Cathay United Bank Financial Statements For The Years Ended December 31, 2006 and 2007 With Independent Auditors' Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Public Banks" and related regulations 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' Report**

The Board of Directors Cathay United Bank

We have audited the accompanying balance sheets of Cathay United Bank (the "Bank") as of December 31, 2006 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2006 and 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2006 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with requirements of the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, the "Regulation 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 Statement of Financial Accounting Standards ("SFAS") No. 34, "Accounting for Financial Instruments" and No. 36 "Disclosure and Presentation of Financial Instruments" to account for its financial instruments.

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

In addition, we have also audited the consolidated financial statements of the Bank as of and for the years ended December 31, 2006 and 2007, on which we have issued a modified unqualified opinion thereon.

ERNST & YOUNG Taipei, Taiwan The Republic of China February 25, 2008

#### Notice to Readers

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

#### Cathay United Bank

#### Balance sheets

December 31, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

		December 31, 2006 (Restated)		December 31	, 2007
ASSETS	NOTES	NT	US (Note II)	NT	US (Note II)
Cash and cash equivalents	IV and V	\$34,198,828	\$1,049,366	\$15,648,864	\$482,543
Due from the Central Bank and call loans to banks	IV and V	51,271,549	1,573,229	57,701,798	1,779,272
Financial assets at fair value through profit or loss	II and IV	57,046,262	1,750,422	39,932,764	1,231,353
Securities purchased under agreements to resell		1,786,058	54,804	326,000	10,052
Receivables, net	II, IV and V	49,104,156	1,506,725	43,784,801	1,350,133
Discounts and loans, net	II, IV and V	712,391,913	21,859,218	755,956,633	23,310,411
Available-for-sale financial assets, net	II and IV	54,500,543	1,672,309	63,913,728	1,970,821
Held-to-maturity financial assets, net	II and IV	5,636,310	172,946	3,320,686	102,395
Investments accounted for using equity method, net	II, IV and V	2,334,860	71,643	2,513,001	77,490
Other financial assets, net	II, IV and V	4,492,931	137,862	4,309,670	132,891
Investments in debt securities with no active market, ne	t II and IV	257,786,881	7,909,999	256,829,635	7,919,508
Premises and equipment, net	II, IV, V and VII	25,461,215	781,259	27,656,434	852,804
Intangible assets, net	II, IV, V and XI	476,355	14,617	6,883,557	212,259
Other assets, net	II, IV and V	10,247,816	314,447	9,413,861	290,283
TOTAL ASSETS		\$1,266,735,677	\$38,868,846	\$1,288,191,432	\$39,722,215

#### Cathay United Bank

#### Balance sheets (continued)

December 31, 2006 (Restated) and 2007

(Expressed in thousands of dollars)

		December 31, 2006(Restated)		December 31, 2007		
LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	NT	US (Note II)	NT	US (Note II)	
LIABILITIES						
Due to the Central Bank and call loans from banks	IV and V	\$100,002,354	\$3,068,498	\$73,869,345	\$2,277,809	
Funds borrowed from the Central Bank and other banks		816,250	25,046	1,624,200	50,083	
Financial liabilities at fair value through profit or loss	II and IV	55,396,700	1,699,807	47,847,320	1,475,403	
Securities sold under agreements to repurchase	IV and V	23,661,740	726,043	14,635,423	451,293	
Payables	IV and V	24,426,545	749,510	16,167,690	498,541	
Deposits and remittances	IV and V	965,586,780	29,628,315	1,031,565,513	31,808,989	
Financial debentures payable	IV and X	18,135,818	556,484	18,551,837	572,058	
Other financial liabilities	II and IV	775,722	23,803	308,730	9,520	
Other liabilities	II, IV and V	1,791,206	54,962	2,249,539	69,366	
TOTAL LIABILITIES		1,190,593,115	36,532,468	1,206,819,597	37,213,062	
SHAREHOLDERS' EQUITY						
Capital stock	IV	48,689,413	1,493,999	48,689,413	1,501,370	
Capital reserves	IV	15,213,652	466,819	15,213,611	469,122	
Retained earnings	IV					
Legal reserve		15,271,236	468,587	11,482,369	354,066	
Undistributed earnings		(3,788,867)	(116,259)	6,400,265	197,356	
Foreign currency translation adjustment	II	70,197	2,154	51,248	1,580	
Unrealized gains or losses on financial instruments	II	686,931	21,078	(465,071)	(14,341)	
TOTAL SHAREHOLDERS' EQUITY		76,142,562	2,336,378	81,371,835	2,509,153	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUI	ΓY	\$1,266,735,677	\$38,868,846	\$1,288,191,432	\$39,722,215	
TOTAL LIADILITIES AND SHAREHOLDERS EQUI	11	\$1,200,733,077	\$30,000,040	\$1,200,191,432	\$39,122,213	

