





Our Glorious Achievements in 2005

- **Asiamoney**
Fubon Securities was awarded as the "Best Domestic Equity House for Taiwan Region."
- **Asia Asset Management**
Fubon Asset Management was rated as the "Most Improved House for Offshore Funds."
- **Asian Insurance Review**
Fubon Insurance won the "Innovation of the Year" award.
- **Euromoney**
Fubon Financial won the "Best Corporate Governance" award among financial institutions in Taiwan.
- **Global View**
Taipei Fubon Bank was rated as the "Best-Image Wealth Management Bank" in Taiwan.
- **Institutional Investor**
Fubon Financial's Chief Finance Officer Victor Kung was named as the "Best CFO" in the financial sector in Asia.
- **Science and Technology Development Award Sponsored by the Ministry of Economic Affairs**
Fubon Insurance won the "Excellent Innovative Enterprise Award."
- **Taiwanese Enterprise Award**
Fubon Financial won the "best social contribution award" of the third Taiwanese Enterprise Award.

Fubon Financial Highlights

In NT\$ Million	2005	2004	2003
Total Assets	1,654,073	1,513,087	1,258,845
Shareholders' Equity	155,604	156,772	146,467
Revenues	223,828	172,517	147,747
Net Income	10,641	15,008	14,044
Earnings Per Share (NTD)	1.39	2.02	1.91
Book Value Per Share (NTD)	20.16	20.44	19.83
Return on Equity (%)	6.8	9.9	9.8
Return on Assets (%)	0.67	1.08	1.16

Above are the consolidated financial statements of Fubon Financial Holding Co. and its subsidiaries.

Net Income

In NT\$ Million



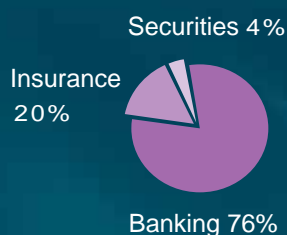
Return on Equity

(%)

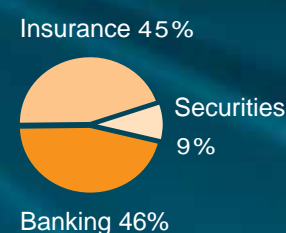


Fubon Financial Subsidiaries' Contribution Ratio

Total Assets



Net Income



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	Taipei Fubon Bank	Fubon Bank (Hong Kong)	Fubon Insurance	Fubon Life	Fubon Securities	Fubon Asset Management
	2005	2005	2005	2005	2005	2005
	2004	2004	2004	2004	2004	2004
	In NT\$ Million	In HK\$ Million	In NT\$ Million	In NT\$ Million	In NT\$ Million	In NT\$ Million
Total Assets	1,069,192	49,803	62,805	251,154	65,587	1,626
	1,039,718	45,760	60,212	178,063	59,230	1,860
Shareholders' Equity	74,897	3,749	29,508	13,658	30,998	1,468
	83,588	3,702	29,616	11,038	31,525	1,648
Revenues	49,318	1,822	47,836	112,656	7,121	1,054
	44,079	1,196	43,729	74,452	8,032	959
Net Income	5,034	241	2,503	2,826	907	104
	8,696	300	2,473	1,801	2,171	405

2001 *Fubon Financial became one of the first financial holding companies to be listed on the Taiwan Stock Exchange.*

2002 *Fubon Financial became the first publicly listed company to institute an independent board director system with the selection of two independent board members, establishing itself as the model for corporate governance.*

Issued US\$430 million in Euro convertible bonds, becoming the first domestic financial enterprise to underwrite overseas convertible bonds.

Acquired Fubon Asset Management, which became the Fubon Group's fifth subsidiary.

Acquired Taipei Bank, which, combined with Fubon Bank, gave Fubon Financial the largest private banking entity in Taiwan in terms of assets.

2003 *Elected an independent supervisor, making Fubon Financial the first financial institution to implement the independent supervisor system.*

Signed a contract with Arab Banking Corp. to acquire its entire 55% stake in the Hong Kong-based International Bank of Asia, Ltd., making Fubon Financial Taiwan's first financial institution to acquire a Hong Kong bank.

Acquired Fubon Direct Marketing Consulting Co., making Fubon Financial Taiwan's first financial institution to own a direct marketing firm.

Set up a new subsidiary — Fubon Financial Holding Venture Capital.

2004 *Successfully acquired 75% of International Bank of Asia's shares, formally making the bank a subsidiary of Fubon Financial.*

Citigroup and Fubon Financial announced the end of their strategic alliance. Each company decided to pursue its own independent growth strategy.

The chairman of Fubon Financial, Chen S. Yu, retired. Vice Chairman Daniel Tsai took over for him, while Mr. Yu is named honorary chairman.

Established two new subsidiaries: Fubon Venture Capital Consulting Company and Fubon AMC Company.

Fubon Asset Management took over three failing United Securities Investment Trust bond funds and effectively restored market order and protected investor interests. At the same time, assets under management surpassed NT\$200 billion, the highest level ever attained by a local asset management company.

The plan to merge Fubon Bank and Taipei Bank is approved, with Taipei Bank the entity that is retained and renamed Taipei Fubon Bank.

2005 *2005 Taipei Bank and Fubon Bank were officially merged into Taipei Fubon Bank, boasting the largest branch network and the highest market share in the greater Taipei area among private banks in Taiwan.*

The International Bank of Asia was renamed Fubon Bank (Hong Kong), making Fubon the first Taiwanese financial brand to officially penetrate the financial market of Hong Kong, with a total of 28 service outlets there.

Fubon Financial launched the "Project One" organizational restructuring plan, categorizing all the subsidiaries under Fubon Financial into six major business groups based on a customer orientation, namely corporate & investment banking, financial markets, consumer finance, wealth management, investment management, and insurance, as substantive operating entities.

Message to Shareholders

Dear Shareholders:

The year 2005 was a time of transformation for Fubon Financial in the aspects of organization, corporate strength, and culture. During this year we started an organizational restructuring project, dubbed Project One, which is transforming our company from a conglomerate of many different firms under the same brand into an integrated group with a customer orientation, centralized cooperation, and effective management. We are confident that the implementation of this project will not only enable us to lead our Taiwanese peers in organizational operation, but will also pave the way for us to enter the regional market and compete with international financial institutions.

Customers, Shareholders, and Employees

Fubon Financial has been riding the wave of financial M&As (mergers and acquisitions) that arose with the implementation of the Financial Holding Company Act in 2001. In pioneering moves, we brought companies in the fields of banking, insurance, and securities together under a financial holding company,

took over a large government-controlled bank, and became the first Taiwanese firm to acquire a Hong Kong bank. These M&As have helped us secure an optimal strategic position in terms of operating scale and the development of a regional financial platform.

Following two years of modification and adjustment, the integration effort made Taipei Fubon Bank the private bank with the largest number of branches in Taiwan on January 1, 2005. The International Bank of Asia in Hong Kong was acquired and renamed Fubon Bank (Hong Kong) on April 6, 2005, at which time we began the process of brand-name and business integration with other subsidiaries of Fubon Financial.

In May 2005 we invited the best international consulting firm, McKinsey, to assist us in mapping out our Project One organizational restructuring plan, which was formally inaugurated on September 27. The new organization is based on customer orientation and comprises six major business groups: corporate & investment banking, financial markets, consumer finance, wealth management, investment management,

and insurance, in addition to corporate center and IT/Operations.

The objectives we want to achieve for our customers, shareholders, and employees through this project can be embodied in the following “Three Ones”:

- **One Firm:** Via customer-oriented organization and work-flow restructuring, we hope to integrate Fubon into a financial holding firm that provides our clients with comprehensive financial services and inculcates in their mind image of first-class services, quality, and product innovation.

- **One Goal:** Via comprehensive strategic planning and enhancement of organizational efficiency, we aspire to double our profits within three years, thereby becoming the financial holding firm that is able to create the highest value in the minds of our shareholders.

- **One Team:** Via a professional and performance-oriented management system, we aim to provide ample space for the career development of our employees and to develop a corporate culture of teamwork, thereby becoming the financial holding firm most worthy of devotion in the minds of employees.



Chairman
Daniel Tsai

Vice Chairman & CEO
Richard Tsai

President
Victor Kung

Chairman, Fubon Insurance
Tsan-Ming Shih

Business Performance in 2005

In 2005, Fubon Financial faced the double challenges of major internal organizational restructuring and an adverse external environment, notably apparent in the deterioration of the bad-debt problem for consumer banking. To counter, Taipei Fubon Bank appropriated an additional NT\$5 billion in reserves against non-performing loans, causing its after-tax profits for 2005 to plunge 42% from 2004. Taiwan's stock market turnover dropped 20% in 2005 from 2004, slashing the net profit of Fubon Securities by 58%. However, Fubon Life scored a brilliant performance in 2005, with profit growing 57%, and Fubon Insurance also managed to sustain a stable performance. Therefore, in 2005 Fubon Financial still raked in net profits of NT\$10.64 billion, down only 29% from 2004, with EPS (earnings per share) reaching NT\$1.39. This performance once again underscores the strength that

Fubon Financial derives from the strategy of developing a comprehensive product line and a balanced of business units.

With an expanded branch network, Taipei Fubon Bank chalked up an 11% income growth from wealth-management fees, and was named as the domestic wealth-management bank with the "best image" by Global View magazine. Twice awarded the honor of "the Asian general insurance company of the year," Fubon Insurance retained a 20% market share, thereby retaining its championship in the domestic non-life insurance market. Its outstanding performance in 2005 made Fubon Life the island's second-largest life insurer in terms of first-year premium income, with a market share of 12.4%. Fubon Securities also managed to maintain a 6.25% share of the securities brokerage business, the second highest in the market, and it was awarded by Asiamoney as "the best

domestic equity house" in the Taiwan region in 2005. Average assets under management by Fubon Asset Management topped NT\$218.7 billion in 2005, the largest in the domestic market. The most important strategic move of Fubon Bank (Hong Kong) in 2005 was the repositioning of its brand name and the introduction of the "value banking" business concept. After the name change, many Taiwanese businessmen in Hong Kong have actively sought out the bank because of their familiarity with and trust in the Fubon brand. In 2005, Fubon Bank (Hong Kong) set up Taiwan Corporate Banking team and Offshore Ambassador team, actively soliciting business from Taiwanese clients. Both of these departments have started to provide contributions to the bank's profitability. As a result, Fubon Bank (Hong Kong) has developed from a local Hong Kong bank into a regional financial institution and has become an important financial platform



President, Fubon Life
Peng-Yuan Cheng

President, Taipei Fubon Bank
Jesse Y. Ding

CEO, Fubon Bank (Hong Kong)
Jin-Yi Lee

Chairman, Fubon Securities
Kung-Liang Yeh

for the deployment of Fubon Financial in the greater China market.

Board of Directors and Management Team

For the current term, Fubon Financial has 11 board directors and three supervisors, who were elected by the shareholders' meeting in June 2005. Except for Victor Kung, president of Fubon Financial and a new board director, all of the directors and supervisors were re-elected, underscoring the shareholders' trust in and affirmation of their performance during their previous term. The present board of directors once again appointed Daniel Tsai as chairman and Richard Tsai as vice chairman to continue leading the board in fulfilling its duties on behalf of our shareholders.

Ever since its inception, Fubon Financial has endeavored to establish corporate governance in accordance with international standards. In a pioneering move in the field, we

invited Larry Lam, chairman of Quanta Computer, and Yancey Hai, vice chairman and CEO of Delta Electronics, to serve as independent directors, and Hong-Chang Chang, former dean of the College of Management, National Taiwan University, to be an independent supervisor. In addition, through the independent operation of the corporate governance and auditing committees under the board of directors, we have intensified the spirit of corporate governance. Thanks to these efforts, in 2005 we were selected, for the second year running, by Euromoney as the Taiwanese financial firm with the best corporate finance, representing another affirmation of Fubon Financial's corporate governance by global investors and highlighting our strong image for the protection of investors' interests.

In respect to our management team, earlier this year we invited Hui-Ming Cheng, former chief

financial officer (CFO) of the Taiwan Mobile Co., Ltd. to be the CFO and a member of the management committee of Fubon Financial. In recognition of his achievements, Cheng was named the "best CFO" in Taiwan by Institutional Investor magazine in 2003. The magazine also named Victor Kung, our original CFO, as "best CFO" in the Asian financial industry for the second time. Earlier this year, Kung was promoted to the position of president of Fubon Financial.

With the establishment of the six business groups under Fubon Financial, we needed more professionals with international expertise. Last year, therefore, we recruited a number of high-level professionals to join us, including Jerry Han, appointed president of the Corporate & Investment Banking Group; Michael Yong and Trinh Du, named co-presidents of the Financial Markets Group; and Thomas Liang, who became head of IT/Operations.



President, Fubon Securities
David Chang

Chairman,
Fubon Investment Services
Michael Ding

Chief Investment Officer
Daniel Chiang

Chief Financial Officer
Hui-Ming Cheng

David Chang, senior advisor to the management committee of Fubon Financial, also became head of Financial Markets Group, so as to contribute his expertise and experience in the field of finance.

Corporate Citizenship

Ever since its inception Fubon Financial has held to the concept of “giving back to society what we get from society” as proposed by Wan-Tsai Tsai, founder of Fubon Group, Fubon Financial has been fulfilling its social responsibilities of a corporate citizen through a public-welfare platform supported by four pillars: the Fubon Charitable Foundation, Fubon Cultural and Educational Foundation, Fubon Art Foundation, and Taipei Fubon Bank Charitable Foundation. In recognition of our efforts in this field, last year we were granted the “best social contribution award” of the Taiwan Enterprise Awards sponsored by the China Times.

In granting the award, the judges gave us the following citation: “Fubon Financial’s support for school children from poor families, assistance designed to raise poor people out of poverty via savings and startups, and other similar programs are not only worthy of encouragement but can serve as a paradigm for other enterprises to emulate.” In the future, with the expansion of our business scope in the Asian market, our public-welfare businesses will expand along with it into the global community.

Outlook

In the face of a future laden with challenge and opportunity, we strongly believe that the implementation of Project One organizational restructuring program following a long process of M&A and integration has placed us in an ideal strategic position with the greatest corporate strength. This position, along with our strong

professional team, will sustain a strong growth momentum and pave the way for our next wave of takeovers. In the Asian market, we will make use of Hong Kong’s advantageous position as a regional financial center and wait for the right time to enter the mainland Chinese market. We promise that after going through the baptism of Project One, Fubon Financial will become not only Taiwan’s No. 1 but also a first-class Asian regional financial institution. In our pursuit of this vision, we will create the maximum value for our customers, our shareholders, and our employees.

Daniel Tsai
Chairman, Fubon Financial

Richard Tsai
Vice chairman, Fubon Financial



Corporate Center

IT/Operations

..... Corporate & Investment
Banking

..... Financial Markets

..... Consumer Finance

..... Wealth Managment

..... Investment Managment

..... Insurance



Corporate & Investment Banking

- Government Banking Division
- Corporate Banking Marketing Unit
Corporate Banking Division . Commercial Banking Division
- Transactional Banking Unit
Trust Division . Transactional Banking Product & Operation Division
Bills Finance Division
- Investment Banking Unit
Underwriting & Emerging Market Division . International Investment Banking Division
Corporate Finance Division . International Corporate Finance Division
Structured Products Division
- Credit Risk Management Unit
Credit Division . Remedial Division
- Strategic Planning Division
- Fubon AMC

Corporate & Investment Banking

Brand-New Business Model With Clear Individual Accountability Under Highly Valued Teamwork Spirit

In line with the spirit of Project One and our "customer first" commitment, as well as in consideration of the various needs of corporate clients, risk management, and relationship maintenance, the Fubon Corporate & Investment Banking Business Group has been carrying out client differentiation and providing tailored products and services for different client groups to enhance service quality and efficacy. Meanwhile, the business group will continue to revise its credit pricing methods based on risk assessment and establish reliable internal risk assessment models so as to improve returns on assets and profit margins.

Specialization, Team Work, and Innovative Business Model

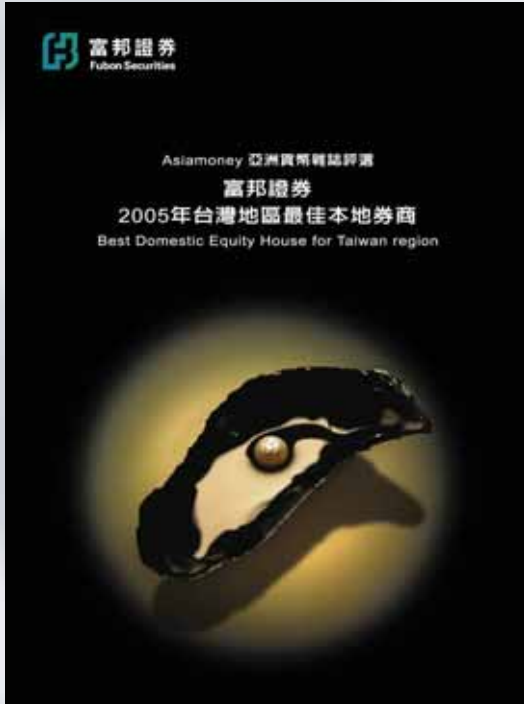
In order to integrate the corporate banking-related units under Fubon Financial and boost organizational efficacy, the Corporate & Investment Banking Business Group is reorganizing business tasks, clearly defining the responsibilities of each unit, consolidating overlapping units, and dividing the organization into marketing, product R&D, risk management, business operation, client service, and logistical support units. The business group is redefining the nature of every employee's job and setting up performance evaluation criteria, so as to delegate more responsibility to staff members. The performance-based evaluation system is designed to create a corporate working culture emphasizing both respective responsibility and teamwork spirit.

The Corporate & Investment Banking Business Group consists of the following units: Government Banking Division, Corporate Banking Marketing Unit (including Corporate Banking Division and Commercial Banking Division), Transactional Banking Unit (including Trust Division, Transactional Banking Product & Operation Division, and Bills Finance Division), Investment Banking Unit (including Underwriting & Emerging Market Division, International Investment Banking Division, Corporate Finance Division, International Corporate Finance Division, and Structured Products Division), Credit Risk Management Unit (including Credit Division and Remedial Division), Strategic Planning Division and Fubon AMC. With this new organizational structure,

the Fubon Corporate & Investment Banking Business Group is poised to achieve even better performance in the years ahead.

Top Choice for Clients as Partner

The Corporate Banking Marketing Unit oversees the 42 corporate banking branches of Taipei Fubon Bank and three overseas branches (New York, Los Angeles, and Hong Kong), in addition to the Vietnam branch and Beijing representative office that are still under preparation. Enterprise clients are differentiated according to size. The marketing team of Large clients are concentrated at the headquarters; medium-scale clients are assigned to various regional centers; and small clients are served by nearby branches. As for micro clients, in view of insufficient information on small enterprises and



other risks, cases for such clients are subject to screening under a risk evaluation system, rather than case-by-case review by senior credit officers, so as to reinforce operating efficiency and risk management. We have also set up a Greater China Banking Center to serve Taiwanese businesspeople in mainland China and Hong Kong. With these comprehensive channels and diversified services, Fubon has become the best business partner of our clients.

The Transactional Banking Unit is responsible for the design of corporate financial products and planning of related operational systems of commercial banks, including loan, guarantee, foreign exchange, cash management, custody of mutual funds, and trust. We offer

tailor-made products to meet the different needs of our clients.

Best Partner for Investing in Greater China

The Investment Banking Unit is responsible for the Taiwan and Hong Kong capital markets (including stocks, convertible bonds, and depository receipts); debts market; financial consulting and underwriting of securitized products; underwriting, issuance, and related financial consulting of domestic and overseas bonds; and domestic securities brokerage business. Moreover, the Corporate & Investment Banking Business Group currently is integrating overseas investment banking businesses and establishing a platform for greater China syndicated loans and

structured financing to support Taiwanese businessmen developing overseas businesses.

The Credit Risk Management Unit is responsible for the credit risk evaluation and management of all the lending and underwriting business of the Business Group, as well as the management of non-performing loans. In 2006, in addition to the continuing planning and establishment of Basel II project, the Unit will continue to enhance credit evaluation and warning systems, in order to lower credit risk and improve the quality of assets.

Fubon AMC is in charge of debt collection, purchase of distressed assets, asset appraisal, consulting for asset management

- *Fubon Securities ranks among the three leading domestic securities firms for underwriting IPO (initial public offering) business.*
- *The firm remained the largest broker for trading in the Emerging Enterprise Market for two consecutive years in 2004 and 2005, leading its domestic counterparts in generating market turnover.*
- *Taipei Fubon Bank performed well in the syndicated loan business in 2005, ranking No. 4 in terms of total syndicated loans for which the bank served as a book-runner, based on statistics compiled by the International Finance Review.*

and restructuring, asset packaging, and realty development. Backed by the resources of Fubon Financial, it aims to help clients tide over difficulties and minimize losses.

Leader in Emerging Enterprise and REITs Markets

Fubon Securities under the Corporate & Investment Banking Business Group is one of the three leading securities firms for underwriting IPO (initial public offering) business. For the second year running, it was the largest broker for trading in the Emerging Enterprise Market. The underwriting division of Fubon Securities boasts a large clientele base and financial consulting expertise for investment banking,

winning the trust of major listed firms. In addition, the Trust Division of Taipei Fubon Bank arranged Taiwan's first REIT (real estate investment trust), which has won warm reception in the market.

Taipei Fubon Bank under the Corporate & Investment Banking Business Group performed well in the syndicated loan business in 2005. According to statistics of the International Finance Review, the bank ranked fourth in terms of the amount of the syndicated loans for which the bank served as the book-runner.

Outlook

In 2005, Fubon Corporate & Investment Banking Business

Group recruited outstanding people to form a complete and innovative financial product team. In addition, it systematically reinforced the education and training of its staff, boosting the overall level of their expertise. The business group expects its employees to form into a foremost team to provide first-class services and create a business they can be proud of. Through the integration of the resources of Fubon Financial, the group expects to enhance its asset quality and profits from corporate banking, create profits for its shareholders, and become the best partner for businesses in rooting their operations in Taiwan and deploying their business in the greater Chinese market.



Financial Markets

Five Business Functions

- Fixed-income Products
- Interest Rate and Foreign Exchange Rate-based Products
- Equity Products
- Financial Engineering
- Financial Marketing

Financial Markets

Financial Markets Group Standing Firm in Taiwan, Setting Sight on Greater China

For business synergy and efficiency, we consolidate most of the market trading and risk taking activities together and therefore Financial Markets Group is formed as of last quarter of 2005. Our group consists of young and energetic professionals, who have strong desire to grow and succeed.

Organizational Restructuring, Professional Division of Labor

As Financial Markets Group consists of four legal entities – Taipei Fubon bank, Fubon Securities, Fubon Bills Finance and Fubon Futures – our main focus has been integration and specialization. We reorganize ourselves by functions into Fixed Income, Currency, Equity, Financial Engineering and Sales, so as to remove any duplication of efforts we might have, and to further improve communication, interaction and business efficiency. At the same time, we clearly define the functions of traders, sales, structurers and quantitative analysts so that they can achieve specialization in their jobs and to maximize the potential of individuals and the group.

Financial Products, R&D Platform

In 2005, in order to continue

developing pluralized products for satisfaction of clients' needs, we successfully applied for the licenses for portfolio products, such as "NTD/Foreign Currency Swap linked with Interest Rate Derivatives", "NTD/Foreign Currency Swap linked with Foreign Exchange Option", and "NTD Time Deposit linked with Equity Derivatives" as well as "foreign-currency structured products." We issued 42 NT dollar structured notes worth NT\$1 billion, ranking among top-10 place in the market, in addition to 46 stock warrants, valued at over NT2.2 billion, also floated exchange traded fund (ETF)-based subscription warrants.

Outstanding Performance for Bills Business, Entrenched Status of Market Leader

Since its inception in 1997, Fubon Bills finance under the Financial

Market Group has been holding securely the status of a market leader. In 2005, the company ranked second place for underwriting amount in the primary bills market among newer bills finance firms and first place for trading volume of government bonds for the third year in a row. In 2004, in the evaluation of trading performance of government-bond traders by the Central Bank of China, the company also ranked first place for the third year running.

Embracing the Future by Building a Leading Financial Brand

Our main business strategies for the next two years would be high-margin hybrid business and regionalization, as we want to grow a bigger pie and expand our revenue sources on top of our existing franchise. For high-margin



hybrid business, we look to develop our skill set into service oriented and solution provider, rather than just product provider. We look to create additional values for our clients as we continue to strengthen our partnership relationship with them. We have formed this new group called Financial Engineering, which is made up of Structuring, Quantitative Analysis and Technology Solution. We look upon them as the engine of the group. This team consists of people who are creative, entrepreneur and always think out-of-the-box, therefore have the capability to design innovative financial solutions to best serve our clients' needs.

Regionalization is another

important initiative for Financial Markets Group. We look to expand beyond local market and have the ambitions to be a truly regional bank. On top of our strength in Taiwan dollar products, we look to build up our capability in G3 products and the expertise to cover regional clients. We are in the process of building up our Hong Kong branch, setting up office space and building up the team. Both offices will work together seamlessly as one and always be viewed as one.

There are a number of efforts that we will continue to pursue so that we can achieve our visions as a financial solution provider and regional bank. We would continue

to strengthen our technology front by adding state-of-the-art risk management system. This is important as it can help to expand our risk taking capability and at the same time enable us to build the new hybrid businesses that we do not have before. We are also in the process of automating many of our existing processes so as to improve our communication and interaction, further reduce our operational risks, enhance our business efficiency, and knowledge and experience sharing. At the same time we want to build the most professional team in the market-we continue to attract the best talents not only from the local market but also from other regional

- *Fubon Bills Finance was ranked No. 1 in the trading performance of the central government bonds in 2004.*
- *Fubon Bills Finance ranked as the No. 2 underwriter in the primary bills market among newer bills finance firms in 2005.*
- *Fubon Bills Finance ranks first in the bond market for trading volume of government bonds.*

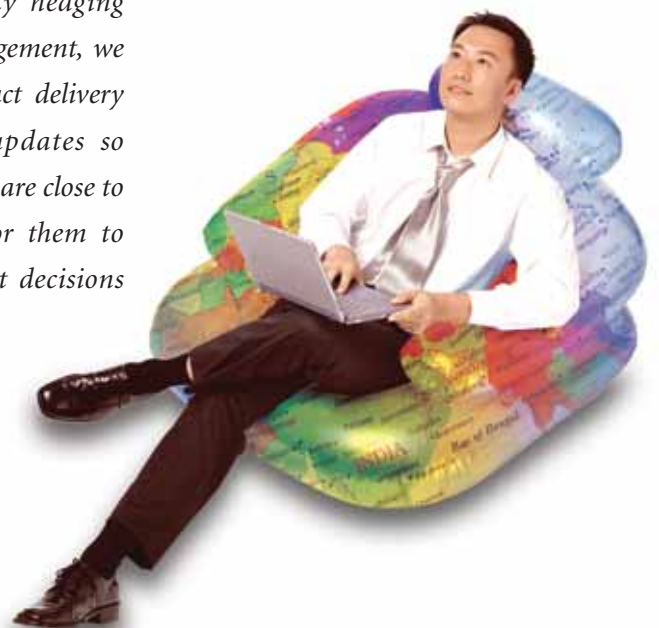
centers, and open up room within the group for individuals with the greatest potential to grow their career with the company.

With the formation of Financial Engineering, we look to create intellectual capital for the company, which we would share with everyone in Fubon. We are looking to establish further communication channels so that we can share this part of the knowledge and experience on financial market effectively within the company.

For sales business, we have reorganized our sales teams into Corporate, Small and Medium companies, Retail, Financial Institutions and Bills. We reorganize ourselves based on client segmentation

so as to better understand the clients' needs and serve them well. For our corporate clients, we look to provide not just products but financial solutions for both their investment and liability hedging needs. For wealth management, we look to automate product delivery process and market updates so that our retail customers are close to the trading markets, for them to make timely investment decisions for their portfolios.

