



Mega International Commercial Bank

Annual Report 2006

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MEGA FINANCIAL GROUP

MEGA INTERNATIONAL COMMERCIAL BANK

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Contents

2	<i>Message to Shareholders</i>
5	<i>Bank Profile</i>
	Historical Overview
	Credit Rating
	Board of Directors and Supervisors
	Statistical Data of Personnel
	Organization Chart
8	<i>Financial Highlights</i>
	Condensed Balance Sheets
	Condensed Statements of Income
	Major Financial Ratios
10	<i>Economic Review and Market Landscape</i>
	Economic Condition
	Financial Market and Banking Industry
	Interest Rates
	Stock Market
	Exchange Rates
12	<i>Business Activities</i>
	Business Overview
	Operation Results
	Risk Management
13	<i>Future Operation Blueprint</i>
	Winning Strategies and Vision of the Future
	Positive Factors
	Negative Factors
14	<i>Report of Independent Auditors</i>
15	<i>Financial Statements</i>
60	<i>Service Network</i>
	Head Office
	Domestic Units
	Overseas Units
	Subsidiaries



Yeou-Tsair Tsai, Chairman of the Board

Message to Shareholders ■ ■ ■ ■ ■ ■ ■ ■

The year 2006 marked a milestone in the history of the Bank. Mega International Commercial Bank Co., Ltd. (formerly The International Commercial Bank of China Co., Ltd.) made its debut on August 21 after its successful merger with Chiao Tung Bank Co., Ltd. as a result of lengthy preparations and strenuous efforts.

Local banks have been faced with unprecedented challenges in recent years. With dwindling interest rate spread causing traditional banking hardship, many banks also saw themselves caught between the crossfire of so called “double card debt crises” —soaring credit card and cash card defaults. Fortunately, the Bank has emerged from this financial storm with only a few bruises because it has been taking a much stricter risk control than its counterparts, based on a policy of cautious promotion of consumer lending.

However, the applications for insolvency protection at yearend of 2006 by China Rebar Company and Chia Hsin Food & Synthetic Fiber Company took us by surprise. Being the largest creditor bank, we have taken all necessary steps to safeguard our debt claims, and the implications have been reflected in our financial statements properly. Steady progress has been made in all lines of business in recent years because

of the diversification policy adopted by the Bank. Accordingly, the adverse effects of this incident on our finance and operations will be limited.

In 2006, earnings before tax of the Bank topped all domestic banks at NT\$13.15 billion. It not only demonstrated our solid operating expertise, but also brought the Bank into prominence in the banking industry. Business-wise, our deposit and loan bases expanded considerably after the merger, reaching NT\$1,145 billion and NT\$1,081 billion at yearend, respectively. The Bank retained its leading position in the eminent foreign exchange business, OBU business, and overseas business in terms of market share, showing double-digit growth every year. Foreign exchange business totaled an impressive US\$441 billion in 2006.

Our services and performance have been widely acclaimed by people from all walks of life. Besides being rated as outstanding in regard to the extension of loans to small- and medium-sized businesses at home, the Bank also received affirmations from well-known international institutions. It was voted winner of the Award of The Best Local Cash Management Bank for the “Best FX Banks Awards 2006,” sponsored by *Asiamoney*.





Kuang-Si Shiu, President

Moreover, we have spared no efforts in expanding our overseas market. Melbourne Branch and Bangna Branch of our subsidiary bank in Thailand joined our overseas network last year. In the future, we shall continue with our policy to go global — spreading over the world, pinpointing Asia-Pacific region. We plan to establish footholds in Hanoi, Mumbai, and Phnom Penh, and work meticulously to upgrade our representative office in London to the status of a branch. Furthermore, we are studying the feasibility of setting up outposts in major cities throughout the world or acquiring regional banks in Asia.

The Bank has won wide admiration for its consistency, trust-worthiness, and reliability in the running of business ever since its establishment. We have grown strong along with

many local enterprises, and have played a very important role in the economic development of our country.

Looking ahead, we shall maintain our consistent and down-to-earth approach; institutionalize management by objectives to boost our performance and competitiveness. In view of its competitive stance and market climate, the Bank has set as its goals for 2007: to amass total deposits of NT\$1,174 billion, aggregate loans of NT\$1,152 billion, and foreign exchange volume of US\$499 billion. In addition, we will keep a watchful eye on the financial development, and take timely actions to deal with any changes that may arise. With untiring efforts of the staff, we are in the strong belief the Bank will perform superbly in an extremely competitive environment.

Yeou-Tsair Tsai

Chairman of the Board

Kuang-Si Shiu

President





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Mega
Holdings

Bank Profile



Historical Overview

Mega International Commercial Bank Co., Ltd. (Mega ICBC) has come into being as a result of the merger of The International Commercial Bank of China and Chiao Tung Bank, effective on August 21, 2006. Both banks have been proud of their longtime histories of outstanding track records in our country.

In 1971, The Bank of China was privatized to become The International Commercial Bank of China Co., Ltd. (ICBC), whose origin dates back to the Ta Ching Bank and its predecessor, the Hupu Bank (the bank under the finance arm of the imperial court in the Ching Dynasty.) The Bank of China had been entrusted with the mission to serve as an agent of the Treasury and a note-issuing bank before the establishment of the Central Bank of China in 1928. The Bank of China was designated as a licensed specialized bank for international trade and foreign exchange thereafter. Taking advantage of its specialization in foreign exchange, worldwide network of outlets and correspondence banks, superb bank assets, and excellent business performance, ICBC has become a top-notch bank in the Republic of China.

Set up five years before the founding of the Republic of China, Chiao Tung Bank Co., Ltd. (CTB) had also been delegated to act as an agent of the government coffer and a note-issuing bank in concert with the Bank of China at the outset of the Republic. Transforming from a licensed bank for industries in 1928, an industrial bank in 1975, and a development bank in 1979, CTB turned from a state-controlled

bank into a privately-owned one in 1999. It has engaged in loan extensions for medium- and long-term development, innovation and guidance investment (equity investment), and venture capital ever since. For years, CTB has made significant contributions to the improvement of industrial structure and the promotion of the upgrading of industry by assisting in the development of strategic and vital industries in line with the economic policy and the economic development plan of the government.

CTB and International Securities Company formed the CTB Financial Holding Company in 2001. Later on, Chung Hsing Bills Finance Corporation and Barits International Securities Company came under the financial umbrella. On December 31, 2002, Chung Kuo Insurance Company and ICBC joined forces with the Company to form a conglomerate named Mega Financial Holding Company.

With a view to enlarging the business scale and increasing the market share, ICBC and CTB formally merged into one bank under the name of Mega International Commercial Bank Co., Ltd. on August 21, 2006. Owing to the consolidation, the Bank now boasts 105 branches at home and 17 branches, 2 representative offices abroad. Added to the network are wholly-owned bank subsidiaries in Thailand and Canada, along with their branches, bringing the number of our overseas outposts to 26 in total. It has manpower 4,900 strong and an aggregate paid-in capital of NT\$64.1 billion.

Credit Rating

Credit Rating Institute	Credit Rating		Bank Financial/Fundamental Strength Rating (BFSR)	Outlook	Date
	Long-term	Short-term			
Moody's	A1	P-1	C-	Stable	2007.05
S&P	A	A-1	B	Stable	2005.09



Board of Directors and Supervisors

As of December 31, 2006

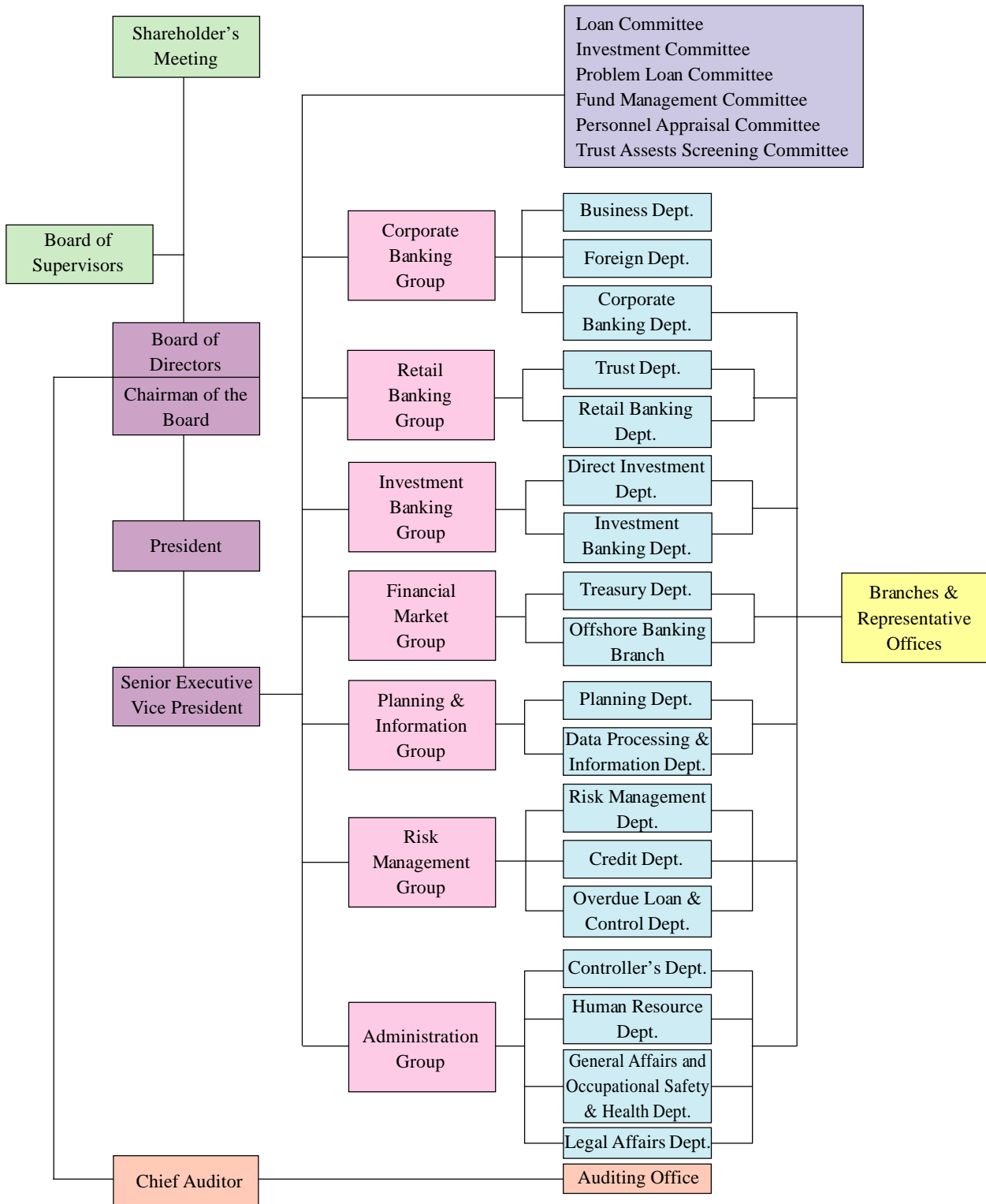
Chairman of the Board	Yeou-Tsair Tsai
Managing Directors	Kuang-Si Shiu Teng-Cheng Liu Ming-Feng Yeh Jhao-Yi Chen Chao Hsi Huang Chang-Hai Tsai Yuan-Jhong Li Lee Chen-Chia Hsi-Ho Wang Rong-Tzaw Yeh Ji-An Tsai
Directors	
Executive Supervisor	Ching-Chyi Lai
Supervisors	Ling-Yu Chen Sih-Kuan Chen Chung Leu, Wei-Ching

Statistical Data of Personnel

Item	the end of 2006
Number of Staffs	4,908
Average Age	40.26
Average Length of Employment	14.43



Organization Chart



Financial Highlights ■ ■ ■ ■ ■ ■ ■ ■ ■ ■

Condensed Balance Sheets

In Thousands of NT dollars

Item	2006	2005 (Restated)
Cash and Cash Equivalents, Due from the Central Bank and Call Loans to Banks - net	298,480,874	222,917,743
Financial Assets at Fair Value through Profit or Loss	70,639,090	82,480,461
Securities Purchased under Agreements to Resell	1,502,553	375,121
Available-for-sale Financial Assets - net	102,576,675	97,078,991
Bills and Loans - net	1,113,888,899	1,087,469,082
Receivables - net	71,730,605	70,182,024
Held-to-maturity Financial Assets - net	95,740,790	193,593,454
Investments Accounted for by the Equity Method - net	8,605,588	7,849,245
Properties and Equipment (Fixed Assets) - net	15,530,403	15,860,630
Other Financial Assets - net	29,027,921	28,975,231
Other Assets - net	4,651,887	4,155,642
Total Assets	1,812,375,285	1,810,937,624
Due to the Central Bank and Commercial Banks	354,921,989	361,754,234
Deposits and Remittances	1,063,630,443	1,035,045,214
Financial Liabilities at Fair Value through Profit or Loss	49,420,209	47,940,093
Securities Sold under Agreements to Repurchase	36,094,287	30,370,278
Borrowed Funds and Bonds Issued	75,066,321	109,918,590
Accrued Pension Liabilities	1,209,032	1,400,442
Other Financial Liabilities	18,812,629	14,692,467
Other Liabilities	63,199,697	66,642,526
Total Liabilities	1,662,354,607	1,667,763,844
Capital Stock	64,109,878	64,109,878
Total Capital Reserve	33,066,755	30,739,457
Total Retained Earnings	45,470,884	45,698,971
Unrealized Gains or Losses on Available-for-sale Financial Assets	4,396,442	0
Cumulative Translation Adjustments	1,299,527	983,440
Land Revaluation Increment and Capital Surplus from Assets Revaluation	1,677,192	1,642,034
Total Shareholders' Equity	150,020,678	143,173,780

Note 1: Effective from January 1, 2006, the Bank adopted the R.O.C. Statements of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" to account for its financial instruments.

Note 2: Owing to the merger with Chiao Tung Bank Co., Ltd. on August 21, 2006, the Bank had restated the financial statements as of and for the year ended December 31, 2005 based on the audited financial statements of both the Bank and Chiao Tung Bank Co., Ltd. for the purpose of comparison and consistency.



Condensed Statements of Income

In Thousands of NT dollars

Item	2006	2005 (Restated)
Net Interest Income	19,726,769	21,927,531
Net Non-Interest Income	14,423,033	14,536,311
Net Operating Income	34,149,802	36,463,842
Provision for Loan Losses	6,280,084	1,981,936
Total Operating Expenses	14,719,042	13,989,256
Income Before Income Tax	13,150,676	20,492,650
Net Income Before Cumulative Effect of Changes in Accounting Principles	10,968,913	17,694,875
Cumulative Effect of Changes in Accounting Principles	714,676	22,985
Net Income	11,683,589	17,717,860

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Note 2: Owing to the merger with Chiao Tung Bank Co., Ltd. on August 21, 2006, the Bank had restated the financial statements as of and for the year ended December 31, 2005 based on the audited financial statements of both the Bank and Chiao Tung Bank Co., Ltd. for the purpose of comparison and consistency.

Major Financial Ratios

Item		2006	2005*	2004*
Financial Ratio	Total Liabilities to Total Assets (%)	91.72	93.48	93.71
	Fixed Assets to Total Shareholders' Equity (%)	10.35	12.39	14.09
Solvency	Liquidity Reserve Ratio (%)	28.92	53.47	51.27
Operating Performance Analysis	Loans to Deposits Ratio (%)	106.71	83.73	86.70
	NPL Ratio (%)	0.88	0.50	0.77
	Total Assets Turnover (Number of Times)	0.02	0.04	0.04
	Average Net Operating Income per Employee (Thousands of NT dollars)	2,381	3,348	2,991
Profitability Analysis	ROA (%)	0.64	0.96	0.92
	ROE (%)	7.97	14.92	14.52
	Pre-tax Income to Capital Stock (%)	20.51	35.10	31.86
	Net Income to Net Operating Income (%)	34.21	24.45	26.54
	Earnings per Share (NT dollars)	1.82	3.06	2.74
	Cash Dividends per Share (NT dollars)	1.46	1.43	1.12
Shareholder's Equity per Share Before Appropriation (NT dollars)		23.40	21.49	19.51
Capital Adequacy Ratio (%)		10.34	10.93	10.82

* 2005 and 2004 data amounts to The International Commercial Bank of China Co., Ltd. only.