#### English Translation of Financial Statements Originally Issued in Chinese Cathay United Bank Statements of income For the years ended December 31, 2006(Restated) and 2007 (Expressed in thousands of dollars, except per share information)

		January 1 - December 31, 2006(Restated)		January 1 - December 31, 2007		
ITEMS	NOTES	NT	US (Note II)	NT	US (Note II)	
INTEREST INCOME	II and V	\$42,590,332	\$1,306,853	\$40,285,197	\$1,242,220	
INTEREST EXPENSE	V	(18,053,602)	\$(553,962)	(19,120,877)	\$(589,605)	
NET INTEREST INCOME		24,536,730	752,891	21,164,320	652,615	
NONINTEREST INCOME						
Net fee income	II and V	4,560,564	139,938	5,131,996	158,248	
Loss on financial assets and liabilities at fair value through profit or loss	Π	(392,152)	(12,033)	(459,139)	(14,158)	
Realized gain on available-for-sale financial assets	Π	500,166	15,347	1,706,718	52,628	
Realized gain (loss) on held-to-maturity financial assets	Π	674	21	(133)	(4)	
Investment income recognized by the equity method	II and IV	65,759	2,018	167,774	5,174	
Gain from disposal of investment recognized by the equity method	II and V	1,298,902	39,856	-	-	
Gain on foreign currency exchange, net	Π	442,718	13,584	715,969	22,077	
Impairment loss of assets	Π	(258,622)	(7,936)	(115,211)	(3,553)	
Impairment reversal (loss) on foreclosed properties		399,895	12,271	(9,666)	(298)	
Gain (loss) on debt securities with no active market		24,012	737	(2,555,377)	(78,797)	
Gain on disposal of foreclosed properties		482,797	14,814	5,545	171	
Others	IVand V	237,320	7,282	467,146	14,405	
NET NONINTEREST INCOME		7,362,033	225,899	5,055,622	155,893	
NET OPERATING INCOME		31,898,763	978,790	26,219,942	808,508	
BAD DEBT EXPENSE	II and IV	(26,073,600)	(800,049)	(4,085,730)	(125,986)	
OPERATING EXPENSES						
Personnel	II and IV	(5,081,595)	(155,925)	(6,484,688)	(199,960)	
Depreciation and amortization	II and IV	(1,349,185)	(41,399)	(1,347,279)	(41,544)	
Other general and administrative expenses	V	(5,871,878)	(180,174)	(6,175,980)	(190,440)	
TOTAL OPERATING EXPENSES		(12,302,658)	(377,498)	(14,007,947)	(431,944)	
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		(6,477,495)	(198,757)	8,126,265	250,578	
INCOME TAX BENEFIT (EXPENSE)	II and IV	2,263,872	69,465	(1,726,000)	(53,222)	
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		(4,213,623)	(129,292)	6,400,265	197,356	
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	726,679	22,298		-	
NET INCOME (LOSS)		\$(3,486,944)	\$(106,994)	\$6,400,265	\$197,356	
BASIC EARNINGS (LOSS) PER SHARE (IN DOLLARS)	IV					
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		\$(0.87)	\$(0.027)	\$1.31	\$0.040	
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		0.15	0.005		-	
NET INCOME (LOSS)		\$(0.72)	\$(0.022)	\$1.31	\$0.040	

