Cathay United Bank
Financial Statements
For The Three-Month Periods Ended March 31, 2005 and 2006
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Public Banks" by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, Republic of China. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

DIWAN, ERNST & YOUNG
致遠會計師事務所

9th Floor
International Trade Bldg.
Taipei World Trade Center
333 Keelung Rd., Sec. 1
Taipei 110, Taiwan, R.O.C.
台北市基隆路一段333號9樓

Phone: 886 2 2720 4000
Fax : 886 2 2757 6050

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of March 31, 2005 and 2006, and the related statements of income and cash flows for the three-month periods ended March 31, 2005 and 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

Our review was made in accordance with the Statement for Auditing Standards No. 36 "Review of Financial Statements" generally accepted in the Republic of China ("ROC"), which consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the ROC, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

As discussed in Note III to the financial statements, effective from January 1, 2006, the Bank adopted the ROC Statements of Financial Accounting Standards ("SFAS") No. 34, "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" to account for its financial instruments. The Bank also has adopted the ROC SFAS No. 35, "Accounting for Asset Impairment" to account for the impairment of its assets, effective from January 1, 2005.

Diwan, Ernst & Young

DIWAN, ERNST & YOUNG
Taipei, Taiwan
The Republic of China
April 20, 2006

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2005		March 31, 2006	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$17,184,701	$546,240	$20,723,275	$639,213
Due from the Central Bank and call loans to banks	IV and V	56,626,405	1,799,949	44,476,999	1,371,900
Financial assets at fair value through profit and loss	II, III and IV	46,575,141	1,480,456	55,091,437	1,699,304
Securities purchased under agreements to resell		1,928,750	61,308	2,387,631	73,647
Available-for-sale financial assets, net	II, III and IV	37,226,973	1,183,311	51,517,533	1,589,066
Receivables, net	II, IV and V	54,813,881	1,742,336	58,019,899	1,789,633
Loans and advances to customers, net	II, IV and V	594,619,272	18,900,803	625,694,410	19,299,642
Held-to-maturity financial assets, net	II and IV	8,282,145	263,260	6,540,298	201,737
Investments accounted for using equity method, net	II, IV and V	5,126,955	162,967	4,389,423	135,392
Premises and equipment, net	II, V and VII	24,835,784	789,440	24,479,952	755,088
Investments in debt securities with no active market, net	II and IV	177,545,269	5,643,524	203,033,495	6,262,600
Other financial assets, net	II, III, IV and V	5,224,462	166,067	4,746,798	146,416
Other assets, net	II, IV and V	5,587,334	177,601	6,803,891	209,867
TOTAL ASSETS		$1,035,577,072	$32,917,262	$1,107,905,041	$34,173,505

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the three-month periods ended March 31, 2005 and 2006

(Expressed in thousands of dollars, except per share information)

(Reviewed, not audited)

ITEMS	NOTES	January 1 - March 31, 2005 NT	January 1 - March 31, 2005 US (Note II)	January 1 - March 31, 2006 NT	January 1 - March 31, 2006 US (Note II)
Interest income	II	$9,009,487	$286,379	$10,133,739	$312,577
Interest expense		(2,717,041)	(86,365)	(3,563,116)	(109,905)
NET INTEREST INCOME		6,292,446	200,014	6,570,623	202,672
NONINTEREST INCOME					
Net fee income	II and V	1,467,303	46,640	1,097,025	33,838
Gains on financial assets and liabilities at fair value through profit and loss	II and III	66,724	2,121	107,587	3,319
Realized gains on available-for-sale financial assets	II	58,719	1,866	74,233	2,290
Realized gains on held-to-maturity financial assets	II	-	-	671	21
Investment income recognized by the equity method	II and V	5,053	161	40,665	1,254
Foreign currency exchange gain, net	II	85,545	2,719	140,390	4,330
Impairment loss of assets	II	(392,751)	(12,484)	(13,336)	(411)
Gains on reversal of foreclosed properties impairment		534,196	16,980	200,748	6,192
Recovries of doubtful accounts	IV	182,853	5,812	-	-
Losses on disposal of foreclosed properties		(333,355)	(10,596)	(37,758)	(1,165)
Others	V	146,257	4,649	11,553	356
NET NONINTEREST INCOME		1,820,544	57,868	1,621,778	50,024
NET OPERATING REVENUE		8,112,990	257,882	8,192,401	252,696
PROVISION FOR LOAN LOSSES	IV	-	-	(2,923,947)	(90,190)
OPERATING EXPENSES					
Personnel	II and IV	(1,667,374)	(53,000)	(1,361,086)	(41,983)
Depreciation and amortizaion	II	(300,684)	(9,557)	(307,110)	(9,473)
Other general and administrative	V	(1,552,204)	(49,339)	(1,335,662)	(41,198)
TOTAL OPERATING EXPENSES		(3,520,262)	(111,896)	(3,003,858)	(92,654)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		4,592,728	145,986	2,264,596	69,852
INCOME TAX EXPENSES	II and IV	(1,135,000)	(36,077)	(794,000)	(24,491)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		3,457,728	109,909	1,470,596	45,361
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	III	-	-	726,679	22,414
NET INCOME		$3,457,728	$109,909	$2,197,275	$67,775
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$0.74	$0.024	$0.32	$0.010
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		-	-	0.15	0.005
NET INCOME		$0.74	$0.024	$0.47	$0.015

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2005		March 31, 2006	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$79,855,960	$2,538,333	$82,565,262	$2,546,738
Payables	IV and V	14,445,226	459,162	17,726,173	546,767
Deposits and remittances	IV and V	756,979,392	24,061,646	817,383,166	25,212,312
Financial liabilities at fair value through profit and loss	II, III and IV	49,764,748	1,581,842	51,299,341	1,582,336
Securities sold under agreements to repurchase	IV	45,133,652	1,434,636	36,229,930	1,117,518
Banker's acceptances and funds borrowed		791,750	25,167	812,500	25,062
Financial debentures payable	IV and X	2,350,000	74,698	17,859,078	550,866
Other financial liabilities	II, III and IV	431,525	13,716	1,803,265	55,622
Other liabilities	II, IV and V	1,978,511	62,890	1,696,216	52,320
TOTAL LIABILITIES		951,730,764	30,252,090	1,027,374,931	31,689,541
SHAREHOLDERS' EQUITY					
Capital stock	IV	43,182,407	1,372,613	46,420,518	1,431,848
Capital reserves	IV	13,463,186	427,946	13,464,276	415,308
Retained earnings	IV				
Legal reserve		9,951,639	316,327	14,115,413	435,392
Unappropriated earnings		17,336,975	551,080	6,050,018	186,614
Foreign currency translation adjustment	II	16,754	533	58,172	1,794
Unrealized gains or losses on financial instruments	II	(104,653)	(3,327)	421,713	13,008
TOTAL SHAREHOLDERS' EQUITY		83,846,308	2,665,172	80,530,110	2,483,964
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,035,577,072	$32,917,262	$1,107,905,041	$34,173,505

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of cash flows

For the three-month periods ended March 31, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	NOTES	January 1-March 31, 2005 NT	January 1-March 31, 2005 US (Note II)	January 1-March 31, 2006 NT	January 1-March 31, 2006 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$3,457,728	$109,909	$2,197,275	$67,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	300,447	9,550	307,110	9,473
Investment income recognized by the equity method exceeded the cash divideneds received	II and V	(5,053)	(161)	(40,665)	(1,254)
Gains on reversal of foreclosed properties impairment	II	(534,196)	(16,980)	(200,748)	(6,192)
Provisions for loan losses(recoveries)	II and IV	(182,853)	(5,812)	2,923,947	90,190
Loss on disposal of premises, equipment and foreclosed properties	II	313,274	9,958	40,472	1,248
Impairment loss of assets	II	392,751	12,484	13,336	411
Effects of exchanges rate	II	16,341	519	3,659	113
Cumulative effect of changes in accounting principles		-	-	(726,679)	(22,414)
Decrease in receivables		1,277,009	40,592	3,973,287	122,556
(Increase) decrease in scurities purchased under agreements and resell		4,920,599	156,408	(1,195,379)	(36,872)
Decrease in income tax assets	II and IV	137,296	4,364	640,018	19,741
(Increase) decrease in financial assets at fair value through profit and los		2,593,206	82,429	(5,525,345)	(170,430)
Increase in other assets		(9,874)	(314)	(254,372)	(7,846)
Decrease in payables		(3,268,968)	(103,909)	(8,094,673)	(249,682)
Increase in financial liabilities at fair value through profit and los	II	3,551,728	112,897	2,028,513	62,570
Increase (decrease) in securities sold under agreements to repurchase		(4,120,702)	(130,982)	2,364,996	72,949
Increase in tax payables		549,392	17,463	806,312	24,871
Decrease in other liabilities		(169,514)	(5,388)	(374,452)	(11,550)
Net cash provided by (used in) operating activities		9,218,611	293,027	(1,113,388)	(34,343)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in loans and advances to customers		(7,979,747)	(253,647)	(9,203,579)	(283,886)
(Increase) decrease in due from the Central Bank and call loans to banks		(1,029,023)	(32,709)	5,493,576	169,450
Increase in available-for-sale financial assets	II	(11,254,709)	(357,747)	(9,478,453)	(292,364)
Decrease in held-to-maturity financial assets	II	189,471	6,023	1,810,138	55,834
Decrease in investments accounted for using equity method	II and IV	-	-	768,217	23,696
Proceeds from disposal of premises, equipment and foreclosed properties		540,029	17,166	55,977	1,727
Acquisition of premises, equipment and foreclosed properties		(392,783)	(12,485)	(49,849)	(1,538)
Increase in other financial assets	II	(875,614)	(27,833)	(31,911,585)	(984,318)
Increase in other assets		(287,718)	(9,146)	(121,068)	(3,734)
Net cash used in investing activities		(21,090,094)	(670,378)	(42,636,626)	(1,315,133)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(323,555)	(10,285)	11,739,954	362,121
Increase in deposits and remittances		11,690,826	371,609	23,341,260	719,965
Decrease in banker's acceptances and funds borrowed		(3,875)	(123)	(8,000)	(247)
Decrease in financial debentures payable	IV	-	-	(785,157)	(24,218)
Increase (decrease) in other financial liabilities	II	(187,536)	(5,961)	781,686	24,111
Increase (decrease) in other liabilities		8,372	266	(14,749)	(455)
Net cash provided by financing activities		11,184,232	355,506	35,054,994	1,081,277
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		11,759	374	(31,804)	(981)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(675,492)	(21,471)	(8,726,824)	(269,180)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		17,860,193	567,711	29,450,099	908,393
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$17,184,701	$546,240	$20,723,275	$639,213
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest paid during the period		$2,561,684	$81,427	$3,290,605	$101,499
Income tax paid		$134,442	$4,273	$137,100	$4,229