Economic Review and Market Landscape

Economic Condition

Taiwan's economy as a whole sustained a steady growth in 2006, up 4.62% from a year before. External trade continued to be active with both exports and imports registering historical highs. Trade surplus for the whole year reached US\$21.29 billion, which was not only an increase of 34.6% over a year ago, but also the third highest record since 1991. Although investments of private sector and consumer spending remained relatively sluggish, the economic growth of 4.62% was still higher than that of the previous year by 0.59 percentage points.

Breaking down the economic growth last year, we found 3.5 percentage points of the 4.62% came from net increase in demand from abroad. Net domestic demand only accounted for the remaining 1.12 percentage points.

Of net domestic demand, consumer spending and private sector investments only contributed 0.88 percentage points and 0.29 percentage points to the growth, respectively, whereas government spending and investments landed on the negative territory. The economic phenomenon of "hot without and chilly within" manifested itself clearly in 2006.

According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), the economy will maintain a moderate growth in 2007 with a projected rate of 4.30%. The impetus for the economy mainly comes from the improvement in job market, the mitigation of card debt crises, the recovery of consumer spending, and private sector investments in capacity expansion and technology upgrading of the high-tech companies. It is expected they will contribute 2.61 percentage points to the growth rate, making them the most important factors for the economic growth in 2007.

On the price front, prices remained steady and rose slightly. The inflation rate was a mere 0.6%. Because of relative low base in 2006 and the deferred effects of price rises, DGBAS predicted an inflation rate of 1.52% for 2007.

Financial Market and Banking Industry

2006 was a rather grave year for the banking industry, arising mainly from the frenetic pursuit of consumer finance expansion by financial institutions in the past several years. Owing to the cut-throat competition, credit card and cash card business busted. The total write-offs of bad debts for all card-issuing financial institutions amounted to NT\$162.9 billion, with NT\$115.2 billion for credit cards, NT\$47.7 billion for cash cards. The fallout was the severe erosion of profits of domestic banks. As a whole, they lost NT\$7.4 billion in 2006. ROE and ROA were -0.43% and -0.03%, respectively. Earnings before tax of more than half of the 42 domestic banks were in the red. This marked the worst year for the banking industry since 2002 when banks suffered great losses because of large write-offs.

To solve the problems of double card bad debt, the Financial Supervisory Commission (FSC) resolved that financial institutions might sell their insolvent credit card and cash card debt claims to asset management companies to help them clean up their poor assets. Furthermore, FSC also pushed domestic banks to increase loans to small- and medium-sized businesses with real incentives.

It is believed that the above-mentioned measures will help domestic banks improve their asset quality, and the profitability of the banking industry will be back on the right track after many banks actively write off bad debts and set aside provisions for possible bad debt losses. Double card debt crises have rendered banks cautious toward revolving credits of credit cards and cash card business. They are eyeing corporate finance now. However, fierce competition in the market makes it so difficult for banks to increase their interest rate spreads that the chances of a considerable improvement of profitability are slim.



Interest Rates

Although real interest rates turned positive in 2006, they remained relatively low. The Central Bank of the Republic of China (Taiwan) raised the interest rate by 0.125 percentage points in March, June, September, and December, respectively. Discount rate rose to 2.75% at yearend from 2.25% at the beginning of the year. In view of the government projection of a moderate economic growth in 2007 and relatively low interest rates, the Central Bank is expected to stay course to help push up the real interest rates on condition that economic growth not be comprised.

Stock Market

2006 saw hectic trading in the stock market. Overbuying by foreign institutional investors, political issues, and insider trading scandals combined to bring about wild fluctuations in the market for the first three quarters. The TAIEX moved all the way up in the fourth quarter to close at 7,824 points at the end of the year. The index was up by 20% from a year ago, and the market turnover amounted to NT\$23.90 trillion, registering a year-on-year increase of 27%.

Exchange Rates

The exchange rate of the New Taiwan dollar (NT dollar) is determined by the supply and demand of the market. Only if there are non-economic factors that will jeopardize the normal fluctuation of the foreign exchange market will the Central Bank step in to stabilize it.

In 2006, the exchange rate of the NT dollar to the US dollar exhibited a pattern of “more downs, less ups” with narrow fluctuations, hovering between NT\$31.5 and NT\$33.3 per US dollar. The NT dollar once broke through the mark of NT\$32 to one US dollar in January and May last year, and hit a recent high of NT\$31.338. Notwithstanding, it was short-lived, and the rate fell back to NT\$32 in just a few days. The average exchange rate of the NT dollar as compared to the US dollar was NT\$32.53, a meager devaluation of 1% from a year earlier.



Business Activities ■ ■ ■ ■ ■ ■ ■ ■ ■ ■

Restructuring of the Bank took place in the wake of the merger. Based on the nature of operations, our organization was divided into seven sectors, namely, Corporate Banking Group, Retail Banking Group, Investment Banking Group, Financial Market Group, Planning and Information Group, Risk Management Group, and Administration Group. Besides, we have formed several market-oriented task forces to cater to the needs of our business development with an eye to fine-tuning our organization to make it more flexible and competitive.

Business Overview

- Promoting wealth management to advise our clients on customized portfolios. Sales of trust, insurance, and mutual fund products posted considerable growth. Fee income thereof rose 21.7% from the previous year.
- Working on the betterment of our Global eBanking, foreign exchange online trading, Web ATM, and strengthening marketing endeavors to solidify our leading position in electronic banking. At yearend 2006, electronic transactions advanced to account for 39% of total transactions, and Global eBanking boasted 14,000 plus accounts, more than double the number a year before.
- Introducing into Taiwan the OTC-listed 3-year notes issued by Deutsche Bank, the first batch of Formosa Bond—international bonds to be issued in Taiwan. The total issuance was worth US\$250 million. This was a pioneer move in domestic banking circles, helping the Bank assert itself as a forerunner in Taiwan's international bond market, and thereby enhancing its visibility.
- Underwriting Cathay REIT No. 2 with total amount of issuance reaching NT\$7.2 billion, augmenting our market share of real estate securitization.
- Reviewing the locality of all domestic branches; moving some of them to locations with potential of business opportunities, prospective customers, and profitability.

Operation Results

- Assets and Liabilities

Total assets reached NT\$1,812 billion at the end of 2006. Bills and loans accounted for the lion's share, 61% of the total. Due from the Central Bank and call loans to banks followed with 14%. Liabilities amounted to NT\$1,662 billion, and Deposits and remittances represented 64% of the total.

- Income and Expenses

Net interest income was NT\$19.73 billion while net non-interest income aggregated NT\$14.42 billion. After deducting operating expenses of NT\$14.72 billion as well as provision for loan losses of NT\$6.28 billion, the Bank garnered a pre-tax income of NT\$13.15 billion. Net income of NT\$11.68 billion was achieved after taking into consideration taxes of NT\$2.18 billion and effects of accounting principle changes of NT\$0.71 billion.

- Profitability Analysis

Pre-tax income as a percentage of capital stock was 20.51%. After taxes, the Bank attained an ROA of 0.64%, ROE of 7.97%, and an EPS of NT\$1.82.

- Asset Quality

Non-performing loan ratio in 2006 stood at 0.88%, far below the domestic bank average of 2.13% as disclosed by FSC while bad debt coverage ratio was 105%, much better than the domestic bank average of 59%.

Risk Management

The Board of Directors is at the top of the risk management echelon, setting effective functioning of the Bank's risk management as the ultimate goal. In Head Office, Risk Management Department, independent from all business units and transactions, is responsible for supervising mechanisms set up by all business units, monitoring total exposure to risk in all areas and concentrations of risk, integrating the objectives of risk management, and making reports on their execution.

As from 2005, the Bank, in line with the New Basel Capital Accord (Basel II), has divided its operational risks into eight business categories and seven types of events of loss. Each department concerned is required to make regular reports on events of loss concerning operational risk to build up our internal database of events of loss, to raise co-workers' operational risk awareness and compile relevant statistics correctly. In the future, we will keep beefing up our risk control system according to Basel II.



Future Operation Blueprint ■ ■ ■ ■ ■ ■

Winning Strategies and Vision of the Future

- Maintaining quality assets, making optimal allocation of assets, and enhancing effective utilization of capital.
- Augmenting overseas business to improve profitability, and thus enhancing its contribution to overall profits.
- Reviewing, relocating, and adding business units at home and abroad, so that we have a business network with units at strategic points all over the world.
- Renovating such electronic banking platform as Global eBanking and strengthening it in the following ways:
 - To increase its transactions as a percentage of the total transactions to lower operating cost.
 - To win over customers to use the Bank as their main bank for fund transfer purposes.
- Doubling the marketing efforts by of our Asiapacific Business Center on the basis of its expertise to accommodate the cross-border finance and investment needs of Taiwanese businessmen, so that our loan business will grow in tandem with it.
- Maintaining the growth momentum of our foreign exchange trading to increase fee income and gain on exchange.
- Continuing seeking opportunities in the direct finance market: Besides real estate securitization, underwriting and management of funds, we shall help Taiwanese businessmen raise funds abroad to cater to their needs.
- Streamlining risk management system to build up a risk control mechanism and culture in conformity with Basel II to manage our risk exposures effectively.

Positive Factors

- Mega ICBC is irreplaceable in terms of foreign remittances, and it enjoys competitive edge in foreign exchange business as follows:
 - The Bank's New York Branch is the only domestic bank that takes part in CHIPS, Fedwire, and ACH.
 - The government conducts foreign exchange transactions and fund transfer via the Bank. For example, the Central Bank has designated Mega ICBC as its agent bank in its operations to attain the goal of foreign exchange market stability for years.
- The Bank has more overseas units than any other domestic bank, with the most extensive overseas channels and outstanding expertise on international business.
- Mega ICBC can raise funds relatively cheap on the international market because of its superb asset quality and the best credit ratings of domestic banks.
- The moderate growth of world economy is beneficial for the development of overseas business and the improvement of profitability.
- The growing need of wealth management of the customers is instrumental to its growth.

Negative Factors

- Overbanking, keen competition, and price wars among domestic banks aggravate the ever-decreasing profitability of local banks.
- Domestic banks are bound to miss the boat of booming business in China because they are unable to provide our businessmen there with financing services directly. Worse yet, too many restrictions on the investment in China by local enterprises have led them to invest there by way of a third country, which is harmful to the control of business risks by banks.



Report of Independent Auditors ■ ■ ■

The Board of Directors
Mega International Commercial Bank Co., Ltd.

We have audited the accompanying balance sheets of Mega International Commercial Bank Co., Ltd. (formerly known as The International Commercial Bank of China Co., Ltd.) as of December 31, 2005 and 2006, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of International Security Investment Trust Corporation – the investee accounted for by equity method, which statements reflect total investments of 236,820 thousands New Taiwan dollars, constituting 0.01% of the total assets as of December 31, 2006 and total investment losses of 1,079,548 thousands New Taiwan dollars for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to data included for International Security Investment Trust Corporation, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Regulations for Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and auditing standards generally accepted in the Republic of China on Taiwan. Those 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Mega International Commercial Bank Co., Ltd. as of December 31, 2005 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the "Business Accounting Law", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", and accounting principles generally accepted in the Republic of China on Taiwan.

As stated in Note III to the financial statements, effective from January 1, 2006, the Bank adopted the R.O.C. Statements of Financial Accounting Standards No.34 "Accounting for Financial Instruments" and No.36 "Disclosure and Presentation of Financial Instruments" to account for its financial instruments.

As stated in Note II and III to the financial statements, Mega International Commercial Bank Co., Ltd. merged with Chiao Tung Bank Co., Ltd. on August 21, 2006 with the Bank as the surviving entity and the later as the liquidating entity. Owing to the merger, the Bank had implemented stock exchange and relevant accounting treatment for the reorganization of jointly controlled subsidiaries. In compliance to the standards, the Bank had also restated the financial statements as of and for the year ended December 31, 2005 based on the audited financial statements of both the Bank and Chiao Tung Bank Co., Ltd. for the purpose of comparison and consistency.

We have also audited the consolidated financial statements of the Bank and subsidiaries as of and for the years ended December 31, 2005 and 2006, on which we have issued a modified unqualified opinion thereon.



Ernst & Young
February 27, 2006
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China on Taiwan and not those of any other jurisdiction. The standard, procedures and practice to audit such financial statements are those generally accepted and applied in the Republic of China on Taiwan.



MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)
BALANCE SHEETS
December 31, 2005 (Restated) and 2006
(Expressed in Thousands of Dollars)

	December 31		December 31	
	2005 (Restated)	2006	2005 (Restated)	2006
ASSETS	New Taiwan Dollars	US Dollars	New Taiwan Dollars	US Dollars
CASH AND CASH EQUIVALENTS (Notes IV and V)	\$39,937,595	\$42,638,615	\$1,305,930	\$1,305,930
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS — NET (Notes IV and V)	182,980,148	255,842,259	7,835,904	7,835,904
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes II, III and IV)	82,480,461	70,639,090	2,163,525	2,163,525
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Note II)	375,121	1,502,553	46,020	46,020
AVAILABLE-FOR-SALE FINANCIAL ASSETS — NET (Notes II, III and IV)	97,078,991	102,576,675	3,141,705	3,141,705
RECEIVABLES — NET (Notes II and IV)	70,182,024	71,730,605	2,196,956	2,196,956
BILLS AND LOANS — NET (Notes II, IV and V)	1,087,469,082	1,113,888,899	34,116,046	34,116,046
HELD-TO-MATURITY FINANCIAL ASSETS — NET (Notes II and IV)	193,593,454	95,740,790	2,932,337	2,932,337
INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD — NET (Notes II, III and IV)	7,849,245	8,605,588	263,571	263,571
OTHER FINANCIAL ASSETS — NET (Notes II and IV)	28,975,231	29,027,921	889,063	889,063
PROPERTIES AND EQUIPMENT (Notes II and III)				
Land	6,275,623	6,276,568	192,238	192,238
Revaluation increment — land	1,796,816	1,781,105	54,551	54,551
Buildings and improvements	10,445,914	10,419,054	319,114	319,114
Revaluation increment — building	47,863	47,863	1,466	1,466
Computers and peripheral equipment	3,355,459	3,654,357	111,925	111,925
Transportation and communication equipment	245,777	228,659	7,003	7,003
Miscellaneous equipment	1,193,387	1,167,081	35,745	35,745
Total costs	23,360,839	23,574,687	722,042	722,042
Accumulated depreciation	(7,462,527)	(8,006,602)	(245,225)	(245,225)
Accumulated impairment	(37,682)	(37,682)	(1,154)	(1,154)
Properties and Equipment — Net	15,860,630	15,530,403	475,663	475,663
OTHER ASSETS — NET (Notes II, IV and V)	4,155,642	4,651,887	142,477	142,477
TOTAL ASSETS	\$1,810,937,624	\$1,812,375,285	\$55,509,197	\$55,509,197
	December 31		December 31	
	2005 (Restated)	2006	2005 (Restated)	2006
LIABILITIES AND SHAREHOLDERS' EQUITY	New Taiwan Dollars	US Dollars	New Taiwan Dollars	US Dollars
DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS (Notes IV and V)	\$361,754,234	\$354,921,989	\$10,870,505	\$10,870,505
PAYABLES (Notes IV and V)	57,770,884	54,166,290	1,658,998	1,658,998
DEPOSITS AND REMITTANCES (Notes IV and V)	1,035,045,214	1,063,630,443	32,576,736	32,576,736
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes II, III and IV)	47,940,093	49,420,209	1,513,636	1,513,636
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (Note II)	30,370,278	36,094,287	1,105,491	1,105,491
BORROWED FUNDS (Note IV)	76,587,680	56,438,426	1,728,589	1,728,589
BONDS ISSUED (Note IV)	33,330,910	18,627,895	570,533	570,533
ACCRUED PENSION LIABILITIES (Notes II and IV)	1,400,442	1,209,032	37,030	37,030
OTHER FINANCIAL LIABILITIES (Notes II and IV)	14,692,467	18,812,629	576,191	576,191
OTHER LIABILITIES (Notes II and IV)	8,871,642	9,033,407	276,674	276,674
TOTAL LIABILITIES	1,667,763,844	1,662,334,607	50,914,383	50,914,383
	December 31		December 31	
	2005 (Restated)	2006	2005 (Restated)	2006
SHAREHOLDERS' EQUITY	New Taiwan Dollars	US Dollars	New Taiwan Dollars	US Dollars
CAPITAL STOCK (Note IV)	64,109,878	64,109,878	1,963,549	1,963,549
CAPITAL RESERVE:				
Paid-in capital in excess of par value	2,582,788	2,582,788	79,105	79,105
Others	28,156,669	30,483,967	933,659	933,659
Total Capital Reserve	30,739,457	33,066,755	1,012,764	1,012,764
RETAINED EARNINGS (Note IV):				
Legal reserve	23,829,857	27,247,443	834,531	834,531
Special reserve	1,362,996	1,398,637	42,837	42,837
Unappropriated earnings	20,506,118	16,824,804	515,308	515,308
Total Retained Earnings	45,698,971	45,470,884	1,392,676	1,392,676
EQUITY ADJUSTMENTS:				
Land revaluation increment	1,644,939	1,644,939	50,381	50,381
Capital surplus from assets revaluation	32,253	32,253	988	988
Cumulative translation adjustments	983,440	1,299,527	39,802	39,802
Unrealized gains or losses on available-for-sale financial assets	-	4,396,442	134,654	134,654
Net loss not recognized as pension costs	(35,158)	-	-	-
Total Equity Adjustments	143,173,780	150,020,678	4,594,814	4,594,814
TOTAL SHAREHOLDERS' EQUITY	\$1,810,937,624	\$1,812,375,285	\$55,509,197	\$55,509,197

