Mega International Commercial Bank

Annual Report 2007

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MEGA FINANCIAL GROUP

MEGA INTERNATIONAL COMMERCIAL BANK

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Joseph Jye-Cherng Lyu, Chairman of the Board

Message to Shareholders

On August 21, 2006, The International Commercial Bank of China formally merged with Chiao Tung Bank, and changed its name to Mega International Commercial Bank. The Bank has enjoyed the best ever since, being a commercial bank and an industrial bank at the same time. With the unrelenting efforts of the employees, the Bank garnered a pre-tax profit of NT$16.3 billion in 2007, outshining other domestic banks for two straight years. The outstanding performance demonstrated our superior operating expertise.

The fact that we could maintain robust growth and continuously outperform our competitors was no coincidence, but a result of longtime foundation building and concerted efforts of our officers and staffs. Business-wise, deposits and loans were on the rise to reach NT$1,192 billion and NT$1,155 billion, respectively. In regard to foreign exchange business in which we specialized, the volume was US$511 billion, up 15.8% year on year. We retained our leading position even though the related market share decreased somewhat.

Outstanding management and performance enabled the Bank to maintain good credit ratings. We earned long-term ratings of A1 and A from Moody's and Standard & Poor's, respectively. In addition, our endeavors also won recognition of international agencies. In 2007, we were awarded "The Best Domestic Provider in Taiwan for Local Currency Products—Structured Interest-rate Products," by Asiamoney, and voted "The Best Domestic Provider of FX Services in Taiwan" by participating financial institutions.

New record prices set by international raw materials and rising concerns about a slowing economy of the US triggered by subprime mortgage crisis rendered people more conservative about the global economy. Under the circumstances, although expansion of overseas units remains the key focus of our strategies, we shall strive to deepen our overseas business and strengthen the cooperation between branches at home and abroad for the time being.

Looking forward, the challenge the Bank faces will be even more daunting. First of all, the mergers of and equity

Kuang-Si Shiu, President

investments in domestic banks by international banks and private equity funds, together with their increasing business units in Taiwan, has intensified the competition. Secondly, although our OBU and overseas business expands steadily, we need to double our efforts to get the upper hand of our challengers because competition in the banking industry has extended from domestic to overseas market.

Despite the difficult financial situation, we believe our management team will be able to monitor the market condition carefully, and adjust our strategies with flexibility to further solidify our position as a top notch bank. In view of our competitive stance and the banking climate, we set out our 2008 targets as: to bring in deposits of NT$1,261 billion, loans of NT$1,219 billion, and foreign exchange volume of US$545 billion.

In a financial industry where competition is the norm, we will endeavour to turn in good results, and move toward the goal of turning the Bank into a first-class international bank.

Joseph Jye-Cherng Lyu

Joseph Lyu

Chairman of the Board

Kuang-Si Shiu

Kuang-Si Shiu

President


兆豐金融大樓
MEGA
兆豐國際商銀
Mega
Bank
Ikari Coffee

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. Late 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. By the end of 2007, the Bank now has 104 branches at home and 19 branches, 1 representative office abroad. Added to the network are wholly-owned bank subsidiaries in Thailand and Canada, along with their branches, bringing the number of overseas outposts to 28 in total. It has manpower 5,103 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	2007.12
S&P	A	A-1	B	Stable	2007.10

Board of Directors and Supervisors

As of December 31, 2007

Chairman of the Board	Yeou-Tsair Tsai
Managing Directors	Kuang-Si Shiu
	Teng-Cheng Liu
	Ming-Feng Yeh
	Jhao-Yi Chen
Directors	Yaw-Chung Liao
	Chang-Hai Tsai
	Yuan-Jhong Li
	Chen-Chia Lee
	Lai-Hsi Lee
	Rong-Tzaw Yeh
	Pi-Ying Liao
	Hung-Wen Chien
	Chia-Pang Chiu
Executive Supervisor	**Fu-Deng Hsieh**
Supervisors	Sih-Kuan Chen
	Wei-Ching Chung Leu

P.S. 1. Mr.Jye-Cherng Lyu is elected as Chairman of the Board to replace Mr. Yeou-Tsair Tasi on Jan. 15, 2008.

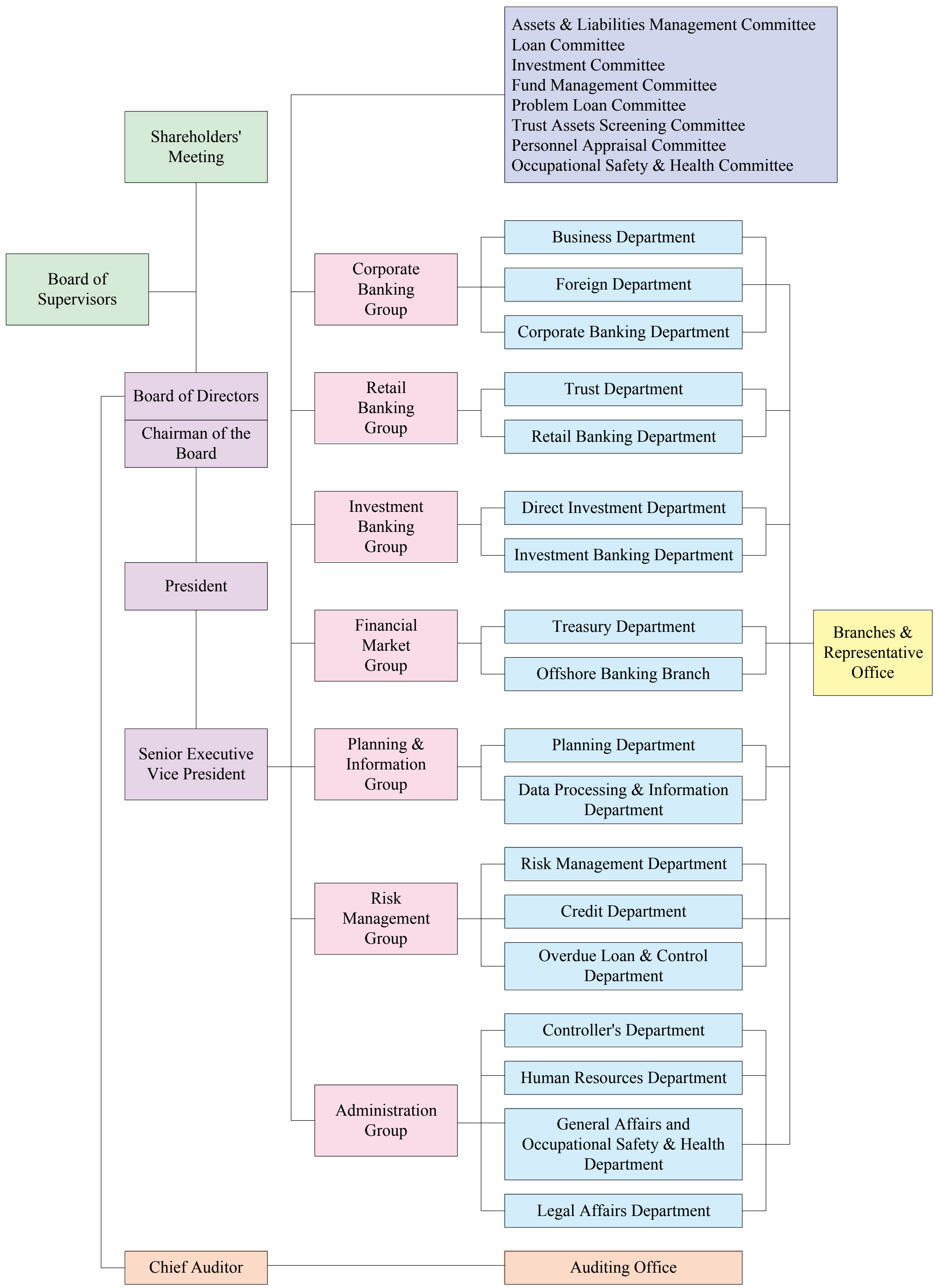
2. Executive Supervisor, Mr. Fu-Deng Hsieh is discharged on Jan.15, 2008.

3. Mr. Chao-Cheng Mai and Mr. Yeong-Chwan Hwang are appointed to the position of Supervisor on Feb. 19, 2008, and Mr. Chao-Cheng Mai is also elected as Resident Supervisor on Feb. 21, 2008.

Statistical Data of Personnel

Item	As of December 31, 2007
Number of Staffs	5,103
Average Age	40.37
Average Length of Employment	14.51

Organization Chart



Financial Highlights

Condensed Balance Sheets

In Thousands of NT dollars

Item	2007	2006	2005 (Restated)
Cash and Cash Equivalents, Due from the Central Bank and Call Loans to Banks – net	339,113,297	298,480,874	222,917,743
Financial Assets at Fair Value through Profit or Loss	84,905,748	70,639,090	82,480,461
Securities Purchased under Resale Agreements	1,729,123	1,502,553	375,121
Available-for-sale Financial Assets – net	103,132,834	102,576,675	97,078,991
Bills and Loans – net	1,194,304,385	1,113,888,899	1,087,469,082
Receivables – net	82,462,038	71,730,605	70,182,024
Held-to-maturity Financial Assets – net	89,413,152	95,740,790	193,593,454
Investments Accounted for by the Equity Method – net	9,298,635	8,605,588	7,849,245
Properties and Equipment – net	14,887,155	15,530,403	15,860,630
Other Financial Assets – net	23,956,245	29,027,921	28,975,231
Other Assets – net	4,258,721	4,651,887	4,155,642
Total Assets	1,947,461,333	1,812,375,285	1,810,937,624
Due to the Central Bank and Commercial Banks	363,190,298	354,921,989	361,754,234
Deposits and Remittances	1,224,295,833	1,063,630,443	1,035,045,214
Financial Liabilities at Fair Value through Profit or Loss	52,226,998	49,453,352	47,940,093
Securities Sold under Repurchase Agreements	14,452,936	36,094,287	30,370,278
Borrowed Funds and Financial Bonds Payable	62,213,270	75,066,321	109,918,590
Accrued Pension Liabilities	1,204,178	1,209,032	1,400,442
Other Financial Liabilities	18,650,884	18,779,486	14,692,467
Other Liabilities	58,769,394	63,199,697	66,642,526
Total Liabilities	1,795,003,791	1,662,354,607	1,667,763,844
Capital Stock	64,109,878	64,109,878	64,109,878
Total Capital Reserve	33,070,660	33,066,755	30,739,457
Total Retained Earnings	49,946,398	45,470,884	45,698,971
Unrealized Gains or Losses on Available-for-sale Financial Assets	1,646,759	4,396,442	0
Cumulative Translation Adjustments	2,006,655	1,299,527	983,440
Land Revaluation Increment and Capital Surplus from Assets Revaluation	1,677,192	1,677,192	1,642,034
Total Shareholders' Equity	152,457,542	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	2007	2006	2005 (Restated)
Net Interest Income	22,431,529	19,726,768	21,927,531
Net Non-Interest Income	14,932,552	17,309,131	14,536,311
Net Operating Income	37,364,081	37,035,899	36,463,842
Provision for Loan Losses	6,452,134	9,243,197	1,981,936
Total Operating Expenses	14,606,707	14,642,026	13,989,256
Income Before Income Tax	16,305,240	13,150,676	20,492,650
Net Income Before Cumulative Effect of Changes in Accounting Principles	14,030,952	10,968,913	17,694,875
Cumulative Effect of Changes in Accounting Principles	-	714,676	22,985
Net Income	14,030,952	11,683,589	17,717,860

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Major Financial Ratios

Item		2007	2006	2005*
Financial Ratio	Total Liabilities to Total Assets (%)	92.17	91.72	93.48
	Fixed Assets to Total Shareholders' Equity (%)	9.76	10.35	12.39
Solvency	Liquidity Reserve Ratio (%)	24.79	28.92	53.47
Operating Performance Analysis	Loans to Deposits Ratio (%)	99.27	106.71	83.73
	NPL Ratio (%)	1.00	0.88	0.50
	Total Assets Turnover (Number of Times)	0.02	0.02	0.04
	Average Net Income per Employee (in Thousands of NT dollars)	2,750	2,381	3,348
Profitability Analysis	ROA (%)	0.75	0.64	0.96
	ROE (%)	9.28	7.97	14.92
	Pre-tax Income to Capital Stock (%)	25.43	20.51	35.10
	Net Income to Net Operating Income (%)	37.55	34.21	24.45
	Earnings per Share (in NT dollars)	2.19	1.82	3.06
	Cash Dividends per Share (in NT dollars)	1.46	1.46	1.43
	Shareholders' Equity per Share Before Appropriation (in NT dollars)	23.78	23.40	21.49
Capital Adequacy Ratio (%)		10.54	10.34	10.93

* Amounts to The International Commercial Bank of China Co., Ltd. only.

Economic Review and Market Landscape

Economic Growth

Although private consumption and private investment grew slightly, government spending and investment shrank. Accordingly, the contribution of net domestic demand to economic growth was a negative 0.13 percentage points in the first quarter of 2007. The 4.19% growth came solely from the increase in net foreign demand. From the second quarter on, private investment accelerated. As private consumption inched up and net foreign demand was higher than expected, economic growth thus increased to 5.24%. The third quarter registered a 6.86% growth whereas the fourth quarter economy grew by 6.39%.

For the whole year, the economy expanded 5.7% in 2007, the highest in three years, 1.4 percentage points higher than forecast at the beginning of the year. It is worth mentioning contribution of domestic demand to economic growth is on the increase although net foreign demand contribution to the economy, at 3.74 percentage points, has exceeded the former for three consecutive years.

According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), our economy will gain momentum steadily mainly because private consumption is expected to pick up; the economy of China and ASEAN countries will remain robust; the contribution of export of services continue to trend up; and net foreign demand will keep expanding.

However, the outlook of economy will be affected by several factors including the following. It is not clear yet what the effects of subprime mortgage problem in the US will be. International oil prices and raw materials still hover around record highs. There is no telling when world financial markets will stabilize, and future development of the economy of China remains to be seen.

Inflation

In 2007, although the prices of international raw materials, base metals, grains and crude oil rose sharply, steady weather condition from January through July guided the prices of vegetables and fruits down. Besides, control over gas prices also helped stabilize prices. From August on, typhoons led to rapid rise in vegetable and fruit prices, which in turn pushed up the consumer price index (CPI) dramatically, calculated on a relatively low base (negative growth) for the corresponding period a year ago. For the whole year, CPI rose 1.80% on average, higher than the projected 1.65% by DGBAS.

To look ahead, the pressure of inflation remains high chiefly because of the supply side factors of international raw materials and food prices. Consumer price is forecast to increase 1.98% by DGBAS in 2008.

Financial Market and Banking Industry

In banking industry, most domestic banks shrugged off the shadow of credit card and cash card problems, and returned to the track of growth. Among domestic banks, nine made over NT$10 billion last year, while a number of financially weak banks merged or acquired by foreign investors wrote off bad debts aggressively. Consequently, pre-tax profit of domestic banks as a whole reached NT$38.8 billion only. Although the figure was better than a net loss of NT$7.4 billion a year earlier, it was still rather meager. It is quite clear that the performance of domestic banks became polarized.

On business front, overseas business of all domestic banks continued to grow whereas write-downs severely eroded their profits at home. Hence, earnings of OBUs as a percentage of total profit shot up to 58% for all domestic banks while that of overseas branches rose to 27%. The combined share was a staggering 85%, indicating the contribution of related overseas business to earnings is trending up continuously.

All domestic banks were so aggressive in writing off bad debts to improve their asset quality that non-performing loan ratio dropped to 1.84%, a historical low. What is more, several foreign banks and private equity funds succeeded in merging some financially weak small- and medium-sized domestic banks. This not only facilitated the sound development of the industry, but also forced domestic banks to face dramatic change in competition.

In 2008, in the aftermath of the subprime mortgage turmoil in the US, there will be great uncertainty in the world economy. Besides, keen competition in the banking industry makes it difficult for banks to increase interest rate spread, so banks face challenges to make a profit.

On the other hand, the Financial Supervisory Commission (FSC) amended the "Regulations Governing Approvals of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland China Area" in March. Offshore subsidiaries of financial holding companies and banks are now allowed to make equity investments in Chinese banks if they meet certain criteria. Limits have been relaxed on the amount of unsecured credit that OBUs and offshore bank branches are allowed to extend to mainland-based Taiwanese businesses. These will assist Taiwanese businesses in their fund management; help them control risks more effectively; and explore the vast market in China.

Interest Rates

To cope with low real interest rates and inflation pressure, CBC has been raising interest rates since October 2004. Interest rates were increased four times for a total of 0.625 percentage points in 2007, and discount rate was 3.375% at yearend. Similarly, inter-bank overnight call loan rate rose gradually from 1.685% at the end of 2006 to 2.038% at yearend 2007, an increase of 0.398 percentage points.

As CBC regards real interest rates as below neutral levels, coupled with rising inflation concerns, it is believed that CBC will keep nudging up interest rates in 2008. Taking into consideration interest rates falling in the US and many uncertainties in the international financial markets, CBC is expected to refrain from hiking interest rates too much.

Exchange Rates

In 2007, although foreign capital continued to swarm in to invest in our stock market, it was offset by investments in foreign securities of the residents; therefore, the exchange rate of New Taiwan dollar (NT dollar) against US dollar went down slightly. The rate dropped to as low as NT$33.4 to one US dollar in May. Later on, The Fed began slashing interest rates in the aftermath of subprime mortgage turmoil, causing US dollar to soften. On the other hand, CBC raised interest rates, hence NT dollar appreciated against US dollar to close at NT$32.443 at the end of 2007, an appreciation of 0.47% from a year ago. The revaluation lagged behind those of major Asian currencies.

Because US dollar is set to be weak globally, NT dollar is likely to appreciate against US dollar in 2008, according to Chung-Hua Institution for Economic Research and Taiwan Institute of Economic Research; however, rapid capital movements in recent years and wider fluctuations of Asian currencies will be crucial to exchange rate movements of NT dollar in 2008.

Business Activities

Following the merger more than a year ago, our operating cost has been reduced through division of responsibilities, such as effective coordinated management among seven business groups and the establishment of The Operation Center. As a result, the Bank's operating and management efficiency has improved considerably. Moreover, in view of the local economic development and change in business districts, we have carried out an overhaul of strategies concerning branch network, and moved some of the units to locations with business opportunities, prospective customers, and improved profitability.

Business Overview

- Setting up an in-house information exchange mechanism that facilitates the relay of related information about cross-border financing and investments of Taiwanese businesses, leading to rapid growth of loan business. Thanks to this mechanism, loan business brought in through this channel in 2007 was up 64.36% compared with the previous year.

