Cathay United Bank

Financial Statements

For The Three-Month Periods Ended

March 31, 2006 and 2007

With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of March 31, 2006 and 2007, and the related statements of income and cash flows for the three-month periods ended March 31, 2006 and 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

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

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

As discussed in Notes I and XI to the financial statements, the Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization, and the financial statements of the Bank have been retroactively restated assuming the Bank and Lucky Bank had been merged at the beginning of each of the periods presented.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
April 20, 2007

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

March 31, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2006 (Restated)		March 31, 2007	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$23,464,717	$723,773	$27,476,448	$832,367
Due from the Central Bank and call loans to banks	IV and V	46,931,076	1,447,596	46,517,120	1,409,183
Financial assets at fair value through profit or loss	II, III and IV	55,141,655	1,700,853	55,770,037	1,689,489
Securities purchased under agreements to resell		2,387,631	73,647	126,000	3,817
Available-for-sale financial assets, net	II, III and IV	51,977,060	1,603,241	55,322,764	1,675,940
Receivables, net	II, IV and V	58,261,000	1,797,070	45,667,795	1,383,453
Discounts and loans, net	II, IV and V	682,162,639	21,041,414	724,908,281	21,960,263
Held-to-maturity financial assets, net	II, III and IV	6,540,298	201,737	5,214,726	157,974
Investments accounted for using equity method, net	II, IV and V	4,496,478	138,694	2,350,127	71,195
Premises and equipment, net	II, IV, V and VII	26,164,991	807,063	25,582,991	775,007
Investments in debt securities with no active market, ne	II and IV	227,798,225	7,026,472	279,386,743	8,463,700
Other financial assets, net	II and IV	4,892,303	150,904	4,487,767	135,952
Other assets, net	II, IV and V	7,485,915	230,904	10,449,291	316,549
TOTAL ASSETS		$1,197,703,988	$36,943,368	$1,283,260,090	$38,874,889

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets (continued)

March 31, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

(Reviewed, not audited)

		March 31, 2006 (Restated)		March 31, 2007	
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$82,797,526	$2,553,903	$102,287,668	$3,098,687
Payables	IV and V	18,430,060	568,478	23,030,409	697,680
Deposits and remittances	IV and V	902,268,048	27,830,600	982,101,540	29,751,637
Financial liabilities at fair value through profit or loss	II, III and IV	52,093,394	1,606,829	55,107,868	1,669,430
Securities sold under agreements to repurchase	IV and V	36,229,930	1,117,518	20,453,722	619,622
Funds borrowed from the Central Bank and other banks		812,500	25,062	827,250	25,061
Financial debentures payable	III, IV and X	17,859,078	550,866	18,335,868	555,464
Other financial liabilities	II and IV	1,009,212	31,129	798,189	24,180
Other liabilities	II, IV and V	1,981,540	61,121	1,777,605	53,850
TOTAL LIABILITIES		1,113,481,288	34,345,506	1,204,720,119	36,495,611
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,501,832	48,689,413	1,474,990
Capital reserves	IV	14,966,745	461,652	15,213,565	460,877
Retained earnings	IV				
Legal reserve		14,115,413	435,392	15,271,236	462,624
Undistributed earnings (Deficit to be compensated)		6,050,018	186,614	(1,581,524)	(47,910)
Foreign currency translation adjustment	II	58,172	1,794	111,710	3,384
Unrealized gains or losses on financial instruments	II	342,939	10,578	835,571	25,313
TOTAL SHAREHOLDERS' EQUITY		84,222,700	2,597,862	78,539,971	2,379,278
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,197,703,988	$36,943,368	$1,283,260,090	$38,874,889

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Statements of income

For the three-month periods ended March 31, 2006 (Restated) and 2007

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

(Reviewed, not audited)

ITEMS	NOTES	January 1 - March 31, 2006 (Restated) NT	January 1 - March 31, 2006 (Restated) US (Note II)	January 1 - March 31, 2007 NT	January 1 - March 31, 2007 US (Note II)
INTEREST INCOME	II and V	$10,647,034	$328,410	$9,741,959	$295,122
INTEREST EXPENSE	V	(3,815,088)	(117,677)	(4,792,844)	(145,194)
NET INTEREST INCOME		6,831,946	210,733	4,949,115	149,928
NONINTEREST INCOME					
Net fee income	II and V	1,106,475	34,129	1,022,949	30,989
Gains on financial assets and liabilities at fair value through profit or loss	II	108,482	3,346	283,964	8,602
Realized gains on available-for-sale financial assets	II	74,233	2,290	27,116	821
Realized gains (losses) on held-to-maturity financial assets	II	671	21	(135)	(4)
Investment income recognized by the equity method	II	69,452	2,142	106,578	3,229
Loss from disposal of investment recognized by the equity method	II and V	(28,179)	(869)	-	-
Foreign exchange gains, net	II	140,490	4,333	230,127	6,971
Impairment reversal (loss) of assets	II	(13,336)	(411)	22,339	677
Reversal of impairment loss on foreclosed properties		196,207	6,052	-	-
Loss on disposal of foreclosed properties		(60,769)	(1,874)	-	-
Others	V	9,960	307	70,691	2,142
NET NONINTEREST INCOME		1,603,686	49,466	1,763,629	53,427
NET OPERATING INCOME		8,435,632	260,199	6,712,744	203,355
PROVISION FOR LOAN LOSSES	II and IV	(2,885,111)	(88,992)	(912,822)	(27,653)
OPERATING EXPENSES					
Personnel	II and IV	(1,490,564)	(45,977)	(1,475,510)	(44,699)
Depreciation and amortization	II and IV	(318,832)	(9,834)	(346,080)	(10,484)
Other general and administrative expenses	V	(1,381,177)	(42,603)	(1,208,989)	(36,625)
TOTAL OPERATING EXPENSES		(3,190,573)	(98,414)	(3,030,579)	(91,808)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		2,359,948	72,793	2,769,343	83,894
INCOME TAX EXPENSE	II and IV	(834,336)	(25,735)	(562,000)	(17,025)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		1,525,612	47,058	2,207,343	66,869
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	726,679	22,414	-	-
NET INCOME		$2,252,291	$69,472	$2,207,343	$66,869
BASIC EARNINGS PER SHARE (IN DOLLARS)	II and IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$0.31	$0.009	$0.45	$0.014
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		0.15	0.005	-	-
NET INCOME		$0.46	$0.014	$0.45	$0.014

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank
Statements of cash flows
For the three-month periods ended March 31, 2006 (Restated) and 2007
(Expressed in thousands of dollars)
(Reviewed, not audited)

ITEMS	NOTES	January 1-March 31, 2006 (Restated) NT	January 1-March 31, 2006 (Restated) US (Note II)	January 1-March 31, 2007 NT	January 1-March 31, 2007 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$2,252,291	$69,472	$2,207,343	$66,869
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	318,832	9,834	346,080	10,484
Investment income recognized by the equity method exceeded the cash dividends received	II	(69,452)	(2,142)	(106,578)	(3,229)
Loss on disposal of investments accounted for using equity method	II	28,179	869	-	-
Provisions (reversal) for impairment loss on foreclosed properties	II	(196,207)	(6,052)	12,768	387
Provisions for loan losses	II and IV	2,885,111	88,992	912,822	27,653
Loss on disposal of premises, equipment and foreclosed properties	II	63,368	1,955	46	1
Provisions (reversal) for impairment loss of assets	II	13,336	411	(22,339)	(677)
Effects of exchange rate changes		3,659	113	(13,535)	(410)
Cumulative effect of changes in accounting principles	II and III	(726,679)	(22,414)	-	-
Decrease in receivables		3,963,689	122,260	3,027,862	91,726
Decrease in deferred income tax assets		676,203	20,858	324,468	9,830
Increase (decrease) in financial assets at fair value through profit or loss		(5,526,240)	(170,458)	1,276,225	38,662
Increase in other assets		(254,473)	(7,849)	(13,391)	(406)
Decrease in payables		(9,027,520)	(278,455)	(1,259,402)	(38,152)
Increase (decrease) in financial liabilities at fair value through profit or loss		2,822,566	87,062	(288,832)	(8,750)
Increase in tax payables		806,312	24,871	62,010	1,879
Decrease in tax payables		(373,596)	(11,524)	(239,444)	(7,254)
Net cash provided by (used in) operating activities		(2,340,621)	(72,197)	6,226,103	188,613
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(6,737,767)	(207,827)	(12,921,421)	(391,440)
Decrease in due from the Central Bank and call loans to banks		5,487,003	169,247	4,754,429	144,030
(Increase) decrease in securities purchased under agreements to resell		(1,195,379)	(36,872)	1,660,058	50,290
Increase in available-for-sale financial assets		(9,477,402)	(292,332)	(671,075)	(20,329)
Decrease in held-to-maturity financial assets		1,810,139	55,834	421,584	12,771
Proceeds from investments accounted for using equity method		768,217	23,696	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		100,807	3,109	835	25
Acquisition of premises, equipment and foreclosed properties		(55,110)	(1,700)	(751,638)	(22,770)
Increase in investments in debt securities with no active market		(31,940,944)	(985,223)	(21,559,605)	(653,123)
(Increase) decrease in other financial assets		(270,641)	(8,348)	5,164	156
(Increase) decrease in other assets		(116,957)	(3,607)	216,019	6,544
Net cash used in investing activities		(41,628,034)	(1,284,023)	(28,845,650)	(873,846)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase in due to the Central Bank and call loans from banks		11,405,035	351,790	2,285,314	69,231
Increase (decrease) in securities sold under agreements to repurchase		2,364,995	72,949	(3,208,018)	(97,183)
Increase in deposits and remittances		20,396,677	629,139	16,514,760	500,296
Increase (decrease) in banker's acceptances and funds borrowed		(8,000)	(247)	11,000	333
Increase (decrease) in financial debentures payable		(785,156)	(24,218)	200,050	6,060
Increase (decrease) in other financial liabilities		(12,368)	(382)	22,467	680
Increase (decrease) in other liabilities		(14,749)	(455)	27,099	821
Cash dividends paid		(80)	(2)	-	-
Net cash provided by financing activities		33,346,354	1,028,574	15,852,672	480,238
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(31,804)	(981)	44,496	1,348
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,654,105)	(328,627)	(6,722,379)	(203,647)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		34,118,822	1,052,400	34,198,827	1,036,014
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$23,464,717	$723,773	$27,476,448	$832,367
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expenses paid		$3,514,789	$108,414	$4,247,091	$128,661
Income tax paid		$146,923	$4,532	$-	$-
PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES：					
Dividends payable		$-	$-	$-	$-
Add：Payable at beginning of the period		15,351	473	-	-
Less：Payable at ending of the period		(15,271)	(471)	-	-
Payment		$80	$2	$-	$-

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Notes to financial statements

For the three-month periods ended March 31, 2006 (restated) and 2007

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

(Reviewed, not audited)

I. Business

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

The Bank has been approved to conduct business in the following areas：

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

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

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

To integrate resource, enhance operating effectiveness, strengthen capital structure, and meet the needs of long-term development, the board meeting on behalf of the Bank's shareholders resolved on August 25, 2006 to merge with Lucky Bank. Under this merger, the Bank acquired the assets and liabilities of Lucky Bank through a share swap at ratio of 1 share of Lucky Bank to exchange for 0.7212 shares of the Bank, on which the Bank was the surviving entity and Lucky Bank was the merged Bank. The authority approved this merger on October 26, 2006. The merger date was January 1, 2007. Please refer to Note XI for details.