#### Cathay United Bank

#### Statements of changes in shareholders' equity

For the years ended December 31, 2006(Restated) and 2007

#### (Expressed in thousands of dollars)

							Retained e	earnings							
								Undistributed	l earnings	Foreign c	urrency	Unrealized gai	ins or losses		
	-	Capital	stock	Capital r	eserves	Legal re	serve	(Deficit to be co	ompensated)	translation a	djustment	on financial i	nstruments	Tot	al
ITEMS	NOTES	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)	NT	US(Note II)
Balance, January 1, 2006		\$46,420,518	\$1,424,379	\$13,464,276	\$413,141	\$14,115,413	\$433,121	\$3,852,743	\$118,219	\$85,432	\$2,621	\$(10,307)	\$(316)	\$77,928,075	\$2,391,165
Effect of initial adoption of the SFAS No.34	III	-	-	-	-	-	-	-	-	-	-	353,343	10,842	353,343	10,842
Appropriation and distribution of 2005 earnings:	IV														
Legal reserve		-	-	-	-	1,155,823	35,466	(1,155,823)	(35,466)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(2,695,420)	(82,707)	-	-	-	-	(2,695,420)	(82,707)
Special bonus to employees		-	-	-	-	-	-	(1,500)	(46)	-	-	-	-	(1,500)	(46)
Net loss for the year ended December 31, 2006(Restated)		-	-	-	-	-	-	(3,486,944)	(106,994)	-	-	-	-	(3,486,944)	(106,994)
Foreign currency translation adjustment	П	-	-	-	-	-	-	-	-	(15,235)	(467)	-	-	(15,235)	(467)
Adjustment for changes in shareholders' equities of equity-accounted investee	П	-	-	-	-	-	-	-	-	-	-	3,851	118	3,851	118
Unrealized losses on available-for-sale financial assets	П	-	-	-	-	-	-	-	-	-	-	357,336	10,965	357,336	10,965
Retroactive adjustments for merger	II and XI	2,268,895	\$69,620	1,749,376	53,678	-		(301,923)	(9,265)			(17,292)	(531)	3,699,056	113,502
Balance, December 31, 2006(Restated)	-	\$48,689,413	\$1,493,999	\$15,213,652	\$466,819	\$15,271,236	\$468,587	\$(3,788,867)	\$(116,259)	\$70,197	\$2,154	\$686,931	\$21,078	\$76,142,562	\$2,336,378
Balance, January 1, 2007		\$46,420,518	\$1,431,407	\$13,464,276	\$415,180	\$15,271,236	\$470,898	\$(3,788,867)	\$(116,832)	\$70,197	\$2,164	\$704,223	\$21,715	\$72,141,583	\$2,224,532
Retroactive adjustments for merger	II and XI	2,268,895	69,963	1,749,376	53,943	-	-	-	-		-	(17,292)	(533)	4,000,979	123,373
Legal reserve used to make up deficit	IV	-	-	-	-	(3,788,867)	(116,832)	3,788,867	116,832		-	-	-	-	-
Net income for the year ended December 31, 2007		-	-	-	-	-	-	6,400,265	197,356		-	-	-	6,400,265	197,356
Foreign currency translation adjustment	п	-	-	-	-	-	-	-	-	(18,949)	(584)	-	-	(18,949)	(584)
Adjustment for changes in shareholders' equities of equity-accounted investee	П	-	-	(41)	(1)	-	-	-	-		-	-	-	(41)	(1)
Unrealized losses on available-for-sale financial assets	п	<u> </u>										(1,152,002)	(35,523)	(1,152,002)	(35,523)
Balance, December 31, 2007	-	\$48,689,413	\$1,501,370	\$15,213,611	\$469,122	\$11,482,369	\$354,066	\$6,400,265	\$197,356	\$51,248	\$1,580	\$(465,071)	\$(14,341)	\$81,371,835	\$2,509,153

#### English Translation of Financial Statements Originally Issued in Chinese\_ Cathay United Bank Statements of cash flows For the years ended December 31, 2006 (Restated) and 2007 (Expressed in thousands of dollars)

