Cathay United Bank

Financial Statements

For The Nine-Month Periods Ended

September 30, 2005 and 2006

With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of September 30, 2005 and 2006, and the related statements of income and cash flows for the nine-month periods ended September 30, 2005 and 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

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

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

Ernst & Young

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

September 30, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2005		September 30, 2006	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$17,537,552	$528,558	$25,781,811	$778,907
Due from the Central Bank and call loans to banks	IV and V	49,869,891	1,503,010	48,832,234	1,475,294
Financial assets at fair value through profit or loss	II, III and IV	44,431,032	1,339,091	56,333,887	1,701,930
Securities purchased under agreements to resell	III	3,168,902	95,506	126,000	3,807
Available-for-sale financial assets, net	II, III and IV	41,405,345	1,247,901	51,114,457	1,544,243
Receivables, net	II, IV and V	60,616,743	1,826,906	51,015,180	1,541,244
Discounts and loans, net	II, IV and V	617,419,767	18,608,191	651,277,767	19,676,065
Held-to-maturity financial assets, net	II and IV	8,388,359	252,814	5,541,686	167,423
Investments accounted for using equity method, net	II, IV and V	5,079,446	153,088	2,112,220	63,813
Premises and equipment, net	II, V and VII	24,917,361	750,975	23,841,780	720,295
Investments in debt securities with no active market, ne	II, III and IV	134,868,987	4,064,767	203,284,238	6,141,518
Other financial assets, net	II, III, IV and V	4,784,906	144,211	4,540,048	137,162
Other assets, net	II, IV and V	5,547,504	167,194	8,149,445	246,207
TOTAL ASSETS		$1,018,035,795	$30,682,212	$1,131,950,753	$34,197,908

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)

September 30, 2005 and 2006

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2005		September 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	$73,956,117	$2,228,936	$87,582,531	$2,645,998
Payables	IV and V	24,067,437	725,360	23,649,139	714,476
Deposits and remittances	IV and V	757,378,680	22,826,362	846,849,398	25,584,574
Financial liabilities at fair value through profit or loss	II, III and IV	49,714,563	1,498,329	53,038,898	1,602,384
Securities sold under agreements to repurchase	IV and V	23,550,540	709,781	20,696,643	625,276
Funds borrowed from the Central Bank and other banks		829,875	25,011	824,500	24,909
Financial debentures payable	IV and X	2,350,000	70,826	18,276,773	552,168
Other financial liabilities	II, III and IV	311,510	9,389	817,283	24,691
Other liabilities	II, IV and V	2,124,725	64,036	1,797,229	54,297
TOTAL LIABILITIES		934,283,447	28,158,030	1,053,532,394	31,828,773
SHAREHOLDERS' EQUITY					
Capital stock	IV	46,420,518	1,399,051	46,420,518	1,402,432
Capital reserves	IV	13,463,713	405,778	13,464,276	406,776
Retained earnings	IV				
Legal reserve		14,115,413	425,419	15,271,236	461,367
Undistributed earnings		9,630,586	290,253	2,950,033	89,125
Foreign currency translation adjustment	II	122,118	3,681	98,645	2,980
Unrealized gains or losses on financial instruments	II	-	-	213,651	6,455
TOTAL SHAREHOLDERS' EQUITY		83,752,348	2,524,182	78,418,359	2,369,135
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,018,035,795	$30,682,212	$1,131,950,753	$34,197,908

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 nine-month periods ended September 30, 2005 and 2006

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

(Reviewed, not audited)

