



THE INTERNATIONAL  
COMMERCIAL BANK OF CHINA



Mega Financial Group

# Annual Report 2005

ANNUAL REPORT 2005



**MEGA FINANCIAL GROUP**  
**THE INTERNATIONAL COMMERCIAL BANK OF CHINA**

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## *Message from Management*

ICBC has, ever since it was founded, enjoyed wide praise from all quarters for the constancy, sincerity and reliability of its approach to business. The bank has, with its customers' support, and in a fiercely competitive financial market, repeatedly achieved excellent results, breaking new records in recent years, with pre-tax profit hitting a new high of NT\$13.08 billion in the year 2005.

The domestic financial market has changed substantially as the direct financing ratio has risen and made the traditional banking business much less profitable. With an appropriate strategy and the untiring efforts of its staff, each line of business within this bank has continued to grow. Most impressive has been the foreign exchange business in which the bank has particular expertise which followed 2004's tremendous growth of 38%, with further expansion by 28%. This represents a volume for the whole year of US\$324 billion, placing the bank second in terms of market share. In addition, the deposits and loans businesses balanced at NT\$728 billion and NT\$612 billion respectively, growth of 10% and 11% respectively over 2004.

The bank's outstanding services and operation results have been affirmed by the Asian Bankers Association, with its conferral on the bank of the top prize, in the SME Financing Product or Service category, of the Asian Banking Awards 2005. Moreover, in the Asiamoney Best FX Banks Awards 2005, by a

vote of listed companies, multinationals, small and medium enterprises and unlisted local companies across the Asia-Pacific region, it was named Best Domestic Provider of FX Services for Corporate in Taiwan.

In July, ICBC, with its sound financial records and solid franchise built over its long operating history, received a "B" grade the highest grade for a bank in Taiwan from Standard & Poor's (S&P) for its bank fundamental strength rating. In September, S&P revised upwards the bank's long-term credit rating from "A-" to "A," and its short-term credit rating from "A-2" to "A-1," ranking ICBC the first among Taiwanese domestic banks, once again confirming the strengths of its operations and achievements.

In addition, the bank has made impressive progress in expanding its overseas markets. It has the highest share of all Taiwanese domestic banks in the offshore banking unit and overseas branch business, pre-tax income from which constitutes 48% of its total profits. Not content to rest on such accomplishments, however, the bank will in future accelerate steps towards globalization, in the hope of continuing to extend its network of overseas branches, and raise the proportion of such income to over 50% of total profits. Since last year, the bank has already added, or is in the process of adding, overseas strongholds, as follows:



Yeou-Tsair Tsai

- ▶ Asia: The bank's Bangkok branch, Thailand, transformed into a subsidiary with the name of The International Commercial Bank of China Public Co. Ltd., while a branch was established in Chonburi simultaneously. To serve more customers in Thailand, the bank is to apply for permission to set up a branch in Bangna. Additionally, the bank has submitted documentation to the State Bank of Vietnam to establish a branch office in Hanoi.
- ▶ Europe: After establishing a representative office in London in 2005, the bank is currently applying to the UK Financial Services Authority to set up a wholesale banking branch.
- ▶ Australia: In accordance with appropriate evaluations, the bank is planning to apply to the Australian Prudential Regulation Authority to establish a branch in Melbourne.

- ▶ Others: The bank is also researching the feasibility of establishing branches or representative offices in other major cities of the world.

Weighing up current trends in financial markets, the bank has set the following 2006 targets for business volume: total deposits of NT\$778.6 billion, total loans of NT\$663.8 billion, and foreign exchange trading of US\$341.6 billion.

Following extensive planning, in order to expand its operational scope and market share, the bank will merge with Chiao Tung Bank Co. Ltd. on June 26th, 2006, and change its corporate name as a result of the merger to "Mega International Commercial Bank Co., Ltd." We believe that this new bank will exert its combined effectiveness to continue to grow from its existing solid foundations to record greater achievements and higher profits, and become one of the world's top banks.

A handwritten signature in black ink, appearing to read "Yeou-Tsair Tsai".

Yeou-Tsair Tsai

President and Chief Executive Officer  
to exercise the power and authority of the  
Chairman of the Board of Directors





# *Historical Overview*

The International Commercial Bank of China (ICBC) is one of the most time-honored banks in the Republic of China. ICBC and its predecessors have the longest history among all Chinese banks, dating back to 1904. Throughout its long history, ICBC has served as the sovereign bank of the Ching Dynasty, and the central bank and the designated international foreign exchange bank of the Republic of China. ICBC has established a strong franchise in international banking and a close relationship with the government. Today, according to *the Banker* July 2005, the bank stands as the sixth largest bank in Taiwan in terms of tier one capital, with an incontestable leadership in the international banking supported by an established clientele with state-owned enterprises and large private corporations.

The bank's predecessor, the Hubu Bank, was established as the first government-owned and operated bank in China. The Hubu Bank was later renamed the Da-Ching Bank, which acted as the Ching Dynasty's sovereign bank. Following the establishment of the Republic of China in 1911, the Da-Ching Bank was reorganized into Bank of China as the Republic's central bank and in charge of its treasury. In 1928, the Republic established the Central Bank of China to replace Bank of China as the central bank. While granted special status by the Ministry of Finance as the country's designated international foreign exchange bank, Bank of China remained in charge of currency issuance and the treasury until 1942 when the Central Bank of China took its place.

As the ROC government moved to Taiwan in 1949, Bank of China was subsequently relocated to Taiwan as well. While the bank's domestic operation stopped completely between 1949 and 1960, its international operations remained active during the period, and the bank performed as the ROC government's agent for international transactions, managed the country's offshore assets and served as windows for

collecting deposits and remittances from overseas Chinese. In 1960, the bank resumed its Foreign Department in Taipei as its first domestic operating unit, and began to build its domestic commercial banking operation with a focus on international trade and forex-related banking services.

In 1971, the Legislative Yuan passed the ICBC Act, converting Bank of China to a private commercial bank with the name of The International Commercial Bank of China. To cope with the up-to-date market, ICBC joined the Mega Financial Group on December 31, 2002. Furthermore, ICBC has announced to merge Chiao Tung Bank Co. Ltd. The effective date of the merger is scheduled on June 26, 2006.

More than half of the bank's commercial lending goes to large corporations, most of which have been the pillars of Taiwanese economic development. Building on such an impressive client base, combined with its consistently sincere and innovative management style, ICBC has grown to be a leading Taiwanese commercial bank with superior asset quality and strong capitalization. In order to be more competitive in an increasingly challenging operating environment, ICBC possesses one of the most complete range of products and services in Taiwan, ranging from conventional lending and deposit-taking products to credit card, investment banking, and custodian services.

The ICBC head office is responsible for the management and supervision of its banking operations, including those of its domestic and overseas branches and representative offices. By the end of 2005, the bank has 75 domestic branches, 16 overseas branches, 1 marketing office, 2 representative offices, and 2 subsidiary banks in Canada and Thailand respectively, with 3,555 employees and total capital of NT\$37.26 billion.



# Financial Highlights

## Credit Rating

	Long-term Credit Rating	Short-term Credit Rating	Bank Financial/Fundamental Strength Rating (BFSR)	Outlook
Moody's	A2	P-1	C-	-
S&P	A	A-1	B	Stable

## Condensed Balance Sheets

Unit: Thousands of New Taiwan Dollars

	2005	2004	2003
Cash and Cash Equivalents, Due from the Central Bank and Call Loans to Banks ; Vnet	187,696,442	193,528,720	198,169,952
Securities Purchased ; Vnet	293,223,851	280,859,506	268,775,276
Bills and Loans ; Vnet	652,072,821	598,914,297	523,150,927
Receivables ; Vnet	59,873,213	51,689,121	38,241,314
Investments	21,684,739	17,246,108	18,069,128
Properties and Equipment ; Vnet	9,922,586	10,241,926	10,486,307
Prepayments and Other Assets ; Vnet	3,603,971	3,057,167	2,728,651
Due to the Central Bank and Commercial Banks	225,511,351	238,247,786	232,919,788
Deposits and Remittances	794,713,896	705,392,799	635,388,320
Bonds Issued & Borrowed Funds	71,016,036	81,576,090	72,593,458
Payables, Advances, Accrued Pension Liabilities, and Other Liabilities	56,774,277	57,628,325	51,106,974
Capital Stock	37,261,000	37,261,000	37,261,000
Total Capital Reserve	2,928,754	2,928,754	2,927,446
Total Retained Earnings (Before Appropriation)	39,373,065	32,325,528	26,874,744
Cumulative Translation Adjustments	499,244	176,563	549,825
Total Assets	1,228,077,623	1,155,536,845	1,059,621,555
Total Liabilities (Before Appropriation)	1,148,015,560	1,082,845,000	992,008,540
Total Shareholders' Equity (Before Appropriation)	80,062,063	72,691,845	67,613,015



## Condensed Statements of Income

Unit: Thousands of New Taiwan Dollars

	2005	2004	2003
Total Operating Income	<b>46,595,083</b>	38,376,686	34,987,402
Total Operating Expenses	<b>33,532,361</b>	26,680,257	26,421,665
Net Operating Income	<b>13,062,722</b>	11,696,429	8,565,737
Non-operating Income	<b>162,769</b>	235,583	567,748
Non-operating Expense and Loss	<b>145,081</b>	59,239	96,708
Total Income	<b>46,757,852</b>	38,612,269	35,555,150
Total Expenses	<b>33,677,442</b>	26,739,496	26,518,373
Income before Income Tax	<b>13,080,410</b>	11,872,773	9,036,777
Net Income	<b>11,391,954</b>	10,185,475	7,494,407

## Financial Analysis

		2005	2004	2003
Financial Ratio (%)	Total Liabilities to Total Assets	<b>93.48</b>	93.71	93.62
	Total Deposits to Net Worth	<b>982</b>	961	933
	Fixed Assets to Net Worth	<b>12.39</b>	14.09	15.51
Solvency (%)	Liquidity Reserve Ratio	<b>53.47</b>	51.27	50.37
Operating Performance Analysis	Loan to Deposits Ratio (%)	<b>83.73</b>	86.70	84.01
	NPL Ratio (%)	<b>0.50</b>	0.77	1.74
	Total Assets Turnover	<b>0.04</b>	0.04	0.03
	Average Operating Income per Employee (Thousands of NTD)	<b>13,692</b>	11,446	10,567
	Average Earnings per Employee (Thousands of NTD)	<b>3,348</b>	2,991	2,263
Profitability Analysis	ROA (Return on Assets) (%)	<b>0.96</b>	0.92	0.74
	ROE (Return on Equity) (%)	<b>14.92</b>	14.52	11.56
	Pre-tax Income as a Percentage of Capital Stock (%)	<b>35.10</b>	31.86	24.25
	Net Income as a Percentage of Total Operating Income (%)	<b>24.45</b>	26.54	21.42
	Earnings per Share (New Taiwan dollar)	<b>3.06</b>	2.74	2.01
	Cash Dividends per Share (New Taiwan dollar)	<b>1.43</b>	1.12	1.24
	Shareholder's Equity per Share Before Appropriation (New Taiwan dollar)	<b>21.49</b>	19.51	18.15
Capital Adequacy Ratio (%)		<b>10.93</b>	10.82	10.22





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# *2005 Economic Review & Market Dynamics of the ROC*

## **Economic Achievements**

Although domestic demand remained constant, GDP grew by only 2.7% in the first half of 2005, well short of the 7% growth of the same period in 2004. This was mainly because the cooling in global prosperity reduced demand for Taiwan exports, and the increase in Taiwan businesses' share of overseas production caused Taiwan's favorable trade surplus to decline by almost 90% over the previous year, to a mere NT\$410 million. In the second half of the year, in line with increases in output in the manufacturing sector and an improvement in the momentum of exports, GDP grew 4.4% in the third quarter, and 6.4% in the last quarter, giving an annual GDP growth rate for 2005 of 4.1%, a figure still well short of the 6.1% for 2004.

Looking forward to 2006, because global prosperity is clearly improving, but in the light of the uncertain influence of such factors as the bird flu situation and the persistence of high oil prices, the Directorate General of Budgets, Accounting and Statistics (DGBAS) is predicting GDP growth of 4.25%.

As far as the financial industry is concerned, due to some domestic banks' impulsive marketing tactics under fierce competition recent years, the negative impact of fast-expanding unsecured consumer lending is gradually being seen in terms of a pick up in delinquencies of credit card lending. Overall profits for all banks in Taiwan amounted to only NT\$78.6 billion, a decrease of 50% from 2004, among the effects of which were reductions in returns on equity (ROE) and returns on assets (ROA) to less than half the respective figures for 2004. It is worth noting that banks' awareness of the risks of conducting consumer finance business has risen substantially, and they have gradually reverted to a greater interest in corporate financial markets.

## **Financial Market**

Because investment channels have become ever more diversified, the proportion of domestic funds being invested overseas is rising greatly, in turn limiting growth in the volume of the Taiwan stock market. As a result, even if foreign funds invest heavily in the Taiwan stock market, rises in the Taiwan Weighted Stock Index fall way behind those of shares in the international markets. The stock market is expected to perform better in 2006, however, bolstered by substantial growth in the global economy.

As for the exchange rate, before March, 2005, the New Taiwan dollar appeared to be heading slowly towards a revaluation against the US dollar; on one occasion in mid-March it peaked at NT\$30.79 to US\$1. However, the US continued its policy of "rate hikes at a measured pace," causing a widening interest rate differential between the two currencies, before the NT dollar fell to its low for the year of NT\$33.77 to US\$1, in the latter half of October.

Only because, from November onwards, there was extensive investment of overseas funds in the Taiwan stock market, and because appreciation pressure on the Renminbi continued to intensify, prompting a gradual restrengthening of the NT dollar against the US dollar, did the NT dollar achieve a year-end closing rate of NT\$32.85, 2.84% lower than that of 2004.

The central bank raised interest rates four times in 2005. The discount rate rose from 1.75% at the beginning of the year, to 2.25% at the end. This was mainly to avoid continued disparity between the Taiwan and US interest rates in the light of the many rate hikes in the US, and to seek to shift real interest rates into positive territory. At the end of 2005 the average overnight interest rate reached 1.482%, 28 basis points higher than that at the end of 2004, showing clear rises in interest rate levels in the financial markets.