We are a team of young and energetic professionals who strive to succeed and build our brand name in the market; we know we will.





Consumer Finance

Two Major Businesses



..... Consumer Loans

..... Credit Card

Consumer Finance

Innovative Consumer Finance Group Charges Ahead

In line with "Project One," Fubon Financial Holding's blueprint for organizational restructuring, the Consumer Finance Group was formed in the fourth quarter of 2005, integrating consumer loans and credit card operations. To meet the changing needs of the financial market, Fubon Financial is dedicated to providing innovative financial products and upgrading service quality, with an aim to expand our business scale, double our profits within three years, and become the leading consumer finance provider in Taiwan. We also hope to leverage the integrated financial platform of Fubon Financial to extend our optimized business model throughout the Greater China Area and Asia, thereby realizing our aspiration of becoming the top consumer finance brand in the global Chinese community.

Growth Strategy Emphasizing Quality and Quality

In 2005, card-debt problems led to rapid deterioration in the quality of consumer-financing assets. Faced with continuing pickup in delinquent debts, financial institutions tightened their credit terms, stopped accepting applications for high-risk products, and carried out massive write-offs of bad debts, aggravating the plight of the consumer finance market in the second half last year. The group has aggressively responded by intensifying its risk management mechanism to assure sound asset quality. We also have adjusted our operational policy, reviewed and re-positioned our product lines, and modified our client and pricing strategy in hopes of achieving steady

business growth under adverse industry circumstances.

In 2005, the Consumer Finance Group adopted a number of business strategies, including pursuit of business growth emphasizing both quality and quantity, creation of innovative products, development of multiple channels, and intensification of database marketing. Meanwhile, in consideration of the dynamic and seasonal market demand for funds, the group provided tailored financial services to enhance profit margins and intensify the capability for retaining assets. In addition, it carried out regular review of the credit status and asset quality of its clients and adjusted pricing and credit policies according to the analysis results, so as to in-

tensify post-loan management.

Our consumer loans business grew 7.1% in 2005, including 86.5% for auto loans, 7.1% for housing loans, and 5.4% for credit loans. Due to the domination of new-auto loans by financing subsidiaries of automakers and their low-interest rate strategy, it is difficult for financial institutions to penetrate that market, prompting us to switch to used-car loan market, in which we have established a strong presence after years of effort. In the area of housing loans, we rolled out three different products, the "Chihsi Program," "Second-Generation Weili," and "Fubon Wealth Manager," allowing clients to make the optimal choice according to their needs. Regarding credit loans, in addition

- *The number of platinum cards in circulation posted a sharp growth of 18.09%.*
- *Launched "the Fubon A money platinum card" featuring the highest cash rebate in Taiwan and the "Fubon a miles card" offering flight miles reward with designated airlines, thus not only successfully wrenching the customers from peers but also pushing up the monthly spending of Fubon credit cards to over the NT\$10 billion mark.*



What about your housing-loan interest rate? Fubon's "Second-Generation Weili" housing loan bears an interest rate of only **1.88%** per annum, a level that is too low to go any lower.

to continuing promotion of existing products, in line with the requirement of the regulatory agency for banks to publicize annual percentage rate, we launched "honest fund".

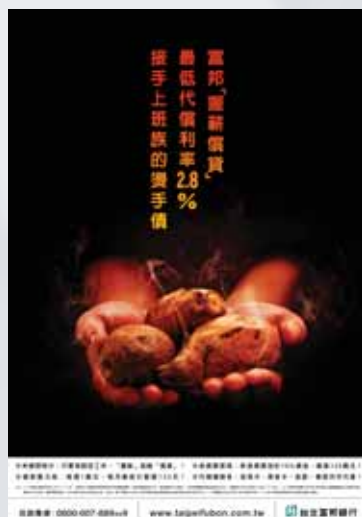
In the credit card business, as of the end of 2005 Fubon ranked sixth in the market in terms of the number of credit cards in circulation, with its credit-card spending amount and balance of revolving credit racking up annual growth rates of 6.3% and

14.6%, respectively. In addition, average monthly spending reached NT\$3,766 per card, up 8.9% over the previous year and higher than the market average of NT\$3,613, indicating the high contribution of the average trading volume of each card holder and his/her high consumption capability, in comparison with the market average. In regard to new products, 2005 was a year of dedication to R&D of new generation bank cards and the "Fubon A money platinum card" featuring the highest cash rebate in Taiwan and the "Fubon a miles card" offering flight miles reward with designated airlines would be issued successively. We also

completed the production of smart-chip credit cards and establishment of a related transaction system, and we are underway with smart card issuance and replacement of magnetic-strip cards.

Zeroing in on New Business Opportunities

We foresee the consumer banking market to be weighted down by card-debt through 2006, leading to slowdown in the growth of credit loans and the outstanding revolving credit for cash and credit cards. Due to the passage of business peak, growth momentum for secured housing loans and auto loans will slacken in comparison with the previous two years. However, we face the reality of



the overall environment with a cautious attitude and dedicate to the R&D of new products and improvement of working flow, so as to stockpile the energy for tapping the market after its recovery.

In the consumer loans sector, we will continue to develop new products and repackage existing ones to meet our clients' fund needs. We will adopt a more effective client grouping management system, utilize differentiated pricing to attract quality clientele with strong employment conditions and repayment capability, and offer preferential products to existing loan borrowers with high contribution via database marketing to avoid substitute repayment by peers. We will continue to expand the scale

of our loan assets and effectively maintain the quality of such assets. In addition, we will diversify channels to expand revenue sources. In the credit-card business, we will utilize database to analyze and understand the values of clients in different sectors, thereby realizing complete customer relationship management and niche-marketing strategy. Moreover, we will establish a client credit evaluation and consumption behavior analysis system to review the existing credit-card credit scoring system and marketing strategy so as to dynamically adjust to market changes, upgrade the quality of credit approval, and refine marketing campaigns for different client groups.

In the face of the unprecedented challenges, the Consumer Finance Group adheres to the management concept putting customers first and providing our clients with optimal products and the best possible services. We will also continue to upgrade the strength and value of our team and advance our position in the consumer banking market through innovative marketing, inspiring reward program, and scientifically-based risk management mechanisms. In cooperation with other Fubon business groups and via proper planning of products and channels, we will strive to deliver the maximum benefit to the clients of Fubon Financial, thereby achieving the good of Project One.



Wealth Management

- Covering 121 branches of Taipei Fubon Bank for deposit, remittance and wealth management businesses.
- Including 65 branches of Fubon Securities for brokerage-related businesses.

Wealth Management

Wealth Management Business Group Marches towards New Era of Success

In 2005, after an arduous restructuring, the Wealth Management Business Group, the largest unit under Fubon Financial, finally came into being. The group has mapped out a blueprint for success and is moving ahead to a brand new future. The business group mainly comprises the deposit, remittance, and wealth management businesses of Taipei Fubon Bank and brokerage-related businesses of Fubon Securities, covering 186 physical channels that include 121 branches of Taipei Fubon Bank and 65 branches of Fubon Securities. In addition to frontline service staffers, wealth management specialists and salespersons, the group also boasts virtual channels of phone banking and on-line banking, back-office supporting units for product marketing planning, settlement and delivery, Fubon Futures, and the research department of Fubon Securities Investment Services, with a total employment of over 4,000. With the strongest organization, the group provides clients with the most comprehensive and professional products and services.

Leader in Securities Brokerage and Wealth Management Markets

After 10 years of engagement in the wealth management market, in November 2005 Taipei Fubon Bank formally obtained the approval of the Financial Supervisory Commission (FSC) to launch wealth management services. To comply with FSC regulations, the bank restructured and renamed the Wealth Management Division as the Financial Services Division, under which a Wealth Management Department was established. With the support of its outstanding sales team, the bank provides a full range of wealth management products to meet the needs of clients. It was rated as the “Best-Image Wealth

Management Bank ” by the Global View Magazine in 2005, in recognition of its excellent services to clients.

Fubon Securities managed to retain its No. 2 market spot in 2005, with market shares of 6.25% in the brokerage business and 6.37% in the margin trading business, similar to its performance in 2004. As a testimony to its strength in the brokerage business, it was honored by Asiamoney magazine as the “Best Domestic Equity House for Taiwan Region.”

The securities brokerage business and wealth management business under the auspices of Fubon Financial are at the forefront of their respective fields and are expected to enjoy even more impressive performances through resource integration and sharing.

Diversified Products and Multiple Services

Taipei Fubon Bank in October 2005 launched its Collective Investment Trust Funds, the first onshore ones in Taiwan tailored-made to meet clients’ risk profiles by investing in diversified asset classes. The size of asset under management started with 3.3 billion NTD and reached 3.7 billion NTD at the end of 2005. Taipei Fubon Bank’s Collective Investment Trust Funds are well positioned to segment a market from those offered by other banks and offshore mutual funds. Offering this new investment solution enhances Taipei Fubon Bank’s brand and image of wealth management profession.

Taipei Fubon Bank is also



dedicated to providing more convenient banking services to its clients. In November 2005, it issued the “Labor Protection Card,” which includes data on personal labor pension accounts on Visa financial smart chip cards. It is also cooperating with PC Home to introduce online ATM service, which enables shoppers to make payments online directly. Taipei Fubon Bank now ranks fourth place in terms of market share for online ATM transactions.

In 2005, Fubon Securities actively

pushed “overseas sub-brokerage business,” and established the trading platform for U.S., Japanese, and Hong Kong stocks, plus overseas mutual funds. Currently, such service is available at its 60 branches. As of the end of 2005, the company ranked fifth place among domestic securities firms in terms of market share for overseas sub-brokerage business. Fubon Securities has also paid much attention to electronic trading services, continuously upgrading the service contents of its order-placement platform. In 2005, it formed a cross-industry alliance with Asus Computer and launched feedback activities for electronic trading in order to better serve its customers.

Fubon Securities has also

successfully expanded overseas. In July 2005, its U.S. subsidiary began offering securities brokerage, asset management and local financial market intelligence services to help Taiwan customers conveniently tap investment opportunities in the U.S.

Taipei Fubon Bank and Fubon Securities will continue their cooperative development, integrate their branches and resources, deeply cultivate their client base, and provide multiple investment instruments and wealth management consulting services to provide one-stop financial service.

Polishing the Fubon Brand

Taipei Fubon Bank and Fubon Securities enjoy a widely recognized and favorable brand image.

- *Taipei Fubon Bank was rated by the Global View Magazine as the “Best-Image Wealth Management Bank” in Taiwan in 2005.*
- *After experiencing severe market ordeals, Fubon Securities still managed to sustain the No. 2 position in brokerage business, and it was named by Asiamoney as the “Best Domestic Equity House for Taiwan Region” in 2005.*
- *Taipei Fubon Bank launched its Collective Investment Trust Funds, the first onshore ones in Taiwan tailored-made to meet clients' risk profiles by investing in diversified asset classes .*

Building on this image, Fubon Securities held the “Smiling from heart” activity in 2005 to encourage friendly customer service. In addition, it continued to endorse the “Fubon VIP Club” and planned various feedback activities to forge closer customer relations. In the area of corporate good citizenship, it sponsored a “Fubon Love and St. Mary’s Care” charity sale to support St. Mary’s Hospital in Taitung.

Taipei Fubon Bank and Fubon Securities are also working jointly to enhance their service quality. Through their customer relationship management system, they are able to understand the needs of clients and grasp market trends. At the end of 2005, Taipei Fubon Bank and Fubon Securities launched a plan to

upgrade the productivity of their wealth management specialists and salespersons and promoted standardized work procedures to boost operating and service efficiency and create a top-notch service image for Fubon.

Pursuing Maximum Synergy and Excellent Performance

The Wealth Management Business Group is in charge of all the domestic branches and frontline personnel of Taipei Fubon Bank and Fubon Securities under the auspices of Fubon Financial, and is committed to meeting the challenges of the role as the public face of Fubon Financial.

Looking ahead, Taipei Fubon Bank and Fubon Securities will

encourage client and business sharing in order to fully serve the interests of clients and leverage their respective specialties and expertise across business segments. The bank will develop as a consultant for long-term assets allocation, while the securities firm will transform into a financial consultant for investment portfolios.

Positioned as the frontline in client interfacing, the business group will integrate resources under the Fubon Financial, build up a powerful platform for supporting wealth management services, achieve maximum synergy among different product channels, so as to meet the various needs of clients for wealth management products and services.



Investment Management

Integration of professional investment subsidiaries and departments under Fubon Financial

- Fubon Asset Management
- Financial Department of Fubon Life Assurance
- Offshore Fund Department of Fubon Investment Consulting
- Investment Department of Fubon Insurance
- Securitization Section of Fubon Financial
- Fubon Financial Venture Capital
- Fubon Venture Capital Consulting

Investment Management

Pursuing Substantive Profits, Creating Maximum Risk Returns

The Investment Management Business Group comprises investment subsidiaries and departments under Fubon Financial Holding Co., including Fubon Asset Management, the financial department of Fubon Life Assurance, the investment department of Fubon Insurance, Fubon Financial Holding Venture Capital, Fubon Venture Capital Consulting, the offshore fund department of Fubon Investment Consulting, and the securitization section of Fubon Financial. Backed by the expertise of its investment specialists and the most advanced investment technologies, the business group aims to generate substantive and sustained profits for its clients and the company, create the best risk returns via the introduction of the most advanced investment products and risk management, and develop into a world-class investment management team capable of attracting first-class talents.

Fubon Asset Management Sound Management, Industry Champion

Weathering the acute competition in the mutual fund market, Fubon Asset Management still achieved excellent performance in 2005, with average assets under its management growing 12% to NT\$218.7 billion, securing the company the industry's top spot for the fourth consecutive year.

In 2005, due to the rise in interest rates and the promotion of the separation of bond funds by the regulatory agency, the sizes of bond bonds have declined. However, thanks to the effort of our staff and the powerful channel support from Fubon Financial Holdings Co., Fubon Asset Management still garnered a market share of 7.76%, the highest in the industry. Meanwhile, in compliance with the government's policy, the company

shouldered a loss from the structured debts in its bond funds with company capital to prevent a decline in the NAV of its bond funds. Following the takeover of the three bond funds of United Investment Trust in 2004, the company once again effectively stabilized the confidence of investors and avoided a chain reaction of panic redemption, fulfilling its mission of corporate citizenship.

Innovative Products, Outstanding Performance

In 2005, Fubon Asset Management launched the first global R.E.I.T. fund in Taiwan. The fund consolidates its image as industry trailblazer, following the launch of Taiwan's largest balanced fund by the company in 2004. The realty balanced fund has won warm market reception and prompted many industry peers to roll out

similar products. Meanwhile, we also established the first private-equity fund in 2005, "Fubon No. 1 Principal-Protection Fund," underscoring the dedication of Fubon Asset Management to the development of new products aimed at increasing client wealth. In addition, it successfully launched fixed income products to substitute for time deposits.

Thanks to the concerted effort of fund managers and investment research team, in 2005, domestic equity funds under the management of Fubon Asset Management at scored an average performance of 52.99%, far outstripping the industry average of 39.57%. Of its 11 domestic equity funds, nine ranked among the best one half of similar domestic equity funds in terms of one-year performance. Due to the outstanding performance, the Fubon Precision Fund was granted



the “2006 Taiwan Investment Fund Award” by Standard & Poor's. In its discretionary account operations, the company secured entrustment from the pension fund of public functionaries and the agricultural credit guarantee fund in 2005, boosting the scale of its discretionary-account operation by NT\$7.2 billion over the level at the end of 2004, for an annual growth rate of 32%.

Looking Ahead, Continuing Effort

With its innovation and professionalism, Fubon Asset Management has been standing at the forefront of the Taiwan market. Its outstanding performance hinges on the continuous effort of its excellent team under the leadership of Michael Ding, president of the company. In 2005, Ding led

the company in winning the franchise for the issuance of the exchange trade fund (ETF) based on Taiwan information technology index. Due to his contribution, Ding, who specializes in macro economic analysis, won the eighth Chingyi award for excellent enterprise leadership.

Not content with its current achievements, Fubon Asset Management has mapped out an aggressive blueprint for further development of its business in 2006. In line with government policy, it will carry out the separation and integration of bond funds to achieve the optimal scales. In addition, it will provide investors more pluralized wealth management vehicles and issue new products. To meet the needs of different investor

client groups, the company is actively developing private-equity funds. In the discretionary-account operation, the company will solicit businesses from corporations, individuals, and government funds, including the new labor pension fund to enhance its business performance.

Since joining Fubon Financial, Fubon Asset Management has been continuously integrating its extensive investment and wealth management information to provide a sound financial service network to its clients. The company is continuously upgrading its online fund trading and inquiry systems, in order for clients to enjoy the most current, convenient, complete, and professional services from Fubon Asset Management at any time.

- *The Fubon Precision Fund was granted the “2006 Taiwan Investment Fund Award” for the 5-year-term category by Standard & Poor’s.*
- *The Fubon Precision Fund was granted the “2006 Taiwan Investment Fund Award” for the 10-year-term category by Standard & Poor’s.*
- *Michael Ding, president of Fubon Asset Management, won the eighth Chinyi award for excellent enterprise leadership.*
- *Fubon Asset Management was rated as the “Most Improved House for Offshore Funds” by Asia Asset Management.*
- *Fubon Asset Management posted the highest market share of 8.06% in terms of assets under management.*
- *Fubon Asset Management successfully launched the first global realty fund in Taiwan—Fubon Global R. E. I. T. Fund.*
- *Domestic equity funds under the management of Fubon Asset Management scored average performance of 52.99%, far outstripping the industry average of 39.57%.*

Insurance Investment Integration of Resources, Steady Returns

Through the operation of the Investment Management Business Group, the benefits of business integration have become increasingly evident and made considerable contribution to the profits of Fubon Insurance and Fubon Life Assurance. Assets of Fubon Life Assurance exceeded NT\$250 billion at the end of 2005 and its disposable fund also surpassed NT\$200 billion, following years of steady growth in the fund size. In 2005, Fubon Life Assurance far surpassed its profit target, with an earnings per share (EPS) reaching NT\$5 and returns on equity (ROE) hitting 22.9%, the best performance since its establishment and the highest in the life insurance industry.

Looking ahead, the company will adhere to the spirit of “4Ps”—persistence, passion, professionalism, and pride and dedicate to the establishment of a working team to win the trust of clients and satisfy shareholders.

Direct Investment Venture Capital Steps Into Media Business

Fubon Financial Holding Venture Capital was established on October 17, 2003, with paid-in capital of NT\$1.8 billion, invested jointly by Fubon Financial (with 91.67% shareholding) and Fubon Securities (8.33%).

Besides handling common venture capital businesses and long-term equity investments for Fubon Financial Holding Co., Fubon Venture Capital has been gradually promoting

integrated investment banking services since its inception. In the third quarter of 2005, the company sponsored the establishment of “Fubon Media Technology,” representing its first step to extend its reach from financial services into the media sector. The new company is an embodiment of emerging media businesses integrating the cutting-edge technologies of digital content, real-time database analysis, and interactive media.

In addition to Fubon Media Technology, Fubon Venture Capital has invested in Pharma Engine Inc., Omniad Media Corporation, Cash Box Enterprise, Toppoly Optoelectronics, Optimer, Kuokuang Petrochemical, and Gsharp Corporation. As of the end of 2005, long-term investments had topped NT\$1.247 billion, accounting for 69.29% of the company's paid-in capital.



Insurance

..... Fubon Insurance

..... Fubon Life

Insurance

Custom-Made Comprehensive Insurance Protection

In 2005, Fubon Insurance and Fubon Life integrated their property and life insurance resources into the Insurance Business Group to facilitate the planning of advanced professional insurance services and provide reliable protection to individual and family clients, as well as full-scale risk management services to business clients. “Happy Family Insurance Policy” is the first innovative product to emerge after the integration. Targeting families, it differs from traditional products designed to cover individual risks. The policy offers comprehensive custom-made insurance protection to families so that all family members can enjoy their lives with well-planned risk coverage.

Fubon Insurance : Industry Leader for the 24th Straight Year

Amid the trend of financial liberalization and internationalization, premium income of Taiwan's property insurance industry continued to grow in 2005, hitting NT\$115.48 billion, NT\$6.037 billion more over the previous year. Fubon Insurance raked in written premium income of around NT\$24.3 billion, up 3.72% and commanding a market share of 20.33%, retaining its market-leading position for the 24th year running.

The “First Taiwan Insurance Excellence Award” provides an important reference for Taiwan consumers when purchasing insurance products. Fubon Insurance ranked highly in the award evaluation, winning three major

award categories: product innovation, talent cultivation, and client services. It was also a finalist in the e-commerce category, making it the biggest winner in the highly competitive award.

In addition, insurers need to actively help enterprises plan for loss prevention to minimize the possibility of loss. This is also a major part of the quality damage prevention services offered by Fubon Insurance. In 1995, Fubon Insurance led the industry in setting up a Safety and Loss Control Department devoting all available resources to research in professional skills of loss control. In September 2005, Fubon Insurance won the “Innovation of the Year” award presented by the Asia Insurance Review. In October, it

won the “Excellent Innovative Enterprise Award” category of the Science and Technology Development Award sponsored by the Ministry of Economic Affairs.

Dedication to R&D, Innovation, and Business Synergy

Fubon Insurance garnered premium income of NT\$1.5 billion through cross-selling by other Fubon Financial members, which accounts for 6% of its total written premium income in 2005 contributing greatly to the company's business development.

In recent years, Fubon Insurance has endeavored to shift focus from price-based competition to innovation and R&D based growth. It is designing innovative and competitive insurance products featuring extensive coverage and multiple



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protection. In three years, the company has rolled out 65 new insurance products, not only satisfying various needs of consumers but also injecting fresh vitality to the company's business. In 2005, new products brought the company NT\$2.7 billion premium income, accounting for 11% of the total.

Social, economic and technological development has been rapidly changing the values and lifestyles of people in Taiwan, resulting in greater insurance needs. Fubon Insurance therefore will continue to develop and launch new products to provide full insurance protection to its customers. Fubon Insurance will leverage its management advantage, better utilize integrated resources, and actively promote further

integration with various business groups under Fubon Financial, so as to extend the reach of its products and provide more diversified and sophisticated products and services. Meanwhile, via the expansion of its customer base and the cultivation of closer relations with existing clients, the business group will reinforce its competitive strength and achieve maximum business synergy.

Fubon Life : Diversifying Marketing Channels, Business Performance Hitting New Records

In 2005, Fubon Life enjoyed a strong performance, with new business premiums approaching NT\$67 billion, for a 12.4% market share, the second highest in the

industry. Of the total, NT\$46 billion came from bancassurance, far outstripping its peers. After-tax profits hit NT\$2.8 billion, with earnings per share (EPS) reaching NT\$5, the highest in the industry.

The outstanding performance of Fubon Life in 2005 can be attributed mainly to cross-selling synergy of members of Fubon Financial. Fubon Life fully utilizes the advantage of integrated marketing for its financial products, to meet the diversified wealth-management needs of its clients. Bancassurance generated the highest amount of business last year. Consequently, Fubon Life will boost its cooperation with Taipei Fubon Bank in cross-selling, enhance existing bancassurance



Fubon Insurance

- *Fubon Insurance remains its market-leading position for the 24th straight year by outperforming local peers with written premium income at around NT\$24.3 billion, a market share of 20.33% and an annual growth at 3.72%.*
- *Fubon Insurance wins in three major award categories—“product innovation”, “talent cultivation”, and “client services” in the “First Taiwan Insurance Excellence Award”.*

Fubon Life

- *Fubon Life creating excellent business records again with new business premiums income nearing NT\$67 billion and a 12.4% market share, the second highest in the industry.*
- *Taking lead in bancassurance revenue at NT\$46 billion, far outstripping its peers.*
- *After-tax profits hits NT\$2.8 billion, with earnings per share (EPS) reaching NT\$5, the highest in the industry.*
- *Fubon Life has been assigned the rating of “twAA+” by Taiwan Ratings.*

agency channels, and tap the new insurance agency channels at large-scale banks, so as to sustain stable business growth.

In addition, Fubon Life has been actively developing institutional business. In 2005, it secured the insurance-saving business for the employees of the Industrial Technology Research Institute, as its first move to step into the labor pension market. Moreover, the company is among the first batch of life insurance firms to obtain approval of the Labor Affairs Council and the Bureau of Insurance of the Financial Supervisory Commission to provide labor pension insurance. It is also one of the few companies to have applied with regulators for

the screening of annuity insurance products, as part of its effort to become the first life insurance company to launch annuity insurance products in Taiwan.

Development of Integrated Insurance Products and Services

In line with the establishment of the Insurance Business Group, Fubon Life in 2005 rolled out a number of products combining life and property insurance, such as a group insurance project, combining medical insurance, and property damage insurance. Other such products include the first family-based “Happy Family Insurance Policy”, offering packaged insurance services covering life, auto and house insurance for families; and other

combination products satisfying the wealth-management needs of different customer groups, such as those with higher protection needs, healthy people, and retirees. Fubon Life also offers effective management of multiple insurance policies for families. These new products have enjoyed a strong performance in the market.

In the future, Fubon Life will continue to promote integrated life and property insurance products. Under the management concepts of “trustworthiness, amiability, professionalism, and innovation” and with the support of the extensive resources of the Fubon Financial, Fubon Life will strive for excellent performance and provide the safest personnel protection.



Fubon Bank (Hong Kong)

2005 marked the beginning of a new era for Fubon Bank. On 6 April, the Bank changed its legal name to reflect the Bank's integration with the Fubon Group. With the new name, came a new business strategy that stressed providing a "Value Banking" experience for its customers.

Leveraging in the financial strength of the Fubon Group, Standard & Poor's upgraded the Bank's credit ratings to BBB+ and A-2 in September 2005. Fubon Bank has a professional team to provide wealth management services to our customers.

Fubon Bank (Hong Kong)

Value Banking

2005 was a landmark year for the Bank. On April 6, the Bank officially changed its name to Fubon Bank (Hong Kong) Limited. A full-scale advertising and promotion campaign was launched to introduce the Fubon name to the general public in Hong Kong, with the Bank receiving special praise for its innovative television commercials and print and billboard visuals. The Bank understands that brand awareness is a continuous process and will continue to build out the Fubon brand in Hong Kong.

A major focus for the Bank in 2005 was to introduce its services and products to a wider audience in Taiwan and China. The Bank has established two new divisions that cater solely to serving Taiwanese and their businesses in the Greater China region. The Offshore Ambassador team aims to provide wealth management services and products to individuals, while the Taiwan corporate teams within the Corporate Banking team and the Hire Purchase division tailor-make financial packages for Taiwanese owned companies.

To widen the Bank's wealth management product capability, the Bank intends to reactivate its asset management license, as well as re-engineer the Bank's securities business this year. More investments will be made in the Bank's various wealth management businesses in 2006. There is great confidence among the management team of the Bank that the returns from these investments will make the institution a stronger, more dynamic place to work and do business.

The Bank's headcount has risen to more than 800 staff during the year, despite strong competition

for talent within the local banking industry. The increase in the Bank's staffing levels illustrates that the newly named bank has lost none of its vigor or goodwill within the community.

Operating Performance

The total assets of the Bank increased by 9% to HK\$49.8 billion in 2005. The loan portfolio reached HK\$21.5 billion, an increase of 18% with growth in most loan types and major economic sectors. Loan quality continued to improve with the amount of impaired loans reduced to 0.99% of the total loan portfolio compared to 1.42%.

The Bank maintains an investment portfolio of Hong Kong Exchange Fund Bills and Notes and quality commercial paper to enhance the yield of its surplus funds. In light of the rising interest rate environment, the Bank shortened the duration of its portfolio compared to 2004. This resulted in more rapid repricing of the investment portfolio, but yields were relatively lower due to the shorter tenors of the investments. The Bank increased deposits by 8%. The rise in interest rates led to a decline of net interest income of

17% to HK\$504 million for 2005 and the net interest margin also declined by 45 basis points to 1.10%.

