Cathay United Bank
Financial Statements
For The Six-Month Periods Ended
June 30, 2005 and 2006
With Independent Auditors' 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.

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of June 30, 2005 and 2006, and the related statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2005 and 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2005 and 2006, and the results of its operations and its cash flows for the six-month periods then ended 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.

In addition, we have also audited the consolidated financial statements of the Bank as of and for the six-month period ended June 30, 2006, on which we have issued a modified unqualified opinion thereon.

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
July 25, 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 audit 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

June 30, 2005 and 2006

(Expressed in thousands of dollars)

		June 30, 2005		June 30, 2006	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$19,052,385	$602,161	$30,090,611	$930,733
Due from the Central Bank and call loans to banks	IV and V	58,115,449	1,836,771	37,849,221	1,170,715
Financial assets at fair value through profit or loss	II, III and IV	48,972,886	1,547,816	54,073,830	1,672,559
Securities purchased under agreements to resell		2,360,774	74,614	811,465	25,099
Available-for-sale financial assets, net	II, III and IV	39,740,134	1,256,009	52,421,577	1,621,453
Receivables, net	II, IV and V	57,942,159	1,831,295	69,990,848	2,164,889
Discounts and loans, net	II, IV and V	612,533,921	19,359,479	635,855,822	19,667,672
Held-to-maturity financial assets, net	II and IV	8,237,758	260,359	6,383,600	197,451
Investments accounted for using equity method, net	II, IV and V	4,987,834	157,643	2,022,405	62,555
Premises and equipment, net	II, V and VII	25,048,759	791,680	24,479,815	757,186
Investments in debt securities with no active market, net	II, III and IV	145,647,672	4,603,277	209,417,616	6,477,501
Other financial assets, net	II, III, IV and V	5,101,963	161,250	4,553,961	140,859
Other assets, net	II, IV and V	5,044,740	159,442	6,805,634	210,505
TOTAL ASSETS		$1,032,786,434	$32,641,796	$1,134,756,405	$35,099,177

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)

June 30, 2005 and 2006

(Expressed in thousands of dollars)

		June 30, 2005		June 30, 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	$75,554,475	$2,387,942	$105,483,306	$3,262,707
Payables	IV and V	15,639,948	494,309	25,280,714	781,958
Deposits and remittances	IV and V	775,019,105	24,494,915	822,914,285	25,453,581
Financial liabilities at fair value through profit or loss	II, III and IV	49,728,811	1,571,707	52,784,610	1,632,682
Securities sold under agreements to repurchase	IV and V	30,742,828	971,644	28,836,207	891,934
Banker's acceptances and funds borrowed		791,500	25,016	811,625	25,104
Financial debentures payable	III, IV and X	2,350,000	74,273	17,282,698	534,572
Other financial liabilities	II, III and IV	311,510	9,846	1,591,585	49,229
Other liabilities	II, IV and V	1,989,278	62,872	1,777,643	54,984
TOTAL LIABILITIES		952,127,455	30,092,524	1,056,762,673	32,686,751
SHAREHOLDERS' EQUITY					
Capital stock	IV	43,182,407	1,364,804	46,420,518	1,435,834
Stock dividend to be distributed		3,238,112	102,342	-	-
Capital reserves	IV	13,463,713	425,528	13,464,276	416,464
Retained earnings	IV				
Legal reserve		14,115,413	446,126	15,271,236	472,355
Undistributed earnings		6,645,698	210,041	2,828,385	87,485
Foreign currency translation adjustment	II	13,636	431	54,739	1,693
Unrealized gains or losses on financial instruments	II	-	-	(45,422)	(1,405)
TOTAL SHAREHOLDERS' EQUITY		80,658,979	2,549,272	77,993,732	2,412,426
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,032,786,434	$32,641,796	$1,134,756,405	$35,099,177

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 six-month periods ended June 30, 2005 and 2006

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

		January 1 - June 30, 2005		January 1 - June 30, 2006	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)
INTEREST INCOME	II and V	$18,675,023	$590,235	$20,469,341	$633,137
INTEREST EXPENSE	V	(5,623,747)	(177,742)	(7,667,581)	(237,166)
NET INTEREST INCOME		13,051,276	412,493	12,801,760	395,971
NONINTEREST INCOME					
Net fee income	II and V	2,679,310	84,681	2,350,745	72,711
Gains (loss) on financial assets and liabilities at fair value through profit or loss	II and III	142,803	4,513	(1,042,353)	(32,241)
Realized gains on available-for-sale financial assets	II and III	307,875	9,731	225,087	6,962
Realized gains on held-to-maturity financial assets	II	-	-	670	21
Investment income (loss) recognized by the equity method	II	88,389	2,794	(77,565)	(2,399)
Gains from disposal of investment recognized by the equity method	II and V	-	-	1,295,287	40,064
Foreign exchange gains, net	II	144,262	4,559	183,817	5,686
Impairment loss of assets	II	(392,751)	(12,413)	(208,971)	(6,464)
Reversal of impairment loss on foreclosed properties		715,425	22,611	394,979	12,217
Gains (losses) on disposal of foreclosed properties		(482,873)	(15,261)	489,830	15,151
Others	III and V	124,600	3,938	51,138	1,582
NET NONINTEREST INCOME		3,327,040	105,153	3,662,664	113,290
NET OPERATING INCOME		16,378,316	517,646	16,464,424	509,261
PROVISION FOR LOAN LOSSES	II and IV	(855,007)	(27,023)	(8,927,651)	(276,141)
OPERATING EXPENSES					
Personnel	II and IV	(3,238,851)	(102,366)	(2,336,286)	(72,264)
Depreciation and amortizaion	II and IV	(604,809)	(19,115)	(632,379)	(19,560)
Other general and administrative expenses	V	(2,979,951)	(94,183)	(2,841,402)	(87,887)
TOTAL OPERATING EXPENSES		(6,823,611)	(215,664)	(5,810,067)	(179,711)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		8,699,698	274,959	1,726,706	53,409
INCOME TAX BENEFIT (EXPENSE)	II and IV	(2,054,000)	(64,918)	375,000	11,599
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		6,645,698	210,041	2,101,706	65,008
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	III	-	-	726,679	22,477
NET INCOME		$6,645,698	$210,041	$2,828,385	$87,485
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$1.43	$0.045	$0.46	$0.014
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		-	-	0.15	0.005
NET INCOME		$1.43	$0.045	$0.61	$0.019

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 changes in shareholders' equity

