Cathay United Bank
Financial Statements
For The Six-Month Periods Ended
June 30, 2006 and 2007
With Independent Auditors' 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.

ERNST & YOUNG
安永會計師事務所

11012 台北市基隆路一段333號9樓
International Trade Buliding
Taipei World Trade Center
9F, 333 Keelung Road, Sec. 1,
Taipei, Taiwan 11012, R.O.C.

Tel : 886 2 2720 4000
Fax : 886 2 2757 6050
www.ey.com/tw

English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of June 30, 2006 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2006 and 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 2006 and 2007, and the results of its operations and its cash flows for the six-month periods then ended in conformity with the "Business Accounting Law" , the "Regulation on Business Entity Accounting Handling" , 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.

In addition, we have also audited the consolidated financial statements of the Bank as of and for the six-month periods ended June 30, 2006 and 2007, on which we have issued a modified unqualified opinion thereon.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
July 25, 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 audit 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

June 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

		June 30, 2006 (Restated)		June 30, 2007	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$32,797,654	$1,014,465	$26,983,076	$821,903
Due from the Central Bank and call loans to banks	IV and V	38,804,598	1,200,266	37,932,008	1,155,407
Financial assets at fair value through profit or loss	II and IV	54,119,841	1,673,982	48,173,233	1,467,354
Securities purchased under agreements to resell		811,465	25,100	471,586	14,365
Receivables, net	II, IV and V	70,269,510	2,173,508	45,452,188	1,384,471
Discounts and loans, net	II, IV and V	691,670,514	21,394,077	723,545,164	22,039,146
Available-for-sale financial assets, net	II and IV	52,916,689	1,636,767	57,377,590	1,747,718
Held-to-maturity financial assets, net	II and IV	6,383,600	197,451	5,928,264	180,575
Investments accounted for using equity method, net	II, IV and V	2,022,405	62,555	2,187,755	66,639
Other financial assets, net	II, IV and V	4,699,466	145,359	4,486,166	136,648
Investments in debt securities with no active market, ne	II and IV	237,147,346	7,335,210	275,971,712	8,406,083
Premises and equipment, net	II, IV, V and VII	26,161,143	809,191	25,354,838	772,307
Intangible assets, net	II, IV and V	515,275	15,938	400,421	12,197
Other assets, net	II, IV and V	6,979,782	215,892	10,912,477	332,393
TOTAL ASSETS		$1,225,299,288	$37,899,761	$1,265,176,478	$38,537,206

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)

June 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

		June 30, 2006(Restated)		June 30, 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	$106,708,246	$3,300,595	$64,386,977	$1,961,224
Funds borrowed from the Central Bank and other banks		811,625	25,104	821,000	25,008
Financial liabilities at fair value through profit or loss	II and IV	52,784,610	1,632,682	48,161,048	1,466,983
Securities sold under agreements to repurchase	IV and V	28,836,207	891,933	19,225,421	585,605
Payables	IV and V	25,963,607	803,081	22,594,076	688,214
Deposits and remittances	IV and V	907,473,052	28,069,071	1,008,604,716	30,722,044
Financial debentures payable	IV and X	17,282,698	534,572	17,686,802	538,739
Other financial liabilities	II and IV	1,591,585	49,229	1,348,984	41,090
Other liabilities	II, IV and V	2,041,514	63,146	1,961,248	59,740
TOTAL LIABILITIES		1,143,493,144	35,369,413	1,184,790,272	36,088,647
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,506,013	48,689,413	1,483,077
Capital reserves	IV	15,049,931	465,510	15,213,565	463,404
Retained earnings	IV				
Legal reserve		15,271,236	472,355	11,482,369	349,752
Undistributed earnings		2,828,385	87,485	4,385,094	133,570
Foreign currency translation adjustment	II	54,740	1,693	86,365	2,631
Unrealized gains or losses on financial instruments	II	(87,561)	(2,708)	529,400	16,125
TOTAL SHAREHOLDERS' EQUITY		81,806,144	2,530,348	80,386,206	2,448,559
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,225,299,288	$37,899,761	$1,265,176,478	$38,537,206

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 six-month periods ended June 30, 2006(Restated) and 2007

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

ITEMS	NOTES	January 1 - June 30, 2006(Restated) NT	US (Note II)	January 1 - June 30, 2007 NT	US (Note II)
INTEREST INCOME	II and V	$21,502,051	$665,081	$19,547,426	$595,414
INTEREST EXPENSE	V	(8,174,925)	(252,859)	(9,373,984)	(285,531)
NET INTEREST INCOME		13,327,126	412,222	10,173,442	309,883
NONINTEREST INCOME					
Net fee income	II and V	2,367,954	73,243	2,241,022	68,261
Gains (losses) on financial assets and liabilities at fair value through profit or loss	II	(1,045,665)	(32,343)	131,376	4,002
Realized gains on available-for-sale financial assets	II	225,087	6,962	422,898	12,881
Realized gains (losses) on held-to-maturity financial assets	II	670	21	(134)	(4)
Investment income (loss) recognized by the equity method	II and IV	(76,956)	(2,380)	72,604	2,212
Gain from disposal of investment recognized by the equity method	II and V	1,298,903	40,176	-	-
Foreign exchange gains, net	II	184,110	5,695	393,436	11,984
Impairment reversal (loss) of assets	II	(208,971)	(6,464)	40,653	1,238
Impairment reversal (loss) on foreclosed properties		394,979	12,217	(19,086)	(581)
Gain on disposal of foreclosed properties		463,877	14,348	-	-
Others	IVand V	40,847	1,263	66,051	2,012
NET NONINTEREST INCOME		3,644,835	112,738	3,348,820	102,005
NET OPERATING INCOME		16,971,961	524,960	13,522,262	411,888
BAD DEBT EXPENSE	II and IV	(8,855,330)	(273,904)	(1,554,629)	(47,354)
OPERATING EXPENSES					
Personnel	II and IV	(2,593,640)	(80,224)	(3,086,532)	(94,016)
Depreciation and amortization	II and IV	(656,402)	(20,303)	(682,920)	(20,802)
Other general and administrative expenses	V	(2,936,856)	(90,840)	(2,654,087)	(80,843)
TOTAL OPERATING EXPENSES		(6,186,898)	(191,367)	(6,423,539)	(195,661)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		1,929,733	59,689	5,544,094	168,873
INCOME TAX BENEFIT (EXPENSE)	II and IV	310,175	9,594	(1,159,000)	(35,303)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		2,239,908	69,283	4,385,094	133,570
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	726,679	22,477	-	-
NET INCOME		$2,966,587	$91,760	$4,385,094	$133,570
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$0.46	$0.014	$0.90	$0.028
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		0.15	0.005	-	-
NET INCOME		$0.61	$0.019	$0.90	$0.028

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 changes in shareholders' equity

For the six-month periods ended June 30, 2006(Restated) and 2007

(Expressed in thousands of dollars)

ITEMS	NOTES	Capital stock		Capital reserves		Retained earnings: Legal reserve		Retained earnings: Undistributed earnings (Deficit to be compensated)		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Total	
		NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)
Balance, January 1, 2006		$46,420,518	$1,435,834	$13,464,276	$416,464	$14,115,413	$436,604	$3,852,743	$119,170	$85,432	$2,642	$(10,307)	$(319)	$77,928,075	$2,410,395
Effect of initial adoption of the SFAS No.34	III	-	-	-	-	-	-	-	-	-	-	353,343	10,929	353,343	10,929
Appropriation and distribution of 2005 earnings:	IV														
Legal reserve		-	-	-	-	1,155,823	35,751	(1,155,823)	(35,751)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(2,695,420)	(83,372)	-	-	-	-	(2,695,420)	(83,372)
Special bonus to employees		-	-	-	-	-	-	(1,500)	(47)	-	-	-	-	(1,500)	(47)
Net income for the six-month period ended June 30, 2006(Restated)		-	-	-	-	-	-	2,966,587	91,760	-	-	-	-	2,966,587	91,760
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	(30,692)	(949)	-	-	(30,692)	(949)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	(388,459)	(12,015)	(388,459)	(12,015)
Retroactive adjustments for merger	II and XI	2,268,895	70,179	1,585,655	49,046	-	-	(138,202)	(4,275)	-	-	(42,138)	(1,303)	3,674,210	113,647
Balance, June 30, 2006(Restated)		$48,689,413	$1,506,013	$15,049,931	$465,510	$15,271,236	$472,355	$2,828,385	$87,485	$54,740	$1,693	$(87,561)	$(2,708)	$81,806,144	$2,530,348
Balance, January 1, 2007		$46,420,518	$1,413,967	$13,464,276	$410,121	$15,271,236	$465,161	$(3,788,867)	$(115,409)	$70,197	$2,138	$704,223	$21,451	$72,141,583	$2,197,429
Retroactive adjustments for merger	II and XI	2,268,895	69,110	1,749,376	53,286	-	-	-	-	-	-	(17,292)	(527)	4,000,979	121,869
Reserves used to make up deficit:	IV														
Legal reserve		-	-	-	-	(3,788,867)	(115,409)	3,788,867	115,409	-	-	-	-	-	-
Net income for the six-month period ended June 30, 2007		-	-	-	-	-	-	4,385,094	133,570	-	-	-	-	4,385,094	133,570
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	16,168	493	-	-	16,168	493
Adjustment for changes in shareholders' equities of equity-accounted investe	II	-	-	(87)	(3)	-	-	-	-	-	-	(49,100)	(1,496)	(49,187)	(1,499)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	(108,431)	(3,303)	(108,431)	(3,303)
Balance, June 30, 2007		$48,689,413	$1,483,077	$15,213,565	$463,404	$11,482,369	$349,752	$4,385,094	$133,570	$86,365	$2,631	$529,400	$16,125	$80,386,206	$2,448,559

