Union Bank of Taiwan

Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan (the "Bank") as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity and cash flows for the years 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 audits. The financial statements as of and for the years ended December 31, 2006 and 2005 of the following equity-method investees: Union Bills Finance Corporation, Union Finance International (H.K.) Limited, and Union Real-Estate Management Corporation and the financial statements as of and for the year ended December 31, 2005 of Union Security Investment Trust and Union Bank Futures Corporation were audited by the other auditors and our audit, insofar as it relates to the amounts included for those investments, is based solely on the audit report of the other auditors. The carrying amount of these equity investments - equity method were 0.43% (NT$1,562,099 thousand) and 0.60% (NT$1,975,773 thousand) of the Bank's total assets as of December 31, 2006 and 2005, respectively. And the income from equity investment - equity method were 11.28% (NT$39.082 thousand) and 1.52% (NT$73,537 thousand) of income (loss) before income tax for the year ended December 31, 2006 and 2005, respectively.

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

As stated in Note 15 to the financial statements, the Bank sold part of its nonperforming loans to asset management company in 2006, on which the Bank deferred related losses which would be amortized over 60 months as required by the Financial Institution Consolidation Law. Had these losses not been deferred, the pretax income would have decreased by NT$7,315,874 thousand in 2006, and the balances of the other assets and unappropriated earnings would have both decreased by NT$7,315,874 thousand as of December 31, 2006.

In our opinion, based on our audits and the reports of the other auditors, except for the deferred losses on nonperforming loans described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Union Bank of Taiwan as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standards No. 34 "Accounting for Financial Instruments", No. 36 "Disclosure and Presentation of Financial Instruments" and other standards amended for harmonizing with those two standards.

As stated in Note 15 to the financial statements, in 2005, the Bank was advised by the Securities and Futures Bureau of Financial Supervisory Commission of Executive Yuan to realize, in conformity with accounting principles generally accepted in the Republic of China, losses on the sale of its nonperforming loans instead of amortizing these losses.

As stated in Note 34, on December 9, 2004, the Bank won a bid, which was held by the Executive Yuan's Resolution Trust Corporation Fund, and acquired all assets, liabilities and operating units of Chung Shing Bank on March 19, 2005.

We have also audited the consolidated financial statement of Union Bank of Taiwan and subsidiaries as of and for the year ended December 31, 2006, on which we have issued a qualified opinion thereon.

March 6, 2007

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements *have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.*

UNION BANK OF TAIWAN

BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	**2006 Amount**	**2005 Amount**	**%**
CASH AND CASH EQUIVALENTS (Note 4)	$ 7,580,583	$ 7,412,845	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 2, 5 and 25)	32,547,602	21,451,986	52
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 3, 6 and 25)	4,873,587	10,009,127	(51)
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2, 25 and 27)	3,820,626	10,311,415	(63)
RECEIVABLES, NET (Notes 2, 7 and 25)	36,748,767	44,028,153	(17)
DISCOUNTS AND LOANS, NET (Notes 2, 8 and 25)	207,070,571	182,118,196	14
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 3 and 9)	5,997,931	7,072,617	(15)
HELD-TO-MATURITY INVESTMENTS (Notes 2, 3 and 10)	31,027,509	19,756,961	57
EQUITY INVESTMENTS - EQUITY METHOD (Notes 2, 3 and 11)	2,837,358	3,521,089	(19)
OTHER FINANCIAL ASSETS, NET (Notes 2, 3 12 and 13)			
Unquoted equity instruments	1,110,246	1,086,839	2
Non-active market debt instruments	2,666,843	2,626,767	2
Others	133,250	156,829	(15)
Other financial assets, net	3,910,339	3,870,435	1
PROPERTY AND EQUIPMENT (Notes 2, 14, 22 and 27)			
Cost			
Land	3,366,936	3,489,822	(4)
Buildings and improvements	4,835,566	4,826,492	-
Office equipment	1,446,297	1,500,157	(4)
Transportation equipment	255,406	191,837	33
Leasehold improvements	236,201	212,674	11
	10,140,406	10,220,982	(1)
Accumulated depreciation	1,494,843	1,415,747	6
	8,645,563	8,805,235	(2)
Prepayments for equipment	115,798	158,359	(27)
Net property and equipment	8,761,361	8,963,594	(2)
GOODWILL (Notes 2, 3 and 34)	2,757,500	2,757,500	-
OTHER ASSETS (Notes 2, 15, 23 and 25)	13,435,702	7,418,905	81
TOTAL	$ 361,369,436	$ 328,692,823	10

LIABILITIES AND STOCKHOLDERS' EQUITY	**2006 Amount**	**2005 Amount**	**%**
LIABILITIES			
Call loans and due to banks (Notes 16 and 25)	$ 31,817,010	$ 26,652,827	19
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 6)	34,457	4,090	742
Securities sold under repurchase agreements (Notes 2, 25 and 27)	11,904,491	12,247,692	(3)
Payables (Notes 17 and 25)	7,111,454	6,548,931	9
Deposits and remittances (Notes 18 and 25)	275,747,909	250,662,221	10
Bank debentures (Notes 2, 19 and 25)	15,083,700	13,105,400	15
Other financial liabilities	181,577	151,549	20
Other liabilities (Notes 2 and 21)	805,415	986,371	(18)
Total liabilities	342,686,013	310,359,081	10
STOCKHOLDERS' EQUITY			
Capital stock - $10 par value; authorized - 2006 and 2005: 2,488,926 thousand shares; issued - 2006: 1,827,798 thousand shares, 2005: 1,825,394 thousand shares	18,277,979	18,253,942	-
Capital surplus			
Additional paid-in capital	26,485	29,922	(11)
Donated capital	1,398	1,398	-
Treasury stock transactions	32,413	32,413	-
Total capital surplus	60,296	63,733	(5)
Retained earnings			
Legal reserve	16,067	1,380,978	(99)
Special reserve	26,584	2,119,450	(99)
Unappropriated earnings (accumulated deficit)	305,814	(3,457,777)	109
Total retained earnings	348,465	42,651	717
Unrealized loss on financial assets	(39,132)	-	-
Cumulative translation adjustments	43,820	50,141	(13)
Net loss not recognized as pension cost	(8,005)	-	-
Other adjustments	-	(76,725)	100
Total stockholders' equity	18,683,423	18,333,742	2
CONTINGENCIES AND COMMITMENTS (Notes 2 and 27)			
TOTAL	$ 361,369,436	$ 328,692,823	10

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

(With Deloitte & Touche audit report dated March 6, 2007)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2006 Amount	2005 Amount	%
INTEREST REVENUE (Notes 2 and 25)	$14,759,801	$14,843,178	(1)
INTEREST EXPENSE (Notes 2 and 25)	5,664,213	4,035,562	40
NET INTEREST	9,095,588	10,807,616	(16)
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 25)	2,308,292	2,470,761	(7)
Commissions and fee expenses	794,360	897,291	(11)
Net commissions and fees	1,513,932	1,573,470	(4)
Gains (losses) from financial assets and liabilities at fair value through profit or loss (Notes 3 and 6)	318,882	691,279	(54)
Realized losses on available-for-sale financial assets	(53,770)	-	-
Income from equity investments - equity method (Notes 2 and 11)	107,084	287,971	(63)
Foreign exchange gains (losses), net (Note 2)	(35,179)	82,398	(143)
Impairment losses (Note 2)	(340,016)	(15,936)	2,034
Amortization of loss and loss on sale of nonperforming loans (Notes 2 and 15)	(643,111)	(6,761,482)	(90)
Other provision	(8,353)	(32,537)	(74)
Amortization of goodwill	-	(551,500)	100
Securities brokerage fee revenues (Note 25)	107,384	78,090	38
Gain on disposal of properties, net	577,608	30,612	1,787
Other net revenues (Note 25)	143,074	257,759	(44)
Total net revenues	10,783,123	6,447,740	67
BAD DEBT	4,104,184	4,759,364	(14)
OPERATING EXPENSES			
Personnel expenses (Notes 2, 21 and 22)	2,565,208	2,410,648	6
Depreciation and amortization (Notes 2 and 22)	456,513	397,377	15
Others (Note 25)	3,310,892	3,726,873	(11)
Total operating expenses	6,332,613	6,534,898	(3)

(Continued)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2006 Amount	2005 Amount	%
INCOME (LOSS) BEFORE INCOME TAX	$ 346,326	$ (4,846,522)	107
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 23)	(49,790)	1,388,745	(104)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	296,536	(3,457,777)	109
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (NET OF TAX EXPENSE $1,488) (Notes 3 and 23)	9,278	-	-
NET INCOME (LOSS)	$ 305,814	$ (3,457,777)	109

	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (Note 24)				
Basic	$ 0.20	$ 0.17	$ (2.72)	$ (1.94)
Diluted	$ 0.17	$ 0.14	$ (2.72)	$ (1.94)

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

(With Deloitte & Touche audit report dated March 6, 2007) (Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus (Notes 2 and 20)				Retained Earnings (Notes 2 and 20)								
	Shares (in Thousands)	Amount	Additional Paid-in Capital	Donated Capital	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Total	Unrealized Gain (Loss) on Financial Assets (Note 2)	Cumulative Translation Adjustment (Note 2)	Net Loss not Recognized as Pension Cost (Note 2)	Other Adjustments (Note 2)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2005	1,517,129	$15,171,292	$ 23,972	$1,398	$ 32,413	$ 57,783	$ 901,090	$ 999,713	$ 1,599,625	$ 3,500,428	$ -	$ 21,433	$ -	$ (20,190)	$18,730,746
Appropriation of 2004 earnings															
Legal reserve	-	-	-	-	-	-	479,888	-	(479,888)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	1,119,737	(1,119,737)	-	-	-	-	-	-
Net loss in 2005	-	-	-	-	-	-	-	-	(3,457,777)	(3,457,777)	-	-	-	-	(3,457,777)
Convertible bank debenture converted to common stock	8,265	82,650	5,950	-	-	5,950	-	-	-	-	-	-	-	-	88,600
Issuance of common stock for cash	300,000	3,000,000	-	-	-	-	-	-	-	-	-	-	-	-	3,000,000
Unrealized loss on long-term investment	-	-	-	-	-	-	-	-	-	-	-	-	-	(56,535)	(56,535)
Cumulative translation adjustment on equity investments - equity method	-	-	-	-	-	-	-	-	-	-	-	28,708	-	-	28,708
BALANCE, DECEMBER 31, 2005	1,825,394	18,253,942	29,922	1,398	32,413	63,733	1,380,978	2,119,450	(3,457,777)	42,651	-	50,141	-	(76,725)	18,333,742
Effects of first adopting the Statement of Financial Accounting Standards	-	-	-	-	-	-	-	-	-	-	(103,278)	-	-	76,725	(26,553)
Offset deficits of 2005 earnings															
Legal reserve	-	-	-	-	-	-	(1,364,911)	-	1,364,911	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(2,092,866)	2,092,866	-	-	-	-	-	-
Net income in 2006	-	-	-	-	-	-	-	-	305,814	305,814	-	-	-	-	305,814
Unrealized gain on financial assets	-	-	-	-	-	-	-	-	-	-	82,120	-	-	-	82,120
Recognization of unrealized loss on financial assets of equity investment - equity method	-	-	-	-	-	-	-	-	-	-	(17,974)	-	-	-	(17,974)
Cumulative translation adjustment on equity investments - equity method	-	-	-	-	-	-	-	-	-	-	-	(6,321)	-	-	(6,321)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	(8,005)	-	(8,005)
Convertible bank debenture converted to common stock	2,404	24,037	(3,437)	-	-	(3,437)	-	-	-	-	-	-	-	-	20,600
BALANCE, DECEMBER 31, 2006	1,827,798	$18,277,979	$ 26,485	$1,398	$ 32,413	$ 60,296	$ 16,067	$ 26,584	$ 305,814	$ 348,465	$ (39,132)	$ 43,820	$ (8,005)	$ -	$18,683,423

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

(With Deloitte & Touche audit report dated March 6, 2007)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 305,814	$ (3,457,777)
Adjustments to net income to determine cash flows:		
Income from equity investments - equity method, net	(107,084)	(287,971)
Cash dividend and remuneration to directors and supervisors recognized by the equity method	529,647	182,436
Depreciation and amortization	456,513	397,377
Gain on disposal of properties, net	(577,608)	(30,612)
Impairment losses on unquoted equity instruments	16,812	15,936
Loss from the obsolescence of property and equipment	18,255	2,051
Amortization of loss and loss from sale of nonperforming loans	643,111	6,761,482
Amortization of goodwill	-	551,500
Unrealized (gain) loss on financial assets and liabilities at fair value through profit or loss	(179,672)	6,652
Loss on sale of available-for-sale financial assets	53,770	-
Provision for credit and other losses	4,112,537	4,791,901
Provision (reversal of) for allowance for decline in market value of collaterals assumed	323,204	(90,181)
Deferred income taxes	40,077	(1,420,428)
Decrease (increase) in held for trading financial assets	2,277,203	(1,690,708)
Increase (decrease) in held for trading financial liabilities	30,367	(13,355)
Decrease (increase) in receivables	8,212,780	(4,798,386)
Increase in payables	562,523	2,354,871
Net cash provided by operating activities	16,718,249	3,274,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in securities purchased under resell agreements	6,490,789	(1,131,360)
Decrease (increase) in due from the Central Bank and other banks	(11,095,616)	286,991
Decrease (increase) in financial assets designated at fair value through profit or loss	3,038,009	(811,247)
Increase in discounts and loans	(37,926,771)	(25,134,086)
Acquisition of property and equipment	(421,891)	(519,659)
Proceeds from disposal of property and equipment	336,639	1,862
Decrease in other assets	1,303,954	4,287,337
Decrease (increase) in available-for-sale financial assets	1,076,483	(2,468,046)
Increase in held-to-maturity investments	(11,270,548)	(13,954,619)
Increase in equity investments - equity method	(4)	-
Proceeds from capital deduction and liquidate investee	236,877	1,790,126
Increase in other financial assets	(56,716)	(2,537,516)
Increase in goodwill	-	(3,309,000)
Net payments of the acquisition of Chung Shing Bank	-	(6,017,187)
Net cash used in investing activities	(48,288,795)	(49,516,404)

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in call loans and due to banks	$ 5,164,183	$ 1,833,542
Increase (decrease) in securities sold under repurchase agreements	(343,201)	9,560,254
Increase in deposits and remittances	25,085,688	19,735,480
Increase in other financial liabilities	30,028	49,854
Decrease in other liabilities	(197,314)	(251,013)
Issuance of bank debentures	2,000,000	2,000,000
Redeemed of bank debentures	(1,100)	-
Issuance of common stock for cash	-	3,000,000
Net cash provided by financing activities	31,738,284	35,928,117
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	167,738	(10,313,499)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,412,845	3,605,231
CASH AND CASH EQUIVALENTS TRANSFERRED FROM CHUNG SHING BANK - MARCH 19, 2005	-	14,121,113
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,580,583	$ 7,412,845
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 5,457,103	$ 3,513,646
Income tax paid	$ 79,566	$ 70,521
NONCASH INVESTING AND FINANCING ACTIVITIES		
Convertible bank debenture converted to common stock	$ 20,600	$ 88,600

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

(With Deloitte & Touche audit report dated March 6, 2007) (Concluded)

1. ORGANIZATION AND OPERATIONS

Union Bank of Taiwan (the "Bank") obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law: Deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bill transactions, investments, foreign exchange transactions, savings, trust, etc.

