Cathay United Bank
Financial Statements
For The Nine-Month Periods Ended
September, 2006 and 2007
With Independent Auditors' Review Report

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

English Translation of Report Originally Issued in Chinese

Independent Auditors' Review Report

The Board of Directors
Cathay United Bank

We have reviewed the accompanying balance sheets of Cathay United Bank (the "Bank") as of September 30, 2006 and 2007, and the related statements of income and cash flows for the nine-month periods ended September 30, 2006 and 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these financial statements based on our review.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the "Business Accounting Law", the "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.

Ernst & Young

ERNST & YOUNG
Taipei, Taiwan
The Republic of China
October 18, 2007

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank

Balance sheets

September 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

(Reviewed, not audited)

		September 30, 2006 (Restated)		September 30, 2007	
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	$29,096,472	$879,047	$23,268,187	$712,219
Due from the Central Bank and call loans to banks	IV and V	51,226,247	1,547,621	59,143,989	1,810,346
Financial assets at fair value through profit or loss	II and IV	56,382,143	1,703,388	42,350,391	1,296,308
Securities purchased under agreements to resell		126,000	3,807	626,000	19,161
Receivables, net	II, IV and V	51,293,387	1,549,649	44,972,047	1,376,555
Discounts and loans, net	II, IV and V	705,357,425	21,309,892	735,455,127	22,511,635
Available-for-sale financial assets, net	II and IV	51,614,812	1,559,360	58,357,622	1,786,276
Held-to-maturity financial assets, net	II and IV	5,541,686	167,423	4,505,039	137,895
Investments accounted for using equity method, net	II, IV and V	2,112,220	63,813	2,249,661	68,860
Other financial assets, net	II, IV and V	4,585,592	138,537	4,413,844	135,104
Investments in debt securities with no active market, ne	II and IV	230,733,968	6,970,815	279,572,898	8,557,481
Premises and equipment, net	II, IV, V and VII	25,510,202	770,701	25,245,498	772,742
Intangible assets, net	II, IV and V	492,022	14,865	373,022	11,418
Other assets, net	II, IV and V	8,271,378	249,890	10,236,324	313,325
TOTAL ASSETS		$1,222,343,554	$36,928,808	$1,290,769,649	$39,509,325

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)

September 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

(Reviewed, not audited)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	September 30, 2006(Restated) NT	September 30, 2006(Restated) US (Note II)	September 30, 2007 NT	September 30, 2007 US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$87,710,206	$2,649,855	$56,223,665	$1,720,957
Funds borrowed from the Central Bank and other banks		824,500	24,909	1,628,500	49,847
Financial liabilities at fair value through profit or loss	II and IV	53,038,898	1,602,384	48,860,435	1,495,575
Securities sold under agreements to repurchase	IV and V	20,696,643	625,276	16,824,273	514,976
Payables	IV and V	25,621,742	774,071	27,115,544	829,983
Deposits and remittances	IV and V	930,988,371	28,126,537	1,037,111,293	31,745,066
Financial debentures payable	IV and X	18,276,773	552,168	18,158,994	555,831
Other financial liabilities	II and IV	817,283	24,691	717,576	21,964
Other liabilities	II, IV and V	2,056,068	62,117	1,818,179	55,653
TOTAL LIABILITIES		1,140,030,484	34,442,008	1,208,458,459	36,989,852
SHAREHOLDERS' EQUITY					
Capital stock	IV	48,689,413	1,470,979	48,689,413	1,490,340
Capital reserves	IV	15,125,936	456,977	15,213,565	465,674
Retained earnings	IV				
Legal reserve		15,271,236	461,367	11,482,369	351,465
Undistributed earnings		2,950,034	89,125	7,053,276	215,895
Foreign currency translation adjustment	II	98,644	2,980	61,070	1,869
Unrealized gains or losses on financial instruments	II	177,807	5,372	(188,503)	(5,770)
TOTAL SHAREHOLDERS' EQUITY		82,313,070	2,486,800	82,311,190	2,519,473
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,222,343,554	$36,928,808	$1,290,769,649	$39,509,325

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 nine-month periods ended September 30, 2006(Restated) and 2007

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

(Reviewed, not audited)

ITEMS	NOTES	January 1 - September 30, 2006(Restated) NT	January 1 - September 30, 2006(Restated) US (Note II)	January 1 - September 30, 2007 NT	January 1 - September 30, 2007 US (Note II)
INTEREST INCOME	II and V	$32,589,159	$984,567	$29,961,354	$917,091
INTEREST EXPENSE	V	(12,930,422)	(390,647)	(14,160,551)	(433,442)
NET INTEREST INCOME		19,658,737	593,920	15,800,803	483,649
NONINTEREST INCOME					
Net fee income	II and V	3,584,003	108,278	3,640,217	111,424
Gains (losses) on financial assets and liabilities at fair value through profit or loss	II	(680,736)	(20,566)	207,759	6,359
Realized gains on available-for-sale financial assets	II	370,949	11,207	1,528,107	46,774
Realized gains (losses) on held-to-maturity financial assets	II	681	21	(133)	(4)
Investment income recognized by the equity method	II and IV	1,672	50	150,453	4,605
Gain from disposal of investment recognized by the equity method	II and V	1,298,902	39,242	-	-
Foreign exchange gains, net	II	303,503	9,169	604,141	18,492
Impairment loss of assets	II	(209,027)	(6,315)	(16,931)	(518)
Impairment reversal (loss) on foreclosed properties		385,148	11,636	(19,170)	(587)
Gains (losses) on disposal of foreclosed properties		482,796	14,586	(145)	(4)
Others	IVand V	334,852	10,116	334,801	10,248
NET NONINTEREST INCOME		5,872,743	177,424	6,429,099	196,789
NET OPERATING INCOME		25,531,480	771,344	22,229,902	680,438
BAD DEBT EXPENSE	II and IV	(13,568,441)	(409,923)	(2,993,794)	(91,637)
OPERATING EXPENSES					
Personnel	II and IV	(3,805,566)	(114,972)	(4,756,770)	(145,601)
Depreciation and amortization	II and IV	(995,563)	(30,077)	(1,016,704)	(31,120)
Other general and administrative expenses	V	(4,954,268)	(149,676)	(4,545,358)	(139,130)
TOTAL OPERATING EXPENSES		(9,755,397)	(294,725)	(10,318,832)	(315,851)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		2,207,642	66,696	8,917,276	272,950
INCOME TAX BENEFIT (EXPENSE)	II and IV	229,920	6,946	(1,864,000)	(57,055)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		2,437,562	73,642	7,053,276	215,895
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	726,679	21,954	-	-
NET INCOME		$3,164,241	$95,596	$7,053,276	$215,895
BASIC EARNINGS PER SHARE (IN DOLLARS)	IV				
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		$0.50	$0.015	$1.45	$0.044
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		0.15	0.005	-	-
NET INCOME		$0.65	$0.020	$1.45	$0.044

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 nine-month periods ended September 30, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

(Reviewed, not audited)

