

A large, detailed image of a blue ocean wave breaking, with white foam and intricate water textures, serves as the background for the central part of the cover. The wave is positioned on the right side, curving towards the center.

2005

Annual Report

The Export-Import Bank
of the Republic of China

The Export - Import Bank of the Republic of China

A Professional , Enthusiastic , and Efficient Export Credit Organization



A website is maintained by the Bank
to introduce Taiwan's small and medium-sized exporters.

The website is:

<http://www.taiwanexport.com.tw>

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I. Highlights

NT\$ millions

	FY2005*	FY2004	FY2003
Total Operating Revenues	3,053	2,883	3,669
Total Operating Expenses	2,543	2,267	2,716
Net Income Before Tax	510	616	953
Profit per Employee (Before Tax)	2.50	3.00	4.56
Loans Outstanding (Average)	76,506	88,281	98,921
Guarantees Undertaken	4,663	2,782	2,573
Export Credit Insurance Undertaken	29,549	21,100	15,732
Total Assets	78,834	97,912	108,812
Net Worth	17,704	17,324	17,354
BIS Ratio (%)	46.97%	53.38%	51.48%

*The final accounts of FY2005 is still subject to audit.

**Eximbank's fiscal year is from 1 January to 31 December.

II. Business Report



■ Ms. Pauline Fu, Chair of the Board of Directors

1. Mission

Exports accounted for 55.79% of Taiwan's 2005 GNP. It is the mission of The Export-Import Bank of the Republic of China (Eximbank) to assist in promoting foreign trade. Eximbank offers various financing and guarantee services, provides credits to manufacturers to expand their exports of capital goods, to help contractors to secure bids for overseas construction projects, and to assist in the importation of precision equipment, essential industrial raw materials and foreign know-how. Eximbank also provides a wide range of export credit insurance services to protect exporters from major losses that might arise as a result of political risk or credit risks in foreign countries.

2. Strategies

(1) Extending loans to promote exports to emerging markets

1. In order to assist local manufacturers in exporting Taiwan-made machinery and other capital equipment, enhance the development of relevant domestic industries, Eximbank has been actively participating in trade promotion activities of other financial and trade-related agencies as well as visiting financial and trade organizations in emerging markets in search of opportunities to enhance bilateral economic and trade relations.
2. Taiwan has long been internationally-renowned for manufacturing high-quality machinery and equipment at competitive prices. This coupled with the assistance provided by Eximbank in the form of export credits has encouraged foreign buyers to purchase products made in Taiwan.
3. This year, Eximbank's credit services have been extended to emerging markets in Central and South America, Eastern Europe, South Europe, Central Asia, South Asia, the Middle East, and Africa. Those countries include Brazil, Chile, Guatemala, Costa Rica, Ecuador, Belarus, the

Ukraine, Croatia, Russia, Mongolia, Lebanon, Jordan, Syria, Iran, Turkey, Sri Lanka, India, Bangladesh, Nepal, Pakistan, Ethiopia, Yemen, Sudan, Egypt, Nigeria, the Congo, Kenya, Madagascar, Libya, and Ghana, etc. The Bank has been very effective in assisting manufacturers to expand their export business.

(2) Bringing export credit insurance into full play to encourage manufacturers to accept orders, while avoiding export risks

1. In order to provide all-around export insurance services, this year, Eximbank launched and promoted GlobalSure Credit Insurance, the first export credit insurance policy of its kind designed for SMEs in Taiwan.
2. Enhancing debt collection and underwriting operations. In 2005, the loss ratio in export insurance operations remained at the low level of 11%, while the ratio of rejection has declined from 15% to 10.16%. Business increased as quality control in underwriting was successfully maintained.



■ Mr. Ching-Nain Tsai, President

(3) Enhancing cooperation with relending banks in emerging markets to assist in promoting export markets

Eximbank established relending cooperation with 39 financial institutions in emerging markets, including Mongolia, Kazakhstan, Russia, Turkey, Ukraine, Belarus, Honduras, the Dominican Republic, Peru, Brazil, Thailand, Indonesia, South Africa, and Egypt, etc. Local importers in those countries could therefore obtain loans to purchase Taiwan-made products.

(4) Expanding business contacts by participating in the international syndicated loans business

Eximbank participated in international syndicated loans in 19 countries, including Russia, Ukraine, Latvia, Belarus, Kazakhstan, India, South Korea, Bulgaria, Turkey, Malta, Britain, the Netherlands, the USA, Romania, Sri Lanka, Azerbaijan, Bahrain, Australia, and Egypt.

The arrangers of most of the international syndicated loans in which Eximbank participated were world-renowned banks. The contacts enhanced Eximbank's international visibility. Furthermore, various markets and regions of international syndicated loans produced price differentials which were beneficial to Eximbank.

Due to her rich experience in the area of international syndicated loans, local banks in Taiwan looked to Eximbank and followed suit in their international syndicated loans.

(5) Increasing cooperation with counterparts around the world

This year, Eximbank renewed its reinsurance treaty with the Munich Reinsurance Co.

In April, Eximbank officially signed the Berne Union Value Statement, which emphasized the importance of sound principles, transparency, and high ethical standards within international trade, highlighting that Taiwan's export insurance practice was already in step with the international community.

In May, Eximbank signed a cooperation agreement with Nippon Export and Investment Insurance.

In October, Eximbank signed a cooperation agreement with Export-Import Bank of the Slovak Republic.

Through multinational business cooperation, information sharing, and technology exchanges, Eximbank strived to advance bilateral trade and work together with counterparts to aid exports to the third countries.

(6) Enhancing one-stop service for financing and export insurance

The Bank enhanced account officer training, simplified operational procedures to increase the cross-sell benefit of financing and export insurance operations, thereby satisfying exporters' diversified banking needs for trade risk management and flexible funds management.

(7) Strengthening services to small- and medium-sized enterprises

When some SMEs tried to save cost by withstanding risks themselves, doing without the insurance coverage, Eximbank searched for international credit information agencies to perform credit investigations on foreign buyers for SMEs and assigned underwriting specialists to analyze the credit reports to assist SMEs appraise the credit status of importers and help them avoid possible default risks.

