	101
Purchase of March 2006 TAIEX Index 6600 Call Options	57	529	16	573	17
Sale of March 2006 TAIEX Index 6400 Call Options	80	474	14	1,288	39
Sale of March 2006 TAIEX Index 6500 Call Options	100	1,365	42	1,280	39
Sale of March 2006 TAIEX Index 6800 Call Options	341	1,734	53	1,927	59

b. Details of the futures contracts outstanding for the indirect subsidiary, BIF, of the Company's subsidiary – BIS, as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

None.

December 31, 2005

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value	
		NT$	US$	NT$	US$
Sale of January 2006 Electronic Sector Index 285 Call Options	8	4	$-	68	$2
Sale of January 2006 TAIEX Index 5800 Put Options	20	29	1	4	-
Sale of January 2006 TAIEX Index 5900 Put Options	20	16	0	6	-
Sale of January 2006 TAIEX Index 6000 Put Options	200	206	6	73	2
Sale of January 2006 TAIEX Index 6100 Put Options	745	1,101	34	428	13
Sale of January 2006 TAIEX Index 6200 Put Options	360	400	12	324	10
Sale of January 2006 TAIEX Index 6300 Put Options	478	697	21	657	20
Sale of January 2006 TAIEX Index 6400 Put Options	180	376	11	441	13
Purchase of January 2006 TAIEX Index 6500 Call Options	12	84	3	98	3
Sale of January 2006 TAIEX Index 6500 Put Options	20	60	2	80	2
Sale of January 2006 TAIEX Index 6600 Call Options	12	51	2	64	2
Sale of January 2006 TAIEX Index 6700 Call Options	180	455	14	558	17
Sale of January 2006 TAIEX Index 6800 Call Options	180	230	7	302	9
Sale of January 2006 TAIEX Index 6900 Call Options	950	710	22	736	22
Sale of January 2006 TAIEX Index 7000 Call Options	100	40	1	38	1
Sale of January 2006 TAIEX Index 6300 Put Options	11	28	1	34	1
Sale of January 2006 TAIEX Index 6500 Call Options	12	94	3	126	4
Sale of January 2006 TAIEX Index 6200 Call Options	8	181	6	182	6
Sale of January 2006 TAIEX Index 6300 Call Options	8	160	5	155	5

The consolidated profits and losses from the trading of TAIEX OPTIONS engaged in by BIS and its indirect subsidiaries amounted to $44,459 thousand and $137,148 thousand (US$4,174 thousand) for the year ended 2004 and 2005 respectively, under the accounts, "profit from trading of options" and "loss from trading of options". The consolidated non-operating profit from futures contracts for the two corresponding period is $0 and $3,607 (US$110).

3) Bond options

a. BIS has been engaging in trading of bond options since March 2005. Details of the bond option contracts outstanding as of December 31, 2005 are set forth below:

Transaction	Contract Amount/ Premiums Paid		Fair Value	
	NT$	US$	NT$	US$
Sale of 2005 Central Government Bond A-7 Call Options	$55	$2	$409	$12
Sale of 2005 Central Government Bond A-7 Put Options	261	8	7	-
Purchase of 2005 Central Government Bond A-7 Put Options	297	9	7	-

b. The net loss incurred by BIS on the bond option trading for the years ended December 31, 2005 was NT$390 thousand (US$12 thousand) which was recorded under "valuation loss – bond options".

4) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The option contracts entered into by BIS are all exchange-traded and can be settled at expiration without default. Therefore, no significant credit risk is expected to arise.

5) Market risk

The major risk associated with the futures and option trading undertaken by BIS is the market risk arising from the fluctuations in the market prices of the underlying securities. Losses will be incurred if market index prices and the prices of the underlying securities move in opposite directions. To control the risk within a tolerable limit, a stop-loss mechanism has been established.

Pursuant to the Letter (87) Tai-Tsai-Tseng (2) No. 01761 issued by the SFC, securities firms are allowed to undertake futures trading for risk hedging purpose with the approval from the SFC if risk hedging is deemed necessary for the marketable securities held for proprietary trading and underwriting. However, the total market value of the securities firm's position in the outstanding futures contracts cannot exceed the total market value of the spot securities held on hand nor can it exceed 20% of the securities firm's net worth. Hence, market risk is assessed to be remote.

6) Liquidity risk

As premiums are paid before futures and option contracts are bought, no funding requirement is expected. In addition, the options written and the outstanding futures contracts can be settled at reasonable prices. Therefore, liquidity risk is assessed to be remote.

7) Amount and timing of future cash flows

To hedge the risk arising from proprietary trading of stocks, BIS has entered into TAIEX Index Futures and TAIEX Index Option contracts. Margin deposits are paid before the transactions take effect. BIS' position in the outstanding futures contracts is marked to market daily, and its working capital is assessed to be adequate to support the margin calls. Hence, no cash flow risk or significant cash requirements are expected.

(c) Interest rate swaps

1) BIS has been undertaking interest rate swap contracts for risk hedging and trading purposes. Details of the interest rate swap contracts outstanding as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

Counterparty	Transaction	Notional Principal		Fixed Interest Rate	Floating Interest Rate	Settlement Date	Expiry Date	Purpose	Hedged Item
		NT$	US$						
Fubon Bills Finance	Receive floating/ pay fixed	$300,000	$9,399	1.34%	1.202%	Quarterly	Sep 5, 2005	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,399	1.39%	1.190%	Quarterly	Sep 19, 2005	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	100,000	3,133	1.81%	1.177%	Quarterly	Aug 7, 2006	Trading	None
Jihsun Securities	Receive fixed/ pay floating	100,000	3,133	1.82%	1.177%	Quarterly	Aug 7, 2006	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	300,000	9,399	1.805%	1.170%	Quarterly	Oct 5, 2006	Trading	None
Jihsun Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.174%	Quarterly	Jul 26, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,399	2.215%	1.174%	Quarterly	Jul 26, 2007	Trading	None
HSBC	Receive floating/ pay fixed	300,000	9,399	2.10%	1.177%	Quarterly	Oct 22, 2007	Trading	None
HSBC	Receive fixed/ pay floating	300,000	9,399	1.91%	1.193%	Quarterly	Nov 23, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,399	2.68%	1.179%	Quarterly	Oct 12, 2009	Trading	None
Taishin International Bank	Receive fixed/ pay floating	200,000	6,266	2.665%	1.174%	Quarterly	Oct 26, 2009	Trading	None
Entie Commercial Bank	Receive floating/ pay fixed	500,000	15,666	2.58%	1.174%	Quarterly	Oct 27, 2009	Trading	None
Chinatrust Commercial Bank	Receive floating/ pay fixed	300,000	9,399	2.57%	1.178%	Quarterly	Nov 11, 2009	Trading	None
President Securities	Receive fixed/ pay floating	300,000	9,399	2.31%	1.193%	Quarterly	Nov 23, 2009	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.196%	Quarterly	Dec 9, 2009	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.196%	Quarterly	Dec 9, 2009	Trading	None

December 31, 2005

Counterparty	Transaction	Notional Principal		Fixed Interest Rate	Floating Interest Rate	Settlement Date	Expiry Date	Purpose	Hedged Item
		NT$	US$						
Polaris Securities	Receive fixed/ pay floating	$300,000	$9,130	2.215%	1.429%	Quarterly	Jul 26, 2007	Trading	None
Jihsun Securities	Receive floating/ pay fixed	300,000	9,130	2.21%	1.429%	Quarterly	Jul 26, 2007	Trading	None
Jihsun Securities	Receive fixed/ pay floating	100,000	3,043	1.82%	1.438%	Quarterly	Aug 7, 2006	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	100,000	3,043	1.81%	1.438%	Quarterly	Aug 7, 2006	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	300,000	9,130	1.805%	1.426%	Quarterly	Oct 5, 2006	Trading	None
EnTie Commercial Bank	Receive floating/ pay fixed	500,000	15,216	2.58%	1.429%	Quarterly	Oct 27, 2009	Trading	None
Taishin International Bank	Receive fixed/ pay floating	200,000	6,086	2.665%	1.429%	Quarterly	Oct 26, 2009	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,130	2.68%	1.42%	Quarterly	Oct 12, 2009	Trading	None
HSBC	Receive floating/ pay fixed	300,000	9,130	2.1%	1.426%	Quarterly	Oct 22, 2007	Trading	None
Chinatrust Commercial Bank	Receive floating/ pay fixed	300,000	9,130	2.5%	1.438%	Quarterly	Nov 11, 2009	Trading	None
President Securities	Receive fixed/ pay floating	300,000	9,130	2.31%	1.451%	Quarterly	Nov 23, 2009	Trading	None
HSBC	Receive fixed/ pay floating	300,000	9,130	1.91%	1.451%	Quarterly	Nov 23, 2007	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,130	2.21%	1.465%	Quarterly	Dec 9, 2009	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,130	2.21%	1.465%	Quarterly	Dec 9, 2009	Trading	None
Dah Chung Bills Finance	Receive fixed/ pay floating	300,000	9,130	1.875%	1.426%	Quarterly	Jan 10, 2008	Trading	None