The Bank took over all assets, liabilities and operating units of Chung Shing Bank on March 19, 2005, please refer to Note 34.

As of December 31, 2006, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance and International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 77 domestic branches.

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of non-discretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange (the "TSE").

As of December 31, 2006 and 2005, the Bank had 3,637 and 3,641 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in conformity with the Criteria Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these criteria, law and principles, the Bank is required to make certain estimates and assumptions that could affect the amounts of the fair value of certain financial assets, allowance for credit losses, property depreciation, pension, losses on suspended lawsuits, assets impairment, income tax and provision for losses on guarantees. Actual results could differ from these estimates.

Since the operating cycle could not be reasonably identified in the banking industry, accounts included in the Bank's financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized according to the nature of each account, and sequenced by their liquidity. Please refer to Note 29 for maturity analysis of assets and liabilities.

The Bank's significant accounting policies are summarized as follows:

Basis of Financial Statement Preparation

The accompanying financial statements include the accounts of the Head Office, OBU, all branches and the representative office. All interoffice transactions and balances have been eliminated.

Basis of Fair Value Determination

Fair value are determined as follows: (a) listed stocks and GreTai Securities Market (the "GTSM") stocks - closing prices as of the balance sheet date; (b) beneficiary certificates (open-end fund) - net asset values as of the balance sheet dates; (c) bonds - period-end reference prices published by the GTSM or Bloomberg; and (d) for the financial instruments without active markets, fair value is determined using valuation techniques.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss consist of any financial assets and liabilities that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss and financial assets and liabilities which should be classified as hold for trading. Those instruments are required to be recognized at fair value and to be measured at fair value through profit or loss on the balance sheet date. The Bank uses trade date accounting when recording transaction except for debt investments recorded by settlement date accounting.

Derivative instruments transaction which do not meet the specified criteria to obtain hedge accounting treatment are classified as financial assets or liabilities held for trading when the fair value of a derivative is positive, it is carried as an asset and while negative as a liability.

Financial asset and financial liability designated as financial instruments at fair value through profit or loss to eliminate measurement anomalies for items that provide a natural offset of each other. Besides, the set of financial assets, financial liabilities or combined by both of them managed according to the Bank's risk management policies and investment strategies will be designated as financial instruments at fair value through profit or loss.

Securities Purchased or Sold Under Resell or Repurchase Agreements

The sales and purchases of securities under repurchase or resell agreements are treated as financing transactions. Interest earned or incurred is recognized on the accrual basis.

Available-for-sale Financial Assets

Available-for-sale financial assets are carried at fair value. Unrealized gains or losses on available-for-sale financial assets are reported in equity attribute to the Bank's shareholders. On disposal of an available-for-sale financial asset, the accumulated, unrealized gain or loss in equity attributable to the Bank's shareholders is transferred to net profit and loss for the period. The Bank uses trade date accounting when recording available-for-sale portfolio transactions except for debt investments recorded by settlement date accounting.

Dividend income from equity securities is recognized on ex-dividend dates. Cash dividends received a year after investment acquisition are recognized as income, otherwise as a reduction of the carrying value of the investments. Stock dividends result only in an increase in the number of shares and are not recognized as investment income. The effective interest rate method of amortization and accretion is used, the straight line method is used if there is no significant difference.

If an available-for-sale financial asset is determined to be impaired, the accumulative unrealized loss previously recognized in equity attributable to the Bank shareholders is recognized as impairment loss and reported in income statement. For equity investments, loss reversal is adjusted to the equity attributable to the Bank shareholders. For debt investments, loss reversal is credited to current income.

Nonperforming Loans

Under guidelines issued by the Banking Bureau of Financial Supervisory Commission (the Banking Bureau), the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is overdue and shall be authorized by a resolution passed by the board of directors. Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, are classified as other financial assets.

Allowance for Credit Losses and Provision for Losses on Guarantees

In determining the allowance for credit losses and provision for losses on guarantees, the Bank assesses the collectibility on the balances of discounts and loans, receivables, and nonperforming loans, and other financial assets as well as guarantees and acceptances as of the balance sheet dates.

Pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluation Assets and Deal with Non-Performing/Non-accrual Loans" (the "Regulations") issued by the Banking Bureau, the Bank evaluates credit losses on the basis of the estimated collectibility.

In accordance with the Regulations stated above, the minimum provision for credit losses should not be less than the aggregate of 50% of the doubtful credits and 100% of the unrecoverable credits. Since July 2005, the Regulations amended the classification of loan assets, which divided the loan assets into different classes subject assets that require special mentioned, assets that are substandard assets that are doubtful, and assets for which there is loss. The minimum allowance for credit losses and provision for losses on guarantees for the aforementioned classes should be 2%, 10%, 50% and 100% of outstanding credits, respectively. The amendments on the classification of loan assets have no significant impact on the Bank's financial statements.

Write-offs of loans falling under the Banking Bureau guidelines, upon approval by the board of directors, are offset against the recorded allowance for credit losses.

Held-to-maturity Investments

Held-to-maturity investments are carried at amortized cost, which are valued by interest method, otherwise use the straight line method if there is no significant difference. At initial recognition, the costs of the financial assets are valued at fair value of the financial assets together with acquire or issue costs. The net profit and loss of the held-to-maturity investments for the period are reported in to income statement when on disposal, impairment or amortization. The Bank uses trade date accounting when recording transaction.

If a held-to-maturity financial asset is determined to be impaired, the impairment loss is recognized and reported in income statement. Loss reversal is credited to current income and should not be more than the carrying amount had the impairment not been recognized.

Equity Investments - Equity Method

Equity investments are accounted for by the equity method if the Bank has significant influence on the investees. Under this method, investments are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in net worth of investees. Cash dividends received are considered as a deduction of the investments. Any difference between the acquisition cost and the equity in the investee is amortized over 15 years. Since January 1, 2006, goodwill is not amortized but test annually for impairment, or more frequently if events or changes in circumstance indicates goodwill impairment.

Unrealized income from upstreaming transactions between the Bank and its investees accounted for by the equity method shall be eliminated in equivalent holding ratio.

Properties and Equipment

Properties and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; repairs and maintenance are expensed as incurred.

Upon sale or disposal of properties and equipment, their cost and related accumulated depreciation are removed from the respective accounts. Any resulting gain (loss) is credited (charged) to current income.

Depreciation is calculated by the straight-line method based on service lives estimated as follows: buildings and improvements, 50 to 55 years; office equipment, 3 to 5 years; transportation equipment, 3 to 5 years; and leasehold improvements, 5 years. For assets still in use beyond their original estimated service lives, further depreciation is calculated over newly estimated useful lives.

Other Financial Assets

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measure, are measured at cost. If there is objective evidence that a financial asset is impaired, an impairment loss is recognized and reversal of impairment loss is prohibited.

Non-active market debt instruments are those which do not have a quoted market price in an active market, and whose cash flow can be reliably measured. Non-active market debt instruments are carried at amortized cost.

Goodwill

The goodwill resulting from the takeover was amortized by the straight-line method over 5 years, according to the new standards, goodwill is not amortized but test annually for impairment since 2006.

Other Assets

Deferred charges, which include costs of computer system software and telephone installation, are amortized on the straight-line basis over five years.

The loss on sale of nonperforming loans was formerly amortized over 60 months in accordance with Rule No. 15 of the Financial Institution Consolidation Law. The Bank was advised by the Securities and Futures Bureau of Financial Supervisory Commission of Executive Yuan to realize, in conformity with accounting principles generally accepted in the Republic of China, losses on the sale of its nonperforming loans instead of amortizing these losses. All losses on the sale of nonperforming loans in 2003 and 2002 are realized as losses instead of amortizing these losses in 2005.

Collaterals Assumed

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of balance sheet dates.

Asset Impairment

The Bank began applying ROC Statement of Financial Accounting Standards (SFAS) No. 35, “Accounting for Asset Impairment,” on January 1, 2005, which requires that cash-generating units (CGUs) and certain assets, including investments accounted for by the equity method, property and equipment, goodwill, collaterals assumed (included in other assets), etc., be subject to an impairment review.

SFAS No. 35 requires the impairment review on aforementioned assets and properties to be made on each balance sheet date. If assets or CGUs are deemed impaired, then the Bank must calculate their recoverable amounts. However, goodwill is tested annually for impairment, or more frequently if events or changes in circumstance indicate goodwill impairment, except goodwill can't be attributed to certain CGUs in the first year of consolidating. An impairment loss should be recognized on the balance sheet date if the recoverable amount of the assets or the CGU is below the carrying amount, and this impairment loss either is charged to accumulated impairment or is used to reduce the carrying amount of the assets or CGUs directly. After the recognition of an impairment loss, the depreciation (amortization) should be adjusted in future periods by the revised asset/CGUs carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate goodwill impairment. Impairment is recorded if the book value exceeds value in use. The increase in the recoverable amount of goodwill in the period following the recognition of an impairment loss is likely to be an increase in internally generated goodwill rather than the reversal of the impairment loss recognized for the acquired goodwill. Thus, any reversal of an impairment loss on goodwill is prohibited.

Convertible Bank Debenture

Convertible bank debenture issued before December 31, 2005 were recorded as liabilities by its issued price. Under the book-value method applied for the conversion of convertible bank debenture, the carrying value were converted into capital stocks in the amount of face value, while the remaining amount were recorded as capital surplus on the conversion date.

Accounting Treatment of Foreign-currency Translation

At the balance sheet date, monetary assets, liabilities, revenue and expense denominated in foreign currencies of non-derivative merchandise are translated into New Taiwan dollars equivalents using the closing exchange rate.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, are recognized in the income statement and adjusted as the spot rate.

Unrealized exchange differences on nonmonetary financial assets (such as investments in equity instruments) are a component of the change in their entire fair value. For nonmonetary financial assets and liabilities classified as financial instruments measured at fair value through profit or loss, unrealized exchange differences are recognized in the income statements. Fore nonmonetary financial instruments that are classified s available-for-sale, unrealized exchange differences are recorded directly under stockholders' equity until the asset is sold or becomes impaired. Nonmonetary financial instruments that are classified as carried at cost are recognized at the exchange rates on the transaction dates.

Equity investments - equity method in foreign currencies are recorded at the rate of exchange on the date of investment, and the proportionate share in the net income or loss are recorded at the average rate in the year. At the balance sheet date, equity investments - equity method in foreign currencies are translated into New Taiwan dollars equivalents using the closing exchange rate, and the adjusting amount is recognized as cumulative translation adjustment, which is the adjusting item of stockholders' equity.

Recognition of Interest Revenue and Service Fees

Interest revenue is recorded on the accrual basis. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on those loans/credits is recognized upon collection.

Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their maturities is recognized upon collection.

Service fees are recorded as revenue upon receipt and substantial completion of activities involved in the earnings process.

Income Tax

Inter-period income tax allocation is applied, by which tax effects of deductible temporary differences, unused investment tax credits and loss carryforwards are recognized as deferred income tax assets and those of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Adjustments of prior years' tax liabilities are included in the current year's tax expense.

Tax credits for certain research and development and personnel trainings expenditure are recognized as reduction of current income tax.

Separate taxes on interest revenue from short-term bills or beneficiary certificates of specific trust are included in the current year's tax expense.

Income tax (10%) on unappropriated earnings after January 1, 1998 is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

"Income Basic Tax Act" come into force on January 1, 2006. The amount of basic income of a profit-seeking enterprise shall be the sum of the taxable income as calculated in accordance with the Income Tax Act and income exempted due to suspension of income tax and other relevant laws, and then multiplied by the tax rate (10%) prescribed by the Executive Yuan. The affect of which higher between regular income tax and basic tax had been considered in current income tax.

Pension

Pension expense under defined benefit pension plan is determined on the basis of actuarial calculations. Pension under defined contribution pension plan is expensed during the period when the employees rendered their services.

Contingencies

A loss is recognized if it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the impairment loss or liability incurrence is possible and the related amount cannot be reasonably estimated, a footnote disclosure of the circumstances that might give rise to the possible loss or liability should be made.

Reclassifications

Certain accounts of the 2005 financial statements have been reclassified to conform to the presentation of the 2006 financial statements.

3. ACCOUNTING CHANGES

The Bank began applying ROC Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," on January 1, 2005. This accounting change did not have a significant impact on the Bank's financial statements in 2005.

The Bank began applying ROC Statement of Financial Accounting Standards (SFAS) No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements" on January 1, 2006, which required that goodwill is tested for impairment periodically instead of amortization. Income before tax in 2006 of the Bank would decrease $661,800 if goodwill were amortized through beneficial term.

Effective January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments", No. 36 "Disclosure and Presentation of Financial Instruments" and other standards amended for harmonizing with those two standards.

a. The amount of the cumulative effect resulting from the change to new accounting principles

   The Bank properly reclassifies the financial assets and financial liabilities when adopting aforementioned new accounting standards and related amendments to existing standards. The effects of the financial assets and liabilities at fair value through profit or loss are included in cumulative effect of accounting changes. The effects of the financial assets and liabilities which are carried at amortized cost and the fair value change of available-for-sale financial assets are included in stockholders' equity adjustments.

   The cumulative effect of accounting changes are as follows:

	Cumulative Effect of Accounting Changes, After Tax	**Stockholders' Equity Adjustments, After Tax**
Financial assets at fair value through profit or loss	$ 9,278	$ -
Available-for-sale financial assets	-	(26,553)
	$ 9,278	$ (26,553)

b. Reclassification

   Under an explanation issued by ARDF of R.O.C., when the Bank adopts Statement of Financial Accounting Standard No. 34 effective on January 1, 2006, the Bank needs to reclassify the comparative financial statements for the year ended 2005 instead of restating. The Bank shall state the different valuation method in the notes to the financial statements.