To encourage SMEs to use its export credit insurance, Eximbank provides preferential "Export Credit Insurance for SMEs." Furthermore, this year, Eximbank developed the GlobalSure Credit Insurance to meet the needs of SMEs. Market response has been very warm.

Bank Profile

1. Profile

The Export-Import Bank of the Republic of China, pursuant to the provisions of the Export-Import Bank of the Republic of China Act, was founded in January, 1979 as a state-owned specialized bank for export and import credits. Eximbank operates under the supervision of the Ministry of Finance as it pursues its founding goals, which are "to promote export trade and develop the economy." Eximbank works in line with the government's economic and trade policies by providing financial services to help companies

expand their external trade and overseas investment and to promote international cooperation, so as to maintain the stability and continued development of the Taiwan economy.

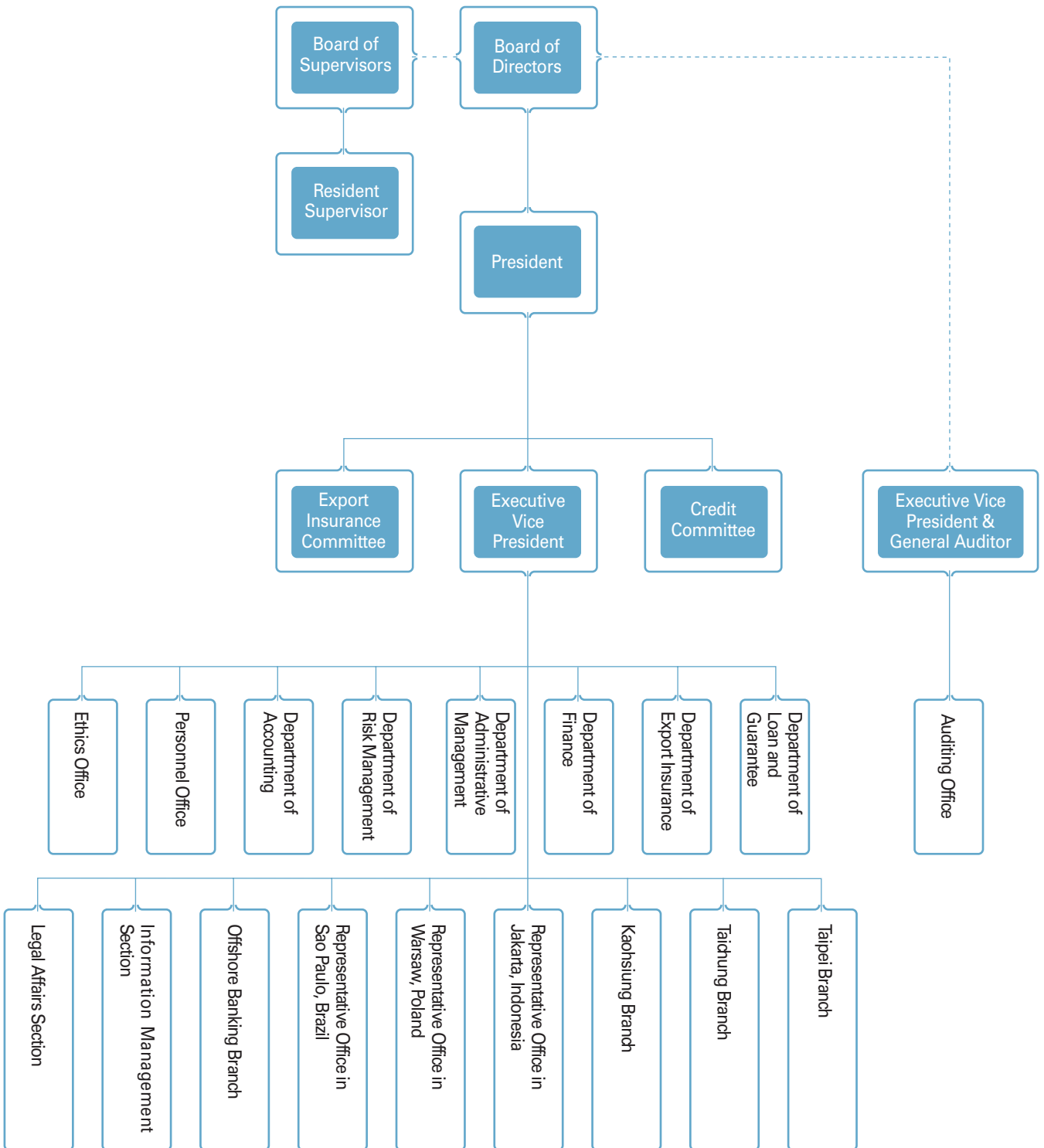
Three domestic branches of Eximbank have been established in Kaohsiung, Taichung and Taipei, as well as three overseas representative offices in Jakarta, Indonesia, Warsaw, Poland, and Sao Paulo, Brazil.



■ President Ching-Nain Tsai (third left) and the Governor of Export-Import Bank of the Slovak Republic, Mr. Ladislav Vaškovič (second left) signed a bilateral cooperation agreement.

2. Organization

(1) Organization Structure Chart



BOARD



Pauline Fu
Chair & Managing Director



Ching-Nain Tsai
Managing Director



Hau-Min Chu
Managing Director



Chin-Tan Huang
Director



Chih-Peng Huang
Director



Josephine Cheng
Director



Andy H. M. Chen
Director



Chang-Nam Lo
Resident Supervisor



Chi-Chang Lin
Supervisor



Shyan-Yang Chou
Supervisor

(2) Directors and Supervisors

Board of Directors		Board of Supervisors	
Pauline Fu	Chair & Managing Director	Chang-Nam Lo	Resident Supervisor
Ching-Nain Tsai	Managing Director	Chi-Chang Lin	Supervisor
Hau-Min Chu	Managing Director	Shyan-Yang Chou	Supervisor
Chin-Tan Huang	Director		
Chih-Peng Huang	Director		
Josephine Cheng	Director		
Andy H. M. Chen	Director		

(3) Principal Managers and General Auditor

Name	Title
Ching-Nain Tsai	President
Charles C.C. Wang	Executive Vice President
Robert R.F. Chu	Executive Vice President
Chien-Ho Sha	Executive Vice President & General Auditor
Shui-Yung Lin	Senior Vice President & General Manager Department of Loan & Guarantee
Mark P.S. Tai	Senior Vice President & General Manager Department of Export Insurance
Kuo-Dah Lih	Senior Vice President & General Manager Department of Finance & Offshore Banking Branch
C. F. Chien	Senior Vice President & General Manager Department of Risk Management
Robert C.F. Young	Senior Vice President & General Manager Department of Administrative Management
Tung-Meng Lin	Senior Vice President & General Manager Personnel Office
Yun-Hsu Lee	Senior Vice President & General Manager Ethics Office

IV. Status of Operations

1. Status of Business

(1) Loans

The loans services Eximbank provides include Medium- and Long-term Export Credits, Short-term Export Credits, Medium- and Long-term Import Credits, Overseas Investment Credits, Overseas Construction Credits, Shipbuilding Credits, International Syndicated Loans, Relending Facilities, and Major Public Infrastructure Credits, etc.