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



MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)

STATEMENTS OF INCOME

For the Year Ended December 31, 2005 (Restated) and 2006

(Expressed in Thousands of Dollars, Except Per Share Amounts)

	For the Year Ended December 31		
	2005 (Restated)	2006	2006
	New Taiwan Dollars	US Dollars	
INTEREST REVENUE (Notes II and V)	\$53,067,092	\$57,019,199	\$1,746,377
INTEREST EXPENSES (Note V)	(31,139,561)	(37,292,430)	(1,142,188)
NET INTEREST INCOME	21,927,531	19,726,769	604,189
NON-INTEREST INCOME			
FEE INCOME — NET (Notes II and V)	5,121,619	5,260,459	161,117
GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes II and III)	1,183,289	4,222,054	129,313
REALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes II and III)	5,550,200	2,825,276	86,532
REALIZED GAINS (LOSSES) ON HELD-TO-MATURITY FINANCIAL ASSETS (Notes II and III)	203,444	3,802	116
INVESTMENT INCOME (LOSSES) RECOGNIZED BY THE EQUITY METHOD (Notes II and III)	70,913	(499,331)	(15,293)
FOREIGN EXCHANGE GAIN — NET (Note II)	2,878,941	5,966,635	182,745
LOSS ON ASSET IMPAIRMENTS (Note II)	(1,262,177)	(2,634,707)	(80,695)
GAINS ON DISPOSAL OF PROPERTIES — NET (Note II)	64,264	615,406	18,849
OTHER PROVISIONS (Note II)	(1,666,005)	(2,979,631)	(91,260)
OTHERS (Notes III and V)	2,391,823	1,643,070	50,324
NET NON-INTEREST INCOME	14,536,311	14,423,033	441,748
NET OPERATING INCOME	36,463,842	34,149,802	1,045,937
PROVISION FOR LOAN LOSSES (Notes II and IV)	(1,981,936)	(6,280,084)	(192,346)
OPERATING EXPENSES			
STAFF EXPENSES (Notes II and IV)	(8,618,069)	(9,257,789)	(283,546)
DEPRECIATION AND AMORTIZATION (Notes II and IV)	(918,202)	(922,424)	(28,252)
OTHER GENERAL AND ADMINISTRATIVE EXPENSES (Note V)	(4,452,985)	(4,538,829)	(139,015)
TOTAL OPERATING EXPENSES	(13,989,256)	(14,719,042)	(450,813)
INCOME BEFORE INCOME TAX	20,492,650	13,150,676	402,778
INCOME TAX (Notes II and IV)	(2,797,775)	(2,181,763)	(66,823)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	17,694,875	10,968,913	335,955
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note III)	22,985	714,676	21,889
(NET OF TAX \$0)			
NET INCOME	\$17,717,860	\$11,683,589	\$357,844
EARNINGS PER SHARE (In Dollars)			
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$2.76	\$1.71	\$0.05
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	-	0.11	-
NET INCOME	\$2.76	\$1.82	\$0.05

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



MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended December 31, 2005 (Restated)
(Expressed in Thousands of New Taiwan Dollars)

Items	Retained Earnings				Cumulative		Unrealized Gains or Losses		Net Loss Not	
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Revaluation Increments	Translation Adjustments	on Available-For-Sale Financial Assets	Recognized as Pension Costs	Total
Balance, January 1, 2005	\$37,261,000	\$2,928,754	\$20,774,215	\$1,336,903	\$10,214,410	\$-	\$176,563	\$-	\$-	\$72,691,845
Adjustment for capital stock and capital reserve from the merger	26,848,878	27,810,703	-	-	-	1,229,232	426,416	(10,984)	(3,732)	56,300,513
Appropriations of 2004 earnings (Note IV)										
Legal reserve	-	-	3,055,642	-	(3,055,642)	-	-	-	-	-
Special reserve	-	-	-	26,093	(26,093)	-	-	-	-	-
Cash dividends and bonus	-	-	-	-	(4,173,232)	-	-	-	-	(4,173,232)
Bonus to employees	-	-	-	-	(171,185)	-	-	-	-	(171,185)
Net income for the year ended December 31, 2005	-	-	-	-	17,717,860	-	-	-	-	17,717,860
Changes in land revaluation increment	-	-	-	-	-	447,960	-	-	-	447,960
Changes in cumulative translation adjustments	-	-	-	-	-	-	380,461	-	-	380,461
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	10,984	-	10,984
Net loss not recognized as pension costs	-	-	-	-	-	-	-	-	(31,426)	(31,426)
Balance, December 31, 2005	\$64,109,878	\$30,739,457	\$23,829,857	\$1,362,996	\$20,506,118	\$1,677,192	\$983,440	\$-	\$35,158	\$143,173,780

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





MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended December 31, 2006
(Expressed in Thousands of Dollars)

Items	Retained Earnings					Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses		Net Loss Not Recognized as Pension Costs	Total
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings			on Available-For-Sale Financial Assets	Pension Costs		
(New Taiwan Dollars)											
Balance, January 1, 2006	\$64,109,878	\$30,739,457	\$23,829,857	\$1,362,996	\$20,506,118	\$1,677,192	\$983,440	\$-	\$-	\$(35,158)	\$143,173,780
Prior period adjustments arising from first time adoption of SFAS No. 34	-	-	-	-	-	-	-	-	3,141,356	-	3,141,356
Appropriations of 2005 earnings (Note IV)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	5,315,357	-	(5,315,357)	-	-	-	-	-	-
Special reserve	-	-	-	35,641	(35,641)	-	-	-	-	-	-
Cash dividends and bonus	-	-	-	-	(9,033,469)	-	-	-	-	-	(9,033,469)
Bonus to employees	-	-	-	-	(579,633)	-	-	-	-	-	(579,633)
Net income for the year ended December 31, 2006	-	-	-	-	11,683,589	-	-	-	-	-	11,683,589
Increase in capital reserve resulting from investment accounted for by the equity method	-	28,724	-	-	-	-	-	-	-	-	28,724
Changes in cumulative translation adjustments	-	-	-	-	-	-	316,087	-	-	-	316,087
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	1,255,086	-	-	1,255,086
Net loss not recognized as pension costs	-	-	-	-	-	-	-	-	-	35,158	35,158
Adjustment for capital stock and reserve from the merger	-	2,298,574	(1,897,771)	-	(400,803)	-	-	-	-	-	-
Balance, December 31, 2006	\$64,109,878	\$33,066,755	\$27,247,443	\$1,398,637	\$16,824,804	\$1,677,192	\$1,299,527	\$4,396,442	\$-	\$-	\$150,020,678
(US Dollars)											
Balance, January 1, 2006	\$1,963,549	\$941,483	\$729,858	\$41,745	\$628,059	\$51,369	\$30,122	\$-	96,213	\$(1,077)	\$4,385,108
Prior period adjustments arising from first time adoption of SFAS No. 34	-	-	-	-	-	-	-	-	-	-	96,213
Appropriations of 2005 earnings (Note IV)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	162,798	-	(162,798)	-	-	-	-	-	-
Special reserve	-	-	-	1,092	(1,092)	-	-	-	-	-	-
Cash dividends and bonus	-	-	-	-	(276,676)	-	-	-	-	-	(276,676)
Bonus to employees	-	-	-	-	(17,753)	-	-	-	-	-	(17,753)
Net income for the year ended December 31, 2006	-	-	-	-	357,844	-	-	-	-	-	357,844
Increase in capital reserve resulting from investment accounted for by the equity method	-	880	-	-	-	-	-	-	-	-	880
Changes in cumulative translation adjustments	-	-	-	-	-	-	9,680	-	-	-	9,680
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	38,441	-	-	38,441
Net loss not recognized as pension costs	-	-	-	-	-	-	-	-	-	1,077	1,077
Adjustment for capital stock and capital reserve from the merger	-	70,401	(58,125)	-	(12,276)	-	-	-	-	-	-
Balance, December 31, 2006	\$1,963,549	\$1,012,764	\$834,531	\$42,837	\$515,308	\$51,369	\$39,802	\$134,654	\$-	\$-	\$4,594,814

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2005 (Restated) and 2006
(Expressed in Thousands of Dollars)

	For the Year Ended December 31		
	2005	2006	2006
	New Taiwan Dollars		US Dollars
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$17,717,860	\$11,683,589	\$357,844
Adjustments to reconcile net income to net cash provided by operating activities:			
Effects due to changes in accounting method for investment gain or loss recognized by the equity method	(22,985)	-	-
Investment income recognized by the equity method, net of cash dividends received	374,119	566,956	17,365
Loss on asset impairments	1,262,177	2,634,707	80,695
Gain on disposal of properties	(55,653)	(605,463)	(18,544)
Provisions for loan losses	1,981,936	6,280,084	192,346
Recovery of written-off credits and reserve for loan losses	3,238,690	2,184,354	66,902
Depreciation and amortization	918,202	922,424	28,252
(Increase) decrease in operating assets:			
(Increase) decrease in financial assets at fair value through profit or loss	(11,590,483)	11,841,371	362,676
Decrease (increase) in securities purchased under agreements to resell	1,592,389	(1,127,432)	(34,531)
Increase in receivables	(8,574,778)	(1,640,559)	(50,247)
Increase in other financial assets	(5,158,610)	(2,495,075)	(76,419)
Net change in deferred income tax assets / liabilities	241,739	(420,779)	(12,888)
(Decrease) increase in operating liabilities:			
Increase (decrease) in payables	1,896,565	(3,605,971)	(110,443)
Increase in financial liabilities at fair value through profit or loss	10,367,057	1,480,116	45,333
Increase in securities sold under agreements to repurchase	1,190,028	5,724,009	175,314
Increase (decrease) in accrued pension liabilities	39,716	(156,252)	(4,786)
(Decrease) increase in other financial liabilities	(2,098,439)	4,120,162	126,192
Net Cash Provided by Operating Activities	<u>13,319,530</u>	<u>37,386,241</u>	<u>1,145,061</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in due from the Central Bank and call loans to banks	29,736,264	(72,862,111)	(2,231,611)
Decrease (increase) in available-for-sale financial assets	11,097,175	(1,303,275)	(39,917)
Increase in bills and loans	(66,494,088)	(34,790,077)	(1,065,546)
(Increase) decrease in held-to-maturity financial assets	(17,513,124)	97,852,664	2,997,019
Increase in investments accounted for by the equity method	(3,320,625)	(803,108)	(24,598)
Additions to properties and equipment	(396,982)	(570,586)	(17,476)
Proceeds from disposal of properties	228,854	670,327	20,531
Increase in other assets	(727,648)	(162,345)	(4,972)
Net Cash Used in Investing Activities	<u>(47,390,174)</u>	<u>(11,968,511)</u>	<u>(366,570)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in due to the Central Bank and commercial banks	14,133,515	(6,832,245)	(209,257)
Increase in deposits and remittances	92,785,776	28,585,229	875,505
Decrease in borrowed funds	(59,710,209)	(20,149,254)	(617,129)
Decrease in bonds issued	(14,907,110)	(14,703,015)	(450,322)
(Decrease) increase in other liabilities	(1,824,341)	166,747	5,107
Distribution of cash dividends and bonus	(7,878,378)	(9,033,469)	(276,676)
Distribution of bonus to employees	(493,370)	(579,633)	(17,753)
Net Cash Provided by (Used in) Financing Activities	<u>22,105,883</u>	<u>(22,545,640)</u>	<u>(690,525)</u>
EFFECTS OF EXCHANGE RATE CHANGES	<u>23,385</u>	<u>(171,070)</u>	<u>(5,240)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	<u>(11,941,376)</u>	<u>2,701,020</u>	<u>82,726</u>
CASH AND CASH EQUIVALENT, BEGINNING OF PERIOD	<u>51,878,971</u>	<u>39,937,595</u>	<u>1,223,204</u>
CASH AND CASH EQUIVALENT, END OF PERIOD	<u>\$39,937,595</u>	<u>\$42,638,615</u>	<u>\$1,305,930</u>
SUPPLEMENTAL INFORMATION:			
Interest expenses paid	<u>\$28,941,099</u>	<u>\$37,146,384</u>	<u>\$1,137,715</u>
Income taxes paid	<u>\$565,751</u>	<u>\$1,316,489</u>	<u>\$40,321</u>

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



MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(Formerly Known As The International Commercial Bank of China Co., Ltd.)
Notes to Financial Statements
December 31, 2005 (Restated) and 2006
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

I. ORGANIZATION AND OPERATIONS

Mega International Commercial Bank Co., Ltd. (the “Bank”; formerly known as The International Commercial Bank of China Co., Ltd.) has been reorganized on December 17, 1971 in accordance with the “Law for International Commercial Bank of China” announced by the President of the Republic of China (R.O.C.) (which was then abolished in December, 2005) and other related regulations. As of December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction. With the view to enlarging business scale and to increasing market share, the Bank entered into a merger agreement with Chiao Tung Bank Co., Ltd. On August 21, 2006, the effective date of the merger, the merger had been performed and the Bank was later renamed Mega Commercial Bank Co. Ltd.

The Bank engages in the following operations: (a) commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust operations; (f) investments services on consignments by clients; (g) loan information services, including mid-term to long-term development loan and guarantee operations; (h) venture capital activities; and (i) other related operations approved by the R.O.C. government.

The Bank’s business and operations are widely managed by the head office. The Bank expands its network by opening branches at key locations in both domestic and foreign markets. As of December 31, 2006, the Bank had 105 domestic branches, 18 foreign branches, and 2 foreign representative offices.

The Trust Department of the Bank is primarily responsible for planning, management and operation of trust investment businesses regulated by the R.O.C. Banking Law.

As of December 31, 2005 and 2006, the Bank’s employees totaled 4,930 and 4,908, respectively.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 R.O.C. The significant accounting policies are summarized as follows:

1. Basis for preparation of financial statements

The accompanying financial statements include the accounts of the domestic head office and branches and foreign branches and representative office. All inter-branch and inter-office transactions and balances have been eliminated when the financial statements were prepared.



2. Foreign-currency transactions

The Bank maintains its accounts at the currencies in which transactions are denominated. Foreign currencies income and expenses are converted into New Taiwan dollars (NT dollars or NT\$) at the prevailing exchange rates at the end of each month. Foreign-currency denominated monetary financial assets or liabilities and other foreign-currency dominated assets or liabilities regulated by the Statement of Financial Accounting Standards (SFAS) No.34 "Accounting for Financial Instruments" and No.36 "Presentation and Disclosure for Financial Instruments" are translated into NT dollars at the prevailing exchange rates at the end of each month. The resulting translation differences are included in current income. However, translation gains or losses associated with cash flow hedges, foreign net investment hedges and equity investments accounted for by the equity method is recorded as cumulative translation adjustments under stockholders' equity.

Non-monetary financial assets or liabilities regulated by the SFAS No.34 "Accounting for Financial Instruments" and No.36 "Presentation and Disclosure for Financial Instruments" and measured at fair value in foreign currency are translated using the prevailing rates at the end of each month. When a gain or loss on a non-monetary financial asset or liability measured at fair value is recognized directly in adjustment of equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary financial asset or liability measured at fair value is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary financial assets or liabilities that are measured in terms of historical cost in foreign currency shall be translated using the exchange rate at the date of transaction.

3. Translation for the statements of foreign branches and representative offices

The foreign-currency denominated financial statements of foreign branches and the representative offices are restated into NT dollars at the following exchange rates: 1) assets and liabilities – at the prevailing rates at the balance sheet date, 2) head office account – except for the retained earnings carried forward from last year's balance, the remaining balances are stated at historical rates, 3) dividends – at the rates when the dividends are declared, and 4) Income and expenses – at weighted-average rates for the year. The cumulative translation adjustments are included in the shareholders' equity account. When a foreign operation is disposed of or sold, the cumulative translation adjustment is charged to current income.