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

As of and for the three-month periods ended March 31, 2005 and 2006

(Amounts in thousands except for share and per share information and unless otherwise stated)

(Reviewed, not audited)

I. Business

Cathay United Bank (the "Bank"), originally named United World Chinese Commercial Bank ("UWCCB"), was enfranchised by the government of the Republic of China ("ROC") in January 1975. The Bank started its operations on May 20, 1975 and is engaged in the following operations: (1)all commercial banking operations authorized by the ROC Banking Law ("Banking Law"); (2)international banking business and related operations; (3)trust business; (4)off-shore banking business; and (5)other financial operations related to the promotion of investments by overseas Chinese.

The Bank's stock was traded on the Taiwan Stock Exchange (the "TSE") until December 18, 2002. On December 18, 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holdings") through a conversion transaction and delisted from the TSE. Under the Financial Institution Merger Law, the Bank engaged in a merger with the former Cathay United Bank, a wholly-owned subsidiary of Cathay Financial Holdings. The record date for such merger was October 27, 2003 and UWCCB survived and was renamed Cathay United Bank.

As of March 31, 2005 and 2006, the Bank employed 4,016 and 4,189 employees, respectively.

II. Summary of significant accounting policies

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

1. Basis of presentation

The accompanying financial statements include the accounts of the head office, domestic and foreign branches. All significant inter-branch and inter-office accounts and transactions have been eliminated. Certain prior periods amounts have been reclassified to comform to current period presentation.

2. Foreign-currency transaction and translation

Foreign-currency transactions of the head office and domestic branches are recorded of each entity based on the functional currency in which they are transacted. At the end of each month, foreign currencies denominated assets and liabilities are converted into New Taiwan dollars ("NT dollars" or "NT$") at the applicable exchange rates as at the balance sheet date. Foreign currency income and expenses are converted into NT dollars at the exchange rates in effect as at the time of each transaction. The resulting realized gains or losses are included in income.

Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined .When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

Assets and liabilities of foreign branches, which are denominated in their respective foreign currencies, are converted into NT dollars using the method described in the preceding paragraph. Foreign currency denominated income and expenses of such branches are translated at the applicable exchange rate of the last day in every month. Gains or losses resulting from the translation are treated as "foreign currency translation adjustment" in the shareholders' equity.

The difference in exchange rate for equity securities accounted for by the equity method is recorded as "foreign currency translation adjustment" in the shareholders' equity.

3. Financial assets and financial liabilities

Starting from January 1, 2006, the Bank adopted the Statement of Financial Accounting Standards ("SFAS") No. 34 and "Regulations Governing the Preparation of Financial Reports by Public Banks" to classified its financial assets as either financial assets at fair value through profit and loss, held-to-maturity financial assets, debt securities with no active market, available-for-sale financial assets or financial assets carried at cost, where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit and loss, derivative financial liabilities for hedging or financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs.

Some regular way purchases and sales of financial assets, such as stocks and mutual funds, are recognized on the trade date (i.e. the date that the Bank commits to purchase or sell the asset) and others are recognized on the settlement date.

(1) Financial assets or liabilities at fair value through profit and loss

Financial assets or liabilities held for trading and designated by the Bank at fair value through profit and loss are classified as financial assets or liabilities at fair value through profit and loss. Subsequently, these investments are reviewed on a monthly basis and changes in fair value are recognized in income.

(2) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity assets and reported at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. 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.

(3) Investments in debt securities with no active market

Debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at cost using the effective interest method. Gains and losses are recognized in income when these investments are derecognized or impaired, as well as through the amortization process.

(4) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories. A gain or loss on an available-for-sale financial asset shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in income.

However, the amount at which the available-for-sale financial assets is measured at initial recognition minus principal repayments, plus or minus cumulative amortization uses effective interest method of any difference between the initial amount and the maturity amount and shall allocate the interest income or interest expense over the relevant periods.

(5) Financial assets carried at cost

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.

(6) Financial liabilities

After initial recognition, the Bank shall measure all financial liabilities at amortized cost, except for financial liabilities at fair value through profit and loss and derivative financial liabilities for hedging. Such liabilities shall be measured at fair value.

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares, the net asset value for open-ended funds, the quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

4. Derivative financial instruments

The Bank enters into various derivative contracts, including forward currency contracts, cross-currency swaps, options, futures and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation removed for the period.

5. 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, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender with 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 income.

6. Impairment of financial assets

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

Financial assets carried at amortized cost

If there is an 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 income.

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 statements, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is an 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 instrument with similar characteristics. Such impairment losses shall not be reversed.

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 income, 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 income.

7. Hedge accounting

The Bank uses its derivatives designated as hedging for accounting purposes as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

(a) Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;

(b) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction;

(c) Hedges of net investments in foreign operations.

A hedge of interest risk of the Bank’s subordinated financial debentures is accounted for as a fair value hedge.

The Bank formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of the hedged items. The Bank assesses on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains or losses from both are taken to income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

The Bank discontinues hedge accounting when it is determined a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedging relationship.

8. Allowances for doubtful accounts

Allowance for doubtful accounts on receivables, bills and loans are provided based on the results of review of the collectibility of accounts balances and the guidelines issued by the relevant regulations. When receivables are considered uncollectible, a write-off should be made after approved by the Bank’s Board of Directors.

9. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between the acquisitions cost and the Company’s share of net assets of the associate is amortized in 5 years. However, effective from January 1, 2006, if such a difference is goodwill, then it is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level.

If the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity (excess over cost). That excess shall be allocated as a pro rata reduction of the amounts that otherwise world have been assigned to all of the non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

10. Premises and equipment

(i) Premises and equipment are stated at cost less accumulated depreciation or amortization. Improvements, additions, and major renewals that extend the life of an asset are capitalized while repairs and maintenance are expensed as incurred; relevant promulgated principle should be applied if impairment been found, Upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss are removed from the account. Any gains or losses thereafter are charged to current income.

(ii) Depreciation is provided by the straight-line method over the following estimated useful lives:

Building	8～60	years
Furniture and fixtures	3～ 6	years
Transportation equipment	3～ 6	years
Miscellaneous equipment	3～10	years

When an impairment loss has been recognized, the depreciation of a specified asset should be recalculated base on the adjusted value over the estimated useful lives.

The residual value of a property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated service life.

11. Deferred charges

Computer software, electric wiring and royalty costs are amortized by the straight-line method over three to five years.

12. Foreclosed properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date.

13. Asset Impairment

The Bank assesses impairment for all its assets within the scope of ROC SFAS No.35 if impairment indicators were found. The Bank shall 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 net fair values or usage value.

For recognized impairment losses, the Bank shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss had been recognized to against the assets.

Impairment loss (reversal) is charged to current income.

14. Reserves for losses on guarantees

Reserves for losses on guarantees are provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customs duties, commodity taxes and contracts performance obligations.

15. Reserves for losses on trading securities

Pursuant to the "Regulations Governing Securities Firms", a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT$200 million. The reserve cannot be used for other purposes except to offset trading losses.

16. Pension plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefits payments for each employee are based on the employee's years of service and final average compensation. The Bank has established two employee retirement fund committees to supervise the employees' retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the Bank's financial statements.

The Labor Pension Act of the ROC (the "Act"), which adopts a defined contribution pension plan, took 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 salaries. Monthly contributions are recognized as pension costs.

The Bank adopted ROC SFAS No. 18, "Accounting for Pensions", which requires the actuarial determination of pension assets or obligations for the defined benefit plan. The unrecognized assets or obligations at transition are amortized by the straight-line method over the employees' average remaining service period of 15 years.

17. Recognition of interest income and service fees

Interest income is recognized when incurred except for delinquent accounts and troubled accounts whose interest is recognized when received.

Service fees are recognized on an accrual basis.

18. Recognition of dividend

When unpaid dividend has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of dividend is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends on equity securities are declared from pre-acquisition profits, those dividends are deducted from the cost of the securities. Dividends are recognized as revenue when they clearly represent a recovery of part of the cost of the equity securities.

Stock dividends are not recognized as investment income but instead as increases in the number of shares held.

19. Income tax

The Bank adopted the ROC SFAS No. 22, "Accounting for Income Taxes" for interperiod and intraperiod income tax allocation. Deferred income taxes are recognized for tax effects of temporary differences. Tax effects on deductible temporary differences, operating loss carry forwards and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided for deferred tax assets when their realization is in doubt. The ROC government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The Bank has considered the impact of the AMT Act in the determination of its tax liabilities.

The adjustments of prior years' income tax are included in the current year's income tax calculation.

The Bank's tax credits are recognized in the current period according to the ROC SFAS No.12, "Accounting for Income Tax Credits".

Income tax at a rate of 10% on undistributed earnings is assessed if the Bank does not distribute all its current year profits. Taxes on undistributed earnings are recorded as expenses in the year the shareholder approves the retention of earnings.

Cathay Financial Holdings has adopted the consolidated income tax return for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

20. Contingencies

A loss is recognized if it is probable that an asset will be impaired on a liability may be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

21. The interim financial statement

The Bank's interim financial statements are prepared according to the ROC SFAS No.23, "Interim Financial Report and Disclosures".

22. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the March 31, 2005 and 2006 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$31.46 and NT$32.42 to US$1.00 on March 31, 2005 and 2006, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. The Bank has adopted the ROC SFAS No.35, “Accounting for Asset Impairment”, which took effect on January 1, 2005, to account for the impairment of its assets. No retroactive adjustment is required under SFAS No.35. Such change in accounting principles reduced the Bank’s premises and equipment and non-operating assets by NT$59,562(US$1,893) and NT$313,189(US$9,955), respectively, as of March 31, 2005 and reduced net income and earnings per share before tax by NT$372,751 (US$11,848) (NT$20,000 of the impairment loss on equity securities is excluded.) and NT$0.08(US$0.003), respectively, for the three-month period ended March 31, 2005.

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

   At the effective date, the Bank shall remeasure and reclassify financial assets and liabilities (including derivative instruments) 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 and 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.

   Non-monetary financial assets carried at cost shall be re-translated using a historical rate. Previously recognized foreign currency translation adjustments shall be offset against long-term investment account.

The effect of adopting the SFAS No.34 and No.36 is summarized as follows:

	Recognized as cumulative effect of change in accounting principles (Net of tax)		Recognized as a separate component of shareholders' equity (Net of tax)	
	NT	US	NT	US
Financial assets at fair value through profit and loss	$295,034	$9,100	$-	$-
Available-for-sale financial assets	-	-	353,343	10,899
Financial liabilities at fair value through profit and loss	449,790	13,874	-	-
Derivative financial liabilities for hedging	(18,145)	(560)	-	-
Total	$726,679	$22,414	$353,343	$10,899

The adoption of the SFAS No.34 and No.36 increased net income before cumulative effect of changes in accounting principles of NT$726,679 and increased after income tax earnings per share of NT$0.15 for the three-month period ended March 31, 2006.

According to the "Regulations Governing the Preparation of Financial Reports by Public Banks" and changes in accounting principles, certain accounts of the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the current presentation. Certain accounting policies prior to the adoption of the SFAS No.34 and No.36 are summarized as follows:

(a) Derivative financial instruments

Forward foreign exchange

Assets and liabilities denominated in foreign currencies derived from the trading of forward foreign exchange contracts are recorded at the applicable contract rates on the trade date. Realized gain and loss on settlement of forward contracts are recognized as current gain and loss. At each financial reporting date, the Bank adjusts outstanding forward contracts by comparing the spot rates at the reporting date with the contract rates. The resulting unrealized gain or loss is recognized in the statements of income. On the balance sheet date, the carrying amounts of the receivables and payables from forward contracts are netted regardless of whether the receivables or payables are with the same counterparty, and the net difference is reported as an asset or liability.

Interest rate swaps

There is no physical exchange of notional amounts for interest rate swaps. Memo entries are made on the trade date. For interest rate swap transactions undertaken for trading purposes, mark-to-market value is calculated based on the discounted present value of all future cash flows using the applicable market rates at the balance sheet date. Any difference between the carrying amount and mark-to-market value is recognized as a gain or loss. For swaps entered into for hedging purposes, interest income and expense are recognized upon settlement.

Cross-currency swaps

For cross-currency swap contracts undertaken for non-trading purposes, the amounts to be exchanged on settlement date are recorded at the contract forward rates. The interest portions of the swaps, e.g., exchange of fixed-rate interest payment for a floating-rate interest receipt calculated based on the determined notional amounts to be exchanged, are recorded as interest expense and income on the settlement date.

Options

For options, only memo entries of the notional amounts are recorded on the trade date. Premiums paid or received are recorded as an asset or liability. On the balance sheet date, outstanding options are marked-to-market and the gain or loss is recognized in the statements of income. Gains or losses on the exercise of options and premiums paid or received are recognized in the statements of income. If a counterparty exercise by physical delivery, the translation will be recorded as spot translation.

Futures

Margin deposits paid by the Bank for futures contracts are recognized as assets and nominal amounts are made as memo entries. On the balance sheet date, outstanding futures contracts are marked-to-market and any gain or loss is recognized in the statements of income. Unrealized gain or loss from market value changes and realized gain or loss from settlement of futures contracts are classified as hedging or non-hedging based on the initial intentions when the contracts were entered into.

(b) Securities purchased

Securities purchased are stated at the lower of cost or market value. Except for the parent company's equity shares held by the Bank, the lower of cost or market value is determined based on a portfolio basis with similar securities. A provision is made when the market value is lower than the cost. When the market value rises, the gain is offset against the provision to the extent of the provision made previously.

When stocks and mutual funds are sold, the cost is calculated based on the weighted-average method. For other securities, the cost is calculated using the specific identification method.

Securities purchased under resell agreements are presented in the balance sheets as part of "Securities purchased" and securities sold under repurchase agreements are presented as part of "Other liabilities". Interest income from securities purchased under resell agreements and interest expense from securities sold under repurchase agreements are recognized on an accrual basis.

(c) Investments in equity securities

Investments in other companies with voting rights more than 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between the cost of investment and the Bank's share of the investee company's equity at acquisition is deferred and amortized over five years. Impairment loss is recognized when the Bank write down the carrying amounts of the investments to the recoverable amount.

Other long-term equity investments are accounted for by the cost method. For investments in listed stocks, an allowance for decline in market value is made when the carrying amounts of the investments are below the market value, with the same amount debited to shareholders' equity. For investments in unlisted stock, provisions are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered. Stock dividends are not recognized as investment income but instead are recorded as increases in the number of shares held.

Equity securities accounted for the cost method and denominated in foreign currencies are translated into NT dollars at the applicable exchange rates at the balance sheet date. The differences in exchange rates are recorded as foreign currency translation adjustments in shareholders' equity if the restated New Taiwan dollar amounts are lower than the carrying amounts.

(d) Investments in debt securities

Long-term investments in debt securities represent investments in government bonds, financial bonds, first to default credit linked notes and callable corridor notes linked to US dollar LIBOR issued by internationally recognized financial institutions. Investments in debt securities are stated at cost, adjusted for the amortization of premiums or discounts over the periods from the acquisition to maturity on a straight-line basis. The amortization of premiums or discounts is included as part of interest income. Devaluations are made and recognized immediately as an expense when the carrying amounts are not expected to be fully recovered. Costs of bonds upon maturity or disposal are determined by the specific identification method.

Certain accounts of the financial statements for the three-month period ended March 31, 2005 have been reclassified to conform the newly released and revised SFAS adopted by the Bank. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	March 31, 2005			
Balance Sheet	Before reclassification		After reclassification	
	NT	US	NT	US
Securities purchased	$240,672,391	$7,650,108	$-	$-
Long-term investments	41,163,004	1,308,423	-	-
Option	63,799	2,028	-	-
Financial debentures payable	52,050,000	1,654,482	2,350,000	74,698
Other liabilities	64,748	2,058	-	-
Unrealized losses on long-term investments	104,653	3,327	-	-
Financial assets at fair value through profit and loss	-	-	46,575,141	1,480,456
Securities purchased under agreements to resell	-	-	1,928,750	61,308
Available-for-sale financial assets	-		37,226,973	1,183,311
Held-to-maturity financial asses	-	-	8,282,145	263,260
Investments accounted for using equity method	-	-	5,126,955	162,967
Investments in debt securities with no active market	-	-	177,545,269	5,643,524
Financial assets carried at cost	-	-	5,213,961	165,733
Financial liabilities at fair value through profit and loss	-	-	49,764,748	1,581,842
Unrealized gains or losses on financial instruments	-	-	104,653	3,327

Income statement	January 1-March 31, 2005			
	Before reclassification		After reclassification	
	NT	US	NT	US
Gains on sales of securities, net	$106,546	$3,387	$-	$-
Investment income, net	54,651	1,737	-	-
Other operating income, derivatives instruments	18,897	601	-	-
Gains on financial assets and liabilities at fair value through profit and loss	-	-	66,724	2,121
Realized gains on available-for-sale financial assets	-	-	58,719	1,866
Equity investment gains	-	-	5,053	161
Impairment loss of assets	-	-	(20,000)	(635)
Others	-	-	69,598	2,212

3. The Bank adopted the ROC SFAS No.1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No. 5, "Accounting for Associates" ("SFAS No.5") and No. 25, "Business Combinations – Accounting Treatment under Purchase Method" to account for the difference between the acquisitions cost and the Bank's share of net assets of the associate for its financial statements beginning on and after January 1, 2006 (the "effective date"). Goodwill is not amortized, but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The above changes in accounting principles did not affect the Bank's net income and earnings per share after tax for the three-month period ended March 31, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	March 31,			
	2005		2006	
	NT	US	NT	US
Cash on hand	$8,899,367	$282,879	$10,293,146	$317,494
Checks for clearance	4,074,242	129,506	4,139,380	127,680
Due from commercial banks	4,211,092	133,855	6,290,749	194,039
Total	$17,184,701	$546,240	$20,723,275	$639,213

2. Due from the Central Bank and call loans to banks

	March 31,			
	2005		2006	
	NT	US	NT	US
Call loans to banks	$23,056,454	$732,882	$13,986,328	$431,410
Bank overdraft	1,307	41	98,900	3,051
Statutory revenue on deposits	20,935,478	665,463	23,236,765	716,742
Deposits in the Central Bank	12,633,166	401,563	7,155,006	220,697
Total	$56,626,405	$1,799,949	$44,476,999	$1,371,900