Total loans portfolio for 2005 averaged to NT\$76.5 billion, a decrease of 13.34% over the previous year.

The decrease was a result of excess saving situation prevailing in Taiwan.

Of this amount, medium- and long-term credits reached NT\$71.8 billion, accounting for 93.87%.

(2) Guarantees

The guarantees services Eximbank provides include Overseas Construction Guarantees, Import Guarantees, Export Guarantees, and Major Public Construction Guarantees.

The value of guarantees extended during 2005 amounted to NT\$4.66 billion, an increase of 67.58% over the previous year.



■ Roadshow to introduce our newest GlobalSure policies.

Of this amount, Major Public Infrastructure Guarantees accounted for 41.14%, followed by Export Guarantees (38.34%), Overseas Construction Guarantees (12.87%), Import Guarantees (7.37%).

(3) Export Credit Insurance

The export credit insurance services Eximbank provides include Comprehensive Export Credit Insurance for D/P and D/A, Comprehensive Export Credit Insurance for Open Account, Export Credit Insurance for Small and Medium Enterprise, Export Credit Insurance for L/C, Medium- and Long-Term Deferred Payment Insurance, Overseas Investment Insurance and Export Credit Insurance for Offshore Account Receivable, and GlobalSure Credit Insurance.

The volume of export credit insurance business undertaken during 2005 amounted to NT\$29.55 billion, showing a significant increase of 40.05% over the previous year and a strong performance.

Of this total amount, export credit insurance for offshore account receivables accounted for 57.33%, followed by export credit insurance for L/C, comprehensive export credit insurance for D/P and D/A, and comprehensive export credit insurance for Open Account, which accounted for 19.03%, 9.92%, and 6.56%, respectively.

2. Market Conditions

(1) Domestic and global Conditions

The financial industry is one of the industries with the most impact on economic development in the 21st century. In recent years, changes in the financial environment have increased a great deal over changes in the past and uncertainty has been on the rise. These have combined to increase risk in the banking industry. Striking a balance among the many types of risk and keeping them within an acceptable range has become an important mission for bank managers today.

In order to oversee risk, governments of countries around the world have capital control regulations, the Basel Capital Accord being a typical example, to deal with the intense competition of the banking industry.

In addition to the current "minimum capital," the New Basel Capital Accord's main reform is the addition of the Supervisory Review Process and Market Discipline which are the three pillars that form the framework of bank risk management. The New Basel Capital Accord will force financial institutions to face an integrated challenge of the risk management function. The biggest challenges facing financial institutions will be how to quantify and specialize risk management technology and information collection. Especially in light of the need to measure the three

major types of risk (credit risks, market risks, and operational risks), especially the first pillar in the New Basel Capital Accord – the minimum capital adequacy regulation (8%), various cost-benefit analysis models are in want of evaluation. It is imperative for Taiwan's financial institutions to find suitable solutions to these three major types of risks in the short term.

In 2005, Taiwan's financial slack and inadequate investment environment led to fierce competition in the banking industry. The US raised the Fed fund rate several times in succession, while the rediscount rate of Taiwan's Central Bank was only raised 0.5%. It was difficult for banks to raise its interest spread to help improve bank's overall performance.

(2) Taiwan's Credit Market

In 2005, the continued rise in oil prices triggered by such factors as imbalances between supply and demand on the international market, market speculation, and uncertainty in international politics, as well as successive interest rate hikes aimed at preventing inflation by countries around the world have dampened global economic growth. In Taiwan, during the first half of 2005, production in the manufacturing sector declined and the export surplus dropped dramatically, so that overall economy grew at a rate of only 2.73%. The economy gradually improved in the second half of the year, pushed along by the trend toward stabilization of oil prices, the depreciation of the



■ The Bank held a seminar entitled "Exploring business opportunities and risks in Russia and Turkey."

exchange rate, a pick up in production capacity within the manufacturing industry, and a better showing in exports. Economic growth for the year was 4.09%.

Since Taiwan's economic outlook remains promising to foreign investors, Taiwan has enjoyed sufficient inflow of foreign capital. Enterprises have been raising funds by issuing bills which has slowed down growth in lending for the banking industry overall. In order to profit from interest spreads, most of local banks emphasized consumer banking. Eximbank cannot engage itself in consumer banking, so it is not easy to cause growth in its lending business and in interest spreads. To give its business room to develop, Eximbank continued to develop a variety of new lines of businesses and actively assisted enterprisers in exploring emerging markets in a combined effort to respond to the rapid change of the macro environment.

(3) Export Credit Insurance Market

Taiwan imported crude oil and large amounts of equipment for its high speed rail in 2005, so that import growth for the year was 8.2%, but export performance wasn't slack either, growing at 8.8% for the year. After subtracting imports from exports, Taiwan saw a US\$15.82 billion in trade surplus for the year.

In the first half of 2005, while expansion of the international economy decelerated, Taiwan still

performed well with export order volume experiencing double-digit growth. The upturn in the global economy in the latter half of the year gave Taiwan's export orders an added boost. Export sales order grew at 19.20% with orders coming in from all over the globe. Of these, export order volume from Asia contributed most, increasing 22.62% or US\$23.97 billion over 2004. In the same year, Eximbank extended NT\$6.74 billion in export credit insurance to countries in Asia, an increase of 57.22%, showing that Eximbank's export insurance business works in coordination with economic and trade development trends to assist manufacturers in steering clear of credit risks. In other regions, including Eastern Europe, the Middle East, Africa, as well as Central and South America, the volume of credit insurance extended by Eximbank has seen growth between 3.89% and 36.37%, providing timely assistance to manufacturers developing emerging markets and achieving the strategic objective of "going global" and diversifying its export market.