For the six-month periods ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

								Retained earnings									
ITEMS	NOTES	Capital stock		Stock dividend to be distributed		Capital reserves		Legal reserve		Undistributed earnings		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Total	
		NT	US	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US
Balance, January 1, 2005		$43,182,407	$1,364,804	$-	$-	$13,463,074	$425,508	$9,951,639	$314,527	$13,879,247	$438,662	$(11,556)	$(365)	$(104,653)	$(3,308)	$80,360,158	$2,539,828
Appropriation and distribution of 2004 earnings:	IV																
Legal reserve		-	-	-	-	-	-	4,163,774	131,599	(4,163,774)	(131,599)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(6,467,361)	(204,404)	-	-	-	-	(6,467,361)	(204,404)
Stock dividends		-	-	3,238,112	102,342	-	-	-	-	(3,238,112)	(102,342)	-	-	-	-	-	-
Bonus to shareholders		-	-	-	-	-	-	-	-	(8,000)	(253)	-	-	-	-	(8,000)	(253)
Compensation to directors and supervisors		-	-	-	-	-	-	-	-	(500)	(16)	-	-	-	-	(500)	(16)
Special bonus to employees		-	-	-	-	-	-	-	-	(1,000)	(32)	-	-	-	-	(1,000)	(32)
Contribution to welfare fund		-	-	-	-	-	-	-	-	(500)	(16)	-	-	-	-	(500)	(16)
Net Income for the six-month period ended June 30, 2005		-	-	-	-	-	-	-	-	6,645,698	210,041	-	-	-	-	6,645,698	210,041
Capital reserves of equity investees, etc.	II	-	-	-	-	639	20	-	-	-	-	-	-	-	-	639	20
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	25,192	796	-	-	25,192	796
Unrealized losses on investments in equity investees	II	-	-	-	-	-	-	-	-	-	-	-	-	104,653	3,308	104,653	3,308
Balance, June 30, 2005		$43,182,407	$1,364,804	$3,238,112	$102,342	$13,463,713	$425,528	$14,115,413	$446,126	$6,645,698	$210,041	$13,636	$431	$-	$-	$80,658,979	$2,549,272
Balance, January 1, 2006		$46,420,518	$1,435,834	$-	$-	$13,464,276	$416,464	$14,115,413	$436,604	$3,852,743	$119,169	$85,432	$2,643	$(10,307)	$(319)	$77,928,075	$2,410,395
Appropriation and distribution of 2005 earnings:	IV																
Legal reserve		-	-	-	-	-	-	1,155,823	35,751	(1,155,823)	(35,751)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(2,695,420)	(83,372)	-	-	-	-	(2,695,420)	(83,372)
Special bonus to employees			-		-		-		-	(1,500)	(46)		-		-	(1,500)	(46)
Net Income for the six-month period ended June 30, 2006		-	-	-	-	-	-	-	-	2,828,385	87,485	-	-	-	-	2,828,385	87,485
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	-	-	(30,693)	(950)	-	-	(30,693)	(950)
Unrealized gains or losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	-	-	(35,115)	(1,086)	(35,115)	(1,086)
Balance, June 30, 2006		$46,420,518	$1,435,834	$-	$-	$13,464,276	$416,464	$15,271,236	$472,355	$2,828,385	$87,485	$54,739	$1,693	$(45,422)	$(1,405)	$77,993,732	$2,412,426

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 six-month periods ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

		January 1-June 30, 2005		January 1-June 30, 2006	
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$6,645,698	$210,041	$2,828,385	$87,485
Adjustments to reconcile net income to net cash used in operating activities:					
Depreciation and amortization	II	604,571	19,108	632,379	19,560
Investment income recognized by the equity method exceeded the cash divideneds received	II	238,626	7,542	(1,003,799)	(31,049)
Reversal of impairment loss on foreclosed properties	II	(715,425)	(22,611)	(394,979)	(12,217)
Provisions for loan losses	II and IV	855,007	27,023	8,927,651	276,141
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	473,039	14,951	(453,423)	(14,025)
Impairment loss of assets	II	392,751	12,413	208,971	6,464
Effects of exchange rate changes	II	15,474	489	(3,462)	(107)
Cumulative effect of changes in accounting principles		-	-	(726,679)	(22,477)
Increase in receivables		(2,687,455)	(84,939)	(11,460,144)	(354,474)
Decrease in scurities purchased under agreements to resell		4,488,576	141,864	380,787	11,778
Increase in deferred income tax assets		(197,441)	(6,240)	(307,275)	(9,504)
(Increase) decrease in financial assets at fair value through profit or los		184,417	5,829	(4,507,738)	(139,429)
Decrease in other assets		52,205	1,650	436,221	13,493
Increase (decrease) in payables		(1,645,856)	(52,018)	307,240	9,503
Increase in financial liabilities at fair value through profit or los		3,515,791	111,118	3,063,992	94,772
Decrease in securities sold under agreements to repurchase		(18,511,526)	(585,067)	(5,028,728)	(155,544)
Increase (decrease) in tax payables		121,002	3,824	(41,059)	(1,270)
Decrease in other liabilities		(167,881)	(5,306)	(319,922)	(9,895)
Net cash used in operating activities		(6,338,427)	(200,329)	(7,461,582)	(230,795)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(26,096,069)	(824,781)	(21,687,454)	(670,815)
(Increase) decrease in due from the Central Bank and call loans to banks		(2,518,067)	(79,585)	12,121,355	374,926
Increase in available-for-sale financial assets		(14,207,448)	(449,034)	(10,407,842)	(321,925)
Decrease in held-to-maturity financial assets		233,857	7,391	1,966,835	60,836
Decrease in investments accounted for using equity method		135,626	4,286	3,878,735	119,973
Proceeds from disposal of premises, equipment and foreclosed properties		685,197	21,656	1,608,938	49,766
Acquisition of premises, equipment and foreclosed properties		(839,575)	(26,535)	(492,450)	(15,232)
(Increase) decrease in investments in debt securities with no active market		31,013,037	980,184	(38,306,509)	(1,184,859)
(Increase) decrease in other financial assets		151,447	4,787	(2,302)	(71)
(Increase) decrease in other assets		657,602	20,784	(501,265)	(15,505)
Net cash used in investing activities		(10,784,393)	(340,847)	(51,821,959)	(1,602,906)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(4,625,041)	(146,177)	34,657,998	1,072,007
Increase in deposits and remittances		29,730,539	939,650	28,872,379	893,052
Decrease in banker's acceptances and funds borrowed		(4,125)	(130)	(8,875)	(275)
Decrease in financial debentures payable		-	-	(1,473,598)	(45,580)
Increase (decrease) in other financial liabilities		(307,551)	(9,720)	588,151	18,192
Increase in other liabilities		7,182	227	12,149	376
Distribution of cash dividends	IV	(6,467,361)	(204,405)	(2,695,420)	(83,372)
Compensation to directors and supervisors, bonus to shareholders, special bonus to employees,	IV	(10,000)	(316)	(1,500)	(46)
Net cash provided by financing activities		18,323,643	579,129	59,951,284	1,854,354
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(8,631)	(273)	(27,231)	(842)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,192,192	37,680	640,512	19,811
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		17,860,193	564,481	29,450,099	910,922
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$19,052,385	$602,161	$30,090,611	$930,733
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest paid during the period		$5,485,104	$173,360	$7,746,118	$239,595
Income tax paid		$206,738	$6,534	$2,896,024	$89,577

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

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 June 30, 2005 and 2006, the Bank employed 3,927 and 4,191 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.