   The different valuation method of financial instruments the Bank applies are summarized as follows:

   1) Securities purchased

      Securities which are acquired principally for the purpose of sale in the near term are stated at the lower of cost or market value. Market prices are determined as follows: (a) listed stocks - average daily closing prices for the last month of the accounting period and; (b) GTSM stocks - average daily closing prices for the last month of the accounting period, published by GTSM.

   2) Long-term investments

      Long-term equity investments are accounted for by the cost method if the Bank does not have significant influence over the investees. For listed and GTSM stocks accounted for by the cost method, when the aggregate market value is lower than the total carrying amount, an allowance for decline in market value is provided and the unrealized loss is charged against stockholders' equity.

The cost of long-term investment is calculated by the spot rate at the investment day to translate as the spot rate at the balance sheet day. If the translation amount is less than the original cost, the difference would be recognized as cumulative translation adjustment and be reported in shareholder's equity; if the translation amount is more than the original cost, the original cost would be remained.

3) Forward exchange contracts

Foreign-currency assets and liabilities arising from forward exchange contracts, which are used mainly to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the forward rates. Gains or losses arising from the differences between the forward rates and spot rates on settlement date are credited or charged to current income. For contracts open as of the balance sheet dates, gains or losses arising from the differences between the contracted forward rates and the forward rates available for the remaining terms of the contracts are credited or charged to current income, and receivables and payables on the contracts are netted out.

4) Currency swap contracts

Assets or liabilities on currency swap contracts, which are mainly used to accommodate customers' needs or to manage the Bank's own currency positions, are recorded at the spot rates on the starting dates of the contracts. The corresponding forward-position assets or liabilities are recorded at the contracted forward rates, with receivables netted against the related payable.

The related discounts or premiums are amortized by the straight-line basis over the contract period.

5) Cross-currency swaps

Cross-currency swap contracts are recorded as memorandum entries at spot rates on the contract dates and paid notional amount on the exercise day. The net interest receivable or payable on the settlement or balance sheet date is recorded as an adjustment to the revenue or expense associated with the item being hedged.

6) Asset swaps

Asset swaps involve exchanging the fixed rate interest and stock conversion rights of convertible bonds for floating rate interest. These transactions are recorded as memorandum entries on the contract date since no actual exchange of contract (notional) principals is involved. Asset swaps are entered into for hedging purposes, i.e., to hedge interest rate exposure on foreign-currency convertible bonds. Net interests on each settlement date/balance sheet date are recorded as adjustments to interest revenue or expenses associated with the bonds being hedged.

7) Options

Options bought and/or held and options written, which are mainly used to accommodate customers' needs or to manage the Bank's currency positions, are recorded as memorandum entries only because there is no principal transfer. The premiums on the instruments are recorded as income and loss when they are exercised. Gains or losses on the exercise of options are also included in current income. The carrying values of the instruments are charged to income when they are not exercised.

Certain 2005 accounts have been reclassified to conform 2006 financial statements presentation and new accounting standards' requirement:

	December 31, 2005	
	Before Reclassification	**After Reclassification**
Balance sheets		
Securities purchased, net	$ 19,230,682	$ -
Prepayments	5,275	-
Long-term investments, net	24,841,985	-
Accounts receivables, net	733	-
Equity investments - equity method	-	3,521,089
Financial assets at fair value through profit or loss	-	10,009,127
Available-for-sale financial assets	-	7,072,617
Held-to-maturity investments	-	19,756,961
Other financial assets, net	-	3,713,606
Financial liabilities at fair value through profit or loss	-	(4,090)
Payables and advance receipts	(9,365)	-
Unrealized loss on long-term equity investments	(76,725)	-
Other stockholders' equity adjustments	-	(76,725)
	$ 43,992,585	$ 43,992,585

	For the Year Ended December 31, 2005	
	Before Reclassification	**After Reclassification**
Income statement		
Income from securities, net	$ 691,279	$ -
Gain from financial assets and liabilities at fair value through profit or loss	-	691,279
	$ 691,279	$ 691,279

4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	**2005**
Checks for clearing	$ 3,472,880	$ 3,433,350
Cash on hand	3,167,643	2,969,196
Due from banks	940,060	1,010,299
	$ 7,580,583	$ 7,412,845

5. DUE FROM THE CENTRAL BANK AND BANKS

	December 31 2006	December 31 2005
Due from the Central Bank		
Deposit reserve - checking account	$ 6,746,237	$ 6,068,061
Required deposit reserve	3,716,672	5,149,713
Reserves for deposits - foreign-currency deposits	14,693	11,501
Deposit account in Central Bank	20,570,000	8,800,000
	31,047,602	20,029,275
Call loans to banks and bank's overdrafts	1,500,000	1,422,711
	$ 32,547,602	$ 21,451,986

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserves may be withdrawn momentarily and are noninterest earnings.

6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2006	December 31 2005
Held for trading financial assets		
Beneficiary certificates	$ 2,799,033	$ 2,723,751
Government bonds	914,871	1,690,328
Listed and GTSM stock	413,241	972,466
Corporate bonds	210,064	224,690
Forward exchange contracts	106,925	-
Currency swap contracts	68,374	733
Option contracts	1,143	-
Interest exchange contracts	786	-
Negotiable certificates of deposit	-	1,000,000
	4,514,437	6,611,968
Financial assets designated at fair value through profit or loss		
Credit linked notes	359,150	-
Negotiable certificates of deposit	-	3,199,999
Corporate bonds	-	197,160
	359,150	3,397,159
	$ 4,873,587	$ 10,009,127
Held for trading financial liabilities		
Forward exchange contracts	$ 22,961	$ -
Currency swap contracts	9,104	4,090
Interest exchange contracts	1,249	-
Option contracts	1,143	-
	$ 34,457	$ 4,090

The Bank engages in derivative transactions mainly for accommodating customers' needs and managing its exposure positions. The Bank's strategy is to hedge most of the market risk exposures using hedging instruments with market value changes that have a highly negative correlation with the changes in the market of the exposures being hedged.

The contract amounts (notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions were as follows:

	December 31	
	2006	2005
Forward exchange contracts	$ 6,645,991	$ 11,995,590
Currency swap contracts	7,387,684	9,558,094
Interest exchange contracts	1,900,000	-
Cross-currency swap contracts	-	29,999
Asset swaps contracts	-	197,160
Options		
Buy	212,225	345,030
Sell	212,225	345,030

The gains on financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Realized gain	$ 139,210	$ 697,931
Unrealized gain (loss)	179,672	(6,652)
Gain, net	$ 318,882	$ 691,279

As of December 31, 2006 and 2005, the Bank's financial instruments at fair value through profit or loss amounting to $989,706 and $1,241,666, respectively, had been sold under repurchase agreements.

7. RECEIVABLES, NET

	December 31	
	2006	2005
Accounts receivable	$ 33,517,573	$ 41,870,788
Interest receivable	1,540,538	1,395,900
Receivable on disposal of properties	1,537,320	128,262
Inter-bank clearing fund receivable	306,719	300,111
Acceptances receivable	302,507	293,948
Tax refundable	198,268	129,903
Accrued revenue	88,307	479,553
Other	298,935	117,062
	37,790,167	44,715,527
Less: Allowance for credit losses	1,041,400	687,374
	$ 36,748,767	$ 44,028,153

8. DISCOUNTS AND LOANS

		December 31	
		2006	2005
Discounts and overdraft		$ 824,991	$ 714,263
Accounts receivables - financing		154,695	217,145
Loans			
Short-term	- unsecured	14,459,568	22,322,119
	- secured	16,921,883	11,453,263
Medium-term	- unsecured	25,026,721	30,947,582
	- secured	15,317,731	15,139,828
Long-term	- unsecured	18,423,595	11,844,281
	- secured	113,430,041	85,534,655
Import and export negotiations		140,204	93,507
Nonperforming loans		4,082,572	5,227,961
		208,782,001	183,494,604
Less: Allowance for credit losses		1,711,430	1,376,408
		$ 207,070,571	$ 182,118,196

As of December 31, 2006 and 2005, the balances of nonaccrual loans were $4,082,572 and $5,227,961, respectively. The unrecognized interest revenues on nonperforming loans amounted to $202,212 in 2006 and $238,994 in 2005, respectively.

In 2006 and 2005, all credits written off had been subjected to legal proceedings before being written off.

The changes in the allowance for credit losses of discounts and loans, receivables are summarized as follows:

	2006		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 2,059,474	$ 4,308	$ 2,063,782
Provision	3,986,553	117,631	4,104,184
Write-off	(4,107,804)	-	(4,107,804)
Recovery of written-off credits	694,073	-	694,073
Result from change of foreign exchange rate	(1,405)	-	(1,405)
Balance, end of year	$ 2,630,891	$ 121,939	$ 2,752,830

	2005		
	Specific Provision	General Provision	Total
Balance, beginning of year	$ 1,983,117	$ 7,128	$ 1,990,245
Provision	5,866,286	(1,106,922)	4,759,364
Write-off	(8,291,134)	-	(8,291,134)
Recovery of written-off credits	483,251	-	483,251
Transfer from Chung Shing Bank	2,007,062	1,104,102	3,111,164
Result from change of foreign exchange rate	10,892	-	10,892
Balance, end of year	$ 2,059,474	$ 4,308	$ 2,063,782

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31 2006	December 31 2005
Debt investments - government bonds	$ 5,149,404	$ 6,233,089
Debt investments - corporate bonds	482,288	677,334
Debt investments - bank debentures	345,013	-
Beneficiary certificates of securitization	21,226	-
Listed stocks	-	162,194
	$ 5,997,931	$ 7,072,617

The available-for-sale financial assets amounting to $5,776,377 and $7,062,826 as of December 31, 2006 and 2005, respectively, had been sold under repurchase agreements.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31 2006	December 31 2005
Bank debentures	$ 28,987,042	$ 310,194
Government bonds	2,040,467	2,108,466
Corporate bonds	-	17,338,301
	$ 31,027,509	$ 19,756,961

The held-to-maturity investments amounting to $4,571,000 and $3,943,200 as of December 31, 2006 and 2005, respectively, had been sold under repurchase agreements.

11. EQUITY INVESTMENTS - EQUITY METHOD

	December 31			
	2006		2005	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Bills Finance Corporation	$ 1,385,409	42.76	$ 1,447,568	42.76
Union Finance and Leasing International Corporation	1,026,444	100.00	1,324,446	100.00
Union Finance International (H.K.) Limited	135,203	99.99	200,835	99.99
Union Information Technology Corporation	109,959	99.99	122,723	99.98
Union Insurance Broker Company	54,799	100.00	64,240	100.00
Union Real-Estate Management Corporation	41,487	40.00	46,071	40.00
Morgan Stanley Union Bank Asset Management Corporation	37,876	49.00	22,787	49.00
Union Security Investment Trust Corporation	35,592	35.00	68,206	35.00
Union Securities Investment Consulting Company	10,589	100.00	11,120	100.00
Union Bank Futures Corporation	-	-	213,093	99.07
	$ 2,837,358		$ 3,521,089	

Income (losses) from equity investments were summarized as follows:

	For the Years Ended December 31	
	2006	2005
Union Bills Finance Corporation	$ 28,799	$ 136,556
Union Finance and Leasing International Corporation	5,917	119,359
Union Finance International (H.K.) Limited	8,125	5,140
Union Information Technology Corporation	43,172	62,435
Union Insurance Broker Company	13,412	26,204
Union Real-Estate Management Corporation	2,158	7,596
Morgan Stanley Union Bank Asset Management Corporation	15,089	5,961
Union Security Investment Trust Corporation	(32,614)	(51,068)
Union Securities Investment Consulting Company	(759)	475
Union Bank Futures Corporation	23,785	(24,687)
	$ 107,084	$ 287,971

Except for the net income of Union Bank Future Corporation was based on the investees' unaudited financial statements, income from equity investments - equity-method were based on the investees' audited financial statements for 2006 and 2005, respectively.

Union Futures Company had ceased operation and liquidated on June 22, 2006. If the financial statements of Union Bank Future Corporation from January 1, 2006 to June 22, 2006 were audited, the effect on the Bank's financial statement would not be significant.

The board of director of Union Finance & Leasing Corporation had decided to merge with Shing Ying Hang Leasing Corporation, with the former as surviving entity and the latter were ceased to exist. The effective date of the share swap and merger's recording date was September 30, 2005.

As of December 31, 2006, the unrealized loss on financial assets (included in stockholders' equity) amounted to $41,074 resulted from evaluating the available-for-sale financial assets which were held by the subsidiaries of the Bank.

12. UNQUOTED EQUITY INSTRUMENTS

	December 31	
	2006	2005
Unlisted stocks		
Entie Securities Finance Company	$ 622,188	$ 622,188
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	100,000	100,000
Taiwan Future Exchange Corporation	71,250	10,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	148,026	185,619
	$ 1,110,246	$ 1,086,839

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are measured at cost are recorded as unguoted equity instruments.

13. NON-ACTIVE MARKET DEBT INSTRUMENTS

	December 31 2006	December 31 2005
Beneficiary certificates of securitization	$ 2,447,517	$ 2,536,402
Overseas corporate bonds	219,326	90,365
	$ 2,666,843	$ 2,626,767

14. PROPERTY AND EQUIPMENT

	December 31 2006	December 31 2005
Cost	$ 10,140,406	$ 10,220,982
Accumulated depreciation		
Buildings and improvements	323,390	209,085
Office equipment	970,679	994,005
Transportation equipment	121,551	130,658
Leasehold improvements	79,223	81,999
	1,494,843	1,415,747
Prepayments for equipment	115,798	158,359
Net property and equipment	$ 8,761,361	$ 8,963,594

15. OTHER ASSETS

	December 31 2006	December 31 2005
Deferred loss from sale of nonperforming loans	$ 7,315,874	$ -
Collaterals assumed, net	2,227,085	3,432,095
Deferred tax assets, net	1,839,215	1,879,292
Guarantee deposits	1,234,250	1,204,698
Prepayments	421,691	607,551
Deferred charges	393,805	294,270
Other	3,782	999
	$ 13,435,702	$ 7,418,905

In 2006, the Bank sold nonperforming loans with a carrying value of $9,557,282 at the contract price of $1,610,025 to Morgan Stanley Union Bank Asset Management Corporation and recognized losses of $7,947,257. The Bank deferred and amortized the losses over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets. Had the losses not been deferred, the net income would have decreased by $7,315,874 in 2006, and the balances of the other assets and unappropriated earnings would have both decreased by $7,315,874 as of December 31, 2006.