Eximbank will continue to work in line with the government's economic and trade policies to provide export insurance services that meet the needs of manufacturers, to simplify insurance application procedures, and reduce the cost burden of manufacturers to enhance their competitive edge on the international market.

V. Financial Statement

Balance Sheet

NT\$ thousands

Item	Notes	December 31, 2005		December 31, 2004	
		Amount	%	Amount	%
ASSETS		78,834,319	100.00	97,912,339	100.00
Current Asset		9,410,395	11.94	13,892,980	14.19
Cash and Due from Banks	Note 4 (1)	60,702	0.08	138,323	0.14
Short-term Investment-net	Note 4 (2)	8,385,007	10.64	13,214,738	13.50
Receivable-net	Note 4 (3)	952,630	1.20	526,026	0.54
Prepayments		5,608	0.01	8,532	0.01
Short-term advances		5,545	0.01	5,361	0.01
Other Current Assets		903			
Bills Purchased and Loans-net	Note 4 (4)	68,658,369	87.09	83,216,914	84.99
Long-term Investments	Note 4 (5)	102,500	0.13	102,500	0.11
Fixed Assets	Note 4 (6)	499,102	0.63	511,388	0.52
Intangible Assets		57,142	0.07	70,281	0.07
Other Assets	Note 4 (7)	106,811	0.14	118,276	0.12
TOTAL ASSETS		78,834,319	100.00	97,912,339	100.00
LIABILITIES		61,130,409	77.54	80,588,321	82.31
Current Liabilities		9,447,668	11.98	7,580,717	7.74
Due to Banks		9,076,669	11.51	7,335,972	7.49
Payables	Note 4 (8)	369,190	0.47	242,764	0.25
Advance Receipts		1,809	0.00	1,981	0.00
Debentures		8,000,000	10.15	12,000,000	12.26
Borrowed from Banks		41,001,746	52.01	57,907,502	59.14
Long-term Liabilities	Note 4 (9)	1,095,789	1.39	1,557,730	1.59
Other Liabilities	Note 4 (10)	1,585,206	2.01	1,542,372	1.58
EQUITY		17,703,910	22.46	17,324,018	17.69
Capital		12,000,000	15.22	12,000,000	12.26
Capital Surplus		118,819	0.15	92,619	0.09
Retained Earnings	Note 4 (11)	4,895,866	6.21	4,713,821	4.81
Equity Adjustments		689,225	0.88	517,578	0.53
TOTAL LIABILITIES AND EQUITY		78,834,319	100.00	97,912,339	100.00

Notes:

1. At the end of the year, Eximbank acted as trustee, custodian or guarantor for others with off-balance assets or liabilities totaled NT\$6,330,812 thousand, of which contingent assets (liabilities) including guarantees receivables (guarantees) amounted to NT\$4,380,508 thousand.
2. The final accounts of FY2005 is still subject to audit.
3. The exchange rate was US\$1:NT\$32.86 on December 31, 2005.US\$1:NT\$31.768 on December 31, 2004.

Income Statement

NT\$ thousands

Item	Notes	January 01, 2005 ~ December 31, 2005		January 01, 2004 ~ December 31, 2004	
		Amount	%	Amount	%
Operating Revenue		3,028,810	100.00	2,753,169	100.00
Banking and Insurance Income		3,028,810	100.00	2,753,169	100.00
Interest Income		2,798,995	92.41	2,517,998	91.46
Insurance Premium		82,083	2.71	64,319	2.34
Reinsurance Commissions		3,393	0.11	2,801	0.10
Claims Recovered from Reinsurers		4,556	0.15	6,129	0.22
Export Insurance Reserves Released	Note 4 (12)	18,361	0.61	23,752	0.86
Commissions and Fees		36,916	1.22	28,747	1.04
Gains from investments				304	0.01
Recovery from Fair Market Value of Short-term Investments					
Gains from Sales of Securities		71,466	2.36	96,583	3.51
Gains from Long-term Equity Investments		13,040	0.43	12,536	0.46
Operating Costs		2,020,856	66.72	1,765,362	64.12
Banking and Insurance Costs		2,020,856	66.72	1,765,362	64.12
Interest Expenses		1,857,846	61.34	1,645,600	59.77
Reinsurance Premium		56,012	1.85	40,748	1.48
Brokerage Expenses		124	0.00	89	0.00
Insurance Claims and Payments		6,458	0.21	9,737	0.36
Provision for Export Insurance Reserve	Note 4 (13)	45,799	1.51	53,438	1.94
Commissions and Fees		10,024	0.33	12,887	0.47
Losses from Investments		6,208	0.21	1,947	0.07
Loss on Foreign Exchange		1,436	0.05	916	0.03
Appropriations for Reserve Account		36,948	1.22		
Gross Operating Income		1,007,954	33.28	987,807	35.88
Operating Expenses		518,379	17.12	497,417	18.07
Business Expenses		441,581	14.58	423,689	15.39
Administrative Expenses		70,417	2.33	69,412	2.52
Other Operating Expenses		6,381	0.21	4,316	0.16
Operating Income		489,575	16.16	490,390	17.81
Non-operating Income		24,139	0.80	130,177	4.73
Miscellaneous income		24,139	0.80	130,177	4.73
Non-operating Expenses		3,480	0.11	4,967	0.18
Loss from Asset Disposals		1,025	0.03	2,143	0.08
Miscellaneous Expenses		2,455	0.08	2,824	0.10
Non-operating Profit		20,659	0.69	125,210	4.55
Net Income Before Tax		510,234	16.85	615,600	22.36
Income Tax		55,122	1.82	54,254	1.97
Net Income After Tax		455,112	15.03	561,346	20.39