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, any exchange component of that gain or loss shall be recognized. 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 resulted from the translation are treated as "foreign currency translation adjustment" in the shareholders' equity.

The effect of difference in exchange rates 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 classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, debt securities without 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 or 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 or 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 or loss

Financial assets or liabilities held for trading and designated by the Bank at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or 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. Such gains and losses are recognized 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 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.

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income.

However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effect interest method as interest income or expense over the relevant periods.

(5) Financial assets carried at cost

Investments in equity instruments without quoted market price and derivative instruments linked to or settled by delivery of such unquoted equity investments 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 or 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.

Gain or loss on disposal of long-term equity investment is calculated based on the difference between selling price and carrying amount. Capital surplus arising from long-term equity investment is proportionately recycled to profit or loss.

The Bank prepares consolidated financial statements that include the accounts of its majority-owned affiliates in accordance with amended SFAS No. 7" Consolidated Financial Statements".

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.

Costs associated with the Pacific SOGO co-branded credit card business are amortized on a straight-line basis over an estimated economic life of 48 months.

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. If there is an objective evidence of impairment, the impairment loss shall be recognized.

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 possible losses on guarantees

Reserves for possible 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 fund, which is administered and operated by an independent employee retirement fund committee. The pension fund 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 or 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 June 30, 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$31.64 and NT$32.33 to US$1.00 on June 30, 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$77,302(US$2,443) and NT$295,449(US$9,338), respectively, as of June 30, 2005 and reduced net income and earnings per share before tax by NT$372,751 (US$11,781) (NT$20,000 of the impairment loss on equity securities is excluded.) and NT$0.08(US$0.003), respectively, for the six-month period ended June 30, 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 recognized as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

   (1) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss and derivatives designated as fair value hedges.

   (2) A component of equity: for financial assets carried at amortized cost and available-for-sale financial assets.

   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 or loss	$295,034	$9,126	$-	$-
Available-for-sale financial assets	-	-	353,343	10,929
Financial liabilities at fair value through profit or loss	449,790	13,912	-	-
Derivative financial liabilities for hedging	(18,145)	(561)	-	-
Total	$726,679	$22,477	$353,343	$10,929

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 six-month period ended June 30, 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 six-month period ended June 30, 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:

	June 30, 2005			
	Before reclassification		After reclassification	
Balance Sheet	NT	US	NT	US
Securities purchased	$213,356,087	$6,743,239	$-	$-
Long-term investments	41,665,706	1,316,868	-	-
Other assets	21,402	676	-	-
Financial debentures payable	52,050,000	1,645,070	2,350,000	74,273
Other liabilities	28,811	911	-	-
Financial assets at fair value through profit or loss	-	-	48,972,886	1,547,816
Securities purchased under agreements to resell	-	-	2,360,774	74,614
Available-for-sale financial assets	-	-	39,740,134	1,256,009
Held-to-maturity financial assets	-	-	8,237,758	260,359
Investments accounted for using equity method	-	-	4,987,834	157,643
Investments in debt securities with no active market	-	-	145,647,672	4,603,277
Financial assets carried at cost	-	-	5,096,137	161,066
Financial liabilities at fair value through profit or loss	-	-	49,728,811	1,571,707

Income statement	January 1-June 30, 2005			
	Before reclassification		After reclassification	
	NT	US	NT	US
Gains on sales of securities, net	$364,982	$11,535	$-	$-
Investment income, net	181,933	5,750	-	-
Other operating expenses, derivatives instruments	(7,163)	(226)	-	-
Gains on financial assets and liabilities at fair value through profit or loss	-	-	142,803	4,513
Realized gains on available-for-sale financial assets	-	-	307,875	9,731
Equity investment gains	-	-	88,389	2,794
Impairment loss of assets	-	-	(20,000)	(632)
Others	-	-	20,685	654

3. The Bank adopted the ROC SFAS No.1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No. 5, "Long-term Investments under Equity Method" ("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 six-month period ended June 30, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2005		2006	
	NT	US	NT	US
Cash on hand	$9,260,413	$292,680	$10,232,282	$316,495
Checks for clearance	5,529,466	174,762	5,469,490	169,177
Due from commercial banks	4,262,506	134,719	14,388,839	445,061
Total	$19,052,385	$602,161	$30,090,611	$930,733

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

	June 30,			
	2005		2006	
	NT	US	NT	US
Call loans to banks	$20,611,782	$651,447	$9,617,052	$297,465
Banks overdraft	1,430	45	-	-
Due from the Central Bank				
Reserve accounts	21,432,861	677,397	23,707,389	733,294
General deposits	16,069,376	507,882	4,524,780	139,956
Total	$58,115,449	$1,836,771	$37,849,221	$1,170,715

3. Financial assets at fair value through profit or loss

	June 30,			
	2005		2006	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$1,187,722	$37,539	$2,851,960	$88,214
Mutual funds and beneficiary certificate	2,040,937	64,505	1,367,856	42,309
Commercial papers and certificates of deposit	6,412,625	202,675	10,533,487	325,812
Bonds	36,682,421	1,159,369	33,912,784	1,048,957
Overseas financial instruments	1,424,700	45,028	1,358,737	42,027
Derivative financial instruments	21,401	676	2,314,451	71,588
Subtotal	47,769,806	1,509,792	52,339,275	1,618,907
Financial assets designated by the Bank at fair value through profit or loss:				
Overseas financial instruments	1,203,080	38,024	1,550,995	47,974
Bonds	-	-	183,560	5,678
Subtotal	1,203,080	38,024	1,734,555	53,652
Total	$48,972,886	$1,547,816	$54,073,830	$1,672,559

(1) NT$1,682,732 and NT$185,740 of the financial assets at fair value through profit or loss as of June 30, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2005, certain of the financial assets was sold under repurchase agreements with notional amounts of NT$28,667,700. Such repurchase agreements amounting to NT$30,742,828 was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 2005 was settled at NT$30,795,857 prior to December, 2005. Such financial assets were classified as financial assets at fair value through profit or loss, available-for-sale financial assets and held to maturity financial assets, respectively.

As of June 30, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$8,494,700. Such repurchase agreements amounting to NT$8,475,636 was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2006 was settled at NT$8,480,454 prior to July, 2006.

(3) As of June 30, 2005 and 2006, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial liabilities) of derivative financial instruments (including hedging instruments) are summarized as follows (in thousands of US dollars):

	June 30,	
	2005	2006
Forward foreign exchange contracts	$2,815,976	$5,302,312
Interest rate swap contracts	2,670,792	7,708,143
Cross-currency swap contracts	573,171	559,901
Options	193,884	275,345
Futures	-	12,345
Credit default swap contracts	-	225,000

(4) Net gains arising from financial assets at fair value through profit or loss for the six-month period ended June 30, 2006 was NT$208,635.

