

**HSINCHU INTERNATIONAL  
BANK CO., LTD.**

**Financial Statements for the  
Nine-Month Periods Ended September 30, 2006 and 2005  
and Independent Auditors' Review Report**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

Hsinchu International Bank Co., Ltd.:

We have reviewed the accompanying balance sheets of Hsinchu International Bank Co., Ltd. (the "Bank") as of September 30, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express a review report on these financial statements based on our reviews.

Except as described in the next paragraph, we conducted our reviews in accordance with the Republic of China ("R.O.C.") Statement of Auditing Standards No. 36 "Review of Financial Statements". We only performed analytical procedures, comparison and inquiries, but did not audit in accordance with generally accepted auditing standards in the Republic of China. Accordingly, we do not express such an opinion based on audits of the financial statements taken as a whole.

As stated in Note 10 to the financial statements, the Bank's equity investments under the equity method amounted to NT\$1,246,940 thousand and NT\$1,342,743 thousand constituting 0.29% and 0.34% of total assets as of September 30, 2006 and 2005, respectively, and the related investment income, amounted to NT\$152,003 thousand and NT\$379,476 thousand, respectively constituting (7.65)% and 14.33% of income (losses) before income taxes for the nine-month periods ended September 30, 2006 and 2005, respectively, were based on the unreviewed financial statements furnished by the investee companies. Furthermore, as stated in Note 31(2) to the financial statements, the information of invested companies is based on the unreviewed financial statements furnished by the investee companies.

Based on our reviews, except for the effects that if the equity investments under the equity method and investment income described in the preceding paragraph may be adjusted based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements in order to be in conformity with "Guidelines Governing the Preparation of Financial Report by Public Banks" and generally accepted accounting principles in the Republic of China.

As stated in Note 3 to the financial statements, the Bank adopted the R.O.C. Statement of Financial Accounting Standards No. 34 “Accounting for Financial Instruments” and No. 36 “Disclosure and Presentation of Financial Instruments”, effective from January 1, 2006.

Ernst & Young  
October 23, 2006  
Taipei, Taiwan  
Republic of China

*The above auditors' audit report and the following financial statements are English translations of the Chinese auditors' audit report and financial statements prepared for and used in the Republic of China. The accompanying financial statements were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China and are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than those in the Republic of China. The standards, procedures and practices utilized to audit such financial statements are those generally accepted and applied in the Republic of China.*

## HSINCHU INTERNATIONAL BANK CO., LTD.

### BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

(Expressed in Thousands of New Taiwan Dollars)

See accompanying notes to the financial statements.

	Sep. 30, 2006 (Unaudited)	Sep. 30, 2005 (Unaudited)
<b>ASSETS</b>		
Cash and cash equivalents (Note 4)	NT\$ 7,178,463	NT\$ 7,080,180
Due from banks and Central Bank of China (Note 4)	21,639,968	19,724,828
Financial assets at fair value through profit or loss (Notes 5 and 27)	23,182,851	10,337,808
Bonds and short-term bills sold under resale agreements (Note 27)	2,411,017	14,859,122
Receivables, net (Notes 6 and 7)	9,966,237	10,040,272
Loans and bills discounted, net (Notes 7 and 27)	294,685,396	263,724,006
Available-for-sale financial assets (Note 8)	13,714,372	11,450,913
Held-to-maturity financial assets (Note 9)	41,905,438	48,693,663
Equity investment under equity method (Note 10)	1,246,940	1,342,743
Other financial assets (Note 11)	399,287	476,191
Fixed assets, net (Notes 12 and 27)		
Land	2,999,894	2,857,287
Revaluation increment-land	505,866	505,866
Buildings	3,272,395	2,937,052
Revaluation increment-buildings	10,407	10,407
Accumulated depreciation-buildings	(692,278)	(632,798)
Transportation and communication equipment	474	474
Accumulated depreciation-transportation and communication equipment	(474)	(474)
Miscellaneous equipment	4,175,857	3,722,959
Accumulated depreciation-miscellaneous equipment	(2,593,747)	(2,230,934)
Construction in progress	31,572	32,613
Prepayments for premises and equipment	187,289	167,554
	<u>7,897,255</u>	<u>7,370,006</u>
Other assets, net (Notes 7, 12, 13 and 25)	5,081,734	5,716,792
<b>TOTAL ASSETS</b>	<b>NT\$ <u>429,308,958</u></b>	<b>NT\$ <u>400,816,524</u></b>

	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Due to banks and Central Bank of China (Note 14)	NT\$ 15,561,804	NT\$ 18,775,148
Financing from Central Bank of China and banks	1,323,920	165,940
Financial liabilities at fair value through profit or loss (Note 5)	64,713	93,940
Bonds and short-term bills sold under repurchase agreements (Note 27)	16,593,895	18,929,482
Payables (Note 15)	5,705,110	5,000,843
Customer deposits and remittances payable(Notes 16 and 27)	351,903,315	313,772,284
Bonds payable (Note 17)	18,559,356	21,650,680
Other financial liabilities	-	17,043
Other liabilities (Notes 12, 18 and 27)	<u>1,153,475</u>	<u>1,340,765</u>
Total liabilities	<u>410,865,588</u>	<u>379,746,125</u>
Shareholders' equity (Note 20):		
Common stock	<u>16,239,437</u>	<u>15,745,358</u>
Capital surplus:		
Gains on disposal of treasury stocks	8,024	8,024
Other capital surplus	<u>893</u>	<u>870</u>
	<u>8,917</u>	<u>8,894</u>
Reserves:		
Statutory reserve	3,228,441	2,271,184
Special reserve	332	320
Retained earnings (accumulated losses)	<u>(1,648,982)</u>	<u>2,663,340</u>
	<u>1,579,791</u>	<u>4,934,844</u>
Other adjustment:		
Revaluation increment on property and equipment	381,303	381,303
Unrealized gain on available-for-sale financial assets	<u>233,922</u>	<u>-</u>
	<u>615,225</u>	<u>381,303</u>
Total shareholders' equity	18,443,370	21,070,399
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>NT\$ <u>429,308,958</u></b>	<b>NT\$ <u>400,816,524</u></b>

# HSINCHU INTERNATIONAL BANK CO., LTD.

## STATEMENTS OF INCOME FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005 (Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>Jan. 1~Sep. 30, 2006</u> <u>(Unaudited)</u>	<u>Jan. 1~Sep. 30, 2005</u> <u>(Unaudited)</u>		
Interest incomes (Note 27 )	NT\$ 10,012,207	NT\$ 8,808,848		
Less: interest expenses (Note 27 )	<u>4,207,684</u>	<u>3,486,311</u>		
Net interest incomes	<u>5,804,523</u>	<u>5,322,537</u>		
Non-interest incomes				
Fees and commission incomes, net (Notes 21 and 27)	2,014,756	1,725,650		
Gains on financial assets and liabilities at fair value through profit or loss , net (Notes 5 and 22)	63,850	382,381		
Gains on available-for-sale financial assets, net	197,269	75,153		
Gains on held-to-maturity financial assets, net	-	150,810		
Investment incomes recognized under the equity method, net (Note 10)	152,003	379,476		
Exchange gains, net	52,194	69,972		
Impairment loss reversals, net	128,301	204,593		
Other non-interest incomes, net (Notes 7 and 23)	<u>975,130</u>	<u>506,305</u>		
Total non-interest incomes	<u>3,583,503</u>	<u>3,494,340</u>		
Operating incomes before provision for loan losses and general and administrative expenses	<u>9,388,026</u>	<u>8,816,877</u>		
Provision for loan losses (Note 7)	<u>6,787,159</u>	<u>2,137,024</u>		
General and administrative expenses: (Notes 19, 24 and 27)				
Personnel expenses	2,352,879	2,059,804		
Depreciation and amortization expenses	412,254	354,127		
Other expenses	<u>1,822,822</u>	<u>1,618,498</u>		
	<u>4,587,955</u>	<u>4,032,429</u>		
Income (losses) from continuing operations before income taxes	(1,987,088)	2,647,424		
Provision (profit) for income taxes-continuing operations (Note 25)	<u>(220,888)</u>	<u>76,122</u>		
Income (losses) from continuing operations	(1,766,200)	2,571,302		
Cumulative effect of changes in accounting principle	<u>66,607</u>	<u>-</u>		
Net income (loss)	<b>NT\$ <u>(1,699,593)</u></b>	<b>NT\$ <u>2,571,302</u></b>		
Earnings (losses) per common share (Note 26)	<u>Before taxes</u>	<u>After taxes</u>	<u>Before taxes</u>	<u>After taxes</u>
Calculated base on the weighted-average number of common shares outstanding				
Income (loss) from continuing operations	NT\$(1.22)	NT\$(1.09)	NT\$1.68	NT\$1.63
Cumulative effect of changes in accounting principle	<u>(0.04)</u>	<u>(0.04)</u>	<u>-</u>	<u>-</u>
Net income (loss)	NT\$( <u>1.18</u> )	NT\$( <u>1.05</u> )	NT\$ <u>1.68</u>	NT\$ <u>1.63</u>
Calculated based on the weighted-average number of common shares outstanding due to the distribution of stock dividends				
Income from continuing operations			NT\$1.63	NT\$1.58
Cumulative effect of changes in accounting principle			<u>-</u>	<u>-</u>
Net income			NT\$ <u>1.63</u>	NT\$ <u>1.58</u>

See accompanying notes to the financial statements.

**HSINCHU INTERNATIONAL BANK CO., LTD.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005  
(Expressed in Thousands of New Taiwan Dollars)**

	Capital surplus			Reserve		Retained earnings (accumulated losses)	Other adjustment			Total shareholders' equity
	Common stock	Gains on disposal of treasury stock	Other capital surplus	Statutory reserve	Special reserve		Revaluation increment on property and equipment	Cumulative translation adjustments	Unrealized gain on available-for-sale financial assets	
<b>Balance as of January 1, 2006</b>	NT\$ 15,745,358	NT\$ 8,024	NT\$ 893	NT\$ 2,271,184	NT\$ 320	NT\$ 3,282,894	NT\$ 381,303	NT\$ (12)	NT\$ -	NT\$ 21,689,964
Appropriation of retained earnings:										
Statutory reserve	-	-	-	957,257	-	(957,257)	-	-	-	-
Special statutory reserve	-	-	-	-	12	(12)	-	-	-	-
Stock dividends	494,079	-	-	-	-	(494,079)	-	-	-	-
Cash dividend	-	-	-	-	-	(1,574,536)	-	-	-	(1,574,536)
Directors and supervisors' remuneration	-	-	-	-	-	(113,716)	-	-	-	(113,716)
Employee cash dividends	-	-	-	-	-	(91,998)	-	-	-	(91,998)
Net loss for the nine-month period ended September 30, 2006	-	-	-	-	-	(1,699,593)	-	-	-	(1,699,593)
Changes in shareholder' equity of subsidiary by equity method	-	-	-	-	-	(685)	-	12	55,082	54,409
Changes in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	178,840	178,840
<b>Balance as of September 30, 2006</b>	<b>NT\$16,239,437</b>	<b>NT\$ 8,024</b>	<b>NT\$ 893</b>	<b>NT\$ 3,228,441</b>	<b>NT\$ 332</b>	<b>NT\$(1,648,982)</b>	<b>NT\$ 381,303</b>	<b>NT\$ -</b>	<b>NT\$ 233,922</b>	<b>NT\$ 18,443,370</b>
<b>Balance as of January 1, 2005</b>	NT\$ 14,236,161	NT\$ 8,024	NT\$ 870	NT\$ 1,428,899	NT\$ 320	NT\$ 3,148,837	NT\$ 187,132	NT\$ -	NT\$ -	NT\$ 19,010,243
Appropriation of retained earnings:										
Statutory reserve	-	-	-	842,285	-	(842,285)	-	-	-	-
Stock dividends	1,509,197	-	-	-	-	(1,509,197)	-	-	-	-
Cash dividends	-	-	-	-	-	(569,447)	-	-	-	(569,447)
Directors and supervisors' remuneration	-	-	-	-	-	(110,725)	-	-	-	(110,725)
Employee cash dividends	-	-	-	-	-	(25,145)	-	-	-	(25,145)
Revaluation increment on property and equipment transferred to gain on disposal of fixed assets	-	-	-	-	-	-	(13,983)	-	-	(13,983)
Reserve for land revaluation increment taxes transferred to capital surplus	-	-	-	-	-	-	208,154	-	-	208,154
Net income for the nine-month period ended September 30, 2005	-	-	-	-	-	2,571,302	-	-	-	2,571,302
<b>Balance as of September 30, 2005</b>	<b>NT\$15,745,358</b>	<b>NT\$ 8,024</b>	<b>NT\$ 870</b>	<b>NT\$ 2,271,184</b>	<b>NT\$ 320</b>	<b>NT\$ 2,663,340</b>	<b>NT\$ 381,303</b>	<b>NT\$ -</b>	<b>NT\$ -</b>	<b>NT\$ 21,070,399</b>

See accompanying notes to the financial statements.

# HSINCHU INTERNATIONAL BANK CO., LTD.

## STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005 (Expressed in Thousands of New Taiwan Dollars)

	<u>Jan. 1~Sep. 30, 2006</u> <u>(Unaudited)</u>	<u>Jan. 1~Sep. 30, 2005</u> <u>(Unaudited)</u>
<b>Cash flows from operating activities:</b>		
Net income (loss)	NT\$ (1,699,593)	NT\$ 2,571,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	412,254	354,127
Investment income recognized under equity method	(152,003)	(379,476)
Cash dividends from investment under equity method	313,907	-
Loss on assets carried at cost	5,532	32,936
Provision for loan and other losses	6,787,159	2,137,024
Loss (gain) on disposal and sale of fixed assets	3,020	(7,465)
Recovery for decline in market value of pledged properties taken over	(163,928)	(212,911)
Loss on sale of pledged properties taken over	51,686	280,846
Provision for other reserves (recovery gain)	(45,030)	36,627
Impairment loss	35,627	8,317
Gain on redeem of convertible bonds	(18,177)	-
Changes in operating assets provided by (used in) cash :		
Receivables	2,372,507	247,325
Deferred income taxes assets, net	(303,907)	(36,286)
Financial assets at fair value through profit or loss	(13,991,128)	11,213,611
Changes in operating liabilities provided by (used in) cash :		
Payables	1,118,741	207,683
Financial liabilities at fair value through profit or loss	<u>19,429</u>	<u>(444,808)</u>
Net cash flows provided by (used in) operating activities	<u>(5,253,904)</u>	<u>16,008,852</u>
<b>Cash flows from investing activities:</b>		
Increase in due from Central Bank of China and banks	(7,383,608)	(1,348,450)
Decrease in bonds and short-term bills sold under resale agreements	9,243,468	5,486,515
Increase in loans and bills discounted	(29,159,152)	(12,327,103)
Increase from available-for-sale financial assets	(1,876,112)	(2,936,956)
Decrease (increase) from held-to-maturity financial assets	5,559,445	(10,716,522)
Increase in equity investment under equity method	(38,400)	-
Purchase of fixed assets and pledged properties take over	(369,567)	(663,079)
Proceeds from sales of fixed assets and pledged properties take over	111,237	1,015,292
Decrease in other financial assets	61,558	3,923
Decrease in other assets	<u>64,829</u>	<u>126,669</u>
Net cash flows used in investing activities	<u>(23,786,302)</u>	<u>(21,359,711)</u>

(Continued)



## HSINCHU INTERNATIONAL BANK CO., LTD.

### STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED SEP 30, 2006 AND 2005 (Expressed in Thousands of New Taiwan Dollars)

	<u>Jan. 1~Sep. 30, 2006</u> <u>(Unaudited)</u>	<u>Jan. 1~Sep. 30, 2005</u> <u>(Unaudited)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in due to banks and Central Bank of China	NT\$ (829,767)	NT\$ 4,453,460
Increase (decrease) in financing from Central Bank of China and banks	831,170	(4,357,244)
Increase (decrease) in customer deposits and remittances payable	32,580,030	(6,881,696)
Increase in bonds and short-term bills sold under repurchase agreements	487,817	2,889,485
Issuance (redemption) of convertible bonds	(2,899,566)	10,000,000
Decrease in other financial liabilities	-	(10,229)
Decrease in other liabilities	(621,917)	(131,659)
Payment of cash dividends	(1,574,536)	(569,447)
Payment of employee cash dividends and directors and supervisors' remuneration	<u>(205,714)</u>	<u>(135,870)</u>
Net cash flows provided by financing activities	<u>27,767,517</u>	<u>5,256,800</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(136,613)</u>	<u>140,373</u>
Net increase (decrease) in cash and cash equivalents	(1,409,302)	46,314
Cash and cash equivalents, beginning of period	<u>8,587,765</u>	<u>7,033,866</u>
Cash and cash equivalents, end of period	<b>NT\$ <u><u>7,178,463</u></u></b>	<b>NT\$ <u><u>7,080,180</u></u></b>
Supplemental information :		
Income taxes paid	<b>NT\$ <u><u>83,018</u></u></b>	<b>NT\$ <u><u>121,321</u></u></b>
Investing and financing activities not affecting cash:		
Reserve for land revaluation and capital surplus transferred to gain on sale of fixed assets	<b>NT\$ <u><u>-</u></u></b>	<b>NT\$ <u><u>14,294</u></u></b>

(Concluded)

See accompanying notes to the financial statements.