International Control (International Control			January 1-December 31, 20	06(Restated)	January 1-December 31, 2007		
Set associated of second approximated by specific approximated by specifi	ITEMS	NOTES					
Adjament restanding intermediation and intermediation	CASH FLOWS FROM OPERATING ACTIVITIES:			· · · · · · · · · · · · · · · · · · ·			
Approximation and methods and solution and a kink named         0         1,28,35         4,300         112,72         4,11           Gis (a) (a) (a) (a) (a) (a) (a) (a) (b) (b)         0         0,000         0,000         1,11 <t< td=""><td>Net income (loss)</td><td></td><td>\$(3,486,944)</td><td>\$(106,994)</td><td>\$6,400,265</td><td>\$197,356</td></t<>	Net income (loss)		\$(3,486,944)	\$(106,994)	\$6,400,265	\$197,356	
International manage of physical acade in acade in a short acade in	Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Bits of densinger sympthy hashed         II         (1988)         (1988)            Bask densinger sympthy hashed by pages at the finds of genes.         IIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIII	Depreciation and amortization	п	1,349,185	41,399	1,347,279	41,544	
Implication scale is one field appendix         Implication of appendix         Opplication of appendix <t< td=""><td>Investment income recognized by the equity method exceeded the cash dividends received</td><td>П</td><td>88,221</td><td>2,707</td><td>5,856</td><td>181</td></t<>	Investment income recognized by the equity method exceeded the cash dividends received	П	88,221	2,707	5,856	181	
Index page         IndfV         207,200         60,000         40,07,700         60,000           Line (hin in alignation, support and look along page in stage.         0         0,000<	Gain on disposal of investments accounted for using equity method	П	(1,298,902)	(39,856)	-	-	
Last disputs dynamics appands and kankad appands         II         (no. 10, 20, 20, 20, 20, 20, 20, 20, 20, 20, 2	Impairment (reversal) loss on foreclosed properties	II	(399,895)	(12,271)	9,666	298	
Impact sear sear sear sear sear sear sear sear	Bad debt expense		26,073,600	800,049	4,085,730	125,986	
Hiso change is change         (1,51)         (1,52)         (1,52)         (1,55)         (1,55)           Density of change principle         4,895,51         19,538         3,381         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,55)         (1,5)		П	(667,404)	(20,479)	21,114	651	
Index of loss of sharps in source principals         Index D         (0.239)         (0.239)         (0.239)           Construction of source principal (0.139)         (0.239) </td <td>Impairment loss of assets</td> <td>II</td> <td>258,622</td> <td>7,936</td> <td>115,211</td> <td>3,553</td>	Impairment loss of assets	II	258,622	7,936	115,211	3,553	
chore spreads         1.81         1.81           Decision spreads         2.82.10         1.91.30         1.91.30         1.91.30           Decision spreads         0.72.10         0.60.30         1.91.30         1.91.30         1.91.30           Decision spreads         0.72.10         0.60.30         1.91.30         0.72.30         0.75.30	Effects of exchange rate changes		(15,428)	(474)	(41,555)	(1,281)	
Densis in encoding         489,513         (0.23)         5.333           Densis in encoding         (2.20,17)         (0.20,10)         (0.20,10)         (0.20,10)           Densis in encoding         (2.20,10)         (0.20,10)	Cumulative effect of changes in accounting principles	II and III	(726,679)	(22,298)	-	-	
(hand) shores in shead         (12,01,03)         (01,00)         (11,00)         (01,00)           (hand) shores in shead         (12,01,03)         (12,02,00)         (12,02,0)         (12,02,0)         (12,02,0)         (12,02,0)         (12,0	(Increase) decrease in operating assets						
Ithere is fauncial use of seven is public increase industry of seven increase indication in public increase increase indication in public increase increase indication in public increase indication in public increases in pub	Decrease in receivables		4,899,513	150,338	3,383	104	
Insert induce and Decret induce and many financian for solar for solar for solar for solar for solar Decret induces and solar Decret induces and solar Interest induces and solar Decret induces and solar decret induces and solar Decret induces and solar decret induces and solar Decret induces and solar decret induces and s	(Increase) decrease in deferred income tax assets		(2,201,875)	(67,563)	1,319,600	40,691	
Internet (adverse) in spering limits         (1.88.5.18)         (7.8.7.9)         (2.9.8.6.0)         (3.8.7.9.1)           Decrees (public)         (1.8.6.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)           Decrees (public)         (1.8.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)           Decrees (public)         (1.8.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)           Decrees (public)         (1.3.7.9.9)         (1.9.7.9.1)         (1.8.7.9.1)         (1.8.7.9.1)           Decrees (public)         (1.3.7.9.9.1)         (1.3.7.9.9.1)         (1.8.8.7.2.1)         (1.8.8.7.2.1)           Decrees (public)         (1.3.7.9.9.1)         (1.3.7.9.9.1)         (1.3.8.9.2.1)         (1.8.7.9.1)           Decrees (public)         (1.3.7.9.9.1)         (1.3.8.9.2.1)         (1.3.9.9.9.1)         (1.3.9.9.9.1)         (1.3.9.9.9.1)         (1.9.9.9	(Increase) decrease in financial assets at fair value through profit or loss		(7,430,846)	(228,010)	17,113,498	527,706	
