Cathay United Bank and Its Subsidiaries
Consolidated Financial Statements
For The Years Ended
December 31, 2005 and 2006
With Independent Auditors' Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank (the "Bank") and its subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2005 and 2006. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for the years then ended in conformity with the "Business Accounting Law", 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 consolidated financial statements, effective from January 1, 2006, the Bank and its subsidiaries 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 and its subsidiaries also have 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
Taipei, Taiwan
The Republic of China
January 30, 2007

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets

December 31, 2005 and 2006

(Expressed in thousands of dollars)

		December 31, 2005		December 31, 2006	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$30,518,335	$930,437	$28,763,569	$882,589
Due from the Central Bank and call loans to banks	IV and V	49,607,804	1,512,433	49,187,728	1,509,289
Financial assets at fair value through profit or loss	II 、III and IV	49,294,361	1,502,877	57,177,783	1,754,458
Securities purchased under agreements to resell	III	1,192,252	36,349	1,786,058	54,804
Available-for-sale financial assets, net	II , III and IV	41,753,994	1,272,988	53,972,357	1,656,102
Receivables, net	II, IV and V	65,752,469	2,004,648	48,868,991	1,499,509
Discounts and loans, net	II, IV and V	620,462,140	18,916,529	667,655,019	20,486,499
Held-to-maturity financial assets, net	II, III and IV	8,352,445	254,648	5,636,310	172,946
Investments accounted for using equity method, net	II, III, IV and V	1,600,441	48,794	1,581,086	48,514
Premises and equipment, net	II, IV, V and VII	28,326,920	863,625	23,922,745	734,052
Investments in debt securities with no active market, net	II, III and IV	171,316,758	5,223,072	234,655,552	7,200,232
Other financial assets, net	II, III, IV and V	5,580,325	170,132	4,447,387	136,465
Other assets, net	II, IV and V	9,518,853	290,209	10,260,581	314,838
TOTAL ASSETS		$1,083,277,097	$33,026,741	$1,187,915,166	$36,450,297

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

December 31, 2005 and 2006

(Expressed in thousands of dollars)

		December 31, 2005		December 31, 2006	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$71,567,505	$2,181,936	$100,341,328	$3,078,899
Payables	IV and V	27,317,680	832,856	22,775,272	698,842
Deposits and remittances	IVand V	798,582,898	24,347,040	891,194,739	27,345,650
Financial liabilities at fair value through profit or loss	II,III and IV	50,412,542	1,536,968	55,396,700	1,699,807
Securities sold under agreements to repurchase	IV and V	33,864,935	1,032,468	23,661,740	726,043
Funds borrowed from the Central Bank and other banks		820,500	25,015	816,250	25,046
Financial debentures payable	III, IV and X	18,756,296	571,838	18,135,818	556,484
Other financial liabilities	II and IV	311,510	9,497	775,722	23,803
Other liabilities	II, IV and V	3,177,686	96,881	1,871,583	57,428
TOTAL LIABILITIES		1,004,811,552	30,634,499	1,114,969,152	34,212,002
SHAREHOLDERS' EQUITY					
EQUITY ATTRIBTUE TO EQUITY HOLDERS OF PARENT					
Capital stock	IV	46,420,518	1,415,260	46,420,518	1,424,379
Capital reserves	IV	13,464,276	410,496	13,464,276	413,141
Retained earnings	IV				
Legal reserve		14,115,413	430,348	15,271,236	468,587
Undistributed earnings (Deficit to be compensated)		3,852,743	117,462	(3,788,867)	(116,259)
Foreign currency translation adjustment	II	85,432	2,604	70,197	2,154
Unrealized gains or losses on financial instruments	II	(10,307)	(314)	704,223	21,609
Subtotal		77,928,075	2,375,856	72,141,583	2,213,611
MINORITY INTERESTS		537,470	16,386	804,431	24,684
TOTAL SHAREHOLDERS' EQUITY		78,465,545	2,392,242	72,946,014	2,238,295
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,083,277,097	$33,026,741	$1,187,915,166	$36,450,297

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of income

For the years ended December 31, 2005 and 2006

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

ITEMS	NOTES	2005 NT	2005 US (Note II)	2006 NT	2006 US (Note II)
INTEREST INCOME	II and V	$39,993,096	$1,219,302	$41,192,544	$1,263,963
INTEREST EXPENSE	V	(13,198,627)	(402,397)	(17,338,981)	(532,034)
NET INTEREST INCOME		26,794,469	816,905	23,853,563	731,929
NONINTEREST INCOME					
Net fee income	II and V	5,555,074	169,362	4,545,766	139,483
Gains (losses) on financial assets and liabilities at fair value through profit or loss	II and III	380,023	11,586	(487,745)	(14,966)
Realized gains on available-for-sale financial assets	II and III	599,453	18,276	498,993	15,311
Realized gains on held-to-maturity financial assets	II	-	-	674	21
Investment income recognized by the equity method	II and III	152,343	4,645	98,930	3,036
Gains (losses) from disposal of investment recognized by the equity method	II and V	-	-	1,295,287	39,745
Foreign exchange gains, net	II	373,532	11,388	457,532	14,039
Impairment loss of assets	II and III	(799,377)	(24,371)	(274,627)	(8,427)
Reversal of impairment loss on foreclosed properties		933,602	28,463	399,895	12,270
Gains on disposal of foreclosed properties		(676,989)	(20,640)	489,626	15,024
Others	III and V	600,597	18,311	103,642	3,180
NET NONINTEREST INCOME		7,118,258	217,020	7,127,973	218,716
NET OPERATING INCOME		33,912,727	1,033,925	30,981,536	950,645
PROVISION FOR LOAN LOSSES	II and IV	(14,994,758)	(457,157)	(25,754,280)	(790,251)
OPERATING EXPENSES					
Personnel	II and IV	(5,835,194)	(177,902)	(4,612,747)	(141,539)
Depreciation and amortization	II and IV	(1,306,303)	(39,826)	(1,337,025)	(41,025)
Other general and administrative expenses	V	(6,545,254)	(199,551)	(5,944,023)	(182,388)
TOTAL OPERATING EXPENSES		(13,686,751)	(417,279)	(11,893,795)	(364,952)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX		5,231,218	159,489	(6,666,539)	(204,558)
INCOME TAX BENEFIT (EXPENSE)	II and IV	(1,306,251)	(39,825)	2,321,711	71,240
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		3,924,967	119,664	(4,344,828)	(133,318)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	-	-	726,839	22,303
NET INCOME (LOSS)		$3,924,967	$119,664	$(3,617,989)	$(111,015)
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE PARENT		$3,852,743	$117,462	$(3,788,867)	$(116,259)
MINORITY INTEREST		72,224	2,202	170,878	5,244
NET INCOME (LOSS)		$3,924,967	$119,664	$(3,617,989)	$(111,015)
BASIC EARNINGS PER SHARE (IN DOLLARS)	II and IV				
EQUITY HOLDERS OF THE PARENT		$0.83	$0.025	$(0.81)	$(0.025)
MINORITY INTEREST		0.02	0.001	0.03	0.001
NET INCOME (LOSS)		$0.85	$0.026	$(0.78)	$(0.024)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in shareholders' equity

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

ITEMS	NOTES	Capital stock		Capital reserves		Retained earnings: Legal reserve		Retained earnings: Undistributed earnings (Deficit to be compensated)		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Minority interest		Total	
		NT	US	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US	NT	US
Balance, January 1, 2005		$43,182,407	$1,316,537	$13,463,074	$410,459	$9,951,639	$303,404	$13,879,247	$423,147	$(11,556)	$(352)	$(104,653)	$(3,191)	$465,246	$14,184	$80,825,404	$2,464,188
Appropriation and distribution of 2004 earnings:	IV																
Legal reserve		-	-	-	-	4,163,774	126,944	(4,163,774)	(126,944)	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(6,467,362)	(197,176)	-	-	-	-	-	-	(6,467,362)	(197,176)
Stock dividends		3,238,111	98,723	-	-	-	-	(3,238,111)	(98,723)	-	-	-	-	-	-	-	-
Bonus to shareholders		-	-	-	-	-	-	(8,000)	(244)	-	-	-	-	-	-	(8,000)	(244)
Compensation to directors and supervisors		-	-	-	-	-	-	(500)	(15)	-	-	-	-	-	-	(500)	(15)
Special bonus to employees		-	-	-	-	-	-	(1,000)	(30)	-	-	-	-	-	-	(1,000)	(30)
Contribution to welfare fund		-	-	-	-	-	-	(500)	(15)	-	-	-	-	-	-	(500)	(15)
Net Income for the year ended December 31, 2005		-	-	-	-	-	-	3,852,743	117,462	-	-	-	-	-	-	3,852,743	117,462
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	96,988	2,956	-	-	-	-	96,988	2,956
Capital reserves of equity investees, etc.	II	-	-	1,202	37	-	-	-	-	-	-	(10,307)	(314)	-	-	(9,105)	(277)
Unrealized gains or losses on investment in equity investees	II	-	-	-	-	-	-	-	-	-	-	104,653	3,191	-	-	104,653	3,191
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	72,224	2,202	72,224	2,202
Balance, December 31, 2005		$46,420,518	$1,415,260	$13,464,276	$410,496	$14,115,413	$430,348	$3,852,743	$117,462	$85,432	$2,604	$(10,307)	$(314)	$537,470	$16,386	$78,465,545	$2,392,242
Balance, January 1, 2006		$46,420,518	$1,424,379	$13,464,276	$413,141	$14,115,413	$433,121	$3,852,743	$118,219	$85,432	$2,621	$(10,307)	$(316)	$537,470	$16,492	$78,465,545	$2,407,657
Effect of initial adoption of the SFAS No.34	II and III	-	-	-	-	-	-	-	-	-	-	353,343	10,842	-	-	353,343	10,842
Appropriation and distribution of 2005 earnings:	VI															-	-
Legal reserve		-	-	-	-	1,155,823	35,466	(1,155,823)	(35,466)	-	-	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(2,695,420)	(82,707)	-	-	-	-	-	-	(2,695,420)	(82,707)
Special bonus to employees		-	-	-	-	-	-	(1,500)	(46)	-	-	-	-	-	-	(1,500)	(46)
Net loss for the year ended December 31, 2006		-	-	-	-	-	-	(3,788,867)	(116,259)	-	-	-	-	-	-	(3,788,867)	(116,259)
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	(15,235)	(467)	-	-	-	-	(15,235)	(467)
Unrealized gains or losses on investment in equity investees	II	-	-	-	-	-	-	-	-	-	-	3,851	118	-	-	3,851	118
Unrealized gains or losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	357,336	10,965	-	-	357,336	10,965
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	266,961	8,192	266,961	8,192
Balance, December 31, 2006		$46,420,518	$1,424,379	$13,464,276	$413,141	$15,271,236	$468,587	$(3,788,867)	$(116,259)	$70,197	$2,154	$704,223	$21,609	$804,431	$24,684	$72,946,014	$2,238,295

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Its Subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