# HSINCHU INTERNATIONAL BANK CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

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### 1. ORGANIZATION AND BUSINESS SCOPE

Hsinchu International Bank Co., Ltd. (the Bank) was founded in 1948. The Bank's business activities were those of a medium size business bank as regulated by the Banking Law and Securities Brokerage Regulations.

Pursuant to an approval granted by the Securities and Futures Commission (SFC), the Bank's shares have been publicly listed since 1983. The SFC had changed to the Securities and Futures Bureau (SFB) from July 1, 2004.

Pursuant to approvals granted by the Ministry of Finance (MOF), the Bank established a Trust Department in 1989 and an International Business Department in 1993. From year 1989, the Bank started security trading business and from year 1992, the Bank started security broker business, both approved by SEC. In 1995, the Bank established its Offshore Banking Unit (OBU). The Bank was approved by the MOF to operate as a commercial bank in September 1998 and changed its name to Hsinchu International Bank Co., Ltd. on April 20, 1999.

Additionally, the Bank's operations have been expanded to business activities of commercial bank defined by the MOF.

As of September 30, 2006 and 2005, the Bank had employees amounted to 3,329 and 3,391 persons.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank prepares its financial statements in accordance with "Guideline Governing the Preparation of Financial Reports by Public Banks" and generally accepted accounting principles in the Republic of China. The significant accounting policies are summarized as follows:

#### (1) Basis of preparation of financial statements

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

Certain accounts of financial statements of the nine-month periods ended September 30, 2005 had been reclassified for the comparison purpose of the presentation of the nine-month periods ended September 30, 2006.

#### (2) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the Republic of China requires management to make estimates and assumptions that may affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenues and expenses during the reporting period and disclosure of contingencies. Actual results could differ from those estimates.

(3) Cash and Cash equivalents

Cash on hand, notes and checks for clearance, petty cash, and due from other banks.

(4) Financial assets and financial liabilities

*Before applying Accounting Standards No. 34*

*Long-term investments*

Long-term investments in equity securities that represent less than 20% of the investee's common stocks with voting rights, and where the Bank and its subsidiaries together do not have significant influence over the investee, they are stated at the lower of cost or market value if traded in the open market, and unrealized loss due to price decline then is recorded as a deduction in shareholder's equity. In contrast, if not traded in the open market, those investments are stated at cost, and a loss is recognized if objective evidence of impairments exists for the investments and it is remote to recover.

When there is a material and permanent decline in the market value of an investee's company stocks and the probability of recovery is considered remote, the carrying value of the investment is reduced to reflect the market value and the resulting loss shall be recognized in the period of such reduction.

Long-term debt investments which the Bank has positive intention and capability to hold for a long term are stated at acquisition cost, and the valuation of unamortized premium or discount is adjusted based on the par value.

*Marketable securities*

Other than the investments described in preceding paragraph, marketable securities are stated at the lower of cost or fair market value. The fair market value is determined by the average closing price of the last month of the accounting period or the latest settlement price at the end of the period. However, the market value of open-ended mutual funds is measured by the net asset value of the mutual fund on the balance sheet date. On disposition, selling cost is calculated based on the moving-weight-average method.

*After applying Accounting Standards No. 34, effective from January 1, 2006*

Financial assets in the scope of R.O.C. Statement of Financial Accounting Standards No. 34, ("SFAS No. 34,") "Accounting for Financial Instruments" are classified as either financial assets at fair value through profit or loss, bond portfolio with no active market bonds, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, derivative financial liabilities for hedge, or financial liabilities at amortized cost.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are subsequently measured at fair value and changes in fair value are recognized in profit and loss. Financial assets that are held for trading and designated by the Bank as at fair value through profit or loss are classified as financial assets at fair value through profit or loss.

### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### *Held-to-maturity financial assets*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

### *Assets carried at cost*

Assets carried at cost are referred to equity instruments whose fair value can not be reliably measured and are stated at original cost.

- (5) Bonds and short-term bills sold under resale agreements / Bonds and short-term bills sold under repurchase agreements

When trading the bonds and short-term bills with resale agreements, the actual amounts paid are recorded as bonds and short-term bills sold under resale agreements. When trading bonds and short-term bills with repurchase agreements, the actual amounts collected are recorded as bonds and short-term bills sold under repurchase agreements. Additionally, the related interest revenue and interest expense generating from preceding transactions are recognized on an accrual basis.

- (6) Loans, non-accrual loans, and interest income

Loans are recorded at the amounts of principal outstanding. Interest income is recognized on an accrual basis except for interest on non-performing loans. All non-performing loans under which there is no principal payment after the lapse of six full months or the collateral are executed shall be transferred to non-accrual loans account item after the six months payment period or after the disposal day of the collateral. However, accrued interest shall continue to be posted to the interest column of the non-accrual loans account for each borrower, or a notation of such shall be made. Interest shall not be accrued to non-performing loans that are transferred to non-accrual loans account item. Any unpaid interest due on a non-performing loan prior to its transfer to a non-accrual loan shall be transferred to the non-accrual loans item together with principal. When there is postponement

or modification of the credit terms for the debtors, the Bank agrees to receive partial interests and the rest of interests are stopped accruing.

(7) Allowance for and write-off of doubtful accounts

The Bank shall classify credit assets on and off balance sheet. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five."

The Bank shall evaluate credit assets on and off balance sheet and shall allocate sufficient loan loss provision and reserves against liability on guarantees. The minimum standard for loan loss provision shall be the sum of 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

According to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the Ministry of Finance, any non-performing loans or non-accrual loans, after subtracting the estimated recoverable portion, that have one of the following characteristics shall be written off:

- 1) The loan cannot be recovered in full or in part because the debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
- 2) The collateral and property of the primary/subordinate debtors have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the bank might collect [from the debtor(s)] where there is no financial benefit in execution.
- 3) The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the bank taking possession of such collateral.
- 4) More than two years have elapsed since the maturity date of the non-performing loans or non-accrual loans, and the efforts of collection have failed.

The write-off of non-performing loans and non-accrual loans shall be authorized by a resolution passed by the Board of Directors, and the supervisors shall be notified. However, when requested by the Competent Authority or a financial examination agency (organization), loans must be immediately written off, a report must be made to the subsequent board meeting, and the supervisors must be notified for acknowledgement.

With regard to the write-off of non-performing loans and non-accrual loans, the amount provided under the loan loss provision or the reserve against liability on guarantees shall be used to offset, and, if such amount is insufficient, the deficiency shall be recognized as a loss in the current year.

As a result of changes in the operating and financial performance of customers and general economic conditions of the market which may have an impact on the debtors' ability to repay their loans, and uncertainties related to the future realization of collateral values, the ultimate losses may be different from the amounts presently estimated and provisioned.

(8) Equity investment under equity method

When the Bank holds 20% or more of an investee company's stock with voting rights, or when the Bank directly or indirectly (e.g. through subsidiaries) has significant influence over the investee's operation and financial policies, the investments are accounted for under the equity method.

When the Bank has control over its investee companies, the investee companies are treated as the subsidiaries. The financial statements of these subsidiaries should be consolidated financial statements when preparing the Bank's consolidated financial statements at the end of the accounting period. However, it is not required to prepare the consolidated statements for the first and the third quarters of financial statements.

The difference between the acquisition cost in an investee company and the Bank's share of net assets of the investee is amortized in 5 years. However, such a difference is no longer amortized since January 1, 2006. Newly acquired difference is analyzed and accounted for in the manner similar to acquisition cost allocation as provided in SFAS No. 25 "Business Combination-Accounting Treatment under Purchase Method," under which goodwill is not amortized.

The cost of long-term equity investment sold is calculated based on the weighted-average method. The gain or loss on disposal of long-term equity investments is recognized as investment income or loss. Stock dividends are not recognized as investment income but recorded as an increase in the number of shares held.

The unrealized gains or losses from intercompany transactions between the Bank and investee companies shall be eliminated. The realized gains or losses resulting from depreciable or amortizable assets are recognized over the useful life of the assets. The unrealized gains or losses from other types of assets are recognized in the year when they are realized.

(9) Fixed assets and depreciation

Fixed assets are stated at acquisition cost or reappraised value. Major renewals, improvements and additions are treated as capital expenditures. After adopting the SFAS No. 35, "Accounting For Asset Impairment", the net book value of fixed assets are stated the cost not only less accumulated depreciation but accumulated impairment.

Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets: Buildings are from five to sixty years; computer, office equipment and other equipment are from three to five years. Fixed assets which are still in use after the estimated useful life are depreciated based on the residual value. Gains or losses on the disposal of property and equipment are recorded as non-interest income or expense.

Property held for lease and property and equipment not in use are stated at the lower of the net book value or net realizable value. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets.

(10) Collaterals and residuals taken over

Real estate taken over from mortgage forfeitures is accounted for as pledged property take-over under "other assets" account and is stated at the lower of the net book value or net realizable value. If the pledged property take over cannot be sold within two years, depreciation is calculated on the straight-line basis over the estimated useful lives of the assets starting at the beginning of the second year.

## (11) Convertible bonds

Due to the inseparability of the conversion option and debt elements of the convertible bonds, the issuer should record total proceeds received for the issuance of the convertible bond solely as a liability.

The direct and necessary costs of issuing convertible bond should be recorded as deferred expenses. The costs should be amortized by using the straight-line method over the period from issuance to maturity or the period from the issuance date to the expiry date, whichever is shorter, and recognized as issuing expenses.

When the holder exercises the conversion option, the convertible bonds should be valued as the fair market price of the common stocks at the exercising date. The difference of the fair market price of the convertible bonds over the par value of the common stocks should be recognized as capital surplus. The unamortized issuing costs should be recorded as a reduction in capital surplus.

The difference between payment and carrying amount of convertible bonds at the early extinguishment date should be recognized as extraordinary losses or gains in the current period, if it is material.

For convertible bonds issued after January 1, 2006, the components of compound financial instrument are separated by the Bank on initial recognition. The liability component is measured first, and the difference between the proceeds of the bond issued and the fair value of the liability components is accounted for as the equity component. The present value of the liability component is calculated using the market interest rate for similar debt without conversion options. The liability component is subsequently measured at amortized cost, and changes in fair value of the equity component are not recognized.

## (12) Reserves

### *Employee retirement and severance benefits*

The Bank established an employee retirement plan in 1968, which has been revised several times and covered substantially all regular employees. The plan provides a lump-sum payment to the retiring employee based on years of service and the employees' average monthly salary at the retirement. According to the plan, if the qualified employee retired before year 2000, there was additional monthly payment based on the 30% of average monthly salary at the time of retirement except for the one off retirement payment.

The Bank has adopted the R.O.C. Labor Standards Laws on May 1, 1997 and set up "Supervisory Committee of Retirement Fund" and informed the social authority. The Bank has made the monthly deposits to the fund in Central Trust of China since July 1998.

The measurement date of the Bank's pension plan was established on the balance sheet date. The Bank accrues pension cost and minimum pension liability when the accumulated benefit obligation exceeds the fair value of the fund assets. Prior service cost and gains or losses on pension plan assets are amortized over the remaining service period. Under the defined contribution scheme, the Bank monthly deposit the pension to each employee's individual pension accounts on the accrual basis and recognized as current expenses.

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 elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.

According to SFAS No. 23 “Presentation and Disclosures for Interim Financial Statements”, pension plan disclosures can be less than the disclosures required by SFAS No.18 “Accounting for Pensions”.

#### *Reserve for losses on trading securities*

According to “Rules Governing Securities Firms”, the provision equal to 10% of the monthly net trading gains is made as a reserve for losses on trading securities until such reserve reaches NT\$200 million. Such reserve can only be used to offset losses on trading securities.

#### *Reserve for losses on default in securities brokerage*

Based on the “Rules Governing Securities Firms”, a provision equal to 0.0028% of monthly brokerage commissions earned is made as a reserve for losses on default until such reserve reaches NT\$200 million. Such reserve can only be used to offset default losses or other purposes as approved and as deemed appropriate by the SFB.

#### *Reserve for losses on guarantee*

The provision for loss on guarantee is determined by evaluating the potential losses of acceptances, guarantees, and letters of credit.

### (13) Derecognition of financial assets and liabilities

#### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in which the transferor surrenders control over those financial assets, and shall be accounted for as a sale.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Bank accounted for the transfer as a borrowing with collateral.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.



### *Retain interests of financial asset securitization*

Under the Regulations for Financial Asset Securitization, the Bank entrusted all the related rights and obligations of its land and buildings mortgage loans to trustees for issues of the related beneficiary certificates. The trustees deliver all proceeds from the issues of beneficiary certificates to the Bank. Thus, the Bank loses its right and control of these loans entrusted; moreover, except for those which are subordinated seller certificates and are retained in order to enhance credit as well as are reclassified as held-to-maturity financial assets, the entrusted loans are removed from the Bank's account, and gain or loss are recognized accordingly.

The fair values of the entrustment assets and retained interests are evaluated at the present value of future cash flows on the basis of the assumptions of credit risk rate, repayment rate, and discount rate on the loans due to no quoted market prices.

The subordinated seller certificates, accounted for as held-to-maturity financial assets, are evaluated at the present value of future cash flows at the balance sheet date due to no quoted market prices. The valuation loss is recorded to reduce interest income, and the valuation gain is not recorded. Interest income from the trustees is recorded when received.

#### (14) Foreign currency transactions

The Bank maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into 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 gain or loss in the current period.

#### (15) Income taxes

The accounting for income taxes requires the recognition of deferred tax liabilities and tax assets for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is likely that some portion or all of the deferred tax assets will not be realized.

Adjustment of prior year's income tax expense is recorded as current period income tax expense in the year of adjustment.

Any tax-adjusted retained earnings, which have not been distributed in the next year, should be subject to an additional tax of 10% under the Integrated Income Tax System. The tax levied should be listed as income tax expense in the year in which the non-distribution decision is made.

The R.O.C. government enacted the Alternative Minimum Tax Act( " AMT Act"), which became effective on January 1, 2006. The alternative minimum tax imposed under AMT Act is a supplement tax levied at a rate of 10% when the income tax payable determined pursuant to the Income Tax Law is below the minimum amount computed under the AMT Act.

#### (16) Assets of impairment

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

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

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

#### (17) Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

##### *Assets carried at amortized cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

##### *Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognized impairment loss can't be reversed in any subsequent period.

##### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### (18) 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 not probable 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.

### (19) Earnings per share of common stock

Earnings per share (EPS) are computed as net income divided by the weighted average number of outstanding shares of common stock. In the calculation of the weighted-average number of shares outstanding, the number of shares outstanding should be retroactively adjusted if the number of shares outstanding increases as a result of stock dividends (capitalization of retained earnings or capital surplus). Contingent shares should be considered as outstanding shares from the date when all necessary conditions have been met and shall be included in the calculation of weighted-average number of common shares outstanding when computing the basic EPS.

## **3. THE REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

The Bank adopted the SFAS No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets for its financial statements beginning on and after January 1, 2005 (the "effective date"). Due to this change in accounting principles, the Bank's assets decreased by NT\$8,317 thousand as of September 30, 2005, and the Bank's net income and earnings per share decreased by NT\$8,317 thousand and NT\$0.0053, respectively, for the nine-month period ended September 30, 2005.