# Business Activities

## 2005 Business Overview

In reviewing its operations, the bank constantly innovates in its product line by weeding out its out-of-date products and bringing forth new ones. By doing so, the bank intends to broaden revenue streams and to enable profits to grow more steadily. This primarily involves:

- ▶ Promoting the wealth management business as the tailor-designing for individual clients of the most suitable investment packages. The business grew significantly, and revenue from handling charges was 39% higher than in 2004.
- ▶ Factoring business grew to NT\$202.9 billion, a huge increase of 80% over 2004.
- ▶ Strengthening the sales and marketing of the investment banking business, such as financial consultancy, mergers and acquisitions, financial restructuring, and asset securitization. The sum of Collateralized Bond Obligation (CBO) issued last year was NT\$10.6 billion.
- ▶ In Australia, in November 2005, the bank's Sydney branch, for the third time, issued A\$500 million's worth of short and medium-term notes. The cost of raising funds for the sale was NT\$6.25 million lower than on the previous issuance.
- ▶ The number of customers using computers to make enquiries and transactions online rose considerably. The number of Global eBanking accounts exceeded 7,000 (including transaction accounts, and enquiry accounts), approximately 50% more than at the end of 2004.
- ▶ On the basis of strategic considerations, the Hsichih branch has moved to Central Taiwan Science Park, changing its name to Central Taiwan Science Park branch.

## Operation Results

### ▶ Assets & Liabilities

Total assets at the end of 2005 was NT\$1,228 billion. Amounting to 53% of the total, bills and loans constituted the biggest item, followed by securities purchased, at 24%. Total liabilities was NT\$1,148 billion, with deposits and remittances taking up as 65%.

### ▶ Income & Expenses

Total income rose by 21% over 2004 to NT\$46.76 billion, while total expenses rose by 26% to NT\$33.68 billion. Counterbalancing of the two figures gave a pre-tax income of NT\$13.08 billion, an increase of NT\$1.21 billion over 2004. Once the expected income tax of NT\$1.69 billion have been deducted, the bank's net income will be NT\$11.39 billion.

### ▶ Profitability Analysis

The bank's 2005 pre-tax income accounted for 35.1% of capital stock, representing an ROA of 0.96%, and ROE of 14.92%, both highs for recent years, and far higher than the averages for Taiwanese domestic banks of 0.3% and 4.81% respectively. In addition, the net profit rate (net income as a percentage of total operating income) stood at 24.45%, and earnings per share (EPS) exceeded NT\$3 for the first time, rising to NT\$3.06 from NT\$2.74 of 2004.

### ▶ Asset Quality

Although Taiwan's economic performance in 2005 was not as strong as that of 2004, the bank's asset quality remained extremely high. At the end of last year, the non-performing loan ratio declined to 0.5%, far lower than the overall average for Taiwanese domestic banks of 2.24%, as published by the central bank. In addition, the bank's coverage ratio rose to 182.38%, the second highest of all domestic banks.



## Risk Management

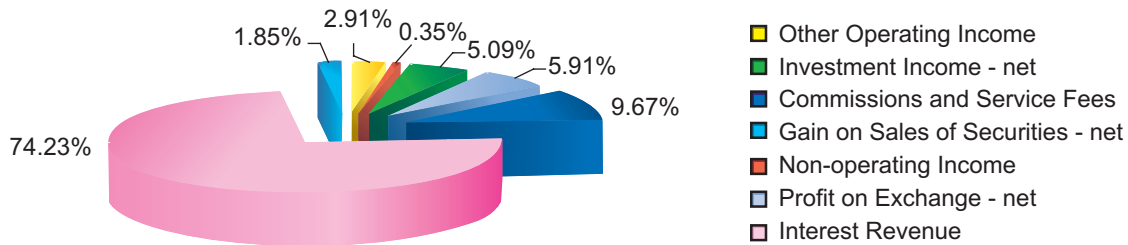
Over all, in relation to each of its businesses, ICBC already has sufficient mechanisms to identify, supervise and control risk, and to carry out calibrated and strict management of risk. The bank will in future bring its regulations governing the granting of credit into line with the new Basel capital agreement (BASEL II).

For a long time, in order to guarantee the security of operations and to improve operation results, ICBC has regularly convened meetings of its Investment Committee, Loan Committee and Problem Loan Committee, to confirm precisely the outcomes, strengths and weaknesses of its risk man-

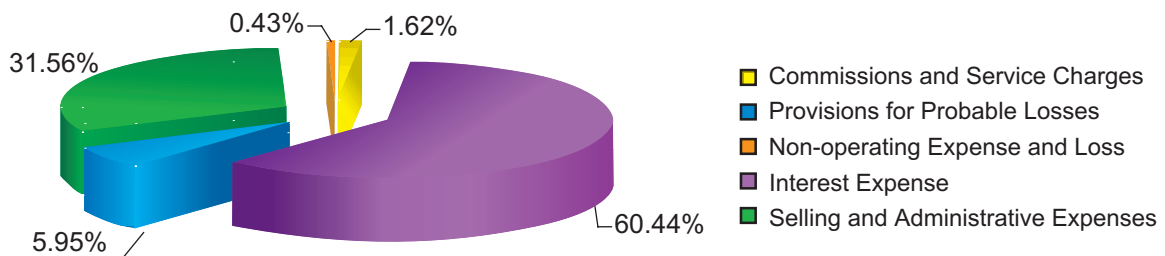
agement measures, and make any necessary adjustments. Apart from this, the Corporate Banking Department, Controller's Department, Treasury Department, Trust Department and all business units are responsible for carrying out routine risk management. Regular, detailed, risk management reports are submitted to the Board of Directors.

Exposure of risk to such categories as clients, industries, collaterals, countries, and so on, complies with the different regulations drawn up by the different competent authorities, and is regularly reviewed and adjusted to control the level of exposure to risk. At the end of 2005, none had exceeded its limit.

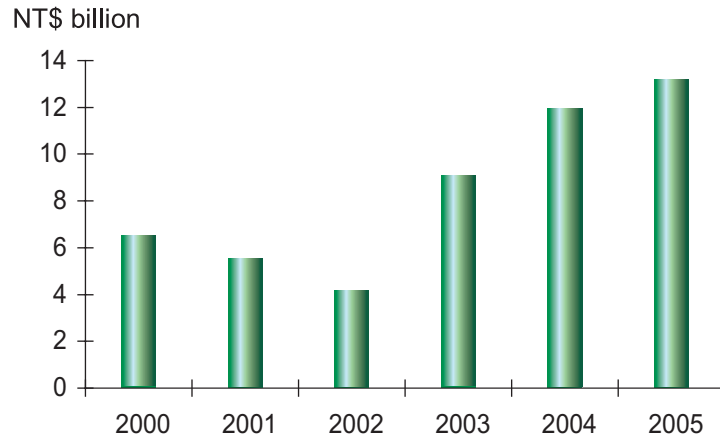
**Total Income (2005)**



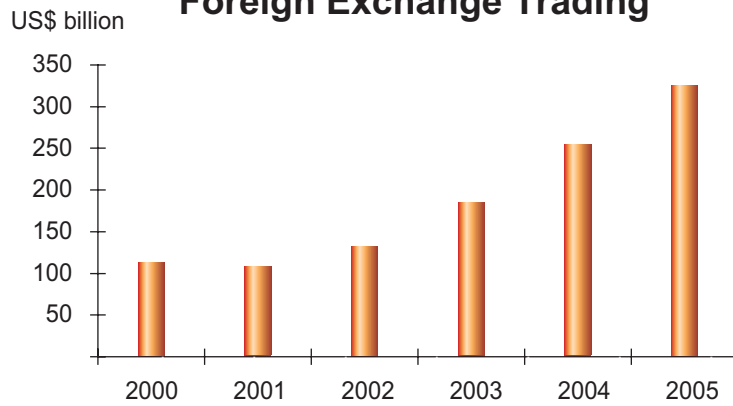
**Total Expenses (2005)**



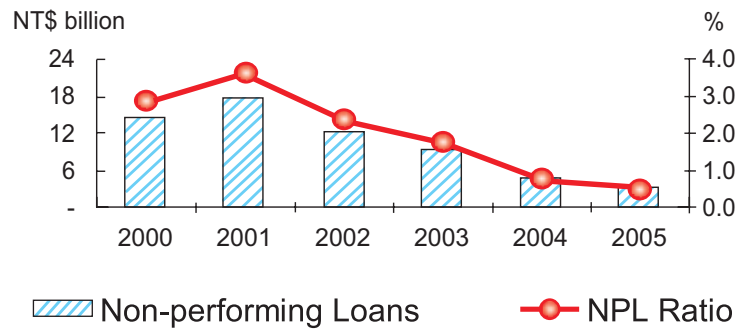
## Income before Income Taxes



## Foreign Exchange Trading



## Non-performing Loans and NPL Ratio



# *Future Plans of Operations*

## **Competitive Strategies and Vision for the Future**

- › Utilize financial expertise and competitive advantage in the corporate banking business, and seek opportunities to attempt major project financing activities.
- › Assess the possibility of setting up representative offices or branches in other major financial centers to increase our global reach.
- › Expand investment banking business and strive for a direct finance market.
- › Improve the bank's liquidity, capitalization, and asset quality.
- › Accelerate globalization, raising profits contributed from overseas.
- › Upgrade such electronic banking products as Global eBanking, On-line Foreign Exchange, Web ATM, to make online banking more convenient and to attract more customers to choose the bank as the main bank to manage their funds.
- › Strengthen growth in the foreign exchange business, to safeguard the bank's leading position in this business.
- › Continue to grasp opportunities in the direct financing market, and further devise overseas fund-raising plans to meet the needs of local businesses.
- › Put in place a risk management structure that complies with BASEL II, to reinforce the bank's risk management system.

## **Positive Factors**

- › In overseas remittances, the bank is of the indispensable importance, giving it a strong competitive advantage in the foreign exchange business:
  - › The bank's New York Agency is the only Taiwanese bank in the New York area participating in CHIPS, FEDWIRE and ACH.
  - › The government conducts foreign exchange transactions and fund management through ICBC. Central Bank of China, the country's central bank, for example, has designated the bank to serve as its long-term agent bank for handling foreign exchange and maintaining a stable exchange rate.
- › ICBC has more overseas branches than any other Taiwanese local banks.
- › The bank's overseas fund raising costs are relatively low, because its asset quality is outstanding and its credit rating is one of the best enjoyed by domestic banks.
- › The bank will continue to focus primarily on its advantage in corporate banking, as most domestic banks shift their attention from consumer banking to corporate banking.

## **Negative Factors**

- › Competition in the financial market remains fierce, and the pricing war among banks is eroding profitability.



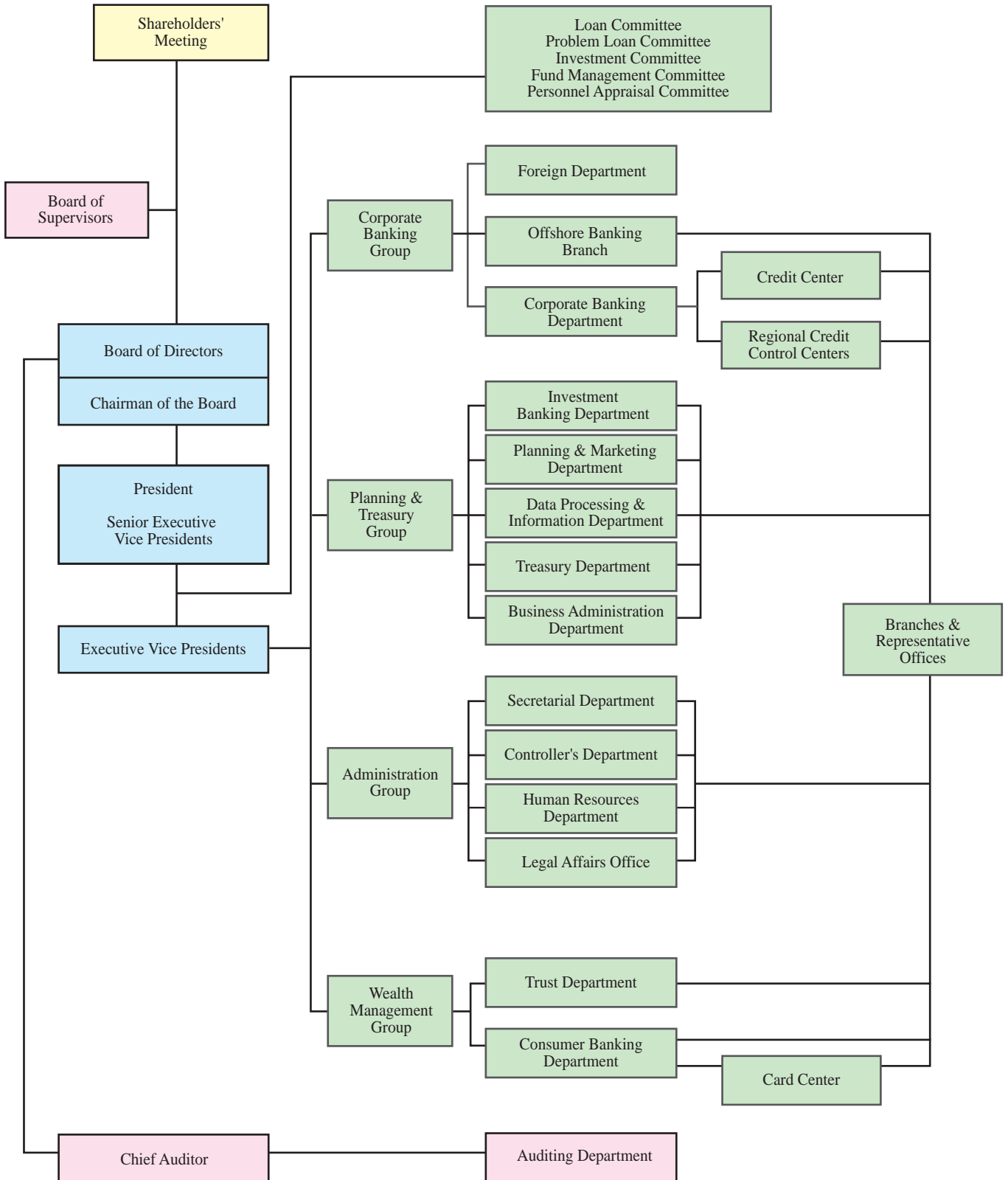
# *Board of Directors & Supervisors*

December 31, 2005

<b>Chairman of the Board</b>	<b>Tzong-Yeong Lin</b>	<b>Executive Supervisor</b>	<b>Shieh-Chiang Lin</b>
<b>Managing Directors</b>	Yeou-Tsair Tsai Teng-Cheng Liu Chao-Cheng Mai Ming-Feng Yeh	<b>Supervisors</b>	Ching-Wen Sun Jiunny Shiow Chen
<b>Directors</b>	Chen-Min Hsu Ching-Chyi Lai Shui-Cheng Huang Shun-Min Yeh I-Min Chen Koay Keat Loon Kuo-Shyong Lee Rong-Tzaw Yeh Chi-Chang Huang		



# Organization Chart



# Auditors' Report

## English Translation of Report Originally Issued in Chinese

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder  
The International Commercial Bank of China Co., Ltd.