- Setting foot on asset management by launching two collective trust funds and turning in a good report card in 2007. Assets under management amounted to NT$1.7 billion while management fees reached NT$10.3 million for the whole year.

- Upgrading our electronic banking system by incorporating more functions. This helped boosting our numbers of transaction, volume, and fee income.

    - Global eBanking now boasts more than 20,000 accounts. Active accounts increased 82.3% from the previous year, and the amount of transaction was up 131.2%.

    - Dollar amount of online foreign exchange trading was 152.6% more than that of 2006.

- Promoting nation-wide bill payment system of fees and taxes. We took the lead in the number of transactions with a market share of over 50%. Fee income from this service grew by 325% over last year.

- Retaining growth momentum of our OBU and overseas businesses. It was worth noting that the earnings of our overseas branches increased nearly 30%, and the combined profit of both sources accounted for nearly 50% of our aggregate pre-tax profit.

Operation Results

- **Assets and Liabilities**

  Total assets of the Bank reached NT$1,947 billion at the end of 2007. Of all the assets, bills discounted and loans accounted for the lion's share, 61%. Due from the Central Bank and Call Loans to Banks followed with 13%. Liabilities amounted to NT$1,795 billion with Deposits and Remittances representing 68% of the total.

- **Income and Expenses**

  Net interest income reached NT$22.43 billion while net non-interest income amassed NT$14.93 billion. After deducting operating expenses of NT$14.61 billion as well as bad debt losses of NT$6.45 billion, the Bank garnered a pre-tax income of NT$16.3 billion. Net income of NT$14.03 billion was achieved after subtraction of NT$2.27 billion in business tax.

- **Profitability Analysis**

  Pre-tax profit as a percentage of paid-in capital was 25.43%. After taxes, the Bank achieved a ROA of 0.75%, ROE of 9.28%, and an EPS of NT$2.19. All surpassed the levels attained a year earlier.

- **Asset Quality**

  Non-performing loan ratio in 2007 stood at 1%, far below the domestic bank average of 1.84% as disclosed by the FSC while bad debt coverage ratio reached 71.75%, better than the domestic bank average of 64.82% as well.

Risk Management

The Board of Directors is at the top of the risk management echelon, which looks upon effective functioning of the Bank's risk management as an ultimate goal. In Head Office, the Department of Risk Management, independent from all business units and transactions, is helping establish risk control mechanics of all business units. It monitors 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, with the New Basel Capital Accord (Basel II) in mind, is institutionalizing all things related to the guiding principles of supervisory review, the second pillar of Basel II. We shall make regular disclosures of information about our risk profile as required by the third pillar of Basel II qualitatively and quantitatively. The Bank will continue to offer training courses, cultivate risk management talents, and raise employees' awareness of risk management.

We are committed to strengthening risk management as follows:

- ❖ Credit risk: to set up a framework of foundation internal-rating based (FIRB) approach and related information system, including the establishment, promotion and application of a model for calculating default probability.

- ❖ Market risk: to establish real-time information system to monitor positions, limits, and warning flags online, providing complete and timely management information.

- ❖ Operational risk: to divided operational risks into eight business categories and seven types of events of loss. We are to build a data base of events of loss, and set up an operational risk self assessment mechanism to enhance our management of operational risk.

Future Operation Blueprint

The competition of domestic banks has spilled over into overseas markets with competition in Asia being the keenest. In the future, the Bank will develop in lock steps with the loosening of the cross-strait financial policy to seek business opportunities in China. Furthermore, we have ironed out development strategies to maintain our leading position as follows:

Winning Strategies and Vision of the Future

- Pushing hard the "Program of Low-Interest Loans for Returned Taiwanese Businesses to Invest in Taiwan." We shall provide them with integrated financial planning services to cater to their need to relocate their production bases.

- Launching exotic hedging options to increase the transaction volume of financial derivatives and enhance our market position.

- Continuing adding functions to our electronic banking service, such as MegaClub, Smart ATM, and so forth. By providing a more diversified electronic banking platform and services, we shall be able to further increase the share of electronic trading as a percentage of transactions to reduce our labor cost.

- Deepening of overseas financial markets and promoting wealth management business of our overseas branches.

Positive Factors

- Mega ICBC is irreplaceable in terms of foreign remittances, and it enjoys competitive edge in foreign exchange business as follows:

  - Our New York Branch is the only domestic bank that takes participates in CHIPS, Fedwire, and ACH.
  - The government conducts foreign exchange transactions and fund transfer through the Bank. For instance, CBC has designated Mega ICBC as the agent bank in its operations to attain the goal of foreign exchange market stability for years.

- The Bank has more overseas units than other domestic banks, with the most extensive overseas channels and outstanding expertise on international business.

- Mega ICBC can raise funds relatively cheap in the international markets owing to its superb asset quality and the best credit ratings among domestic banks.

- Electronic banking platform retains its leading edge, and maintains innovation momentum.

- Effective in-house information exchange mechanism and intra-bank cooperation have created synergy effect. Comprehensive financial planning services to go with Taiwanese enterprises' global initiatives further strengthens our existing niche and competitiveness in corporate finance, and cements our status as "the best banking partner of Taiwanese enterprises."

Negative Factors

- Subprime mortgage crisis in the US has not bottomed out yet, and the magnitude of losses of related structured investment vehicles is not ascertained. So, we have to pay close attention to its possible adverse effects.

- International banks and private equity funds either merge or make equity investments in domestic banks to expand its service network in Taiwan. As a result, domestic banks will be faced with a dramatic change in business environment.

- Competition in the market will become keener as our rivals launch new foreign exchange products and financial engineering services.

Auditors' Report

PRICEWATERHOUSECOOPERS

To the Board of Directors and Stockholders of Mega International Commercial Bank Co., Ltd.

We have audited the accompanying balance sheet of Mega International Commercial Bank Co., Ltd. (the "Bank", formerly known as The International Commercial Bank of China Co., Ltd.) as of December 31, 2007 and the related statements of income, of changes in stockholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Mega International Commercial Bank Co., Ltd. as of and for the year ended December 31, 2006 were audited by other independent accountants whose report dated February 27, 2007, expressed a modified unqualified opinion.

We conducted our audit in accordance with the "Rules Governing Audit of Financial Statements of Financial Institutions by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, 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, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports by Publicly Held Banks", "Business Entity Accounting Law", "Regulations on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

As discussed in Note III to the financial statements, effective January 1, 2006, the Bank had adopted the R.O.C. Statements of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement" and SFAS No. 36, "Financial Instruments: Disclosure and Presentation".

Mega International Commercial Bank Co., Ltd. had prepared the consolidated financial statements as of and for the years ended December 31, 2007 and 2006, on which we have issued a modified unqualified opinion with explanatory paragraph thereon.

The financial statements of Mega International Commercial Bank Co., Ltd. as of and for the year ended December 31, 2007 expressed in US dollars were translated from the New Taiwan dollar financial statements using the exchange rate of US$1:NT$32.484 at December 31, 2007 solely for the convenience of the readers. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers

March 11, 2008

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(FORMERLY KNOWN AS THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.)
BALANCE SHEETS
DECEMBER 31, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF DOLLARS)

ASSETS	2006	2007	2007
	New Taiwan Dollars		US Dollars (Unaudited - Note II)
CASH AND CASH EQUIVALENTS (Notes IV and V)	$ 42,638,615	$ 89,718,998	$ 2,761,944
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS - NET (Notes IV and V)	255,842,259	249,394,299	7,677,451
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes IV and VI)	70,639,090	84,905,748	2,613,771
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	1,502,553	1,729,123	53,230
RECEIVABLES - NET (Note IV)	71,730,605	82,462,038	2,538,543
BILLS DISCOUNTED AND LOANS - NET (Notes IV and V)	1,113,888,899	1,194,304,385	36,765,927
AVAILABLE-FOR-SALE FINANCIAL ASSETS - NET (Notes IV and VI)	102,576,675	103,132,834	3,174,881
HELD-TO-MATURITY FINANCIAL ASSETS - NET (Notes IV and VI)	95,740,790	89,413,152	2,752,529
INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD - NET (Note IV)	8,605,588	9,298,635	286,253
OTHER FINANCIAL ASSETS - NET (Note IV)	29,027,921	23,956,245	737,478
PROPERTIES AND EQUIPMENT - NET			
Land	6,276,568	6,073,887	186,981
Revaluation increment - land	1,781,105	1,781,105	54,830
Buildings and improvements	10,419,054	10,375,664	319,409
Revaluation increment - building	47,863	47,863	1,473
Computers and peripheral equipment	3,654,357	3,552,972	109,376
Transportation and communication equipment	228,659	221,164	6,808
Miscellaneous equipment	1,167,081	1,271,941	39,156
Total costs	23,574,687	23,324,596	718,033
Accumulated depreciation	(8,006,602)	(8,360,389)	(257,369)
Accumulated impairment	(37,682)	(77,052)	(2,372)
Properties and Equipment - NET	15,530,403	14,887,155	458,292
OTHER ASSETS - NET (Notes IV and VI)	4,651,887	4,258,721	131,102
TOTAL ASSETS	$ 1,812,375,285	$ 1,947,461,333	$ 59,951,401

LIABILITIES AND STOCKHOLDERS' EQUITY	2006	2007	2007
	New Taiwan Dollars		US Dollars (Unaudited - Note II)
DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS (Notes IV and V)	$ 354,921,989	$ 363,190,298	$ 11,180,590
BORROWED FUNDS (Note IV)	56,438,426	42,997,399	1,323,649
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Note IV)	49,453,352	52,226,998	1,607,776
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Note IV)	36,094,287	14,452,936	444,925
PAYABLES (Notes IV nad V)	54,166,290	47,576,485	1,464,613
DEPOSITS AND REMITTANCES (Notes IV and V)	1,063,630,443	1,224,295,833	37,689,195
FINANCIAL BONDS PAYABLE (Note IV)	18,627,895	19,215,871	591,549
ACCRUED PENSION LIABILITIES (Note IV)	1,209,032	1,204,178	37,070
OTHER FINANCIAL LIABILITIES (Note IV)	18,779,486	18,650,884	574,156
OTHER LIABILITIES (Note IV)	9,033,407	11,192,909	344,567
TOTAL LIABILITIES	1,662,354,607	1,795,003,791	55,258,090
STOCKHOLDERS' EQUITY			
CAPITAL STOCK (Note IV)	64,109,878	64,109,878	1,973,583
CAPITAL RESERVE (Note IV)	33,066,755	33,070,660	1,018,060
RETAINED EARNINGS :			
Legal reserve (Note IV)	27,247,443	30,752,520	946,697
Special reserve (Note IV)	1,398,637	1,435,713	44,198
Unappropriated earnings (Note IV)	16,824,804	17,758,165	546,674
EQUITY ADJUSTMENTS			
Land revaluation increment	1,644,939	1,644,939	50,638
Capital surplus from fixed assets revaluation	32,253	32,253	993
Cumulative translation adjustments	1,299,527	2,006,655	61,774
Unrealized gains or losses on available-for-sale financial asset	4,396,442	1,646,759	50,694
TOTAL STOCKHOLDERS' EQUITY	150,020,678	152,457,542	4,693,311
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,812,375,285	$ 1,947,461,333	$ 59,951,401

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 11, 2008.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(FORMERLY KNOWN AS THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.)

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

	2006	2007	2007
	New Taiwan Dollars		US Dollars (Unaudited - Note Ⅱ)
INTEREST REVENUE (Note V)	$ 57,019,199	$ 61,396,174	$ 1,890,044
INTEREST EXPENSES (Note V)	(37,292,431)	(38,964,645)	(1,199,503)
NET INTEREST INCOME	19,726,768	22,431,529	690,541
NON-INTEREST INCOME			
FEE INCOME - NET (Notes IV and V)	5,260,459	6,253,341	192,505
GAINS ON FINANCIAL ASSETS AND LIAIBILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	4,271,507	3,629,242	111,724
REALIZED GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	2,825,276	2,120,106	65,266
REALIZED GAIN ON HELD-TO-MATURITY FINANCIAL ASSETS	3,802	173	5
INVESTMENT INCOME (LOSSES) RECOGNIZED BY THE EQUITY METHOD	(438,927)	645,771	19,880
FOREIGN EXCHANGE GAIN - NET	5,966,635	2,887,983	88,905
LOSS ON ASSET IMPAIRMENT (Note IV)	(2,695,112)	(1,986,609)	(61,157)
GAINS ON DISPOSAL OF PROPERTIES - NET (Note V)	605,462	114,004	3,510
OTHERS	1,510,029	1,268,541	39,051
NET OPERATING INCOME	37,035,899	37,364,081	1,150,230
PROVISION FOR LOAN LOSSES (Note IV)	(9,243,197)	(6,452,134)	(198,625)
OPERATING EXPENSES			
STAFF EXPENSES (Note IV)	(9,257,789)	(9,038,850)	(278,255)
DEPRECIATION AND AMORTIZATION (Note IV)	(922,424)	(807,416)	(24,856)
OTHER GENERAL AND ADMINISTRATIVE EXPENSES (Note V)	(4,461,813)	(4,760,441)	(146,547)
INCOME BEFORE INCOME TAX	13,150,676	16,305,240	501,947
INCOME TAX (Note IV)	(2,181,763)	(2,274,288)	(70,013)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	10,968,913	14,030,952	431,934
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF TAX $0) (Note III)	714,676	-	-
NET INCOME	$ 11,683,589	$ 14,030,952	$ 431,934
EARNINGS PER SHARE (In Dollars) (Note IV)			
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 1.71	$ 2.19	$ 0.07
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	0.11	-	-
NET INCOME	$ 1.82	$ 2.19	$ 0.07

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

See report of independent accountants dated March 11, 2008.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(FORMERLY KNOWN AS THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF DOLLARS)

Items	Capital Stock	Capital Reserve	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses on Available-For-Sale Financial Assets	Net Loss Not Recognized as Pension Costs	Total
(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
Appropriation of 2005 earnings										
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 2006	-	-	-	-	11,683,589	-	-	-	-	11,683,589
Increase in capital reserve resulting from investments 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

(Continued)

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(FORMERLY KNOWN AS THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF DOLLARS)

Items	Capital Stock	Capital Reserve	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses on Available-For-Sale Financial Assets	Net Loss Not Recognized as Pension Costs	Total
(New Taiwan Dollars)										
Balance, January 1, 2007	$ 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
Appropriation of 2006 earnings										
Legal reserve	-	-	3,505,077	-	(3,505,077)	-	-	-	-	-
Special reserve	-	-	-	37,076	(37,076)	-	-	-	-	-
Cash dividends and bonus	-	-	-	-	(9,360,043)	-	-	-	-	(9,360,043)
Bonus to employees	-	-	-	-	(195,395)	-	-	-	-	(195,395)
Net income for 2007	-	-	-	-	14,030,952	-	-	-	-	14,030,952
Increase in capital reserve resulting from investments accounted for by the equity method	-	3,905	-	-	-	-	-	-	-	3,905
Changes in cumulative translation adjustments	-	-	-	-	-	-	707,128	-	-	707,128
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	(2,749,683)	-	(2,749,683)
Balance, December 31, 2007	$ 64,109,878	$ 33,070,660	$ 30,752,520	$ 1,435,713	$ 17,758,165	$ 1,677,192	$ 2,006,655	$ 1,646,759	$ -	$ 152,457,542
(US Dollars) (Uuaudited-Note Ⅱ)										
Balance, January 1, 2007	$ 1,973,583	$ 1,017,940	$ 838,796	$ 43,056	$ 517,941	$ 51,631	$ 40,005	$ 135,342	$ -	$ 4,618,294
Appropriation of 2006 earnings										
Legal reserve	-	-	107,901	-	(107,901)	-	-	-	-	-
Special reserve	-	-	-	1,142	(1,142)	-	-	-	-	-
Cash dividends and bonus	-	-	-	-	(288,143)	-	-	-	-	(288,143)
Bonus to employees	-	-	-	-	(6,015)	-	-	-	-	(6,015)
Net income for 2007	-	-	-	-	431,934	-	-	-	-	431,934
Increase in capital reserve resulting from investments accounted for by the equity method	-	120	-	-	-	-	-	-	-	120
Changes in cumulative translation adjustments	-	-	-	-	-	-	21,769	-	-	21,769
Unrealized gains or losses on available-for-sale financial assets	-	-	-	-	-	-	-	(84,648)	-	(84,648)
Balance, December 31, 2007	$ 1,973,583	$ 1,018,060	$ 946,697	$ 44,198	$ 546,674	$ 51,631	$ 61,774	$ 50,694	$ -	$ 4,693,311

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

See report of independent accountants dated March 11, 2008.

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, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF DOLLARS)

	2006	2007	2007
	New Taiwan Dollars		US Dollars (Unaudited - Note Ⅱ)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 11,683,589	$ 14,030,952	$ 431,934
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Loss on asset impairment	2,695,112	1,986,609	61,157
Loss (gain) from equity investments recognized under the equity method	438,927	(645,771)	(19,880)
Cash dividends and remuneration of directors and supervisors received from investments accounted for under the equity method	128,029	289,962	8,926
Gain on disposal of properties	(605,462)	(114,004)	(3,510)
Provisions for loan losses	8,415,273	6,452,134	198,625
Depreciation and amortization	922,424	807,416	24,856
(Increase) decrease in operating assets			
Decrease (increase) in financial assets at fair value through profit or loss	11,841,371	(14,266,658)	(439,190)
Increase in securities purchased under agreements to resell	(1,127,432)	(226,570)	(6,975)
Increase in receivables	(1,640,559)	(11,783,192)	(362,738)
(Increase) decrease in other financial assets	(2,495,075)	3,528,069	108,609
Net change in deferred income tax assets / liabilities	(420,779)	(131,444)	(4,046)
(Decrease) increase in operating liabilities			
Decrease in payables	(3,605,971)	(6,591,885)	(202,927)
Increase in financial liabilities at fair value through profit or loss	1,480,116	906,170	27,896
Increase (decrease) in securities sold under agreements to repurchase	5,724,009	(21,641,351)	(666,216)
Decrease in accrued pension liabilities	(156,252)	(4,854)	(149)
Increase (decrease) in other financial liabilities	4,120,162	(128,602)	(3,959)
Net cash provided by (used in) operating activities	37,397,482	(27,533,019)	(847,587)
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in due from the Central Bank and call loans to banks	(72,862,111)	6,449,525	198,544
Increase in available-for-sale financial assets	(1,314,516)	(3,852,867)	(118,608)
Increase in bills discounted and loans	(34,790,077)	(86,020,664)	(2,648,093)
Decrease in held-to-maturity financial assets	97,852,664	6,327,638	194,792
Increase in investments accounted for by the equity method	(803,108)	(100,000)	(3,078)
Additions to properties and equipment	(570,586)	(469,109)	(14,441)
Proceeds from disposal of properties and equipment	670,327	404,229	12,444
Increase (decrease) in other assets	(162,345)	499,957	15,391
Net cash used in investing activities	(11,979,752)	(76,761,291)	(2,363,049)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Decrease) increase in due to the Central Bank and commercial banks	(6,832,245)	8,268,309	254,535
Increase in deposits and remittances	28,585,229	160,665,390	4,945,985
Decrease in borrowed funds	(20,149,254)	(13,441,027)	(413,774)
(Decrease) increase in bonds issued	(14,703,015)	2,455,452	75,590
Increase in other liabilities	166,747	2,557,344	78,726
Distribution of bonus to employees	(579,633)	(195,395)	(6,015)
Distribution of cash dividends and bonus	(9,033,469)	(9,360,043)	(288,143)
Net cash (used in) provided by financing activities	(22,545,640)	150,950,030	4,646,904
EFFECTS OF EXCHANGE RATE CHANGES	(171,070)	424,663	13,073
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,701,020	47,080,383	1,449,341
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,937,595	42,638,615	1,312,603
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 42,638,615	$ 89,718,998	$ 2,761,944
SUPPLEMENTAL INFORMATION:			
Interest expense paid	$ 37,146,384	$ 38,544,388	$ 1,186,565
Income tax paid	$ 1,316,489	$ 1,088,919	$ 33,522

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 11, 2008.