Fees and other operating income reached HK\$327 million, a 45% increase compared to 2004. Fee income represented 39% of the Bank's total operating income, compared to 27% in 2004. Sales of structured products for its wealth management clients saw good growth. Fubon Bank (Hong Kong) also leveraged on its position within the Fubon Group by expanding its insurance and unit trust businesses.

Despite an expanded operation to support the growth of the balance sheet, the cost of the name change campaign and costs incurred in cultivating the Bank's Taiwan business, operating expenses were kept at HK\$603 million, similar to 2004's level.

The Bank recorded a reversal of provision of HK\$20 million for impaired loans and advances as compared with a total charge of HK\$51 million in 2004. However, the gain on disposal of available-for-sale securities decreased from HK\$93 million to a loss of HK\$18 million due to a volatile and rising interest rate environment. The



reversal of impairment losses on other assets also dropped from HK\$47 million to HK\$5 million, while asset disposal gains were HK\$39 million compared with HK\$17 million. The overall contribution to the Bank's net profit from these items decreased to HK\$26 million from HK\$156 million. In view of the abovementioned factors, net profit for 2005 amounted to HK\$241 million, representing a decline of 20% from 2004. Return on assets was 0.5% while the return on equity was 6.5%.

Retail Banking

The retail distribution network experienced great changes following the Bank's name in April. The branch network was refurbished and went through a complete rationalization phase, with low performing branches closed and

performing branches renovated and improved. The Bank will open new branches in better locations in the future. The integration of the Bank's Ambassador service into the branch network resulted in a significant increase in fee-based product sales. Unit trust income rose 94%, while insurance sales (in partnership with CitiFubon Insurance), more than tripled. Deposits rose to near record levels by the end of the year. This was testament to the strength of acceptance of both the changes in the branch network and the new levels of service provided by the Bank.

Credit card acquisition was a major focus for the Consumer Finance division, with an emphasis on generating recurrent income from non-revolving customers. Total cards in force rose by 29% in 2005. The Bank launched new personal loan

products and several personal loan promotions were launched during the year. The personal loan portfolio increased by over a third compared with 2004.

Wholesale Banking

The strong operating performance of Corporate Banking in 2004 continued throughout 2005, with loans rising at a 36% pace (net of run offs) and delinquency remaining at very low levels. The Bank provides SMEs with lease and hire purchase financing for the acquisition of production equipment and vehicles. The Bank's leading position in the market was maintained in 2005, with loans rising as the economy improved. The Bank's SME finance division specializes in providing innovative financing solutions to small and medium sized enterprises in Hong

The Bank launched co-brand credit cards with different institutions and companies in 2005 to cater to the needs of its customers: for example, The Federation of Medical Societies of Hong Kong, the Hong Kong Chinese Civil Servants' Association, Seiyu Department Store and Bonluxe. The results were overwhelming. Total number of credit cards rose by 29% in 2005.

A major achievement for the Bank in 2005 was its role as a sub-underwriter and receiving bank for a major Taiwanese initial public offering on the Hong Kong stock market. The Bank is fully capable of assisting Taiwanese companies to float their shares in Hong Kong through the strong teamwork of the Bank's Taiwan business teams, Securities Investment Services, Retail Distribution Network and a centralized processing unit in Operation Division to support IPO activities.

Kong and China. The number of customers increased by 81%. Loans outstanding jumped 152%. The Taiwan Corporate Banking team is a new addition to the Bank, and consequently 2005 was a year of building the infrastructure and personnel of the department. The Bank has hired a team of experienced professionals to formulate and execute the rollout of the Bank's corporate banking offerings to Taiwanese customers in Hong Kong and the mainland.

Financial Markets

Fubon Bank (Hong Kong)'s Financial Markets provides securities brokerage, foreign exchange services and centralised cash management for deposit taking and lending, management of trading securities, management of the Bank's interest rate risk,

execution of management's investment strategies in debt securities, and the overall funding of the Bank.

The Bank acted as a sub-underwriter and receiving bank for a major Taiwanese initial public offering on the Hong Kong stock market. Financial Markets recorded a significant increase in gross revenue from other fee income. The broadening of the product horizon to satisfy customer demands for diversity, included introducing currency, credit, interest, equity-linked, commodity-linked, fund-linked, and liability hedging products during the year.

Summary

2005 was a challenging year that was successfully navigated by the Bank. Volatile financial markets earlier in the year were followed

by rapid increases in local interest rates. The name change and the brand building campaign were well received, aiding the Bank's 9% increase in its balance sheet. The credit upgrade by Standard & Poor's later in the year was an outward sign of the benefits of being part of the Fubon Group. The Bank's first underwriting role illustrates the potential that the Bank can achieve as the product/service platform for the Fubon Group.

There are many new initiatives in the pipeline in 2006, some of which have already been successfully launched. Further investments will be required so that the Bank can achieve its goal of being the Fubon Group's platform for the distribution of wealth management products and services to customers throughout the Great China region and beyond.



One



Firm

Via customer-oriented organization and work-flow restructuring, we hope to integrate Fubon into a financial holding firm that provides our clients with comprehensive financial services and inculcates in their mind image of first-class services, quality, and product innovation.



Via comprehensive strategic planning and enhancement of organizational efficiency, we aspire to double our profits within three years, thereby becoming the financial holding firm that is able to create the highest value in the minds of our shareholders.

One



Goal



One



Team

Via a professional and performance-oriented management system, we aim to provide ample space for the career development of our employees and to develop a corporate culture of teamwork, thereby becoming the financial holding firm most worthy of devotion in the minds of employees.

Caring for Taiwan with Love and Action

The motto “Give what you get from society back into society” has been a firm core-value concept of Fubon Group. The group has been giving back to society not only through donations of money or one-time activities, but also, more importantly, through the inspiration of ideal concepts, the pinpointing of the cause of social problems, and providing long-term care and cultivation. Therefore, via a public-welfare platform comprising four foundations, Fubon Financial has been dedicated to diverse social welfare activities, which won it the affirmation of the “best social contribution award” of the third Taiwanese Enterprise Award in 2005.

Fubon Charity Foundation

Fubon Cultural & Educational Foundation

Fubon Art Foundation

Taipei Fubon Bank Charitable Foundation

The Fubon Charity Foundation

The Fubon Charity Foundation is a public service pioneer of Fubon Group and has been devoted to the care of the underprivileged groups since its establishment in 1988. In 2005, it set up a network for application of cash subsidies for underprivileged in cooperation with public and private hospital, village and township governments, and social service organizations to provide medical, burial, living, or educational subsidies to 270 low-income persons. In addition, it offered timely medical and living subsidies to 1,276 low-income persons through the help of Apple Daily, Taipei Cathay General Hospital, Hualien Tzu Chi General hospital, Hualien Mennonite Christian Hospital, St. Mary’s Hospital in Taitung, and Yeoumin Hospital in Taoyuan.

In order to help children of low-income and aboriginal families to receive education and develop self-support capabilities, the foundation rallied Fubon employees and the public to support them through the “Making Friends with Love” project. In 2005, with the total donation reaching NT\$49.38 million, the Fubon Charity Foundation was able to provide regular fixed subsidies to help 6,859 children from low-income families stay school. It also sponsored the “2005 Charitable Fair” with sales, reaching NT\$3 million to help low-income children receive education. The Fubon Charity Foundation and volunteers from Fubon Group also delivered books and toys to aboriginal communities in remote areas and guided their children to read and learn.

In cooperation with the Fubon “Caring Volunteers’ Club”, the Fubon Charity Foundation made donations to the relief works for the Asian tsunami victims and took part in a number of other charitable activities, including the cleaning-up of

Bagua Mountain and philanthropic sales raising money for St. Mary’s Hospital in Taitung. In addition, the foundation promoted a project that allowed Taipei Fubon Bank credit card holders to convert their card purchase bonus points into cash donations to social welfare groups. Through this way, it raised NT\$2.1 million in 2005, which was distributed to 12 social welfare groups.

The Fubon Cultural and Educational Foundation

The Fubon Cultural and Educational Foundation was established with the objective to provide good values for teenagers, and in recent years, it has been endeavoring to promote education of media literacy, such as the “Fubon Young Voice” program in 2005, encouraging teenagers to transform from passive media consumers to active message creators.

In 2005, under the auspices of “Fubon Young Voice” program, the Fubon Cultural and Educational Foundation set up a new website

(www.youngvoice.com.tw), providing a platform for publication of creative works by teenagers, a venue where teenagers can communicate their ideas with their peers. The foundation also invited noted performing artist Jay Chou to be the spokesman of the program, in order to inspire young people to speak out bravely and engage in creative endeavors. In addition, the foundation sponsored the "Fobon Young Voice Award" to encourage outstanding creative talent. It also subsidized 47 media clubs at senior high and vocational high schools, and arranged opportunities for them to publicize their creative works at the website and in the radio broadcast program "Chat about media."

In order to instilling media literacy on campuses, the Fubon Cultural and Educational Foundation launched the "Fubon Campus Lectures Tour", inviting advertisers, journalists, and scholars to share their knowledge with students. The long term sponsored Fubon Bulls baseball team has made great performance this year, winning many first baseball titles. In addition, to upgrade the academic atmosphere for domestic financial research and cultivate professional financial talent, the foundation has sponsored the "Fubon Financial Forum" and set up the "Fubon Financial Research Scholarship" and "Scholarship for National Taiwan University English-Language MBA Courses."



Caring for Taiwan with Love and Action



The Fubon Art Foundation

The motto "Art in life, life in art" has been the principle value in which the art foundation has been founded upon and has set a goal to spread this belief amongst the community. By introducing "Feast of Mind, buffet of Art" in 1997, the foundation has continuously worked to bridge the gap between businessmen and artists by establishing a common topic, "The force of Beauty". Through this, the foundation has sparked artistic creations and continues to foster this energy into the root of Taiwanese culture.



Through exhibitions, lectures, and products, the foundation is able to offer different channels in spreading art to the public. For example, the foundation has utilized office building as the pedestal for 18 large scale exhibitions that had been held over the past years. The interactive use of this space allows for the public to encounter art in close proximity. Most importantly, it sparks conversation in artistic concepts and therefore invites art into the lives of the community. Each individual exhibition has a central theme and is designed to be read thoroughly making these exhibitions unique from traditional ones. Understanding the true core of these creative artworks, the artist creates from the heart. More importantly they are able to convey their reasons



in this artistic process and to have the public receive that message. Therefore, this technique of true reason and decoding has heightened the culture of Fubon group and its employee, developing a shared interest. This is a priceless asset the Foundation has introduced and wishes to share with everyone.

“Fubon lecture” has been an important factor in art education, targeting toward the career group. Each year, the foundation offers 120 classes with around 6000 students enrolled in diverse topics, such as aesthetic, culture, creative, architecture, performance art, theatre, film, and music. In 2005, the founder of Global View Monthly, Publisher Mr. Koo approached the foundation for an interview, commenting and documenting the exceptional approach the art foundation took in offering literature/art in the form of a valuable tool for the career group.

Furthermore, to mold the belief of “the force of Beauty” into a tangible vision, the art foundation started in 2003 to combine art with merchandise, using Fubon annual gifts as a marketing channel. The main goal is to promote art in a tangible form allowing art to be exposed to a larger pool, giving Fubon a unique brand in promoting culture and art. In 2004 to 2005, the limited editions of “a cup filled with blessings” and “illustration

workshop” has gained the public’s love and made the foundations’ products a fashionable trend in collecting.

It is the goal of the foundation to introduce the saying “Art in life, life in art” into every household and become the core belief in life. The Art Foundation will continue to share these blessings with the public because it is our goal to make the environment sparked with innovations, filled with warmth, and experience the colors of creativity poured into the streets of our urban surroundings. We believe this is the image and road to the future.

Taipei Fubon Bank Charitable Foundation

Based on the spirit of “lottery for public welfare,” Taipei Fubon Bank Charitable Foundation is dedicated to the care of underprivileged groups. In cooperation with public-sector assistant programs, it also has been providing long-term subsidies to help low-income people leave poverty through savings or business start-ups. Near 300 teenagers have participated in the “personal development account” in Taipei city, “dream-come-true account” in Kaohsiung city, and “rising-sun life development account” in Kaohsiung city, which allow depositors to obtain corresponding amount of donations after the maturity of their savings accounts. The “lottery dream-come-

true” program is the Taiwanese version of the TV program “Saving the Poor,” and is now assisting 20 low-income unemployed, mid-aged people in Taipei city and county to launch start-ups via the provision of under NT\$1 million interest-free loans and other assistances.

To encourage the handicapped, both physically and mentally, developing artistic and athletic talent, in 2005 the Foundation subsidized Chinese Taipei teams to attend various international tournaments. It also sponsored the second Taipei Fubon Bank Talent Award for the handicapped, offering cash awards totaling NT\$3.65 million. In addition, it sponsored the program of “bringing love to prisons,” inviting winners of the talent award and handicapped performing artists to 10 correctional institutions, including the Green Island prison, to share with prisoners their life stories. It also subsidized a number of religious groups, including the Resurrection Church in Muzha, the Baosheng Temple in Danshuei, and Jinguangming Temple in Sansia, to carry out community daily-care programs for seniors. It also organized public-welfare lottery agents to form a loving volunteers’ club, which donated NT\$3.43 million to help 535 low-income people weather financial crises.



Financial Services

.....	Fubon Financial
.. Insurance	Fubon Insurance Fubon Life
· Investment	Fubon Securities Fubon Asset Management Fubon Investment Services Fubon Futures Fubon Securities Finance Fubon Venture Capital Fubon Financial Venture Capital Fubon Venture Capital Consulting
..... Banking	Taipei Fubon Bank Fubon Bank (Hong Kong) Fubon Bills Finance Fubon AMC Fubon Direct

Property Services

....	Fubon Land
....	Fubon Real Estate Management
....	Fubon Construction
....	Fubon Property Management

Telecommunications Media Services

....	Taiwan Mobile
....	Taiwan Fixed Network
....	Win TV Broadcasting
....	Fubon Multimedia Technology
....	Fuyang Media Technology

Charitable Activities

....	Fubon Charitable Foundation
....	Fubon Cultural & Educational Foundation
....	Fubon Art Foundation
....	Taipei Fubon Bank Charitable Foundation

In order to assist the College of Law of National Taiwan University in carrying out its relocation project, the Fubon Group has donated a new building. Wan-Tsai Tsai, Fubon Group Chairman, is seen speaking at the ground-breaking ceremony for the new building.



The Fubon Group was born on April 19, 1961, when Cathay Insurance, known today as Fubon Insurance, opened for business as Taiwan's first private property and casualty insurance company. In 1992, after years of continued expansion, Fubon Group Founder and Chairman Wan-Tsai Tsai decided to change the corporate name to "Fubon" and bring together all group affiliates under the new corporate identification system. After over four decades of perseverance, the Fubon Group has become the most comprehensive financial services group in Taiwan, with interests in land development, construction, and telecommunications media services as well. The Fubon Group adheres to a business philosophy emphasizing "trustworthiness, amiability, professionalism and innovation," and is dedicated to developing innovative new products to satisfy society's diversified needs and embrace the new era of internationalization.

Board of Directors

Daniel Tsai

Chairman, Fubon Financial

Richard Tsai

Vice Chairman & CEO, Fubon Financial

Barry Lam

Chairman, Quanta Computer

Yancey Hai

Vice Chairman & CEO, Delta Electronics

Hong-Chang Chang

Professor, National Taiwan University

Su-Gin Hung

Deputy Commissioner, Bureau of Finance,
Taipei City Government

Ruey-Cherng Cheng

Deputy Commissioner, Dept. of Budget,
Accounting & Statistics, Taipei City Government

Tsan-Ming Shih

Chairman, Fubon Insurance

Peng-Yuan Cheng

President, Fubon Life

Kung-Liang Yeh

Chairman, Fubon Securities

Jesse Y. Ding

President, Taipei Fubon Bank

Victor Kung

President, Fubon Financial

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Chia-Chen Lin

Supervisor, Fubon Financial

C. H. Lu

Chairman, Neoflex Technology Ltd

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Chairman, Fubon Financial

Richard Tsai

Vice Chairman & CEO, Fubon Financial

David Chang

President, Fubon Securities

Hui-Ming Cheng

Chief Financial Officer

Peng-Yuan Cheng

President, Fubon Life

Daniel Chiang

Chief Investment Officer

Jesse Y. Ding

President, Taipei Fubon Bank

Michael Ding

Chairman, Fubon Investment Services

Victor Kung

President, Fubon Financial

Jin-Yi Lee

CEO, Fubon Bank (Hong Kong)

Tsan-Ming Shih

Chairman, Fubon Insurance

Kung-Liang Yeh

Chairman, Fubon Securities

Business Groups

Corporate & Investment Banking

Jesse Y. Ding

Head

Jerry Han

President

Financial Markets

David Chang

Head

Michael Yong

Co-President

Trinh Du

Co-President

Consumer Finance

Jesse Y. Ding

Head

C.F. Lin

President

Wealth Management

Kung-Liang Yeh

Co-Head

David Chang

Co-Head

Chao-Yang Kao

Co-President

Lehman Cheng

Co-President

Investment Management

Victor Kung

Head

Michael Ding

Co-President

Daniel Chiang

Co-President

Howard Lin

Co-President

Insurance

Tsan-Ming Shih

Co-Head

Peng-Yuan Cheng

Co-Head

Steve T. H. Chen

President

**FUBON FINANCIAL HOLDING CO., LTD.
AND SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2005 and 2004
(With Independent Auditors' Report Thereon)**

Independent Auditors' Report

The Board of Directors
Fubon Financial Holding Co., Ltd.:

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

We conducted our audits in accordance with generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" of the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements 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 Fubon Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Compilation of Principles for Financial Statements of Financial Holding Companies", and generally accepted accounting principles in Republic of China.

April 12, 2006

Note to Reader

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

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2005 and 2004
(expressed in thousands of New Taiwan dollars)

Assets	2005		2004		Liabilities and Stockholders' Equity	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (notes 4 and 27)	\$ 84,816,424	5	68,751,375	5	Short-term borrowings (note 27)	\$ 4,994,475	-	2,000,000	-
Due from Central Bank and other banks (note 5)	170,198,961	10	80,056,966	5	Commercial paper payable (notes 16 and 27)	31,801,159	2	7,272,226	1
Short-term investments, net (notes 6, 26 and 27)	324,410,419	20	484,553,455	32	Current installments of bonds payable (notes 18 and 19)	1,498,370	-	12,845,503	1
Notes and accounts receivable, net (note 10)	64,953,806	4	59,114,242	4	Bonds sold under agreements to repurchase (notes 8 and 26)	137,169,095	9	97,136,589	6
Securities finance margin receivables (note 9)	17,720,005	2	17,954,354	1	Due to Central Bank and other banks (note 26)	42,843,359	3	37,810,184	3
Other financial assets – current	839,091	-	1,576,919	-	Stock warrant liabilities (note 17)	534,657	-	87,120	-
Trading securities, net (notes 7 and 27)	23,665,867	2	20,156,332	1	Notes and accounts payable	38,291,059	2	30,006,266	2
Future trading margins	4,193,152	-	-	-	Securities finance margin deposits received (notes 9 and 26)	1,854,901	-	1,908,364	-
Bonds purchased under agreements to resell (notes 8 and 26)	3,453,834	-	8,738,338	1	Payable for securities financing (notes 9 and 26)	2,333,714	-	2,410,398	-
Prepaid expenses and other current assets (note 22)	5,568,557	-	2,402,415	-	Other current liabilities (note 22)	11,893,076	1	28,311,511	2
Total current assets	<u>699,820,116</u>	<u>43</u>	<u>743,304,396</u>	<u>49</u>	Payables to customers	4,193,152	-	-	-
Margin loans, and exchange bills negotiated and discounted, net (notes 11 and 26)	<u>646,820,833</u>	<u>39</u>	<u>521,665,780</u>	<u>34</u>	Total current liabilities	<u>277,407,017</u>	<u>17</u>	<u>219,788,161</u>	<u>15</u>
Long-term investments (notes 12, 13, 26 and 27)					Deposits and remittances (notes 15 and 26)	<u>874,379,448</u>	<u>53</u>	<u>852,415,984</u>	<u>56</u>
Long-term equity investments	28,884,134	2	31,438,728	2	Borrowed from Central Bank and other banks (note 26)	<u>3,821,243</u>	<u>-</u>	<u>16,421,438</u>	<u>1</u>
Long-term bonds investments	151,146,914	9	126,393,653	9	Long-term liabilities:				
Real estate investment net	8,368,236	1	6,279,122	-	Bonds payable (note 18)	18,500,000	1	12,000,000	1
Other long-term investments	4,071,110	-	-	-	Financial bonds (note 19)	63,060,700	4	58,900,000	4
Total long-term investments	<u>192,470,394</u>	<u>12</u>	<u>164,111,503</u>	<u>11</u>	Reserve for land revaluation increment tax	9,263	-	9,263	-
Other financial asset – noncurrent	<u>39,465,957</u>	<u>2</u>	<u>17,138,226</u>	<u>1</u>	Accrued pension liability (note 21)	343,207	-	303,477	-
Fixed assets (notes 13, 26 and 27)					Other	1,378,472	-	2,614,295	-
Land	9,555,264	1	9,548,177	1	Total long-term liabilities	<u>83,291,642</u>	<u>5</u>	<u>73,827,035</u>	<u>5</u>
Buildings	12,469,216	1	12,520,956	1	Other liabilities:				
Other equipment	8,981,780	-	8,121,526	1	Reserve for operations and other liabilities (note 20)	213,794,324	13	156,299,627	11
	31,006,260	2	30,190,659	3	Investment-type insurance policy liabilities	37,100,579	2	30,772,785	2
Less: accumulated depreciation	(7,963,897)	-	(7,312,743)	(1)	Other	4,614,339	-	3,013,335	-
Construction in progress and advance payments	322,629	-	405,222	-	Total other liabilities	<u>255,509,242</u>	<u>15</u>	<u>190,085,747</u>	<u>13</u>
Net fixed assets	<u>23,364,992</u>	<u>2</u>	<u>23,283,138</u>	<u>2</u>	Total liabilities	<u>1,494,408,592</u>	<u>90</u>	<u>1,352,538,365</u>	<u>90</u>
Intangible assets	<u>623,959</u>	<u>-</u>	<u>1,061,871</u>	<u>-</u>	Total stockholders' equity (notes 22 and 23)				
Other assets (notes 14, 21, 22, 26 and 27)					Common stock	80,652,974	5	82,541,193	5
Investment-type insurance policy assets	37,100,579	2	30,772,785	2	Common stock to be retired	(3,462,039)	-	(1,424,069)	-
Refundable deposits	7,601,955	-	6,158,331	1	Total stock	<u>77,190,935</u>	<u>5</u>	<u>81,117,124</u>	<u>5</u>
Deferred income tax assets, net	1,399,457	-	201,393	-	Capital surplus	51,016,628	3	55,218,700	4
Others	5,405,134	-	5,390,453	-	Retained earnings:				
Total other assets	<u>51,507,125</u>	<u>2</u>	<u>42,522,962</u>	<u>3</u>	Legal reserve	17,534,279	1	16,033,447	1
					Special reserve	2,690,758	-	2,422,870	-
					Unappropriated retained earnings	8,161,247	1	15,619,413	1
					Total retained earnings	<u>28,386,284</u>	<u>2</u>	<u>34,075,730</u>	<u>2</u>
					Equity adjustments				
					Unrealized losses on valuation of long-term investments (note 12)	(871,128)	-	(243,722)	-
					Cumulative foreign currency translation adjustments	(86,106)	-	(671,046)	-
					Net loss from unrecognized pension cost	(32,241)	-	(972)	-
					Total equity adjustments	<u>(989,475)</u>	<u>-</u>	<u>(915,740)</u>	<u>-</u>
					Treasury stock	-	-	(12,723,131)	(1)
					Minority interest	4,060,412	-	3,776,828	-
					Total stockholders' equity	<u>159,664,784</u>	<u>10</u>	<u>160,549,511</u>	<u>10</u>
					Commitments (notes 26, 28 and 30)				
Total assets	<u>\$ 1,654,073,376</u>	<u>100</u>	<u>1,513,087,876</u>	<u>100</u>	Total liabilities and stockholders' equity	<u>\$ 1,654,073,376</u>	<u>100</u>	<u>1,513,087,876</u>	<u>100</u>

See accompanying notes to financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2005 and 2004
(expressed in thousands of New Taiwan dollars)

	2005		2004	
	Amount	%	Amount	%
Revenues:				
Interest income (notes 25 and 26)	\$ 47,823,948	21	39,976,446	23
Gross written premiums (note 26)	96,555,020	43	63,311,192	37
Reinsurance premium	7,501,857	3	5,728,791	3
Recovery from provision	25,045,370	11	16,587,782	10
Service fees (note 26)	13,081,929	6	14,372,666	8
Gain on trading and investment securities	8,696,078	4	4,910,716	3
Gain on long-term equity investments, net (note 12)	366,217	-	257,067	-
Gain on disposal of long-term investments	-	-	237,830	-
Investment-type insurance policy revenue	14,589,765	7	18,364,029	11
Other operating revenues (notes 25 and 26)	<u>10,167,909</u>	<u>5</u>	<u>8,771,005</u>	<u>5</u>
Total revenues	<u>223,828,093</u>	<u>100</u>	<u>172,517,524</u>	<u>100</u>
Expenses:				
Interest expense (notes 25 and 26)	22,354,362	10	14,010,378	8
Reinsurance premium ceded	12,127,242	5	13,204,425	8
Commission expense (note 26)	5,554,263	2	5,011,504	3
Benefits and claims	32,909,870	15	21,772,647	13
Provision for premium reserves	81,155,353	37	47,459,257	27
Provision for special claims reserve	1,680,932	-	1,186,345	1
Brokerage securities transaction charge	3,978,830	2	4,786,569	3
Provision for operating reserve	11,380,511	5	3,772,007	2
Investment-type insurance policy expense	14,589,765	7	18,364,029	10
Other operating expenses (notes 25 and 26)	<u>5,217,412</u>	<u>2</u>	<u>2,036,948</u>	<u>1</u>
Total expenses	<u>190,948,540</u>	<u>85</u>	<u>131,604,109</u>	<u>76</u>
Gross operating profit	32,879,553	15	40,913,415	24
Operating expenses (notes 21 and 26)	<u>24,167,416</u>	<u>11</u>	<u>23,513,693</u>	<u>14</u>
Operating income	8,712,137	4	17,399,722	10
Nonoperating revenues	4,859,715	2	5,129,366	3
Nonoperating expenses	<u>1,613,356</u>	<u>1</u>	<u>2,975,196</u>	<u>2</u>
Net income before extraordinary item, cumulative effect of changes in accounting principle, and income tax	11,958,496	5	19,553,892	11
Income tax expense (note 22)	<u>1,168,095</u>	<u>-</u>	<u>3,709,103</u>	<u>2</u>
Net income before extraordinary item and cumulative effect of changes in accounting principle	10,790,401	5	15,844,789	9
Cumulative effect of changes in accounting principle (note 3)	-	-	(144,092)	-
Pre-acquisition income	-	-	(493,833)	-
Acquisition income	<u>\$ 10,790,401</u>	<u>5</u>	<u>15,206,864</u>	<u>9</u>
Attribution:				
The Company's income	\$ 10,641,252	5	15,008,318	9
Minority interest income	<u>149,149</u>	<u>-</u>	<u>198,546</u>	<u>-</u>
Acquisition income	<u>\$ 10,790,401</u>	<u>5</u>	<u>15,206,864</u>	<u>9</u>
	Before tax	After tax	Before tax	After tax
Earnings per share (note 24):				
Earnings per share – basic	\$ <u>1.54</u>	<u>1.39</u>	<u>2.52</u>	<u>2.02</u>
Earnings per share – diluted	\$ <u>1.54</u>	<u>1.39</u>	<u>2.46</u>	<u>1.97</u>

See accompanying notes to financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2005 and 2004
(expressed in thousands of New Taiwan dollars)