As of March 31, 2006 and 2007, the Bank employed 4,909 and 5,281 employees, respectively.

II. Summary of significant accounting policies

The financial statements were prepared in conformity with the "Business Accounting Law", the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

The significant accounting policies are summarized as follows:

In accordance with Statement of Financial Accounting Standards ("SFAS") Interpretation No.(95) 114 issued by the Accounting Research and Development Foundation of the R.O.C regarding the relevant accounting treatment for the reorganization of jointly controlled subsidiaries, the assets and liabilities of Lucky Bank will be included into the Bank's financial statements based on the book value and adjust asset impairment, if any, of related assets or liabilities at the date of the merger. Also in accordance with SFAS Interpretation No.(95) 141, the financial statements of the Bank should be retroactively restated assuming both entities had been merged at the beginning of each of periods presented.

1. Basis of presentation

   The accompanying financial statements include the accounts of the head office, domestic and foreign branches. All significant inter-branch and inter-office accounts and transactions have been eliminated.

2. Foreign-currency transaction and translation

   Foreign-currency transactions of the head office and domestic branches are recorded of each entity based on the functional currency in which they are transacted. At the end of each month, foreign currencies denominated assets and liabilities are converted into New Taiwan dollars ("NT dollars" or "NT$") at the applicable exchange rates as at the balance sheet date. Foreign currency income and expenses are converted into NT dollars at the exchange rates in effect as at the time of each transaction. The resulting realized gains or losses are included in income.

   Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined .When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

Assets and liabilities of foreign branches, which are denominated in their respective foreign currencies, are converted into NT dollars using the method described in the preceding paragraph. Foreign currency denominated income and expenses of such branches are translated at the applicable exchange rate of the last day in every month. Gains or losses resulted from the translation are treated as "foreign currency translation adjustment" in the shareholders' equity.

The effect of difference in exchange rates for equity securities accounted for by the equity method is recorded as "foreign currency translation adjustment" in the shareholders' equity.

3. Financial assets and financial liabilities

Starting from January 1, 2006, the Bank adopted the SFAS No. 34 and "Regulations Governing the Preparation of Financial Reports by Public Banks" to classify its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, debt securities without active market, available-for-sale financial assets or financial assets carried at cost, where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging or financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Some regular way purchases and sales of financial assets, such as stocks and mutual funds, are recognized on the trade date (i.e. the date that the Bank commits to purchase or sell the asset) and others are recognized on the settlement date.

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

Financial assets or liabilities held for trading and designated by the Bank at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. Subsequently, these investments are reviewed on a monthly basis and changes in fair value are recognized in income.

(2) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through the amortization process. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

(3) Investments in debt securities with no active market

Debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at cost using the effective interest method. Gains and losses are recognized when these investments are derecognized or impaired, as well as through the amortization process.

(4) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories.

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income.

However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effect interest method as interest income or expense over the relevant periods.

(5) Financial assets carried at cost

Investments in equity instruments without quoted market price and derivative instruments linked to or settled by delivery of such unquoted equity investments shall be measured at cost.

(6) Financial liabilities

After initial recognition, the Bank shall measure all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging. Such liabilities shall be measured at fair value.

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares, the net asset value for open-ended funds, and the quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

4. Derivative financial instruments

The Bank enters into various derivative contracts, including forward currency contracts, cross-currency swaps, options, futures and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation removed for the period.

5. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in which the transferor surrenders control over those financial assets, and shall be accounted for as a sale.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Bank accounted for the transfer as a borrowing with collateral.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in income.

6. Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

If there is an objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statements, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a instrument with similar characteristics. Such impairment losses shall not be reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in income, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in income.

7. Hedge accounting

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

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

(2) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction;

(3) Hedges of net investments in foreign operations.

A hedge of interest risk of the Bank's subordinated financial debentures is accounted for as a fair value hedge.

The Bank formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of the hedged items. The Bank assesses on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:
For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains or losses from both are taken to income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

The Bank discontinues hedge accounting when it is determined a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value in earnings after termination of the hedging relationship.

8. Allowances for doubtful accounts

Allowance for doubtful accounts on receivables, bills and loans are provided based on the results of review of the collectibility of accounts balances and the guidelines issued by the relevant regulations. When receivables are considered uncollectible, a write-off should be made after approved by the Bank's Board of Directors.

9. Investment accounted for using equity method

Investments in other companies with voting rights of at least 20%, or less than 20% but the Bank and related parties in the aggregate hold more than 20% of the common stock and have significant influence over the investee are accounted for under the equity method. The difference between the acquisitions cost and the Company's share of net assets of the associate is amortized in 5 years. However, effective from January 1, 2006, if such a difference is goodwill, then it is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level.

If the sum of the amounts assigned to assets acquired and liabilities assumed exceeds the cost of the acquired entity (excess over cost). That excess shall be allocated as a pro rata reduction of the amounts that otherwise world have been assigned to all of the non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

Gain or loss on disposal of long-term equity investment is calculated based on the difference between selling price and carrying amount. Capital surplus arising from long-term equity investment is proportionately recycled to profit or loss.

10. Premises and equipment

(1) Premises and equipment are stated at cost less accumulated depreciation or amortization. Improvements, additions, and major renewals that extend the life of an asset are capitalized while repairs and maintenance are expensed as incurred; relevant promulgated principle should be applied if impairment been found, upon disposal of premises and equipment, the related cost, accumulated depreciation and accumulated impairment loss are removed from the account. Any gains or losses thereafter are charged to current income.

(2) Depreciation is provided by the straight-line method over the following estimated useful lives:

Building	5～60	years
Furniture and fixtures	3～ 6	years
Transportation equipment	3～ 6	years
Miscellaneous equipment	3～ 5	years

When an impairment loss has been recognized, the depreciation of a specified asset should be recalculated base on the adjusted value over the estimated useful lives.

The residual value of a property that is still in use at the end of the original service life is depreciated using the straight-line method over its newly estimated service life.

11. Deferred charges

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

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

12. Foreclosed properties

Foreclosed properties represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date. If there is an objective evidence of impairment, the impairment loss shall be recognized.

13. Asset impairment

The Bank assesses impairment for all its assets within the scope of ROC SFAS No.35 if impairment indicators were found. The Bank shall compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of net fair values or usage value.

For recognized impairment losses, the Bank shall assess, at each balance sheet date, whether there is any evidence shows that it may no longer exist or decreased. If such evidence been found, the Bank shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank shall reverse the recognized impairment loss to the extent the carrying amount as if no impairment loss had been recognized to against the assets.

Impairment loss (reversal) is charged to current income.

14. Reserves for possible losses on guarantees

Reserves for possible losses on guarantees are provided at the maximum limit allowed by the relevant laws and regulations pertaining to guarantees provided for customs duties, commodity taxes and contracts performance obligations.

15. Reserves for losses on trading securities

Pursuant to the "Regulations Governing Securities Firms", a reserve for possible losses on trading securities is provided based on 10% of the gain derived from trading securities each month until such reserve has reached the amount of NT$200 million. The reserve cannot be used for other purposes except to offset trading losses.

16. Pension plans

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

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

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

17. Recognition of interest income and service fees

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

Service fees are recognized on an accrual basis.

18. Recognition of dividend

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

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

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

19. Income tax

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

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

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

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

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

20. Contingencies

A loss is recognized if it is probable that an asset will be impaired or a liability may be incurred and the amount of loss can be reasonably estimated. If the amount of loss cannot be reasonably estimated and the loss is possible, the obligation is disclosed as contingent liabilities in the footnotes to the financial statements.

21. The interim financial statement

The Bank's interim financial statements are prepared according to the ROC SFAS No.23, "Interim Financial Report and Disclosures".

22. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the March 31, 2006 and 2007 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT$32.42 and NT$33.01 to US$1.00 on March 31, 2006 and 2007, respectively, as provided by the Federal Reserve Bank of New York. Such translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. The Bank adopted the ROC SFAS No. 34, "Accounting for Financial Instruments" ("SFAS No.34") and No. 36, "Disclosure and Presentation of Financial Instruments" ("SFAS No.36") to account for the financial instruments for its financial statements beginning on and after January 1, 2006 (the "effective date"). Transitional arrangement for financial instruments outstanding at the effective date is summarized as follows:

   At the effective date, the Bank shall remeasure and reclassify financial assets and liabilities (including derivative instruments) that should be measured at fair value or amortized cost as appropriate according to SFAS No. 34. Any resulting adjustment shall be recognized as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

   (1) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss and derivatives designated as fair value hedges.

   (2) A component of equity: for financial assets carried at amortized cost and available-for-sale financial assets.

Non-monetary financial assets carried at cost shall be re-translated using a historical rate. Previously recognized foreign currency translation adjustments shall be offset against long-term investment account.