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
(FORMERLY KNOWN AS THE INTERNATIONAL COMMERCIAL BANK OF CHINA CO., LTD.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS EXCEPT AS INDICATED)

Ⅰ. ORGANIZATION AND OPERATIONS

Mega International Commercial Bank Co., Ltd. (the "Bank"; formerly known as The International Commercial Bank of China Co., Ltd.) was reorganized on December 17, 1971 in accordance with the "Law for International Commercial Bank of China" as 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 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 Bank was later renamed Mega International 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) investment 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, 2007, the Bank had 104 domestic branches, 19 foreign branches, and 1 foreign representative office.

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, 2007, the Bank had 5,103 employees.

Ⅱ. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in conformity with the "Guidelines Governing the Preparation of Financial Reports by Publicly Held Banks", "Business Entity Accounting Law", "Regulations on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China. The significant accounting policies of the Bank are summarized below:

1. Basis for preparation of financial statements

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

2. Foreign-currency transactions and translations

(1) The Bank maintains its accounts at the currencies in which transactions are denominated. Foreign currency 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 denominated assets or liabilities regulated by the Statement of Financial Accounting Standards (SFAS) No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments : Disclosure and Presentation" are translated into NT dollars at the prevailing exchange rates at the end of each month. The resulting translation differences are recognized as gain or loss in the current period. However, for translation gains or losses associated with cash flow hedges, foreign net investment hedges and equity investments accounted for by the equity method, cumulative translation adjustments under stockholders' equity is recognized.

(2) Non-monetary financial assets or liabilities regulated by SFAS No. 34 and No. 36 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 item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

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

The foreign-currency denominated financial statements of foreign branches and the representative offices are translated into NT dollars at the following exchange rates: 1) assets and liabilities –at the spot exchange rates prevailing at the balance sheet date, 2) head office account – except for the retained earnings which is carried forward from last year's balance, the remaining balances are stated at historical rates, 3) dividends – at the prevailing rates when the dividends are declared, and 4) income and expenses – at the weighted-average rate for the period. The cumulative translation adjustments are included in the stockholders' 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 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation" to account for its financial assets and liabilities. On initial recognition, financial assets and 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 capitalized.

Except for stocks and funds which are recognized using trade date accounting, all financial assets and financial liabilities held by the Bank are recognized using settlement 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 liabilities held for trading and financial assets or 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. Financial assets or liabilities designated at fair value through profit or loss are to eliminate or decrease inconsistency for an accounting measurement, which are initially recognized at fair value through profit or loss and recognized unrealized profit or loss in the current period.

(2) Available-for-sale financial assets

Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair values are recognized as adjustments in equity except for impairment loss and translation gain or loss associated with foreign-currency denominated monetary assets. When the investment is derecognized, the cumulative gain or loss which had been recognized directly 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 remeasured at amortized cost calculated using the effective interest method. Gains or losses are recognized at the time of derecognition, impairment or amortization.

(4) Financial assets carried at cost

Investments in non-publicly traded stocks, emerging stocks and mutual funds where the Bank does not exercise significant influence are carried at their original cost calculated by the acquisition cost plus the aggregate par value of any stock dividends received before 1984. An investment in the common stock of a foreign investee is also 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

Unquoted debt securities with fixed or determinable collections are classified as investments in debt securities with no active market and subsequently remeasured at cost under the effective interest method. Gains or losses are recognized at the time of derecognition, impairment or amortization.

(6) Financial liabilities

On subsequent measurement, the Bank remeasured and stated all financial liabilities at amortized cost. However, financial liabilities at fair value through profit and loss and derivative financial liabilities for hedging are both measured at fair value.

The above-mentioned fair value is determined by reference to the closing price at the balance sheet date for listed stocks, the net asset value for open-ended funds, and the quoted price at the balance sheet date for bonds. For other investments, the fair value is estimated using various valuation techniques where appropriate.

5. Derivative financial instruments

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

(1) Under the "Financial Assets Securitization Act", 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. Having surrendered the control of contractual rights on the loans and transferred to a special purpose trustee, the Bank derecognized all the enterprise loans and recorded gain or loss accordingly. In accordance with the Explanatory Letter (96) Ji-Mi-Zi No.0000000304, subordinated beneficiary certificates retained for the originator means the originator still holds the retained interests of the subordinated beneficiary securities. The retained interests of the subordinated beneficiary securities may be unable to recover most of the original investment cost due to the reasons other than obligor's credit deterioration (such as effects of risk associated with beneficiary securities). Under this case, it should be reclassified as available-for-sale financial assets or financial assets at fair value through profit or loss. Except for subordinated beneficiary certificates retained for credit enhancement which was reclassified as other financial assets instead.

(2) The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The aforementioned carrying amount of the loans should be allocated in proportion to the fair values of the part retained and the part sold on the date of sale. Since 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.

(3) Interest income is recognized with respect to subordinated beneficiary securities when the Trustee pays the interest.

7. Hedge accounting

When fair value hedges, cash flow hedges and net investment hedges in foreign operations meet the criteria for hedge accounting, net method is adopted for recognition of gain or loss arising from changes in fair values of all hedge instruments and hedged items. Related accounting methods are as follows:

(1) Fair value hedges: When a derivative financial instrument is used as the underlying hedging instrument, fair value is applied for valuation. When a 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) Net investment hedge 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 resale/repurchase agreements

Bonds sold/purchased with a commitment to repurchase/resell them at predetermined prices are treated as financing transactions. The accounting methods applied are 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 resale agreement, bonds and bills purchased under resale 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 loans to banks, receivables and bills discounted and loans based on a review of its collectibility.

(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. Bills discounted and loans

(1) Bills discounted and loans are recorded at the basis of outstanding principal amounts. Any unsettled bills discounted 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 no longer be accrued.

(2) Non-accrual loans transferred from loans should be recorded under bills discounted 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 which hold 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 reductions in the carrying amount of the investments. Stock dividends received are accounted for by the increase in the number of shares held by the Bank without any impact to the carrying amount of the investments and net income.

(3) If an investee's capital reserve increases due to 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 stockholders' 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, the difference attributable to goodwill is no longer amortized beginning on 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. Consolidated financial statements are not required to be prepared for the first and third quarters.

12. Valuation and depreciation of properties 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 principles 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 properties

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 of 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 reach $200 million. 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 Bank of Taiwan under the name of the committee. In addition, the Bank makes contributions and payments 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 based on 6% of the employees' monthly wages.

(3) Pension costs are based on actuarial calculations, with the unrecognized net transitional obligation being amortized over 15 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 loans and renewal of agreements is recorded as deferred revenue and subsequently recognized as income upon interest receipts.

(2) Service fee income is recognized when the services are rendered.

17. Use of estimates

In preparing the financial statements in conformity with generally accepted accounting principles in the R.O.C., the management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues, costs of revenues, and expenses during the reporting period. Therefore, actual results could differ from those estimates.

18. Asset impairment

The Bank assesses impairment for all assets within the scope of SFAS No. 35 "Impairment of Assets" 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.

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

20. 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 a 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 as other liabilities.

21. 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 the notes to the financial statements.

22. Business combination

On August 21, 2006, the Bank merged with Chiao Tung Bank Co., Ltd. with the Bank as the surviving entity and the latter as the dissolved entity. As a result of the merger, the Bank implemented a stock swap using the relevant accounting treatment for the reorganization of jointly controlled subsidiaries. The consolidated financial statements have 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).

23. Convenience translation into US dollars (Unaudited)

The Bank maintains its accounting records and prepares its financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the 2007 financial statements are presented solely for the convenience of the readers and were translated into US dollars using the exchange rate prevailing at December 31, 2007 of US$1:NT$32.484. Such translation amounts are not in accordance with generally accepted accounting principles in the Republic of China and should not be construed as representation that the New Taiwan dollar amounts represent, or have been or could be converted into United States dollars at that or any other rate.

Ⅲ. CHANGES IN ACCOUNTING POLICIES

The Bank adopted ROC 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. The 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 seperate component of stockholders' equity for financial assets carried at amortized cost and available-for-sale financial assets.

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

	Recognized as cumulative effect of changes in accounting principles	Recognized as a separate component of stockholders' equity
	NT	NT
Financial assets at fair value through profit or loss	$ 707,005	$ -
Available-for-sale financial assets	-	3,141,356
Financial liabilities at fair value through profit or loss	7,671	-
Total	$ 714,676	$ 3,141,356

The above mentioned changes in accounting principle resulted in the NT$714,677 thousand and NT$0.11 increase in the Bank's net income and earnings per share for the year 2006.

IV. DETAILS OF SIGNIFICANT ACCOUNT BALANCES

1. CASH AND CASH EQUIVALENTS

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Cash on hand	$ 10,591,242	$ 10,427,280	$ 320,997
Revolving funds	5,002	4,668	144
Checks for clearing	8,337,356	990,432	30,490
Due from commercial banks	23,705,015	78,296,618	2,410,313
Total	$ 42,638,615	$ 89,718,998	$ 2,761,944

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

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Overdraft to banks	$ 33,194	$ 493	$ 15
Call loans to banks	227,623,268	203,246,544	6,256,820
Due from the Central Bank:			
Reserve for deposits – category A	7,435,752	9,257,892	284,999
Reserve for deposits – category B	19,139,082	21,692,591	667,793
Reserve for deposits – foreign currency	512,653	8,685,437	267,376
Ggeneral deposits	1,100,289	6,511,809	200,462
Total	255,844,238	249,394,766	7,677,465
Less: allowance for probable losses	(1,979)	(467)	(14)
Net	$ 255,842,259	$ 249,394,299	$ 7,677,451

As required by relevant laws, 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

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Financial assets held for trading:			
Stocks	$ 3,108,843	$ 1,610,452	$ 49,577
Beneficiary certificates	1,396,755	566,344	17,435
Financial bonds	1,242,499	1,288,984	39,681
Derivative financial instruments	1,230,838	384,159	11,826
Financial assets designated by the Bank at fair value through profit or loss:			
Stocks	10,605	2,839	87
Corporate bonds	23,226,004	20,392,313	627,765
Government bonds	11,441,033	7,823,105	240,829
Financial bonds	20,728,045	11,244,013	346,140
Certificates of deposits	7,198,822	40,090,820	1,234,171
Derivative financial instruments	1,055,646	1,502,719	46,260
Total	$ 70,639,090	$ 84,905,748	$ 2,613,771

As of December 31, 2007, the aforementioned financial assets at fair value through profit or loss were not pledged to other parties as collateral.

4. RECEIVABLES – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Accounts receivable	$ 52,552,084	$ 63,590,279	$ 1,957,587
Earned revenue receivable	166,745	156,213	4,809
Accrued interest	6,695,402	6,937,630	213,571
Acceptances	11,569,620	12,085,074	372,032
Other receivables	2,334,562	1,263,932	38,909
Total	73,318,413	84,033,128	2,586,908
Less: allowance for probable losses	(1,587,808)	(1,571,090)	(48,365)
Net	$ 71,730,605	$ 82,462,038	$ 2,538,543

5. BILLS DISCOUNTED AND LOANS – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Inward/Outward documentary bills	$ 14,258,921	$ 17,071,044	$ 525,522
Discounts	115,111	109,047	3,357
Overdrafts	115,632	141,408	4,353
Short-term loans	190,534,429	196,986,561	6,064,110
Secured overdrafts	1,075,409	516,006	15,885
Short-term secured loans	97,808,305	112,521,537	3,463,906
Medium-term loans	221,203,636	242,857,844	7,476,230
Medium-term secured loans	191,271,518	204,524,514	6,296,162
Long-term loans	120,957,437	125,018,742	3,848,625
Long-term secured loans	280,178,106	293,305,675	9,029,235
Non-accrual loans	7,481,322	9,920,122	305,385
Total	1,124,999,826	1,202,972,500	37,032,770
Less: allowance for probable losses	(11,110,927)	(8,668,115)	(266,843)
Net	$ 1,113,888,899	$ 1,194,304,385	$ 36,765,927

(1) For the years ended December 31, 2006 and 2007, the Bank had not written-off bills discounted and loans without initiating any legal proceedings to collect such bills discounted and loans.

(2) As of December 31, 2006 and 2007, all balances of bills discounted and loans for which interest revenue was no longer accrued amounted to NT$7,827,742 thousand and NT$9,920,122 thousand. The unrecognized interest revenue on the above bills discounted and loans amounted to NT$373,144 thousand and NT$470,746 thousand for the years ended December 31, 2006 and 2007, respectively.

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

	NT		
January 1, 2006 to December 31, 2006	Specific Risk	General Risk	Total
Balance, January 1, 2006	$ 5,434,303	$ 4,615,006	$ 10,049,309
Provisions	3,314,084	2,966,000	6,280,084
Write-off-net	(7,320,156)	-	(7,320,156)
Reclassification	(17,360)	-	(17,360)
Recovery of written-off credits	2,090,176	-	2,090,176
Effects of exchange rate changes	8,947	19,927	28,874
Balance, December 31, 2006	$ 3,509,994	$ 7,600,933	$ 11,110,927

	NT			US (Unaudited)		
January 1, 2007 to December 31, 2007	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
Balance, January 1, 2007	$ 3,509,994	$ 7,600,933	$ 11,110,927	$ 108,053	$ 233,990	$ 342,043
Provisions	8,336,545	(2,731,367)	5,605,178	256,635	(84,083)	172,552
Write-off-net	(10,116,267)	-	(10,116,267)	(311,423)	-	(311,423)
Recovery of written-off credits	2,072,680	-	2,072,680	63,806	-	63,806
Effects of exchange rate changes and others	(55,325)	50,922	(4,403)	(1,703)	1,568	135
Balance, December 31, 2007	$ 3,747,627	$ 4,920,488	$8,668,115	$ 115,368	$ 151,475	$ 266,843

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.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Stocks	$ 9,980,130	$ 8,860,756	$ 272,773
Commercial papers	6,049,005	4,300,516	132,389
Government bonds	33,346,575	30,379,599	935,217
Treasury bills	-	179,096	5,513
Corporate bonds	27,010,108	21,185,058	652,169
Acceptances	198,945	-	-
Beneficiary certificates	391,723	1,380,286	42,491
Beneficiary securities	17,117,460	16,282,717	501,254
Financial bonds	8,482,729	15,366,100	473,036
Central Bank's certificates of deposit	-	5,198,706	160,039
Total	$ 102,576,675	$ 103,132,834	$ 3,174,881

(1) As of December 31, 2006 and 2007, the available-for-sale financial assets amounted to NT$755,541 thousand and NT$6,060,963 thousand, respectively, and were pledged to other parties as collateral for business reserves and guarantees.

(2) As of December 31, 2006 and 2007, 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$36,094,287 thousand and NT$14,452,936 thousand, respectively. Such repurchase agreements were posted to the "Securities sold under repurchase agreements" account on the Bank's balance sheet.

(3) The Bank invested in subordinated beneficiary securities of "Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1" and "First Commercial Bank Co., Ltd. Collateralized Bond Obligation Special Purpose Trust 2006-2" amounting to

NT$1,685,279 thousand and NT$384,870 thousand, respectively, and the expected maturity dates are December 2010 and April 13, 2011, respectively. The Bank reclassified the aforesaid subordinated beneficiary securities from "other financial assets – non active market" to "available-for-sale financial assets" in accordance with the Explanatory Note (96) No. 0000000304 of the Accounting Research and Development Foundation of the R.O.C. dated November 19, 2007.

The Bank also acts as a credit impaired asset put and clean up put provider of "Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1" and "First Commercial Bank Co., Ltd. Collateralized Bond Obligation Special Purpose Trust 2006-2". When the credit rating of senior beneficiary securities (assets backed commercial paper) will not be at least "twA-3", the rating institution will send "Credit Impaired Asset Notice", and then the Bank should purchase the credit impaired assets in order to maintain the rating of senior beneficiary securities not lower than "twA-3".

Both securitized trust assets are New Taiwan dollar-denominated bonds and U.S. residential mortgage backed securities. Special purpose trusts are rated by Taiwan Ratings Corporation and U.S. residential mortgage backed securities are rated by Standard & Poor. As of December 31, 2007, no default occurred in the asset pool Special purpose trust reserve is sufficient for the cash flow model required by special purpose trust; no actual loss has been incurred.

As of December 31, 2007, the credit rating of senior beneficiary securities issued by "Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1" remained "twA-2". The credit rating of partial U.S. residential mortgage backed securities amounting to US$33,207 thousand dollars of the "First Commercial Bank Co., Ltd. Collateralized Bond Obligation Special Purpose Trust 2006-2" was downgraded by Standard & Poor. To maintain the credit rating of "twA-3" as the senior beneficiary securities was revolving issued on January 14, 2008, the Bank purchased the credit impaired assets in the amount of US$33,207 thousand dollars in accordance with the "Trust Agreement" and "Credit Impaired Asset Put and Clean Up Put Agreement". The Bank set aside reserve for loss amounting to NT$806,598 thousand in the end of 2007.