	Common Stock	Common stock to be retired	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings Unappropriated Retained Earnings	Unrealized Losses on Valuation of long-term Investments	Cumulative Foreign Currency Translation Adjustments	Unrecognized Pension cost	Treasury Stock	Minority Interest	Total
Balance at January 1, 2004	\$ 82,541,193	-	57,498,913	14,629,019	2,657,235	14,248,430	(579,225)	91,092	(1,998)	(24,617,207)	-	146,467,452
Appropriations of retained earnings (note 23):												
Legal reserve	-	-	-	1,404,428	-	(1,404,428)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(12,451,635)	-	-	-	-	-	(12,451,635)
Employee stock bonus	-	-	-	-	-	(3,000)	-	-	-	-	-	(3,000)
Remuneration to directors and supervisors	-	-	-	-	-	(12,637)	-	-	-	-	-	(12,637)
Reversal of special reserve	-	-	-	-	(234,365)	234,365	-	-	-	-	-	-
Additional paid-in capital from long term equity investment by equity method	-	-	(5,694)	-	-	-	-	-	-	-	-	(5,694)
Cash dividends received by subsidiaries from the company (note 23)	-	-	589,475	-	-	-	-	-	-	-	-	589,475
Cumulative foreign currency translation adjustments	-	-	-	-	-	-	-	(762,138)	-	-	-	(762,138)
Unrealized long-term investment loss adjustments	-	-	-	-	-	-	335,503	-	-	-	-	335,503
Net loss for unrecognized pension cost adjustment	-	-	-	-	-	-	-	-	1,026	-	-	1,026
Treasury stock transferred to employees (note 23)	-	-	69,561	-	-	-	-	-	-	7,395,103	-	7,464,664
Reissuance of treasury stock in 2004 (note 23)	-	(1,424,069)	(2,982,647)	-	-	-	-	-	-	4,406,716	-	-
Convertible bonds payable converted into common stock	-	-	3,886	-	-	-	-	-	-	92,257	-	96,143
Premium on disposal of treasury stock by subsidiaries	-	-	45,206	-	-	-	-	-	-	-	-	45,206
Changed in minority interest	-	-	-	-	-	-	-	-	-	-	3,776,828	3,776,828
Net income of 2004	-	-	-	-	-	<u>15,008,318</u>	-	-	-	-	-	<u>15,008,318</u>
Balance at December 31, 2004	<u>82,541,193</u>	<u>(1,424,069)</u>	<u>55,218,700</u>	<u>16,033,447</u>	<u>2,422,870</u>	<u>15,619,413</u>	<u>(243,722)</u>	<u>(671,046)</u>	<u>(972)</u>	<u>(12,723,131)</u>	<u>3,776,828</u>	<u>160,549,511</u>
Appropriations of retained earnings (note 23):												
Legal reserve	-	-	-	1,500,832	-	(1,500,832)	-	-	-	-	-	-
Special reserve	-	-	-	-	267,888	(267,888)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(13,037,459)	-	-	-	-	-	(13,037,459)
Employee stock bonus	-	-	-	-	-	(3,000)	-	-	-	-	-	(3,000)
Remuneration to directors and supervisors	-	-	-	-	-	(13,079)	-	-	-	-	-	(13,079)
Additional paid-in capital from long-term equity investment by equity method	-	-	1,657	-	-	-	-	-	-	-	-	1,657
Cumulative foreign currency translation adjustments	-	-	-	-	-	-	-	584,940	-	-	-	584,940
Unrealized long-term investment loss adjustments	-	-	-	-	-	-	(627,406)	-	-	-	-	(627,406)
Net loss for unrecognized pension cost adjustment	-	-	-	-	-	-	-	-	(31,269)	-	-	(31,269)
Reissuance of treasury stock (note 23)	-	-	12,577	-	-	-	-	-	-	1,303,437	-	1,316,014
Reissuance of treasury stock by subsidiaries (note 23)	-	-	39	-	-	-	-	-	-	-	-	39
Retirement of treasury stock in 2004 etc.	(1,888,219)	1,424,069	(526,750)	-	-	(551,806)	-	-	-	1,542,706	-	-
Retirement of treasury stock in 2005	-	(3,462,039)	(3,689,595)	-	-	(2,725,354)	-	-	-	9,876,988	-	-
Changed in minority interest	-	-	-	-	-	-	-	-	-	-	97,114	97,114
Amounts that affected by the first-time-merged subsidiaries	-	-	-	-	-	-	-	-	-	-	186,470	186,470
Net income of 2005	-	-	-	-	-	<u>10,641,252</u>	-	-	-	-	-	<u>10,641,252</u>
Balance at December 31, 2005	<u>\$ 80,652,974</u>	<u>(3,462,039)</u>	<u>51,016,628</u>	<u>17,534,279</u>	<u>2,690,758</u>	<u>8,161,247</u>	<u>(871,128)</u>	<u>(86,106)</u>	<u>(32,241)</u>	<u>-</u>	<u>4,060,412</u>	<u>159,664,784</u>

See accompanying notes to financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004
(expressed in thousands of New Taiwan dollars)

	2005	2004
Cash flows from operating activities:		
Net income	\$ 10,790,401	15,206,864
Adjustments to reconcile net income to net cash:		
Minority interest income	(149,149)	(198,546)
Amortization and depreciation	1,661,419	1,500,427
Provision for (reversal of) bad debts	(87,635)	74,626
Loss on disposal of fixed assets	13,883	4,332
Loss (gain) on disposal of short-term investments	(138,655)	35,799
Recovery gains on short-term investments	(1,467)	(214,979)
Gain on long-term investments under equity method	(177,494)	(257,067)
Gain on disposal of long-term investments	(1,146,387)	(20,885)
Unrealized losses on evaluation of trading securities	74,795	264,552
Provision for business reserve	57,494,697	31,864,686
Loss on disposal of collateral assumed	-	27,844
Loss on asset impairment	130,886	-
Change in operating assets and liabilities:		
Decrease in other financial assets – current	737,828	-
Increase in trading securities	(3,584,330)	(3,923,025)
Decrease in receivables for securities financing	234,349	944,335
Decrease (increase) in bonds purchased under agreements to resell	5,284,504	(7,442,384)
Increase in receivables	(5,751,928)	(6,578,490)
Increase in future trading margins	(4,193,152)	-
Increase in prepayments and other current assets	(3,166,142)	(1,447,992)
Increase (decrease) in payables for securities financing	(76,684)	758,628
Increase in repurchased bonds payable	40,032,506	75,855,463
Increase (decrease) in stock warrant liabilities	447,537	(40,192)
Increase in payables	8,284,793	6,599,555
Increase (decrease) in refundable deposit for securities financing	(53,463)	585,442
Increase (decrease) in current liabilities	(16,418,435)	21,144,465
Increase in payables to customers	4,193,152	-
Decrease (increase) in short-term investments	<u>160,283,158</u>	<u>(124,676,240)</u>
Net cash flows provided by operating activities	<u>254,718,987</u>	<u>10,067,218</u>
Cash flows from investing activities:		
Decrease (increase) in due from Central Bank of China and banks	(90,141,995)	45,541,699
Increase in loans	(125,155,053)	(29,481,877)
Increase in long-term investments	(34,327,080)	(118,478,434)
Purchase of fixed assets	(1,925,755)	(7,366,041)
Proceeds from sale of long-term investments	17,203,383	20,759,606
Proceeds from sale of fixed assets	37,713	669,416
Increase in other assets	(8,546,251)	(18,877,111)
Increase in other financial asset – noncurrent	<u>(36,007,731)</u>	<u>-</u>
Net cash flows used in investing activities	<u>(278,862,769)</u>	<u>(107,232,742)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings and commercial paper payable	27,523,408	(949,866)
Increase (decrease) in bonds payable and financial bonds	(686,433)	7,673,492
Increase in deposits	21,963,464	112,399,923
Increase in due to Central Bank of China and banks	5,033,175	8,832,151
Increase in refundable deposits and other liabilities	6,732,705	17,745,041
Payment of cash dividend, employee bonus, and remuneration for directors and supervisors	(13,053,538)	(12,575,643)
Decrease in borrowed from Central Bank and other banks	(12,600,195)	(38,541,442)
Treasury stock transferred to employees	1,316,014	7,464,664
Changed in minority interest	254,010	-
Net cash flows provided by financing activities	<u>36,482,610</u>	<u>102,048,320</u>
Amounts that affected by the first-time-merged subsidiary	<u>3,618,056</u>	<u>-</u>
Effect of exchange rate changes	<u>108,165</u>	<u>418,094</u>
Net increase in cash and cash equivalents	<u>16,065,049</u>	<u>5,300,890</u>
Cash and cash equivalents at beginning of period	<u>68,751,375</u>	<u>63,450,485</u>
Cash and cash equivalents at end of period	<u>\$ 84,816,424</u>	<u>\$ 68,751,375</u>
Supplemental disclosure of cash flow information:		
Cash payments of interest	<u>\$ 17,306,639</u>	<u>12,686,179</u>
Cash payments of income tax	<u>\$ 3,183,496</u>	<u>2,531,132</u>
Financing and investing activities not affecting cash:		
Long-term investments transferred to shore-term investments	<u>\$ 6,604,034</u>	<u>6,108,039</u>
Short-term investments transferred to long-term investments	<u>\$ 458,109</u>	<u>52,545,001</u>

See accompanying notes to financial statements.

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(all amounts expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization and Business Scope

Fubon Financial Holding Co., Ltd. (the Company) was established in December 2001 pursuant to the Financial Holding Company Law in Taiwan.

In connection with the formation of the Company, substantially all of the assets and liabilities and related operations of Fubon Insurance Co., Ltd. (Fubon Insurance) were transferred to a new wholly owned subsidiary named Fubon Insurance. The “former” Fubon Insurance was renamed Fubon Financial Holding Co., Ltd. Secondly, shares of Fubon Securities Co., Ltd. (Fubon Securities), Fubon Commercial Bank Co., Ltd. (Fubon Bank), and Fubon Life Assurance Co., Ltd. (Fubon Life Assurance) were exchanged for shares in the Company on December 19, 2001.

On August 28, 2002, shares of Fubon Asset Management Co., Ltd. (Fubon Asset Management) were exchanged for shares in the Company.

On December 23, 2002, shares of TaipeiBank Co., Ltd. (TaipeiBank) were exchanged for shares in the Company.

In September 2003, shares of Fubon Direct Marketing Consulting Co., Ltd. (Fubon Direct Marketing) were purchased in cash by the Company.

In October 2003, shares of Fubon Holding Venture Capital Co., Ltd. (Fubon Holding Venture Capital) were purchased in cash by the Company.

In March 2004, 75% of the shares of International Bank of Asia, Limited renamed Fubon Bank Hong Kong, Limited (Fubon Bank (Hong Kong)) were purchased in cash by the Company.

In August 2004, shares of Fubon Asset Management Service Co., Ltd. (Fubon AMC) and Fubon Investment Management Consulting Co., Ltd. (Fubon IMC) were purchased in cash by the Company.

The primary business of the Company includes banking, financial bills, credit cards, trust insurance, securities, futures, ventures, investments, investments in foreign financial institutions and other financial related services approved by the management committee.

As of December 31, 2005, the Company and its subsidiaries' had 12,107 employees.

The following describes the consolidated subsidiaries:

- 1) Fubon Insurance was incorporated on December 19, 2001, and undertook all rights and liabilities of the former Fubon Insurance Co., Ltd., which was incorporated in 1961. It is primarily engaged in the business of property and casualty insurance.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- 2) Fubon Securities was incorporated on July 11, 1988, as a company with an integrated securities firm license. Fubon Securities' operations include brokerage, margin lending, securities financing and refinancing, security transfer services, brokerage services and securities underwriting.
- 3) Fubon Bank was authorized by the ROC Ministry of Finance (MOF) to operate as a commercial bank on August 1, 1991, and began operations on April 20, 1992. Fubon Bank was established pursuant to the Banking Law to engage in all commercial banking operations defined by the Banking Law. On January 1, 2005, Fubon Bank merged with Taipei Bank.
- 4) Fubon Bills Finance Co., Ltd. (Fubon Bills Finance), incorporated on March 18, 1997, is a wholly owned subsidiary of Fubon Bank. Fubon Bills Finance is primarily engaged in short-term bills brokerage and underwriting, certification, guarantee, and endorsement of commercial paper.
- 5) Fubon Life Assurance was incorporated on July 3, 1992, under the laws of the Republic of China and received its license on June 3, 1993. Fubon Life Assurance is engaged in the business of life insurance underwriting.
- 6) Fubon Asset Management was incorporated in June 1992 as a company limited by shares. The Company's operations include raising securities investment trust funds through issuance of beneficiary certificates to invest in securities and related products, managing discretionary trust funds, and other operations as approved by the authorities for securities investment trusts.
- 7) TaipeiBank started as a financial institution of the Taipei City Government (TCG) in 1969. On July 1, 1984, it was reorganized into a limited liability corporation and was renamed City Bank of Taipei Co., Ltd. The bank was subsequently renamed TaipeiBank Co., Ltd. on January 1, 1993.

On January 1, 2005, TaipeiBank was merged with Fubon Bank with TaipeiBank as the surviving entity from this merger. However, TaipeiBank was renamed Taipei Fubon Bank on the same day.

Taipei Fubon Bank engages in

1. all commercial banking operations authorized under the Banking Law;
2. trust operations;
3. handling of the public-benefit lottery operations; and
4. other authorized operations.

In addition to the aforementioned activities, Taipei Fubon Bank continues to handle certain functions for the TCG, primarily acceptance of payments for taxes, fines, and other fees, as well as the payments of principal and interest on bonds issued by the TCG.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 8) Fubon Bank (Hong Kong) was founded in 1982. Fubon Bank (Hong Kong) engages in the following:
1. retail and consumer banking;
 2. commercial banking;
 3. investment banking;
 4. investment and financial management services; and
 5. properties for sale and other service.

(2) Summary of Significant Accounting Policies

The Company prepares the accompanying financial statements in accordance with “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Compilation of Principles for Financial Statements of Financial Holding Companies” and ROC generally accepted accounting principles. The significant accounting policies used in preparing such financial statements are summarized below:

The following entities have been included in the consolidated financial statements:

	December 31, 2005	December 31, 2004
Fubon Insurance	100.00%	100.00%
Taipei Fubon Bank	100.00%	100.00%
Fubon Bank	-	100.00%
Fubon Life Assurance	100.00%	100.00%
Fubon Asset Management	100.00%	100.00%
Fubon Securities	100.00%	100.00%
Fubon Direct Marketing	100.00%	100.00%
Fubon Holding Venture Capital	100.00%	100.00%
Fubon Bank (HK)	75.00%	75.00%
Fubon AMC	100.00%	100.00%
Fubon IMC	100.00%	100.00%
Fubon Bills Financial	100.00%	100.00%
Fubon Futures	100.00%	100.00%
Fubon Investment Service	100.00%	100.00%
Fubon Securities (BVI)	100.00%	100.00%
FB Gemimi	77.78%	74.27%
Fubon Securities USA	100.00%	100.00%
Fubon Futures Management	100.00%	100.00%
Fubon Multimedia Technology	72.77%	72.77%

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2005	December 31, 2004
Fubon Nominees (Hong Kong)	100.00%	100.00%
Fubon Bank Vanuatu	100.00%	100.00%
Fubon Credit (HK)	100.00%	100.00%
Fubon Trustee (HK)	100.00%	100.00%
Fubon Securities (HK)	100.00%	100.00%
Fubon Fund Management (HK)	100.00%	100.00%

The following entities have been not included in the consolidated financial statements because they are deemed immaterial to the reporting entity:

	December 31, 2005	December 31, 2004
Fubon Bank Insurance Agent	100.00%	100.00%
Fubon Leasing	100.00%	100.00%
Taipei Bank Insurance Agent	100.00%	100.00%
Fubon Insurance Agent	100.00%	100.00%
Fubon Constraction Management	100.00%	100.00%
Fu-Sheg Insurance Agent	100.00%	100.00%
Fu-Sheg General Insurance Agent	100.00%	100.00%
Shing Bon Venture capital	100.00%	100.00%
Citi Fubon Life Insurance (H.K) (not controlled by the Company)	50.00%	50.00%

For the year ended December 31, 2004, the subsidiaries included in the consolidated financial statements are Fubon Insurance, Taipei Fubon Bank, Fubon Bank, Fubon Life Assurance, Fubon Asset Management, Fubon Securities, Fubon Bank (HK), Fubon Bills Financial, Mars Limited, IBA Bank, IBA Credit, International Bank of Asia (Trustee), IBA Securities and IBA Fund Management. Subsidiaries excluded from the consolidated financial statements are companies whose total assets and operating revenues individually do not exceed 10% of total assets and operating revenues of the Company and collectively do not exceed 30% of total assets and operating revenues of the Company.

Starting 2005, in accordance with the newly revised Republic of China Statement of Financial Accounting Standars No. 7 "Consolidated Financial Statements", the consolidated financial statements shall include the accounts of all material subsidiaries. Consequently, Fubon Direct Marketing, Fubon Holding Venture Capital, Fubon AMC, Fubon IMC, Fubon Futures, Fubon Investment Service, Fubon Securities (BVI), FB Gemini, Fubon Securities USA and Fubon Multimedia Technology were added to the consolidated accounts. Nonetheless, according to SFAS No. 7 "Consolidated Financial Statements", prior years' financial statements need not be restated. All material inter-company transactions have been eliminated in the consolidated financial statements.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

1) Principles of consolidation

The consolidated financial statements include the accounts of the Company, the subsidiaries (in accordance with the regulations of the Taiwan Securities and Futures Bureau (SFB)), and certain majority-owned (50% or more) subsidiaries in accordance with the requirements of ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

2) Principles of classifying assets and liabilities as current and noncurrent

Cash or cash equivalents with no usage restriction, assets held for the purpose of trading, and assets held short term which are expected to be converted to cash within 12 months subsequent to the balance sheet date are classified as current assets; otherwise, they are classified as noncurrent assets.

Liabilities that must be fully liquidated within 12 months subsequent to the balance sheet date are classified as current liabilities; all others are classified as noncurrent liabilities.

3) Foreign currency transactions

Transactions denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the respective transaction dates. Receivables, other monetary assets, and liabilities denominated in foreign currencies are translated into New Taiwan dollars at the exchange rates prevailing on the balance sheet date. Exchange gains or losses are credited or charged to the current year's net income.

The financial statements of foreign branches and overseas business units (OBUs) are translated into New Taiwan dollars using the spot rates as of each financial statement date for asset and liability accounts, average exchange rates for profit and loss accounts, and historical exchange rates for equity accounts. The translation differences arising from these translations are included in the cumulative foreign currency translation adjustment in stockholders' equity.

Long-term equity investments denominative in foreign currencies are recorded at historical rates. These investments are remeasured at spot rates on balance sheet date. Gain or losses between historical and spot rates are recorded as "cumulated translation adjustments" under stockholders' equity.

4) Statement of cash flows and cash equivalents

For purposes of the statements, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and have maturity dates, which do not present significant risks of changes in value resulting from changes in interest rates.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- 5) Short-term investment, bonds sold/purchased under agreement to repurchase/resell, and trading securities

Marketable equity securities and trading securities are recorded at cost when acquired and are stated for at the lower of aggregate cost or market value on the balance sheet date. Stock dividends are treated as increases in the number of shares. The cost of marketable equity securities and of trading securities sold is determined by the weighted-average-cost method except for foreign corporate bonds disposed of by Fubon Life Assurance, which are stated using the specific identification method.

The amount by which aggregate cost exceeds market value is reported as a loss in the current year. In subsequent periods, recoveries of market value are recognized as a gain to the extent that the market value does not exceed the original aggregate cost of the investment.

Sales or purchases of bonds and short-term bills under agreements to repurchase or resell for the Company are stated at cost. The difference between the original purchase cost (or sale price) and the contracted resale (or repurchase) amount is recognized as interest income (or interest expenses).

- 6) Allowance for and write-off of doubtful accounts

All loans are recorded initially as the actual amount lent out and reported at their outstanding principal balances net of any allowance for doubtful accounts. Allowance for doubtful accounts is determined by an evaluation of the collectibility of loans, receivables (including overdue receivables and interest receivables), and advance accounts. Doubtful accounts are written off when the possibility of recovery is remote.

- 7) Long-term investments

1. Long-term equity investments

Long-term investment of less than 20% in an investee's common stock is accounted for under the cost method; however, if a decline in the investment's value is considered other than temporary, the investment is written down to reflect such a decline, and the resulting loss is recognized in the period which such decline occurred.

Long-term investments are accounted for under the equity method when the percentage of ownership exceeds 20%, or is less than 20% but the Company has significant influence over the investee. The difference between investment cost and the investee's net equity is amortized on a straight-line basis over a period of 5~10 years.

Stock dividends are not recognized as income but treated as increases in the number of shares held. The cost of long-term equity investments disposed of is determined using the weighted-average method.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

The increase in the Company's proportionate share in the net assets of its investee resulting from its subscription to additional shares of stock issued by such investee, at a rate not proportionate to its existing equity ownership in such investee, is credited to a capital reserve account. Any decrease in the Company's proportionate share in the net assets of the investee is debited against the existing balance of the similar capital reserve account, where the credit balance can only be offset to zero. The excess amount, if any, is debited against unappropriated retained earnings.

When short-term investment is reclassified to long-term investment or vice versa, the Company compares the book value of such investment against its fair value. If the market price is lower than its book value, the Company immediately recognizes those losses due to the decline in fair value and uses the fair value as the new cost basis.

2. Long-term bond investments

Long-term bond investments, which are intended to be held for over one year, are recorded at amortized cost. Premiums and discounts are amortized on a straight-line basis over the period when the Company intends to hold the investment.

The Company uses lower-cost-or-market method to evaluate long-term bond investments. When the market value is lower than its book value, the Company recognizes a loss there on against allowance for decline in market value. If the market value rises, the allowance is reversed up to the aggregate amount of loss previously recognized.

3. Investments in real estate

Investments in real estate are recorded at cost when acquired; however, if a decline in the investment's value is considered other than temporary, the investment is written down to reflect such a decline, and the resulting loss is recognized in the period when such decline occurs. The cost of an investment in real estate, its corresponding revaluation surplus, and accumulated depreciation are written off upon retirement or disposal. The gain or loss resulting from disposal of an investment in real estate is recognized as an operating gain or loss currently.

8) Fixed Assets

Property, equipment and leasehold assets are stated at cost, and major purchases, renewals and improvements are capitalized. Repairs and maintenance are expensed as incurred. Depreciation of fixed assets other than land is calculated on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the leases or useful lives of such improvements.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following are the estimated useful lives for depreciation and amortization of fixed assets.

Transportation equipment	3 to 10 years
Furniture, fixtures, and equipment	3 to 8 years
Other facilities	3 to 20 years
Leasehold improvements	3 years
Buildings	3 to 60 years

Gains or losses on the disposal of fixed assets are recorded as nonoperating income or losses.

9) Asset Impairment

Effective January 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". According to SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss previously recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

10) Intangible assets

Operating rights and goodwill are recorded at cost and amortized on a straight-line basis over a period of 5~20 years.

11) Other assets

1. Deferred charges

Deferred charges are stated at cost and amortized on a straight-line basis. Intellectual properties are amortized over 3 years, and bond issuance costs are amortized over the redemption period.

2. Collateral assumed

Collateral assumed is recorded at cost in (included in other assets) and revalued at the lower of cost or net realizable value as of the balance sheet date.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

3. Nonperforming loans

Overdue loans which are outstanding for years or more are transferred to nonperforming loans. When the principal amount and related accrued interest of these overdue loans are transferred to nonperforming loans, accrual of interest income thereon is discontinued internally.

4. Statutory deposits

In accordance with the ROC Insurance Law, the Company has deposited with the Central Bank of China an amount equal to 15% of the issued capital of the subsidiaries engaged in life insurance and property and casualty insurance as a guarantee.

5. Investment-type insurance policies

Fubon Life Assurance is engaged in selling investment-type insurance policies. The payment of premiums, net of administrative expenses, is recorded in a separate account which should only be used in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. According to accounting practices in the insurance industry, the assets, liabilities, revenue and expenses are recorded as “investment-type insurance policy assets”, “investment-type insurance policy liabilities”, “investment-type insurance policy revenue” and “investment-type insurance expenses”, respectively.

12) Stock warrant liabilities

Proceeds received from issuing stock warrants are recorded as “stock warrant liabilities” in the accompanying consolidated balance sheets. The Company is allowed to repurchase those warrants as a reduction in stock warrant liabilities. Stock warrant liabilities are valued at the fair value on the balance sheet date. A decrease in stock warrant liabilities is recognized as a gain on issuance of stock warrants. In accordance with the SFB regulations, the increase in stock warrant liabilities is deferred and not recorded as a loss in the current period if such increase is less than the unrealized gain on revaluation of the trading securities – hedge position. However, if the increase in stock warrant liabilities exceeds the unrealized gain on revaluation of trading securities – hedge position, the excess amount is recognized as a loss in the accompanying consolidated income statement.

13) Convertible bonds

The excess of the stated redemption price over the par value is accrued as compensation interest payable over the redemption period, using the effective interest method.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

14) Reserve for operations

Reserve for operations includes provisions for guarantees and losses on breach of contract, etc., which are recognized by the banking insurance and securities industry, in accordance with the regulations of the respective authorities.

15) Derivative financial instruments

1. Foreign currency forward contracts

In order to avoid the foreign-currency-denominated assets, and liabilities expose on the exchange risk of Foreign currency forward contracts, the company booked “the amount” based on the spot rate on contracting day. The difference between the exchange rate on the contract date and exercise date is amortized and charged to current income over the terms of the forward contract using a straight-line method. As of the balance sheet date, the difference causing by spot rate adjustment was recognized as current income, and so it was on the settlement day.

2. Foreign currency swaps

Memorandum entries are made on contract dates of the notional amounts of foreign currency swap contracts entered into for hedging purposes. Unrealized gains or losses resulting from the subsequent change in foreign currency exchange rates are recognized as current period gains or losses.

3. Cross-currency swaps

For cross-currency swap contracts, memorandum entries of nominal amounts are recorded on the contract date. The premiums or discounts arising from the contracts are amortized over the prevailing period. Cross-currency swap accounts receivable and accounts payable are netted on the balance sheet date, with the differences classified listed as assets or liabilities. For trading contracts, differences in market value are recognized as transaction gains or losses. For nontrading contracts, interest receivables or payables, and amortized principal as determined by agreement are recognized as current interest income or expense, along with the hedged items.

4. Asset swaps

Asset swap contracts for nontrading purpose involve in the exchange of interest payments of fixed-rate bonds and stock conversion rights of convertible bonds for floating-rate interest. On each settlement date/balance sheet date, gains or losses on the differences between these rates are recorded as adjustments to interest income associated with the bonds being hedged.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. Interest rate future contracts

Margin deposits paid by the Bank on futures contracts for trading purpose are recognized as assets. Both unrealized gain or loss arising from changes in market value of future contracts on the balance sheet dates, and realized gain or loss calculated on contract settlement date or from early settlement, are recognized as current income or loss.

6. Interest rate swaps

As no principal amounts are exchanged for interest rate swaps upon settlement, the transactions are recorded in the memo account on the contract dates. For interest rate swap contracts used for purposes other than trading, net 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 items being hedged.

7. Options

The premium paid or received on future option contracts entered into for hedging purposes are recognized as an asset or liability on the contract date. Losses or gains arising from such transactions are recognized as an adjustment of the item being hedged.

The premium paid or received for option contracts entered into for trading purposes is recognized as an asset or liability on the contract date. Losses or gains arising from such transactions are recorded as transaction gains or losses. At the balance sheet date, the assets and liabilities arising from option contracts are restated using the market value of the contracts, and the resulting differences are recognized as income or loss.

8. Forward interest rate agreements (FRAs)

Only memorandum entries at notional principals are made on the contract date for forward interest rate agreements. Interest receivables or payables accrued per contract rates and the hedged positions are reported as current interest revenue or expenses.