4. Financial assets and financial liabilities

Starting from January 1, 2006, the Bank adopted the SFAS No.34 "Accounting for Financial Instruments" and No.36 "Presentation and Disclosure for Financial Instruments" to classify its financial assets or liabilities. On initial recognition, financial assets or liabilities are measured at fair value. However, for fair value investments with changes in fair value recognized under equity and for investments measured at amortized costs, transaction costs that are directly attributable to the acquisition or issuance of liability should be capitalised.

All financial assets and financial liabilities held by the Bank are accounted for under settlement date accounting, except for stocks and funds which are accounted for under trade date accounting.



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

Financial assets or liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated as at fair value through profit or loss at inception. On subsequent measurement, these investments are reassessed at fair value and changes in fair value are recognized in current income or losses.

(2) Available-for-sale financial assets

Available-for-sale financial assets are subsequently measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss and gain/loss on exchange of foreign-currency denominated monetary assets. When the investment is derecognized, the cumulative gain or loss previously recognized in equity is transferred to profit or loss in the income statement.

(3) Held-to-maturity financial assets

Held-to-maturity financial assets are subsequently measured at amortized cost calculated using the effective interest method. Gains or losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

(4) Financial assets carried at cost

Investments on unlisted stocks or emerging stocks with immaterial influence are measured by the cost method. These investments are carried at cost plus the aggregate par value of any stock dividends received before 1984. An investment in the common stock of a foreign investee is accounted for by the cost method when there are restrictions on its ability to remit its earnings to the Bank.

(5) Investments in debt securities with no active market

Debt securities with fixed or determinable collections but with no active market are carried at cost using the effective interest method. Gains or losses are recognized in income when these investments are derecognized or impaired, as well as through the amortization process.

(6) Financial liabilities

On subsequent recognition, the Bank measures all financial liabilities at amortized cost, except for financial liabilities at fair value through profit and loss and derivative financial liabilities for hedging which are 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, depositary receipts or derivative financial instruments, the net asset value for open-ended funds, the quoted price at the balance sheet date for bonds and estimated price calculated using adequate valuation techniques for other financial instruments.



5. Derivative financial instruments

The Bank enters into various derivative contracts, including forward currency contracts, cross-currency swaps, options and interest rate swaps, etc. Such derivative financial instruments are initially recognized at fair value on the date when a derivative contract is entered into and 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. Financial asset securitization

Under the “Regulations for Financial Assets Securitization”, the Bank securitized part of its enterprise loans and transferred those loans to the special purpose trustee in return for the issuance of the related beneficiary certificates. Thus, the Bank derecognizes the loans and records gain or loss because the control of contractual rights on the loans, except for subordinated retained interests for credit enhancement which were reclassified as other financial assets have been surrendered and transferred to a special purpose trustee.

The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The above-mentioned carrying amount of the loans should be allocated in appropriation of the part retained and the part sold on their fair values on the date of sale. Because quotes are not available for loans and retained interests, the Bank estimates fair value at the present value of expected cash flows, using management’s key assumptions on credit losses and discount rates commensurate to the risks involved.

7. Hedge accounting

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

- (1) Fair value hedges: When derivative financial instrument is used as the underlying hedging instrument, fair value is applied for valuation. When non-derivative financial instrument is used for hedging, any gain or loss arising from change in exchange rates is charged to current income. The carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged.
- (2) Cash flow hedges: The effective portion of the gain or loss on the hedging instrument is recognized directly in equity. When it is determined that the expected hedged transaction will result in financial assets or financial liabilities, amounts initially recorded in equity are transferred to income in the period in which profit or loss is affected by the related assets or liabilities.
- (3) Hedges of net investments in foreign operations: Gains or losses generated from hedge instruments are recognized as adjustments in equity which are then transferred to profit or loss for the period upon disposal of foreign operations.



8. Bonds purchased/sold under resell/repurchase agreements

Bonds sold/purchased with a commitment to repurchase/resell them at predetermined price are treated as financing transactions. The accounting method applied is as follows:

- (1) Upon the sale of bonds and bills subject to a repurchase agreement, bonds and bills sold under repurchase agreement is credited and the difference between the cost and the repurchase price is treated as interest expense.
- (2) Upon the purchase of bonds and bills subject to a resell agreement, bonds and bills purchased under resell agreements is debited and the difference between the cost and the resell price is treated as interest revenue.

9. Allowances for probable losses

- (1) The allowances for probable losses are provided for due from call loan to banks, receivables, and bills and loans based on collectability review.
- (2) According to “The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans, and Bad Debts”, reserves set aside for probable loan losses are based on the estimation of potential unrecoverable exposures, net of collateral. A significant degree of management discretion is used in the estimation process, which includes the assessment of the borrower’s ability to pay and of the value of the underlying collateral.
- (3) Balances of uncollectible accounts are written off against allowance for probable losses only upon the approval by the board of directors.

10. Discounts and loans

- (1) Discounts and loans are recorded at the basis of outstanding principal amounts. Any unsettled discounts and loans upon maturity are to be reclassified to non-accrual loans along with the associated amount of accrued interest previously recorded within six month from the date of the maturity. In addition, interest receivable should also be ceased to appropriate.
- (2) Non-accrual loans transferred from loans should be recorded under discounts and loans. For other non-accrual loans transferred from accounts other than loans, such as guarantees, acceptances and receivables on factoring should be recorded under other financial assets.

11. Investments accounted for by the equity method

- (1) Investments with voting rights of at least 20% of the common stock and have significant influence over the investee are accounted for by the equity method. These investments are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Bank’s share of the investee’s net assets. The Bank will continue to recognize its equity in the net loss of an investee notwithstanding that will result in a negative investment carrying amount (with this negative amount shown as liability) if the Bank had guaranteed the investee’s debt or the Bank had obligated to provide financial support or the loss is temporary.



- (2) Cash dividends received are accounted for as a reduction in the carrying amount of the investments. Stock dividends received are accounted for the increase in number of shares held by the Bank without impact to the carrying amount of the investments and net income.
- (3) If an investee's capital reserve increases because of property revaluation, the Bank will recognize the proportional increase in the carrying amount of the investment and the gain will be included in the capital reserve in the shareholders' equity. The difference between the investment cost and the equity in the book value of the net assets of the investees (except the portion pertaining to the difference between the fair value and the book value of land) when a stock is acquired or when the equity method is first adopted, is amortized over 5 to 10 years. However, such a difference, which belongs to goodwill, is no longer amortized from January 1, 2006, but is reviewed for potential impairment on an annual basis.
- (4) The Bank is required to include the accounts of all subsidiaries, which are more than 50% owned and controlled in its consolidated financial statements. The first and third quarter financial statements are not required to disclose the consolidated financial statements.

12. Valuation and depreciation of property and equipment

- (1) Except for land, all properties and equipments are depreciated on a straight-line basis according to their value after revaluation increment. Major improvements and renewals are capitalized as cost, and repairs and maintenance are expensed as incurred. Relevant promulgated principle should be applied if impairment has been found. Upon sale or disposal of properties and equipment, the related cost, revaluation increment, accumulated depreciation and accumulated impairment loss are written off from the books, and any gain or loss is credited or charged to non-interest income.
- (2) When an impairment loss on a specified asset is identified, the related depreciation is recalculated based on the adjusted value over the estimated useful lives. The residual value of a property or equipment that is still in use at the end of the original estimated useful life is depreciated using the straight-line method over its revised estimated useful life.

13. Foreclosed property

Foreclosed properties are stated at the lower of cost or net realizable value on the balance sheet date.

14. Reserve for operations

Reserve for operations is mainly provided for guarantee liabilities and trading losses. Reserve for guarantee liabilities is recognized based on the realizability on the balance pertaining to customers' customs duties, commodity tax and contract performance obligations...etc. Pursuant to the Rules Governing the Administration of Securities Firms (RGASF), 10% of the excess of gains on proprietary trading of securities over its losses must be set aside as reserve for trading losses on a monthly basis until the cumulative balance of such reserve had met the \$200 million cut off point. Such reserve can only be used to offset the excess of securities trading losses over gains.



15. Pension plans

- (1) The Bank has pension plans for all regular employees under the relevant domestic and foreign government regulations. The Bank makes monthly contributions to a pension fund, which is administered by the workers' fund administration committee, at amounts up to 15% of the employees' salaries for domestic employees. The pension fund is deposited in the Central Trust of China under the name of the committee. In addition, the Bank makes contribution and payment for foreign employees under the relevant foreign government regulations
- (2) The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Bank may select to be subject to either The Act, and maintain their seniority before the enforcement of The Act, or the pension plan of the Bank. For employees subject to the Act, the Bank shall make monthly contributions to the employees' individual pension accounts on a basis no less than 6% of the employees' monthly wages.
- (3) Pension costs are based on actuarial calculations, with the unrecognized net transitional obligation being amortized over 15 years to 22 years.

16. Recognition of interest revenue and service fees

- (1) Interest income for loans is recognized on an accrual basis except for loans classified as non-accrual loans. The accrual of income from non-accrual loans is discontinued and subsequent interest receipts are credited to income upon collection. In accordance to the regulations established by the Ministry of Finance, interest income arising from emergency loan and renewal of agreements is recorded as deferred revenue and subsequently recognized as income upon interest receipts.
- (2) Service fees income is recognized when the services are rendered.

17. Asset impairment

The Bank assesses impairment for all assets within the scope of SFAS No.35 "Accounting for Asset Impairment" if impairment indicators are found. Accordingly, the Bank compares the carrying amount with the recoverable amount of the assets or the cash-generating unit and writes down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair value or value in use. For recognized impairment loss, the Bank assesses, at each balance sheet date, whether there is any evidence indicating that the impairment may no longer exist or may have decreased. If such evidence is found, the Bank re-estimates the recoverable amount of the asset. If the recoverable amount increases, the Bank reverses the recognized impairment loss to the extent of the carrying amount as if no impairment loss had been recognized with respect to such asset. Impairment loss on goodwill shall no longer be reversed.

18. Impairment of financial assets

Effective from January 1, 2006, the Bank assesses at each balance sheet date whether the financial asset or group of financial assets is impaired. The methods of measurement are as follows:



(1) Available-for-sale financial assets

The impairment loss is accounted when there is objective evidence that an available-for-sale financial asset is impaired. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are recognized in equity. Reversals of impairment losses on debt instruments are recognized as income, 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.

(2) Held-to-maturity financial assets

The impairment loss is accounted when there is objective evidence that a held-to-maturity investment is impaired. If the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized, reversals of impairment losses are recognized as income to the extent that the carrying value of the asset does not exceed its amortized cost without recognizing impairment loss at the reversal date.

(3) Financial assets carried at cost

The impairment loss is accounted when there is objective evidence that a financial asset carried at cost is impaired. Such impairment losses can not be reversed.

19. Income tax

- (1) Income tax represents income tax paid and payable for the current period and the movement in the deferred tax assets and liabilities during the period. Deferred taxes are recognized for tax effects of temporary differences and unused tax credits. A valuation allowance is provided for deferred tax assets that are not certain to be realized. Adjustments of prior years' income taxes are recognized in the current period.
- (2) Tax credits generated from acquisitions of certain equipment or technology, research and development expenditure, personnel training expenditure and equity investment acquisition, are recognized in the current period.
- (3) Income taxes on undistributed earnings are charged at 10% rate and recorded as expense in the year in which shareholders approve the retention of the earnings.
- (4) The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act") from January 1, 2006. The Bank has considered the impact of the AMT Act in the determination of its tax liabilities.
- (5) Since 2003, Mega Financial Holdings Co., Ltd. adopted the linked tax system for income tax filings with its qualified subsidiaries, including the Bank. As a result of the calculation, the appropriation of income tax is accounted to other liabilities.

20. Contingent losses

At the balance sheet date, if an asset is considered to be impaired or liability has occurred, such loss is recorded as contingent losses for the current year where the amount of loss can



be reasonably estimated. When the amount of the loss cannot be reasonably estimated or when it is probable that loss has been incurred, the obligation is disclosed as a contingent liability in notes to the financial statements.

21. Business combination

On August 21, 2006, the Bank merged with Chiao Tung Bank Co., Ltd. with the Bank as the surviving entity and the later as the liquidating entity. Owing to the merger, the Bank implemented stock exchange and relevant accounting treatment for the reorganization of jointly controlled subsidiaries. The consolidated financial statement had been prepared based on the book value of assets and liabilities of Chiao Tung Bank as of the effective date of the merger (in the case where asset impairment had been recognized, the net amount is used for consolidation). The financial statements for the year ended December 31, 2005 had been restated accordingly.

III. CHANGES IN ACCOUNTING POLICIES

1. The Bank adopted the SFAS No.34 and 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 remeasures and reclassifies financial assets and liabilities (including derivative instruments) at either fair value or amortized cost. Difference between the carrying amount and fair value is recognized as 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; and as a separate component of shareholders’ equity for financial assets carried at amortized cost and available-for-sale financial assets.

The effect of first time adoption of the SFAS No.34 and No.36 are summarized below:

	Recognized as cumulative effect of changes in accounting principles		Recognized as a separate component of shareholders’ equity	
	NT	US	NT	US
Financial assets at fair value through profit or loss	\$707,005	\$21,654	\$-	\$-
Available-for-sale financial assets	-	-	3,141,356	96,213
Financial liabilities at fair value through profit or loss	7,671	235	-	-
Total	<u>\$714,676</u>	<u>\$21,889</u>	<u>\$3,141,356</u>	<u>\$96,213</u>

The above mentioned changes in accounting principle resulted in NT\$714,676 thousand and NT\$0.11 increase in the Bank’s net income and earnings per share for the year 2006, respectively.

2. The recognitions of financial instruments which adopt different accounting principle in the year 2005 are described as follow:



(1) Derivative financial instruments

① Forward foreign exchange contracts

When the Bank entered into forward foreign exchange contracts for trading purposes, the Bank will record a receivable and a corresponding payable based on the contracted foreign exchange amount at the contracted forward rate. Upon settlement, gains or losses resulting from the difference between the foreign exchange amount at the spot rate and the carrying amount of the receivable are credited or charged to statement of income. At each financial reporting date, the Bank will adjust the outstanding forward contracts based on the forward rate available for the remaining period of each contract and recognized the differences as gains or losses in the statement of income and expenditure. In addition, for financial presentation purposes, balances of these receivable and payable are netted.

Non-delivery forward contracts entered into for non-trading purpose are recorded through memorandum entries at the contract dates. Upon settlement or balance sheet date, the difference between the spot rate and the contracted forward rate is recorded as an adjustment to the exchange gain and loss resulted from those hedged foreign currency denominated assets and liabilities.

② Interest rate swaps

For interest rate swaps transactions undertaken for trading purposes, income and expenses which arise upon settlement and balance sheet date are netted off and recognized in the statement of income.

The Bank may enter into interest rate swap transactions for hedging purposes. These transactions may involve the exchange of fixed-rate interest payments for the market floating-rate interest payments during the term of certain bonds and loans. The interest differential on balance sheet or each settlement date is recorded as adjustment to the interest income or expenses of those hedged bonds and loans.

③ Cross-currency swaps

For cross-currency swap contracts undertaken for trading purposes, the amounts to be exchanged are recorded at the rates prevailing on the date of contract. Interest income or expenses which arise during the contract period are recognized as exchange gains or losses in the statement of income.

For contracts undertaken for non-trading purposes, amounts to be exchanged are recorded at the contracted forward rate. Interest income or expenses which arise during the contract period are recognized as an adjustment to the income or expense of the hedged items.

④ Options

The Bank enters into foreign-currency option contracts. Premiums received or paid are recorded as liability or asset and are amortized on a straight-line method over the contract period and recorded as income or expense, respectively. Gains or losses from the exercise of options are recognized in the statements of income.



⑤ Forward rate agreements

Only memo entries of the notional amounts are recorded on the trade date for forward rate agreements. The present value of the differences between the market interest rate on two business days before value date and the contract interest rate is recognized as a gain or loss.

⑥ Credit exchange agreements

Credit exchange agreement is the buyer who be guaranteed of breaking a contract in credit paying the specific proportion premiums of principal contract to the sellers in initially or regularly, in order to obtain the guarantee of breaking a contract against some debts of target. Only memo entries of the notional amounts are recorded on the trade date and premiums paid or received are recognized in the statement of income.

(2) Securities purchased

Securities purchased are carried at the lower of cost or market value on a portfolio basis. When market value is lower than the cost, a provision is made for the impairment loss. When the market value rises, the gain is offset against the provision to the extent of the provision made previously. When stocks are sold, the cost is calculated based on the weighted-average method for equity securities. For other securities, the cost is calculated by specific identification method.