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 six-month periods ended June 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-June 30, 2006(Restated) NT	January 1-June 30, 2006(Restated) US (Note II)	January 1-June 30, 2007 NT	January 1-June 30, 2007 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$2,966,587	$91,760	$4,385,094	$133,570
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	II	656,404	20,303	682,920	20,802
Investment income recognized by the equity method exceeded the cash dividends received	II	230,937	7,143	1,756	53
Gain on disposal of investments accounted for using equity method	II	(1,298,903)	(40,176)	-	-
Impairment (reversal) loss on foreclosed properties	II	(394,979)	(12,217)	19,086	581
Bad debt expense	II and IV	8,855,330	273,904	1,554,629	47,354
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	(427,552)	(13,225)	22,549	687
Impairment (reversal) loss of assets	II	208,971	6,464	(40,653)	(1,238)
Effects of exchange rate changes		(3,462)	(107)	(1,844)	(56)
Cumulative effect of changes in accounting principles	II and III	(726,679)	(22,477)	-	-
(Increase) decrease in operating assets					
(Increase) decrease in receivables		(11,447,361)	(354,079)	1,091,882	33,259
(Increase) decrease in deferred income tax assets		(247,215)	(7,647)	650,505	19,814
(Increase) decrease in financial assets at fair value through profit or loss		(4,504,426)	(139,327)	8,873,029	270,272
Decrease in other assets		413,778	12,799	11,129	339
Increase (decrease) in operating liabilities					
Decrease in payables		(646,441)	(19,995)	(1,729,268)	(52,673)
Increase (decrease) in financial liabilities at fair value through profit or loss		3,063,992	94,772	(7,235,652)	(220,398)
Increase (decrease) in tax payables		(41,059)	(1,270)	95,543	2,910
Decrease in other liabilities		(342,405)	(10,590)	(25,678)	(782)
Net cash provided by (used in) operating activities		(3,684,483)	(113,965)	8,355,027	254,494
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(18,534,619)	(573,295)	(10,048,525)	(306,078)
Decrease in due from the Central Bank and call loans to banks		13,613,481	421,079	13,339,541	406,322
Decrease in securities purchased under agreements to resell		380,787	11,778	1,314,472	40,039
Increase in available-for-sale financial assets		(10,405,741)	(321,860)	(2,983,751)	(90,885)
(Increase) decrease in held-to-maturity financial assets		1,966,836	60,836	(291,954)	(8,893)
Proceeds from disposal of investments accounted for using equity method		3,989,406	123,396	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		1,655,917	51,219	52,777	1,608
Acquisition of premises, equipment and foreclosed properties		(505,682)	(15,641)	(873,658)	(26,612)
Acquisition of intangible assets		(74,800)	(2,314)	(25,725)	(784)
Increase in investments in debt securities with no active market		(41,571,509)	(1,285,849)	(18,136,648)	(552,441)
(Increase) decrease in other financial assets		(2,302)	(71)	6,765	206
Increase in other assets		(432,489)	(13,377)	(1,029,463)	(31,357)
Net cash used in investing activities		(49,920,715)	(1,544,099)	(18,676,169)	(568,875)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		35,336,872	1,093,006	(35,615,377)	(1,084,843)
Decrease in securities sold under agreements to repurchase		(5,028,727)	(155,544)	(4,436,318)	(135,130)
Increase in deposits and remittances		25,616,943	792,358	43,017,936	1,310,324
Increase (decrease) in funds borrowed from the Central Bank and other banks		(8,875)	(274)	4,750	145
Decrease in financial debentures payable		(1,473,598)	(45,580)	(449,016)	(13,677)
Increase in other financial liabilities		588,151	18,192	573,262	17,462
Increase (decrease) in other liabilities		14,035	434	(3,023)	(92)
Distribution of cash dividends	IV	(2,695,420)	(83,372)	-	-
Bonus to shareholders and special bonus to employees		(1,741)	(54)	-	-
Net cash provided by financing activities		52,347,640	1,619,166	3,092,214	94,189
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		(27,231)	(842)	13,177	401
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,284,789)	(39,740)	(7,215,751)	(219,791)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		34,082,443	1,054,205	34,198,827	1,041,694
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$32,797,654	$1,014,465	$26,983,076	$821,903
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$8,256,984	$255,397	$9,537,076	$290,499
Income tax paid		$2,911,008	$90,040	$286,826	$8,737
PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:					
Dividends payable		$1,500	$47	$-	$-
Add: Payable at beginning of the period		15,351	475	-	-
Less: Payable at end of the period		(15,110)	(468)	-	-
Payment		$1,741	$54	$-	$-

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 six-month periods ended June 30, 2006 (Restated) and 2007

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

I. Business

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

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

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

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

The Bank's stock was traded on the Taiwan Stock Exchange (the "TSE") until December 18, 2002. On December 18, 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holdings") through a conversion transaction and desisted 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.

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 merger date was January 1, 2007. Please refer to Note XI for details.

As of June 30, 2006 and 2007, the Bank employed 4,829 and 5,260 employees, respectively.

II. Summary of significant accounting policies

The financial statements were prepared in conformity with the "Business Accounting Law", the "Regulation on Business Entity Accounting Handling", 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 of financial statements

   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 when the financial statements are prepared.

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

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 amortized 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 six 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 and foreign currency exchange related gains or losses, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income statement.

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, all financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging purpose. Such liabilities are measured at fair value.

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares and derivatives, the net asset value for open-ended funds, and the closing or 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 entered into various derivative contracts, including forward currency contracts, cross-currency swaps, options, futures and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation removed for the period.

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. The right to repurchase the assets is not separately recognized as a derivative.

Financial liabilities

A financial liability or a portion of 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, and the new liability is assumed, 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 using following different methodologies depending on the classification:

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.

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

(b) 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;

(c) 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	3～15	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 useful life.

11. Intangible assets

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. Financial assets securitization

Under the Regulations for Financial Assets Securitization, the Bank, with the assistance of a trustee securitized its financial assets for the purposes of offering asset-backed securities in the form of related beneficiary certificates through a special-purpose trust. Because the Bank surrendered its rights and control on these securitized financial assets, such financial assets are no longer recognized on its accounts, and the gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates necessary for credit enhancement, which are classified as held-to-maturity financial assets and investments in debt securities with no active market because those certificates do not have quoted market prices.

The gain or loss from securitization of the financial assets is determined based on the difference between the proceeds from securitization and carrying value of the securitized financial assets. The cost of each class of asset-backed securities which is determined based on the previous carrying value of the securitized financial assets, is allocated in proportion to the fair value of each class of the asset–backed securities and the retained interests on the date of transfer. Because the securitized financial assets do not have a quoted market price, the fair value of each class of the asset-backed securities and the retained interests are evaluated based on the present value of future cash flows considering the expected credit loss rate, prepayment rate, and discount rate on the financial assets.

14. 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.

15. 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.

16. 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.

17. Pension plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefit 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, is effective since 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 6% of the employees' monthly wages. 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.

18. 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.

19. 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 for cash dividends received from financial assets at fair value through profit or loss which are recognized as investment income.

Cash dividends received from equity securities other than financial assets at fair value through profit or loss are included as a recovery of parts of the cost of the equity securities. 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 exceed the accumulated retained earnings in the year prior to the date of dividend issuance, the excessive 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.

20. Income tax

The Bank adopted ROC SFAS No. 22, "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.

21. 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.

22. The interim financial statement

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

23. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the June 30, 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$32.33 and NT$32.83 to US$1.00 on June 30, 2006 and 2007, respectively, as provided by the Federal Reserve Bank of New York. The 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 cumulative foreign currency translation adjustments in equity shall be offset against long-term investment account.

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

	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	$9,126	$-	$-
Available-for-sale financial assets	-	-	355,156 (Note)	10,985 (Note)
Financial liabilities at fair value through profit or loss	449,790	13,912	-	-
Derivative financial liabilities for hedging	(18,145)	(561)	-	-
Total	$726,679	$22,477	$355,156	$10,985

Note: Lucky Bank recognized as a separate component of shareholders' equity amount NT$1,813 (US$56).

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$22,477) and increased after income tax earnings per share of NT$0.15(US$0.005) in dollars for the six-month period ended June 30, 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 six-month period ended June 30, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Cash on hand	$11,028,818	$341,133	$10,226,246	$311,491
Checks for clearance	5,885,076	182,031	10,609,761	323,173
Due from commercial banks	15,883,760	491,301	6,147,069	187,239
Total	$32,797,654	$1,014,465	$26,983,076	$821,903

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

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Call loans to banks	$8,117,052	$251,069	$6,596,841	$200,940
Due from the Central Bank －				
Statutory reserve on deposits and general deposits	30,687,546	949,197	31,335,167	954,467
Total	$38,804,598	$1,200,266	$37,932,008	$1,155,407

Statuary reserve on deposits and general 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$26,122,185 (US$807,986) and NT$27,305,561 (US$831,726) as of June 30, 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 June 30, 2006 and 2007, the balance of foreign-currency deposit reserves were NT$40,581 (US$1,255) and NT$2,860,364 (US$87,127), respectively.

3. Financial assets at fair value through profit or loss

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$2,851,960	$88,214	$6,389,164	$194,613
Mutual funds and beneficiary certificates	1,413,867	43,732	1,100,818	33,531
Commercial papers and certificates of deposit	10,533,487	325,812	13,865,368	422,338
Bonds	33,912,784	1,048,957	21,581,821	657,381
Overseas financial instruments	1,358,737	42,027	1,484,532	45,219
Derivative financial instruments	2,314,451	71,588	3,374,886	102,799
Subtotal	52,385,286	1,620,330	47,796,589	1,455,881
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	1,550,995	47,974	272,379	8,297
Bonds	183,560	5,678	104,265	3,176
Subtotal	1,734,555	53,652	376,644	11,473
Total	$54,119,841	$1,673,982	$48,173,233	$1,467,354

(1) NT$185,740(US$5,745) and NT$ 104,265(US$3,176) of the financial assets at fair value through profit or loss as of June 30, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$8,494,700(US$262,750). Such repurchase agreements amounting to NT$8,475,636(US$262,160) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2006 was settled at NT$8,480,454(US$262,309) prior to July 31, 2006.