ITEMS	NOTES	2005 NT	2005 US (Note II)	2006 NT	2006 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)		$3,924,967	$119,664	$(3,617,989)	$(111,015)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	II	1,306,303	39,826	1,300,802	39,914
Investment income recognized by the equity method exceeded the cash dividends received	II	100,399	3,061	55,051	1,689
Gain on disposal of investments accounted for using equity method	II	-	-	(1,295,287)	(39,745)
Effect from subsidiaries over which significant control is no longer held		-	-	144,883	4,445
Reversal of impairment loss on foreclosed properties	II	(933,602)	(28,463)	(399,895)	(12,270)
Provisions for loan losses	II and IV	14,994,758	457,157	25,754,280	790,251
Loss on disposal of premises, equipment and foreclosed properties	II	663,259	20,221	(546,050)	(16,755)
Impairment loss of assets	II	799,377	24,371	258,622	7,936
Effects of exchange rate changes		13,830	422	(11,138)	(342)
Cumulative effect of changes in accounting principles	II and III	-	-	(726,679)	(22,297)
Changes in operating assets and liabilities					
(Increase) decrease in receivables		(11,544,740)	(351,974)	4,974,828	152,649
Increase in deferred income tax assets		(1,867,820)	(56,946)	(2,301,579)	(70,622)
Increase in financial assets at fair value through profit or loss		(117,091)	(3,570)	(7,590,812)	(232,918)
(Increase) decrease in other assets		131,176	3,999	(311,233)	(9,550)
Increase (decrease) in payables		7,851,419	239,373	(2,469,964)	(75,790)
Increase in financial liabilities at fair value through profit or loss		4,199,521	128,034	5,433,948	166,737
Increase in tax payables		161,874	4,935	11,383	349
Decrease in other liabilities		(74,798)	(2,280)	(284,245)	(8,722)
Net cash provided by operating activities		19,608,832	597,830	18,378,926	563,944
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(40,937,853)	(1,248,105)	(59,489,925)	(1,825,404)
Decrease in due from the Central Bank and call loans to banks		6,427,096	195,948	1,039,017	31,881
(Increase) decrease in securities purchased under agreements to resell		5,657,097	172,472	(593,806)	(18,220)
Increase in available-for-sale financial assets		(15,636,827)	(476,733)	(11,548,491)	(354,357)
Decrease in held-to-maturity financial assets		119,170	3,633	2,714,117	83,281
Effect on disposal of the subsidiaries' shares		-	-	3,877,352	118,974
Proceeds from disposal of premises, equipment and foreclosed properties		1,145,895	34,936	1,734,535	53,223
Acquisition of premises, equipment and foreclosed properties		(1,774,200)	(54,091)	(1,484,381)	(45,547)
(Increase) decrease in investments in debt securities with no active market		5,696,398	173,671	(62,944,803)	(1,931,415)
(Increase) decrease in other financial assets		265,258	8,087	(332,941)	(10,217)
Increase in other assets		(270,937)	(8,260)	(328,229)	(10,071)
Net cash used in investing activities		(39,308,903)	(1,198,442)	(127,357,555)	(3,907,872)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		(10,086,919)	(307,528)	28,947,782	888,241
Decrease in securities sold under agreements to repurchase		(15,389,420)	(469,190)	(10,203,195)	(313,077)
Increase in deposits and remittances		48,346,586	1,473,982	91,962,870	2,821,813
Increase (decrease) in funds borrowed from the Central Bank and other banks		348,376	10,622	(800,277)	(24,556)
Increase (decrease) in financial debentures payable		16,406,296	500,192	(620,478)	(19,039)
Increase (decrease) in other financial liabilities		(307,551)	(9,377)	446,067	13,687
Increase (decrease) in other liabilities		(1,520,384)	(46,353)	71,910	2,206
Increase (decrease) in minority interest in subsidiaries		-	-	163,250	5,009
Distribution of cash dividends	IV	(6,513,216)	(198,574)	(2,755,360)	(84,546)
Compensation to directors and supervisors, bonus to shareholders, special bonus to employees, and contribution to welfare fund	IV	(10,000)	(305)	(1,500)	(46)
Net cash provided by financing activities		31,273,768	953,469	107,211,069	3,289,692
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		90,142	2,748	12,794	393
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES		994,303	30,314	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		12,658,142	385,919	(1,754,766)	(53,843)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		17,860,193	544,518	30,518,335	936,432
CASH AND CASH EQUIVALENTS AT END OF YEAR		$30,518,335	$930,437	$28,763,569	$882,589
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest paid		$11,894,487	$362,637	$16,628,260	$510,226
Income tax paid		$1,209,340	$36,870	$2,886,592	$88,573

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Notes to consolidated financial statements

For the years ended December 31, 2005 and 2006

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

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 has been approved to conduct business in the following areas：

(1) Checking, demand and time deposits;
(2) Short, medium, and long-term loans;
(3) Note discounting;
(4) Investment in securities;
(5) Domestic foreign exchange business;
(6) Banker's acceptances;
(7) Issuance of domestic letters of credit;
(8) Endorsement and issuance of corporate bonds;
(9) Domestic endorsement guarantees business;
(10) Collection and payment agency;
(11) Agency for government bonds, treasury bills, corporate bonds and stocks;
(12) Underwriting and proprietary trading of securities;
(13) Custody and warehouse services;
(14) Renting of safe-deposit boxes;
(15) All businesses related to as specified in the license or other agency services as approved by the authority;
(16) Credit card-related products;
(17) Agency for sale of gold nuggets, gold coins and silver coins;
(18) Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans; guarantees for secured repayment on exports and imports;

(19)Agency for issuance, transfer and registration of securities and distribution of interest and dividends services;
(20)Consulting services in connection with the issuance and offering of securities;
(21)Custody for funds;
(22)Discretionary trust funds by means of a trust;
(23)Cash purchase and sales in foreign currencies and agency for traveler's check;
(24)Derivative financial business as approved by the authority;
(25)Trust and fiduciary services;
(26)Non-discretionary trust funds for investment in foreign marketable securities;
(27)Proprietary trading of government bonds;
(28)Agency transactions, proprietary trading, certifying and underwriting of short-term bills;
(29)Financial advisory services on corporate banking; and
(30)Other business as approved by the authority.

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 December 31, 2005 and 2006, the Bank and its subsidiaries employed 4,489 and 4,868 employees respectively.

II. Summary of significant accounting policies

The consolidated financial statements were prepared in conformity with the "Business Accounting Law", "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. Principles of Consolidation

(1) The Bank is required to include the accounts of all subsidiaries, which is majority owned or controlled in its annual consolidated financial statements.

As of and for the years ended December 31, 2005 and 2006, the consolidated financial statements included:

Investors	Investees	Business activity	Ownership	Incorporated date
The Bank	Cathay Futures Corp. ("Cathay Futures")	Future related business	Note	Cathay Futures was incorporated on December 29, 1993.
The Bank	Seaward Leasing Ltd. ("Seaward Leasing")	Leasing related business	Note	Seaward Leasing was incorporated on February, 1996.
The Bank	Indovina Bank Limited ("Indovina Bank")	Wholesale banking	50%	Indovina Bank was incorporated in Vietnam on October 29, 1992.

(NOTE)
The Bank sold all its shareholdings of "Cathay Futures" and "Seaward Leasing" during the year 2006.

As of and for the years ended December 31, 2005 and 2006, respectively, the consolidated financial statements excluded following subsidiaries because its total assets and operating revenues were immaterial impact to the Bank.

Investors	Investees	Business activity	Ownership	Incorporated date
The Bank	Cathay Life Insurance Agent Co., Ltd. ("Cathay Life Insurance Agent")	Life insurance agent	100%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
The Bank	Cathay Property Insurance Agent Co., Ltd ("Cathay Property Insurance Agent")	Property insurance agent	100%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
The Bank	Seaward Card Co., Ltd. ("Seaward Card")	Credit card service	100%	Seaward Card was incorporated on April 9, 1999.

(2) All significant inter-company transactions and balances have been eliminated for consolidation purposes.

2. Basis for preparation of consolidated financial statements

(1) The accompanying financial statements of the Bank include the accounts of the head office, domestic and foreign branches. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

(2) Financial statements of foreign subsidiaries are converted into New Taiwan dollars ("NT dollars" or "NT$") as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the period. Differences arising from above conversion are reported as "Foreign currency translation adjustment" under shareholders' equity.

3. Foreign-currency transaction and translation

Foreign-currency transactions of the Bank's head office, domestic branches and subsidiaries 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.

4. Financial assets and financial liabilities

Starting from January 1, 2006, the Bank and its subsidiaries 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 with no active market, available-for-sale financial assets or financial assets carried at cost, where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit 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 and its subsidiaries commit 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 and its subsidiaries 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, quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

5. Derivative financial instruments

The Bank and its subsidiaries entered 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.

6. Derecognizing 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 and its subsidiaries 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.

7. Impairment of financial assets

The Bank and its subsidiaries assess 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.

8. 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.

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

(2) 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;

(3) 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.

9. Customer's margin accounts

Cathay Futures engages in future trading and shall collect margins, premiums due or settlement balance from the customers. It includes bank deposits and the settlement balances of futures clearing houses and other future commission merchants.

10. Factoring of account receivable

Seaward Leasing entered into account receivable factoring contracts with clients. For contracts that buying principles and interest on due day, interest revenue is calculated based on the principle and contracted interest rate. For contracts that buying principle and interest in installments, the amount that total installments exceed principle will be deferred. The deferred interest is recorded as unearned interest and recognized as interest revenue by interest method in installment.

11. Inventories

Inventories of Seaward Leasing are carried at cost when purchased. Cost of inventories sold is determined by weighted-average method. Inventories are valued at the lower of cost or market. Market price is determined by replacement cost or net realizable value.

12. Allowances for doubtful accounts

Allowance for doubtful accounts on receivables and loans of the Bank and Indovina Bank 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.

An allowance for doubtful receivables of the Bank's subsidiaries are provided based on a review of the collectibility of accounts receivable.

13. 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 would 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".

14. Premises and equipment

(1) 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.

(2) 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.

15. Leasing account for Seaward Leasing

For capital lease, the lesser only recognizes interest revenue on the lease payment receivable. There is no sales profit at the inception date of lease because the cost of the leased property is the same as its market price. The difference between the lease payment receivable and the cost of the leased property is the unearned interest revenue. The lease payment receivable should be classified as either a current asset or long-term lease payment receivable, depending in the rent collection periods. Unearned interest revenue should be treated as a contra account of the lease payment receivable.

16. Deferred charges

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

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

17. Land use rights

Indovina Bank's land use rights pertain to pieces of land located in Ha Noi, Binh Duong and Dong Nai. Land use rights are stated at cost less amortization, which are amortized using the straight-line method over the period from the date of having the rights to use the land up to Indovina Bank investment license's expiration date.

18. Foreclosed properties

Foreclosed properties of the Bank 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.

19. Asset Impairment

The Bank and its subsidiaries assess impairment for all its assets within the scope of ROC SFAS No.35 if impairment indicators were found. The Bank and its subsidiaries 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 and its subsidiaries 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 and its subsidiaries shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank and its subsidiaries 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.

20. Reserves for losses on guarantees

(1) The Bank

① Reserves for possible losses on guarantees

Reserves for possible losses on guarantees of the Bank 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.

② Reserves for losses on trading securities

Pursuant to the “Regulations Governing Securities Firms”, a reserve for possible losses on trading securities of the Bank 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.

(2) Cathay Futures

① Reserve for losses from breach of contract

According to the Rules Governing Futures Brokerage Firms, 2% of futures brokerage commissions received by licensed futures firm are required to be set aside as a reserve for losses from breach of contract until such reserve meets legally minimum paid-in capital and operating capital.