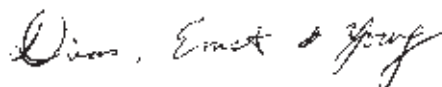
We have audited the accompanying balance sheets of The International Commercial Bank of China Co., Ltd. as of December 31, 2004 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2004 and 2005. These financial statements are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

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

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

As discussed in Note III to the financial statements, effective from January 1, 2005, the Bank adopted the R.O.C. Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets.

In addition, we have also audited the consolidated financial statements of The International Commercial Bank of China Co., Ltd. as of December 31, 2004 and 2005 and the separate auditors' reports with unqualified opinion and modified unqualified opinion were issued for 2004 and 2005, respectively.



Diwan Ernst & Young  
March 15, 2006  
Taipei, Taiwan  
The Republic of China

#### Notice to Readers

##### Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese  
THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

BALANCE SHEET

December 31, 2004 AND 2005

(Expressed in Thousand of Dollars)

ASSETS	December 31, 2004		December 31, 2005		December 31, 2005	
	New Taiwan Dollars		US Dollars		New Taiwan Dollars	
CASH AND CASH EQUIVALENTS (Note IV)	\$34,793,807	\$3,435,574	\$95,350	\$225,511.95	52,376,247,786	50,462,292
DUES FROM THE CENTRAL BANK AND CALL LOANS TO BANKS - NET (Notes I, IV and V)	158,822,413	1,562,601,918	4,755,354	42,415,108	42,415,108	285,889
SUCRETESIS PURCHASED - NET (Notes II, V and VI)	280,859,206	295,223,851	8,423,428	783,763	783,763	72,348
RECEIVABLES - NET (Notes II, IV and V)	\$1,685,121	29,873,223	1,822,676	791,713,896	791,713,896	25,184,852
PREPAYMENTS	1,438,762	2,271,982	69,114	61,947,576	61,947,576	1,819,178
BILLS AND LOANS - NET (Notes I, IV and V)	598,374,297	652,072,821	19,851,969	1,295,136	1,295,136	39,228
INVESTMENTS (Notes II, V, VI and X)						
Equity securities	8,125,227	21,487,848	245,644	13,155,924	13,155,924	376,889
Bonds	9,126,782	9,316,891	314,369	1,082,852,600	1,082,852,600	1,138,627
PROPERTIES AND EQUIPMENT (Notes II, III and IV)						
Land (including revaluation increments)	4,824,653	4,833,228	1,16,781	2,582,288	2,582,288	78,620
Buildings and improvements	7,451,044	7,352,334	225,247	745,916	745,916	10,223
Other office equipment	254,190	387,206	11,799	2,928,751	2,928,751	89,128
Computers and peripheral equipment	2,690,197	2,651,954	62,238	20,774,215	20,774,215	125,495
Transportation and communication equipment	137,789	126,652	5,461	2,390,903	2,390,903	4,479
Miscellaneous equipment	569,858	878,154	26,122	10,214,216	10,214,216	45,343
Total assets and revaluation account	15,620,733	13,623,358	275,238	32,325,228	32,325,228	195,206
Less - accumulated depreciation	(5,776,867)	(5,663,206)	(172,316)	Total Retained Earnings	499,244	13,193
Less - accumulated impairment		(37,082)	(1,147)	Capital Reserve	57,862,292	2,436,254
Properties and Equipment net	10,241,926	9,000,886	461,985	Profit in capital in excess of par value		
OTHER ASSETS - NET (Notes B and IV)	1,418,405	2,332,589	46,563	Others		
TOTAL ASSETS	\$1,155,536,845	\$1,226,072,623	\$47,373,226	Total Capital Reserve		
				RETAINED EARNINGS (Note IV)		
				Legal reserve		
				Special reserve		
				Accumulated earnings		
				Total Retained Earnings		
				CUMULATIVE TRANSLATION ADJUSTMENTS (Note II)		
				TOTAL SHAREHOLDERS' EQUITY		
					\$1,155,536,845	\$1,226,072,623
						\$47,373,226
						\$1,155,536,845

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



English Translation of Financial Statements Originally Issued in Chinese  
**THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.**  
**STATEMENTS OF INCOME**

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

	THE YEARS ENDED DECEMBER 31		
	2004	2005	2005
	New Taiwan Dollars	US Dollars	
<b>OPERATING INCOME</b>			
Interest revenue (Note II)	\$25,329,433	\$34,707,363	\$1,056,219
Commissions and service fees (Notes II and V)	4,617,810	4,520,157	137,558
Gain on sales of securities - net	1,327,547	864,877	26,320
Investment income - net (Notes II and V)	4,347,755	2,378,349	72,378
Profit on exchange - net (Note II)	1,859,065	2,764,860	84,141
Other operating income (Notes II and V)	895,076	1,359,477	41,372
Total Operating Income	<u>38,376,686</u>	<u>46,595,083</u>	<u>1,417,988</u>
<b>OPERATING EXPENSES</b>			
Interest expense	31,173,496	20,352,975	619,385
Commissions and service charges	495,225	546,994	16,646
Provisions for probable losses (Note II)	4,940,771	2,004,730	61,008
Selling and administrative expenses (Note V)	10,070,765	10,627,662	323,422
Total Operating Expenses	<u>26,680,257</u>	<u>33,532,361</u>	<u>1,020,461</u>
<b>NET OPERATING INCOME</b>	11,696,429	13,062,722	397,527
<b>NON-OPERATING INCOME</b> (Notes II)	235,583	162,769	4,953
<b>NON-OPERATING EXPENSE AND LOSS</b> (Notes II and III)	59,239	145,081	4,415
<b>INCOME BEFORE INCOME TAX</b>	11,872,773	13,080,410	398,065
<b>INCOME TAX</b> (Notes II and IV)	(1,687,298)	(1,688,456)	(51,384)
<b>NET INCOME</b>	<u>\$10,185,475</u>	<u>\$11,391,954</u>	<u>\$346,681</u>
<b>EARNINGS PER SHARE (In Dollars) (Note IV)</b>			
Income per share before income tax	\$3.19	\$3.51	\$0.11
Income tax per share	(0.45)	(0.45)	(0.01)
Earnings per share	<u>\$2.74</u>	<u>\$3.06</u>	<u>\$0.10</u>

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



English Translation of Financial Statements Originally Issued in Chinese

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

(Expressed in thousands of Dollars)

Items	Retained Earnings				Cumulative Translation Adjustments		Total
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustments	
(New Taiwan Dollars)							
Balance, January 1, 2004	\$37,261,000	\$2,927,446	\$18,525,893	\$827,584	\$7,521,267	\$549,825	567,613,015
Appropriations of earnings (Note IV)							
Legal reserve	-	-	2,248,322	-	(2,248,322)	-	-
Special reserve	-	-	-	509,319	(509,319)	-	-
Cash dividends and bonus	-	-	-	-	(4,620,364)	-	(4,620,364)
Bonus to employees	-	-	-	-	(114,327)	-	(114,327)
Net income for the year ended December 31, 2004	-	-	-	-	10,185,475	-	10,185,475
Changes in equity of investee	-	1,308	-	-	-	-	1,308
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	(373,262)	(373,262)
Balance, December 31, 2004	\$37,261,000	\$2,928,754	\$20,774,215	\$1,336,903	\$10,214,410	\$176,563	\$72,691,845

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

English Translation of Financial Statements Originally Issued in Chinese  
**THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

(Expressed in thousands of Dollars)

Items	Capital Stock	Capital Reserve	Retained Earnings			Unappropriated Earnings	Cumulative Translation Adjustments	Total
			Legal Reserve	Special Reserve	Special Reserve			
<b>(New Taiwan Dollars)</b>								
Balance, January 1, 2005	537,267,000	\$2,928,754	\$20,774,215	\$1,316,903	\$10,214,410	\$176,563	\$73,691,845	
Appropriations of earnings (Note IV)	-	-	-	-	(3,055,642)	-	-	
Legal reserve	-	-	3,055,642	-	-	-	-	
Special reserve	-	-	-	26,093	126,093	-	-	
Cash dividends and bonus	-	-	-	-	(4,171,232)	-	(4,173,232)	
Bonus to employees	-	-	-	-	(71,185)	-	(71,185)	
Net income for the year ended December 31, 2005	-	-	-	-	11,391,934	-	11,391,934	
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	327,681	327,681	
Balance, December 31, 2005	<u>\$37,267,000</u>	<u>\$2,928,754</u>	<u>\$21,829,857</u>	<u>\$1,303,996</u>	<u>\$14,802,172</u>	<u>\$499,244</u>	<u>\$80,062,063</u>	
<b>(U.S. Dollars)</b>								
Balance, January 1, 2005	\$1,133,932	\$89,128	\$632,203	\$40,685	\$310,846	\$8,373	\$2,212,167	
Appropriations of earnings (Note IV)	-	-	-	-	(92,990)	-	-	
Legal reserve	-	-	97,990	-	-	-	-	
Special reserve	-	-	-	794	(794)	-	-	
Cash dividends and bonus	-	-	-	-	(127,000)	-	(127,000)	
Bonus to employees	-	-	-	-	(5,209)	-	(5,209)	
Net income for the year ended December 31, 2005	-	-	-	-	346,681	-	346,681	
Cumulative Translation Adjustments (Note II)	-	-	-	-	-	9,820	9,820	
Balance, December 31, 2005	<u>\$1,133,932</u>	<u>\$89,128</u>	<u>\$725,193</u>	<u>\$31,479</u>	<u>\$431,534</u>	<u>\$15,193</u>	<u>\$2,436,459</u>	

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

English Translation of Financial Statements Originally Issued in Chinese  
**THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005**  
(Expressed In Thousands of Dollars)

	THE YEARS ENDED DECEMBER 31		
	2004	2005	2005
	New Taiwan Dollars	US Dollars	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$10,185,475	\$11,391,954	\$346,681
Adjustments to reconcile net income to net cash used in operating activities:			
Provisions for probable losses	4,940,771	2,004,730	61,008
Recovery of written-off credits and reserve for losses on accident	1,802,846	1,959,264	59,625
Equity in net income of investees, net of cash dividends received	(147,038)	345,236	10,506
Realized losses of equity securities due to price decline	319,428	2,784	85
Gain on sales of equity securities	(4,001,607)	(2,148,207)	(65,375)
Gain on sales of properties and equipment	(136,225)	(1,959)	(60)
Loss on assets impairment	-	37,682	1,147
Depreciation and amortization	625,179	585,029	17,804
Decrease (increase) in deferred income taxes	(82,173)	126,604	3,853
Provision for pension cost	396,500	416,535	12,676
Payment of pension benefits	(437,828)	(415,774)	(12,653)
Changes in operating assets and liabilities:			
Increase in trading of securities purchased	(12,084,230)	(12,364,345)	(376,273)
Increase in receivables	(15,060,862)	(10,039,889)	(305,535)
Increase in prepayments	(222,563)	(632,320)	(19,243)
Increase (decrease) in payables	9,260,683	(63,954)	(1,946)
Decrease in advances	(3,690)	(29,569)	(1,204)
Net Cash Used in Operating Activities	(4,645,394)	(8,826,199)	(268,904)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease in due from the Central Bank and call loans to banks	9,797,501	2,569,690	78,201
Increase in bills and loans	(80,689,119)	(55,013,323)	(1,674,173)
Increase in bond investments	(1,000,838)	(1,114,560)	(33,918)
Proceeds from sales and receipt of equity securities	4,911,248	2,526,595	76,889
Acquisitions of equity investments	-	(3,783,974)	(115,154)
Additions to properties and equipment	(355,383)	(260,261)	(7,920)
Proceeds from sales of properties and equipment	144,645	18,910	575
Increase in other assets	(105,709)	(84,355)	(2,567)
Net Cash Used in Investing Activities	(67,297,655)	(55,141,278)	(1,678,067)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase (decrease) in due to the Central Bank and commercial banks	5,327,998	(12,736,435)	(387,597)
Increase in deposits and remittances	70,004,479	89,321,097	2,718,232
Increase (decrease) in bonds issued	6,404,309	(2,728,554)	(83,036)
Increase (decrease) in borrowed funds	2,578,323	(7,831,500)	(238,329)
Decrease in other liabilities	(2,636,678)	(1,056,862)	(32,163)
Cash dividends and bouns to employees in cash	(4,734,691)	(4,344,417)	(132,210)
Net Cash Provided by Financing Activities	76,943,740	60,623,329	1,844,897
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	148,870	83,865	2,552
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT</b>	5,149,561	(3,270,283)	(99,522)
<b>CASH AND CASH EQUIVALENT, BEGINNING OF YEAR</b>	29,556,246	34,705,807	1,056,172
<b>CASH AND CASH EQUIVALENT, END OF YEAR</b>	\$34,705,807	\$31,435,524	\$956,650
<b>SUPPLEMENTAL INFORMATION</b>			
Interest expenses paid	\$10,749,220	\$18,418,315	\$560,509
Income taxes paid	\$-	\$324,737	\$9,882

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



English Translation of Financial Statements Originally Issued in Chinese  
THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.  
NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2005

(In Thousands of Dollars, Unless Otherwise Stated)

## **I. ORGANIZATION AND OPERATIONS**

The International Commercial Bank of China Co., Ltd. (The Bank), the former Bank of China, has been reorganized to the present form in accordance with “Law for International Commercial Bank of China” (abolished in December, 2005) as announced by the President of the Republic of China (R.O.C.) on December 17, 1971 and its related regulations. The Bank engages in the following operations: (a) all commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust business; and (f) related operations approved by the R.O.C. government.