As of June 30, 2007, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$9,073,200(US$276,369). Such repurchase agreements amounting to NT$9,081,944(US$276,636) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2007 was settled at NT$9,091,505(US$276,927) prior to August 31, 2007.

(3) As of June 30, 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 transaction) are summarized as follows (in thousands of US dollars):

	June 30,	
	2006(Restated)	2007
Forward foreign exchange and currency swap contracts	$5,302,312	$20,050,593
Interest rate swap contracts	7,708,143	11,009,153
Cross-currency swap contracts	559,901	575,289
Options	275,345	58,466
Futures	12,345	30,000
Credit derivative instrument contracts	225,000	200,000
Credit default swap contracts	225,000	225,000

(4) Net gains arising from financial assets at fair value through profit or loss for the six-month periods ended June 30, 2006 and 2007 was NT$205,323(US$6,351) and NT$3,697,878(US$112,637) , respectively.

4. Receivables, net

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Notes receivable	$3,180,000	$98,361	$-	$
Accounts receivable	49,466,855	1,530,060	36,995,303	1,126,875
Interest receivable	4,553,580	140,847	4,744,544	144,518
Receivable to related party for allocation of linked-tax system	1,387,683	42,922	638,005	19,434
Foreign currency receivable	9,510,920	294,183	1,542,836	46,995
Acceptances	552,323	17,084	1,248,231	38,021
Tax refundable	996,865	30,834	747,465	22,768
Others	2,167,008	67,028	2,282,743	69,532
Total	71,815,234	2,221,319	48,199,127	1,468,143
Less: allowance for doubtful accounts	(1,545,724)	(47,811)	(2,746,939)	(83,672)
Net balance	$70,269,510	$2,173,508	$45,452,188	$1,384,471

Information on bad and doubtful accounts is as follows:

	January 1-June 30, 2006 (Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$837,652	$25,910	$267,369	$8,270	$1,105,021	$34,180
Provision of doubtful accounts	7,175,179	221,935	-	-	7,175,179	221,935
Write-offs	(6,866,886)	(212,399)	-	-	(6,866,886)	(212,399)
Recoveries	132,718	4,105	-	-	132,718	4,105
Reclassifications	96,543	2,986	(96,543)	(2,986)	-	-
Effects of exchange rates change	-	-	(308)	(10)	(308)	(10)
Balance, end of the period	$1,375,206	$42,537	$170,518	$5,274	$1,545,724	$47,811

	January 1-June 30, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$1,942,613	$59,172	$126,568	$3,855	$2,069,181	$63,027
Provision of doubtful accounts	2,759,889	84,066	-	-	2,759,889	84,066
Write-offs	(2,608,129)	(79,443)	-	-	(2,608,129)	(79,443)
Debt counseling recoveries	259,492	7,904	-	-	259,492	7,904
Recoveries	266,399	8,115	-	-	266,399	8,115
Reclassifications	21,716	661	(21,716)	(661)	-	-
Effects of exchange rates change	-	-	107	3	107	3
Balance, end of the period	$2,641,980	$80,475	$104,959	$3,197	$2,746,939	$83,672

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 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.

5. Discounts and loans, net

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Outward documentary bills	$623,566	$19,287	$719,491	$21,916
Discounts	-	-	85,447	2,603
Overdrafts	636,325	19,682	515,868	15,713
Short –term loans	160,019,687	4,949,573	165,659,260	5,045,972
Medium-term loans	222,745,866	6,889,758	202,400,333	6,165,103
Long-term loans	309,661,231	9,578,139	357,493,068	10,889,219
Delinquent accounts	8,783,521	271,683	8,576,475	261,239
Total	702,470,196	21,728,122	735,449,942	22,401,765
Less: allowance for doubtful accounts	(10,799,682)	(334,045)	(11,904,778)	(362,619)
Net balance	$691,670,514	$21,394,077	$723,545,164	$22,039,146

(1) As of June 30, 2006 and 2007, the accounts without interest accrued were NT$11,201,304(US$346,468) and NT$ 10,919,131(US$332,596), respectively. The non-accrued interest on such accounts amounted to NT$126,741(US$3,920) and NT$148,152(US$4,513) for the six-month periods ended June 30, 2006 and 2007, respectively.

(2) For the six-month periods ended June 30, 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-June 30, 2006(Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,549,440	$140,719	$11,730,042	$362,822	$16,279,482	$503,541
Provision of doubtful accounts	1,680,151	51,969	-	-	1,680,151	51,969
Write-offs	(9,986,955)	(308,907)	-	-	(9,986,955)	(308,907)
Recoveries	2,828,553	87,490	-	-	2,828,553	87,490
Reclassification	5,259,841	162,692	(5,259,841)	(162,692)	-	-
Effects of exchange rates change	-	-	(1,549)	(48)	(1,549)	(48)
Balance, end of the period	$4,331,030	$133,963	$6,468,652	$200,082	$10,799,682	$334,045

	January 1-June 30, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,121,934	$95,094	$13,389,810	$407,853	$16,511,744	$502,947
Reversal of doubtful accounts	(1,205,260)	(36,712)	-	-	(1,205,260)	(36,712)
Write-offs	(6,309,356)	(192,183)	-	-	(6,309,356)	(192,183)
Debt counseling recoveries	14,036	428	-	-	14,036	428
Recoveries	2,892,972	88,120	-	-	2,892,972	88,120
Reclassification	3,024,138	92,115	(3,024,138)	(92,115)	-	-
Effects of exchange rates change	-	-	642	19	642	19
Balance, end of the period	$1,538,464	$46,862	$10,366,314	$315,757	$11,904,778	$362,619

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.

6. Available-for-sale financial assets, net

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Stocks	$4,216,477	$130,420	$7,421,669	$226,064
Mutual funds and beneficiary securities	83,992	2,598	119,587	3,643
Bonds	47,506,674	1,469,430	46,687,882	1,422,110
Overseas financial instruments	1,109,546	34,319	3,148,452	95,901
Total	$52,916,689	$1,636,767	$57,377,590	$1,747,718

(1) NT$266,738(US$8,250) and NT$ 966,964(US$29,454) of the available-for-sale financial assets as of June 30, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of June 30, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$18,720,400(US$579,041).Such repurchase agreements amounting to NT$20,360,571(US$629,773) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2006 was settled at NT$20,396,183(US$630,875) prior to December 31, 2006.

As of June 30, 2007, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$9,397,600 (US$286,250). Such repurchase agreements amounting to NT$10,143,477 (US$308,970) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to June 30, 2007 was settled at NT$10,173,918 (US$309,897) prior to December 31, 2007.

7. Held-to-maturity financial assets, net

	June 30, 2006(Restated)			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,683,800	$113,944	$3,957,129	$122,398
Beneficiary certificates	-	-	-	-
Overseas financial instruments	2,428,475	75,115	2,428,478	75,115
Subtotal	6,112,275	189,059	6,385,607	197,513
Less: accumulated impairment	-	-	(2,007)	(62)
Net balance	$6,112,275	$189,059	$6,383,600	$197,451

	June 30, 2007			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,562,800	$108,523	$3,770,908	$114,862
Beneficiary certificates	576,335	17,555	576,335	17,555
Overseas financial instruments	1,590,846	48,457	1,583,051	48,220
Subtotal	5,729,981	174,535	5,930,294	180,637
Less: accumulated impairment	-	-	(2,030)	(62)
Net balance	$5,729,981	$174,535	$5,928,264	$180,575

As of June 30, 2006 and 2007, NT$2,294,365(US$70,967) and NT$1,544,930(US$47,058) 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

	June 30, 2006 (Restated)				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$38,463	$1,190	100.00	$2,364	$73
Seaward leasing Ltd.	-	-	-	(144,883)	(4,481)
Cathay Life Insurance Agent Co., Ltd	63,194	1,955	100.00	37,633	1,164
Cathay Property Insurance Agent Co., Ltd.	8,469	262	100.00	1,988	61
Indovina Bank	525,105	16,242	50.00	48,323	1,495
Taiwan Real-estate Management Corp.	17,341	536	30.15	1,607	50
Taiwan Finance Corp.	1,331,698	41,191	24.57	(24,597)	(761)
Vista Technology Venture Capital Corp.	8,157	252	4.76	-	-
Cathay Venture Capital Corp.	29,978	927	2.00	-	-
Pao Shin Securities Co.	-	-	-	609	19
Total	$2,022,405	$62,555		$(76,956)	$(2,380)

	June 30, 2007				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$37,468	$1,141	100.00	$1,027	$31
Cathay Life Insurance Agent Co., Ltd	35,257	1,074	100.00	9,706	296
Cathay Property Insurance Agent Co., Ltd.	7,335	223	100.00	198	6
Indovina Bank	753,801	22,961	50.00	94,612	2,882
Taiwan Real-estate Management Corp.	35,502	1,081	30.15	16,128	491
Taiwan Finance Corp.	1,276,396	38,879	24.57	(47,967)	(1,461)
Vista Technology Venture Capital Corp.	7,537	230	4.76	(1,100)	(33)
Cathay Venture Capital Corp.	34,459	1,050	2.00	-	-
Total	$2,187,755	$66,639		$72,604	$2,212

(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 stock.

(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 (18) and (19) 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, 423) and the gain from this transaction was NT$3,615 (US$112) classified as the "gain from disposal of investment recognized by the 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 six-month periods ended June 30, 2006 and 2007 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.

(5) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the period ended June 30, 2007. The accounts of the Bank, Lucky Bank and Indovina Bank are included in the Bank's restated consolidated financial statements as of and for the period ended June 30, 2006. The accounts of Cathay Futures Corp., Seaward Leasing Ltd, and Pao Shin Securities Co. before it were sold are included in the Bank's consolidated income statement for the period ended June 30, 2006. As the individual total asset or operating income of the other subsidiaries of the Bank are immaterial to the Bank financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.