(3) Investments

Investments in bonds 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. Costs of bonds upon maturity or disposal are determined by the specific identification method.

Long-term investments on listed stocks with voting rights less than 20% and immaterial influence are accounted for lower of cost or market value method. Unrealized losses on investment are deducted from equity. Long-term foreign-currency investments accounted for cost method are exchanged to NT Dollars at prevailing rate on the balance sheet date. Such exchange losses is to be included in cumulative translation adjustments in equity and exchange gains should not be adjusted.

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

Balance Sheet	December 31, 2005 (Restated)			
	Before reclassification		After reclassification	
	NT	US	NT	US
Securities purchased — net	\$358,829,954	\$10,990,198	\$-	\$-
Long-term equity investments	37,927,606	1,161,642	-	-
Other long-term investments	13,094,568	401,059	-	-
Other assets — options	30,871	945	-	-



Balance Sheet	December 31, 2005 (Restated)			
	Before reclassification		After reclassification	
Other assets — other to-be-arranged assets	752,462	23,046	-	-
Other assets — allowance for other to-be-arranged assets	(751,264)	(23,010)	-	-
Bonds issued	(47,900,000)	(1,467,075)	-	-
Other liabilities — options	(33,495)	(1,026)	-	-
Revaluation on derivative financial instruments — assets (others)	7,039	216	-	-
Revaluation on derivative financial instruments — liabilities (others)	(6,597)	(202)	-	-
Financial assets at fair value through profit or loss — net	-	-	82,480,461	2,526,201
Available-for-sale financial assets — net	-	-	97,078,991	2,973,323
Held-to-maturity financial assets — net	-	-	193,593,454	5,929,355
Investments accounted using the equity method — net	-	-	7,849,245	240,406
Other financial assets (excluded bills purchased NT\$86,145)	-	-	28,889,086	884,811
Financial liabilities at fair value through profit or loss — net	-	-	(47,940,093)	(1,468,303)
Total	<u>\$361,951,144</u>	<u>\$11,085,793</u>	<u>\$361,951,144</u>	<u>\$11,085,793</u>

Income statement	January 1 to December 31, 2005 (Restated)			
	Before reclassification		After reclassification	
	NT	US	NT	US
Interest revenue	\$-	\$-	\$271,044	\$8,301
Gain on sales of securities — net	3,596,049	110,139	-	-
Other operating revenue — gain on derivative financial instruments	755,893	23,151	-	-
Miscellaneous revenues	3,330	102	-	-
Investment income	2,378,349	72,844	-	-
Other operating expense — loss on derivatives	(41,972)	(1,285)	-	-
Loss on asset impairments	(38,426)	(1,177)	(1,262,177)	(38,658)
Gain on financial assets and liabilities at fair value through profit or loss	-	-	1,183,289	36,242
Realized gains (losses) on available-for-sale financial assets	-	-	5,550,200	169,991
Realized gains (losses) on held-to-maturity financial assets	-	-	203,444	6,231
Gain on financial assets carried at cost	-	-	636,861	19,506
Investment income recognized by the equity method	351	11	70,913	2,172
Total	<u>\$6,653,574</u>	<u>\$203,785</u>	<u>\$6,653,574</u>	<u>\$203,785</u>



3. The Bank adopted the amended SFAS No.5, “Long-Term Investment in Equity” and SFAS No.25, “Business Combinations – Accounting Treatment under Purchase Method” to account for the difference between the acquisition cost and the Bank’s share of the investee’s equity for its financial statements beginning on and after January 1, 2006. Goodwill is not amortized, but is reviewed for potential impairment on an annual basis. The above changes in accounting principles decreased the Bank’s net income before tax NT\$66,009 and earnings per share NT\$0.01 dollars for the year ended December 31, 2006.

IV. DETAILS OF SIGNIFICANT ACCOUNT BALANCES

1. CASH AND CASH EQUIVALENTS

	(Restated)		
	December 31, 2005	December 31, 2006	
	NT	NT	US
Cash on hand	\$10,057,642	\$10,591,242	\$324,387
Petty cash	5,390	5,002	153
Checks for clearing	9,160,815	8,337,356	255,356
Due from commercial banks	20,713,748	23,705,015	726,034
Total	\$39,937,595	\$42,638,615	\$1,305,930

2. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS – NET

	(Restated)		
	December 31, 2005	December 31, 2006	
	NT	NT	US
Overdraft to banks	\$-	\$33,194	\$1,017
Call loans to banks	157,955,489	227,623,268	6,971,616
Due from the Central Bank:			
Reserve for deposits – category A	6,035,378	7,435,752	227,741
Reserve for deposits – category B	18,669,823	19,139,082	586,189
Reserve for deposits – foreign currency	323,854	512,653	15,702
General deposits	291	1,100,289	33,700
Total	182,984,835	255,844,238	7,835,965
Less: allowance for probable losses	(4,687)	(1,979)	(61)
Net	\$182,980,148	\$255,842,259	\$7,835,904

As required by law, the Reserves for Deposits are calculated at prescribed rates on the average balances of various deposit accounts. The Reserve for Deposits – Category A and Foreign Currency Deposits accounts are non-interest bearing and call on demand. Reserve for Deposits – Category B earns interest but its use is restricted under relevant regulations.

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – NET

	(Restated)		
	December 31, 2005	December 31, 2006	
	NT	NT	US
Financial assets held for trading:			
Stocks	\$2,514,415	\$3,108,843	\$95,217
Mutual funds	3,409,637	1,396,755	42,780
Commercial bonds	4,864,856	1,242,499	38,055
Derivative financial instruments	-	1,230,838	37,698



Financial assets designated by the
Bank at fair value through profit or
loss:

Stocks	65,611	10,605	325
Corporate bonds	17,383,362	23,226,004	711,363
Government bonds	11,702,225	11,441,033	350,414
Commercial bonds	20,075,365	20,728,045	634,856
Certificates of deposits	22,427,080	7,198,822	220,485
Derivative financial instruments	37,910	1,055,646	32,332
Total	<u>\$82,480,461</u>	<u>\$70,639,090</u>	<u>\$2,163,525</u>

4. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NET

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Stocks	\$5,993,435	\$9,980,130	\$305,670
Commercial papers	13,531,331	6,049,005	185,268
Government bonds	30,771,929	33,346,575	1,021,335
Corporate bonds	27,201,728	27,010,108	827,262
Acceptances	218,517	198,945	6,093
Beneficiary certificates	3,238,577	391,723	11,998
Beneficiary securities	898,129	17,117,460	524,271
Commercial bonds	15,225,345	8,482,729	259,808
Total	<u>\$97,078,991</u>	<u>\$102,576,675</u>	<u>\$3,141,705</u>

- (1) As of December 31, 2005 and 2006, the available-for-sale financial assets in an amount of NT\$1,945,608 and NT\$755,541, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) As of December 31, 2005 and 2006, financial assets at fair value through profit or loss and available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$30,370,278 and NT\$36,094,287, respectively. Such repurchase agreements were posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets.

5. RECEIVABLES – NET

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Accounts receivable	\$47,812,689	\$52,552,084	\$1,609,558
Earned revenue receivable	220,041	166,745	5,107
Accrued interest	6,654,183	6,695,402	205,066
Acceptances	11,025,808	11,569,620	354,353
Other receivable	5,759,465	2,334,562	71,503
Total	71,472,186	73,318,413	2,245,587
Less: allowance for probable losses	(1,290,162)	(1,587,808)	(48,631)
Net	<u>\$70,182,024</u>	<u>\$71,730,605</u>	<u>\$2,196,956</u>



6. BILLS AND LOANS – NET

	(Restated)		
	December 31, 2005	December 31, 2006	
	NT	NT	US
Inward/Outward documentary bills	\$13,386,804	\$14,258,921	\$346,720
Discounts	161,484	115,111	3,526
Overdrafts	184,063	115,632	3,542
Short-term loans	174,650,345	190,534,429	5,835,664
Secured overdrafts	1,291,650	1,075,409	32,937
Short-term secured loans	79,213,081	97,808,305	2,995,660
Medium-term loans	232,884,551	221,203,636	6,774,997
Medium-term secured loans	187,642,544	191,271,518	5,858,239
Long-term loans	112,593,746	120,957,437	3,704,669
Long-term secured loans	284,030,096	280,178,106	8,581,259
Overdue loans	11,480,027	7,481,322	229,137
Total	1,097,518,391	1,124,999,826	34,456,350
Less: allowance for probable losses	(10,049,309)	(11,110,927)	(340,304)
Net	<u>\$1,087,469,082</u>	<u>\$1,113,888,899</u>	<u>\$34,116,046</u>

For the year ended December 31, 2005 and 2006, the Bank had not written off bills and loans without initiating any legal proceedings to collect these bills and loans.

As of December 31, 2006, all balances of bills and loans for which interest revenue was no longer accrued were NT\$7,481,322. The unrecognized interest revenue on the above bills and loans amounted to NT\$373,061 for the year ended December 31, 2006.

The changes in allowance for probable losses on bills and loans are summarized as follows:

(Restated)		NT		
January 1, 2005 to December 31, 2005		Specific Risk	General Risk	Total
Balance, January 1, 2005		\$4,542,166	\$7,152,873	\$11,695,039
Provisions		4,469,994	(2,488,058)	1,981,936
Write-off-net		(6,651,195)	(78,984)	(6,730,179)
Recovery of written-off credits		3,040,787	-	3,040,787
Effects of exchange rate changes		32,551	29,175	61,726
Balance, December 31, 2005		<u>\$5,434,303</u>	<u>\$4,615,006</u>	<u>\$10,049,309</u>

		NT			US		
January 1, 2006 to December 31, 2006		Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
Balance, January 1, 2006		\$5,434,303	\$4,615,006	\$10,049,309	\$166,441	\$141,348	\$307,789
Provisions		3,314,084	2,966,000	6,280,084	101,503	90,842	192,345
Write-off-net		(7,320,156)	-	(7,320,156)	(224,201)	-	(224,201)
Reclassification		(17,360)	-	(17,360)	(532)	-	(532)
Recovery of written-off credits		2,090,176	-	2,090,176	64,018	-	64,018
Effects of exchange rate changes		8,947	19,927	28,874	275	610	885
Balance, December 31, 2006		<u>\$3,509,994</u>	<u>\$7,600,933</u>	<u>\$11,110,927</u>	<u>\$107,504</u>	<u>\$232,800</u>	<u>\$340,304</u>



The Bank's financial statements included provisions for probable credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated.

7. HELD-TO-MATURITY FINANCIAL ASSETS – NET

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Government bonds	\$3,295,667	\$3,267,679	\$100,082
Central Bank's certificates of deposit	15,000,000	82,510,000	2,527,106
Commercial bonds	4,753,263	6,279,649	192,332
Corporate bonds	165,010,207	3,342,262	102,367
Beneficiary securities	210,600	210,600	6,450
Certificates of deposit	5,323,717	130,600	4,000
Total	<u>\$193,593,454</u>	<u>\$95,740,790</u>	<u>\$2,932,337</u>

As of December 31, 2005 and 2006, held-to-maturity financial assets in an amount of NT\$22,080,740 and NT\$16,870,495, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD—NET

	(Restated) December 31, 2005		December 31, 2006		
Investee Companies	Book value (NT)	% of ownership	Book value NT	US	% of ownership
Mega International Commercial Bank Public Co., Ltd. (Formerly known as International Commercial Bank of China Public Co., Ltd. (Thailand))	\$3,241,990	100.00	\$3,839,909	\$117,608	100.00
Mega International Commercial Bank (Canada) (Formerly known as International Commercial Bank of Cathay (Canada))	727,910	100.00	783,211	23,988	100.00
Cathay Investment & Development Corporation (Bahamas)	659,155	100.00	694,964	21,285	100.00
CTB Financial Management & Consulting Co.	40,948	100.00	79,490	2,435	100.00
Cathay Investment & Warehousing Co. S.A.	45,371	100.00	45,987	1,409	100.00
Ramlett Finance Holdings Inc. (Panama)	-	100.00	-	-	100.00
Yung-Shing Industries Co.	430,289	95.22	724,480	22,189	95.22
China Products Trading Company	62,504	68.27	63,916	1,958	68.27
International Security Investment Trust Corporation	544,387	59.13	236,820	7,253	53.13



Investee Companies	(Restated)		December 31, 2006		
	December 31, 2005				
	Book value	% of	Book value		% of
	(NT)	ownership	NT	US	ownership
United Venture Capital Corp.	177,408	25.31	169,888	5,203	25.31
CTB 1 Venture Capital Co., Ltd.	246,748	25.00	296,447	9,080	25.00
IP Fundseven Ltd.	147,753	25.00	138,553	4,244	25.00
An Fang Co., Ltd.	10,091	25.00	10,704	328	25.00
Taiwan Finance Co.	1,396,886	24.55	1,369,440	41,943	24.55
Everstrong Iron Steel & Foundry & Mfg Corp.	24,347	22.22	28,420	870	22.22
China Real Estate Management Co., Ltd.	93,458	20.00	123,359	3,778	20.00
Quartz Frequency Technology Ltd.	744	23.02	-	-	-
Less: Accumulated impairment	(744)		-	-	
Total	<u>\$7,849,245</u>		<u>\$8,605,588</u>	<u>\$263,571</u>	

- (1) The above listed investments and the related investment income accounted for by the equity method were recognized based on investee's audited financial statements. Other equity investments income was recognized based on investee's unaudited financial statement. However, the Bank anticipated no material influences if those financial statements had been audited.
- (2) For the year ended December 31, 2006, the realized loss of NT\$66,009, the difference between the acquisition cost and the Bank's share of the investee's equity, was accounted under impairment loss on financial assets.
- (3) Due to the changes in ownership percentage in investees accounted for by the equity method for the year ended December 31, 2006, the difference of NT\$28,725 was adjusted to capital reserve.
- (4) Investee companies in which the Bank hold more than 50% of ownership had been included in the preparation of the consolidated financial statements except for those which no significant influences were anticipated.

9. OTHER FINANCIAL ASSETS – NET

	(Restated)		December 31, 2006	
	December 31, 2005			
	NT		NT	US
Financial assets carried at cost:				
Stocks	\$25,063,807		\$24,141,043	\$739,389
Debt investment with no active market:				
Beneficiary securities	3,825,279		4,628,149	141,750
Corporate bonds	-		130,600	4,000
Bills purchased	86,145		77,010	2,358
Overdue loans transferred from other accounts	-		51,119	1,566
Total	<u>\$28,975,231</u>		<u>\$29,027,921</u>	<u>\$889,063</u>



For the year ended December 31, 2005 and 2006, the amounts of impairment loss recognized by the Bank due to investees operating at loss over a long period of time were NT\$1,223,751 and NT\$2,440,185.

Of the beneficiary securities balance disclosed above, NT\$1,070,000 were subordinated debentures issued by the Bank. In December 16, 2004, the Bank sold part of its enterprise loans under securitization transactions. The Bank entrusted these loans to the special purpose trustee—The Hongkong and Shanghai Banking Corporation Limited (HSBC) for issuing beneficiary certificates. The investors of the subordinated certificates have a right over any remaining interest paid after fixed interest has been paid to the holders of the senior certificates in accordance with the principal amount. When the debtors fail to pay on schedule, the investors and HSBC have no recourse to the other assets of the Bank. Due to the holders of subordinated certificates have a lower priority claim than the holders of senior certificates on the assets of the trust, the value of the subordinated certificates is subject to credit, prepayment, and interest rate risks on the transferred financial assets.

- a. The terms and key economic assumptions used in measuring retained interests were as follows: (Unit: NT thousand dollars)

Terms	Enterprise Loans under Securitization		
Date of issuance	December 16, 2004		
Carrying amount of enterprise loans	NT \$5,350,000		
Gain (loss) on securitization	\$-		
	Senior		
Series of certificates	First Tranche	Second Tranche	Subordinated
Principal amount	NT \$3,424,000	NT \$856,000	NT \$1,070,000
Annual interest	Floating interest rate plus 0.4%	Floating interest rate plus 1.0%	-
	January 1 to December 31,		
Key assumptions used in measuring retained interests	2005	2006	
Prepayment pace	0%	0%	
Expected weighted-average life	3 years	3 years	
Expected credit losses (September 30, 2005 and September 30, 2006)	0%	0%	
Discounted rate for residual cash flows (September 30, 2005 and September 30, 2006)	1.42%	1.675%	

- b. Sensitivity analysis:

As of December 31, 2006, key economic assumptions and sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in these assumptions were as follows:

Terms	Enterprise Loans
Carrying amount of retained interest	NT \$1,070,000
Weighted-average life (in years)	3 years
Discount rate of residual cash flows (December 31, 2006)	1.748%



Impact on fair value of 10% adverse change	NT\$(557)
Impact on fair value of 20% adverse change	NT\$(955)

- c. The securitized enterprise loans had not resulted in any credit losses as of December 31, 2006 and thus, the expected static pool credit losses are equal to the expected credit losses. The Bank anticipated that no credit losses came from the securitized enterprise loans since there is no case in default on those loans.