The Bank’s business and operations are integrated and managed by the head office. The Bank expands its network by opening branches on key locations in both domestic and foreign markets. The Bank had 75 domestic branches, 16 foreign branches, and 2 foreign representative offices as of December 31, 2005.

The Bank has a Trust Department whose trust business is regulated under the R.O.C. Banking Law.

The Bank’s stock was traded on the Taiwan Stock Exchange until December 30, 2002. Starting from December 31, 2002, the Bank became an unlisted wholly-owned subsidiary of Mega Financial Holdings Co., Ltd. through a share swap transaction.

As of December 31, 2004 and 2005, the Bank employed 3,405, and 3,555 employees, respectively.

## **II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

## 1. Basis for preparation of financial statements

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

Since 2004, under the "Regulations Governing the Preparation of Financial Reports by Public Banks", the Bank is required to include the accounts of subsidiary banks, even its total assets or net sales less than 10% of the Bank, in annual consolidated financial statements. In addition, under the amended R.O.C. Statement of Financial Accounting Standards No.7 (SFAS No.7), "Consolidated Financial Statements", effective from January 1, 2005, the Bank is required to include the accounts of all subsidiaries, which are more than 50% owned and controlled in its annual consolidated financial statements.

## 2. Foreign currency transactions

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

## 3. Translation for the statements of foreign branches and representative offices

The foreign currency denominated financial statements of foreign branches and the representative offices are restated into New Taiwan dollars at the following exchange rates: 1) assets and liabilities - at the prevailing rates at the balance sheet date, 2) head office account - except for the retained earnings, which are carried forward from last year, stated at last year rates, the remaining balances stated at historical rates, 3) dividends - at the rates when the dividends are declared, and 4) income and expenses - at weighted-average rates for the year. The cumulative translation adjustments are included in the shareholders' equity account. When a foreign operation is disposed of or sold, the cumulative translation adjustment is charged to current income.

4. Securities purchased

Securities purchased are carried at the lower of cost or market value on a portfolio basis. When market value is lower than the cost, a provision is made for the impairment loss. When the market value rises, the gain is offset against the provision to the extent of the provision made previously. When stocks are sold, the cost is calculated based on the weighted-average method for equity securities. For other securities, the cost is calculated by specific identification method.

5. Bonds purchased/sold under resell/repurchase agreements

Bonds purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and bonds sold under repurchase agreements are presented as part of "Bonds sold under repurchase agreements." The difference between the selling or purchase price and the contracted repurchase or resale price is accounted for as interest expense or interest income, respectively.

6. Overdue loans

According to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans, and Bad Debts", the Bank classified all loans and other receivables that are overdue for six months as overdue loans.

7. Allowances for probable losses

The allowances for probable losses are provided for due from call loan to banks, receivables, and bills and loans based on collectability review.

According to "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans, and Bad Debts", reserves set aside for probable loan losses are based on the estimation of potential unrecoverable exposures, net of collateral. A significant degree of management discretion is used in the estimation process, which includes the assessment of the borrower's ability to pay and of the value of the underlying collateral.

Balances of uncollectible accounts are written off against allowance for probable losses only upon the approval by the board of directors.

8. Investments

Investments in bonds are stated at cost, adjusted for the amortization of premiums or discounts over the periods from the acquisition to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income. Costs of bonds upon maturity or disposal are determined by the specific identification method.



The equity method is used for long-term equity investment where the Bank has control, joint control or significant influence over the investee enterprises. These investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Bank's share of the investee's net assets. The Bank will continue to recognize its equity in the net loss of an investee notwithstanding that such will result in a negative investment carrying amount (with this negative amount shown as liability) if the Bank had guaranteed the investee's debt or the Bank had obligated to provide financial support or the loss is temporary. Cash dividends received are accounted for as a reduction in the carrying amount of the investments. Stock dividends received are accounted for the increase in number of shares held by the Bank without impact to the carrying amount of the investments and net income. If an investee's capital reserve increases because of property revaluation, the Bank will recognize the proportional increase in the carrying amount of the investment and the gain will be included in the capital reserve in the shareholders' equity. The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 to 10 years.

Other long-term equity investments are accounted for by the cost method. These investments are carried at cost plus the aggregate par value of any stock dividends received before 1984. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments is below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stocks, provisions are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered.

An investment in the common stock of a foreign investee is also accounted for by the cost method when there are restrictions on its ability to remit its earnings to the Bank or when the Bank is unable to exercise significant influence over the financial and operating policy decisions of at least 20%-owned affiliates.

Upon disposal, the costs of stocks sold are determined by the weighted-average method.

## 9. Properties and equipment

Properties and equipment, other than those acquired in 1972 or before which are stated at cost plus any revaluation surplus, are stated at cost less accumulated depreciation.

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

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

Buildings and improvements	3 to 60 years
Computers and peripheral equipment	3 to 6 years
Other office equipment	3 to 15 years
Transportation and communications equipment	3 to 12 years
Miscellaneous equipment	3 to 10 years

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

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

#### 10. Foreclosed property

Foreclosed properties are stated at the lower of cost or net realizable value on the balance sheet date.

#### 11. Asset impairment

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

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

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

#### 12. Exchangeable notes

Direct costs of issuing Exchangeable Notes are amortized on straight-line basis over two years. When Notes holders exercise their right to exchange for reference shares, the book value of Notes is to be offset by the book value of the investment in reference shares and the related difference is recognized as gain or loss on disposal of investment.

### 13. Pension plans

The Bank has pension plans for all regular employees under the relevant domestic and foreign government regulations. The Bank makes monthly contributions to a pension fund, which is administered by the workers' fund administration committee, at amounts up to 15% of the employees' salaries for domestic employees. The pension fund and the money is deposited in the Central Trust of China under the name of the committee. In addition, the Bank makes contribution and payment for foreign employees under the relevant foreign government regulations.

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

Pension costs are based on actuarial calculations, with the unrecognized net transitional obligation being amortized over 15 years to 22 years.

### 14. Provision for losses on guarantees

Provision for losses on guarantees are based on collectability review on the balances pertaining to customers' customs duties, commodity tax, and contract performance obligations.

### 15. Derivative financial instruments

#### a. Forward foreign exchange contracts

When the Bank entered into forward foreign exchange contracts for trading purposes, the Bank will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. At each financial reporting date, the Bank will adjust the outstanding forward contracts based on the forward rate available for the remaining period of each contract and recognized the differences as gains or losses in the statement of income and expenditure. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

Non-delivery forward contracts entered into for non-trading purpose are recorded through memorandum entries at the contract dates. Upon settlement or balance sheet date, the difference between the spot rate and the contracted forward rate is recorded as an adjustment to the exchange gain and loss resulted from those hedged foreign currency denominated assets and liabilities.

b. Interest rate swaps

For interest rate swaps transactions undertaken for trading purposes, income and expenses which arise upon settlement and balance sheet date are netted off and recognized in the statement of income.

The Bank may enter into interest rate swap transactions for hedging purposes. These transactions may involve the exchange of fixed-rate interest payments for the market floating-rate interest payments during the term of certain bonds and loans. The interest differential on balance sheet or each settlement date is recorded as adjustment to the interest income or expenses of those hedged bonds and loans.

c. Cross-currency swaps

For cross-currency swap contracts undertaken for trading purposes, the amounts to be exchanged are recorded at the rates prevailing on the date of contract. Interest income or expenses which arise during the contract period are recognized as exchange gains or losses in the statement of income.

For contracts undertaken for non-trading purposes, amounts to be exchanged are recorded at the contracted forward rate. Interest income or expenses which arise during the contract period are recognized as an adjustment to the income or expense of the hedged items.

d. Options

The Bank enters into foreign-currency option contracts. Premiums received or paid are recorded as liability or asset and are amortized on a straight-line method over the contract period and recorded as income or expense, respectively. Gains or losses from the exercise of options are recognized in the statements of income.

e. Forward rate agreements

Only memo entries of the notional amounts are recorded on the trade date for forward rate agreements. The present value of the differences between the market interest rate on two business days before value date and the contract interest rate is recognized as a gain or loss.

f. Credit exchanges agreement

Credit exchanges agreement is the buyer who be guaranteed of breaking a contract in credit paying the specific proportion premiums of principal contract to the sellers in initially or regularly, in order to obtain the guarantee of breaking a contract against some debts of target. Only memo entries of the notional amounts are recorded on the trade date and premiums paid or received are recognized in the statement of income.

#### g. Financial asset securitization

Under the “Regulations for Financial Assets Securitization”, the Bank securitized part of its enterprise loans and transferred those loans to the special purpose trustee in return for the issuance of the related beneficiary certificates. Thus, the Bank derecognizes the loans and records gain or loss because the control of contractual rights on the loans, except for subordinated retained interests for credit enhancement which were reclassified as investments in bonds, have been surrendered and transferred to a special purpose trustee.

The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The previous carrying amount of the loans should be allocated in appropriation of the part retained and the part sold on their fair values on the date of sale. Because quotes are not available for loans and retained interests, the Bank estimates fair value at the present value of expected cash flows, using management’s key assumptions on credit losses and discount rates commensurate to the risks involved.

#### 16. Recognition of interest revenue and service fees

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

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

Service fees income is recognized when the services are rendered.

#### 17. Contingencies

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

#### 18. Income tax

Income tax represents income tax paid and payable for the current period and the movement in the deferred tax assets and liabilities during the period. Deferred taxes are recognized for tax effects of temporary differences and unused tax credits. A valuation allowance is provided for deferred tax assets that are not certain to be realized. Adjustments of prior years’ income taxes are recognized in the current period.

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

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

Since 2003, Mega Financial Holdings Co., Ltd. adopted the linked tax system for income tax filings with its qualified subsidiaries, including the Bank. As a result of the calculation, the appropriation of income tax is accounted to miscellaneous payables.

#### 19. Statements convenience translation into US dollars

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

### III. CHANGES IN ACCOUNTING POLICIES

The Bank adopted the R.O.C. Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment" ("SFAS No.35") to account for the impairment of its assets for its financial statements on January 1, 2005. No retroactive adjustment is required under SFAS No. 35. Such change in accounting principles decreases the Bank's properties and equipment by NT\$37,682 as of December 31, 2005 and decreases the Bank's net income and earnings per share before tax by NT\$37,682 and NTS0.01 dollars, respectively, for the year ended December 31, 2005.

### IV. DETAILS OF SIGNIFICANT ACCOUNT BALANCES

#### 1. CASH AND CASH EQUIVALENTS

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U S. Dollars
Cash on hand	\$8,259,642	\$8,385,424	\$255,186
Checks for clearance	1,532,967	3,295,023	100,275
Petty cash	3,566	3,708	113
Due from commercial banks	24,909,632	19,751,369	601,076
Total	<u>\$34,705,807</u>	<u>\$31,435,524</u>	<u>\$956,650</u>



## 2. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS – NET

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Due from the Central Bank			
Reserve for deposits – category B	\$12,261,370	\$13,318,731	\$405,317
Reserve for deposits – category A	10,058,107	5,234,004	159,282
Reserve for deposits – foreign currency	207,634	294,280	8,956
General deposits	282	291	9
Call loans to banks	136,307,902	137,418,299	4,181,932
Total	158,835,295	156,265,605	4,755,496
Less: allowance for probable losses	(12,382)	(4,687)	(142)
Net	<u>\$158,822,913</u>	<u>\$156,260,918</u>	<u>\$4,755,354</u>

As required by law, the Reserves for Deposits are calculated at prescribed rates on the average balances of various deposit accounts. The Reserve for Deposits – Category A and Foreign Currency Deposits accounts are non-interest bearing and call on demand. Reserve for Deposits – Category B earns interest but its use is restricted under relevant regulations.

## 3. SECURITIES PURCHASED – NET

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Stocks, bonds and mutual funds	\$95,086,630	\$98,740,254	\$3,004,877
Commercial papers and acceptances	6,153,358	8,684,996	264,303
Trust funds and trust deposits	1,937,008	-	-
Certificates of deposit	175,715,000	185,423,480	5,642,832
Bonds purchased under agreements to resell	1,967,510	375,121	11,416
Total	280,859,506	293,223,851	8,923,428
Less: allowance for decline in market price of securities	-	-	-
Net	<u>\$280,859,506</u>	<u>\$293,223,851</u>	<u>\$8,923,428</u>

## 4. RECEIVABLES – NET

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Accounts receivable	\$40,951,859	\$47,486,016	\$1,445,101
Acceptances	6,905,702	8,650,561	263,255
Accrued interest	3,452,163	4,367,476	132,912
Earned revenue receivable	630,954	146,998	4,473
Other receivable	578,676	243,599	7,413
Total	52,519,354	60,894,650	1,853,154
Less: allowance for probable losses	(830,233)	(1,021,437)	(31,084)
Net	<u>\$51,689,121</u>	<u>\$59,873,213</u>	<u>\$1,822,070</u>

## 5. BILLS AND LOANS – NET

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Loans	\$587,558,875	\$643,858,015	\$19,593,975
Outward documentary bills	13,347,500	11,170,037	339,928
Inward documentary bills	221,856	277,593	8,448
Bills purchased	141,791	80,384	2,446
Discounts	155,411	161,484	4,914
Overdue loans	4,502,756	2,562,219	77,974
<b>Total</b>	<b>605,928,189</b>	<b>658,109,732</b>	<b>20,027,685</b>
Less: allowance for probable losses	(7,013,892)	(6,036,911)	(183,716)
<b>Net</b>	<b>\$598,914,297</b>	<b>\$652,072,821</b>	<b>\$19,843,969</b>

As of December 31, 2004 and 2005, all balances of bills and loans for which interest revenue was no longer accrued were NTS4,502,756 and NT\$2,562,219, respectively. The unrecognized interest revenue on the above bills and loans amounted to NTS178,185 and NT\$134,689 for the years ended December 31, 2004 and 2005, respectively.