HSBC	Receive fixed/ pay floating	300,000	9,130	1.85%	1.431%	Quarterly	Jan 21, 2008	Trading	None
Grand Bills Finance	Receive floating/ pay fixed	300,000	9,130	1.45%	1.429%	Quarterly	Jan 27, 2006	Trading	None
KGI Securities	Receive fixed/ pay floating	300,000	9,130	2.155%	1.449%	Quarterly	Feb 22, 2010	Trading	None
Bank SinoPac	Receive floating/ pay fixed	300,000	9,130	1.635%	1.449%	Quarterly	Feb 21, 2007	Trading	None
President Securities	Receive floating/ pay fixed	300,000	9,130	1.78%	1.449%	Quarterly	Mar 3, 2008	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	300,000	9,130	1.41%	1.449%	Quarterly	Mar 1, 2006	Trading	None
Taishin International Bank	Receive fixed/ pay floating	300,000	9,130	1.85%	1.449%	Quarterly	Mar 7, 2008	Trading	None
Far Eastern Int'l Bank	Receive floating/ pay fixed	1,000,000	30,432	2.05%	1.269%	Quarterly	Mar 30, 2010	Trading	None
Chinatrust Commercial Bank	Receive fixed/ pay floating	500,000	15,216	2.22%	1.454%	Quarterly	Mar 16, 2010	Trading	None
Capital Securities Corp.	Receive fixed/ pay floating	500,000	15,216	2.225%	1.454%	Quarterly	Mar 16, 2010	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,130	1.68%	1.474%	Quarterly	Mar 23, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,130	2.28%	1.464%	Quarterly	Mar 24, 2010	Trading	None
Polaris Securities	Receive fixed/ pay floating	200,000	6,086	1.93%	1.464%	Quarterly	Mar 25, 2008	Trading	None
Taishin International Bank	Receive fixed/ pay floating	500,000	15,216	2.3%	1.464%	Quarterly	Mar 25, 2010	Trading	None
Far Eastern Int'l Bank	Receive floating/ pay fixed	500,000	15,216	2.09%	1.226%	Quarterly	Apr 12, 2010	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,130	1.94%	1.499%	Quarterly	Mar 28, 2008	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	300,000	9,130	2.2%	1.431%	Quarterly	Apr 14, 2010	Trading	None
HSBC	Receive floating/ pay fixed	300,000	9,130	2.14%	1.431%	Quarterly	Apr 20, 2010	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,130	1.68%	1.426%	Quarterly	Oct 11, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	200,000	6,086	1.685%	1.42%	Quarterly	Oct 12, 2007	Trading	None
Taishin International Bank	Receive fixed/ pay floating	200,000	6,086	1.7%	1.431%	Quarterly	Oct 17, 2007	Trading	None
Taishin International Bank	Receive fixed/ pay floating	200,000	6,086	1.7%	1.431%	Quarterly	Oct 17, 2007	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,130	2.13%	1.439%	Quarterly	Nov 2, 2010	Trading	None
Taishin International Bank	Receive fixed/ pay floating	300,000	9,130	2.17%	1.431%	Quarterly	Nov 4, 2010	Trading	None
Taishin International Bank	Receive floating/ pay fixed	300,000	9,130	2.125%	1.448%	Quarterly	Nov 29, 2010	Trading	None
Yuanta Core Pacific Securities	Receive floating/ pay fixed	300,000	9,130	2.1375%	1.46%	Quarterly	Dec 20, 2010	Trading	None

2) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of BIS are all well-known banks with good credit ratings. Thus, the credit risk is assessed to be remote.

3) Market risk

The market risk arises from the fluctuations in interest rates. The interest rate swaps are undertaken by BIS to hedge the interest rate risk arising from net assets. Thus, the market risk is offset against each other. BIS mainly utilizes interest rate swaps when an increase in interest rates is expected. When the interest rate moves in an unfavorable direction, the loss can be controlled within a tolerable limit. As a result, no significant market risk is expected.

4) Amount and timing of future cash flows

Upon settlement of the contracts, the amount of the notional principal multiplied by the interest rate differential is received or paid. As the amount settled is insignificant and the notional principal is not settled, no significant cash requirement is expected.

(d) Asset swaps

1) As BIS has underwritten convertible bonds on a firm commitment basis, it has entered into convertible bond asset swap option contracts to enhance the liquidity of the remaining convertible bonds held on hand and thereby, reduce the risk of its position in the convertible bonds.

2) Details of the asset swap option contracts undertaken by BIS as of December 31, 2004 and 2005 are as follows:

December 31, 2004

Financial Instrument	Notional Principal / Contract Amount	Fair Value
	NT$	NT$
Sale of American call options	$2,132,600	$114,999

December 31, 2005

Financial Instrument	Notional Principal / Contract Amount		Fair Value	
	NT$	US$	NT$	US$
Sale of American call options	$1,806,400	$54,973	$443,212	$13,488

3) Details of the transactions on the asset swaps – Options for the indirect subsidiary, Barits Holdings Ltd., of BIS as of December 31, 2005 are set forth below:

December 31, 2004

None.

December 31, 2005

Financial Instrument	Notional Principal / Contract Amount	Fair Value
	HKD$	HKD$
Ritek Corp 0% 27/04/2009 / 27/04/2006	$23,340,000	$23,335,768
Nanya Tech Corp 0% 02/02/2009 / 07/02/2006	15,560,000	15,528,468
CTCI 0% 10/02/2008 / 15/02/2006	15,560,000	15,638,866
ECB-6116 HANNSTAR DISPLAY 0% 12/11/2009	15,560,000	15,601,327
Quanta Display 0% 26/11/2009	31,120,000	31,248,791
Ritek Corp ZCP 27/04/2009	15,560,000	15,507,174
Nanya Tech 02/02/2009	15,560,000	15,556,343
Advanced Simiconductor 25/09/2008	15,560,000	15,560,000
Total	$147,820,000	$147,976,737

4) Details of the transactions on the asset swaps – fixed income securities as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

None.

December 31, 2005

Financial Instrument	Notional Principal / Contract Amount		Fair Value	
	NT$	US$	NT$	US$
Asset swap options – interest rate swaps (asset)	$9,900	$301	$84	$3
Asset swap options	$9,900	$301	$1,441	$44

5) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The quantitative information of BIS' right to buy or obligation to sell convertible bonds are entered into the information system of the GreTai Securities Market (the over-the-counter market) on the contract date and settlement of the asset swap option contracts is conducted through Taiwan Securities Central Depository Co., Ltd. Hence, no significant credit risk is expected.

6) Market risk

When BIS exercises its right to buy or performs its obligation to sell convertible bonds, the related prices are quoted in accordance with the rules specified in the contracts. Therefore, market risk is assessed to be remote.

7) Amount and timing of future cash flows

BIS' working capital is assessed to be adequate to support the periodic payment of the specified interest on the asset swap transaction during the contract period. Hence, no significant funding risk is expected.

8) Gains (losses) on the convertible bond asset swaps are as follows:

December 31, 2004

	Realized Gain (Loss)	Valuation Gain (Loss)	Total
Asset swap options	NT$(2,453)	NT$283	NT$(2,170)

December 31, 2005

	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
Asset swap options	$(29,016)	$(883)	$(3,555)	$(108)	$(25,461)	$(775)
Asset swap – interest rate swaps	2,917	89	84	3	3,001	91
	$(26,099)	$(794)	$3,639	$111	$(22,460)	$(684)

The above gains (losses) are recorded under "valuation gain (loss) on asset swaps – interest rate swaps", "valuation gain (loss) on asset swap options", "gain (loss) at expiration of asset swap options", and "gain (loss) on exercise of asset swap options".

(e) Structured financial instruments

1) BIS obtained the approval from the governing authority in July 2003 to issue structured financial products denominated in New Taiwan dollars, which include equity-linked notes (ELN) and principal-guaranteed notes (PGN). Details of the outstanding contracts of the structured financial instruments as of December 31, 2004 and 2005 are set forth below:

December 31, 2004

In Thousands of NT Dollars

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
ELN	$40,000	$38,784	$39,965	$1,137	$24

December 31, 2005

None.

2) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. As payments for the structured financial instruments are collected from the investors on the contract date and placed in an exclusive account at the custodian institution, no significant credit risk is expected.

3) Market risk

Payments received from the investors for the structured financial instruments on the contract date are utilized in accordance with the terms and conditions specified in the contract. As the prices of the underlying securities and the fixed income securities invested using the payments from the investors can be referred to the public quoted market prices, market risk is assessed to be remote.

4) Amount and timing of cash flows

Payments received from the investors for the structured financial instruments on the contract date are placed in an exclusive account at the custodian institution, which are separated from BIS' own assets. The terms and conditions on utilization of the investors' payments are specified in the contract, including the proportion to be invested in fixed income securities. Therefore, no significant cash requirements are expected at expiration of the contract.

5) Gains (losses) on the structured financial instruments for the years ended December 31, 2004 and 2005 are set forth below:

	Year Ended December 31, 2004		
	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
ELN	$778	$(1,077)	$(299)
PGN	271	-	271
Total	$1,049	$(1,077)	$(28)

	Year Ended December 31, 2005					
	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
ELN	$(535)	$(16)	$-	$-	$(535)	$(16)
PGN	210	6	-	-	210	6
Total	$(325)	$(10)	$-	$-	$(325)	$(10)

The above gains (losses) are recorded under "valuation gain (loss) on equity-linked notes", "valuation gain (loss) on principal-guaranteed notes", "gain (loss) on early cancellation of contracts", "loss on equity-linked notes" and "loss on principal-guaranteed notes".