Dense in pagels         (1.48.788)         (0.5.07)         (0.28.80)         (0.5.07)           Incress (denses) in dural latis fait vise faring paged or loss         (1.39.78)         (0.5.07)         (2.58.80)         (2.5.07)           Not all provide pagesting in the faring facil or loss         (1.39.78)         (0.7.77)         (2.50.78)         (7.57.77)           Not all provide pagesting in the facil or loss f	Increase in other assets		(227,318)	(6,975)	(124,797)	(3,848)	
Dense         (1,48,78)         (1,6,27)         (1,248,78)         (1,6,27)         (1,248,28)         (1,6,27)         (1,248,28)         (1,248,78)	Increase (decrease) in operating liabilities						
Interact decase in the public financial habities at in value freque public roles         5.333 kl         160,77         7.53,89         0.23,30           Interact decase in the public roles         0.131,90         0.020         3.43,14         7.7           Interact decase in the public roles         0.131,90         0.027         3.83,14         7.7           Not accord and the public roles         0.131,90         0.027         0.101,000         0.000           Not accord and form on back         0.133,90         0.11,200         0.101,000         0.000 <td></td> <td></td> <td>(2.488.788)</td> <td>(76.367)</td> <td>(9,298,406)</td> <td>(286,722)</td>			(2.488.788)	(76.367)	(9,298,406)	(286,722)	
Interest decressed in the pipeline         (12,100)         (0.21)         (						(232,790)	
Intensity (decress) in other institutions         (12,100)         (0,071)         256,088         7.7           Nat call privings         (13,100)         (0,071)         159,166         429           CASH TLONS FROM INVESTIGN         -         -         933,052         (06,20,20)         (02,20)						7,657	
Incl. provided by opening activities         1832.50         577.69         13912.66         4992           SNH ROWS FROM VATURES         -         -         10.0000         2						7,921	
CASH LOVAS FIGUA NVESTINGA CATTURTIES:         9,182,682         288,           Net increase financia state         151,372,507         (12,3217)         (12,132,127,11)         (12,132,127,11)		—				429.007	
Not increase fine sequing of CUTIC     -     -     -     9,18,362     96,20       Charmed fine sequence to used     7,85,30     2,207     (6,613,02,94)     16,82       Charmed fine sequence to used     7,85,30     2,207     (6,613,02,94)     16,82       Decrease in indefine sequence to used     (1,155,617)     (15,55,123)     (16,123,02)     16,12       Decrease in indefine sequence to used     (1,15,167)     (15,123,03)     (16,12)     17,12       Decrease in indefine sequence to used     (1,15,167)     (15,123,03)     (16,12)     16,12       Decrease in indefine sequence to used     (1,15,167)     (15,123,03)     (16,12)     16,12       Appaint of memory sequence to use of used use in define sequence to use of use			10,020,201	511,055	13,912,000	125,007	
bet incrust information       (b1,39,099)       (L57,521)       (DA116,202)       (DA116,202)         (Decreasy decrease in mechanism perchand under agenerative to reed       (D733,00)       (B12,20)       (A40,028)       (B15,02)         (Decreasy decrease in mechanism perchand under agenerative to reed       (D733,00)       (B12,20)       (A40,028)       (B15,02)         (Decrease) decrease in mechanism perchand under agenerative to reed       (D33,00)       (D116,02)       (D116,02)       (D116,02)         (Decrease) decrease in mechanism perchand under agenerative to reed       (D33,00)       (D116,02)					0 182 682	283.185	
Idences decrease in dec from Back and Ilbans to banks         746.30         22.007         (0.430,239)         (195,20)           Increase in second decrease in second decrea			(51 220 608)	(1.575.221)		(622,455)	
theread (seriads in scaring in quality due in general of an equip quality due in secience in scaring in quality due in secience in quality due in qu							
Increase         (1155,617)         (354,245)         (580,252)         (178)           Decress in induction starp (sing call) starbids         (217,417)         (35,873)         (1,453)         (243,630)         (2							
Decress in bidd-smallarly mancial ases         2,714,17         88,281         2,215,524         7,7           Incress in instruments accound for using equity methol         3,989,406         122,412         -         -           Proceed from disposal of mersine, equipy methol         2,068,899         61,612         81,310         62,323,326         62,323,326         62,323,32							
Increase         (3.37)         (1.63)         (243.63)         (243.63)           Proceeds form disposed investments accounted for using quity medid         3.989.466         (22.412         -           Proceeds form disposed investments accounted for using quity medid         (2.08.89)         6.6.62         81.310         2.2           Acquisition of procession diversions, quity medid accounted for using quity medid         (3.61.24.100)         (4.64.57)         (4.64.57)         (4.64.57)         (4.64.57)         (4.64.57)         (1.10.75)         (3.1.75)						(178,925)	
Process from dispoal of prosings quipment and foceboal opporties         3,989,966         112,212						71,404	
Process from dispoal of previses, quipment and fores/oad properties         2,008,899         61,642         81,310         2.2,320,320,320,320,320,320,320,320,320,32					(243,630)	(7,513)	