Cash Flow Statement

NT\$ thousands

Item	Notes	January 01, 2005 ~ December 31, 2005	January 01, 2004 ~ December 31, 2004
CASH FLOWS FROM OPERATIONS		242,268	625,728
Net Income		455,113	561,346
Adjustments for Non-cash Items	Note 4 (14)	-212,845	64,382
Net cash Provided by Operating Activities		242,268	625,728
CASH FLOWS FROM INVESTMENT		14,954,684	8,064,128
Decrease in Short-term Investments		226,411	-4,097
Decrease in Bills Purchased and Loans		14,758,125	8,112,861
Decrease in Fixed Assets and Amortized Assets		12	17
Decrease in Intangible Assets and Other Assets		-23,605	-40,680
Increase in Fixed Assets and Amortized Assets		-6,259	-3,973
Net Cash Used in Investing Activities		14,954,684	8,064,128
CASH FLOWS FROM FINANCING ACTIVITIES		-19,873,233	-9,370,104
Increase in Bank Debentures		-2,259,303	2,562,600
Increase in Financing form Bank		-16,905,756	-10,484,431
Increase in Long-term Liabilities		429,194	427,508
Increase in Other Liabilities		1,491	-69,636
Decrease in Long-term Liabilities		-864,147	-1,363,657
Cash Dividends		-274,712	-442,488
Net Cash provided by Financing Activities		-19,873,233	-9,370,104
Foreign Exchange Adjustments		1,724	3,832
Net Increase in Cash and Cash Equivalents		-4,674,557	-676,416
Cash and Cash Equivalents at Beginning of Year		13,035,259	13,711,675
Cash and Cash Equivalents at End of Year		8,360,702	13,035,259

Notes: 1. Cash and Cash Equivalents include cash, deposits at banks, deposits with the Central Bank which can be freely withdrawn and short-term investments with a maturity of less than 3 months.
 2. "Adjustments for Non-cash Items" includes losses from bad loan reserves, reserves, depreciation, amortization, losses/gains from foreign exchange, losses/gains from disposal of fixed assets, others, net decrease/increase in current assets, net income/decrease in current liabilities, and deferred income tax.

Statements of Changes in Equity 2005 and January 01 ~ December 31, 2004

NT\$ thousands

Item	Capital	Capital Surplus	Retained Earnings		Cumulative Translation Adjustment	Total
			Legal Surplus	Accumulated Earnings		
Balance, Jan. 1, 2004	12,000,000	92,619	4,489,282		772,586	17,354,487
Provision for Legal Surplus			224,538	(224,538)		
Cash and Cash Dividends Appropriated				(336,808)		(336,808)
Net Income for FY 2004				561,346		561,346
Changes in Cumulative Translation Adjustments					(255,008)	(255,008)
Balance, Dec. 31, 2004	12,000,000	92,619	4,713,820		517,578	17,324,017
Costs for Reassessing Land		26,200				26,200
Provision for Legal Surplus			182,045	(182,045)		
Cash and Cash Dividends Appropriated				(273,067)		(273,067)
Net Income for FY 2005				455,112		455,112
Changes in Cumulative Translation Adjustments					171,648	171,648
Balance, Dec. 31, 2005	12,000,000	118,819	4,895,865		689,226	17,703,910

Financial Analysis

NT\$ thousands; %

Item		2005	2004
Operating Ability	Interest Revenue to Average Total Loans Balance (a)	3.66%	2.85%
	Total Assets Turnover (number of times) (b)	0.04	0.03
	Average Operating Income per Employee	14,847	13,430
	Average Profit per Employee	2,231	2,738
Profitability	Return on Tier 1 Capital (c)	2.93%	3.57%
	Return on Assets	0.51%	0.54%
	Return on Equity	2.60%	3.24%
	Net Profit Rate (d)	15.03%	20.39%
	Earnings Per Share (NT\$ dollars)	0.38	0.47
Rate of Growth	Asset Growth (e)	-19.48%	-10.02%
	Profit Growth (f)	-17.12%	-35.41%
Liquid Reserves Ratio		216.42%	
Capital Adequacy	Total Tier 1 Capital	17,585,092	17,231,398
	Net Self-Provided Capital	18,003,657	17,568,546
	Risk-based Assets	38,329,432	32,911,960
	Capital Adequacy Ratio	46.97%	53.38%
	Tier 1 Capital to Risk-Weighted Assets Ratio	45.88%	52.36%
	Tier 2 Capital to Risk-Weighted Assets Ratio	1.36%	1.34%
	Tier 3 Capital to Risk-Weighted Assets Ratio	0%	0%
	Ratio of Common Stock Equity to Total Assets (g)	15.22%	12.26%

(a) The increase of the Interest Revenue to Average Total Loans Balance in 2005 over 2004 was due principally to interest rate increases in 2005.

(b) The increase of total assets turnover in 2005 over 2004 was due principally to overall decrease in total assets.

(c) The decrease in Return on Tier 1 Capital in 2005 over 2004 was due principally to increases in average Total Tier 1 Capital and decreases in profits.

(d) The decrease in Net Profit Rate in 2005 over 2004 was due principally to increases both in interest rates and operating income in 2005.

(e) The negative asset growth in 2005 over 2004 was due principally to the decrease in loan balance in 2005.

(f) The negative profit growth of 2005 over 2004 was due principally to the decrease in income before tax in 2005.

(g) The increase of Ratio of Common Stock Equity to Total Assets in 2005 over 2004 was due principally to the decrease in total assets in 2005.