The Bank adopted the SFAS No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments" to account for the financial instruments for its financial statements beginning on and after January 1, 2006 (the "effective date"). Transitional arrangement for instruments outstanding at the effective date is summarized as follows:

At the effective date, the Bank shall remeasure and reclassify financial assets and liabilities that should be measured at fair value or amortized cost as appropriate according to SFAS No. 34. Any resulting adjustment shall be recognize as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

- (1) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss and derivatives designated as fair value hedges.
- (2) A component of equity: for financial assets carried at amortized cost and available-for-sale financial assets.

The above changes in accounting principles increased the Bank's financial assets at fair value through profit or loss and available-for-sale financial assets by NT\$44,626 thousand and NT\$178,840 thousand as of September 30, 2006, respectively, and decreased the Bank's net loss and loss per share by NT\$44,626 thousand and NT\$0.03, respectively, for the nine-month period ended September 30, 2006.

#### 4. CASH AND CASH EQUIVALENTS, DUE FROM BANKS AND CENTRAL BANK OF CHINA

##### (1) Cash and cash equivalents

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Cash on hand	NT\$ 4,519,586	NT\$ 4,337,315
Notes and checks for clearance	167,045	30,526
Due from banks	<u>2,491,832</u>	<u>2,712,339</u>
	NT\$ <u>7,178,463</u>	NT\$ <u>7,080,180</u>

##### (2) Due from banks and Central Bank of China

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Reserve for deposits-category A	NT\$ 4,099,731	NT\$ 4,330,133
Reserve for deposits-category B	9,391,829	8,726,170
Settlement accounts	313,514	427,219
Reserve for deposits-foreign currency	19,859	19,913
Call loans to banks	<u>7,815,035</u>	<u>6,221,393</u>
	NT\$ <u>21,639,968</u>	NT\$ <u>19,724,828</u>

As required by the Banking 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. The “Reserve for Deposits-category B” earns interest but its use is restricted under relevant regulations.

#### 5. FINANCIAL ASSETS OR LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

<u>Trading assets</u>	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Corporate bonds	NT\$ 84,303	NT\$ 175,400
Beneficiary securities	657,126	-
Government bonds	447,494	298,084
Commercial bonds	-	33,188
Stocks	133,993	139,663
Mutual funds	520,667	1,973,426
Certificates of deposits	876,224	283,249
Acceptances	8,793	-
Commercial paper	20,312,927	7,254,008
Buy option contacts	11,289	22,390
Forward contacts	21,581	116,620
Cross currency swap contacts	74,904	41,780
Swap contacts	689	-
Interest rate swap contacts	<u>32,861</u>	<u>-</u>
	NT\$ <u>23,182,851</u>	NT\$ <u>10,337,808</u>
<u>Trading liabilities</u>	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Sell option contacts	NT\$ 10,587	NT\$ 22,390
Forward contacts	26,120	71,550
Interest rate swap contacts	<u>28,006</u>	<u>-</u>
	NT\$ <u>64,713</u>	NT\$ <u>93,940</u>



The purposes of trading derivative instruments of the Bank are primarily to hedge risks resulting from exchange rate and interest rate floating and to provide hedging instruments to customers. The Bank's strategy of financial hedging is trying to hedge most risks from changes in fair value and variability in cash flow.

The Bank's derivatives contacts in outstanding were as follows:

<u>Financial instruments</u>	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Buy option contacts	NT\$2,274,007	NT\$2,106,201
Sell option contacts	2,274,007	2,106,201
Forward contacts	17,183,627	7,493,653
Cross currency swap contacts	1,369,300	1,369,300
Swap contacts	231,651	-
Interest rate swap contacts	5,573,207	-
Interest rate swap contacts of assets	-	1,080,312

For the nine-month periods ended September 30, 2006 and 2005, gain (loss) on trading financial assets at fair value through profit or loss amounted to NT\$79,282 thousand and NT\$382,381 thousand, respectively, and gain (loss) on trading financial liabilities at fair value through profit or loss amounted to NT\$(15,433) thousand and NT\$0 thousand, respectively.

## 6. RECEIVABLES, NET

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Accounts receivables	NT\$ 5,232,020	NT\$ 5,331,558
Acceptance receivables	705,374	529,831
Interest receivables	1,412,374	1,125,195
Tax refund receivables	386,708	359,204
Other receivables-credit card	2,259,962	2,693,468
Other receivables	<u>453,143</u>	<u>452,830</u>
	10,449,581	10,492,086
Less: allowance for doubtful accounts	<u>(483,344)</u>	<u>(451,814)</u>
	NT\$ <u>9,966,237</u>	NT\$ <u>10,040,272</u>

## 7. LOANS AND BILLS DISCOUNTED

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Bills negotiated and discounted	NT\$ 228,906	NT\$ 249,643
Short-term loans and overdraft	25,763,038	24,634,170
Short-term secured loans and overdraft	18,331,538	10,523,202
Medium-term loans	74,719,889	63,641,293
Medium-term secured loans	32,334,602	26,409,756
Long-term loans	10,148,711	9,315,627
Long-term secured loans	131,283,959	127,374,545
Non-accrual loans	<u>4,608,478</u>	<u>5,357,715</u>
	297,419,121	267,505,951
Less: allowance for doubtful accounts	<u>(2,733,725)</u>	<u>(3,781,945)</u>
	NT\$ <u>294,685,396</u>	NT\$ <u>263,724,006</u>

## (1) Allowance for doubtful accounts

	September 30, 2006			
	Unrecovery risk for particular loans	Country risk	Unrecovery risk for the overall loan portfolio (excluding the particular loans)	Total
Beginning balance	NT\$ 2,384,399	NT\$ -	NT\$ 928,677	NT\$ 3,313,076
Provision for loan losses and doubtful receivable	5,877,382	-	909,777	6,787,159
Write-off	<u>5,937,212</u>	<u>-</u>	<u>933,349</u>	<u>6,870,561</u>
Ending balance	NT\$ <u>2,324,569</u>	NT\$ <u>-</u>	NT\$ <u>905,105</u>	NT\$ <u>3,229,674</u>

	September 30, 2005			
	Unrecovery risk for particular loans	Country risk	Unrecovery risk for the overall loan portfolio (excluding the particular loans)	Total
Beginning balance	NT\$ 2,722,632	NT\$ -	NT\$ 831,910	NT\$ 3,554,542
Provision for loan losses and doubtful receivable	1,830,146	-	306,878	2,137,024
Write-off	<u>1,302,520</u>	<u>-</u>	<u>122,039</u>	<u>1,424,559</u>
Ending balance	NT\$ <u>3,250,258</u>	NT\$ <u>-</u>	NT\$ <u>1,016,749</u>	NT\$ <u>4,267,007</u>

The Bank received NT\$705,018 thousand and NT\$658,744 thousand from write-off loans during the nine-month periods ended September 30, 2006 and 2005, respectively, and recorded them as non-interest incomes.

The balances of loans with interest charges suspended were NT\$7,096,813 thousand and NT\$6,293,980 thousand as of September 30, 2006 and 2005, respectively. In case of continuing charging interests, the balances of interest receivable computed from these loans were NT\$767,171 thousand and NT\$1,534,791 thousand on September 30, 2006 and 2005, respectively.

(2) The Bank had not written off any loans without launching any legal actions.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	(‘000) Sep. 30, 2006	(‘000) Sep. 30, 2005
Government bonds	NT\$ 6,721,102	NT\$ 7,962,920
Corporate bonds	3,230,865	1,000,000
Commercial bonds	2,547,828	2,350,756
Beneficiary securities	714,790	53,100
Stocks	229,133	84,137
Mutual funds	<u>270,654</u>	<u>-</u>
	NT\$ <u>13,714,372</u>	NT\$ <u>11,450,913</u>

For the operations in the settlement of commercial paper trading activities through the R.O.C. OTC Securities Exchange, the Bank provided the available-for-sale financial assets of NT\$131,719 thousand for its settlement activities as of September 30, 2005.

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Government bonds	NT\$ 8,971,951	NT\$ 4,898,201
Corporate bonds	6,121,527	3,255,462
Commercial bonds	4,599,618	1,040,000
Certificates of deposits	17,500,000	39,500,000
Beneficiary securities	<u>4,712,342</u>	<u>-</u>
	NT\$ <u>41,905,438</u>	NT\$ <u>48,693,663</u>

As of September 30, 2006 and 2005, the Bank had deposited held-to-maturity financial assets in amounts of NT\$868,232 thousand and NT\$945,561 thousand, respectively, for filing attachment against debtors to courts.

In accordance with the R.O.C. Trust Law, the Bank is required to deposit held-to-maturity financial assets to secure its trust operations. As of September 30, 2006 and 2005, the Bank had NT\$47,320 thousand and NT\$46,640 thousand of deposit in the Central Bank of China for this purpose, respectively.

In accordance with the R.O.C. "Regulation Governing Administration of Bills Finance", the Bank is required to make a deposit for its bill finance operations. Accordingly, as of September 30, 2006 and 2005, the Bank had provided the held-to-maturity financial assets of NT\$47,320 thousand and NT\$46,640 thousand, respectively, for this purpose.

In accordance with "Rules Governing Securities Firm", the Bank, as a security agent, is required to make a deposit for its operation. As of September 30, 2006 and 2005, the Bank had deposited NT\$208,210 thousand and NT\$195,886 thousand, respectively, in the Bank of Taiwan.

In accordance with "Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms", the Bank is required to make a deposit for its future trading operation. As of September 30, 2006 and 2005, the Bank had deposited NT\$56,784 thousand and NT\$46,640 thousand, respectively, in the Bank of Taiwan.

In accordance with the rule set by the Central Bank of China, the Bank is required to deposit sufficient guaranty for daytime overdraft to the Central Bank of China. As of September 30, 2006 and 2005, the Bank had pledged certificates of deposits amounted to NT\$3,000,000 thousand and NT\$2,500,000 thousand, respectively, in the Central Bank of China, and the interest rate of these certificates of deposits were to 1.67% and 1.44%, respectively, and the maturity date are on October 17, 2006 and January 5, 2006, respectively.

For the operations in the settlement of commercial paper trading activities through the R.O.C. OTC Securities Exchange, the Bank provided the held-to-maturity financial assets of NT\$130,052 thousand for its settlement activities as of September 30, 2006.



For issuance of the related beneficiary certificates of home mortgage, the Bank provided the held-to-maturity financial assets of NT\$844,174 thousand pledged as security to the Calyon Bank Taipei Branch as of September 30, 2006.

In December 2005, the carrying value of NT\$12,005,275 thousand of the land and buildings mortgage loans was entrusted by the Bank to the Deutsche Bank AG, Taipei Branch for issuance of beneficiary certificates. The Deutsche Bank AG, Taipei Branch issued both “Investor Certificate” and “Seller Certificate” amounted to NT\$10,204,484 thousand and NT\$1,800,791 thousand, respectively. The issuing period of beneficiary certificates is from December 20, 2005 to July 20, 2027.

In September 2006, the carrying value of NT\$13,234,322 thousand of the land and buildings mortgage loans was entrusted by the Bank to the Deutsche Bank AG, Taipei Branch for issuance of beneficiary certificates. The Deutsche Bank AG, Taipei Branch issued both “Investor Certificate” and “Seller Certificate” amounted to NT\$10,322,771 thousand and NT\$2,911,551 thousand, respectively. The issuing period of beneficiary certificates is from September 20, 2006 to the trust distributions-date in January 2028.

As of the first and the second issuance, the Bank held the subordinated seller certificates of NT\$1,800,791 thousand and NT\$2,911,551 thousand, respectively, recorded as held-to-maturity financial assets, with the right on interests in excess of the fixed amount paid to investors. If debtors fail to repay the entrusted loans, investors and the Deutsche Bank AG, Taipei Branch has no right of recourse to the Bank. The Bank's right to the repayment of the loans entrusted as subordinated seller certificates is subsequent to the investors, and the value of these subordinated seller certificates is affected by credit risk, prepayment rate, and changes in interest rate on those transferred loans.

(a) Key assumptions used in measuring retained interests

	<u>Jan. 1~Sep. 30, 2006</u>	
	<u>First</u>	<u>Second</u>
Prepayment rate (annual rate)	30%	20%
Weighted-average life	3.14 years	5.30 years
Expected credit losses rate (annual rate)	1.50%	1.50%
Discounted rate for residual cash flows	2.60%	2.73%

(b) Sensitivity analysis

As of September 30, 2006, if the key economic assumptions were below and the related assumptions were adversely changed to 10% and 20%, respectively, the sensitivity of the current fair value of residual cash flows was as follows:

	<u>Jan. 1~Sep. 30, 2006</u>	
	<u>First ('000)</u>	<u>Second ('000)</u>
Carrying amount of retained interest	NT\$ 1,838,164	NT\$ 3,006,000
Weighted-average life	3.14 years	5.30 years
Prepayment rate	30%	20%
Impact on fair value of 10% adverse change	NT\$ (10,526)	NT\$ (42,040)
Impact on fair value of 20% adverse change	NT\$ (19,448)	NT\$ (92,490)
Expected credit losses rate (annual rate)	1.50%	1.50%
Impact on fair value of 10% adverse change	NT\$ (7,094)	NT\$ (20,700)
Impact on fair value of 20% adverse change	NT\$ (14,189)	NT\$ (41,400)

(c) There was no actual credit loss for the securitized mortgage loan; thus, the expected static pool credit loss rate was equal to expected credit loss rate.

(d) Cash flows

The cash flows received from or paid to securitization trusts of the nine-month periods ended September 30, 2006 were summarized as follows:

	Jan. 1~Sep. 30, 2006	
	FIRST('000)	SECOND('000)
Other cash flows received on retained interests	NT\$ 30,087	NT\$ -
Cash reserve (part of refundable deposits)	NT\$ 2,666	NT\$ -
Cash received on new securitization	NT\$ -	NT\$13,234,322
Cash received on pad of payment service	NT\$ 285	NT\$ -

## 10. EQUITY INVESTMENT UNDER EQUITY METHOD

Name	September 30, 2006		September 30, 2005	
	Percentage of share holding(%)	Amount ('000)	Percentage of share holding(%)	Amount ('000)
Hsin-Chu Real Estate Co., Ltd.	60	NT\$ 201,717	60	NT\$ 187,585
Hsin-Chu Futures Co., Ltd.	89	267,198	89	265,911
Hsin-Chu Insurance Agent Co., Ltd.	100	638,304	100	776,889
Chu-Chiann Insurance Agent Co., Ltd.	100	37,009	100	36,365
Paradigm Assets Management Co., Ltd. (The former name was Chung-Shing Assets Management Co., Ltd.)	20	102,712	20	75,993
		NT\$ <u>1,246,940</u>		NT\$ <u>1,342,743</u>

For the nine-month periods ended September 30, 2006 and 2005, the Bank recognized investment income by equity method amounted to NT\$152,003 thousand and NT\$379,476 thousand, respectively. The investment incomes under the equity method were calculated based on the unreviewed financial statements furnished by the investee companies.

In April 2006, the Bank invested in the cash issuance of preferred stocks of Paradigm Assets Management Co., Ltd, which is approved by the Financial and Supervisory Commission (FSC), amounted to NT\$38,400 thousand.

## 11. OTHER FINANCIAL ASSETS

	( '000)	( '000)
	Sep. 30, 2006	Sep. 30, 2005
Assets carried at cost	NT\$ 385,587	NT\$ 473,660
Exchange bills negotiated	13,700	2,531
Other non-accrual loans	12,605	33,248
Less: allowance for doubtful accounts	(12,605)	(33,248)
	NT\$ <u>399,287</u>	NT\$ <u>476,191</u>

The assets carried at cost were as follows:

	<u>September 30, 2006</u>		<u>September 30, 2005</u>	
	Percentage of share holding(%)	(‘000) <u>Amount</u> NT\$	Percentage of share holding(%)	(‘000) <u>Amount</u> NT\$
Taiwan Small and Medium Enterprises Development Co., Ltd.	5	29,000	5	29,000
Universal Venture Fund Co., Ltd.	5	21,905	5	38,096
Windance Co., Ltd.	3	188,500	3	188,500
Mondex Taiwan Co., Ltd.	3	2,468	7	8,000
TSC Bio Ventures Capital Co., Ltd.	5	20,250	5	20,250
Others (percentage of shares held under 5 % or amount under NT\$100,000 thousand)	-	159,091	-	189,814
Less : accumulated of impairment loss		<u>(35,627)</u>		<u>-</u>
		NT\$ <u>385,587</u>		NT\$ <u>473,660</u>

Due to the merger of the Debt Instruments Depository and Clearing Co., Ltd. Taiwan (“DIDC”), the investee company of the Bank, and Taiwan Securities Central Depository Co., Ltd. (“TSCD”), TSCD, the acquiring company, acquired the equity ownership of DIDC by issuing stocks and paying cash. Consequently, the Bank obtained TSCD’s stocks for 460 thousand shares, representing ownership approximate 0.17%, and cash for NT\$30,722 thousand in exchange of the DIDC’s stocks; furthermore, the carrying amount of investment in DIDC has been written off since then.