(f) Fair values of non-derivative financial instruments

In Thousands of NT Dollars

	December 31, 2004		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$64,688,233	$64,688,233	$50,448,825	$50,448,825
Due from the Central Bank and other banks	213,294,345	213,294,545	181,291,606	181,291,606
Securities purchased, net	497,011,851	499,474,962	555,639,734	555,639,734
Receivables, net	116,049,779	116,049,779	129,373,034	129,373,034
Bills, discounts and loans, net	1,031,438,120	1,031,438,120	1,096,796,912	1,096,796,912
Long-term equity investments	38,108,349	45,837,296	38,530,582	38,530,582
Other long-term investments	109,768,354	116,497,075	1,096,796,912	1,096,796,912
Liabilities				
Short-term debts	25,308,888	25,308,888	17,070,765	17,070,765
Bills and bonds sold under repurchase agreements	250,636,709	250,636,709	308,175,173	308,175,173
Due to the Central Bank and other banks	244,097,749	244,097,749	317,904,567	317,904,567
Payables	99,549,618	99,549,618	101,970,462	101,970,462
Deposits and remittances	1,033,515,216	1,033,515,216	1,092,988,542	1,092,988,542
Funds borrowed from the Central Bank and other banks	136,297,888	136,297,888	51,143,985	51,143,985
Bank debentures payable, net	85,438,020	85,438,020	81,230,910	81,230,910
Corporate bonds payable, net	50,107,476	50,107,476	22,900,000	22,900,000

In Thousands of US Dollars

	December 31, 2005	
	Carrying Value	Fair Value
Assets		
Cash and cash equivalents	$1,535,266	$1,535,266
Due from the Central Bank and other banks	5,517,091	5,517,091
Securities purchased, net	16,909,304	16,909,304
Receivables, net	3,937,098	3,937,098
Bills, discounts and loans, net	33,377,873	33,377,873
Long-term equity investments	1,172,568	1,172,568
Other long-term investments	33,377,873	33,377,873
Liabilities		
Short-term debts	519,500	519,500
Bills and bonds sold under repurchase agreements	9,378,429	9,378,429
Due to the Central Bank and other banks	9,674,515	9,674,515
Payables	3,103,179	3,103,179
Deposits and remittances	33,261,976	33,261,976
Funds borrowed from the Central Bank and other banks	1,556,421	1,556,421
Bank debentures payable, net	2,472,030	2,472,030
Corporate bonds payable, net	696,896	696,896

The assumptions and methods adopted by the Company to estimate the fair values of the above financial instruments are summarized below.

(1) Fair values of the short-term financial instruments are estimated to be equal to their carrying values on the balance sheets. As maturity of these instruments is short and their disposal prices approximate to their carrying values, it is reasonable that their fair values equal their carrying values. This method is applied to cash and cash equivalents, due from the Central Bank and other banks, receivables, short-term debts, bills and bonds sold under repurchase agreements, due to the Central Bank and other banks, payables, deposits and remittances.

(2) Fair values of the securities purchased, long-term equity investments and other long-term investments equal the quoted market prices, if available. If the quoted market prices are not available, fair values are estimated using financial information or other information.

(3) As bills, discounts, loans and deposits are all interest-bearing financial assets and liabilities, most of which are based on floating interest rates, their fair values approximate to their carrying values.

(4) As funds borrowed from the Central Bank and other banks and bank debentures payable are financial liabilities with floating interest rates, their fair values equal their carrying values.

(5) As the unsecured corporate bonds recorded under corporate bonds payable are interest-bearing financial liabilities, most of which are based on floating interest rates, their fair value approximates to their carrying value. The fair value of the ECBs is estimated based on their carrying value on the balance sheet. As the coupon rate on the ECBs is zero and the date of redemption is uncertain, it is difficult to calculate the present value of ECBs. In addition, the carrying value of ECBs is adjusted on the balance sheet date based on the prevailing spot exchange rate on that date. Therefore, the fair value of the ECBs is estimated based on their carrying value on the balance sheet.

2. Disclosures required by the Guidelines for Preparation of Financial Reports by Financial Holding Companies

(1) Information on the apportionment of the revenues, costs, expenses, gains and losses arising from the transactions between the Company and its subsidiaries, joint promotion of businesses, and sharing of information, operating facilities or premises

(a) Transactions between the Company and its subsidiaries

Please refer to Note V.

(b) Joint promotion of businesses

To create synergies within the group and provide one-stop financial services, CTB established a financial consulting center to facilitate the cross-selling of BIS' and CKI's products on April 2, 2003.

(c) Sharing of information

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

(d) Sharing of operating facilities or premises

To provide one-stop-shopping services, CTB set up a securities desk and an insurance desk within its financial consulting center on April 2, 2003, which are engaged in the cross-selling of BIS' and CKI's products, respectively. In addition, the Company has obtained the authorization to set up industry specialized desk in its business premises, and the set up has been taking place in the Company's subsidiaries one after another.

(e) Apportionment of revenues, costs, expenses, gains and losses

1) Year Ended December 31, 2004

The promotion bonus amounting to NT$7,753 thousand, NT$24,375 thousand and NT$2,115 thousand was paid by ICBC, MITC and CHBF, respectively to other subsidiaries. As a result of the cross-selling, the insurance premiums income of CKI increased by NT$227,699 thousand.

2) Year Ended December 31, 2005

The promotion bonus amounting to NT$18,970 (US$577 thousand) and NT$316 thousand (US$10 thousand) was paid by MITC and CHBF, respectively, to other subsidiaries. As a result of the cross-selling, the insurance premiums income of CKI increased by NT$259,928 thousand (US$7,910 thousand), and the income of ICBC and MITC increased by NT$49,390 thousand (US$1,503 thousand) and NT$63,240 thousand (US$1,925 thousand), respectively.

3. Capital adequacy ratio of the Company's securities subsidiary

Subsidiary	December 31, 2004	December 31, 2005
Barits International Securities Co., Ltd.	268%	277%

4. Certain amounts for 2004 have been reclassified to conform to the 2005 financial statement presentation.

XI. SEGMENT INFORMATION

1. Information by industry

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2004				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$62,382,382	$9,771,312	$16,084,269	$-	$88,237,963
Income derived from inter-company transactions	-	6,020	251,880	(257,900)	-
Total income (loss)	$62,382,382	$9,777,332	$16,336,149	$(257,900)	$88,237,963
Net income (loss)	$18,234,126	$4,013,733	$22,366,871	$(22,435,687)	$22,179,043
Investment income accounted for by the equity method					640,198
Net general income					880,296
Income before income tax from continuing operations					$23,699,537
Identifiable assets	$1,751,555,883	$153,934,208	$88,709,201	$(21,170,769)	$1,973,028,523
Long-term investments					147,876,703
Total assets					$2,120,905,226
Depreciation and amortization	$1,058,035	$70,029	$387,544		
Capital expenditure	$518,140	$13,284	$2,082,728		

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2005				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$70,053,325	$8,707,987	$18,050,134	$-	$96,811,446
Income derived from inter-company transactions	23,512	-	523,740	(547,252)	-
Total income (loss)	$70,076,837	$8,707,987	$18,573,874	$(547,252)	$96,811,446
Net income (loss)	$18,265,059	$4,509,691	$23,648,729	$(21,845,180)	$24,578,299
Investment income accounted for by the equity method					128,729
Net general income					566,448
Income before income tax from continuing operations					$25,273,476
Identifiable assets	$1,826,318,516	$171,802,774	$78,918,168	$(7,841,965)	$2,069,197,493
Long-term investments					169,262,793
Total assets					$2,238,460,286
Depreciation and amortization	$934,556	$57,356	$296,110		
Capital expenditure	$437,955	$35,793	$945,810		

Expressed in Thousands of US Dollars

	Year Ended December 31, 2005				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$2,131,872	$265,003	$549,304	$-	$2,946,179
Income derived from inter-company transactions	715	-	15,939	(16,654)	-
Total income (loss)	$2,132,587	$265,003	$565,243	$(16,654)	$2,946,179
Net income (loss)	$555,845	$137,239	$719,681	$(664,795)	$747,970
Investment income accounted for by the equity method					3,918
Net general income					17,238
Income before income tax from continuing operations					$769,126
Identifiable assets	$55,578,774	$5,228,326	$2,401,648	$(238,648)	$62,970,100
Long-term investments					5,151,029
Total assets					$68,121,129
Depreciation and amortization	$28,441	$1,745	$9,011		
Capital expenditure	$13,328	$1,089	$28,783		

2. Geographic information

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2004				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$78,037,779	$4,714,258	$5,485,926	$-	$88,237,963
Income derived from inter-company transactions	106,566	19,393	131,941	(257,900)	-
Total income (loss)	$78,144,345	$4,733,651	$5,617,867	$(257,900)	$88,237,963
Net income	$22,027,709	$19,393	$131,941		$22,179,043
Investment income accounted for by the equity method					640,198
Net general income					880,296
Income before income tax from continuing operations					$23,699,537
Identifiable assets	$1,595,560,051	$199,246,610	$180,392,631	$(2,170,769)	$1,973,028,523
Long-term Investments					147,876,703
Total assets					$2,120,905,226