Aquisition of memises, equipment and functions properties       (1,345,069)       (44,617)       (1,62,322)       (98,84)         Aquisition of memises, equipment and functions with no active market       (61,529,560)       (1,00,02,54)       1,010,07,55       33,1         Increase (screase in investing sixtifies       (318,814)       (0,783)       (24,608)       (51,713)         Net call in use fing sixtifies       (318,814)       (0,733)       (24,608)       (51,713)         CASE IF LOWS FROM FINANCING ACTIVITIES       (30,309,90)       (31,30,97)       (26,313,009)       (80,30,300)         Increase (screase) in fands form banks       (30,30,195)       (31,30,07)       (20,30,31					-	-	
Aquistion of imangible sensits       -       <						2,507	
Increase inverse in order inscuring with o active market       (61,929,000)       (1,00,0264)       (1,01,025)       3.1         Increase (crease in order financial lasses)       (318,814)       (0,73)       (24,663)       (07,71)         CASH ENDANCING ACTIVITIES:       (118,015,055)       (36,01,000)       (85,40,663)       (07,71)         Increase (crease) in due to investing activities on the under agreents to reparchase       (10,00,165)       (31,007)       (30,007)         Increase (crease) in due to investing activities on the under agreents to reparchase       (10,00,105)       (13,013)       (90,02,317)       (26,03,000)         Increase (crease) in financial lativities       (10,00,105)       (13,013)       (90,02,317)       (26,03,00)       (30,017)       (26,01,000)       (31,017)       (26,01,000)       (31,017)       (26,01,000)       (31,017)       (26,01,000)       (31,017)       (26,01,000)       (31,017)       (31			(1,454,069)	(44,617)		(48,177)	
(Increase in other financial assets)         (23,200)         (7,149)         (1,22,03)         (35,3)           Increase in other assets         (318,814)         (9,23)         (40,605)         (57,110)           Net cash used in investing activities         (118,018,850)         (6,62,1,10)         (118,018,600)         (67,110)           Increase (decrease) in due to the Central Bank and call leans from banks         28,63,080         878,520         (20,60,17)         (22,60,00)         (80,72)         (22,70)         (22,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (22,70,70)         (23,70)         (24,50,70)         (24,50,70)         (23,70,70)         (24,50,70)			-	-		(1,988)	
Increase (the asset)         (118.814)         (9,783)         (24,698)         (57)           CASH LOWS FROM FINANCING ACT UTTES:         (118.018.509)         (3.02.01)         (118.018.509)         (3.02.01)         (0.01.01)						31,169	
Net cash used in investing activities         (118.018.505)         (3,621.310)         (18.540.663)         (571.157)           CASH FL/OWS FROM FINANCING ACTIVITIES:         28.630,980         \$87.850         (26,013.009)         (805.157)           Increase (decrease) in due to the Central Bank and call loans for banks         28.630,980         \$87.850         (26,013.009)         (805.157)           Increase (decrease) in due to more alise and other banks         (10.01.155)         (13.075)         (9.00.324)         660.000           Increase (decrease) in funk formore alise and other banks         (20.2478)         (19.059)         (13.076)         9.024.0324         660.000         24.440.007         11.3867         (466.092)         (14.400.007)         24.440.007         11.3867         (466.092)         (14.400.007)         10.25.020         (14.400.007)         10.25.020         (14.400.007)         10.25.020         (14.400.007)         10.25.020         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.000,000)         (14.20.00						53,100	
CASH FLOWS FROM FINANCING ACTIVITIES:         Images (decrease) in duo to F contral Bank and coll loans from banks         28,630,980         578,520         (26,133,009)         (805,5)           Decress in securities soli undor agreements to repurchase         (10,203,195)         (13,078)         (90,063,17)         (278,300)         630,0           Increase (decresse) in duo fraind-berrowel from hack carries physical developments physical deve	Increase in other assets					(762)	
Increase (decrease) in due to the Central Bank and call loans from banks         26,630,980         878,520         (26,133,009)         (805,1           Decrease in securities soil undir generematio regrements or procession in solution over from the Central Bank and other banks         (12,03,195)         (31,007)         (28,83,000)         (46,00,034)         (46,01,034)         (46,01,034)         (46,01,034)         (46,01,034) <td></td> <td></td> <td>(118,018,505)</td> <td>(3,621,310)</td> <td>(18,540,663)</td> <td>(571,714)</td>			(118,018,505)	(3,621,310)	(18,540,663)	(571,714)	
Decrease in socurities sold under agreements to repurchase         (10.203.195)         (213.078)         (9.026.317)         (278.21)           Increase in dopositis and remittances         (32.03.195)         (31.078)         (9.026.317)         (30.00000000000000000000000000000000000	CASH FLOWS FROM FINANCING ACTIVITIES:						
Increase (deposits and remittance)         88,730,671         2,569,214         204,60,324         630,24           Increase (decrease) in finan browed from ternt Bank and other banks         (620,478)         (19,039)         416,019         12,2           Increase (decrease) in other financial idebilities         (620,478)         (19,039)         416,019         12,2           Increase (decrease) in other financial idebilities         446,067         13,887         (466,992)         (14,4)           Increase (decrease) in other financial idebilities         (2,632,420)         (62,7,7)         - <td>Increase (decrease) in due to the Central Bank and call loans from banks</td> <td></td> <td>28,630,980</td> <td>878,520</td> <td>(26,133,009)</td> <td>(805,828)</td>	Increase (decrease) in due to the Central Bank and call loans from banks		28,630,980	878,520	(26,133,009)	(805,828)	