In 2002, the Bank sold nonperforming loans with a carrying value of $8,831,652 at the contract price of $1,050,000 to Taiwan Asset Management Corporation and recognized losses of $7,781,652.

In 2003, the Bank sold nonperforming loans with a carrying value of $3,449,041 at the contract price of $117,069 to Morgan Stanley Union Bank Asset Management Corporation, an equity-method investee of the Bank, and recognized a loss of $3,331,972. The above losses were deferred and amortized over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets. However, the Bank was advised by the Securities and Futures Bureau of Financial Supervisory Commission of Executive Yuan to realize, in conformity with accounting principles generally accepted in the Republic of China, losses on the sale of its nonperforming loans instead of amortizing these losses. All losses on the sale of nonperforming loans in 2003 and 2002 are realized as losses instead of amortizing these losses in 2005.

As of December 31, 2006 and 2005, payments of $1,288,020 and $51,462, respectively, had not been received from the Morgan Stanley Union Bank Asset Management Corporation.

16. CALL LOANS AND DUE TO BANKS

	December 31	
	2006	**2005**
Due to the Central Bank and other banks	$ 20,937,950	$ 22,560,285
Call loans	10,834,175	4,056,121
Overdraft	44,885	36,421
	$ 31,817,010	$ 26,652,827

17. PAYABLES

	December 31	
	2006	**2005**
Notes and checks in clearing	$ 3,472,880	$ 3,433,350
Interest payable	1,452,778	1,245,668
Accrued expenses	510,082	470,613
Collection payable	431,356	262,668
Bank acceptances payable	304,115	295,404
Accounts payable on wire transfers received	162,252	186,942
Other	777,991	654,286
	$ 7,111,454	$ 6,548,931

18. DEPOSITS AND REMITTANCES

	December 31	
	2006	**2005**
Checking	$ 3,224,672	$ 3,369,182
Demand	24,342,007	20,516,201
Savings	192,202,275	173,244,124
Time	52,822,345	47,754,229
Negotiable certificates of deposit	3,133,100	5,717,400
Inward and outward remittances	23,510	61,085
	$ 275,747,909	$ 250,662,221

19. BANK DEBENTURES

	December 31		
	2006	2005	Term
First subordinated bank debentures issued in 2002	$ 3,500,000	$ 3,500,000	Fixed interest rate of 3.8%; maturity: November 2007.
First unsecured, convertible bank debentures issued in 2004	2,583,700	2,605,400	Zero coupon; maturity: September 2009; the bondholders may convert the debentures into common shares of the Bank during the period between one month after the issuance date and 10 days prior to maturity.
First subordinated bank debentures issued in 2004	1,500,000	1,500,000	Average one year time savings deposit rate of First Bank, Hua Nan Bank, Chang Hwa Bank, Land Bank, Taiwan Cooperative Bank and Bank of Taiwan plus 1%; maturity: June 2010.
Second subordinated bank debentures issued in 2004	3,500,000	3,500,000	Fixed interest rate of 3.55%; maturity: June 2010.
First subordinated bank debentures issued in 2005	2,000,000	2,000,000	Fixed interest rate of 2.60%; maturity: June 2011.
First subordinated bank debentures issued in 2006	1,200,000	-	Fixed interest rate of 2.60%; maturity: May 2012.
Second subordinated bank debentures issued in 2006	800,000	-	On year time savings deposit rate of First Bank plus 0.03%; maturity: November 2013.
	$ 15,083,700	$ 13,105,400	

The Bank issued $3,000,000 of zero coupon par valued convertible bank debentures (the "Debentures") in the denomination of $100 each on September 13, 2004. Other issue terms were as follows:

a. Redemption terms

Unless previously redeemed, purchased and cancelled or converted, the Debentures will be redeemed on maturity at the par value.

1) Early redemption at the option of the Bank: The Debentures may be wholly or partly redeemed at their par amount, at the Bank's option under any of these conditions:

a) After one year from the issue date and before 40 days prior to maturity, the balance of unconverted debentures is lower than $300,000.

b) After one year from the issue date and before 40 days prior to maturity, the closing prices of the Bank's common shares on the TSE for 30 consecutive trading days have not exceeded 50% of the conversion price.

2) Redemption at the option of the bondholders: In the second, third and fourth year of the issue date is the "put date." The Bank will redeem all or any portion of the Debentures at par value; yield rate of 0%.

As of December 31, 2006, the Bank redeemed $1,100 of the Debentures at par value.

b. Pledged: Negative

c. Conversion period and conversion right

Except during the closed period or suspension period, the bondholders may convert the Debentures into common shares of the Bank at any time between one month after issuance date and 10 days before the conversion date.

d. Conversion price

The initial conversion price was set at NT$10.85.

The conversion price is subject to adjustment based on certain terms of the related indenture. As of December 31, 2006, the conversion price was NT$8.57.

The bondholders had converted the Debentures amounting to $415,200 into 38,872 common shares as of December 31, 2006.

20. STOCKHOLDERS' EQUITY

a. As of December 31, 2006, the Bank's capital was $18,277,979, representing 1,827,798 thousand common shares.

In their meeting on June 9, 2006, the stockholders approved the Bank to publically or privately raise it's capital in cash amounted to $6,000,000 once or several times that depended on the market situation.

Regarding to actual amounts, conditions, manners, the recording day, the project of applying fund and probable benefit of increasing the Bank's capital by cash will be modified necessarily according to professional opinions and objective conditions of the market by the board of director who would examine the trend of events and rest on the laws or relevant regulars, when Financial Supervisory Commission, Executive Yuan approves.

b. Capital surplus

Under related regulations, capital surplus may only be used to offset a deficit. However, capital surplus arising form issuance of shares in excess of par value (including issuance in excess of common stock par value, issuance of shares for combinations and treasury stock transactions) and donations may be transferred to common stock on the basis of the percentage of shares held by the stockholders. Any capital surplus transferred to common stock should be within a certain percentage prescribed by law.

Capital surplus from equity-method investments may not be distributed for any purpose.

c. Retained earnings

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Dividends;

4) The remainder:

   a) Employees' bonus of at least 10%;

   b) Retained earnings, as deemed proper;

   c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as remuneration to directors and supervisors.

These appropriations should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The board of directors (BOD) decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In view of the Bank's need for capital to expand its operations and meeting of capital adequacy ratios, primarily cash dividends will be declared in the next three years, with the related proposal to be submitted in the stockholders' meeting for approval.

After the stockholders' approval, the declaration of stock dividend needs further approval by the SFB.

In their ordinary meeting on June 9, 2006, the stockholders of the Bank approved the offset of 2005 deficit against the special reverse of $2,092,866 and surplus deficit of $1,364,911 would be offsets by legal reverse.

In their meeting on June 10, 2005, the stockholders approved the appropriation of a legal reserve of $479,888 from the 2004 earnings, and from the remainder, a special reserve of $1,119,737 for deferred loss from the sale of nonperforming loans.

The appropriation of 2006 earnings has not yet been resolved by the board of directors as of March 6, 2007, the date of auditors' report. The related information regarding the proposed and resolved earnings appropriation can be found at the SEC Market Observation Post System (M.O.P.S.) website.

A special reserve should be appropriated from retained earnings at an amount equal to the debit balance of an account in stockholders' equity excluding treasury stock. The balance of the special reserve is adjusted to reflect any changes in the debit balances of the related account. The special reserve is subject to earning appropriation to the extent of debit balance of aforementioned accounts.

Under an SFB directive, if a financial institution's nonperforming loans are sold to an asset management corporation, and the loss on this sale is amortized over five years, a special reserve should be appropriated from retained earnings at an amount equal to the difference of the loss on sale of nonperforming loans and the amortized amount, as required by the Financial Institution Consolidation Law, and the special reserve appropriated from retained earnings is subject to earning appropriation.

Under the Company Law, the appropriation for legal reserve is made until the reserve equals the aggregate par value of the outstanding capital stock of the Bank. This reserve is only used to offset a deficit, or, when its balance reaches 50% of aggregate par value of the outstanding capital stock of the Bank, up to 50% thereof can be distributed as stock dividends. In addition, the Banking Law provides that, before the balance of the reserve reaches the aggregate par value of the outstanding capital stock, annual cash dividends, remuneration to directors and supervisors and bonus to employees should not exceed 15% of aggregate par value of the outstanding capital stock of the Bank.

Under the Integrated Income Tax System, noncorporate and ROC-resident stockholders are allowed tax credits for the income tax paid by the Bank on earnings generated since 1998.

21. PENSION

The Labor Pension Act took effect on July 1, 2005, and the Bank's employees, who were on service before July 1, 2005, could choose the pension scheme either under the Labor Standard Law or under this Act. For those employees who choose the pension scheme regulated by the Labor Standard law, their seniority prior to the enforcement of Labor Pension Act shall be maintained.

Under the Labor Standards Law, the Bank has a defined benefit pension plan covering all regular employees. The Bank makes monthly contributions at 3.7% of salaries to a pension fund, which is deposited to the Labor Pension Fund (managed by the employees' pension fund administrative committee) the Central Trust of China and to an employee pension account (established in Taipei branch of the Bank), respectively. As of December 31, 2006 and 2005, the accounts amounted to $429,400 and $414,104, respectively.

Based on the Labor Pension Act, the Bank has made monthly contributions to the employees' individual pension accounts at 6% of employee salaries. These contributions amounted to $90,324 and $40,171 in 2006 and 2005, respectively.

a. Pension fund changes are summarized below:

	2006	2005
Balance, January 1	$ 414,104	$ 387,040
Contributions	45,709	49,850
Interest revenue	9,222	6,412
Benefits paid	(39,631)	(29,198)
Unrealized loss from financial assets	(4)	-
Balance, December 31	$ 429,400	$ 414,104

b. Net pension costs in 2006 and 2005 are summarized below:

	2006	2005
Service cost	$ 35,144	$ 43,836
Interest cost	17,828	16,058
Expected return on plan assets	(10,514)	(12,261)
Net amortization and deferral	(519)	(519)
Net amortization of gain or loss of pension	3,799	1,357
Net pension cost	$ 45,738	$ 48,471

c. The reconciliation of the funded status of the plan and accrued pension cost (prepaid pension cost) as of December 31, 2006 and 2005 is as follows:

	December 31 2006	December 31 2005
Benefit obligation		
Vested benefit obligation	$ 85,160	$ 65,596
Non-vested benefit obligation	352,803	350,244
Accumulated benefit obligation	437,963	415,840
Additional benefits based on future salaries	112,425	105,536
Projected benefit obligation	550,388	521,376
Fair value of plan assets	(430,535)	(416,512)
Funded status	119,853	104,864
Unrecognized prior service cost	6,999	7,518
Unrecognized pension loss	(127,429)	(112,921)
It arrange to mend accrued pension liabilities	8,005	-
Accrued pension cost (prepaid pension cost)	$ 7,428	$ (539)

d. Vested benefits obligation $ 92,452 $ 71,511

	2006	2005
d. Vested benefits obligation	$ 92,452	$ 71,511

e. Actuarial assumptions

	2006	2005
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	0%-2.0%	0-2.0%
Expected rate of return on plan assets	2.5%	2.5%

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2006	2005
Personnel expenses		
Salaries and wages	$ 1,824,923	$ 1,703,067
Bonus and rewards	414,961	446,621
Labor insurance and national health insurance	170,392	154,672
Pension	135,994	88,917
Other	18,938	17,371
	$ 2,565,208	$ 2,410,648
Depreciation	$ 365,975	$ 318,001
Amortization	90,538	79,376
	$ 456,513	$ 397,377

23. INCOME TAX BENEFIT

"Income Basic Tax Act" shall come into force on January 1, 2006. The amount of basic income of a profit-seeking enterprise shall be the sum of the taxable income as calculated in accordance with the Income Tax Act and income exempted due to suspension of income tax and other relevant laws, and then multiplied by the tax rate (10%) prescribed by the Executive Yuan. The affect of which higher between regular income tax and basic tax had been considered in current income tax.

a. The components of income tax benefit were as follows:

	2006	2005
Income tax on income before income tax at 25% statutory rate	$ 86,572	$ -
Permanent difference	(271,139)	(262,396)
Temporary difference	(612,966)	(228,249)
Current tax payable	(797,533)	(490,645)
Loss carryforward unused	797,533	490,645
Change in deferred income tax	40,077	(1,420,428)
Separate tax on interest income on short-term bills	11,201	28,399
Prior year's income tax adjustment	-	3,284
Income tax expense (benefit) before cumulative effect of accounting changes	51,278	(1,388,745)
Income tax benefit of cumulative effect of accounting changes	(1,488)	-
Income tax expense (benefit)	$ 49,790	$ (1,388,745)

b. As of December 31, 2006 and 2005, deferred income tax assets (liabilities) consisted of the tax effects of the following:

	December 31	
	2006	2005
Loss carryforwards	$ 1,572,989	$ 785,255
Amortization of goodwill	(165,450)	-
Loss on selling nonperforming loans	580,197	1,135,311
Investment tax credit	34,168	27,583
Reserve for default	10,582	8,661
Unrealized loss on collaterals assumed	86,858	27,929
Investment income under the equity method	(2,160)	(18,349)
Allowance for credit losses	44,717	-
Others	(979)	(5,522)
	2,160,922	1,960,868
Allowance for valuation of deferred income tax assets	321,707	81,576
Net deferred income tax assets (included in other assets)	$ 1,839,215	$ 1,879,292

The loss carryforwards as of December 31, 2006 may be used to reduce the Bank's taxable income until 2011; investment tax credits of research development and personnel training expense may be used to reduce the Bank's taxable income until 2010.

c. The related information under the Integrated Income Tax System is as follows:

	December 31	
	2006	2005
Balances of the imputation credit account	$ 281,073	$ 85,377

The projected creditable tax ratio for earnings in 2006 is 33.33% based on the estimated balances of imputation credit on the dividend distribution date. As of December 31, 2005, the Bank had no earnings available for distribution; thus, a creditable tax ratio was not estimated.

The tax credits allocable to shareholders are based on the balance of Imputation Credit Account on the dividend distribution date. Thus, the 2006 projected imputed tax ratio may vary from the actual ratio.

The Bank's income tax returns through 2003 had been examined and cleared by the tax authorities.

In December 2003, the tax authorities and the Bank reached a compromise on the lawsuit in regard to withholding tax. Under the compromise agreement, the Bank will get a 65% refund on the withholding tax for the years before 2002. Thus, the Bank recognized an income tax expense for the unrefunded 35% of the tax.