9. Other financial assets, net

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial assets carried at cost, stocks	$4,591,106	$142,008	$4,482,076	$136,524
Bills purchased	8,360	258	4,090	124
Restricted financial assets	100,000	3,093	-	-
Total	$4,699,466	$145,359	$4,486,166	$136,648

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 NT$192,635 (US$5,958).

Lucky Bank provide its certificates of deposit amounted to NT$100,000 (US$3,093) for remittances as of June 30, 2006.

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

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Preferred stocks	$549,730	$17,004	$549,730	$16,744
Certificates of deposit	185,945,000	5,751,469	209,935,000	6,394,609
Bonds	99,635	3,082	99,635	3,035
Beneficiary certificates	-	-	400,000	12,184
Overseas financial instruments	50,769,889	1,570,364	65,157,427	1,984,692
Subtotal	237,364,254	7,341,919	276,141,792	8,411,264
Less: accumulated impairment	(216,908)	(6,709)	(170,080)	(5,181)
Net balance	$237,147,346	$7,335,210	$275,971,712	$8,406,083

NT$14,830,000(US$458,707) and NT$15,000,000(US$456,899) of certificates of deposit as of June 30, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

11. Financial assets securitization

During the second quarter of 2007, the Bank securitized a collateralized loans obligation (CLO) with a carry value of NT$5,446,335 (US$165,895) with Land Bank Co., Ltd. as Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Order of principal repayment	Issue amount (in thousands dollars)	Interest rate
Senior tranche	1st	NT$3,335,000(US$101,584)	2.175%
Senior tranche	2nd	NT$315,000(US$9,595)	2.325%
Senior tranche	3rd	NT$340,000(US$10,356)	2.545%
Senior tranche	4th	NT$480,000(US$14,621)	2.945%
Subordinated tranche	5th	NT$200,000(US$6,092)	3.00%
Subordinated tranche	6th	NT$200,000(US$6,092)	3.20%
Subordinated tranche	7th	NT$576,335(US$17,555)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$29,739) and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to the Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors' certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests：

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and the end of June, 2007, respectively, were as follows:

	Corporate Loans Securitization	
	June 30, 2007	May 28, 2007
Prepayment rate (annual rate)	3%	3%
Expected weighted-average life (in years)	2.210	2.212
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.2%

(2) Sensitivity analysis：

As of June 30, 2007, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	June 30 , 2007	
	NT	US
Carrying amount of retained interests	$976,335	$29,739
Expected weighted-average life (in years)	2.210	2.210
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	$(13,879)	$(423)
Impact on fair value with 20% adverse change	$(14,004)	$(427)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	$(21,891)	$(667)
Impact on fair value with 20% adverse change	$(23,514)	$(716)
Discounting rate for residual cash flows (annual rate)	2.2%	2.2%
Impact on faire value with 10% adverse change	$(351)	$(11)
Impact on faire value with 20% adverse change	$(699)	$(21)

(3) Expected static pool credit losses:

As the securitized collateralized loans obligation do not have actual credit losses as of the balance sheet date, the expected static pool credit losses are, therefore, equal to the expected credit losses

(4) Cash flows:

The cash flows received from and paid to securitization trusts were as follows:

	January 1-June 30, 2007	
	NT	US
The cash received from securitization	$4,470,000	$136,156
Servicing fees received	20	1
Other cash received on retained interests	3,211	98
Repayment of cash reserve	747	23

12. Premises and equipment, net

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Cost:				
Land	$14,840,191	$459,022	$13,999,386	$426,421
Buildings	10,015,934	309,803	9,802,129	298,572
Office equipment	3,890,875	120,349	3,875,052	118,034
Transportation equipment	71,544	2,213	61,822	1,883
Other equipment	4,743,838	146,732	4,720,969	143,800
Construction in progress and prepayment for equipment	509,456	15,758	1,338,423	40,768
Subtotal	34,071,838	1,053,877	33,797,781	1,029,478
Accumulated depreciation:				
Buildings	(2,223,511)	(68,776)	(2,378,237)	(72,441)
Office equipment	(2,639,350)	(81,638)	(2,755,337)	(83,927)
Transportation equipment	(55,419)	(1,714)	(52,842)	(1,610)
Other equipment	(2,918,496)	(90,272)	(3,190,661)	(97,187)
Subtotal	(7,836,776)	(242,400)	(8,377,077)	(255,165)
Accumulated impairment	(73,919)	(2,286)	(65,866)	(2,006)
Net balance	$26,161,143	$809,191	$25,354,838	$772,307

13. Intangible assets, net

	January 1- June 30, 2006(Restated)							
	January 1		Additions/Amortization		Disposals		June 30	
	NT	US	NT	US	NT	US	NT	US
Computer software	$828,139	$25,615	$74,800	$2,314	$-	$-	$902,939	$27,929
Amortization	(291,397)	(9,013)	(96,267)	(2,978)	-	-	(387,664)	(11,991)
Net balance	$536,742	$16,602	$(21,467)	$(664)	$-	$-	$515,275	$15,938

	January 1- June 30, 2007							
	January 1		Additions/Amortization		Disposals		June 30	
	NT	US	NT	US	NT	US	NT	US
Computer software	$961,523	$29,288	$25,725	$784	$-	$-	$987,248	$30,072
Amortization	(485,168)	(14,778)	(101,659)	(3,097)	-	-	(586,827)	(17,875)
Net balance	$476,355	$14,510	$(75,934)	$(2,313)	$-	$-	$400,421	$12,197

14. Other assets, net

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Prepayment	$291,966	$9,031	$270,535	$8,240
Temporary payments	55,653	1,721	412,954	12,578
Interbank settlement fund	1,354,071	41,883	1,302,556	39,676
Non-operating assets, net (Accumulated impairment NT$349,770 (US$10,819) and NT$318,132 (US$9,690),on June 30, 2006 and 2007, respectively)	1,488,393	46,038	1,527,384	46,524
Refundable deposits, net	1,415,652	43,787	1,780,957	54,248
Foreclosed properties, net	71,760	2,220	1,330,501	40,527
Deferred tax assets, net	2,261,961	69,965	4,242,950	129,240
Others	40,326	1,247	44,640	1,360
Total	$6,979,782	$215,892	$10,912,477	$332,393

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

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Due to the Central Bank	$189,361	$5,857	$186,506	$5,681
Due to commercial banks	1,586,190	49,062	1,410,375	42,960
Due to Post Co., Ltd.	31,686,470	980,095	27,009,400	822,705
Overdrafts from banks	48,908	1,513	333,114	10,147
Call loans from banks	73,197,317	2,264,068	35,447,582	1,079,731
Total	$106,708,246	$3,300,595	$64,386,977	$1,961,224

16. Financial liabilities at fair value through profit or loss

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$3,389,312	$104,835	$4,326,185	$131,775
Bonds purchased under resale agreements-short sale	685,817	21,213	-	-
Subtotal	4,075,129	126,048	4,326,185	131,775
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	38,665,358	1,195,959	38,877,684	1,184,212
Subordinated financial debentures	10,044,123	310,675	4,957,179	150,996
Subtotal	48,709,481	1,506,634	43,834,863	1,335,208
Total	$52,784,610	$1,632,682	$48,161,048	$1,466,983

(1) On May 23, 2002, the Bank issued a five-year subordinated financial debenture totaling NT$5,000,000 which has matured. 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 rate 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 debenture amounting to NT$2,000,000 with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.

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

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

(2) Net losses arising from financial liabilities at fair value through profit or loss for the six-month periods ended June 30, 2006 and 2007 were NT$1,250,988(US$38,694) and NT$3,566,502(US$108,635) , respectively.

17. Payables

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Accounts payable	$7,650,508	$236,638	$11,727,758	$357,227
Accrued interest payable	3,456,731	106,920	3,886,493	118,382
Accrued expenses	1,816,313	56,180	1,722,152	52,456
Payable to related party for allocation of linked-tax system	-	-	109,660	3,340
Foreign currency payable	9,467,637	292,844	1,777,246	54,135
Acceptance	556,405	17,210	1,279,737	38,981
Income tax payable	130,692	4,042	255,254	7,775
Receipts under custody	494,177	15,286	629,311	19,169
Others	2,391,144	73,961	1,206,465	36,749
Total	$25,963,607	$803,081	$22,594,076	$688,214

18. Deposits and remittances

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Check deposits	$12,925,116	$399,787	$15,929,490	$485,212
Demand deposits	99,138,877	3,066,467	109,985,090	3,350,140
Demand savings deposits	321,995,823	9,959,660	384,519,742	11,712,450
Time deposits	216,036,582	6,682,233	241,247,453	7,348,384
Negotiable certificates of deposit	11,584,300	358,314	3,431,400	104,520
Time savings deposits	245,412,460	7,590,859	252,822,655	7,700,964
Outward remittances	267,819	8,284	512,615	15,614
Remittances payable	112,075	3,467	156,271	4,760
Total	$907,473,052	$28,069,071	$1,008,604,716	$30,722,044

19. Financial debentures payable

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Subordinated financial debentures	$18,582,500	$574,776	$18,770,000	$571,733
Discount in financial debentures	(110,141)	(3,407)	(102,163)	(3,112)
Valuation adjustment	(1,189,661)	(36,797)	(981,035)	(29,882)
Total	$17,282,698	$534,572	$17,686,802	$538,739

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.

20. Other financial liabilities

	June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Derivative financial liabilities for hedging	$1,278,000	$39,530	$1,038,134	$31,621
Borrowed funds	313,585	9,699	310,850	9,469
Total	$1,591,585	$49,229	$1,348,984	$41,090

As of June 30, 2006 and 2007, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$1,278,000 (US$39,530) and NT$1,038,134 (US$31,622), respectively. The Bank has recognized losses in hedging in the amount of NT$77,152 (US$2,386) and NT$85,009(US$2,589) for the six-month periods ended June 30, 2006 and 2007.