ITEMS	NOTES	January 1 - September 30, 2005 NT	January 1 - September 30, 2005 US (Note II)	January 1 - September 30, 2006 NT	January 1 - September 30, 2006 US (Note II)
INTEREST INCOME	II and V	$28,856,834	$869,706	$31,041,211	$937,801
INTEREST EXPENSE	V	(8,906,242)	(268,422)	(12,155,310)	(367,230)
NET INTEREST INCOME		19,950,592	601,284	18,885,901	570,571
NONINTEREST INCOME					
Net fee income	II and V	4,100,357	123,579	3,558,073	107,495
Gains (losses) on financial assets and liabilities at fair value through profit or loss	II and III	308,675	9,303	(679,669)	(20,534)
Realized gains on available-for-sale financial assets	II and III	546,464	16,470	369,776	11,171
Realized gains on held-to-maturity financial assets	II	-	-	681	21
Investment income recognized by the equity method	II	153,442	4,625	1,063	32
Gains from disposal of investment recognized by the equity method	II and V	-	-	1,295,287	39,133
Foreign exchange gains, net	II	218,690	6,591	302,897	9,151
Impairment loss of assets	II	(719,272)	(21,678)	(209,027)	(6,315)
Reversal of impairment loss on foreclosed properties		763,872	23,022	385,148	11,636
Gains (losses) on disposal of foreclosed properties		(537,906)	(16,212)	489,626	14,792
Others	III and V	295,581	8,908	315,542	9,533
NET NONINTEREST INCOME		5,129,903	154,608	5,829,397	176,115
NET OPERATING INCOME		25,080,495	755,892	24,715,298	746,686
PROVISION FOR LOAN LOSSES	II and IV	(2,419,593)	(72,923)	(13,640,134)	(412,089)
OPERATING EXPENSES					
Personnel	II and IV	(4,589,199)	(138,312)	(3,437,546)	(103,853)
Depreciation and amortization	II and IV	(920,499)	(27,743)	(959,298)	(28,982)
Other general and administrative expenses	V	(4,601,618)	(138,686)	(4,771,966)	(144,168)
TOTAL OPERATING EXPENSES		(10,111,316)	(304,741)	(9,168,810)	(277,003)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		12,549,586	378,228	1,906,354	57,594
INCOME TAX BENEFIT (EXPENSE)	II and IV	(2,919,000)	(87,975)	317,000	9,577
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		9,630,586	290,253	2,223,354	67,171
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	III	-	-	726,679	21,954
NET INCOME		$9,630,586	$290,253	$2,950,033	$89,125
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$2.07	$0.062	$0.48	$0.014
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		-	-	0.16	0.005
NET INCOME		$2.07	$0.062	$0.64	$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 cash flows
For the nine-month periods ended September 30, 2005 and 2006
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	NOTES	January 1-September 30, 2005 NT	January 1-September 30, 2005 US (Note II)	January 1-September 30, 2006 NT	January 1-September 30, 2006 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$9,630,586	$290,253	$2,950,033	$89,125
Adjustments to reconcile net income to net cash provided by in operating activities:					
Depreciation and amortization	II	920,499	27,743	959,298	28,982
Investment income recognized by the equity method exceeded the cash dividends received	II	172,490	5,199	151,846	4,588
Gain on disposal of investments accounted for using equity method		-	-	(1,295,287)	(39,133)
Reversal of impairment loss on foreclosed properties	II	(763,872)	(23,022)	(385,148)	(11,636)
Provisions for loan losses	II and IV	2,419,593	72,923	13,640,134	412,089
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	527,462	15,897	(530,230)	(16,019)
Impairment loss of assets	II	719,272	21,678	209,027	6,315
Effects of exchange rate changes	II	(3,772)	(114)	(12,782)	(386)
Cumulative effect of changes in accounting principles		-	-	(726,679)	(21,954)
(Increase) decrease in receivables		(5,425,880)	(163,529)	5,193,745	156,911
Decrease in securities purchased under agreements to resell		3,680,448	110,924	1,066,252	32,213
(Increase) decrease in deferred income tax assets		202,548	6,105	(274,021)	(8,279)
(Increase) decrease in financial assets at fair value through profit or loss		4,737,315	142,776	(6,767,795)	(204,465)
Increase in other assets		(449,507)	(13,548)	(192,326)	(5,810)
Increase (decrease) in payables		6,703,259	202,027	(1,333,336)	(40,282)
Increase in financial liabilities at fair value through profit or loss		3,501,543	105,532	3,768,070	113,839
Decrease in securities sold under agreements to repurchase		(25,703,815)	(774,678)	(13,168,292)	(397,834)
Increase (decrease) in tax payables		113,046	3,407	(32,059)	(969)
Increase (decrease) in other liabilities		49,477	1,491	(299,221)	(9,040)
Net cash provided by in operating activities		1,030,692	31,064	2,921,229	88,255
CASH FLOWS FROM INVESTING ACTIVITIES:					
Increase in discounts and loans		(32,482,661)	(978,983)	(39,439,088)	(1,191,513)
Decrease in due from the Central Bank and call loans to banks		5,727,491	172,619	1,138,341	34,391
Increase in available-for-sale financial assets		(15,318,679)	(461,684)	(9,286,296)	(280,553)
Decrease in held-to-maturity financial assets		83,257	2,509	2,808,720	84,856
Proceeds from investments accounted for using equity method		-	-	3,878,735	117,182
Proceeds from disposal of premises, equipment and foreclosed properties		896,299	27,013	1,611,071	48,673
Acquisition of premises, equipment and foreclosed properties		(976,911)	(29,443)	(525,788)	(15,885)
(Increase) decrease in investments in debt securities with no active market		41,558,852	1,252,527	(31,891,687)	(963,495)
(Increase) decrease in other financial assets		212,863	6,416	(269,859)	(8,153)
Increase in other assets		(331,638)	(9,995)	(840,485)	(25,392)
Net cash used in investing activities		(631,127)	(19,021)	(72,816,336)	(2,199,889)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(6,223,398)	(187,565)	16,757,224	506,261
Increase in deposits and remittances		12,090,114	364,379	52,807,493	1,595,392
Increase in funds borrowed from the Central Bank and other banks		34,250	1,032	4,000	121
Decrease in financial debentures payable		-	-	(479,524)	(14,487)
Decrease in other financial liabilities		(307,551)	(9,269)	(204,296)	(6,172)
Increase in other liabilities		24,295	732	11,033	333
Distribution of cash dividends	IV	(6,467,361)	(194,917)	(2,695,420)	(81,433)
Compensation to directors and supervisors, bonus to shareholders, special bonus to employees,	IV	(10,000)	(301)	(1,500)	(45)
Net cash provided by (used in) financing activities		(859,651)	(25,909)	66,199,010	1,999,970
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		137,445	4,142	27,809	840
NET DECREASE IN CASH AND CASH EQUIVALENTS		(322,641)	(9,724)	(3,668,288)	(110,824)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		17,860,193	538,282	29,450,099	889,731
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$17,537,552	$528,558	$25,781,811	$778,907
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest paid during the period		$8,405,311	$253,325	$11,336,606	$342,496
Income tax paid		$422,485	$12,733	$2,763,371	$83,486

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

<u>English Translation of Financial Statements Originally Issued in Chinese</u>

Cathay United Bank

Notes to financial statements

For the nine-month periods ended September 30, 2005 and 2006

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

(Reviewed, not audited)

I. Business

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

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

As of September 30, 2005 and 2006, the Bank employed 4,120 and 4,568 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 acquired 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 plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the Bank's financial statements.

The Labor Pension Act of the ROC (the "Act"), which adopts a defined contribution pension plan, took effect from July 1, 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly salaries. Monthly contributions are recognized as pension costs.

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

17. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

18. Recognition of dividend

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

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

19. Income tax

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

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

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

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

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

20. Contingencies

A loss is recognized if it is probable that an asset will be impaired 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 September 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$33.18 and NT$33.10 to US$1.00 on September 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$2,330) and NT$295,449(US$8,904), respectively, as of September 30, 2005 and reduced net income and earnings per share before tax by NT$372,751 (US$11,234) (NT$20,000 (US$603) of the impairment loss on equity securities is excluded.) and NT$0.08(US$0.002), respectively, for the nine-month period ended September 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	$8,913	$-	$-
Available-for-sale financial assets	-	-	353,343	10,675
Financial liabilities at fair value through profit or loss	449,790	13,589	-	-
Derivative financial liabilities for hedging	(18,145)	(548)	-	-
Total	$726,679	$21,954	$353,343	$10,675

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 (US$21,954) and increased after income tax earnings per share of NT$0.16 (US$0.005) for the nine-month period ended September 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 nine-month period ended September 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:

	September 30, 2005			
	Before reclassification		After reclassification	
Balance Sheet	NT	US	NT	US
Securities purchased, net	$193,572,453	$5,834,010	$-	$-
Long-term investments, net	48,533,556	1,462,736	-	-
Other assets	10,353	312	-	-
Financial debentures payable	52,050,000	1,568,716	2,350,000	70,826
Other liabilities	14,563	439	-	-
Financial assets at fair value through profit or loss	-	-	44,431,032	1,339,091
Securities purchased under agreements to resell	-	-	3,168,902	95,506
Available-for-sale financial assets	-	-	41,405,345	1,247,901
Held-to-maturity financial assets	-	-	8,388,359	252,814
Investments accounted for using equity method	-	-	5,079,446	153,088
Investments in debt securities with no active market	-	-	134,868,987	4,064,767
Financial assets carried at cost	-	-	4,774,291	143,891
Financial liabilities at fair value through profit or loss	-	-	49,714,563	1,498,329

	January 1-September 30, 2005			
	Before reclassification		After reclassification	
Income statement	NT	US	NT	US
Gains on sales of securities, net	$752,561	$22,681	$-	$-
Investment income, net	45,107	1,359	-	-
Other operating income, derivatives instruments	9,719	294	-	-
Gains on financial assets and liabilities at fair value through profit or loss	-	-	308,675	9,303
Realized gains on available-for-sale financial assets	-	-	546,464	16,470
Equity investment gains	-	-	153,442	4,625
Impairment loss of assets	-	-	(20,000)	(603)
Others	-	-	(181,194)	(5,461)

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 nine-month period ended September 30, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	September 30,			
	2005		2006	
	NT	US	NT	US
Cash on hand	$9,513,326	$286,719	$10,037,262	$303,241
Checks for clearance	5,572,134	167,936	8,425,498	254,547
Due from commercial banks	2,452,092	73,903	7,319,051	221,119
Total	$17,537,552	$528,558	$25,781,811	$778,907

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

	September 30,			
	2005		2006	
	NT	US	NT	US
Call loans to banks	$13,471,910	$406,025	$14,492,937	$437,853
Banks overdraft	13,033	393	-	-
Due from the Central Bank				
Reserve accounts	21,631,152	651,933	22,619,138	683,358
General deposits	14,753,796	444,659	11,720,159	354,083
Total	$49,869,891	$1,503,010	$48,832,234	$1,475,294

3. Financial assets at fair value through profit or loss

	September 30,			
	2005		2006	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$1,582,773	$47,703	$3,959,269	$119,615
Mutual funds and beneficiary certificate	1,329,260	40,062	1,465,506	44,275
Commercial papers and certificates of deposit	7,633,794	230,072	13,199,756	398,784
Bonds	31,883,152	960,915	31,127,277	940,401
Overseas financial instruments	730,290	22,010	1,486,115	44,898
Derivative financial instruments	10,353	312	3,342,734	100,989
Subtotal	43,169,622	1,301,074	54,580,657	1,648,962
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	1,261,410	38,017	1,585,260	47,893
Bonds	-	-	167,970	5,075
Subtotal	1,261,410	38,017	1,753,230	52,968
Total	$44,431,032	$1,339,091	$56,333,887	$1,701,930

(1) NT$1,977,991 (US$59,614) and NT$167,970 (US$5,075) of the financial assets at fair value through profit or loss as of September 30, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2005, certain of the financial assets was sold under repurchase agreements with notional amounts of NT$22,149,900 (US$667,568). Such repurchase agreements amounting to NT$23,550,540 (US$709,781) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 2005 was settled at NT$23,591,622 (US$711,019) prior to March 31, 2006. 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 September 30, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$9,852,600 (US$297,662). Such repurchase agreements amounting to NT$9,830,205 (US$296,985) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2006 was settled at NT$9,838,809 (US$297,245) prior to November 30, 2006.

(3) As of September 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 transactions) are summarized as follows (in thousands of US dollars):

	September 30,	
	2005	2006
Forward foreign exchange contracts	$2,230,623	$9,341,543
Interest rate swap contracts	2,194,737	8,442,049
Cross-currency swap contracts	559,901	559,901
Options	111,463	169,926
Futures	-	10,486
Credit default swap contracts	-	225,000

(4) Net gains arising from financial assets at fair value through profit or loss for the nine-month period ended September 30, 2006 was NT$825,105 (US$24,928).

4. Available-for-sale financial assets, net

	September 30,			
	2005		2006	
	NT	US	NT	US
Stocks	$4,385,192	$132,164	$4,766,220	$143,994
Mutual funds	32,210	971	84,092	2,540
Bonds	35,805,252	1,079,121	45,776,228	1,382,968
Overseas financial instruments	1,182,691	35,645	487,917	14,741
Total	$41,405,345	$1,247,901	$51,114,457	$1,544,243

(1) NT$252,988 (US$7,625) and NT$263,721 (US$7,967) of the available-for-sale financial assets as of September 30, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$9,947,400 (US$300,526). Such repurchase agreements amounting to NT$10,866,438 (US$328,291) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2006 was settled at NT$10,894,518 (US$329,140) prior to March 31, 2007.

5. Receivables, net

	September 30,			
	2005		2006	
	NT	US	NT	US
Accounts receivable	$53,694,984	$1,618,294	$43,168,208	$1,304,176
Interest receivable	3,786,618	114,124	4,454,378	134,573
Receivable to related party for allocation of linked-tax system	571,606	17,227	1,239,285	37,441
Foreign currency receivable	1,278,471	38,531	42,709	1,290
Acceptances	736,897	22,209	634,933	19,182
Tax refundable	274,430	8,271	944,245	28,527
Others	964,732	29,076	2,202,296	66,535
Total	61,307,738	1,847,732	52,686,054	1,591,724
Less: allowance for doubtful accounts	(690,995)	(20,826)	(1,670,874)	(50,480)
Net balance	$60,616,743	$1,826,906	$51,015,180	$1,541,244

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

6. Discounts and loans, net

	September 30,			
	2005		2006	
	NT	US	NT	US
Inward-outward documentary bills	$731,824	$22,056	$1,018,972	$30,784
Loans	615,634,995	18,554,400	650,187,004	19,643,112
Overdrafts	631,148	19,022	543,075	16,407
Delinquent accounts	6,889,247	207,633	10,906,215	329,493
Total	623,887,214	18,803,111	662,655,266	20,019,796
Less: allowance for doubtful accounts	(6,467,447)	(194,920)	(11,377,499)	(343,731)
Net balance	$617,419,767	$18,608,191	$651,277,767	$19,676,065

(1) As of September 30, 2005 and 2006, the accounts without interest accrued were NT$9,135,104 (US$275,320) and NT$10,981,080 (US$331,755), respectively. The non-accrued interest on such accounts amounted to NT$140,231 (US$4,226) and NT$167,679 (US$5,066) for the nine-month periods ended September 30, 2005 and 2006, respectively.