For the years ended December 31, 2004 and 2005, the Bank had not written off bills and loans without initiating any legal proceedings to collect these bills and loans.

The changes in allowance for probable losses on bills and loans are summarized as follows:

January 1, 2004 to December 31, 2004	Specific Risk	General Risk	Total
	New Taiwan Dollars		
Balance, January 1, 2004	\$3,058,997	\$3,542,114	\$6,601,111
Provisions	2,223,750	1,172,939	3,396,689
Write-off – net	(4,512,969)	-	(4,512,969)
Recovery of written-off credits	1,678,135	-	1,678,135
Effects of exchange rate changes	(66,119)	(82,955)	(149,074)
<b>Balance, December 31, 2004</b>	<b>\$2,381,794</b>	<b>\$4,632,098</b>	<b>\$7,013,892</b>

	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
January 1, 2005 to December 31, 2005	New Taiwan Dollars			U.S. Dollars		
Balance, January 1, 2005	\$2,381,794	\$4,632,098	\$7,013,892	\$72,483	\$140,965	\$213,448
Provisions	55,093	-	55,093	1,677	-	1,677
Reclassification	286,218	(286,218)	-	8,710	(8,710)	-
Write-off – net	(2,831,780)	-	(2,831,780)	(86,177)	-	(86,177)
Recovery of written-off credits	1,761,361	-	1,761,361	53,602	-	53,602
Effects of exchange rate changes	9,614	28,731	38,345	292	874	1,166
<b>Balance, December 31, 2005</b>	<b>\$1,662,300</b>	<b>\$4,374,611</b>	<b>\$6,036,911</b>	<b>\$50,587</b>	<b>\$133,129</b>	<b>\$183,716</b>

The Bank's financial statements included provisions for probable credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in the operating and financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans, and uncertainty related to the future realizable value of collaterals may result in amounts different from those amounts presently estimated and provided.

## 6. INVESTMENTS

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Equity securities	\$8,125,325	\$11,357,848	\$345,644
Bonds	9,120,783	10,326,891	314,269
<b>Total</b>	<b>\$17,246,108</b>	<b>\$21,684,739</b>	<b>\$659,913</b>

Investments in equity securities are summarized as follows:

Investees	December 31, 2004		December 31, 2005		December 31, 2005
	Ownership		Ownership		Amount
	Amount	%	Amount	%	
	New Taiwan Dollars		U.S. Dollars		
<b>Accounted for by the equity method</b>					
<b>Unlisted stocks:</b>					
Cathay Investment & Development Corporation (Bahamas)	\$907,987	100.00	\$659,155	100.00	\$20,059
International Commercial Bank of Cathay (Canada)	634,207	100.00	727,911	100.00	22,152
The International Commercial Bank of China Public Co., Ltd. (Thailand)	-	-	3,241,990	100.00	98,661
Yong-Shing Industries Co.	447,995	95.77	430,789	95.22	13,095
International Security Investment Trust Corporation	-	-	544,387	59.13	16,567
Taiwan Finance Co.	1,352,499	24.55	1,396,886	24.55	42,510
Others	138,164	-	117,966	-	3,590
Subtotal	<u>3,480,852</u>		<u>7,119,584</u>		<u>216,634</u>
<b>Accounted for by the cost method</b>					
<b>Listed stocks:</b>					
Cathay Financial Holdings Co., Ltd.	337,540	0.59	-	-	-
China Development Financial Holding Corp.	776,334	1.31	776,485	1.25	23,630
Waterland Financial Holdings Corp.	283,825	2.47	283,825	2.47	8,637
Trade Van Information Services Co., Ltd.	69,229	4.48	69,229	4.48	2,107
Subtotal	<u>1,466,928</u>		<u>1,129,539</u>		<u>34,374</u>
<b>Unlisted stocks:</b>					
Waterland Securities Co., Ltd.	1,044,000	10.30	1,044,000	10.30	31,771
Taiwan Fixed Network Corporation	560,000	0.87	560,000	0.87	17,042
CTDB & Partners Investment Holding Corp.	500,000	4.95	500,000	4.95	15,216
Fubon Securities Finance Co.	76,121	1.97	76,121	1.97	2,317
Taiwan Asset Management Corporation	300,000	1.70	300,000	1.70	9,130
Taiwan Financial Asset Service Corporation	50,000	2.94	50,000	2.94	1,522
International Security Investment Trust Corporation	53,635	14.34	-	-	-
Others	593,789	-	579,604	-	17,638
Subtotal	<u>3,177,545</u>		<u>3,109,725</u>		<u>94,636</u>
<b>Total</b>	<b>\$8,125,325</b>		<b>\$11,357,848</b>		<b>\$345,644</b>

- (1) Parts of the related investment income, which accounted for by the equity method, were recognized in accordance with the audited financial statements prepared by the auditors. Other investment income recognized during the years ended December 31, 2004 and 2005 were based on investee's unaudited financial statements due to the size of investee's operation and minor effect in the Bank's financial statement.
- (2) On May 27, 2003, the Bank issued zero coupon Exchangeable Notes which are exchangeable for common stocks of Cathay Financial Holdings Co., Ltd. Please refer to Note IV 12 for details of the Exchangeable Notes.
- (3) Before January 1, 2005, the Bank invested International Security Investment Trust Corporation accounted for by the cost method. In 2005, the Bank increased the investment and the ownership of the Bank increased to 59.13% as of December 31, 2005. Accordingly, the Bank changes the accounting treatment from the cost method to the equity method.
- (4) In 2005, the Bank invested in the International Commercial Bank of China Public Co., Ltd. ("ICBCPC"), a wholly-owned subsidiary, in Thailand and the authorized capital of ICBCPC was 4 billion Thai Baht(B)s (equivalent to NTS3,110,037). This investment had been approved on record by the competent authority.
- (5) Realized losses of long-term investments due to price decline amounted to NTS319,428 and NTS2,784 for the years ended December 31, 2004 and 2005, respectively, were accounted for as a reduction of investment income.
- (6) Due to the changes in ownership percentage in investees accounted for by the equity method for 2004, the difference NT\$1,308 was adjusted to capital reserve.
- (7) Before 2004, the Bank included the accounts of those majority owned subsidiaries, of which the individual assets or operating income exceed 10% of the Bank's respective unconsolidated amounts or the combined total assets or operating income exceed 30% of the Bank's respective unconsolidated amounts, in the consolidated financial statements. Since 2004, under the "Regulations Governing the Preparation of Financial Reports by Public Banks", the Bank is required to include accounts of its subsidiary bank International Commercial Bank of Cathay (Canada), in its annual consolidated financial statements. Effective from January 1, 2005, under the amended R.O.C. Statement of Financial Accounting Standards No.7 (SFAS No.7) "Consolidated Financial Statements" the accounts of majority subsidiaries, except for the ones which have immaterial impact to the Bank, are included in the consolidated financial statements.

Bonds consisted of:

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
U.S. bonds	\$3,213,809	\$2,886,470	\$87,841
Euro bonds	1,095,388	706,063	21,487
Thailand bonds	1,011,728	-	-
Subordinated beneficiary certificates-retained interests of securitization	1,070,000	1,070,000	32,562
Others	2,729,858	5,664,358	172,379
Total	<u>\$9,120,783</u>	<u>\$10,326,891</u>	<u>\$314,269</u>

- a. In December 2004, the Bank sold part of its enterprise loans under securitization transactions. The Bank entrusted these loans to the special purpose trustee-The Hongkong and Shanghai Banking Corporation Limited (HSBC) for issuing beneficiary certificates. The investors of the subordinated certificates have a right over any remaining interest paid after fixed interest has been paid to the holders of the senior certificates in accordance with the principal amount. When the debtors fail to pay on schedule, the investors and HSBC have no recourse to the other assets of the Bank. Due to the holders of subordinated certificates have a lower priority claim than the holders of senior certificates on the assets of the trust, the value of the subordinated certificates is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

The terms and key economic assumptions used in measuring retained interests were as follows:

Terms	Enterprise Loans under Securitization		
Date of issuance	December 16, 2004		
Carrying amount of enterprise loans	NT\$5,350,000		
Gain (loss) on securitization	NT\$-		
	Senior		
Series of certificates	First Tranche	Second Tranche	Subordinated
Principal amount	NT\$3,424,000	NT\$856,000	NT\$1,070,000
Annual interest	Floating interest rate plus 0.4%	Floating interest rate plus 1.0%	-
Key assumptions used in measuring retained interests	2004	2005	
Prepayment pace (annual rate)	0%	0%	
Expected weighted-average life (in years)	3 years	3 years	
Expected credit losses (annual rate)	0%	0%	
Discounted rate for residual cash flows	1.192%	1.42%	

b. Sensitivity analysis:

As of December 31, 2005, key economic assumptions and sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in these assumptions were as follows:

Terms	Enterprise Loans
Carrying amount of retained interest	NT\$1,070,000
Weighted-average life (in years)	3 years
Discount rate of residual cash flows (annual rate)	1.504%
Impact on fair value of 10% adverse change	NT\$(523)
Impact on fair value of 20% adverse change	NT\$(862)

- c. The securitized enterprise loans had not resulted in any credit losses as of December 31, 2005 and thus, the expected static pool credit losses are equal to the expected credit losses. The Bank anticipated that no credit losses came from the securitized enterprise loans since there is no case in default on those loans.

As of December 31, 2005, the repayment of these securitized enterprise loans amounted to NT\$600,000.

d. Cash flows:

Proceeds from new securitizations was NT\$4,280,000.

7. PROPERTIES AND EQUIPMENT

According to the R.O.C. Statement of Financial Accounting Standards No.35“ Accounting for Asset Impairment”, effective from January 1, 2005, the Bank recognized the loss NT\$37,682 on impaired assets during the year 2005.

8. OTHER ASSETS – NET

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Deferred income tax – net	\$430,526	\$303,922	\$9,249
Refundable deposits	359,364	359,459	10,939
Temporary payments	349,541	336,574	10,243
Foreclosed property	111,718	117,534	3,577
Less: allowance for probable losses and accumulated depreciation of foreclosed property	(36,964)	(43,423)	(1,321)
Others	204,220	258,823	7,876
Net	\$1,418,405	\$1,332,889	\$40,563



## 9. DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Due to the Central Bank	\$153,917,548	\$164,137,013	\$4,995,040
Call loans from banks	20,099,264	4,253,500	129,443
Due to commercial banks	62,783,037	55,254,218	1,681,504
Overdrafts from banks	1,447,937	1,866,620	56,805
<b>Total</b>	<b>\$238,247,786</b>	<b>\$225,511,351</b>	<b>\$6,862,792</b>

## 10. PAYABLES

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Accounts payable	\$15,747,776	\$15,454,676	\$470,319
Acceptances	7,381,915	8,804,434	267,938
Accrued interest	2,002,996	3,224,055	98,115
Accrued expense	2,636,781	2,851,363	86,773
Income tax payable	2,238,660	1,729,037	52,618
Dividends payable	5,369,654	5,369,654	163,410
Collection for customers	433,890	1,030,212	31,352
Forward exchange contract payable – net	4,840,634	1,661,998	50,578
Miscellaneous	1,763,192	2,227,413	67,785
<b>Total</b>	<b>\$42,415,498</b>	<b>\$42,352,842</b>	<b>\$1,288,888</b>

## 11. DEPOSITS AND REMITTANCES

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
<b>Deposits:</b>			
Time deposit	\$238,454,994	\$280,892,143	\$8,548,148
Savings – time	119,327,953	130,811,253	3,980,866
Savings – demand	133,743,644	148,259,670	4,511,859
Demand deposit	187,357,998	203,634,052	6,197,019
Checking	17,559,316	21,126,780	642,933
Negotiable certificates of deposit	2,395,200	1,307,800	39,799
Remittances	6,553,694	8,682,198	264,218
<b>Total</b>	<b>\$705,392,799</b>	<b>\$794,713,896</b>	<b>\$24,184,842</b>

## 12. BONDS ISSUED

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Subordinated Bonds	\$13,900,000	\$13,900,000	\$423,007
Coordinated Bonds	3,900,000	3,900,000	118,685
Exchangeable Notes	2,728,554	-	-
Total	<u>\$20,528,554</u>	<u>\$17,800,000</u>	<u>\$541,692</u>

- (1) The Bank issued five-year, and five-year and six-month to seven-year coordinated bonds amounting to NT\$3,900,000 with stated interest rates of 2.254% through 3.80% for the first six-month periods from the issue date and with interest rates counted according to stated adjustment formula for the rest of outstanding periods. The Bonds are repayable at maturity, and the interest are payable semiannually. In addition, the Bank issued another five-year and seven-month, and five-year and six-month subordinated bonds of NT\$7,200,000 with a stated interest rate of 2.7% and 2.85%. The subordinated bonds are repayable at maturity, and the interest are payable annually.
- (2) On December 10, 2001, the Bank issued five-year subordinated bonds of NT\$6,700,000 with a stated interest rate of 2.99%. The subordinated bonds are payable at maturity, and the interest are payable annually.
- (3) The Bank issued zero coupon Exchangeable Notes which are exchangeable for 144,760,000 shares of Cathay Financial Holdings Co., Ltd., at a face value of US\$1,000 dollars on May 27, 2003. The total value issued amounted to US\$218,373 and the maturity date is May 27, 2008. The Notes are exchangeable, at the option of the noteholder, at any time on or after June 26, 2003 and on or prior to April 28, 2008, for common shares of Cathay Financial Holdings Co., Ltd. at an exchange price defined in the offering memorandum. Unless previously redeemed, exchanged, repurchased, or cancelled, the Notes will be redeemed at compound annual rate of 1% of their principal amount in U.S. Dollars on May 27, 2008.