4. Available-for-sale financial assets, net

	June 30,			
	2005		2006	
	NT	US	NT	US
Stocks	$4,217,103	$133,284	$4,082,416	$126,273
Mutual funds	30,720	971	83,992	2,598
Bonds	34,343,810	1,085,455	47,145,623	1,458,262
Overseas financial instruments	1,148,501	36,299	1,109,546	34,320
Total	$39,740,134	$1,256,009	$52,421,577	$1,621,453

(1) NT$559,359 and NT$266,738 of the available-for-sale financial assets as of June 30, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$18,720,400. Such repurchase agreements amounting to NT$20,360,571 was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2006 was settled at NT$20,396,183 prior to December, 2006.

5. Receivables, net

	June 30,			
	2005		2006	
	NT	US	NT	US
Notes receivable	$-	$-	$3,180,000	$98,361
Accounts receivable	50,800,712	1,605,585	49,466,855	1,530,061
Interest receivable	4,121,979	130,277	4,325,177	133,782
Receivable to related party for allocation of linked-tax system	571,606	18,066	1,387,683	42,922
Foreign currency receivable	1,641,737	51,888	9,510,920	294,183
Acceptances	474,313	14,991	552,323	17,084
Tax refundable	308,138	9,739	944,245	29,206
Others	935,135	29,556	2,145,720	66,369
Total	58,853,620	1,860,102	71,512,923	2,211,968
Less: allowance for doubtful accounts	(911,461)	(28,807)	(1,522,075)	(47,079)
Net balance	$57,942,159	$1,831,295	$69,990,848	$2,164,889

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

6. Discounts and loans, net

	June 30,			
	2005		2006	
	NT	US	NT	US
Inward-outward documentary bills	$858,196	$27,124	$623,566	$19,288
Loans	611,584,425	19,329,470	636,806,455	19,697,076
Overdrafts	397,338	12,558	625,310	19,341
Delinquent accounts	5,682,234	179,590	8,041,214	248,723
Total	618,522,193	19,548,742	646,096,545	19,984,428
Less: allowance for doubtful accounts	(5,988,272)	(189,263)	(10,240,723)	(316,756)
Net balance	$612,533,921	$19,359,479	$635,855,822	$19,667,672

(1) As of June 30, 2005 and 2006, the accounts without interest accrued were NT$8,176,600 and NT$11,201,304, respectively. The non-accrued interest on such accounts amounted to NT$93,368 and NT$126,741 for the six-month periods ended June 30, 2005 and 2006, respectively.

(2) For the six-month periods ended of June 30, 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, discounts and loans) is as follows:

	January 1-June 30, 2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,744,621	$149,956	$2,140,887	$67,664	$6,885,508	$217,620
Provision of doubtful accounts	855,007	27,023	-	-	855,007	27,023
Write-offs	(4,145,374)	(131,017)	-	-	(4,145,374)	(131,017)
Recoveries	3,305,510	104,473	-	-	3,305,510	104,473
Reclassification	234,419	7,409	(234,419)	(7,409)	-	-
Effects of exchange rates change	-	-	(918)	(29)	(918)	(29)
Balance, end of the period	$4,994,183	$157,844	$1,905,550	$60,226	$6,899,733	$218,070

	January 1-June 30, 2006					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$5,199,228	$160,817	$11,662,475	$360,732	$16,861,703	$521,549
Provision of doubtful accounts	8,927,651	276,141	-	-	8,927,651	276,141
Write-offs	(16,829,672)	(520,559)	-	-	(16,829,672)	(520,559)
Recoveries	2,804,973	86,761	-	-	2,804,973	86,761
Reclassification	5,464,278	169,016	(5,464,278)	(169,016)	-	-
Effects of exchange rates change	-	-	(1,857)	(57)	(1,857)	(57)
Balance, end of the period	$5,566,458	$172,176	$6,196,340	$191,659	$11,762,798	$363,835

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

	June 30, 2005			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$4,969,735	$157,071	$5,307,772	$167,755
Overseas financial instruments	2,929,986	92,604	2,929,986	92,604
Subtotal	7,899,721	249,675	8,237,758	260,359
Less: accumulated impairment	-	-	-	-
Net balance	$7,899,721	$249,675	$8,237,758	$260,359

	June 30, 2006			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,683,800	$113,944	$3,957,129	$122,398
Overseas financial instruments	2,428,475	75,115	2,428,478	75,115
Subtotal	6,112,275	189,059	6,385,607	197,513
Less: accumulated impairment	-	-	(2,007)	(62)
Net balance	$6,112,275	$189,059	$6,383,600	$197,451

As of June 30, 2005 and 2006, NT$87,009 and NT$2,294,365 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

	June 30,					
	2005			2006		
	NT	US	% of ownership	NT	US	% of ownership
Seaward Card Co., Ltd.	$49,097	$1,552	100.00	$38,463	$1,190	100.00
Seaward Leasing Ltd.	2,271,939	71,806	100.00	-	-	-
Cathay Futures Corp.	720,329	22,766	99.99	-	-	-
Cathay Life Insurance Agent Co., Ltd	78,702	2,487	99.98	63,194	1,955	100.00
Cathay Property Insurance Agent Co., Ltd.	8,800	278	99.97	8,469	262	100.00
Indovina Bank	476,787	15,069	50.00	525,105	16,242	50.00
Taiwan Real-estate Management Corp.	20,612	652	30.15	17,341	536	30.15
Taiwan Finance Corp.	1,354,722	42,817	24.57	1,331,698	41,191	24.57
Vista Technology Venture Capital Corp.	8,521	269	4.76	8,157	252	4.76
Cathay Venture Capital Corp.	30,171	954	2.00	29,978	927	2.00
Subtotal	5,019,680	158,650		2,022,405	62,555	
Less: unrealized gain from intercompany transactions	(31,846)	(1,007)		-	-	
Net balance	$4,987,834	$157,643		$2,022,405	$62,555	

(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. and Seaward Leasing Ltd. to Cathay Securities Co., Ltd. and Cathay Real Estate Development Co., Ltd., respectively. Please refer to Note V.2 (15) and (16) for details.

(3) The Bank did not prepare consolidated financial statement due to a 10% exception rule provided by the original SFAS No.7, "Consolidated Financial Statement." The exception rule has been nullified in the amended SFAS No.7. As of June 30, 2006, the consolidated financial statements included the accounts of the Bank, lndovina Bank, Cathay Futures Corp., and Seaward Leasing Ltd. Other subsidiaries were not included because of their immateriality on total assets or net sales.

(4) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the six-month periods ended June 30, 2005 and 2006 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

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

	June 30,			
	2005		2006	
	NT	US	NT	US
Preferred stocks	$400,000	$12,642	$400,000	$12,372
Certificates of deposit	128,335,000	4,056,100	158,365,000	4,898,391
Overseas financial instruments	17,027,037	538,149	50,769,889	1,570,365
Subtotal	145,762,037	4,606,891	209,534,889	6,481,128
Less: accumulated impairment	(114,365)	(3,614)	(117,273)	(3,627)
Net balance	$145,647,672	$4,603,277	$209,417,616	$6,477,501

NT$19,000,000 and NT$14,830,000 of certificates of deposit as of June 30, 2005 and 2006, were pledged to other parties as collateral for business reserves and guarantees.