(2) For the nine-month periods ended of September 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-September 30, 2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,744,621	$142,997	$2,140,887	$64,523	$6,885,508	$207,520
Provision of doubtful accounts	2,419,593	72,923	-	-	2,419,593	72,923
Write-offs	(6,825,445)	(205,709)	-	-	(6,825,445)	(205,709)
Recoveries	4,670,924	140,775	-	-	4,670,924	140,775
Reclassification	(381,233)	(11,490)	381,233	11,490	-	-
Effects of exchange rates changes	-	-	7,862	237	7,862	237
Balance, end of the period	$4,628,460	$139,496	$2,529,982	$76,250	$7,158,442	$215,746

	January 1-September 30, 2006					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$5,199,228	$157,076	$11,662,475	$352,341	$16,861,703	$509,417
Provision of doubtful accounts	13,640,134	412,089	-	-	13,640,134	412,089
Write-offs	(22,062,451)	(666,539)	-	-	(22,062,451)	(666,539)
Recoveries	4,608,491	139,229	-	-	4,608,491	139,229
Reclassification	4,746,375	143,395	(4,746,375)	(143,395)	-	-
Effects of exchange rates change	-	-	496	15	496	15
Balance, end of the period	$6,131,777	$185,250	$6,916,596	$208,961	$13,048,373	$394,211

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

	September 30, 2005			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$5,011,803	$151,049	$5,332,840	$160,725
Overseas financial instruments	3,055,519	92,089	3,055,519	92,089
Subtotal	8,067,322	243,138	8,388,359	252,814
Less: accumulated impairment	-	-	-	-
Net balance	$8,067,322	$243,138	$8,388,359	$252,814

	September 30, 2006			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,663,800	$110,688	$3,920,910	$118,456
Overseas financial instruments	1,622,815	49,028	1,622,815	49,028
Subtotal	5,286,615	159,716	5,543,725	167,484
Less: accumulated impairment	-	-	(2,039)	(61)
Net balance	$5,286,615	$159,716	$5,541,686	$167,423

As of September 30, 2005 and 2006, NT$88,539 (US$2,668) and NT$2,325,185 (US$70,247) 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

	September 30,					
	2005			2006		
	NT	US	% of ownership	NT	US	% of ownership
Seaward Card Co., Ltd.	$56,973	$1,717	100.00	$39,033	$1,179	100.00
Seaward Leasing Ltd.	2,271,753	68,468	100.00	-	-	-
Cathay Futures Corp.	714,889	21,546	99.99	-	-	-
Cathay Life Insurance Agent Co., Ltd	100,373	3,025	100.00	83,079	2,510	100.00
Cathay Property Insurance Agent Co., Ltd.	9,921	299	100.00	9,035	273	100.00
Indovina Bank	526,729	15,875	50.00	568,789	17,184	50.00
Taiwan Real-estate Management Corp.	20,955	632	30.15	18,335	554	30.15
Taiwan Finance Corp.	1,373,304	41,390	24.57	1,350,394	40,797	24.57
Vista Technology Venture Capital Corp.	7,909	238	4.76	8,288	250	4.76
Cathay Venture Capital Corp.	28,486	858	2.00	35,267	1,066	2.00
Subtotal	5,111,292	154,048		2,112,220	63,813	
Less: unrealized gain from intercompany transactions	(31,846)	(960)		-	-	
Net balance	$5,079,446	$153,088		$2,112,220	$63,813	

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

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

	September 30,			
	2005		2006	
	NT	US	NT	US
Preferred stocks	$400,000	$12,055	$400,000	$12,085
Certificates of deposit	110,535,000	3,331,374	149,865,000	4,527,643
Overseas financial instruments	24,053,897	724,952	53,138,371	1,605,389
Subtotal	134,988,897	4,068,381	203,403,371	6,145,117
Less: accumulated impairment	(119,910)	(3,614)	(119,133)	(3,599)
Net balance	$134,868,987	$4,064,767	$203,284,238	$6,141,518

NT$16,000,000 (US$482,218) and NT$14,830,000 (US$448,036) of certificates of deposit as of September 30, 2005 and 2006, were pledged to other parties as collateral for business reserves and guarantees.

10. Other financial assets, net

	September 30,			
	2005		2006	
	NT	US	NT	US
Financial assets carried at cost, stocks	$4,774,291	$143,891	$4,535,738	$137,032
Bills purchased	10,615	320	4,310	130
Total	$4,784,906	$144,211	$4,540,048	$137,162

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.

11. Other assets, net

	September 30,			
	2005		2006	
	NT	US	NT	US
Prepayment	$430,128	$12,963	$238,556	$7,207
Temporary payments	599,466	18,067	554,490	16,752
Interbank settlement fund	802,433	24,184	1,301,234	39,312
Non-operating assets, net	1,203,004	36,257	1,266,069	38,250
Refundable deposits	1,040,392	31,356	1,121,821	33,892
Foreclosed properties, net	522,813	15,757	458,523	13,853
Deferred tax assets, net	380,129	11,457	2,729,226	82,454
Deferred charges	569,139	17,153	479,526	14,487
Total	$5,547,504	$167,194	$8,149,445	$246,207

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

	September 30,			
	2005		2006	
	NT	US	NT	US
Due to the Central Bank	$161,148	$4,857	$190,815	$5,765
Due to commercial banks	1,492,302	44,976	1,457,404	44,030
Due to Chunghwa Post Co., Ltd.	30,152,008	908,740	30,696,870	927,398
Overdrafts from banks	365,152	11,005	115,847	3,500
Call loans from banks	41,785,507	1,259,358	55,121,595	1,665,305
Total	$73,956,117	$2,228,936	$87,582,531	$2,645,998

13. Payables

	September 30,			
	2005		2006	
	NT	US	NT	US
Accounts payable	$8,182,542	$246,611	$9,752,701	$294,644
Accrued interest payable	3,006,571	90,614	4,289,464	129,591
Accrued expenses	1,834,471	55,288	2,049,592	61,921
Foreign currency payable	-	-	44,892	1,356
Payable to related party for allocation of linked-tax system	2,057,130	61,999	-	-
Acceptance	744,837	22,448	639,879	19,332
Income tax payable	125,351	3,778	139,692	4,220
Receipts under custody	5,638,677	169,942	4,711326	142,336
Others	2,477,858	74,680	2,021,593	61,076
Total	$24,067,437	$725,360	$23,649,139	$714,476