In June 2006 and April 2005, the general shareholders' meeting of Mondex Taiwan Co., Ltd. resolved to decrease its capital. The Bank recognized the investment loss NT\$5,532 thousand and NT\$17,000 thousand in proportion to the Bank's holding interest, respectively, and recorded them as non-interest losses.

In June 2006 and June 2005, the general shareholders' meeting of Universal Venture Fund Co., Ltd. resolved to decrease its capital and return the capital to the shareholders. The Bank recognized the investment loss NT\$ 0 and NT\$15,936 thousand in proportion to the Bank's holding interest, respectively, and recorded them as non-interest losses.

## 12. FIXED ASSETS AND OTHER ASSETS

The Bank had revalued its land and buildings several times since 1974. The latest revaluation was made for land on July 31, 1992. The details of the revaluation increment were as follows:

	<u>September 30, 2006</u>		<u>September 30, 2005</u>	
	<u>Land</u>	(‘000) <u>Buildings</u>	<u>Land</u>	(‘000) <u>Buildings</u>
Fixed assets	NT\$ 505,866	NT\$ 10,407	NT \$ 505,866	NT\$ 10,407
Other assets	<u>180,961</u>	<u>-</u>	<u>180,961</u>	<u>-</u>
	NT\$ <u>686,827</u>	NT\$ <u>10,407</u>	NT\$ <u>686,827</u>	NT\$ <u>10,407</u>

As of September 30, 2006 and 2005, reserve for land revaluation increment taxes both amounted to NT\$285,112 thousand, recorded as other liabilities.

In January 2005, the Bank sold the land and building located in No.193 and 193-9, San Zuo Wu Section, She Siao Subsection, Chongli City to a non-related party. The contract price was NT\$26,500 thousand and the gain on disposal, net of book value and the related expenses, was NT\$21,761 thousand (including the reversal of reserve for asset revaluation increment taxes and capital surplus of NT\$14,294 thousand).

In June 2005, the Bank sold the land and building located in No.110, Tao-Uan Section, Wo-Lin Subsection, Tao-Uan City to a non-related party. The contract price was NT\$7,434 thousand and the loss on disposal, net of book value and the related expenses, was NT\$1,891 thousand.

Please refer to Note 27 (2). 10 and 11 for the assets transactions between the Bank and its related parties, Chu-Cherng Construction Co., Ltd. and Hsin-Chu Insurance Agent Co., Ltd.

### 13. OTHER ASSETS

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Prepayments	NT\$ 65,879	NT\$ 38,350
Idle assets-land	72,766	72,766
Idle assets buildings, net	42,035	43,656
Less: accumulated of impairment loss	(8,317)	(8,317)
Rental real estate-land	796,767	796,767
Rental real estate buildings, net	1,057,413	1,082,985
Less: accumulated of impairment loss	(2,513)	-
Guarantee deposit	954,027	1,363,659
Pledged properties taken over-land	678,395	843,164
Pledged properties taken over-buildings, net	876,239	1,033,267
Less: accumulated of impairment loss	(582,717)	(438,958)
Temporary payments and suspense accounts	59,627	92,394
Deferred tax assets, net	897,274	638,715
Deferred retirement pension cost	169,329	113,619
Others	<u>5,530</u>	<u>44,725</u>
	NT\$ <u>5,081,734</u>	NT\$ <u>5,716,792</u>

Per lease agreements, entered by the Bank and tenants for the Bank's commercial buildings, existing as of September 30, 2006, the leasing terms were ranging from one to ten years. And the minimum discounted rental incomes per all lease agreements were as follows:

<u>Period</u>	('000) <u>Amount</u>
Oct.1, 2006 to Sep. 30, 2007	NT\$ 45,108
Oct.1, 2007 to Sep. 30, 2008	38,535
Oct.1, 2008 to Sep. 30, 2009	32,735
Oct.1, 2009 to Sep. 30, 2010	26,552
Oct.1, 2010 to Sep. 30, 2011	22,227
Oct.1, 2011 and thereafter	16,714 (Net present value is NT\$14,828 thousand)

Part of the Bank's building which is located in Jung-Yang Rd., Hsin-Chu City has been rented to Hsin-Chu Chinatrust Hotel. The rental contract contains a variable rent with corresponding to the revenue of the hotel.

#### 14. DUE TO BANKS AND CENTRAL BANK OF CHINA

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Due to banks	NT\$ 14,144	NT\$ 19,372
Time deposits from Chunghwa Post	11,823,513	12,826,115
Overdrafts on banks	24,147	79,661
Call loans from banks	<u>3,700,000</u>	<u>5,850,000</u>
	NT\$ <u>15,561,804</u>	NT\$ <u>18,775,148</u>

#### 15. PAYABLES

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Notes collected for others	NT\$ 229,803	NT\$ 591,254
Accounts payables	938,207	608,195
Accrued expense	579,640	439,022
Acceptances	706,122	541,167
Accrued income taxes	736	1,394
Accrued interest	1,379,448	1,098,958
Collected for others	999,249	1,196,785
Other payables :		
Transactions incurred after working hours	25,010	120,861
Foreign trust fund	543,693	66,116
Suspension accounts	56,762	56,005
Cross bank account transfer handling charge	24,348	38,270
Others	<u>222,092</u>	<u>242,816</u>
	<u>871,905</u>	<u>524,068</u>
	NT\$ <u>5,705,110</u>	NT\$ <u>5,000,843</u>

#### 16. CUSTOMER DEPOSITS AND REMITTANCES PAYABLE

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Savings deposits	NT\$ 242,830,565	NT\$ 231,818,478
Time deposits	68,186,187	44,442,979
Demand deposits	36,720,041	34,012,071
Checking accounts	4,097,921	3,422,749
Remittances payable	<u>68,601</u>	<u>76,007</u>
	NT\$ <u>351,903,315</u>	NT\$ <u>313,772,284</u>

As of September 30, 2006 and 2005, the Bank has issued transferable time deposits amounted to NT\$10,266,000 thousand and NT\$3,029,000 thousand, respectively.

#### 17. BONDS PAYABLE

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Subordinated debentures	NT\$ 18,000,000	NT\$ 18,000,000
Convertible bonds	<u>559,356</u>	<u>3,650,680</u>
	NT\$ <u>18,559,356</u>	NT\$ <u>21,650,680</u>

(1) Subordinated debentures

Bond	Issue conditions	('000)	
		Sep. 30, 2006	Sep. 30, 2005
91-1 A	5-year term, interest payable semi-annually, annual interest rate for the first 3 years is 4.25%, and 4.5% for the last 2 years, maturity date : July 19, 2007	NT\$ 6,067,400	NT\$ 6,067,400
91-1 B	5-year term, interest payable semi-annually, base on the Banks' variable one year regular rate +1.75%, maturity date : July 19, 2007	972,600	972,600
91-1 C	5-year term, interest payable semi-annually, base on the Banks' variable one year regular rate +1.75%, maturity date : July 19, 2007	400,000	400,000
91-1 D	5-year term, interest payable semi-annually, base on the Banks' variable one year regular rate +1.75%, maturity date : July 19, 2007	320,000	320,000
91-1 E	5-year term, interest payable semi-annually, annual interest rate for the first 3 years is 4.25%, and 4.5% for the last 2 years, maturity date : July 19, 2007	240,000	240,000
94-1	No maturity date, interest payable semi-annually, base on the average variable one year regular rate of the big nine banks' +1.493%	7,636,700	7,636,700
94-2	No maturity date, interest payable semi-annually, base on the average variable one year regular rate of the big nine banks' +1.493%	<u>2,363,300</u>	<u>2,363,300</u>
		NT\$ <u>18,000,000</u>	NT\$ <u>18,000,000</u>

The Bank's Board of Directors resolved the issuance of the first term of subordinated debentures in a total amount of NT\$8,000,000 thousand on April 2, 2002, which was approved on June 27, 2002 by the MOF, and the subscription was completed in July 2002. Besides, trading of these debentures has begun since September 2, 2002.

The Bank's Board of Directors resolved the issuance of the non-maturity date accumulated subordinated debentures at the total amount of NT\$10,000,000 thousand on October 26, 2004. The SFB approved the issuance on January 3, 2005, and the subscription was completed on January 28, 2005. Besides, trading of these debentures has begun since April 6, 2005.

(2) Convertible bonds

The details of the convertible bonds payable were as follows:

Original issue size (US\$110,000 thousand)	('000)	
	Sep. 30, 2006	Sep. 30, 2005
	NT\$ <u>559,356</u>	NT\$ <u>3,650,680</u>

In order to improve the Bank's financial structure, the Board of Directors authorized the issuance of the Global Convertible Bonds "the Bonds" on March 19, 2004. The related issuing conditions were as follows:

(A) Issue size

Up to US\$110 million in principal amount.

(B) Form, denomination and issue price

The Bonds will be issued at 100% of the principal amount in global registered form in denominations of US\$1,000 or integral multiples thereof and will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank.

(C) Issue date

May 13, 2004.

(D) Redemption on the maturity date

Unless previously redeemed, purchased and cancelled or converted, the Bonds will be redeemed on the maturity date at a price equal to 98.50897% of the unpaid principal amount of the Bonds. The maturity date will be 5 years after the issue date.

(E) Coupon rate

The indicative coupon for the Bonds is 0% per annum.

(F) Conversion

- (a) Unless previously redeemed, purchased and cancelled or converted and except during a period in which conversion is prohibited by law, the Bondholders may, at any time from the 31st day after the issuance of the Bonds to the date 10 days prior to the maturity date.
- (b) Before September 30, 2006, the Bank and the Lead Manager, in view of market conditions on the pricing date, may jointly determine to adopt a Contingent Conversion Feature. If a Contingent Conversion Feature is adopted, for the bondholders to exercise the conversion rights before certain anniversary of the Bonds (to be determined on the Pricing Date), the closing price of common shares shall exceed the contingent conversion trigger for at least 20 trading days out of the last 30 consecutive trading days in the preceding quarter.

(G) Redemption at the option of the issuer

- (a) The Bank may redeem the Bonds in whole or in part, beginning 2 years after the issue date at par provided that each of the closing price of the common shares of the Bank on the Taiwan Stock Exchange Corporation (TSEC) translated into US dollars at the prevailing rate for a period of 20 consecutive trading days is or exceeds 120% of the conversion price then in effect translated into US dollars at a fixed exchange rate set on the pricing date;
- (b) The Bank may redeem the Bonds in whole at par at any time if at least 95% in principal amount of the Bonds have already been redeemed, converted, or purchased and cancelled; or

(c) If as a result of changes relating to tax laws in the R.O.C., the Bank becomes obligated to pay additional amounts, the Bonds may be redeemed at any time at the option of the issuer, in whole but not in part, at a price of par.

(H) Conversion securities

The Bonds will be converted into newly issued common shares of the Bank. However, if the Bank sets up a global depositary receipts (“DR”) program in the future, the Bondholders may elect to convert the Bonds into DRs of the Bank after the Bank obtains SFC approvals.

(I) Conversion price

The conversion price is NT\$22.4 per common share, at the premium of 33% above the closing price of common shares on the pricing date. In addition, due to the appropriation of year 2004 earnings, the conversion price adjusted to NT\$20.25 per common share since August 24, 2005.

In May 2006, the Bank redeemed the Bonds at a price equal to 99.4009% of the unpaid principal amount of the Bonds. The difference between payment and carrying amount of the Bonds was NT\$18,177 thousand, recognized as non-interest income.

## 18. OTHER LIABILITIES

	(‘000) Sep. 30, 2006	(‘000) Sep. 30, 2005
Advance receipts	NT\$ 19,435	NT\$ 33,633
Reserve for land revaluation increment taxes	285,112	285,112
Reserve for losses on guarantee	62,157	62,157
Reserve for losses on default in securities brokerage	56,642	50,487
Reserve for losses on trading securities	-	34,066
Guarantee deposits received	92,058	97,360
Temporary receives and suspense accounts	614,137	754,860
Other	23,934	23,090
	NT\$ <u>1,153,475</u>	NT\$ <u>1,340,765</u>

## 19. EMPLOYEE RETIREMENT BENEFITS

	(‘000) Jan. 1 ~ Sep. 30, 2006	(‘000) Jan. 1 ~ Sep. 30, 2005
Pension expense	NT\$ <u>300,611</u>	NT\$ <u>216,590</u>
	Sep. 30, 2006	Sep. 30, 2005
Balance of pension fund in the Central Trust of China	NT\$ <u>1,385,026</u>	NT\$ <u>1,229,774</u>
Accrued pension liabilities	NT\$ <u>-</u>	NT\$ <u>-</u>



**20. SHAREHOLDERS' EQUITY**

(1) Capital surplus and reserve

The R.O.C. Company Law provides that capital surplus may only be used to offset accumulated deficit or to increase capital.

According to the Securities Exchange Law and other related regulations, the total capital surplus transferred to capital cannot exceed 10 percentage of issued capital every year. The capital surplus can be used to increase the capital in the next year after the transfer is approved by the authorities concerned.

According to SFB, the companies listed in the open market should set aside a statutory reserve when distributing the earnings. They should also conform with Securities Exchange Law No.41 and a FSC's announcement (Reference number : 0950000507), which requires the companies to appropriate a special reserve from the current year's net income and prior years' unappropriate earnings with the amount equal to the total of any contra amounts (contra amounts may include unrealized gain or loss on available-for-sale financial assets and cumulative translation adjustments, etc.) in the shareholder's equity occurred in the year. For the contra amounts in the shareholder's equity occurred in prior years, the special reserve should be appropriated from the prior years' unappropriated earnings and cannot be distributed. If the contra amounts of shareholder's equity are reversed, the special reserve could be distributed.

According to the Bank's Articles of Incorporation, the Bank's net earnings are to be used to pay income taxes and offset against accumulated deficits, if any; 30% of the balance shall be set aside as statutory reserve before appropriation of earnings. Appropriation should be made after special reserve was made:

Stockholders' dividends and bonus	90%
Directors and supervisors' remuneration	5%
Employee profit sharing	5%

(2) Dividend policy

In order to increase the profitability, expand the sales, and maintain the risk-based capital ratio, the dividend policy of the Bank in the future should follow the capital budgeting plan of the Bank. Stock dividend will be distributed first in order to retain sufficient capital, and the surplus will be distributed in the form of cash dividend, which must not be less than 10 percent of the total dividends. However, the Bank could issue stock dividends instead, if cash dividends are lower than NT\$0.1 per share.

On June 10, 2005, the general shareholders' meeting resolved to make a distribution of earnings for the year 2004. The distribution includes NT\$842,285 thousand of statutory reserve, NT\$569,447 thousand of cash dividends, NT\$1,423,616 thousand of stock dividends, NT\$110,725 thousand of directors and supervisors' remuneration, NT\$25,145 thousand of employee cash dividends and NT\$85,581 thousand of employee stock dividends. The above capital increase was authorized by the SFB on July 7, 2005, and the Board of Directors set August 24, 2005 to be the date for stock distribution and capital increase. The legal registration has been completed on September 8, 2005.

The 2004 earnings distributed as employees bonus and the director and supervisors' remuneration was as follows:

(Number of shares and amounts are in thousands, except per share)

	The resolution of the general shareholders' meeting	The resolution of the Bank's Board of Directors	Difference
Distribution:			
(a) Employee cash bonus	NT\$ 25,145	NT\$ 25,145	-
(b) Employee stock bonus			
Amount	85,581	85,581	-
Number of shares	8,558	8,558	-
Percentage of share outstanding	0.6%	0.6%	-
(c) Directors and supervisors' remuneration	110,725	110,725	-
Earning per share:			
Original earning per share	1.99	1.99	-
The projected earning per share after distributing employee cash bonus and director and supervisors' remuneration	1.84	1.84	-

On June 9, 2006, the general shareholders' meeting resolved to make a distribution of earnings for the year 2005. The distribution includes NT\$957,257 thousand of statutory reserve, NT\$12 thousand of special reserve, NT\$472,361 thousand of stock dividends, NT\$1,574,536 thousand of cash dividends, NT\$113,716 thousand of directors and supervisors' remuneration, NT\$91,998 thousand of employee cash dividends and NT\$21,718 thousand of employee stock dividends. The above capital increase has been authorized by the SFB on July 3, 2006 and the Board of Directors set August 14, 2006 to be the date for stock distribution and capital increase.