21. Other liabilities

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Unearned receipts	$107,929	$3,338	$98,388	$2,997
Temporary receipts	777,207	24,040	957,485	29,165
Reserve for losses on guarantees	28,647	886	28,690	874
Reserve for losses on stock brokerage transactions	146,652	4,536	149,037	4,540
Guarantee deposits received	707,226	21,875	710,106	21,630
Reserve for land value increment tax	20,035	620	17,542	534
Others	253,818	7,851	-	-
Total	$2,041,514	$63,146	$1,961,248	$59,740

22. Capital Stock

As of January 1, 2006, the Bank had issued and outstanding capital stock of NT$46,420,518 (US$1,435,834) divided into 4,642,052 thousands 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 thousands common shares on January 1, 2007. After the merger, the issued and outstanding capital stock amounted to NT$48,689,413 (US$1,483,077) divided into 4,868,941 thousands common shares, with par value NT$10 per share. The above merger has been approved by the authority.

23. Capital reserves

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Capital reserves from the merger				
Bank	$10,785,582	$333,609	$10,949,303	$333,515
Additional paid-in capital	4,249,096	131,429	4,249,096	129,427
Others	15,253	472	15,166	462
Total	$15,049,931	$465,510	$15,213,565	$463,404

24. 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) 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) determined the following resolution on April 27, 2006 , and April 26 ,2007 , respectively. The information is as follows：

(a) The appropriation and distribution of earnings in 2005：

(i) NT$1,155,823(US$35,751) thousands as legal reserve；

(ii)NT$2,695,420(US$83,372) thousands as dividends to shareholders；

(iii)NT$1,500(US$47) thousands as bonus to employees.

(b) Make up deficit in 2006：

NT$3,788,867(US$115,409) thousands from legal reserve.

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

25. Pension

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

26. Certain components of operating expenses

The following is a summary of the components of personnel, depreciation and amortization expenses for the six-month periods ended June 30, 2006 and 2007.

	January 1- June 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Personnel expenses				
Salary	$2,062,520	$63,796	$2,475,278	$75,397
Insurance	219,433	6,787	271,458	8,269
Pension	169,287	5,236	167,931	5,115
Others	142,400	4,405	171,865	5,235
Depreciation expenses	560,137(Note)	17,325	581,261	17,705
Amortization expenses	96,267	2,978	101,659	3,097

Note：The depreciation expense of Lucky Bank include the depreciation from non-operating assets, recorded under other income (loss) except for interest-net, amounted to NT$2 (US$0.06) for the six-month period ended June 30, 2006.

27. 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 (expense) for the six-month periods ended June 30, 2006 and 2007 is as follows:

	January 1- June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$-	$-	$(309,398)	$(9,424)
Interest on separation tax (tax rate 20% or 6%)	(270,693)	(8,373)	(23,787)	(725)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(2,510)	(78)	(986,719)	(30,055)
Allowance for pledged assets taken-over (reversal)	(96,070)	(2,972)	4,772	145
Foreign investment income recognized by the equity method	(1,356)	(42)	977	30
Others	11,670	361	93,459	2,847
Valuation allowance	(335,827)	(10,387)	763,641	23,260
Operating loss carry-forward	592,094	18,314	(15,626)	(476)
Investment tax credits	2,124	66	3,224	98
Effect of foreign branches' income tax	40,751	1,260	(51,123)	(1,557)
Adjustment of prior period's income tax	509,217	15,751	(638,420)	(19,446)
Income tax benefit (expense)	449,400	13,900	(1,159,000)	(35,303)
Income tax benefit from cumulative effect of changes in accounting principles	(139,225)	(4,306)	-	-
Income tax benefit (expense) of continuing operations	$310,175	$9,594	$(1,159,000)	$(35,303)

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:

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$1,027,463	$31,780	$4,152,001	$126,470
Others	129,666	4,011	171,495	5,224
Deductible temporary differences:				
Allowance for bad debts	10,033,793	310,355	7,145,265	217,644
Unrealized impairment loss for pledged assets taken-over	126,441	3,911	100,254	3,054
Pension expenses exceed the limit of tax law	213,202	6,595	174,814	5,325
Valuation of financial instruments	1,116,746	34,542	4,174,706	127,161
Provisions for possible losses	126,040	3,899	238,456	7,263
Others	472,476	14,614	833,801	25,398
Operating loss carry-forward (expiration year:2011)	1,434,518	44,371	10,150,658	309,188
Investment tax credit (expiration year:2011)	-	-	3,224	98
Deferred income tax assets of foreign branches	88,072	2,724	52,030	1,585

(3) Deferred tax assets	$3,468,876	$107,296	$5,759,743	$175,441
Deferred tax liabilities	(289,282)	(8,948)	(1,080,874)	(32,923)
Valuation allowance	(917,633)	(28,383)	(435,919)	(13,278)
Net deferred tax assets	$2,261,961	$69,965	$4,242,950	$129,240

(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:

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
The Bank's imputation credit	$145,506	$4,501	$552,402	$16,826
Undistributed earnings	2,828,385	87,485	4,385,094	133,570

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%	-

28. Earnings per share

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

	January 1 – June 30, In thousands of shares	
	2006(Restated)	2007
Weighted-average shares outstanding	4,868,941	4,868,941

	January 1 – June 30,							
	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	$1,929,733	$59,689	$2,239,908	$69,283	$5,544,094	$168,873	$4,385,094	$133,570
Cumulative effect changes in accounting principles	587,454	18,170	726,679	22,477	-	-	-	-
Net income	$2,517,187	$77,859	$2,966,587	$91,760	$5,544,094	$168,873	$4,385,094	$133,570
Earnings per share (in dollars)								
Income from continuing operations	$0.40	$0.012	$0.46	$0.014	$1.14	$0.035	$0.90	$0.028
Cumulative effect changes in accounting principles	0.12	0.004	0.15	0.005	-	-	-	-
Net income	$0.52	$0.016	$0.61	$0.019	$1.14	$0.035	$0.90	$0.028

(2) According to the regulations issued by the Securities and Futures Bureau, the Bank should assume that the dividends of the year 2005 and 2006 would be appropriated to the employee, directors and supervisors , and estimate earnings per share for the current year. However, the Bank had deficit for the year 2006. Consequently, no dividend will be distributed for the year. The assumption of year 2005 is shown as below：

	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:

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

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 Consulting Co., Ltd.	〃
Cathay Securities Trust Co., Ltd.	〃

Name of related parties	Relationship
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.	〃
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

	June 30, Account balance			January 1- June 30, Interest income (expense)	
Accounts/Related parties	NT	US	% of Account	NT	US
2006 (Restated)					
Loans					
Seaward Leasing Ltd.	$1,950,000	$60,315	0.28%	$14,282	$442
Taiwan Real-estate Management Corp.	134,000	4,145	0.02%	1,980	61
Cathay General Hospital	336,969	10,423	0.05%	4,586	142
Others	465,138	14,387	0.06%	7,558	234
Total	$2,886,107	$89,270	0.41%	$28,406	$879
Deposits					
Cathay Life Insurance Co., Ltd.	$4,288,789	$132,657	0.47%	$(82,638)	$(2,556)
Cathay Financial Holding Co., Ltd.	9,846,678	304,568	1.08%	(72,873)	(2,254)
Cathay Futures Corp.	1,028,886	31,824	0.11%	(6,129)	(190)
Cathay Securities Corp.	1,255,651	38,839	0.14%	(9,801)	(303)
Cathay Century Insurance Co., Ltd.	596,174	18,440	0.07%	(3,121)	(97)
Cathay Pacific Venture Capital Co., Ltd.	387,656	11,991	0.04%	(1,830)	(56)
Cathay Securities Trust Co., Ltd.	262,163	8,109	0.03%	(2,308)	(71)
Cathay Real Estate Development Co., Ltd.	1,642,049	50,790	0.18%	(22)	(1)
Others	3,582,607	110,813	0.39%	(25,693)	(795)
Total	$22,890,653	$708,031	2.51%	$(204,415)	$(6,323)

Accounts/Related parties	June 30, Account balance NT	US	% of Account	January 1- June 30, Interest income (expense) NT	US
2007					
Loans					
Seaward Leasing Ltd.	$2,120,000	$64,575	0.29%	$20,063	$611
Taiwan Real-estate Management Corp.	125,000	3,807	0.02%	1,796	54
Cathay General Hospital	288,969	8,802	0.04%	3,832	117
Others	297,828	9,072	0.04%	3,902	119
Total	$2,831,797	$86,256	0.39%	$29,593	$901
Deposits					
Cathay Life Insurance Co., Ltd.	$5,578,377	$169,917	0.54%	$(17,493)	$(533)
Cathay Financial Holding Co., Ltd.	3,796,044	115,627	0.37%	(91,376)	(2,783)
Cathay Futures Corp.	1,082,581	32,975	0.11%	(7,277)	(222)
Cathay Securities Corp.	707,981	21,565	0.07%	(7,098)	(216)
Cathay Century Insurance Co., Ltd.	642,296	19,564	0.06%	(4,809)	(146)
Cathay Pacific Venture Capital Co., Ltd.	228,648	6,965	0.02%	(2,975)	(91)
Cathay Securities Trust Co., Ltd.	375,474	11,437	0.04%	(4,184)	(127)
Cathay Real Estate Development Co., Ltd.	72,636	2,213	0.01%	(99)	(3)
Others	2,512,861	76,542	0.25%	(21,007)	(640)
Total	$14,996,898	$456,805	1.47%	$(156,318)	$(4,761)