7. HELD-TO-MATURITY FINANCIAL ASSETS – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Government bonds	$ 3,267,679	$ 1,851,251	$ 56,990
Central Bank's certificates of deposit	82,510,000	76,410,000	2,352,235
Financial bonds	6,279,649	9,769,272	300,741
Corporate bonds	3,342,262	1,172,029	36,080
Beneficiary securities	210,600	210,600	6,483
Others	130,600	-	-
Total	$ 95,740,790	$ 89,413,152	$ 2,752,529

As of December 31, 2006 and 2007, held-to-maturity financial assets amounting to NT$16,870,495 thousand and NT$13,828,152 thousand, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD – NET

	December 31, 2006		December 31, 2007		
	Book value	% of	Book value		% of
Investee Companies	(NT)	ownership	NT	US (Unaudited)	ownership
Mega International Commercial Bank Public Co., Ltd. (Formerly known as International Commercial Bank of China Public Co., Ltd. (Thailand))	$ 3,839,909	100.00	$ 4,252,567	$ 130,913	100.00
Mega International Commercial Bank (Canada) (Formerly known as International Commercial Bank of Cathay (Canada))	783,211	100.00	992,390	30,550	100.00
Cathay Investment & Development Corporation (Bahamas)	694,964	100.00	721,013	22,196	100.00
CTB Financial Management & Consulting Co., Ltd.	79,490	100.00	76,838	2,365	100.00
Cathay Investment & Warehousing Ltd.	45,987	100.00	48,007	1,478	100.00
Ramlett Finance Holdings Inc.	-	100.00	-	-	100.00
Yung-Shing Industries Co.	724,480	95.22	758,590	23,353	99.56
China Products Trading Company	63,916	68.27	65,757	2,024	68.27
Mega International Securities Investment Trust Corporation (Note)	236,820	53.13	250,427	7,709	32.79
United Venture Capital Corp.	169,888	25.31	191,982	5,910	25.31
CTB 1 Venture Capital Co., Ltd.	296,447	25.00	270,795	8,336	25.00
IP Fundseven Ltd.	138,553	25.00	235,557	7,251	25.00
An Fang Co., Ltd.	10,704	25.00	11,260	347	25.00
Taiwan Finance Co.	1,369,440	24.55	1,270,335	39,107	24.55
Everstrong Iron Steel & Foundry & Mfg Corp.	28,420	22.22	32,468	1,000	22.22
China Real Estate Management Co., Ltd.	123,359	20.00	120,649	3,714	20.00
Total	$ 8,605,588		$ 9,298,635	$ 286,253	

Note: International Securities Investment Trust Co., Ltd. entered into a merger contract with Mega International Securities Investment Trust Co., Ltd. on September 17, 2007 with Mega International Securities Investment Trust Co., Ltd. as the dissolving company and International Securities Investment Trust Co., Ltd. as the surviving company which is then renamed as "Mega International Securities Investment Trust Co., Ltd.".

(1) The above listed investments and the related investment income accounted for by the equity method were recognized based on the investee's audited financial statements. Other equity investments income was recognized based on the investee's unaudited financial statements. However, the Bank anticipated no significant impact if those financial statements have been audited.

(2) For the year ended December 31, 2006, the realized loss of NT$66,009 thousand, 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 capital reserve in investees for the year ended December 31, 2007, the amount of $3,905 thousand was adjusted to capital reserve.

(4) Due to the changes in ownership percentage in investees accounted for under the equity method for the year ended December 31, 2006, the difference of NT$28,724 thousand was adjusted to capital reserve.

(5) As of December 31, 2006 and 2007, equity investments accounted for under the equity method were not pledged as collateral.

(6) Investee companies in which the Bank holds more than 50% of ownership had been included in the preparation of the consolidated financial statements except for those wherein no significant impact were expected.

9. OTHER FINANCIAL ASSETS – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Financial assets carried at cost:			
Stocks	$ 24,141,043	$ 22,188,048	$ 683,045
Debt investment with no active market:			
Beneficiary securities	4,628,149	1,416,345	43,601
Corporate bonds	130,600	129,936	4,000
Bills purchased	77,010	46,545	1,433
Non accrual loans transferred from overdue receivables – net	51,119	175,371	5,399
Total	$ 29,027,921	$ 23,956,245	$ 737,478

(1) For the years ended December 31, 2006 and 2007, the amounts of impairment loss recognized by the Bank due to investees operating at loss over an extended period of time were NT$2,440,185 thousand and NT$1,376,820 thousand, respectively.

(2) Of the beneficiary securities balance disclosed above, NT$1,070,000 thousand (matured and paid off on December 18, 2007) 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 Hong Kong and Shanghai Banking Corporation Limited, Taipei Branch (HSBC, Taipei Branch) 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, Taipei Branch have no recourse to the other assets of the Bank. Due to the holders of subordinated certificates having 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
Maturity date	December 18, 2007
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%	-

Key assumptions used in measuring retained interests	December 31, 2006
Prepayment rate	0%
Expected weighted-average life	3 years
Expected credit losses (September 30, 2006)	0%
Discounted rate for residual cash flows (September 30, 2006)	1.631%

B. Cash flows: Proceeds from securitizations amounted to NT$4,280,000 thousand.

C. As of December 31, 2007, the repayment of these securitized enterprise loans were paid off.

10. OTHER ASSETS – NET

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Prepayment	$ 173,079	$ 169,628	$ 5,222
Prepaid tax	619,328	430,457	13,251
Other prepaid expenses	1,568,341	1,517,330	46,710
Deferred income tax – net	963,045	831,601	25,600
Refundable deposits	331,831	341,235	10,505
Temporary payments	469,477	555,640	17,105
Foreclosed property	77,675	651	20
Accumulated impairment and accumulated depreciation	(17,826)	(651)	(20)
Others	466,937	412,830	12,709
Net	$ 4,651,887	$ 4,258,721	$ 131,102

11. DUE TO THE CENTRAL BANK AND COMMERCIAL BANKS

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Due to Central Bank	$ 243,475,648	$ 254,243,821	$ 7,826,740
Due to other banks	19,511,519	20,133,404	619,795
Transfer deposits from Taiwan Post Co.	62,232,852	77,503,067	2,385,884
Overdrafts from other banks	3,441,585	100,932	3,107
Call loan from other banks	26,260,385	11,209,074	345,064
Total	$ 354,921,989	$ 363,190,298	$ 11,180,590

12. BORROWED FUNDS

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Refinancing to borrow funds from Central Bank	$ 14,152,513	$ 12,962,739	$ 399,050
Other funds borrowed from Central Bank	9,550,595	13,448,376	414,000
Funds borrowed from other banks	32,735,318	16,586,284	510,599
Total	$ 56,438,426	$ 42,997,399	$ 1,323,649

13. FINANCIAL LIABILITIES AT FAIR VALUE THORUGH PROFIT OR LOSS

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Financial liabilities held for trading:			
Derivative financial instruments	$ 249,921	$ 754,915	$ 23,240
Financial liabilities designated at fair value through profit or loss:			
Financial bonds	47,456,520	49,323,996	1,518,409
Derivative financial instruments	1,746,911	2,148,087	66,127
Total	$ 49,453,352	$ 52,226,998	$ 1,607,776

14. PAYABLES

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Accounts payable	$ 20,365,116	$ 12,485,621	$ 384,362
Bankers' acceptances	11,798,000	12,530,433	385,742
Collections payable for customers	1,130,555	750,412	23,101
Accrued interests	5,900,759	6,321,016	194,589
Dividends and bonus payable	5,679,263	5,679,263	174,833
Income tax payable	2,692,850	2,414,478	74,328
Other payables	1,654,345	2,139,232	65,855
Accrued expense	3,716,824	3,602,099	110,888
Other payable – parent company account (Note)	1,228,578	1,653,931	50,915
Total	$ 54,166,290	$ 47,576,485	$ 1,464,613

(Note) Please refer to Notes IV 24 and V.

15. DEPOSITS AND REMITTANCES

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Checking deposit	$ 25,895,521	$ 23,562,425	$ 725,355
Demand deposit	230,696,716	265,501,856	8,173,312
Time deposit	412,573,192	528,174,612	16,259,531
Savings	385,079,112	394,547,861	12,145,913
Remittances	9,385,902	12,509,079	385,084
Total	$ 1,063,630,443	$ 1,224,295,833	$ 37,689,195

16. FINANCIAL BONDS PAYABLE

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Subordinated Bonds	$ 10,800,000	$ 16,500,000	$ 507,943
Coordinated Bonds	7,827,895	2,715,871	83,606
Total	$ 18,627,895	$ 19,215,871	$ 591,549

17. ACCRUED PENSION LIABILITIES

(1) Net pension cost comprises the following:

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Service cost	$ 484,605	$ 494,290	$ 15,216
Interest cost	205,164	209,487	6,449
Expected return on plan assets	(163,889)	(154,068)	(4,743)
Amortization	69,117	46,703	1,438
Net pension cost	$ 594,997	$ 596,412	$ 18,360

(2)

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Benefit obligation			
Vested benefit obligation	($ 4,912,892)	($ 5,385,259)	($ 165,782)
Non-vested benefit obligation	(2,064,736)	(2,085,434)	(64,199)
Accumulated benefit obligation	(6,977,628)	(7,470,693)	(229,981)
Effect of future salary increments	(1,599,383)	(2,969,209)	(91,405)
Projected benefit obligation	(8,577,011)	(10,439,902)	(321,386)
Fair value of plan assets	6,102,715	6,740,979	207,517
Funded status	(2,474,296)	(3,698,923)	(113,869)
Unrecognized net transition obligation	239,944	218,266	6,719
Unrecognized service cost in prior year	128,822	106,182	3,269
Non-amortization of gain or loss on plan assets	896,498	2,170,297	66,811
Minimum pension liabilities should be recognized	-	-	-
Accrued pension liabilities	($ 1,209,032)	($ 1,204,178)	($ 37,070)

(3) Actuarial assumptions

	2006	2007
Discount rate	2.50%	3.00%
Rate of compensation increase in salaries	1.75%	3.00%
Expected rate of return on plan assets	2.50%	3.00%

(4) Effective July 1, 2005, the Bank established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Bank contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employment is terminated. The pension costs under the defined contribution pension plan for the years ended December 31, 2006 and 2007 were NT$30,373 thousand and NT$38,516 thousand, respectively.

18. OTHER FINANCIAL LIABILITIES

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Commercial papers payable	$ 9,035,740	$ 9,991,415	$ 307,580
Appropriation for loans	9,631,177	8,549,274	263,184
Reserve for loans	112,569	110,195	3,392
Total	$ 18,779,486	$ 18,650,884	$ 574,156

19. OTHER LIABILITIES

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Refundable deposits	$ 2,118,325	$ 2,168,065	$ 66,743
Reserve for losses on guarantees	1,441,923	1,854,238	57,082
Temporary credits	3,078,055	3,383,417	104,156
Others	2,395,104	3,787,189	116,586
Total	$ 9,033,407	$ 11,192,909	$ 344,567

20. CAPITAL STOCK

As of January 1, 2006, the Bank had an authorized share capital of NT$37,261,000 thousand, consisting of 3,726,100 thousand shares with 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 share capital totaled to NT$64,109,878 thousand, consisting of 6,410,988 thousand shares.

21. RETAINED EARNINGS AND DIVIDEND 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:

A. 30% as legal reserve, unless the balance in the Bank's legal reserve is equivalent to the total capital reserve;

B. Special reserve based on operating requirements; and

C. 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 the 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) Unappropriated retained earnings information:

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
1998 and onward	$ 16,824,804	$ 17,758,165	$ 546,674

(4) The appropriations and distributions for 2006 approved by the Bank's Board of Directors on the stockholders' behalf on April 26, 2007 were as follows:

Dividends and bonuses to shareholders	NT$1.46 dollars per share
Bonus to employees	NT$195,395 thousand

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

Dividends and bonuses to shareholders	NT$1.43 dollars per share
Bonus to employees	NT$257,447 thousand

(6) The appropriations and distributions for 2005 approved by CTB's Board of Directors on the stockholders' behalf on April 18, 2006 were as follows:

Dividends and bonuses to shareholders	NT$1.38 dollars per share
Bonus to employees	NT$322,186 thousand

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

22. FEE INCOME – NET

	2006	2007	
	NT	NT	US (Unaudited)
Service fee income	$ 6,095,282	$ 7,030,108	$ 216,417
Service fee charges	(834,823)	(776,767)	(23,912)
Net service fee income	$ 5,260,459	$ 6,253,341	$ 192,505

23. STAFF, DEPRECIATION AND ADMORTIZATION EXPENSES

The following is a summary of the components of staff, depreciation, and amortization expenses for the years ended December 31, 2006 and 2007, respectively.

	January 1 to December 31,		
	2006	2007	
	NT	NT	US (Unaudited)
Staff expenses			
Payroll expense	$ 7,336,103	$ 7,646,149	$ 235,382
Staff insurance	371,363	380,395	11,710
Pension	1,091,429	651,648	20,061
Other staff expenses	458,894	360,658	11,102
	$ 9,257,789	$ 9,038,850	$ 278,255
Depreciation	$ 849,285	$ 784,653	$ 24,155
Amortization	$ 73,139	$ 22,763	$ 701

24. INCOME TAX

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

	January 1 to December 31,		
	2006	2007	
	NT	NT	US (Unaudited)
Income tax payable – current period	$ 1,785,965	$ 1,763,510	$ 54,289
10% tax on unappropriated retained earnings	278,940	-	-
Separate tax expenses	583,847	379,334	11,678
Deferred income tax benefit	(480,533)	131,444	4,046
Adjustments of prior years' income taxes	13,544	-	-
Total	$ 2,181,763	$ 2,274,288	$ 70,013

(2) As of December 31, 2007, the income tax returns of the Bank through 2002 have 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, 2000 and 2002.

(3) Deferred income taxes as of December 31, 2006 and 2007 consisted of deferred income tax assets – net (presented as part of other assets), as follows:

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
A. Total deferred income tax liabilities	$ 970,915	$ 1,346,292	$ 41,445
B. Total deferred income tax assets	$ 1,933,960	$ 2,177,893	$ 67,045
C. Valuation allowance for deferred income tax assets	$ -	$ -	$ -
D. Temporary differences resulting in deferred income tax assets:			
Provision for employees pension liabilities	$ 1,161,490	$ 249,653	$ 7,685
Bad debt expenses in excess of the amount determined by tax regulation	741,346	-	-
Adjustments for depreciation	668,921	237,382	7,308
Unrealized loss on investments	3,755,124	1,187,767	36,565
Others	200,004	168,721	5,194
E. Temporary differences resulting in deferred income tax liabilities:			
Unrealized foreign exchange gains	$ 1,780,388	$ 724,827	$ 22,313
Cumulative equity in net income of foreign investees	1,011,476	330,089	10,162
Unrealized gain on derivative financial instruments	853,203	254,020	7,820
F. Deferred income tax assets	$ 1,631,721	$ 1,888,523	$ 58,137
Deferred income tax assets attributed to foreign branches	302,239	289,370	8,908
Deferred income tax liabilities	(911,266)	(1,308,936)	(40,295)
Deferred income tax liabilities attributed to foreign branches	(59,649)	(37,356)	(1,150)
Deferred income tax assets (liabilities) – net	$ 963,045	$ 831,601	$ 25,600

(4) The information on the implementation of the integrated income tax system as of December 31, 2006 and 2007 is as follows:

	December 31, 2006	December 31, 2007	
	NT	NT	US (Unaudited)
Balances of the imputed tax	$ 625,895	$ 444,302	$ 13,678

A. The creditable tax ratio for distributing 2006 earnings was 5.59%.

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,	
	2006	2007
Weighted-average shares outstanding (shares in thousand)	6,410,988	6,410,988

	January 1 to December 31,					
	2006		2007			
	NT		NT		US (Unaudited)	
	Pre-tax	After tax	Pre-tax	After tax	Pre-tax	After tax
Net income before cumulative effect of changes in accounting principles	$ 13,150,676	$10,968,913	$16,305,240	$14,030,952	$ 501,947	$ 431,934
Cumulative effect of changes in accounting principles	714,676	714,676	-	-	-	-
Net income	$ 13,865,352	$11,683,589	$16,305,240	$14,030,952	$ 501,947	$ 431,934
Earnings per share (in dollars)						
Net income before cumulative effect of changes in accounting principles	$ 2.05	$ 1.71	$ 2.54	$ 2.19	0.08	0.07
Cumulative effect of changes in accounting principles	0.11	0.11	-	-	-	-
Net income	$ 2.16	$ 1.82	$ 2.54	$ 2.19	$ 0.08	$ 0.07

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	Jointly controlled by Mega Financial Holdings
Mega Securities Co., Ltd. (Formerly Barits International Securities Co., Ltd.)	Mega Securities	Jointly controlled by Mega Financial Holdings
Mega Investment Trust Co., Ltd. (Note)	Mega Investment Trust	Jointly controlled by Mega Financial Holdings
Mega Insurance Co., Ltd. (Formerly China Insurance Co., Ltd.)	Mega Insurance	Jointly controlled by Mega Financial Holdings
Mega Asset Management Co., Ltd.	Mega Asset	Jointly controlled by Mega Financial Holdings
Mega CTB Venture Capital Co., Ltd.	Mega Venture	Jointly controlled by Mega Financial Holdings
Mega Life Insurance Co., Ltd. (Formerly Chung Yin Insurance Agency Company)	Mega Life Insurance	Jointly controlled by Mega Financial Holdings
Mega International Investment Service Corp. (Formerly Barits International Investment Service Corp.)	Mega International Investment Service	Jointly controlled by Mega Financial Holdings
Mega Futures Co., Ltd. (Formerly Barits International Futures Co., Ltd.)	Mega Futures	Jointly controlled by Mega Financial Holdings
Mega Securities Holdings Co., Ltd.	Mega Securities Holdings	Jointly controlled by Mega Financial Holdings
Taiwan Post Corporation Limited (Formerly China Post Corporation Limited)	Taiwan Post	Director of Mega Financial Holdings
Bank of Taiwan Corp.	Bank of Taiwan	Director of Mega Financial Holdings
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
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
Chinatrust Commercial Bank Co., Ltd.	CCBC	Business conglomerate of Mega's director
Chinatrust Bills Finance Co., Ltd.	CBFC	Business conglomerate of Mega's director
Others		Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

Note: International Securities Investment Trust Co., Ltd. entered into a merger contract with Mega International Securities Investment Trust Co., Ltd. on September 17, 2007 with Mega International Securities Investment Trust Co., Ltd. as the dissolving company and International Securities Investment Trust Co., Ltd. as the surviving company which is then renamed as "Mega International Securities Investment Trust Co., Ltd.".