The 2005 earnings distributed as employees bonus and the director and supervisors' remuneration was as follows:

(Number of shares and amounts are in thousands, except per share)

	The resolution of the general shareholders' meeting	The resolution of the Bank's Board of Directors	Difference
Distribution:			
(a) Employee cash bonus	NT\$ 91,998	NT\$ 91,998	-
(b) Employee stock bonus			
Amount	21,718	21,718	-
Number of shares	2,172	2,172	-
Percentage of share outstanding	0.13%	0.13%	-
(c) Directors and supervisors' remuneration	113,716	113,716	-
Earning per share:			
Original earning per share	2.03	2.03	-
The projected earning per share after distributing employee cash bonus and director and supervisors' remuneration	1.88	1.88	-

Information of distributions resolved within general meetings of shareholders can be found in “Market Observation Post System” (<http://mops.tse.com.tw> of the TSEC).

## 21. FEE AND COMMISSION INCOME, NET

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Fee and commission income	NT\$ 2,196,584	NT\$ 1,875,732
Fee and commission expense	<u>(181,828)</u>	<u>(150,082)</u>
	NT\$ <u>2,014,756</u>	NT\$ <u>1,725,650</u>

## 22. GAIN ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS, NET

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Dividends from financial assets at fair value through profit or loss	NT\$ 5,151	NT\$ 4,116
Gain on disposal of financial assets and liabilities at fair value through profit or loss , net	80,680	336,707
Gain on valuation of financial assets and liabilities at fair value through profit or loss , net	<u>(21,981)</u>	<u>41,558</u>
	NT\$ <u>63,850</u>	NT\$ <u>382,381</u>

## 23. OTHER NON-INTEREST INCOME, NET

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Securities brokerage income	NT\$ 151,992	NT\$ 103,860
Rental income	68,512	71,327
Gains on property exchange	75	10,635
Loss on disposal of assets	(3,095)	(3,170)
Recovered bad and overdue accounts	713,610	665,256
Gain (loss) on assets carried at cost	12,681	(14,674)
Provision for other reserves	(4,733)	(36,627)
Loss on sale of pledged properties taken over	(51,686)	(280,846)
Miscellaneous income (expenses)	<u>87,774</u>	<u>(9,456)</u>
	NT\$ <u>975,130</u>	NT\$ <u>506,305</u>

## 24. PERSONNEL EXPENSE, DEPRECIATION EXPENSE AND AMORTIZATION

The Bank's personnel expense, depreciation expense and amortization were summarized as follow:

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Personnel expense		
Salary expense	NT\$ 1,926,141	NT\$ 1,740,468
Insurance expense	126,126	102,747
Pension expense	300,611	216,590
Depreciation expense	410,493	350,230
Amortization	1,761	3,897

## 25. INCOME TAXES AND THE INTEGRATED INCOME TAX SYSTEM INFORMATION

### (1) Income taxes

The Bank is subject to the maximum income tax rate of 25 percent. The tax provisions (credit) for income taxes were summarized below:

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Current income tax expense	NT\$ 83,018	NT\$ 112,408
Deferred income tax provisions (credit)	<u>(303,906)</u>	<u>(36,286)</u>
	NT\$ <u><u>(220,888)</u></u>	NT\$ <u><u>76,122</u></u>

The reconciliation from income taxes at the statutory income tax rate to the income tax reported in the accompanying financial statements was summarized as follows:

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Income tax at statutory rate	NT\$ (496,772)	NT\$ 661,846
Undeductible tax expense of the overseas income	562	2,620
Offshore banking unit tax-exempt income	(6,145)	(29,503)
Exempt gain from securities trading	(2,037)	(94,476)
Unrealized gain on financial assets and liabilities at fair value through profit or loss	5,495	-
Loss on disposal of lands	7,216	30,752
20% preferential tax effect on certain interest income	(38,620)	(26,734)
Investment income recognized under the equity method	(38,028)	(94,120)
Prior years' income tax adjustments	227,060	3,063
Prior years' loss carry forwards adjustments	103,240	-
Tax credit on employee training expenditure	(3,405)	(5,534)
Other tax reconciling items	87,417	(371,792)
Change in allowance for deferred tax assets	<u>(66,871)</u>	<u>-</u>
	NT\$ <u><u>(220,888)</u></u>	NT\$ <u><u>76,122</u></u>

The deferred income tax provisions (credit) were as follows:

	('000)	('000)
	<u>Jan. 1~Sep. 30, 2006</u>	<u>Jan. 1~Sep. 30, 2005</u>
Investment (loss) income recognized under the equity method	NT\$ (27)	NT\$ 748
Provision (recovery) of allowance for bad-debt in excess of tax limit	294,229	(147,995)
Recovery (provision) for other reserves	11,347	(9,157)
Recovery for pledged properties taken over	41,732	53,229
Recovery for asset impairment	-	(2,079)
Realized (unrealized) gain on inter-affiliate accounts	30	(1,592)
Prior years' loss carry forwards adjustments	103,240	-
Loss carry forwards	(684,181)	28,598
Tax credit on employee training expenditure	(3,405)	8,012
Change in allowance for deferred tax assets	<u>(66,871)</u>	<u>33,950</u>
	NT\$ <u><u>(303,906)</u></u>	NT\$ <u><u>(36,286)</u></u>

The deferred income tax assets were as follows:

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Deferred tax assets	NT\$ 1,425,373	NT\$ 1,279,023
Allowance for deferred tax assets	<u>(528,099)</u>	<u>(640,308)</u>
Deferred tax assets, net	NT\$ <u>897,274</u>	NT\$ <u>638,715</u>

The temporary differences and their effects on deferred income tax assets were as follows:

	('000)		('000)	
	<u>Sep. 30, 2006</u>		<u>Sep. 30, 2005</u>	
	<u>Amount</u>	<u>Income tax effect</u>	<u>Amount</u>	<u>Income tax effect</u>
Deferred tax assets:				
Investment loss recognized under the equity method	NT\$ 53,476	NT\$ 13,369	NT\$ 54,764	NT\$ 13,691
Bad debts expense over limitation	155,620	38,905	1,476,013	369,004
Provision of reserve for default in securities brokerage	56,642	14,160	50,841	12,710
Provision of reserve for loss in securities trading	-	-	34,066	8,517
Market value decline of pledged properties taken over	582,717	145,679	438,958	109,739
Impairment loss	10,830	2,708	8,317	2,079
Unrealized gains on inter-affiliate transactions	6,207	1,552	6,370	1,592
Loss carry forwards	4,822,382	1,205,595	3,046,764	761,691
Tax credit on employee training expenditure	11,351	<u>3,405</u>	-	<u>-</u>
		NT\$ <u>1,425,373</u>		NT\$ <u>1,279,023</u>

As of September 30, 2006 and 2005, refundable income taxes were as follows:

	('000)	('000)
	<u>Sep. 30, 2006</u>	<u>Sep. 30, 2005</u>
Estimated income tax expenses	NT\$ 83,018	NT\$ 112,408
Prepaid and withheld income taxes	(52,163)	(49,285)
20% preferential taxes on certain interest income	(80,126)	(106,725)
Prior years' income tax adjustments	(2,330)	(3,063)
Undeductible tax expense of the overseas income	<u>(562)</u>	<u>(2,620)</u>
Income tax refundable	NT\$ <u>(52,163)</u>	NT\$ <u>(49,285)</u>

According to the Income Taxes Law, the losses could be carried forward 5 years to deduct the following years' taxable income. As of September 30, 2006, the details of the Bank's losses for past years were as follows:

Years of loss	Declared	Available	Deducted amount	Undeducted	The extended years for the losses
	(approved) amount of losses	deductible amount		amount	
2002	NT\$ 3,824,364	NT\$ 3,781,251	NT\$ 1,695,592	NT\$ 2,085,659	2007
Jan. 1 ~ Sep. 30, 2006	<u>3,076,958</u>	<u>2,736,723</u>	-	<u>2,736,723</u>	2011
	NT\$ <u>6,901,322</u>	NT\$ <u>6,517,974</u>	NT\$ <u>1,695,592</u>	NT\$ <u>4,822,382</u>	

The tax authorities have examined and assessed the Bank's income tax returns for the years through fiscal year 2004, besides year 2002 and 2003.

(2) Information regarding the Integrated Income Tax System

Imputed tax credits for shareholders	('000) <u>Sep. 30, 2006</u> NT\$ <u>8,299</u>	('000) <u>Sep. 30, 2005</u> NT\$ <u>15,160</u>
Imputed tax credit rate of estimated earnings appropriation	-	<u>8.07%</u>
Unappropriated retained earnings (accumulated losses)	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
1997 and before	NT\$ -	NT\$ -
1998 and after	<u>(1,648,982)</u>	<u>2,663,340</u>
	NT\$ <u>(1,648,982)</u>	NT\$ <u>2,663,340</u>

## 26. EARNINGS PER SHARE

(number of shares and amounts are in thousands, except per share data)  
For the nine-month period ended September 30, 2006

	Amount		Number of shares	Earnings per share	
	Before taxes	After taxes		Before taxes	After taxes
	NT\$	NT\$		NT\$	NT\$
Losses from continuing operations	(1,987,088)	(1,766,200)	1,623,944	(1.22)	(1.09)
Cumulative effect of changes in accounting principle	<u>66,607</u>	<u>66,607</u>	1,623,944	<u>0.04</u>	<u>0.04</u>
Net losses	<u>(1,920,481)</u>	<u>(1,699,593)</u>		<u>(1.18)</u>	<u>(1.05)</u>
Net losses for basic earnings per common stock	<u>(1,920,481)</u>	<u>(1,699,593)</u>	1,623,944	<u>(1.18)</u>	<u>(1.05)</u>

	For the nine-month period ended September 30, 2005				
	Amount		Number of shares	Earnings per share	
	Before taxes NT\$	After taxes NT\$		Before taxes NT\$	After taxes NT\$
Net incomes	2,647,424	2,571,302			
Net incomes for basic earnings per common stock	2,647,424	2,571,302	1,574,536 (Note 1)	<u>1.68</u>	<u>1.63</u>
Net incomes for basic earnings per common stock	2,647,424	2,571,302	1,623,944 (Note 2)	<u>1.63</u>	<u>1.58</u>

Note 1: Calculated based on the weighted-average number of common shares outstanding.

Note 2: Calculated based on the weighted-average number of common shares outstanding due to the distribution of stock dividends.

## 27. RELATED PARTY TRANSACTIONS

### (1) Relationship with the Bank

Name	Relationship with the Bank
Hsin-Chu Real Estate Co., Ltd. (HCRE)	The Bank's subsidiary
Hsin-Chu Futures Co., Ltd. (HCF)	The Bank's subsidiary
Hsin-Chu Insurance Agent Co., Ltd. (HCIA)	The Bank's subsidiary
Chu-Chiann Insurance Agent Co., Ltd. (CCIA)	The Bank's subsidiary
Chu-Chi Interior Decoration Engineering Co., Ltd. (CIDECE)	HCRE's subsidiary
Hsin-Chu Gen-Gin Security Co., Ltd. (HGSC)	HCRE's subsidiary
Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd. (HGABM)	HCRE's subsidiary
Chu-Cherng Construction Co., Ltd. (CCC)	HCRE's subsidiary
Chu-Sheng Technology Co., Ltd. (CST) (Note)	HCRE's subsidiary
Ju-Ying International Co., Ltd. (JYIC)	HCRE's subsidiary
Ingrid International Development Co., Ltd.	HCRE's subsidiary
Chu-Chi Travel Service Co., Ltd.	HCRE's subsidiary
Hsin-Chu Gen-Gin Car Leasing Co., Ltd. (HCGGCL)	HGABM's subsidiary
Chu-Ruei Co., Ltd.	CCC and JYIC's subsidiary
Hiplan (Nanking) Technology Corp. Ltd.	CST's subsidiary
International Bills Financing Co., Ltd. (IBF)	The Bank's chairman is the second immediate family of the company's Director of the Board
Others	Deemed related parties in accordance with SFAS No.6, "Disclosure for Related Party Transactions".

Note : The company was liquidated in May 2006.



## (2) Major transactions with the related parties

### 1) Loans to related parties

As of September 30, 2006 and 2005, loans to the related parties were approximately NT\$1,653,966 thousand and NT\$1,466,069 thousand, respectively, representing 0.56% and 0.55% of total loans and bills discounted as of September 30, 2006 and 2005, respectively. Interest incomes resulting from such loans were NT\$42,900 thousand and NT\$41,934 thousand, respectively, representing 0.43% and 0.48% of total interest income for the nine-month periods ended September 30, 2006 and 2005, respectively. The ranges of interest rates were approximately 1.25%~7.97% and 1%~18.25%, respectively. For the nine-month periods ended September 30, 2006 and 2005, the highest balances of loans to the related parties were approximately NT\$1,835,439 thousand and NT\$2,031,690 thousand, respectively.

The terms and conditions of loans to the related parties have no substantially difference. The provision for loan losses of the related parties was evaluated under the unrecovery risk for the overall loan portfolio.

### 2) Deposits from the related parties

As of September 30, 2006 and 2005, deposits from the related parties were approximately NT\$1,434,895 thousand and NT\$1,874,615 thousand, respectively, representing 0.41% and 0.60% of total deposits and remittances as of September 30, 2006 and 2005, respectively. Interest expenses resulting from such deposits were NT\$17,140 thousand and NT\$12,835 thousand, respectively, representing 0.41% and 0.37% of total interest expenses for the nine-month periods ended September 30, 2006 and 2005, respectively. For the nine-month periods ended September 30, 2006 and 2005 the highest balances of deposits from the related parties were approximately NT\$2,873,536 thousand and NT\$2,539,188 thousand, respectively.

The interest rates and other terms provided to the above related parties were the same as the terms offered to the general public, except that employees' saving interest rate is 8.00% when the deposit balance was below NT\$480 thousand per employee.

- 3) The Bank contracted HCRE to administer the construction of certain premises. The service fees for the nine-month periods ended September 30, 2006 and 2005 were NT\$14,459 thousand and NT\$29,535 thousand, respectively.
- 4) The Bank contracted HGSC to administer the security services of certain premises. The service fees for the nine-month periods ended September 30, 2006 and 2005 amounted to NT\$46,775 thousand and NT\$46,680 thousand, respectively.
- 5) The Bank has paid to CIDEC for the decoration of the Bank's branches for the nine-month periods ended September 30, 2006 and 2005 amounted to NT\$98,016 thousand and NT\$42,332 thousand, respectively.
- 6) The Bank contracted HGABM to take over the building management of the Bank's branches for the nine-month periods ended September 30, 2006 and 2005 amounted to NT\$32,832 thousand and NT\$30,336 thousand, respectively.
- 7) The Bank leased the office premises from HCRE, and the rental expenses for the nine-month periods ended September 30, 2006 and 2005 were NT\$2,051 thousand and NT\$990 thousand, respectively.