3. Financial assets at fair value through profit and loss

	March 31,							
Item	2005				2006			
Financial assets at fair value through profit and loss held for trading :	Book value NT	Book value US	Maturity date	Coupon rate /effective interest rate (%)	Book value NT	Book value US	Maturity date	Coupon rate /effective interest rate (%)
Stocks	$1,466,056	$46,601	-	-	$1,900,822	$58,631	-	-
Mutual funds and beneficiary certificate	2,657,868	84,484	-	-	1,334,980	41,178	-	-
Commercial papers and certificate of deposit	6,647,179	211,290	2005/04/01-2005/06/01	1.1-1.27/1.24	12,982,015	400,432	2006/04/03-2006/08/24	1.4-1.585/ 1.156-1.36
Bonds	31,199,201	991,710	2005/05/16-2031/07/17	1.0-8.25/2.57	31,715,249	978,262	2006/04/15-2026/02/24	1.125-6.9/ 1.19-5.75
Overseas financial instruments	1,425,150	45,300	2005/11/22-2009/04/22	4.2-6.55/ 4.2-6.55	1,357,696	41,878	2007/04/23-2016/02/15	4.5-6.65/ 4.5-6.65
Derivative financial instruments	63,799	2,028	2005/04/05-2005/12/28	-	1,558,188	48,063	2006/04/03-2016/03/31	-
Subtotal	43,459,253	1,381,413			50,848,950	1,568,444		
Financial assets at fair value through profit and loss:								
Overseas financial instruments	1,203,460	38,254	2006/01/27-2009/06/01	0.85-8.75/ 0.85-8.75	1,892,900	58,387	2006/04/28-2009/06/01	0.85-8.75/ 0.85-8.75
Bonds	1,912,428	60,789	2005/05/16-2031/07/17	1.0-8.25/2.57	2,349,587	72,473	2006/12/20-2016/10/19	3.5-6.9/1.97-6.4
Subtotal	3,115,888	99,043			4,242,487	130,860		
Total	$46,575,141	$1,480,456			$55,091,437	$1,699,304		

(1) NT$1,912,428 and NT$2,349,587 of the financial assets at fair value through profit and loss as of March 31, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2006, certain of the financial assets at fair value through profit and loss was pledged under repurchase agreements with notional amounts of NT$14,084,500. Such repurchase agreements amounting to NT$14,266,713 was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2006 was settled at NT$14,280,065 prior to September, 2006.

As of March 31, 2005, certain of the financial assets was pledged under repurchase agreements with notional amounts of NT$43,134,700. Such repurchase agreements amounting to NT$45,133,652 was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 2005 was settled at NT$45,199,460 prior to September, 2005. Such financial assets were classified as financial assets at fair value through profit and loss, available-for-sale financial assets and held to maturity financial assets, respectively.

(3) As of March 31, 2005 and 2006, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit and loss or other financial liabilities) of derivative financial instruments (including hedging instruments) are summarized as follows (in thousands of us dollars):

	March 31,	
Item	2005	2006
Forward foreign exchange contracts	$3,113,313	$3,883,626
Interest rate swap contracts	2,136,781	6,060,338
Cross-currency swap contracts	573,171	586,708
Options	261,469	423,936
Futures	947	21,756
Credit default swap contracts	-	225,000

(4) Net losses arising from financial assets at fair value through profit and loss for the three-month period ended March 31, 2006 was NT$218,602.

4. Available-for-sale financial assets, net

	March 31,							
	2005				2006			
	Book value			Coupon rate/effective	Book value			Coupon rate/effective
Item	NT	US	Maturity date	interest rate (%)	NT	US	Maturity date	interest rate (%)
Stocks	$4,443,162	$141,232	-	-	$3,272,766	$100,949	-	-
Mutual funds	30,730	977	-	-	83,453	2,574	-	-
Bonds	31,602,320	1,004,524	2006/04/26-2031/07/17	1.1367-8/2.57	47,357,132	1,460,738	2006/04/26-2031/07/17	1.1367-6.07/1.13-5.92
Overseas financial instruments	1,150,761	36,578	2005/10/17-2008/01/08	0-6.04/0-1.4	804,182	24,805	2008/01/08-2016/02/15	0-4.5/1.7-4.6
Total	$37,226,973	$1,183,311			$51,517,533	$1,589,066		

(1) NT$418,259 and NT$302,829 of the available-for-sale financial assets as of March 31, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2006, certain of the available-for-sale financial assets was pledged under repurchase agreements with notional amounts of NT$19,989,900. Such repurchase agreements amounting to NT$21,963,217 was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2006 was settled at NT$22,012,443 prior to September, 2006.

5. Receivables, net

	March 31,			
	2005		2006	
	NT	US	NT	US
Accounts receivable	$47,114,801	$1,497,610	$49,974,520	$1,541,472
Accrued interest receivable	3,667,049	116,562	3,789,555	116,889
Tax refundable	371,729	11,816	909,904	28,066
Consolidated income tax return receivable	571,606	18,169	1,157,000	35,688
Notes receivable	828,095	26,322	491,166	15,150
Factoring without recourse	730,305	23,214	931,721	28,739
Others	2,477,430	78,749	1,844,829	56,904
Total	55,761,015	1,772,442	59,098,695	1,822,908
Less: allowance for doubtful accounts	(947,134)	(30,106)	(1,078,796)	(33,275)
Net balance	$54,813,881	$1,742,336	$58,019,899	$1,789,633

Please refer to Note IV.6 (4) for details of the allowance for doubtful accounts.

6. Loans and advances to customers, net

	March 31, 2005 NT	March 31, 2005 US	March 31, 2006 NT	March 31, 2006 US
Inward-outward documentary bills	$905,974	$28,797	$838,339	$25,859
Loans	593,670,086	18,870,632	628,605,158	19,389,425
Overdrafts	698,500	22,203	578,617	17,847
Delinquent accounts	5,154,110	163,831	8,667,933	267,364
Total	600,428,670	19,085,463	638,690,047	19,700,495
Less: allowance for doubtful accounts	(5,809,398)	(184,660)	(12,995,637)	(400,853)
Net balance	$594,619,272	$18,900,803	$625,694,410	$19,299,642

(1) As of March 31, 2005 and 2006, the accounts with no interest accrued were NT$7,119,747 and NT$10,875,125, respectively. The non-accrued interest on such accounts amounted to NT$44,969 and NT$70,258 for the three-month periods ended March 31, 2005 and 2006, respectively.

(2) For the three-month periods ended of March 31, 2005 and 2006, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.

(3) Please refer to Note X.8 (2) for details on loans by industries and geographic regions.

(4) Information on bad and doubtful accounts (including receivables, bills and loans) is as follows:

	January 1-March 31, 2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,744,621	$150,815	$2,140,887	$68,051	$6,885,508	$218,866
Reversion of doubtful account	(182,853)	(5,812)	-	-	(182,853)	(5,812)
Write-offs	(2,162,520)	(68,739)	-	-	(2,162,520)	(68,739)
Recoveries	2,217,370	70,482	-	-	2,217,370	70,482
Reclassification	278,202	8,843	(278,202)	(8,843)	-	-
Effects of exchange rates change	-	-	(973)	(31)	(973)	(31)
Balance, end of the period	$4,894,820	$155,589	$1,861,712	$59,177	$6,756,532	$214,766

	January 1-March 31, 2006					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$5,199,228	$160,371	$11,662,475	$359,731	$16,861,703	$520,102
Provision of doubtful account	2,923,947	90,190	-	-	2,923,947	90,190
Write-offs	(7,515,661)	(231,822)	-	-	(7,515,661)	(231,822)
Recoveries	1,806,053	55,708	-	-	1,806,053	55,708
Reclassification	2,764,046	85,257	(2,764,046)	(85,257)	-	-
Effects of exchange rates change	-	-	(1,609)	(50)	(1,609)	(50)
Balance, end of the period	$5,177,613	$159,704	$8,896,820	$274,424	$14,074,433	$434,128

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

7. Held-to-maturity financial assets, net

	March 31, 2005					
	Face value		Amortized cost			Coupon rate/effective
Item	NT	US	NT	US	Maturity date	interest rate (%)
Bonds	$3,703,800	$117,730	$4,060,959	$129,083	2006/08/06-2022/08/16	1.625-6.875/ 1.64-6.95
Overseas financial instruments	4,224,314	134,276	4,221,186	134,177	2006/01/23-2008/08/05	1-7.625/ 0.61-7.625
Subtotal	7,928,114	252,006	8,282,145	263,260		
Less: accumulated impairment	-	-	-	-		
Total	$7,928,114	$252,006	$8,282,145	$263,260		

Item	March 31, 2006					
	Face value		Amortized cost			Coupon
	NT	US	NT	US	Maturity date	rate/effective interest rate (%)
Bonds	$3,683,800	$113,627	$3,973,536	$122,565	2007/01/29-2022/08/16	1.625-6.875/ 1.64-6.95
Overseas financial instruments	2,568,749	79,234	2,568,771	79,234	2006/06/27-2008/08/05	1-7.625/ 0.61-7.625
Subtotal	6,252,549	192,861	6,542,307	201,799		
Less: accumulated impairment	-	-	(2,009)	(62)		
Total	$6,252,549	$192,861	$6,540,298	$201,737		

As of March 31, 2005 and 2006, NT$52,308 and NT$58,377 of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	March 31,					
	2005			2006		
	Book value		% of	Book value		% of
	NT	US	ownership	NT	US	ownership
Seaward Card Co., Ltd.	$78,679	$2,501	100.00	$54,516	$1,681	100.00
Seaward Leasing Ltd.	2,223,440	70,675	100.00	2,269,445	70,001	100.00
Cathay Futures Corp.	718,074	22,825	99.99	-	-	-
Cathay Life Insurance Agent Co., Ltd	187,820	5,970	99.98	144,148	4,446	100.00
Cathay Property Insurance Agent Co., Ltd.	12,070	384	99.97	11,957	369	100.00
Indovina Bank	514,020	16,339	50.00	500,179	15,428	50.00
Taiwan Real-estate Management Corp.	21,789	692	30.15	16,951	523	30.15
Taiwan Finance Corp.	1,367,258	43,460	24.57	1,411,836	43,548	24.57
Vista Technology Venture Capital Corp.	7,866	250	5.00	8,157	252	4.76
Cathay Venture Capital Corp.	27,786	883	3.33	29,978	925	2.00
Subtotal	5,158,802	163,979		4,447,167	137,173	
Less: unrealized gain from intercompany transactions	(31,847)	(1,012)		(57,744)	(1,781)	
Total	$5,126,955	$162,967		$4,389,423	$135,392	

(1) The equity method of accounting was applied to Cathay Venture Capital Corp. and Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of such companies' common stock.