The effect of adopting the SFAS No.34 and No.36 is summarized as follows:

	Recognized as cumulative effect of change in accounting principles (Net of tax)		Recognized as a separate component of shareholders' equity (Net of tax)	
	NT	US	NT	US
Financial assets at fair value through profit or loss	$295,034	$9,100	$-	$-
Available-for-sale financial assets	-	-	355,156	10,955
Financial liabilities at fair value through profit or loss	449,790	13,874	-	-
Derivative financial liabilities for hedging	(18,145)	(560)	-	-
Total	$726,679	$22,414	$355,156	$10,955

The adoption of the SFAS No.34 and No.36 increased net income before cumulative effect of changes in accounting principles of NT$726,679 (US$22,414) and increased after income tax earnings per share of NT$0.15 (US$0.005) for the three-month periods ended March 31, 2006.

2. The Bank adopted the ROC SFAS No.1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No. 5, "Long-term Investments under Equity Method" ("SFAS No.5") and No. 25, "Business Combinations – Accounting Treatment under Purchase Method" to account for the difference between the acquisitions cost and the Bank's share of net assets of the associate for its financial statements beginning on and after January 1, 2006 (the "effective date"). Goodwill is not amortized, but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The above changes in accounting principles did not affect the Bank's net income and earnings per share after tax for the three-month periods ended March 31, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Cash on hand	$11,112,600	$342,770	$10,243,224	$310,307
Checks for clearance	4,561,537	140,701	10,432,288	316,034
Due from commercial banks	7,790,580	240,302	6,800,936	206,026
Total	$23,464,717	$723,773	$27,476,448	$832,367

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Call loans to banks	$13,986,328	$431,410	$3,895,886	$118,022
Banks overdraft	98,900	3,051	-	-
Due from the Central Bank				
General deposits	32,845,848	1,013,135	42,621,234	1,291,161
Total	$46,931,076	$1,447,596	$46,517,120	$1,409,183

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT$25,645,342 (US$791,035) and NT$26,820,422 (US$812,494) as of March 31, 2006 and 2007, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These reserves may be withdrawn momentarily and without interest. As of March 31, 2006 and 2007, the balance of foreign-currency deposit reserves were NT$45,500 (US$1,403) and NT$66,180 (US$2,005), respectively.

3. Financial assets at fair value through profit or loss

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$1,900,822	$58,631	$4,831,277	$146,358
Mutual funds and beneficiary securities	1,385,198	42,727	1,349,766	40,889
Commercial papers and certificates of deposit	12,982,015	400,432	14,918,969	451,953
Bonds	31,715,249	978,262	25,769,386	780,654
Overseas financial instruments	1,357,696	41,878	2,323,629	70,392
Derivative financial instruments	1,558,188	48,063	5,878,945	178,096
Subtotal	50,899,168	1,569,993	55,071,972	1,668,342
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	1,892,900	58,387	575,370	17,430
Bonds	2,349,587	72,473	122,695	3,717
Subtotal	4,242,487	130,860	698,065	21,147
Total	$55,141,655	$1,700,853	$55,770,037	$1,689,489

(1) NT$2,349,587 (US$72,473) and NT$122,695 (US$3,717) of the financial assets at fair value through profit or loss as of March 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2006, certain of the financial assets was sold under repurchase agreements with notional amounts of NT$14,084,500 (US$434,439). Such repurchase agreements amounting to NT$14,266,713 (US$440,059) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2006 was settled at NT$14,280,065 (US$440,471) prior to September 30, 2006.

As of March 31, 2007, certain of the financial assets was sold under repurchase agreements with notional amounts of NT$9,646,200 (US$292,221). Such repurchase agreements amounting to NT$9,613,146 (US$291,219) was posted to the “Securities sold under agreements to repurchase” account on the Bank’s balance sheets. Repurchase agreements entered prior to March 31, 2007 was settled at NT$9,623,409 (US$291,530) prior to May 31, 2007.

(3) As of March 31, 2006 and 2007, the contract amount (initial and subsequent measurements are classified under financial assets/liabilities at fair value through profit or loss or other financial liabilities) of derivative financial instruments (including hedging transactions) are summarized as follows (in thousands of US dollars):

	March 31,	
	2006 (Restated)	2007
Forward foreign exchange contracts	$3,883,626	$10,685,691
Interest rate swap contracts	6,060,338	19,028,567
Cross-currency swap contracts	586,708	519,794
Options	423,936	54,691
Futures	21,756	7,000
Credit default swap contracts	225,000	225,000

(4) The financial assets at fair value through profit or loss for the three-month periods ended March 31, 2006 and 2007 were net loss NT$217,707 (US$6,715) and net gain NT$5,920,118 (US$179,343), respectively.

4. Available-for-sale financial assets, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Stocks	$3,448,925	$106,383	$6,452,146	$195,460
Mutual funds and beneficiary securities	83,453	2,574	125,486	3,802
Bonds	47,640,500	1,469,479	47,838,121	1,449,201
Overseas financial instruments	804,182	24,805	907,011	27,477
Total	$51,977,060	$1,603,241	$55,322,764	$1,675,940

(1) NT$302,829 (US$9,341) and NT$992,436 (US$30,065) of the available-for-sale financial assets as of March 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of March 31, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$19,989,900 (US$616,592). Such repurchase agreements amounting to NT$21,963,217 (US$677,459) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2006 was settled at NT$22,012,443 (US$678,977) prior to September 30, 2006.

As of March 31, 2007, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$9,998,800 (US$302,902). Such repurchase agreements amounting to NT$10,840,576 (US$328,403) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to March 31, 2007 was settled at NT$10,871,068 (US$329,327) prior to September 30, 2007.

5. Receivables, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Accounts receivable	$50,906,241	$1,570,211	$38,009,112	$1,151,442
Interest receivable	3,983,437	122,870	4,574,640	138,583
Receivable to related party for allocation of linked-tax system	1,157,000	35,688	868,302	26,304
Foreign currency receivable	94,891	2,927	1,916,877	58,069
Acceptances	491,166	15,150	682,932	20,689
Tax refundable	957,977	29,549	747,465	22,644
Others	1,761,728	54,341	1,310,487	39,700
Total	59,352,440	1,830,736	48,109,815	1,457,431
Less: allowance for doubtful accounts	(1,091,440)	(33,666)	(2,442,020)	(73,978)
Net balance	$58,261,000	$1,797,070	$45,667,795	$1,383,453

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

	January 1-March 31, 2006 (Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$837,652	$25,838	$267,369	$8,247	$1,105,021	$34,085
Provision of doubtful accounts	3,079,682	94,993	-	-	3,079,682	94,993
Write-offs	(3,150,484)	(97,177)	-	-	(3,150,484)	(97,177)
Recoveries	57,555	1,775	-	-	57,555	1,775
Reclassifications	(8,097)	(250)	8,097	250	-	-
Effects of exchange rates change	-	-	(334)	(10)	(334)	(10)
Balance, end of the period	$816,308	$25,179	$275,132	$8,487	$1,091,440	$33,666

	January 1-March 31, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$1,942,613	$58,849	$118,144	$3,579	$2,060,757	$62,428
Provision of doubtful accounts	1,308,799	39,649	-	-	1,308,799	39,649
Write-offs	(1,112,242)	(33,694)	-	-	(1,112,242)	(33,694)
Recoveries	184,525	5,590	-	-	184,525	5,590
Reclassifications	9,490	287	(9,490)	(287)	-	-
Effects of exchange rates change	-	-	181	5	181	5
Balance, end of the period	$2,333,185	$70,681	$108,835	$3,297	$2,442,020	$73,978

The Bank's financial statements include doubtful account of receivables based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in operating of financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals may cause the amounts of actual losses to differ from those presently determined or estimated.

6. Discounts and loans, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Outward documentary bills	$838,339	$25,859	$870,975	$26,385
Overdrafts	587,854	18,133	557,881	16,901
Short –term loans	154,967,646	4,780,001	176,433,169	5,344,840
Medium-term loans	227,488,938	7,016,932	210,454,771	6,375,485
Long-term loans	302,415,855	9,328,065	342,240,559	10,367,784
Delinquent accounts	9,420,649	290,581	8,670,696	262,669
Total	695,719,281	21,459,571	739,228,051	22,394,064
Less: allowance for doubtful accounts	(13,556,642)	(418,157)	(14,319,770)	(433,801)
Net balance	$682,162,639	$21,041,414	$724,908,281	$21,960,263

(1) As of March 31, 2006 and 2007, the accounts without interest accrued were NT$10,875,125 (US$335,445) and NT$11,646,831 (US$352,827), respectively. The non-accrued interest on such accounts amounted to NT$70,258 (US$2,167) and NT$91,010 (US$2,757) for the three-month periods ended March 31, 2006 and 2007, respectively.

(2) For the three-month periods ended March 31, 2006 and 2007, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.

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

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

	January 1- March 31, 2006 (Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,549,440	$140,328	$11,730,042	$361,815	$16,279,482	$502,143
Reversal of doubtful accounts	(194,571)	(6,001)	-	-	(194,571)	(6,001)
Write-offs	(4,378,254)	(135,048)	-	-	(4,378,254)	(135,048)
Recoveries	1,851,260	57,102	-	-	1,851,260	57,102
Reclassifications	2,671,442	82,401	(2,671,442)	(82,401)	-	-
Effects of exchange rates changes	-	-	(1,275)	(39)	(1,275)	(39)
Balance, end of the period	$4,499,317	$138,782	$9,057,325	$279,375	$13,556,642	$418,157

	January 1- March 31, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,121,934	$94,575	$13,398,234	$405,884	$16,520,168	$500,459
Provision of doubtful accounts	(395,977)	(11,996)	-	-	(395,977)	(11,996)
Write-offs	(3,224,562)	(97,684)	-	-	(3,224,562)	(97,684)
Recoveries	1,418,260	42,965	-	-	1,418,260	42,965
Reclassifications	1,820,981	55,164	(1,820,981)	(55,164)	-	-
Effects of exchange rates change	-	-	1,881	57	1,881	57
Balance, end of the period	$2,740,636	$83,024	$11,579,134	$350,777	$14,319,770	$433,801

The Bank's financial statements include provision for possible credit losses and guarantee losses based on information available to the Bank, including defaults to the extent they can be determined or estimated. Changes in operating or financial performance of customers and general economic conditions of the market may have an impact on the debtor's ability to repay their loans and uncertainty related to the future realizable value of collaterals may cause the amounts of actual losses to differ from those presently determined or estimated.