2. MAJOR TRANSACTION WITH RELATED PARTIES

(1) Due from and due to banks

	Balance as of December 31,			Highest Outstanding Balance For The Year Ended December 31,			For The Year Ended December 31,				
	2006	2007		2006	2007		Interest Rate (%)		Total Interest Income (Expense)		
	NT	NT	US (Unaudited)	NT	NT	US (Unaudited)	2006	2007	2006(NT)	2007(NT)	2007(US) (Unaudited)
Due from banks											
Mega ICBC (Canada)	$ 595,943	$ 501,381	$ 15,345	$ 1,074,071	$ 852,732	$ 26,251	2.25~5.05	$ 3.42~5.47	$ 19,419	$ 18,186	$ 560
Mega ICBC (Thailand)	4,622	12,429	383	100,615	43,093	1,327	-	9.00	-	90	3
Bank of Taiwan	2,055,106	10,444	322	9,342,433	7,817,522	240,658	0~1.66	1.69~2.23	521	9,465	291
Mega Bills	500,000	-	-	500,000	2,000,000	61,569	1.70	1.72~2.60	23	3,057	94
Due to banks											
Taiwan Post	62,232,852	77,677,955	2,391,268	87,363,746	100,377,354	3,090,055	0.01~2.41	0.01~2.82	(1,156,988)	(1,698,021)	(52,273)
Chinatrust Commercial Bank	-	102,788	3,164	-	215,724	6,641	-	0.00	-	-	-
Mega ICBC (Thailand)	829,707	248,297	7,644	1,694,837	2,024,092	62,310	3.19~5.16	3.125~5.1875	(17,854)	(16,215)	(499)
Mega ICBC (Canada)	74,303	93,076	2,865	350,042	343,138	10,563	1.85~5.16	3.97~5.19	(3,267)	(3,378)	(104)
Bank of Taiwan	2,600,000	-	-	6,000,000	10,000,000	307,844	1.52~1.81	1.74~3.5	(22,628)	(15,486)	(477)
Cathay Investment (Bahamas)	459,360	-	-	742,318	-	-	5.15~5.30	-	(2,325)	-	-

(2) Loans and deposits

		Balance as of December 31,					Total Interest Income (Expense) For The Year Ended December 31,						
		2006		2007			2006		2007			Interest Rate (%)	
	Counterparty	NT	% of Total	NT	US (Unaudited)	% of Total	NT	% of Total	NT	US (Unaudited)	% of Total	2006	2007
Deposits	All related parties	$32,668,520	3.10	$51,135,500	$ 1,574,175	4.22	($ 480,010)	1.29	($ 954,738)	($ 29,391)	2.45	0.00~13.00	0~13
Loans	All related parties	112,067,288	9.96	109,005,720	3,355,674	9.06	2,033,339	3.57	3,308,317	101,845	5.39	0~8.13	0~8.75

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, credit extended by the Bank to any related party are fully secured, and the terms of credit extended to related parties are similar to those for third parties.

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

(3) Lease Agreements

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

			For the year ended December 31,		
			2006	2007	
		Lease Receipt	NT	NT	US (Unaudited)
Related Party	Lease Period	Method	Rental Revenue	Rental Revenue	Rental Revenue
Win Card	2001.01-2008.01	Quarterly	$ 10,068	$ 9,835	$ 303
Yung-Shing	2005.04-2007.04	Quarterly	1,495	1,569	48
Mega Insurance	2003.05-2009.04	Monthly	2,397	2,397	74
Mega Life Insurance	2001.01-2008.01	Monthly	1,292	1,560	48
Mega Securities	2003.03-2009.12	Monthly	25,027	18,210	561
CTB Financial Management & Consulting	2005.10-2009.08	Monthly	997	1,407	43
Mega Bills	2005.01-2010.12	Monthly	15,095	44,323	1,365
Mega Asset	2006.04-2010.12	Monthly	2,089	6,298	194
Mega Financial Holdings	2006.08-2010.07	Monthly	90	216	7
Mega Investment Trust	2007.08-2012.07	Monthly	-	3,506	108

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

			For the year ended December 31,		
			2006	2007	
		Lease Payment	NT	NT	US (Unaudited)
Related Party	Lease Period	Method	Rental Revenue	Rental Revenue	Rental Revenue
Yung-Shing	1994.12-2014.11	Annually	$ 5,565	$ 5,961	$ 184
Mega Insurance	2003.12-2012.08	Monthly	19,786	19,874	612
China Products	2003.04-2009.03	Monthly	1,666	1,760	54
Mega Bills	2006.05-2010.12	Monthly	52,594	105,600	3,251
Mega Financial Holdings	2006.12-2010.12	Monthly	-	5,922	182
Mega Securities	Note	Note	2,840	4,309	133
Cathay Investment & Warehousing	1996.08-2011.08	Monthly	1,285	8,789	271

Note: The Bank sets up offices of collection / payment of securities trading for customers in all operating bases of Mega Securities. There are neither formal contracts nor actual lease terms. The rental fees are paid according to certain percentage of deposit balance of each operating base.

(4) Miscellaneous Payables – Parent Company Account

	December 31, 2006		December 31, 2007		
	Amount (NT)	% of Total	Amount (NT)	% of Total	US (Unaudited)
Mega Financial Holdings	$ 1,228,578	2.27	$ 1,653,931	3.48	$ 50,915

The parent company accounts 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

	December 31, 2006		December 31, 2007		December 31, 2007
	Amount (NT)	% of Total	Amount (NT)	% of Total	Amount (US) (Unaudited)
Mega Life Insurance	$ 246,062		$ 326,434		$ 10,049

The above amount represents service fee revenues earned from acting as an agent for Mega Life Insurance.

(6) Insurance Expense

	December 31, 2006		December 31, 2007		December 31, 2007
	Amount (NT)	% of Total	Amount (NT)	% of Total	Amount (US) (Unaudited)
Mega Insurance	$ 55,593	1.24	$ 57,277	1.19	$ 1,763

(7) For the years ended December 31, 2006 and 2007, the commissions and service revenue from International Security Investment Trust Corporation was NT$100,420 thousand and NT$49,509 thousand, respectively. The uncollected balance on the related receivable was NT$115,033 thousand and NT$162,078 thousand as of December 31, 2006 and 2007, respectively.

(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$135,031 thousand and NT$137,007 thousand for the years ended December 31, 2006 and 2007, 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$272,882 thousand and NT$233,093 thousand for the years ended December 31, 2006 and 2007, respectively.

(10) Loans

December 31, 2007

(Expressed in thousands of NT dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	19	11,742	10,189	V	-	None	None
Home mortgage loans	50	249,519	223,902	V	-	Real estate	None
Other loans	2	139,000	114,000	V	-	Real estate	None

(11) Guarantees

December 31, 2007

(Expressed in thousands of NT dollars)

Name of related party	Highest balance	Ending balance	Balance of reserve for guarantees	Interest rate	Content of pledge
Mega Insurance Co., Ltd.	8,040	8,040	-	1%	The Bank's certificate of deposists

(12) Related party transactions of derivative financial instruments: None.

(13) Disposal of non-performing loans for related party: None.

Ⅵ. PLEDGED ASSETS

Please refer to Note Ⅳ.

Ⅶ. COMMITMENTS AND CONTINGENT LIABILITIES

1. As of December 31, 2006 and 2007, the Bank had the following commitments and contingent liabilities not reflected in the above mentioned financial statements:

	December 31,		
	2006	2007	2007
	NT	NT	US (Unaudited)
Loan commitments	$ 701,889,139	$ 759,133,136	$ 23,369,448
Securities sold under repurchase agreement	36,136,333	14,476,121	445,639
Securities purchased under resale agreement	1,509,090	1,736,024	53,442
Credit card line commitments	56,940,044	53,180,868	1,637,140
Guarantees issued	155,405,913	158,233,803	4,871,131
Letters of credit	65,906,835	77,109,541	2,373,770
Customers' securities under custody	504,014,182	452,130,840	13,918,570
Properties under custody	322,936	277,207	8,534
Guarantee effects	75,602,992	76,604,102	2,358,210
Collections for customers	276,441,532	333,049,007	10,252,709
Agency loans payable	7,966,672	6,834,036	210,382
Travelers' checks consigned-in	2,406,021	2,595,444	79,899
Payables on gold consigned-in	32,450	32,299	994
Payables on consignments-in	6,843	5,760	177
Agent for government bonds	342,458,703	289,952,166	8,925,999
Short-dated securities under custody	33,418,962	41,463,892	1,276,441
Investments for customers	600,347	346,307	10,661
Trust liability	249,154,576	334,967,444	10,311,767
Certified notes paid	76,865,302	13,838,334	426,005
Total	$ 2,587,078,872	$ 2,615,966,331	$ 80,530,918

2. 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$123,349 thousand (part of other assets). Rentals for the next five years are as follows:

Year	NT	US (Unaudited)
2008	$ 417,711	$ 12,859
2009	361,181	11,119
2010	306,517	9,436
2011	146,798	4,519
2012 and after	101,094	3,112
	$ 1,333,301	$ 41,045

3. Please refer to Note IV 4(6) for details.

Ⅷ. SIGNIFICANT DISASTER LOSS

None.

Ⅸ. SIGNIFICANT SUBSEQUENT EVENT

On February 19, 2008, the credit rating of partial U.S. residential mortgage backed securities amounting to US$92,809 thousand dollars of the "First Commercial Bank Co., Ltd. Collateralized Bond Obligation Special Purpose Trust 2006-2" was downgraded by Standard & Poor, and the "Credit Impaired Asset Notice" was sent by Taiwan Rating Corporation. The Bank purchased the credit impaired assets in the amount of US$92,809 thousand dollars in accordance with the "Trust Agreement" and "Credit Impaired Asset Put and Clean Up Put Agreement" on February 26, 2008. The impairment loss on assets at fair value is approximately NT$2.45 billion.

X. OTHERS

1. INFORMATION ON FINANCIAL INSTRUMENTS

(1) Fair Value

	December 31, 2006		December 31, 2007			
	NT				US (Unaudited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments						
Assets						
Cash and cash equivalents	$ 42,638,615	$ 42,638,615	$ 89,718,998	$ 89,718,998	$ 2,761,944	$ 2,761,944
Due from the Central Bank and call loans to banks	255,842,259	255,842,259	249,394,299	249,394,299	7,677,450	7,677,450
Financial assets held for trading						
Stocks	3,108,843	3,108,843	1,610,452	1,610,452	49,577	49,577
Beneficiary certificates	1,396,755	1,396,755	566,344	566,344	17,435	17,435
Financial bonds	1,242,499	1,242,499	1,288,984	1,288,984	39,681	39,681
Financial assets designated at fair value through profit or loss						
Stocks	10,605	10,605	2,839	2,839	87	87
Corporate bonds	23,226,004	23,226,004	20,392,313	20,392,313	627,765	627,765
Governments bonds	11,441,033	11,441,033	7,823,105	7,823,105	240,830	240,830
Financial bonds	20,728,045	20,728,045	11,244,013	11,244,013	346,140	346,140
Certificate of deposits	7,198,822	7,198,822	40,090,820	40,090,820	1,234,171	1,234,171
Securities Purchased under resale agreements	1,502,553	1,502,553	1,729,123	1,729,123	53,230	53,230
Receivables－net	71,730,605	71,730,605	82,462,038	82,462,038	2,538,543	2,538,543
Bills discounted and loans－net	1,113,888,899	1,113,888,899	1,194,304,385	1,194,304,385	36,765,927	36,765,927
Available-for-sale financial assets						
Stocks	9,980,130	9,980,130	8,860,756	8,860,756	272,773	272,773
Commercial papers	6,049,005	6,049,005	4,300,516	4,300,516	132,389	132,389
Governments bonds	33,346,575	33,346,575	30,379,599	30,379,599	935,217	935,217
Treasury bills	-	-	179,096	179,096	5,513	5,513
Corporate bonds	27,010,108	27,010,108	21,185,058	21,185,058	652,169	652,169
Acceptances	198,945	198,945	-	-	-	-
Beneficiary certificates	391,723	391,723	1,380,286	1,380,286	42,491	42,491
Beneficiary securities	17,117,460	17,117,460	16,282,717	16,282,717	501,253	501,253
Financial bonds	8,482,729	8,482,729	15,366,100	15,366,100	473,036	473,036
Central Bank's certificate of deposits	-	-	5,198,706	5,198,706	160,039	160,039
Held-to-maturity financial assets	95,740,790	95,740,790	89,413,152	89,413,152	2,752,529	2,752,529
Other financial assets	29,027,921	29,027,921	23,956,245	23,956,245	737,478	737,478
Liabilities						
Due to the Central Bank and other banks	345,921,989	345,921,989	363,190,298	363,190,298	11,180,590	11,180,590
Funds borrowed from the Central Bank and other banks	56,438,426	56,438,426	42,997,399	42,997,399	1,323,649	1,323,649
Financing Liabilities at fair value through profit or loss						
Financial bonds	47,456,520	47,456,520	49,323,996	49,323,996	1,518,409	1,518,409
Securities Sold under repurchase agreements	36,094,287	36,094,287	14,452,936	14,452,936	444,925	444,925
Payables	54,166,290	54,166,290	47,576,485	47,576,485	1,464,613	1,464,613
Deposits and remittances	1,063,630,443	1,063,630,443	1,224,295,833	1,224,295,833	37,689,196	37,689,196
Financial bonds payable	18,627,895	18,627,895	19,215,871	19,215,871	591,549	591,549
Other financial liabilities	18,779,486	18,779,486	18,650,884	18,650,884	574,156	574,156
Non-hedging derivative financial instruments						
Forward exchange contracts	370,191,021	1,019,966	167,255,320	306,540	5,148,852	9,437
Interest rate swap contracts	32,461,479	(487,493)	175,747,045	(253,541)	5,410,265	(7,805)
Cross-currency swap contracts	172,934,256	378,095	116,496,964	(161,916)	3,586,288	(4,985)
Assets swap contracts	7,700,264	(367,895)	6,724,903	(442,059)	207,022	(13,609)
Options	82,181,748	(3,141)	31,131,866	(3,257)	958,375	(100)
Credit default swap	1,273,350	(10,204)	2,241,396	(86,101)	69,000	(2,651)
Currency swap	99,842,323	(239,712)	119,253,870	(375,790)	3,671,157	(11,569)

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

A. 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.

B. 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 closing 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.

C. Bills discounted 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 be equivalent to their fair values.

D. Since financial assets carried at cost are 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 statements of financial accounting standards.

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,					
	2006		2007			
	Quoted market Prices	Amount determined by a valuation technique	Quoted market prices		Amount determined by a valuation technique	
	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
Non-derivative financial instruments						
Assets						
Financial assets held for trading						
Stocks	$ 3,108,843	$ -	$ 1,610,452	$ 49,577	$	$ -
Beneficiary certificates	1,396,755	-	566,344	17,435		-
Financial bonds	-	1,242,499	-	-	1,288,984	39,681
Financial assets designated at fair value through profit or loss						
Stocks	10,605	-	2,839	87	-	-
Corporate bonds	-	23,226,004	-	-	20,392,313	627,765
Government bonds	11,441,033	-	7,823,105	240,830	-	-
Financial bonds	-	20,728,045	-	-	11,244,013	346,140
Certificate of deposits	-	7,198,822	-	-	40,090,820	1,234,171
Available-for-sale financial assets						
Stocks	9,980,130	-	8,860,756	272,773	-	-
Commercial papers	-	6,049,005	-	-	4,300,516	132,389
Government bonds	33,346,575	-	30,379,599	935,217	-	-
Treasury bills	-	-	-	-	179,096	5,513
Corporate bonds	-	27,010,108	-	-	21,185,058	652,169
Acceptances	-	198,945	-	-	-	-
Beneficiary certificates	391,723	-	1,380,286	42,491	-	-
Beneficiary securities	-	17,117,460	-	-	16,282,717	501,253
Financial bonds	-	8,482,729	-	-	15,366,100	473,036
Certificate of deposits	-	-	-	-	5,198,706	160,039
Receivables – net	-	71,730,605	-	-	82,462,038	2,538,543
Bills discounted and loans – net	-	1,113,888,899	-	-	1,194,304,385	36,765,927
Held-to-maturity financial assets	-	95,740,790	-	-	89,413,152	2,752,529
Other financial assets	-	29,027,921	-	-	23,956,245	737,478
Liabilities						
Due to the Central Banks and other banks	-	354,921,989	-	-	363,190,298	11,180,590
Funds borrowed from the Central banks and other banks	-	56,438,426	-	-	42,,997,399	1,323,649
Financial liabilities designated at fair value through profit or loss						
Financial bonds	-	47,456,520	-	-	49,323,996	1,518,409
Payables	-	54,166,290	-	-	47,576,485	1,464,613
Deposits and remittances	-	1,063,630,443	-	-	1,224,295,833	37,689,196
Financial bonds payable	-	18,627,895	-	-	19,215,871	591,549
Other financial liabilities	-	18,779,486	-	-	18,650,884	574,156
Non-hedging derivative financial instruments						
Financial assets held for trading	-	1,230,838	-	-	384,159	11,826
Financial assets designated at fair value through profit or loss	-	1,055,464	-	-	1,502,719	46,260
Financial liabilities held for trading	-	249,921	-	-	754,915	23,240
Financial liabilities designated at fair value through profit or loss	-	1,713,768	-	-	2,148,087	66,128

(4) Net income (loss) arising from derivative financial instruments at fair value through profit or loss for the years ended December 31, 2006 and 2007 amounted to NT$676,347 thousand and NT($2,064,573) thousand, respectively.

(5) The interest income arising from other than financial assets at fair value through profit or loss for the years ended December 31, 2006 and 2007 amounted to NT$54,575,065 thousand and NT$59,724,120 thousand, respectively.

(6) The adjustment in equity arising from available-for-sale financial assets for the years ended December 31, 2006 and 2007 amounted to NT$1,255,086 thousand and NT$2,686,918 thousand, respectively.

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 through the treasury department, evaluates market risk exposure limits approved by the Board of Directors, and informs related units when it is over the limit.

The Bank establishes various specialist committees in head office and overseas 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 monitoring 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 documented in writing its intention to apply hedge accounting and follows 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 the counterparty fails to perform the Bank's contractual obligations.

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.

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.