Financial Formulas

1. Operating Ability

- (1) Interest Revenue to Average Total Loans Balance = Total Interest Revenue \div Average Annual Total Loans
- (2) Total Assets Turnover = Operating Revenue \div Total Assets
- (3) Average Operating Revenue per Employee = Total Operating Revenue \div Number of Employees
- (4) Average Profit per Employee = Net Income after Tax \div Number of Employees

2. Profitability

- (1) Return on Tier 1 Capital = Income before Taxes \div Average Total Tier 1 Capital
- (2) Return on Assets = Net Income \div Average Assets
- (3) Return on Equity = Net Income \div Average Equity
- (4) Net Income to Operating Revenue = Net Income \div Operation Revenue
- (5) Earnings Per Share = (Net Profit before Taxes – Dividends from Preferred Stocks) \div Weighted Average Outstanding Shares (Note 2)

3. Growth Rate

- (1) Asset Growth = (Total Assets for Current Year – Total Assets for Previous Year) \div Total Assets for Previous Year
- (2) Profit Growth = (Income before Taxed for Current Year – Income before Taxes for Previous Year) \div Income before Taxes for Previous Year

- 4. Liquid Reserves Ratio** = Central Bank Stipulated Liquid Assets \div Reserves Appropriated for Various Types of Liabilities

5. Capital Adequacy

(1) Capital-net = Tier 1 Capital + Tier 2 Capital + Tier 3 Capital – Capital Deductibles

(2) Total Risk Assets = Credit Risk Weighted Assets + Market Risk Capital Measurement $\times 12.5$

(3) Capital Adequacy Ratio = Net Self-Provided Capital \div Total Risk Assets

(4) Tier 1 Capital to Risk-Weighted Assets Ratio = Tier 1 Capital \div Total Risk-Weighted Assets

(5) Tier 2 Capital to Risk-Weighted Assets Ratio = Tier 2 Capital \div Total Risk-Weighted Assets

(6) Tier 3 Capital to Risk-Weighted Assets Ratio = Tier 3 Capital \div Total Risk-Weighted Assets

(7) Ratio of Common Stock Equity to Total Assets = Common Stock Equity \div Total Assets

Notes:

1. Liabilities exclude guarantee liabilities reserve, reserve for losses on sale of securities purchased, reserve for contract-breaking loss, and contingency reserve.
2. In 2003, Eximbank's special surplus were converted to capital increase. When calculating Earnings Per Share for previous years, adjustments have already been made retroactively.
3. Eximbank's shares are denominated as NT\$10 per share.

Notes to Financial Statements

Note 1: Significant Accounting Policy

1. Foreign Exchange Administration Policies and Foreign Exchange Conversion Methods Used in Financial Statements

(1) Foreign Exchange gains or losses on Eximbank's assets or liabilities denominated in foreign currencies are translated into Taiwan Dollars at the closing rates as at the balance sheet date. With regard to foreign currency advance to

offshore branches as long-term investment, for which gains/losses will not be exchanged/realized in the foreseeable future, such exchange gains or losses is recorded in "Cumulative Translation Adjustment" account and treated as an adjustment of owner's equity.

(2) Conversion of foreign currencies into local currency used in the Financial Statement is based on the rate stipulated in the foreign exchange schedule released by the Central Bank of China.



■ The representative of The Export-Import Bank, Mr. Charles Day, joined the 3rd international business meeting held by Jaraguá do Sul to introduce the services offered by The Export-Import Bank to Brazilian business communities.

(3) The US\$/NT\$ exchange rate in the Financial Statements is based on the domestic inter-bank spot rate as of 10:00 a.m. on the balance day (December 31, 2005). The Exchange rates for the Japanese yen, Euro, the U.K. pound sterling, and the Indonesian Rupee are based on the US dollar buying rate of the respective currencies in the international market at 10:00 a.m. on the balance day; the currencies are calculated using the US\$ exchange rate stated above.

(4) The conversion rates for Polish zloty and the Brazilian cruzeiro are based on the most recent exchange rates in the international market as quoted in Bloomberg; the Polish zloty and the Brazilian cruzeiro are converted using the US\$-NT\$ exchange rate.

2. Taxes

Eximbank's income from export insurance business is exempt from corporate income tax, gross business revenue tax, and stamp tax in accordance with the stipulations of the Ministry of Finance as per its letter No. 68 (Tai-Tsai-Shui 37537).

3. Valuation of Short-term Investments

Eximbank's short-term investments include purchase of marketable securities, commercial paper and negotiable certificates of deposit, all of which are carried on the accounts at cost. Ensuing valuation of the aforementioned items is calculated using "Lower of Cost or Market Methods" (LCM). When the book value exceeds the market value, an allowance for decline in market value of such investment (Reserve for losses on Securities Trading) is recognized as a contra for such investment, and the difference is listed as losses on short-term investments. The loss is deducted from the outstanding amount on the credit side under the valuation item when the market value rises. In reality, the market value of purchased commercial paper, treasury bills, and negotiable certificates of deposit remains very stable and above the level of cost, valuation of such monetary investment is therefore carried on the accounts at cost. Interest income from such investments is entered into the accounts as "Gains from Securities Trading," whereas interest income from government bonds and corporate bonds is entered as "Interest on Securities."

4. Valuation of Long-term Investments

Eximbank's long-term investments include NT\$7 million in the unlisted Taipei Forex Inc., NT\$50 million in the Taiwan Asset Management Co., and NT\$45.5 million in the Financial Information Service Co., which are carried on the accounts at cost. Cost method is adopted because the investment held in Eximbank does not exceed 20% in any of these companies. Gains on such long-term investments are listed in accordance with the actual amount of dividends received from the invested companies.

5. Valuation and Depreciation of Fixed Assets

Eximbank's fixed assets include land, buildings, machinery and equipment, transportation vehicles, miscellaneous equipment and leasehold improvements. All Eximbank's land is carried on the accounts at cost, except for land belonging to the head office, which was revalued in October 2001 and July 2005. All other fixed assets are carried at their original construction cost less accumulated depreciation, with depreciation being calculated using the averaging method.

6. Valuation and Amortization of Intangible Assets

Eximbank's intangible assets include computer software, which is amortized over its useful life based on the averaging method.

7. Employee Pension Plan and Retirement Fund Cost

The Financial industry in Taiwan was brought under the scope of the Labor Standards Law in May 1997. An amount equal to 15% of annual salary of staff in Eximbank's head office and domestic branches is allocated annually for the "Pension and Employee Termination Fund" as stipulated by the "Regulations Governing the Allocation and Management of Labor Pension Fund," and with the review and approval of the Bureau of Labor Affairs, Taipei Municipal Government. The allocation for Eximbank's expatriates is based on domestic pay scales. Contributions to staff are administered by Eximbank's "Retirement Fund Supervisory Committee". Contributions to non-staff employee and security guard are deposited into an account with the Central Trust of China in the name of "Eximbank Labors' Pension Monitoring Committee".

For those non-staff employees selecting new pension option, Eximbank contributes an amount equal to 6% of monthly salaries which is deposited into the employees' personal pension account with Bureau of Labor Insurance. The contributions of local employees hired by ROC overseas representative offices are to be incorporated into Eximbank's accrued pension liabilities in accordance with local regulations.