As of December 31, 2006, the repayment of these securitized enterprise loans amounted to NT\$1,200,000.

- d. Cash flows:

Proceeds from new securitizations was NT\$4,280,000.

10. PROPERTIES AND EQUIPMENT

According to the newly issued R.O.C. SFAS No.35 "Accounting for Asset Impairment", effective from January 1, 2005, the Bank recognized impairment loss of NT\$37,682 on properties and equipments.

11. OTHER ASSETS – NET

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Prepayment	\$360,794	\$173,079	\$5,301
Prepaid tax	634,630	619,328	18,969
Other prepaid expenses	1,350,324	1,568,341	48,035
Deferred income tax-net	542,266	963,045	29,496
Refundable deposits	401,301	331,831	10,163
Temporary payments	386,414	469,477	14,379
Foreclosed property	117,534	77,675	2,379
Accumulated impairment and accumulated depreciation of foreclosed property	(43,423)	(17,826)	(546)
Others	405,802	466,937	14,301
Net	<u>\$4,155,642</u>	<u>\$4,651,887</u>	<u>\$142,477</u>

12. DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Due to the Central Bank	\$164,411,482	\$243,475,648	\$7,457,141
Due to commercial banks	106,568,204	81,744,371	2,503,656
Overdrafts from banks	3,360,939	3,441,585	105,408
Call loans from banks	87,413,609	26,260,385	804,300
Total	<u>\$361,754,234</u>	<u>\$354,921,989</u>	<u>\$10,870,505</u>



13. PAYABLES

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Accounts payable	\$21,355,355	\$20,365,116	\$623,740
Acceptances	11,195,233	11,798,000	361,348
Accrued interest	5,754,713	5,900,759	180,728
Accrued expense	3,376,636	3,716,824	113,838
Income tax payable	1,897,160	2,692,850	82,476
Dividends payable	5,679,263	5,679,263	173,944
Collection for customers	1,574,053	1,130,555	34,626
Miscellaneous	5,386,471	1,654,345	50,669
Miscellaneous – Parent Company Account	1,552,000	1,228,578	37,629
Total	<u>\$57,770,884</u>	<u>\$54,166,290</u>	<u>\$1,658,998</u>

14. DEPOSITS AND REMITTANCES

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Deposits:			
Checking	\$28,347,120	\$25,895,521	\$793,125
Demand deposit	238,974,757	230,696,716	7,065,749
Time deposit	367,154,151	409,715,092	12,548,701
Negotiable certificates of deposit	22,101,700	2,858,100	87,537
Savings	369,756,251	385,079,112	11,794,154
Remittances	8,711,235	9,385,902	287,470
Total	<u>\$1,035,045,214</u>	<u>\$1,063,630,443</u>	<u>\$32,576,736</u>

15. FINANCIAL LIABILITIES AT FAIR VALUE THOROUGH PROFIT OR LOSS

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Financial liabilities held for trading:			
Derivative financial instruments	\$-	\$249,921	\$7,655
Financial liabilities designated at fair value through profit or loss:			
Commercial bonds	47,900,000	47,456,520	1,453,492
Derivative financial instruments	40,093	1,713,768	52,489
Total	<u>\$47,940,093</u>	<u>\$49,420,209</u>	<u>\$1,513,636</u>



16. BORROWED FUNDS

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Collateral loans transferred to Central Bank	\$15,548,751	\$14,152,513	\$433,461
Central Bank	35,595,234	9,550,595	292,515
Other financial institutions	25,443,695	32,735,318	1,002,613
Total	<u>\$76,587,680</u>	<u>\$56,438,426</u>	<u>\$1,728,589</u>

17. BONDS ISSUED

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Subordinated Bonds	\$15,830,910	\$10,800,000	\$330,781
Coordinated Bonds	17,500,000	7,827,895	239,752
Total	<u>\$33,330,910</u>	<u>\$18,627,895</u>	<u>\$570,533</u>

18. PENSION

	January 1 to December 31,		
	(Restated) 2005	2006	2006
	NT		US
a. Net periodic pension cost			
Service cost	\$489,883	\$484,605	\$14,842
Interest cost	221,257	205,164	6,284
Projected return on plan assets	(185,994)	(163,889)	(5,020)
Amortization	28,697	69,117	2,117
Total	<u>\$553,843</u>	<u>\$594,997</u>	<u>\$18,223</u>
b. Funded status of pension plans			
Vested benefit obligation	\$(3,474,748)	\$(4,912,892)	\$(150,471)
Non-vested benefit obligation	<u>(3,374,467)</u>	<u>(2,064,736)</u>	<u>(63,238)</u>
Accumulated benefit obligation	(6,849,215)	(6,977,628)	(213,709)
Effects of future increase in salaries	<u>(1,538,344)</u>	<u>(1,599,383)</u>	<u>(48,987)</u>
Projected benefit obligation	(8,387,559)	(8,577,011)	(262,696)
Fair value of plan assets	<u>6,456,741</u>	<u>6,102,715</u>	<u>186,913</u>
Pension fund contributions	(1,930,818)	(2,474,296)	(75,783)
Unrecognized benefit obligation at transition	261,622	239,944	7,349
Unrecognized prior costs	-	128,822	3,946
Unrecognized net gain or loss	303,912	896,498	27,458
Adjustments to minimum accrued pension liabilities	<u>(35,158)</u>	-	-
Reserve for pension benefits	<u>\$ (1,400,442)</u>	<u>\$ (1,209,032)</u>	<u>\$ (37,030)</u>
c. Actuarial assumptions	2005	2006	
Discount rate	2.50%	2.50%	
Rate of future increase in salaries	1.75%	1.75%	
Expected rate of return	2.50%	2.50%	



19. OTHER FINANCIAL LIABILITIES

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Derivative financial instrument for hedging	\$-	\$33,143	\$1,015
Commercial papers payable	8,411,830	9,035,740	276,746
Appropriation for loans	6,153,419	9,631,177	294,982
Reserve for loans	127,218	112,569	3,448
Total	<u>\$14,692,467</u>	<u>\$18,812,629</u>	<u>\$576,191</u>

20. OTHER LIABILITIES

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Guarantees and marginal deposits	\$1,888,040	\$2,118,325	\$64,880
Reserve for losses on guarantees	1,512,435	1,441,923	44,163
Temporary credits	3,058,582	3,078,055	94,274
Others	2,412,585	2,395,104	73,357
Total	<u>\$8,871,642</u>	<u>\$9,033,407</u>	<u>\$276,674</u>

21. CAPITAL STOCK

As of December 31, 2005, the Bank had an authorized, issued and outstanding share capital of NT\$37,261,000, divided into 3,726,100 thousand shares of NT\$10 dollars each. On August 21, 2006, the Bank merged with CTB by issuing 2,684,888 thousand new shares. As a result of the merger, the outstanding share capital totaled NT\$64,109,878, divided into 6,410,988 thousand shares.

22. RETAINED EARNINGS AND DIVIDENT POLICIES

(1) The Bank's original Articles of Incorporation ("Articles") provide that its annual net income shall be used to pay for all taxes and to offset any accumulated deficits first. The remaining shall be appropriated and distributed as follows:

- 1) 30% as legal reserve, unless the balance in the Bank's legal reserve is equivalent to the total capital reserve;
- 2) Special reserve based on operating requirements; and
- 3) The remainder: bonus to employees—2.4%; dividends and bonus to shareholders—to be determined by the shareholders.

Dividends and bonus to shareholders should be calculated to the nearest cent; any remainder from this calculation will be combined with the retained earnings of the following year. Stock dividends to shareholders and bonuses to employees are to be distributed in cash. Bonuses to employees are to be authorized by the Board of Directors before distribution.



In addition, under the Company Law, a legal reserve should be appropriated until the reserve equals the aggregate par value of the Bank's outstanding share capital. This reserve can only be used to reduce or offset a deficit, and when the balance of the reserve reaches 50% of the aggregate par value of the Bank's outstanding share capital, up to 50% thereof can be transferred to capital (as stock dividend). The Banking Law limits the total amount of cash dividends and additional bonuses to shareholders that can be paid by the Bank to 15% of the aggregate par value of the Bank's outstanding share capital until the legal reserve equals the aggregate par value of the Bank's outstanding share capital.

Under the Integrated Income Tax System, which took effect on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

- (2) Under Financial Supervisory Commission regulations, when appropriating the current year's net income, the Bank should set up a special reserve, which is equal to the debit balance of cumulative translation adjustments and unrealized loss resulting from the decline of value of financial instruments. A portion of this reserve is reverted to unappropriated earnings when the debit balances of the foregoing accounts decline.
- (3) The appropriations and distributions for 2004 and 2005 approved by CTB's Board of Directors on the stockholders' behalf on April 12, 2005 and April 18, 2006, respectively, were as follows:

	2004	2005
Dividends and bonuses to shareholders	NT\$1.38 Dollars Per Share	NT\$1.38 Dollars Per Share
Bonus to employees	NT\$322,186	NT\$322,186

- (4) The appropriations and distributions for 2004 and 2005 approved by ICBC's Board of Directors on the stockholders' behalf on April 20, 2005 and April 26, 2006, respectively, were as follows:

	2004	2005
Dividends and bonuses to shareholders	NT\$1.12 Dollars Per Share	NT\$1.43 Dollars Per Share
Bonus to employees	NT\$171,184	NT\$257,447

- (5) Of the CTB and ICBC's appropriations and distributions for 2005 approved by the Board of Directors on stockholders' behalf on April 18, 2006 and April 26, 2006, respectively, cash bonus amounted to NT\$579,633. As calculated by the following formula, the after-tax basic earnings per share for 2005 decreased from NT\$2.76 to NT\$2.67 under the consideration of the distribution of employees' bonus.

$$\begin{array}{c}
 \frac{\text{After-tax net income for 2005} - \text{Cash bonus to employees}}{\text{Weighted-average number of shares outstanding during 2005}} \\
 = (\$17,717,860 - \$579,633) / 6,410,988 = \$2.67
 \end{array}$$



(6) Information relating to the appropriation of the Company's 2006 earnings is available from the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(7) Unappropriated retained earnings information:

	(Restated)		
	December 31, 2005		December 31, 2006
	NT	NT	US
1998 and onward	\$20,506,118	\$16,824,804	\$515,308

23. STAFF, DEPRECIATION AND ADMORTIZATION EXPENSES

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

	January 1 to December 31,		
	(Restated)		
	2005	2006	
	NT	NT	US
Staff expenses	\$8,618,069	\$9,257,789	\$283,546
Payroll expense	6,955,027	7,336,103	224,689
Staff insurance	406,369	371,363	11,374
Pension	565,041	1,091,429	33,428
Other staff expenses	691,632	458,894	14,055
Depreciation	\$814,477	\$849,285	\$26,012
Amortization	\$103,725	\$73,139	\$2,240

24. INCOME TAX

(1) The reconciliation between income tax payable and income tax expense is as follows:

	January 1 to December 31,		
	(Restated)		
	2005	2006	
	NT	NT	US
Income tax payable — current period	\$1,678,566	\$940,258	\$28,798
10% tax on unappropriated retained earnings	414,529	278,940	8,544
Separate tax expenses	378,112	583,847	17,882
In come tax expense for foreign branches	284,531	845,707	25,902
Deferred income tax (benefit) expense	332,529	(480,533)	(14,718)
Adjustments of prior years' income taxes	(290,492)	13,544	415
Total	\$2,797,775	\$2,181,763	\$66,823

(2) The income tax returns of the Bank through 2001 had been examined by the tax authorities. In connection with such examinations, the Bank disagreed with the assessment and appealed to the tax authorities for 1996 to 1998 and 2000.

(3) Deferred income taxes as of June 30, 2005 and 2006 consisted of deferred income tax assets — net (presented as part of other assets), as follows:



	(Restated) Dec 31, 2005	Dec 31, 2006	
	NT\$	NT\$	US\$
1) Total deferred income tax liabilities	\$629,723	\$970,915	\$29,737
2) Total deferred income tax assets	\$1,171,989	\$1,933,960	\$59,233
3) Valuation allowance for deferred income tax assets	\$-	\$-	\$-
4) Temporary differences resulting in deferred income tax assets:			
Provision for employees pension liabilities	\$1,258,969	\$1,161,490	\$35,574
Bad debt expenses in excess of the amount determined by tax regulation	-	741,346	22,706
Adjustments for depreciation	553,460	668,921	20,488
Reserve for guarantees in excess of the amount determined by tax regulation	489,134	-	-
Unrealized loss on investments	300,659	3,755,124	115,011
Others	660,866	200,004	6,126
5) Temporary differences resulting in deferred income tax liabilities:			
Unrealized foreign exchange gains	\$1,180,433	\$1,780,388	\$54,529
Cumulative equity in net income of foreign investees	1,121,705	1,011,476	30,979
Unrealized gain on derivative financial instruments	1,265	853,203	26,132
6) Deferred income tax assets	\$815,772	\$1,631,721	\$49,976
Deferred income tax assets attributed to foreign branches	356,217	302,239	9,257
Deferred income tax liabilities	(575,850)	(911,266)	(27,910)
Deferred income tax liabilities attributed to foreign branches	(53,873)	(59,649)	(1,827)
Deferred income tax assets (liabilities)—net	\$542,266	\$963,045	\$29,496

- (4) The information on the implementation of the integrated income tax system as of December 31, 2005 and 2006 is as follows:

	(Restated) December 31, 2005	December 31, 2006	
	NT	NT	US
Balances of the imputed tax	\$404,200	\$625,895	\$19,170

- a) The creditable tax ratio for distributing 2006 earnings was 3.72%.
- b) CTB's actual tax ratio for distributing 2005 earnings was 1.85%.
- c) ICBC's actual tax ratio for distributing 2005 earnings was 4.68%
- (5) The Bank intended to adopt the linked tax system for income tax filings with the parent company, Mega Financial Holding Co., Ltd., and other qualified subsidiaries in 2003. As a result, any amounts payable to the parent company is posted to Miscellaneous—Parent Company Account under Payables.