7. Held-to-maturity financial assets, net

	March 31, 2006 (Restated)			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,683,800	$113,627	$3,973,536	$122,565
Overseas financial instruments	2,568,749	79,234	2,568,771	79,234
Subtotal	6,252,549	192,861	6,542,307	201,799
Less: accumulated impairment	-	-	(2,009)	(62)
Net balance	$6,252,549	$192,861	$6,540,298	$201,737

	March 31, 2007			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,562,800	$107,931	$3,787,182	$114,728
Overseas financial instruments	1,433,638	43,430	1,429,589	43,308
Subtotal	4,996,438	151,361	5,216,771	158,036
Less: accumulated impairment	-	-	(2,045)	(62)
Net balance	$4,996,438	$151,361	$5,214,726	$157,974

As of March 31, 2006 and 2007, NT$58,377 (US$1,801) and NT$1,542,537 (US$46,729) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

8. Investments accounted for using equity method, net

	March 31, 2006 (Restated)				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$54,516	$1,681	100.00	$1,669	$51
Cathay Life Insurance Agent Co., Ltd	144,148	4,446	100.00	20,521	633
Cathay Property Insurance Agent Co., Ltd.	11,957	369	100.00	1,183	36
Indovina Bank	500,179	15,428	50.00	22,675	699
Taiwan Real-estate Management Corp.	16,951	523	30.15	1,217	38
Taiwan Finance Corp.	1,411,836	43,548	24.57	20,668	638
Vista Technology Venture Capital Corp.	8,157	252	4.76	-	-
Cathay Venture Capital Corp.	29,978	925	2.00	-	-
Seaward leasing Ltd.	2,269,445	70,001	100.00	910	28
Pao Shin Securities Co.	107,055	3,302	38.35	609	19
Subtotal	4,554,222	140,475		$69,452	$2,142
Less: unrealized gain from inter-company transactions	(57,744)	(1,781)			
Net balance	$4,496,478	$138,694			

	March 31, 2007				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$40,458	$1,226	100.00	$360	$11
Cathay Life Insurance Agent Co., Ltd	97,572	2,956	100.00	5,281	160
Cathay Property Insurance Agent Co., Ltd.	9,307	282	100.00	127	4
Indovina Bank	736,747	22,319	50.00	71,842	2,176
Taiwan Real-estate Management Corp.	33,587	1,017	30.15	14,212	431
Taiwan Finance Corp.	1,388,622	42,067	24.57	15,972	484
Vista Technology Venture Capital Corp.	7,538	228	4.76	(1,096)	(33)
Cathay Venture Capital Corp.	36,296	1,100	2.00	(120)	(4)
Total	$2,350,127	$71,195		$106,578	$3,229

(1) The equity method of accounting was applied to Cathay Venture Capital Corp. and Vista Technology Venture Capital Corp. due to the fact that the Bank and its related parties held more than 20% of such companies' common shares.

(2) The Bank sold all its shareholding of Cathay Futures Corp. and Seaward Leasing Ltd. to Cathay Securities Co., Ltd. and Cathay Real Estate Development Co., Ltd., respectively. Please refer to Note V.2 (16) and (17) for details.

(3) Lucky Bank's board of directors resolved to dispose its totally shares of Pao Shin Securities Co., Ltd. on April 11, 2006. The selling price was NT$110,670 (US$3,414) and the gain from this transaction was NT$3,615 (US$112) classified as the "gain on disposal of investment accounted for using equity method" account.

(4) Certain of the above investments and related investment gains (losses) accounted for by the equity method as of and for the three-month periods ended March 31, 2006 and 2007 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Premises and equipment, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Cost:				
Land	$14,971,923	$461,811	$14,388,248	$435,875
Buildings	10,025,477	309,237	9,808,571	297,139
Office equipment	3,991,645	123,123	3,948,364	119,611
Transportation equipment	74,541	2,299	68,725	2,082
Other equipment	4,802,601	148,137	4,702,177	142,447
Construction in progress and prepayment for equipment	222,842	6,874	1,070,728	32,437
Subtotal	34,089,029	1,051,481	33,986,813	1,029,591
Accumulated depreciation:				
Buildings	(2,176,935)	(67,148)	(2,335,333)	(70,746)
Office equipment	(2,660,498)	(82,064)	(2,799,839)	(84,818)
Transportation equipment	(56,128)	(1,731)	(58,083)	(1,760)
Other equipment	(2,911,552)	(89,807)	(3,085,280)	(93,465)
Subtotal	(7,805,113)	(240,750)	(8,278,535)	(250,789)
Accumulated impairment	(118,925)	(3,668)	(125,287)	(3,795)
Net balance	$26,164,991	$807,063	$25,582,991	$775,007

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Preferred stocks	$549,730	$16,957	$549,730	$16,653
Certificates of deposit	181,980,000	5,613,202	218,335,000	6,614,208
Bonds	99,635	3,073	99,635	3,018
Overseas financial instruments	45,385,895	1,399,935	60,581,287	1,835,241
Subtotal	228,015,260	7,033,167	279,565,652	8,469,120
Less: accumulated impairment	(217,035)	(6,695)	(178,909)	(5,420)
Net balance	$227,798,225	$7,026,472	$279,386,743	$8,463,700

NT$14,600,000 (US$450,339) and NT$15,000,000 (US$454,408) of certificates of deposit as of March 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

11. Other financial assets, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Financial assets carried at cost, stocks	$4,786,821	$147,650	$4,482,565	$135,794
Bills purchased	5,482	169	5,202	158
Restricted financial assets	100,000	3,085	-	-
Total	$4,892,303	$150,904	$4,487,767	$135,952

Due to the recurring losses incurred by Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Chan Sheng Investment Development Co., Ltd., Strategic Value Fund, Limited Partnership, Waterland Securities Co., Ltd., Mondex Taiwan Inc., and Victor Taichung Machinery Works Co., Ltd., the Bank has recognized losses for these investees based on their net equity. The shareholders meeting of Waterland Securities Co., Ltd. held in 2006, resolved to decrease capital to offset accumulative deficit. The Bank recognized the impairment loss of assets.

Lucky Bank provide its certificates of deposit amounted to NT$100,000 (US$3,085) for remittances as of March 31, 2006.

12. Other assets, net

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Prepayment	$274,830	$8,477	$285,462	$8,648
Temporary payments	37,549	1,158	31,811	964
Interbank settlement fund	1,325,075	40,872	1,299,866	39,378
Non-operating assets, net	1,489,011	45,929	1,244,077	37,688
Refundable deposits, net	1,103,847	34,048	1,180,982	35,776
Foreclosed properties, net	657,010	20,266	1,336,819	40,497
Deferred tax assets, net	2,015,376	62,165	4,568,987	138,412
Deferred charges	542,890	16,745	436,537	13,224
Others	40,327	1,244	64,750	1,962
Total	$7,485,915	$230,904	$10,449,291	$316,549

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Due to the Central Bank	$189,427	$5,843	$186,748	$5,657
Due to commercial banks	1,951,691	60,200	1,441,365	43,664
Due to Post Co., Ltd.	32,774,864	1,010,946	27,562,790	834,983
Overdrafts from banks	97,022	2,993	379,477	11,496
Call loans from banks	47,784,522	1,473,921	72,717,288	2,202,887
Total	$82,797,526	$2,553,903	$102,287,668	$3,098,687

14. Payables

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Accounts payable	$6,463,003	$199,352	$13,037,616	$394,960
Accrued interest payable	3,838,943	118,413	4,595,369	139,211
Accrued expenses	1,926,478	59,423	1,524,093	46,171
Foreign currency payable	48,635	1,500	1,094,848	33,167
Payable to related party for allocation of linked-tax system	2,245,837	69,273	-	-
Acceptance	510,438	15,745	689,714	20,894
Income tax payable	978,063	30,168	221,721	6,717
Receipts under custody	412,001	12,708	566,865	17,173
Others	2,006,662	61,896	1,300,183	39,387
Total	$18,430,060	$568,478	$23,030,409	$697,680

15. Deposits and remittances

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Check deposits	$13,310,670	$410,570	$16,776,468	$508,224
Demand deposits	98,619,863	3,041,945	106,941,208	3,239,661
Demand savings deposits	316,087,085	9,749,756	360,144,791	10,910,172
Time deposits	210,505,599	6,493,078	237,040,186	7,180,860
Negotiable certificates of deposit	22,276,000	687,107	4,084,900	123,747
Time savings deposits	241,069,143	7,435,816	255,742,733	7,747,432
Outward remittances	309,999	9,562	682,704	20,682
Remittances payable	89,689	2,766	688,550	20,859
Total	$902,268,048	$27,830,600	$982,101,540	$29,751,637

16. Financial liabilities at fair value through profit or loss

	March 31,			
	2006 (Restated)		2007	
Financial liabilities for trading:	NT	US	NT	US
Derivative financial instruments	$2,337,892	$72,113	$5,869,233	$177,802
Bonds purchased under resale agreement-short sale	794,053	24,493	-	-
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	38,877,242	1,199,174	39,258,727	1,189,298
Subordinated financial debentures	10,084,207	311,049	9,979,908	302,330
Subtotal	48,961,449	1,510,223	49,238,635	1,491,628
Total	$52,093,394	$1,606,829	$55,107,868	$1,669,430

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

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

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

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

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

(2) The financial liabilities at fair value through profit or loss for the three-month periods ended March 31, 2006 and 2007, were net gain NT$326,189 (US$10,061) and net loss NT$5,636,154 (US$170,741), respectively.

17. Financial debentures payable

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Subordinated financial debentures	$18,600,000	$573,720	$18,895,000	$572,402
Discount in financial debentures	(112,451)	(3,469)	(105,300)	(3,190)
Valuation adjustment	(628,471)	(19,385)	(453,832)	(13,748)
Total	$17,859,078	$550,866	$18,335,868	$555,464

On April 28, 2003, the former Cathay United Bank issued a five-year subordinated financial debentures totaling NT$2,350,000 with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.

The Bank issued a 15-year US$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semiannually. The Bank can redeem the bond after 10 years by exercising the call option. As discussed in Note X.9, the Bank has adopted hedge accounting to account for its subordinated financial debentures.