B. The maximum credit risk exposure amounts of financial instruments held by the Bank are as follows:

	December 31,					
	2006		2007			
	Book value	Maximum risk exposure amount	Book value		Maximum risk exposure amount	
Financial assets	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
Financial assets at fair value through profit or loss	$ 70,639,090	$ 71,696,659	$ 84,905,748	$ 2,613,771	$ 86,848,050	$ 2,673,564
Available-for-sale financial assets	102,576,675	102,576,675	103,132,834	3,174,881	103,132,834	3,174,881
Bills discounted and loans	1,113,888,899	1,113,888,899	1,194,304,385	36,765,927	1,194,304,385	36,765,927
Held-to-maturity financial assets	95,740,790	98,740,790	89,413,152	2,752,529	89,413,152	2,752,529
Off-balance sheet commitments and guarantees	2,587,078,872	2,587,078,872	2,615,966,331	80,530,918	2,615,966,331	80,530,918
Total	$3,969,924,326	$3,970,981,895	$4,087,722,450	$ 125,838,026	$4,089,664,752	$ 125,897,819

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

C. 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, 2006 and 2007, collaterals secured approximately 51.04% and 51.02%, respectively, 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 exposure 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,					
	2006		2007			
	Book value	Maximum risk exposure amount	Book value		Maximum risk exposure amount	
Industry type	NT	NT	NT	US (Unaudited)	NT	US (Unaudited)
Manufacturing	$ 418,436,841	$ 418,436,841	$ 430,987,289	$ 13,267,679	$ 430,987,289	$ 13,267,679
Financial institution, insurer, real estate and leasing	145,007,839	145,007,839	199,572,751	6,143,725	199,572,751	6,143,725
Government institution	67,036,791	67,036,791	29,102,378	895,899	29,102,378	895,899
Individuals	235,647,944	235,647,944	256,785,239	7,904,976	256,785,239	7,904,976
Others	425,845,944	425,845,944	456,843,720	14,063,653	456,843,720	14,063,653
Total	$1,291,975,359	$1,291,975,359	$1,373,291,377	$ 42,275,932	$1,373,291,377	$ 42,275,932
Geographic region						
Domestic	$1,039,641,772	$1,039,641,772	$1,188,628,596	$ 36,591,201	$1,188,628,596	$ 36,591,201
North America	41,008,723	41,008,723	55,830,630	1,718,712	55,830,630	1,718,712
Others	211,324,864	211,324,864	128,832,151	3,966,019	128,832,151	3,966,019
Total	$1,291,975,359	$1,291,975,359	$1,373,291,377	$ 42,275,932	$1,373,291,377	$ 42,275,932

Note: The above figures as of December 31, 2006 and 2007 include bills discounted and loans, overdue loans, guarantees and acceptances.

Contract amounts of significant credit risk concentration are as follows:

December 31, 2007			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the Current Year (%)
1	Formosa Plastics Group	$ 49,369,886	32.38
2	BENQ Group	20,888,282	13.70
3	Far Eastern Group	16,053,053	10.53
4	CHIMEI Group	15,463,029	10.14
5	Shin Kong Group	10,572,324	6.93
6	Taiwan Cement Group Companies	10,386,663	6.81
7	Uni-President Group	10,186,244	6.68
8	Ta Tung Group	9,520,800	6.24
9	China Steel Group	8,732,980	5.73
10	China Airlines	8,249,085	5.41

Note 1: Ranking the top ten enterprise groups other than government and government enterprise according to their total outstanding loan amount. Top ten enterprise groups whose total loan amount does not reach 5% of the bank's net worth are not included in the above table.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased without recourse factoring, acceptance receivable and guarantees.

Profile of concentration of credit risk and credit extensions of related parties

	December 31, 2007		December 31, 2006	
Amount of credit extensions to related parties	$ 89,594,879		$101,595,089	
Ratio of credit extensions to interested parties (%)	6.65		8.00	
Ratio of credit extensions secured by stocks (%)	3.29		3.09	
Industry concentration	Industry	Ratio	Industry	Ratio
	Manufacturing	34.60%	Manufacturing	34.80%
	Transportation, storehouse and correspondence industry	9.36%	Transportation, storehouse and correspondence industry	9.48%
	Wholesale and retail sales industry	7.73%	Wholesale and retail sales industry	6.81%

Note 1: Total amount of credit extensions include bills discounted and loans, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

Note 2: The ratio of credit extensions to interested parties = the amount of credit extensions to interested parties / the total amount of all credit extensions.

Note 3: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.

(3) Liquidity risk

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

The management policy of the Bank is to match 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 do not fully match. The gap may result in potential gain or loss. The Bank applied the appropriate grouping of assets and liabilities.

Mega International Commercial Bank Co., Ltd.
Analysis for time to maturity of the Bank's assets and liabilities
December 31, 2007

Unit: thousands of New Taiwan dollars

Financial instruments	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
Assets								
Due from Central Bank and call Loans to banks	$ 249,394,767	$ 249,394,299	$ -	$ -	$ -	$ -	$ 249,394,767	$ 249,394,299
Financial assets at fair value through profit or loss (Note)	50,217,250	50,217,250	28,927,689	28,927,689	1,694,296	1,694,296	80,839,235	80,839,235
Securities Purchased under resale agreements	1,729,123	1,729,123	-	-	-	-	1,729,123	1,729,123
Bills discounted and loans	327,345,603	325,878,508	447,382,358	444,636,131	428,244,539	423,789,746	1,202,972,500	1,194,304,385
Available-for-sale financial assets (Note)	37,420,663	37,420,663	47,461,217	47,461,217	8,009,912	8,009,912	92,891,792	92,891,792
Held-to-maturity financial assets	79,479,490	79,479,490	9,695,241	9,695,241	238,421	238,421	89,413,152	89,413,152
Other financial assets (Note)	513,906	351,852	1,416,345	1,416,345	-	-	1,930,251	1,768,197
Total Assets	746,100,802	744,471,185	534,882,850	532,136,623	438,187,168	433,732,375	1,719,170,820	1,710,340,183
Liabilities								
Due to the Central Bank and Commercial banks	363,190,298	363,190,298	-	-	-	-	363,190,298	363,190,298
Borrowed funds from the Central Bank and other banks	42,997,399	42,997,399	-	-	-	-	42,997,399	42,997,399
Financial liabilities at fair value through profit or loss (Note)	11,858,095	11,858,095	37,465,901	37,465,901	-	-	49,323,996	49,323,996
Securities Sold under repurchase agreements	14,452,936	14,452,936	-	-	-	-	14,452,936	14,452,936
Time deposit	647,191,915	647,191,915	18,628,420	18,628,420	-	-	665,820,335	665,820,335
Financial bonds payable	3,755,567	3,755,567	15,460,304	15,460,304	-	-	19,215,871	19,215,871
Other financial liabilities	18,650,884	18,650,884	-	-	-	-	18,650,884	18,650,884
Total Liabilities	1,083,446,210	1,083,446,210	71,554,625	71,554,625	-	-	1,173,651,719	1,173,651,719
Net liquidity gap	($ 337,345,408)	($ 338,975,025)	$ 463,328,225	$ 460,581,998	$ 438,187,168	$ 433,732,375	$ 545,519,101	$ 536,688,464

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

Mega International Commercial Bank Co., Ltd.
Analysis for time to maturity of the Bank's assets and liabilities
December 31, 2006

Unit: thousands of New Taiwan dollars

Financial instruments	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
Assets								
Due from Central Bank and call Loans to banks	$ 255,844,238	$ 255,842,259	$ -	$ -	$ -	$ -	$ 255,844,238	$ 255,842,259
Financial assets at fair value through profit or loss (Note)	24,080,329	24,080,329	36,195,792	36,195,792	3,560,282	3,560,282	63,836,403	63,836,403
Available-for-sale financial assets (Note)	32,122,526	32,122,526	54,386,447	54,386,447	5,695,849	5,695,849	92,204,822	92,204,822
Bills discounted and loans	303,907,807	301,561,215	412,475,154	409,303,146	408,616,865	403,024,538	1,124,999,826	1,113,888,899
Held-to-maturity financial assets	85,499,600	85,499,600	10,030,590	10,030,590	210,600	210,600	95,740,790	95,740,790
Other financial assets (Note)	144,189	98,991	2,753,560	2,717,738	2,070,149	2,070,149	4,967,898	4,886,878
Total Assets	701,598,689	699,204,920	515,841,543	512,633,713	420,153,745	414,561,418	1,637,593,977	1,626,400,051
Liabilities								
Due to the Central Bank and Commercial banks	49,213,489	49,213,489	305,708,500	305,708,500	-	-	354,921,989	354,921,989
Borrowed funds from the Central Banks and other banks	56,438,426	56,438,426	-	-	-	-	56,438,426	56,438,426
Financial liabilities at fair value through profit or loss (Note)	4,500,000	4,500,000	42,956,520	42,956,520	-	-	47,456,520	47,456,520
Securities Sold under repurchase agreements	36,094,287	36,094,287	-	-	-	-	36,094,287	36,094,287
Time deposit	354,330,820	354,330,820	58,242,372	58,242,372	-	-	412,573,192	412,573,192
Financial bonds payable	600,000	600,000	18,027,895	18,027,895	-	-	18,627,895	18,627,895
Other financial liabilities	18,779,486	18,779,486	-	-	-	-	18,779,486	18,779,486
Total Liabilities	519,956,508	519,956,508	424,935,287	424,935,287	-	-	944,891,795	944,891,795
Net liquidity gap	$ 181,642,181	$ 179,248,412	$ 90,906,256	$ 87,698,426	$ 420,153,745	$ 414,561,418	$ 692,702,182	$ 681,508,256

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

(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 rate. 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 December 31, 2007, expected repricing and maturity dates of interest-bearing financial instruments are not affected by dates of related contracts.

3. CONTROL RISK AND HEDGE

The risk management policies and practices and major exposure of risk conditions of the credit risk, market risk, business risk, and liquidity risk are as follows:

The Bank's Board of Directors has the ultimate approval right in risk management and has ultimate responsibility for the Bank's risk strategies and ensures the function works while maximizing the Bank's earnings and stockholders' profits. The policies of the risk management by functions are as follows:

(1) Credit risk

A. Organization principles

The loan committee, problem loan committee, and investment committee are responsible for making policies and supervises the Bank's credit business, investment business, and other financial instruments of credit risk. The Bank also formed a corporate banking department, retail banking department, treasury department, investment banking department, direct investment department, and other operating units to serve as credit risk units. Moreover, the risk management department coordinates and supervises units in order to establish credit management institutions, progress development of internal control systems, assists in managing risk credit, and provides credit management reports to the Board of Directors periodically.

B. Procedure of risk management

The promotion of credit and investment business of the Bank is in accordance with the bank laws and other related regulations; moreover, risk management targets identified by each business supervisor units are sent to the risk control department and reported to the risk control committee of Mega Financial Holdings and Board of Directors for approval. In addition, the credit risk management organizations and standards are designed in accordance with internal regulations.

As a result of the implementaion of Basel II, the Bank is developing various credit risk component models and valuation systems, adopting Internal Ratings Based Approach which links to probability of default, and using quantifiable analysis tools to predict customers' probability of default, loss given default and so on. This also enhances the current credit rating system and then strengthens monitoring of credit risk.

The Bank established the loan committee and investment committee which are specifically responsible for setting credit of investment policy and individual risk, and also designates credit amount, provides responsibilities according to levels, sets limitation by industry, group, countries, and counterparty in order to avoid risk concentration.

The Bank should ensure that credit checking and examination have been done before engaging loan and investment business and require periodic monitoring while engaging the business. The Bank also should set up a reporting system and have timely reports if any unusual event or significant accident occurs.

Establishment of a unit mainly responsible for the overdue loan management in order to solve credit management problems and to seek the recovery of obligations. In order to execute this strategy, the Bank sets regulations for credit cards, procedures to evaluate asset rewards for dealing with recovery of non-performing loans, outsourcing of loans receivable as a base for managing doubtful credits and overdue loans.

C. Principles of measuring and controlling

The Bank's goals of credit risk management are set from downward sloping to upward sloping annually and then presented to the Board of Directors for approval. In order to strengthen the risk management, the evaluation of conducting circumstances is in accordance with the economic and financial conditions. Moreover, in accordance with regulatory institutions, the Bank is required to disclose the information of credit risk through its financial reports and website.

In order to control the group and industry risk and avoid excess concentration risk, the Bank will separately set the credit limit of the group and industry and report to the management unit monthly, based on the industry condition, perspective and credit risk.

In order to control the condition of complying with the bank laws, regulations stipulated by the authorities and internal credit rules to set the credit limits and balances monthly, and report them to the management and Board of Directors.

In order to strengthen the understanding of the client's credit, reviews should be conducted periodically. For those that have high risk or abnormalities, the frequency of their reviews will be increased. Analysis and reviews will be made annually and the reports will be sent to the management.

Abnormal notification system: When operating units determine that a client's operations are abnormal, facing financial difficulties, or experience some unexpected events, the business supervisor will report this to the management, and information will be sent to the Mega Financial Holdings by the risk management department, in order for them to understand the circumstances so that they are able to take proper actions.

Appraisal of assets: Accrue possible losses or impairment of assets, investments, other assets, or contingent assets based on the experience of bad debts, reserves, other historical losses, the current overdue loan rate, recovery conditions, supervisory regulations and so on.

(2) Market risk

A. Organization principles

The Board of Directors approves related policies of market risk, supervises the structure of market risk management, develops strategies and understands the condition of the exposure to risk. Management is responsible for supervising the market risk and its conditions; moreover, if over the limit, comments will be given. Treasury department is responsible for controlling the trade market risk, credit exposure and periodically produces management reports for management, Planning department and Risk Management department. Risk Management Department is responsible for supervising the Bank's market risk departments and establishing market risk management mechanisms, monitoring the Bank's total market risk exposure amounts and analyzing the Bank's market risk statistics.

B. Procedure of risk management

Regarding the foreign exchange market, foreign currency market, capital market and derivative transactions and so on, the Bank sets regulations on the transaction range and amount, assesses the limitation of the position and estimation of management risk index. Also, sets limitations on daily amount, overnight amount, counterparties' amount and stop loss points for the dealing room and dealers. The foreign branches set limitation for foreign exchange which is controlled daily, and monthly reports are presented to the management for reference. The transactions have set limitations and are periodically accrued as unrealized profit or loss, and reports are prepared for management and Board of Directors review.

C. Principles in measuring and controlling

To measure the risk weighted assets in accordance with the standards set by the authorities. The interest rate risk is measured based on the "Interest-rate sensitivity gap" and the "Interest rate sensitivity asset and liabilities ratio" and so on, so that the interest rate risk can be maintained within the suitable range. As for the exchange rate and investments in quoted securities exposure amount, the daily estimation of profit or loss is based on the market price and the stop loss point in order to make sure it is within the range, acceptable for risk control. Derivatives on trading book with hedge or non-hedge transaction characteristic are evaluated on a semi-monthly and weekly basis.

(3) Operation risk

A. Organization principles

The control of operating risks in the entity is controlled by the policies made by the relevant department. The daily operating activities should follow relevant policies and monitored by the management to prevent the occurrence of operational risk. The information on loss incurred due to the defects in operating risk controls is collected by risk management department and reported to the Board of Directors regularly. The operating risk controls are audited by the auditing office supervised by the Board of Directors.

B. Procedure of risk management

The daily activities should follow the given controls. Procedures and guidance should be reviewed monthly. If any defects are found, it should be modified and the modification should be reviewed by the auditing office. New financial products, systems developments and new contracts drawn are reviewed by the auditing office or legal affairs department. The Bank provides training and opportunities for staff to obtain relevant professional licenses to meet the relevant regulation and to improve and maintain high quality professional service.

C. Principles in measuring and controlling

To control the operating risks, the operating unit should make a self-assessment and report to the auditing office of the Board of Director. If any loss occurs, it should report loss status on timely basis and subsequent improvements on the computer system. For every half year, operating units need to report the compliance issues to the legal affairs department. The head office of management department is required to follow up any internal control deficiencies.

(4) Liquidity risk

A. Organization principles

The liquidity risk control is controlled by the fund management committee. The treasury department is in charge of daily operating activities and reports to the Board of Directors regularly.

B. Procedure of risk management

There is an upper limit to control the amount of cash flow shortage for daily NTD and foreign currency. Also, weekly reports are submitted to the fund management committee in order to the control the liquidity risk. The risk management department reports to the Board of Directors periodically.

C. Principles of measuring and controlling

The Bank sets up limits of liquidity gap by periods and periodically prepares liquidity gap tables for monitoring liquidity risk and considers seasonal and short-term factors in order to effectively control capital flows.

The capital performs in accordance with the regulations of deposit amounts and reserves amounts. The major investments consists of government bonds, central convertible deposit, treasury bonds, financial bonds, government bonds under repurchase agreement, corporation bonds, commercial paper, bank acceptance, and beneficiary certificates; varieties of investments, instead of emphasizing on the credit of investment security, in order to lower the liquidity risk, secondary market liquidity is also taken into major consideration.