② Reserve for losses on trading

According to the Rules Governing Future commission Merchant, securities firms which are engaged in futures trading are required to appropriate 10% of realized monthly futures trading profits as a reserve for futures trading losses until such reserve reaches the legal minimum issued capital or operating capital. The reserve for trading losses cannot be used for proposes other than offsetting trading losses.

③ Reserve for bad debts

According to the rule (88) TFS (VII) 91625 SFC, 3% of revenue from non-major business is required to be set aside as a reserve for bad debts. Such Ruling has been phased not on July 1, 2003.

21. Construction accounting

Seaward Leasing entered into contracts with contractors to build business buildings for selling and renting purpose. The completed-contract method of accounting for long-term construction contracts is adopted. The construction cost incurred ware recorded as "Inventory-construction-in-progress" account. After completion, the cost of sold and unsold units were allocated by the proportion of selling price of sold units and estimated reasonable selling price of unsold units to the sum of total price. The allocated costs of sold units were recorded as cost of good sold as of unsold units were recorded as inventory (selling purpose) and fixed assets (renting purpose) of the year when the contracts were completed. Promotion expenses occurred for selling unsold units were recorded as expense at the corresponding year.

22. Pension plans

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

23. Recognition of interest income and service fees

Interest income and service fees of the Bank and Indovina Bank are recognized when incurred (accrual basis) except for delinquent accounts and troubled accounts whose interest is recognized when received.

24. Recognition of dividend

When cash dividends on equity securities are declared from pre-acquisition profits, those dividends are deducted from the cost of the securities; except, receipts of cash dividends from financial assets at fair value through profit or loss are recognized as investment income.

Receipts of cash dividends declared after the year of investment are recognized as investment income on the date of ex-dividend or the date of shareholders' meeting; if receipts of accumulated cash dividends are exceed to accumulated incomes or losses in the year prior to the date of dividend issuance, the exceed parts should be represent a recovery of parts 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.

25. Installment sales

About the installment sales, Seaward Leasing has adopted general sale method. The difference between the installment prices and the present value is the unearned interest revenue. The unrealized interest revenue of installment sales shall be classified as a deduction of account receivable and will be recorded as "interest income" by interest method.

26. Income tax

The Bank and its subsidiaries 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 and its domestic subsidiaries have 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 tax credits of the Bank and its subsidiaries 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 and its domestic subsidiaries do 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 allocation of linked-tax system for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

26. 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.

27. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the December 31, 2005 and 2006 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$32.80 and NT$32.59 to US$1.00 on December 31, 2005 and 2006, respectively, as provided by the Federal Reserve Bank of New York. Such 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 and its subsidiaries have adopted the ROC SFAS No.35, "Accounting for Asset Impairment", which took effect on January 1, 2005, to account for the impairment of their assets. No retroactive adjustment is required under SFAS No.35. Such change in accounting principles reduced the Bank and its subsidiaries' premises and equipment and non-operating assets by NT$93,076 (US$2,838) and NT$345,260 (US$10,526), respectively, as of December 31, 2005 and reduced net income and earnings per share before tax by NT$438,336 (US$13,364) (NT$361,041 (US$11,007) of the impairment loss on equity securities is excluded.) and NT$0.09 (US$0.0027), respectively, for the year ended December 31, 2005.

2. The Bank and its subsidiaries 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 and its subsidiaries 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	$295,193	$9,058	$-	$-
Available-for-sale financial assets	-	-	353,343	10,842
Financial liabilities at fair value through profit or loss	449,790	13,802	-	-
Derivative financial liabilities for hedging	(18,144)	(557)	-	-
Total	$726,839	$22,303	$353,343	$10,842

The adoption of the SFAS No.34 and No.36 increased net loss before cumulative effect of changes in accounting principles of NT$726,839 (US$22,303) and decreased after income tax earnings per share of NT$0.16 (US$0.0049) for the year ended December 31, 2006.

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

(a) Derivative financial instruments

Forward foreign exchange

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

Interest rate swaps

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

Cross-currency swaps

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

Options

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

Futures

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

Margin for futures trading-own funds of the Cathay Futures

A. Futures

The margin resulting from trading futures is recorded as “margin for futures trading-own funds”. The gain or loss from the trading or valuation of futures is records as “gain (loss) from futures transactions”, and the amount of “margin for futures trading-own funds” is adjusted.

B. Options

Premiums paid or received resulting from trading options is recorded as asset or liability. On the balance sheet date, outstanding options are marked-to-market and gain or loss from the valuation or trading is recognized as “gain (loss) from options transactions”.

(b) Securities purchased

The Bank

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.

The Subsidiaries

Investments of Cathay Futures and Seaward Leasing are carried at cost. Stock dividends are not recognized as investment income but instead are recorded as increase in the number of shares held. For investments in listed stocks, an allowance for loss is provided and charged to income for the current year when the aggregate carrying value of the investments exceeds the total market value. Any subsequent recovery of the market value to extent of the original carrying value is recognized as income. The costs of investments sold are determined using the weighted-average method or the specific identification method.

(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 year ended December 31, 2005 have been reclassified to conform the newly released and revised SFAS adopted by the Bank and its subsidiaries. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	December 31, 2005			
	Before reclassification		After reclassification	
Balance Sheet	NT	US	NT	US
Securities purchased, net	$218,300,261	$6,655,496	$-	$-
Long-term investments, net	60,451,422	1,843,031	-	-
Other assets	4,509	138	-	-
Financial debentures payable	68,456,296	2,087,082	18,756,296	571,838
Other liabilities	712,542	21,724	-	-
Financial assets at fair value through profit or loss	-	-	49,294,361	1,502,877
Securities purchased under agreements to resell	-	-	1,192,252	36,349
Available-for-sale financial assets, net	-	-	41,753,994	1,272,988
Held-to-maturity financial assets, net	-	-	8,352,445	254,648
Investments accounted for using equity method, net	-	-	1,600,441	48,794
Investments in debt securities with no active market, net	-	-	171,316,758	5,223,072
Financial assets carried at cost, net	-	-	5,245,941	159,937
Financial liabilities at fair value through profit or loss	-	-	50,412,542	1,536,968

Income statement	2005 Before reclassification NT	US	After reclassification NT	US
Gains on sales of securities, net	$815,386	$24,859	$-	$-
Investment income, net	152,343	4,645	-	-
Other operating expenses, derivatives instruments	(41,291)	(1,259)	-	-
Gains on financial assets and liabilities at fair value through profit or loss	-	-	380,023	11,586
Realized gains on available-for-sale financial assets	-	-	599,453	18,276
Investment income recognized by equity method	-	-	152,343	4,645
Impairment loss of assets	-	-	(361,041)	(11,007)
Others	-	-	155,660	4,745

3. The Bank and its subsidiaries 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 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 net loss and earnings per share after tax for the year ended December 31, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	December 31, 2005 NT	US	2006 NT	US
Cash on hand	$9,882,605	$301,299	$10,807,848	$331,631
Checks for clearance	9,304,430	283,672	10,184,855	312,515
Due from commercial banks	11,331,300	345,466	7,770,866	238,443
Total	$30,518,335	$930,437	$28,763,569	$882,589

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

	December 31,			
	2005		2006	
	NT	US	NT	US
Call loans to banks	$20,482,828	$624,476	$17,969,352	$551,376
Statutory reserve on deposits	29,124,976	887,957	31,218,376	957,913
Total	$49,607,804	$1,512,433	$49,187,728	$1,509,289

(1) The Bank

Statuary reserve on deposits consists mainly of New Taiwan Dollar (NTD) and foreign currency deposit reserves.

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$ 21,380,682 (US$651,850) and NT$23,512,616 (US$721,467) as of December 31, 2005 and 2006, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserves may be withdrawn momentarily and without interest. As of December 31, 2005 and 2006, the balance of foreign-currency deposit reserves were NT$33 (US$1) and NT$48,975 (US$1,503), respectively.

(2) Indovina Bank

In accordance with the provisions of the Law on credit institutions, the amount of compulsory reserves for the State Bank of Vietnam were NT$226,180(US$6,896) and NT$376,715(US$11,559) as of December 31, 2005 and 2006, respectively.

3. Financial assets at fair value through profit or loss

	December 31,			
	2005		2006	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$2,148,688	$65,509	$5,745,130	$176,284
Mutual funds and beneficiary securities	2,324,260	70,862	1,718,564	52,733
Commercial papers and certificates of deposit	9,800,087	298,783	15,241,030	467,660
Bonds	33,047,616	1,007,549	25,458,013	781,160
Overseas financial instruments	722,040	22,013	1,466,246	44,991
Derivative financial instruments	4,510	138	5,998,705	184,066
Subtotal	48,047,201	1,464,854	55,627,688	1,706,894
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	1,247,160	38,023	1,394,400	42,786
Bonds	-	-	155,695	4,778
Subtotal	1,247,160	38,023	$1,550,095	47,564
Total	$49,294,361	$1,502,877	$57,177,783	$1,754,458

(1) NT$2,405,108(US$73,326) and NT$155,695(US$4,777) of the financial assets at fair value through profit or loss as of December 31, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2005, certain of the financial assets was sold under repurchase agreements with notional amounts of NT$32,404,300 (US$987,936). Such repurchase agreements amounting to NT$33,864,935 (US$1,032,468) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2005 was settled at NT$33,930,203 (US$1,034,457) prior to June 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 December 31, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$9,765,400 (US$299,644). Such repurchase agreements amounting to NT$9,746,341 (US$299,059) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2006 was settled at NT$9,753,463 (US$299,278) prior to January 2007.

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

	December 31,	
	2005	2006
Forward foreign exchange contracts	$4,122,206	$9,183,556
Interest rate swap contracts	4,548,914	9,498,594
Cross-currency swap contracts	573,171	559,901
Options	539,116	106,320
Futures	6,645	-
Credit default swap contracts	-	225,000

(4) Net gains arising from financial assets at fair value through profit or loss for the year ended December 31, 2006 was NT$6,938,604 (US$212,906).

4. Available-for-sale financial assets, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Stocks	$4,389,568	$133,828	$5,924,567	$181,791
Mutual funds and beneficiary certificates	31,846	971	203,514	6,245
Bonds	36,682,206	1,118,360	47,356,359	1,453,095
Overseas financial instruments	650,374	19,829	487,917	14,971
Total	$41,753,994	$1,272,988	$53,972,357	$1,656,102

(1) NT$245,240 (US$7,477) and NT$234,318 (US$7,190) of the available-for-sale financial assets as of December 31, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$12,780,900 (US$392,172). Such repurchase agreements amounting to NT$13,915,399 (US$426,984) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2006 was settled at NT$13,947,971 (US$427,983) prior to March, 2007.