(2) The Bank sold all its shareholding of Cathay Futures Corp. to Cathay Securities Co., Ltd. Please refer to Note V.2 (17) for details on February 10, 2006.

(3) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the three-month periods ended March 31, 2005 and 2006 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Investments in debt securities with no active market, net

	March 31, 2005					
	Book value		Fair value			Coupon rate/ effective interest
Item	NT	US	NT	US	Maturity date	rate (%)
Preferred stocks	$400,000	$12,715	$400,000	$12,715	2009/01/26	5/5
Certificate of deposit	161,035,000	5,118,722	161,035,000	5,118,722	2005/04/01-2006/02/12	1.2-1.457/1.2-1.457
Overseas financial instruments	16,224,670	515,723	16,110,269	512,087	2005/09/03-2034/09/15	0-8.89/0-8.89
Subtotal	177,659,670	5,647,160	$177,545,269	$5,643,524		
Less: accumulated impairment	(114,401)	(3,636)				
Total	$177,545,269	$5,643,524				

	March 31, 2006					
	Book value		Fair value			Coupon rate/ effective interest
Item	NT	US	NT	US	Maturity date	rate (%)
Preferred stocks	$400,000	$12,338	$400,000	$12,338	2009/01/26	5/5
Certificate of deposit	157,365,000	4,853,948	157,365,000	4,853,948	2006/04/01-2007/02/14	1.45-1.67/1.45-1.67
Overseas financial instruments	45,385,895	1,399,935	45,268,495	1,396,314	2008/04/15-2036/12/25	0-8.63/0-8.64
Subtotal	203,150,895	6,266,221	$203,033,495	$6,262,600		
Less: accumulated impairment	(117,400)	(3,621)				
Total	$203,033,495	$6,262,600				

NT$14,600,000 of certificate of deposit as of March 31, 2005 and 2006, were pledged to other parties as collateral for business reserves and guarantees.

10. Other financial assets, net

	March 31,			
	2005		2006	
	NT	US	NT	US
Financial assets carried at cost, stocks	$5,350,144	$170,062	$5,217,488	$160,934
Bills purchased	10,501	334	5,482	169
Total	5,360,645	170,396	5,222,970	161,103
Less: accumulated impairment	(136,183)	(4,329)	(476,172)	(14,687)
Net balance	$5,224,462	$166,067	$4,746,798	$146,416

(1) Due to the recurring losses incurred by Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Chan Sheng Investment Development Co., Ltd., Strategic Value Fund, Limited Partnership and Mondex Taiwan Inc., the Bank has recognized losses for these investees based on their net equity. The shareholders of Chan Sheng Investment Development Co., Ltd. resolved in their special meeting held on April 26, 2005 to stop its operations and the relevant liquidation procedures commenced on July 1, 2005.

(2) To comply with government's policy, as of March 24, 2006, the board of managing directors resolved to utilize one percent of the Bank's non performing loans of NT$558,412 to subscribe for 558,411 shares of Sunny Asset Management Corporation. However, as of March 31, 2006, creditor's right was still not transferred to Sunny Asset Management Corporation.

11. Other assets, net

	March 31,			
	2005		2006	
	NT	US	NT	US
Prepayment	$1,392,394	$44,259	$1,601,836	$49,409
Non-operating assets, net	1,179,888	37,504	1,200,978	37,044
Refundable deposits	1,054,953	33,533	1,067,686	32,933
Foreclosed properties, net	894,362	28,429	585,542	18,061
Deferred tax assets, net	445,382	14,157	1,815,188	55,990
Deferred charges	504,980	16,052	532,661	16,430
Others	115,375	3,667	-	-
Total	$5,587,334	$177,601	$6,803,891	$209,867

12. Due to the Central Bank and call loans from banks

	March 31,			
	2005		2006	
	NT	US	NT	US
Due to the Central Bank	$307,555	$9,776	$189,427	$5,843
Due to commercial banks	1,723,535	54,785	1,719,427	53,036
Due to Chunghwa Post Co., Ltd.	31,995,906	1,017,035	32,774,864	1,010,946
Overdrafts from banks	143,872	4,573	97,022	2,992
Call loans from banks	45,685,092	1,452,164	47,784,522	1,473,921
Total	$79,855,960	$2,538,333	$82,565,262	$2,546,738

13. Payables

	March 31,			
	2005		2006	
	NT	US	NT	US
Accounts payable	$6,449,916	$205,020	$6,463,003	$199,352
Accrued interest payable	2,638,428	83,866	3,743,271	115,462
Accrued expenses	1,015,226	32,270	1,865,055	57,528
Income tax payable	53,511	1,701	978,064	30,169
Dividends payable	200,523	6,374	85,546	2,639
Notes payable	836,665	26,595	510,438	15,745
Collection received on behalf of customers	274,668	8,731	378,519	11,675
Consolidated income tax return payable	1,314,730	41,790	2,245,837	69,273
Others	1,661,559	52,815	1,456,440	44,924
Total	$14,445,226	$459,162	$17,726,173	$546,767

14. Deposits and remittances

	March 31,			
	2005		2006	
	NT	US	NT	US
Check deposits	$10,544,093	$335,159	$11,795,461	$363,833
Demand deposits	74,736,573	2,375,606	71,707,518	2,211,830
Time deposits	164,262,454	5,221,311	186,920,406	5,765,589
Saving deposits	460,174,209	14,627,280	493,169,872	15,211,902
Foreign currency deposits	46,773,825	1,486,771	53,390,221	1,646,830
Outward remittances	226,796	7,209	309,999	9,562
Remittances payable	261,442	8,310	89,689	2,766
Total	$756,979,392	$24,061,646	$817,383,166	$25,212,312

15. Financial liabilities at fair value through profit and loss

	March 31,					
	2005			2006		
	Book value			Book value		
	NT	US	Maturity date	NT	US	Maturity date
Financial liabilities at fair value through profit and loss held for trading:						
Derivative financial instruments	$64,748	$2,058	2005/04/05-2005/12/28	$2,337,892	$72,113	2006/04/03-2016/03/31
Financial liabilities designated at fair value through profit and loss:						
Financial debentures	39,700,000	1,261,920	2011/12/29	38,877,242	1,199,174	2011/12/29
Subordinated financial debentures	10,000,000	317,864	2008/03/10	10,084,207	311,049	2008/03/10
Subtotal	49,700,000	1,579,784		48,961,449	1,510,223	
Total	$49,764,748	$1,581,842		$51,299,341	$1,582,336	

(1) On May 23, 2002, the Bank issued a five-year subordinated financial debentures totaling NT$5,000,000 with a stated interest rate of 4.15%, and the interest is payable annually. Subsequently on September 10, 2002, the Bank issued five-year and six-month subordinated financial debentures totaling NT$5,000,000 with a floating interest rate or inverse floating interest rates and the interest is paid semiannually. The subordinated financial debentures are repayable at maturity.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

On June 20, 2003, the Bank issued five-year and six-month financial debentures amounting to NT$5,000,000 with inverse floating interest rate. On December 4, 2003, December 10, 2003, and December 11, 2003, the Bank issued five-year financial debentures amounting to NT$3,200,000, NT$2,700,000 and NT$1,800,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, the Bank issued six-year financial debentures amounting to NT$2,000,000 with a floating interest rate. These financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

On July 8 and July 15, 2004, the Bank issued five-year to seven-year financial debentures amounting to NT$1,000,000, NT$3,500,000, NT$2,000,000 and NT$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These financial debentures are repayable at maturity, and the interest is payable quarterly.

These financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of the Bank.

(2) Net gains arising from financial liabilities at fair value through profit and loss for the three-month period ended March 31, 2006 were NT$326,189.

16. Financial debentures payable

	March 31,			
	2005		2006	
	NT	US	NT	US
Subordinated financial debentures	$2,350,000	$74,698	$18,600,000	$573,720
Discount in financial debentures	-	-	(112,451)	(3,469)
Valuation adjustment	-	-	(628,471)	(19,385)
Total	$2,350,000	$74,698	$17,859,078	$550,866

On April 28, 2003, the former Cathay United Bank issued a five-year subordinated financial debentures totaling NT$2,350,000 with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

The Bank issued a 15-year US$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bond after 10 years by exercising the call option. As discussed in Note X.9, the Bank has adopted hedge accounting to account for its subordinated financial debentures.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

17. Other financial liabilities

	March 31,			
	2005		2006	
	NT	US	NT	US
Derivative financial liabilities for hedging	$-	$-	$694,201	$21,413
Borrowed funds	431,525	13,716	315,010	9,716
Bonds purchased under resale agreements-short sale	-	-	794,054	24,493
Total	$431,525	$13,716	$1,803,265	$55,622

As of March 31, 2006, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$694,201. The Bank has recognized losses in hedging in the amount of NT$48,759 for the three-month period ended March 31, 2006.

18. Other liabilities

	March 31,			
	2005		2006	
	NT	US	NT	US
Revenue received in advance	$1,097,978	$34,901	$826,110	$25,481
Reserve for losses on guarantees	28,555	908	28,651	884
Reserve for losses on stock brokerage transactions	136,800	4,348	146,652	4,524
Guarantee and margin deposits	681,059	21,648	674,768	20,813
Others	34,119	1,085	20,035	618
Total	$1,978,511	$62,890	$1,696,216	$52,320

19. Capital Stock

As of January 1, 2005, the Bank had issued and outstanding capital stock of NT$43,182,407 divided into 4,318,241 thousand common shares, par value NT$10 per share.

On April 22, 2005, the Bank’s board of directors on behalf of the shareholders resolved to increase its capital by transferring NT$3,238,111 from unappropriated earnings in the form of stock dividends. After the capitalization, the issued and outstanding capital stock amounted to NT$46,420,518 divided into 4,642,052 thousand common shares, par value NT$10 per share. The above capitalization has been approved by the authority.