14. Deposits and remittances

	September 30,			
	2005		2006	
	NT	US	NT	US
Check deposits	$11,705,096	$352,776	$13,701,711	$413,949
Demand deposits	69,284,978	2,088,155	70,009,972	2,115,105
Time deposits	156,373,198	4,712,875	176,745,087	5,339,731
Saving deposits	469,564,525	14,152,035	524,454,501	15,844,547
Foreign currency deposits	50,069,833	1,509,036	61,540,536	1,859,230
Outward remittances	258,559	7,793	292,198	8,828
Remittances payable	122,491	3,692	105,393	3,184
Total	$757,378,680	$22,826,362	$846,849,398	$25,584,574

15. Financial liabilities at fair value through profit or loss

	September 30,			
	2005		2006	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$14,563	$439	$3,865,161	$116,772
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,700,000	1,196,504	39,150,762	1,182,803
Subordinated financial debentures	10,000,000	301,386	10,022,975	302,809
Subtotal	49,700,000	1,497,890	49,173,737	1,485,612
Total	$49,714,563	$1,498,329	$53,038,898	$1,602,384

(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 September 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 semiannually.

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 nine-month period ended September 30, 2006 was NT$1,504,774 (US$45,461).

16. Financial debentures payable

	September 30,			
	2005		2006	
	NT	US	NT	US
Subordinated financial debentures	$2,350,000	$70,826	$18,840,000	$569,184
Discount in financial debentures	-	-	(109,557)	(3,310)
Valuation adjustment	-	-	(453,670)	(13,706)
Total	$2,350,000	$70,826	$18,276,773	$552,168

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

	September 30,			
	2005		2006	
	NT	US	NT	US
Derivative financial liabilities for hedging	$-	-	$503,698	$15,217
Borrowed funds	311,510	9,389	313,585	9,474
Total	$311,510	$9,389	$817,283	$24,691

As of September 30, 2006, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$503,698 (US$15,217). The Bank has recognized losses in hedging in the amount of NT$38,663 (US$1,168) for the nine-month period ended September 30, 2006.

18. Other liabilities

	September 30,			
	2005		2006	
	NT	US	NT	US
Revenue received in advance	$309,815	$9,337	$103,692	$3,133
Temporary receipts	925,259	27,886	796,307	24,057
Reserve for losses on guarantees	28,731	866	28,706	867
Reserve for losses on stock brokerage transactions	143,902	4,337	147,938	4,470
Guarantee and margin deposits	696,983	21,006	700,551	21,165
Reserve for land value increment tax	20,035	604	20,035	605
Total	$2,124,725	$64,036	$1,797,229	$54,297

19. Capital Stock

As of January 1, 2005, the Bank had issued and outstanding capital stock of NT$43,182,407 (US$1,301,459) 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 (US$1,399,051) 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

	September 30,			
	2005		2006	
	NT	US	NT	US
Capital reserves from the merger Bank	$9,199,927	$277,273	$9,199,927	$277,943
Additional paid-in capital	4,249,096	128,062	4,249,096	128,372
Others	14,690	443	15,253	461
Total	$13,463,713	$405,778	$13,464,276	$406,776

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 (US$125,490);
(b) dividends to shareholders of NT$9,713,473 (US$292,751);
(c) directors' and supervisors' remuneration, bonus to employees and contribution to welfare fund of NT$2,000 (US$60).

(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 (US$34,919);
(b) dividends to shareholders of NT$ 2,695,420 (US$81,433);
(c) bonus to employees of NT$1,500 (US$45).

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 nine-month periods ended September 30, 2005 and 2006.

	January 1- September 30,			
	2005		2006	
	NT	US	NT	US
Personnel expenses				
Salary	$3,596,514	$108,394	$2,685,787	$81,141
Insurance	335,927	10,124	319,870	9,664
Pension	470,655	14,185	219,581	6,634
Others	186,103	5,609	212,308	6,414
Depreciation expenses	756,184	22,791	816,344	24,663
Amortization expenses	164,315	4,952	142,954	4,319

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 nine-month periods ended September 30, 2005 and 2006 is as follows:

	January 1- September 30,			
	2005		2006	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$(2,479,616)	$(74,732)	$-	$-
Interest on separation tax (tax rate 20% or 6%)	(93,295)	(2,812)	(326,098)	(9,852)
Deferred tax benefits (expense):				
Allowance for bad debt	(8,306)	(250)	(950,221)	(28,708)
Allowance for pledged assets taken-over	(190,968)	(5,755)	(96,428)	(2,913)
Foreign investment income recognized by the equity method	(1,026)	(31)	(5,934)	(179)
Others	(4,002)	(121)	(16,120)	(487)
Valuation allowance	-	-	(452,085)	(13,658)
10% additional income tax on undistributed earnings	(70,458)	(2,124)	-	-
Operating loss carryforward	-	-	1,735,520	52,433
Investment tax credits	-	-	3,412	103
Effect of foreign branches' income tax	(68,510)	(2,065)	63,962	1,932
Adjustment of prior period's income tax	(2,819)	(85)	500,217	15,112
Income tax benefit (expense)	(2,919,000)	(87,975)	456,225	13,783
Income tax benefit from cumulative effect of changes in accounting principles	-	-	(139,225)	(4,206)
Income tax benefit (expense) of continuing operations	$(2,919,000)	$(87,975)	$317,000	$9,577

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 domestic income tax applicable to the related foreign-source income.