5. Receivables, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Accounts receivable	$59,771,188	$1,822,292	$41,026,203	$1,258,859
Interest receivable	4,122,588	125,689	4,351,781	133,531
Receivable to related party for allocation of linked-tax system	571,606	17,427	1,430,294	43,888
Foreign currency receivable	709,504	21,631	683,410	20,970
Acceptances	534,880	16,307	850,907	26,109
Tax refundable	280,235	8,544	944,245	28,974
Others	902,932	27,529	1,642,908	50,411
Total	66,892,933	2,039,419	50,929,748	1,562,742
Less:				
Allowance for doubtful accounts	(1,114,364)	(33,975)	(2,060,757)	(63,233)
Unrealized interest income	(26,100)	(796)	-	-
Net balance	$65,752,469	$2,004,648	$48,868,991	$1,499,509

(1) The Bank

Information on bad and doubtful accounts is as follows:

	2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$568,542	$17,333	$289,087	$8,814	$857,629	$26,147
Provision of doubtful accounts	3,016,538	91,967	-	-	3,016,538	91,967
Write-offs	(3,007,182)	(91,682)	-	-	(3,007,182)	(91,682)
Recoveries	224,354	6,840	-	-	224,354	6,840
Reclassification	35,400	1,080	(35,400)	(1,080)	-	-
Effects of exchange rates change	-	-	1,042	33	1,042	33
Balance, end of the period	$837,652	$25,538	$254,729	$7,767	$1,092,381	$33,305

	2006					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$837,652	$25,703	$254,729	$7,816	$1,092,381	$33,519
Provision of doubtful accounts	11,867,436	364,144	-	-	11,867,436	364,144
Write-offs	(11,177,382)	(342,970)	-	-	(11,177,382)	(342,970)
Recoveries	278,418	8,543	-	-	278,418	8,543
Reclassification	136,489	4,188	(136,489)	(4,188)	-	-
Effects of exchange rates change	-	-	(96)	(3)	(96)	(3)
Balance, end of the period	$1,942,613	$59,608	$118,144	$3,625	$2,060,757	$63,233

The Bank and its subsidiaries' financial statements include provision for possible credit losses and guarantee losses based on information available to the Bank and its subsidiaries, 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.

(2) Seward Leasing

Information on bad and doubtful accounts is as follows

	December 31, 2005	
	NT	US
Balance, beginning of the period	$44,142	$1,346
Provision of doubtful accounts	11,200	341
Write-offs	(33,359)	(1,017)
Balance, end of the period	$21,983	$670

6. Discounts and loans, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Outward documentary bills	$691,479	$21,082	$837,160	$25,688
Overdrafts	664,912	20,272	592,004	18,165
Short-term loans	131,650,588	4,013,737	156,195,643	4,792,747
Medium-term loans	214,702,962	6,545,822	195,765,490	6,006,919
Long-term loans	280,878,964	8,563,383	322,040,718	9,881,581
Delinquent accounts	7,694,014	234,574	8,159,958	250,382
Total	636,282,919	19,398,870	683,590,973	20,975,482
Less: allowance for doubtful accounts	(15,820,779)	(482,341)	(15,935,954)	(488,983)
Net balance	$620,462,140	$18,916,529	$667,655,019	$20,486,499

(1) As of December 31, 2005 and 2006, the accounts without interest accrued were NT$9,122,549 (US$278,126) and NT$11,536,703 (US$353,995), respectively. The non-accrued interest on such accounts amounted to NT$170,837 (US$5,208) and NT$208,189 (US$6,388) for the years ended December 31, 2005 and 2006, respectively.

(2) For the years ended December 31, 2005 and 2006, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.

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

(4) Information on bad and doubtful accounts is as follows:

A. The Bank

	2005					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,176,079	$127,320	$1,851,800	$56,457	$6,027,879	$183,777
Provision of doubtful accounts	2,945,595	89,805	9,000,000	274,390	11,945,595	364,195
Write-offs	(7,761,512)	(236,632)	-	-	(7,761,512)	(236,632)
Recoveries	5,552,642	169,288	-	-	5,552,642	169,288
Reclassification	(551,228)	(16,806)	551,228	16,806	-	-
Effects of exchange rates change	-	-	4,718	144	4,718	144
Balance, end of the period	$4,361,576	$132,975	$11,407,746	$347,797	$15,769,322	$480,772

	2006					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,361,576	$133,832	$11,407,746	$350,038	$15,769,322	$483,870
Provision of doubtful accounts	6,582,703	201,985	7,300,000	223,995	13,882,703	425,980
Write-offs	(19,657,142)	(603,165)	-	-	(19,657,142)	(603,165)
Recoveries	5,889,241	180,707	-	-	5,889,241	180,707
Reclassification	5,838,560	179,152	(5,838,560)	(179,152)	-	-
Effects of exchange rates change	-	-	(1,116)	(34)	(1,116)	(34)
Balance, end of the period	$3,014,938	$92,511	$12,868,070	$394,847	$15,883,008	$487,358

B. Indovina Bank

	December 31			
	2005		2006	
	NT	US	NT	US
Balance, beginning of the period	$19,336	$589	$51,457	$1,579
Provision of doubtful accounts	32,625	995	4,141	127
Effects of exchange rates change,etc.	(504)	(15)	(2,652)	(81)
Balance, end of the period	$51,457	$1,569	$52,946	$1,625

The financial statements of the Bank and Indovina Bank 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

	December 31, 2005			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$4,997,611	$152,366	$5,301,648	$161,636
Overseas financial instruments	3,050,797	93,012	3,050,797	93,012
Subtotal	8,048,408	245,378	8,352,445	254,648
Less: accumulated impairment	-	-	-	-
Net balance	$8,048,408	$245,378	$8,352,445	$254,648

	December 31, 2006			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,663,800	$112,421	$3,904,318	$119,801
Overseas financial instruments	1,739,444	53,374	1,734,010	53,207
Subtotal	5,403,244	165,795	5,638,328	173,008
Less: accumulated impairment	-	-	(2,018)	(62)
Net balance	$5,403,244	$165,795	$5,636,310	$172,946

As of December 31, 2005 and 2006, NT$84,761 (US$2,584) and NT$2,314,641 (US$71,023) of held-to-maturity financial assets, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	December 31, 2005				
	Carrying value			Investment income (loss)	
	NT	US	% of ownership	NT	US
Seaward Card Co., Ltd.	$52,847	$1,611	100.00	$20,118	$613
Cathay Life Insurance Agent Co., Ltd	123,627	3,769	100.00	98,035	2,989
Cathay Property Insurance Agent Co., Ltd.	10,774	328	100.00	4,808	147
Taiwan Real-estate Management Corp.	15,734	480	30.15	(36,213)	(1,104)
Taiwan Finance Corp.	1,391,169	42,414	24.57	64,833	1,977
Vista Technology Venture Capital Corp.	8,157	249	4.76	(2,214)	(68)
Cathay Venture Capital Corp.	29,978	914	2.00	1,624	50
China England Company Ltd.	(Note)	(Note)	100.00	1,352	41
Subtotal	1,632,286	49,765		$152,343	$4,645
Less: unrealized gain from intercompany transactions	(31,845)	(971)			
Net balance	$1,600,441	$48,794			

	December 31, 2006				
	Carrying value			Investment income (loss)	
	NT	US	% of ownership	NT	US
Seaward Card Co., Ltd.	$40,098	$1,230	100.00	$3,999	$123
Cathay Life Insurance Agent Co., Ltd	92,291	2,832	100.00	66,731	2,048
Cathay Property Insurance Agent Co., Ltd.	9,180	282	100.00	2,698	83
Taiwan Real-estate Management Corp.	19,441	596	30.15	3,707	114
Taiwan Finance Corp.	1,375,154	42,195	24.57	18,859	579
Vista Technology Venture Capital Corp.	8,564	263	4.76	407	12
Cathay Venture Capital Corp.	36,358	1,116	2.00	2,529	77
Subtotal	$1,581,086	$48,514		$98,930	$3,036

Note: Please refer to Note IV.19 for the subsidiary of Seaward Leasing recorded as other liability accounted for by equity method.

(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 shares.

(2) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the year ended December 31, 2006 was recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

9. Premises and equipment, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Cost:				
Land	$15,202,977	$463,505	$13,170,606	$404,130
Buildings	11,522,673	351,301	8,925,709	273,879
Office equipment	3,533,292	107,722	3,809,142	116,881
Transportation equipment	163,259	4,977	90,427	2,774
Other equipment	4,544,424	138,550	4,400,524	135,027
Construction in progress and prepayment for equipment	909,373	27,725	1,097,856	33,687
Subtotal	35,875,998	1,093,780	31,494,264	966,378

	December 31,			
	2005		2006	
	NT	US	NT	US
Accumulated depreciation:				
Buildings	(2,135,490)	(65,106)	(2,066,940)	(63,422)
Office equipment	(2,616,478)	(79,771)	(2,647,139)	(81,225)
Transportation equipment	(64,863)	(1,977)	(67,295)	(2,065)
Other equipment	(2,639,171)	(80,463)	(2,753,354)	(84,485)
Subtotal	(7,456,002)	(227,317)	(7,534,728)	(231,197)
Accumulated impairment	(93,076)	(2,838)	(36,791)	(1,129)
Net balance	$28,326,920	$863,625	$23,922,745	$734,052

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

	December 31,			
	2005		2006	
	NT	US	NT	US
Preferred stocks	$400,000	$12,195	$400,000	$12,274
Government Bonds	324,207	9,884	318,401	9,770
Certificates of deposit	131,535,000	4,010,214	183,865,000	5,641,761
Overseas financial instruments	39,176,107	1,194,394	50,190,092	1,540,046
Subtotal	171,435,314	5,226,687	234,773,493	7,203,851
Less: accumulated impairment	(118,556)	(3,615)	(117,941)	(3,619)
Net balance	$171,316,758	$5,223,072	$234,655,552	$7,200,232

NT$14,600,000 (US$445,122) and NT$14,830,000 (US$455,048) of certificates of deposit as of December 31, 2005 and 2006, respectively, were pledged to other parties as collateral for business reserves and guarantees.

11. Other financial assets, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Financial assets carried at cost, stocks	$5,245,941	$159,937	$4,443,561	$136,347
Bills purchased	11,313	345	3,826	118
Others	323,071	9,850	-	-
Total	$5,580,325	$170,132	$4,447,387	$136,465

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, Waterland Securities Co., Ltd. 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.

12. Other assets, net

	December 31,			
	2005		2006	
	NT	US	NT	US
Prepayment	$469,342	$14,309	$267,017	$8,193
Temporary payments	48,590	1,481	38,434	1,179
Interbank settlement fund	801,763	24,444	1,301,082	39,923
Non-operating assets, net	1,086,648	33,130	1,219,739	37,427
Refundable deposits, net	961,249	29,306	1,119,876	34,363
Foreclosed properties, net	543,002	16,555	1,000,790	30,708
Deferred tax assets, net	2,475,143	75,462	4,756,785	145,958
Deferred charges	632,341	19,279	506,923	15,555
Others	2,500,775	76,243	49,935	1,532
Total	$9,518,853	$290,209	$10,260,581	$314,838

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

	December 31,			
	2005		2006	
	NT	US	NT	US
Due to the Central Bank	$147,691	$4,503	$189,959	$5,829
Due to commercial banks	1,022,577	31,176	1,625,392	49,874
Due to Post Co., Ltd.	34,089,266	1,039,307	29,079,558	892,284
Overdrafts from banks	170,421	5,196	169,100	5,189
Call loans from banks	36,137,550	1,101,754	69,277,319	2,125,723
Total	$71,567,505	$2,181,936	$100,341,328	$3,078,899

14. Payables

	December 31,			
	2005		2006	
	NT	US	NT	US
Accounts payable	$14,270,115	$435,065	$12,082,684	$370,748
Accrued interest payable	3,650,613	111,299	4,068,482	124,838
Accrued expenses	2,286,575	69,713	2,056,317	63,097
Foreign currency payable	-	-	1,075,342	32,996
Payable to related party for allocation of linked-tax system	2,245,837	68,471	-	-
Acceptance	539,769	16,456	853,982	26,204
Income tax payable	176,008	5,366	159,711	4,901
Receipts under custody	610,456	18,611	903,472	27,722
Others	3,538,307	107,875	1,575,282	48,336
Total	$27,317,680	$832,856	$22,775,272	$698,842

15. Deposits and remittances

	December 31,			
	2005		2006	
	NT	US	NT	US
Checking deposits	$13,743,310	$419,003	$14,626,150	$448,793
Demand deposits	95,549,059	2,913,081	105,521,153	3,237,838
Demand savings deposits	294,531,190	8,979,610	329,891,152	10,122,465
Time deposits	192,072,746	5,855,877	227,281,479	6,973,964
Negotiable certificates of deposit	6,237,700	190,174	3,115,300	95,591
Time savings deposits	195,815,871	5,969,996	210,361,174	6,454,777
Outward remittances	327,421	9,982	286,504	8,791
Remittances payable	305,601	9,317	111,827	3,431
Total	$798,582,898	$24,347,040	$891,194,739	$27,345,650

16. Financial liabilities at fair value through profit or loss

	December 31,			
	2005		2006	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$20,618	$629	$6,229,982	$191,162
Bonds purchased under resale agreement-short sale	691,924	21,095	(1,665)	(51)
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,700,000	1,210,366	39,171,613	1,201,952
Subordinated financial debentures	10,000,000	304,878	9,996,770	306,744
Subtotal	49,700,000	1,515,244	49,168,383	1,508,696
Total	$50,412,542	$1,536,968	$55,396,700	$1,699,807

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

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

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

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

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

(2) Net losses arising from financial liabilities at fair value through profit or loss for the year ended December 31, 2006 was NT$7,426,349 (US$227,872).