20. Capital reserves

	March 31,			
	2005		2006	
	NT	US	NT	US
Capital reserves from the merger Bank	$9,199,927	$292,433	$9,199,927	$283,773
Additional paid-in capital	4,249,096	135,063	4,249,096	131,064
Capital reserves from equity investees, etc.	3,766	120	4,856	150
Capital reserves derived from treasury stock transactions	10,397	330	10,397	321
Total	$13,463,186	$427,946	$13,464,276	$415,308

21. Retained earnings

(1) The Bank's original articles of incorporation provide that its annual net income shall be appropriated and distributed in the following order:

(a) 30% thereof shall be set aside as legal reserve;
(b) special reserve;
(c) regular dividends; and
(d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 80%, compensation to directors and supervisors: 5%, employees' special bonus: 10% and contribution to welfare fund: 5%.

On October 31, 2005, the board of directors of the Bank revised its articles; the annual net income shall be appropriated and distributed in the following order:

(a) 30% thereof shall be set aside as legal reserve;
(b) special reserves;
(c) regular dividends; and
(d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

(2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the reserve may be transferred to capital stock.

(3) On April 22, 2005, the following appropriations and distribution approved by the Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors).

(a) legal reserve of NT$4,163,774;
(b) dividends to shareholders of NT$9,713,473;
(c) directors' and supervisors' remuneration, bonus to employees and contribution to welfare fund of NT$2,000.

(4) On March 24, 2006, the proposal of following appropriations and distribution approved by the Bank's board of directors.

(a) legal reserve of NT$ 1,155,823;
(b) dividends to shareholders of NT$ 2,695,420;
(c) bonus to employees of NT$1,500.

22. Pension

The Bank has adopted the ROC SFAS No.18, "Accounting for Pensions", which requires actuarial determination of pension assets or obligations.

23. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the three-month periods ended March 31, 2005 and 2006.

	January 1- March 31,			
	2005		2006	
	NT	US	NT	US
Personnel expenses				
Salary	$1,402,519	$44,581	$1,125,963	$34,731
Insurance	113,360	3,603	92,709	2,860
Pension	92,617	2,944	77,205	2,381
Others	58,878	1,872	65,209	2,011
Depreciation expenses	245,831	7,814	260,724	8,042
Amortization expenses	54,853	1,743	46,386	1,431

24. Income tax

Under a directive issued by the MOF, a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable. ROC SFAS No.22 remains applicable to the Bank.

(1) The reconciliation between income tax payable and income tax expenses for the three-month periods ended March 31, 2005 and 2006 is as follows:

	January 1- March 31,			
	2005		2006	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$940,986	$29,910	$-	$-
Interest on separation tax (tax rate 20% or 6%)	4,540	144	131,294	4,050
Foreign branches' income tax	19,904	633	21,575	665
Deferred tax (benefits) expenses:				
Allowance for bad debt	38,983	1,239	692,492	21,360
Allowance for pledged assets taken-over	133,549	4,245	50,187	1,548
Foreign investment income recognized by the equity method	3,500	111	(9,316)	(287)
Others	(10,099)	(321)	(16,993)	(524)
Reversal of valuation allowance	-	-	(69,240)	(2,136)
10% additional income tax on unappropriated earnings	-	-	783,181	24,157
Operating loss carryforwards	-	-	(478,724)	(14,766)
Investment tax credits	-	-	(1,472)	(45)
Foreign branches' income tax credits	-	-	(21,575)	(665)
Adjustment of prior period's income tax	3,637	116	(426,634)	(13,160)
Income tax expenses	1,135,000	36,077	654,775	20,197
Income tax benefit from cumulative effect of changes in accounting principles	-	-	139,225	4,294
Income tax expenses of continuing operations	$1,135,000	$36,077	$794,000	$24,491

(2) Deferred tax liabilities and assets resulting from the following timing differences:

	March 31,			
	2005		2006	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	$24,088	$766	$-	$-
Valuation of financial instruments	-	-	762,803	23,529
Others	108,099	3,436	86,976	2,683
Deductible temporary differences:				
Allowance for bad debts	412,027	13,097	7,233,499	223,118
Unrealized impairment loss for pledged assets taken-over	875,551	27,831	275,396	8,495
Unrealized gain from intercompany transactions	18,933	602	18,322	565
Pension expenses exceed the limit of tax law	75,809	2,410	75,809	2,338
Valuation of financial instruments	-	-	796,119	24,556
Provisions for possible losses	20,000	636	145,000	4,473
Others	233,793	7,431	189,276	5,838
Deferred income tax assets of foreign branches	$69,400	$2,206	$58,844	$1,815

	March 31,			
	2005		2006	
	NT	US	NT	US
(3) Deferred tax assets	$478,429	$15,207	$2,242,199	$69,161
Deferred tax liabilities	(33,047)	(1,050)	(212,445)	(6,553)
Valuation allowance	-	-	(214,566)	(6,618)
Net deferred tax assets	$445,382	$14,157	$1,815,188	$55,990

(4) The Bank had accrued appropriate tax provisions for the years 1999 and 2001, and appealed to the tax authority. After further review, the tax authority re-determined the income tax obligations of the Bank for the years 1999 and 2001 in 2005.

(5) For the tax year 2003 with respect to the former Cathay United Bank, withholding tax on interest income from bonds held by other investors (the “bond withholding tax”) was disallowed by the tax authority as a deduction. The Bank accrued appropriate tax provisions, and filed for administrative remediation. In 2005, the Bank settled the tax dispute arising from the withholding tax on interest income from bonds pertaining to the above relevant periods in its 2003 tax returns.

(6) The Bank’s income tax returns for the years prior to 2001 have been assessed by the Tax Authority.

(7) The former Cathay United Bank’s income tax returns for the years prior to 2003 have been assessed by the tax authority.

(8) The related information on shareholders’ deductible income tax is as follows:

	March 31,			
	2005		2006	
	NT	US	NT	US
Shareholders’ deductible income tax account	$112,981	$3,591	$288,893	$8,911
Unappropriated earnings	17,336,975	551,080	6,050,018	186,614

The following is the rate of tax credit available for dividends to the Bank’s shareholders for 2004:

	2004
Cash dividends	1.04%
Stock dividends	3.28%

The anticipant rate of tax credit available for distributing 2005 earnings was 7.50%.

25. Earnings per share

(1) The computations of earnings per share are as follows:

	January 1 – March 31,	
	2005	2006
	In thousands of shares	
Shares issued at beginning of the year	4,318,241	4,642,052
Stock dividends in 2005	323,811	-
Weighted-average shares outstanding	4,642,052	4,642,052

	January 1 – March 31,							
	2005				2006			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Income from continuing operations	$4,592,728	$145,986	$3,457,728	$109,909	$2,264,596	$69,852	$1,470,596	$45,361
Cumulative effect changes in accounting principles	-	-	-	-	587,454	18,120	726,679	22,414
Net income	$4,592,728	$145,986	$3,457,728	$109,909	$2,852,050	$87,972	$2,197,275	$67,775
Earnings per share (in dollars)								
Income from continuing operations	$0.99	$0.031	$0.74	$0.024	$0.49	$0.015	$0.32	$0.010
Cumulative effect changes in accounting principles	-	-	-	-	0.12	0.004	0.15	0.005
Net income	$0.99	$0.031	$0.74	$0.024	$0.61	$0.019	$0.47	$0.015

(2) According to the regulations issued by the Securities and Futures Bureau, the Bank should calculate estimate earnings per share for the current year assuming that the dividends of years 2004 and 2005 would be appropriated to employees, directors and supervisors, as follows:

	2004	2005
A. Distribution:		
Employees' bonus and contribution to welfare fund	$1,500	$1,500
Directors and supervisors' remunerations	$500	$-
B. Estimated earnings per share (In dollars) (Note)	$2.99	$0.83

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

$$\text{Estimated earnings per share} = \frac{\text{Net income – employees' bonus and contribution to welfare fund – directors' and supervisors' remunerations}}{\text{Weighted-averaged number of common shares outstanding}}$$

V. Related parties transactions

1. Name and relationships of related parties are as follows:

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiaries of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Lucky Bank, Inc.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay II Venture Capital Corp.	〃
Cathay Capital Management Inc.	〃
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	〃
Cathay Insurance (Bermuda) Co., Ltd.	〃
Li Yuan Property Management and Maintenance Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance Co., Ltd. (Shanghai)	〃
Pao Shan Securities Co.,	〃
Cathay General Hospital	〃
Cathay Real Estate Development Co., Ltd.	〃
Cathay Life Charity Foundation	Affiliate is the major sponsor of the foundation
San Ching Engineering Corp.	Affiliate
Cathay Futures Corp.	〃
Seaward Leasing Ltd.	The investee is accounted for using the equity method
Taiwan Real-estate Management Corp.	〃
Taiwan Finance Corp.	〃
Seaward Card Co., Ltd.	〃
Indovina Bank	〃
Cathay Life Insurance Agent Co., Ltd.	〃
Cathay Property Insurance Agent Co., Ltd.	〃
Cathay Venture Capital Corp.	〃
Vista Technology Venture Capital Corp.	〃
China England Company Ltd. and etc.	Investee companies of Seaward Leasing Ltd.
Taipei Smart Card Corp. and etc.	The investee is accounted for using the cost method
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Lin Yuan Investment Co., Ltd.	Major shareholder of parent company

2. Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

Accounts	March 31 Account balance NT	March 31 Account balance US	% of Account	January 1- March 31 Interest income (expense) NT	January 1- March 31 Interest income (expense) US
2005					
Loans	$2,437,787	$77,488	0.41%	$13,791	$438
Deposits	42,303,385	1,344,672	5.59%	(101,730)	(3,234)
2006					
Loans	2,736,216	84,399	0.44%	13,168	406
Deposits	31,047,178	957,655	3.80%	(109,240)	(3,370)

Accounts / Related parties	January 1 - March 31 Maximum balance NT	January 1 - March 31 Maximum balance US	March 31 balance NT	March 31 balance US	January 1 - March 31 Interest income (expense) NT	January 1 - March 31 Interest income (expense) US	Interest rate
2005							
Call loans to banks							
Indovina Bank	$585,895	$18,623	$490,885	$15,603	$3,781	$120	2.48%-3.44%
2006							
Call loans to banks							
Indovina Bank	715,919	22,083	650,919	20,078	6,728	208	4.38%-7.80%
Due from commercial banks							
Indovina Bank	18,496	571	3,336	103	22	1	0.5%-2.16%
Lucky Bank	42,834	1,321	10,797	333	-	-	0.1%
Call loans from banks							
Indovina Bank	35,750	1,103	35,750	1,103	(56)	(2)	5.14%
Due to commercial banks							
Indovina Bank	48,408	1,493	19,288	595	-	-	-

Transactions terms with related parties are similar to those with third parties.