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2005				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$81,859,236	$7,976,749	$6,975,461	$-	$96,811,446
Income derived from inter-company transactions	136,500	45,769	364,983	(547,252)	-
Total income (loss)	$81,995,736	$8,022,518	$7,340,444	$(547,252)	$96,811,446
Net income	$21,517,619	$1,188,876	$1,871,804		$24,578,299
Investment income accounted for by the equity method					128,729
Net general income					566,448
Income before income tax from continuing operations					$25,273,476
Identifiable assets	$1,732,207,300	$207,149,783	$143,117,843	$(13,277,433)	$2,069,197,493
Long-term investments					169,262,793
Total assets					$2,238,460,286

Expressed in Thousands of US Dollars

	Year Ended December 31, 2005				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	$2,491,151	$242,750	$212,278	$-	$2,946,179
Income derived from inter-company transactions	4,154	1,393	11,107	(16,654)	-
Total income (loss)	$2,495,305	$244,143	$223,385	$(16,654)	$2,946,179
Net income	$654,827	$36,180	$56,963		$747,970
Investment income accounted for by the equity method					3,918
Net general income					17,238
Income before income tax from continuing operations					$769,126
Identifiable assets	$52,714,769	$6,304,010	$4,355,382	($404,061)	$62,970,100
Long-term investments					5,151,029
Total assets					$68,121,129

3. **Export information**

No export revenues were generated by the Company and its subsidiaries for the years ended December 31, 2004 and 2005.

4. **Information on major customers**

No customers of the Company and its subsidiaries accounted for more than 10% of their respective unconsolidated operating revenues for the years ended December 31, 2004 and 2005.

Table 1

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Terms on Corporate Bonds

December 31, 2005

Expressed in Dollars

Type of the bonds issued	First domestic unsecured corporate bonds
Date of issuance	December 16, 2002 ~ December 25, 2002
Face value	NT$5,000,000
Place of issuance	Taiwan, R.O.C.
Issue price	NT$5,000,000
Principal amount	NT$15,000,000,000
Interest rate	Bond A-1: 2.95%
	Bond A-2: 2.9286%
	Bond B: Average interest rate on two-year time deposits + 0.25%
	Bond C: Average interest rate on one-year time deposits + 0.25%
	Bond D: 5.45% - floating rate A, but not less than 0%
	Bond E-1: 3.85% for first year; 4.90% - floating rate B from second to fifth year, but not less than 0%
	Bond E-2: 3.75% for first year; 4.65% - floating rate B for second and third years, but not less than 0%; floating rate B + 0.4% for fourth and fifth years, but not exceeding 3%
Period	Bonds A-1, A-2, B, D, E-1 and E-2: 5 years
	Bond C: 3 years
Guarantor	None
Trustee	Chinatrust Commercial Bank
Underwriter	None
Lawyer	Shintai Law Office
Certified public accountant	Diwan, Ernst & Young
Method of repayment	Principal to be repaid in lump sum at maturity based on the face value
Outstanding principal	NT$12,900,000,000
Clauses on redemption and early repayment	None
Restricted clauses	None
Use of proceeds	Investments

Average interest rate on time deposits: Average of the fixed board rates on time deposits offered by Chang Hwa Commercial Bank, First Commercial Bank, Hua Nan Commercial Bank and Bank of Taiwan on the date on which the interest rates are set for Bonds B and C.

Floating rate A: USD 6-month LIBOR appearing on Page No. 3750 of Moneyline Telerate at 11:00 am of London time on the date on which the interest rate is set for Bond D.

Floating rate B: Interest rate appearing on Page No. 6165 of Moneyline Telerate for the 90-day promissory notes at 11:00 am of the date on which the interest rates are set for Bonds E-1 and E-2.

Table 2
MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Terms on Corporate Bonds
December 31, 2005

Expressed in Dollars

Name of the corporate bonds issued	First unsecured corporate bonds issued by Barits International Securities Co., Ltd. in 2004
Date of issuance	Bonds A ~ J: April 27, 2004 - May 10, 2004
Face value	NT$10,000,000
Place of issuance	Taiwan, R.O.C.
Issue price	NT$10,000,000
Principal amount	NT$5,000,000,000
Interest rate	1.75%
Period	3 years
	Maturity date for Bonds A ~ J: April 27, 2007 - May 10, 2007
Guarantor	None
Trustee	Bank SinoPac
Underwriter	None
Lawyer	Shintai Law Office
Certified public accountant	Diwan, Ernst & Young
Method of repayment	Principal to be repaid in lump sum at maturity
Outstanding principal	NT$5,000,000,000
Clauses on redemption and early repayment	None
Restricted clauses	None

Table 3
MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Terms on Euro Convertible Bonds
December 31, 2005

Expressed in Dollars

Type of the bonds issued	Euro convertible bonds
Date of approval by the governing authority	July 25, 2003
Date of issuance	September 24, 2003
Face value	US$1,000
Place of issuance	Listed on the Luxemburg Stock Exchange
Issue price	100% of face value
Principal amount	US$690,000,000
Yield to maturity	-0.10%
Coupon rate	0%
Period	Two years with maturity on September 24, 2005
Collaterals	None
Conversion period	October 24, 2003 ~ September 9, 2005
Conversion price at issuance	NT$21.08 per share (The exchange rate is fixed at NT$34.1/US$1.)
Current conversion price (effective Aug 10, 2004)	NT$19.509 per share (The exchange rate is fixed at NT$34.1/US$1.)
Guarantor	None
Trustee	The Bank of New York
Underwriter	Lehman Brothers and Morgan Stanley
Attorney	Baker & McKenzie
Certified public accountant	Diwan, Ernst & Young
Method of repayment	To be redeemed at maturity at 99.80% of the principal amount
Outstanding principal	US$-
Redemption at the issuer's option	1. The issuer may redeem the bonds after September 24, 2004 if the market price of the shares, translated into US dollars at the prevailing rate, is at least 130% of the conversion price for a period of 20 consecutive trading days.
	2. The issuer may also redeem the bonds if more than 90% in aggregate principal amount of the bonds has already been redeemed, repurchased or converted.
	3. The issuer may also redeem the bonds if additional interest expense is incurred because of a change in the Taiwan Tax Law.
Redemption at the bondholders' option	The bondholders have the right to require the issuer to redeem the bonds, in whole or in part, on March 24, 2005 at 99.85% of the principal amount.
Adjustment in conversion price	The conversion price may be adjusted if the issuer increases capital through cash injection, distributes stock dividends, or distributes bonus shares to employees through issuance of new shares.
Use of proceeds	To repay loans and invest in companies in the Taiwan financial services industry.

Table 4

MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Terms on Euro Convertible Bonds

December 31, 2005

Expressed in Dollars

Type of the bonds issued	Euro convertible bonds
Date of approval by the governing authority	February 5, 2004
Date of issuance	February 13, 2004
Face value	US$1,000
Place of issuance	Listed on the Luxemburg Stock Exchange
Issue price	100% of face value
Principal amount	US$200,000,000
Yield to maturity	-0.625% (compounded semi-annually)
Coupon rate	0%
Period	One and half years with maturity on August 13, 2005
Collaterals	None
Conversion period	March 15, 2004 ~ July 29, 2005
Conversion price at issuance	NT$27.625 per share (The exchange rate is fixed at NT$33.25/US$1.)
Current conversion price (effective Aug 10, 2004)	NT$25.566 per share (The exchange rate is fixed at NT$33.25/US$1.)
Guarantor	None
Trustee	The Bank of New York
Underwriter	Lehman Brothers, Morgan Stanley and Citigroup
Attorney	Baker & McKenzie
Certified public accountant	Diwan, Ernst & Young
Method of repayment	To be redeemed at maturity at 99.065% of the principal amount
Outstanding principal	US$-
Redemption at the issuer's option	1. The issuer may redeem the bonds after September 24, 2004 if the market price of the shares, translated into US dollars at the prevailing rate, is at least 130% of the conversion price for a period of 20 consecutive trading days. 2. The issuer may also redeem the bonds if more than 90% in aggregate principal amount of the bonds has already been redeemed, repurchased or converted. 3. The issuer may also redeem the bonds if additional interest expense is incurred because of a change in the Taiwan Tax Law.
Adjustment in conversion price	The conversion price may be adjusted if the issuer increases capital through cash injection, distributes stock dividends, or distributes bonus shares to employees through issuance of new shares.
Use of proceeds	To invest in companies in the Taiwan financial services industry.

V. Financial Statements (Parent Company)

English Translation of a Report Originally Issued in Chinese

Report of Independent Auditors

The Board of Directors and Stockholders
Mega Financial Holding Co., Ltd.
(Formerly known as CTB Financial Holding Co., Ltd.)

We have audited the accompanying balance sheets of Mega Financial Holding Co., Ltd. (the "Company") as of December 31, 2004 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations for Audit and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and auditing standards generally accepted in the Republic of China on Taiwan. 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 Mega Financial Holding Co., Ltd. as of December 31, 2004 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

We have also audited the consolidated financial statements of Mega Financial Holding Co., Ltd. and its subsidiaries as of and for the years ended December 31, 2004 and 2005, on which we have issued an unqualified opinion thereon.