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

18. Other financial liabilities

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Derivative financial liabilities for hedging	$694,201	$21,413	$486,029	$14,724
Borrowed funds	315,011	9,716	312,160	9,456
Total	$1,009,212	$31,129	$798,189	$24,180

As of March 31, 2006 and 2007, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value are NT$694,201 (US$21,413) and NT$486,029 (US$14,724), respectively. The Bank has recognized losses in hedging in the amount of NT$48,759 (US$1,504) and NT$1,187 (US$36) for the three-month periods ended March 31, 2006 and 2007, respectively.

19. Other liabilities

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Unearned receipts	$136,544	$4,211	$105,301	$3,190
Temporary receipts	702,929	21,682	734,285	22,244
Reserve for losses on guarantees	28,651	884	28,719	870
Reserve for losses on stock brokerage transactions	146,652	4,524	149,037	4,515
Guarantee deposits received	679,886	20,971	740,228	22,424
Reserve for land value increment tax	20,035	618	20,035	607
Others	266,843	8,231	-	-
Total	$1,981,540	$61,121	$1,777,605	$53,850

20. Capital Stock

As of January 1, 2006, the Bank had issued and outstanding capital stock of NT$46,420,518 (US$1,431,848) divided into 4,642,052 thousand common shares, with par value NT$10 per share.

On August 25, 2006, the Bank's board of directors on behalf of the shareholders resolved to have a merger with Lucky Bank by issuing 226,889 thousand common shares on January 1, 2007. After the merger, the issued and outstanding capital stock amounted to NT$48,689,413 (US$1,474,990) divided into 4,868,941 thousand common shares, with par value NT$10 per share. The above merger has been approved by the authority.

21. Capital reserves

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Capital reserves from the merger				
Bank	$10,702,396	$330,117	$10,949,303	$331,697
Additional paid-in capital	4,249,096	131,064	4,249,096	128,721
Others	15,253	471	15,166	459
Total	$14,966,745	$461,652	$15,213,565	$460,877

22. Retained earnings

(1) The Bank's articles of incorporation provide that its annual net income shall be appropriated and distributed in the following order:

(a) 30% thereof shall be set aside as legal reserve;
(b) special reserves;
(c) regular dividends; and
(d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

(2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the reserve may be transferred to capital stock.

(3) On April 27, 2006, the following are appropriations and distribution approved by the Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors).

(a) legal reserve of NT$ 1,155,823 (US$35,652);
(b) dividends to shareholders of NT$ 2,695,420 (US$83,141);
(c) bonus to employees of NT$1,500 (US$46).

Information relating to the appropriation of the Bank's earnings is available from the "Market Observation Post System" at the website of the TSE.

23. Pension

The Bank adopted the ROC SFAS No.18, "Accounting for Pensions", which requires actuarial determination of pension assets or obligations.

24. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the three-month periods ended March 31, 2006 and 2007.

	January 1- March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Personnel expenses				
Salary	$1,231,465	$37,985	$1,189,436	$36,033
Insurance	100,795	3,109	128,320	3,887
Pension	89,054	2,747	82,040	2,485
Others	69,250	2,136	75,714	2,294
Depreciation expenses	271,403	8,371	295,145	8,941
Amortization expenses	47,429	1,463	50,935	1,543

25. Income tax

Under a directive issued by the MOF, a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable. ROC SFAS No.22 remains applicable to the Bank.

(1) The reconciliation between income tax payable and income tax benefit (expenses) for the three-month periods ended March 31, 2006 and 2007 is as follows:

	January 1- March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$-	$-	$(78,217)	$(2,370)
Interest on separation tax (tax rate 20% or 6%)	(135,445)	(4,178)	(15,811)	(479)
Deferred tax benefits (expense):				
Reversal of allowance for bad debt	(692,492)	(21,360)	(458,753)	(13,898)
Allowance for pledged assets taken-over	(47,153)	(1,455)	3,192	97
Foreign investment income recognized by the equity method	9,316	287	6,857	208
Others	12,970	400	(20,113)	(609)
Valuation allowance	56,240	1,735	606,026	18,359
10% additional income tax on undistributed earnings	(783,181)	(24,157)	-	-
Operating loss carry-forward	456,528	14,082	(15,626)	(473)
Investment tax credits	1,472	45	688	21
Effect of foreign branches' income tax	-	-	(26,609)	(806)
Adjustment of prior period's income tax	426,634	13,160	(563,634)	(17,075)
Income tax expense	(695,111)	(21,441)	(562,000)	(17,025)
Income tax benefit from cumulative effect of changes in accounting principles	(139,225)	(4,294)	-	-
Income tax expense of continuing operations	$(834,336)	$(25,735)	$(562,000)	$(17,025)

Under the Tax Law, income tax was based on taxable income from all sources for the period. Foreign income tax paid with relative documents submitted could be used as income credit against domestic tax payable to the extent of domestic income tax applicable to the related foreign-source income.

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$762,803	$23,529	$3,869,276	$117,215
Others	86,976	2,683	147,975	4,483
Deductible temporary differences:				
Allowance for bad debts	7,273,869	224,364	9,257,174	280,435
Unrealized impairment loss for pledged assets taken-over	322,106	9,935	93,936	2,846
Unrealized gain from inter-company transactions	18,322	565	-	-
Pension expenses exceed the limit of tax law	226,227	6,978	177,064	5,364
Valuation of financial instruments	796,119	24,556	3,429,414	103,890
Provisions for possible losses	145,000	4,473	238,456	7,224
Others	483,339	14,909	842,078	25,510
Operating loss carry-forward (expiration year:2011)	$1,513,191	$46,675	$10,416,758	$315,564
Investment tax credit (expiration year:2010)	$-	$-	$688	$21
Deferred income tax assets of foreign branches	$58,844	$1,815	$52,426	$1,588

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
(3) Deferred tax assets	$2,753,387	$84,929	$6,166,834	$186,817
Deferred tax liabilities	(212,445)	(6,553)	(1,004,313)	(30,425)
Valuation allowance	(525,566)	(16,211)	(593,534)	(17,980)
Net deferred tax assets	$2,015,376	$62,165	$4,568,987	$138,412

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

(5) Lucky Bank’s income tax returns for the years prior to 2004 have been assessed by the tax authority.

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
The Bank's imputation credit	$288,893	$8,911	$484,805	$14,687
Undistributed earnings (Deficit to be compensated)	6,050,018	186,614	(1,581,524)	(47,910)

The following is the rate of tax credit available for dividends to the Bank's shareholders for the years 2005 and 2006:

	2005	2006
Cash dividends	13.98%	-

26. Earnings per share

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

	January 1 – March 31,	
	2006 (Restated)	2007
	In thousands of shares	
Weighted-average shares outstanding	4,868,941	4,868,941

	January 1 – March 31							
	2006 (Restated)				2007			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Income from continuing operations	$2,359,948	$72,793	$1,525,612	$47,058	$2,769,343	$83,894	$2,207,343	$66,869
Cumulative effect changes in accounting principles	587,454	18,120	726,679	22,414	-	-	-	-
Net income	$2,947,402	$90,913	$2,252,291	$69,472	$2,769,343	$83,894	$2,207,343	$66,869
Earnings per share (in dollars)								
Income from continuing operations	$0.49	$0.015	$0.31	$0.009	$0.57	$0.017	$0.45	$0.014
Cumulative effect changes in accounting principles	0.12	0.004	0.15	0.005	-	-	-	-
Net income	$0.61	$0.019	$0.46	$0.014	$0.57	$0.017	$0.45	$0.014

(2) According to the regulations issued by the Securities and Futures Bureau, the Bank should calculate estimate earnings per share for the current year assuming that the dividends would be appropriated to employees, directors and supervisors, as follows:

	2005
A. Distribution:	
Employees' bonus and contribution to welfare fund	$1,500
Directors and supervisors' remunerations	$-
B. Estimated earnings per share (in dollars) (Note)	$0.83

Note: The formula for calculating estimated earnings per share is as follows:

$$\text{Estimated earnings per share} = \frac{\text{Net income – employees' bonus and contribution to welfare fund – directors' and supervisors' remunerations}}{\text{Weighted-averaged number of common shares outstanding}}$$

V. Related parties transactions

1. Name and relationships of related parties are as follows:

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiaries of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay II Venture Capital Corp.	〃
Cathay Capital Management Inc.	〃
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Cathay Pacific Partners Co., Ltd.	〃
Cathay Securities Investment Co., Ltd.	〃
Cathay Securities Trust Co., Ltd.	〃
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Trust Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Lin Yuan Property Management and Maintenance Co., Ltd.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance Co., Ltd. (Shanghai)	〃
Cathay General Hospital	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃

Name of related parties	Relationship
Cathay Futures Corp.	Affiliate (former investee by the equity method of the Bank disposed in February, 2006)
Seaward Leasing Ltd.	Affiliate (former investee by the equity method of the Bank disposed in June , 2006)
Cathay Life Charity Foundation	Affiliate is the major sponsor of the foundation
Pao Shin Securities Co.	Former subsidiary of Lucky Bank disposed in April, 2006
Taiwan Real-estate Management Corp.	The investee is accounted for using the equity method
Taiwan Finance Corp.	〃
Seaward Card Co., Ltd.	〃
Indovina Bank	〃
Cathay Life Insurance Agent Co., Ltd.	〃
Cathay Property Insurance Agent Co., Ltd.	〃
Cathay Venture Capital Corp.	〃
Vista Technology Venture Capital Corp.	〃
Taipei Smart Card Corp. and etc.	The Bank is the director of such organizations
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Lin Yuan Investment Co., Ltd.	Major shareholder of parent company
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the parent company's chairman.
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager and etc.

2. Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

	March 31, Account balance			January 1- March 31, Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2006 (Restated)					
Loans					
Seaward Leasing Ltd.	$1,880,000	$57,989	0.28	$6,839	$211
Taiwan Real-estate Management Corp.	134,000	4,133	0.02	985	31
Cathay General Hospital	337,000	10,395	0.05	2,401	74
Others	488,594	15,071	0.07	3,707	114
Total	$2,839,594	$87,588	0.42	$13,932	$430

	March 31, Account balance			January 1- March 31, Interest income (expense)	
Accounts	NT	US	% of Account	NT	US
2006 (Restated)					
Deposits					
Cathay Life Insurance Co., Ltd.	$21,049,069	$649,262	2.33	$(58,529)	$(1,805)
Cathay Financial Holding Co., Ltd.	3,622,555	111,738	0.40	(32,078)	(989)
Cathay Futures Corp.	1,026,096	31,650	0.12	(2,407)	(74)
Cathay Securities Corp.	1,462,626	45,115	0.16	(5,820)	(180)
Cathay Century Insurance Co., Ltd.	619,976	19,123	0.07	(1,592)	(49)
Cathay Pacific Venture Capital Co., Ltd.	382,998	11,814	0.04	(640)	(20)
Cathay Securities Trust Co., Ltd.	283,070	8,731	0.03	(1,087)	(34)
Cathay Real Estate Development Co., Ltd.	35,134	1,084	-	(10)	-
Others	3,329,186	102,689	0.37	(12,383)	(382)
Total	$31,810,710	$981,206	3.52	$(114,546)	$(3,533)
2007					
Loans					
Seaward Leasing Ltd.	$2,120,000	$64,223	0.29	$9,221	$279
Taiwan Real-estate Management Corp.	130,000	3,938	0.02	897	27
Cathay General Hospital	282,969	8,572	0.04	1,959	60
Others	323,259	9,793	0.04	2,070	63
Total	$2,856,228	$86,526	0.39	$14,147	$429
Deposits					
Cathay Life Insurance Co., Ltd.	$9,350,553	$283,264	0.95	$(8,899)	$(270)
Cathay Financial Holding Co., Ltd.	3,837,675	116,258	0.39	(45,467)	(1,377)
Cathay Futures Corp.	928,651	28,132	0.09	(3,716)	(113)
Cathay Securities Corp.	1,068,305	32,363	0.11	(3,614)	(109)
Cathay Century Insurance Co., Ltd.	717,466	21,735	0.07	(2,389)	(72)
Cathay Pacific Venture Capital Co., Ltd.	520,752	15,776	0.05	(1,663)	(50)
Cathay Securities Trust Co., Ltd.	447,412	13,554	0.05	(2,007)	(61)
Cathay Real Estate Development Co., Ltd.	374,055	11,332	0.04	(30)	(1)
Others	2,706,002	81,975	0.28	(10,418)	(316)
Total	$19,950,871	$604,389	2.03	$(78,203)	$(2,369)

Accounts / Related parties	January 1- March 31, Maximum balance NT	January 1- March 31, Maximum balance US	March 31, Account balance NT	March 31, Account balance US	January 1 – March 31, Interest income (expense) NT	January 1 – March 31, Interest income (expense) US	Interest Rate(%)
2006 (Restated)							
Call loans to banks							
Indovina Bank	$715,919	$22,083	$650,919	$20,078	$6,728	$208	4.38-7.80
Due from commercial banks							
Indovina Bank	18,496	571	3,336	103	22	1	0.5-2.16
Call loans from banks							
Indovina Bank	35,750	1,103	35,750	1,103	(56)	(2)	5.14
Due to commercial banks							
Indovina Bank	48,408	1,493	19,288	595	-	-	-
2007							
Call loans to banks							
Indovina Bank	$115,301	$3,493	$-	$-	$2,686	$81	5-7.7
Due from commercial banks							
Indovina Bank	392,147	11,880	4,636	140	1,206	37	0.5-7.7
Call loans from banks							
Indovina Bank	338,114	10,243	-	-	(435)	(13)	5.14-8.7
Due to commercial banks							
Indovina Bank	41,027	1,243	19,632	595	-	-	-

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

(2) Guarantees

2006 (Restated)

Related Parties	January 1- March 31, Maximum balance NT	January 1- March 31, Maximum balance US	March 31, Account balance NT	March 31, Account balance US	January 1- March 31, Service fees NT	January 1- March 31, Service fees US
Indovina Bank	$153,725	$4,657	$-	$-	$3	$-

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

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	March 31, Account balance NT	March 31, Account balance US	January 1- March 31, Interest income (expense) NT	January 1- March 31, Interest income (expense) US
2006 (Restated)				
Securities sold under agreements to repurchase				
Wan Pao Development Co.., Ltd.	$6,171,150	$190,350	$(16,319)	$(503)
Others	908,682	28,029	(2,187)	(68)
Total	$7,079,832	$218,379	$(18,506)	$(571)
Securities purchased under agreements to resell				
Taiwan Finance Corp.	$49,607	$1,530	$9	$-
2007				
Securities sold under agreements to repurchase				
Wan Pao Development Co.., Ltd.	$4,282,194	$129,724	$(14,406)	$(436)
Others	1,052,147	31,874	(3,855)	(117)
Total	$5,334,341	$161,598	$(18,261)	$(553)
Securities purchased under agreements to resell				
Taiwan Finance Corp.	$-	$-	$44	$1

(4) Lease

Account/Related parties	January 1- March 31, 2006 (Restated) NT	2006 (Restated) US	2007 NT	2007 US
Rental income				
Seaward Leasing Ltd.	$348	$11	$43	$1
Culture and Charity Foundation of Cathay United Bank	250	8	250	8
Taipei Smart Card Corp.	238	7	2,897	88
Cathay Securities Corp.	1,257	39	1,257	38
Cathay Life Insurance Co., Ltd.	1,038	32	1,623	49
Cathay Century Insurance Co., Ltd.	20	1	60	2
Rental expense				
Cathay Life Insurance Co., Ltd.	$61,580	$1,899	$64,106	$1,942
Cathay Real Estate Development Co., Ltd.	3,455	107	2,695	82
Seaward Leasing Ltd.	2,762	85	2,910	88
Pao Shin Securities Co., .Ltd.	1,020	31	-	-

	March 31,			
	2006 (Restated)		2007	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$33,393	$1,030	$33,393	$1,012
Cathay Life Insurance Co., Ltd.	65,336	2,015	63,669	1,929
Cathay Real Estate Development Co., Ltd.	3,392	105	2,635	80

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

	March 31,			
	2006 (Restated)		2007	
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Securities Corp.	$1,318	$41	$1,325	$40
Cathay Life Insurance Co., Ltd.	1,547	48	1,744	53
Seaward Leasing Ltd.	400	12	-	-
Cathay Century Insurance Co., Ltd.	60	2	60	2

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

	January 1- March 31,			
	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(5) Commissions and handling fees income				
Cathay Futures Corp.	$249	$8	$-	$-
Cathay Life Insurance Co., Ltd.	2,388	74	22,815	691
Cathay Securities Co., Ltd.	295	9	814	25
Cathay Century Insurance Co., Ltd.	-	-	8,166	247
Cathay Securities Trust Co., Ltd.	403	12	-	-
Cathay Life Insurance Agent Co., Ltd.	703	22	-	-
(6) Other operating income				
Cathay Life Insurance Co., Ltd.	$108	$3	$-	$-
Cathay Century Insurance Co., Ltd.	2	$-	-	-

	January 1- March 31,			
	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(7) Operating expenses				
Seaward Card Co., Ltd.	$139,407	$4,300	$102,006	$3,090
Cathay Life Insurance Co., Ltd.	39,719	1,225	28,547	865
Cathay Century Insurance Co., Ltd.	16,049	495	31,791	963
Symphox Information Co., Ltd.	51,914	1,601	42,953	1,301
Cathay Securities Corp.	600	19	600	18
Cathay Real Estate Development Co., Ltd.	1,800	56	1,825	55
Cathay Lin Yuan Security Co., Ltd.	-	-	505	15
(8) Insurance expenses				
Cathay Life Insurance Co., Ltd.	$53,588	$1,653	$65,901	$1,996
Cathay Century Insurance Co., Ltd.	13,241	408	36,375	1,102

	March 31,			
	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$1,157,000	$35,688	$868,302	$26,304
(10) Other receivables- cash dividends				
Indovina Bank	-	-	99,270	3,007
Seaward Leasing Ltd.	-	-	218,761	6,627
(11) Prepaid rental expense				
Cathay Century Insurance Co., Ltd.	1,017	31	-	-
(12) Refundable deposit				
Cathay Futures Corp.	55,135	1,701	39,292	1,190
(13) Accrued expenses				
Seaward Card Co., Ltd.	30,863	952	9,914	300
(14) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	2,245,837	69,273	-	-

(15)Others

a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building totaling NT$1,083,500 (US$33,421), in 2006. The Bank paid the amount of NT$74,694 (US$2,304) during the three-month period ended March 31, 2007. As of March 31, 2007, the accumulated paid amount was NT$165,244 (US$5,006).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$72 (US$2) and NT$0 (US$0) during the three-month periods ended March 31, 2006 and 2007, respectively.

c. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT$6,202 (US$191) and NT$4,960 (US$150) during the three-month periods ended March 31, 2006 and 2007, respectively.

d. As of March 31, 2006 and 2007, the notional amounts of the forward and cross-currency swaps the Bank entered into transactions with Cathay Life Insurance Co., Ltd. were US$544,267 and US$2,445,332, respectively.

e. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$1,405 (US$43) and NT$3,240 (US$98) during the three-month periods ended March 31, 2006 and 2007, respectively.

f. As of March 31, 2007 the notional amount of the forward the Bank entered into transactions with Cathay Century Insurance Co., Ltd. and Cathay Global Money Market Fund etc. (the funds are managed by Cathay Securities Trust Co., Ltd) was US$50,604 and US$102,265, respectively.

g. The Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three years starting 2006 and the royalty was paid amounted to NT$103,125 (US$3,181) (amortized NT$2,865 (US$87) per month) in January, 2006.

The terms of the foregoing transactions with related parties are similar to those with third parties.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

(16) For organization restructuring, the Bank's board of directors resolved to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The carrying value on the date when the transaction occurred was NT$736,454 (US$22,716) and net selling price was NT$708,275 (US$21,847) (the security transaction cost NT$2,132 (US$66) was deducted). The loss from the transaction was NT$28,179 (US$869) classified as the loss from disposal of the investment recognized by equity method.