17. Financial debentures payable

	December 31,			
	2005		2006	
	NT	US	NT	US
Subordinated financial debentures	$18,760,000	$571,951	$18,675,000	$573,028
Discount in financial debentures	(3,704)	(113)	(106,218)	(3,259)
Valuation adjustment	-	-	(432,964)	(13,285)
Total	$18,756,296	$571,838	$18,135,818	$556,484

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.

18. Other financial liabilities

	December 31,			
	2005		2006	
	NT	US	NT	US
Derivative financial liabilities for hedging	$-	$-	$463,562	$14,224
Borrowed funds	311,510	9,497	312,160	9,579
Total	$311,510	$9,497	$775,772	$23,803

As of December 31, 2006, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$463,562 (US$14,224). The Bank has recognized losses in hedging in the amount of NT$84,451 (US$2,591) for the year ended December 31, 2006.

19. Other liabilities

	December 31,			
	2005		2006	
	NT	US	NT	US
Unearned receipts	$325,344	$9,919	$97,181	$2,982
Temporary receipts	881,156	26,865	783,116	24,029
Reserve for losses on guarantees	28,688	875	28,668	880
Reserve for losses on stock brokerage transactions	150,226	4,580	149,037	4,573
Guarantee deposits received	843,269	25,709	793,546	24,349
Reserve for land value increment tax	20,035	611	20,035	615
Credit balance of Seaward Leasing accounted for by equity method	10,795	329	-	-
Others	918,173	27,993	-	-
Total	$3,177,686	$96,881	$1,871,583	$57,428

20. Capital Stock

As of January 1, 2005, the Bank had issued and outstanding capital stock of NT$43,182,407 (US$1,316,537) 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$1,415,260) divided into 4,642,052 thousand common shares, with par value NT$10 per share. The above capitalization has been approved by the authority.

21. Capital reserves

	December 31,			
	2005		2006	
	NT	US	NT	US
Capital reserves from the merger Bank	$9,199,927	$280,485	$9,199,927	$282,293
Additional paid-in capital	4,249,096	129,546	4,249,096	130,380
Others	15,253	465	15,253	468
Total	$13,464,276	$410,496	$13,464,276	$413,141

22. 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, that 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: 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$126,944);
(b) Dividends to shareholders of NT$9,713,473 (US$296,143);
(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$35,466);
(b) Dividends to shareholders of NT$ 2,695,420 (US$82,707);
(c) Bonus to employees of NT$1,500 (US$46).

23. Pension

(1) The Bank

(a) The following is a summary of the components of net pension expenses for 2005 and 2006:

	2005		2006	
	NT	US	NT	US
Defined contribution pension plan	$48,255	$1,471	$91,791	$2,817
Defined benefit pension plan:				
Service cost	227,825	6,946	118,164	3,626
Interest cost	93,650	2,855	55,144	1,692
Expected return on plan assets	(86,686)	(2,643)	(31,546)	(968)
Net amortization	32,498	991	57,572	1,766
Subtotal	267,287	8,149	199,334	6,116
Total	$315,542	$9,620	$291,125	$8,933

(b) The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

	December 31,			
	2005		2006	
	NT	US	NT	US
Pension benefit obligation:				
Vested	$(790,898)	$(24,113)	$(951,125)	$(29,185)
Non-vested	(100,555)	(3,066)	(160,911)	(4,937)
Accumulated benefit obligation	(891,453)	(27,179)	(1,112,036)	(34,122)
Value of future salary projections	(684,088)	(20,856)	(716,088)	(21,972)
Projected benefit obligation	(1,575,541)	(48,035)	(1,828,124)	(56,094)
Fair value of plan assets	901,328	27,480	1,009,975	30,990
Projected benefit obligation in excess of plan assets	(674,213)	(20,555)	(818,149)	(25,104)
Unrecognized net obligation at transition	150,826	4,598	118,328	3,630
Unrecognized net loss	533,666	16,270	697,026	21,388
Additional minimum pension liability	-	-	(99,265)	(3,046)
Prepaid pension cost (Accrued pension liability)	$10,279	$313	$(102,060)	$(3,132)

The actuarial assumptions used are:

	December 31,	
	2005	2006
Discount rate	3.5%	2.75%
Growth rate in compensation levels	3.0%	2.00%
Expected long-term rate of return on plan assets	3.5%	2.75%

As of December 31, 2005 and 2006, the vested benefit, based on the Bank's defined benefit pension plan, amounted to NT$1,113,941 (US$33,962) and NT$1,433,055 (US$43,972), respectively.

(2) Cathay Futures

(a) The following is a summary of the components of net pension expenses for 2005:

	2005	
	NT	US
Defined contribution pension plan	$821	$25
Defined benefit pension plan:		
Service cost	1,247	38
Interest cost	307	9
Expected return on plan assets	(111)	(3)
Amortization of unrecognized net loss	(167)	(5)
Amortization of unrecognized net asset at transition	(6)	-
Subtotal	1,270	39
Total	$2,091	$64

(b) The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

	December 31, 2005	
	NT	US
Pension benefit obligation:		
Vested	$(1,259)	$(38)
Non-vested	(4,299)	(131)
Accumulated benefit obligation	(5,558)	(169)
Value of future salary projections	(3,629)	(111)
Projected benefit obligation	(9,187)	(280)
Fair value of plan assets	3,596	109
Projected benefit obligation in excess of plan assets	(5,591)	(171)
Unrecognized net obligation at transition	(33)	(1)
Unrecognized net loss	(1,031)	(31)
Prepaid pension cost (Accrued pension liability)	$(6,655)	$(203)

The actuarial assumptions used are:

	December 31, 2005
Discount rate	3.50%
Growth rate in compensation levels	3.00%
Expected long-term rate of return on plan assets	3.50%

As of December 31, 2005, the vested benefit, based on the Cathay Futures' defined benefit pension plan, amounted to NT$1,259 (US$38).

(3) Seaward Leasing

(a) The following is a summary of the components of net pension expenses for 2005:

	2005	
	NT	US
Defined contribution pension plan	$336	$10
Defined benefit pension plan:	-	-
Total	$336	$10

(b) The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

	December 31, 2005	
	NT	US
Pension benefit obligation:		
Vested	$(957)	(29)
Non-vested	(867)	(27)
Accumulated benefit obligation	(1,824)	(56)
Value of future salary projections	(821)	(25)
Projected benefit obligation	(2,645)	(81)
Fair value of plan assets	-	-
Projected benefit obligation in excess of plan assets	(2,645)	(81)
Unrecognized net obligation at transition	347	11
Prepaid pension cost (Accrued pension liability)	$(2,298)	(70)

The actuarial assumptions used are:

	December 31, 2005
Discount rate	3.0%
Growth rate in compensation levels	3.0%
Expected long-term rate of return on plan assets	3.0%

As of December 31, 2005, the vested benefit, based on the Cathay Leasing's defined benefit pension plan, amounted to NT$1,275 (US$39).

(4) Indovina Bank

The following is a summary of the components of net pension expenses for 2005 and 2006:

	2005		2006	
	NT	US	NT	US
Defined contribution pension plan	$-	$-	$-	$-
Defined benefit pension plan:	821	25	2,625	81
Total	$821	$25	$2,625	$81

24. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the years ended December 31, 2005 and 2006.

	2005		2006	
	NT	US	NT	US
Personnel expenses				
Salary	$4,784,456	$145,868	$3,581,573	$109,898
Insurance	477,552	14,560	446,796	13,710
Pension	318,790	9,719	294,128	9,025
Others	254,396	7,756	290,250	8,906
Depreciation expenses	1,079,152	32,901	1,138,374	34,930
Amortization expenses	227,151	6,925	198,651	6,095

25. 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. The subsidiaries of the Bank shall file its own income tax return respectively.

(1) The reconciliation between income tax payable and income tax benefit (expenses) for the years ended December 31, 2005 and 2006 is as follows:

	2005		2006	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$(2,756,261)	$(84,032)	$-	$-
Interest on separation tax (Tax rate 20% or 6%)	(161,845)	(4,934)	(348,154)	(10,683)
Foreign subsidiaries (tax rate 25%):	(36,862)	(1,124)	(57,771)	(1,773)
Deferred tax benefits (expense):				
Allowance for bad debt	2,355,588	71,817	250,894	7,698
Allowance for pledged assets taken-over	(233,401)	(7,116)	(100,115)	(3,072)
Foreign investment income recognized by the equity method	(7,318)	(223)	(12,790)	(392)
Others	25,019	763	14,983	460
Valuation allowance	(288,003)	(8,781)	(576,755)	(17,697)
10% additional income tax on undistributed earnings	(70,968)	(2,164)	-	-
Operating loss carryforward	4,967	151	2,731,475	83,813
Effect of foreign branches' income tax	(69,287)	(2,112)	(94,896)	(2,912)
Adjustment of prior period's income tax	(67,880)	(2,070)	654,065	20,070
Income tax benefit (expense)	(1,306,251)	(39,825)	2,460,936	75,512
Income tax benefit from cumulative effect of changes in accounting principles	-	-	(139,225)	(4,272)
Income tax benefit (expense) of continuing operations	$(1,306,251)	$(39,825)	$2,321,711	$71,240

Under the local 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:

	December 31,			
	2005		2006	
	NT	US	NT	US
Domestic Company				
Taxable temporary differences:				
Unrealized losses from intercompany transactions	$23,481	$716	$-	$-
Valuation of financial instruments	-	-	5,852,037	$179,565
Others	124,242	3,788	175,404	5,382
Deductible temporary differences:				
Allowance for bad debts	10,056,865	306,612	11,007,042	337,743
Unrealized impairment loss for pledged assets taken-over	476,144	14,517	75,683	2,322
Unrealized gain from intercompany transactions	18,475	563	-	-
Pension expenses exceed the limit of tax law	75,809	2,311	75,809	2,326
Valuation of financial instruments	-	-	5,529,351	169,664
Provisions for possible losses	145,000	4,421	231,131	7,092
Others	259,481	7,911	444,993	13,654
Operating loss carryforwards	-	-	10,925,898	335,253
Foreign Branch				
Deferred income tax assets	$51,732	$1,577	$51,729	$1,587
Foreign Company				
Deferred tax liabilities	$-	$-	$14,570	$447

(3) Deferred tax assets	$2,809,675	$85,661	$7,124,206	$218,601
Deferred tax liabilities	(36,931)	(1,126)	(1,506,860)	(46,237)
Valuation allowance	(297,601)	(9,073)	(860,561)	(26,406)
Net deferred tax assets	$2,475,143	$75,462	$4,756,785	$145,958

(4) The Bank's income tax returns for the years prior to 2003 have been assessed by the tax authority.