ITEMS	NOTES	January 1-September 30, 2006(Restated) NT	January 1-September 30, 2006(Restated) US (Note II)	January 1-September 30, 2007 NT	January 1-September 30, 2007 US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income		$3,164,241	$95,596	$7,053,276	$215,895
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	II	995,563	30,077	1,016,704	31,120
The differences between investment income recognized by the equity method and the cash dividends received	II	151,237	4,569	(74,533)	(2,281)
Gain on disposal of investments accounted for using equity method	II	(1,298,902)	(39,242)	-	-
Impairment (reversal) loss on foreclosed properties	II	(385,148)	(11,636)	19,170	587
Bad debt expense	II and IV	13,568,441	409,923	2,993,794	91,637
Loss (Gain) on disposal of premises, equipment and foreclosed properties	II	(534,110)	(16,136)	23,074	706
Impairment loss of assets	II	209,027	6,315	16,931	518
Effects of exchange rate changes		(12,783)	(386)	(13,421)	(411)
Cumulative effect of changes in accounting principles	II and III	(726,679)	(21,954)	-	-
(Increase) decrease in operating assets					
(Increase) decrease in receivables		5,135,875	155,162	(257,976)	(7,896)
(Increase) decrease in deferred income tax assets		(192,846)	(5,826)	958,363	29,335
(Increase) decrease in financial assets at fair value through profit or loss		(6,766,728)	(204,433)	14,695,870	449,828
Increase in other assets		(200,131)	(6,046)	(115,701)	(3,542)
Increase (decrease) in operating liabilities					
Increase (decrease) in payables		(996,943)	(30,119)	2,793,196	85,497
Increase (decrease) in financial liabilities at fair value through profit or loss		3,768,070	113,839	(6,536,266)	(200,069)
Increase (decrease) in tax payables		(32,059)	(969)	94,548	2,894
Decrease in other liabilities		(326,613)	(9,867)	(166,026)	(5,082)
Net cash provided by operating activities		15,519,512	468,867	22,501,003	688,736
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase in discounts and loans		(34,540,682)	(1,043,525)	(21,469,213)	(657,154)
(Increase) decrease in due from the Central Bank and call loans to banks		1,191,832	36,007	(7,972,440)	(244,029)
Decrease in securities purchased under agreements to resell		1,066,252	32,213	1,160,058	35,509
Increase in available-for-sale financial assets		(9,283,143)	(280,458)	(4,672,498)	(143,021)
Decrease in held-to-maturity financial assets		2,808,720	84,856	1,131,271	34,627
Proceeds from disposal of investments accounted for using equity method		3,989,406	120,526	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		1,730,820	52,291	59,557	1,823
Acquisition of premises, equipment and foreclosed properties		(541,702)	(16,366)	(1,048,796)	(32,103)
Acquisition of intangible assets		(102,028)	(3,082)	(48,210)	(1,476)
Increase in investments in debt securities with no active market		(34,776,687)	(1,050,655)	(21,735,018)	(665,290)
(Increase) decrease in other financial assets		(269,898)	(8,154)	18,687	572
Increase in other assets		(744,437)	(22,491)	(541,148)	(16,564)
Net cash used in investing activities		(69,471,547)	(2,098,838)	(55,117,750)	(1,687,106)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		16,338,832	493,620	(43,778,689)	(1,340,027)
Decrease in securities sold under agreements to repurchase		(13,168,292)	(397,834)	(6,837,467)	(209,289)
Increase in deposits and remittances		49,132,262	1,484,358	71,524,513	2,189,303
Increase in funds borrowed from the Central Bank and other banks		4,000	121	812,250	24,862
Increase (decrease) in financial debentures payable		(479,524)	(14,487)	23,175	710
Decrease in other financial liabilities		(204,296)	(6,172)	(58,146)	(1,780)
Increase (decrease) in other liabilities		12,796	387	(5,744)	(176)
Distribution of cash dividends	IV	(2,695,420)	(81,433)	-	-
Bonus to shareholders and special bonus to employees		(2,103)	(63)	-	-
Net cash provided by financing activities		48,938,255	1,478,497	21,679,892	663,603
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		27,809	840	6,215	190
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,985,971)	(150,634)	(10,930,640)	(334,577)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		34,082,443	1,029,681	34,198,827	1,046,796
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		$29,096,472	$879,047	$23,268,187	$712,219
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expense paid		$12,084,695	$365,097	$13,516,739	$413,736
Income tax paid		$2,790,777	$84,314	$548,446	$16,787
PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:					
Dividends payable		$1,500	$45	$-	$-
Add: Payable at beginning of the period		15,351	464	-	-
Less: Payable at end of the period		(14,748)	(446)	-	-
Payment		$2,103	$63	$-	$-

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

Cathay United Bank

Notes to financial statements

For the nine-month periods ended September 30, 2006 (Restated) and 2007

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

(Reviewed, not audited)

I. Business

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

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

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

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

The Bank's stock was traded on the Taiwan Stock Exchange (the "TSE") until December 18, 2002. On December 18, 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holdings") through a conversion transaction and 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 September 30, 2006 and 2007, the Bank employed 5,225 (restated) and 5,541 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 three preceding categories.

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss 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") from January 1, 2006. The Bank has considered the impact of the AMT Act in the determination of its tax liabilities using the higher of the statutory income tax or minimum tax under AMT Act as its current period income tax expense.

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 September 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$33.10 and NT$32.67 to US$1.00 on September 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	$8,913	$-	$-
Available-for-sale financial assets	-	-	355,156 (Note)	10,730 (Note)
Financial liabilities at fair value through profit or loss	449,790	13,589	-	-
Derivative financial liabilities for hedging	(18,145)	(548)	-	-
Total	$726,679	$21,954	$355,156	$10,730

   Note: Lucky Bank recognized as a separate component of shareholders’ equity amount NT$1,813 (US$55).

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$21,954) and increased after income tax earnings per share of NT$0.15(US$0.005) in dollars for the nine-month period ended September 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 nine-month period ended September 30, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Cash on hand	$10,759,500	$325,060	$9,945,212	$304,414
Checks for clearance	9,919,864	299,694	9,704,026	297,032
Due from commercial banks	8,417,108	254,293	3,618,949	110,773
Total	$29,096,472	$879,047	$23,268,187	$712,219

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

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Call loans to banks	$14,492,937	$437,853	$15,976,015	$489,012
Due from the Central Bank –				
Statutory reserve on deposits and general deposits	36,733,310	1,109,768	43,167,974	1,321,334
Total	$51,226,247	$1,547,621	$59,143,989	$1,810,346

Statuary reserve on deposits and general deposits consist 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$24,963,681 (US$754,190) and NT$28,682,622(US$877,950) as of September 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 non-interest bearing reserves may be withdrawn momentarily. As of September 30, 2006 and 2007, the balance of foreign-currency deposit reserves were NT$49,470 (US$1,495) and NT$3,257,000 (US$99,694), respectively.

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3. Financial assets at fair value through profit or loss

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$3,959,269	$119,615	$3,195,623	$97,815
Mutual funds and beneficiary certificates	1,513,762	45,733	1,077,438	32,980
Commercial papers and certificates of deposit	13,199,756	398,784	12,076,966	369,665
Bonds	31,127,277	940,401	20,245,930	619,710
Overseas financial instruments	1,486,115	44,898	1,431,940	43,831
Derivative financial instruments	3,342,734	100,989	4,050,604	123,985
Subtotal	54,628,913	1,650,420	42,078,501	1,287,986
Financial assets designated at fair value through profit or loss:				
Overseas financial instruments	1,585,260	47,893	172,987	5,295
Bonds	167,970	5,075	98,903	3,027
Subtotal	1,753,230	52,968	271,890	8,322
Total	$56,382,143	$1,703,388	$42,350,391	$1,296,308

(1) NT$167,970 (US$5,075) and NT$100,097 (US$3,064) of the financial assets at fair value through profit or loss as of September 30, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$9,852,600 (US$297,662). Such repurchase agreements amounting to NT$9,830,205 (US$296,985) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2006 was settled at NT$9,838,809 (US$297,245) prior to November 30, 2006.

As of September 30, 2007, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT$ 6,852,800 (US$209,758). Such repurchase agreements amounting to NT$6,833,686 (US$209,173) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2007 was settled at NT$6,836,839 (US$209,270) prior to November 30, 2007.

(3) As of September 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):

	September 30,	
	2006(Restated)	2007
Forward foreign exchange and currency swap contracts	$9,341,543	$17,118,058
Interest rate swap contracts	8,442,049	12,108,048
Cross-currency swap contracts	559,901	638,924
Options	169,926	154,809
Futures	10,486	-
Credit derivative instrument contracts	225,000	140,000
Credit default swap contracts	5,913	2,456

(4) Net gains arising from financial assets at fair value through profit or loss for the nine-month periods ended September 30, 2006 and 2007 was NT$824,038 (US$24,895) and NT$5,290,983 (US$161,952) , respectively.

4. Receivables, net

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Accounts receivable	$43,168,208	$1,304,175	$36,338,701	$1,112,296
Interest receivable	4,667,533	141,013	4,336,292	132,730
Receivable to related party for allocation of linked-tax system	1,239,285	37,441	638,005	19,529
Foreign currency receivable	42,709	1,290	2,175,902	66,603
Acceptances	634,933	19,182	1,104,480	33,807
Tax refundable	1,008,145	30,458	747,465	22,879
Others	2,227,097	67,284	3,054,027	93,481
Total	52,987,910	1,600,843	48,394,872	1,481,325
Less: allowance for doubtful accounts	(1,694,523)	(51,194)	(3,422,825)	(104,770)
Net balance	$51,293,387	$1,549,649	$44,972,047	$1,376,555

Information on bad and doubtful accounts is as follows:

	January 1-September 30, 2006 (Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$837,652	$25,307	$267,369	$8,078	$1,105,021	$33,385
Provision of doubtful accounts	9,778,534	295,424	-	-	9,778,534	295,424
Write-offs	(9,440,172)	(285,202)	-	-	(9,440,172)	(285,202)
Debt counseling recoveries	54,876	1,658	-	-	54,876	1,658
Recoveries	196,125	5,925	-	-	196,125	5,925
Reclassifications	125,018	3,777	(125,018)	(3,777)	-	-
Effects of exchange rates change	-	-	139	4	139	4
Balance, end of the period	$1,552,033	$46,889	$142,490	$4,305	$1,694,523	$51,194