The noteholders have completely exercised their rights to exchange their bonds or redeemed by the Bank for the year ended December 31, 2005.

## 13. BORROWED FUNDS

	December 31, 2004	December 31, 2005	December 31, 2005
	New Taiwan Dollars		U.S. Dollars
Commercial papers payable	\$9,755,440	\$8,411,830	\$255,990
Central Bank	29,761,359	19,360,511	589,182
Other financial institutions	21,530,737	25,443,695	774,306
Total	<u>\$61,047,536</u>	<u>\$53,216,036</u>	<u>\$1,619,478</u>

#### 14. PENSION

Following is some pension information:

	January 1 to December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
<b>a. Net periodic pension cost</b>			
Service cost	\$363,432	\$359,640	\$10,945
Interest cost	177,116	199,656	6,076
Projected return on plan assets	(62,135)	(81,077)	(2,467)
Amortization	(81,913)	(67,417)	(2,052)
<b>Total</b>	<b>\$396,500</b>	<b>\$410,802</b>	<b>\$12,502</b>
<b>b. Funded status of pension plans</b>			
Vested benefit obligation	\$(2,522,630)	\$(3,201,758)	\$(97,437)
Non-vested benefit obligation	(2,734,029)	(2,985,865)	(90,866)
Accumulated benefit obligation	(5,256,659)	(6,187,623)	(188,303)
Effects of future increase in salaries	(1,296,169)	(1,286,663)	(39,156)
Projected benefit obligation	(6,552,828)	(7,474,286)	(227,459)
Fair value of plan assets	5,528,666	5,906,217	179,739
Pension fund contributions	(1,024,162)	(1,568,069)	(47,720)
Unrecognized benefit obligation at transition	283,300	261,622	7,962
Unrecognized net gain or loss	(552,274)	17,073	520
Reserve for pension benefits	\$(1,293,136)	\$(1,289,374)	\$(39,238)
<b>c. Vested benefits-undiscounted</b>	<b>\$(2,992,228)</b>	<b>\$(3,710,330)</b>	<b>\$(112,913)</b>
<b>d. Actuarial assumptions</b>	<b>2004</b>	<b>2005</b>	
Discount rate	3.0%	2.50%	
Rate of future increase in salaries	2.0%	1.75%	
Expected rate of return	3.0%	2.50%	

#### 15. OTHER LIABILITIES

	December 31,	December 31,	December 31,
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
Guarantees and marginal deposits	\$1,841,725	\$1,664,706	\$50,661
Reserve for losses on guarantees	1,184,641	1,469,149	44,709
Bonds sold under agreements to repurchase	8,055,533	6,727,253	204,725
Temporary credits	1,166,017	1,572,005	47,839
Others	888,008	954,750	29,055
<b>Total</b>	<b>\$13,135,924</b>	<b>\$12,387,863</b>	<b>\$376,989</b>



## 16. CAPITAL STOCK

The Bank had an authorized, issued and outstanding share capital of NIS37,261,000, divided into 3,726,100 thousand shares of NT\$10 dollars each.

## 17. RETAINED EARNINGS

(1) The Bank's Articles of Incorporation ("Articles") provide that its annual net income shall be appropriated and distributed as follows:

- 1) 30% as legal reserve;
- 2) Special reserve based on operating requirements; and
- 3) The remainder: bonus to employees – 2.4%; dividends and bonus to shareholders to be determined by the shareholders.

Dividends and bonus to shareholders should be calculated to the nearest cent; any remainder from this calculation will be combined with the retained earnings of the following year.

(2) On April 20, 2005 the board of directors of the Bank (according to the company law, the authority of shareholders meeting acts by the board of directors) revised its Articles, the annual net income shall be appropriated and distributed in the following order:

- 1) 30% as legal reserve;
- 2) Special reserve based on operating requirements; and
- 3) The remainder: bonus to employees – 2.4%; dividends and bonus to shareholders to be determined by the shareholders and retain part of retain earnings to combined with the earnings distribution of the following year based on operating requirements.

In order to expand scale and enhance its capability to compete in the banking environment, the Bank adopts a policy to distribute its cash dividends that shall not be less than 60% of the sum of the dividend, and the rest of dividends will be distributed by stocks. Cash dividends are payable within two months from the declaration date.

The above appropriations should be resolved by annual shareholders meeting in the following year and given effect to in the financial statements of that year.

(3) Under Financial Supervisory Commission regulations, when appropriating the current year's net income, the Bank should set up a special reserve, which is equal to the debit balance of cumulative translation adjustments and unrealized loss resulting from the decline of value of long-term equity investments. A portion of this reserve is reverted to unappropriated earnings when the debit balances of the foregoing accounts decline.

In addition, under the Company Law, a legal reserve should be appropriated until the reserve equals the aggregate par value of the Bank's outstanding share capital. This reserve can only be used to reduce or offset a deficit, and when the balance of the reserve reaches 50% of the aggregate par value of the Bank's outstanding share capital, up to 50% thereof can be transferred to capital (as stock dividend). The Banking Law limits the total amount of cash dividends and additional bonuses to shareholders that can be paid by the Bank to 15% of the aggregate par value of the Bank's outstanding share capital until the legal reserve equals the aggregate par value of the Bank's outstanding share capital.

Under the Integrated Income Tax System, which took effect on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

- (4) The appropriations and distributions were approved by the Bank's board of directors on May 19, 2004 and April 20, 2005, respectively. The information is as follows:

	2003	2004
Dividends and bonuses to shareholders by cash	NT\$1.24 Dollars Per share	NT\$1.12 Dollars Per share
Bonus to employees by cash	NT\$114,327	NT\$171,185

#### 18. SELLING AND ADMINISTRATIVE EXPENSES

- (1) The amount of selling and administrative expense for the year ended December 31, 2005 includes NT\$7,641,475 of selling expense, NT\$2,686,563 of administrative expense and NT\$299,624 of others.
- (2) The following is a summary of the components of staff, depreciation and amortization expenses for the years ended December 31, 2004 and 2005:

	January 1, 2004 to December 31, 2004		
	New Taiwan Dollars		
	Selling expense	Administrative expense	Total
<b>Staff Expenses</b>			
Payroll expense	\$3,690,741	\$1,493,394	\$5,184,135
Staff insurance	209,904	37,559	247,463
Pension	320,028	76,472	396,500
Other staff expenses	199,731	37,334	237,065
Depreciation	373,704	171,599	545,303
Amortization	79,352	464	79,816



January 1, 2005 to December 31, 2005

	New Taiwan Dollars			U.S. Dollars		
	Selling	Administrative	Total	Selling	Administrative	Total
	expense	expense		expense	expense	
Staff Expenses						
Payroll	\$3,834,539	\$1,435,221	\$5,269,760	\$116,693	\$43,677	\$160,370
Staff insurance	218,667	41,493	260,160	6,654	1,263	7,917
Pension	342,781	73,754	416,535	10,432	2,244	12,676
Other staff expenses	205,456	486,052	691,508	6,252	14,792	21,044
Depreciation	375,566	166,732	542,298	11,429	5,074	16,503
Amortization	41,443	1,288	42,731	1,262	39	1,301

## 19. INCOME TAX

Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that held over 90% of shares issued by the financial holding company for 12 months within the same tax year, may choose to adopt the linked tax system for income tax filings. Mega Financial Holdings Co., Ltd. intended to adopt the linked tax system for income tax filings with its qualified subsidiaries in 2003.

(1) The reconciliation between income tax payable and income tax expense is as follows:

	January 1 to December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
Tax on pretax accounting income at maximum statutory rate	\$2,968,193	\$3,270,093	\$99,516
Add (deduct) tax effects of:			
Permanent differences	(2,191,601)	(1,724,261)	(52,473)
Temporary differences	82,173	(126,604)	(3,853)
Foreign income taxes over the statutory limit	947,275	226,040	6,879
Current income tax expense	1,806,040	1,645,268	50,069
Deferred			
Allowance for probable losses on loans and receivables	41,447	250,468	7,622
Cumulative equity in net income of foreign investees	13,364	35,084	1,068
Employee benefits	9,877	6,067	185
Accumulated depreciation	(4,004)	(3,214)	(98)
Unrealized foreign exchange gain	(13,128)	(30,627)	(932)
Others	(97,135)	(163,768)	(4,983)
Loss carryforwards	(32,594)	32,594	992
Adjustment of prior year's tax	(212,922)	(352,422)	(10,725)
Income taxes (10%) on undistributed earnings	176,353	269,006	8,186
Income tax expense	\$1,687,298	\$1,688,456	\$51,384



Income tax is based on taxable income from all sources. Foreign income taxes paid are creditable to the domestic income tax obligations to the extent of domestic income tax applicable to the foreign-source income.

- (2) Deferred income taxes as of December 31, 2004 and 2005 consisted of deferred income tax assets - net (presented as part of other assets), as follows:

	December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
Deferred income tax assets			
Loss carryforwards	\$32,594	\$-	\$-
Allowance for possible losses on loans and receivables	339,139	88,671	2,698
Reserve for pension benefits	295,765	295,765	9,001
Accumulated depreciation	135,151	138,365	4,211
Employee benefits	7,939	1,872	57
Others	166,063	329,831	10,037
Total	976,651	854,504	26,004
Deferred income tax liabilities			
Cumulative equity in net income of foreign investees	(245,342)	(280,426)	(8,534)
Unrealized foreign exchange gain	(300,783)	(270,156)	(8,221)
Total	(546,125)	(550,582)	(16,755)
Deferred income tax assets - net	\$430,526	\$303,922	\$9,249

- (3) The information on the implementation of the integrated income tax system as of December 31, 2004 and 2005 is as follows:

	December 31		
	2004	2005	2005
	(actual)	(estimated)	(estimated)
	New Taiwan Dollars		U.S. Dollars
Balances of the imputed tax	\$118,609	\$341,342	\$10,388
Unappropriated earnings before 1998	\$10,923	\$-	\$-
Unappropriated earnings after 1998	10,203,487	14,180,212	431,534
Total	\$10,214,410	\$14,180,212	\$431,534

The creditable tax ratios for distributing 2004 and 2005 earnings were 1.66% (actual) and 2.41% (estimated), respectively.

- (4) The income tax returns of the Bank through 2001 had been examined by the tax authorities. In connection with such examinations, the Bank disagreed with the assessment and appealed to the tax authorities for 1996 to 1998 and 2000.



Interest income tax levied on the interest income gained by preceding holders of bonds during 1996 to 2002 amounted to NT\$248,971 were disallowed to be an deduction against the Bank's income tax obligations by tax authorities. The Bank recorded tax payable and tax expense derived from the bond withholding tax thereafter. The tax authorities have the result about the above examination and the Bank has made proper adjustment for the result.

## 20. EARNINGS PER SHARE

- (1) Earnings per share are computed by dividing net income available to common shareholders by weighted average number of common shares outstanding for the years.

For the years ended	Numerator		Denominator (Shares in Thousands)	EPS	
	Pre-tax	After Tax		Pre-tax	After Tax
	In Thousands of N.T. Dollars			In N.T. Dollars	
December 31, 2004	\$11,872,773	\$10,185,475	3,726,100	\$3.19	\$2.74
December 31, 2005	\$13,080,410	\$11,391,954	3,726,100	\$3.51	\$3.06
	In Thousands of U.S. Dollars			In U.S. Dollars	
December 31, 2005	\$398,065	\$346,681	3,726,100	\$0.11	\$0.10

- (2) According to the regulations issued by the Securities and Futures Bureau, the Bank should calculate estimated earnings per share for the current year assuming that the dividends for the year 2004 would be appropriated to employees, directors and supervisors, as follows:

	2004
	New Taiwan Dollars
A. Distribution:	
Directors and supervisors' remunerations	\$-
Bonus to employees by cash	\$171,185
B. Estimated earnings per share	2.69 dollars

The formula for calculating estimated earnings per share is as follows:

$$\text{Estimated earnings per share} = \frac{\text{Net income} + \text{Bonus to employees by cash} - \text{directors' and supervisors' remunerations}}{\text{Weighted-average shares outstanding}}$$

## 21. AVERAGE BALANCES AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

The average balances of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2004 and 2005, calculated by the daily average balances of these assets and liabilities, were as follows:

	For the years ended				
	December 31, 2004		December 31, 2005		
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)	Average Balance
	New Taiwan Dollars		New Taiwan dollars		U.S. Dollars
<b>Assets</b>					
Due from commercial banks	\$155,134,158	1.40	\$146,591,799	3.21	\$4,461,102
Due from the Central Bank	29,275,218	1.15	27,907,848	1.10	544,974
Securities purchased and bond investments	277,399,590	1.61	381,354,754	1.89	8,562,226
Bills and loans	562,871,449	2.77	626,621,455	3.24	19,051,179
Accounts receivable-credit card	10,139,312	18.45	8,324,123	19.24	253,327
Accounts receivable-factoring	7,935,895	2.22	13,657,347	4.61	415,672
Bonds purchased under agreements to resell	1,413,283	1.23	1,606,535	1.44	48,890
<b>Liabilities</b>					
Due to the Central Bank	\$145,282,866	1.16	\$136,965,574	3.67	\$3,985,562
Due to commercial banks	80,030,627	1.42	79,556,028	1.74	2,421,060
Bonds sold under agreements to repurchase	10,166,538	0.77	8,468,193	1.00	257,705
Demand deposits	186,773,799	0.22	205,148,701	0.62	6,243,113
Savings deposits-demand	122,283,986	0.77	139,129,683	0.78	4,234,013
Time deposits	237,672,929	1.30	255,362,064	2.46	7,771,213
Savings deposits-time	111,169,812	1.55	126,146,637	1.71	3,838,912
Negotiable certificates of deposit	2,412,994	0.73	1,942,127	0.64	59,193
Bonds-Coordinated	3,297,000	2.25	3,900,000	0.31	118,685
Bonds-subordinated	9,053,772	2.91	11,900,000	2.21	423,007
Bonds-exchangeable notes	6,135,953	0.08	607,915	-	18,500
Borrowed fund	66,336,186	1.36	60,423,160	1.33	1,838,812
Commercial papers payable – net	5,760,383	5.56	9,816,671	5.77	298,742

## 22. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity of the Bank's assets and liabilities is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements, and, if there are no specified maturity dates, on expected collection dates.