- 8) The Bank leased cars from HCGGCL, and the rental expenses for the nine-month periods ended September 30, 2006 and 2005 were NT\$7,614 thousand and NT\$8,360 thousand, respectively.
- 9) The Bank charged the insurance handling fee to CCIA for the nine-month periods ended September 30, 2006 amounted to NT\$1,940 thousand.
- 10) During 2005, the Bank leased an office from CCC without a consideration except for a security deposit of NT\$475,000 thousand, recorded under guarantee deposit. In December 2005, the Board of Directors resolved to purchase the leased office, located in No.745, Kuang-fu Sec., Hsinchu City, from CCC with a price of NT\$475,000 thousand, which was paid by against the security deposit. As of March 31, 2006, the ownership of the property has been transferred to the Bank.
- 11) In December 2004, the Bank sold the land and building located in No. 1-23 and No. 1-49, Dongmen Sec. 2, Hsinchu City to HCIA. The contracted selling price was NT\$42,500 thousand and the gain on disposal, net of book value and the related expenses, was NT\$23,130 thousand. The Bank has transferred the ownership in January 2005. As of September 30, 2006, gains from inter-affiliated company transactions were NT\$23,003 thousand and were recorded as “other liabilities”.
- 12) The transactions involving government bonds and other short-term bills with the related parties were as follows:

A. Repurchase or resale agreements

<u>Transaction</u>	<u>Related parties</u>	Jan.1~Sep. 30, 2006				(‘000)
		Maximum amount	Ending balance	Interest rate%	Interest income (expense)	
Repurchase	IBF	NT\$1,936,971	NT\$ -	1.38~1.46	NT\$ (10,840)	
	Others	41,051	11,048	1.25~1.45	(156)	
			NT\$ 11,048		NT\$ (10,996)	
Resell	IBF	NT\$ 642,540	NT\$ 443,170	1.45~1.66	NT\$ 2,961	

<u>Transaction</u>	<u>Related parties</u>	Jan.1~Sep. 30, 2005				(‘000)
		Maximum amount	Ending balance	Interest rate%	Interest income (expense)	
Repurchase	IBF	NT\$3,085,781	NT\$ 1,101,112	0.975~1.365	NT\$ (8,029)	
	Others	5,953	5,953	0.975~1.250	(46)	
			NT\$ 1,107,065		NT\$ (8,075)	
Resell	IBF	NT\$1,554,861	NT\$ 688,665	1.200~1.430	NT\$ 6,055	

B. Purchase or sale agreements

<u>Transaction</u>	<u>Related parties</u>	Jan.1~Sep. 30, 2006				(‘000)
		Maximum amount	Ending balance	Interest rate%	Gain on financial assets or liabilities at fair value through profit or loss	
Purchase	IBF	NT\$1,991,111	NT\$ 1,781,387	1.455~2.220	NT\$ -	

		Jan.1~Sep. 30, 2005			(‘000)
<u>Transaction</u>	<u>Related parties</u>	<u>Maximum amount</u>	<u>Ending balance</u>	<u>Interest rate%</u>	<u>Gain on financial assets or liabilities at fair value through profit or loss</u>
Sell	IBF	NT\$ <u>51,037</u>	NT\$ <u>-</u>	2.382	NT\$ <u>19</u>
Purchase	IBF	NT\$ <u>1,106,425</u>	NT\$ <u>-</u>	1.200~1.460	NT\$ <u>-</u>

## 28. COMMITMENTS AND CONTINGENCIES

- (1) As of September 30, 2006 and 2005, the Bank's significant commitments and contingencies were as follows:

	(‘000) <u>Sep. 30, 2006</u>	(‘000) <u>Sep. 30, 2005</u>
Letters of credit issued	NT\$ 2,159,416	NT\$ 2,916,392
Guarantees extended	9,195,856	7,926,278
Government bonds and other short-term bills sold under repurchase agreements	4,454,893	18,940,430
Government bonds and other short-term bills acquired under resale agreements	2,413,683	14,892,619
Unsettled foreign currency forward contracts	5,808,609	5,870,339
Unsettled foreign currency swap and options contracts	3,404,117	3,668,299

- (2) As of September 30, 2006 and 2005, the existing contracts for construction and decoration of the Bank's premises were approximately NT\$39,349 thousand and NT\$41,403 thousand, respectively. The Bank had paid approximately NT\$31,572 thousand and NT\$32,613 thousand, respectively.

- (3) According to the existing contracts for the lease of its premises, as of September 30, 2006, rental payments were as follows:

<u>Period</u>	(‘000) <u>Amount</u>
Oct. 1, 2006 to Sep. 30, 2007	NT\$ 135,225
Oct. 1, 2007 to Sep. 30, 2008	107,534
Oct. 1, 2008 to Sep. 30, 2009	93,366
Oct. 1, 2009 to Sep. 30, 2010	79,329
Oct. 1, 2010 to Sep. 30, 2011	54,601
Oct. 1, 2011 and thereafter	92,730 (Net present value is NT\$77,503 thousand)

- (4) The Bank had the following major commitments relating to the trust and agential activities:

	(‘000) <u>Sep. 30, 2006</u>	(‘000) <u>Sep. 30, 2005</u>
Bills for collection	NT\$ 28,225,057	NT\$ 24,215,390
Marketable securities for custody	1,490,144	1,492,059
Travelers checks held for sale	101,077	113,996
Assets resulting from various trust agencies	61,310,825	27,824,847

- (5) As a result of business operation and employee termination of the Bank, a lawsuit was brought up with a claim for salary and damage compensation of NT\$17,701 thousand plus interest at 5%. However, this law suit has not yet been settled.

## 29. Subsequent events

On September 29, 2006, Standard Chartered Bank officially notified the Bank that a public tender offer to purchase the Bank's common stocks will be initiated. On October 23, 2006, Standard Chartered Bank publicly announced that they had purchased 51 percent of the issued common stocks of the Bank through the public tender offer. Accordingly, there were over one third members of the Board of Directors and 3 supervisors of the Bank were discharged as they sold more than one half of the Bank's common shares being held by them at the time they were elected in accordance with R.O.C. Company Act. Moreover, consequently, Mr. Shuan-Yung Chan, a juristic person shareholder on behalf of Huawan Investment Co., Ltd. was no longer the chairman of the Board of Directors of the Bank. Mr. Chih-Wei Wu has been elected as the chairman of the Board of Directors of the Bank hereafter.

Please refer to Market Observation Post System of Taiwan Stock Exchange for information related to the public tender offer and members of the Board of Directors and supervisors of the Bank.

## 30. OTHER

- (1) Fair market value of financial instruments

- 1) Information of financial instruments

Non-derivative financial instruments-assets	('000)		('000)	
	September 30, 2006		September 30, 2005	
	Book value	Fair value	Book value	Fair value
Book values equivalent to fair values	NT\$ 42,149,712	NT\$ 42,149,712	NT\$ 53,068,061	NT\$ 53,068,061
Financial assets at fair value through profit or loss	23,041,527	23,041,527	10,157,018	10,157,018
Loans and bills discounted	294,685,396	294,685,396	263,724,006	263,724,006
Available-for-sale financial assets	13,714,372	13,714,372	11,450,913	11,450,913
Held-to-maturity financial assets	41,905,438	41,905,438	48,693,663	48,693,663
Equity investment under equity method	1,246,940	1,246,940	1,342,743	1,342,743
Other financial assets	399,287	399,287	476,191	476,191

  

Derivative financial instruments-assets	('000)		('000)	
	September 30, 2006		September 30, 2005	
	Book value	Fair value	Book value	Fair value
Buy option contracts	NT\$ 11,289	NT\$ 11,289	NT\$ 22,390	NT\$ 22,390
Forward contracts	21,581	21,581	116,620	116,620
Cross currency swap contracts	74,904	74,904	41,780	41,780
Swap contracts	689	689	-	-
Interest rate swap contracts	32,861	32,861	-	-

Non-derivative financial instruments-liabilities	('000)		('000)	
	September 30, 2006		September 30, 2005	
	Book value	Fair value	Book value	Fair value
Book values equivalent to fair values	NT\$ 39,276,787	NT\$ 39,276,787	NT\$ 42,968,773	NT\$ 42,968,773
Customer deposits and remittances payable	351,903,315	351,903,315	313,772,284	313,772,284
Subordinated debentures	18,000,000	18,000,000	18,000,000	18,000,000
Convertible bonds	559,356	559,356	3,650,680	3,650,680

Derivative financial instruments-liabilities	('000)		('000)	
	September 30, 2006		September 30, 2005	
	Book value	Fair value	Book value	Fair value
Sell option contracts	NT\$ 10,587	NT\$ 10,587	NT\$ 22,390	22,390
Forward contracts	26,120	26,120	71,550	71,550
Interest rate swap contracts	28,006	28,006	-	-

2) The following methods and significant assumptions were used to estimate the fair value of each class of financial instruments:

(A) Financial assets with book values equivalent to fair values:

The fair values for financial assets including cash and cash equivalents, due from banks and Central Bank of China, bonds and short-term bills sold under resale agreements, receivables and guarantee deposits were approximately equal to book values. For those short-term instruments, the book value is a reasonable estimate of fair value because of the short maturity of those instruments.

(B) Financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets:

The fair value is determined by transaction price quoted in an active market, when available; if otherwise, valuation techniques are applied. The estimates and assumptions applied in valuation techniques are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.

(C) Loans and bills discounted:

The fair values of loans and bills discounted are estimated based on certain characteristics of banking industry. On that account, the book value was a reasonable estimate of fair value, taking into account the current credit-worthiness of the borrowers. The fair values of fixed-rate loans with medium to long term maturity were estimated by discounting the future cash flows using the current rates. Since the Bank entered into fixed-rate loans of which interest rate were higher than market rate and the remaining maturities are less than three years and it was not practical to calculate the present value of each transaction, the fair value of loans was estimated using book value, taking into account of the current credit-worthiness of the borrowers.

(D) Other financial assets:

Other financial assets are referring to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

(E) Financial liabilities with book values equivalent to fair values:

The fair values for financial liabilities including due to banks and Central Bank of China, financing from banks and Central Bank of China, bonds and short-term bills sold under repurchase agreements, payables, and guarantee deposits received approximates book values at the balance sheet date. For those short-term instruments, the book value is a reasonable estimate of fair value because of the short maturity of those instruments.

(F) Customer deposits and remittances payable:

The fair values of customer deposits and remittances payable were estimated based on the certain characteristics of banking industry. A large portion of the Bank's deposit liabilities was made with floating interest rate and the maturities for most of those deposit liabilities were less than one year. On that account, the book value was a reasonable estimate of fair value. The fair values of long-term deposits were estimated by discounting the future cash flows using the current rates.

(G) Subordinated debenture:

The subordinated debenture was financial liability with floating interest rate, their fair value equal to their carrying value.

(H) Convertible bonds:

The fair values of the Convertible bonds (the Bonds) are estimated based on their carrying values on the balance sheet. As the coupon rate on the Bonds is 0% and the date of redemption is uncertain, it is difficult to calculate the present value of the Bonds. In addition, the carrying amount of the Bonds is adjusted based on the prevailing spot exchange rate on the balance sheet date. Therefore, the fair values of the Bonds are estimated based on their carrying amount on the balance sheet.

(I) For derivatives that do not have quoted market prices in active market, a cash-flow discount method is applied for forward foreign currency and interest rate swap contracts, and Black Scholdes Model is applied for option contracts.

The Bank computed the fair value of each individual forward foreign currency contracts by using the expected exchange rate at the future maturity date, and whose rate was generated from Kondor, a quoted pricing system. With respect to fair values of contracts for interest rate swap and foreign currency exchange, expect part of contracts were computed based on the quoted prices provided by counterparties, the others were individually computed based on the pricing information provided by Reuters, a global information company.

The Bank's fair values of financial assets and financial liabilities computed by quoted market prices or other valuation techniques are as follows:

Financial instruments	('000)		('000)	
	Determined by quoted market prices		Estimated by other valuation techniques	
	Sep. 30, 2006	Sep. 30, 2005	Sep. 30, 2006	Sep. 30, 2005
Cash and cash equivalents	NT\$ -	NT\$ -	NT\$ 7,178,463	NT\$ 7,080,180
Due from banks and Central Bank of China	-	-	21,639,968	19,724,828
Financial assets at fair value through profit or loss	738,963	2,321,677	22,443,888	8,016,131
Bonds and short-term bills sold under resale agreements	-	-	2,411,017	14,859,122
Receivables	-	-	9,966,237	10,040,272
Available-for-sale financial assets	13,714,372	11,450,913	-	-
Held-to-maturity financial assets	19,693,096	9,193,663	22,212,342	39,500,000
Equity investment under equity method	-	-	1,246,940	1,342,743
Other financial assets	-	-	399,287	476,191
Loans and bills discounted	-	-	294,685,396	263,724,006
Guarantee deposits	-	-	954,027	1,363,659
Due to banks and Central Bank of China	-	-	15,561,804	18,775,148
Financing from Central Bank of China and banks	-	-	1,323,920	165,940
Financial liabilities at fair value through profit or loss	-	-	64,713	93,940
Bonds and short-term bills sold under repurchase agreements	-	-	16,593,895	18,929,482
Payables	-	-	5,705,110	5,000,843
Customer deposits and remittances payable	-	-	351,903,315	313,772,284
Subordinated debenture	-	-	18,000,000	18,000,000
Convertible bonds	-	-	559,356	3,650,680
Guarantee deposits received	-	-	92,058	97,360

For the nine-month period ended September 30, 2006, the Bank recognized gain amounted to NT\$93,361 thousand from the changes in fair value which were evaluated by using other valuation techniques.

The financial assets and financial liabilities with fair value risks in changes of interest rates of the Bank were NT\$79,917,907 thousand and NT\$34,593,895 thousand as of September 30, 2006, respectively, as well as NT\$82,910,389 thousand and NT\$36,929,482 thousand as of September 30, 2005, respectively. Additionally, as of September 30, 2006 and 2005, the cash flow risks due to changes of interest rates were NT\$32,861 thousand and NT\$0, respectively.

### 3) Information of financial risks

#### (A) Market risk

The Bank has been applying value at risk to assess the market risk of financial instruments since 2006. When negative changes in market factors arising, the value at risk states the potential losses from changes in holding periods and reliance levels. The Bank estimated its value at risk for each held or issued financial instruments based on the fluctuation of related historical price incurred in the past year. The table below showing the values at risk of the financial instruments of the Bank, the values at risk was estimated for one day's potential losses on a presumption that the unfavourable changes in exchange rates and interest rates can cover 99% fluctuation incurred in one day among the market. Also, per the presumption, the value at risk of financial assets and liabilities may exceed the amounts disclosed in the table below for one day out of 100 days owing to the changes in interest rates and exchange rates.

Types of market risks	For the nine-month period ended September 30, 2006		
	Annual average amount	Maximum amount	Minimum amount
Value at risk of exchange rate	NT\$42,693	NT\$112,089	NT\$13,087
Value at risk of interest rate	71,748	169,465	25,715
Value at risk of equity	105,116	186,731	56,412
Value at risk of market price	121,362	150,746	91,162

#### (B) Credit risk

That the Bank may recognize losses from held or issued financial instruments may be caused by the events of counterparties failing to perform their obligations under financial instruments agreements. When practicing loan, loan commitment or loan guarantee businesses, the Bank properly conducts its credit assessments. As of September 30, 2006 and 2005, the percentages of loans with collaterals over total loans were 61% and 62%, respectively, and the percentages for guarantees issued plus letters of credit issued with collaterals were 22% and 40%, respectively. The collaterals obtained from loan, commitment, and guarantee businesses mostly consisted of cash and cash equivalents, inventories, marketable securities, and other assets. When counterparties breaching agreements/contracts, the Bank has rights to execute the collaterals, which can mitigate the credit risk. However, when disclosing the amount under maximum credit risk exposure, the fair values of collaterals are ignored.

For all financial instruments held by the Bank, the amounts under maximum credit risk exposure excluding from the fair values of collaterals were as follows:

Financial instruments	Sep. 30, 2006		Sep. 30, 2005	
	Book value	The amount under maximum credit risk exposure	Book value	The amount under maximum credit risk exposure
Loans and bills discounted	NT\$ 295,517,356	NT\$ 2,968,474	NT\$ 213,446,851	NT\$ 3,296,361



The factors of computing the amounts related to credit risk above were those using fair value at balance sheet date as a basis and assessing the contracts with off-balance sheet commitments and guarantees. Concentration of credit risk is most likely resulting from an exposure of concentrating on an individual counterparty. Group concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same region have similar economic characteristics that would affect their ability to meet contractual obligations. The Bank maintains trading positions in a number of markets and with a variety of counterparties or obligors.

The Bank's significant group concentrations of credit risk were summarized in categories of similar industries as follows:

Industry	('000) September 30, 2006		('000) September 30, 2005	
	Book value	The amount under maximum credit risk exposure	Book value	The amount under maximum credit risk exposure
Individuals	NT\$ 192,791,946	NT\$ 1,635,092	NT\$ 129,466,318	NT\$ 1,389,993
Commercial	12,192,429	725,358	10,369,396	194,629
Manufacturing	56,001,973	327,596	43,099,381	1,163,518
Construction and real estate	10,883,844	102,678	10,246,397	118,130
Other institutions	23,647,164	177,750	20,265,359	430,091
	NT\$ <u>295,517,356</u>	NT\$ <u>2,968,474</u>	NT\$ <u>213,446,851</u>	NT\$ <u>3,296,361</u>

The Bank will incur a transaction loss equal to the book value, if the counterparty is unable to fulfill its obligations and collateral promised by the counterparty is completely worthless.