	January 1-September 30, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$1,942,613	$59,462	$126,568	$3,874	$2,069,181	$63,336
Provision of doubtful accounts	4,487,795	137,367	-	-	4,487,795	137,367
Write-offs	(3,728,459)	(114,125)	-	-	(3,728,459)	(114,125)
Debt counseling recoveries	172,887	5,292	-	-	172,887	5,292
Recoveries	421,466	12,901	-	-	421,466	12,901
Reclassifications	122,078	3,737	(122,078)	(3,737)	-	-
Effects of exchange rates change	-	-	(45)	(1)	(45)	(1)
Balance, end of the period	$3,418,380	$104,634	$4,445	$136	$3,422,825	$104,770

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

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Outward documentary bills	$1,018,972	$30,785	$482,995	$14,784
Overdrafts	551,536	16,663	368,296	11,273
Short –term loans	166,665,193	5,035,202	163,371,095	5,000,646
Medium-term loans	215,159,349	6,500,282	205,468,338	6,289,205
Long-term loans	322,507,695	9,743,435	367,614,172	11,252,347
Delinquent accounts	11,440,419	345,632	8,355,136	255,743
Total	717,343,164	21,671,999	745,660,032	22,823,998
Less: allowance for doubtful accounts	(11,985,739)	(362,107)	(10,204,905)	(312,363)
Net balance	$705,357,425	$21,309,892	$735,455,127	$22,511,635

(1) As of September 30, 2006 and 2007, the accounts without interest accrued were NT$10,981,080 (US$331,755) and NT$10,528,464 (US$322,267), respectively. The non-accrued interest on such accounts amounted to NT$167,679 (US$5,066) and NT$195,652 (US$5,989) for the nine-month periods ended September 30, 2006 and 2007, respectively.

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(2) For the nine-month periods ended September 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-September 30, 2006(Restated)					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$4,549,440	$137,445	$11,730,042	$354,382	$16,279,482	$491,827
Provision of doubtful accounts	3,789,907	114,499	-	-	3,789,907	114,499
Write-offs	(12,734,554)	(384,730)	-	-	(12,734,554)	(384,730)
Debt counseling recoveries	2,015	61	-	-	2,015	61
Recoveries	4,648,532	140,439	-	-	4,648,532	140,439
Reclassification	4,438,757	134,102	(4,438,757)	(134,102)	-	-
Effects of exchange rates change	-	-	357	11	357	11
Balance, end of the period	$4,694,097	$141,816	$7,291,642	$220,291	$11,985,739	$362,107

	January 1-September 30, 2007					
	Allocated allowance		Unallocated portion		Total	
	NT	US	NT	US	NT	US
Balance, beginning of the period	$3,121,934	$95,560	$13,389,810	$409,850	$16,511,744	$505,410
Reversal of doubtful accounts (Note)	(1,594,001)	(48,791)	-	-	(1,594,001)	(48,791)
Write-offs	(8,689,950)	(265,992)	-	-	(8,689,950)	(265,992)
Debt counseling recoveries	12,860	394	-	-	12,860	394
Recoveries	3,964,740	121,357	-	-	3,964,740	121,357
Reclassification	6,771,627	207,273	(6,771,627)	(207,273)	-	-
Effects of exchange rates change	-	-	(488)	(15)	(488)	(15)
Balance, end of the period	$3,587,210	$109,801	$6,617,695	$202,562	$10,204,905	$312,363

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.

Note：Excluding debt expenses of call loans to banks $100,000 (US$3,061) thousands.

6. Available-for-sale financial assets, net

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Stocks	$4,906,265	$148,226	$4,888,213	$149,624
Mutual funds and beneficiary securities	84,092	2,540	110,666	3,387
Bonds	46,136,538	1,393,853	44,358,530	1,357,776
Overseas financial instruments	487,917	14,741	9,000,213	275,489
Total	$51,614,812	$1,559,360	$58,357,622	$1,786,276

(1) NT$263,721 (US$7,967) and NT$2,295,956 (US$70,277) of the available-for-sale financial assets as of September 30, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(2) As of September 30, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$9,947,400 (US$300,526).Such repurchase agreements amounting to NT$10,866,438(US$328,291) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2006 was settled at NT$10,894,518 (US$329,140) prior to March 31, 2007.

As of September 30, 2007, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT$9,028,400 (US$276,351). Such repurchase agreements amounting to NT$9,990,587 (US$305,803) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to September 30, 2007 was settled at NT$10,017,972 (US$306,641) prior to March 31, 2008.

7. Held-to-maturity financial assets, net

	September 30, 2006(Restated)			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$3,663,800	$110,688	$3,920,910	$118,456
Overseas financial instruments	1,622,815	49,028	1,622,815	49,028
Subtotal	5,286,615	159,716	5,543,725	167,484
Less: accumulated impairment	-	-	(2,039)	(61)
Net balance	$5,286,615	$159,716	$5,541,686	$167,423

	September 30, 2007			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$2,162,800	$66,202	$2,355,901	$72,112
Beneficiary certificates	576,335	17,641	576,335	17,641
Overseas financial instruments	1,579,571	48,349	1,574,816	48,204
Subtotal	4,318,706	132,192	4,507,052	137,957
Less: accumulated impairment	-	-	(2,013)	(62)
Net balance	$4,318,706	$132,192	$4,505,039	$137,895

As of September 30, 2006 and 2007, NT$2,325,185 (US$70,247) and NT$100,990 (US$3,091) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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8. Investments accounted for using equity method, net

	September 30, 2006 (Restated)				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$39,033	$1,179	100.00	$2,934	$89
Seaward leasing Ltd.	-	-	-	(144,883)	(4,377)
Cathay Life Insurance Agent Co., Ltd	83,079	2,510	100.00	57,518	1,737
Cathay Property Insurance Agent Co., Ltd.	9,035	273	100.00	2,554	77
Indovina Bank	568,789	17,184	50.00	83,677	2,528
Taiwan Real-estate Management Corp.	18,335	554	30.15	2,601	79
Taiwan Finance Corp.	1,350,394	40,797	24.57	(5,901)	(178)
Vista Technology Venture Capital Corp.	8,288	250	4.76	130	4
Cathay Venture Capital Corp.	35,267	1,066	2.00	2,433	73
Pao Shin Securities Co.	-	-	-	609	18
Total	$2,112,220	$63,813		$1,672	$50

	September 30, 2007				
	Carrying value		% of	Investment income (loss)	
	NT	US	ownership	NT	US
Seaward Card Co., Ltd.	$37,649	$1,152	100.00	$1,208	$37
Cathay Life Insurance Agent Co., Ltd	39,095	1,197	100.00	13,544	414
Cathay Property Insurance Agent Co., Ltd.	7,460	228	100.00	323	10
Indovina Bank	807,178	24,707	50.00	154,744	4,737
Taiwan Real-estate Management Corp.	36,612	1,121	30.15	17,238	528
Taiwan Finance Corp.	1,279,141	39,153	24.57	(37,284)	(1,141)
Vista Technology Venture Capital Corp.	7,537	231	4.76	(1,102)	(34)
Cathay Venture Capital Corp.	34,989	1,071	2.00	1,782	54
Total	$2,249,661	$68,860		$150,453	$4,605

(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 it's totally shares of Pao Shin Securities Co., Ltd. on April 11, 2006. The selling price was NT$110,670 (US$3, 344) and the gain from this transaction was NT$3,615 (US$109) 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 nine-month periods ended September 30, 2006 and 2007 were recognized based on the investees' unreviewed financial statements. No material adjustments were anticipated, have those financial statements been reviewed.

9. Other financial assets, net

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial assets carried at cost, stocks	$4,581,282	$138,407	$4,408,149	$134,930
Bills purchased	4,310	130	5,695	174
Total	$4,585,592	$138,537	$4,413,844	$135,104

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$5,820).