25. EARNINGS PER SHARE

	January 1 to December 31, (Restated)	
	2005	2006
Weighted-average shares outstanding (shares in thousand)	<u>6,410,988</u>	<u>6,410,988</u>

	January 1 to December 31,					
	(Restated) 2005		2006			
	NT		NT		US	
	Pre-tax	After tax	Pre-tax	After-tax	Pre-tax	After tax
Net income before cumulative effect of changes in accounting principles	\$20,492,650	\$17,694,875	\$13,150,676	\$10,968,913	\$402,778	\$335,955
Cumulative effect of changes in accounting principles	22,985	22,985	714,676	714,676	21,889	21,889
Net income	<u>\$20,515,635</u>	<u>\$17,717,860</u>	<u>\$13,865,352</u>	<u>\$11,683,589</u>	<u>\$424,667</u>	<u>\$357,844</u>
Earnings per share (in dollars):						
Net income before cumulative effect of changes in accounting principles	\$3.20	\$2.76	\$2.05	\$1.71	\$0.06	\$0.05
Cumulative effect of changes in accounting principles	-	-	0.11	0.11	-	-
Net income	<u>\$3.20</u>	<u>\$2.76</u>	<u>\$2.16</u>	<u>\$1.82</u>	<u>\$0.06</u>	<u>\$0.05</u>

V. RELATED-PARTY TRANSACTIONS

1. NAMES OF THE RELATED PARTIES AND THEIR RELATIONSHIP WITH THE BANK

Related parties	Shorter Name	Relationship
Mega Financial Holdings Co., Ltd.	Mega Financial Holdings	The Parent company
Mega Bills Finance Co., Ltd. (Formerly Chung Hsing Bills Finance Corp.)	Mega Bills	Subsidiary of Mega
Mega Securities Co., Ltd. (Formerly Barits International Securities Co., Ltd.)	Mega Securities	Jointly controlled by Mega
Mega Investment Trust Co., Ltd.	Mega Investment Trust	Jointly controlled by Mega
Mega Insurance Co., Ltd.	Mega Insurance	Jointly controlled by Mega
Mega Asset Management Co., Ltd.	Mega Asset	Jointly controlled by Mega
Mega CTB Venture Capital Co., Ltd.	Mega Venture	Jointly controlled by Mega
Mega Life Insurance Co., Ltd. (Formerly Chung Yin Insurance Agency Company)	Mega Life Insurance	Jointly controlled by Mega
Mega International Investment Service Corp. (Formerly Barits International Investment Service Corp.)	Mega International Investment Service	Jointly controlled by Mega
Mega Futures Co., Ltd. (Formerly Barits International Futures Co., Ltd.)	Mega Futures	Jointly controlled by Mega
Mega Securities Holdings Co., Ltd.	Mega Securities Holdings	Jointly controlled by Mega
China Post Corporation Limited	China Post	Director of Mega



Bank of Taiwan Corp.	Bank of Taiwan	Director of Mega
Yung-Shing Industries Co.	Yung-Shing	Subsidiary of the Bank
China Products Trading Company	China Products	Subsidiary of the Bank
CTB Financial Management & Consulting Co., Ltd.	CTB Financial Management & Consulting	Subsidiary of the Bank
International Security Investment Trust Corporation	International Security	Subsidiary of the Bank
Mega International Commercial Bank(Canada) (Formerly International Commercial Bank of Cathay)	Mega ICBC (Canada)	Subsidiary of the Bank
Cathay Investment & Development Corporation (Bahamas)	Cathay Investment (Bahamas)	Subsidiary of the Bank
Mega International Commercial Bank Public Co., Ltd. (Formerly International Commercial Bank of China Public Co., Ltd. (Thailand))	Mega ICBC (Thailand)	Subsidiary of the Bank
Cathay Investment & Warehousing Ltd.	Cathay Investment & Warehousing	Subsidiary of the Bank
Win Card Co., Ltd.	Win Card	Indirect subsidiary of the Bank
ICBC Assets Management & Consulting Co., Ltd.	ICBC Consulting	Indirect subsidiary of the Bank
CTB 1 Venture Capital Co., Ltd.	CTB 1 Venture	Equity investees
United Venture Capital Corp.	United Venture	Equity investees
Everstrong Iron Steel & Foundry & Mfg Corp.	Everstrong Iron Steel	Equity investees
IP Fundseven Ltd.	IP Fundseven	Equity investees
China Real Estate Management Co., Ltd.	China Real Estate	Equity investees
Taiwan Finance Co., Ltd.	Taiwan Finance	Equity investees
An Fang Co., Ltd.	An Fang	Equity investees
Prudence Venture Investment Corp.	Prudence Venture	The Bank is the director and supervisor of Prudence.
Others		Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

The transactions with the foregoing related parties are summarized in Exhibit I.

VI. **PLEDGED ASSETS**

Please refer to Note IV.



VII. COMMITMENTS AND CONTINGENT LIABILITIES

- As of December 31, 2005 and 2006, the Bank had the following commitments and contingent liabilities not reflected in the above mentioned financial statements:

	December 31,		
	(Restated)		
	2005	2006	2006
	NT	NT	US
Loan commitments	\$383,179,347	\$701,889,139	\$21,497,370
Securities sold under repurchase agreement	30,396,193	36,136,333	1,106,779
Securities purchased under resell agreement	375,300	1,509,090	46,220
Credit card line commitments	69,350,517	56,940,044	1,743,952
Guarantees issued	149,832,643	155,405,913	4,759,752
Letters of credit	66,528,489	65,906,835	2,018,586
Customers' securities under custody	527,443,981	504,014,182	15,436,882
Properties under custody	120,077	322,936	9,891
Guarantee effects	55,046,238	75,602,992	2,315,559
Collections for customers	290,872,007	276,441,532	8,466,816
Agency loans payable	8,656,718	7,966,672	244,002
Travelers' checks consigned-in	2,711,657	2,406,021	73,691
Payables on gold consigned-in	32,616	32,450	994
Payables on consignments-in	8,018	6,843	210
Agent for government bonds	368,203,000	342,458,703	10,488,781
Short-dated securities under custody	27,649,947	33,418,962	1,023,552
Investments for customers	600,347	600,347	18,387
Trust liability	182,749,510	249,154,576	7,631,074
Certified notes paid	89,622,567	76,865,302	2,354,221
Total	<u>\$2,253,379,172</u>	<u>\$2,587,078,872</u>	<u>\$79,236,719</u>

- In accordance with S17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

(1) Balance Sheet Based on Trust

December 31, 2005			
Trust Assets		Trust Liabilities	
	NT		NT
Deposits	\$10,461,045	Trust Capital	
Short-term investment		Money	\$176,568,051
Mutual fund	72,345,804	Security	4,148,563
Bonds	68,090,924	Real estate	2,032,896
Stocks	25,426,937		
Real estate	6,408,960		
Other assets	15,840		
Total	<u>\$182,749,510</u>	Total	<u>\$182,749,510</u>



December 31, 2006

	Trust Assets			Trust Liabilities	
	NT	US		NT	US
Deposits	\$1,281,325	\$39,244	Trust Capital		
Short-term investment			Money	\$230,456,017	\$7,058,377
Mutual fund	106,379,368	3,258,174	Security	9,079,169	278,076
Bonds	84,151,981	2,577,396	Real estate	9,619,390	294,621
Stocks	27,702,694	848,474			
Real estate	28,246,458	865,129			
Personal properties	48,802	1,495			
Other assets	1,343,948	41,162			
Total	<u>\$249,154,576</u>	<u>\$7,631,074</u>	Total	<u>\$249,154,576</u>	<u>\$7,631,074</u>

(2) Details of Trust Properties

	(Restated)		
	December 31, 2005	December 31, 2006	
	NT	NT	US
Short-term investments			
Mutual funds	\$72,345,804	\$106,379,368	\$3,258,173
Bonds	68,090,924	84,151,981	2,577,396
Stocks	25,426,937	27,702,694	848,475
Real estate	6,408,960	28,246,458	865,129
Personal properties	-	48,802	1,495
Other assets	15,840	1,343,948	41,162
Total	\$172,288,465	\$247,873,251	\$7,591,830

3. For premises occupied by its branches, the Bank has renewable lease agreements expiring on various dates up to 2021. Rentals are payable monthly, quarterly or semiannually. Refundable deposits on these leases totaled NT\$145,029 (part of other assets). Rentals for the next five years are as follows:

Year	NT	US
2007	\$375,858	\$11,512
2008	284,761	8,722
2009	244,176	7,479
2010	200,280	6,134
2011	58,973	1,806

VIII. SIGNIFICANT DISASTER LOSS

None.

IX. SIGNIFICANT SUBSEQUENT EVENT

None.



X. OTHERS

1. INFORMATION ON FINANCIAL INSTRUMENTS

(1) Fair Value

	(Restated)					
	December 31, 2005		December 31, 2006			
	NT		US			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>						
<u>Assets</u>						
Cash and cash equivalents	\$39,937,595	\$39,937,595	\$42,638,615	\$42,638,615	\$1,305,930	\$1,305,930
Due from the Central Bank and call loans to banks	182,980,148	182,980,148	255,842,259	255,842,259	7,835,904	7,835,904
Financial assets held for trading						
Stocks	2,514,415	2,514,415	3,108,843	3,108,843	95,217	95,217
Beneficiary certificates	3,409,637	3,409,637	1,396,755	1,396,755	42,780	42,780
Commercial bonds	4,864,856	4,864,856	1,242,499	1,242,499	38,055	38,055
Financial assets designated at fair value through profit or loss						
Stocks	65,611	65,611	10,605	10,605	325	325
Corporate bonds	17,383,362	17,383,362	23,226,004	23,226,004	711,363	711,363
Governments bonds	11,702,225	11,702,225	11,441,033	11,441,033	350,414	350,414
Commercial bonds	20,075,365	20,075,365	20,728,045	20,728,045	634,856	634,856
Certificate of deposits	22,427,080	22,427,080	7,198,822	7,198,822	220,485	220,485
Securities purchased under agreements to resell	375,121	375,121	1,502,553	1,502,553	46,020	46,020
Available-for-sale financial assets						
Stocks	5,993,435	5,993,435	9,980,130	9,980,130	305,670	305,670
Commercial papers	13,531,331	13,531,331	6,049,005	6,049,005	185,268	185,268
Governments bonds	30,771,929	30,771,929	33,346,575	33,346,575	1,021,335	1,021,335
Corporate bonds	27,201,728	27,201,728	27,010,108	27,010,108	827,262	827,262
Acceptances securities	218,517	218,517	198,945	198,945	6,093	6,093
Beneficiary certificates	3,238,577	3,238,577	391,723	391,723	11,998	11,998
Beneficiary securities	898,129	898,129	17,117,460	17,117,460	524,271	524,271
Commercial bonds	15,225,345	15,225,345	8,482,729	8,482,729	259,808	259,808
Receivables—net	70,182,024	70,182,024	71,730,605	71,730,605	2,196,956	2,196,956
Bills and loans—net	1,087,469,082	1,087,469,082	1,113,888,899	1,113,888,899	34,116,046	34,116,046
Held-to-maturity financial assets	193,593,454	193,593,454	95,740,790	95,740,790	2,932,337	2,932,337
Other financial assets	28,975,231	28,975,231	29,027,921	29,027,921	889,063	889,063
<u>Liabilities</u>						
Due to the Central Bank and commercial banks	361,754,234	361,754,234	354,921,989	354,921,989	10,870,505	10,870,505
Payables	57,770,884	57,770,884	54,166,290	54,166,290	1,658,998	1,658,998
Deposits and remittances	1,035,045,214	1,035,045,214	1,063,630,443	1,063,630,443	32,576,736	32,576,736
Financial liabilities designated at fair value through profit or loss						
Commercial bonds	47,900,000	47,900,000	47,456,520	47,456,520	1,453,492	1,453,492
Securities sold under agreements to repurchase	30,370,278	30,370,278	36,094,287	36,094,287	1,105,491	1,105,491
Borrowed funds	76,587,680	76,587,680	56,438,426	56,438,426	1,728,589	1,728,589
Bonds issued	33,330,910	33,330,910	18,627,895	18,627,895	570,533	570,533
Other financial liabilities	14,692,467	14,692,467	18,812,629	18,812,629	576,191	576,191



	December 31, 2005		December 31, 2006			
			NT		US	
	Contract Amount	Fair Value	Contract Amount	Fair Value	Contract Amount	Fair Value
<u>Non-hedging derivative financial instruments</u>						
Forward exchange contracts	\$345,510,934	\$141,783	\$370,191,021	\$1,019,966	\$11,338,163	\$31,239
Interest rate swap contracts	151,989,168	(221,800)	32,461,479	(454,350)	994,226	(13,916)
Cross-currency swap contracts	63,674,273	73,955	172,934,256	378,095	5,296,608	11,580
Assets swap contracts	-	-	7,700,264	(367,859)	235,843	(11,267)
Options	17,545,998	12,007	82,181,748	(3,141)	2,517,052	(96)
Credit default swap	-	(4,366)	1,273,350	(10,204)	39,000	(313)
Currency swap	-	-	99,842,323	(239,712)	3,057,958	(7,342)
Exchange rate swap	19,007,145	1,384	-	-	-	-
Non-delivery forward	98,580	(33)	-	-	-	-

(2) The methods and assumptions used to estimate the fair value of financial instruments are as follows:

- ① The carrying values of cash and cash equivalents, due from the Central Bank and call loans to banks, receivables, payables, due to commercial banks and the Central Bank, borrowed funds, and other financial liabilities approximate the fair values because of the short maturity of these instruments.
- ② Among financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and other financial assets, the fair value of investments is determined by reference to the close price at the balance sheet date for listed shares and depositary receipts, net asset value for open-ended funds, the quoted price at the balance sheet date for bonds, the clearing value, quoted price or value defined by model theory for derivative financial instruments, and valuation techniques for financial instruments with no active market.
- ③ Bills and loans, securities sold under agreements to repurchase, deposits and bonds issued are financial assets and liabilities with mainly floating interests. Thus, their carrying values are deemed to equivalent to their fair values.
- ④ Since financial assets carried at cost composed of unlisted stocks or those not actively traded in the market which do not have significant influences, they are measured at cost in compliance with the statement of financial accounting standard.

Some fair values of financial and non-financial instruments had not been included in the above summary, so those fair values do not represent the total value of the Bank.

(3) The quoted market prices value of the Bank's financial assets and liabilities determined by quoted market prices on pricing models are as follows:

	December 31,					
	2005		2006			
	Quoted market prices	Pricing models	Quoted market prices		Pricing models	
	NT	NT	NT	US	NT	US
<u>Non-derivative financial instruments</u>						
<u>Assets</u>						
Financial assets held for trading						
Stocks	\$2,514,415	\$-	\$3,108,843	\$95,217	\$-	\$-



Beneficiary certificates	3,409,637	-	1,396,755	42,780	-	-
Commercial bonds	4,864,856	-	1,242,499	38,055	-	-
Financial assets designated at fair value through profit or loss						
Stocks	65,611	-	10,605	325	-	-
Corporate bonds	17,383,362	-	23,226,004	711,363	-	-
Government bonds	11,702,225	-	11,441,033	350,414	-	-
Commercial bonds	20,075,365	-	20,728,045	634,856	-	-
Certificate of deposits	22,427,080	-	7,198,822	220,485	-	-
Available-for-sale financial assets						
Stocks	5,993,435	-	9,980,130	305,670	-	-
Commercial papers	13,531,331	-	6,049,005	185,268	-	-
Government bonds	30,771,929	-	33,346,575	1,021,335	-	-
Corporate bonds	27,201,728	-	27,010,108	827,262	-	-
Acceptances securities	218,517	-	198,945	6,093	-	-
Beneficiary certificates	3,238,577	-	391,723	11,998	-	-
Beneficiary securities	-	898,129	-	-	17,117,460	524,271
Commercial bonds	15,225,345	-	8,482,729	259,808	-	-
Held-to-maturity financial assets						
	-	193,593,454	-	-	95,740,790	2,932,337
Other financial assets						
	-	28,975,231	-	-	29,027,921	889,063

Liabilities

Financial liabilities designated at fair value through profit or loss						
Commercial bonds	-	47,900,000	-	-	47,456,520	1,453,492
Bonds issued	-	33,330,910	-	-	18,627,895	570,533
Other financial liabilities	-	14,692,467	-	-	18,812,629	576,191

	December 31,					
	2005		2006			
	Quoted market prices		Quoted market prices		Pricing models	
	NT	NT	NT	US	NT	US
<u>Derivative financial instruments</u>						
Financial assets held for trading	\$-	\$-	\$-	\$-	\$1,230,838	\$37,698
Financial assets designated at fair value through profit or loss	-	37,910	-	-	1,055,646	32,332
Financial liabilities held for trading	-	-	-	-	249,921	7,655
Financial liabilities designated at fair value through profit or loss	-	40,093	-	-	1,713,768	52,489

(4) Net income arising from derivative financial instruments at fair value through profit or loss for the year ended December 31, 2006 was NT\$626,894.

(5) The interest income arising from others than financial assets at fair value through profit or loss for the year ended December 31, 2006 was NT\$5,537,055.

(6) The adjustment in equity arising from available-for-sale financial assets for the year ended December 31, 2006 was NT\$1,255,086.



2. INFORMATION ON FINANCIAL RISK

(1) Market risk

The Bank sets up risk managing indicators according to the characters of the products to achieve the goal of risk management. The Bank controls market risk by the treasury department, evaluates market risk exposure limits approved by the board of directors, and informs related units when over the limits timely.

The Bank establishes various specialist committees in head office and oversea branches to perform the role of implementing the risk management policies and procedures. Each sub-risk management team reviews limits on monitoring and managing risk exposures under the respective supervision and reports to head office management team.

Market risk reports which include the monitor of outstanding position limitation of loss and quantitative measures of risk indicators are provided to risk management sector to manage risk exposure, risk premium and capital allocation. The indicators are calculated by the valuation models.

The Bank formally document in writing its intention to apply hedge accounting and follow the requirement of related accounting standards. Risk management sector should assess the effectiveness of the hedge relationship periodically.