9. Credit default swap

Credit default swaps involve paying premium to transfer credit risk of denominated entities to third party. Such transactions are recorded by memorandum entries on the contract dates. The premium paid or accrued by the Bank for a credit default swap contract on each settlement or balance sheet date is recorded as current expense.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

10. Asset swaps and options

The Company sells corporate bonds or options from convertible bonds to other investors. Asset swaps do not involve ownership transfer and are recorded by memorandum entries; the interest exchange payments are recorded as a net amount and re-measured using the market price.

The Company is engaged in convertible bond option transactions. The holder pays an option premium to the Company and acquires the conversion rights of the strike price in the contract period, and the seller has the obligation to sell the option to the holder. The option premium is recorded in the balance sheet. The convertible bond option transactions are recorded by memorandum entries.

16) Pension plan

The Company's domestic subsidiaries maintain and fund a retirement plan covering all regular employees. Payments of pension benefits are calculated based on the employees' average monthly salary for the last years prior to approved retirement and base point (b.p.) entitlement. The b.p. earned by each employee is based on 2 b.p. for the first 15 years of services and 1 b.p. from the 16th year and thereafter. Under the retirement plan, the pension benefits obligation will be fully compensated by the Company's domestic subsidiaries.

The Labor Pension Act of R.O.C. ("the Act"), effective from July 1, 2005; adopts a defined contribution pension plan. In accordance with the Act, employees of the Company's domestic subsidiaries (who were hired before July 1, 2005) 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. Employees who are hired by the Company's domestic subsidiaries after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the company's domestic subsidiaries is required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages and deposit the contribution in a personal retirement benefit account. However, the employee retirement plan maintained by the Company's domestic subsidiaries has not yet been amended to conform to this Act.

Under SFAS No. 18 "Accounting for Pensions", an actuarial valuation of a pension asset or liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on difference between the accumulated benefit obligation and the fair value of plan assets. Net periodic pension cost recognized in accordance with SFAS No. 18 includes the current service cost, net transition asset or obligation, prior service cost and unrecognized gain (loss) on a pension plan which is amortized on straight-line basis over the expected average remaining service period of the employees.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

Pursuant to the Act, the Company's domestic subsidiaries also contribute cash at the rate of 6% of gross salary of each employee to the Council of Labor Affairs. This contribution is recognized as pension expenses for the current period when the contribution is actually made. The pension expenses for foreign subsidiaries will be contributed based on the regulation stated by local government.

17) Revenue recognition

Interest income from the Company's banking loans is accrued on unpaid principal balances in accordance with the terms of the loan. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans, until it is collected.

Service fees are recognized as income upon receipt and substantial completion of activities involved in the earnings process.

For Fubon Insurance, the direct written premiums are recognized when the policy becomes effective, and the policy-related expenses are recognized as incurred. Reinsurance premiums assumed and reinsurance commission expenses are recognized upon assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized when notified to make claim payments. At the end of each quarter, adjustments are made based on past experience.

18) Income tax

Income tax expense is estimated based on accounting income. Deferred income tax is determined based on the differences between accounting income and taxable income, using statutory tax rates in effect during the years in which the differences are expected to reverse. The income tax effects due to temporary differences are recognized as deferred income tax assets or liabilities. The income tax effects of temporary differences arising from future tax-deductible items, unused loss carryforward, and unused income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly. Deferred income tax assets and liabilities are classified as current or noncurrent based on the classification of the related assets and liabilities. If there are no related assets or liabilities, deferred tax assets and liabilities are classified based on the expected period of realization.

The 10% surtax on undistributed earnings, computed according to the ROC Income Tax Law, is charged to current income tax expense in the year when the stockholders resolved not to distribute the earnings.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

In accordance with the Financial Holding Company Act, Article 49, the Consolidated Company has adopted Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return starting 2002, and pay the 10% surtax on undistributed earnings from 2003. When preparing its financial statements, the Consolidated Company accounted for its income tax in conformity with SFAS No. 22, "Accounting for Income Taxes". However, the Consolidated Company also adjusted the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with Fubon Financial Holding as the taxpayer. The adjustments resulting from using Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return are recorded under receivable from (payable to) related parties.

19) Treasury stock

When the Company buys back issued stock, the Company adopts the provisions of Statement of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock", to debit treasury stock account for the amount paid for the repurchase. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus – treasury stock; otherwise, the excess of the cost over the price is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus account is insufficient to cover the excess of the cost over the price, retained earnings are debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group, and grouped according to the cause of the repurchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus account is insufficient to cover the difference, retained earnings are debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus generated from similar treasury stock transactions.

In accordance with SFB regulations, the Company's stock held by its subsidiaries are deemed as treasury stock under SFAS No. 30, "Accounting for Treasury Stock", when the Company recognizes investment income or losses and it applies the related accounting treatment.

20) Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted-average number of shares outstanding in each period. The effect of any increase in outstanding shares due to the issuance of stock dividends from retained earnings or capital surplus is retroactively adjusted upon approval of the Ministry of Economic Affairs (MOEA), regardless of the period when such incremental shares were outstanding. The convertible bonds that have been issued are treated as common stock equivalents when calculating for diluted earnings per share.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Reasons for and Effects of Accounting Changes

Starting from January 1, 2005, the Company adopted the Statement of Financial Accounting Standards No. 35, "Impairment of Assets", to assess whether there is objective evidence that financial assets may be impaired.

The adoption of this new accounting principle resulted in the recognition of impairment losses of NT\$130,886 thousand and a decrease in income before tax of NT\$130,886 thousand for the year ended December 31, 2005.

Fubon Life Assurance has also changed its accounting policy on determining the cost of government bonds from specific identification method to weighted-average-cost method effective January 1, 2004. Such change in accounting policy decreased short-term investments by NT\$89,633, decreased long-term bond investments by NT\$54,459, and decreased income before tax by NT\$144,092 for the year ended December 31, 2004.

Pursuant to a directive issued by the MOF, sales or purchases of bonds and short-term bills under agreements to repurchase or resell were historically treated as outright sales or purchases by Fubon Bank and TaipeiBank. In accordance with Accounting Research and Development Foundation of the Republic of China Interpretation Letter No. (93) 039, Fubon Bank and TaipeiBank changed their accounting policy, and such transactions are now accounted for as lending transactions from 2004. Due to difficulties computing the effect on retained earnings at the beginning of the period in which a change in accounting principle is made, disclosure in accordance with the requirements of ROC SFAS No. 8 is limited to showing the effect of the change on the results of operations for the period of change. The change in accounting policies increased income before tax for the year ended December 31, 2004, of NT\$785,165.

(4) Cash and Cash Equivalents

	December 31, 2005	December 31, 2004
Cash on hand and petty cash	\$ 7,738,800	7,861,216
Bank deposits	53,115,255	31,773,102
Cash equivalents	13,612,782	22,714,876
Notes and checks for clearing	10,371,837	6,421,776
Less: Guarantee deposits	<u>(22,250)</u>	<u>(19,595)</u>
Total	\$ <u>84,816,424</u>	<u>68,751,375</u>

For details of pledged assets, please refer to note 27.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Due from Central Bank and Other Banks

	December 31, 2005	December 31, 2004
Due from Central Bank	\$ 100,054,223	1,982,396
Call loans to banks	45,965,961	54,901,965
Checking and settlement accounts	6,438,720	5,340,131
Required deposits reserve	17,034,607	17,141,821
Reserves for deposit – foreign – currency deposits	60,791	89,967
Other	<u>644,659</u>	<u>600,686</u>
Total	<u>\$ 170,198,961</u>	<u>80,056,966</u>

The deposit reserves are determined monthly at prescribed rates based on the average balances of customers' deposits. The required deposit reserve is subject to withdrawal restrictions, but other reserves (checking, settlement accounts and foreign-currency deposit) can be withdrawn anytime.

(6) Short-term Investments, Net

The major components of short-term investments as of December 31, 2005 and 2004 were as follows:

	December 31, 2005	December 31, 2004
Common stock and beneficiary certificates	\$ 45,825,211	40,020,067
Government bonds	114,853,500	93,654,244
Commercial paper	14,608,334	30,109,345
Treasury bonds	3,731,585	3,842,221
Corporate bonds	25,531,038	17,214,413
Financial bonds	35,053,176	14,481,463
Foreign securities	11,367,551	11,329,887
Acceptances	4,349	9,024
Negotiable certificates of deposit	<u>73,882,313</u>	<u>274,706,571</u>
	324,857,057	485,367,235
Less: unrealized exchange loss	(22,814)	(19,602)
allowance for devaluation of trading securities	<u>(423,824)</u>	<u>(794,178)</u>
	<u>\$ 324,410,419</u>	<u>484,553,455</u>

For details of pledged assets, please refer to note 27.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Trading Securities, Net

As of December 31, 2005 and 2004, trading securities were as follows:

	December 31, 2005	December 31, 2004
Dealer department – Domestic:		
Listed stocks and funds	\$ 5,190,189	3,987,020
OTC stocks	12,378	45,981
Government and corporate bonds	13,194,105	11,885,604
Emerging stocks	381,527	340,491
Others	<u>8,791</u>	<u>-</u>
Sub-total	18,786,990	16,259,096
Less: Allowance for devaluation of trading securities	<u>341,440</u>	<u>-</u>
Net	<u>18,445,550</u>	<u>16,259,096</u>
Dealer department – Foreign:		
Funds	-	179,867
Convertible bonds	4,921	158,051
Listed & OTC stocks	-	131,410
Bonds	-	115,492
Others	<u>-</u>	<u>77,803</u>
Sub-total	4,921	662,623
Less: Allowance for devaluation of trading securities	<u>414</u>	<u>-</u>
Net	<u>4,507</u>	<u>662,623</u>
Dealer department total	<u>18,450,057</u>	<u>16,921,719</u>
Underwriting department – Domestic:		
Listed stocks and corporate bonds	3,824	770,363
OTC stocks	18,400	25,278
Corporate bonds – OTC	<u>660,000</u>	<u>744,640</u>
Sub-total	682,224	1,540,281
Less: allowance for devaluation of trading securities	<u>-</u>	<u>288,072</u>
Net	<u>682,224</u>	<u>1,252,209</u>
Underwriting department – Foreign:		
Oversea company bonds	<u>678,621</u>	<u>682,105</u>
Underwriting department total	<u>1,360,845</u>	<u>1,934,314</u>
Hedge position for the issuance of stock warrants – Domestic:		
Listed stocks	2,913,489	596,802
OTC stocks	4,708	-
Corporate bonds – OTC	<u>947,709</u>	<u>682,200</u>
Sub-total	3,865,906	1,279,002
Less: allowance for devaluation of trading securities	<u>10,941</u>	<u>196</u>
Hedge department total	<u>3,854,965</u>	<u>1,278,806</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2005	December 31, 2004
Insured deposits:		
Listed stocks	\$ -	21,493
Less: allowance for devaluation of trading securities	<u>-</u>	<u>-</u>
Total	<u>-</u>	<u>21,493</u>
Total	<u>\$ 23,665,867</u>	<u>20,156,332</u>

For details of pledged assets, please refer to note 27.

(8) Bonds Purchased under Agreements to Resell and Sold under Agreements to Repurchase

As of December 31, 2005 and 2004, the details of bonds purchased under agreements to resell and bonds sold under agreements to repurchase were as follows:

	December 31, 2005		
	Margin lending (borrowed) amount	Period to repurchase (resell)	Interest rate (%)
Bonds purchased under agreements to resell	\$ <u>3,453,834</u>	2006.01.03~ 2006.01.25	1.385~1.415
Bonds sold under agreements to repurchase	\$ <u>(137,169,095)</u>	2006.01.02~ 2006.05.05	1.190~1.500
	December 31, 2004		
	Margin lending (borrowed) amount	Period to repurchase (resell)	Interest rate (%)
Bonds purchased under agreements to resell	\$ <u>8,738,338</u>	2005.01.05~ 2005.01.28	0.975~1.250
Bonds sold under agreements to repurchase	\$ <u>(97,136,589)</u>	2005.01.03~ 2005.05.06	0.830~1.500

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Margin Loans

As of December 31, 2005 and 2004, securities received and loaned for margin lending and securities financing were as follows:

	December 31, 2005		
	Shares (‘000)	Face value	Market value
Collateral securities for margin lending	<u>1,282,326</u>	\$ <u>12,823,260</u>	<u>12,830,191</u>
Securities lent for securities financing	<u>69,029</u>	\$ <u>690,290</u>	<u>2,008,475</u>
Securities borrowed for securities refinancing	<u>462</u>	\$ <u>4,620</u>	<u>13,072</u>
	December 31, 2004		
	Shares (‘000)	Face value	Market value
Collateral securities for margin lending	<u>1,469,169</u>	\$ <u>14,691,690</u>	<u>14,702,493</u>
Securities lent for securities financing	<u>101,861</u>	\$ <u>1,018,610</u>	<u>2,662,933</u>
Securities borrowed for securities refinancing	<u>1,793</u>	\$ <u>17,930</u>	<u>6,546</u>

Pecuniary finance represents loans extended to securities investors and is accounted for as receivables from pecuniary finance. Such loans are secured by the securities purchased by investors.

Securities finance represents securities lent to securities investors, and investors' deposits for borrowing securities are held by the Company as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payable to securities financing. As of December 31, 2005 and 2004, receivables from pecuniary finance amounted to \$17,720,005 and \$17,954,354, margin deposits amounted to \$1,854,901 and \$1,908,364, and payable to securities financing were \$2,333,714 and \$2,410,398.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Notes and Accounts Receivable, Net

As of December 31, 2005 and 2004, notes and accounts receivable were as follows:

	December 31, 2005	December 31, 2004
Credit card fees receivable	\$ 36,837,133	32,106,806
Accounts and notes receivable	12,145,164	8,474,274
Interest accrued	6,416,287	5,009,266
Revenues receivable	2,978,365	3,709,208
Premiums receivable	3,073,577	2,983,750
Reinsurance recoverable	1,194,056	1,223,513
Due from other reinsurers	1,045,385	529,402
Others	<u>4,347,355</u>	<u>6,071,772</u>
	68,037,322	60,107,991
Less: allowance for doubtful accounts	<u>(3,083,516)</u>	<u>(993,749)</u>
Total	\$ <u>64,953,806</u>	<u>59,114,242</u>

(11) Margin Loans, and Exchange Bills Negotiated and Discounted, Net

1) Loans consisted of the following as of December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Short-term advances	\$ 682,238	573,339
Short-term loans and overdrafts	146,139,800	47,887,419
Secured short-term loans and overdrafts	29,059,487	31,449,423
Medium-term loans	99,240,348	90,273,885
Medium-term secured loans	71,926,193	61,389,091
Long-term loans	52,438,863	44,095,717
Long-term secured loans	236,460,920	226,200,726
Insurance policy loans	4,950,902	3,979,153
Letter of credit	2,294,754	9,733,873
Nonperforming loans	<u>13,269,259</u>	<u>11,249,809</u>
Subtotal	656,462,764	526,832,435
Less: allowance for doubtful accounts	<u>(6,710,931)</u>	<u>(5,166,655)</u>
Total	\$ <u>649,751,833</u>	<u>521,665,780</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) The movements in allowance for doubtful accounts, including allowance for notes and accounts receivable and allowance for loans, for banking subsidiaries for the years ended December 31, 2005 and 2004, were as follows:

	For Losses on Particular Loans	For Losses on Overall Loan Portfolio (excluding particular loans)	Total
Balance at January 1, 2005	\$ 3,234,810	1,887,263	5,122,073
Provision for doubtful accounts	11,072,372	368,489	11,440,861
Write-off	(6,063,148)	-	(6,063,148)
Recovery of doubtful accounts	1,209,290	-	1,209,290
Effects of exchange rate changes	9,726	-	9,726
Balance at December 31, 2005	\$ <u>9,463,050</u>	<u>2,255,752</u>	<u>11,718,802</u>

	For Losses on Particular Loans	For Losses on Overall Loan Portfolio (excluding particular loans)	Total
Balance at January 1, 2004	\$ 4,315,784	2,405,519	6,721,303
Provision for doubtful accounts	4,046,026	(518,256)	3,527,770
Write-off	(6,565,023)	-	(6,565,023)
Recovery of doubtful accounts	1,388,789	-	1,388,789
Effects of exchange rate changes	49,234	-	49,234
Balance at June 31, 2004	\$ <u>3,234,810</u>	<u>1,887,263</u>	<u>5,122,073</u>

The unaccrued interest on such loans not accrued was estimated to be \$552,687 and \$391,739 as of December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, Taipei Fubon Bank did not write off any loan without initiating any legal proceeding.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Long-term Investments

- 1) The details of long-term equity investments, long-term bond investments, and real estate investments were as follows:

Long-term equity investments	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
Valuation by equity method:				
Fubon Direct Marketing Consulting Co. Ltd.	\$ -	-	122,331	100.00
Fubon Holding Venture Capital Co., Ltd.	-	-	946,274	100.00
Fubon Securities (BVI) Ltd.	-	-	1,304,287	100.00
Fubon Futures Co., Ltd.	-	-	1,133,277	100.00
Fubon Securities Investment Service Co., Ltd.	-	-	310,300	100.00
Fubon Asset Management Service Co., Ltd.	-	-	2,499,650	100.00
Fubon Investment Management Consulting Co., Ltd.	-	-	49,801	100.00
Fubon Venture Capital Co., Ltd.	216,660	40.00	150,378	40.00
Sinostar Venture Capital Co., Ltd.	86,876	20.83	83,190	20.83
Fubon Construction Management Co., Ltd.	47,602	30.00	45,295	30.00
Fubon Leasing Co., Ltd.	447,247	99.99	460,701	99.99
Fubon Bank Insurance Agent Co., Ltd.	220,737	100.00	79,758	100.00
Fubon Insurance Agent Co., Ltd.	5,488	100.00	3,488	100.00
Citi Fubon Life Insurance Company Hong Kong Limited	710,513	50.00	594,064	50.00
TaipeiBank Insurance Agent Co., Ltd.	56,016	99.99	173,729	99.99
Fu-Sheng Life Assurance Agent Co., Ltd.	4,021	100.00	-	-
Fu-Sheng General Insurance Agent Co., Ltd.	4,204	100.00	-	-
Shing Bon Venture Capital Co., Ltd.	2,846	75.00	-	-
Fu Sheng Travel Service Co., Ltd.	7,366	100.00	-	-
Less: allowance for valuation loss	<u>(13,256)</u>		<u>(65,444)</u>	
Sub-total	<u>1,796,320</u>		<u>7,891,079</u>	
Valuation by cost method	25,278,471		14,874,800	
Less: allowance for valuation loss	<u>(571,713)</u>		<u>-</u>	
Subo-total	<u>24,706,758</u>		<u>14,874,800</u>	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Long-term equity investments	December 31, 2005		December 31, 2004	
	Amount	%	Amount	%
Valuation by lower-of-cost-or-market method:	\$ 2,667,213		8,851,127	
Less: allowance for valuation loss	<u>(286,157)</u>		<u>(178,278)</u>	
Sub-total	<u>2,381,056</u>		<u>8,672,849</u>	
Total long-term equity investments	\$ <u>28,884,134</u>		<u>31,438,728</u>	
Long-term bond investments		December 31, 2005	December 31, 2004	
Domestic:				
Bonds	\$ 64,706,728		57,370,249	
Corporate bonds	1,070,938		13,836,128	
Financial bonds	1,100,000		800,000	
Foreign:				
Bonds	16,761,520		3,869,529	
Corporate bonds	29,867,824		37,541,929	
Financial bonds	23,608,430		12,609,903	
Structured notes	11,787,735		6,572,775	
Collateralized mortgage obligations	4,617,640		-	
Collateralized debt obligations	1,422,405		-	
Floating rate note:				
Domestic	-		79,420	
Foreign	-		12,879	
Others	<u>579,500</u>		<u>143,832</u>	
Sub-total	155,522,720		132,836,644	
Less: allowance for decline in market value	-		(174,724)	
guarantee deposits	(3,829,926)		(3,582,040)	
unrealized exchange loss	<u>(545,880)</u>		<u>(2,686,227)</u>	
Total long-term bond investments	\$ <u>151,146,914</u>		<u>126,393,653</u>	

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2005	December 31, 2004
Real estate investments:		
Cost:		
Land	\$ 5,649,268	3,503,929
Revaluation surplus	18,331	18,331
Building	<u>3,472,307</u>	<u>3,358,731</u>
Sub-total	9,139,906	6,880,991
Accumulated depreciation:		
Building	(668,166)	(601,869)
Accumulated asset impairment	<u>(103,504)</u>	<u>-</u>
Real estate investments, net	<u>\$ 8,368,236</u>	<u>6,279,122</u>
Other long-term investments:		
Real estate securitization fund	\$ 4,043,697	-
Others	<u>27,413</u>	<u>-</u>
	<u>\$ 4,071,110</u>	<u>-</u>
Total long-term investments	<u>\$ 192,470,394</u>	<u>164,111,503</u>

- 2) For the years ended December 31, 2005 and 2004, the Company's investment income (loss) from long-term equity investments based on the investees' financial statements were as follows:

	December 31, 2005	
	Original investment cost	Investment (loss) income
Fubon Venture Capital Co., Ltd.	\$ 200,000	66,048
Sinostar Venture Capital Co., Ltd.	100,000	4,133
Fubon Construction Management Co., Ltd.	30,000	2,307
Fubon Leasing Co., Ltd.	999,946	(13,540)
Fubonbank Insurance Agent Co., Ltd.	5,021	207,683
Fubon Insurance Agent Co., Ltd.	2,013	3,224
Citi Fubon Life Insurance Company Hong Kong Limited	1,057,418	92,072
TaipeiBank Insurance Agent Co., Ltd.	20,000	1,573
Fu Sheng Life Insurance Agency Co., Ltd.	2,000	490
Fu Sheng General Insurance Agency Co., Ltd.	2,000	928
Shing Bon Venture Capital Co., Ltd.	3,000	(67)
Fu Sheng Travel Service Co., Ltd.	<u>6,000</u>	<u>1,366</u>
Total	<u>\$ 2,427,398</u>	<u>366,217</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2004	
	Original investment cost	Investment (loss) income
Fubon Direct Marketing Consulting Co., Ltd.	\$ 87,613	28,645
Fubon Financial Holding Venture Capital Co., Ltd.	1,000,000	(52,365)
Fuobn Asset Management Service Co., Ltd.	2,500,000	(350)
Fubon Investment Management Consulting Co., Ltd.	50,000	(199)
Fubon Securities (BVI) Ltd.	1,008,591	200,937
Fubon Futures Co., Ltd.	1,024,128	76,882
Fubon Investment Service Co., Ltd.	300,444	3,598
Fubon Venture Capital Co., Ltd.	200,000	(6,912)
Sinostar Venture Capital Co., Ltd.	100,000	(6,804)
Fubon Construction Management Co., Ltd.	30,000	(547)
Fubon Leasing Co., Ltd.	999,900	17,904
Fubonbank Insurance Agent Co., Ltd.	5,021	64,235
Fubon Insurance Agent Co., Ltd.	2,013	1,348
Citi Fubon Life Insurance Company Hong Kong Limited	1,057,418	(204,561)
TaipeiBank Insurance Agent Co., Ltd.	<u>20,000</u>	<u>135,256</u>
Total	\$ <u>8,385,128</u>	<u>257,067</u>

- 3) For the years ended December 31, 2005 and 2004, stocks of 3,994,040 thousand and 301,310 thousand were reclassified from long-term equity investments to short-term investments. After the company valued the market value and carrying cost, the reclassification resulted in \$3,480 losses.
- 4) For the years ended December 31, 2005 and 2004, the Company had reclassified \$458,109 and \$2,007,637 worth of short-term investments to long-term equity investments as it changed its intention to hold the in investments from short-term to long-term. This reclassification did not result in any losses or gains.
- 5) For the years ended December 31, 2005 and 2004, government bonds of \$2,609,994 and \$5,806,729 were reclassified from long-term bond investments to short-term investments. For the year ended December 31, 2004, government bonds of \$50,537,364 were reclassified from short-term investments to long-term bond investments.
- 6) For details of pledged assets, please refer to note 27.
- 7) The Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" in 2005. For the year ended December 31, 2005, Fubon Assurance had \$103,504 worth of losses from impairment of investments in real estate.
- 8) Please refer to note 13, "Fixed Assets" for the details of insurance coverage on real estate investments.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 9) Total rental income of real estate investments for the next five years as of December 31, 2005, was summarized as follows:

Years	Amount
January 1, 2006 ~ December 31, 2006	\$ 295,600
January 1, 2007 ~ December 31, 2007	194,600
January 1, 2008 ~ December 31, 2008	134,000
January 1, 2009 ~ December 31, 2009	43,200
January 1, 2010 ~ December 31, 2010	<u>12,300</u>
	\$ <u>679,700</u>

(13) Fixed Assets

As of December 31, 2005 and 2004, the insurance coverage on all property and equipment, leasehold assets, and real estate investments amounted to \$12,771,000 and \$10,053,000, respectively.

(14) Other Assets

Other assets as of December 31, 2005 and 2004, consisted of the following:

	December 31, 2005	December 31, 2004
Investment-type insurance policies	\$ 37,100,579	30,772,785
Guarantee deposits	7,601,955	6,158,331
Deferred pension cost	557,780	597,431
Deferred expense	838,651	247,593
Foreclosed real estate	13,490	847,290
Deferred income tax assets-net	1,399,457	201,393
Settlement and clearing funds	503,868	375,785
Leased assets, net	532,541	594,558
Other	<u>2,958,804</u>	<u>2,727,796</u>
	\$ <u>51,507,125</u>	<u>42,522,962</u>

- 1) Investment-type insurance policies

Fubon Life Assurance is engaged in selling investment-type insurance policies. The payment of premiums, net of administrative expenses, is recorded in a separate account and used only in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the in net asset value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

According to accounting practices in the insurance industry, the assets, liabilities, revenue and expenses are recorded as “investment-type insurance policy assets”, “investment-type insurance policy liabilities”, “investment-type insurance policy revenue” and “investment-type insurance expenses”, respectively.

- 2) The Company adopted Statement of Financial Accounting Standards No. 35 “Accounting for Asset Impairment” in 2005. For the year ended December 31, 2005, Fubon Securities had \$27,382 worth of losses from impairment of idle assets.