8. Listing of Income

Eximbank's income is recognized on an accruals basis.

9. Differentiation of Capital Expenditure and Revenue Expenditure

Expenditures which exceed NT\$ 10,000 and have a 2-year (or longer) economic life are recognized as assets; other expenditures are entered as expenses.

10. Disposal of Fixed Assets

Losses from disposal of assets arise from assets retirement, which are treated as non-operating expenses.



■ The Bank held a seminar on the globalization strategies in the Hand tool industry.

11. Allowances for Non-Performing Loans

Credit assets are rated and classified into five categories in accordance with the borrower's creditworthiness, loan collateral status, and collection probability. (The 1st category include loans with no credit risk, the 2nd category include loans that ought to be watched carefully, the 3rd category include loans which may be fully collected; the 4th category include loans with collection difficulty; the 5th category include loans with no hope of collection.) The allowances ratio for non-performing loans is calculated based on the collateral status of Eximbank's various categories of loans and the probability of collection. The minimum allowance for the 2nd category is 2%. The minimum allowance for the 3rd category of loans is 10%. The minimum allowance for the 4th category is 50% and that for the 5th category is 100%.

12. Reserves for Operating and Contingent Liabilities

- (1) The allowance for the guarantee liability is 0.8% of total guarantees outstanding.
- (2) Allowances for "Pending Claims Reserve," "Special Claims Reserve," "Unearned Premium Reserve" and "Export Insurance Reserve" are determined based

on relevant regulations. The "Export Insurance Reserve" includes allocations from the Ministry of Finance and the Board of Foreign Trade of the Ministry of Economic Affairs in this fiscal year.

13. Trading of Financial Derivatives

Eximbank's trade in financial derivatives is carried out to manage relevant assets and liabilities to reduce capital cost and control risks. Eximbank is currently engaged in two types of trading: interest rate swap and cross currency swap, both of which are carried out as hedging activities not for the purpose of trading.

(1) Interest Rate Swap

The nominal amount is entered in a memorandum account on the date of the transaction. During the life of the contract, net interest income or expense calculated based on terms of the contract is entered into the accounts on the settlement date. Upon maturity, the account is deleted from the aforementioned memorandum.

(2) Cross Currency Swap

The contract value is entered into the account on the contract date with currencies used in transaction specified in the memorandum.

During the life of the contract, the respective interests are calculated separately. The gains / losses are credited or charged to the income account and the deal is written off the memorandum on the day of settlement.

Note 2. Important Commitment and Contingency

Liabilities

(1) Eximbank acted as trustee, custodian, and guarantor for others with off balance sheet assets (liabilities) amounting to NT\$6,330,811,521.42. This

includes NT\$4,380,508,081.50 in guaranteed receivables, NT\$978,277,923.11 of receivables to be collected, loan account receivables NT\$ 971,955,516.81, certified notes of NT\$70,000.00. The aforementioned accounts are covered in off-book explanatory notes instead of being entered into the balance sheet.

(2) Short-term payable (receivable) bills amounted to 0 NT dollars.

(3) Non-disbursed loan commitments amounted to NT\$10,073,988,591.84.



■ The Bank donated used computers to elementary schools in remote areas.

(4) The following are trade in financial derivatives carried out as of 31 December 2005.

1. Interest-related contracts amounted to NT\$5,000,000 thousands.

Items Traded: Interest swaps based on received and paid out fixed/floating interest or received and paid out floating interest.

Purpose of Trade: Receipt or payment is based on fixed or interest rates for such interest rate swap transactions.

Notional Principal: NT\$5,000,000 thousands (Finance Department).

Credit Risk: Eximbank trades with international financial institutions with sound credit and no credit risk is expected.

Market Risk: Carried out as solely hedging activities, therefore, they are not influenced by market interest fluctuations.

Cash Requirement: Eximbank has sufficient working capital, so there are no liquidity or cash flow risks.

2. Currency exchange-related contracts amounted to NT\$2,500,000 thousands.

Items Traded: Cross currency swaps

Purpose of Trade: These interest and currency swaps are carried out in coordination with the US dollar lending requirements to manipulate favorable US dollar exchange rates to hedge against risks and reduce costs involved with raising funds.

Notional Principal: Translated in US\$72,395 thousands (The Finance Department issued NT\$2.5 billion in financial debentures which were converted into US dollars to be used in loans).

Credit Risk: Eximbank trades with international financial institutions with sound credit and no credit risk is expected.

Market Risk: Used in coordination with Eximbank's US dollar loan activities and is a natural hedge.

Cash Requirement: Eximbank has the corresponding cash inflow and outflow for each trade, so there are no liquidity or cash flow risks.

Note 3. Details of Significant Accounts (NT\$ thousands)

1. Cash and Due from Banks →	Date →	Dec. 31, 2005	Dec. 31, 2004
	Item ↓		
	Cash	381	545
	Due from Banks	60,320	137,392
	Due from Central Bank	1	386
	Total	60,702	138,323

2. Short-term Investment- net →	Date →	Dec. 31, 2005	Dec. 31, 2004
	Item ↓		
	Securities Purchased	93,338	319,749
	Commercial Paper Purchased		496,936
	Negotiable Certificates of Deposit Purchased	8,300,000	12,400,000
	Treasury Bills Purchased		
	Allowances for Losses on Short-term Investments	-8,331	-1,947
	Total	8,385,007	13,214,738

Date →	Dec. 31, 2005	Dec. 31, 2004
Item ↓		
Earned Revenue Receivable	19,780	15,806
Accounts Receivable	3,322	652
Income Tax Refund Receivable	15,442	
Interests Receivable	535,955	432,502
Premium Receivable	12	9
Claims Recoverable from Reinsurers	423	
R/S of Investments in Marketable Securities	184,863	80,145
Forward Exchange Contracts Receivable- Foreign Currencies		
Other Receivables	197,108	273
Total	956,905	529,387
Allowance for Doubtful Debts	-4,275	-3,361
Net Amount	952,630	526,026