24. EARNINGS (LOSS) PER SHARE

The Bank issued convertible bonds, which could be transferred to common stocks of the Bank; thus, the capital structure of the Bank is complicated, and the calculation of basic and diluted earnings per share (EPS) is required. However, since the bottom line of the Bank in 2005 showed a net loss, convertible bonds will have an anti-dilutive effect in calculating loss per share; thus, the potential common shares were not included in the diluted loss per share calculation. The numerators and denominators used in computing EPS are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings (Loss) Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2006					
Basic EPS					
Income before cumulative effect of accounting changes	$ 346,326	$ 296,536	1,825,967	$ 0.19	$ 0.16
Cumulative effect of accounting changes	10,766	9,278	1,825,967	0.01	0.01
Basic EPS	357,092	305,814	1,825,967	$ 0.20	$ 0.17
Influence on diluted on common shares:					
Convertible bank debenture	-	-	301,482		
Diluted EPS	$ 357,092	$ 305,814	2,127,449	$ 0.17	$ 0.14
2005					
Basic and diluted loss per share	$ (4,846,522)	$ (3,457,777)	1,782,375	$ (2.72)	$ (1.94)

25. RELATED-PARTY TRANSACTIONS

In addition to be disclosure in other footnotes, relationship with the Bank and significant transactions between the Bank and related parties were summarized as follows:

a. Related parties

Related Party	Relationship with the Bank
Yu-Pang Co., Ltd. ("Yu-Pang")	Director
Yong-Xuan Co., Ltd. ("Yong-Xuan")	Its chairman is Bank's director
Union Enterprise Construction Co., Ltd. (UECC)	Its chairman is Bank's director
Hung-Kou Construction Inc., Ltd. ("Hung-Kou")	Its chairman is a second-degree relative of the Bank's director
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary

(Continued)

Related Party	Relationship with the Bank
Union Bills Finance Corporation (UBF)	Equity-method investee
Union Securities Investment Trust Corporation (USITC)	Equity-method investee
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Equity-method investee
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Securities Investment Consulting Company (USI)	Subsidiary
Shing Yin Hong Leasing Corporation (SYH)	Subsidiary (which was merged with UFLIC on September 31, 2005, with the latter as survivor entity)
Others	Directors, supervisors, managers, their relatives and affiliates. Some of the related parties with which the Bank had no transactions in 2006 and 2005 are shown in Table 2 (attached)

(Concluded)

b. Significant transactions with related parties:

1) Loans

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2006	$ 4,567,462	2.21	1.40%-19.02%	$ 83,101	0.56
2005	4,225,613	2.32	1.67%-18.25%	92,750	0.62

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2006	$ 4,725,898	1.71	0%-7.40%	$ 50,412	0.89
2005	4,282,605	1.71	0%-7.40%	62,329	1.54

3) Guarantees and letters of credit

	December 31	
	Amount	%
2006	$ 77,265	0.79
2005	352,236	3.39

4) Due from banks (included in due from the Central Bank and banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Revenue
2006	$ 2,040,000	$ 1,500,000	1.44%-1.72%	$ 9,209
2005	1,590,000	-	1.19%-1.44%	2,277

5) Call loans (included in call loans and due to banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Expense
2006	$ 160,000	$ -	1.420%-1.650%	$ 31
2005	340,000	-	1.180%-1.425%	169

6) Securities purchased under resell agreements

	December 31			
	2006		2005	
	Amount	Rate	Amount	Rate
Securities purchased under resell agreements				
USITC	$ 2,532,351	1.675%	$ -	-
UBF	499,724	1.730%	1,628,422	1.43%-1.50%
Other	-	-	50,000	1.35%

7) Securities brokerage fees

	Years Ended December 31	
	Amount	%
2006	$ 7,318	6.81
2005	4,611	5.90

8) Consulting and advisory contract

In August 2004, The Bank and UFLIC entered into a three year consulting and advisory contract on auto financing operations which will expire in 2007. UFLIC's services include consultation on management, marketing, and promotional activities of auto loans, as well as on loan management and collection of overdue loans, etc. (exclude approval of loan application). The consulting fees and related expenses paid in 2006 and 2005 were $217,157 and $387,816 (included in other operating expense), respectively, and the accrued expenses as of December 31, 2005 was $348.

9) Leases

a) The Bank as lessee

Under operating lease agreements with terms between one year and seven years, the Bank rents from related parties office spaces for the Head Office, Trust, International Banking Dept., Wealth Management, Consumer Banking Dept., Security Finance Dept., Credit Card Dept., Northern Collaterals Assumed Appraise Center, and six branches. Rentals are payable quarterly, with some contracts allowing placement with the lessor of lease deposits in lieu of rental payments. Rental expenses were as follows:

	Lease Deposit		Rental Expense	
	Amount	%	Amount	%
2006				
Yu-Pang	$ 455,070	36.87	$ 16,039	2.69
Hung-Kuo	228,524	18.52	121,920	20.44
Yong-Xuan	19,521	1.58	82,505	13.83
UECC	5,019	0.41	10,640	1.78
UBF	91	0.01	364	0.06
UFLIC	-	-	376	0.06
2005				
Yu-Pang	454,220	37.70	15,649	2.69
Hung-Kuo	228,721	18.99	124,804	21.45
Yong-Xuan	19,521	1.62	82,341	14.15
UECC	5,019	0.42	9,980	1.71
UBF	90	0.01	364	0.06
UFLIC	-	-	133	0.02

The Bank rented cars for business from UFLIC, the rental expense in 2006 and 2005 were $5,052 and $3,707, respectively. Rental payable as of December 31, 2006 and 2005 were $11,093 and $9,373.

b) The Bank as lessor

The Bank's Tauring Branch and Kaohsiung Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 1999 to December 2009 and from January 2006 to December 2015. The leasing revenues received were $1,935 in 2006 and $904 in 2005. And the Bank's Beitun Branch leased part of its office to UBF under an operating lease agreement starting from February 2006 to January 2016. The leasing revenue received was $381 in 2006. In addition, the Bank's Song Jiang Branch and the Head Office leased part of its office and a minibus to SYH under operating lease contracts that started in October 2004 and March 2005, respectively, and ended in March 2005 and June 2005. The leasing revenue received in 2005 was $1,068.

10) The sale of nonperforming loans and assuming of related collateral

The Bank sold to Morgan Stanley Union Bank a part of its nonperforming loans and related collateral property as of June 28, 2006, September 26, 2006 and May 28, 2003, which amounted to $995,000, $615,025 and $205,849, respectively. Of this amount, $1,288,020 and $51,462 had not been received as of December 31, 2006 and 2005, respectively (refer to Note 15).

11) Financial assets at fair value through profit or loss

As of December 31, 2006 and 2005, the Bank had bought 72,962 and 61,439 units, respectively, of beneficiary certificates issued by USITC, which amounted to $855,698 and $652,075, respectively.

12) Bank debentures

As of December 31, 2006 and 2005, UBF was holding the Bank's debentures amounting to $432,000 and $785,400, respectively.

13) Acquisition of properties and unquoted equity instruments

In June 2006, the Bank purchased properties and 3,050 shares of Taiwan Future Exchange Corporation from Union Bank Future Corporation which amounted to $5,687 and $61,000, respectively.

14) UIT sole computers, related material, software and provided network service to the Bank. The related purchase and service fee in 2006 and 2005 were $363,907 and $405,823, respectively.

15) The Bank provided insurance consulting service and sales assistance to UIB. The commission revenues in 2006 and 2005 were $96,451 and $115,890, respectively. The consulting service revenues in 2006 and 2005 were $21,340 and $32,056, respectively.

16) USI provided securities investment consulting to the Bank. The related consulting expense in 2006 and 2005 were $1,524 and $2,286.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to employees for savings and loans up to prescribed limits.

26. PLEDGED ASSETS

As of December 31, 2006 and 2005, government bonds, bank debentures and negotiable certificates of deposit, which amounted to $965,315 and $1,293,500, respectively, had been provided to the courts, the Central Trust Bureau and the Central Bank as guarantee deposits on provisional seizures against the debtors' properties, as reserve of credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, negotiable certificates of deposit aggregating $3,200,000 had been provided to the Central Bank as collateral for the day-term overdraft as of December 31, 2005.

27. CONTINGENCIES AND COMMITMENTS

Financial instruments, contingencies and commitments of the Bank, in addition to those disclosed in Note 29, are summarized as follows:

a. Operating leases

The Bank rents several office premises for its branches under operating leases ranging from 2 to 10 years. Rentals are payable monthly, quarterly or annually. For the Nanking E. Rd., San Chung, Shin-Dian and Wujia branches, lease deposits are made in lieu of lease payments, and rental expenses are recognized at imputed interests of 2.015%. Future minimum lease payments are as follows:

Year	Amount
2007	$ 453,777
2008	410,768
2009	325,914
2010	190,730
2011	58,183

The present value of total rentals beyond 2011 amounted to $330,285, is about $298,689 using the Bank's one-year time deposit interest rate of 1.69% posted on December 31, 2006.

b. Computer equipment purchase contracts

The Bank is under contracts for acquisition of computer equipment and software for $97,720, of which $57,723 (included in prepayments for equipment) had been paid as of December 31, 2006.

c. Securities sold under repurchase agreements

As of December 31, 2006, securities with a total cost of $11,904,491 were sold under agreements to repurchase for $11,931,939 between January 2007 and October 2007.

d. Securities purchased under resell agreements

As of December 31, 2006, securities with a total cost of $3,820,626 were purchased under agreements to resell for $3,822,330 in January 2007.

e. Balance sheet of trust accounts and trust property accounts

Balance Sheet of Trust Accounts
December 31, 2006

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 244,665	Income tax payable	$ 33
Investments		Expenses payable	2
Mutual funds	25,198,608	Trust capital	29,492,796
Common stock	108,046	Reserve and deficit	2,767
Real estate - land and building	3,944,279		
Total	$ 29,495,598	Total	$ 29,495,598

Balance Sheet of Trust Accounts
December 31, 2005

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 100,455	Income tax payable	$ 56
Investments		Trust capital	18,246,697
Bonds	100,483	Reserve and deficit	28,205
Mutual funds	16,554,442		
Common stock	108,046		
Real estate - land and building	1,411,532		
Total	$ 18,274,958	Total	$ 18,274,958

Trust Property Accounts
December 31, 2006

Investment Portfolio	Amount
Demand deposits	$ 244,665
Investments	
Mutual funds	25,198,608
Common stock	108,046
Real estate - land and building	3,944,279
	$ 29,495,598

Trust Property Accounts
December 31, 2005

Investment Portfolio	Amount
Demand deposits	$ 100,455
Investments	
Bonds	100,483
Mutual funds	16,554,442
Common stock	108,046
Real estate - land and building	1,411,532
	$ 18,274,958

28. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by the daily average balance of interest-earning assets and interest-bearing liabilities.

	2006	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents	$ 18,274,476	1.62
Due from the Central Bank and other banks	11,691,375	1.31
Financial assets at fair value through profit or loss	7,072,852	1.16
Securities purchased under resell agreements	3,332,750	1.66
Discounts and loans	192,318,446	4.04
Accounts receivable - credit card	25,985,383	16.20
Available-for-sale financial assets	10,095,105	1.23
Held-to-maturity investments	23,932,640	6.44

(Continued)

	2006	
	Average Balance	**Average Rate (%)**
Interest-bearing liabilities		
Call loans and due to other banks	$ 5,611,141	3.31
Securities sold under repurchase agreements	13,584,328	2.54
Demand deposits	19,833,083	0.64
Savings - demand deposits	54,193,646	0.73
Time deposits	49,718,606	2.35
Post saving redeposit	21,095,436	2.13
Time - savings	127,724,610	1.92
Negotiable certificates of deposit	5,350,750	1.49
Bank debentures	13,403,112	2.64

(Concluded)

	2005	
	Average Amount	**Average Rate (%)**
Assets		
Cash and cash equivalents - due from banks	$ 975,372	1.34
Due from the Central Bank and other banks	9,434,314	1.22
Securities purchased	35,545,316	1.94
Bills purchased, discounts and loans	164,302,474	4.81
Accounts receivable - credit card	28,796,104	17.36
Long-term bond investments	10,869,817	6.22
Liabilities		
Due to banks	7,028,858	2.50
Demand deposits	17,357,702	0.53
Savings - demand deposits	45,298,621	0.70
Time deposits	42,792,658	1.60
Post saving redeposit	20,228,318	1.81
Time-savings	108,236,565	1.67
Negotiable certificates of deposit	4,522,750	1.36
Bank debentures	11,260,921	2.66

29. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	December 31			
	2006		2005	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Financial assets - with fair values approximating carrying amounts	$ 88,481,257	$ 88,481,257	$ 91,670,718	$ 91,670,718
Financial assets at fair value through profit or loss	4,873,587	4,873,587	10,009,127	10,009,127
Available-for-sale financial assets	5,997,931	5,997,931	7,072,617	7,072,617
Discounts and loans	207,070,571	207,070,571	182,118,196	182,118,196
Held-to-maturity financial assets	31,027,509	30,992,015	19,756,961	20,080,055

(Continued)

	December 31			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Liabilities				
Financial liabilities - with fair values approximating carrying amounts	$ 341,983,163	$ 341,983,163	$ 309,642,861	$ 309,642,861
Financial liabilities at fair value through profit or loss	34,457	34,457	4,090	4,090

(Concluded)

Effective on January 1, 2006, the Bank adopted the Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments." The amount of the cumulative effect resulting from the change to new accounting principles refers to Note 3.

b. Methods and assumptions applied in estimating the fair values disclosures for financial instruments are as follows:

1) The carrying amounts of cash and cash equivalent, due from the Central Bank and other banks, securities purchased under resell agreements, receivable, other financial assets, call loans and due to banks, securities sold under repurchase agreements, payables, remittances and other financial liabilities approximate their fair values because of the short maturities of these instruments.

2) For financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments, fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using available indirect data and appropriate valuation methodologies.

   Non-active market debt instruments' fair value are based on Clear Stream Banking or estimates debtor's credit.

3) Discounts and loans, and deposits are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. Fair value of nonperforming loans is based on the carrying amount, which is net of allowance for credit losses.

4) Fair values of refundable deposits and guarantee deposits are based on their carrying amounts because these deposits do not have specific due dates.

5) The fair values of equity investment-equity method are estimated at carrying amounts, because do not having a quoted market price in an active market.

6) The fair values of bank debentures are estimated at carrying amounts, because principal is repayable on maturity date.