4. Net position for major foreign currency transactions

	December 31, 2007		December 31, 2006	
	Currency	NTD (in thousands)	Currency	NTD (in thousands)
Net position for major foreign currency transactions (Market Risk)	THB	$ 4,262,279	USD	$ 5,163,478
	USD	3,661,686	THB	3,854,728
	EUR	2,263,241	EUR	1,844,853
	CAD	1,004,898	CAD	770,914
	AUD	778,809	JPY	503,989

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

	2007		
	Average Amount (NT)	Average Amount (US) (Unaudited)	Average Interest Rate (%)
Assets			
Due from banks	$ 143,281,518	$ 4,410,834	5.11
Due from the Central Bank	35,755,360	1,100,707	1.07
Financial assets held for trading	1,170,625	36,037	7.29
Financial assets at fair value through profit or loss	59,535,757	1,832,772	2.67
Securities purchased under resale agreements	2,268,499	69,834	4.49
Available-for-sale financial assets	98,449,830	3,030,718	3.28
Receivables – credit card transaction with circulating interests	3,811,806	117,344	16.22
Receivables on factoring	25,229,739	776,682	3.96
Bills discounted and loans	1,167,270,500	35,933,706	3.89
Held-to-maturity financial assets	68,284,386	2,102,093	2.56
Other debt investments	4,696,402	144,576	3.83
Exchange bills negotiated	76,555	2,357	6.01
Liabilities			
Due to the Central Bank	111,250,157	3,424,768	4.53
Due to other banks	108,652,610	3,344,804	2.63
Demand deposits	260,462,926	8,018,191	0.96
Demand saving deposits	201,686,746	6,208,803	0.77
Time deposits	463,142,806	14,257,567	3.80
Time saving deposits	193,337,475	5,951,775	2.42
Negotiable certificate of deposits	3,244,399	99,877	1.30
Financial liabilities at fair value through profit or loss	48,151,918	1,482,327	1.24
Securities sold under repurchase agreements	31,247,261	961,928	1.68
Borrowed funds from the Central Bank and other banks	43,824,502	1,349,110	5.26
Financial bonds payable	17,756,595	546,626	2.31
Commercial paper payable – net	9,680,043	297,994	6.70

	2006		
	Average Amount (NT)	Average Amount (US) (Unaudited)	Average Interest Rate (%)
Assets			
Due from banks 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
Securities Purchased under resale 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
Bills 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
Securities sold under repurchase agreements	29,372,363	899,613	1.52
Borrowed funds from the Central Bank and other banks	56,203,871	1,721,405	4.19
Financial bonds payable	25,669,811	786,212	2.66
Commercial paper payable – net	8,201,165	251,184	6.61

6. Asset quality

Unit: thousands of New Taiwan dollars, %

Month / Year			December 31, 2007				
Business / Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (%) (Note 2)	Allowance for doubtful accounts	Coverage ratio (%) (Note 3)
Corporate Banking	Secured loans		5,807,568	396,109,874	1.47%	-	-
	Unsecured loans		3,065,759	555,199,102	0.55%	-	-
Consumer banking	Residential mortgage loans (Note 4)		2,913,814	211,872,508	1.38%	-	-
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		177,425	10,764,783	1.65%	-	-
	Others (Note 6)	Secured loans	112,175	29,629,493	0.38%	-	-
		Unsecured loans	4,054	341,013	1.19%	-	-
Gross loan business			12,080,795	1,203,916,773	1.00%	8,668,115	71.75%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio (%)	Allowance for doubtful accounts	Coverage ratio
Credit card services			103,919	5,597,759	1.86%	219,087	210.82%
Without recourse factoring (Note 7)			7,150	51,381,729	0.01%	162,631	2,274.56%

Note 1: The amount recognized as non-performing loans is in compliance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amount included in overdue accounts for credit cards is in compliance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio=non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.

Note 3: Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards=allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.

Note 4: For residential mortgage loans, the borrower provides his/her (or spouse's) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.

Note 5: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

Note 6: Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

Expressed In Thousands of New Taiwan Dollars (%)

December 31, 2006		
	Amount of NPL	NPL Raio
Non-performing loans A	$ 8,051,613	0.72%
Non-performing loans B	1,832,991	0.16%
Gross non-performing loans	9,884,604	0.88%

7. Sensitivity analysis of interest rate for assets and liabilities

Sensitivity analysis of interest rate for assets and liabilities (NTD)
December 31, 2007

(Expressed in Thousands of New Taiwan Dollars, %)

Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 915,637,014	$ 36,847,002	$ 15,954,111	$ 88,494,626	$ 1,056,932,753
Interest-rate-sensitive liabilities	458,470,394	336,803,135	42,368,177	30,404,275	868,045,981
Interest-rate-sensitive gap	457,166,620	(299,956,133)	(26,414,066)	58,090,351	188,886,772
Total stockholders' equity					152,457,542
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					121.76%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					123.89%

(1) The amounts listed above represent the items denominated in NT dollars (i.e., excluding foreign currency) for both Head Office and domestic branches and overseas branches.
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities (refer to interest-rate-sensitive assets and interest-rate-sensitive liabilities denominated in NTD)

Sensitivity analysis of interest rate for assets and liabilities (USD)
December 31, 2007

(Expressed in Thousands of US Dollars, %)

Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 15,323,632	$ 457,964	$ 902,752	$ 2,527,980	$ 19,212,328
Interest-rate-sensitive liabilities	15,136,056	4,725,152	859,014	468,706	21,188,928
Interest-rate-sensitive gap	187,576	(4,267,188)	43,738	2,059,274	(1,976,600)
Total stockholders' equity					4,693,312
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					90.67%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					-42.11%

(1) The amounts listed above represent the items denominated in US dollars for head office, domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities
Non-financial information listed above is not audited by the independent accounts.

Sensitivity analysis of interest rate for assets and liabilities (NTD)
December 31, 2006

(Expressed in Thousands of New Taiwan Dollars, %)

Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 726,889,000	$ 33,139,000	$ 42,925,000	$ 235,922,000	$ 1,038,875,000
Interest-rate-sensitive liabilities	203,079,000	358,683,000	145,290,000	102,260,000	809,312,000
Interest-rate-sensitive gap	523,810,000	(325,544,000)	(102,365,000)	133,662,0000	229,563,000
Total stockholders' equity					138,337,000
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					128.37%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					165.94%

(1) The amounts listed above represent the items denominated in NT dollars (i.e., excluding foreign currency) for both Head Office and domestic branches and overseas branches.
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities (refer to interest-rate-sensitive assets and interest-rate-sensitive liabilities denominated in NTD)

Sensitivity analysis of interest rate for assets and liabilities (USD)
December 31, 2006

(Expressed inThousands of US Dollars, %)

Items	1~90 days	91~180 days	181 days ~1 year	Over 1 year	Total
Interest-rate-sensitive assets	$ 15,538,000	$ 3,262,000	$ 1,145,000	$ 4,687,000	$ 24,632,000
Interest-rate-sensitive liabilities	18,270,000	4,438,000	1,250,000	45,000	24,003,000
Interest-rate-sensitive gap	(2,732,000)	(1,176,000)	(105,000)	4,642,000	629,000
Total stockholders' equity					4,595,000
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					102.62%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					13.69%

(1) The amounts listed above represent the items denominated in US dollars for head office, domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.
(2) Interest-rate-sensitive assets and liabilities refer to changes on income or cost of interest accrued assets and interest bearing liabilities due to interest rate fluctuation.
(3) Interest-rate-sensitive gap = Interest-rate-sensitive assets – interest-rate-sensitive liabilities
(4) Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities = Interest-rate-sensitive assets ÷ interest-rate-sensitive liabilities
Non-financial information listed above is not audited by the independent accounts.

8. Profitability

	For the years ended	December 31, 2007	December 31, 2006
Return on total assets (%)	Before tax	0.87	0.77
	After tax	0.75	0.64
Return on stockholders' equity (%)	Before tax	10.78	9.46
	After tax	9.28	7.97
Net profit margin ratio (%)		37.55	34.21

Note 1: Return on total assets = Income before (after) income tax/average total assets.
Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.
Note 3: Net profit margin ratio = Income after income tax / total operating revenues.
Note 4: The term "Income before (after) income tax" represents net income from January 1 to the balance sheet date of the reporting period.

9. Structure analysis of time to maturity

December 31, 2007

(Expressed in Thousands of New Taiwan Dollars)

	Total	1 ~ 30 days	31 ~ 90 days	91 ~ 180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	$ 1,270,255,816	$ 244,482,643	$ 65,233,399	$ 123,979,833	$ 142,837,793	$ 693,722,148
Primary funds outflow upon maturity	1,374,729,955	193,547,060	188,040,206	333,703,960	358,979,606	300,459,123
Gap	(104,474,139)	50,935,583	(122,806,807)	(209,724,127)	(216,141,813)	393,263,025

Note: The amounts listed above represent the funds denominated in NT dollars only (i.e., excluding foreign currency) for both Head Office and domestic branches.

December 31, 2007

(Expressed in Thousands of US Dollars)

	Total	1 ~ 30 days	31 ~ 90 days	91 ~ 180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	$ 8,698,676	$ 3,461,673	$ 439,421	$ 597,058	$ 1,100,115	$ 3,100,409
Primary funds outflow upon maturity	11,909,276	5,547,235	1,703.823	1,604,774	2,014,085	1,039,359
Gap	(3,210,600)	(2,085,562)	(1,264,402)	(1,007,716)	(913,970)	2,061,050

Note 1:The amounts listed above represent the funds denominated in US dollars for Head Office, domestic branches and offshore banking units, except otherwise indicated, fill in based on the carrying amount, for those unlisted, fill in are not required (eg. negotiable certificates of deposits, bonds and stocks).

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

Non-financial information listed above is not audited by independent accountants.

December 31, 2006

(Expressed in Thousands of New Taiwan Dollars)

	Total	1 ~ 30 days	31 ~ 90 days	91 ~ 180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	$ 1,349,515,000	$ 185,770,000	$ 57,643,000	$ 124,537,000	$ 125,281,000	$ 856,284,000
Primary funds outflow upon maturity	1,311,081,000	461,321,000	101,291,000	199,150,000	214,590,000	334,729,000
Gap	38,434,000	(275,551,000)	(43,648,000)	(74,613,000)	(89,309,000)	521,555,000

Note: The amounts listed above represent the funds denominated in NT dollars only (i.e., excluding foreign currency) for both Head Office and domestic branches.

December 31, 2006

(Expressed in Thousands of US Dollars)

	Total	1 ~ 30 days	31 ~ 90 days	91 ~ 180 days	181 days ~ 1 year	Over 1 year
Primary funds inflow upon maturity	$ 25,261,000	$ 11,374,000	$ 2,199,000	$ 3,771,000	$ 1,358,000	$ 6,559,000
Primary funds outflow upon maturity	24,162,000	15,742,000	2,688,000	4,344,000	917,000	471,000
Gap	1,099,000	(4,368,000)	(489,000)	(573,000)	441,000	6,088,000

Note 1:The amounts listed above represent the funds denominated in US dollars for Head Office, domestic branches and offshore banking units, except otherwise indicated, fill in based on the carrying amount, for those unlisted, fill in are not required (eg. negotiable certificates of deposits, bonds and stocks).

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

Non-financial information listed above is not audited by independent accountants.

10. Capital adequacy ratio

(Expressed in Thousands of New Taiwan Dollars)

			December 31, 2007	December 31, 2006
Self-owned capital		Tier 1 Capital	139,087,729	143,836,463
		Tier 2 Capital	10,484,800	22,848,071
		Tier 3 Capital	-	-
		Deduction	-	37,101,498
		Self-owned capital, net	149,572,529	129,583,036
Total risk – weighted assets	Credit risk	Standardized Approach	1,304,409,486	1,176,386,556
		Internal Ratings-Based Approach	-	-
		Asset securitization	9,731,347	-
	Operation risk	Basic Indicator Approach	66,763,275	-
		Standardized Approach / Alternative Standardized Approach	-	-
		Advanced Measurement Approaches	-	-
	Market risk	Standardized Approach	37,909,463	76,715,363
		Internal Models Approach	-	-
	Total risk-weighted assets		1,418,813,571	1,253,101,919
Capital adequacy ratio			10.54%	10.34%
Tier 1 Risk-based Capital Ratio			9.80%	11.48%
Tier 2 Risk-based Capital Ratio			0.74%	1.82%
Tier 3 Risk-based Capital Ratio			0.00%	0.00%
Shareholder's equity/Total assets			3.29%	3.54%

Note: The calculation formula are listed below:
(1) Total risk-weighted assets = credit risk-weighted assets + (operation risk + market risk) x 12.5
(2) Capital adequacy ratio = Self-owned capital / Total risk-weighted assets.

11. Extraordinary Items

December 31, 2007	
	Cases and amount
Directors or employees prosecuted due to violation of laws and regulations in relation to the operations in the latest year.	None.
Fine due to the non-compliance with laws and regulations in the latest year.	None.
Shortcoming and negligence rectified by the Ministry of Finance in the latest year.	None.
Incurred losses over NT$50 million individually or in aggregate due to employee fraud or major incidental violations of rules provided in the "Notices to Financial Institutions about Safeguarding" in the latest year.	None.
Others	None.

12. In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet and trust property list are as follows:

(1) Trust Balance Sheet

(Expressed in Thousands of New Taiwan Dollars)

Trust Balance Sheet

December 31, 2007

Trust assets		Trust liabilities	
Bank deposits	$ 3,917,084	Trust capital	
Short-term investments		Pecuniary trust	$ 295,830,780
Mutual funds	158,858,358	Securities trust	11,574,481
Bonds	66,059,858	Real estate trust	27,562,183
Stocks	32,142,424		
Real estate	49,807,399		
Properties	44,844		
Other assets	24,137,477		
Total trust assets	$ 334,967,444	Total trust liabilities	$ 334,967,444

(Expressed in Thousands of New Taiwan Dollars)

Trust Balance Sheet

December 31, 2006

Trust assets			Trust liabilities		
Bank deposits	$	1,281,325	Trust capital		
Short-term investments			Pecuniary trust	$	230,456,017
Mutual funds		106,379,368	Securities trust		9,079,169
Bonds		84,151,981	Real estate trust		9,619,390
Stocks		27,702,694			
Real estate		28,246,458			
Properties		48,802			
Other assets		1,343,948			
Total trust assets	$	249,154,576	Total trust liabilities	$	249,154,576

(2) Trust Income Statement

(Expressed in Thousands of New Taiwan Dollars)

Trust Income Statement

For the year ended 31 December 2007 and 2006

	2007	2006
Trust income:		
Interest income	$ 28,464	$ 7,796
Rental income	1,306,261	670,421
Cash dividend income	924	421
Other income	36,809	2,311
Unrealized capital gain	54,243	44,559
Realized capital gain	107,707	22,561
Exchange gain	75,812	15,305
	1,610,220	763,374
Trust expenses:		
Management expenses	(61,712)	(27,601)
Duty expenses	(11,850)	(5,051)
Other operating expenses	(371,015)	(163,191)
Loss on disposal of assets	(117)	-
Unrealized capital loss	(761)	(15,420)
Realized capital loss	(28,158)	(900)
Realized exchange loss	(1,189)	(12,737)
Unrealized exchange loss	(88,506)	-
	(563,308)	(224,990)
Net income before income tax (Net investment income)	1,046,912	538,384
Income tax	(244)	(96)
Net income after income tax	$ 1,046,668	$ 538,288

(3) Schedule of Investment for Trust Business

(Expressed in Thousands of New Taiwan Dollars)

Schedule of Investment for Trust Business

	December 31, 2007	December 31, 2006
Short-term investments:		
Mutual funds	$ 158,858,358	$ 106,379,368
Bonds	66,059,858	84,151,981
Stock	32,142,424	27,702,694
Real estate	49,807,399	28,246,458
Properties	44,844	48,802
Other assets	24,137,477	1,343,948
	$ 331,050,360	$ 247,873,251

13. 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 thousand to the Mega Financial Holdings Co., Ltd. for apportionment of expenses for building systems.

14. The Bank's independent accountants for the audit of the financial statements as of and for the year ended December 31, 2007 have been changed from Ernst & Young to PricewaterhouseCoopers.

15. Certain accounts in the 2006 financial statements have been reclassified to conform to the presentation of the 2007 financial statements.

16. Relative information on the merger with Chiao Tung Bank

According to the ARDF's Letter (95) Chi-Mi-Tze No.114, the merger is in substance, a reorganization of two jointly controlled subsidiaries. In preparing the consolidated balance sheets, the book value of assets and liabilities of the merged company (in the case where asset impairment had been recognized, the net amount is used for consolidation) should be obtained. Since the Bank and CTB are both 100% wholly-owned subsidiary of Mega Financial Holding Co., Ltd. and that the merger conforms to the criteria stipulated in the above-mentioned Letter; the merger, in this case, should be accounted for as a reorganization. The merger was implemented by issuing new shares with an exchange ratio of 1:1. As a result, 2,684,888 thousand shares had been issued and CTB's net assets amounting to NT$63,779,023 thousand have been consolidated.

Items	Amount (NT)
Cash and cash equivalents	$ 9,573,179
Due from the central bank and call loans to banks	35,755,114
Financial assets at fair value through profit or loss – net	17,690,094
Receivables – net	12,489,152
Bills discounted and loans – net	377,547,309
Available-for-sale financial assets – net	34,047,595
Held-to-maturity financial assets – net	4,715,973
Investments accounted for under the equity method – net	834,121
Other financial assets – net	59,550,651
Properties and equipments – net	5,790,235
Other assets – net	1,032,524
Due to Central Bank and other banks	(102,281,352)
Funds borrowed from Central Bank and Commercial banks	(9,617,000)
Financial liabilities at fair value through profit or loss	(48,212,951)
Securities Sold under repurchase agreements	(12,415,934)
Payables	(12,822,177)
Deposits and remittances	(252,133,324)
Financial bonds payable	(8,661,328)
Accrued pension liabilities	(138,989)
Other financial liabilities	(46,058,842)
Other liabilities	(2,905,027)
Subtotal	63,779,023
New shares issued for merger	(26,848,878)
Unappropriated retained earnings	(3,875,203)
Reserve for asset revaluation increments	(1,677,192)
Cumulative translation adjustments	(549,330)
Unrealized gains or losses on available-for-sale	(754,301)
Net loss not recognized as pension costs	35,158
Capital reserve arising from the merger – posted to capital reserve	$ 30,109,277

The Bank had restated the financial statements as of December 31, 2005 and for the year then ended retroactively according to the above mentioned share swap transaction. As a result, the capital reserve arising from the merger (posted to capital reserve) is calculated to be NT$30,109,277 thousand.

XI. SUPPLEMENTARY DISCLOSURES

1. Related information on material transaction items:
   (1) Information regarding stock of long-term equity investment for which the purchase or sale amount for the period exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
   (2) Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
   (3) Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
   (4) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: none.
   (5) Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.

(6) Information regarding selling non-performing loans: None.

A. Summary of selling non-performing loans — December 31, 2007 — (Expressed in Thousands of New Taiwan Dollars)

Transaction date	Counterparty	Contents of right of claim	Carrying value (Note 1)	Sales price	Gain (Loss) from Disposal	Attached conditions	Relationship with the Company
February 12, 2007	Amore Investment Asia Ltd.	Enterprise finance (Short term revolving loans)	$ -	$ 23,055	$ 23,055	None	None
August 27, 2007	Kan, Che Kin Billy Alber	Enterprise loans	$ 1,908	$ 4,749	$ 2,841	None	None
August 27, 2007	Ji Jia Enterprise Co., Ltd.	Enterprise short-term credit loans, other medium-term loans	$ 4,530	$ 39,419	$ 34,889	None	None
September 28, 2007	Yu Sheng Asset Management Co., Ltd.	Enterprise short-term secured loans, medium-term loans	$ 1,498	$ 37,935	$ 36,437	None	None
November 1, 2007	Yuan Yin Asset Management Co., Ltd.	Enterprise long-term secured loans, medium-term secured loans (purchase of automatic machine)	$ -	$ 427,190	$ 427,190	None	None
November 7, 2007	Ben Hwa Asset Management Co., Ltd.	Enterprise long-term secured loans, short-term loans	$ -	$ 83,665	$ 83,665	None	None
December 26, 2007	China Development Industrial Bank Asset Management Co., Ltd.	Enterprise long term secured loans	$ 51,938	$ 217,079	$ 165,322	None	None

Note 1: Carrying value is the difference of initial claim amount minus allowance for doubtful accounts.