Accounts / Related parties	January 1- June 30, Maximum balance NT	US	June 30, Account balance NT	US	January 1 – June 30, Interest income (expense) NT	US	January 1 – June 30, Interest Rate(%)
2006 (Restated)							
Call loans to banks							
Indovina Bank	$768,544	$23,772	$617,567	$19,102	$13,842	$428	4.38%-7.80%
Due from commercial banks							
Indovina Bank	100,588	3,111	6,370	197	33	1	0.5%-2.16%
Call loans from banks							
Indovina Bank	35,750	1,106	-	-	(219)	(7)	5.14%
Due to commercial banks							
Indovina Bank	48,421	1,498	9,595	297	-	-	-

Accounts / Related parties	January 1- June 30, Maximum balance NT	US	June 30, Account balance NT	US	January 1 – June 30, Interest income (expense) NT	US	Interest Rate(%)
2007							
Call loans to banks							
Indovina Bank	$267,434	$8,146	$158,286	$4,821	$1,651	$50	5.1%-7.7%
Due from commercial banks							
Indovina Bank	200,197	6,098	5,376	164	48	1	0.5%-2.16%
Call loans from banks							
Indovina Bank	372,134	11,335	-	-	(500)	(15)	4.5%-8.7%
Due to commercial banks							
Indovina Bank	64,457	1,963	48,647	1,482	-	-	-

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

(2) Guarantees

2006 (Restated)

Related Parties	January 1- June 30, Maximum balance NT	US	June 30, Account balance NT	US	January 1- June 30, Service fees NT	US
Indovina Bank	$153,725	$4,755	$-	$-	$3	$0.1

2007

Related Parties	January 1- June 30, Maximum balance NT	US	June 30, Account balance NT	US	January 1- June 30, Service fees NT	US
Indovina Bank	$1,884	$57	$959	$29	$3	$0.1

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	June 30, Account balance NT	US	January 1- June 30, Interest income (expense) NT	US
2006 (Restated)				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$2,038,908	$63,066	$(26,228)	$(811)
Others	941,498	29,121	(5,784)	(179)
Total	$2,980,406	$92,187	$(32,012)	$(990)
Securities purchased under agreements to resell				
Taiwan Finance Co.	$-	$-	$20	$1

2007				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$4,203,527	$128,039	$(24,368)	$(742)
Others	820,917	25,005	(7,696)	(235)
Total	$5,024,444	$153,044	$(32,064)	$(977)

(4) Lease

	January 1- June 30,			
	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	$486	$15	$86	$3
Culture and Charity Foundation of Cathay United Bank	500	15	500	15
Taipei Smart Card Corp.	3,208	99	5,794	176
Cathay Securities Corp.	2,514	78	2,601	79
Cathay Life Insurance Co., Ltd.	2,123	66	3,377	103
Cathay Century Insurance Co., Ltd.	80	2	120	4
Rental expense				
Cathay Life Insurance Co., Ltd.	123,672	3,825	136,276	4,151
Cathay Real Estate Development Co., Ltd.	6,910	214	5,660	172
Seaward Leasing Ltd.	5,523	171	6,111	186
Pao Shin Securities Co., Ltd.	1,020	32	-	-

	June 30,			
	2006 (Restated)		2007	
Account/Related parties	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$33,393	$1,033	$33,393	$1,017
Cathay Life Insurance Co., Ltd.	65,336	2,021	63,669	1,939
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.

Account/Related parties	June 30, 2006 (Restated) NT	June 30, 2006 (Restated) US	June 30, 2007 NT	June 30, 2007 US
Guarantee deposit received				
Cathay Securities Corp.	$1,238	$38	$1,325	$40
Cathay Life Insurance Co., Ltd.	1,547	48	1,744	53
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.

Accounts/Related parties	January 1- June 30, 2006 (Restated) NT	January 1- June 30, 2006 (Restated) US	January 1- June 30, 2007 NT	January 1- June 30, 2007 US
(5) Commissions and handling fees income				
Cathay Futures Corp.	$433	$13	$-	$-
Cathay Life Insurance Co., Ltd.	2,485	77	136,122	4,146
Cathay Securities Co., Ltd.	1,513	47	2,749	84
Cathay Securities Trust Co., Ltd.	433	13	9,609	293
Cathay Life Insurance Agent Co., Ltd.	1,874	58	-	-
Cathay Century Insurance Co., Ltd.	-	-	20,062	611
Cathay Securities Investment Consulting Co., Ltd.	-	-	954	29
(6) Other operating income				
Cathay Life Insurance Co., Ltd.	215	7	-	-
Cathay Century Insurance Co., Ltd.	10	-	337	10
(7) Operating expenses				
Seaward Card Co., Ltd.	236,262	7,308	169,797	5,172
Cathay Life Insurance Co., Ltd.	83,549	2,584	62,466	1,903
Cathay Century Insurance Co., Ltd.	33,424	1,034	294	9
Symphox Information Co., Ltd.	88,346	2,733	234,674	7,148
Cathay Securities Corp.	1,200	37	3,024	92
Cathay Real Estate Development Co., Ltd.	3,600	111	3,645	111
Cathay Lin Yuan Security Co., Ltd.	-	-	1,154	35

Accounts/Related parties	January 1- June 30, 2006 (Restated) NT	2006 (Restated) US	2007 NT	2007 US
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	$107,151	$3,314	$222,268	$6,770
Cathay Century Insurance Co., Ltd.	24,725	765	66,646	2,030

Accounts/Related parties	June 30, 2006 (Restated) NT	2006 (Restated) US	2007 NT	2007 US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$1,387,683	$42,922	$638,005	$19,434
(10) Notes receivable				
Cathay Real Estate Development Co., Ltd.	3,180,000	98,361	-	-
(11) Other receivables- cash dividends				
Indovina Bank	108,758	3,364	98,520	3,001
(12) Prepaid rental expense				
Cathay Century Insurance Co., Ltd.	79	2	-	-
(13) Refundable deposit				
Cathay Futures Corp.	4,775	148	39,292	1,197
(14) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	-	-	109,660	3,340
(15) Accrued expenses				
Seaward Card Co., Ltd.	32,745	1,013	9,914	302
(16) Accounts payable				
Symphox Information Co., Ltd.	-	-	65,607	1,998
Cathay Securities Corp.	-	-	200	6
Cathay Century Insurance Co., Ltd.	-	-	11,504	350

(17)Others

a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT$1,411,880 (US$43,671), in 2006. The Bank paid the amount of NT$259,042 (US$7,890) during the six-month period ended June 30, 2007. As of June 30, 2007, the accumulated paid amount was NT$349,592 (US$10,649).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$72 (US$2) and NT$2,203 (US$67) during the six-month periods ended June 30, 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$9,777 (US$302) and NT$8,935 (US$272) during the six-month periods ended June 30, 2006 and 2007, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$13,706 (US$424) and NT$8,740 (US$266) during the six-month periods ended June 30, 2006 and 2007, respectively.

e. The Bank purchased bonus points of exchanging merchandise for the Bank's customer from Symphox Information Co., Ltd. during the six-month period ended 30, 2007. As of June 30, 2007, the bonus points which not converting amount was NT$22,928 (US$698).

f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT$344,050 (US$10,480) during the six-month period ended June 30, 2007.

g. The Bank paid the amount of NT$45,546 (US$1,387) to certain managers according to the intercession content which dissolving the construction contract on Shih-Hua Hills and repossessed the land by mediation.

h. The Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT$200,000 (US$6,092) which issued by the Bank in 2003.

i. 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$3,190) (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.

(18) For organization restructuring, the Bank's board of directors resolved to sell its 64,994 thousands 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$22,779) and net selling price was NT$708,275 (US$21,908) (the security transaction cost NT$2,132 (US$66) was deducted). The loss from the transaction was NT$28,179 (US$872) classified as the loss from disposal of the investment recognized by equity method.

(19) 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$98,361) 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$40,936), with selling price NT$3,170,460 (US$98,066) (securities transaction cost NT$9,540 (US$295) was deducted) minus the carrying value NT$1,846,994 (US$57,129).

(20) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount NT	Notional amount US	Valuation gains (losses) NT	Valuation gains (losses) US
June 30, 2006(Restated)						
Cathay Life Insurance Co., Ltd.	Forward	2006.4.19~2006.8.10	$8,731,585	$270,077	$(2,436)	$(75)
	Currency swap	2006.1.18~2006.7.18	26,598,315	822,713	244,748	7,570
	Interest rate swap	2006.1.18~2008.3.31	1,450,000	44,850	-	-
Cathay Century Insurance Co., Ltd.	Forward	2006.3.14~2007.3.14	42,205	1,305	222	7
	Currency swap	2005.8.31~2007.5.15	1,855,375	57,389	27,303	845
June 30, 2007						
Cathay Life Insurance Co., Ltd.	Forward	2006.8.14~2008.1.14	37,655,010	1,146,970	187,247	5,704
	Non-delivery forward	2007.3.5~2007.9.27	5,837,092	177,797	(88,452)	(2,694)
	Currency swap	2007.3.16~2008.2.29	48,387,725	1,473,887	(116,938)	(3,562)
	Interest rate swap	2006.1.18~2017.6.4	2,450,000	74,627	26	1
Cathay Century Insurance Co., Ltd.	Forward	2006.11.10~2007.12.13	483,007	14,712	7,284	222
	Non-delivery forward	2006.11.10~2007.11.20	208,390	6,348	(5,901)	(180)
	Currency swap	2007.3.5~2008.5.15	1,134,622	34,561	351	11
Cathay Global Balance Fund of Fund	Forward	2007.6.29~2007.8.3	23,645	720	51	2
Cathay Global Bond Fund	Forward	2007.6.6~2007.8.2	692,596	21,096	1,292	39
	Non-delivery forward	2007.6.29~2007.8.2	349,418	10,643	(9,162)	(279)
Cathay Global Money Market Fund	Forward	2007.6.1~2007.7.5	476,180	14,504	606	18
	Non-delivery forward	2007.6.1~2007.7.5	1,707,680	52,016	(38,314)	(1,167)
Cathay Global Infrastructure Fund	Forward	2007.6.6~2007.7.9	1,182,240	36,011	3,695	113

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 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	$277,934,034	$8,465,855
Travelers checks for sale	670,507	20,424
Bills for collection	46,189,380	1,406,926
Book-entry for government bonds and depository for short-term marketable securities under management	337,968,700	10,294,508
Guarantees on duties and contracts	17,431,844	530,973
Unused commercial letters of credit	4,268,673	130,024
Irrevocable loan commitments	33,314,917	1,014,771
Credit card lines commitments	281,247,456	8,566,782
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of June 30, 2007, the Bank had various lawsuits and proceedings. The significant ones are summarized below:

   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 and the High Court adjudged that the Bank win the lawsuit. However, Pacific SOGO appealed and the appeal is being reviewed by the Supreme 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$12,372). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

3. As of June 30, 2007, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$2,870,672 (US$87,441) with prepayments of NT$1,338,423 (US$40,768).