Increase (decrease) in funds borowed from the Central Bank and other banks       (4,250)       (10)       807,950       24,4         Increase (decrease) in funcial idabilities       (620,478)       (19,039)       44,6079       (12,10)         Increase (decrease) in funcial idabilities       446,067       13,687       (466,992)       (14,4)         Increase (decrease) in other financial idabilities       19,937       6.12       (6,518)       (12,10)         Distribution of cash divides       (9,030)       3,047,006       (33,483,43)       (430,0)         Distribution of cash divident garcinic garcini garcini garcinic garcinic garcinic garcinic garcinic g	Decrease in securities sold under agreements to repurchase		(10,203,195)	(313,078)	(9,026,317)	(278,332)	
Increase (decrease) in financial labilities         (f20,478)         (f19,039)         416,019         (12,11)           Increase (decrease) in other liabilities         19,037)         612         (66,0492)         (14,0497)           Increase (decrease) in other liabilities         19,937         612         (66,018)         (12,012)           Distribution of cash dividends         19,937         612         (63,18)         (12,012)           Distribution of cash dividends         19,937         612         (63,18)         (12,012)           Bonus to sharebolders and special bonus to employees         (2,302,012)	Increase in deposits and remittances		83,730,671	2,569,214	20,460,324	630,907	
Increase (decrease) in other finabilities         146,067         13,887         (466,992)         (14, 146,067           Increase (decrease) in other finabilities         19,937         612         (66,18)         (16, 20,232)         (61,232)         (73)	Increase (decrease) in funds borrowed from the Central Bank and other banks		(4,250)	(130)	807,950	24,914	
Increase (decrease) in other liabilities         19,937         6.12         (6,318)         (1)           Distribution of cash dividends         IV         (2,695,420)         (82,707)         -           Bonus to shareholders and special bonus to employees         (2,282)         (73)         -           Net cash provided by (used in) financing activities         99,301,930         3,047,006         (13,948,343)         (430)           EFFECTS OF FOREICE NEXCHANGE RATE CHANGES         7,99         236         26,376         16,385         16,385         (572,472,493)         (572,472,493,493,493)         (572,472,493,493,493,493,493,493,493,493,493,493	Increase (decrease) in financial debentures payable		(620,478)	(19,039)	416,019	12,828	
Increase (decrease) in other liabilities         19,937         6.12         (6,318)         (1)           Distribution of cash dividends         IV         (2,695,420)         (82,707)         -           Bonus to shareholders and special bonus to employees         (2,282)         (73)         -           Net cash provided by (used in) financing activities         99,301,930         3,047,006         (13,948,343)         (430)           EFFECTS OF FOREICE NEXCHANGE RATE CHANGES         7,99         236         26,376         16,385         16,385         (572,472,493)         (572,472,493,493,493)         (572,472,493,493,493,493,493,493,493,493,493,493	Increase (decrease) in other financial liabilities		446.067	13.687	(466,992)	(14,400)	
Distribution of cash dividends         IV         (2,695,420)         (82,707)						(195)	
Bonus to shareholders and special bonus to employees         (2,32)         (73)         -           Net cash provided by (used in) financing activities         99,301,930         3,047,006         (13,948,343)         (430, (430, (13,948,343)         (430, (13,948,343)         (430, (14,469)         (14,460)         (14,460)         (14,460)         (14,4		IV			-		
Net cash provided by (used in) financing activities         99,301,930         3,047,006         (13,948,343)         (430, (13,948,343)           EFFECTS OF FOREIGN EXCHANGES         7,699         236         26,376         16           NET INCREASE (DECREASE) IN CASH EQUIVALENTS         116,355         3,571         (18,948,343)         (672, 40,672,476,496)         (672, 40,672,476,496)         (672, 40,672,476,496)         (672, 40,402,443)         (672, 40,405,795         34,198,828         (1,64,672,476,486,46)         (672,476,476,476,476,476,476,476,476,476,476							
EFFECTS OF FOREIGN EXCHANGES         7,699         236         26,376         1           NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS         116,385         3,511         (18,549,964)         (672,4)           CASH AND CASH EQUIVALENTS AT EDGINNING OF THE YEAR         34,082,443         1,045,795         34,198,828         (15,44,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,45,964)         (15,46,96)		—			(13 948 343)	(430,106)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS       116,385       3,571       (18,549,964)       (672,1         CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR       34,082,443       1,045,755       34,198,828       1,045,255         CASH AND CASH EQUIVALENTS AT BED OF THE YEAR       534,198,828       \$1,049,366       \$15,654,255       4,198,848       1,054,255         SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:       116,385       \$1,049,366       \$15,054,866       458,252,955         Interest expense paid       \$175,545,081       \$538,358       \$19,011,411       \$586,055       \$22,900,679       \$22						(430,100) 813	