(5) The related information on shareholders' deductible income tax of the Bank is as follows:

	December 31,			
	2005		2006	
	NT	US	NT	US
Imputation credit	$162,284	$4,948	$412,069	$12,644
Undistributed earnings (Deficit to be compensated)	3,852,743	117,462	(3,788,867)	(116,259)

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%.

(6) The related information on shareholders' deductible income tax of the domestic subsidiaries is as follows:

	December 31, 2005	
①Imputation credit	NT	US
Cathay Futures	$11,772	$359
Seaward Leasing	76,640	2,337

	December 31, 2005	
②Imputation credit account ratio	NT	US
Cathay Futures	$-	$-
Seaward Leasing	-	-

③ Undistributed earnings (Deficit to be compensated)

	December 31, 2005	
a. Cathay Futures	NT	US
After 1998	$(7,577)	$(231)

b. Seaward Leasing	December 31, 2005 NT	US
Before 1998	$10,460	$319
After 1998	208,301	6,351
Total	$218,761	$6,670

26. Earnings per share

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

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

	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	$5,231,218	$159,489	$3,924,967	$119,664	$(6,666,538)	$(204,558)	$(4,344,827)	$(133,318)
Cumulative effect changes in accounting principles	-	-	-	-	-	-	726,838	22,303
Net income	$5,231,218	$159,489	$3,924,967	$119,664	$(6,666,538)	$(204,558)	$(3,617,989)	$(111,015)

	2005		2006	
	NT	US	NT	US
Attributable to:				
Equity holders of the parent	$3,852,743	$117,462	$(3,788,867)	$(116,259)
Minority interests	72,224	2,202	170,878	5,243
Net income (loss)	$3,924,967	$119,664	$(3,617,989)	$111,015

	2005				2006			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Basic earnings per share (in dollars)								
Income from continuing operations	$1.13	$0.034	$0.85	$0.026	$(1.44)	$(0.044)	$(0.94)	$(0.029)
Cumulative effect changes in accounting principles	-	-	-	-	-	-	0.16	0.005
Net income	$1.13	$0.034	$0.85	$0.026	$(1.44)	$(0.044)	$(0.78)	$(0.024)

	2005		2006	
	NT	US	NT	US
Basic earnings per share (in dollars)				
Equity holders of the parent	$0.83	$0.025	$(0.81)	$(0.025)
Minority interests	0.02	0.001	0.03	0.001
Net income (loss)	$0.85	$0.026	$(0.78)	$(0.024)

(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 Momey Market Fund etc.	The funds which are managed by Cathay Securities Trust Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Li Yuan Property Management and Maintenance Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance Co., Ltd. (Shanghai)	〃
Cathay General Hospital	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
Cathay Futures Corp.	Affiliate (former investee by the equity method of the Bank disposed in February, 2006)
Seaward Leasing Ltd.	Affiliate (former investee by the equity method of the Bank disposed in June, 2006)
Cathay Life Charity Foundation	Affiliate is the major sponsor of the foundation
Pao Shan Securities Co.	Former subsidiary of Lucky Bank disposed in April, 2006
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	〃
Seaward Card Co., Ltd.	〃
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
Industry and Commercial Bank of Vietnam (ICBV)	Major stockholder of Indovina Bank
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

	December 31, Account balance			January 1- December 31, Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2005					
Loans					
Seaward Leasing Ltd.	$-	$-	-	$-	$-
Taiwan Real-estate Management Corp.	134,000	4,085	0.02%	4,394	134
Cathay General Hospital	375,000	11,433	0.06%	8,813	269
Others	403,525	12,303	0.07%	36,584	1,115
Total	$912,525	$27,821	0.15%	$49,791	$1,518
Deposits					
Cathay Life Insurance Co., Ltd.	$3,655,290	$111,442	0.45%	$(178,958)	$(5,456)
Cathay Financial Holding Co., Ltd.	4,117,725	125,541	0.52%	(182,873)	(5,575)
Cathay Futures Corp.	-	-	-	-	-
Cathay Securities Corp.	2,629,153	80,157	0.33%	(28,725)	(876)
Cathay Century Insurance Co., Ltd.	690,190	21,042	0.09%	(5,424)	(165)
Cathay Pacific Venture Capital Co., Ltd.	4,174	127	-	(4)	-
Taiwan Finance Corp.	107,262	3,270	0.01%	(1,330)	(41)
Seaward Leasing Ltd.	-	-	-	-	-
Others	3,361,738	102,492	0.42%	(39,743)	(1,212)
Total	$14,565,532	$444,071	1.82%	$(437,057)	$(13,325)

Accounts	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) NT	US
2006					
Loans					
Seaward Leasing Ltd.	$2,120,000	$65,050	0.32%	$17,333	$532
Taiwan Real-estate Management Corp.	130,000	3,989	0.02%	3,871	119
Cathay General Hospital	336,969	10,340	0.05%	9,002	276
Others	339,298	10,411	0.05%	9,729	298
Total	$2,926,267	$89,790	0.44%	$39,935	$1,225
Deposits					
Cathay Life Insurance Co., Ltd.	$4,729,965	$145,136	0.53%	$(100,348)	$(3,079)
Cathay Financial Holding Co., Ltd.	3,753,266	115,166	0.42%	(174,414)	(5,352)
Cathay Futures Corp.	1,065,408	32,691	0.12%	(11,968)	(367)
Cathay Securities Corp.	977,885	30,006	0.11%	(17,917)	(550)
Cathay Century Insurance Co., Ltd.	809,413	24,836	0.09%	(6,570)	202
Cathay Pacific Venture Capital Co., Ltd.	518,293	15,904	0.06%	(4,447)	(136)
Taiwan Finance Corp.	135,473	4,157	0.02%	(2,276)	(70)
Seaward Leasing Ltd.	118,185	3,626	0.01%	(73)	(2)
Others	3,012,400	92,433	0.34%	(40,340)	(1,238)
Total	$15,120,288	$463,955	1.70%	$(358,353)	$(10,996)

Account/Related parties	January 1-December 31, 2005 Maximum balance NT	US	December 31, 2005 Account balance NT	US	January 1 - December 31, 2005 Interest income (expense) NT	US	Interest rate
Due from commercial banks							
ICBV	$253	$8	$253	$8	$3	$-	1%
Lucky Bank	43,676	1,332	21,117	644	5	-	0.1%
Call loans to banks							
ICBV	778,020	23,720	144,718	4,412	(16,753)	(511)	7.2%-8.4%
Due to commercial banks							
ICBV	2,980	91	2,980	91	-	-	-
Lucky Bank	28,222	860	15,262	465	(4)	-	0.1-1.8%

Account/Related parties	January 1-December 31, 2006 Maximum balance NT	US	December 31, 2006 Account balance NT	US	January 1 - December 31, 2006 Interest income (expense) NT	US	Interest rate
Call loans to banks							
Lucky Bank	$1,500,000	$46,026	$-	$-	$2,422	$74	1.54-1.6%
Due from commercial banks							
ICBV	5,442	167	1,656	51	19	1	1%
Lucky Bank	80,607	2,473	13,822	424	19	1	0.1%
Due to commercial banks							
ICBV	63,599	1,951	63,599	1,951	(260)	(8)	0.5%

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

(2) Transaction under agreements to repurchase

Account/Related parties	December 31, 2005 Account balance NT	US	January 1- December 31, 2005 Interest income (expense) NT	US
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$3,401,736	$103,711	$(3,536)	$(108)
Others	862,705	26,302	(10,524)	(323)
Total	$4,264,441	$130,013	$(14,060)	$(431)
Securities sold under agreements to resell				
Taiwan Finance Corp.	$49,904	$1,521	$2,005	$61

	December 31, 2006 Account balance		January 1- December 31, 2006 Interest income (expense)	
Account/Related parties	NT	US	NT	US
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$4,462,438	$136,927	$(47,401)	$(1,454)
Others	1,136,573	34,875	(14,431)	(443)
Total	$5,599,011	$171,802	$(61,832)	$(1,897)
Securities sold under agreements to resell				
Taiwan Finance Corp.	$-	$-	$10	$-

(3) Lease

	2005		2006	
Account/Related parties	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	$-	$-	$73	$2
Culture and Charity Foundation of Cathay United Bank	1,000	30	1,000	31
Taipei Smart Card Corp.	5,707	174	6,196	190
Cathay Securities Corp.	7,302	223	5,183	159
Cathay Life Insurance Co., Ltd.	4,950	151	4,065	125
Lucky Bank	-	-	1,878	58
Cathay Century Insurance Co., Ltd.	443	14	795	24
Cathay Real Estate Development Co., Ltd.	1,058	32	1,194	37
Cathay Securities Investment Co., Ltd.	506	15	432	13
Cathay Financial Holding Co., Ltd.	859	26	430	13
Cathay General Hospital	-	-	710	22
Rental expense				
Cathay Life Insurance Co., Ltd.	264,636	8,068	248,998	7,640
Cathay Real Estate Development Co., Ltd.	13,884	423	13,314	409
Seaward Leasing Ltd.	-	-	5,771	177
Symphox Information Co., Ltd.	1,271	39	487	15

	December 31,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$-	$-	$33,393	$1,025
Cathay Life Insurance Co., Ltd.	65,983	2,012	63,017	1,934
Cathay Real Estate Development Co., Ltd.	3,395	104	2,635	81

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

	December 31,			
	2005		2006	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Securities Corp.	$1,238	$38	$1,238	$38
Cathay Life Insurance Co., Ltd.	-	-	255	8

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

	2005		2006	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees income				
Cathay Life Insurance Co., Ltd.	$104,159	$3,176	$51,169	$1,570
Cathay Securities Co., Ltd.	1,796	55	3,130	96
Cathay Century Insurance Co., Ltd.	6	-	20,891	641
(6) Interest Income				
Cathay Life Insurance Co., Ltd.	2	-	3	-
(7) Commissions fees				
Cathay Securities Corp.	1,966	60	1,318	40
(8) Interest expense				
Cathay Life Insurance Co., Ltd.	374	11	87	3
Cathay Century Insurance Co., Ltd.	1	-	1	-
Cathay Securities Corp.	12	-	55	2

Accounts/Related parties	2005 NT	2005 US	2006 NT	2006 US
(9) Operating expenses				
Seaward Card Co., Ltd.	$928,377	$28,304	$397,997	$12,212
Cathay Life Insurance Co., Ltd.	295,057	8,996	154,464	4,740
Cathay Century Insurance Co., Ltd.	114,155	3,480	70,500	2,163
Lucky Bank	1,824	56	5,033	154
Symphox Information Co., Ltd.	27,041	824	270,736	8,307
Cathay Securities Corp.	-	-	2,400	74
Cathay Real Estate Development Co., Ltd.	7,200	220	7,484	230
Cathay Lin Yuan Security Co., Ltd.	-	-	4,514	139
Taiwan Real-estate Management Corp.	-	-	960	29
(10) Insurance expenses				
Cathay Life Insurance Co., Ltd.	215,014	6,555	225,098	6,907
Cathay Century Insurance Co., Ltd.	39,353	1,200	55,596	1,706