Maturity of assets (balance before allowance) and liabilities states as follows:

	December 31, 2004 (New Taiwan Dollars)		
	Due in	Due after	Total
	One Year	One Year	
<b>Assets</b>			
Cash and cash equivalent	\$34,705,807	\$-	\$34,705,807
Due from the Central Bank and call loans to banks	158,835,295	-	158,835,295
Securities purchased	198,825,254	82,034,252	280,859,506
Receivables	52,519,354	-	52,519,354
Bills and loans	293,846,716	312,081,473	605,928,189
Investments-bonds	1,474,330	7,646,453	9,120,783
<b>Total</b>	<b>\$740,206,756</b>	<b>\$401,762,178</b>	<b>\$1,141,968,934</b>

<b>Liabilities</b>			
Due to the Central Bank and commercial banks	\$238,247,786	\$-	\$238,247,786
Securities sold under agreements to repurchase	8,055,533	-	8,055,533
Payables	42,415,498	-	42,415,498
Deposits and remittances	682,556,271	22,836,528	705,392,799
Bonds issued	2,728,554	17,800,000	20,528,554
Borrowed funds	34,485,704	26,561,832	61,047,536
<b>Total</b>	<b>\$1,008,489,346</b>	<b>\$67,198,360</b>	<b>\$1,075,687,706</b>

	December 31, 2005 (New Taiwan Dollars)		
	Due in	Due after	Total
	One Year	One Year	
<b>Assets</b>			
Cash and cash equivalent	\$31,435,524	\$-	\$31,435,524
Due from the Central Bank and call loans to banks	156,265,605	-	156,265,605
Securities purchased	207,852,804	85,371,047	293,223,851
Receivables	60,894,650	-	60,894,650
Bills and loans	334,030,712	324,079,020	658,109,732
Investments-bonds	846,285	9,480,606	10,326,891
<b>Total</b>	<b>\$791,325,580</b>	<b>\$418,930,673</b>	<b>\$1,210,256,253</b>

<b>Liabilities</b>			
Due to the Central Bank and commercial banks	\$225,511,351	\$-	\$225,511,351
Securities sold under agreements to repurchase	6,727,253	-	6,727,253
Payables	42,352,842	-	42,352,842
Deposits and remittances	756,899,956	37,813,940	794,713,896
Bonds issued	-	17,800,000	17,800,000
Borrowed funds	33,723,516	19,492,520	53,216,036
<b>Total</b>	<b>\$1,065,214,918</b>	<b>\$75,106,460</b>	<b>\$1,140,321,378</b>

December 31, 2005 (U.S. Dollars)

	Due in One Year	Due after One Year	Total
<b>Assets</b>			
Cash and cash equivalent	\$956,650	\$-	\$956,650
Due from the Central Bank and call loans to banks	4,755,496	-	4,755,496
Securities purchased	6,325,405	2,598,023	8,923,428
Receivables	1,853,154	-	1,853,154
Bills and loans	10,165,268	9,862,417	20,027,685
Investments-bonds	25,755	288,514	314,269
<b>Total</b>	<b>\$24,081,728</b>	<b>\$12,748,954</b>	<b>\$36,830,682</b>
<b>Liabilities</b>			
Due to the Central Bank and commercial banks	\$6,862,792	\$-	\$6,862,792
Securities sold under agreements to repurchase	204,725	-	204,725
Payables	1,288,888	-	1,288,888
Deposits and remittances	23,034,083	1,150,759	24,184,842
Bonds issued	-	541,692	541,692
Borrowed funds	1,026,279	593,199	1,619,478
<b>Total</b>	<b>\$32,416,767</b>	<b>\$2,285,650</b>	<b>\$34,702,417</b>

## V. RELATED-PARTY TRANSACTIONS

Related parties	Relationship
Mega Financial Holdings Co., Ltd.	Parent company
Chiaotung Bank	Subsidiary of Mega Financial Holdings Co., Ltd.
Chung Hsing Bills Finance Corp.	Subsidiary of Mega Financial Holdings Co., Ltd.
Chung Kuo Insurance Co.	Subsidiary of Mega Financial Holdings Co., Ltd.
Barits International Securities Corporation Ltd.	Subsidiary of Mega Financial Holdings Co., Ltd.
Mega Life Insurance Co., Ltd. (the former Chung Yin Insurance Agency Company)	Subsidiary of Mega Financial Holdings Co., Ltd.
Mega Assets Management Company	Subsidiary of Mega Financial Holdings Co., Ltd.
International Commercial Bank of Cathay (Canada)	The subsidiary
Cathay Investment & Development Corporation (Bahamas)	The Subsidiary
The International Commercial Bank of China Public Co., Ltd. (Thailand)	The Subsidiary
Yung-Sing Industries Co.	The Subsidiary
China Products Trading Company	The Subsidiary
International Security Investment Trust Corporation	The Subsidiary
Taiwan Finance Co.	Equity investee
Win Card Co., Ltd.	The indirect subsidiary
China Post Corporation Limited	The director of Mega Financial Holdings Co., Ltd.
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

The transactions with the foregoing related parties are summarized in Exhibit I.



## VI. PLEDGED ASSETS

As of December 31, 2004 and 2005, the following assets had been provided as collaterals or refundable deposits:

	December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
Securities purchased	\$10,433,400	\$10,959,100	\$333,509
Bond investments	2,406,806	2,177,348	66,261
Total	\$12,840,206	\$13,136,448	\$399,770

## VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2005, the Bank had the following commitments and contingent liabilities, which are not reflected in the above mentioned financial statements:

### 1. Entrusted Items and Guarantees:

	New Taiwan Dollars	U.S. Dollars
Securities sold under repurchase agreements	\$6,731,516	\$204,854
Securities purchased under resell agreements	375,300	11,421
Trust and securities held for safe keeping (included trustee amount of NT\$166,819,421)	560,772,150	17,065,495
Entrusted travelers checks for sale	2,460,848	74,889
Entrusted bills for collection and joints loans	90,600,004	2,757,152
Guarantees on duties and contracts	94,790,315	2,884,672
Unused commercial letters of credit	51,137,629	1,556,227
Agent for government bonds, distributor for goods consigned and underwriting commitments	213,803,346	6,506,493
Loan commitments	383,179,347	11,660,966
Credit card line commitments	69,350,517	2,110,484
Promissory notes	16,092,295	489,723



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

Balance Sheet Based on Trust					
December 31, 2005					
	Trust Assets			Trust Liabilities	
	New Taiwan			New Taiwan	
	Dollars	U.S. Dollars		Dollars	U.S. Dollars
Cash	\$10,139,689	\$308,572	Money	\$163,367,778	\$4,971,630
Stocks	22,762,752	692,719	Security	2,716,026	82,655
Bonds	68,090,924	2,072,152	Real Estate	735,617	22,386
Mutual Funds	61,670,236	1,876,757			
Other Assets	4,155,820	126,471			
<b>Total</b>	<b>\$166,819,421</b>	<b>\$5,076,671</b>	<b>Total</b>	<b>\$166,819,421</b>	<b>\$5,076,671</b>

Details of Trust Properties		
December 31, 2005		
Item	Amount	
	New Taiwan Dollars	U.S. Dollars
Stocks	\$22,762,752	\$692,719
Bonds	68,090,924	2,072,152
Mutual Funds	61,670,236	1,876,757
Other Assets	4,155,820	126,471
<b>Total</b>	<b>\$156,679,732</b>	<b>\$4,768,099</b>

3. For premises occupied by its branches, the Bank has renewable lease agreements expiring on various dates up to 2021. Rentals are payable monthly, quarterly or semiannually. Refundable deposits on these leases totaled NT\$137,651 (part of other assets). Rentals for the next five years are as follows:

Year	New Taiwan Dollars	U.S. Dollars
2006	\$196,382	\$5,976
2007	136,888	4,166
2008	95,174	2,896
2009	62,444	1,900
2010	52,885	1,609

4. The Bank entered into agreements for equipment purchases and improvements of various branch premises. As of December 31, 2005, these agreements amounted to approximately NT\$205,647 and the unpaid balance on these contracts was approximately NT\$94,293.



## 5. Derivative financial instruments

The Bank used foreign exchange forward, interest rate swap, cross-currency swap, and foreign currency option contracts as hedge instruments against foreign currency exposures resulting from transactions entered into with its customers. The Bank also used foreign exchange forward, interest rate swap, and cross-currency swap contracts to hedge its interest rate and exchange rate exposures. The Bank's strategy on risk mitigation is to achieve its objective to mitigate the majority of the market risk. The Bank regularly assesses the risk exposures related to the derivatives used for hedging purposes and the underlying hedged assets and liabilities.

Credit risk pertains to the Bank's exposure to potential losses from counter-parties' default on their obligations on maturity dates. Thus, the Bank reviews each customer's credit history and credit rating before approving the financial instrument arrangement and the credit limit. An appropriate guarantee would be required from the customer. If the customer is another bank, it will be evaluated on the basis of its world ranking and credit rating.

(1) The contract (nominal) amounts, credit risks, and fair values of derivative transactions were as follows:

	December 31, 2004		
	Contract (Nominal) Amount	Credit Risk	Fair Value
New Taiwan Dollars			
<u>Trading purposes</u>			
Forward exchange contracts	\$259,775,090	\$305,067	\$(66,200)
Interest rate swap contracts	8,550,350	281,852	280,595
Cross-currency swap contracts	9,342,236	25,222	(31,476)
<u>Non-trading purposes</u>			
Interest rate swap contracts	50,517,191	70,041	(1,243,165)
Cross-currency swap contracts	40,498,896	162,504	(20,915)
Foreign currency option contracts			
Buy (exchange rate)	9,965,193	-	-
Sell (exchange rate)	10,033,374	-	-
Buy (Interest rate)	1,155,284	-	-
Sell (Interest rate)	3,075,142	-	-

	December 31, 2005			December 31, 2005		
	Contract		Fair Value	Contract		Fair Value
	(Nominal) Amount	Credit Risk		(Nominal) Amount	Credit Risk	
	New Taiwan Dollars			U.S. Dollars		
Trading purposes						
Forward exchange contracts	\$308,128,892	\$59,103	\$(6,493)	\$9,377,020	\$1,799	\$(198)
Interest rate swap contracts	15,590,000	223,116	222,820	474,437	6,790	6,781
Cross-currency swap contracts	23,257,373	362	(5,192)	707,772	11	(158)
Non-trading purposes						
Interest rate swap contracts	25,300,032	579,515	249,561	769,934	17,636	7,595
Cross-currency swap contracts	36,562,028	326,388	164,550	1,112,661	9,933	5,008
Foreign currency option contracts						
Buy (exchange rate)	4,494,610	-	-	136,781	-	-
Sell (exchange rate)	7,668,794	-	-	233,378	-	-
Buy (Interest rate)	361,460	-	-	11,000	-	-
Sell (Interest rate)	387,748	-	-	11,800	-	-

The foreign exchange forward rates are determined based on the foreign exchange spot rates and the interest rates of the respective currencies. The Bank used the foreign exchange spot rates quoted by the Central Bank at each month end and currency interest rates to calculate the forward rates, which are then used to calculate the fair value of the forward foreign exchange contracts in accordance with their maturity dates.

The Bank has entered into many derivative financial instrument transactions. The nominal amount of a contract is used as a base to calculate the net settlement amount between the Bank and the counter parties. The nominal amount is not actual settlement amount and therefore it does not require cash flow from the Bank. The Bank assessed that the possibility of disposing the derivative financial instruments issued by the Bank at below market price is low; therefore, the Bank expected that there is no significant cash flow need upon the maturity of the respective instruments.

As of December 31, 2004 and 2005, the above contracts entered into for non-trading purposes were used to hedge assets of NT\$89,509,927 and NT\$90,791,902, respectively.

(2) The gains (losses) on the derivative transactions were as follows:

	For the years ended December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
Forward exchange (under exchange gain)	<u>\$1,832,530</u>	<u>\$1,446,454</u>	<u>\$44,019</u>
Interest rate swap and cross currency swap contract (under interest revenue and expense)	<u>\$483,572</u>	<u>\$456,292</u>	<u>\$13,947</u>
Foreign-currency option Gains and losses (under other operating income and expense)	<u>\$325,862</u>	<u>\$660,662</u>	<u>\$20,105</u>

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

The Bank exposed itself to significant facility commitments as a result of its loan commitments and credit card issuance. Majority of facility commitments have one-year terms, with average interests of 2.77% and 3.24% for the years ended December 31, 2004 and 2005, respectively. For credit cards, the highest interest rate was 19.71%. The Bank also guaranteed loans and letters of credit to assure customers' meeting of contract obligations. Despite these risks, there is no concentration of maturity dates in one period that would potentially result in liquidity problems for the Bank.

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

	December 31		
	2004	2005	
	New Taiwan Dollars	New Taiwan Dollars	U.S. Dollars
Irrevocable loan commitments	\$38,482,938	\$38,384,750	\$1,168,130
Credit line of credit cards	71,897,661	69,350,517	2,110,484
Guarantees on loan and letters of credit	162,897,291	145,927,944	4,440,899
Securities purchased under resell agreements	1,968,424	375,300	11,421
Securities sold under repurchase agreements	8,062,036	6,731,516	204,854

Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts will not necessarily entail future cash requirements.

Without considering the value of any collateral, the total potential loss is equal to the above contract amounts if completely drawn upon and the counter-parties default.

The Bank strictly assesses and evaluates each credit application for loan facility, guarantee and letters of credit. Collaterals, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the result of the credit worthiness evaluation. As of December 31, 2004 and 2005, collaterals, respectively, were secured about 45.37% and 50.54% of total loans and 21.71% and 24.05% of guarantees and letters of credit. When a borrower defaults, the Bank would enforce the foreclosure of the collaterals and guarantees.