(17) For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing Ltd. to the Cathay Real Estate Development for the amount of NT3,180,000 (US$98,088) on June 30, 2006, with NT$15.9 (US$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT$1,323,466 (US$40,822), with selling price NT$3,170,460 (US$97,793) (securities transaction cost NT$9,540 (US$294) was deducted) minus the carrying value NT$1,846,994 (US$56,971).

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2007, the Bank had the following commitments and contingent liabilities, which are not reflected in the financial statements:

	NT	US
1. Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$242,838,582	$7,356,516
Travelers checks for sale	666,284	20,184
Bills for collection	46,534,031	1,409,695
Book-entry for government bonds and depository for short-term marketable securities under management	325,813,100	9,870,133
Guarantees on duties and contracts	17,493,763	529,953
Unused commercial letters of credit	1,898,369	57,509
Irrevocable loan commitments	36,967,068	1,119,875
Credit card line commitments	281,924,656	8,540,583
Stamp tax, securities and memorial currency consignments	1,727	52

2. As of March 31, 2007, the Bank had various lawsuits, claims and proceedings. The significant ones are summarized below:

   (1) In 1997, the Bank, as requested by Polaris International Securities Investment Trust Co., Ltd., paid Chung Shing Bank (which merged with Union Bank of Taiwan) in an amount of NT$600,000 (US$18,176) for the purchase of a certain certificates of time deposit. Such certificates of time deposit were later found to have been forged by Mr. Chung-For Su (a clerk of another bank). The Bank filed a lawsuit against Chung Shing Bank for the return of unjustified benefits. The Bank obtained a judgment rendered by the Taiwan High Court in favor of Chung Shing Bank. The Bank appealed and the Taiwan High Court reversed its previous decision. The Chung Shing Bank subsequently filed an appeal to the Supreme Court. On September 8, 2005, the Supreme Court rendered a judgment in favor of Chung Shing Bank. This lawsuit is pending as the Bank subsequently filed an appeal to the Taiwan High Court.

   (2) In 1996, several clients of the Bank filed a lawsuit (the lawsuit) against the Bank, claiming restitution in the amount of NT$24,000 (US$727) for theft of their properties stored in a safe at Chung-Li Branch. The High Court had held the Bank responsible for making restitution. The Bank subsequently appealed and the appeal is being reviewed by the High Court. The Bank also filed claim (the claim) against Taiwan Secom Co., Ltd. in relation to the loss mentioned above. The lawsuit procedure was continuance since May, 2006 and receives a judgment from the High Court on July 11, 2006, ordering the Bank pay NT$9,447 (US$286) plus interest to clients. The Bank files an appeal against such judgment.

   (3) On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which the Bank believes constitutes a breach of Pacific SOGO's co-branded card contract with the Bank. The Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court adjudged that the Bank win the lawsuit on September 30, 2006. However, Pacific SOGO appealed and the appeal is being reviewed by the High Court. Furthermore, the Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, against Pacific SOGO. Then the Taipei District Court issued a judgment favoring the Bank in October, 2006, ordering Pacific SOGO to pay the punitive damages of NT$400,000 (US$12,118). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

3. As of March 31, 2007, the Bank had entered into certain contracts to purchase premises and equipments totaling NT$2,911,954 (US$88,214) with prepayments of NT$1,070,728 (US$32,436).

4. According to the operating leases agreement, rentals for lease are as follows：

Periods	NT	US
2007.4.1~2008.3.31	$420,363	$12,734
2008.4.1~2009.3.31	307,080	9,303
2009.4.1~2010.3.31	266,425	8,071
2010.4.1~2011.3.31	249,112	7,547
2011.4.1~2012.3.31	251,275	7,612

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	March 31, 2006 (Restated)			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$53,583,467	$1,652,790	$53,583,467	$1,652,790
Available-for-sale financial assets	51,977,060	1,603,241	51,977,060	1,603,241
Held-to-maturity financial assets and debt securities with no active market	234,338,523	7,228,209	233,219,529	7,193,693
Investment accounted for using equity method	4,496,478	138,694	4,496,478	138,694
Others	819,203,213	25,268,452	819,203,213	25,268,452
Liabilities				
Financial liabilities at fair value through profit or loss	49,755,502	1,534,716	49,755,502	1,534,716
Financial debentures payable	17,859,078	550,866	17,859,078	550,866
Others	1,041,532,962	32,126,248	1,041,532,962	32,126,248
Derivative financial instruments				
Assets				
Forward	743,201	22,924	743,201	22,924
Interest rate swap	732,285	22,588	732,285	22,588
Cross currency swap	6,936	214	6,936	214
Options	34,416	1,062	34,416	1,062
Credit derivatives	40,788	1,258	40,788	1,258
Credit default swap	562	17	562	17
Liabilities				
Forward	618,148	19,067	618,148	19,067
Interest rate swap	1,711,229	52,783	1,711,229	52,783
Cross currency swap	515,474	15,900	515,474	15,900
Futures	4,914	152	4,914	152
Options	32,956	1,017	32,956	1,017
Credit derivatives	148,615	4,584	148,615	4,584
Credit default swap	757	23	757	23

	March 31, 2007			
	Carrying value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$49,891,092	$1,511,393	$49,891,092	$1,511,393
Available-for-sale financial assets	55,322,764	1,675,940	55,322,764	1,675,940
Held-to-maturity financial assets and debt securities with no active market	284,601,469	8,621,674	284,644,288	8,622,971
Investment accounted for using equity method	2,350,127	71,195	2,350,127	71,195
Others	850,364,393	25,760,811	850,364,393	25,760,811
Liabilities				
Financial liabilities at fair value through profit or loss	49,238,635	1,491,628	49,238,635	1,491,628
Financial debentures payable	18,335,868	555,464	18,335,868	555,464
Others	1,129,752,977	34,224,568	1,129,752,977	34,224,568
Derivative financial instruments				
Assets				
Forward	2,449,010	74,190	2,449,010	74,190
Non-delivery forward	188,390	5,707	188,390	5,707
Currency Swap	2,401,773	72,759	2,401,773	72,759
Interest rate swap	778,105	23,572	778,105	23,572
Cross currency swap	220	7	220	7
Futures	21	1	21	1
Options	10,304	312	10,304	312
Credit derivatives	51,217	1,551	51,217	1,551
Credit default swap	(95)	(3)	(95)	(3)
Liabilities				
Forward	592,217	17,941	592,217	17,941
Non-delivery forward	186,837	5,660	186,837	5,660
Currency Swap	3,669,140	111,153	3,669,140	111,153
Interest rate swap	1,473,196	44,628	1,473,196	44,628
Cross currency swap	392,144	11,880	392,144	11,880
Futures	26	1	26	1
Options	10,416	316	10,416	316
Credit derivatives	31,735	961	31,735	961
Credit default swap	(449)	(14)	(449)	(14)

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

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

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

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

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

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

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

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

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

	March 31,2006 (Restated)			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$50,332,871	$1,552,525	$3,250,596	$100,265
Available-for-sale financial assets	51,977,060	1,603,241	-	-
Held-to-maturity financial assets and debt securities without active market	185,599,372	5,724,842	47,620,157	1,468,851
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,755,502	1,534,716
Financial debentures payable	-	-	17,859,078	550,866
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Forward	-	-	743,201	22,924
Interest rate swap	-	-	732,285	22,588
Cross currency swap	-	-	6,936	214
Options	-	-	34,416	1,062
Credit derivatives	-	-	40,788	1,258
Credit default swap	-	-	562	17
Liabilities				
Forward	-	-	618,148	19,067
Interest rate swap	-	-	1,711,229	52,783
Cross currency swap	-	-	515,474	15,900
Futures	4,914	152	-	-
Options	-	-	32,956	1,017
Credit derivatives	-	-	148,615	4,584
Credit default swap	-	-	757	23

	March 31,2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$46,992,092	$1,423,571	$2,899,000	$87,822
Available-for-sale financial assets	55,322,764	1,675,940	-	-
Held-to-maturity financial assets and debt securities without active market	222,747,821	6,747,889	61,896,467	1,875,082
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,238,635	1,491,628
Financial debentures payable	-	-	18,335,868	555,464
Others	(Note)	(Note)	(Note)	(Note)
Derivative financial instruments				
Assets				
Forward	-	-	2,449,010	74,190
Non-delivery forward	-	-	188,390	5,707
Currency swap	-	-	2,401,773	72,759
Interest rate swap	-	-	778,105	23,572
Cross currency swap	-	-	220	7
Futures	21	1	-	-
Options	-	-	10,304	312
Credit derivatives	-	-	51,217	1,551
Credit default swap	-	-	(95)	(3)
Liabilities				
Forward	-	-	592,217	17,941
Non-delivery forward	-	-	186,837	5,660
Currency swap	-	-	3,669,140	111,153
Interest rate swap	-	-	1,473,196	44,628
Cross currency swap	-	-	392,144	11,880
Futures	26	1	-	-
Options	36	1	10,380	315
Credit derivatives	-	-	31,735	961
Credit default swap	-	-	(449)	(14)

Note: Most of such assets and liabilities are investment accounted for cost or using equity method. The amount of fair value is not determined by quoted market price or pricing models but estimated face value.

4. Gains recognized for the changes in fair value of financial asset or liabilities determined by pricing models were NT$78,268 (US$2,414) and NT$197,310 (US$5,977) for the three-month periods ended March 31, 2006 and 2007, respectively.

5. The Bank recognized NT$10,414,984 (US$321,252) and NT$10,342,290 (US$313,308) as interest income and NT$3,714,192 (US$114,565) and NT$3,045,270 (US$92,253) as expense from financial assets or liabilities not at fair value through profit or loss, for the three-month periods ended March 31, 2006 and 2007, respectively.

6. The Bank recognized an unrealized gains or losses of NT$94,657 (US$2,920) and NT$175,756(US$5,324) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$18,757 (US$579) and NT$27,116(US$821) in income statement, for the three-month periods ended March 31, 2006 and 2007, respectively.

7. Interest income of NT$9 from financial assets were impaired which were assessed by discount rate of cash flow for the three-month periods ended March 31, 2006 and 2007.

8. Information on financial risk

(1) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

① Interest rate risk

If interest rates are rising, the fair value of the Bank's fixed-rate bond investments such as government bonds and corporate bonds may decline.