(15) Deposits and Remittances

Deposits as of December 31, 2005 and 2004, consisted of the following:

	December 31, 2005	December 31, 2004
Checking accounts	\$ 63,096,394	96,576,974
Demand deposits	79,923,942	82,750,689
Time deposits	263,983,416	218,379,193
Negotiable certificates of deposit	13,968,430	12,197,781
Savings accounts	453,227,949	441,845,224
Remittances	<u>179,317</u>	<u>666,123</u>
	<u>\$ 874,379,448</u>	<u>852,415,984</u>

(16) Commercial Paper Payable

	December 31, 2005	December 31, 2004
Commercial paper	\$ 32,803,561	7,280,000
Less: discount on commercial paper	(4,032)	(7,774)
commercial paper maturing within one year	<u>(998,370)</u>	<u>-</u>
	<u>\$ 31,801,159</u>	<u>7,272,226</u>
Interest rates	<u>1.35%~1.37%</u>	<u>0.89%~1.21%</u>

Please see note 27 for collateral pledged for the above commercial paper.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Stock Warrant Liabilities

As of December 31, 2005 and 2004, stock warrant liabilities recorded in the accompanying consolidated balance sheets were as follows:

Stock warrant issued	Underlying securities	Issued units	Issued units repurchased	December 31, 2005		Conversion ratio	Market price (per share)
				Issue price (per share)	Exercise price (per share)		
Fubon 66	King Yuan Electronics Co., Ltd.	19,859	19,109	2.50	25.44	8.48	16.20
Fubon 67	First Funancial Holding Co., Ltd.	20,000	13,408	2.00	31.07	11.95	0.01
Fubon 68	Far Eastern Internation Bank	20,000	16,734	1.95	21.18	9.05	0.01
Fubon 69	Evergreen Marine Corp. Ltd.	20,000	10,926	2.85	39.65	10.07	0.01
Fubon 70	Ya Hsin Industrial Co., Ltd.	20,000	5,311	3.20	39.00	9.38	2.77
Fubon 71	United Microelectronics Corp.	20,000	6,442	2.10	23.92	8.76	0.70
Fubon 73	AU Optronics Corp.	20,000	9,588	4.70	80.85	11.47	0.02
Fubon 74	Nanya Technology Corp.	20,000	8,887	2.50	34.95	9.32	0.11
Fubon 75	Siliconware Precision Industries Co., Ltd.	19,882	19,107	2.60	37.64	11.13	13.70
Fubon 76	Pan-International Industrial Corp.	20,000	10,114	2.90	60.00	13.79	2.66
Fubon 77	Media Tek Inc.	20,000	7,018	2.00	419.25	139.75	7.10
Fubon 78	Novatek Microelectronics Corp.	20,000	13,114	1.70	220.50	86.47	7.40
Fubon 79	Asustek Computer Inc.	20,000	15,306	3.20	131.85	27.47	2.78
Fubon 80	Lite-On Technology Corp.	20,000	18,378	2.60	54.68	14.02	3.85
Fubon 81	BenQ Corporation	20,000	6,820	2.55	54.38	14.22	0.83
Fubon 82	Compal Electronics Inc.	20,000	8,200	2.35	41.34	14.04	0.23
Fubon 83	Silicon Integrated Systems Corp.	20,000	11,381	2.20	30.08	10.00	0.80
Fubon 84	ACER Inc.	20,000	18,740	2.70	96.00	23.70	8.25
Fubon 85	Chi Mei Optoelectronics Corp.	20,000	12,720	2.60	60.38	15.48	5.50
Fubon 86	Wiston Corp.	20,000	12,766	2.75	52.05	12.62	4.65
Fubon 87	Hon Hai Precision Ind. Co., Ltd.	20,000	17,229	1.70	230.25	90.29	2.07
Fubon 88	King Yuan Electronics Co., Ltd.	20,000	12,390	2.25	35.25	10.44	5.70
Fubon 89	Tung Ho Steel Enterprise Corp.	20,000	17,125	2.20	33.98	10.30	0.71
Fubon 90	Catcher Technology Co., Ltd.	20,000	12,754	2.60	342.00	87.69	2.40
Fubon 91	AU Optronics Corp.	20,000	15,102	2.60	62.70	16.08	2.37
Fubon 92	CMC Magnetics corp.	20,000	15,559	1.65	19.35	7.82	0.55
Fubon 93	Cheng Uei Precision Industry Co., Ltd.	20,000	17,234	1.55	151.50	65.16	1.40

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Stock warrant issued	Underlying securities	Issued units	Issued units repurchased	December 31, 2005		Conversion ratio	Market price (per share)
				Issue price (per share)	Exercise price (per share)		
Fubon 94	Foxconn Technology Co., Ltd.	20,000	18,506	2.00	219.00	73.00	2.89
Fubon 95	United Microelectronics Corp.	20,000	11,298	2.40	29.78	8.27	2.00
Fubon 96	Unimicron Technology Corp.	20,000	18,700	2.40	35.25	9.79	14.50
Fubon 97	Premier Image Technology Corp.	20,000	16,850	3.10	65.55	14.10	4.04
Fubon 98	Ya Hsin Industrial Co., Ltd.	20,000	18,037	2.45	46.20	12.57	2.94
Fubon 99	Wintek Corp.	20,000	19,120	2.95	69.30	15.66	3.85
Fubon A1	Nanya Technology Corp.	20,000	18,507	1.98	25.43	8.69	2.60
Fubon A2	Novatek Microelectronics Corp.	20,000	16,056	2.00	261.00	87.00	1.91
Fubon A3	Asustek Compute Inc.	30,000	25,267	1.20	151.50	84.17	1.20
Fubon P4	Radiant Opto-Electronics Corp.	8,000	7,769	3.35	112.98	25.07	3.16

Stock warrant issued	Underlying securities	Issued units	Issued units repurchased	December 31, 2004		Conversion ratio	Market price (per share)
				Issue price (per share)	Exercise price (per share)		
Fubon-49	Taiwan 50	20,000	14,565	2.04	61.88	23.33	1.50
Fubon-50	AU Optronics Corp.	20,000	6,262	3.70	54.21	11.27	4.35
Fubon-51	Hua Nan Financial Holding Co., Ltd.	20,000	18,396	3.62	36.14	7.68	2.80
Fubon-52	Nan Ya Plastics Co., Ltd.	20,000	19,180	4.50	60.71	10.38	4.35
Fubon-53	China Trust Financing Holding Co., Ltd.	20,000	19,030	3.55	48.23	10.45	3.30
Fubon-54	Walsin Lihwa Corp.	20,000	19,358	2.70	20.04	6.19	2.60
Fubon-55	UMC	20,000	18,832	3.55	24.36	5.72	3.20
Fubon-56	Far Eastern Textile Co., Ltd.	20,000	19,230	3.65	32.63	6.88	3.30

As of December 31, 2005 and 2004, the details of the net liabilities for stock warrants issued were as follows:

	December 31, 2005	December 31, 2004
Liabilities for stock warrants issued	\$ 2,607,579	508,000
Less: issued stock warrants repurchased	(2,072,922)	(420,880)
	<u>\$ 534,657</u>	<u>87,120</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The warrants are settled by stock delivery; however, the Company may decide to settle the warrants by cash.

(18) Bonds Payable and Long-term Borrowings

1) The bonds payable of the consolidated entities were as follows:

	December 31, 2005	December 31, 2004
The Company issued unsecured Euro convertible bonds	\$ -	7,845,503
The Company issued unsecured corporate bonds	16,500,000	10,000,000
The Company issued secured corporate bonds	2,000,000	2,000,000
Less: bonds maturing within one year	<u>-</u>	<u>7,845,503</u>
	\$ <u>18,500,000</u>	<u>12,000,000</u>

2) The details of bonds payable of the Company were as follows:

	December 31, 2005		
	1st ECB	2nd ECB	Total
Unsecured Euro convertible bonds—the Company's issue amount	\$ -	8,273,160	8,273,160
Less: call back in advance	-	630,600	630,600
Less: bonds maturing	<u>-</u>	<u>7,114,050</u>	<u>7,114,050</u>
	-	528,510	528,510
Less: exchange gains	<u>-</u>	<u>528,510</u>	<u>528,510</u>
	\$ <u>-</u>	<u>-</u>	<u>-</u>
	December 31, 2004		
	1st ECB	2nd ECB	Total
Unsecured Euro convertible bonds—the Company issued amount	\$ 15,044,373	8,273,160	23,317,533
Less: call back in advance	14,270,416	-	14,270,416
Less: conversion	137,885	-	137,885
Less: bonds maturing	<u>75,868</u>	<u>-</u>	<u>75,868</u>
	560,204	8,273,160	8,833,364
Less: unrealized exchange gains	<u>560,204</u>	<u>453,495</u>	<u>1,013,699</u>
	-	7,819,665	7,819,665
Plus: interest indemnity payable	<u>-</u>	<u>25,838</u>	<u>25,838</u>
	-	7,845,503	7,845,503
Less: bonds maturing within one year	<u>-</u>	<u>7,845,503</u>	<u>7,845,503</u>
	\$ <u>-</u>	<u>-</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- 3) The Company issued Euro convertible bonds to purchase the existing common shares held by its subsidiaries according to Paragraph 2, Article 31 of the Financial Holding Company Act and to raise capital for long-term investments. Terms and conditions of issue were as follows:

1. Form / Denomination:

Unsecured convertible bonds in denominations of US\$1,000 or an integral multiple of US\$1,000.

2. Issue date: April 10, 2002.

3. Maturity date: July 10, 2004.

4. Issue amount: US\$430,085 thousand, issued at 100% of face value.

5. Coupon rate: 0%

6. Redemption on the maturity date:

Unless previously converted, the bonds are redeemable on maturity date in cash at par value plus accrued interest (the yield rate is 3.25%).

7. Redemption at the option of the issuer:

(a) The Company may call all or part of the bonds on or at any time 1.5 years after the issue date, in the event that the closing prices of the common shares of the Company traded on the Taiwan Stock Exchange for 30 consecutive trading days, translated into US dollars based on the then prevailing FX rate, exceed 130% (inclusive) of the conversion price (translated into US dollars based on the FX rate agreed upon on the pricing date); or

(b) The Company may redeem the outstanding bonds in whole, but not in part, in the event that 90% of the bonds have been redeemed or converted.

8. Conversion item:

The bonds are convertible any time during the conversion period into the Company's common shares, which are currently held by the subsidiaries of the Company or Depository Receipts (DRs) representing common shares, at the option of the bondholders. Each DR represents 10 common shares upon conversion.

9. Conversion period:

The bonds may be converted any time between the period 60 days after the issue date and 7 days prior to the maturity date.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Conversion price:

- (a) The conversion price is determined on the pricing date. The conversion price is NT\$40.36 per share.
- (b) Conversion price can be adjusted in accordance with anti-dilution rule when the Company increases its capital in cash, issues bonus shares, distributes share dividends or issues employee bonus.

For the year ended December 31, 2004, the Company redeemed bonds with par value of US\$426,146 in the market, payment NT\$14,387,124, and recognized redemption loss of NT\$116,708 as an nonoperating expenses. As of December 31, 2004, outstanding convertible bonds of \$137,885 thousand had been converted into 3,471 thousand shares, which are currently held by a subsidiary of the Company, Fubon Life Assurance.

- 4) The Company issued unsecured Euro convertible bonds in order to convert them into the Company's common shares. Indicative terms and conditions of issue were as follows:

1. Form / Denomination

Unsecured convertible bonds in denominations of US\$1,000 or an integral multiple of US\$1,000.

- 2. Issue date: October 3, 2003.
- 3. Maturity date: July 3, 2005.
- 4. Issue amount: US\$245,000 thousand, issued at 100% of face value.
- 5. Coupon rate: 0%.
- 6. Redemption on the maturity date.

Unless previously converted, the bonds will be redeemed on the maturity date in cash at par value plus accrued interest (the yield rate is 0.25%).

7. Redemption at the option of the issuer

- (a) The Company may call back all or part of the bonds at any time 1.5 years after the issue date, in the event that the closing price of the common shares of the Company traded on the Taiwan Stock Exchange for 30 consecutive trading days, translated into US dollars based on the then prevailing FX rate, exceed 130% (inclusive) of the conversion price (translated into US dollars based on the FX rate agreed upon on the pricing date)

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- (b) The Company may redeem the outstanding bonds in whole, but not in part, in the event that 90% of the bonds have been redeemed or converted.

8. Conversion item

The bonds are convertible any time during the conversion period into the Company's common shares, which are currently held by the subsidiaries of the Company or Depository Receipts (DRs) representing the Company's common shares, at the option of the bondholders. Each DR represents 10 common shares upon conversion.

9. Conversion period

The bonds may be converted any time 150 days after the issue date and 30 days prior to the maturity date.

10. Conversion price:

- (a) The conversion price is determined on the pricing date. The conversion price is NT\$42.33 per share.
- (b) Conversion price can be adjusted in accordance with anti-dilution rule when the Company increases its capital in cash, issues bonus shares, distributes share dividends or issues employee bonus.

For the year ended December 31, 2005, the Company redeemed bonds with par value of US\$20,000 thousand in the market, payment \$629,149, and recognized redemption gain of NT\$1,245 as an nonoperating expenses.

- 5) The Company issued the unsecured corporate bonds in order to refund the unsecured Euro convertible bonds issued by the Company. Indicative terms and conditions for an issue were as follows:

1. Form / Denomination: Unsecured corporate bonds
2. Issue date: July 12, 2004~July 20, 2004
3. Maturity date: July 12, 2007~July 20, 2007
4. Issue amount

The issued amount was \$7,000,000 divided into Bonds A01 to A07 and Bonds B01 to B07 according to the issue conditions and date, and issued at 100% of face value.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

5. Coupon rate
 - (a) Bonds A01 to A07:

Annual interest rate – 1.95%.
 - (b) Bonds B01 to B07:

Annual interest rate – 1.9406%.
6. Interest payment
 - (a) Bond A:

Pay annually at coupon rate and calculated with simple interest.
 - (b) Bond B:

Pay semi-annually yearly at coupon rate and calculated with compound interest.
7. Principal payment: Three years after issue date
- 6) The Company issued the second-time unsecured corporate bonds in order to refund the unsecured Euro convertible bonds issued by the Company. Indicative terms and conditions for an issue were as follows:
 1. Form / Denomination: Unsecured corporate bonds
 2. Issue date: June 27, 2005~July 5, 2005, and issue \$2,000,000 on June 27, 2005 and July 4, 2005.
 3. Maturity date: June 27, 2010~July 5, 2010
 4. Issue amount

The issued amount was \$4,000,000 divided into Bonds A01 to A04 and Bonds B01 to B04 according to the issue conditions and date, and issued at 100% of face value.
 5. Coupon rate
 - (a) Bonds A01 to A04:

Annual interest rate – 1.93%.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Bonds B01 to B04:

Annual interest rate – 1.9208%.

6. Interest payment

(a) Bond A:

Once a year at coupon rate and calculated with simple interest.

(b) Bond B:

Pay semi-annually at coupon rate and calculated with compound interest.

7. Principal payment: Five years after issue date

7) Unsecured corporate bonds – Fubon Bills Finance:

Issue amount:	\$1,000,000
Interest rate:	4% minus floating rate, no lower than 0%
Issue period:	March 31, 2003 ~ April 3, 2008
Principal payment:	Five years after issue date
Interest payment:	Smi-annually at stated rate

8) Unsecured corporate bonds – Fubon Securities:

1. Issue amount

The issue amount was \$2,000,000 divided into Bonds A01 to A08 and Bonds B01 to B02, according to the issue date.

2. Coupon rate

(a) Bonds A01 to A08:

Annual interest rate – 2%.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(b) Bonds B01 to B02:

If the floating rate is lower than 1.10%, the coupon rate is the floating rate plus 1.65%; if the floating rate is higher than 1.10%, the coupon rate is 5.10% minus the floating rate. The coupon rate is reset every three months after the issue date.

3. Interest payment

(a) Bond A:

Pay annually at coupon rate and calculated with simple interest.

(b) Bond B:

Pay semi-annually at coupon rate and calculated with simple interest.

4. Principal payment

(a) Bond A:

Three years after issue date.

(b) Bond B:

Five years after issue date.

9) Unsecured corporate bonds – Fubon Bills Finance:

1. Issue amount

The total issue amount was \$2,500,000 and was divided into Bonds A01 to A02 and Bonds B01 to B03 according to the issue conditions and date, each Bond issued amount was \$500,000, and issued at 100% of face value.

2. Issue date: July 05, 2005 ~ July 07, 2005

3. Bonds deadline: A01 to A02 are seven years, and B01 to B03 are five years.

4. Issue price: Issued at par value.

5. Coupon rate

(a) Bonds A01 to A02:

Annual interest rate – 2.10%

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Bonds B01 to B03:

Annual interest rate – 1.95%

Coupon rate calculated with simple interest.

6. Interest and principal payment:

(a) Bonds A01 to A02:

Seven years after issue date and pay interest annually at coupon rate.

(b) Bonds B01 to B03:

Five years after issue date and pay interest annually at coupon rate.

10) Secured corporate bonds – Fubon Bills Finance:

1. Issue amount

The total issue amount was \$2,000,000 and was divided into Bonds A, B, C, D, E and F according to the issue date. The details of the issue amount were as follows:

Bond	Issued Amount
A	\$ 250,000
B	250,000
C	200,000
D	300,000
E	500,000
F	<u>500,000</u>
	\$ <u>2,000,000</u>

2. Form / Denomination

Secured convertible bonds in denominations of \$10,000 thousand.

3. Issue period

May 13, 2004 ~ May 14, 2009

4. Bonds deadline: Five years.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Issue price: Issued at par value.

6. Coupon rate

(a) Bonds A and B:

If the floating rate is lower than 1.10%, the coupon rate is the floating rate; if the floating rate is between 1.10% and 2.00%, the coupon rate is 3.00%; if the floating rate is higher than 2.00%, the coupon rate is 4.40% minus the floating rate.

(b) Bonds C and D

Five years after issue date, the coupon rate is 3.00% * the interest accumulated factor.

(c) Bond E

Five years after issue date, the coupon rate is 3.40% * the interest accumulated factor.

(d) Bond F

Five years after issue date, the coupon rate is 3.40% * the interest accumulated factor.

In any case, the coupon rate of the bonds will not be lower than 0%.

(19) Financial Bonds

December 31, 2005			
	Maturity period	Interest rate	Amount
Taipei Bank	From June 2006 to March 2014	Inverse-floating rate	30,000,000
Less: financial bonds maturing within one year			<u>500,000</u>
			29,500,000
Fubon Bank	From October 2007 to December 2013	Floating rate	28,900,000
Fubon Bank (Hong Kong)	From May 2007 to August 2010	Floating rate	4,660,700
			\$ <u>63,060,700</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004			
	Maturity period	Interest rate	Amount
TaipeiBank	From January 2002 to May 2005	3.2%	\$ 5,000,000
	From June 2006 to March 2014	Inverse-floating rate	<u>30,000,000</u>
			35,000,000
Less: financial bonds maturing within one year			<u>5,000,000</u>
			30,000,000
Fubon Bank	From October 2007 to December 2013	Floating rate	28,900,000
			<u>\$ 58,900,000</u>

(20) Reserve for Operations and Other Liabilities

The details of reserve for operations and other liabilities as of December 31, 2005 and 2004, were as follows:

	December 31, 2005	December 31, 2004
Reserve for securities default	\$ 209,356	200,000
Reserve for trading loss	227,315	137,238
Reserve for bad debt	32,142	23,735
Unearned premium reserve	9,793,483	9,445,087
Special claim reserve	8,454,308	7,798,591
Claim reserve	4,259,997	3,057,031
Assurance reserve	190,369,819	134,686,756
Reinsurance liability reserve received	236,842	620,661
Policy reserve	<u>211,062</u>	<u>330,528</u>
	<u>\$ 213,794,324</u>	<u>156,299,627</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) Pension

	For the year ended December 31, 2005	For the year ended December 31, 2004
Benefit obligation:		
Vested benefit obligation	\$ (605,737)	(1,223,960)
Non-vested benefit obligation	<u>(2,072,805)</u>	<u>(1,812,802)</u>
Accumulated benefit obligation	(2,678,542)	(3,036,762)
Effects of increase in future salary level	<u>(930,279)</u>	<u>(859,164)</u>
Projected benefit obligation (PBO)	(3,608,821)	(3,895,926)
Fair value of plan assets	<u>3,257,023</u>	<u>3,735,960</u>
Funding status	(351,798)	(159,966)
Unrecognized net assets at transition	99,956	115,427
Unrecognized prior service cost	40,283	43,580
Unrecognized pension net loss (gain)	463,617	295,886
Additional liability	<u>(160,523)</u>	<u>(15,405)</u>
Accrued pension cost	\$ <u>(343,207)</u>	<u>(303,477)</u>
Prepaid pension (recorded as other assets–other)	\$ <u>434,742</u>	<u>582,999</u>

The balance of the “public pension fund” (except for Fubon Bank (Hong Kong)) of the employee retirement benefits were \$3,250,217 thousand and \$3,170,872 thousand as of December 31, 2005 and 2004, respectively.

For the years ended December 31, 2005 and 2004, net pension costs of the Company were as follows:

	For the year ended December 31, 2005	For the year ended December 31, 2004
Service cost	\$ 207,803	511,649
Interest cost	86,173	107,260
Expected return on pension plan assets	(69,039)	(111,900)
Amortization	22,244	15,739
Gain on reduction and redemption	-	(364,203)
Net pension cost	\$ <u>247,181</u>	<u>158,545</u>

Pension expense recognized for the years ended December 31, 2005 and 2004, totaled \$506,434 and \$1,172,273, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2005 and 2004, the significant assumptions used in the calculations for the defined benefit plans were as follows:

	For the year ended December 31, 2004	For the year ended December 31, 2003
Discount rate	3.00% ~ 3.50%	2.50% ~ 3.50%
Annual increase in future compensation levels	2.00% ~ 3.00%	2.00% ~ 3.00%
Expected long-term rate of return on assets	3.00% ~ 3.50%	3.25% ~ 3.50%

(22) Income Tax

The Company and its Taiwan subsidiaries are subject to a maximum income tax rate of 25%; Fubon Bank (Hong Kong) is subject to an income tax rate of 17.5%. The components of income tax expense for the three-month periods ended December 31, 2005 and 2004, comprised of the following:

	For the year ended December 31, 2005	For the year ended December 31, 2004
Current income tax	\$ 2,157,877	3,078,613
Deferred income tax expense	<u>(989,782)</u>	<u>630,490</u>
Income tax expense	\$ <u>1,168,095</u>	<u>3,709,103</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The income tax calculated on accounting income at statutory rate was reconciled with income tax as reported in the accompanying financial statements for the years ended December 31, 2005 and 2004, are summarized as follows:

	For the years ended December 31, 2005	For the years ended December 31, 2004
Income tax calculates on accounting income	\$ 3,263,141	5,156,807
Tax effect of adjustments:		
Tax-free investment revenue	(688,039)	(604,645)
Unrealized loss (recovery gain) on revaluation of short-term investments	(100,308)	229,189
Gain on disposal of long-term investments	(22,253)	(27,277)
Gain on long-term investments under equity method	(201,822)	(310,161)
Effect of integrated income tax system	(626,049)	(62,162)
Unrealized gain on revaluation of stock warrants	287,292	282,381
Foreign income tax (OBU)	(257,671)	(111,957)
Dividend income exempt from tax	(774,361)	(678,171)
Investment tax credit	(12,644)	(77,627)
Prior year's tax adjustments	(21,320)	(285,318)
Others	<u>322,129</u>	<u>198,044</u>
Income tax expenses	\$ <u>1,168,095</u>	<u>3,709,103</u>

Deferred income tax expense (benefit) for the years ended December 31, 2005 and 2004 consisted of the following:

	For the years ended December 31, 2005	For the years ended December 31, 2004
Provision for (reversal of) allowance for doubtful accounts	\$ (1,180,135)	331,896
Foreign investments gain (loss) under equity method	(51,223)	165,335
Unrealized loss (gain) from exchange rate	464,836	(379,785)
Investment tax credit	(7,037)	-
Loss carryforward amount	76,103	124,552
Pension expense	(4,788)	37,174
Provision for (reversal of) allowance for valuation	(356,066)	236,632
Provision for interest indemnity payable for convertible bonds	6,459	202,034
Others	<u>68,069</u>	<u>(87,348)</u>
Deferred income tax expense (benefit)	\$ <u>(983,782)</u>	<u>630,490</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The deferred income tax assets were as follows:

	December 31, 2005	December 31, 2004
Current:		
Deferred income tax assets	\$ 217,872	508,423
Valuation allowance for deferred income tax assets	<u>(177,747)</u>	<u>(462,972)</u>
	40,125	45,451
Deferred income tax liabilities	<u>(296,961)</u>	<u>(117,988)</u>
Deferred income tax assets – current, net	<u>\$ (256,836)</u>	<u>(72,537)</u>
Noncurrent:		
Deferred income tax assets	\$ 1,723,025	633,607
Valuation allowance for deferred income tax assets	<u>(134,316)</u>	<u>(199,253)</u>
	1,588,709	434,354
Deferred income tax liabilities	<u>(189,252)</u>	<u>(232,961)</u>
Deferred income tax assets – noncurrent, net	<u>\$ 1,399,457</u>	<u>201,393</u>
Total deferred tax assets	<u>\$ 1,940,897</u>	<u>1,142,030</u>
Total deferred tax liabilities	<u>\$ 486,213</u>	<u>350,949</u>
Total valuation allowance for deferred income tax assets	<u>\$ 312,063</u>	<u>662,225</u>

- 1) In accordance with the Financial Holding Company Act, Article 49, the Company assigned Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return commencing from 2002. For the years 2002 and 2003, the amounts of income tax receivable were \$601,059 thousand and \$115,683 thousand, respectively.
- 2) The Company assigned Fubon Financial Holding as the taxpayer to file a consolidated corporate income tax return. The estimated income tax payable was \$1,523,153 and \$2,422,050 as of December 31, 2005 and 2004.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) The conditions income tax filing examination of the Company and subsidiaries before adopting Linked Tax System were as follow:

	Examined approve to	Disapproved issues
The Company	2001	-
Former Fubon Issuance	2001	-
Fubon Issuance	2001	-
Fubon Life Assurance	2000	-
Fubon Securities	2000	-
Fubon Asset Management	2002	-
Taipei Fubon Bank	2002 (exclude June – Dec., 1999)	The Bank has settled two lawsuits with the tax authority in regards to tax deduction of 10% of accrued bond interest in year 2000 and 2001, and received tax refund in the amount of \$27,877. The agreed upon tax deduction between two parties was at 65% of the tax paid on accrued bond interest.
Former Fubon Bank	2002	The amount of \$42,334 were affected by tax deduction of accrued bond interest. The lawsuits on withholding tax had come to compromises in January 2004 and the tax authorities well refund 65% of the withholding tax for the previous years.

(23) Total Shareholders' Equity

- 1) Common stock

In accordance with Article 31 of the Financial Holding Company Act, the Company wrote off its stock held by its subsidiaries deemed as treasury stock. There were 142,406 thousand treasury shares written-off, against common stock and capital surplus of NT\$1,424,069 and 2,982,647, respectively.

In accordance with the Securities and Exchange Law No. 28-1, the Company applied to retire 46,415 thousand shares, and capital surplus and retained earnings were debited NT\$526,750 thousand and \$551,806.

The authorized and issued share capital as of December 31, 2005, amounted \$120,000,000 and \$80,652,974, respectively.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Common stock to be retired

In accordance with Article 31 of the Financial Holding Company Act and the Securities and Exchange Law No. 28-2, the Company wrote-off 170,232 thousand shares held by its subsidiaries deemed to be treasury stock and repurchased 175,972 thousand shares of its treasury stock. The total written-off shares were 346,204 thousand shares, common stock, capital surplus and retained earnings were debited NT\$3,462,039 thousand, 3,689,555 thousand and 2,725,354 thousand, respectively.

However, the write-off application was pending the approval of the authorities as of December 31, 2005.

3) Limits on distribution of capital surplus and retained earnings

1. Capital surplus

Pursuant to the ROC Company Law, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once a year. In addition, the amount to be capitalized cannot exceed ten percent of the issued share capital.

As of December 31, 2005 and 2004, details of capital surplus were as follows:

	December 31, 2005	December 31, 2004
Additional paid-in capital for cash	\$ 15,258,148	15,258,148
Additional paid-in capital from share exchange	35,755,718	38,357,495
Additional paid-in capital adjustments by equity method	1,658	143,642
Cash dividends received by subsidiaries from the Company	-	1,388,991
Asset revaluation surplus	1,104	1,104
Treasury stock transferred to employees	-	20,228
Gain on disposal of Company's shares by subsidiaries	-	45,206
Premium on conversion of ECB	-	3,886
	\$ <u>51,016,628</u>	<u>55,218,700</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. The details of additional paid-in capital from share exchange were as follows:

Date	Description	December 31, 2005	December 31, 2004
June 19, 2001	Fubon Securities, Fubon Bank, and Fubon Life Assurance	\$ 42,040,134	42,040,134
August 28, 2002	Fubon Asset Management	(124,882)	(124,882)
December 23, 2002	TaipeiBank	<u>3,384,059</u>	<u>3,384,059</u>
	Sub-total	<u>45,299,311</u>	<u>45,299,311</u>
	Cash dividend	(3,912,569)	(3,912,569)
	Employee stock bonus and remuneration to directors and supervisors	(46,600)	(46,600)
December 19, 2004	Write-off of common stock, Fubon Securities and Fubon Insurance	(2,982,647)	(2,982,647)
April 29, 2005	Retirement of treasury stock	(313,789)	-
December 23, 2005	Retirement of treasury stock	(2,287,988)	-
		<u>(9,543,593)</u>	<u>(6,941,816)</u>
		\$ <u>35,755,718</u>	<u>38,357,495</u>

The additional paid-in capital at par value through exchange of shares was generated from the transfer of the shares of subsidiaries to the Company. In compliance with item 4 of Article 47 of the Financial Holding Company Law, the portion of additional paid-in capital from the share exchange which comes from the original financial institution's unappropriated retained earnings can be distributed as cash dividends. As of December 31, 2005, the balance of capital surplus was NT\$1,934,116.

3. Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its annual earnings, as defined in the Law, until the accumulated amount of such retention equals the amount of paid-in capital. This legal reserve shall be used exclusively to cover losses and shall not be distributed as cash dividends, but may be converted to share capital when it reaches an amount equal to at least one-half of paid-in capital. Such distribution may not exceed one-half of legal reserve.

4. Special reserve

The Company is also required to provide special reserves in its normal course of business pursuant to the regulations.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

According to SFB regulations, in addition to legal reserve, the Company is also required provide a special reserve equal to the amount of any current year stockholders' equity contra account from the current year's earnings after tax or prior years' unappropriated earnings. However, the special reserve provided for prior years' accumulated stockholders' equity contra accounts should only be appropriated from prior years' unappropriated earnings. If a reversal of stockholders' equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.

5. Distribution of earnings

According to the Company's articles of incorporation, 10% of its annual net income after offsetting prior years' losses and tax payment is to be set aside as legal reserve.

When retained earnings are distributed, the distribution for employees' bonus should be at least 0.01% to 0.05% and the remuneration to directors and supervisors should be 0.1% of the total appropriated earnings.

The Company distributed employee bonus of \$3,000, remuneration to directors and supervisors of \$12,637, and cash dividend from unappropriated retained earnings of \$12,451,635 in 2004.

The Company distributed employee bonus of \$3,000, remuneration to directors and supervisors of \$13,079, and cash dividend from unappropriated retained earnings of \$13,037,459 in 2005.

The planned distribution was declared by the Company and is available through the Market Observation Post System.

6. Dividend policy

Furthermore, considering the profit to stockholders, capital accumulated, and the effects of operation, the Company adopted a stable and balanced dividend policy.

According to the Company's operating plan, the purpose of stock dividends is to retain operating capital. The remainder is distributed in cash, but cash dividends are a minimum of 50% of the dividends declared. Nevertheless, the amount and the type of distribution of dividends mentioned above are only in principle. The Company could reconsider the proper dividend policy in the light of its operations and capital budget plan for the next year.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Treasury stock

- (a) In accordance with SFB regulations and as incentives for its employees, the Company's purchases of its outstanding shares were as follows:

Reason for buyback of shares	Shares beginning	For the year ended December 31, 2005			Balance
		Shares increase	Shares decrease	Shares ending	
Held by the Company:					
For transfer to employees, and maintaining the Company's reputation and stockholders' interest	216,647	-	216,647	-	\$ -
For converting the unsecured Euro convertible bonds into common shares prior to share exchange	225,972	-	225,972	-	-
	<u>442,619</u>	<u>-</u>	<u>442,619</u>	<u>-</u>	<u>\$ -</u>
Reason for buyback of shares	Shares beginning	For the year periods ended December 31, 2004			Balance
		Shares increase	Shares decrease	Shares ending	
Held by the Company:					
For transfer to employees, and maintaining the Company's reputation and stockholders' interest	221,260	-	4,613	216,647	\$ 6,832,328
For converting the unsecured Euro convertible bonds into common shares prior to share exchange	225,972	-	-	225,972	5,890,803
	<u>447,232</u>	<u>-</u>	<u>4,613</u>	<u>442,619</u>	<u>12,723,131</u>
Held by subsidiary:					
For transfer to employees prior to share exchange:					
Fubon Securities	<u>48,493</u>	<u>-</u>	<u>48,493</u>	<u>-</u>	<u>-</u>
For converting the unsecured Euro convertible bonds into common shares prior to share exchange:					
Fubon Bank	41,654	-	41,654	-	-
Fubon Securities	41,352	-	41,352	-	-
Fubon Insurance	91,080	-	91,080	-	-
Fubon Life Assurance	188,961	-	188,961	-	-
Fubon Leasing	9,974	-	9,974	-	-
	<u>373,021</u>	<u>-</u>	<u>373,021</u>	<u>-</u>	<u>-</u>
Total	<u>868,746</u>	<u>-</u>	<u>426,127</u>	<u>442,619</u>	<u>\$ 12,723,131</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

- (b) The subsidiaries that were converted to shares of the Company in accordance with the Financial Holding Company Act – Fubon Bank, Fubon Securities Co., Ltd., Fubon Insurance Co., Ltd., Fubon Life Assurance Co., Ltd. and Fubon Leasing Co., Ltd.–were holding of 373,021 thousand shares the Company’s stock. During 2004, Fubon Bank transferred to employees 41,654 thousand shares, and Fubon Life Assurance Co., Ltd. transferred to employees 185,490 thousand shares and transferred to the Company 3,471 thousand shares for ECBs. In accordance with the FHCA, Fubon Securities Co., Ltd., Fubon Insurance Co., Ltd., and Fubon Leasing Co., Ltd. applied to retire 142,406 thousand shares held for the three years ended December 19, 2004. The write-off application was approved by the authorities in May, 2005, and was accomplished to register.
- (c) In accordance with Article 31 of the Financial Holding Company Act, the Company wrote off 170,232 thousand shares held by its subsidiaries deemed to be treasury stock. And in accordance with the Securities and Exchange Law No. 28-2, the Company repurchased 175,972 thousand shares of its treasury stock. The write-off application was dealt with the authorities.
- (d) In accordance with the Securities and Exchange Law, the Company formally applied for government approval to retire 46,415 thousand of its treasury stock and was granted government approved thereof.
- (e) According to the Securities and Exchange Law, the number of treasury stock held by the Company cannot exceed 10% of the number of shares issued. Moreover, the total purchasing cost of treasury stock cannot exceed the sum of retained earnings, paid-in capital from issuance of shares in excess of par value and realized capital surplus. For December 31, 2005, the Company had a maximum of 442,618 thousand shares of treasury stock amounted to \$12,723,131. Using the number of outstanding shares on September 30, 2002 as the basis for calculation, the Company could own a maximum of 561,215 shares amounting to \$62,190,798.
- (f) The Company transferred 4,613 thousands shares to its employees for \$128,480, and accordingly increased its capital surplus by \$53.
- (g) The Company’s subsidiary, Fubon Securities, transferred treasury stock to its employees, and accordingly increased its capital surplus by \$63,365.
- (h) The Company can buy back the shares owned by subsidiaries when the holders of the ECBs ask for their exercise. The Company repurchased 3,471 thousand shares for \$137,463 from Fubon Life Assurance, and accordingly its increased capital surplus by \$45,206.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (i) According to Financial Holding Company Act, the Company's subsidiaries Fubon Life Assurance and Fubon Bank transferred 185,490 and 41,654 thousand shares to their employees for 4,934,076 thousand and 1,166,298 thousand, and accordingly increased total capital surplus by 6,143 in 2004.
- (j) The Company's subsidiary Taipei Fubon Bank retired the shares, and adjusted its capital surplus by \$39.
- (k) The Company transferred 50,000 thousand shares to its employees for 1,316,013, and accordingly increased its capital surplus by \$12,577.
- (l) According to SFB regulations, treasury stock can not be pledged for debts. Until the treasury stock is disposed of or transferred to employees, it does not carry any shareholder rights.
- 8) Information related to the imputed credit account (ICA) as of December 31, 2005 and 2004, were summarized as follows:

	December 31, 2005	December 31, 2004
Imputation credit account balance	\$ <u>1,376,388</u>	<u>654,113</u>

For the distribution of the Company's 2004 earnings in 2005, the imputed tax credit ratio was estimated at 9.47%. When the Company distributed its 2003 earnings in 2004, the actual imputed tax credit ratio was 7.98%.

	December 31, 2005	December 31, 2004
Unappropriated retained earnings:		
Earned prior to January 1, 1998	\$ 46,459	46,459
Earned after January 1, 1998	<u>8,114,788</u>	<u>15,572,954</u>
Total	\$ <u>8,161,247</u>	<u>15,619,413</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Earnings per Share

The details of primary and diluted earnings per share for the years ended December 31, 2005 and 2004, were as follows:

	For the years ended December 31, 2005				
	Amount		Shares (‘000)	EPS	
	Before income tax	After income tax		Before income tax	After income tax
Primary EPS:					
Net income for common stock	\$ <u>11,809,347</u>	<u>10,641,252</u>	<u>7,669,915</u>	<u>1.54</u>	<u>1.39</u>

	For the years ended December 31, 2004				
	Amount		Shares (‘000)	EPS	
	Before income tax	After income tax		Before income tax	After income tax
Primary EPS:					
Net income	\$ 18,861,513	15,152,410	7,430,910	2.54	2.04
Cumulative effect of changes in accounting principle	(144,092)	(144,092)	7,430,910	(0.02)	(0.02)
Net income for common stock	<u>18,717,421</u>	<u>15,008,318</u>	7,430,910	<u>2.52</u>	<u>2.02</u>
Effect of potentially dilutive common stock – convertible bonds	20,676	15,507	180,262		
Diluted EPS:					
Net income for common stock plus effect of potentially dilutive common stock	\$ <u>18,738,097</u>	<u>15,023,825</u>	<u>7,611,172</u>	<u>2.46</u>	<u>1.97</u>

(25) Financial Instruments

1) Derivative Financial Instruments

The primary objective of holding forward contracts is to minimize exchange rate and interest rate exposures related to assets and liabilities denominated in foreign currencies and foreign currency commitments, which bear fixed interest rates. In order to be highly effective in hedging the risk attributable changes in fair market value, the Company designates derivative instruments negatively correlated to the proportionate changes in the fair market value of the hedged item as hedging tools. Moreover, the positions are monitored on a timely basis.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company's exposure to credit risk from financial instruments is measured based on guidelines set by the MOF. The credit risk including potential market risk and credit risk, represents the possibility that an accounting loss to the Company may occur as a direct result of the counterparties' failure to meet their contractual obligations. To minimize this risk, the Company evaluates the credit standing of the counterparties in accordance with the Company's policies and procedures for credit monitoring and approval.

As of December 31, 2005 and 2004, the notional amounts, credit risk amounts, and fair values of unsettled contracts were as follows:

Financial instruments	December 31, 2005		Fair value
	Notional amount	Credit risk amount	
For hedging purposes:			
Interest rate swap contract	\$ 108,528,247	1,004,518	(2,254,557)
Asset swap contract	4,260,385	10,216	(115,382)
Gross-currency swap contract	6,489,703	6,669	(2,957)
Gross-currency swap contract – USD	US\$ 95,000	US\$ -	US\$ (99)
Cross-currency swap contract – USD	US\$ 630,000	-	(446,495)
Foreign currency forward contract – USD	US\$ 1,560,000	-	516,427
Linked notes	US\$ 9,462,150	-	9,136,425
Linked in deposit	26,319,805	-	26,319,805
Credit default swap contract	3,000,000	-	(2,068)
On behalf of customers:			
Interest rate swap contract	445,788,258	2,814,676	(79,548)
Foreign currency forward contract	240,411,724	2,090,960	486,726
Foreign currency swap contract	60,440,334	863,665	(855,656)
Cross-currency swap contract	12,495,833	101,944	(58,774)
Bonds options	2,800,000	-	2,680,000
Asset swap contract – IRS	490,000	490,000	-
Equity option contract – call	71,271	2,368	458
Equity option contract – put	631,749	-	(5,991)
Foreign currency option contract – call	13,944,424	89,492	64,218
Foreign currency option contract – put	15,506,167	-	(61,882)
Interest rate option contract – call	847,400	2,123	6,381
Interest rate option contract – put	847,400	-	(6,381)
Structured note	28,900	-	28,809
TAIEX index futures	370,469	-	378,458
TAIEX index option	21,927	-	27,806

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Financial instruments	December 31, 2005		
	Notional amount	Credit risk amount	Fair value
Interest futures contract	\$ 3,431,294	654	(1,260)
Convertible bond option	1,562,200	-	120,719
Financial instruments	December 31, 2004		
	Notional amount	Credit risk amount	Fair value
For hedging purposes:			
Interest rate swap contract	\$ 128,162,826	1,395,050	290,473
Asset swap contract	5,790,278	20,614	(419,042)
Cross-currency swap contract	14,715,240	36,849	(205,028)
Gross-currency currency swap contract – call – USD	US\$ 60,000	-	1,066
Gross-currency swap contract - USD	US\$ 370,000	-	439,648
Foreign currency forward contract – USD	US\$ 1,048,000	-	551,667
Linked notes	US\$ 6,546,870	-	6,246,056
Linked in deposit	14,180,000	-	14,180,000
Credit default swap contract	3,000,000	-	(3,944)
Foreign currency option contract – hedge	US\$ 40,000	-	6,573
On behalf of customers:			
Interest rate swap contract	216,587,099	1,591,776	(16,439)
Foreign currency forward contract	36,772,646	224,318	(608,763)
Foreign currency swap contract	175,749,103	985,578	680,387
Cross-currency swap contract	9,567,902	91,596	76,487
Asset swap contract – IRS	250,000	250,000	-
Put interest rate call option	1,200,000	-	-
Forward rate agreement	1,000,000	1,946	-
Equity option contract – call	1,333,820	1,695	6,275
Equity option contract – put	1,333,820	-	(6,275)
Foreign currency option contract – call	47,883,913	981,901	401,390
Foreign currency option contract – put	49,055,166	-	(256,076)
Structured note	31,200	-	31,144
Interest futures contract	3,105,000	-	-
Convertible bond option	1,192,200	-	139,169
TAIEX index futures	6,183	-	6,188

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Financial instruments	Notional amount	December 31, 2004	
		Credit risk amount	Fair value
TAIEX index option	\$ 4,290	-	5,447
Principal guarantee notes	65,000	-	64,892

The profit and loss arising from derivative financial instruments for the years ended December 31, 2005 and 2004, were as follows:

	For the years ended December 31,	
	2005	2004
Foreign currency forward contract		
–foreign exchange gain (loss)	\$ 14,241,797	(794,510)
Foreign currency swap contract		
–interest income	990,923	579,760
–interest expense	1,761,814	670,705
Cross-currency swap contract		
–interest income	249,363	99,985
–interest expense	105,416	59,222
–gain (loss) on derivative financial instruments	80,407	(42,807)
Asset swap contract		
–interest income	30,383	78,472
–gain (loss) on derivative financial instruments	3,572	(5,995)
Foreign currency option contract		
–gain (loss) on derivative financial instruments	83,867	(13,535)
–foreign exchange gain (loss)	-	(1,875)
–premium income	158,989	192,102
–premium expense	(69,473)	(126,232)
Forward rate agreement		
–gain (loss) on derivative financial instruments	264	2,298
Asset swap and option		
–gain (loss) on derivative financial instruments	24,396	29,881
Put option		
–loss on derivative financial instruments	6,503	(6,256)
Interest rate swap contract		
–interest income	4,836,678	1,617,818
–interest expense (reduction)	(3,324,995)	(2,013,529)
–gain on derivative financial instruments	314,900	397,870
Principal guaranteed note		
–loss on derivative financial instruments	(10,134)	(1,385)
TAIEX index option contract		
–gain on option contracts	201,875	132,208
–loss on options contracts	(203,915)	(150,148)

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	For the years ended December 31,	
	2005	2004
Futures trading		
–gain (loss) on derivative financial instruments	\$ (18,001)	(18,934)
Credit default swap contract		
–loss on derivative financial instruments	(1,683)	(4,204)
Interest rate future contract		
–loss on derivative financial instruments	2,042	(310)
–gain on futures contracts	41,480	45,010
–loss on futures contracts	(76,484)	95,228
Equity linked		
–gain (loss) on derivative financial instruments	(641)	(569)
Equity option contract		
–gain on transaction	32,993	186,066
–loss on transaction	(3,140)	(135,454)
Interest rate option contract		
–gain on derivative financial instruments	8,789	28,099
Bond option contract		
–gain on derivative financial instruments	8,334	28,099

2) Fair value of nonderivative financial instruments

	December 31, 2005	
	Book value	Fair value
Assets:		
Assets for which the fair value is the same as the carrying value	\$ 345,291,151	345,291,151
Short-term investments	324,410,419	326,379,241
Trading securities	23,665,867	23,848,634
Long-term equity investments	28,884,134	28,884,134
Long-term bond investments	151,146,914	151,146,914
Liabilities:		
Liabilities for which the fair value is the same as the carrying value	961,533,217	961,533,217
Convertible bonds payable	18,500,000	18,500,000
Financial bonds	63,030,700	63,060,700

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2004	
	Book value	Fair value
Assets:		
Assets for which the fair value is the same as the carrying value	\$ 232,035,268	232,035,268
Short-term investments	484,553,455	486,464,332
Trading securities	20,156,332	20,713,121
Long-term equity investments	31,438,728	31,438,728
Long-term bond investments	126,393,653	130,346,578
Liabilities:		
Liabilities for which the fair value is the same as the carrying value	938,865,713	938,865,713
Convertible bonds payable	19,845,503	19,845,503
Financial bonds	63,900,000	63,900,000

Methods and assumptions applied in estimating the fair value of financial instruments are as follows.

1. The carrying values of cash, due from banks and the Central Bank of China, receivables, refundable deposits, due to the Central Bank of China, banks, remittances, borrowed funds, payables, appropriated loan funds, accrued pension cost and guarantee deposit received approximate their fair values because of the short maturity of these instruments.
2. Loans, bills purchased, deposits and bonds issued are financial assets and liabilities bearing interest. Thus, their carrying values represent fair values.
3. If market prices for securities purchased, investments in shares of stock, and investments in bonds are available, the fair values of these financial instruments will be the market prices. If such market prices are unavailable, then the fair value will be their carrying value.
4. Guarantee deposits comprising bonds should be based on quoted market prices, and the other deposits are based on carrying values.

Thus, the total values listed above do not represent the fair value of the Company.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Financial instruments with off-balance-sheet credit risks

In the normal courses of its business operations, the Company is a party to financial instruments with off-balance-sheet risk related to credit cards issued, commitments to provide financial guaranty, and obligations under letters of credit issued. For the years ending December 31, 2005 and 2004, the interest rates for loans ranged from 1.5% to 19.69% and 0.70% to 19.71%, respectively, and the highest interest rate for credit cards were 19.69% and 19.71%, respectively. The highest interest rate for cash cards was 18.25%. The Company also provides guarantees on loans and letters of credit to assure performance of customers to third-parties. There is no concentration of maturity dates in one particular period that would potentially result in a liquidity problem for the Company.

The contract amounts of financial instruments with off-balance-sheet credit risks were as follows:

	December 31, 2005	December 31, 2004
Credit line of credit cards	\$ 215,595,803	166,274,003
Credit line of cash cards	4,547,740	4,115,526
Guarantees on loans and letters of credit	57,006,026	95,793,927
Loan commitments	17,844,523	9,073,203

The total commitment amounts do not necessarily represent future cash requirements since most of the commitments are expected to expire without being drawn upon. The Company is exposed to losses up to the total amount of the commitments (without taking into account the value of any collateral) in the event of nonperformance by the other parties.

The Company evaluates the creditworthiness of each credit application on a case-by-case basis taking into account the credit history, credit rating and financial condition of the applicant. Collateral, mostly in the form of real estate, cash, inventories and marketable securities, may be required based on the result of the creditworthiness evaluation. As of December 31, 2005 and 2004, approximately 51% and 63%, of the total amounts of loans granted and letters of credit issued were secured.

No collateral is required in the case of credit card facilities, but the credit status of each credit card holder is closely monitored. Appropriate measures are adopted depending on the results of the credit status monitoring, which include amending the credit limit and, if necessary, cancellation of the facility.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Information on concentrations of credit risk

1. A concentration of credit risk exists when the counterparties of financial instruments are individuals or groups who are engaged in similar activities, or activities in the same region, that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company only has a concentration of credit risk in the loans to the TCG.
2. The net positions on foreign currency transactions as of December 31, 2005 and 2004, were as follows:

	December 31, 2005		December 31, 2004	
	Foreign currency	NTD	Foreign currency	NTD
USD	38,287	1,258,105	59,021	1,941,795
EUR	4,936	192,077	5,243	226,572
JPY	628,912	175,215	328,744	101,614
GBP	198	11,228	1,594	97,446
AUD	112	2,700	-	-
SFK	-	-	1,901	9,106

(26) Related-Party Transactions

- 1) Names and relationship of related parties

Name of related party	Relationship with the Company
Fubon Direct Marketing Consulting Co., Ltd.	Company subsidiary
Fubon Asset Management Service Co., Ltd.	Company subsidiary
Fubon Securities (BVI) Co., Ltd.	An affiliate
Fubon Futures Co., Ltd.	An affiliate
Fubon Investment Service Co., Ltd.	An affiliate
Fubonbank Insurance Agent Co., Ltd.	An affiliate
Fu-Sheng Insurance Agent Co., Ltd.	An affiliate
TaipeiBank Life Assurance Agent Co., Ltd.	An affiliate
Fubon Property Management Co., Ltd.	An affiliate

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of related party	Relationship with the Company
Fubon Securities Finance Co., Ltd.	An affiliate
Fubon Land Development Co., Ltd.	An affiliate
Fubon Charity Foundation	An affiliate
Fubon Culture and Education Foundation	An affiliate
Fubon Art Foundation	An affiliate
TaipeiBank Charitable Foundation	An affiliate
Chung Hsing Land Development Co., Ltd.	A major stockholder of the Company
Ming Tong Co., Ltd	A major stockholder of the Company
Tao Yin Co., Ltd.	A major stockholder of the Company
Citibank Co., Ltd.	An affiliate (ceased to be a related party since November 2004)
Citi Securities Co., Ltd.	An affiliate (ceased to be a related party since November 2004)
Citicorp General Insurance Agency Co., Ltd.	An affiliate (ceased to be a related party since November 2004)
Taiwan Cellular Co., Ltd.	An affiliate
Quanta Display Inc.	An affiliate
Taiwan Fixed Network Co., Ltd.	An affiliate
Hsinchu International Bank	An affiliate
Taipei City Government	A major stockholder of the Company
Others	Directors, supervisors, managers and their relatives; investees under equity method

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) Significant transactions with related parties as of and for the years ended December 31, 2005 and 2004, were as follows:

1. Insurance revenue

	Insurance revenue For the year ended December 31,		Insurance receivable	
	2005	2004	December 31, 2005	December 31, 2004
Trans Asia Telecommunications	\$ 12,178	-	36	-
Quanta Display Inc.	43,666	-	-	-
Taiwan Cellular Co., Ltd.	95,286	113,325	31	-
Taiwan Fixed Network Co., Ltd.	14,594	10,593	3,860	-
Taiwan High Speed Rail	12,985	11,112	-	-
Others	<u>57,428</u>	<u>27,872</u>	<u>2,010</u>	<u>7,794</u>
	\$ <u>236,137</u>	<u>162,902</u>	<u>5,937</u>	<u>7,794</u>

The terms of the transactions were similar to those with nonrelated parties.

2. Rental revenue and deposits

	For the year ended December 31, 2005	For the year ended December 31, 2004
Rental revenue:		
Fubon Direct marketing Consulting Co., Ltd.	\$ -	13,727
Fubon Futures Co., Ltd.	-	11,601
Others	<u>24,121</u>	<u>32,896</u>
	\$ <u>24,121</u>	<u>58,224</u>
Deposits:		
Other	\$ <u>2,581</u>	<u>16,157</u>

All the above leases were operating leases. The terms of the transactions were similar to those with nonrelated parties.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Rental expenses and refundable deposits

	For the year ended December 31, 2005	For the year ended December 31, 2004
Rental expense:		
Ming Tong Co., Ltd.	\$ 44,945	115,526
Tao Yin Co., Ltd.	18,441	72,234
Taipei Cellular Co., Ltd.	2,992	2,922
Chung Hsing Development Co., Ltd.	153,796	80,586
Taipei City Government	15,578	15,399
Others	<u>26,749</u>	<u>28,851</u>
	\$ <u>262,501</u>	<u>315,518</u>
	December 31, 2005	December 31, 2004
Refundable deposits:		
Other	\$ <u>14,790</u>	<u>38,030</u>

All the above leases were operating leases. The terms of the transactions were similar to those with nonrelated parties.

4. Deposits accepted by Taipei Fubon Bank and Fubon Bank

	December 31, 2005		December 31, 2005	
	Amount	Interest rate range	Amount	Interest rate range
Others (no individual related party accounts for more than 10% of total loans)	\$ <u>31,340,156</u>	0~8.045%	<u>43,103,024</u>	0~13.00%

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Loans

Loans to the related parties from Taipei Fubon Bank and Fubon (Hong Kong) Bank

	December 31, 2005		December 31, 2005	
	Amount	Interest rate range	Amount	Interest rate range
Others (no individual related party accounts for more than 10% of total loans)	\$ <u>62,604,570</u>	0.40~ 12.80%	<u>31,236,434</u>	0.40~ 10.24%

6. Funds borrowed from banks

	December 31, 2005		December 31, 2005	
	Amount	Interest rate range	Amount	Interest rate range
CitiBank	\$ <u>-</u>	-	<u>953,040</u>	1.03~1.80%

7. Guarantees and acceptances

	December 31, 2005		December 31, 2005	
	Amount	Interest rate range	Amount	Interest rate range
Taiwan Cellular Co., Ltd.	\$ <u>-</u>	-	<u>259,116</u>	0.50%

8. Short-term investments

Short-term investments under repurchase or resale agreements as of December 31, 2005 and 2004, were as follows:

(a) Repurchase and resale agreements

Name	Transaction type	December 31, 2005	
		Repurchase selling price	Resale purchase price
Citi Securities Co., Ltd.	Bonds purchased under agreements to resell	\$ <u>683,000</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name	Transaction type	December 31, 2004	
		Repurchase selling price	Resale purchase price
Foremost Leasing Co., Ltd.	Bonds purchased under agreements to resell	\$ <u>1,389,134</u>	<u>-</u>

There were no repurchase and resale agreements in 2004.

(b) Purchase or sale agreements

Name	Transaction type	December 31, 2005	
		Purchase transaction price	Sale transaction price
Funds management by Fubon Asset Management	Bonds	\$ <u>5,808,898</u>	<u>2,758,827</u>

Name	Transaction type	December 31, 2005	
		Purchase transaction price	Sale transaction price
CitiBank	Bonds	\$ <u>8,878,596</u>	<u>8,180,721</u>

9. Trading contracts for derivatives held or issued by the Company and related parties as of December 31, 2005 and 2004, were as follows:

Name	Financial instruments	December 31, 2005	December 31, 2004
Taiwan Fixed Network Co., Ltd.	Interest rate swap contract	NT\$ 500,000	NT\$ -
Citibank	Interest rate swap contract	NT\$ -	NT\$ 5,900,000
		US\$ -	US\$ 10,000

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name	Financial instruments	December 31, 2005	December 31, 2004
Citibank	Foreign currency swap contract	NT\$ -	NT\$ 5,082,880
		US\$ -	US\$ 214,000
Citibank	Foreign currency spot rate contract	US\$ -	US\$ 185,000
		NT\$ -	NT\$ 1,273,311
CitiBank	Cross – currency swap contract	NT\$ -	NT\$ 675,560
Fubon Securities (BVI)	Asset swap contract	NT\$ -	NT\$ 1,175,416

10. Securities refinancing transactions

Name of related party	For the year ended December 31, 2005		December 31, 2005	
	Refinancing amount	Interest revenue	Securities refinance ending balance	Securities refinance margin deposits ending balance
Fubon Securities Finance Co., Ltd.	\$ <u>67,196</u>	<u>2</u>	<u>=</u>	<u>=</u>

Name of related party	For the year ended December 31, 2004		December 31, 2004	
	Refinancing amount	Interest revenue	Securities refinance ending balance	Securities refinance margin deposits ending balance
Fubon Securities Finance Co., Ltd.	\$ <u>55,976</u>	<u>6</u>	<u>216</u>	<u>=</u>

11. Service fees

For the years ended December 31, 2005 and 2004, the Company received service fees of \$68,563 thousand and \$72,887 thousand, respectively, from the TCG for its handling of loans to government employees and teachers, and home loans to various individuals.