Diwan, Ernst & Young

March 17, 2006
Taipei, Taiwan
Republic of China

Notice to Readers

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

MEGA FINANCIAL HOLDING CO., LTD. / BALANCE SHEETS

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

December 31, 2004 and 2005

ASSETS	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Current Assets			
Cash and cash equivalents	$16,643,459	$1,953,801	59,458
Receivables	1,446,279	1,562,707	47,557
Other Receivables	1,047,815	2,216,522	67,454
Prepaid expenses	51,319	64,023	1,948
Total Current Assets	19,188,872	5,797,053	176,417
Long-term Investments			
Long-term equity investments			
Long-term investments accounted for under equity method	194,113,297	199,857,816	6,082,100
Long-term investments accounted for under cost method	848,216	3,578,383	108,898
Total Long-term Investments	194,961,513	203,436,199	6,190,998
Property and Equipment			
Land	-	529,458	16,113
Building	-	266,023	8,096
Computers	68,610	149,623	4,553
Miscellaneous equipment	7,154	7,222	220
Leasehold improvements	28,768	28,768	875
Less: Accumulated depreciation	(21,405)	(52,496)	(1,598)
Subtotal	83,127	928,598	28,259
Machinery on order	57,659	-	-
Total Property and Equipment, Net	140,786	928,598	28,259
Non-operating Assets			
Refundable deposits	2,545	1,953	60
Bond issuance expenses	64,305	13,537	412
Deferred income tax assets - non current	3,845	3,459	105
Other deferred expenses	42,225	36,390	1,107
Total Non-operating Assets	112,920	55,339	1,684
TOTAL ASSETS	$214,404,091	$210,217,189	$6,397,358

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

Expressed in Thousands of Dollars

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Current Liabilities			
Short-term loans	$600,000	$-	$-
Commercial paper payable, net	2,996,992	-	-
Payables	2,901,501	4,737,838	144,183
Other payables	1,391,603	1,420,448	43,227
Deferred income tax liabilities - current	12,544	327	10
Corporate bonds payable within one year	27,207,476	-	-
Total Current Liabilities	35,110,116	6,158,613	187,420
Long-term Liabilities			
Corporate bonds payable, net	12,900,000	12,900,000	392,575
Accrued pension liability	23,415	29,127	886
Total Long-term Liabilities	12,923,415	12,929,127	393,461
Other Liabilities			
Guarantee deposits received	2,509	5,852	178
Total Other Liabilities	2,509	5,852	178
Total Liabilities	48,036,040	19,093,592	581,059
Stockholders' Equity			
Capital stock			
Common stock	113,657,296	113,657,296	3,458,834
Capital surplus			
Additional paid-in capital	46,402,120	46,402,120	1,412,116
Capital surplus - treasury stock	2,353	-	-
Adjustments arising from long-term equity investments accounted for under equity method	2,340	450,158	13,699
Total capital surplus	46,406,813	46,852,278	1,425,815
Retained earnings			
Legal reserve	7,521,240	9,711,653	295,546
Special reserve	381,624	377,611	11,492
Unappropriated retained earnings	23,636,939	26,214,995	797,778
Total retained earnings	31,539,803	36,304,259	1,104,816
Equity adjustments			
Unrealized loss on the decline in market value of long-term equity investments	(4,855)	(43,111)	(1,312)
Cumulative translation adjustments	12,543	481,603	14,656
Net loss not recognized as pension cost	(14,500)	(48,373)	(1,472)
Treasury stock	(25,229,049)	(6,080,355)	(185,038)
Total Stockholders' Equity	166,368,051	191,123,597	5,816,299
Commitments and Contingent Liabilities			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$214,404,091	$210,217,189	$6,397,358

MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF INCOME

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2004 and 2005

Expressed in Thousands of Dollars, Except Per Share Amounts

	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
Operating Revenues			
Investment income accounted for under equity method	$21,939,522	$22,383,083	681,165
Other operating revenues	1,366	4,066	124
Total Operating Revenues	21,940,888	22,387,149	681,289
Operating Costs			
Other operating costs	(36,784)	(8,987)	(273)
Total Operating Costs	(36,784)	(8,987)	(273)
Operating Expenses			
Administrative and general expenses	(477,694)	(451,057)	(13,727)
Staff training expenses	(1,045)	(530)	(16)
Total Operating Expenses	(478,739)	(451,587)	(13,743)
Income from Operations	21,425,365	21,926,575	667,273
Non-operating Income			
Interest income	340,605	421,174	12,817
Foreign exchange gain	36,465	156,322	4,757
Miscellaneous income	1,484	62,089	1,890
Total Non-operating Income	378,554	639,585	19,464
Non-operating Expenses			
Interest expense	(417,651)	(417,068)	(12,692)
Remittance fees, service charges and securities issuance expenses	(3,451)	(1,674)	(51)
Miscellaneous loss	-	(1,103)	(34)
Total Non-operating Expenses	(421,102)	(419,845)	(12,777)
Income before Income Tax from Continuing Operations	21,382,817	22,146,315	673,960
Income Tax Benefit	521,314	383,378	11,667
Net Income	$21,904,131	$22,529,693	$685,627
Basic Earnings per Share (in dollars)			
Income before income tax from continuing operations	$2.17	$2.06	$0.0627
Net income	$2.22	$2.09	$0.0636
Diluted Earnings per Share (in dollars)			
Income before income tax from continuing operations	$1.92	$1.97	$0.0600
Net income	$1.97	$2.01	$0.0612
Pro forma information based on the assumption that shares of the Company held by its subsidiaries are not treated as treasury stock:			
Income before income tax from continuing operations	$21,394,631	$22,147,025	$673,981
Net income	$21,915,945	$22,530,403	$685,648
Basic earnings per share (in dollars)			
Income before income tax from continuing operations	$2.17	$2.06	$0.0627
Net income	$2.22	$2.09	$0.0636
Diluted earnings per share (in dollars)			
Income before income tax from continuing operations	$1.92	$1.97	$0.0600
Net income	$1.97	$2.01	$0.0612

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

MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CASH FLOWS

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2004 and 2005

Expressed in Thousands of Dollars

	Year Ended December 31, 2004	Year Ended December 31, 2005	
	NT$	NT$	US$
Cash Flows from Operating Activities			
Net income	$21,904,131	$22,529,693	$685,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Cash dividends received from investees accounted for under eguity method	(9,667,824)	(10,095,555)	(307,229)
Investment loss	-	8,987	273
Loss on the decline in market value of investments accounted for under cost method	36,784	-	-
Depreciation and amortization	223,834	90,872	2,765
Increase in receivables	(1,407,527)	(116,428)	(3,543)
Increase in other receivables	(1,048,064)	(1,168,707)	(35,566)
Increase in prepaid expenses	(44,419)	(12,704)	(387)
Decrease in miscellaneous assets	10	-	-
Decrease / (Increase) in deferred income tax assets / liabilities, net	8,699	(11,831)	(360)
Increase in payables	531,216	385,469	11,731
Increase in other payables	1,391,603	28,845	878
Increase in accrued pension liability	10,189	5,712	174
Net cash provided by operating activities	11,938,632	11,644,353	354,363
Cash Flows from Investing Activities			
Increase in long-term investments	(735,219)	(3,803,534)	(115,750)
Capital reduction by investee companies	3,000,000	6,368,977	193,822
Acquisition of property and equipment	(79,977)	(818,903)	(24,921)
(Increase) / Decrease in refundable deposits	(565)	592	18
Increase in bond issuance expenses	(49,695)	-	-
Increase in other deferred expenses	(12,558)	(4,782)	(146)
Decrease in forward exchange receivable for non-trading purposes	94,080	-	-
Increase in forward exchange payable for non-trading purposes	462,450	-	-
Net cash provided by investing activities	2,678,516	1,742,350	53,023
Cash Flows from Financing Activities			
Increase in guarantee deposits received	1,218	3,343	102
Decrease in short-term loans	(1,592,000)	(600,000)	(18,259)
Increase / (decrease) in commercial paper payable	2,097,707	(2,996,992)	(91,205)
Increase / (decrease) in corporate bonds payable	5,047,708	(8,797,276)	(267,720)
Decrease in deferred revenue	(17,258)	-	-
Distribution of cash dividends and bonus	(13,721,631)	(15,685,436)	(477,342)
Purchase of treasury stock	(2,431,355)	-	-
Proceeds from sale of treasury stock	2,242,706	-	-
Net cash used in financing activities	(8,372,905)	(28,076,361)	(854,424)
Net Increase / (Decrease) in Cash and Cash Equivalents	6,244,243	(14,689,658)	(447,038)
Cash and Cash Equivalents, Beginning of Year	10,399,216	16,643,459	506,496
Cash and Cash Equivalents, End of Year	$16,643,459	$1,953,801	$59,458
Supplemental Information:			
Interest paid	$420,739	$419,236	$12,758
Income tax paid	$26,599	$51,485	$1,567
Investing and Financing Activities not Affecting Cash Flows:			
Reissuance of treasury stock held by subsidiaries to employees	$499,199	$-	$-
Disposal of the company's stock by its subsidiaries	$-	$108,812	$3,311
Conversion of corporate bonds	$3,373,570	$19,058,085	$579,978