	December 31, 2005 NT	December 31, 2005 US	December 31, 2006 NT	December 31, 2006 US
(11) Accounts receivable				
Cathay Life Insurance Co., Ltd.	$214	$7	$-	$-
Cathay Securities Co., Ltd.	42	1	-	-
Cathay Real Estate Development Co., Ltd.	209	6	-	-
(12) Accounts receivable				
Cathay Financial Holding Co., Ltd.	571,606	17,427	1,430,294	43,888
(13) Other receivables - Cash dividend				
Seaward Leasing Ltd.	-	-	218,761	6,713
(14) Prepaid expenses				
Cathay Century Insurance Co., Ltd.	34	1	-	-
(15) Refundable Deposit				
Cathay Futures Corp.	-	-	39,292	1,206
(16) Futures customer's equity				
Cathay Life Insurance Co., Ltd.	317,156	9,669	-	-
Cathay Century Insurance Co., Ltd.	6,469	197	-	-
Cathay Securities Co., Ltd.	61,813	1,885	-	-

Accounts/Related parties	December 31, 2005 NT	December 31, 2005 US	December 31, 2006 NT	December 31, 2006 US
(17) Accounts payable				
Cathay Securities Co., Ltd.	$215	$7	$-	$-
(18) Accrued expenses				
Seaward Card Co., Ltd.	42,441	1,294	16,259	499
(19) Payable to related party for allocation of linked-tax system				
Cathay Financial Holding Co., Ltd.	2,245,837	68,471	-	-
(20) Other payable				
Cathay Life Insurance Co., Ltd.	159	5	-	-
Seaward Card Co., Ltd.	20	1	-	-
Cathay Securities Co., Ltd.	2	-	-	-

(21) 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$116) and NT$90,623 (US$2,781) during the years ended December 31, 2005 and 2006, respectively.

b. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amounts of NT$17,822 (US$543) and NT$17,146 (US$526) during the years ended December 31, 2005 and 2006, respectively.

c. As of December 31, 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$560,000 and US$1,927,573, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$45,104 (US$1,375) and NT$88,713 (US$2,722) during the years ended December 31, 2005 and 2006, respectively.

e. As of December 31, 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$55,974 and US$81,383, respectively.

f. The Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd for NT$300,334(US$9,216) (taxes were deducted) during the year ended December 31, 2006, the relevant carrying values were NT$308,037 (US$9,452) and the disposal losses were NT$7,703 (US$236).

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$3,164) (amortized NT$2,865 (US$88) per month) in January, 2006.

h. As of December 31, 2005, Seaward Leasing provided part of its assets-land, houses and buildings as collaterals and also as a guarantor to its subsidiary-China England for their credit facility to financial institution. Furthermore, the Seaward Leasing also share some credit line with China England.

i. Seaward Leasing purchased a construction progress of Taichung Jing T'ang Building (Renamed the Shr-Hwa International Tower), which is recorded at inventories-construction progress. As of December 26, 2001, it contracted a construction management service agreement with the Taiwan Real-estate Management Corp. The amount of contract which paid by construction progress is NT$17,010 (US$519). As of December 31, 2005, Seaward Leasing has paid in full.

j. The San Ching Engineering Co., Ltd. is a consultant at overseeing construction progress and managing finishing realities by consigning of the Seaward Leasing on May 7, 2003. From May 15, 2003 to December 31, 2004, the payment of per month is NT$234 (US$7). On the other hand, if the construction progress unexpected to finish on the end of 2004, the payment should be paid till the end of May 2005 without signing the subjoined contract. Thus, as of December 31, 2005, the Seaward Leasing will pay NT$3,114 (US$95).

k. Seaward Leasing rent the offices from Cathay Life Insurance Co., Ltd. since the year 2005, and paid NT$346 (US$11) for refundable deposits. Impute interest from refundable deposits is NT5.

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.

(22) For organization restructuring, the Bank's board of directors resolved to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The book value on the date when the transaction occurred was NT$736,454 (US$22,598) and net selling price was NT$708,275 (US$21,733) (the security transaction cost NT$2,132 (US$65) was deducted). The loss from the transaction was NT$28,179 (US$865) classified as the loss from disposal of the investment recognized by equity method.

(23) 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$97,576) on June 30, 2006, with NT$15.9 (US$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT$1,323,466 (US$40,610), with selling price NT$3,170,460 (US$97,283) (securities transaction cost NT$9,540 (US$293) was deducted) minus the carrying value NT$1,846,994 (US$56,674).

VI. ASSETS PLEDGED OR MORTGAGED

1. The Bank

   See Notes IV.

2. Seaward Leasing

   As of December 31, 2005, Seaward Leasing has provided the following items as the pledge for the purpose of loans, other credit or leasing:

	December 31, 2005		
Item	NT	US	Leaser
Land	$824,644	$25,142	Taiwan Finance Corp.
Buildings - net	1,511,524	46,083	〃
Total	$2,336,168	$71,225	

VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

1. The Bank

	NT	US
(1) Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$262,256,972	$8,047,161
Travelers checks for sale	657,094	20,162
Bills for collection	45,673,034	1,401,443
Book-entry for government bonds and depository for short-term marketable securities under management	345,264,800	10,594,195
Guarantees on duties and contracts	17,141,844	525,985
Unused commercial letters of credit	2,545,146	78,096
Irrevocable loan commitments	28,780,105	883,096
Credit card lines	283,220,679	8,690,417
Stamp tax, securities and memorial currency consignments	1,727	53

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

A. 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$18,411) for the purchase of a certain certificate of time deposit. Such certificate of time deposit was later found to have been forged by Mr. Chung-For Su (a clerk of another bank). The Bank filed a lawsuit against Chung Shing Bank for the return of unjustified benefits. The Bank obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. The Bank appealed and the Taiwan High Court reversed its previous decision. The Chung Shing Bank subsequently filed an appeal to the Supreme Court. On September 8, 2005, the Supreme Court rendered a judgment in favor of Chung Shing Bank. This lawsuit is pending as the Bank subsequently filed an appeal to the Taiwan High Court.

B. 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$736) 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 receives a judgment from the High Court on July 11, 2006, ordering the Bank pay NT$9,447 (US$290) plus interest to clients. The Bank files an appeal against such judgment.

C. In 2001, embezzlement and illegal acts involving the amount of NT$60,204 (US$1,847) 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$1,224). The District Prosecutors Office has taken a public prosecution. The Bank also filed an incidental civil procedure.

D. 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 20, 2006, ordering Pacific SOGO to pay the punitive damages of NT$400,000 (US$12,274). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

E. On December 25, 2004, a charge of embezzlement in the amount of NT$24,971 (US$766) by one of the Bank's employees was brought to the Taipei District Prosecutors Office.

2. Indovina Bank

(1) As of December 31, 2006, Indovina Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

Years	NT	US
2007	$7,866	$241
2008	24,827	762
Total	$32,693	$1,003

(2) As of December 31, 2006, Indovina Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

	NT	US
Outstand letters of credit	$1,191,456	$36,559
Guarantees	268,724	8,246
Undrawn loan commitments	5,644,647	173,202

3. As of December 31, 2006, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$2,974,864 (US$91,281) with prepayments of NT$1,097,856 (US$33,687). In addition, foreclosed properties are transferring from the Court were amount of NT$314,500 (US$9,650).

VIII. Significant disaster losses

None

IX. Significant subsequent event

The Bank mergers with Lucky Bank, see Note XI.4.

X. Disclosure of financial instruments information

1. Information of fair value

	December 31, 2006			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$51,179,078	$1,570,392	$51,179,078	$1,570,392
Available-for-sale financial assets	53,972,357	1,656,102	53,972,357	1,656,102
Held-to-maturity financial assets and debt securities with no active market	240,291,862	7,373,178	240,331,260	7,374,387
Investment accounted for using equity method	1,581,086	48,514	1,581,086	48,514
Others	801,828,628	24,603,517	801,828,628	24,603,517
Liabilities				
Financial liabilities at fair value through profit or loss	49,166,718	1,508,645	49,166,718	1,508,645
Financial debentures payable	18,135,818	556,484	18,135,818	556,484
Others	1,039,895,035	31,908,409	1,039,895,035	31,908,409
Derivative financial instruments				
Assets				
Forward	$1,343,791	$41,233	$1,343,791	$41,233
Non-delivery forward	2,324,366	71,321	2,324,366	71,321
Currency Swap	1,396,926	42,864	1,396,926	42,864
Interest rate swap	864,992	26,542	864,992	26,542
Futures	(2,372)	(73)	(2,372)	(73)
Options	9,462	290	9,462	290
Credit derivatives	61,076	1,874	61,076	1,874
Credit default swap	464	14	464	14
Liabilities				
Forward	685,714	21,041	685,714	21,041
Non-delivery forward	2,325,802	71,366	2,325,802	71,366
Currency Swap	1,650,637	50,648	1,650,637	50,648
Interest rate swap	1,548,741	47,522	1,548,741	47,522
Cross currency swap	445,572	13,672	445,572	13,672
Options	8,513	261	8,513	261
Credit derivatives	28,624	878	28,624	878
Credit default swap	(59)	(2)	(59)	(2)

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

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

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

   (3) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

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

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

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

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

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

	December 31,2006			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$48,318,431	$1,482,616	$2,860,647	$87,776
Available-for-sale financial assets	53,972,357	1,656,102	-	-
Held-to-maturity financial assets and debt securities with no active market	188,559,767	5,785,817	51,771,493	1,588,570
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,166,718	1,508,645
Financial debentures payable	-	-	18,135,818	556,484
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Forward	-	-	1,343,791	41,233
Non-delivery forward	-	-	2,324,366	71,321
Currency swap	-	-	1,396,926	42,864
Interest rate swap	-	-	864,992	26,542
Futures	-	-	(2,372)	(73)
Options	1,200	37	8,262	254
Credit derivatives	-	-	61,076	1,874
Credit default swap	-	-	464	14
Liabilities				
Forward	-	-	685,714	21,041
Non-delivery forward	-	-	2,325,802	71,366
Currency swap	-	-	1,650,637	50,648
Interest rate swap	-	-	1,548,741	47,522
Cross currency swap	-	-	445,572	13,672
Options	221	7	8,292	254
Credit derivatives	-	-	28,624	878
Credit default swap	-	-	(59)	(2)

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$434,805 (US$13,342) for the year ended December 31, 2006.

5. The Bank recognized NT$39,844,002 (US$1,222,584) and NT$16,570,488 (US$508,453) as interest income and expense from financial assets or liabilities not at fair value through profit or loss, respectively, for the year ended December 31, 2006.

6. The Bank recognized an unrealized gains or losses of NT$856,329 (US$26,276) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$498,993 (US$15,311) in income statement for year ended December 31, 2006.

7. The interest income of NT$36 (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 and its subsidiaries manage foreign exchange risk by matching foreign currency assets and liabilities. The Bank and its subsidiaries 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 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 and its subsidiaries 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.