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

	September 30,			
	2005		2006	
	NT	US	NT	US
Taxable temporary differences:				
Unrealized losses from intercompany transactions	$23,633	$712	$-	$-
Valuation of financial instruments	-	-	1,764,461	53,307
Others	98,204	2,960	147,977	4,471
Deductible temporary differences:				
Allowance for bad debts	534,735	16,116	6,202,583	187,389
Unrealized impairment loss for pledged assets taken-over	645,874	19,466	90,431	2,732
Unrealized gain from intercompany transactions	18,628	561	-	-
Pension expenses exceed the limit of tax law	75,809	2,285	75,809	2,290
Valuation of financial instruments	-	-	1,741,598	52,616
Provisions for possible losses	144,756	4,363	231,131	6,983
Others	52,481	1,582	45,199	1,365
Operating loss carryforward (expiration year:2011)	$-	$-	$6,942,080	$209,731
Investment tax credit (expiration year:2010)	$-	$-	$3,412	$103
Deferred income tax assets of foreign branches	$42,518	$1,281	$107,607	$3,251

	September 30,			
	2005		2006	
	NT	US	NT	US
(3) Deferred tax assets	$410,588	$12,375	$3,943,227	$119,130
Deferred tax liabilities	(30,459)	(918)	(478,110)	(14,444)
Valuation allowance	-	-	(735,891)	(22,232)
Net deferred tax assets	$380,129	$11,457	$2,729,226	$82,454

(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:

	September 30,			
	2005		2006	
	NT	US	NT	US
Imputation credit	$38,417	$1,158	$338,256	$10,219
Undistributed earnings	9,630,586	290,253	2,950,033	89,125

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 – September 30, 2005	January 1 – September 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 – September 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	$12,549,586	$378,228	$9,630,586	$290,253	$1,906,354	$57,594	$2,223,354	$67,171
Cumulative effect changes in accounting principles	-	-	-	-	587,454	17,748	726,679	21,954
Net income	$12,549,586	$378,228	$9,630,586	$290,253	$2,493,808	$75,342	$2,950,033	$89,125
Earnings per share (in dollars)								
Income from continuing operations	$2.70	$0.081	$2.07	$0.062	$0.41	$0.01	$0.48	$0.014
Cumulative effect changes in accounting principles	-	-	-	-	0.13	-	0.16	0.005
Net income	$2.70	$0.081	$2.07	$0.062	$0.54	$0.01	$0.64	$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)	$2.99	$0.83

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 Lin Yuan Security Co., Ltd.	Affiliate
Cathay Pacific Partners Co., Ltd.	〃
Cathay Securities Investment Co., Ltd.	〃
Cathay Securities Trust Co., Ltd.	〃
Cathay Global Money Market Fund etc.	The funds which are managed by Cathy Securities Trust Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Lin 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)

Name of related parties	Relationship
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
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the parent company's chairman.
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

	September 30 Account balance			January 1- September 30 Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2005					
Loans	$2,509,151	$75,622	0.40%	$37,167	$1,120
Deposits	21,301,083	641,986	2.81%	(341,809)	(10,302)
2006					
Loans	2,842,072	85,863	0.43%	39,527	1,194
Deposits	15,105,235	456,352	1.78%	(284,085)	(8,583)

	January 1-September 30 Maximum balance		September 30 Account balance		January 1 - September 30 Interest income (expense)		
Accounts / Related parties	NT	US	NT	US	NT	US	Interest rate
2005							
Call loans to banks							
Indovina Bank	$697,095	$21,009	$514,523	$15,507	$13,040	$393	2.48-4.19%
Bank overdraft							
Indovina Bank	13,033	393	13,033	393	-	-	-
Due to commercial banks							
Indovina Bank	34,275	1,033	-	-	-	-	-
Lucky Bank	12,295	371	937	28	-	-	0.10%
2006							
Call loans to banks							
Indovina Bank	768,544	23,219	521,371	15,751	20,693	625	4.38-7.80%
Lucky Bank	1,500,000	45,317	-	-	888	27	1.54-1.6%
Due from commercial banks							
Indovina Bank	162,927	4,922	5,878	178	52	2	0.5-2.16%
Lucky Bank	80,547	2,433	24,018	726	9	-	0.1-0.15%
Call loans from banks							
Indovina Bank	82,368	2,488	-	-	(466)	(14)	5.4-5.475%
Due to commercial banks							
Indovina Bank	257,371	7,776	12,100	366	-		-

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

(2) Guarantees

2006

	January 1- September 30 Maximum balance		September 30 Account balance		January 1- September 30 Service fees	
Related Parties	NT	US	NT	US	NT	US
Indovina Bank	$157,454	$4,757	$-	$-	$7	$-

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

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	September 30 Account balance NT	US	January 1- September 30 Interest income (expense) NT	US
2005				
Securities sold under agreements to repurchase				
Wan Pao Development Co.., Ltd.	$319,391	$9,626	$(1,029)	$(31)
Others	658,268	19,839	(7,682)	(232)
Total	$977,659	$29,465	$(8,711)	$(263)
Securities purchased under agreements to resell				
Taiwan Finance Corp.	$612,422	$18,458	$1,277	$38
2006				
Securities sold under agreements to repurchase				
Wan Pao Development Co.., Ltd.	$4,472,671	$135,126	$(36,799)	$(1,112)
Others	1,015,000	30,665	(10,184)	(307)
Total	$5,487,671	$165,791	$(46,983)	$(1,419)
Securities purchased under agreements to resell				
Taiwan Finance Corp.	$-	$-	$10	$-

(4) Lease

	January 1- September 30,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	$99	$3	$519	$16
Culture and Charity Foundation of Cathay United Bank	750	23	750	23
Taipei Smart Card Corp.	4,280	129	4,702	142
Cathay Securities Corp.	5,882	177	3,771	114
Cathay Life Insurance Co., Ltd.	-	-	704	21
Lucky Bank	-	-	1,435	43

	January 1- September 30,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Rental expense				
Cathay Life Insurance Co., Ltd.	$201,795	$6,082	$186,095	$5,622
Cathay Real Estate Development Co., Ltd.	10,413	314	10,365	313
Seaward Leasing Ltd.	3,908	118	8,096	245

	September 30,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$42,000	$1,266	$33,393	$1,009
Cathay Life Insurance Co., Ltd.	75,102	2,263	65,336	1,974
Cathay Real Estate Development Co., Ltd.	3,408	103	3,392	102

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

	September 30,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Guarantee deposits				
Cathay Securities Corp.	$3,572	$108	$1,238	$37
Cathay Life Insurance Co., Ltd.	-	-	255	8
Seaward Leasing Ltd.	400	12	-	-

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.