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

MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2004 and 2005

	Common Stock		Capital Surplus
	No. of Shares	Amount	
Balance as of January 1, 2004	11,397,171	$113,971,716	$46,576,329
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(314,420)	(128,484)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	79,057
Treasury stock reissued to employees	-	-	(78,658)
Reissuance of treasury stock held by subsidiaries	-	-	(42,724)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	1,293
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
Balance as of December 31, 2004	11,365,729	113,657,296	46,406,813
Appropriation of 2004 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Conversion of euro convertible bonds	-	-	(18,953)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	16,600
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	447,818
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2005	-	-	-
Balance as of December 31, 2005	11,365,729	$113,657,296	$46,852,278

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

Expressed in Thousands of New Taiwan Dollars / Thousand Shares

Retained Earnings			Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
Legal Reserve	Special Reserve	Unappropriated Retained Earnings					
$5,697,916	$405,703	$18,920,504	$(18,750)	$606,770	$(9,340)	$(29,618,266)	$156,532,582
1,823,324	-	(1,823,324)	-	-	-	-	-
-	-	(15,000,338)	-	-	-	-	(15,000,338)
-	-	(151,763)	-	-	-	-	(151,763)
-	-	(24,282)	-	-	-	-	(24,282)
-	-	(176,531)	-	-	-	619,435	-
-	-	-	-	-	-	(2,431,355)	(2,431,355)
-	-	-	-	-	-	3,294,514	3,373,571
-	-	(35,537)	-	-	-	2,364,700	2,250,505
-	-	-	-	-	-	541,923	499,199
-	(24,079)	24,079	-	-	-	-	-
-	-	-	-	-	-	-	1,293
-	-	-	13,895	-	-	-	13,895
-	-	-	-	(594,227)	-	-	(594,227)
-	-	-	-	-	(5,160)	-	(5,160)
-	-	21,904,131	-	-	-	-	21,904,131
7,521,240	381,624	23,636,939	(4,855)	12,543	(14,500)	(25,229,049)	166,368,051
2,190,413	-	(2,190,413)	-	-	-	-	-
-	-	(16,937,523)	-	-	-	-	(16,937,523)
-	-	(171,363)	-	-	-	-	(171,363)
-	-	(27,418)	-	-	-	-	(27,418)
-	-	(628,933)	-	-	-	19,056,482	18,408,596
-	(4,013)	4,013	-	-	-	-	-
-	-	-	-	-	-	92,212	108,812
-	-	-	-	-	-	-	447,818
-	-	-	(38,256)	-	-	-	(38,256)
-	-	-	-	469,060	-	-	469,060
-	-	-	-	-	(33,873)	-	(33,873)
-	-	22,529,693	-	-	-	-	22,529,693
$9,711,653	$377,611	$26,214,995	$(43,111)	$481,603	$(48,373)	$(6,080,355)	$191,123,597

MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Year Ended December 31, 2005

	Common Stock		Capital Surplus
	No. of Shares	Amount	
Balance as of January 1, 2005	11,365,729	$3,458,834	$1,412,259
Appropriation of 2004 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Conversion of euro convertible bonds	-	-	(577)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	505
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	13,628
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2005	-	-	-
Balance as of December 31, 2005	11,365,729	$3,458,834	$1,425,815

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

Expressed in Thousands of US Dollars / Thousand Shares

Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Retained Earnings	Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
$228,887	$11,614	$719,322	$(148)	$382	$(441)	$(767,774)	$5,062,935
66,659	-	(66,659)	-	-	-	-	-
-	-	(515,445)	-	-	-	-	(515,445)
-	-	(5,215)	-	-	-	-	(5,215)
-	-	(833)	-	-	-	-	(833)
-	-	(19,140)	-	-	-	579,930	560,213
-	(122)	122	-	-	-	-	-
-	-	-	-	-	-	2,806	3,311
-	-	-	-	-	-	-	13,628
-	-	-	(1,164)	-	-	-	(1,164)
-	-	-	-	14,274	-	-	14,274
-	-	-	-	-	(1,031)	-	(1,031)
-	-	685,626	-	-	-	-	685,626
$295,546	$11,492	$797,778	$(1,312)	$14,656	$(1,472)	$(185,038)	$5,816,299

Corporate Governance and Social Responsibility

I. Corporate Governance

As a financial holding company (FHC), the Company is increasing its commitment to sound principles of corporate governance. Set forth below are the status of our corporate governance, divergences from the Corporate Governance Best-Practice Principles for Financial Holding Companies, promulgated by the Taiwan Stock Exchange, and reasons for the divergence.

Item	Status of Operations	Divergence from Corporate Governance Best-Practice Principles for FHC/reasons for the divergence
1.Equity structure and shareholder right:		
(1) Method of handling shareholder proposals and disputes	The Company designated dedicated personnel in charge of shareholders' proposals, inquiries and disputes to protect shareholders' rights.	None
(2) Follow the name of shareholders with controlling interest, and ultimate controllers of major shareholders	The major shareholders of the Company are institutional shareholders. The Company maintains the name list of shareholders with controlling interest, and ultimate controllers of major shareholders.	None
(3) Risk control mechanism and firewall policy between the FHC and its affiliates	The Company clearly defines different areas of authority and responsibility between itself and the subsidiaries concerning the management of staff, assets, and financial affairs in the following rules and policies: Rules for Monitoring Operations of the Subsidiaries, The Group Policy and Guidelines on Risk Management, and Group Firewall Policy between the Company and its subsidiaries. Each subsidiary also established an independent risk management unit in charge of risk control of the respective subsidiary.	None
2. Organization and responsibilities of the Board of Directors		
(1) Establishment of independent directors	No independent director has been introduced at the present time.	The Company plans to establish an independent director starting from June 23, 2006.
(2) Regular assessment of the independence of CPA	The Company undertakes assessment on the independence of its CPA before submitting to the Board of Directors for approval on the employment of the CPA on an annual basis.	
3. Organization and responsibilities of supervisors		
(1) Establishment of independent supervisors	According to the revised Securities and Exchange Act promulgated in 2006, independent supervisors' mechanism has been replaced by audit committee. All pubic companies are not required to set up independent supervisors.	Not applicable
(2) Communication between supervisors and employees/shareholders	Communication has been direct and thorough between supervisors and employees/shareholders of the Company by means of correspondence, telephone, facsimile, the Internet, or other. The Audit Office of the Company also reports to the supervisors on the results of its internal audit on a regular and irregular basis.	None
4. Establishment of communication channels with stakeholders	Communication has been direct and thorough between the Company and its stakeholders, such as correspondent banks, other creditors, the staff, and the clients, by means of meetings, correspondence, telephone, facsimile, the Internet, etc. The stakeholder rights are duly respected.	None
5. Disclosure of Information		
(1) Establishment of websites where information on financial operations and corporate governance are disclosed	The Company has set up a website to disclose financial and business information. Dedicated personnel are designated to maintain and update the website.	None
(2) Use of other methods of disclosure	Other methods of disclosure include: setting up an English website, designation of dedicated personnel responsible for collection and disclosure of the Company's information, full implementation of the spokesperson system, and disclosing the information of investor conference on the Company's website.	None
6. Operation of Audit Committee and other functional committees	No Audit Committee has been introduced at the present time. The Company has set up a Risk Management Committee responsible for overseeing risk management for the Group.	The Company is now planning and assessing the introduction of an Audit Committee.

7. Explain the status of the Company's corporate governance, its divergences from the Corporate Governance Best-Practice Principles for Financial Holding Companies, and the reasons for the divergences.

(1) The status of corporate governance:

In addition to maintaining a sound organization structure and system, the Company also employed the following methods to enhance corporate governance:

- establishing "Procedures Governing the Board Meeting" and "Procedure for the Election of Directors and Supervisors"
- disclosing information concerning the financial status, business operation , and shareholding of insiders of the Company on the website as designated by the Competent Authority
- setting up Risk Management Department responsible for an effective risk management of the Group

(2) The divergences and reasons for the divergences:

The Company's primary divergence from the Corporate Governance Best-Practice Principles for Financial Holding Companies is that the Company has yet to introduce Independent Directors and Audit Committee. In accordance with Paragraph two, Article 181 of the Securities and Exchange Act, companies renewing board directors in 2006 are not applicable to the Article 14 -2 of the Securities and Exchange Act requiring setup of independent directors. However, the Company has decided to introduce one independent director starting from June 23, 2006 as part of efforts to enhance corporate governance practices.

8. Other information that would help understand the status of the Company's corporate governance:

(1) Continuing education for the directors and supervisors

The directors and supervisors of the Company possess knowledge, skills, and capacity necessary to carry out their responsibilities, and are also receiving continuing education. To enhance the competency of the Board of Directors, the Company periodically arranged continuing education courses for directors and supervisors, taken into consideration of both the demand of the directors and supervisors and the management strategy of the Company. By the end of March 2006, a total of six directors and one supervisor have participated in continuing education, accounted for a total of 53 hours in training. For detailed information on the continuing education for individual director and supervisor of the Company, please log on to the Market Observation Post System of the Taiwan Stock Exchange (http://newmops.tse.com.tw).