(2) Guarantees

2006

Related Parties	January 1- March 31 Maximum balance		March 31 Account balance		January 1- March 31 Service fees	
	NT	US	NT	US	NT	US
Indovina Bank	$153,725	$4,742	$-	$-	$3	$-

Transactions terms with related parties are similar to those with third parties.

(3) Lease

Account/Related parties	January 1- March 31, 2005		January 1- March 31, 2006	
	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	$33	$1	$348	$11
Culture and Charity Foundation of Cathay United Bank	250	8	250	8
Taipei Smart Card Corp.	1,427	45	238	7
Cathay Securities Corp.	2,360	75	1,257	39
Cathay Life Insurance Co., Ltd.	-	-	176	5
Lucky Bank	-	-	205	6

Account/Related parties	January 1- March 31, 2005		January 1- March 31, 2006	
	NT	US	NT	US
Rental expense				
Cathay Life Insurance Co., Ltd.	$65,847	$2,093	$61,580	$1,899
Cathay Real Estate Development Co., Ltd.	3,471	110	3,455	107
Seaward Leasing Ltd.	690	22	2,762	85

Account/Related parties	March 31, 2005		March 31, 2006	
	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$42,000	$1,335	$33,393	$1,030
Cathay Life Insurance Co., Ltd.	73,535	2,337	65,336	2,015
Cathay Real Estate Development Co., Ltd.	3,408	108	3,392	105

Note : Interest from refundable deposits substituted for rental expense payable to Seaward Leasing Ltd.

	March 31,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Guarantee deposits				
Cathay Securities Corp.	$2,334	$74	$1,318	$41
Seaward Leasing Ltd.	-	-	400	12
Cathay Life Insurance Co., Ltd.	-	-	255	8

Transaction terms with the related parties are similar to those with third parties. Contract prices for related-party contracts are consistent with market prices, and payments are duly made and received in accordance with the terms of the contracts.

	January 1 – March 31,			
	2005		2006	
Account/Related parties	NT	US	NT	US
(4) Commissions and handling fees				
Cathay Futures Corp.	$196	$6	$249	$8
Cathay Life Insurance Co., Ltd.	2,403	76	2,388	74
Cathay Securities Co., Ltd.	-	-	295	9
(5) Credit card processing charges etc.				
Seaward Card Co., Ltd.	271,001	8,614	139,407	4,300
(6) Insurance expense				
Cathay Life Insurance Co., Ltd.	55,355	1,760	53,588	1,653
Cathay Century Insurance Co., Ltd.	8,312	264	12,193	376
(7) Credit card processing expense etc.				
Cathay Life Insurance Co., Ltd.	$71,734	$2,280	$39,719	$1,225
Cathay Century Insurance Co., Ltd.	27,593	877	16,049	495
Lucky Bank	-	-	1,014	31
(8) Promotion expense				
Symphox Information Co., Ltd.	49	2	48,867	1,507
(9) Utility expense in security site				
Cathay Securities Corp.	-	-	600	19
(10) Other expense				
Cathay Real Estate Development Co., Ltd.	1,800	57	1,800	56

	March 31,			
	2005		2006	
Account/Related parties	NT	US	NT	US
(11) Consolidated income tax return receivable				
Cathay Financial Holdings	$571,606	$18,169	$1,157,000	$35,688
(12) Prepaid rental expense				
Cathay Life Insurance Co., Ltd.	288	9	-	-
(13) Refundable Deposit				
Cathay Futures Corp.	4,072	129	55,135	1,701
(14) Accrued expenses				
Seaward Card Co., Ltd.	82,908	2,635	30,863	952
(15) Consolidate income tax return payables				
Cathay Financial Holdings	1,314,730	41,790	2,245,837	69,273

(16) Others

a. The Bank purchased automated systems for its 24-hour self-service banking centers from San Ching Engineering Corp. for the amounts of NT$3,820 and NT$72 during the three-month periods ended March 31, 2005 and 2006, respectively.

b. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$2,280 and NT$6,202 during the three-month periods ended March 31, 2005 and 2006, respectively.

c. As of March 31, 2005 and 2006, the notional amount of the forward and cross-currency swaps the Bank entered into transactions with Cathay Life Insurance Co., Ltd. were US$698,000 and US$544,000, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$24,305 and NT$4,452 during the three-month periods ended March 31, 2005 and 2006, respectively.

The terms of the foregoing transactions with related parties are similar to those with third parties. Contract prices for related-party contracts are consistent with market prices, and payments are duly made and received in accordance with the terms of the contracts.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

(17) For organization restructuring, the Bank's board of directors decided to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The book value on the date when the transaction occurred was NT$736,454 and net selling price was NT$708,275 (the security transaction cost NT$2,132 was deducted). The loss from the transaction was NT$28,179 classified under investment income recognized by the equity method.

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.3、4、7 and 9.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2006, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$599,052,093	$18,477,856
Travelers checks for sale	717,782	22,140
Bills for collection	48,016,040	1,481,062
Guarantees on duties and contracts	15,129,863	466,683
Unused commercial letters of credit	2,820,489	86,998
Irrevocable loan commitments	24,248,027	747,934
Credit card lines	287,734,235	8,875,208
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of March 31, 2006, the Bank had various lawsuits, claims and proceedings. The significant ones are summarized below:

   (1) In 1997, the Bank, as requested by Polaris International Securities Investment Trust Co., Ltd., paid Chung Shing Bank (which merged with Union Bank of Taiwan) in an amount of NT$600,000 for the purchase of a certain certificate of time deposit. Such certificate of time deposit was later found to have been forged by Mr. Chung-For Su (a clerk of another bank). The Bank filed a lawsuit against Chung Shing Bank for the return of unjustified benefits. The Bank obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. The Bank appealed and the Taiwan High Court reversed its previous decision. The Chung Shing Bank subsequently filed an appeal to the Supreme Court. On September 8, 2005, the Supreme Court rendered a judgment in favor of Chung Shing Bank. This lawsuit is pending as the Bank subsequently filed an appeal to the Taiwan High Court.

   (2) In 1996, several clients of the Bank filed a lawsuit (the lawsuit) against the Bank, claiming restitution in the amount of NT$24,000 for theft of their properties stored in a safe at Chung-Li Branch. The High Court had held the Bank responsible for making restitution. The Bank subsequently appealed and the appeal is being reviewed by the High Court. The Bank also filed claim (the claim) against Taiwan Secom Co., Ltd. in relation to the loss mentioned above. The High Court has suspended the claim until the High Court has a determination on the lawsuit.

   (3) In 2001, embezzlement and illegal acts involving the amount of NT$60,204 was committed by one of the Bank's employees. The Bank has filed a motion of injunction against the employee's personal properties. The Central Insurance Co., Ltd. has compensated for the loss in the amount of NT$39,900. The District Prosecutors Office has taken a public prosecution. The Bank also filed an incidental civil procedure.

   (4) On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which the Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with the Bank. The Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court adjudged that the Bank win a lawsuit on March 31, 2006. The Bank also has filed an incidental civil procedures and claim against Pacific SOGO.

   (5) On December 25, 2004, a charge of embezzlement in the amount of NT$24,971 by one of the Bank's employees was brought to the Taipei District Prosecutors Office.

3. As of March 31, 2006, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$997,079 with prepayments of NT$222,841.

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	March 31,							
	2005				2006			
	Book value		Fair value		Book value		Fair value	
	NT	US	NT	US	NT	US	NT	US
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit and loss	$43,882,732	$1,394,874	$46,964,845	$1,492,843	$50,282,653	$1,550,976	$50,282,653	$1,550,976
Available-for-sale financial assets	37,226,973	1,183,311	37,331,870	1,186,646	51,517,533	1,589,066	51,517,533	1,589,066
Held-to-maturity financial assets and debt securities with no active market	184,027,576	5,849,573	183,507,293	5,833,035	209,573,793	6,464,337	208,454,799	6,429,821
Investment accounted for using equity method	5,126,955	162,967	5,126,955	162,967	4,389,423	135,392	4,389,423	135,392
Others	730,397,471	23,216,703	730,397,471	23,216,703	756,049,012	23,320,451	756,049,012	23,320,451
Liabilities								
Financial liabilities at fair value through profit and loss	49,700,000	1,579,784	48,145,353	1,530,367	48,961,449	1,510,223	48,961,449	1,510,223
Financial debentures payable	2,350,000	74,698	2,335,824	74,247	17,859,078	550,866	17,859,078	550,866
Others	897,637,505	28,532,661	897,637,505	28,532,661	955,826,095	29,482,606	955,826,095	29,482,606
Derivative financial instruments								
Assets								
Financial assets at fair value through profit and loss	2,692,409	85,582	2,692,409	85,582	4,808,784	148,328	4,808,784	148,328
Liabilities								
Financial assets at fair value through profit and loss	64,748	2,058	64,748	2,058	2,337,892	72,113	2,337,892	72,113
Others	-	-	-	-	694,201	21,413	694,201	21,413

2. The methodologies and assumptions used by the Bank to estimate the above fair value of financial instruments are summarized as following:

   (1) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.