Accounts/Related parties	January 1 – September 30, 2005 NT	2005 US	2006 NT	2006 US
(5) Commissions and handling fees income				
Cathay Futures Corp.	$471	$14	$433	$13
Cathay Life Insurance Co., Ltd.	98,662	2,974	2,568	78
Cathay Securities Co., Ltd.	-	-	2,372	72
(6) Operating expenses				
Seaward Card Co., Ltd.	745,227	22,460	318,055	9,609
Cathay Life Insurance Co., Ltd.	192,376	5,798	119,165	3,600
Cathay Century Insurance Co., Ltd.	87,921	2,650	46,246	1,397
Lucky Bank, Inc.	-	-	1,853	56
Symphox Information Co., Ltd.	10,136	305	104,930	3,170
Cathay Securities Corp.	-	-	1,800	54
Cathay Real Estate Development Co., Ltd.	5,400	163	5,400	163
Cathay Lin Yuan Security Co., Ltd.	-	-	4,009	121
(7) Insurance expenses				
Cathay Life Insurance Co., Ltd.	161,050	4,854	165,282	4,993
Cathay Century Insurance Co., Ltd.	29,131	878	53,726	1,623

Accounts/Related parties	September 30, 2005 NT	2005 US	2006 NT	2006 US
(8) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$571,606	$17,227	$1,239,285	$37,441
(9) Other receivables				
Indovina Bank (cash dividends)	-	-	110,483	3,338
Seaward Leasing Ltd. (cash dividends)	-	-	218,761	6,609
Cathay Life Insurance Co., Ltd.	96,000	2,893	-	-

(10) Prepaid rental expense				
Cathay Life Insurance Co., Ltd.	72	2	-	-
(11) Refundable Deposit				
Cathay Futures Corp.	4,072	123	40,758	1,231
(12) Accrued expenses				
Seaward Card Co., Ltd.	85,308	2,571	34,008	1,027
(13) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	2,057,130	61,999	-	-

(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 (US$115) and NT$72 (US$2) during the nine-month periods ended September 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 amounts of NT$10,246 (US$309) and NT$12,277 (US$371) during the nine-month periods ended September 30, 2005 and 2006, respectively.

c. As of September 30, 2005 and 2006, the notional amounts of the forward and cross-currency swaps the Bank entered into transactions with Cathay Life Insurance Co., Ltd. were US$870,000 and US$2,132,660, respectively.

d. The Bank paid information maintenance servce fees to Symphox Information Co., Ltd. in the amount of NT$39,293 (US$1,184) and NT$55,326 (US$1,671) during the nine-month periods ended September 30, 2005 and 2006, respectively.

e. As of September 30, 2006, the notional amount of the forward the Bank entered into transactions with Cathay Century Insurance Co., Ltd. and Cathay Global Money Market Fund etc. (the funds are managed by Cathay Securities Trust Co., Ltd) was US$42,350 and US$29,200, respectively.

f. The Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT$300,334(US$9,074) (taxes were deducted) during the nine-month period ended September 30, 2006, the relevant carrying values were NT$308,037 (US$9,306) and the disposal losses were NT$7,703 (US$233).

g. The Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three years starting 2006 and the royalty was paid amounted to NT$103,125 (US$3,116) (amortized NT$2,865 (US$87) per month) in January, 2006.

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 carrying value on the date when the transaction occurred was NT$736,454 (US$22,249) and net selling price was NT$708,275 (US$21,398) (the security transaction cost NT$2,132 (US$64) was deducted). The loss from the transaction was NT$28,179 (US$851) 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 for the amount of NT3,180,000 (US$96,073) on June 30, 2006, with NT$15.9 (US$0.48) per share. The gain from disposal of the investment recognized by the equity method was NT$1,323,466 (US$39,984), with selling price NT$3,170,460 (US$95,784) (securities transaction cost NT$9,540 (US$288) was deducted) minus the carrying value NT$1,846,994 (US$55,800).

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 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	$284,754,847	$8,602,865
Travelers checks for sale	726,213	21,940
Bills for collection	44,025,153	1,330,065
Agent for government bonds and depository for short-term marketable securities under management	359,838,397	10,871,251
Guarantees on duties and contracts	17,148,856	518,092
Unused commercial letters of credit	2,531,618	76,484
Irrevocable loan commitments	24,246,859	732,534
Credit card lines	285,087,804	8,612,925
Stamp tax, securities and memorial currency consignments	1,727	52

2. As of September 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 (US$18,127) for the purchase of a certain certificates of time deposit. Such certificates of time deposit were 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 (US$725) 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 lawsuit procedure was continuance since May, 2006 and receive a judgment from the High Court on July 11, 2006, ordering the Bank pay NT$9,447 (US$285) plus interest to clients. The Bank file an appeal against such judgment.

(3) In 2001, embezzlement and illegal acts involving the amount of NT$60,204 (US$1,819) 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 (US$1,205). 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 September 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. Then the Taipei District Court issued a judgment favoring the Bank on October 12, 2006, ordering Pacific SOGO to pay the punitive damages of NT$400,000 (US$12,085).

(5) On December 25, 2004, a charge of embezzlement in the amount of NT$24,971 (US$754) by one of the Bank's employees was brought to the Taipei District Prosecutors Office. The sentence was three years and six months in prison.

3. As of September 30, 2006, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$1,735,595 (US$52,435) with prepayments of NT$763,561 (US$23,068). In addition, foreclosed properties are transferring from the Court were amount of NT$839,300 (US$25,356).

VIII. Significant disaster losses

None.

IX. Significant subsequent event

The Bank initiated the litigation against Pacific SOGO, alleging its breach of contract by failing to provide benefits on the purchases by cardholders. The Court orders SOGO to pay the Bank NT$400,000 (US$12,085) as damages, further disclosures please refer to Note VII.2 (4).

X. Disclosure of financial instruments information

1. Information of fair value

	September 30, 2006			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$51,405,893	$1,553,048	$51,405,893	$1,553,048
Available-for-sale financial assets	51,114,457	1,544,243	51,114,457	1,544,243
Held-to-maturity financial assets and debt securities with no active market	208,825,924	6,308,941	208,851,358	6,309,709
Investment accounted for using equity method	2,112,220	63,813	2,112,220	63,813
Others	782,694,861	23,646,370	782,694,861	23,646,370
Liabilities				
Financial liabilities at fair value through profit or loss	49,173,737	1,485,612	49,173,737	1,485,612
Financial debentures payable	18,276,773	552,168	18,276,773	552,168
Others	980,616,347	29,625,872	980,616,347	29,625,872
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,927,994	148,882	4,927,994	148,882
Liabilities				
Financial liabilities at fair value through profit or loss	3,865,161	116,772	3,865,161	116,772
Others	817,283	24,691	817,283	24,691

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.