(2) Attendance of the directors and supervisors at the board meetings

The Company's meetings for the Board of Directors have always recorded high attendance rates. In case of absence of any director, the director usually entrusted his/her rights to a director who is present. All board meetings reached the quorum of two third of directors (10 directors, including proxies), with the supervisors also present. For detailed information on the board meeting attendance for individual director and supervisor of the Company, please log on to the Market Observation Post System of the Taiwan Stock Exchange.

(3) Implementation of risk control policy and risk-weighing standard:

In addition to fully compliance of government regulations, the Company aims at establishing a risk management mechanism that conforms to international standards. Currently, the Company established the Group Policy and Guidelines on Risk Management, which clearly described the guidelines on credit risk, market risk, operational risk, legal risk, human resource risk, and emergency crisis management. On credit risk, the Company set up Guidelines on Credit Risk Management for the Mega Financial Group to avoid over-concentration of risk. The Guidelines requires that the credit risk exposure of the Group be divided into different categories by industries and types of clients, and be reviewed and reported on a regular basis. Up to the present time, no over-concentration of risk was observed. In addition, the Group employed professional consultants to establish a quantifiable credit risk control mechanism based on global best practice and the Basel II Accord. On market risk, the Company reviewed the current risk control reports of each subsidiary on a regular basis. In collaboration with concerning units, the Company is currently establishing related rules and regulations, and also planning to setup an integrated risk control system to perfect its market risk management. On operational risk, the current objectives are to enhance internal control and buildup an internal loss data mart. The Company established the Guidelines on Operational Risk Management for the Mega Financial Group to provide consistent directions for all subsidiaries in operational risk management.

(4) Consumer-and customer-protection policy, and its implementation:

The security measures adopted by Mega and its subsidiaries are pursuant to the Article 42 of the Financial Holding Company Act and the Article 18 and 23 of the Computer Processing Personal Privacy Law. The Company also set up strict measures, including Group Firewall Policy, to protect customer privacy. No disclosure, referral, or exchange of client data by the Company would be carried out without an agreement signed by or written consent from the client, in accordance with the Self-discipline for Financial Holding Company and Subsidiaries. In addition, the subsidiaries set up client hotlines to handle customer complaints in a timely manner.

(5) Withdrawal of directors from cases to which they are materially related:

In meetings of Board of Directors, directors usually withdraw for conflict of interests by neither participating in discussion nor exercising voting right, nor voting as a proxy for other director.

(6) Purchase of liability insurance for the directors and supervisors of the Company

The Company has purchased liability insurance for the directors and supervisors of the Company.

II. Corporate Social Responsibility

A. Employee

To ensure that our employees are engaged in helping our Group achieve its goal, we make the health and well-being of our employees a top priority. The Group provides a competitive compensation package that meets the requirements of the Labor Standard Law and other relevant regulations. The package includes pension plans and benefits, such as labor insurance, health insurance, and paid time off. To serve our clients better and improve employee performance, the Group is committed to providing its employees with an extensive range of training courses and development opportunities. The relationship between members of the Group and their labor unions, if any, is harmonious.

B. Community

To fulfill its social responsibility in the community, the Company established the Mega Charitable Foundation in December 2005, and has been actively participating in social welfare activities as well as helping minority groups. In 2005, the Company sponsored several academic, charitable, and cultural activities, including Financial Innovation and Financial Engineering Workshop, 2005, Charity Concert in aid of aboriginal minority, Asia Tsunami donation, and Charity Concert in Aid of Dropout Children.

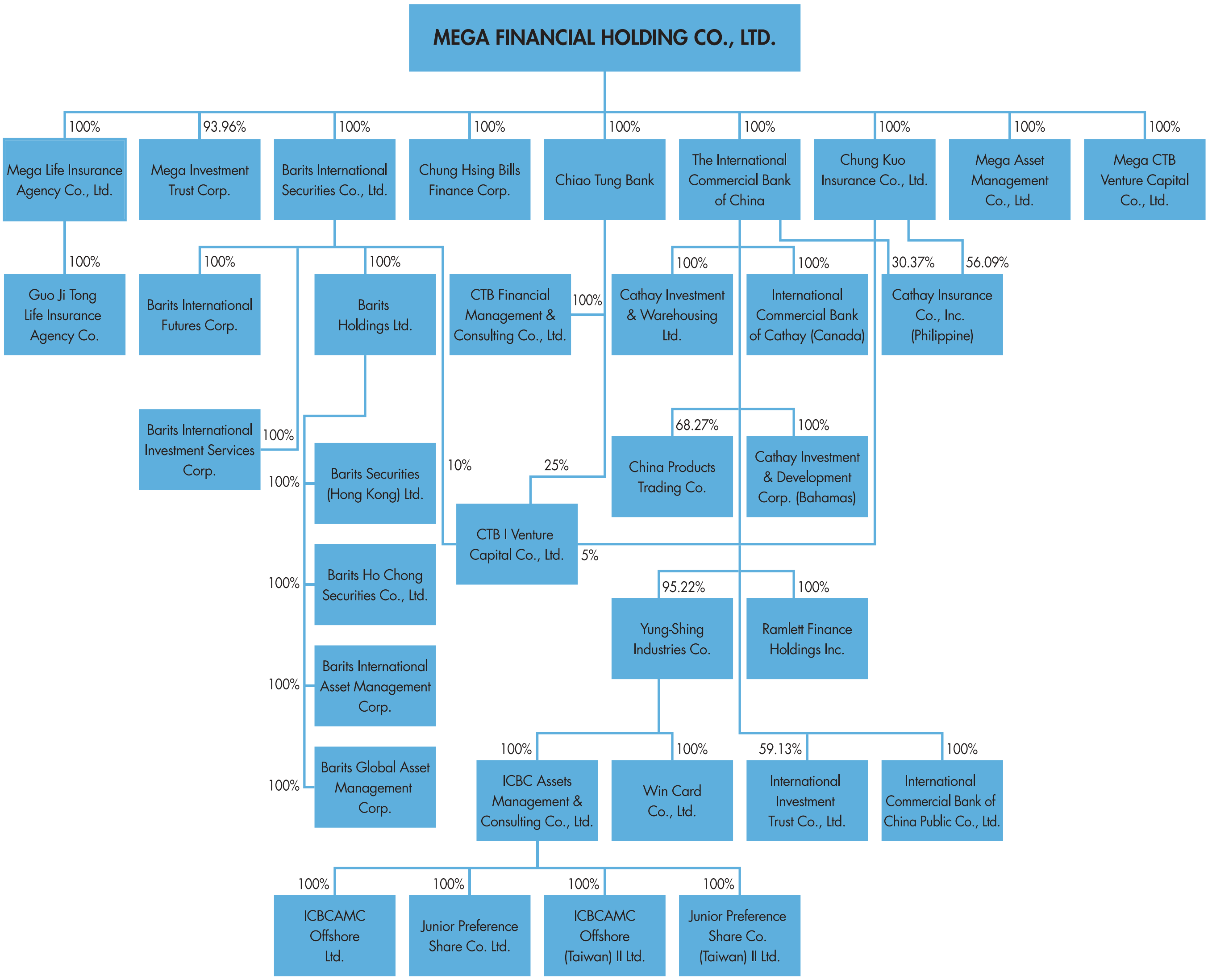
C. Environment

We recognize that financial institutions can play an important role in environmental protection through their consumption of resources and business activities. The Company is committed to promoting an environmentally responsible workplace by educating and motivating employees to become more involved in the conservation of resources and minimization of waste. We are taking steps to reduce, reuse and recycle materials used in our operations. In business operations, our bank subsidiaries take the environment into consideration when lending to sectors with high environmental impacts. In line with the government's environmental protection and pollution control policy, our bank subsidiaries have been active in offering "Concessional Loans for the Procurement of Pollution-Control Equipment" and "Concessional Loans for the Procurement of Energy Conservation Equipment."