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In addition, being the agent for the bonds issued by the Taipei City Government, TaipeiBank received service fees for handling the related interest payments. For the year ended December 31, 2005, the service fees amounted to \$11,074 thousand.

TaipeiBank received service fees based on the contract with Taiwan High Speed Rail Co., Ltd. For the year ended December 31, 2004, the service fees amounted to \$31,711 thousand. For the year ended December 31, 2005, the service fees amounted to \$50,866 thousand with other party.

Fubon Financial Venture Capital Co., Ltd. received service fees from Fu-Sheng Travel Agency Co., Ltd. For the years ended December 31, 2005, the service fees amounted to \$11,672 thousand, respectively.

12. Transfer agency fees

Name of related party	2005	2004
Taiwan Fixed Network	\$ -	13,236
Others	<u>9,321</u>	<u>9,870</u>
	\$ <u>9,321</u>	<u>23,106</u>

13. Other revenues

(a) Underwriting commission

Name of related party	For the year ended December 31, 2005
Fubon Managed by Fubon Asset Management	\$ <u>55,946</u>

(b) Brokerage commission

Name of related party	For the year ended December 31, 2005
Fubon Managed by Fubon Asset Management	\$ 41,903
Other	<u>52,904</u>
	\$ <u>94,807</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

14. Commission expenses

Name of related party	For the year ended December 31, 2005	For the year ended December 31, 2004
Citigroup Insurance Agent Co., Ltd.	\$ -	783,137
TaipeiBank Life Assurance Agent Co., Ltd.	16,091	209,940
FubonBank Insurance Agent Co., Ltd.	398,732	214,209
Fu-Sheng Insurance Agent Co., Ltd.	108,200	118,641
Others	-	19,955
	\$ <u>523,023</u>	<u>1,345,882</u>

15. Other expenses payable to related parties

Name of related party	Items	For the year ended December 31, 2005	For the year ended December 31, 2004
Fubon Direct Marketing Consulting Co., Ltd.	Marketing & Consulting	\$ -	131,757
Fubon Investment Service Co., Ltd.	Consulting	-	71,659
Fubon Property Management Co, Ltd.	Other expenses	37,348	39,565
Guang Xing Printing Co., Ltd.	Printing expenses	26,157	22,533
Fubon Land Development Co., Ltd.	Real Estate Investigation and Service Expense	2,074	-
Taiwan Fixed Network Co., Ltd.	Other expenses	14,743	-
Taiwan Cellular Co., Ltd.	Other expenses	28,095	-
Fubon Insurance Agent Co., Ltd.	Commission and Service fee changed	-	10,336
Others (no individual related party accounts for more than \$10,000 thousand)	Other expenses	90,247	79,462
		\$ <u>198,664</u>	<u>355,312</u>

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FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

16. The Company's donations to related parties were as follows:

Name of related party	For the year ended December 31, 2005	For the year ended December 31, 2004
Fubon Culture and Education Foundation	\$ 15,000	19,150
Fubon Art Foundation	4,410	3,590
Fubon Charity Foundation	18,000	16,062
TaipeiBank Charitable Foundation	70,000	50,000
Others	<u>12,566</u>	<u>25,148</u>
	\$ <u>119,976</u>	<u>113,950</u>

17. Bank deposit with related party

Name of related party	Items	December 31, 2005	December 31, 2004
Hsinchu Commercial Bank	Current deposit	\$ <u>103,632</u>	<u>-</u>

The Company hold the financial bond issued by Hsinchu Commercial Bank. For the years ended December 31, 2005 and 2004, the financial bond amounted to \$600,000 thousand and \$0, respectively.

18. Management fee receivable

Name of related party	December 31, 2005	December 31, 2004
Funds Managed by Fubon Asset Management	\$ 18,613	-
Others	<u>52,750</u>	<u>-</u>
	\$ <u>71,363</u>	<u>-</u>

19. Bond transaction with related party

Name of related party	Purchase amount For the years ended December 31, 2005	Purchase amount For the years ended December 31, 2004
Hsinchu Commercial Bank	\$ <u>600,000</u>	<u>-</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

20. Other accounts payable with related parties

Name of related party	December 31, 2005	December 31, 2004
Taiwan Fixed Network Co., Ltd.	\$ 2,750	-
Taiwan Teleservices & Technologies Co., Ltd.	<u>19,150</u>	<u>-</u>
	\$ <u>21,900</u>	<u>-</u>

(27) Pledged Assets

As of December 31, 2005 and 2004, the book values of pledged assets were as follows:

Pledged assets	Purpose of Pledge	December 31, 2005	December 31, 2004
Time deposits (accounted for as refundable deposits)	Lease deposits	\$ 500	500
Time deposits (accounted for as refundable deposits)	Guarantee deposits	21,250	19,595
Time deposits (accounted for as refundable deposits)	Bank lans	154,887	477,000
Beneficiary certificates (accounted for as short- term investments)	Bank loans	3,093,087	2,980,600
Long-term bond investments	Guarantee	539,243	150,000
Stock (accounted for as trading securities – dealer department)	Bank loan	2,609,520	3,152,763
Government bonds (accounted for as refundable deposits)	Guarantee deposits	3,829,926	4,452,584
Short-term investment	RTGS; placement with courts of justice for various over-due loan collection cases and National Credit Card Center to secure potential obligation arising from credit card activities	21,915,171	19,190,161
Other assets (accounted for as refundable deposits)	Deposits	-	73,812

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Purpose of Pledge	December 31, 2005	December 31, 2004
Other financial assets	Convertible bonds	\$ -	2,420,248
Fixed assets – lands and buildings	Bank loan	715,188	1,149,328
Leased assets – lands and buildings (accounted for as other assets)	Bank loan	92,766	383,819
Idle assets – buildings (accounted for as other assets)	Bank loan	60,595	130,923
		\$ <u>33,032,133</u>	<u>34,581,333</u>

(28) Contingent Liabilities and Commitments

- 1) As of December 31, 2005 and 2004, the Company's contingent liabilities and commitments were as follows:

	December 31, 2005	December 31, 2004
Unused customers' credit facilities	\$ 17,844,523	123,359,735
Repurchase of bonds and securities	63,052,968	79,739,666
Contract guarantee on behalf of counter-parties	46,599,103	59,411,004
Commercial paper guarantees	-	11,394,800
Resale of bonds and securities	1,700,000	6,160,116
Unused customer liabilities under letters of credit	10,406,924	11,723,339
Outstanding guarantee notes	757,240	1,529,276
Contract for the repurchase of bonds and securities	63,095,904	79,807,852
Contracts for the resale of bonds and securities	1,700,568	6,164,262
Foreign Currency forward contract	232,649,188	34,855,470
Trust assets	133,730,846	108,688,657
Notional amount of interest rate derivatives	451,690,356	328,850,035
Notional amount of exchange rate derivatives	312,664,526	305,854,475
Equity derivatives	4,631,716	1,750,000

- 2) Legal matters of Fubon Insurance

As of December 31, 2005, Fubon Insurance had several insurance disputes and was required to pay indemnities amounting to approximately \$395,978 thousand, of which approximately \$317,163 was reinsured. The difference not covered by reinsurances related to these claims had been accrued. These cases are still pending with the district court and have not been resolved as of December 31, 2005.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

3) Legal matters of Fubon Life Assurance

As of December 31, 2005, Fubon Life Assurance had 22 insurance lawsuits for which it was required to pay total indemnities of approximately \$72,567 thousand, which had been accrued in the accounts.

4) Contingent liabilities and commitments of Fubon Securities

1. As of December 31, 2005, Fubon Securities had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be Fubon Securities' first and second proxy. If Fubon Securities is unable to fulfill its obligations to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

Fubon Securities has reciprocated by agreeing to act as the first or second proxy for these companies.

2. Involvement of Fubon Securities in litigation with other companies because of the mergers.

There were several disputes the former brokers had with clients due to securities brokerage transactions. The clients filed lawsuits against Fubon Securities for damages amounting to \$40,000 thousand. These cases are currently under judicial examination. Based on the past experience of Fubon Securities, it expects that it will prevail in these cases.

3. Taipei National Tax Administration (TNTA) declared that Fubon Securities violated the Securities Transactions Tax Act and asked for payment of \$17,327 thousand worth of penalty. In August, 2004, Fubon Securities requested TNTA for re-examination, and the amounts had been accrued in the account by following the Conservative Policy.
4. On June 27, 2005, the Company had a Loss on Error amounting to \$469,080 thousand, due to a mistake in trading securities. However, the Company made profit of approximately \$257,747 thousand by selling these securities in the second half of the year.

5) Contingent liabilities and commitments of Taipei Fubon Bank

1. As of December 31, 2005, the of construction and purchase contracts amounted to \$276,735 thousand of which \$43,354 thousand was unpaid.
2. Taipei Fubon Bank has been appointed by the MOF to operate the public benefit lottery for five years from January 1, 2002, to December 31, 2006, and to handle the issuance of tickets for the traditional lottery, quick-win lottery and computerized lottery. Taipei Fubon Bank will receive a service fee from the MOF based on the number of tickets sold.
3. As of December 31, 2005, the trust assets with the Taipei Fubon Bank amounted \$133,713,991 thousand.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6) Contingent liabilities and commitments of Fubon Asset Management

1. Structured Asset Investors, LLC signed a contract with Fubon Asset Management under which is to assist and offer investment recommendations, and received consulting income from Fubon Asset Management.
2. On September 30, 2005, the structured bonds which belonged to the funds under management of Fubon Asset Management Co., Ltd. were sold for \$17,307,000 thousand (par value) by public auction, and the transaction was completed in October 2005. Fubon Asset Management Co., Ltd. bought the structured bonds from the funds under management for \$6,80,000 thousand (par value), and sold them at a disposal loss of \$346,294 thousand.
3. On January 27, 2006 Fubon Asset Management Co., Ltd. was punished by the Financial Supervisory Commission, Executive Yuan, for buying back its funds using insider information. Fubon Asset Management Co., Ltd. was fined \$360,000 thousand in accordance with the Securities Investment Trust and Consulting Act, Article 113, paragraph 2, and Article 111, paragraph 4. In addition, the managers who were involved in this case were also prohibited from performing such job duties for three months to one year in accordance with the Securities Investment Trust Act, Article 104.

7) Trust-related activities

Fubon Bank and its subsidiaries undertake certain trust and custody activities on behalf of their clients. As of December 31, 2005 and 2004, off-balance-sheet amounts related to such activities were as follows:

	December 31, 2005	December 31, 2004
Custodial collections receivable	\$ 44,396,058	94,690,719
Balances of traveler's checks received on consignment	725,261	709,715
Assets that resulted from various trust agencies	133,713,991	108,688,657
Held by Fubon Bank and Fubon Bills Finance for safe custody	276,300,917	328,860,654
Intermediary for book-entry government bonds	72,437,000	66,239,800

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8) Operating leases

The lease contracts on the lease of office space have expiry dates through 2010. The future lease payments these contracts are approximately as follows:

	Amount
From January 1, 2006, to December 31, 2006	\$ 1,339,256
From January 1, 2007, to December 31, 2007	1,221,205
From January 1, 2008, to December 31, 2008	806,125
From January 1, 2009, to December 31, 2009	568,054
From January 1, 2010, to December 31, 2010	<u>266,914</u>
	\$ <u>4,201,554</u>

(29) Other

1) Summary of personnel, depreciation, depletion and amortization expenses

A summary of personnel, depreciation, depletion and amortization expenses for the years ended December 31, 2005 and 2004, is as follows:

Nature	Function	2005			2004		
		Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Payroll costs:							
Salaries		302,645	770,502	8,073,147	-	8,077,776	8,077,776
Labor and health insurance		21,434	368,990	390,424	-	476,837	476,837
Pension		10,790	495,644	506,434	-	1,172,773	1,172,773
Other employment		17,862	2,246,624	2,264,486	-	1,293,459	1,293,459
Depreciation expenses		4,589	1,049,050	1,053,639	-	1,024,777	1,024,777
Depletion expenses		-	-	-	-	-	-
Amortization expenses		8,436	357,444	365,880	-	475,650	475,650
Other		-	-	-	-	4,919,021	4,919,021

2) Reclassification

To conform with the presentation adopted for the consolidated financial statements as of and for the years ended December 31, 2005, certain items of the financial statements as of December 31, 2004, have been reclassified. The reclassification does not have significant effect on the presentation of the financial statements.

3) The following disclosure are only applicable to TaipeiFubon Bank for the years ended December 31, 2005 and 2004, in accordance with SFAS No. 28.

1. Statement of changes in allowance for doubtful accounts (note 11 for details).

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Maturity analysis of material assets and liabilities

The maturity analysis of material assets and liabilities as of December 31, 2005 and 2004, is as follows:

	Within one year	December 31, 2005		
		1~7 years	Over 7 years	Total
Assets				
Cash and cash equivalents	\$ 19,507,072	-	-	19,507,072
Due from the Central Bank of China and banks	164,333,065	-	-	164,333,065
Bonds purchased under agreements to resell	1,700,000	-	-	1,700,000
Short-term investments	118,316,389	-	-	118,316,389
Receivables	52,956,444	-	-	52,956,444
Loans, discounts and bills purchased	195,264,954	143,937,927	219,030,241	558,233,122
Long-term debt investment	448,409	19,224,416	28,884,225	48,557,050
	<u>\$ 552,526,333</u>	<u>163,162,343</u>	<u>247,914,466</u>	<u>963,603,142</u>
Liabilities				
Due to the Central Bank of China	\$ 479,210	-	-	479,210
Due to banks	28,620,467	-	-	28,620,467
Payables	25,785,360	-	-	25,785,360
Bonds sold under agreements to repurchase	63,052,968	-	-	63,052,968
Deposits and remittances	702,030,193	31,696,773	-	733,726,966
Funds borrowed from Central Bank of China	3,821,243	-	-	3,821,243
Financial bonds	500,000	52,400,000	6,500,000	59,400,000
	<u>\$ 824,289,441</u>	<u>84,096,773</u>	<u>6,500,000</u>	<u>914,886,214</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2004		
	Within one	1~7	Over 7	Total
	year	years	years	
Assets				
Cash and cash equivalents	\$ 19,219,808	-	-	19,219,808
Due from the Central Bank of China and banks	71,835,810	10,000	-	71,845,810
Short-term investments	323,996,724	-	-	323,996,724
Receivables	45,065,712	-	-	45,065,712
Bonds purchased under agreements to resell	6,010,116	-	-	6,010,116
Loans, discounts and bills purchased	111,480,466	188,703,297	146,054,357	446,238,120
Long-term debt investment	92,299	43,806,556	1,264,239	45,163,094
	\$ <u>577,700,935</u>	<u>232,519,853</u>	<u>147,318,596</u>	<u>957,539,384</u>
Liabilities				
Due to the Central Bank of China	\$ 370,700	-	-	370,700
Due to banks	28,090,671	200,000	-	28,291,671
Payables	22,650,582	-	-	22,650,582
Bonds sold under agreements to repurchase	38,127,516	-	-	38,127,516
Deposits and remittances	703,669,593	20,198,367	-	723,867,960
Funds borrowed from Central Bank of China	16,421,438	-	-	16,421,438
Financial bonds	5,000,000	52,900,000	6,500,000	64,400,000
	\$ <u>814,330,500</u>	<u>73,298,367</u>	<u>6,500,000</u>	<u>894,128,867</u>

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Interest-bearing assets and liabilities

As of December 31, 2005 and 2004, the interest-bearing assets, interest-bearing liabilities, and average interest rates were as follows:

Taipei Fubon Bank

	December 31, 2005	
	Average amount	Average annual interest rate %
Assets:		
Cash – negotiable certificates of deposit	\$ 3,570,695	1.18
Due from the Central Bank of China and banks	63,807,522	1.93
Securities purchased	263,764,388	1.58
Bonds purchased under agreements to resell	5,451,572	1.25
Loans, discounts and bills purchased	485,551,766	3.57
Long-term bond investments	48,766,363	3.58
Liabilities:		
Due to banks	23,238,985	2.69
Public treasury savings	39,756,400	0.43
Demand deposits	74,658,152	0.37
Demand savings deposits	232,926,660	0.62
Time deposits	153,060,584	1.77
Time savings deposits	211,110,715	1.61
Negotiable certificates of deposit	2,533,714	0.69
Borrowed funds	8,197,049	2.64
Financial bonds	60,992,329	1.36
Bonds sold under agreements to repurchase	53,196,011	1.15

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2004	
	Average amount	Average annual interest rate %
Assets:		
Cash – negotiable certificates of deposit	\$ 2,793,464	0.42
Due from the Central Bank of China and banks	94,914,377	1.27
Securities purchased	319,400,344	1.11
Bonds purchased under agreements to resell	5,671,902	1.01
Loans, discounts and bills purchased	455,979,181	3.58
Long-term bond investments	31,191,407	3.70
Liabilities:		
Due to banks	25,513,986	1.35
Public treasury savings	54,746,128	0.57
Demand deposits	74,280,301	0.15
Demand savings deposits	229,398,254	0.69
Time deposits	142,933,593	1.27
Time savings deposits	211,333,182	1.44
Negotiable certificates of deposit	2,923,146	0.67
Borrowed funds	36,853,671	1.30
Financial bonds	63,125,546	1.96
Bonds sold under agreements to repurchase	32,711,497	0.71

4. Capital adequacy ratio of Taipei Fubon Bank as of December 31, 2005 and 2004 were as follows:

	December 31, 2005	December 31, 2004	
	Taipei Fubon Bank	Taipei bank	Fubon bank
Capital adequacy ratio	11.03%	13.10%	16.82%
Consolidated capital adequacy ratio	11.20%	13.15%	16.98%
Debt to total assets	1,228.63%	1,197.16%	899.81%

Note: Capital adequacy ratio = Eligible capital / Risk-based assets.

Pursuant to the Banking Law and related regulations No.0090345106 issued by the Ministry of Finance, the capital adequacy ratio should be computed semi-annually a year.

5. For the period ended December 31, 2005. Taipei Fubon Bank did not write off any loan without initiating any legal proceeding.

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(31) Subsidiaries' Condensed Consolidated Balance Sheets and Statements of Income

1) Condensed balance sheets

	Fubon Insurance	
	December	December
	31, 2005	31, 2004
Current assets	\$ 26,563,697	27,086,306
Long-term investment	31,068,866	27,299,734
Fixed assets	1,744,746	1,713,578
Other assets (including intangible assets)	3,427,944	4,112,737
Current liabilities	10,880,364	9,658,457
Long-term liabilities	64,548	9,263
Other liabilities	283,375	688,951
Reserve for operations	22,068,845	20,239,342
Common stock	18,178,396	20,000,000
Total assets	62,805,253	60,212,355
Total liabilities	33,297,133	30,596,013
Net assets	29,508,120	29,616,342

	Fubon Life Assurance	
	December	December
	31, 2005	31, 2004
Current assets	\$ 85,978,703	59,976,641
Margin loans, and exchange bills negotiated and discounted, net	8,066,061	6,494,321
Long-term investment	92,225,689	65,036,203
Fixed assets	320,240	398,408
Other assets (including intangible assets)	64,564,247	46,157,623
Current liabilities	9,452,125	1,392,316
Long-term liabilities	133,354	110,557
Other liabilities	37,102,418	30,773,681
Reserve for operations	190,808,762	134,748,123
Common stock	5,648,000	5,648,000
Total assets	251,154,940	178,063,196
Total liabilities	237,496,659	167,024,677
Net assets	13,658,281	11,038,519

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fubon Asset Management	
	December	December
	31, 2005	31, 2004
Current assets	\$ 1,538,990	1,752,340
Fixed assets	7,106	8,314
Other assets (including intangible assets)	80,550	100,292
Current liabilities	144,679	202,611
Other liabilities	13,829	10,261
Common stock	555,980	555,980
Total assets	1,626,646	1,860,946
Total liabilities	158,508	212,872
Net assets	1,468,138	1,648,074
	Fubon Securities	
	December	December
	31, 2005	31, 2004
Current assets	\$ 59,355,320	51,054,977
Long-term investment	1,061,832	3,648,845
Fixed assets	1,921,721	1,925,668
Other assets (including intangible assets)	3,249,100	2,601,311
Current liabilities	32,111,641	24,281,734
Long-term liabilities	2,000,000	2,998,159
Other liabilities	478,182	425,255
Common stock	14,089,000	13,521,035
Total assets	65,587,973	59,230,801
Total liabilities	34,589,823	27,705,148
Net assets	30,998,150	31,525,653

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Taipei Fubon Bank	
	December	December
	31, 2005	31, 2004
Current assets	\$ 419,800,914	514,032,034
Margin loans, and exchange bills negotiated and discounted, net	549,331,039	441,973,897
Long-term investment	66,850,022	64,300,798
Fixed assets	14,246,397	14,383,515
Other assets (including intangible assets)	18,964,176	5,028,221
Deposits and remittances	733,568,348	723,679,809
Current liabilities	186,109,895	143,281,656
Long-term liabilities	70,099,018	85,469,909
Other liabilities	4,517,371	3,698,201
Common stock	28,131,175	38,131,175
Total assets	1,069,192,548	1,039,718,465
Total liabilities	994,294,632	956,129,575
Net assets	74,897,916	83,588,890

	HK dollars in thousand	
	Fubon Bank (Hong Kong)	
	December	December
	31, 2005	31, 2004
Current assets	\$ 27,014,767	26,174,148
Margin loans, and exchange bills negotiated and discounted, net	21,412,257	18,026,363
Long-term investment	97,682	126,664
Fixed assets	1,150,838	1,204,710
Other assets (including intangible assets)	128,358	228,896
Deposits and remittances	35,248,451	32,053,642
Current liabilities	9,704,123	9,599,575
Long-term liabilities	1,100,000	400,000
Other liabilities	2,033	4,792
Common stock	1,172,160	1,172,160
Total assets	49,803,902	45,760,781
Total liabilities	46,054,607	42,058,009
Net assets	3,749,295	3,702,772

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Condensed statements of income

	Fubon Insurance	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 47,836,156	43,729,151
Operating profits	7,012,775	6,628,801
Net operating income	3,040,611	2,893,475
Nonoperating revenues	81,045	63,855
Nonoperating expenses	229,851	170,767
Income before tax	2,891,805	2,786,563
Net income	2,503,862	2,473,752
Earnings per share	1.29	1.24
	Fubon Life Assurance	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 112,656,764	74,452,544
Operating profits	3,310,213	3,277,899
Net operating income	2,040,445	2,118,031
Nonoperating revenues	356,405	57,152
Nonoperating expenses	3,493	126,168
Income before tax	2,393,357	2,049,015
Net income	2,826,466	1,801,174
Earnings per share	5.00	3.19
	Fubon Asset Management	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 1,054,121	959,090
Operating profits	1,054,121	959,090
Net operating income	543,741	496,751
Nonoperating revenues	31,679	41,016
Nonoperating expenses	346,294	2,582
Income before tax	229,126	535,185
Net income	104,226	405,185
Earnings per share	1.87	7.29

(Continued)

FUBON FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fubon Securities	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 7,121,842	8,032,620
Operating profits	5,639,279	6,417,143
Net operating income	1,074,903	2,562,336
Nonoperating revenues	532,719	690,529
Nonoperating expenses	244,196	148,932
Income before tax	1,363,426	3,103,933
Net income	907,369	2,171,933
Earnings per share	0.67	1.62

	Taipei Fubon Bank	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 49,318,604	44,079,305
Operating profits	16,490,217	23,157,769
Net operating income	5,414,125	11,513,910
Nonoperating revenues	285,979	429,725
Nonoperating expenses	227,204	997,132
Income before tax	5,472,900	10,946,503
Net income	5,034,395	8,696,356
Earnings per share	1.56	2.28

	HK dollars in thousand	
	Fubon Bank (Hong Kong)	
	January 1 to December 31, 2005	January 1 to December 31, 2004
Operating revenues	\$ 1,822,911	1,196,880
Operating profits	775,051	784,105
Net operating income	169,815	182,066
Nonoperating revenues	103,999	156,283
Income before tax	273,814	338,349
Net income	241,441	300,388
Earnings per share	2.06	2.56

Fubon Financial Holding Co., Ltd.

Founded in 2001
Chairman: Daniel Tsai
President: Victor Kung
Capital: NT\$80.6 Billion
237 Section 1 Chien Kuo S Road
Taipei, Taiwan
Tel (886-2)6636-6636
Fax (886-2)6636-0111
www.fubongroup.com

Fubon Securities Co., Ltd.

Founded in 1988
Chairman: Kung-Liang Yeh
President: David Chang
Capital: NT\$14.1 Billion
108 Section 1 Tun Hua S Road
Taipei, Taiwan
Tel (886-2) 8771-6888
Fax (886-2) 8771-6795
www.fbs.com.tw

Taipei Fubon Commercial Bank Co., Ltd.

Founded in 1969
Chairman: Daniel Tsai
President: Jesse Y. Ding
Capital: NT\$28.13 Billion
169 Section 4 Jen Ai Road
Taipei, Taiwan
Tel (886-2) 2771-6699
Fax (886-2) 2778-0021
www.taipeifubon.com.tw

Fubon Asset Management Co., Ltd.

Founded in 1992
Chairman: Richard Tsai
President: Victor Kung
Capital: NT\$560 Million
108 Section 1 Tun Hua S Road
Taipei, Taiwan
Tel (886-2) 8771-6688
Fax (886-2) 8771-8966
www.fsit.com.tw

Fubon Bank (Hong Kong) Co., Ltd.

Founded in 1982
Chairman: Richard Tsai
CEO: Jin-Yi Lee
Capital: HK\$1.17 Billion
38 Des Voeux Road Central
Hong Kong
Tel (852) 2842-6222
Fax (852) 2810-1483
www.fubonbank.com.hk

Fubon Direct Marketing Consulting Co., Ltd.

Founded in 1997
Chairman: Kuai-Sung Su
President: Fred T. M. Juang
Capital: NT\$100 Million
20F 9 Hsiang Yang Road
Taipei, Taiwan
Tel (8862) 8751-1889
Fax (8862) 8751-1168
www.fubondirect.com.tw

Fubon Insurance Co., Ltd.

Founded in 1961
Chairman: Tsan-Ming Shih
President: Steve T. H. Chen
Capital: NT\$8.18 Billion
237 Section 1 Chien Kuo S Road
Taipei, Taiwan
Tel (886-2) 2706-7890
Fax (886-2) 2704-2915
www.518fb.com.tw

Fubon Financial Holding Venture Capital Co., Ltd.

Founded in 2003
Chairman: Richard Tsai
President: Howard Lin
Capital: NT\$1.8 Billion
7F 108 Section 1 Tun Hua S Road
Taipei, Taiwan
Tel (886-2) 8773-7711
Fax (886-2) 8771-8889

Fubon Life Assurance Co., Ltd.

Founded in 1993
Chairman: Richard Tsai
President: Pen-Yuan Cheng
Capital: NT\$5.65 Billion
108 Section 1 Tun Hua S Road
Taipei, Taiwan
Tel (886-2) 8771-6699
Fax (886-2) 8771-5919
www.fubonlife.com.tw

Fubon Venture Capital Consulting Co., Ltd.

Founded in 2004
Chairman: Richard Tsai
President: Howard Lin
Capital: NT\$50 Million
7F 108 Section 1 Tun Hua S Road
Taipei, Taiwan
Tel (886-2) 8773-7711
Fax (886-2) 8771-8889

Fubon AMC Co., Ltd.

Founded in 2004
Chairman: Jesse Y. Ding
President: Chun-Hsiung Chen
Capital: NT\$2.5 Billion
5F 169 Section 4 Jen Ai Road
Taipei, Taiwan
Tel (886-2) 2779-0988
Fax (886-2) 2731-3837

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