   (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:

	September 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	$49,919,778	$1,508,150	$1,486,115	$44,898
Available-for-sale financial assets	51,114,457	1,544,243	-	-
Held-to-maturity financial assets and debt securities without active market	154,244,324	4,659,950	$54,607,034	1,649,759
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,173,737	1,485,612
Financial debentures payable	-	-	18,276,773	552,168
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	1,489,166	44,990	3,438,828	103,892
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	3,865,161	116,772
Others	-	-	817,283	24,691

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$83,114 (US$2,511) for the nine-month period ended September 30, 2006.

5. The Bank recognized NT$29,701,725 (US$897,333) and NT$11,578,238 (US$349,796) as interest income and expense from financial assets or liabilities not at fair value through profit or loss, respectively, for the nine-month period ended September 30, 2006.

6. The Bank recognized an unrealized gains or losses of NT$583,427 (US$17,626) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$369,776 (US$11,171) in income statement for the nine-month period ended September 30, 2006.

7. The interest income of NT$27 (US$1) 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 Bank 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	85,029	2,569	138,367	4,180	55,349	1,672
Foreign exchange	37,925	1,146	117,919	3,563	164	5
Equity Securities price	44,722	1,351	80,270	2,425	17,301	523

(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 The credit risk amounts pertain to contracts with a fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except which the Bank held are as following:

	September 30, 2006			
	Carrying value		Maximum credit risk exposed amount	
Items	NT	US	NT	US
Guarantees on duties and contracts	$-	$-	$17,148,856	$518,092
Unused commercial letters of credit	-	-	2,531,618	76,484
Irrevocable loan commitments	-	-	24,246,859	732,534
Credit card lines	-	-	285,087,804	8,612,925

② The Bank mitigates the credit risk by diversifying counterparties and customers. 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:

	September 30,			
	2005		2006	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$75,145,339	$2,264,778	$101,491,818	$3,066,218
Financial institutions and insurance	35,872,369	1,081,144	40,280,252	1,216,926
Leasing and real estate	66,916,303	2,016,766	68,492,709	2,069,266
Individuals	356,220,558	10,736,003	366,633,385	11,076,537
Others	105,072,429	3,166,740	103,540,891	3,128,124
Total	639,226,998	19,265,431	680,439,055	20,557,071
Valuation allowance	(6,467,447)	(194,920)	(11,377,499)	(343,731)
Maximum credit risk exposed	$632,759,551	$19,070,511	$669,061,556	$20,213,340
Geographic Region				
Domestic	$603,128,615	$18,177,475	$639,269,180	$19,313,268
South East Asia	10,708,526	322,740	11,706,964	353,685
North East Asia	28,426	857	-	-
North America	9,660,164	291,144	8,353,691	252,377
Others	15,701,267	473,215	21,109,220	637,741
Total	639,226,998	19,265,431	680,439,055	20,557,071
Valuation allowance	(6,467,447)	(194,920)	(11,377,499)	(343,731)
Maximum credit risk exposed	$632,759,551	$19,070,511	$669,061,556	$20,213,340

(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 September 30, 2006, there is no significant change in these dates.

As of September 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	1.1362-6.8397
Overseas financial instruments	1
Held-to-maturity financial assets	
Bonds	1.6463-6.9523
Overseas financial instruments	3.45-7.625
Investments in debt securities with no active market	
Preferred stocks	5
Certificates of deposit	1.59-1.923
Overseas financial instruments	0-8.36
Financial debentures payable	2-5.5

9. Fair value hedge

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

	Hedging instruments	
	Derivative designated as	Fair value
Hedged item	hedging instruments	September 30, 2006
Financial debentures payable	Interest rate swap	NT$503,698 (US$15,217)

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-September 30, 2005		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$21,274,569	$641,187	1.50%
Time certificates, discounted bills and others	154,039,041	4,642,527	1.30%
Due from commercial banks and call loans to banks	21,903,626	660,145	1.89%
Discounts and loans	598,236,690	18,030,039	4.13%
Bills purchased	10,490	316	5.27%
Government, corporate bonds and financial debentures	94,925,202	2,860,916	3.33%
Receivables-credit card revolving balance	36,061,049	1,086,831	14.88%
Liabilities			
Due to banks	77,372,175	2,331,892	2.26%
Demand deposits	90,973,731	2,741,824	0.27%
Saving deposits	461,308,312	13,903,204	0.81%
Time deposits	163,664,198	4,932,616	1.54%
Negotiable certificates of deposit	25,366,718	764,518	1.14%
Financial debentures	51,669,048	1,557,235	2.39%
Funds borrowed from the Central Bank and other banks	1,224,456	36,903	2.88%

	January 1-September 30, 2006		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$22,850,545	$690,349	1.49%
Time certificates, discounted bills and others	176,212,978	5,323,655	1.62%
Due from commercial banks and call loans to banks	23,210,955	701,237	3.25%
Discounts and loans	629,668,230	19,023,209	3.94%
Bills purchased	6,863	207	7.05%
Government and corporate bonds	136,005,507	4,108,928	4.34%
Receivables-credit card revolving balance	35,104,367	1,060,555	13.05%
Liabilities			
Due to banks	91,161,759	2,754,132	3.33%
Demand deposits	91,676,621	2,769,686	0.46%
Saving deposits	506,616,769	15,305,643	0.97%
Time deposits	202,715,064	6,124,322	2.15%
Negotiable certificates of deposit	12,207,838	368,817	1.40%
Financial debentures	68,079,853	2,056,793	2.55%
Funds borrowed from the Central Bank and other banks	1,124,186	33,963	4.08%

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

4. As of September 30, 2005 and 2006, the assets and liabilities managed under the Bank's trust were NT$105,357,218 (US$3,175,323) and NT$147,834,475 (US$4,466,298), respectively.

5. On August 25, 2006, the board meeting on behalf of the Bank's shareholders decided to merger with Lucky Bank. The anticipate merger date on January 1, 2007. Lucky Bank will be a merged bank, and the Bank will be the surviving bank. The ratio for exchange of shares will be 1:0.7212 (Lucky Bank: the Bank). As of the date of this report, the merger is applied to the Financial Supervisory Commission for approval.