Note 2: Disposal of non-performing loans for related party: None.

B. Single-run of sales of non-performing loans with an amount exceeding NT$ 1 billion excluding sales of non-performing loans to related parties:

Counterparties: Amore Investment Asia Ltd. — Date of Disposal: February 12, 2007 — (Expressed in Thousands of New Taiwan Dollars)

Contents of right of claim			Gross Loans (Note 1)	Carry value	Amortized Price (Note 2)
Corporate	Secured		$ -	$ -	$ -
	Unsecured		1,242,416	-	23,055
	Secured	Residential mortgage loans	-	-	-
		Auto loans	-	-	-
		Others	-	-	-
Individual	Unsecured	Credit card	-	-	-
		Cash card	-	-	-
		Small amount of credit loans (Note 3)	-	-	-
		others	-	-	-
Total			$ 1,242,416	$ -	$ 23,055

Counterparties: Yuan Yin Asset Management Co., Ltd. — Date of Disposal: November 1, 2007 — (Expressed in Thousands of New Taiwan Dollars)

Contents of right of claim			Gross Loans (Note 1)	Carry value	Amortized Price (Note 2)
Corporate	Secured		$ 1,393,854	$ -	$ 418,190
	Unsecured		606,043	-	9,000
	Secured	Residential mortgage loans	-	-	-
		Auto loans	-	-	-
		Others	-	-	-
Individual	Unsecured	Credit card	-	-	-
		Cash card	-	-	-
		Small amount of credit loans (Note 3)	-	-	-
		others	-	-	-
Total			$ 1,999,897	$ -	$ 427,190

Note 1: Amount of right of claim means the buyer's claim to the creditor, including the outstanding of sales of non-performing loans (the carrying value before deduction of allowance for doubtful accounts) plus bad debts written off.

Note 2: Total sales price is shared based on the evaluation of collectible value of non-performing loans when bank sells its non-performing loans.

Note 3: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

(7) Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: none.
(8) Other material transaction items which were significant to the users of the financial statements: none.

2. Supplementary disclosure regarding investee companies:
(1) Supplementary disclosure regarding investee companies:

(Expressed In Thousands Of New Taiwan Dollars)

			As of December 31, 2007			Share-holdings of the Bank and related enterprises				
								Total		
Investee companies	Address	Main service	Percentage of ownership %	Book value	Investment income (loss)	Share (in thousands)	Pro forma information on number of stock held	Share (in thousands)	Percentage of ownership %	Note
Mega International Commercial Bank Public Co., Ltd. (Formerly International Commercial Bank of China Public Co., Ltd. (Thailand)	36/12P.S.Tower, Asoke, Sukhumvit 21, Klongtoey nua, Wattana Bangkok, 10110,Thailand	1. Deposits 2. Negotiation, bill for collection and foreign exchange 3. Loan(credit、loan and L/C)	100.00%	$ 4,252,567	$ 211,463	400,000	None	400,000	100%	
Mega International Commercial Bank(Canada) (Formerly International Commercial Bank of Cathay)	North York Madison Centre, 4950, Yonge Street, Suite 1002, Toronto, Ontario, M2N 6K1, Canada	1. Deposits 2. Negotiation, bill for collection and foreign exchange 3. Loan(credit、loan and L/C)	100.00%	992,390	63,192	230	None	230	100%	
Cathay Investment & Development Corporation (Bahamas)	Post Office Box 3937 Nassau, Bahamas	International investment and exploration	100.00%	721,013	29,919	5	None	5	100%	
CTB financial Management & Consulting Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Management consulting industry	100.00%	76,838	47,800	1,000	None	1,000	100%	
Cathay Investment & Warehousing Ltd.	Calle 16 Colon Free Zone Local No 4 Edificio No. 49 P.O.Box 0302-00622, Colon Free Zone,Colon, Republic of Panama	1. Warehousing 2. Manage and make the investment for the business in foreign trade business. 3. Office rental	100.00%	48,007	2,279	1	None	1	100%	
RAMLETTE FINANCE HOLDINGS INC.	Calle 50 Y Esquina Margarita A De Vallarino, Entrada Nuevo Campo Alegre, Edificio ICBC, No.74, P.O. Box 0816-00704, Panama	Real estate investment industry	100.00%	-	2,028	2	None	2	100%	
Yung-Shing Industries Co.	7F., No.100, Jilin Rd., Taipei City	Agency business industry, manage and make the investment for the business in foreign trade business and customer request service	99.56%	758,590	267,809	952	None	952	99.56%	
China Products Trading Company	12F., No.100, Jilin Rd., Taipei City	Processing agricultural product and investment industry.	68.27%	65,757	1,402	68	None	68	68.27%	
Mega International Securities Investment Trust Co., Ltd.	7 &8 F., No.91, HengYang Rd., Taipei City	Storage industry	32.79%	250,427	15,647	19,394	None	19,394	32.79%	
United Venture Capital Corp.	4F-2, No.76, Sec. 2, Dunhua S. Rd., Taipei City	Investment industry	25.31%	191,982	23,288	17,920	None	17,920	25.31%	
CTB 1 Venture Capital Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Investment industry	25.00%	270,795	17,436	25,000	None	25,000	25.00%	
IP Fundseven Ltd.	7F., No.122, Dunhua N. Rd., Songshan District, Taipei City	Investment industry	25.00%	235,557	(6,664)	25,000	None	25,000	25.00%	
An Fang Co., Ltd.	3F., No.139, Jhengjhou Rd., Taipei City	Automatic Teller Machine rental, configure and maintain.	25.00%	11,260	1,934	750	None	750	25.00%	
Taiwan Finance Co., Ltd.	3F., No.123, Sec. 2, Nanjing E. Rd., Taipei City	Brokerage underwriting attestation guarantee and endorsement of commercial papers, proprietary trading of government bonds and corporate bonds.	24.55%	1,270,335	(49,066)	126,714	None	126,714	24.55%	
Everstrong Iron Steel & Foundry & Mfg Corp.	4F-5, No.121, Sec. 1, Chongcing S. Rd., Taipei City	Iron and steel making	22.22%	32,468	6,629	1,760	None	1,760	22.22%	
China Real Estate Management Co., Ltd.	11F., No.35, Guangfu S. Rd., Taipei City	Real estate and property selling	20.00%	120,649	10,675	9,000	None	9,000	20.00%	
				$ 9,298,635	$ 645,771					

(2) For those investee companies that the Bank has direct or indirect control interest over, further disclosures are as follows:

A. Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
B. Information on the disposal of the real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
C. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: none.
D. Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
E. Information regarding selling non-performing loans: none.
F. Information on and categories of securitized assets which are approved by the authority pursuant to the Financial Asset Securitization Act or the Real Estate Securitization Act: none.
G. Lending to other parties: none.
H. Guarantees and endorsements for other parties: none.
I. Information regarding securities held as of December 31, 2007:

(Expressed in Thousands of New Taiwan Dollars)

Investor	Name of investee and type of securities	Relationship	Account	At year-end Share / Units (in thousands)	Book value	Ownership percentage (%)	Market value	Note
CTB Financial Management & Consulting Co., Ltd.	Stocks							
〃	ID Reengineering Inc.	Equity investees	Investments accounted for by the equity method		$ 547	25.00%	$ 547	
CTB 1 Venture Capital Co., Ltd.	Funds							
〃	Cathay Bond Fund	None	Available-for-sale financial assets	1,757	$ 20,571		$ 20,571	
〃	Tlam Solomon Bond Fund	〃	Available-for-sale financial assets	4,348	51,475		51,475	
〃	HSBC NTD Money Management Fund	〃	Available-for-sale financial assets	1,329	20,040		20,040	
〃	Shinkong Chi-Shin Fund	〃	Available-for-sale financial assets	1,402	20,383		20,383	
〃	Fubon Jin-Ju-I Fund	〃	Available-for-sale financial assets	4,145	51,499		51,499	
〃	Wan Pao Fund	〃	Available-for-sale financial assets	7,164	110,152		110,152	
	Total				$ 274,120			
CTB 1 Venture Capital Co., Ltd.	Stocks							
〃	Contrel Technology Co.,Ltd.	〃	Available-for-sale financial assets	483	$ 15,554	0.41%	$ 15,554	
〃	Jiin Ming Industry Co.,Ltd.	〃	Available-for-sale financial assets	222	5,600	0.28%	5,600	
〃	Niko Semiconductor Co., Ltd.	〃	Available-for-sale financial assets	276	29,394	0.83%	29,394	
〃	Darfon Electronics Corp.	〃	Available-for-sale financial assets	100	9,180	0.04%	9,180	
〃	Formosa Advanced Technologies Co., Ltd.	〃	Available-for-sale financial assets	1,035	57,960	0.24%	57,960	
〃	Paragon Technologies Co., Ltd.	〃	Available-for-sale financial assets	9	1,989	0.01%	1,989	
〃	ATM Electronic Corp.	〃	Financial assets carried at cost	1,911	35,000	7.56%	35,000	
〃	Taiwan Video System Co., Ltd.	〃	Financial assets carried at cost	1,289	24,000	3.16%	24,000	
〃	UniBright Chemical Co.,Ltd.	〃	Financial assets carried at cost	125	1,890	0.24%	1,890	
〃	Sin-ying-cai Corp.	〃	Financial assets carried at cost	800	9,600	1.13%	9,600	
〃	Yung Fa Corp.	〃	Financial assets carried at cost	3,466	34,461	9.70%	34,461	
〃	TPO Displays Corp.	〃	Financial assets carried at cost	5,000	50,000	0.12%	50,000	
〃	Mobile Action Technology Inc.	〃	Financial assets carried at cost	308	15,700	0.85%	15,700	
〃	MOSA Industrial Corp.	〃	Financial assets carried at cost	800	20,000	1.36%	20,000	
〃	Goodway Machine Corp.	〃	Financial assets carried at cost	440	12,000	0.58%	12,000	
〃	MobilMAX Technology Inc.	〃	Financial assets carried at cost	500	20,000	8.33%	20,000	
〃	ProbeLeader Co., Ltd.	〃	Financial assets carried at cost	600	15,000	4.23%	15,000	
〃	Neo Solar Power Corporation	〃	Financial assets carried at cost	150	10,500	0.15%	10,500	
〃	Jenteck Precision Industrial Co., Ltd.	〃	Financial assets carried at cost	200	16,000	0.38	16,000	
〃	Y.C.C. Parts MFG Co., Ltd.	〃	Financial assets carried at cost	1,000	32,000	1.78	32,000	
〃	Applied Wireless Identification Group Inc.	〃	Financial assets carried at cost	300	10,176	1.31%	10,176	
	Total				$ 426,004			
Yung-Shing Industries Co.	Funds							
〃	Silicon Valley Equity Fund II, LP	〃	Financial assets carried at cost	-	$ 25,994	3.45%	$ 25,994	
〃	The Taiwan Special Opportunities Fund II	〃	Financial assets carried at cost	-	-	0.27%	-	
	Total				$ 25,994			

(Expressed in Thousands of New Taiwan Dollars)

Investor	Name of investee and type of securities	Relationship	Account	At year-end: Share / Units (in thousands)	Book value	Ownership percentage (%)	Market value	Note
Yung-Shing Industries Co.	Stocks							
〃	Nanrenhu Enterprise Corp.	None	Available-for-sale financial assets	172	$ 3,800	0.20%	$ 3,800	
〃	Optimax Technology Corporation	〃	Available-for-sale financial assets	10	114	0.06%	114	
〃	Wafer Works Corporation	〃	Available-for-sale financial assets	137	25,962	1.09%	25,962	
〃	Mega Oversea Fund Collection Account	〃	Available-for-sale financial assets	2,676	30,313	2.42%	30,313	
〃	First Bio Venture Capital Corp.	〃	Financial assets carried at cost	378	2,536	2.50%	2,536	
〃	SysJust Corporation	〃	Financial assets carried at cost	559	6,878	2.89%	6,878	
〃	Hi-Scene World Enterprise Co., Ltd.	〃	Financial assets carried at cost	3,535	8,100	3.00%	8,100	
〃	Jhong-fu Venture Capital Investment Corp.	〃	Financial assets carried at cost	1,200	12,000	3.33%	12,000	
〃	An Fang Co., Ltd.	〃	Financial assets carried at cost	150	1,833	5.00%	1,833	
〃	Fan-yang Venture Capital Investment Corp.	〃	Financial assets carried at cost	4,500	45,000	7.44%	45,000	
〃	Forture Venture Capital Investment Corp.	〃	Financial assets carried at cost	2,000	20,000	7.84%	20,000	
〃	TaiOne International Ltd.	〃	Financial assets carried at cost	2,660	9,629	19.00%	9,629	
〃	Hua-sheng Venture Capital Investment Corp.	〃	Financial assets carried at cost	2,000	20,000	1.67%	20,000	
〃	H&H Venture Capital Investment Corp.	〃	Financial assets carried at cost	4,113	41,132	7.89%	41,132	
〃	Win Card Co., Ltd.	Equity investees	Investments accounted for by the equity method	500	68,992	100%	68,992	
〃	ICBC Assets Management & Consulting Co., Ltd.	〃	Investments accounted for by the equity method	16,034	288,428	100%	288,428	
	Total				$ 584,717			
ICBC Assets Management & Consulting Co., Ltd.	Funds							
〃	ICBC AMC Offshore Limited	〃	Investments accounted for by the equity method	-	$ 34,382	100%	$ 34,382	
〃	ICBC AMC Offshore (Taiwan) II	〃	Investments accounted for by the equity method	-	8,914	100%	8,914	
〃	Junior Preference Share Company I	〃	Investments accounted for by the equity method	-	244,159	100%	244,159	
〃	Junior Preference Share Company II	〃	Investments accounted for by the equity method	-	23,140	100%	23,140	
	Total				$ 310,595			
ICBC Assets Management & Consulting Co., Ltd.	Stocks							
〃	H&H Venture Capital Investment Corp.	None	Financial assets carried at cost	2,742	$ 27,421	4.88%	$ 27,421	
〃	Formosa Advanced Technologies Co., Ltd.	〃	Available-for-sale financial assets	131	7,350	0.03%	7,350	
〃	Fast Technologies Inc.	〃	Available-for-sale financial assets	173	3,863	3.05%	3,863	
	Total				$ 38,634			
Cathay Investment & Development Corporation (Bahamas)	Funds							
〃	Taiwan Special Opportunities Fund II	〃	Financial assets carried at cost	1	$ -	-	$ 19,471	
〃	Taiwan Special Opportunities Fund Ⅲ	〃	Financial assets carried at cost	-	49,607	-	49,607	
〃	TSC Venture I, Inc.	〃	Financial assets carried at cost	1,000	29,171	-	29,171	
〃	AsiaTech Taiwan Venture Fund, LP	〃	Financial assets carried at cost	-	28,319	-	28,319	
〃	SC Biotechnology Development Fund, LP	〃	Financial assets carried at cost	-	240,025	-	240,025	
〃	Tai An Technologies Corp.	〃	Financial assets carried at cost	371	11,054	-	11,054	
	Accumulated impairment				(61,078)			
	Total				$ 297,098			
Mega International Investment Trust Co., Ltd.	Funds							
〃	Mega Diamond Bond Fund	〃	Available-for-sale Financial Assets	1,969	$ 23,020	-	$ 23,020	
〃	The Wan Pao Fund	〃	Available-for-sale Financial Assets	1,487	22,862	-	22,862	
〃	The Increment Fund	〃	Available-for-sale Financial Assets	1,462	22,533	-	22,533	
〃	First Securities Investment Trust Fund	〃	Available-for-sale Financial Assets	1,098	13,828	-	13,828	

(Expressed in Thousands of New Taiwan Dollars)

Investor	Name of investee and type of securities	Relationship	Account	At year-end: Share / Units (in thousands)	Book value	Ownership percentage (%)	Market value	Note
Mega International Investment Trust Co., Ltd.	IIT Secured Value Fund	None	Available-for-sale Financial Assets	347	$ 4,446	-	$ 4,446	
	Total				$ 86,689			
Mega International Investment Trust Co., Ltd.	Corporate Bonds							
〃	Taichung Machinery Works Co., Ltd. corporate bonds	〃	Debt investment with no active market	-	$ 43,974	-	$ -	
〃	Chuntex Electronic Co., Ltd. corporate bonds	〃	Debt investment with no active market	-	88,476	-	-	
〃	Top Construction & Development Co., Ltd. corporate bonds	〃	Debt investment with no active market	-	45,001	-	-	
	Allowance for probable losses				(177,451)	-	-	
	Total				$ -			

J. Information regarding securities for which the purchase or sale amount for the period exceeded NT$300 million or 10% of the Bank's paid-in capital: none.
K. Information regarding trading in derivative financial instruments: none.

3. Investments in People's Republic of China: none.

XII.SEGMENTS AND GEOGRAPHIC INFORMATION

1. Financial information by business segments:
The Bank is engaged in business stipulated in Article 3 of the Banking Law; therefore, the disclosure of financial information by business segments is not required.

2. Financial information by geographic area

Mega International Commercial Bank Co., Ltd.
Financial Information By Geographic Area
December 31, 2007

(Expressed in Thousands of new Taiwan Dollars)

	Domestic	North America	Other overseas operating departments	Adjustment and write-off	Total
Revenue from customers outside the Bank	$ 64,328,016	$ 8,004,648	$ 9,641,408	$ -	$ 81,974,072
Revenue from departments within the Bank	44,642,648	65,112	1,651,507	(46,359,267)	-
Total revenue	$ 108,970,664	$ 8,069,760	$ 11,292,915	($ 46,359,267)	$ 81,974,072
Profit or loss	$ 11,179,439	$ 544,013	$ 2,307,500		$ 14,030,952
Asset attributable to specific departments	$ 1,476,111,904	$ 283,177,736	$ 188,171,693		$ 1,947,461,333

3. Export sales by geographic area
The export sale amount of the Bank's domestic operating department is not more than 10% of the Bank's operating revenues for the year ended December 31, 2007.

4. Information on major customers
The sale to a single customer of the Bank is not more than 10% of the Bank's operating revenues for the year ended December 31, 2007.

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Chao-Hsien Lai, Senior Executive Vice President
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