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

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Preferred stocks	$549,730	$16,608	$549,730	$16,827
Certificates of deposit	177,165,000	5,352,417	214,365,000	6,561,524
Bonds	99,635	3,010	99,635	3,050
Beneficiary certificates	-	-	400,000	12,244
Overseas financial instruments	53,138,371	1,605,389	64,324,821	1,968,926
Subtotal	230,952,736	6,977,424	279,739,186	8,562,571
Less: accumulated impairment	(218,768)	(6,609)	(166,288)	(5,090)
Net balance	$230,733,968	$6,970,815	$279,572,898	$8,557,481

NT$14,830,000 (US$448,036) and NT$15,100,000 (US$462,198) of certificates of deposit as of September 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$166,708) 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$102,082)	2.175%
Senior tranche	2nd	NT$315,000(US$9,642)	2.325%
Senior tranche	3rd	NT$340,000(US$10,407)	2.545%
Senior tranche	4th	NT$480,000(US$14,692)	2.945%
Subordinated tranche	5th	NT$200,000(US$6,122)	3.00%
Subordinated tranche	6th	NT$200,000(US$6,122)	3.20%
Subordinated tranche	7th	NT$576,335(US$17,641)	-

The Bank holds the subordinated beneficiary certificates NT$976,335 (US$29,885) 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 September, 2007, respectively, were as follows:

	Corporate Loans Securitization	
	September 30, 2007	May 28, 2007
Prepayment rate (annual rate)	3%	3%
Expected weighted-average life (in years)	1.867	2.212
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.49%	2.2%

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(2) Sensitivity analysis：

As of September 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:

	September 30 , 2007	
	NT	US
Carrying amount of retained interests	$976,335	$29,885
Expected weighted-average life (in years)	1.867	1.867
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(1,430)	(44)
Impact on fair value with 20% adverse change	(1,532)	(47)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(19,113)	(585)
Impact on fair value with 20% adverse change	(20,919)	(640)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on faire value with 10% adverse change	(7,743)	(237)
Impact on faire value with 20% adverse change	(15,422)	(472)

(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-September 30, 2007	
	NT	US
The cash received from securitization	$4,470,000	$136,823
Servicing fees received	80	2
Other cash received on retained interests	12,356	378
Repayment of cash reserve	2,495	76

12. Premises and equipment, net

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Cost:				
Land	$14,168,289	$428,045	$13,999,386	$428,509
Buildings	9,829,670	296,969	9,802,129	300,034
Office equipment	3,915,967	118,307	3,616,724	110,705
Transportation equipment	71,657	2,165	60,466	1,851
Other equipment	4,845,110	146,378	4,747,540	145,318
Construction in progress and prepayment for equipment	763,561	23,068	1,440,238	44,084
Subtotal	33,594,254	1,014,932	33,666,483	1,030,501
Accumulated depreciation:				
Buildings	(2,249,083)	(67,948)	(2,425,228)	(74,234)
Office equipment	(2,673,950)	(80,784)	(2,569,516)	(78,651)
Transportation equipment	(57,357)	(1,733)	(52,813)	(1,617)
Other equipment	(3,030,007)	(91,541)	(3,307,562)	(101,241)
Subtotal	(8,010,397)	(242,006)	(8,355,119)	(255,743)
Accumulated impairment	(73,655)	(2,225)	(65,866)	(2,016)
Net balance	$25,510,202	$770,701	$25,245,498	$772,742

13. Intangible assets, net

	January 1- September 30, 2006(Restated)							
	January 1		Additions/Amortization		Disposals		September 30	
	NT	US	NT	US	NT	US	NT	US
Computer software	$828,139	$25,019	$102,028	$3,082	$464	$14	$929,703	$28,087
Amortization	(291,397)	(8,803)	(146,284)	(4,419)	-	-	(437,681)	(13,222)
Net balance	$536,742	$16,216	$(44,256)	$(1,337)	$464	$14	$492,022	$14,865

	January 1- September 30, 2007							
	January 1		Additions/Amortization		Disposals		September 30	
	NT	US	NT	US	NT	US	NT	US
Computer software	$961,523	$29,431	$48,210	$1,476	$-	$-	$1,009,733	$30,907
Amortization	(485,168)	(14,850)	(151,543)	(4,639)	-	-	(636,711)	(19,489)
Net balance	$476,355	$14,581	$(103,333)	$(3,163)	$-	$-	$373,022	$11,418

14. Other assets, net

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Prepayment	$249,980	$7,552	$228,608	$6,997
Temporary payments	554,490	16,752	630,666	19,304
Interbank settlement fund	1,333,133	40,276	1,300,152	39,797
Non-operating assets, net (Accumulated impairment NT$302,813(US$9,148) and NT$318,132 (US$9,738),on September 30, 2006 and 2007, respectively)	1,554,100	46,951	1,526,789	46,734
Refundable deposits, net	1,163,523	35,152	1,245,453	38,122
Foreclosed properties, net	491,401	14,846	1,323,690	40,517
Deferred tax assets, net	2,884,425	87,143	3,935,092	120,450
Others	40,326	1,218	45,874	1,404
Total	$8,271,378	$249,890	$10,236,324	$313,325

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

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Due to the Central Bank	$190,815	$5,765	$186,834	$5,719
Due to commercial banks	1,585,079	47,887	1,434,333	43,904
Due to Post Co., Ltd.	30,696,870	927,398	25,674,793	785,883
Overdrafts from banks	115,847	3,500	-	-
Call loans from banks	55,121,595	1,665,305	28,927,705	885,451
Total	$87,710,206	$2,649,855	$56,223,665	$1,720,957

16. Financial liabilities at fair value through profit or loss

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Financial liabilities for trading:				
Derivative financial instruments	$3,865,161	$116,772	$4,843,548	$148,257
Financial liabilities designated at fair value through profit or loss:				
Dominant financial debentures	39,150,762	1,182,803	39,047,860	1,195,221
Subordinated financial debentures	10,022,975	302,809	4,969,027	152,097
Subtotal	49,173,737	1,485,612	44,016,887	1,347,318
Total	$53,038,898	$1,602,384	$48,860,435	$1,495,575

(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 nine-month periods ended September 30, 2006 and 2007 were NT$1,504,774 (US$45,461) and NT$5,083,224 (US$155,593) , respectively.

17. Payables

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Accounts payable	$9,752,701	$294,644	$11,056,874	$338,441
Accrued interest payable	4,385,276	132,486	4,693,427	143,662
Accrued expenses	2,103,185	63,540	2,036,380	62,332
Payable to related party for allocation of linked-tax system	-	-	242,973	7,437
Foreign currency payable	44,892	1,356	3,137,361	96,032
Acceptance	639,879	19,332	1,130,053	34,590
Income tax payable	139,692	4,220	254,259	7,783
Receipts under custody	4,944,890	149,392	2,939,461	89,974
Others	3,611,227	109,101	1,624,756	49,732
Total	$25,621,742	$774,071	$27,115,544	$829,983

18. Deposits and remittances

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Check deposits	$15,387,937	$464,892	$14,519,922	$444,442
Demand deposits	96,105,437	2,903,487	117,938,950	3,610,008
Demand savings deposits	339,974,394	10,271,130	397,307,167	12,161,223
Time deposits	225,788,108	6,821,393	249,360,800	7,632,715
Negotiable certificates of deposit	5,096,100	153,961	3,556,300	108,855
Time savings deposits	248,238,804	7,499,662	252,497,082	7,728,714
Outward remittances	292,198	8,828	1,575,985	48,240
Remittances payable	105,393	3,184	355,087	10,869
Total	$930,988,371	$28,126,537	$1,037,111,293	$31,745,066

19. Financial debentures payable

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Subordinated financial debentures	$18,840,000	$569,184	$18,635,000	$570,401
Discount in financial debentures	(109,557)	(3,310)	(98,889)	(3,027)
Valuation adjustment	(453,670)	(13,706)	(377,117)	(11,543)
Total	$18,276,773	$552,168	$18,158,994	$555,831

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

	September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Derivative financial liabilities for hedging	$503,698	$15,217	$406,986	$12,457
Borrowed funds	313,585	9,474	310,590	9,507
Total	$817,283	$24,691	$717,576	$21,964

As of September 30, 2006 and 2007, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT$503,698 (US$15,217) and NT$406,986 (US$12,457), respectively. The Bank has recognized losses in hedging in the amount of NT$38,663 (US$1,168) and NT$57,549 (US$1,762) for the nine-month periods ended September 30, 2006 and 2007.

21. Other liabilities

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Unearned receipts	$105,478	$3,187	$112,604	$3,447
Temporary receipts	796,310	24,058	802,952	24,578
Reserve for losses on guarantees	28,706	867	28,659	877
Reserve for losses on stock brokerage transactions	147,938	4,469	149,037	4,562
Guarantee deposits received	705,988	21,329	707,385	21,652
Reserve for land value increment tax	20,035	605	17,542	537
Others	251,613	7,602	-	-
Total	$2,056,068	$62,117	$1,818,179	$55,653

22. Capital Stock

As of January 1, 2006, the Bank had issued and outstanding capital stock of NT$46,420,518 (US$1,402,433) 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$1,490,340) 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

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Capital reserves from the merger Bank	$10,861,587	$328,145	$10,949,303	$335,149
Additional paid-in capital	4,249,096	128,371	4,249,096	130,061
Others	15,253	461	15,166	464
Total	$15,125,936	$456,977	$15,213,565	$465,674

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$34,919) thousands as legal reserve；
(ii) NT$2,695,420(US$81,433) thousands as dividends to shareholders；
(iii) NT$1,500(US$45) thousands as bonus to employees.
(b) Make up deficit in 2006：
NT$3,788,867(US$115,974) 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 nine-month periods ended September 30, 2006 and 2007.