7) Forward contracts' and interest rate swap contracts' fair values are based on estimates using present value techniques. Options' fair value are based on estimates using Black Scholes model, binomial price model or Monte Carlo Simulation.

8) Fair value of forward contracts, interest rate swap contracts and cross currency swap contracts are estimated based on the forward rates provided by Reuters.

c. Fair value of financial assets and financial liabilities determined based upon quoted market prices or estimates summarized as follows:

	December 31, 2006	
	Quoted Market Prices	**Fair Value Based on Estimates**
Financial assets		
Financial assets at fair value through profit or loss	$ 4,696,359	$ 177,228
Available-for-sale financial assets	5,997,931	-
Held-to-maturity investments	-	31,027,509
Financial liabilities		
Financial liabilities at fair value through profit or loss	-	34,457

d. Financial risk information

1) Market risk

The risk management of the Bank, please refer to Note 30.

2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' credit worthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2006 and 2005, ratios of secured loans to total loans were 71.61% and 63.33%, respectively. Ratio of secured financial guarantees and standby letters of credits were 37.52% and 50.73%. Collaterals held vary but may include cash, inventories, marketable securities, and other properties. When the customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising out of the guarantees given. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

The Bank has significant credit commitments principally relating to credit cards issued and credit facilities extended. The terms of most of the credit commitments range from half year to ten years. For the years ended December 31, 2006 and 2005, the loan interest rates ranged from 1.45% to 11.06% and 1.00% to 11.85%, respectively, and the highest interest rate for credit cards was 19.71%. The Bank also provided guarantees on customers' loans and letters of credit obtained from third parties. The maturity dates of these commitments are not concentrated in a particular period.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2006 and 2005 were as follows:

	December 31	
	2006	**2005**
Credit commitments for credit cards	$ 350,953,553	$ 345,850,516
Guarantees and standby letters of credit	9,723,013	10,391,657
Irrevocable loan commitments	1,063,098	821,880

The maximum exposure of counterparties presented above were evaluations on off-balance sheet credit risk contracts with positive amounts on the balance sheet date. Concentrations of credit risk exist when changes in economic or other factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank maintains a diversified portfolio, limits its exposure to individual creditor and monitors the exposure on a continuous basis. Credit risk profile by region is not significant on December 31, 2006 and 2005. On December 31, 2006 and 2005, the Bank's most significant concentrations of credit risk were summarized as follows:

	Carrying Amount	
	December 31	
Credit Risk Profile by Counterparty	**2006**	**2005**
Consumer	$ 149,665,575	$ 124,442,732
Private sector	50,362,553	48,970,161
Government	1,940,789	1,275,743
	$ 201,968,917	$ 174,688,636

	Carrying Amount	
	December 31	
Credit Risk Profile by Industry Sector	**2006**	**2005**
Real estate activities	$ 12,037,565	$ 10,381,440
Manufacturing	7,439,864	8,212,862
Business	6,932,094	6,669,246
	$ 26,409,523	$ 25,263,548

3) Liquidity risk

As of December 31, 2006 and 2005, the liquidity reserve ratio was 9.73% and 11.56%, respectively. The Bank has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of the derivative financial instruments held by the Bank fail to liquidate quickly with minimal loss in value is low.

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

The Bank applied appropriate way to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

	December 31, 2006					
Assets	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Cash and cash equivalents	$ 7,243,820	$ 230,000	$ 763	$ 106,000	$ -	$ 7,580,583
Due from the Central Bank and other banks	32,547,602	-	-	-	-	32,547,602
Financial assets at fair value through profit or loss	4,869,286	3,468	729	104	-	4,873,587
Securities purchased under resell agreements	3,820,626	-	-	-	-	3,820,626
Available-for-sale financial assets	249,831	-	3,616	157,230	5,587,254	5,997,931
Discounts and loans	6,245,720	9,320,290	8,276,300	20,878,162	164,061,529	208,782,001
Held-to-maturity investments	28,976,924	-	-	516,099	1,534,486	31,027,509
Receivables	37,513,764	75,307	37,604	153,240	10,252	37,790,167
	121,467,573	9,629,065	8,319,012	21,810,835	171,193,521	332,420,006

(Continued)

Liabilities	December 31, 2006 Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Call loans and due to banks	$ 5,047,736	$ 5,929,320	$ 1,000	$ 20,493,776	$ 345,178	$ 31,817,010
Securities sold under repurchase agreements	6,869,441	897,273	219,777	3,918,000	-	11,904,491
Payables	6,030,977	330,482	235,842	352,227	161,926	7,111,454
Deposits and remittance	26,741,607	31,791,062	80,590,758	123,531,513	13,092,969	275,747,909
Bank debentures	-	-	-	3,500,000	11,583,700	15,083,700
	44,689,761	38,948,137	81,047,377	151,795,516	25,183,773	341,664,564
Net liquidity gap	$ 76,777,812	$ (29,319,072)	$ (72,728,365)	$ (129,984,681)	$ 146,009,748	$ (9,244,558)

(Concluded)

Assets	December 31, 2005 Due in One Year	Due Between After One Year and Seven Years	Due After Seven Years	Total
Cash and cash equivalents	$ 7,412,845	$ -	$ -	$ 7,412,845
Due from the Central Bank and other banks	12,651,986	-	-	12,651,986
Securities purchased	28,148,292	-	-	28,148,292
Receivables	45,153,613	-	-	45,153,613
Securities purchased under resell agreements	10,311,415	-	-	10,311,415
Bills purchased, discounts and loans	51,689,227	38,759,185	93,046,320	183,494,732
Long-term bond investments	-	17,777,228	-	17,777,228
	$ 155,367,378	$ 56,536,413	$ 93,046,320	$ 304,950,111
Liabilities				
Due to banks	$ 5,484,429	$ -	$ -	$ 5,484,429
Securities sold under repurchase agreements	12,247,692	-	-	12,247,692
Payables and advance receipts	7,231,777	-	-	7,231,777
Deposits and remittances	258,776,463	13,054,156	-	271,830,619
Bank debentures	-	13,105,400	-	13,105,400
	$ 283,740,361	$ 26,159,556	$ -	$ 309,899,917

4) Cash flow risk and fair value risk arising from interest rate fluctuations

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

30. MARKET RISK CONTROL AND HEDGE STRATEGY

a. Risk managing indicators and strategy

The Bank's main risk is credit risk, market risk and liquidity risk. The risk management policies are 1) short-term goal: to integrate and collect any risk variables to set up quantifiable risk quote; 2) long-term goal: to maximize stockholder's return by setting up risk management and evaluative system and best capital allocation.

b. Quantifiable risk measurement and control

1) Credit risk: The goal is to control risk in tolerable level by setting up measurement tools which quantify risk across products and businesses. Then, the Bank builds the model in loan procedures to ensure the spread could bear the risk the Bank take and protect the stockholder and depositors.

   a) Setting up credit risk measurement system and database when making loans and reserving the historical data of credit risk measurement.

   b) Setting up credit rating system connecting with interest spread.

   c) Modulating credit risk measurement model and instruments by economy, forecasting and customer attribute to ensure the data match status.

2) Market risk: The goal is to set up the identifying, evaluating, monitoring, reporting and controlling procedures. The Bank builds related risk management procedure and mechanism under the guideline of Based II and plans to build risk management system to ensure that the outcomes of risk-taking activities are predictable and within the Bank's risk tolerance parameter and that there is an appropriate balance between risk and reward.

   a) The trade limit control: The limit approve by the board of directors or senior management committees include the limit of unitary investment, counter parties, trader and total limit.

   b) The price risk control: Marked-to-market valuation method which values the open position by settlement price daily. The data of sensitivity analysis of all outstanding position and stop-loss monitor information can be obtained through trading management system.

   c) The risk report: To ensure risk control effectively, outstanding position report and integrated risk management report are available on a continuing basis.

3) Operational risk

   a) Establishment the strategy procedures at an all-bank level control procedure and process.

   b) Establishment database and reporting system of the operational risk loss data by activity units or activities, and keep the data to improve internal control.

   c) Establish information and employees backup system to lower the loss of spot situation.

4) Liquidity risk

   The Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. The Bank measures and forecasts cash commitments on a daily basis and conducts regular liquidity crisis stress testing. The Bank's liquidity contingency plan provides the framework from which to determine appropriate action plan in the event of a liquidity crisis.

31. STATEMENT OF CAPITAL ADEQUACY

(In Thousands of New Taiwan Dollars, %)

	December 31, 2006	December 31, 2005
Net eligible capital	$ 20,614,349	$ 18,673,926
Total risk-weighted assets	217,720,435	210,513,694
Capital adequacy ratios	9.47	8.87
Ratios of tier 1 capital to risk-weighted assets	7.31	7.41
Ratios of tier 2 capital to risk-weighted assets	3.98	3.73
Ratios of tier 3 capital to risk-weighted assets	-	-
Ratios of common stockholders' equity to total assets	5.06	5.55

Note: Capital adequacy ratio = Eligible capital/Risk-weighted assets pursuant to the Banking Law and related regulations.

32. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Credit risks

1) Asset quality

(In Thousands of New Taiwan Dollars, %)

	December 31, 2006		December 31, 2005	
Item	Amount	Overdue Loans/ Outstanding Loan Balance	Amount	Overdue Loans/ Outstanding Loan Balance
Overdue loans - class A	$ 4,121,483	1.97	$ 5,030,814	2.74
Overdue loans - class B	907,216	0.44	1,868,339	1.02
Total overdue loans	5,028,699	2.41	6,899,153	3.76
Overdue loans with debt negotiation exempted from reporting as a non-performing loan	1,234,730	-	-	-
Overdue receivables with debt negotiation exempted from reporting as a non-performing loan	6,225,345	-	-	-

Note 1: Overdue loans represent the amounts of reported overdue loans pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrued Loans" issued by the MOF.

Note 2: Overdue loans - class A and class B represent the amounts of reported overdue loans as required by the Banking Bureau letters dated April 19, 2005 (Ref. No. 0941000251).

Note 3: Overdue loans ratio = Overdue loans/Outstanding loans balance.

Note 4: Overdue loans and receivables with debt negotiated terms which have been performed are exempted from reporting as non-performing loan under the requirement issued by the Banking Bureau dated April 25, 2006 (Ref. No. 09510001270).

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Items	December 31, 2006		December 31, 2005	
Credit extensions to interest parties	$6,147,411		$5,521,913	
Ratios of credit extensions to interest parties	2.88%		2.94%	
Ratios of credit extensions secured by pledged stocks	2.74%		2.96%	
Industry concentration (the top three industries by industry credit ratio)	Industry	Percentage	Industry	Percentage
	Finance, insurance and real estate	9.14%	Finance, insurance and real estate	10.91%
	Wholesale, retail sale and food	4.53%	Wholesale, retail sale and food	4.86%
	Manufacturing	3.67%	Manufacturing	4.68%

Note: The interest parties mentioned above is regulated in the banking Law Article 33-1.

Note: a) Total credit consists of loans, discounts and bills purchased (including import and export bill negotiations), acceptances, guarantees and prepaid factoring accounts receivable.

b) Ratio of credit extensions to interest parties: Credit extensions to interested parties ÷ Total credit extensions.

c) Ratio of credit extensions secured by pledged stocks: Credit extensions secured by pledged stocks ÷ Total credit extensions

d) Consist of the following industries required by the Central Bank: Agriculture, forestry, fishing and grazing; mining and soil excavation; manufacturing; utility and gas; construction; wholesale, retail, food and beverage; shipping, storage and communications; finance, insurance and real estate; general services and other.

b. Interest rate sensitivity information

Interest Rate Sensitivity (New Taiwan Dollars)
December 31, 2006

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-rate sensitive assets	$ 199,646,073	$ 6,567,559	$ 8,171,991	$ 66,481,146	$ 280,866,769
Interest-rate sensitive liabilities	153,515,468	93,498,184	33,494,563	19,746,558	300,254,773
Interest-rate-sensitive gap	46,130,605	(86,930,625)	(25,322,572)	46,734,588	(19,388,004)
Net worth					18,131,369
Ratio of interest-rate sensitive assets to liabilities					93.54
Ratio of interest-rate sensitive gap to net worth					(106.93)

Note 1: The above amounts included only New Taiwan dollar amounts held by the onshore branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets − Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in New Taiwan dollars).

Interest Rate Sensitivity (U.S. Dollars)
December 31, 2006

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-rate sensitive assets	$ 47,076	$ 31,431	$ 30,074	$ 919,322	$ 1,027,903
Interest-rate sensitive liabilities	555,721	219,785	173,708	-	949,214
Interest-rate-sensitive gap	(508,645)	(188,354)	(143,634)	919,322	78,689
Net worth					19,774
Ratio of interest-rate sensitive assets to liabilities					108.29%
Ratio of interest-rate sensitive gap to net worth					397.94%

Note 1: The above amounts includes U.S. dollar amounts held by the onshore branches, OBU and offshore branches of the Bank, excludes contingent assets and contingent liabilities..

Note 2: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earnings assets and interest-bearing liabilities are affected by interest-rate changes.

Note 3: Interest-rate sensitive gap = Interest-rate sensitive assets — Interest-rate sensitive liabilities.

Note 4: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate sensitive liabilities (in U.S. dollars).

c. Liquidity risk

1) Profitability:

(%)

Items		2006	2005
Return on total assets	Before income tax	0.10	(1.68)
	After income tax	0.09	(1.20)
Return on net worth	Before income tax	1.87	(26.15)
	After income tax	1.65	(18.66)
Profit margin		2.84	(53.63)

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax represents income for the years ended December 31, 2006 and 2005.

2) Maturity analysis of assets and liabilities:

Maturity Analysis of Asset and Liabilities (In New Taiwan Dollars)
December 31, 2006

(In Thousands of New Taiwan Dollars)

	Total	The Amount of Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	$ 313,989,005	$ 62,661,694	$ 18,531,882	$ 12,237,790	$ 24,682,230	$ 195,875,409
Main capital outflow on maturity	319,977,313	30,098,550	30,069,252	74,043,794	138,775,898	46,989,819
Gap	(5,988,308)	32,563,144	(11,537,370)	(61,806,004)	(114,093,668)	148,885,590

Note: The above amounts included only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e. excludes foreign currency).

Maturity Analysis of Assets and Liabilities (In U.S. Dollars)
December 31, 2006

(In Thousands of U.S. Dollars)

	Total	The Amount of Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	$ 1,405,166	$ 386,442	$ 19,451	$ 29,030	$ 29,166	$ 941,077
Capital outflow on maturity	1,405,169	632,445	221,224	220,825	295,671	35,004
Gap	(3)	(246,003)	(201,773)	(191,795)	(266,505)	906,073

Note 1: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Note 2: If the overseas assets amounting to at least 10% of the total assets, there should be additional disclosures.