10. Other financial assets, net

	June 30,			
	2005		2006	
	NT	US	NT	US
Financial assets carried at cost, stocks	$5,096,137	$161,066	$4,545,601	$140,600
Bills purchased	5,826	184	8,360	259
Total	$5,101,963	$161,250	$4,553,961	$140,859

(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. The shareholders meeting of Waterland Securities Co., Ltd. held in May, 2006, resolved to decrease capital to offset accumulative deficit. The Bank recognized the impairment loss of assets.

(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 nonperforming credit card loans of NT$558,412 to subscribe for 558,411 shares of Sunny Asset Management Corporation. However, as of June 30, 2006, creditor's right was still not transferred to Sunny Asset Management Corporation.

11. Other assets, net

	June 30,			
	2005		2006	
	NT	US	NT	US
Prepayment	$528,800	$16,713	$343,158	$10,614
Interbank settlement fund	801,516	25,333	1,300,570	40,228
Non-operating assets, net	1,196,510	37,816	1,200,362	37,128
Refundable deposits, net	1,026,443	32,441	1,373,565	42,486
Foreclosed properties, net	610,406	19,292	292	9
Deferred tax assets, net	385,236	12,176	2,085,647	64,511
Deferred charges	476,155	15,049	502,040	15,529
Others	19,674	622	-	-
Total	$5,044,740	$159,442	$6,805,634	$210,505

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

	June 30,			
	2005		2006	
	NT	US	NT	US
Due to the Central Bank	$380,724	$12,033	$189,361	$5,857
Due to commercial banks	1,884,229	59,552	1,461,250	45,198
Due to Chunghwa Post Co., Ltd.	31,206,524	986,300	31,686,470	980,095
Overdrafts from banks	224,938	7,109	48,908	1,513
Call loans from banks	41,858,060	1,322,948	72,097,317	2,230,044
Total	$75,554,475	$2,387,942	$105,483,306	$3,262,707

13. Payables

	June 30,			
	2005		2006	
	NT	US	NT	US
Accounts payable	$7,503,122	$237,140	$7,650,508	$236,638
Accrued interest payable	2,603,096	82,272	3,392,223	104,925
Accrued expenses	1,761,783	55,682	1,763,145	54,536
Foreign currency payable	-	-	9,467,637	292,844
Consolidated income tax return payable	1,524,385	48,179	-	-
Acceptance	500,535	15,820	556,405	17,210
Income tax payable	133,307	4,213	130,692	4,042
Receipts under custody	272,280	8,606	442,329	13,682
Others	1,341,440	42,397	1,877,775	58,081
Total	$15,639,948	$494,309	$25,280,714	$781,958

14. Deposits and remittances

	June 30,			
	2005		2006	
	NT	US	NT	US
Check deposits	$11,481,668	$362,885	$11,361,926	$351,436
Demand deposits	80,830,674	2,554,699	71,956,025	2,225,673
Time deposits	165,497,707	5,230,648	174,573,718	5,399,744
Saving deposits	469,141,750	14,827,489	503,744,471	15,581,332
Foreign currency deposits	47,779,397	1,510,095	60,898,251	1,883,645
Outward remittances	121,091	3,827	267,819	8,284
Remittances payable	166,818	5,272	112,075	3,467
Total	$775,019,105	$24,494,915	$822,914,285	$25,453,581

15. Financial liabilities at fair value through profit or loss

	June 30,			
	2005		2006	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$28,811	$911	$3,389,312	$104,835
Bonds purchased under resale agreements-short sale	-	-	685,817	21,213
Subtotal	28,811	911	4,075,129	126,048
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,700,000	1,254,741	38,665,358	1,195,959
Subordinated financial debentures	10,000,000	316,055	10,044,123	310,675
Subtotal	49,700,000	1,570,796	48,709,481	1,506,634
Total	$49,728,811	$1,571,707	$52,784,610	$1,632,682

(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 dominant 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 dominant 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 dominant financial debentures amounting to NT$2,000,000 with a floating interest rate. These dominant 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 dominant 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 dominant 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 dominant 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 dominant financial debentures are repayable at maturity, and the interest is payable quarterly.

These dominant 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 losses arising from financial liabilities at fair value through profit or loss for the six-month period ended June 30, 2006 was NT$1,250,988.

16. Financial debentures payable

	June 30,			
	2005		2006	
	NT	US	NT	US
Subordinated financial debentures	$2,350,000	$74,273	$18,582,500	$574,776
Discount in financial debentures	-	-	(110,141)	(3,407)
Valuation adjustment	-	-	(1,189,661)	(36,797)
Total	$2,350,000	$74,273	$17,282,698	$534,572

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

	June 30,			
	2005		2006	
	NT	US	NT	US
Derivative financial liabilities for hedging	$-	$-	$1,278,000	$39,530
Borrowed funds	311,510	9,846	313,585	9,699
Total	$311,510	$9,846	$1,591,585	$49,229

As of June 30, 2006, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$1,278,000. The Bank has recognized losses in hedging in the amount of NT$77,152 for the six-month period ended June 30, 2006.

18. Other liabilities

	June 30,			
	2005		2006	
	NT	US	NT	US
Revenue received in advance	$1,104,065	$34,895	$880,643	$27,239
Reserve for losses on guarantees	28,554	902	28,647	886
Reserve for losses on stock brokerage transactions	142,670	4,509	146,652	4,536
Guarantee and margin deposits	679,870	21,488	701,666	21,703
Reserve for land value increment tax	34,119	1,078	20,035	620
Total	$1,989,278	$62,872	$1,777,643	$54,984

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, with 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 323,811 thousand common shares from undistributed 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, with par value NT$10 per share. The above capitalization has been approved by the authority.

20. Capital reserves

	June 30,			
	2005		2006	
	NT	US	NT	US
Capital reserves from the merger Bank	$9,199,927	$290,769	$9,199,927	$284,563
Additional paid-in capital	4,249,096	134,295	4,249,096	131,429
Others	14,690	464	15,253	472
Total	$13,463,713	$425,528	$13,464,276	$416,464

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 are 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 April 27, 2006, the following are 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 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 six-month periods ended June 30, 2005 and 2006.