Group Information

I. Mega Financial Group

As of December 31, 2005



II. Concise Company Profile

December 31, 2005   Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Chiao Tung Bank	03.15.1907	91 Heng Yang Road, Taipei, Taiwan	NTD 26,848,878	Commercial banking & industrial banking business
The International Commercial Bank of China	12.17.1971	100 Chi-lin Road, Taipei, Taiwan	NTD 37,261,000	Commercial banking business
Barits International Securities Co., Ltd.	10.19.1989	3F, No. 95, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 13,200,000	Brokerage, dealing and underwriting of securities
Chung Hsing Bills Finance Corp.	05.03.1976	3-7F, No. 123, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 20,114,411	Brokerage, dealing, underwriting, and guaranteeing of short-term debt instruments
Chung Kuo Insurance Co., Ltd.	11.01.1931	58 Sec. 1, Wu Chang Street, Taipei, Taiwan	NTD 3,000,000	Non-life insurance
Mega Investment Trust Corp.	05.21.1996	9F, No. 100, Sec. 2, Roosevelt Road, Taipei, Taiwan	NTD 300,000	Asset management
Mega Asset Management Co., Ltd.	12.05.2003	12F, No. 123, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 2,000,000	NPL asset management
Mega Life Insurance Agency Co., Ltd	11.05.1996	5F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 20,000	Life Insurance Agency
Mega CTB Venture Capital Co., Ltd	12.13.2005	5F, No. 91, Heng Yang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
CTB Financial Management & Consulting Co., Ltd.	01.16.2002	5F, No. 91, Heng Yang Road, Taipei, Taiwan	NTD 10,000	Asset management and investment consulting
CTB I Venture Capital Co., Ltd.	11.05.2003	5F, No. 91, Heng Yang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
Barits International Futures Corp.	07.29.1999	4F, No. 563, Sec. 4, Chung Hsiao E. Road, Taipei, Taiwan	NTD 607,600	Brokerage of futures contracts
Barits International Investment Services Corp.	12.10.1997	4F, No. 95, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 320,000	Securities investment advisory
Barits Holdings Ltd.	05.05.1997	P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 40,990	Investment business
Barits Global Asset Management Corp.	11.06.1998	2F, Century Yard, P. O. Box 448 GT, Grand Cayman, Cayman Islands	USD 3,740	Brokerage of derivative products Brokerage and trading of bonds Assets management consulting
Barits Securities (Hong Kong) Ltd.	05.23.1997	Room 3406, 34F, Edinburgh Tower, The Landmark, No. 15, Queen's Road, Central, Hong Kong	HKD 80,000	Securities underwriting Investment consulting
Barits Ho Chong Securities Co., Ltd.	08.20.1992	Room 3404-3405, 34F, Edinburgh Tower, The Landmark, No. 15, Queen's Road, Central, Hong Kong	HKD 60,000	Securities trading Brokerage of futures contracts
Barits International Asset Management Corp.	01.16.1998	P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 15,000	Proprietary trading and brokerage of securities
China Products Trading Company	12.29.1956	12F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 5,000	Harvesting, processing, transporting, and warehousing of agriculture products (stop running business since 1966)

December 31, 2005 Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Yung-Shing Industries Co.	12.09.1950	7F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 100,000	International trading and agency service for electronic data processing, printing and packaging.
International Investment Trust Co., Ltd.	08.09.1983	17F, No. 167 Fu-hsing N. Road, Taipei, Taiwan	NTD 615,000	Asset management
Win Card Co., Ltd	11.10.2000	4-7F, No. 99, Sec. 3 Chung–yang Road, San-chung City, Taipei Hsien, Taiwan	NTD 50,000	Business administration consulting, advertising, and management of past due accounts receivable
ICBC Assets Management & Consulting Co., Ltd.	01.30.2003	12F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 66,000	Asset management and investment consulting
ICBCAMC Offshore Ltd.	04.01.2003	Romasco Place, Wickhams Cay 1, P. O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Co. Ltd.	04.01.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment
ICBCAMC Offshore (Taiwan) II Ltd.	10.28.2003	Romasco Place, Wickhams Cay 1, P. O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Co. (Taiwan) II Ltd.	10.28.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment
International Commercial Bank of Cathay (Canada)	12.01.1982	North York Madison Centre, 4950 Yonge Street, Suite 1002, Toronto, Ontario M2N 6K1, Canada	CAD 23,000	Commercial banking
The International Commertial Bank of China Public Co., Ltd.	08.05.2005	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	THB 4,000,000	Commercial banking
Cathay Investment & Warehousing Ltd.	11.01.1982	Calle 16 Colon Free Zone Local No. 4 Edificio No 49, P. O. Box 4036 Colon Free Zone, Colon, Republic of Panama	USD 1,000	Warehousing of exported and imported merchandise, providing business information of international trades
Cathay Investment & Development Corp. (Bahamas)	07.15.1969	P. O. Box 3937 Nassau, Bahamas	USD 5	International investment and development
Ramlett Finance Holdings Inc.	01.13.1982	Calle 50 y Esquina Margarita A de Vallarino, Entrada Nuevo Campo Alegre Edificio ICBC, Panama	USD 20	Investment of Real Estate
Cathay Insurance Co., Inc. (Philippine)	04.06.1960	10F, Tytana Plaza Building, Lorenzo Ruiz Binondo, Manila, Philippines	PHP 50,000	Non-life insurance
Guo Ji Tong Life Insurance Agency Company	04.26.2002	5F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 2,000	Life insurance agency

III. Operation Information

As of December 31, 2005 Expressed in thousands of NT$, except EPS

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (After Tax)	Earnings per share (After Tax)
Chiao Tung Bank	26,848,878	617,830,705	554,718,988	63,111,717	22,356,686	6,061,840	6,325,905	2.36
The International Commercial Bank of China	37,261,000	1,228,077,623	1,148,015,560	80,062,063	46,595,083	13,062,722	11,391,954	3.06
Barits International Securities Co., Ltd.	13,200,000	49,592,099	34,432,616	15,159,483	3,736,631	657,837	585,818	0.44
Chung Hsing Bills Finance Corp.	20,114,411	287,699,928	254,910,242	32,789,686	8,716,086	4,502,526	4,382,237	2.01
Chung Kuo Insurance Co., Ltd.	3,000,000	11,035,941	5,830,084	5,205,857	12,299,623	254,766	188,066	0.53
Mega Investment Trust Corp.	300,000	390,378	26,041	364,337	166,126	37,948	31,898	1.06
Mega Asset Management Co., Ltd.	2,000,000	4,351,436	2,131,013	2,220,423	423,404	293,174	200,762	1.00
Mega Life Insurance Agency Co., Ltd.	20,000	45,585	10,134	35,451	203,726	18,537	13,451	6.73
Mega CTB Venture Capital Co., Ltd.	1,000,000	998,057	125	997,932	0	(2,393)	(2,068)	(0.40)
CTB Financial Management & Consulting Co., Ltd.	10,000	47,327	6,379	40,948	46,369	30,884	23,385	23.38
CTB I Venture Capital Co., Ltd	1,000,000	987,084	93	986,991	79,103	(13,636)	(4,196)	(0.04)
Barits International Futures Corp.	607,600	1,774,699	1,132,029	642,670	215,120	(3,137)	14,090	0.29
Barits International Investment Services Corp.	320,000	342,206	7,557	334,649	31,900	(42,575)	3,321	0.10
Barits Holdings Ltd.	1,353,091	1,608,320	720	1,607,600	216,508	215,502	215,502	0.16
Barits Global Asset Management Corp.	123,895	661,285	508,902	152,383	36,871	(9,746)	(5,253)	(0.04)
Barits Securities (Hong Kong) Ltd.	340,640	425,598	13,169	412,429	91,254	(43,214)	(42,558)	(0.13)
Barits Ho Chong Securities Co., Ltd.	255,480	2,565,990	2,243,799	322,191	125,793	19,902	19,902	199.02
Barits International Asset Management Corp.	495,035	3,790,103	3,317,580	472,523	229,288	(169,601)	(169,601)	(0.34)
China Products Trading Co.	5,000	82,804	13,335	69,469	0	(882)	(3,856)	(38.56)
Yung-Shing Industries Co.	100,000	1,339,029	857,832	481,197	199,522	(653)	(19,136)	(19.14)
Win Card Co., Ltd	50,000	200,356	141,902	58,454	435,481	2,314	2,746	5.49
ICBC Assets Management & Consulting Co., Ltd.	66,000	468,356	380,164	88,192	37,962	21,869	16,065	2.43
ICBCAMC Offshore Ltd.	0.03286	33,033	1,617	31,416	8,965	8,865	8,865	8,864,630.07
Junior Preference Share Co. Ltd.	0.03286	354,279	0.03286	354,279	124,369	124,369	131,854	131,853,728
ICBCAMC Offshore (Taiwan) II Ltd.	0.03286	11,553	2,681	8,872	3,130	(2,374)	(2,374)	(2,374,440.71)
Junior Preference Share Co. (Taiwan) II Ltd.	0.03286	0.03286	362,546	(362,546)	0	(128,108)	(133,456)	(133,455,741)
International Investment Trust Co., Ltd.	615,000	17,965,087	17,146,582	818,505	423,186	163,716	(160,722)	(2.61)
International Commercial Bank of Cathay (Canada)	648,683	6,973,171	6,245,264	727,907	312,039	104,093	47,053	204.58
International Commercial Bank of China Public Co., Ltd.	3,199,200	16,211,483	12,949,119	3,262,364	177,145	143,145	43,192	0.11
Cathay Investment & Warehousing Ltd.	32,860	83,549	38,192	45,357	15,627	2,629	1,178	1,178.34
Cathay Investment & Development Corp. (Bahamas)	164	676,134	16,980	659,154	46,560	46,396	47,705	9,540.91
Ramlett Finance Holdings Inc.	657	66,776	72,023	(5,248)	11,080	1,467	1,059	684.42
Cathay Insurance Co., Inc. (Philippine)	30,915	43,889	14,044	29,845	20,795	1,728	(5,280)	(10.56)
Guo Ji Tong Life Insurance Agency Company	2,000	8,477	751	7,726	85,975	2,570	2,066	1.03

Footnote: Exchange rate: PHP1=NTD0.6183; USD1=NT$32.86; CAD1=NT$28.2036, HKD1=NT$4.2382; THB1=NT$0.7998.