4. According to the operating leases agreement, rentals for lease should be paid in future are as follows:

Periods	NT	US
2007.7.1~2008.6.30	$548,600	$16,710
2008.7.1~2009.6.30	466,012	14,195
2009.7.1~2010.6.30	414,377	12,622
2010.7.1~2011.6.30	400,081	12,186
2011.7.1~2012.6.30	404,663	12,326

VIII. Significant disaster losses

None.

IX. Significant subsequent event

None.

X. Disclosure of financial instruments information

1. Information of fair value

	June 30, 2006 (Restated)			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$51,805,390	$1,602,394	$51,805,390	$1,602,394
Available-for-sale financial assets	52,916,689	1,636,767	52,916,689	1,636,767
Held-to-maturity financial assets and debt securities with no active market	243,530,946	7,532,661	243,514,043	7,532,139
Investment accounted for using equity method	2,022,405	62,555	2,022,405	62,555
Others	840,468,859	25,996,562	840,468,859	25,996,562
Liabilities				
Financial liabilities at fair value through profit or loss	49,395,298	1,527,847	49,395,298	1,527,847
Financial debentures payable	17,282,698	534,572	17,282,698	534,572
Others	1,070,813,548	33,121,359	1,070,813,548	33,121,359

	June 30, 2006 (Restated)			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	1,495,794	46,266	1,495,794	46,266
Interest rate swap	737,509	22,812	737,509	22,812
Cross currency swap	1,072	33	1,072	33
Futures	(862)	(27)	(862)	(27)
Options	48,645	1,505	48,645	1,505
Credit derivative instruments	31,731	982	31,731	982
Credit default swap	562	17	562	17
Liabilities				
Forward	1,374,484	42,514	1,374,484	42,514
Interest rate swap	2,486,851	76,921	2,486,851	76,921
Cross currency swap	622,015	19,240	622,015	19,240
Futures	8,553	265	8,553	265
Options	56,618	1,751	56,618	1,751
Credit derivative instruments	117,955	3,648	117,955	3,648
Credit default swap	836	26	836	26

	June 30, 2007			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$44,798,347	$1,364,555	$44,798,347	$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets and debt securities with no active market	281,899,976	8,586,658	281,838,783	8,584,794
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	840,651,145	25,606,188	840,651,145	25,606,188
Liabilities				
Financial liabilities at fair value through profit or loss	43,834,863	1,335,208	43,834,863	1,335,208
Financial debentures payable	17,686,802	538,739	17,686,802	538,739
Others	1,116,653,146	34,013,194	1,116,653,146	34,013,194

	June 30, 2007			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	1,603,961	48,857	1,603,961	48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Futures	(12,905)	(393)	(12,905)	(393)
Options	12,910	393	12,910	393
Credit derivative instruments	22,900	698	22,900	698
Credit default swap	(67)	(2)	(67)	(2)
Liabilities				
Forward	1,311,014	39,933	1,311,014	39,933
Non-delivery forward	277,005	8,438	277,005	8,438
Currency swap	672,599	20,487	672,599	20,487
Interest rate swap	2,506,204	76,339	2,506,204	76,339
Cross currency swap	557,266	16,974	557,266	16,974
Options	12,354	376	12,354	376
Credit derivative instruments	28,158	858	28,158	858
Credit default swap	(281)	(9)	(281)	(9)

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:

	June 30, 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	$51,805,390	$1,602,394	$-	$-
Available-for-sale financial assets	52,916,689	1,636,767	-	-
Held-to-maturity financial assets and debt securities without active market	190,767,421	5,900,632	52,746,622	1,631,507
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	685,817	21,213	48,709,481	1,506,634
Financial debentures payable	-	-	17,282,698	534,572
Others	(Note)	(Note)	(Note)	(Note)

	June 30, 2006 (Restated)			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$-	$-	$1,495,794	$46,266
Interest rate swap	-	-	737,509	22,812
Cross currency swap	-	-	1,072	33
Futures	(862)	(27)	-	-
Options	752	23	47,893	1,482
Credit derivative instruments	-	-	31,731	982
Credit default swap	-	-	562	17
Liabilities				
Forward	-	-	1,374,484	42,514
Interest rate swap	-	-	2,486,851	76,921
Cross currency swap	-	-	622,015	19,240
Futures	8,553	265	-	-
Options	4,023	124	52,595	1,627
Credit derivative instruments	-	-	117,955	3,648
Credit default swap	-	-	836	26

	June 30, 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	$43,041,436	$1,311,040	$1,756,911	$53,515
Available-for-sale financial assets	54,717,055	1,666,679	2,660,535	81,040
Held-to-maturity financial assets and debt securities without active market	214,227,285	6,525,351	67,611,498	2,059,443
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	43,834,863	1,335,208
Financial debentures payable	-	-	17,686,802	538,739
Others	(Note)	(Note)	(Note)	(Note)

	June 30,2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$-	$-	$1,603,961	$48,857
Non-delivery forward	-	-	280,436	8,542
Currency swap	-	-	444,494	13,539
Interest rate swap	-	-	1,023,157	31,165
Futures	(12,905)	(393)	-	-
Options	578	18	12,332	375
Credit derivative instuments	-	-	22,900	698
Credit default swap	-	-	(67)	(2)
Liabilities				
Forward	-	-	1,311,014	39,933
Non-delivery forward	-	-	277,005	8,438
Currency swap	-	-	672,599	20,487
Interest rate swap	-	-	2,506,204	76,339
Cross currency swap	-	-	557,266	16,974
Options	22	1	12,332	375
Credit derivative instruments	-	-	28,158	858
Credit default swap	-	-	(281)	(9)

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 or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gain NT$42,662 (US$1,320) and loss NT$277,982 (US$8,467) for the six-month periods ended June 30, 2006 and 2007, respectively.

5. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the six-month periods ended June 30, 2006 and 2007 were NT$20,578,085 (US$636,501) and NT$18,961,671 (US$577,571), and expenses were NT$7,760,375 (US$240,036) and NT$9,028,325 (US$275,002), respectively.

6. The Bank recognized an unrealized gains or losses of NT$182,943 (US$5,659) and NT$261,307 (US$7,959) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$188,952 (US$5,844) and NT$369,738 (US$11,262) in income statements, for the six-month periods ended June 30, 2006 and 2007, respectively.

7. Interest income of NT$18 from financial assets were impaired which were assessed by discount rate of cash flow for the six-month periods ended June 30, 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 trades 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 Band 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.

January 1 - June 30, 2007						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$106,565	$3,246	$163,705	$4,986	$43,942	$1,338
Foreign exchange	97,494	2,970	388,037	11,820	3,842	117
Equity Securities price	118,237	3,601	250,352	7,626	31,352	955

The Bank enters into a variety of derivatives transactions for both trading and nontrading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank provides trades derivative instruments on behalf of customers and for its own positions. The bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

Market risk factor sensitivity is one of the tools to manage market risk. Market risk factor sensitivities of a position are defined as the change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate, foreign exchange rate and equity factor sensitivities.

Foreign exchange rate factor sensitivities ("FX delta") represent the foreign exchange portfolios caused by the underlying currency exchange rate at the balance sheet date.

Interest rate factor sensitivities (the present value of one basis point, or "PVBP") represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting a portfolio. The Bank's interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

Equity factor sensitivities ("Equity delta") represent the change of the equity portfolio of the underlying stocks prices. The Bank's equity portfolios include stocks and equity index options.

(In thousands of US dollars)

	Currency	June 30, 2007
FX factor sensitivity (FX Delta)		
	JPY	$(275)
	USD	(6,913)
	NTD	7,052
Interest rate factor sensitivity (PVBP)		
	JPY	1
	USD	(801)
	NTD	(922)
Equity factor sensitivity (Equity Delta)		
	NTD	30,305

(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.