	January 1- September 30,			
	2006(Restated)		2007	
	NT	US	NT	US
Personnel expenses				
Salary	$3,000,959	$90,663	$3,838,033	$117,479
Insurance	343,769	10,386	415,763	12,726
Pension	249,445	7,536	256,231	7,843
Others	211,393	6,387	246,743	7,553
Depreciation expenses	849,279	25,658	865,161	26,481
Amortization expenses	146,284	4,419	151,543	4,639

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 nine-month periods ended September 30, 2006 and 2007 is as follows:

	January 1- September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	$-	$-	$(605,755)	$(18,542)
Interest on separation tax (tax rate 20% or 6%)	(332,004)	(10,030)	(31,842)	(975)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	(942,134)	(28,463)	(1,269,825)	(38,868)
Allowance for pledged assets taken-over (reversal)	(103,701)	(3,133)	4,793	147
Foreign investment income recognized by the equity method	(5,934)	(179)	(14,259)	(436)
Others	(19,793)	(598)	112,241	3,436
Valuation allowance	(480,085)	(14,504)	733,286	22,445
Operating loss carry-forward	1,685,205	50,912	(15,626)	(478)
Investment tax credits	3,412	103	5,688	174
Effect of foreign branches' income tax	63,962	1,932	(80,346)	(2,459)
Adjustment of prior period's income tax	500,217	15,112	(702,355)	(21,499)
Income tax benefit (expense)	369,145	11,152	(1,864,000)	(57,055)
Income tax benefit from cumulative effect of changes in accounting principles	(139,225)	(4,206)	-	-
Income tax benefit (expense) of continuing operations	$229,920	$6,946	$(1,864,000)	$(57,055)

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:

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	$1,764,461	$53,307	$3,764,100	$115,216
Others	147,977	4,471	232,438	7,115
Deductible temporary differences:				
Allowance for bad debts	6,275,300	189,586	6,012,844	184,048
Unrealized impairment loss for pledged assets taken-over	95,916	2,898	100,338	3,071
Pension expenses exceed the limit of tax law	210,997	6,375	174,814	5,351
Valuation of financial instruments	1,741,598	52,616	3,770,210	115,403
Provisions for possible losses	242,296	7,320	238,456	7,299
Others	344,726	10,415	925,523	28,329
Operating loss carry-forward (expiration year:2011)	$8,342,795	$252,048	$10,150,658	$310,703
Investment tax credit (expiration year:2011)	$3,412	$103	$5,688	$174
Deferred income tax assets of foreign branches	$107,607	$3,251	$51,602	$1,579

(3) Deferred tax assets	$4,424,426	133,668	$5,400,501	$165,305
Deferred tax liabilities	(478,110)	(14,444)	(999,135)	(30,583)
Valuation allowance	(1,061,891)	(32,081)	(466,274)	(14,272)
Net deferred tax assets	$2,884,425	$87,143	$3,935,092	$120,450

(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:

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
The Bank's imputation credit	$338,256	$10,219	$661,471	$20,247
Undistributed earnings	2,950,034	89,125	7,053,276	215,895

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

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	January 1 – September 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	$2,207,642	$66,696	$2,437,562	$73,642	$8,917,276	$272,950	$7,053,276	$215,895
Cumulative effect changes in accounting principles	587,454	17,748	726,679	21,954	-	-	-	-
Net income	$2,795,096	$84,444	$3,164,241	$95,596	$8,917,276	$272,950	$7,053,276	$215,895
Earnings per share (in dollars)								
Income from continuing operations	$0.45	$0.013	$0.50	$0.015	$1.83	$0.056	$1.45	$0.044
Cumulative effect changes in accounting principles	0.12	0.004	0.15	0.005	-	-	-	-
Net income	$0.57	$0.017	$0.65	$0.020	$1.83	$0.056	$1.45	$0.044

(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

Accounts/Related parties	September 30, Account balance NT	US	% of Account	January 1- September 30, Interest income (expense) NT	US
2006 (Restated)					
Loans					
Seaward Leasing Ltd.	$2,060,000	$62,236	0.29%	$22,339	$675
Taiwan Real-estate Management Corp.	130,000	3,927	0.02%	2,949	89
Cathay General Hospital	336,969	10,180	0.05%	6,794	205
Others	441,473	13,338	0.06%	10,290	311
Total	$2,968,442	$89,681	0.42%	$42,372	$1,280
Deposits					
Cathay Life Insurance Co., Ltd.	$4,736,818	$143,106	0.51%	$(92,350)	$(2,790)
Cathay Financial Holding Co., Ltd.	4,192,270	126,655	0.45%	(128,528)	(3,883)
Cathay Futures Corp.	1,150,395	34,755	0.12%	(10,056)	(304)
Cathay Securities Corp.	1,204,982	36,404	0.13%	(14,023)	(423)
Cathay Century Insurance Co., Ltd.	479,471	14,486	0.05%	(4,489)	(136)
Cathay Pacific Venture Capital Co., Ltd.	375,937	11,358	0.04%	(2,997)	(91)
Cathay Securities Trust Co., Ltd.	279,166	8,434	0.03%	(3,633)	(110)
Cathay Real Estate Development Co., Ltd.	37,616	1,136	0.01%	(33)	(1)
Others	3,356,825	101,415	0.36%	(38,372)	(1,159)
Total	$15,813,480	$477,749	1.70%	$(294,481)	$(8,897)

Accounts/Related parties	September 30, Account balance NT	US	% of Account	January 1- September 30, Interest income (expense) NT	US
2007					
Loans					
Seaward Leasing Ltd.	$2,140,000	$65,504	0.29%	$31,911	$977
Taiwan Real-estate Management Corp.	114,000	3,489	0.02%	2,675	82
Cathay General Hospital	258,145	7,902	0.03%	5,679	174
Others	309,393	9,470	0.04%	5,568	170
Total	$2,821,538	86,365	0.38%	$45,833	$1,403
Deposits					
Cathay Life Insurance Co., Ltd.	$8,154,576	$249,604	0.79%	$(38,492)	$(1,178)
Cathay Financial Holding Co., Ltd.	3,846,452	117,737	0.37%	(137,188)	(4,199)
Cathay Futures Corp.	1,039,621	31,822	0.10%	(11,880)	(364)
Cathay Securities Corp.	621,486	19,023	0.06%	(9,529)	(292)
Cathay Century Insurance Co., Ltd.	710,579	21,750	0.07%	(7,290)	(223)
Cathay Pacific Venture Capital Co., Ltd.	3,160	97	-	(3,514)	(108)
Cathay Securities Trust Co., Ltd.	576,096	17,634	0.05%	(7,005)	(214)
Cathay Real Estate Development Co., Ltd.	172,112	5,268	0.02%	(166)	(5)
Others	2,505,050	76,677	0.24%	(31,368)	(960)
Total	$17,629,132	$539,612	1.70%	$(246,432)	$(7,543)

Accounts / Related parties	January 1- September 30, Maximum balance NT	US	September 30, Account balance NT	US	January 1 – September 30, Interest income (expense) NT	US	Interest Rate (%)
2006 (Restated)							
Call loans to banks							
Indovina Bank	$768,544	$23,219	$521,371	$15,751	$20,693	$625	4.38~7.80%
Due from commercial banks							
Indovina Bank	162,927	4,922	5,878	178	52	2	0.50~2.16%
Call loans from banks							
Indovina Bank	82,368	2,488	-	-	(466)	(14)	5.14~5.475%
Due to commercial banks							
Indovina Bank	257,371	7,776	12,100	366	-	-	-

	January 1- September 30, Maximum balance		September 30, Account balance		January 1 – September 30, Interest income (expense)		
Accounts / Related parties	NT	US	NT	US	NT	US	Interest Rate(%)
2007							
Call loans to banks							
Indovina Bank	$330,375	$10,112	$19,542	$598	$2,195	$67	5.00~7.70%
Due from commercial banks							
Indovina Bank	265,665	8,132	7,316	224	120	4	0.50~2.16%
Call loans from banks							
Indovina Bank	430,957	13,191	325,700	9,969	(928)	(28)	2.40~8.70%
Due to commercial banks							
Indovina Bank	64,457	1,973	10,777	330	-	-	-