### (C) Liquidity risk

As of September 30, 2006 and 2005, the provision rates of liquidity were 15% and 19%, respectively, and funds raising from capital and operation are sufficient to meet commitments associated with contracts. Consequently, there is no such liquidity risk which the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Additionally, except for interest rate swaps with leverage effects held, the other derivatives held by the Bank consisted of low liquidity risk that the derivatives can not be sold with reasonable price in the market.

The Bank's basic policy of operation management is managing to mitigate caps between contractual interest rates at maturity dates and interest rates at balance sheet date as well as contractual maturity dates and balance sheet dates. Due to variety and uncertainty of contractual terms, the interest rates and maturity dates of financial assets and financial liabilities may not be matched, which may cause gains or losses. The liquidity ability of the Bank was assessed based on the status of maturity dates that was properly grouped in financial assets and financial liabilities, which was disclosed as below:

('000)

September 30, 2006

	Within 1 month	1~3 months	3 months~ 1 year	1 year~ 2 years	2 years~ 3 years	3 years~ 4 years	4 years~ 5 years	Over 5 years	Total
Assets	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Financial assets at fair value through profit or loss-bonds	16,871,183	5,221,282	210,099	51,225	18,115	14,963	-	-	22,386,867
Available-for-sale financial assets-bonds	-	33,548	79,258	590,565	1,649,375	4,004,139	2,590,700	4,267,000	13,214,585
Held-to-maturity financial assets	13,410,383	1,050,745	4,036,644	1,950,569	4,321,873	3,650,469	2,426,571	11,058,184	41,905,438
Call loans from banks	5,161,757	2,305,642	347,636	-	-	-	-	-	7,815,035
Loans and bills discounted (Note 2)	<u>7,707,525</u>	<u>13,562,390</u>	<u>30,277,767</u>	<u>11,567,633</u>	<u>21,651,174</u>	<u>15,104,645</u>	<u>18,647,248</u>	<u>174,292,261</u>	<u>292,810,643</u>
	<u>43,150,848</u>	<u>22,173,607</u>	<u>34,951,404</u>	<u>14,159,992</u>	<u>27,640,537</u>	<u>22,774,216</u>	<u>23,664,519</u>	<u>189,617,445</u>	<u>378,132,568</u>
<b>Liabilities</b>									
Bonds payable	-	-	-	8,000,000	-	559,356	-	10,000,000	18,559,356
Time deposits- New Taiwan dollars (Note 3)	30,592,836	42,664,139	124,788,542	5,331,043	4,054,838	-	-	-	207,431,398
Time deposits- foreign currency	2,931,580	1,368,053	3,970,407	-	-	-	-	-	8,270,040
Call loans from banks	3,700,000	-	-	-	-	-	-	-	3,700,000
Financing from Central Bank of China and banks	<u>661,960</u>	<u>661,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,323,920</u>
	<u>37,886,376</u>	<u>44,694,152</u>	<u>128,758,949</u>	<u>13,331,043</u>	<u>4,054,838</u>	<u>559,356</u>	<u>-</u>	<u>10,000,000</u>	<u>239,284,714</u>

('000)

September 30, 2005						
	Within 1 month	1~6 months	6 months~1 year	1~7 years	Over 7 years	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Assets:						
Bonds(Note1)	267,549	546,498	113,467	13,958,948	5,829,464	20,715,926
Call loans to banks	4,423,434	1,796,001	1,958	-	-	6,221,393
Loans and bills discounted (Note 2)	<u>5,800,110</u>	<u>25,080,850</u>	<u>11,009,490</u>	<u>86,255,447</u>	<u>134,002,339</u>	<u>262,148,236</u>
Total	<u>10,491,093</u>	<u>27,423,349</u>	<u>11,124,915</u>	<u>100,214,395</u>	<u>139,831,803</u>	<u>289,085,555</u>
Liabilities:						
Due to banks (Note 5)	5,850,000	-	165,940	-	-	6,015,940
Customer deposits and remittances payable (Note 3)	<u>24,340,799</u>	<u>85,309,708</u>	<u>70,580,736</u>	<u>9,575,269</u>	<u>-</u>	<u>189,806,512</u>
	<u>30,190,799</u>	<u>85,309,708</u>	<u>70,746,676</u>	<u>9,575,269</u>	<u>-</u>	<u>195,822,452</u>

Note 1: Including the government bonds, corporate bonds, and commercial bonds of the financial assets, at fair value through profit or loss, available-for-sale financial assets, and held-to-maturity financial assets.

Note 2: Non-accrual loans are not included.

Note 3: Only time deposits, time saving deposits, transferable time deposits and time deposits from Chunghwa Post are included.

Note 4: Transferable time deposits are not included.

Note 5: Including call loans from banks and financing from Central Bank of China and banks.

The maturity period for the above maturity analysis of assets and liabilities was the remaining period from the balance sheet date to the due date.

#### (D) Cash flow risk and fair value risk from changes in interest rates

Future cash flow from the assets and liabilities with floating interest rates held by the Bank may fluctuate due to the changes in market interest rates, of which a risk as a result. In order to hedge the risk, the Bank has entered interest rate swap contracts after related assessments.

The Bank presumed that the expected re-pricing dates and expected maturity dates were not effected by contractual dates. The interest rate risks used in preparing the table below were stated based on the book value of financial assets and liabilities held by the Bank and reclassified based on which earlier dates are between maturity dates and re-pricing dates. The book values of financial instruments issued or held distinguished by either re-pricing dates or maturity dates were as below:

(‘000)

September 30, 2006

Assets	<u>Within 1 month</u> NT\$	<u>1~3 months</u> NT\$	<u>3 months~1 year</u> NT\$	<u>1 year~2 years</u> NT\$	<u>2 years~3 years</u> NT\$	<u>3 years~4 years</u> NT\$	<u>Over 4 years</u> NT\$	<u>Total</u> NT\$
Available-for-sale financial assets								
Commercial bonds	-	-	-	-	400,000	200,000	200,000	800,000
Loans and bills discounted								
Medium-term loans	-	-	-	337,500	4,065,747	150,000	-	4,553,247
Total	-	-	-	337,500	4,465,747	350,000	200,000	5,353,247
Gap of interest rate sensitivity	-	-	-	337,500	4,465,747	350,000	200,000	5,353,247

## (2) Related party credit transaction

Category	Number	Balance as of Sep. 30, 2006 NT\$	Status of fulfilling obligations	
			Loans	Non-performing loan
			NT\$	NT\$
Consumers loans	1,104	292,099	291,586	512
Employee loans for house purchase	884	1,734,781	1,734,781	-
Loans for other related parties	21	71,886	71,885	-
Loans guaranteed by related parties	158	338,944	338,944	-
Loans with collateral security provided by related parties	-	-	-	-

## (3) Loan quality

	NT\$	Sep. 30, 2006	
		Amount	%
Non-performing loans (NPLs)-category A	5,795,672	5,795,672	1.95%
Non-performing loans (NPLs)-category B	1,173,757	1,173,757	0.39%
Total non-performing loans (NPLs)	6,969,429	6,969,429	2.34%

	Sep. 30, 2005
Non-performing loans (NPLs)	NT\$7,791,072
Non-accrual loans	5,390,964
NPLs/gross loans	2.91%
Surveillance loans	-
Surveillance loans/gross loans	-
Allowance for loan losses	3,815,193
Loans write-offs	1,304,379

## (4) Credit risk centralization

	(In thousand)			
	Sep. 30, 2006		Sep. 30, 2005	
Loans to related parties	NT\$4,255,020		NT\$2,274,097	
Loans to related parties / Total loans	1.38%		0.82%	
Loans collateralized with stocks	0.62%		0.50%	
Loans centralization of industry link	Industry	Percentage	Industry	Percentage
	1. Manufacturing	19.22%	1. Manufacturing	16.88%
	2. Construction and real estate	4.13%	2. Construction and real estate	4.21%
	3. Commercial	4.19%	3. Commercial	3.93%

Note: Total loans include loans and bills discounted, acceptances receivables, guarantees, and the prepayments for purchased account receivables.

## (5) Risk sensitivity (New Taiwan dollars)

(In thousand)

	Within 90 days	91~180 days	180 days~1 year	Over 1 year	Total
Risk sensitive assets	318,201,000	4,969,000	1,898,000	52,042,000	377,110,000
Risk sensitive liabilities	149,510,000	178,138,000	51,777,000	2,322,000	381,747,000
Risk sensitive gap	168,691,000	(173,169,000)	(49,879,000)	49,720,000	(4,637,000)
Shareholders' equity					18,443,370
Risk sensitive assets / Risk sensitive liabilities (%)					98.79%
Risk sensitive gap / Shareholders' equity (%)					(25.14)%

## (6) Risk sensitivity (United State dollars)

(In thousand)

	Within 90 days	91~180 days	180 days~1 year	Over 1 year	Total
Risk sensitive assets	381,986	456,492	463,830	-	1,302,308
Risk sensitive liabilities	378,311	405,414	460,245	-	1,243,970
Risk sensitive gap	3,675	51,078	3,585	-	58,338
Shareholders' equity					557,235
Risk sensitive assets / Risk sensitive liabilities (%)					104.69%
Risk sensitive gap / Shareholders' equity (%)					10.47%

## (7) Profitability

Item		Jan. 1 ~ Sep. 30, 2006	Jan. 1 ~ Sep. 30, 2005
The ratio of return on assets	Before taxes	(0.48)%	0.67%
	After taxes	(0.41)%	0.65%
The ratio of return on shareholders' equity	Before taxes	(9.90)%	13.21%
	After taxes	(8.47)%	12.83%
Net income ratio		(18.10)%	29.16%

## (8) The maturity analysis of assets and liabilities (New Taiwan dollars)

(In thousand)

	Total	Amounts cumulated based on the terms from the balance sheet date to due date				
		Within 30 days	31~90 days	91~180 days	181 days ~1 year	Over 1 year
Expected primary assets inflow when due	NT\$ 421,173,893	NT\$ 69,484,600	NT\$ 19,504,431	NT\$ 14,743,823	NT\$ 36,143,346	NT\$ 281,297,693
Expected primary liabilities inflow when due	500,402,641	70,388,603	57,605,530	68,298,176	122,553,278	181,557,054
Gap between assets and liabilities	(79,228,748)	(904,003)	(38,101,099)	(53,554,353)	(86,409,932)	99,740,639

## (9) The maturity analysis of assets and liabilities (United State dollars)

(In thousand)

	Total	Amounts cumulated based on the terms from the balance sheet date to due date				
		Within 30 days	31~90 days	91~180 days	181 days ~1 year	Over 1 year
Expected primary assets inflow when due	US\$ 518,349	US\$210,831	US\$ 152,784	US\$ 74,506	US\$7,337	US\$ 72,891
Expected primary liabilities inflow when due	525,645	344,240	65,982	29,667	54,830	30,926
Gap between assets and liabilities	(7,296)	(133,409)	86,802	44,839	(47,493)	41,965

## (10) Capital adequacy

Based on the disclosure requirements regulated by authorization, the following table only disclosed the information as of June 30, 2006 and 2005, respectively.

	('000)	
	June 30, 2006	June 30, 2005
Capital adequacy	NT\$ 28,040,674	NT\$ 32,215,288
Total risk-weighted assets	NT\$ 285,719,439	NT\$ 239,830,676
Capital adequacy ratio	9.81%	13.43%
Tier I capital/ Total risk-weighted assets	5.84%	8.26%
Tier II capital/ Total risk-weighted assets	4.35%	5.88%
Tier III capital/ Total risk-weighted assets	-	-
Shareholder's equity/ Total assets	4.14%	5.08%

## (11) The interest earning assets, interest bearing liabilities and the average interest rates were disclosed as follows:

	('000)	
	For the nine-month period ended September 30, 2006	
	Average amount	Average interest rate% (Annual rate)
Assets:		
Due from Central Bank of China	NT\$ 12,217,697	1.08
Financial assets at fair value through profit or loss-bonds	1,181,942	1.07
Available-for-sale financial assets-bonds	12,167,650	2.15
Held-to-maturity financial assets-bonds	16,409,686	1.33
Call loans to banks	9,770,567	2.86
Loans and bills discounted	282,836,036	4.02
Liabilities:		
Call loans from banks/due to banks and Central Bank of China	4,717,741	1.47
Demand deposits-new Taiwan dollars	133,028,777	0.48
Demand deposits-foreign currency	6,337,479	1.69
Time deposits-new Taiwan dollars	181,294,637	1.91
Time deposits-foreign currency	8,749,123	4.01
Transferable time deposits	5,318,952	1.66
Financing from Central Bank of China and banks	873,749	5.09
Subordinated debentures	18,000,000	3.79

(‘000)

For the nine-month  
period ended September 30, 2005

	Average amount	Average interest rate%
	(Annual rate)	
Assets:		
Due from Central Bank of China	NT\$ 11,941,859	1.09
Bonds(including financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets)	9,610,741	3.30
Call loans to banks	7,214,409	1.53
Loans and bills discounted	251,703,667	3.81
Held-to-maturity financial assets -bonds	6,173,696	2.85
Liabilities:		
Demand deposits	123,773,019	0.47
Foreign currency demand deposits	6,017,251	0.88
Time deposits	188,714,436	1.48
Foreign currency time deposits	9,426,174	2.40
Transferable time deposits	3,929,295	1.42
Call loans from banks/financing from Central Bank of China and banks	2,098,722	2.07
Subordinated debentures	16,962,963	3.45

(12) Primary foreign currencies

(In thousand)

	Sep. 30, 2006			Sep. 30, 2005		
	Original currency		Equivalent NTD amount	Original currency		Equivalent NTD amount
Primary foreign currencies held (Market risk)	1	USD 1,915	63,374	1	USD 2,942	97,649
	2	JPY 185,558	52,049	2	JPY 159,925	46,874
	3	EUR 337	14,134	3	EUR 547	21,848
	4	HKD 7,171	30,461	4	HKD 4,942	21,141
	5	AUD 1,000	24,715	5	GBP 359	20,952

(13) Demand deposits, time deposits and foreign currency deposits

	(‘000) Sep. 30, 2006	(‘000) Sep. 30, 2005
Demand deposits	NT\$ 147,956,547	NT\$136,715,653
Demand deposits ratio	42.05%	43.58%
Time deposits	203,877,857	176,980,397
Time deposits ratio	57.95%	56.42%
Foreign currency-denominated deposits	16,237,529	13,506,648
Foreign currency-denominated deposits ratio	4.62%	4.31%



(14) Small and medium enterprise loans and consumer loans

	('000) <u>Sep. 30, 2006</u>	('000) <u>Sep. 30, 2005</u>
Small and medium enterprise loans	NT\$ 42,431,040	NT\$42,988,534
Small and medium enterprise loans ratio	14.49%	16.07%
Consumer loans	167,412,222	149,984,991
Consumer loans ratio	57.17%	56.06%

(15) Special memorandum items

	Cases and amount
Management or any employee being prosecuted in lawsuit for disobeying of any rules in business in one year	None
The Bank being fined for disobeying the related law in one year	Note 1
The Bank being punished by MOF for any fault in one year	None
The Bank incurred losses over NT\$50,000 thousand for management or employee fraud or for any security incident in one year	None
Others	None

Note: 1. The Bank was fined NT\$2,000 thousand by FSC, due to the inappropriate method used by the collecting agency for the receivables of cash card. It has been against to the "Regulations governing internal control system and audit system of Banks" Article 4 and 5.

31. NOTES TO DISCLOSURE ITEMS

(1) Information of significant transactions

- 1) Accumulated purchases or sales of the stocks for the same invested company amounted to NT\$300 million or over 10% of the capital were as follows: None.
- 2) Real estate acquisition amounted to NT\$300 million or over 10% of the capital was as follows: Please refer to Appendix 1.
- 3) Real estate disposal amounted to NT\$300 million or over 10% of the capital was as follows: None.
- 4) Allowances for service fees from transaction with the related parties amounted to NT\$5 million were as follows: None.
- 5) Receivables from the related parties amounted to NT\$300 million or over 10% of the capital were as follows: None.
- 6) Sales of NPL amounted to NT\$5,000 million or more were as follows: None.
- 7) Information for issuance of beneficiary certificates approved by the R.O.C. Financial Asset Securitization Law and Real Estate Securitization Law: Please refer to Note 9 to the financial statements.
- 8) Other significant transactions that might have influence over the decision making of the financial statements users: None.