	June 30, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$51,805,390	$1,602,394	$51,805,390	$1,602,394
Available-for-sale financial assets	52,916,689	1,636,767	52,916,689	1,636,767
Held-to-maturity financial assets and debt securities with no active market	243,514,043	7,532,139	243,514,043	7,532,139
Investment accounted for using equity method	2,022,405	62,555	2,022,405	62,555
Others	840,468,859	25,996,562	840,468,859	25,996,562
Guarantees on duties and contracts	-	-	15,289,727	472,927
Unused commercial letters of credit	-	-	3,644,959	112,742
Irrevocable loan commitments	-	-	38,865,888	1,202,162
Credit card line commitments	-	-	281,650,598	8,711,741

	June 30, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Derivative financial instruments				
Forward	$1,495,794	$46,266	$1,495,794	$46,266
Interest rate swap	737,509	22,812	737,509	22,812
Cross currency swap	1,072	33	1,072	33
Options	48,645	1,505	48,645	1,505
Credit derivative instruments	31,731	981	31,731	981
Credit default swap	562	17	562	17

	June 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$44,798,347	$1,364,555	$44,798,347	$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets and debt securities with no active market	281,838,783	8,584,794	281,838,783	8,584,794
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	840,651,145	25,606,188	840,651,145	25,606,188
Guarantees on duties and contracts	-	-	17,431,844	530,973
Unused commercial letters of credit	-	-	4,268,673	130,024
Irrevocable loan commitments	-	-	33,314,917	1,014,771
Credit card line commitments	-	-	281,247,456	8,566,782
Derivative financial instruments				
Forward	$1,603,961	$48,857	$1,603,961	$48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Options	12,910	393	12,910	393
Credit derivative instruments	22,900	698	22,900	698

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:

	June 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$90,584,841	$2,801,882	$107,316,059	$3,268,841
Financial institutions and insurance	39,617,949	1,225,423	48,150,828	1,466,672
Leasing and real estate	69,986,276	2,164,747	67,827,910	2,066,034
Individuals	402,040,756	12,435,532	412,576,972	12,567,072
Others	116,090,784	3,590,807	118,262,338	3,602,264
Total	718,320,606	22,218,391	754,134,107	22,970,883
Valuation allowance	(10,799,682)	(334,045)	(11,904,778)	(362,619)
Maximum credit risk exposed	$707,520,924	$21,884,346	$742,229,329	$22,608,264
Geographic Region				
Domestic	$679,328,909	$21,012,338	$704,933,640	$21,472,240
South East Asia	10,315,341	319,064	12,367,268	376,706
North East Asia	-	-	133,330	4,061
America	8,935,666	276,389	10,227,417	311,527
Others	19,740,690	610,600	26,472,452	806,349
Total	718,320,606	22,218,391	754,134,107	22,970,883
Valuation allowance	(10,799,682)	(334,045)	(11,904,778)	(362,619)
Maximum credit risk exposed	$707,520,924	$21,884,346	$742,229,329	$22,608,264

(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.

The liquidity risk rate was 28.14%. Capital and working capital of the Bank have sufficed to deliver contracts. The Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

The Bank's financial debentures payable was matched with the interest rate swap and currency swap contracts which had been 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 June 30, 2007, there is no significant change in these dates.

As of June 30, 2006 and 2007, respectively, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

	Effective interest rate (%)	
Financial instruments	June 30, 2006 (Restated)	June 30, 2007
Available-for-sale financial assets		
Bonds	1.3653-6.83732	1.66761-6.83339
Overseas financial instruments	3.65-4.6	4.501-5.735
Held-to-maturity financial assets		
Bonds	1.64-6.95	1.6495-6.95
Overseas financial instruments	0.61-7.625	3.45-6.65
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.52-1.9	1.76-3
Overseas financial instruments	0-8.32	0-7.51
Financial debentures payable	4.15-5.59	2-5.593

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	June 30, 2006 (Restated)		June 30, 2007	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$1,278,000	$39,530	$1,038,134	$31,621

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-June 30, 2006 (Restated)		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$25,322,860	$783,262	1.49%
Time certificates, discounted bills and others	205,715,831	6,363,001	1.60%
Due from commercial banks and call loans to banks	26,506,591	819,876	2.93%
Discounts and loans	680,253,204	21,040,928	3.89%
Bills purchased	7,869	243	7.51%
Government, corporate bonds and financial debentures	135,013,750	4,176,114	4.18%
Receivables-credit card revolving balance	36,776,829	1,137,545	13.06%
Liabilities			
Due to banks	86,780,911	2,684,222	3.11%
Demand deposits	101,410,346	3,136,726	0.41%
Saving deposits	569,824,286	17,625,249	0.98%
Time deposits	208,157,999	6,438,540	2.04%
Negotiable certificates of deposit	16,314,273	504,617	1.40%
Securities sold under agreements to repurchase	35,699,588	1,104,225	1.29%
Financial debentures	67,997,232	2,103,224	2.61%
Funds borrowed from the Central Bank and other banks	1,120,522	34,659	3.89%

	January 1-June 30, 2007		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$26,877,487	$818,687	1.50%
Time certificates, discounted bills and others	227,888,486	6,941,471	1.82%
Due from commercial banks and call loans to banks	19,289,771	587,565	3.57%
Discounts and loans	720,150,906	21,935,757	3.43%
Bills purchased	6,315	192	3.51%
Government, corporate bonds and financial debentures	140,124,465	4,268,184	4.23%
Receivables-credit card revolving balance	24,928,640	759,325	12.94%
Liabilities			
Due to banks	88,893,263	2,707,684	3.94%
Demand deposits	105,344,707	3,208,794	0.46%
Saving deposits	618,553,500	18,841,106	1.08%
Time deposits	237,714,176	7,240,761	2.52%
Negotiable certificates of deposit	4,072,588	124,051	1.52%
Securities sold under agreements to repurchase	23,301,844	709,773	1.49%
Financial debentures	67,336,251	2,051,059	2.46%
Funds borrowed from the Central Bank and other banks	1,136,493	34,618	4.32%

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 June 30, 2007, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.80%.

As of June 30, 2006, the ratio (excluded consolidated subsidiary from the calculation) of the Bank and Lucky Bank was 13.06% and 10.50%, respectively.

3. 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$121,869) 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 thousands 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	$196,819
Due from the Central Bank and call loans to banks	2,410,995	73,439
Available-for-sale financial assets, net	528,186	16,088
Receivables, net	299,492	9,122
Discounts and loans, net	53,668,319	1,634,734
Premises and equipment, net	1,633,660	49,761
Other financial assets, net	23,495,274	715,665
Other assets	506,457	15,427
Call loans from banks	(145,219)	(4,423)
Payables	(1,695,272)	(51,638)
Deposits and remittances	(82,958,055)	(2,526,898)
Other liabilities	(204,416)	(6,227)
Subtotal	4,000,979	121,869
Issued shares for the merger	(2,268,895)	(69,110)
Unrealized gain on financial instrument	17,292	527
Capital reserves from the merger	$1,749,376	$53,286

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 six-month period ended June 30, 2006.

4. 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.

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

Balance Sheet Based on Trust
June 30, 2006

Trust Assets			Trust Liabilities		
	NT	US		NT	US
Cash and cash equivalents	$2,929,010	$90,598	Payables		
Short-term investment			Redemption charge payable	$26	$1
Bonds	78,255,759	2,420,531	Service fee payable	49	2
Common stock	1,992,470	61,629	Management fee payable	20	1
Mutual funds	51,903,383	1,605,425	Other liabilities	92,165	2,851
Structure product	48,400	1,497	Trust capital		
Short-term bills or repurchase			Trust capital-money	133,057,729	4,115,612
investment	11,031	341	Trust capital-securities	1,970,913	60,962
Receivables			Trust capital-real estate	3,681,036	113,858
Accrued interest receivable	1	-			
Real estate			Reserve and accumulated		
Land	3,677,416	113,746	earnings		
Buildings (Net)	6,502	201	Distribution	(90,933)	(2,813)
			Net Income	86,512	2,676
			Retained earnings	26,455	818
Total	$138,823,972	$4,293,968	Total	$138,823,972	$4,293,968

Balance Sheet Based on Trust

June 30, 2007

Trust Assets	NT	US	Trust Liabilities	NT	US
Bank deposits	$3,871,066	$117,913	Payables		
Short-term investment			Redemption charge payable	$10,812	$329
Bonds	78,293,075	2,384,803	Service fee payable	146	4
Common stock	2,786,565	84,878	Management fee payable	476	15
Mutual funds	92,711,572	2,823,989	Taxes payable	112	3
Structure product	165,500	5,041	Other liabilities	-	-
Short-term bills or			Trust capital		
repurchase investment	5,192	158	Trust capital-money	174,341,611	5,310,436
Receivables			Trust capital-securities	2,708,591	82,504
Accrued interest			Trust capital-real estate	6,411,840	195,304
receivable	41	1			
Dividend receivable	372	11	Reserve and accumulated		
			earnings		
Proceeds from sale of			Distribution	(33,148)	(1,010)
securities receivable	1,909	58			
Real estate			Net Income	44,624	1,359
Land	5,452,726	166,090	Retained earnings	37,447	1,141
Buildings	166,251	5,064			
Construction in progress	68,242	2,079			
Total	$183,522,511	$5,590,085	Total	$183,522,511	$5,590,085

Income Statement Based on Trust

Items	January1-June 30, 2007 NT	January1-June 30, 2007 US
Trust revenue		
Interest income	$6,349	$193
Rental income	168	5
Cash dividend income	4,784	146
Investment income-bonds	524	16
Investment income-stock	33,610	1,024
Investment income-funds	4,736	144
Subtotal	50,171	1,528
Trust expense		
Management fee	4,053	124
Supervisor fee	14	-
Taxes	771	23
Processing fee	253	8
Service fee	146	4
Investment loss-stock	320	10
Investment loss-funds	2	-
Others	4	-
Subtotal	5,563	169
Income equalization	16	-
Net income	$44,624	$1,359

Details of Trust Properties

Items	June 30, 2007 NT	June 30, 2007 US
Short-term investment		
Bonds	$78,293,075	$2,384,803
Common stock	2,786,565	84,878
Mutual fund	92,711,572	2,823,989
Structure product	165,500	5,041
Short-term bills or repurchase investment	5,192	158
Real estate		
Land	5,452,726	166,090
Buildings	166,251	5,064
Construction in progress	68,242	2,079
Total	$179,649,123	$5,472,102

6. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of June 30, 2007 is as follows:

Items	June 30, 2007 NT	June 30, 2007 US
Special trust of money that invest in foreign securities	$132,459,320	$4,034,704
Special trust money that invest in domestic securities	38,071,571	1,159,658
Trust of real estate	6,412,103	195,312
Trust of insurance claims	40,396	1,230
Trust of personnel property	646,911	19,705
Trust of business employee's savings	2,618,152	79,749
Trust of securities	2,708,150	82,490
Collective investment trust funds	527,921	16,080
Others	37,987	1,157
Total	$183,522,511	$5,590,085