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

(2) Guarantees

	January 1- September 30, Maximum balance		September 30, Account balance		January 1- September 30, Service fees	
Related Parties	NT	US	NT	US	NT	US
2006 (Restated)						
Indovina Bank	$157,454	$4,757	$-	$-	$7	$0.2
2007						
Indovina Bank	$1,884	$58	$-	$-	$7	$0.2

(3) Transactions under resale and repurchase agreements

	September 30, Account balance		January 1- September 30, Interest income (expense)	
Accounts/Related parties	NT	US	NT	US
2006 (Restated)				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$4,472,671	$135,126	$(36,799)	$(1,112)
Others	1,015,000	30,665	(10,184)	(308)
Total	$5,487,671	$165,791	$(46,983)	$(1,420)
Securities purchased under agreements to resell				
Taiwan Finance Co.	$-	$-	$20	$1

Accounts/Related parties	September 30, Account balance		January 1- September 30, Interest income (expense)	
	NT	US	NT	US
2007				
Securities sold under agreements to repurchase				
Wan Pao Development Co., Ltd.	$461,104	$14,114	$(28,923)	$(885)
Others	1,705,376	52,200	(12,735)	(390)
Total	$2,166,480	$66,314	$(41,658)	$(1,275)

(4) Lease

Accounts/Related parties	January 1- September 30, 2006 (Restated)		January 1- September 30, 2007	
	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	$519	$16	$129	$4
Culture and Charity Foundation of Cathay United Bank	750	23	750	23
Taipei Smart Card Corp.	4,702	142	8,691	266
Cathay Securities Corp.	3,771	114	3,945	121
Cathay Life Insurance Co., Ltd.	3,720	112	5,354	164
Cathay Century Insurance Co., Ltd.	140	4	180	6
Rental expense				
Cathay Life Insurance Co., Ltd.	186,095	5,622	205,547	6,292
Cathay Real Estate Development Co., Ltd.	10,365	313	8,490	260
Seaward Leasing Ltd.	8,096	245	8,945	274
Pao Shin Securities Co., Ltd.	1,020	31	-	-

Account/Related parties	September 30, 2006 (Restated)		September 30, 2007	
	NT	US	NT	US
Refundable deposits				
Seaward Leasing Ltd. (Note)	$33,393	$1,009	$33,393	$1,022
Cathay Life Insurance Co., Ltd.	65,336	1,974	63,822	1,954
Cathay Real Estate Development Co., Ltd.	3,392	102	2,635	81

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

Account/Related parties	September 30, 2006 (Restated) NT	US	2007 NT	US
Guarantee deposit received				
Cathay Securities Corp.	$1,238	$37	$1,325	$41
Cathay Life Insurance Co., Ltd.	1,547	47	2,078	64
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- September 30, 2006 (Restated) NT	US	2007 NT	US
(5) Commissions and handling fees income				
Cathay Futures Corp.	$433	$13	$-	$-
Cathay Life Insurance Co., Ltd.	2,568	78	476,444	14,584
Cathay Securities Co., Ltd.	2,372	72	3,554	109
Cathay Securities Trust Co., Ltd.	923	28	15,210	466
Cathay Life Insurance Agent Co., Ltd.	4,689	142	-	-
Cathay Century Insurance Co., Ltd.	-	-	32,246	987
Cathay Securities Investment Consulting Co., Ltd.	-	-	1,925	59
(6) Other operating income				
Cathay Life Insurance Co., Ltd.	377	11	-	-
Cathay Century Insurance Co., Ltd.	18	1	1,081	33
(7) Operating expenses				
Seaward Card Co., Ltd.	318,055	9,609	234,028	7,163
Cathay Life Insurance Co., Ltd.	119,165	3,600	88,978	2,724
Cathay Century Insurance Co., Ltd.	50,717	1,532	584	18
Symphox Information Co., Ltd.	104,930	3,170	305,558	9,353
Cathay Securities Corp.	1,800	54	3,624	111
Cathay Real Estate Development Co., Ltd.	5,400	163	5,478	168
Cathay Lin Yuan Security Co., Ltd.	4,009	121	2,259	69
(8) Insurance expenses paid				
Cathay Life Insurance Co., Ltd.	165,282	4,993	343,035	10,500
Cathay Century Insurance Co., Ltd.	53,726	1,623	96,227	2,945

	September 30,			
	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(9) Receivable to related party for allocation of linked-tax system				
Cathay Financial Holdings	$1,239,285	$37,441	$638,005	$19,529
(10) Other receivables- cash dividends				
Indovina Bank	110,483	3,338	97,710	2,991
Seaward Leasing Ltd.	218,761	6,609	-	-
(11) Prepaid rental expense				
Cathay Century Insurance Co., Ltd.	2,363	71	-	-
(12) Refundable deposit				
Cathay Futures Corp.	40,758	1,231	39,292	1,203
(13) Payable to related party for allocation of linked-tax system				
Cathay Financial Holdings	-	-	242,973	7,437
(14) Accrued expenses				
Seaward Card Co., Ltd.	34,008	1,027	-	-
(15) Advance Receipts				
Symphox Information Co., Ltd.	500	15	-	-
(16) Accounts payable				
Symphox Information Co., Ltd.	-	-	35,968	1,101
Cathay Securities Corp.	-	-	200	6
Cathay Century Insurance Co., Ltd.	-	-	19,688	603
Cathay Life Insurance Co., Ltd.	-	-	8,725	267
Cathay Real Estate Development Co., Ltd.	-	-	4,181	128

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(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$42,655), in 2006. The Bank paid the amount of NT$259,042(US$7,929) during the nine-month period ended September 30, 2007. As of September 30, 2007, the accumulated paid amount was NT$349,592(US$10,701).

b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT$72(US$2) and NT$3,400(US$104) during the nine-month periods ended September 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$12,277 (US$371) and NT$15,353 (US$470) during the nine-month periods ended September 30, 2006 and 2007, respectively.

d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT$56,441 (US$1,705) and NT$19,740 (US$604) during the nine-month periods ended September 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 nine-month period ended 30, 2007. As of September 30, 2007, the bonus points which not converting amount was NT$25,641(US$785).

f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT1,030,000(US$31,527) during the nine-month period ended September 30, 2007.

g. The Bank paid the amount of NT$45,546 (US$1,394) to certain managers according to the intercession content which dissolving the construction contract on Shih-Hua Hills and repossessed the land by mediation during the nine-month period ended September 30, 2007.

h. The Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT$200,000 (US$6,122) 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$3,116) (amortized NT$2,865 (US$88) 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$22,249) and net selling price was NT$708,275 (US$21,398) (the security transaction cost NT$2,132 (US$64) was deducted). The loss from the transaction was NT$28,179 (US$851) 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$96,073) on June 30, 2006, with NT$15.9 (US$0.48) per share. The gain from disposal of the investment recognized by the equity method was NT$1,323,466 (US$39,984), with selling price NT$3,170,460 (US$95,784) (securities transaction cost NT$9,540 (US$288) was deducted) minus the carrying value NT$1,846,994 (US$55,800).

(20) Transactions of derivative financial instruments

			Notional amount		Valuation gains (losses)	
Related parties	Category of agreements	Term of agreements	NT	US	NT	US
September 30, 2006(Restated)						
Cathay Life						
Insurance Co., Ltd.	Forward	95.8.3-96.8.16	$8,624,776	$260,567	$20,204	$610
	Non-delivery forward	95.9.22-95.10.26	488,104	14,746	(41,494)	(1,254)
	Currency swap	95.1.18-96.3.15	59,648,336	1,802,065	514,567	15,546
	Interest rate swap	95.1.20-105.7.17	2,950,000	89,124	(701)	(21)
Cathay Global Money						
Market Fund	Forward	95.9.5-95.10.4	791,520	23,913	3,216	97
Cathay Global Bond Fund	Forward	95.9.5-95.10.11	131,920	3,985	871	26
Cathay Global Balance						
Fund of Fund	Forward	95.9.1-95.12.5	39,576	1,196	411	12
September 30, 2007						
Cathay Life						
Insurance Co., Ltd.	Forward	96.1.9-97.4.28	25,066,635	767,268	(57,958)	(1,774)
	Non-delivery forward	96.8.30-96.10.5	130,280	3,988	(3,614)	(111)
	Currency swap	96.5.7-97.7.23	44,060,097	1,348,641	(222,323)	(6,805)
	Interest rate swap	95.1.20-106.7.10	5,250,000	160,698	18	1
Cathay Century						
Insurance Co., Ltd.	Forward	95.11.10-96.12.13	479,036	14,663	13,156	403
	Non-delivery forward	95.11.10-96.11.20	206,676	6,326	(3,153)	(97)
	Currency swap	96.3.5-97.7.17	1,125,294	34,444	1,041	32
	Interest rate swap	96.9.29-103.9.30	200,000	6,122	125	4
Cathay Global Money						
Market Fund	Forward	96.9.4-96.10.3	455,980	13,957	(32,260)	(987)
	Non-delivery forward	96.9.4-96.10.4	1,302,800	39,878	(23,762)	(727)
Cathay Global Bond						
Fund	Forward	96.8.31-96.11.2	248,835	7,617	(3,775)	(116)
	Non-delivery forward	96.9.28-96.11.2	28,662	877	(142)	(4)
Cathay Global						
Infrastructure Fund	Forward	96.9.28-96.11.2	260,560	7,976	(15,681)	(480)