	January 1- June 30,			
	2005		2006	
	NT	US	NT	US
Personnel expenses				
Salary	$2,702,860	$85,425	$1,849,057	$57,193
Insurance	227,095	7,178	203,416	6,292
Pension	185,097	5,850	149,306	4,618
Others	123,799	3,913	134,507	4,160
Depreciation expenses	494,751	15,637	538,359	16,652
Amortization expenses	110,058	3,478	94,020	2,908

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 benefit (expenses) for the six-month periods ended June 30, 2005 and 2006 is as follows:

	January 1- June 30,			
	2005		2006	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$(1,731,122)	$(54,713)	$-	$-
Interest on separation tax (tax rate 20% or 6%)	(23,601)	(746)	(265,927)	(8,225)
Deferred tax benefits (expense):				
Allowance for bad debt	(54,634)	(1,727)	(2,510)	(78)
Allowance for pledged assets taken-over	(178,856)	(5,653)	(98,745)	(3,054)
Foreign investment income recognized by the equity method	(6,768)	(214)	(1,356)	(42)
Others	43,029	1,360	15,540	481
Valuation allowance	-	-	(318,827)	(9,862)
10% additional income tax on undistributed earnings	(70,458)	(2,227)	-	-
Operating loss carryforwards	-	-	633,958	19,609
Investment tax credits	-	-	2,124	66
Effect of foreign branches' income tax	(42,043)	(1,329)	40,751	1,260
Adjustment of prior period's income tax	10,453	331	509,217	15,750
Income tax benefit (expense)	(2,054,000)	(64,918)	514,225	15,905
Income tax benefit from cumulative effect of changes in accounting principles	-	-	(139,225)	(4,306)
Income tax benefit (expense) of continuing operations	$(2,054,000)	$(64,918)	$375,000	$11,599

Under the Tax Law, income tax was based on taxable income from all sources for the period. Foreign income tax paid with relative documents submitted could be used as income credit against domestic tax payable to the extent of demestic income tax applicable to the related foreign-source income.

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

	June 30,			
	2005		2006	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	$23,785	$752	$-	$-
Valuation of financial instruments	-	-	1,027,463	31,780
Others	121,172	3,830	129,666	4,011
Deductible temporary differences:				
Allowance for bad debts	349,422	11,044	9,993,423	309,107
Unrealized impairment loss for pledged assets taken-over	694,322	21,944	81,165	2,511
Unrealized gain from intercompany transactions	18,780	594	-	-
Pension expenses exceed the limit of tax law	75,809	2,396	75,809	2,345
Valuation of financial instruments	-	-	1,116,746	34,542
Provisions for possible losses	20,000	632	106,375	3,290
Others	365,359	11,547	184,442	5,705
Deferred income tax assets of foreign branches	$40,552	$1,282	$88,072	$2,724

	June 30,			
	2005		2006	
	NT	US	NT	US
(3) Deferred tax assets	$421,475	$13,321	$2,977,562	$92,099
Deferred tax liabilities	(36,239)	(1,145)	(289,282)	(8,948)
Valuation allowance	-	-	(602,633)	(18,640)
Net deferred tax assets	$385,236	$12,176	$2,085,647	$64,511

(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:

	June 30,			
	2005		2006	
	NT	US	NT	US
Imputation credit	$106,426	$3,364	$145,506	$4,501
Undistributed earnings	6,645,698	210,041	2,828,385	87,485

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 13.98%.

25. Earnings per share

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

	January 1 – June 30, 2005	January 1 – June 30, 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 – June 30,							
	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	$8,699,698	$274,959	$6,645,698	$210,041	$1,726,706	$53,409	$2,101,706	$65,008
Cumulative effect changes in accounting principles	-	-	-	-	587,454	18,170	726,679	22,477
Net income	$8,699,698	$274,959	$6,645,698	$210,041	$2,314,160	$71,579	$2,828,385	$87,485
Earnings per share (in dollars)								
Income from continuing operations	$1.87	$0.59	$1.43	$0.045	$0.37	$0.011	$0.46	$0.014
Cumulative effect changes in accounting principles	-	-	-	-	0.13	0.004	0.15	0.005
Net income	$1.87	$0.59	$1.43	$0.045	$0.50	$0.015	$0.61	$0.019

(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 Securities Trust 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)	〃
Cathay General Hospital	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Futures Corp.	Affiliate (former investee by the equity method of the Bank disposed in February, 2006)
Seaward Leasing Ltd.	Affiliate (former investee by the equity method of the Bank disposed in June, 2006)
Cathay Life Charity Foundation	Affiliate is the major sponsor of the foundation
Pao Shan Securities Co.	Former subsidiary of Lucky Bank disposed in April, 2006
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
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.	〃
Taipei Smart Card Corp. and etc.	The Bank is the director of such organizations
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
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager and etc.

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

(1) Loans and Deposits

	June 30 Account balance			January 1- June 30 Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2005					
Loans	$1,988,963	$62,862	0.32%	$20,192	$638
Deposits	39,316,355	1,242,616	5.07%	(237,819)	(7,516)
2006					
Loans	2,751,000	85,091	0.43%	26,497	820
Deposits	21,944,299	678,760	2.67%	(196,788)	(6,087)

	January 1 - June 30 Maximum balance		June 30 balance		January 1 - June 30 Interest income (expense)		Interest rate
Accounts / Related parties	NT	US	NT	US	NT	US	
2005							
Call loans to banks							
Indovina Bank	$680,690	$21,514	$569,880	$18,011	$7,437	$235	2.48%-3.84%
2006							
Call loans to banks							
Indovina Bank	768,544	23,772	617,567	19,102	13,842	428	4.38%-7.80%
Lucky Bank	1,500,000	46,397	1,500,000	46,397	629	19	1.54%-1.60%
Due from commercial banks							
Indovina Bank	100,588	3,111	6,370	197	33	1	0.5%-2.16%
Lucky Bank	80,547	2,491	40,854	1,264	9	-	0.1%-0.15%
Call loans from banks							
Indovina Bank	35,750	1,106	-	-	(219)	(7)	5.14%
2005							
Due to commercial banks							
Indovina Bank	34,275	1,083	9,401	297	(629)	(20)	1.54%-1.60%

2006							
Due to commercial banks							
Indovina Bank	48,421	1,498	9,595	297	-	-	-

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

(2) Guarantees

2006

	January 1- June 30 Maximum balance		June 30 Account balance		January 1- June 30 Service fees	
Related Parties	NT	US	NT	US	NT	US
Indovina Bank	$153,725	$4,755	$-	$-	$3	$-

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

(3) Transaction under agreements to repurchase

	June 30 Account balance		January 1- June 30 Interest expense	
Account/Related parties	NT	US	NT	US
2005				
Securities sold under agreements to repurchase				
Cathay Securities trust Co., Ltd.	$3,000	$95	$85	$3
Others	80,067	2,530	3,242	102
Total	$83,067	$2,625	$3,327	$105
2006				
Securities sold under agreements to repurchase				
Cathay Real Estate Development Co., Ltd.	$19,976	$618	$497	$15
Lin Yuan Investment Co., Ltd.	12,983	401	115	4
Others	546,570	16,906	3,118	96
Total	$579,529	$17,925	$3,730	$115

(4) Lease

Account/Related parties	January 1- June 30, 2005 NT	2005 US	2006 NT	2006 US
Rental income				
Seaward Leasing Ltd.	$66	$2	$486	$15
Culture and Charity Foundation of Cathay United Bank	500	16	500	15
Taipei Smart Card Corp.	2,854	90	3,208	99
Cathay Securities Corp.	4,785	151	2,514	78
Cathay Life Insurance Co., Ltd.	-	-	400	12
Lucky Bank	-	-	820	25

Account/Related parties	January 1- June 30, 2005 NT	2005 US	2006 NT	2006 US
Rental expense				
Cathay Life Insurance Co., Ltd.	$133,475	$4,219	$123,672	$3,825
Cathay Real Estate Development Co., Ltd.	6,942	219	6,910	214
Seaward Leasing Ltd.	1,380	44	5,523	171

Account/Related parties	June 30, 2005 NT	2005 US	2006 NT	2006 US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$42,000	$1,327	$33,393	$1,033
Cathay Life Insurance Co., Ltd.	75,907	2,399	65,336	2,021
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.