For credit cards, no collateral is required, but the credit status of each cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit.

6. The Bank's Offshore Banking Unit (OBU) participated in a syndicated loan facility granted to an Indonesian customer. In October 2001, the stockholder of the Indonesian customer filed a legal action against the consortium banks. In February 2005, a district court in South Jakarta passed its judgment and ruled in favor of the consortium banks of the claims. However, the plaintiff has filed for an appeal, yet to be heard. In October 2002, OBU sold the loan to the buyer who agreed to compensate any related loss which may occur to the Bank, except for attorney fees associated with the lawsuit. Thus, the bank believed that the effect of the lawsuit was limited and immaterial to its financial statements.

## VIII. SIGNIFICANT DISASTER LOSS

None.

## IX. SIGNIFICANT SUBSEQUENT EVENT

None.

## X. OTHERS

### 1. Fair value of non-derivative financial instruments

	December 31, 2004		December 31, 2005		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	New Taiwan Dollars				U.S. Dollars	
<b>Assets</b>						
Assets with fair value the						
same as the carrying value	\$844,132,138	\$844,132,138	\$899,642,476	\$899,642,476	\$27,378,042	\$27,378,042
Securities purchased	280,859,506	286,078,822	293,222,851	293,773,840	8,923,428	8,940,135
Investments	17,246,108	21,379,768	21,681,739	23,719,098	659,913	721,823
<b>Liabilities</b>						
Liabilities with fair value the						
same as the carrying value	\$1,079,150,593	\$1,079,150,593	\$1,144,037,914	\$1,144,037,914	\$34,815,518	\$34,815,518

The methods and assumptions used to estimate the fair value of non-derivative financial instruments are as follows:

- (1) The carrying values of cash and cash equivalents, due from banks and the Central Bank, due to banks and the Central Bank, receivables, payable, borrowed funds, remittances, and other liabilities approximate the fair values because of the short maturity of these instruments.
- (2) Fair values of securities purchased and investments are based on market prices, or their carrying value if market prices are unavailable.
- (3) Bills and loans, bonds sold under agreements to repurchase, deposits and bonds issued are financial assets and liabilities with mainly floating interests. Thus, their carrying values are deemed to equivalent to their fair values.

Some fair values of financial and non-financial instruments had not been included in the above summary, so those fair values do not represent the total value of the Bank.

## 2. Others

### (1) Information on concentrations of credit risk

The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. The Bank has not transacted with one single customer or entered into one single transaction which would expose the Bank into concentration risk. However, the Bank is likely exposed to industry concentration risk. The Bank's information on concentration of credit risk is as follows:

	December 31		
	2004	2005	2005
	New Taiwan Dollars		U.S. Dollars
<u>Industry type</u>			
Manufacturing	\$233,126,465	\$239,255,154	\$7,281,045
Financial institution, insurer, real estate and leasing	92,654,097	100,851,138	3,069,116
Government institution	56,828,145	50,543,750	1,538,154
Individuals	129,042,031	146,210,152	4,449,487
Others	206,631,154	224,594,308	6,834,885
Total	<u>\$718,281,892</u>	<u>\$761,454,502</u>	<u>\$23,172,687</u>

Note:① The above figures for 2005 include bills and loans (excluding bills purchased and overdue loans-factoring without recourse), guarantees and acceptances.

② The above figures for 2004 include bills and loans (excluding bills purchased), guarantees and acceptances



(2) Certain accounts for the financial statements of the year ended December 31, 2004 have been reclassified to conform with the current presentation.

(3) Information about the transactions with the Mega Financial Holdings Co., Ltd and its subsidiaries are as follows:

(a) Transactions between the Company and its subsidiaries: Please refer to Note V.

(b) Joint promotion of businesses: Nil.

(c) Sharing of information:

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

(d) Apportionment of revenues, costs, expenses, gains, and losses: Nil.

(4) Regulatory capital ratio

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

The ratio of Bank's shareholders' equity to its risk-weighted assets as of December 31, 2004 and 2005 are 10.82% and 10.93%, respectively. The equation to calculate such ratios are listed below:

Eligible capital    Deduction item

---

$\text{Weighted risk assets} + \text{Capital charges for market risk positions} \times 12.5$

(5) As of December 31, 2004 and 2005, the insurance coverage of the Bank's properties and equipment are NT\$8,750,699 and NT\$7,459,487, respectively.

(6) According to the board's meeting resolution held on September 7, 2005, the Bank will merge with Chiaotung Bank, with the Bank as the surviving bank, and the anticipated merger date will be March 27, 2006. The bank will change its name as Mega International Commercial Bank Co., Ltd. The rate of conversion is 1:1 and was approved by the Financial Supervisory Commission of the Ministry of the R.O.C. on January 9, 2006.



(7) In order to improve the status of its non-performing loans (NPLs), the Bank entered into a loan sale agreement amounted to US\$4,569 through negotiation with Bank of America Securities Limited to sell its NPLs of the Singapore Branch in July, 2004. The gain on this transaction was NT\$92,137.

## **XI. SEGMENTS AND GEOGRAPHIC INFORMATION**

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

Geographic information is presented in Exhibit II.

**THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.**  
**SUMMARY OF RELATED-PARTY TRANSACTIONS**  
 For the years ended December 31, 2004 and 2005  
 (In Thousands of Dollars)

**1. Due from and due to banks**

	Highest Outstanding Balance						For the Years Ended December 31				For the Years Ended December 31			
	2004		2005		2005		2004		2005		2004		2005	
	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars	U.S. Dollars	New Taiwan Dollars
a. Due from banks:														
International Commercial Bank of Cathay (Canada)	\$1,216,906	\$387,428	\$11,790	\$2,318,676	\$1,953,988	\$89,464	0.13-1.40	1.5-3.35	\$18,924	\$72,924	572,924	5454		
Chiaotung Bank	6,766	45,169	1,375	8,597,573	8,891,443	276,986	0.75-1.15	0.04-1.48	5,545	3,900	3,900	91		
Chung Hsing Bells Finance Corp	-	-	-	866,000	500,000	15,216	0.775-1.17	1.27	379	122	122	4		
Taiwan Finance Co.	-	-	-	563,000	400,000	12,173	1.005-1.09	1.33-1.47	267	114	114	10		
The International Commercial Bank of China Public Co., Ltd. (Thailand)	-	5,519	168	-	64,092	1,950	-	-	-	340	340	7		
b. Due to banks:														
China Post Corporation Limited	46,522,745	41,251,124	1,255,369	58,484,216	52,041,102	1,583,724	0.10-2.15	0.01-2.23	(799,032)	1,787,650	(23,970)			
International Commercial Bank of Cathay (Canada)	71,436	37,477	1,140	309,239	401,530	12,223	0.775-1.79	1.60-4.09	(1,176)	12,882	(88)			
Cathay Investment & Development Corporation (Bahrain)	-	306,505	9,328	-	633,297	19,213	-	1.90-4.30	-	116,808	(521)			
Chiaotung Bank	721,074	3,421	161	3,849,640	2,088,139	62,631	0.75-1.25	1.18-2.18	(1,263)	(53)	(16)			
The International Commercial Bank of China Public Co., Ltd. (Thailand)	-	417,648	12,692	-	2,264,863	68,925	-	0.10-4.24	-	(6,244)	(199)			

**2. Loans and deposits**

	December 31, 2004		December 31, 2005		December 31, 2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	New Taiwan Dollars		New Taiwan Dollars		New Taiwan Dollars	
Bills and loans	\$12,908,487	2.11	\$13,139,335	2.11	\$399,858	0.06
Deposits	68,022,409	9.54	521,10744	6.56	1,585,621	0.02

The interest rates shown above are similar to, or approximate, those offered to third parties. But the interest rates for savings deposits of Bank managers are the same as for certain amounts of savings deposits of employees. In compliance with the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party are fully secured, and the terms of credits extended to related parties are similar to those for third parties.

3. Others  
a. Purchase of short-term securities and bonds

	For the years ended December 31		U.S. Dollars
	2004	2005	
		New Taiwan Dollars	
Chung Hsing Bills Finance Corp.	\$17,701,331	\$5,021,598	\$152,818
Taiwan Finance Corp.	542,117	99,917	3,041
Chung Hsing Bills Finance Corp.	500,000	-	-

b. Sale and purchase of bonds and other short-term securities under agreements to repurchase or resell

Chung Hsing Bills Finance Corp.

c. For the year ended December 31, 2004, the certificate fee to Chung Hsing Bills Finance Corp. of issuing banker's bond was NTS56.

d. Starting January, 2001, certain processes of the Bank's credit card operations have been outsourced to Win Card Co., Ltd. Under this arrangement, the Bank paid operating expense of NT\$450,899 and NT\$423,104 for the years ended December 31, 2004 and 2005, respectively. As of December 31, 2004 and 2005, the Bank had receivable of NT\$8,418 and NIS13,958, respectively, pertaining to payments to third parties on behalf of Win Card Co., Ltd.

e. The Bank has made lease agreements with the related parties are summarized as follows:

Related Party	Lease Period	Lease Payment Method	For the years ended December 31		U.S. Dollars
			New Taiwan Dollars		
			2004	2005	
Yung-Sing Industries Co.	1994.12-2014.11	Annually	Rental Expense	Rental Expense	
			\$5,809	\$5,564	\$170
Chung Kuo Insurance Co.	2003.12-2006.11	Monthly	19,308	18,798	572
China Products Trading Company	2003.04-2006.03	Monthly	1,386	1,387	42
Total			\$26,503	\$25,749	\$784

In addition, the related parties lease office spaces from the Bank are summarized as follows:

Related Party	Lease Period	Lease Receipt Method	For the years ended December 31		U.S. Dollars Rental Revenue
			2004	2005	
			Rental Revenue	New Taiwan Dollars Rental Revenue	
Win Card Co., Ltd.	2001.01-2008.01	Quarterly	\$10,418	\$9,656	\$294
Yung-Sing Industries Co.	2000.10-2006.09	Quarterly	1,588	1,512	46
Chung Kuo Insurance Co. Mega Life Insurance Co., Ltd. (the former Chung Yin Insurance Agency Company)	2003.05-2006.04	Monthly	1,419	1,785	54
Barits International Securities Corporation Ltd.	2001.01-2008.01	Monthly	659	802	24
	2003.03-2009.12	Monthly	10,590	20,128	613
<b>Total</b>			<b>\$24,674</b>	<b>\$33,883</b>	<b>\$1,031</b>

- f. As of December 31, 2004, the Bank has entered into derivative transaction with Mega Financial Holdings Co., Ltd. The nominal amount of the contract was US\$170,000.
- g. As of December 31, 2004 and 2005, respectively, the estimated income tax payable amounting to NT\$440,727 and NT\$1,027,418 must pay to Mega Financial Holdings Co., Ltd. because of adopting the linked tax system for income tax filings.
- h. As of September 2005, the Bank sold out the investment-Chung Yin Insurance Agency Company to Mega Financial Holdings Co., Ltd. The selling price was amount to NT\$23,873 and the book value of the investment was NT\$28,848.
- i. The Bank entered into a loan sale agreement through open bid with Mega Assets Management Company to sell NPLs in 2004. The gain on the sale NT\$175,700 is charged into other operating income.
- j. For the year ended December 31, 2005, the commissions and service revenue from International Security Investment Trust Corporation was NT\$40,544 and the uncollected balance on associated receivable was NT\$30,357.
- k. For the year ended December 31, 2005, the insurance premium for services provided by Chung Kuo Insurance Co., was NT\$21,738. (charged to selling and administrative expenses).

The terms of the foregoing transactions with related parties are similar to those with third parties.

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



THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.  
GEOGRAPHIC INFORMATION

For the year ended December 31, 2005  
(In Thousands of New Taiwan Dollars)

	2005				Combined
	Domestic	North America	Other Foreign Areas	Adjustments and Eliminations	
Income					
Customers	\$32,709,719	\$5,596,624	\$6,073,160	\$-	\$44,379,503
Interoffice	547,133	45,757	335,858	(928,748)	-
Total Income	<u>\$33,256,852</u>	<u>\$5,642,381</u>	<u>\$6,409,018</u>	<u>\$(928,748)</u>	<u>\$44,379,503</u>
Net income	<u>\$8,279,500</u>	<u>\$805,976</u>	<u>\$1,616,585</u>		<u>\$10,702,061</u>
Investment income					<u>2,378,349</u>
Income on continuing departments before income tax					<u>\$13,080,410</u>
Identifiable assets	<u>\$941,253,141</u>	<u>\$168,800,080</u>	<u>\$115,085,677</u>	<u>\$(8,419,123)</u>	<u>\$1,216,719,775</u>
Equity securities					<u>11,357,848</u>
Total assets					<u>\$1,228,077,623</u>

THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.  
GEOGRAPHIC INFORMATION

For the year ended December 31, 2005  
(In Thousands of U.S. Dollars)

	2005				Combined
	Domestic	North America	Other Foreign Areas	Adjustments and Eliminations	
Income					
Customers	\$995,427	\$170,317	\$184,819	\$-	\$1,350,563
Interoffice	16,650	1,393	10,221	(28,264)	-
Total Income	<u>\$1,012,077</u>	<u>\$171,710</u>	<u>\$195,040</u>	<u>\$(28,264)</u>	<u>\$1,350,563</u>
Net income	<u>\$251,963</u>	<u>\$24,528</u>	<u>\$49,196</u>		<u>\$325,687</u>
Investment income					<u>72,378</u>
Income on continuing departments before income tax					<u>\$398,065</u>
Identifiable assets	<u>\$28,644,344</u>	<u>\$5,136,947</u>	<u>\$3,502,303</u>	<u>\$(256,212)</u>	<u>\$37,027,382</u>
Equity securities					<u>345,644</u>
Total assets					<u>\$37,373,026</u>



# Service Network

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*Chi-Chang Huang, Senior Executive Vice President*

*Owen S. Y. Hu, Senior Executive Vice President*

*Meei-Yeh Wei, Senior Executive Vice President*

*Ruey-Jen Liu, Chief Auditor*

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\*To exercise the power and authority of the Chairman of the Board of Directors.



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# Annual Report 2005



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