## Appendix 1

For the nine-month period ended September 30, 2006

(Amounts are in thousands)

Purchasing company	Recording entry	Date	Cost	Payment paid	Trading party	Relation-ship	The prior trading information if the trading party is related				Basis of the price	Purpose and usage	Others
							Owner	Relationship with the company	Date	Cost			
The Bank	Land and buildings	December 30, 2005	NT\$ 475,000	Rental deposit planning to be paid	Chu-Cherng Construction Co., Ltd.	Subsidiary of the Bank	Miao-Jiang, Chang	-	January 4, 2001	NT\$ 106,000	Home Ban Real Estate Evaluate Co., Ltd.	To be office	Rental deposit planning to be paid

### (2) Information of invested company

1) The information that the Bank has direct or indirect significant influences or controls: (number of shares and amounts are in thousands)

September 30, 2006

Investor	Investee	Investee's address	Operating item	Original invested amount		Sep. 30, 2006			Investee's income (loss) for the nine-month period ended Sep. 30, 2006	Investee's period gain/loss recognition	Note
				Sep. 30, 2006	Sep. 30, 2005	Shares	Percentage (%)	Book value			
The Bank	Hsin-Chu Real Estate Co., Ltd.	11F,130, Si Wei Road, Hsin-Chu, Taiwan	Construction guarantee, and management	30,000	30,000	14,092	59.84	201,717	(42,167)	(41,149)	Subsidiary of the Bank
The Bank	Hsin-Chu Futures Co., Ltd.	3F,130, Si Wei Road, Hsin-Chu, Taiwan	Futures underwriter	442,830	442,830	30,112	88.57	267,198	(122)	(108)	Subsidiary of the Bank
The Bank	Hsin-Chu Insurance Agent Co., Ltd.	85, Chung-Zeng Road, Hsin-Chu, Taiwan	Life insurance agent	2,000	2,000	40,027	99.87	638,304	176,538	176,316	Subsidiary of the Bank
The Bank	Chu-Chiann Insurance Agent Co., Ltd.	85, Chung-Zeng Road, Hsin-Chu, Taiwan	Property insurance agent	2,000	2,000	1,671	99.86	37,009	15,484	15,462	Subsidiary of the Bank
The Bank	Paradigm Assets Management Co., Ltd.	19F, 123, Sec. 2, Chung-Hsiao East Road, Taipei, Taiwan	Securities investment trust	98,400	60,000	9,000	20.00	102,712	7,412	1,482	-
Hsin-Chu Real Estate Co., Ltd.	Chu-Cherng Construction Co., Ltd.	4F,130, Si Wei Road, Hsin-Chu, Taiwan	Land development	80,000	80,000	8,484	50.50	85,558	72,420	37,725	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Chu-Chi Interior Decoration Engineering Co., Ltd.	10F, 3, Lane 91, Dongmei Road, Hsin-Chu, Taiwan	Indoor decoration	4,415	4,415	1,316	88.30	15,496	2,082	968	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Chu-Chi Travel Service Co., Ltd.	9F, 256, Nan Da Road, Hsin-Chu, Taiwan	Traveling agent	1,800	1,800	180	30.00	-	59	-	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Hsin-Chu Gen-Gin Security Co., Ltd.	4F, 130, Si Wei Road, Hsin-Chu, Taiwan	Security	39,520	39,520	4,328	98.80	48,919	2,711	1,198	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	4F, 130, Si Wei Road, Hsin-Chu, Taiwan	Apartment management and maintenance	9,880	9,880	1,415	98.80	23,108	1,619	791	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Ju-Ying International Co., Ltd.	4F-2, 130, Si Wei Road, Hsin-Chu, Taiwan	Information and software services	15,000	15,000	1,500	15.15	14,164	(4,500)	(21)	Subsidiary of the Bank

Investor	Investee	Investee's address	Operating item	Original invested amount		Sep 30, 2006			Investee's income (loss) for the six-month period ended June 30, 2006	Investee's period gain/loss recognition	Note
				Sep. 30, 2006	Sep. 30, 2005	Shares	Percentage (%)	Dollar amount			
Hsin-Chu Real Estate Co., Ltd.	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	10F, 5, Lane 91, Dongmei Road Hsin-Chu, Taiwan	Car leasing	3,419	3,000	338	6.75	3,293	8,861	122	Subsidiary of the Bank
Hsin-Chu Real Estate Co., Ltd.	Sen-Ding Co., Ltd.	13F-3, 160, Sec. 3, Dongsing Rd., West District, Taichung, Taiwan	Hotel	24,000	24,000	2,400	21.78	19,923	(5,498)	(2,859)	-
Hsin-Chu Real Estate Co., Ltd.	Ingrid International Development Co., Ltd.	17F-1, 305, Da Dun 12 <sup>th</sup> Street, Hwei Jhong Village, Nan Tun District, Taichung, Taiwan	Buildings development	14,000	-	1,400	73.68	14,000	-	-	Subsidiary of the Bank
Chu-Cherng Construction Co., Ltd.	Ju-Ying International Co., Ltd.	4F-2, 130, Si Wei Road, Hsin-Chu, Taiwan	Information and software services	10,000	10,000	1,000	10.10	9,456	(4,500)	(14)	Subsidiary of the Bank
Chu-Cherng Construction Co., Ltd.	Chu-Ruei Co., Ltd.	No.146, Guangming 6th Road, Jhubei City, Hsin-Chu, Taiwan	Restaurant	1,000	-	100	7.14	1,000	12	-	Subsidiary of the Bank
Hsin-Chu Gen-Gin Security Co., Ltd.	Ju-Ying International Co., Ltd.	4F-2, 130, Si Wei Road, Hsin-Chu, Taiwan	Information and software services	20,000	20,000	2,000	20.20	18,913	(4,500)	(28)	Subsidiary of the Bank
Hsin-Chu Gen-Gin Security Co., Ltd.	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	10F, 5, Lane 91, Dongmei Road, Hsin-Chu, Taiwan	Car leasing	5,893	5,000	647	12.95	6,081	8,861	235	Subsidiary of the Bank
Chu-Chi Interior Decoration Engineering Co., Ltd.	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	10F, 5, Lane 91, Dongmei Road, Hsin-Chu, Taiwan	Car leasing	1,186	1,000	135	2.70	1,186	8,861	49	Subsidiary of the Bank
Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	Ju-Ying International Co., Ltd.	4F-2, 130, Si Wei Road, Hsin-Chu, Taiwan	Information and software services	10,095	10,095	1,000	10.10	9,394	(4,500)	(14)	Subsidiary of the Bank
Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	10F, 5, Lane 91, Dongmei Road, Hsin-Chu, Taiwan	Car leasing	6,000	6,000	870	17.40	8,170	8,861	315	Subsidiary of the Bank
Ju-Ying International Co., Ltd.	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	10F, 5, Lane 91, Dongmei Road, Hsin-Chu, Taiwan	Car leasing	6,000	6,000	784	15.69	7,651	8,861	284	Subsidiary of the Bank
Ju-Ying International Co., Ltd.	Chu-Ruei Co., Ltd.	No.146, Guangming 6th Road, Jhubei City, Hsin-Chu, Taiwan	Restaurant	2,000	-	200	14.29	2,000	12	-	Subsidiary of the Bank

2) The information on the Bank's invested companies, which the Bank has significant influence or controls.

A. Real estate acquisition amounted to NT\$300 million or over 10% of the capital was as follows: Please refer to Appendix 1.

- B. Real estate disposal amounted to NT\$300 million or over 10% of the capital was as follows: None.
- C. Allowances for service fees from transaction with the related parties amounted to NT\$5 million were as follows: None.
- D. Receivables from the related parties amounted to NT\$300 million or over 10% of the capital were as follows: None.
- E. Sales of NPLs amounted to NT\$5,000 million or more were as follows: None.
- F. Information for issuance of beneficiary certificates approved by the R.O.C. Financial Asset Securitization Law and Real Estate Securitization Law: None.
- G. Other significant transactions that might have influence over the decision making of financial statements users: None.
- H. Loans to others on September 30, 2006 were as follows : Please refer to Appendix 2.
- I. Financial guarantees for others: None.
- J. Securities held at September 30, 2006 were as follows : Please refer to Appendix 3.
- K. Accumulated purchases or sales of the stocks for the same invested company amounted to NT\$300 million or over 10% of the capital were as follows: None.
- L. Financial derivatives transaction: None.

#### Appendix 1

For the nine-month period ended September 30, 2006

(Amounts are in thousands)

Purchasing company	Recording entry	Date	Cost	Payment paid	Trading party	Relation-ship	The prior trading information if the trading party is related				Basis of the price	Purpose and usage	Others
							Owner	Relationship with the company	Date	Cost			
Hsin-Chu Real Estate Co., Ltd.	Construction in progress	September 6, 2006	NT\$2,025,880	Payment had paid before end of September	Taichung City government	None	-	-	-	-	Bid	Investment	-

#### Appendix 2

For the nine-month period ended September 30, 2006

(Amounts are in thousands)

Loaner	Debtor	Recording entry	Line of credit to the debtor	Highest balance	Ending balance	Interest rate interval	Purpose	Allowance for bad debts	Collateral		Business amount	Line of Credit
									Item	Value		
Hsin-Chu Real Estate Co., Ltd.	Chi-Da United Building Co.	Account receivable	-	NT\$15,058	NT\$10,015	8.93%	Build market place	-	-	-	-	NT\$146,394 (Note)

Note: Calculated based on the 40% shareholders' equity of Hsin-Chu Real Estate Co., Ltd as of September 30, 2006.

## Appendix 3

September 30, 2006

(Numbers of shares and amounts are in thousands)

Holding company	Security		Relationship with the issuer	Recording entry	Sep. 30, 2006				Note
	Category	Name			Shares	Cost NT\$	Percentage (%)	Fair market value	
Hsin-Chu Real Estate Co., Ltd.	Stock	Chu-Cherng Construction Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	8,484	85,558	50.50	87,589	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Chu-Chi Interior Decoration Engineering Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	1,316	15,496	88.30	16,125	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Chu-Chi Travel Service Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	180	-	30.00	-	Note 2
Hsin-Chu Real Estate Co., Ltd.	Stock	Hsin-Chu Gen-Gin Security Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	4,328	48,919	98.80	50,310	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	1,415	23,108	98.80	23,916	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Ju-Ying International Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	1,500	14,164	15.15	13,501	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	338	3,293	6.75	3,768	Note 1
Hsin-Chu Real Estate Co., Ltd.	Stock	Sen-Ding Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	2,400	19,923	21.78	19,923	Note 2
Hsin-Chu Real Estate Co., Ltd.	Stock	Ingrid International Development Co., Ltd.	Invested company measured by equity method	Equity investment under equity method	1,400	14,000	73.68	-	Note 8
Hsin-Chu Real Estate Co., Ltd.	Stock	Shin Kong Financial Holding Co., Ltd.	-	Available-for-sale financial assets	6,302	99,851	0.15	191,896	-
Hsin-Chu Real Estate Co., Ltd.	Stock	Yu-Zhuang Co., Ltd.	-	Assets carried at cost	1,260	11,507	18.00	11,546	Note 5
Hsin-Chu Real Estate Co., Ltd.	Stock	Phoenix Silicon International Corp.	-	Assets carried at cost	306	4,968	0.33	2,560	Note 4
Hsin-Chu Real Estate Co., Ltd.	Stock	Fair Fiend Enterprise Co., Ltd.	-	Assets carried at cost	-	1	-	2	Note 6
Hsin-Chu Real Estate Co., Ltd.	Stock	Leadwell Cnc Machines Mfg. Corp.	-	Assets carried at cost	6	62	0.01	65	Note 4
Hsin-Chu Futures Co., Ltd.	Stock	Taiwan Futures Exchange Co., Ltd.	-	Available-for-sale financial assets	3,050	30,500	1.52	82,625	Note 2
Chu-Cherng Construction Co., Ltd.	Stock	D-Link Corp.	-	Financial assets at fair value through profit or loss	-	-	-	4	-
Chu-Cherng Construction Co., Ltd.	Stock	Der Lee Co., Ltd.	-	Financial assets at fair value through profit or loss	143	2,443	0.07	-	-
Chu-Cherng Construction Co., Ltd.	Stock	Phoenix Precision Technology Corporation	-	Financial assets at fair value through profit or loss	1	19	-	45	-
Chu-Cherng Construction Co., Ltd.	Mutual funds	Fubon No.1 REITS	-	Financial assets at fair value through profit or loss	700	7,255	-	7,518	-
Chu-Cherng Construction Co., Ltd.	Mutual funds	Shin Kong No.1 REITS	-	Financial assets at fair value through profit or loss	1,000	1,006	-	10,300	-
Chu-Cherng Construction Co., Ltd.	Stock	Ju-Ying International Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	1,000	9,456	10.10	9,001	Note 1
Chu-Cherng Construction Co., Ltd.	Stock	International Venice Co., Ltd.	-	Assets carried at cost	545	5,455	9.09	4,631	Note 2

Holding company	Security		Relationship with the issuer	Recording entry	Sep. 30, 2006				Note
	Category	Name			Shares	Cost NT\$	Percentage (%)	Fair market value	
Chu-Cherng Construction Co., Ltd.	Stock	Her Li Sin Co. Ltd.	-	Assets carried at cost	150	1,500	7.69	1,543	Note 7
Chu-Cherng Construction Co., Ltd.	Stock	Chu-Ruei Co. Ltd.	-	Equity investment under equity method	100	1,000	7.14	1,083	Note 2
Chu-Chi Interior Decoration Engineering Co., Ltd.	Stock	Windance Co., Ltd.	-	Assets carried at cost	510	4,136	0.07	4,136	Note 2
Chu-Chi Interior Decoration Engineering Co., Ltd.	Stock	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	119	1,186	2.70	1,507	Note 1
Hsin-Chu Gen-Gin Security Co., Ltd.	Stock	Ju-Ying International Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	2,000	18,913	20.20	18,002	Note 1
Hsin-Chu Gen-Gin Security Co., Ltd.	Stock	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	647	6,081	12.95	7,229	Note 1
Hsin-Chu Gen-Gin Security Co., Ltd.	Stock	Chu-Chiann Investments Co., Ltd.	The Bank's chairman is a director of CCI	Assets carried at cost	1,150	8,050	5.12	8,878	Note 2
Hsin-Chu Gen-Gin Security Co., Ltd.	Stock	Windance Co., Ltd.	-	Assets carried at cost	124	1,245	0.02	1,010	Note 2
Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	Stock	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	870	8,170	17.40	9,714	Note 1
Hsin-Chu Gen-Gin Apartment Building Management & Maintenance Co., Ltd.	Stock	Ju-Ying International Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	1,000	9,394	10.10	9,001	Note 1
Ju-Ying International Co., Ltd.	Stock	Hsin-Chu Gen-Gin Car Leasing Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	784	7,651	15.69	8,759	Note 1
Ju-Ying International Co., Ltd.	Stock	Chu-Ruei Co., Ltd.	Subsidiary of Hsin-Chu Real Estate Co., Ltd.	Equity investment under equity method	200	2,000	14.29	2,166	Note 2
Ju-Ying International Co., Ltd.	Stock	Her Li Sin Co., Ltd.	-	Assets carried at cost	210	2,100	7.69	1,613	Note 3

Note 1: Calculated with reference to the investees' unreviewed shareholders' equity as of September 30, 2006.

Note 2: Calculated with reference to the investees' unaudited shareholders' equity as of June 30, 2006.

Note 3: Calculated with reference to the investees' unaudited shareholders' equity as of December 31, 2005.

Note 4: Calculated with reference to the investees' audited shareholders' equity as of December 31, 2005.

Note 5: Calculated with reference to the investees' unaudited shareholders' equity as of April 30, 2006.

Note 6: Calculated with reference to the investees' unaudited shareholders' equity as of March 31, 2006.

Note 7: Calculated with reference to the investees' unaudited shareholders' equity as of August 31, 2006.

Note 8: Established on August 29, 2006.

### 3) Investment information of China

Hiplan (Nan King) Technology Corp., Ltd. is a subsidiary of Chu-Shang Technology Co., Ltd., ("CST") which is an investee accounted for under the equity method by Hsin-Chu Real Estate Co., Ltd. CST was liquidated in May 2006. As of September 30, 2006, CST has not completed the legal registration.

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