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 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	$337,800,669	$10,339,782
Travelers checks for sale	603,253	18,465
Bills for collection	46,274,258	1,416,414
Book-entry for government bonds and depository for short-term marketable securities under management	366,210,100	11,209,369
Entrusted financial management business	1,651,969	50,565
Guarantees on duties and contracts	17,923,555	548,625
Unused commercial letters of credit	3,190,928	97,672
Irrevocable loan commitments	35,801,924	1,095,865
Credit card lines commitments	280,177,395	8,575,984
Stamp tax, securities and memorial currency consignments	1,727	53

2. As of September 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$12,085). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

3. As of September 30, 2007, the Bank had entered into certain contracts to purchase premises and equipment totaling NT$2,726,608(US$83,459) with prepayments of NT$1,440,238 (US$44,084).

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

Periods	NT	US
2007.10.1~2008.9.30	$522,159	$15,983
2008.10.1~2009.9.30	470,097	14,389
2009.10.1~2010.9.30	420,274	12,864
2010.10.1~2011.9.30	404,591	12,384
2011.10.1~2012.9.30	415,595	12,721

VIII. Significant disaster losses

None.

IX. Significant subsequent event

The Bank bided for China United Trust & Investment Corporation (CUTIC) with NT$12,900,000 (US$394,858) compensation from Resolution Trust Corporation (the"RTC") on October 2, 2007, and the Bank will assume the specific assets, liabilities (except for the certain of real estate, non-performing loan, shares of Taipei Financial Center Corporation, shares of Asia United Bank Corporation and etc.) and business of CUTIC.

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X. Disclosure of financial instruments information

1. Information of fair value

	September 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	$53,039,409	$1,602,399	$53,039,409	$1,602,399
Available-for-sale financial assets	51,614,812	1,559,360	51,614,812	1,559,360
Held-to-maturity financial assets and debt securities with no active market	236,275,654	7,138,238	236,301,088	7,139,006
Investment accounted for using equity method	2,112,220	63,813	2,112,220	63,813
Others	842,848,646	25,463,705	842,848,646	25,463,705
Liabilities				
Financial liabilities at fair value through profit or loss	49,173,354	1,485,600	49,173,354	1,485,600
Financial debentures payable	18,276,773	552,168	18,276,773	552,168
Others	1,066,861,035	32,231,451	1,066,861,035	32,231,451

	September 30, 2006 (Restated)			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$2,229,613	$67,360	$2,229,613	$67,360
Interest rate swap	1,004,846	30,358	1,004,846	30,358
Cross currency swap	661	20	661	20
Options	54,062	1,633	54,062	1,633
Credit derivative instruments	54,292	1,640	54,292	1,640
Credit default swap	(740)	(22)	(740)	(22)
Liabilities				
Forward	2,070,723	62,560	2,070,723	62,560
Interest rate swap	1,715,781	51,836	1,715,781	51,836
Cross currency swap	469,623	14,188	469,623	14,188
Futures	8,024	242	8,024	242
Options	47,706	1,441	47,706	1,441
Credit derivative instruments	58,184	1,758	58,184	1,758
Credit default swap	(799)	(24)	(799)	(24)

	September 30, 2007			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$38,299,787	$1,172,323	$38,299,787	$1,172,323
Available-for-sale financial assets	58,357,622	1,786,276	58,357,622	1,786,276
Held-to-maturity financial assets and debt securities with no active market	284,077,937	8,695,376	284,002,362	8,693,063
Investment accounted for using equity method	2,249,661	68,860	2,249,661	68,860
Others	869,124,647	26,603,142	869,124,647	26,603,142
Liabilities				
Financial liabilities at fair value through profit or loss	44,016,887	1,347,318	44,016,887	1,347,318
Financial debentures payable	18,158,994	555,831	18,158,994	555,831
Others	1,139,921,250	34,891,988	1,139,921,250	34,891,988

	September 30, 2007			
	Book value		Fair value	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$1,066,035	$32,630	$1,066,035	$32,630
Non-delivery forward	45,027	1,378	45,027	1,378
Currency swap	1,665,107	50,967	1,665,107	50,967
Interest rate swap	1,208,638	36,995	1,208,638	36,995
Cross currency swap	2,046	63	2,046	63
Options	53,728	1,645	53,728	1,645
Credit derivative instruments	10,390	318	10,390	318
Credit default swap	(367)	(11)	(367)	(11)
Liabilities				
Forward	1,923,240	58,869	1,923,240	58,869
Non-delivery forward	45,789	1,401	45,789	1,401
Currency swap	698,088	21,368	698,088	21,368
Interest rate swap	1,922,044	58,832	1,922,044	58,832
Cross currency swap	460,358	14,091	460,358	14,091
Options	53,685	1,643	53,685	1,643
Credit derivative instruments	147,855	4,526	147,855	4,526
Credit default swap	(525)	(16)	(525)	(16)

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:

	September 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	$51,553,294	$1,557,501	$1,486,115	$44,898
Available-for-sale financial assets	51,614,812	1,559,360	-	-
Held-to-maturity financial assets and debt securities without active market	181,694,054	5,489,247	54,607,034	1,649,759
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,173,354	1,485,600
Financial debentures payable	-	-	18,276,773	552,168
Others	(Note)	(Note)	(Note)	(Note)

	September 30, 2006 (Restated)			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$-	$-	$2,229,613	$67,360
Interest rate swap	-	-	1,004,846	30,358
Cross currency swap	-	-	661	20
Options	1,855	56	52,207	1,577
Credit derivative instruments	-	-	54,292	1,640
Credit default swap	-	-	(740)	(22)
Liabilities				
Forward	-	-	2,070,723	62,560
Interest rate swap	-	-	1,715,781	51,836
Cross currency swap	-	-	469,623	14,188
Futures	8,024	242	-	-
Options	239	7	47,467	1,434
Credit derivative instruments	-	-	58,184	1,758
Credit default swap	-	-	(799)	(24)

	September 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	$36,694,860	$1,123,198	$1,604,927	$49,125
Available-for-sale financial assets	49,845,325	1,525,722	8,512,297	260,554
Held-to-maturity financial assets and debt securities without active market	217,227,627	6,649,147	66,774,735	2,043,916
Others	(Note)	(Note)	(Note)	(Note)
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	44,016,887	1,347,318
Financial debentures payable	-	-	18,158,994	555,831
Others	(Note)	(Note)	(Note)	(Note)

	September 30,2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	$-	$-	$1,066,035	$32,630
Non-delivery forward	-	-	45,027	1,378
Currency swap	-	-	1,665,107	50,967
Interest rate swap	-	-	1,208,638	36,995
Cross currency swap	-	-	2,046	63
Options	50	2	53,678	1,643
Credit derivative instruments	-	-	10,390	318
Credit default swap	-	-	(367)	(11)
Liabilities				
Forward	-	-	1,923,240	58,869
Non-delivery forward	-	-	45,789	1,401
Currency swap	-	-	698,088	21,368
Interest rate swap	-	-	1,922,044	58,832
Cross currency swap	-	-	460,358	14,091
Options	-	-	53,685	1,643
Credit derivative instruments	-	-	147,855	4,526
Credit default swap	-	-	(525)	(16)

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$83,114(US$2,511) and loss NT$ 353,573 (US$10,823) for the nine-month periods ended September 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 nine-month periods ended September 30, 2006 and 2007 were NT$31,250,580 (US$944,126) and NT$29,103,753 (US$890,840), and expenses were NT$12,354,257 (US$373,240) and NT$13,676,460 (US$418,624), respectively.

6. The Bank recognized an unrealized gains or losses of NT$417,825 (US$12,623) and NT$482,474 (US$14,768) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT$204,174 (US$6,168) and NT$1,295,578 (US$39,657) in income statements, for the nine-month periods ended September 30, 2006 and 2007, respectively.