December 31, 2005

(In Million of New Taiwan Dollars)

	Total	Amount for the Remaining Period Before the Maturity Date				
		1-30 Days	31-90 Days	91-180 Days	181 Days to One Year	Over One Year
Assets	$ 305,343	$ 60,768	$ 21,784	$ 22,156	$ 22,862	$ 177,773
Liabilities	304,938	32,830	27,469	72,211	130,191	42,237
Gap	405	27,938	(5,685)	(50,055)	(107,329)	135,536
Accumulated gap	405	27,938	22,253	(27,802)	(135,131)	405

Note: The above amounts include only New Taiwan dollar amounts held in the onshore branch of the Bank (i.e., excluding foreign currencies).

33. INFORMATION RELATED TO BORROWERS, GUARANTORS AND COLLATERAL PROVIDERS AS INTEREST PARTIES

December 31, 2006

Category	Account Volume	Amounts	Situation of Exercise	
			Normal	Overdue
Consumer loans (Note a)	1,027	$ 1,665,525	$ 1,665,508	17
Loans for employees' house mortgage	195	147,918	147,918	-
Other borrowers (Note b)	997	4,481,886	4,481,886	-
Guarantees	134	212,103	212,086	17
Collateral providers	9	1,082,133	1,082,133	-

December 31, 2005

Category	Account Volume	December 31, 2005	The Possibility of Loss (Note c)
Consumer loans (Note a.)	1,346	$ 1,601,684	-
Employees' home mortgage loans	286	280,543	-
Other credit extensions (Note b.)	1,318	3,920,229	-
Guarantees	185	679,661	-
Collateral providers	13	24,367	-

Instruction: The interest parties mentioned above are subject to Article 33-1 of the Banking Law.

Note: a. Consumer loans are regulated by Article 32 of the Banking Law.

b. Excluding consumer loans and loans for employees' home mortgage loans.

c. Overdue loan recognized in accordance with Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

34. ACQUISITION OF A FINANCIAL INSTITUTION'S MAIN ASSETS, LIABILITIES AND OPERATIONS

To expand its business, enhance its competitiveness and ensure its long-term development, the Bank participated in the open bid and refund procedure for the assets, liabilities and operations, amounting to $7,108,000, of Chung Shing Bank (CSB) and won the bid. This amount will be subsidized by the Executive Yuan Resolution Trust Corporation (RTC) Fund. The contract on the Bank's acquisition was signed on December 13, 2004 and approved by the provisional board of directors on February 2, 2005. On March 19, 2005, the Bank took over CSB's entire operations and assets and liabilities.

CSB obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991, and obtained approval to operate from the Ministry of Economic Affairs on February 11, 1992 and started operations on March 12, 1992.

The Bank engages in activities allowed under the Banking Law: Deposits, loans, short-term bills and bonds, discounts, remittances, acceptances, issuance of guarantees and letters of credit, etc. On the Bank's takeover of CSB , CSB's operating units included banking department and 47 branches.

CSB stock started to be traded on the TSE on January 8, 1999 and ceased to be traded on the TSE on January 17, 2002.

Under the acquisition contract, the bid price could be adjusted on the day after the evaluation date (August 1, 2004) and the day before the acquisition date (March 18, 2005). If both sides have any disagreement on adjusting the bid price, either party should present its objections within 45 days from March 19, 2005 or 15 days after the Bank's receipt of CSB's income statement. The Bank had received an adjusted bid price of $1,090,813.

As stated in the preceding paragraph, if there was any liability assumed that CSB or its related parties (under the definition of the contract) did not disclose during the Bank's due diligence and liability due to this nondisclosure was incurred before the acquisition date, the Bank could ask for compensation within one year from the acquisition date. However, the Bank should not ask for further compensation after one year of the acquisition date.

Under certain regulations, the Bank recognized a goodwill of $3,309,000, equal to the difference between the actual cash subsidy of $6,017,187 (original bid $7,108,000 - RTC adjustment $1,090,813) and fair value of CSB's net liabilities of $2,708,185 as of the date of the acquisition. Goodwill was amortized by the straight-line method over five years. Amortization of goodwill in 2005 was $551,500. Since 2006, goodwill is not amortized but test annually for impairment according with new accounting standards.

Fair values of CSB's assets and liabilities were as follows:

Original bid	$ 7,108,000
RTC Adjustment	(1,090,813)
Cash subsidy received	6,017,187
Fair value	
Cash and cash equivalents	14,121,113
Due from the Central Bank and other banks	1,579,530
Securities purchased	1,622,755
Receivables	706,038
Prepayment	794,127
Bills purchased, discounts, and loans, net	20,404,571
Long-term investments	1,829,516
Net properties	6,434,087
Other assets	2,272,214
Due to banks	(1,017)
Payables and advances	(736,501)
Deposits and remittance	(45,996,444)
Other liabilities	(321,802)
	2,708,187
Goodwill	$ 3,309,000

All major assets obtained through the acquisition are going to be used for future operations and are not going to be disposed of. All operating results of CSB after March 19, 2005 are included in the Bank's income statement, but any profit or loss before the acquisition date was not included. For comparison purposes, the combined pro forma income statements for 2005 is shown as follows (CSB's data for the period January 1, 2005 to March 18, 2005 were unaudited).

	2005	
	Amount	%
Operating income	$ 18,733,455	100
Operating cost and expenses	(24,196,471)	(129)
Operating losses	(5,463,016)	(29)
Nonoperating income and gains	495,525	3
Nonoperating expenses and losses	(235,962)	(1)
Loss before income tax	(5,203,453)	(27)
Income tax benefit	1,388,637	7
Net losses	$ (3,814,816)	(20)
Loss per share (NT$)	$(2.14)	

35. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its affiliates:

There are no other significant transactions or investment related information except the following:

1) Marketable securities held: Table 1 (attached);

2) Names, locations, and other information of investees on which the Bank exercises significant influence: Table 2 (attached);

3) Disposal of individual real estate at prices of at least NT$300 million or 10% of the issued capital: Table 3 (attached);

4) Receivables from related parties amounting to at least NT$300 million or 10% of the issued capital: Table 4 (attached);

5) Sale of nonperforming loans amounting to at least NT$5,000 million: Table 5 (attached);

6) Derivative financial transactions: For the Bank's related information, please see Note 29. The investees' related information is as follows:

Union Bank Futures Corporation (UBFC)

The financial and nonfinancial instruments used in managing UBFC's exposure as well as trading activities are stated at fair value on the balance sheet. The change in realized or unrealized fair value is accounted for as gain or loss during the period the value changes. Interest revenue from and interest expense for transactions for trading purposes are recognized as interest revenue and expense during the period but not as gain or loss on such transaction.

a) The notional amount and credit risk

	December 31, 2005	
Financial Instruments	**Notional Amounts**	**Credit Risk**
TAIEX Futures - sell	$ 3,962	(Note)
Option - short position	30	(Note)

Note: The counter-parties of UBFC are large financial institutions and domestic futures brokers with high credit ratings. Thus, no significant credit risk is anticipated.

b) Market price risk

UBFC engages in futures trading for trading purposes, in which price risk results from futures buying and selling. Every futures contract has a reasonable fair market value. Thus, the possibility that the futures contract cannot be sold at fair value is minimal.

Derivatives

		December 31, 2005			
		Opening Positions		Carrying Value/ Premium	
Item	**Transaction Type**	**Long/Short**	**Volume**	**Received**	**Fair Value**
Futures	TAIEX futures	Short	$ 6	$ 3,962	$ 3,951
Options	Call options	Short	5	18	16
	Put options	Short	5	12	12

Methods and assumptions applied in estimating the fair values of financial instruments are as follows:

The fair value of derivative financial instrument is the amount that UBFC must pay or is expected to receive to settle contracts at the balance sheet date. Generally, the fair value includes the unrealized gain or loss on unsettled contracts. The fair value of UBFC's derivatives is calculated on the basis of quotations from financial institutions.

c) Liquidity risk, cash flow risk and the uncertainty of the amount and period of future cash flow

i. Liquidity risk: None.

ii. Cash flow risk: None.

iii. The amount and period of future cash flow and uncertainty:

UBFC trades derivatives and take contract (notional) amounts as the trade object. In addition, the initial margin deposit on the stock index contract is higher than its maintenance margin deposit. Thus, there are no additional future cash requirement and risk on uncertainty.

d) The particular risk of future dealer

The derivative merchandise which dealt by future dealer have to be approve by SFB and traded in the limit authorized by UBFC. As transactions are considered as trading, the gains and losses which operated by future dealer have to be absorbed by UBFC. Because leverage ratio of derivative transaction is high, the fluctuation of the price is high as well. The risks of future dealer included those on credit, market, liquidity, operation and legislation, etc. To decrease transaction risk, the internal control of UBFC focuses on operating procedures, including delegation of authority at different levels of hierarchy, control of deal amount, valuation of operating performance and the transaction position, reports of operation, internal auditing and the limit of trading gain or loss.

e) The presentation of derivatives in the financial statements

i. In 2005, the gain (loss) on futures transactions were as follows

	2005
Realized gain on futures contracts	$ 2,274
Unrealized loss on futures contracts	(4,419)
Realized gain on option transactions	9,275
Unrealized loss on option transactions	(108)
Realized nonoperating gain on futures contracts	10
Unrealized nonoperating gain on futures contracts	43
Realized nonoperating gain on option transactions	10
Unrealized nonoperating gain on option transactions	2

UBFC has discontinued future dealer transaction on December 26, 2005. Above gain or loss on futures contracts and option transactions have been included in gain or loss from discontinued department.

After discontinued, the gain or loss on futures contracts and option transactions resulting from trading derivatives included in nonoperating gain or loss.

ii. As of December 31, 2005, the presentation of derivatives in the financial statement was as follows:

Financial Instruments	**December 31, 2005**
Asset	
TAIEX futures - margin deposit	$ 14,133
Liability	
Options - short position	28

Union Bills Finance Corporation (UBF)

UBF enters into derivative financial instruments for cash flow and risk management.

a) The contract (notional) amount of derivative financial instruments as of December 31, 2006 and 2005 were as follows:

	December 31	
	2006	**2005**
Financial Instruments	**Contract (Notional) Amounts**	**Contract (Notional) Amounts**
Trading purposes		
Assets swap	$ 325,100	$ 30,000
Interest rate swap-non-hedge	22,800,000	12,000,000
Interest rate swap-hedge	3,100,000	3,100,000

b) Fair value of derivative financial instruments

Financial Instruments	December 31, 2006 Carrying Value	December 31, 2006 Fair Value Based on Estimates	December 31, 2005 Carrying Value	December 31, 2005 Fair Value Based on Estimates
Assets				
Asset swaps	$ 2,540	$ 2,540	$ -	$ -
Liabilities				
Put option	547	547	-	-
Interest rate swap - non-hedge	40,707	40,707	-	-
Interest rate swap - hedge	1,624	1,624	3,828	3,828

c) Market price risk

The risk factors of market price risk includes changes in rate and price. UBF measure risk of rate by suing PVBP (price value of a basic point) to determine the amount of the fair value of bonds would decrease when the market rate increase 1%. The risk of changes is determined by analyzing the valuation of financial instruments based on their identity.

The financial instruments are valuated by using fair value. When the quoted market prices are available such as interest rate futures, stock futures, option and stock. Otherwise the evaluated method are used such as interest exchange asset swaps and bonds option.

d) Credit risk

UBF is exposed to credit risk in the event of default on contracts by counter-parties. The maximum exposure of counter-parties. The maximum exposure of counter parties were evaluations on off-balance sheet credit risk contracts with positive amounts on the balance sheet date.

The maximum credit exposure of the financial instruments (except for the fair value of collaterals) held by UBF equaled the book value except which analysed as follows:

Financial Instrument	December 31, 2006 Notional Amounts	December 31, 2006 Financial Instruments	December 31, 2005 Notional Amounts	December 31, 2005 Financial Instruments
Derivative financial instrument				
Interest exchange	$25,900,000	$47,128	$15,100,000	$31,162

e) Liquidity risk

UBF has sufficient capital and working capital to execute all the obligation of contract and had no liquidity risk. The possibility of the derivative financial instruments held by UBF fail to liquidate quickly with minimal loss in value is low.

f) Cash flow risk and fair value risk arising from interest rate fluctuations

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

g) Cash flow hedge

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

		December 31,					The Period Which the
		2006		2005		The Period Which Cash	Related Income May be
Hedged Items	Hedging Instruments	Notional Amounts	Fair Value	Notional Amounts	Fair Value	May Flow Though	Recognized Though
Bank debentures	Interest rate swap	$3,100,000	$(1,624)	$3,1000,00	$(3,828)	From 2004 to 2009	From 2004 to 2009

h) Accounting policy for derivative instruments

i. For trading purposes: The carrying value of options are measured at fair value on the trading dates, the other instruments were zero at the date of transaction. These instruments are marked to market on the balance sheet dates. The changes of fair value are recognized as either assets and liabilities or included in current income.

ii. For hedging purpose: Confirming to all conditions to hedging accounting, the accounting treatment of the income influent amount which is according to different hedging relationship is as follows:

- Fair value hedging: Hedging instruments are measured as fair value, and the income which is resulted from rates difference of book value is recognized as current income instantly. The gain or loss which is resulted from avoiding risks of hedging items is to adjust the book value of hedging items and is recognized as current income.

- Cash flow hedging: The net income of hedging is recognized as adjusting items of shareholder's equity.

  - If anticipant tradings of hedging lead to be recognized as financial assets or liabilities, the net income which is recognized as the adjusting items of shareholder equity originally would be reclassified as current income through the period of recognized asset or liability effect income, and it would be turned as current income as the anticipant tradings or hedging effect net income.

  - If anticipant tradings of hedging lead to be recognized as non-financial assets or liabilities, the net income which is recognized as the adjusting items of shareholder equity originally would be turned as current income through the period and the adopted identically.

b. Investment in Mainland China: None.

36. SEGMENT INFORMATION

The Bank engages only in banking activities allowed under the Banking Law and operates entirely in the Republic of China. The Bank has no single customer that accounts for 10% or more of the Bank's operating revenues. No geographic and customer information is required to be disclosed.