(2) Credit risk

- A. Credit risk represents the risk of loss that the Bank would incur if counterparty fails to perform the Bank's contractual obligations.
- B. The concentrations of credit risk exist when the counter-party to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. The Bank has not transacted with one single customer or entered into one single transaction which would expose the Bank into concentration risk. However, the Bank is likely exposed to industry concentration risk.
- C. For credit cards, no collateral is required, but the credit status of each cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit.
- D. The maximum credit risk exposed amounts of financial instruments held by the Bank are as follows:

	December 31,					
	2005 (Restated)		2006			
	Book value	Maximum risk exposure amount	Book value		Maximum risk exposure amount	
Financial assets	NT	NT	NT	US	NT	US
Financial assets at fair value through profit or loss	\$82,480,461	\$84,933,063	\$70,639,090	\$2,163,525	\$71,696,659	\$2,195,916
Available-for-sale financial assets	97,078,991	97,078,991	102,576,675	3,141,705	102,576,675	3,141,705
Bills and loans	1,087,469,082	1,087,469,082	1,113,888,899	34,116,046	1,113,888,899	34,116,045
Held-to-maturity financial assets	193,593,454	193,593,454	95,740,790	2,932,337	95,740,790	2,932,337
Off-balance sheet commitments and guarantees	2,253,379,172	2,253,379,172	2,587,078,872	79,236,719	2,587,078,872	79,236,719
Total	<u>\$3,714,001,160</u>	<u>\$3,716,453,762</u>	<u>\$3,969,924,326</u>	<u>\$121,590,332</u>	<u>\$3,970,981,895</u>	<u>\$121,622,722</u>



The amounts summarized above are valued from derivative financial instruments with positive fair value and off-balance sheet commitments and guarantees.

- E. The Bank strictly assesses and evaluates each credit application for loan facility, guarantee and letters of credit. Collaterals, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the result of the credit worthiness evaluation. As of December 31, 2005 and 2006, collaterals, respectively, were secured about 50.84% and 51.04% of total loans (excluding overdue loans). When a borrower defaults, the Bank would enforce the foreclosure of the collaterals and guarantees to lower the Bank's credit risk. As disclosing the maximum credit risk exposed amount, the Bank would not consider the fair value of collaterals. However, the Bank is likely exposed to industry concentration risk. The Banks information on industry concentration of credit risk is as follows:

	December 31,					
	(Restated) 2005 (b)		2006 (a)			
	Book Value	Maximum risk exposed amount	Book Value		Maximum risk exposed amount	
	NT	NT	NT	US	NT	US
<u>Industry type</u>						
Manufacturing	\$443,918,626	\$443,918,626	\$418,436,841	\$12,815,830	\$418,436,841	\$12,815,830
Financial institution, insurer, real estate and leasing	116,218,931	116,218,931	145,007,839	4,441,281	145,007,839	4,441,281
Government institution	113,207,166	113,207,166	67,036,791	2,053,194	67,036,791	2,053,194
Individuals	217,244,980	217,244,980	235,647,944	7,217,395	235,647,944	7,217,395
Others	310,300,548	310,300,548	425,845,944	13,042,755	425,845,944	13,042,755
Total	<u>\$1,200,890,251</u>	<u>\$1,200,890,251</u>	<u>\$1,291,975,359</u>	<u>\$39,570,455</u>	<u>\$1,291,975,359</u>	<u>\$39,570,455</u>
<u>Geographic region</u>						
Domestic	\$986,461,202	\$986,461,202	\$1,039,641,772	\$31,842,014	\$1,039,641,772	\$31,842,014
North America	39,066,873	39,066,873	41,008,723	1,256,010	41,008,723	1,256,010
Others	175,362,176	175,362,176	211,324,864	6,472,431	211,324,864	6,472,431
Total	<u>\$1,200,890,251</u>	<u>\$1,200,890,251</u>	<u>\$1,291,975,359</u>	<u>\$39,570,455</u>	<u>\$1,291,975,359</u>	<u>\$39,570,455</u>

Note: a. The above figures as of December 31, 2006 include bills and loans (excluding bills purchased and overdue loans-factoring without recourse), guarantees and acceptances.

b. The above figures as of December 31, 2005 include bills and loans (excluding bills purchased), guarantees and acceptances.

(3) Liquidity risk

The capital and working capital of the Bank were enough to execute all the obligation of contracts and had no liquidity risk. The possibility of the derivative financial instruments held by the Bank fail to liquidate quickly with minimal loss in value is very low.

The management policy of the Bank is to match in the contractual maturity profile and interest rate of its assets and liabilities. As a result of the uncertainty, the maturities and interest rates of assets and liabilities usually didn't fully match. The gap may arise potential gain or loss. The Bank applied appropriate way to group assets and liabilities.



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

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest risk. The risk is considered to be material to the Bank, and the Bank enters into interest rate swap contracts to manage the risk.

As of June 30, 2006, expected repricing and mature dates of interest-bearing financial instruments are not affected by dates of related contracts.

3. FAIR VALUE HEDGE

The fair value of bonds issued held by the Bank could suffer from interest rate fluctuations. Considering such risk could be material, the Bank used interest rate swap to hedge this kind of risks.

Hedged item	Hedging instruments	
	Derivative designated as hedging instruments	Fair value at Dec. 31, 2006
		NT US
Bonds investments	Interest rate swap contracts	\$(33,143) \$(1,015)

4. AVERAGE AMOUNT AND AVERAGE INTEREST RATES OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

	January 1, 2006 to December 31, 2006		
	Average Amount (NT)	Average Amount (US)	Average Interest Rate (%)
Assets			
Due from banks	\$133,911,366	\$4,101,420	5.13
Due from the Central Bank	25,078,181	768,091	2.10
Financial assets held for trading	2,839,669	86,973	1.26
Financial assets at fair value through profit or loss	60,746,988	1,860,551	2.29
Bonds and bills purchased under resell agreements	1,620,454	49,631	2.08
Available-for-sale financial assets	80,587,720	2,468,230	3.01
Receivables – credit card transaction with circulating interests	6,243,205	191,216	18.75
Receivables on factoring	19,754,648	605,043	4.40
Discounts and loans	989,657,472	30,311,102	3.95
Held-to-maturity financial assets	144,164,707	4,415,458	1.93
Other debt investments	4,034,018	123,553	1.77
Exchange bills negotiated	83,932	2,571	5.67
Liabilities			
Due to the Central Bank	106,630,975	3,265,880	4.73
Due to other banks	143,007,228	4,380,007	2.97
Demand deposits	228,765,370	7,006,596	1.08
Demand saving deposits	169,382,637	5,187,830	0.90
Time deposits	403,262,035	12,351,058	3.61
Time saving deposits	174,537,185	5,345,702	2.27
Negotiable certificate of deposits	4,568,620	139,927	1.37
Financial liabilities at fair value through profit or loss	44,154,842	1,352,369	1.13
Bonds and bills sold under repurchase agreements	29,372,363	899,613	1.52
Funds borrowed from the Central Bank and other banks	56,203,871	1,721,405	4.19
Bank notes payable	25,669,811	786,212	2.66
Commercial paper payable – net	8,201,165	251,184	6.61



5. Information about the transactions with the Mega Financial Holdings Co., Ltd and its subsidiaries are as follows:

- (1) Transactions between the Company and its subsidiaries: Please refer to Note V.
- (2) Joint promotion of businesses: Nil.
- (3) Sharing of information

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law, and the related regulations stipulated by MOF, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are restricted to use the information for the joint promotion purposes only. In addition, the Bank is required to disclose its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

- (4) Apportionment of revenues, costs, expenses, gains, and losses:

The Bank paid NT\$22,740 to the Mega Financial Holdings Co., Ltd. for apportionment of expenses for building systems.

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

7. Capital adequacy ratio

	(Restated) Dec. 31, 2005	Dec. 31, 2006	
	NT	NT	US
Eligible capital – net	\$129,971,591	\$129,583,036	\$3,968,853
Risk-weighted assets – total	\$1,237,082,118	\$1,253,101,919	\$38,379,844
Capital adequacy ratio	10.51%	10.34%	
Ratio of Tier I capital to risk-weighted assets	11.44%	11.48%	
Ratio of Tier II capital to risk-weighted assets	1.91%	1.82%	
Ratio of Tier III capital to risk-weighted assets	-	-	
Ratio of common shares to total assets	7.91%	8.28%	

① Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets

② The total amount of assets equals the TOTAL ASSETS presented in the balance sheet.

XI. SEGMENTS AND GEOGRAPHIC INFORMATION

According to the R.O.C. SFAS No.23 "Interim Financial Report and Disclosures", the interim financial statements are not required to disclose the segment financial information.

1. Segment information:
The Bank is solely engaged in banking business, and is therefore not required to disclose segment information according to the industrial groups.
2. Geographic information:
Please refer to Exhibit II.
3. Export information:
All domestic operating units' export sales revenues from third parties represent less than 10% of the Bank's total operating income.
4. Information on major customers:
No customers of the Bank account for more than 10% of the Bank's total sales revenues.





MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
SUMMARY OF RELATED-PARTY TRANSACTIONS
For the Year Ended December 31, 2005 and 2006
(In Thousands of Dollars)

Exhibit I
 (Page 1 of 3)

1. Due from and due to banks

	Balance as of December 31				Highest Outstanding Balance				For The Year Ended December 31,			
	2005		2006		2005		2006		Interest Rate (%)		Total Interest Income (Expense)	
	NT	US	NT	US	NT	US	NT	US	2005	2006	2005(NT)	2006(US)
a. Due from banks												
Mega ICBC (Canada)	\$387,428	\$595,943	\$18,252	\$32,897	\$1,953,988	\$1,074,071	\$32,897	\$32,897	1.50~3.35	2.25~5.05	\$14,924	\$19,419
Mega Futures	-	500,000	15,314	15,314	500,000	500,000	15,314	15,314	1.27	1.70	122	23
Bank of Taiwan	-	2,055,106	62,944	286,139	-	9,342,433	286,139	286,139	-	0.00~1.66	-	521
Mega ICBC (Thailand)	5,519	4,622	142	3,082	64,092	100,615	3,082	3,082	-	-	240	-
Taiwan Finance	-	-	-	-	400,000	-	-	-	1.33~1.47	-	334	-
b. Due to banks												
China Post	\$93,529,759	\$62,232,852	\$1,906,060	\$2,675,766	\$102,715,650	\$87,363,746	\$2,675,766	\$2,675,766	0.01~2.23	0.01~2.41	\$(1,156,988)	\$(35,436)
Mega ICBC (Canada)	37,473	74,303	2,276	10,721	401,636	350,042	10,721	10,721	1.60~4.09	1.85~5.16	(2,881)	(3,267)
Mega ICBC (Thailand)	417,048	829,707	25,412	51,909	2,264,863	1,694,837	51,909	51,909	0.10~4.24	3.19~5.16	(6,244)	(17,854)
Cathay Investment (Bahamas)	306,505	459,360	14,069	22,736	633,297	742,318	22,736	22,736	1.90~4.30	5.15~5.30	(16,508)	(2,325)
Bank of Taiwan	-	2,600,000	79,632	183,767	-	6,000,000	183,767	183,767	-	1.52~1.81	-	(22,628)

2. Loans and deposits

	Balance as of December 31				Total Interest Income (Expense) For The Year Ended December 31,			
	2005		2006		2005		2006	
	NT	% of Total	NT	% of Total	NT	% of Total	US	Interest Rate (%)
Counterparty								
All related parties	\$73,190,901	7.13	\$32,668,520	3.10	\$(1,529,720)	2.68	\$(14,702)	0.00~13.05
Bills and loans	84,899,510	7.81	112,067,288	9.96	2,033,339	1.06	62,277	0.00~8.00
								0.00~8.13

The interest rates shown above are similar to, or approximate, those offered to third parties. But the interest rates for savings deposits of Bank managers are the same as for certain amounts of savings deposits of employees.

In compliance with the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party are fully secured, and the terms of credits extended to related parties are similar to those for third parties.

The Bank presents its transaction or account balance with related parties, in the aggregate, except for which represents the amount over 10% of account balance.

3. Lease Agreements

The related parties had leased office spaces from the Bank as summarized below:

Related Party	Lease Period	Lease Receipt Method	For the year ended December 31,			
			2005		2006	
			NT	Rental Revenue	NT	US
Win Card	2001.01-2008.01	Quarterly		\$9,656	\$10,068	\$308
Yung-Shing	2006.10-2009.09	Quarterly		1,512	1,495	46
Mega Insurance	2003.05-2009.04	Monthly		2,264	2,397	73
Mega Life Insurance	2001.01-2008.01	Monthly		802	1,292	40
Mega Securities	2003.03-2009.12	Monthly		23,123	25,027	767
CTB Financial Management & Consulting	2005.10.01-2009.08.20	Monthly		827	997	31
Mega Bills	2005.01-2010.12	Monthly		756	15,095	462
Mega Asset	2006.04.01-2010.12.31	Monthly		-	2,089	64
Mega Financial Holdings	2006.08.01-2010.07.31	Monthly		-	90	3

The Bank had made lease agreements with the related parties as summarized below:

Related Party	Lease Period	Lease Payment Method	For the year ended December 31,			
			2005		2006	
			NT	Rental Expense	NT	US
Yung-Shing	1994.12-2014.11	Annually		\$5,564	\$5,565	\$170
Mega Insurance	2003.12-2006.11	Monthly		18,798	19,786	606
China Products	2003.04-2009.03	Monthly		1,387	1,666	51
Mega Bills	2006.05.01-2010.12.31	Monthly		-	52,594	1,611
Mega Securities	2003.03.29-2009.12.31	Monthly		-	2,840	87
Cathay Investment & Warehousing	2006.01.01-2007.09.30	Monthly		-	1,285	39





4. Miscellaneous Payables – Parent Company Account

	(Restated)		December 31, 2006	
	December 31, 2005		Amount (NT)	Amount (US)
	Amount (NT)	% of Total		
Mega Financial Holdings	\$1,552,000	22.37	\$1,228,578	\$37,629
			42.62	

The parent company account payable to Mega Financial Holding Co., Ltd. is the estimated income tax payable as a result of adopting the linked tax system for income tax filings starting from the year 2003.

5. Service Fees

	(Restated)		December 31, 2006	
	December 31, 2005		Amount (NT)	Amount (US)
	Amount (NT)	% of Total		
Mega Insurance	\$8,260	1.24	\$4,155	\$127
			0.50	

6. Insurance Expense

	(Restated)		December 31, 2006	
	December 31, 2005		Amount (NT)	Amount (US)
	Amount (NT)	% of Total		
Mega Insurance	\$37,798	9.36	\$36,981	\$1,133
			6.79	

7. For the year ended December 31, 2006, the commissions and service revenue from International Security Investment Trust Corporation was NT\$5,711 and the uncollected balance on associated receivable was NT\$115,033 as of December 31, 2006.

8. The Bank's processes of printing documents have been outsourced to Yung-Shing Industries Co. Under this arrangement, the Bank paid operating expenses of NT\$135,368 and NT\$135,031 for the year ended December 31, 2005 and 2006, respectively. The unpaid balance on associated payable was approximately NT\$9,202 and NT\$11,591 as of December 31, 2005 and 2006, respectively.

9. Starting January, 2001, certain processes of the Bank's credit card operations have been outsourced to Win Card Co., Ltd. Under this arrangement, the Bank paid operating expenses of NT\$423,104 and NT\$272,882 for the year ended December 31, 2005 and 2006.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.

GEOGRAPHIC INFORMATION

For the year ended December 31, 2006

(In Thousands of New Taiwan dollars)

	2006				Combined
	Domestic	North America	Other Foreign Areas	Adjustments and Eliminations	
Income					
Customers	\$61,497,146	\$8,280,731	\$8,608,133	\$-	\$78,386,010
Interoffice	424,737	80,898	882,371	(1,388,006)	-
Total Income	<u>\$61,921,883</u>	<u>\$8,361,629</u>	<u>\$9,490,504</u>	<u>\$(1,388,006)</u>	<u>\$78,386,010</u>
Net income	<u>\$10,055,535</u>	<u>\$619,724</u>	<u>\$2,475,417</u>		<u>\$13,150,676</u>
Identifiable assets	<u>\$1,410,236,276</u>	<u>\$271,462,704</u>	<u>\$134,072,707</u>	<u>\$(3,396,402)</u>	<u>\$1,812,375,285</u>

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.

GEOGRAPHIC INFORMATION

For the year ended December 31, 2006

(In Thousands of US dollars)

	2006				Combined
	Domestic	North America	Other Foreign Areas	Adjustments and Eliminations	
Income					
Customers	\$1,883,526	\$253,621	\$263,649	\$-	\$2,400,797
Interoffice	13,009	2,478	27,025	(42,512)	-
Total Income	<u>\$1,896,535</u>	<u>\$256,099</u>	<u>\$290,674</u>	<u>\$(42,512)</u>	<u>\$2,400,797</u>
Net income	<u>\$307,980</u>	<u>\$18,981</u>	<u>\$75,817</u>		<u>\$402,777</u>
Identifiable assets	<u>\$43,192,535</u>	<u>\$8,314,325</u>	<u>\$4,106,362</u>	<u>\$(104,025)</u>	<u>\$55,509,197</u>



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