Account/Related parties	June 30, 2005 NT	2005 US	2006 NT	2006 US
Guarantee deposits				
Cathay Securities Corp.	$3,129	$99	$1,238	$38
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.

Account/Related parties	January 1 – June 30, 2005 NT	2005 US	2006 NT	2006 US
(5) Commissions and handling fees income				
Cathay Futures Corp.	$322	$10	$433	$13
Cathay Life Insurance Co., Ltd.	2,556	81	2,485	77
Cathay Securities Co., Ltd.	-	-	1,513	47
(6) Operating expenses				
Seaward Card Co., Ltd.	517,495	16,356	236,262	7,308
Cathay Life Insurance Co., Ltd.	167,910	5,307	190,700	5,899
Cathay Century Insurance Co., Ltd.	75,027	2,371	56,073	1,734
Lucky Bank, Inc.	-	-	1,661	51
Symphox Information Co., Ltd.	49	2	88,346	2,733
Cathay Securities Corp.	-	-	1,200	37
Cathay Real Estate Development Co., Ltd.	3,600	114	3,600	111

Account/Related parties	June 30, 2005 NT	2005 US	2006 NT	2006 US
(7) Consolidated income tax return receivable				
Cathay Financial Holdings	$571,606	$18,066	$1,387,683	$42,922
(8) Notes receivable				
Cathay Real Estate Development Co., Ltd.	-	-	3,180,000	98,361
(9) Other receivables				
Indovina Bank	-	-	108,758	3,364
(10) Prepaid rental expense				
Cathay Life Insurance Co., Ltd.	180	6	-	-

(11)Refundable Deposit				
Cathay Futures Corp.	4,072	129	4,775	148
(12)Accrued expenses				
Seaward Card Co., Ltd.	90,673	2,866	32,745	1,013
(13)Consolidate income tax return payables				
Cathay Financial Holdings	1,524,385	48,179	-	-

(14)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 six-month periods ended June 30, 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$6,865 and NT$9,777 during the six-month periods ended June 30, 2005 and 2006, respectively.

c. As of June 30, 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$980,000 and US$1,078,000, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$36,404 and NT$13,706 during the six-month periods ended June 30, 2005 and 2006, respectively.

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

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.

(15) For organization restructuring, the Bank's board of directors resolved 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 as the loss from disposal of the investment recognized by equity method.

(16) For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing Ltd. to the Cathay Real Estate Development, with NT$15.9 per share. The Bank received NT$3,180,000 notes matured before July 6, 2006. The gain from disposal of the investment recognized by the equity method was NT$1,323,466, with selling price NT$3,170,460 (securities transaction cost NT$9,540 was deducted) minus the cost NT$1,846,994.

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 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	$269,948,119	$8,349,772
Travelers checks for sale	800,479	24,760
Bills for collection	51,545,326	1,594,350
Agent for government bonds and depository for short-term marketable securities under management	344,302,105	10,649,617
Guarantees on duties and contracts	14,981,939	463,407
Unused commercial letters of credit	3,611,303	111,701
Irrevocable loan commitments	23,770,917	735,259
Credit card lines	281,650,598	8,711,741
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of June 30, 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 certificates of time deposit. Such certificates 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. The lawsuit procedure was continuance in May, 2006.

   (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 the lawsuit on June 30, 2006. However, Pacific SOGO appealed and the appeal is being reviewed by the High Court. Furthermore, the Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, 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. Although the sentence was two years and ten months in prison, the bank demanded the prosecutor to file an appeal.

3. As of June 30, 2006, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$1,790,383 with prepayments of NT$509,456.

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2006			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$48,849,647	$1,510,970	$48,849,647	$1,510,970
Available-for-sale financial assets	52,421,577	1,621,453	52,421,577	1,621,453
Held-to-maturity financial assets and debt securities with no active market	215,801,216	6,674,953	215,784,315	6,674,430
Investment accounted for using equity method	2,022,405	62,555	2,022,405	62,555
Others	780,525,493	24,142,453	780,525,493	24,142,453
Liabilities				
Financial liabilities at fair value through profit or loss	49,395,298	1,527,847	49,395,298	1,527,847
Financial debentures payable	17,282,698	534,572	17,282,698	534,572
Others	984,338,435	30,446,596	984,338,435	30,446,596
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	5,224,183	161,589	5,224,183	161,589
Liabilities				
Financial liabilities at fair value through profit or loss	3,389,312	104,835	3,389,312	104,835
Others	1,278,000	39,530	1,278,000	39,530

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, refundable deposits, Guarantee deposits, borrowed funds, 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 or 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) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

   The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.

   (4) 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.

   (5) 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.

   (6) 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:

	June 30,2006			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$48,849,647	$1,510,970	$-	$-
Available-for-sale financial assets	52,421,577	1,621,453	-	-
Held-to-maturity financial assets and debt securities without active market	163,037,693	5,042,923	52,746,622	1,631,507
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	685,817	21,213	48,709,481	1,506,634
Financial debentures payable	-	-	17,282,698	534,572
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	1,359,264	42,043	3,864,919	119,546
Liabilities				
Financial liabilities at fair value through profit or loss	13,488	417	3,375,824	104,418
Others	-	-	1,278,000	39,530

Note: Most of such assets and liabilities are investment accounted for cost or using equity method. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

4. Gains recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$42,622 for the six-month period ended June 30, 2006.

5. The Bank recognized NT$19,545,206 and NT$7,252,862 as interest income and expense from financial assets or liabilities not at fair value through profit or loss, respectively, for the six-month period ended June 30, 2006.

6. The Bank recognized an unrealized gains or losses of NT$ 189,972 in shareholders' equity for the changes in fair value of available-for-sale financial assets and an realized gains of NT$225,087 in income statement for the six-month period ended June 30, 2006.