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	China Chemical Corporation	-	Available-for-sale financial assets	356	$ 4,134	0.12%	$ 4,134	-
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	464,540	100.00%	US$ 14,250	Note 1
	Union Bills Finance Corporation	Affiliate	Unquoted equity instruments	2,100	26,250	0.71%	22,995	Note 1
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	5,253	0.18%	5,253	-
	Union Semi-Conductors Technology Corp.	-	Unquoted equity instruments	1,600	548	2.65%	-	Note 1
	WI Harper Group	-	Unquoted equity instruments	1,850	12,820	3.33%	12,950	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	5,106	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	467	9,423	0.99%	10,383	Note 1
	New Asian Ventures Ltd	Subsidiary	Equity investments - equity method	1	110,831	100.00%	US$ 3,400	Note 1
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	859	11,463	0.06%	11,463	-
Union Bills Finance Corporation	Stock							
	Debt Instrument Depository and Clearing Co., Taiwan	-	Unquoted equity instruments	471	9,277	0.17%	14,879	Note 2
	Taiwan Mobile	-	Available-for-sale financial assets	400	13,520	0.01%	13,520	-
	Taiwan Cogeneration Corporation	-	Available-for-sale financial assets	705	8,848	0.17%	8,848	-
	Nien Made	-	Available-for-sale financial assets	1,377	45,441	0.34%	45,441	-
	Basso Industry Corp.	-	Available-for-sale financial assets	455	19,724	0.24%	19,724	-
	Beneficiary certificate							
	Special Purpose Trust for Securitization of Corporate Loans Originated by Bank SinoPac-M-1 Tranch	-	Unquoted equity instruments	20 pieces	100,000	-	-	Note 5
	Bond							
	NAN YA Plastics Corporation Bonds 2003-1A Issue	-	Available-for-sale financial assets through profit or loss	7 pieces	35,005	-	35,005	-
	Taiwan Power Company 2st Unsecured Bond 2004-1D Issue	-	Available-for-sale financial assets through profit or loss	60 pieces	300,856	-	300,856	-
	China Development Financial Holding Corporation Unsecured Bond 2005-2A Issue	-	Available-for-sale financial assets through profit or loss	45 pieces	448,224	-	448,224	-
	Chi Mei Corporation 1st Unsecured Bond 2005 Issue	-	Available-for-sale financial assets through profit or loss	3 pieces	30,823	-	30,823	-

(Continued)

Holding Company Name	Type and Issuer of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2006				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Nanya Technology Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	-	$ 299,989	-	$ 299,989	-
	Yang Ming Marine Transport Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	-	149,451	-	149,451	-
	Mega Securities Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	-	299,990	-	299,990	-
	Fortune Motors Corporation Secured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	28 pieces	138,593	-	138,593	-
	Formosa Plastics Corporation 1st Unsecured Bond 2006 Issue	-	Available-for-sale financial assets through profit or loss	-	301,658	-	301,658	-
	Cathay United Bank 78 Strip Bond	-	Available-for-sale financial assets through profit or loss	-	190,339	-	190,339	-
Union Security Investment Trust Corporation	<u>Beneficiary certificate</u>							
	Council of Europe Development	-	Financial assets at fair value through profit or loss	40 pieces	37,579	-	37,579	-
	Wan Hai Lines 1st Unsecured Corporate Bonds 2004-2C Issue	-	Financial assets at fair value through profit or loss	25 pieces	233,499	-	233,499	-
	UMC Corporate Bonds 2003-1B05 Issue	-	Financial assets at fair value through profit or loss	40 pieces	187,156	-	187,156	-
	FPCC Corporate Bonds 2003-2A05 Issue	-	Financial assets at fair value through profit or loss	30 pieces	145,908	-	145,908	-
	Chang Chun Group Corporate Bonds 2003 Issue	-	Financial assets at fair value through profit or loss	150 pieces	146,226	-	146,226	-
	Mega Corporate Bonds 2003-ID03 Issue	-	Financial assets at fair value through profit or loss	50 pieces	245,661	-	245,661	-
	China Development Financial Holding Corporation 2003-IC02 Issue	-	Financial assets at fair value through profit or loss	50 pieces	243,772	-	243,772	-
	Bank SinoPac Financial Bonds 2004 Issue	—	Financial assets at fair value through profit or loss	30 pieces	286,549	-	286,549	-
	China Development Financial Bonds 2003-1D Issue	-	Financial assets at fair value through profit or loss	25 pieces	242,581	-	242,581	-
	Far Eastern International Bank Financial Bonds 2003 Issue	-	Financial assets at fair value through profit or loss	15 pieces	146,986	-	146,986	-
	Taipei Bank Financial - 2004-1B07 Issue	-	Financial assets at fair value through profit or loss	20 pieces	192,575	-	192,575	-
	Taishin Bank Financial Bonds 2003-2A Issue	-	Financial assets at fair value through profit or loss	30 pieces	289,503	-	289,503	-
Union Information Technology Corporation	<u>Stock</u>							
	ELTA Technology Co., Ltd.	Equity method investee	Equity investments - equity method	2,000	17,261	21.05%	16,443	-
	eBizServe, Inc.	-	Unquoted equity instruments	1,650	3,066	16.02%	2,711	-
	Jin Shang Chang Development Co., Ltd.	-	Available-for-sale financial assets	1	-	-	-	-

(Continued)

Holding Company Name	Type and Issuer of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2006 Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
Union Security Investment Consulting Company	Beneficiary certificate							
	Union Bond Fund	The beneficiary certificate issuer is an affiliate of Union Security Investment Consulting Corporation	Available-for-sale financial assets	224	$ 2,728	-	$ 2,728	-
Union Finance International (HK) Limited	Bond							
	China Petrochemical Euro Convertible Bond of DLJ Emerging Market LDC	-	Held-to-maturity investments	2,000 pieces	US$ 1,620	-	-	Note 5
	Federal Home Loan Bank Bond	-	Held-to-maturity investments	10,000 pieces	US$ 1,001	-	-	Note 5
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 pieces	US$ 906	-	US$ 906	-
	Union USD Global Arbitrage A Fund	-	Available-for-sale financial assets	200,000 pieces	US$ 2,032	-	US$ 2,032	-
	Chunghwa Picture Tubes Ltd.	-	Held-to-maturity investments	10,000 pieces	US$ 1,000	-	-	Note 5
	Stock							
	ING Group N.V.	-	Available for sale financial asset	33	US$ 844	-	US$ 844	-
	Applred Materials Incorporated		Financial assets at fair value through profit or loss	16	US$ 288		US$ 288	-
Union Insurance Broker Company	Stock							
	Asus Computer Corp.	-	Available-for-sale financial assets	18	1,604	-	1,604	-
	Hold-Key Electric Wire & Cable Co., Ltd.	-	Available-for-sale financial assets	98	879	0.04%	879	-
	Tycoons Group Enterprise Co., Ltd.	-	Available-for-sale financial assets	150	1,218	0.03%	1,218	-
New Asian Ventures Ltd.	Stock							
	PGWC Wireless Inc.	-	Available-for-sale financial assets	372	US$ 149	3.93%	US$ 149	-
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US$ 2,500	0.74%	US$ 2,003	Note 3
	Medinox Inc.	-	Unquoted equity instruments	403	US$ 350	1.23%	US$ 28	Note 3

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. Union Semi-Conductors Technology Corp., WI Haper Group and ERA Communications Co., Ltd. - audited stockholders' equity as of December 31, 2005.
b. Yung Li Securities Co., Ltd. - the unaudited stockholders equity as of December 31, 2006.
c. Union Capital (Cayman) Corp., Union Bills Finance Corporation and New Asian Ventures Ltd. - the audited stockholders equity as of December 31, 2006.

Note 2: Union Bills Finance Corporation had investments in Debt Instrument Depository and Clearing Co., Taiwan - the unaudited stockholders equity as of December 31, 2006.

Note 3: New Asian Ventures Ltd.:

a. Medinox Inc. - unaudited stockholders' equity as of June 18, 2004.
b. Grace Thw Holding Limited - the unreviewed stockholders equity as of September 30, 2006.

Note 4: Except above, other companies - unaudited stockholders' equity as of December 31, 2006.

The market value of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. Beneficiary certificates were based on net asset values as of the balance sheet date.

Note 5: There are no open market in the securities, thus no market value is available.

(Concluded)

UNION BANK OF TAIWAN

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2006	Dec. 31, 2005	Shares (In Thousands)	Percentage of Ownership	Carrying Value			
Union Bank of Taiwan	Union Bills Finance Corporation	15th Floor, 109, Sec. 3 Min-Sheng E. Road., Taipei, Taiwan	1. Brokerage and short-term bills dealing 2. Notes underwriting, licensing and endorsing (as guarantor) 3. Brokerage and government bond dealing 4. Licensing, underwriting, brokerage and bank debenture dealing 5. Corporate bond dealing	$ 1,238,450	$ 1,238,450	126,576	42.76%	$ 1,385,409	$ 78,563	$ 28,799	Note
	Union Financing and Leasing International Corporation	9th Floor, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Installment, leasing and accounts receivable factoring	1,001,192	1,001,192	100,000	100.00%	1,026,444	14,462	5,917	Note
	Union Bank Futures Corporation	3F-1, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Futures brokerage	-	319,920	-	-	-	24,375	23,785	Note
	Union Information Technology Corporation	6th Floor, 399, Rui-Kuang Road, Taipei, Taiwan	Distribution of computer hardware and software, development of system program in sourcing of system construction, design of web pages and web sites and e-commerce	11,170	11,165	5,000	99.99%	109,959	44,902	43,172	Note
	Union Finance International (HK) Limited	Unit C and D, 8F, Entertainment Building, 30, Queen's Road, Central, Hong Kong	Import and export accommodation	106,589	106,589	30,000	99.99%	135,203	8,126	8,125	Note
	Union Security Investment Trust Corporation	6th Floor, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Securities investment trust	105,000	105,000	10,500	35.00%	35,592	(93,182)	(32,614)	Note
	Union Insurance Broker Company	3F, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Personal insurance agency	30,869	30,869	2,800	100.00%	54,799	13,550	13,412	Note
	Morgan Stanley Union Bank Asset Management Corporation	8th Floor, 109, Sec. 3 Min-Sheng E. Road, Taipei, Taiwan	Purchase, sell and manage nonperforming loans from financial institution; does accounts receivable factoring	13,230	13,230	1,323	49.00%	37,876	30,795	15,089	Note
	Union Real Estate Management Corporation	6th Floor, 10, Sec. 3 Chong-Xin Road, Sanchong, Taipei, Taiwan	Construction plan review and consulting	20,000	20,000	2,000	40.00%	41,487	5,562	2,158	Note
	Union Security Investment Consulting Company	6F-1, 137, Sec. 2 Nanking E. Road, Taipei, Taiwan	Securities investment consulting	10,004	10,004	1,000	100.00%	10,589	(759)	(759)	Note
Union Financing and Leasing International Corporation	Union Capital (Cayman) Corp.	P.O. Box 1034, George Town Grand Cayman, Cayman Islands, British West Indies	Foreign trade and general leasing	1,644	1,644	50	100.00%	465,540	US$ 548	17,821	Note
	New Asian Ventures Ltd.	Citco Building, Wickhams Cay, P.O. Box 662 Road Town, Tortola, British Virgin Islands	Investing, offshore financing, equipment leasing, installment selling and accounts receivable factoring	1	1	1	100.00%	110,831	US$ 163	5,312	Note
Union Information Technology Corporation	ELTA Technology Co., Ltd.	8th Floor, 2, Sec. 2. Ren-Ai Road, Taipei, Taiwan	Software and hardware product retail and distribution services	22,500	22,500	2,000	21.05	17,261	7,740	1,930	Note

Note: Expect the investment income of Union Bank Futures Corporation and the investment income of Union Information Technology Corporation from its equity-method investee, ELTA Technology Co., Ltd., was based on the investee's 2006 unaudited financial statements, other investment income (loss) were based on the investee's 2006 audited financial statements.

TABLE 3

UNION BANK OF TAIWAN

DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT$300 MILLION OR 10% OF THE ISSUED CAPITAL
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Names of Properties	Disposal Date or Transaction Happened Date	Acquisition Date	Carrying Value	Transaction Amount	Payment Term	Gain on Disposal	Trade With	Relationship	Pricing Reference	Purpose of Disposal	Other Items
Union Bank of Taiwan	Properties - parcels of land in Shitan	2006.06.19	2000.04.17	$ 239,491	$ 335,943	Payment by contract	$ 96,202 (Note)	Natural person, non-related party	None	According to Leader Real Estate Management Corporation's appraisal and negotiation with buyer	Disposal of real estate for acquisition of working capital	None
Union Bank of Taiwan	Other asset - parcels of land in Zhanghua	2006.11.15	2002.08.19	908,493	1,345,000	Payment by contract	436,507	Natural person, non-related party	None	According to Leader and Leelin Real Estate Management Corporation's appraisal and negotiation with buyer	Disposal of real estate for acquisition of working capital	None

Note: Gain on disposal is transaction amount $335,943 minus carrying value $239,491 and land value increment tax $250.

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE ISSUED CAPITAL
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Trade With	Relationship	Ending Balance	Turnover Rate	Overdue Receivables from Related Parties		Collection Subsequently	Allowance for Bad Debts
					Amount	Deal With		
Union Bank of Taiwan	Morgan Stanley Union Bank Asset Management Corporation	Equity-method investee	$1,288,020	Unsuitable for financial institution	None	Unsuitable	None	None

Note: Receivables were from sale of nonperforming loans to Morgan Stanley Union Bank Asset Management Corporation as of June 28 and September 26, 2006.

UNION BANK OF TAIWAN

SALE OF NONPERFORMING LOANS AMOUNTING TO AT LEAST NT$5,000 MILLION
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Types of Nonperforming Loans	Transaction Date	Loan Amount	Price	Payment Term	Gain (Loss) on Disposal	Trade With	Relationship	Receivables	Purpose of Disposal
Union Bank of Taiwan	Credit cards, cash cards, micro-credit, and motor financing	2006.06.27	$ 5,476,096	$ 995,000	Payment by contract	$(4,481,096)	Morgan Stanley Union Bank Asset Management Corporation	Equity-method investee	$ 796,000	Disposal the Bank's nonperforming loans and improve asset quality
Union Bank of Taiwan	Credit cards, cash cards, micro-credit, and motor financing	2006.09.20	4,081,186	615,025	Payment by contract	(3,466,161)	Morgan Stanley Union Bank Asset Management Corporation	Equity-method investee	492,020	Improve asset quality and reduce overdue loan ratio

Note: The losses form sale of nonperforming loans were deferred and amortized over 60 months in accordance with Article 15-5 of the Financial Institution Consolidation Law.