② Foreign exchange risk

The Bank manages foreign exchange risk by matching foreign currency assets and liabilities. The Bank trade in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, to manage asset and liability positions and hedge against the Bank's commercial positions. As most of foreign currency assets and liabilities are matched, the foreign exchange risk is insignificant.

③ Equity securities price risk

The Bank may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

The Bank adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence.

March 31, 2007						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$93,870	$2,844	$138,367	$4,192	$43,942	$1,331
Foreign exchange	33,560	1,017	83,489	2,529	727	22
Equity Securities price	83,165	2,519	201,834	6,114	28,599	866

(2) Credit risk

Credit risk represents the risk of loss that the Bank would incur if counterparty fails to perform the Bank's contractual obligations.

To centralize risk management functions currently handled by different departments, the Bank's board of directors resolved that a risk management department would be established to manage the credit risks. The objectives of credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balance loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectibility of those portfolios.

The Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk:

Financial assets	March 31, 2006 (Restated) Carrying value NT	Carrying value US	Maximum credit risk exposed amount NT	Maximum credit risk exposed amount US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$53,583,467	$1,652,790	$53,583,467	$1,652,790
Available-for-sale financial assets	51,977,060	1,603,241	51,977,060	1,603,241
Held-to-maturity financial assets and debt securities with no active market	234,338,523	7,228,209	234,338,523	7,228,209
Investment accounted for using equity method	4,496,478	138,694	4,496,478	138,694
Others	819,203,213	25,268,452	819,203,213	25,268,452
Guarantees on duties and contracts	-	-	15,129,863	466,683
Unused commercial letters of credit	-	-	3,221,588	99,370
Irrevocable loan commitments	-	-	39,069,792	1,205,114
Credit card line commitments	-	-	287,734,235	8,875,208
Derivative financial instruments				
Forward	743,201	22,924	743,201	22,924
Interest rate swap	732,285	22,588	732,285	22,588
Cross currency swap	6,936	214	6,936	214
Options	34,416	1,062	34,416	1,062
Credit derivatives	40,788	1,258	40,788	1,258
Credit default swap	562	17	562	17

Financial assets	March 31, 2007 Carrying value NT	Carrying value US	Maximum credit risk exposed amount NT	Maximum credit risk exposed amount US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$49,891,092	$1,511,393	$49,891,092	$1,511,393
Available-for-sale financial assets	55,322,764	1,675,940	55,322,764	1,675,940
Held-to-maturity financial assets and debt securities with no active market	284,601,469	8,621,674	284,601,469	8,621,674
Investment accounted for using equity method	2,350,127	71,795	2,350,127	71,795
Others	850,364,393	25,760,811	850,364,393	25,760,811
Guarantees on duties and contracts	-	-	17,493,763	529,953
Unused commercial letters of credit	-	-	1,898,369	57,509
Irrevocable loan commitments	-	-	36,967,068	1,119,875
Credit card line commitments	-	-	281,924,656	8,540,583
Derivative financial instruments				
Forward	2,449,010	74,190	2,449,010	74,190
Non-delivery forward	188,390	5,707	188,390	5,707
Currency swap	2,401,773	72,759	2,401,773	72,759
Interest rate swap	778,105	23,572	778,105	23,572
Cross currency swap	220	7	220	7
Futures	21	1	21	1
Options	10,304	312	10,304	312
Credit derivatives	51,217	1,551	51,217	1,551
Credit default swap	(95)	(3)	(95)	(3)

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

	March 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$81,571,500	$2,516,086	$108,006,686	$3,271,938
Financial institutions and insurance	42,304,381	1,304,885	52,150,734	1,579,847
Leasing and real estate	70,135,729	2,163,348	75,733,804	2,294,269
Individuals	403,864,532	12,457,265	406,314,885	12,308,842
Others	113,469,650	3,499,989	115,203,839	3,489,968
Total	711,345,792	21,941,573	757,409,948	22,944,864
Valuation allowance	(13,556,642)	(418,157)	(14,319,770)	(433,801)
Maximum credit risk exposed	$697,789,150	$21,523,416	$743,090,178	$22,511,063
Geographic Region				
Domestic	$675,822,075	$20,845,838	$709,552,653	$21,495,082
South East Asia	9,456,971	291,702	11,574,959	350,650
North East Asia	37,383	1,153	140,302	4,250
America	8,819,431	272,037	9,979,246	302,310
Others	17,209,932	530,843	26,162,788	792,572
Total	711,345,792	21,941,573	757,409,948	22,944,864
Valuation allowance	(13,556,642)	(418,157)	(14,319,770)	(433,801)
Maximum credit risk exposed	$697,789,150	$21,523,416	$743,090,178	$22,511,063

(3) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations.

Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believe the Bank can generate within that period. As part of our liquidity risk management, the Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The Bank's asset and liability management committee is responsible for overall liquidity risk management. The Bank's liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. The Bank manages liquidity risks across all classes of assets and liabilities with the goal that even under adverse conditions.

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

The Bank's financial debentures payable was matched with an interest rate swap contract and was transferred from fixed rate to floating rate.

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of March 31, 2007, there is no significant change in these dates.

As of March 31, 2006 and 2007, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%) March 31, 2006 (Restated)	Effective interest rate (%) March 31, 2007
Available-for-sale financial assets		
Bonds	1.13-6.0124	1.6701-6.8376
Overseas financial instruments	1.7-4.6	1
Held-to-maturity financial assets		
Bonds	1.64-6.95	1.66-6.95
Overseas financial instruments	0.61-7.625	3.45-6.36
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.45-1.67	1.69-1.923
Overseas financial instruments	0-8.64	0-7.82
Financial debentures payable	2-5.59	2-5.59

9. Fair value hedge

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

	Hedging instruments				
		Fair value			
	Derivative designated as	March 31, 2006 (Restated)		March 31, 2007	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$694,201	$21,413	$486,029	$14,724

The hedge is regarded as highly effective, at inception and throughout the life of the hedge, the Bank can expect changes in the fair value of the hedged item that are attributable to the hedged risk to be almost fully offset by the changes in the fair value of the hedging instrument and actual results are within a range of 80-125 percent.

XI. Others

1. Average balances and average interest rates of interest-earning assets and interest-bearing liabilities

	January 1- March 31, 2006 (Restated)		
	Average balance		
	NT	US	Average rate
Assets			
Due from the Central Bank	$24,921,324	$768,702	1.48%
Time certificates, discounted bills and others	199,780,802	6,162,270	1.58%
Due from commercial banks and call loans to banks	29,013,537	894,927	2.83%
Discounts and loans	675,339,418	20,830,951	3.99%
Bills purchased	8,367	258	6.64%
Government, corporate bonds and financial debentures	128,083,634	3,950,760	3.90%
Receivables-credit card revolving balance	39,205,696	1,209,306	13.28%
Securities purchased under agreements to resell	2,210,801	68,193	1.34%
Liabilities			
Due to banks	79,543,233	2,453,524	3.02%
Demand deposits	101,827,092	3,140,873	0.37%
Saving deposits	560,188,316	17,279,097	0.97%
Time deposits	204,966,929	6,322,237	1.96%
Negotiable certificates of deposit	22,284,656	687,374	1.39%
Securities sold under agreements to repurchase	38,106,458	1,175,400	1.29%
Financial debentures	68,089,746	2,100,239	2.56%
Funds borrowed from the Central Bank and other banks	1,123,809	34,664	3.71%

	January 1- March 31, 2007		
	Average balance		
	NT	US	Average rate
Assets			
Due from the Central Bank	$26,760,925	$810,691	1.50%
Time certificates, discounted bills and others	241,945,274	7,329,454	1.80%
Due from commercial banks and call loans to banks	17,927,637	543,097	3.40%
Discounts and loans	715,526,437	21,676,051	3.45%
Bills purchased	7,980	242	3.70%
Government, corporate bonds and financial debentures	135,061,237	4,091,525	4.23%
Receivables-credit card revolving balance	25,886,634	784,206	12.75%
Securities purchased under agreements to resell	405,977	12,299	1.87%
Liabilities			
Due to banks	101,553,938	3,076,460	4.09%
Demand deposits	104,958,186	3,179,588	0.46%
Saving deposits	612,718,448	18,561,601	1.08%
Time deposits	232,651,170	7,047,900	2.48%
Negotiable certificates of deposit	4,035,238	122,243	1.53%
Securities sold under agreements to repurchase	25,004,887	757,494	1.47%
Financial debentures	68,339,307	2,070,261	2.51%
Funds borrowed from the Central Bank and other banks	1,133,612	34,341	4.35%

2. Regulatory capital ratio

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

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

As of December 31, 2005 and 2006, the ratio of Lucky Bank's eligible capital to its risk-weighted assets was 9.15% and 11.53%, respectively.

The formula to calculate such ratio is as follows:

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

3. As of March 31, 2006 and 2007, the assets and liabilities managed under the Bank's trust were NT$126,515,070 (US$3,902,377) and NT$178,134,423 (US$5,396,378), respectively.

4. The information related about the merger with Lucky Bank is as follows：

   The Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT$4,000,979 (US$121,205) based on the book value of Lucky Bank, acquired by the Bank through a share swap (at ratio of 0.7212 shares and issued 226,889 thousand new shares of the Bank) transaction. The net assets acquired by the Bank are as follows：

Items	NT	US
Cash and cash equivalents	$6,461,558	$195,745
Due from the Central Bank and call loans to banks	2,410,995	73,038
Available-for-sale financial assets, net	528,186	16,001
Receivables, net	299,492	9,073
Discounts and loans, net	53,668,319	1,625,820
Premises and equipment, net	1,633,660	49,490
Other financial assets, net	23,495,274	711,762
Other assets	506,457	15,343
Call loans from banks	(145,219)	(4,399)
Payables	(1,695,272)	(51,356)
Deposits and remittances	(82,958,055)	(2,513,119)
Other liabilities	(204,416)	(6,193)
Subtotal	4,000,979	121,205
Issued shares for the merger	(2,268,895)	(68,734)
Unrealized gain on financial instrument	17,292	524
Capital reserves from the merger	$1,749,376	$52,995

   The Bank currently does not have the plan to dispose any significant assets acquired mentioned above, because most of them will be used by the Bank for its operating activity. The Bank had restated the financial statements as of and for the three-month periods ended March 31, 2006.

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