	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$79,515	$2,440	$138,367	$4,246	$43,942	$1,348
Foreign exchange	43,677	1,340	117,919	3,618	727	22
Equity Securities price	51,318	1,575	80,270	2,463	17,301	531

(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 and its subsidiaries maintain 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 and its subsidiaries retain the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk

	December 31, 2006			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$51,179,078	$1,570,392	$51,179,078	$1,570,392
Available-for-sale financial assets	53,972,357	1,656,102	53,972,357	1,656,102
Held-to-maturity financial assets and debt securities with no active market	240,291,862	7,373,178	240,291,862	7,373,178
Investment accounted for using equity method	1,581,086	48,514	1,581,086	48,514
Others	801,828,628	24,603,517	801,828,628	24,603,517
Guarantees on duties and contracts	-	-	17,410,568	534,230
Unused commercial letters of credit	-	-	3,736,602	114,655
Irrevocable loan commitments	-	-	34,424,752	1,056,298
Credit card loans	-	-	283,220,679	8,690,417
Derivative financial instruments				
Forward	1,343,791	41,233	1,343,791	41,233
Non-delivery forward	2,324,366	71,321	2,324,366	71,321
Currency swap	1,396,926	42,864	1,396,926	42,864
Interest rate swap	864,992	26,542	864,992	26,542
Options	9,462	290	9,462	290
Credit derivatives	61,076	1,874	61,076	1,874
Credit default swap	464	14	464	14

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

	December 31,			
	2005		2006	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$79,346,518	$2,419,101	$108,822,806	$3,339,147
Financial institutions and insurance	36,907,727	1,125,236	44,171,302	1,355,364
Leasing and real estate	66,893,481	2,039,435	67,285,836	2,064,616
Individuals	369,326,736	11,259,962	371,807,832	11,408,648
Others	98,943,294	3,016,564	109,499,774	3,359,919
Total	651,417,756	19,860,298	701,587,550	21,527,694
Valuation allowance	(15,820,779)	(482,341)	(15,935,954)	(488,983)
Maximum credit risk exposed	$635,596,977	$19,377,957	$685,651,596	$21,038,711
Geographic Region				
Domestic	$615,185,784	$18,755,664	$654,974,105	$20,097,395
South East Asia	10,400,952	317,102	16,859,532	517,322
North East Asia	40,493	1,235	-	-
America	9,757,586	297,488	11,556,020	354,588
Others	16,032,941	488,809	18,197,893	558,389
Total	651,417,756	19,860,298	701,587,550	21,527,694
Valuation allowance	(15,820,779)	(482,341)	(15,935,954)	(488,983)
Maximum credit risk exposed	$635,596,977	$19,377,957	$685,651,596	$21,038,711

(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 and its subsidiaries believe they can generate within that period. As part of our liquidity risk management, the Bank and its subsidiaries focus on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The asset and liability management committees of the Bank and its subsidiaries are responsible for overall liquidity risk management. The 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 and its subsidiaries manage 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 December 31, 2006, there is no significant change in these dates.

As of December 31, 2006, the effective interest rates of financial instruments held and issued by the Bank and its subsidiaries are classified as follows:

Financial instruments	Effective interest rate (%)
Available-for-sale financial assets	
Bonds	1.1364-6.8366
Overseas financial instruments	1
Held-to-maturity financial assets	
Bonds	1.6534-6.9578
Overseas financial instruments	3.45-7.625
Investments in debt securities with no active market	
Preferred stocks	5
Bonds	8-8.6
Certificates of deposit	1.66-1.1919
Overseas financial instruments	0-7.61
Financial debentures payable	2-5.59

9. Fair value hedge

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

	Hedging instruments	
	Derivative designated as	Fair value
Hedged item	hedging instruments	December 31, 2006
Financial debentures payable	Interest rate swap	NT$463,562 (US$14,224)

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

(1) The Bank

	2005		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$21,309,603	$649,683	1.50
Time certificates, discounted bills and others	148,277,754	4,520,663	1.33
Due from commercial banks and call loans to banks	24,153,090	736,375	2.20
Securities purchased under agreements to resell	2,219,358	67,663	1.18
Discounts and loans	602,917,236	18,381,623	4.14
Bills purchased	10,456	319	5.26
Government, corporate bonds and financial debentures	100,400,161	3,060,981	3.40
Receivables-credit card revolving balance	36,956,828	1,126,733	14.59
Liabilities			
Due to banks	77,770,084	2,371,039	2.41
Demand deposits	90,073,224	2,746,135	0.29
Savings deposits	464,845,673	14,172,124	0.83
Time deposits	169,789,002	5,176,494	1.63
Negotiable certificates of deposit	21,225,957	647,133	1.15
Financial debentures	55,794,192	1,701,042	2.51
Funds borrowed from the Central Bank and other banks	1,204,894	36,735	3.00
Securities sold under agreements to repurchase	34,672,258	1,057,081	1.13

	2006		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$22,960,354	$704,521	1.50
Time certificates, discounted bills and others	179,521,294	5,508,478	1.65
Due from commercial banks and call loans to banks	22,137,127	679,261	3.19
Securities purchased under agreements to resell	910,242	27,930	1.05
Discounts and loans	635,619,535	19,503,514	3.84
Bills purchased	6,544	201	6.67
Government, corporate bonds and financial debentures	135,221,712	4,149,178	4.29
Receivables-credit card revolving balance	33,274,381	1,021,000	12.52
Liabilities			
Due to banks	92,634,387	2,842,418	3.51
Demand deposits	91,823,493	2,817,536	0.46
Savings deposits	512,532,213	15,726,671	0.98
Time deposits	206,665,268	6,341,371	2.21
Negotiable certificates of deposit	10,016,905	307,361	1.40
Financial debentures	68,152,154	2,091,198	2.51
Funds borrowed from the Central Bank and other banks	1,122,759	34,451	4.15
Securities sold under agreements to repurchase	30,462,919	934,732	1.36

(2) Indovina Bank

	2005	
	Average balance	Average rate
	US	(%)
Assets		
Due from the Central Bank	$9,297	0.24
Due from commercial banks and call loans to banks	25,336	9.60
Discounts and loans	179,805	6.20
Government, corporate bonds and financial debentures	10,160	8.41
Liabilities		
Due to banks	38,371	4.03
Demand deposits	67,099	0.50
Time deposits	105,820	2.65

	2006	
	Average balance	Average rate
	US	(%)
Assets		
Due from the Central Bank	$11,169	0.24
Due from commercial banks and call loans to banks	28,401	9.60
Discounts and loans	229,971	8.59
Government, corporate bonds and financial debentures	9,815	8.26
Liabilities		
Due to banks	30,802	3.00
Demand deposits	93,887	0.50
Time deposits	98,739	3.30
Negotiable certificates of deposit	17,944	3.30

2. Regulatory capital ratio

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

As of December 31, 2005 and 2006, the ratio of the Bank's eligible capital to its risk-weighted assets was 13.65% and 12.32%, respectively.

As of December 31, 2005 and 2006, the ratio of the Bank's eligible capital to its consolidated risk-weighted assets was 14.03% and 12.38%, respectively. The formula to calculate such ratio is as follows:

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

3. Certain accounts of the financial statements for the year ended December 31, 2005 have been reclassified to conform to the current presentation.

4. On August 25, 2006, the board meeting on behalf of the Bank's shareholders decided to merger with Lucky Bank the ratio for exchange of shares will be 1:0.7212 (Lucky Bank: the Bank). After the merger, Lucky Bank will be merged bank, and the Bank will be surving bank. The above merger has been approved by the Financial Supervisory Commission on October 26, 2006 and completed on January 1, 2007.

5. The Bank, Cathay Financial Holding Co., Ltd. and other subsidiaries of Cathay Financial Holdings for cross selling business allocates the related income and expense by business nature directly attributed to each subsidiary.

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

Balance Sheet Based on Trust
December 31, 2005

Trust Assets			Trust Liabilities		
	NT	US		NT	US
Cash and cash equivalents	$2,945,282	$89,795	Payables		
Short-term investments			Redemption charge payable	$4,398	$134
Bonds	71,847,221	2,190,464	Service fee payable	30	1
Common stock	20,654	630	Management fee payable	64	2
Mutual funds	40,077,137	1,221,864	Trust capital		
			Trust capital-money	114,943,022	3,504,360
Designated-purpose funds	169,800	5,177	Trust capital-securities	1,469,105	44,790
Short-term bills or repurchase investment	56,022	1,708	Trust capital-real estate	3,872,204	118,055
Receivables			Reserve and accumulated earnings		
Accrued interest receivable	11	-	Distribution	(89,522)	(2,729)
Personal estate			Net Income	110,041	3,355
Securities	1,468,496	44,771	Retained earnings	5,936	181
Real estate					
Land	3,724,491	113,552			
Buildings	6,164	188			
Total	$120,315,278	$3,668,149	Total	$120,315,278	$3,668,149

Balance Sheet Based on Trust
December 31, 2006

Trust Assets	NT	US	Trust Liabilities	NT	US
Cash and cash equivalents	$3,233,972	$99,232	Payables		
Short-term investments			Redemption charge payable	$2,698	$83
Bonds	86,055,427	2,640,547	Service fee payable	100	3
Common stock	21,232	652	Management fee payable	14	-
Mutual funds	64,617,357	1,982,736	Trust capital		
			Trust capital-money	153,883,471	4,721,800
Designated-purpose funds	124,100	3,808	Trust capital-securities	1,905,422	58,467
Short-term bills or repurchase investment	28,000	859	Trust capital-real estate	4,706,230	144,407
Receivables			Reserve and accumulated earnings		
Accrued interest receivable	4	-	Distribution	(113,186)	(3,473)
Personal estate			Net Income	124,415	3,818
Securities	1,903,622	58,411	Retained earnings	26,455	812
Real estate					
Land	4,397,279	134,927			
Buildings	154,626	4,745			
Total	$160,535,619	$4,925,917	Total	$160,535,619	$4,925,917

Income Statement Based on Trust

Items	2006 NT	2006 US
Trust revenue		
Interest income	$5,516	$169
Rental income	252	8
Cash dividend income	94,886	2,912
Stock dividend income	20,189	620
Investment income-stock	13,147	403
Investment income-funds	797	24
Subtotal	134,787	4,136
Trust expense		
Management fee	3,549	109
Supervisor fee	1	-
Taxes	43	1
Processing fee	113	4
Service fee	100	3
Investment loss-stock	6,300	193
Investment loss-funds	45	1
Others	273	9
Subtotal	10,424	320
Income equalization	52	2
Net income	$124,415	$3,818

Details of Trust Properties

Items	December 31, 2006 NT	December 31, 2006 US
Short-term investment		
Bonds	$86,055,427	$2,640,547
Common stock	21,232	651
Mutual fund	64,617,357	1,982,736
Assigned fund	124,100	3,808
Short-term bills or repurchase investment	28,000	859
Personal estate		
Securities	1,903,622	58,411
Real estate		
Land	4,397,279	134,927
Buildings	154,626	4,745
Total	$157,301,643	$4,826,684

7. The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of December 31, 2006 is as follows:

Items	2006 NT	2006 US
Special trust of money that invest in foreign securities	$125,639,801	$3,855,164
Special trust money that invest in domestic mutual funds	24,763,093	759,837
Trust of real estate	4,706,326	144,410
Trust of insurance claims	26,936	827
Trust of personnel property	724,320	22,225
Trust of business employee's savings	2,470,224	75,797
Trust of securities	1,904,058	58,425
Collective investment trust funds	234,099	7,183
Others	66,762	2,049
Total	$160,535,619	$4,925,917