7. The interest income of NT$18 from financial assets was impaired which 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 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	$92,170	$2,851	$138,367	$4,280	$55,596	$1,720
Foreign exchange	43,812	1,355	117,919	3,647	164	5
Equity Securities price	44,607	1,380	66,969	2,071	17,301	535

(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

	June 30, 2006			
	Book value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Financial assets at fair value through profit or loss	$54,073,830	$1,672,559	$54,073,830	$1,672,559
Available-for-sale financial assets	52,421,577	1,621,453	52,421,577	1,621,453
Held-to-maturity financial assets	6,383,600	197,451	6,383,600	197,451
Discounts and loans	635,855,822	19,667,672	635,855,822	19,667,672
Debt securities with no active market and others	213,971,577	6,618,360	213,971,577	6,618,360
Off-balance sheet commitments and guarantees	-	-	324,014,757	10,022,108

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:

	June 30,			
	2005		2006	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$71,364,279	$2,255,508	$87,336,543	$2,701,409
Financial institutions and insurance	42,595,519	1,346,256	39,617,949	1,225,424
Leasing and real estate	66,698,111	2,108,031	66,943,252	2,070,623
Individuals	343,680,676	10,862,221	365,886,931	11,317,257
Others	110,458,759	3,491,111	101,846,132	3,150,205
Total	634,797,344	20,063,127	661,630,807	20,464,918
Valuation allowance	(5,988,272)	(189,263)	(10,240,723)	(316,756)
Maximum risk exposed	$628,809,072	$19,873,864	$651,390,084	$20,148,162
Geographic Region				
Domestic	$599,310,111	$18,941,533	$622,946,898	$19,268,385
South East Asia	9,770,154	308,791	10,315,341	319,064
North East Asia	21,839	690	-	-
North America	9,719,797	307,200	8,935,666	276,389
Others	15,975,443	504,913	19,432,902	601,080
Total	634,797,344	20,063,127	661,630,807	20,464,918
Valuation allowance	(5,988,272)	(189,263)	(10,240,723)	(316,756)
Maximum credit risk exposed	$628,809,072	$19,873,864	$651,390,084	$20,148,162

(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.

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2006, there is no significant change in these dates.

As of June 30, 2006, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%)
Available-for-sale financial assets	
Bonds	1.3653-6.83732
Overseas financial instruments	3.65-4.6
Held-to-maturity financial assets	
Bonds	1.64-6.95
Overseas financial instruments	0.61-7.625
Investments in debt securities with no active market	
Preferred stocks	5
Certificates of deposit	1.52-1.9
Overseas financial instruments	0-8.32
Financial debentures payable	4.15-5.59

9. Fair value hedge

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

	Hedging instruments	
Hedged item	Derivative designated as hedging instruments	Fair value June 30, 2006
Financial debentures payable	Interest rate swap	NT$1,278,000

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-June 30, 2005		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$21,444,341	$677,760	1.49%
Time certificates, discounted bills and others	160,126,945	5,060,902	1.27%
Due from commercial banks and call loans to banks	23,222,879	733,972	1.73%
Discounts and loans	592,258,429	18,718,661	4.04%
Bills purchased	10,862	343	5.12%
Government, corporate bonds and financial debentures	92,172,273	2,913,157	3.22%
Receivables-credit card revolving balance	35,159,298	1,111,229	14.97%
Liabilities			
Due to banks	76,535,591	2,418,950	2.08%
Demand deposits	91,044,662	2,877,518	0.24%
Saving deposits	455,898,675	14,408,934	0.78%
Time deposits	158,651,176	5,014,260	1.45%
Negotiable certificates of deposit	31,099,719	982,924	1.12%
Financial debentures	51,475,414	1,626,909	2.50%
Bank's acceptances and fund borrowed	1,280,532	40,472	2.68%

	January 1-June 30, 2006		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$22,859,855	$707,079	1.49%
Time certificates, discounted bills and others	181,307,240	5,608,019	1.59%
Due from commercial banks and call loans to banks	24,571,718	760,028	3.15%
Discounts and loans	623,703,697	19,291,794	3.98%
Bills purchased	7,869	243	7.51%
Government and corporate bonds	133,271,944	4,122,238	4.22%
Receivables-credit card revolving balance	36,776,829	1,137,545	13.06%

	January 1-June 30, 2006		
	Average balance		Average rate
	NT	US	(%)
Liabilities			
Due to banks	$86,780,911	$2,684,222	3.11%
Demand deposits	93,334,765	2,886,940	0.44%
Saving deposits	505,799,936	15,644,910	0.94%
Time deposits	197,927,696	6,122,106	2.06%
Negotiable certificates of deposit	15,167,311	469,140	1.39%
Financial debentures	67,997,232	2,103,224	2.61%
Bank's acceptances and fund borrowed	1,120,522	34,659	3.89%

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 June 30, 2005 and 2006, the ratio of the Bank's shareholders' equity to its risk-weighted assets was 11.11% and 13.06%, 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 June 30, 2005 and 2006, the amounts of insurance coverage over the Bank's premises and equipments were NT$8,143,749 and NT$8,254,566, respectively.

4. Certain accounts of the financial statements for the six-month period ended June 30, 2005 have been reclassified to conform to the current presentation.

5. In accordance with Article 17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

Balance Sheet Based on Trust
June 30, 2005

Trust Assets	NT	US	Trust Liabilities	NT	US
Cash and cash equivalents	$3,547,029	$112,106	Trust capital	$91,504,457	$2,892,050
Short-term investments			Trust capital-money		
Bonds	23,413	740	Trust capital-securities	1,865,306	58,954
Common stock	18,697	591	Trust capital-real estate	3,143,394	99,349
Mutual funds	56,327	1,780	Reserve and accumulated earnings		
Designated-purpose funds	87,835,558	2,776,092	Commitment	(112,713)	(3,562)
Personal estate			Distribution	(19,509)	(617)
Securities	1,863,506	58,897	Net Income	51,703	1,634
Real estate					
Land	3,081,944	97,407			
Buildings	6,164	195			
Total	$96,432,638	$3,047,808	Total	$96,432,638	$3,047,808

Balance Sheet Based on Trust
June 30, 2006

Trust Assets	NT	US	Trust Liabilities	NT	US
Cash and cash equivalents	$2,929,010	$90,597	Payables		
Short-term investments			Redemption charge payable	$26	$1
Bonds	45,850	1,418	Service fee payable	49	2
Common stock	23,357	723	Management fee payable	20	1
Mutual funds	134,541	4,162	Other liabilities	92,165	2,851
Designated-purpose funds	130,027,151	4,021,873	Trust capital		
			Trust capital-money	133,057,729	4,115,612
Short-term bills or repurchase investment	11,031	341	Trust capital-securities	1,970,913	60,962
Receivables			Trust capital-real estate	3,681,036	113,858
Accrued interest receivable	1	-	Reserve and accumulated earnings		
Personal estate			Distribution	(90,933)	(2,813)
Securities	1,969,113	60,907	Net Income	112,967	3,494
Real estate					
Land	3,677,416	113,746			
Buildings	6,502	201			
Total	$138,823,972	$4,293,968	Total	$138,823,972	$4,293,968

Details of Trust Properties

	June 30,			
	2005		2006	
Items	NT	US	NT	US
Short-term investment				
Bonds	$23,413	$740	$45,850	$1,418
Common stock	18,697	591	23,357	723
Mutual fund	56,327	1,780	134,541	4,162
Assigned fund	87,835,558	2,776,092	130,027,151	4,021,873
Short-term bills or repurchase investment	-	-	11,031	341
Personal estate				
Cash in banks	3,547,029	112,106	2,929,010	90,597
Accrued interest receivable	-	-	1	-
Securities	1,863,506	58,897	1,969,113	60,907
Real estate				
Land	3,081,944	97,407	3,677,416	113,746
Buildings	6,164	195	6,502	201
Total	$96,432,638	$3,047,808	$138,823,972	$4,293,968