7. Interest income of NT$27(US$1) from financial assets were impaired which were assessed by discount rate of cash flow for the nine-month periods ended September 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 - September 30, 2007						
	Average balance		Maximum balance		Minimum balance	
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	$122,096	$3,737	$191,605	$5,865	$43,942	$1,345
Foreign exchange	135,734	4,155	388,037	11,877	3,842	118
Equity Securities price	142,348	4,357	250,352	7,663	59,724	1,828

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	September 30, 2007
FX factor sensitivity (FX Delta)		
	USD	$(19,248)
	JPY	(1,955)
	NTD	6,886
Interest rate factor sensitivity (PVBP)		
	USD	(1,122)
	JPY	1
	NTD	(836)
Equity factor sensitivity (Equity Delta)		
	NTD	1,698

(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:

	September 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	$53,039,409	$1,602,399	$53,039,409	$1,602,399
Available-for-sale financial assets	51,614,812	1,559,360	51,614,812	1,559,360
Held-to-maturity financial assets and debt securities with no active market	236,301,088	7,139,006	236,301,088	7,139,006
Investment accounted for using equity method	2,112,220	63,813	2,112,220	63,813
Others	842,848,646	25,463,705	842,848,646	25,463,705
Guarantees on duties and contracts	-	-	17,424,464	526,419
Unused commercial letters of credit	-	-	2,554,266	77,168
Irrevocable loan commitments	-	-	38,793,551	1,172,011
Credit card line commitments	-	-	285,087,804	8,612,925

Financial assets	September 30, 2006 (Restated) Carrying value NT	US	Maximum credit risk exposed amount NT	US
Derivative financial instruments				
Forward	$2,229,613	$67,360	$2,229,613	$67,360
Interest rate swap	1,004,846	30,358	1,004,846	30,358
Cross currency swap	661	20	661	20
Options	54,062	1,633	54,062	1,633
Credit derivative instruments	54,292	1,640	54,292	1,640

Financial assets	September 30, 2007 Carrying value NT	US	Maximum credit risk exposed amount NT	US
Non-derivative financial instruments				
Financial assets at fair value through profit or loss	$38,299,787	$1,172,323	$38,299,787	$1,172,323
Available-for-sale financial assets	58,357,622	1,786,276	58,357,622	1,786,276
Held-to-maturity financial assets and debt securities with no active market	284,002,362	8,693,063	284,002,362	8,693,063
Investment accounted for using equity method	2,249,661	68,860	2,249,661	68,860
Others	869,124,647	26,603,142	869,124,647	26,603,142
Guarantees on duties and contracts	-	-	17,923,555	548,625
Unused commercial letters of credit	-	-	3,190,928	97,672
Irrevocable loan commitments	-	-	35,801,924	1,095,865
Credit card line commitments	-	-	280,177,395	8,575,984
Derivative financial instruments				
Forward	1,066,035	32,630	1,066,035	32,630
Non-delivery forward	45,027	1,378	45,027	1,378
Currency swap	1,665,107	50,967	1,665,107	50,967
Interest rate swap	1,208,638	36,995	1,208,638	36,995
Cross currency swap	2,046	63	2,046	63
Options	53,728	1,645	53,728	1,645
Credit derivative instruments	10,390	318	10,390	318

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:

	September 30,			
	2006 (Restated)		2007	
	NT	US	NT	US
Loans, customers' liabilities under acceptances, bill purchased and guarantees account				
Industry type				
Manufacturing	$104,689,186	$3,162,815	$107,264,059	$3,283,259
Financial institutions and insurance	40,280,252	1,216,926	48,166,044	1,474,320
Leasing and real estate	71,522,493	2,160,800	69,533,930	2,128,373
Individuals	402,016,935	12,145,527	414,822,733	12,697,359
Others	116,898,005	3,531,662	124,906,996	3,823,293
Total	735,406,871	22,217,730	764,693,762	23,406,604
Valuation allowance	(11,985,739)	(362,107)	(10,204,905)	(312,363)
Maximum credit risk exposed	$723,421,132	$21,855,623	$754,488,857	$23,094,241
Geographic Region				
Domestic	$694,232,686	$20,973,797	$709,539,211	$21,718,372
South East Asia	11,706,964	353,685	16,416,240	502,487
North East Asia	-	-	141,842	4,342
America	8,353,691	252,377	13,185,461	403,595
Others	21,113,530	637,871	25,411,008	777,808
Total	735,406,871	22,217,730	764,693,762	23,406,604
Valuation allowance	(11,985,739)	(362,107)	(10,204,905)	(312,363)
Maximum credit risk exposed	$723,421,132	$21,855,623	$754,488,857	$23,094,241

(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 28.90%. 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 September 30, 2007, there is no significant change in these dates.

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

Financial instruments	Effective interest rate (%)	
	September 30, 2006 (Restated)	September 30, 2007
Available-for-sale financial assets		
Bonds	1.1362-8.00	1.6727-6.8334
Overseas financial instruments	1	2.9278-6.988
Held-to-maturity financial assets		
Bonds	1.6463-6.9523	1.6727-6.9525
Overseas financial instruments	3.45-7.625	3.45-6.65
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.59-1.923	1.858-3
Overseas financial instruments	0-8.36	0-8.26
Financial debentures payable	2-5.5	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	September 30, 2006 (Restated)		September 30, 2007	
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	$503,698	$15,217	$406,986	$12,457

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-September 30, 2006 (Restated)		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$25,295,460	$764,213	1.49%
Time certificates, discounted bills and others	201,209,575	6,078,839	1.62%
Due from commercial banks and call loans to banks	25,081,371	757,745	3.02%
Discounts and loans	685,564,829	20,711,928	3.86%
Bills purchased	6,863	207	7.05%
Bonds	136,350,042	4,119,337	4.33%
Receivables-credit card revolving balance	35,104,367	1,060,555	13.05%
Securities purchased under agreements to resell	1,051,247	31,760	0.96%
Liabilities			
Due to banks	91,161,759	2,754,132	3.33%
Demand deposits	99,730,742	3,013,013	0.43%
Saving deposits	570,328,767	17,230,476	1.01%
Time deposits	212,724,935	6,426,735	2.13%
Negotiable certificates of deposit	13,335,729	402,892	1.41%
Securities sold under agreements to repurchase	32,570,452	984,002	1.33%
Financial debentures	68,079,853	2,056,793	2.55%
Funds borrowed from the Central Bank and other banks	1,124,186	33,963	4.08%

	January 1-September 30, 2007		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$27,259,002	$834,374	1.50%
Time certificates, discounted bills and others	228,895,016	7,006,275	1.88%
Due from commercial banks and call loans to banks	19,511,005	597,215	3.42%
Discounts and loans	724,739,465	22,183,638	3.47%
Bills purchased	6,128	188	3.91%
Bonds and beneficiary certificates	142,410,545	4,359,062	4.29%
Receivables-credit card revolving balance	24,238,420	741,917	13.12%
Securities purchased under agreements to resell	782,882	23,963	0.13%
Liabilities			
Due to banks	81,960,655	2,508,744	3.93%
Demand deposits	110,188,186	3,372,764	0.46%
Saving deposits	629,527,542	19,269,285	1.08%
Time deposits	239,415,249	7,328,290	2.58%
Negotiable certificates of deposit	3,953,700	121,019	1.54%
Securities sold under agreements to repurchase	22,613,716	692,186	1.54%
Financial debentures	65,993,877	2,020,015	2.43%
Funds borrowed from the Central Bank and other banks	1,129,355	34,569	4.31%

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 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$122,466) 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	$197,783
Due from the Central Bank and call loans to banks	2,410,995	73,798
Available-for-sale financial assets, net	528,186	16,167
Receivables, net	299,492	9,167
Discounts and loans, net	53,668,319	1,642,740
Premises and equipment, net	1,633,660	50,005
Other financial assets, net	23,495,274	719,170
Other assets	506,457	15,502
Call loans from banks	(145,219)	(4,445)
Payables	(1,695,272)	(51,891)
Deposits and remittances	(82,958,055)	(2,539,273)
Other liabilities	(204,416)	(6,257)
Subtotal	4,000,979	122,466
Issued shares for the merger	(2,268,895)	(69,448)
Unrealized gain on financial instrument	17,292	529
Capital reserves from the merger	$1,749,376	$53,547

   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 nine-month period ended September 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. As of September 30, 2006 and 2007, the assets and liabilities managed under the Bank's trust were NT$147,834,475 (US$4,466,298) and NT$198,264,775 (US$6,068,711), respectively.