← 3. Receivables- net

Date →	Dec. 31, 2005	Dec. 31, 2004
Item ↓		
Short-term Loans	5,193,924	5,481,862
Short-term Secured Loans		110,214
Mid-term Loans	12,640,580	9,686,843
Mid-term Secured Loans	4,334,519	4,294,268
Long-term Loans	1,004,003	1,195,663
Long-term Secured Loans	45,889,437	62,850,434
Total	69,062,463	83,619,284
Allowance for Doubtful Debts-Bills Purchased and Loans	-404,094	-402,370
Net Amount	68,658,369	83,216,914

← 4. Bills Purchased and Loans- net

5. Long-term Investments →	Date →	Dec. 31, 2005		Dec. 31, 2004	
	Item ↓	Amount	Percentage of Shareholding%	Amount	Percentage of Shareholding%
Long-term investments are carried at cost	Financial Information Service Co., Ltd.	45,500	1.14	45,500	1.14
	Taiwan Asset Management Corporation	50,000	0.28	50,000	0.28
	Taipei Forex	7,000	3.53	7,000	3.53
	Total	102,500		102,500	

6.Fixed Assets →	Date →	Dec. 31, 2005	Dec. 31, 2004
	Item ↓		
	Land	230,374	233,714
	Land	80,203	80,203
	Revaluation Increments – Land	150,171	153,511
	Buildings	235,772	241,462
	Buildings	350,699	350,410
	Accumulated Depreciation – buildings	-114,927	-108,948
	Machinery & Equipment	22,103	26,833
	Machinery & Equipment	67,493	67,492
	Accumulated Depreciation – Machinery & Equipment	-45,390	-40,659
	Transportation Equipments	3,163	2,619
	Transportation Equipments	11,305	11,130
	Accumulated Depreciation – Transportation Equipments	-8,142	-8,511
	Miscellaneous Equipments	7,690	6,760
	Miscellaneous Equipments	26,016	25,063
	Accumulated Depreciation – Miscellaneous Equipments	-18,326	-18,303
	Leasehold Improvements		
	Leasehold Improvements	1,687	1,581
	Accumulated Depreciation – Leasehold Improvements	-1,687	-1,581
	Total	499,102	511,388

Date →	Dec. 31, 2005	Dec. 31, 2004	← 7. Other Assets
Item ↓			
Miscellaneous Assets	47,171	16,693	
Refundable Deposit	2,660	1,704	
Overdue Receivables	164,107	103,141	
Allowance for Doubtful Debts- Overdue Receivables	-120,908	-91,514	
Collaterals and Residues Taken Over			
Temporary Payables and Suspense Accounts	1,312	3,362	
Deferred Assets	59,640	101,583	
Bond Issuance Expenses	161	135	
Deferred Income Tax Assets	59,270	101,315	
Other Deferred Assets	209	133	
Total	106,811	118,276	

Date →	Dec. 31, 2005	Dec. 31, 2004	← 8. Payables
Item ↓			
Notes Payable	770	770	
Accounts Payable	3,315	652	
Collections for Others	1,715	3,797	
Accrued Expenses Payable	99,438	84,550	
Tax Payable	4,210	21,429	
Reinsurance Benefit Payable	5,617	9,540	
Accrued Interest Payable	144,829	217,865	
Commissions Payable		222	
Dividends and Bonuses Payable	12,275	13,918	
Insurance Premium Collection Payable	621	664	
Forward Exchange Contracts Payable- Foreign Currencies	2,378,905	3,946,246	
Foreign Exchange Contracts Sold Receivable	-2,500,000	-4,158,812	
Other Accounts Payable	217,495	101,920	
Total	369,190	242,761	

9. Long-term Liabilities →

Date →	Dec. 31, 2005	Dec. 31, 2004
Item ↓		
Appropriated Loan Funds	1,035,380	1,467,651
Estimated Accrued Land Value Increment Tax Payable	31,352	60,892
Accrued Pension Liabilities	29,057	29,187
Total	1,095,789	1,557,730

10. Other Liabilities →

Date →	Dec. 31, 2005	Dec. 31, 2004
Item ↓		
Operating and Liability Reserve	1,571,433	1,532,988
Guarantee Liability Reserve	35,044	21,139
Export Insurance Reserve	1,488,407	1,467,151
Unearned Premium Reserve	7,091	6,372
Special Claims Reserve	28,844	26,337
Pending Claims Reserve	12,047	11,989
Miscellaneous Liabilities	13,773	9,384
Refundable Deposits	2,809	4,234
Custody Deposits	2,117	1,567
Temporary Receivables and Suspense Accounts	8,847	3,583
Total	1,585,206	1,542,372

11. Retained Earnings →

Date →	Dec. 31, 2005	Dec. 31, 2004
Item ↓		
Appropriated Retained Earnings	4,895,866	4,713,820
Legal Surplus	4,895,866	4,713,820
Total	4,895,866	4,713,820

Date —	Jan. 1, 2005 to Dec. 31, 2005	Jan. 1, 2004 to Dec. 31, 2004
Item ↓		
Premium Reserve Released	6,372	5,659
Pending Claims Reserve Released	11,989	18,093
Total	18,361	23,752

← 12. Export Insurance
Reserves Released

Date —	Jan. 1, 2005 to Dec. 31, 2005	Jan. 1, 2004 to Dec. 31, 2004
Item ↓		
Provision for Premium Reserve	7,091	6,372
Provision for Special Reserve	2,506	7,177
Provision for Pending Claims Reserve	12,047	11,989
Provision for Export Insurance Reserve	24,155	27,900
Total	45,799	53,438

← 13. Provision for
Various Export
Insurance Reserves

Date —	Jan. 1, 2005 to Dec. 31, 2005	Jan. 1, 2004 to Dec. 31, 2004
Item ↓		
Provision for Doubtful Debts and Losses	32,031	-155,332
Provision for Various Reserve	41,343	36,387
Depreciation and Depletion	14,380	14,066
Amortization	37,735	29,525
Exchange Losses	1,436	916
Losses from Disposal of Assets	1,025	1,839
Others	6,412	1,969
Net Decrease in Current Assets	-424,778	66,522
Net Increase in Current Liabilities	36,429	68,611
Net Increase in Deferred Income Tax	41,142	-118
Total	-212,845	64,385

← 14. Adjustments for
Non-cash Items

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