   (2) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit and loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of the Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.

   (3) The value of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method is determined by pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. If fair value of equity security can not reliable measurement, fair value is equal to carrying value.

   (4) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments. The carrying value of loans and deposits approximates fair value.

   (5) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, the Bank assesses fair value by using pricing models.

3. The fair values of the Bank's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

	March 31,							
	2005				2006			
	Value determined by quoted market price		Value determined by pricing models		Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US	NT	US	NT	US
Non-derivative financial instruments								
Assets								
Financial assets at fair value through profit and loss	$46,964,845	$1,492,843	$-	$-	$50,282,653	$1,550,976	$-	$-
Available-for-sale financial Assets	37,331,870	1,186,646	-	-	51,201,267	1,579,311	316,266	9,755
Held-to-maturity financial assets and debt securities with no active market	168,346,489	5,351,128	15,160,804	481,907	160,952,042	4,964,591	47,502,757	1,465,230
Liabilities								
Financial liabilities at fair value through profit and loss	-	-	48,145,353	1,530,367	-	-	48,961,449	1,510,223
Financial debentures payable	-	-	2,335,824	74,247	-	-	17,859,078	550,866
Derivative financial instruments								
Assets								
Financial assets at fair value through profit and loss	865	28	2,691,544	85,554	1,358,258	41,896	3,450,526	106,432
Liabilities								
Financial liabilities at fair value through profit and loss	967	31	63,781	2,027	5,670	175	2,332,222	71,938
Others	-	-	-	-	-	-	694,201	21,413

4. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$78,268 for the three-month period ended March 31, 2006.

5. The Bank recognized NT$9,904,680 and NT$3,462,218 as interest income and expense from financial assets or liabilities not at fair value through profit and loss, respectively, for the three-month period ended March 31, 2006.

6. The Bank recognized an unrealized gains or losses of NT$87,127 in shareholders' equity for the changes in fair value of available-for-sale financial assets and an realized gains or loses of NT$18,757 in income statement for the three-month period ended March 31, 2006.

7. The impairment of interest income from financial assets was NT$9, and such amount was assessed by discount rate of cash flow.

8. Information on financial risk

(1) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

① Interest rate risk

If interest rates are rising, the fair value of the Bank's fixed-rate bond investments such as government bonds and corporate bonds may decline.

② Foreign exchange risk

The Bank manages foreign exchange risk by matching foreign currency assets and liabilities. The Bank trade in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, to manage asset and liability positions and hedge against the Bank's commercial positions. As most of foreign currency assets and liabilities are matched, the foreign exchange risk is insignificant.

③ Equity securities price risk

The Bank may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

The Band adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is statistical measure that assesses potential losses and may predict worst-case loss that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT	US	NT	US	NT	US
Interest rate	$97,919	$3,020	$146,077	$4,506	$55,596	$1,715
Foreign exchange	20,669	638	117,919	3,637	164	5
Equity Securities price	54,232	1,673	92,809	2,863	17,301	534

(2) Credit risk

Credit risk represents the risk of loss that the Bank would incur if counterparty fails to perform the Bank's contractual obligations.

To centralize risk management functions currently handled by different departments, the Bank's board of directors resolved that a risk management department would be established to manage the credit risks. The objectives of credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balance loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

The Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk

	March 31							
	2005				2006			
Financial assets	Book value		Maximum risk exposed amount		Book value		Maximum risk exposed amount	
	NT	US	NT	US	NT	US	NT	US
Financial assets at fair value through profit and loss	$46,575,141	$1,480,456	$46,575,141	$1,480,456	$55,091,437	$1,699,304	$55,091,437	$1,699,304
Available-for-sale financial assets	37,226,973	1,183,311	37,226,973	1,183,311	51,517,533	1,589,066	51,517,533	1,589,066
Held-to-maturity financial assets	8,282,145	263,260	8,282,145	263,260	6,540,298	201,737	6,540,298	201,737
Loans and advances to customers	594,619,272	18,900,803	594,619,272	18,900,803	625,694,410	19,299,642	625,694,410	19,299,642
Debt securities with no active market and others	182,769,731	5,809,591	182,769,731	5,809,591	207,780,293	6,409,016	207,780,293	6,409,016
Off-balance sheet commitments and guarantees	329,654,025	10,478,513	329,654,025	10,478,513	329,932,614	10,176,823	329,932,614	10,176,823
Total	$1,199,127,287	$38,115,934	$1,199,127,287	$38,115,934	$1,276,556,585	$39,375,588	$1,276,556,585	$39,375,588

② The Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, the Bank is likely to be exposed to region or industry concentration risk. The Banks' information of concentration of credit risk is as follows:

	March 31,			
	2005		2006	
Loans, customers' liabilities under acceptances and guarantees account	NT	US	NT	US
Industry type				
Manufacturing	$72,692,566	$2,310,635	$78,241,697	$2,413,378
Financial institutions and insurance	72,939,276	2,318,477	42,304,381	1,304,885
Leasing and real estate	25,858,815	821,958	67,190,636	2,072,506
Individuals	332,416,564	10,566,324	368,197,001	11,357,094
Others	113,537,242	3,608,940	98,377,361	3,034,465
Total	617,444,463	19,626,334	654,311,076	20,182,328
Valuation allowance	(5,809,398)	(184,660)	(12,995,637)	(400,852)
Maximum risk exposed	$611,635,065	$19,441,674	$641,315,439	$19,781,476
Geographic Region				
Domestic	$584,323,533	$18,573,539	$618,792,841	$19,086,762
South East Asia	11,267,333	358,148	9,456,971	291,702
North East Asia	45,450	1,445	37,383	1,153
North America	8,263,541	262,668	8,819,431	272,037
Others	13,544,606	430,534	17,204,450	530,674
Total	617,444,463	19,626,334	654,311,076	20,182,328
Valuation allowance	(5,809,398)	(184,660)	(12,995,637)	(400,852)
Maximum risk exposed	$611,635,065	$19,441,674	$641,315,439	$19,781,476

(3) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations.

Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believe the Bank can generate within that period. As part of our liquidity risk management, the Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The Bank's asset and liability management committee is responsible for overall liquidity risk management. The Bank's liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. The Bank manages liquidity risks across all classes of assets and liabilities with the goal that even under adverse conditions.

(4) Cash flow risk and fair value risk of interest rate fluctuation

The Bank's financial debentures payable was matched with an interest rate swap contract and was transferred from fixed rate to floating rate.

① Expected repricing date and maturity date:

Expected repricing date and maturity date of the Bank's financial instruments are not affected by contract date.

② Effective interest rate:

Please refer to Notes IX.3, 4, 7, 9, 15 and 16 for the effective interest rate of financial instruments that were issued or held by the Bank as of March 31, 2005 and 2006, respectively.

9. Fair value hedge

The interest rate swap is used to hedge interest rate fluctuations of financial debentures payable with fixed rate:

	Hedging instruments	
	Derivative designated as	Fair value
Hedged item	hedging instruments	March 31, 2006
Financial debentures payable	Interest rate swap	NT$694,201

The hedge is regarded as highly effective, at inception and throughout the life of the hedge, the Bank can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80-125 percent.

XI. Others

1. Average balances and average interest rates of interest-earning assets and interest-bearing liabilities

	January 1-March 31, 2005		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$20,923,398	$665,079	1.48%
Time certificate, discounted bills and others	170,716,282	5,426,455	1.24%
Due from commercial banks and call loans to banks	22,181,030	705,055	1.63%
Loans and advances to customers	561,245,541	17,839,973	3.62%
Bills purchased	11,420	363	5.40%
Government and corporate bonds	84,943,398	2,700,044	3.21%
Receivables-credit card revolving balance	59,309,465	1,885,234	13.28%
Liabilities			
Due to banks	79,084,940	2,513,825	1.92%
Demand deposits	91,449,481	2,906,849	0.21%
Saving deposits	453,335,398	14,409,898	0.76%
Time deposits	151,875,312	4,827,569	1.37%
Negotiable certificates of deposit	34,190,575	1,086,795	1.08%
Financial debentures payable	50,894,444	1,617,751	2.58%
Bank's acceptances and fund borrowed	1,362,046	43,295	2.57%

	January 1-March 31, 2006		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$22,447,192	$692,387	1.48%
Time certificate, discounted bills and others	176,512,135	5,444,545	1.58%
Due from commercial banks and call loans to banks	27,148,251	837,392	3.01%
Loans and advances to customers	618,407,069	19,074,863	4.09%
Bills purchased	8,367	258	6.64%
Government and corporate bonds	127,752,134	3,940,535	3.91%
Receivables-credit card revolving balance	39,205,696	1,209,306	13.28%

	January 1-March 31, 2006		
	Average balance		Average rate
	NT	US	(%)
Liabilities			
Due to banks	79,543,233	2,453,524	3.02%
Demand deposits	93,707,442	2,890,421	0.39%
Saving deposits	496,046,540	15,300,634	0.93%
Time deposits	194,622,221	6,003,153	1.97%
Negotiable certificates of deposit	21,126,635	651,654	1.38%
Financial debentures payable	68,089,746	2,100,239	2.56%
Bank's acceptances and fund borrowed	1,123,809	34,664	3.71%

2. Regulatory capital ratio

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

As of December 31, 2004 and 2005, the ratio of the Bank's shareholders' equity to its risk-weighted assets was 11.69% and 13.65%, respectively. The formula to calculate such ratio is as follows:

$$\frac{\text{Eligible capital-Deduction item}}{\text{Weighted risk assets + Capital charges for market risk positions} \times 12.5}$$

3. As of March 31, 2005 and 2006, the amounts of insurance coverage over the Bank's premises and equipments were NT$8,524,005 and NT$7,963,786, respectively.

4. Certain accounts of the financial statements for the three-month period ended March 31, 2005 have been reclassified to conform to the current presentation.

5. As of March 31, 2005 and 2006, the assets and liabilities managed under the Bank's trust were NT$88,273,831 and NT$126,515,070.