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR         34,082,443         1,045,795         34,198,828         1,054,205           CASH AND CASH EQUIVALENTS AT END OF THE YEAR         \$34,082,443         1,045,795         \$4,198,828         1,054,205           CASH AND CASH EQUIVALENTS AT END OF THE YEAR         \$34,082,443         1,045,795         \$34,088,28         1,054,205           SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:         \$11,98,828         \$11,049,866         \$15,648,864         \$342,200,679           Income tax paid         \$17,545,081         \$538,358         \$19,011,411         \$586,200,679         \$200,679         \$89,005         \$713,741         \$22,000,679         \$200,679         \$89,005         \$713,741         \$22,000,679         \$22,000,679         \$20,000,67		—				(572,000)	
CASH AND CASH EQUIVALENTS AT END OF THE YEAR       \$31,049,366       \$15,648,864       \$482.         SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:       1       \$538,358       \$19,011,411       \$586.         Income tax paid       \$2,900,679       \$89,005       \$713,741       \$522.         PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING        \$1,501       \$46       \$-         Dividends payable       \$15,351       471       -       -         Dividends the beginning of the period       (14,469)       (444)       -       -							
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:       \$17,545,081       \$538,358       \$19,011,411       \$586,2         Income tax paid       \$2,900,679       \$89,005       \$713,741       \$528,250         PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING       \$1,500       \$46       \$-         ACTIVITIES:       \$1,500       \$46       \$-         Dividends payable       \$1,5,351       471       -         Less: Payable at end of the period       \$(14,469)       \$(444)       -							
Interest expense paid Income tax paid         \$17,54,081         \$538,358         \$19,011,411         \$586.           PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES:         \$2,000,679         \$89,005         \$713,741         \$22,00           Dividends payable         \$1,500         \$46         \$-           Add: Payable at end of the period         \$15,351         471         -           Less: Payable at end of the period         \$(14,469)         \$(444)         -		=	\$34,198,828	\$1,049,300	\$13,048,804	\$482,343	
Income tax paid\$2,900,679\$89,005\$713,741\$22,0PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES: Dividends payable\$1,500\$46\$-Dividends payable\$1,530\$46\$-Add: Payable at beginning of the period15,351471-Less: Payable at end of the period(14,469)(444)-			\$17,545,001	6520.250	\$10,011,411	\$5%C 220	
ACTIVITIES:       Dividends payable       \$1,500       \$46       \$-         Add: Payable at beginning of the period       15,351       471       -         Less: Payable at end of the period       (14,469)       (444)       -						\$386,229	
ACTIVITIES:       Dividends payable       \$1,500       \$46       \$-         Dividends payable       15,351       471       -         Add: Payable at end of the period       (14,469)       (444)       -	PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING						
Dividends payable     \$1,500     \$46     \$-       Add: Payable at beginning of the period     15,351     471     -       Less: Payable at end of the period     (14,469)     (444)     -							
Add: Payable at beginning of the period     15,351     471     -       Less: Payable at end of the period     (14,469)     (444)     -			\$1.500	¢ A C	¢	S-	
Less: Payable at end of the period					<b>3-</b>	5-	
					-	-	
Payment \$2,382 \$73 \$-		_			-	-	
	Payment		\$2,382	\$73	\$-	\$-	

Cathay United Bank

Notes to financial statements

For the years ended December 31, 2006 (Restated) and 2007

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

#### I. Business

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

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

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

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

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

The board meeting on behalf of the Bank's shareholders resolved on August 25, 2006 to merge with Lucky Bank. Under this merger, the Bank acquired the assets and liabilities of Lucky Bank through a share swap at ratio of 1 share of Lucky Bank to exchange for 0.7212 shares of the Bank, on which the Bank was the surviving entity and Lucky Bank was the merged Bank. The merger date was January 1, 2007. Please refer to Note XI for details.

The Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on December 29, 2007.

As of December 31, 2006 and 2007, the Bank employed 5,256 and 5,910 employees, respectively.

## II. Summary of significant accounting policies

The financial statements were prepared in conformity with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling" with respect to financial accounting standard, 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 assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the translated using the exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

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

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

## 3. Financial assets and financial liabilities

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

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

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

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

## (2) Held-to-maturity financial assets

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

#### (3) Investments in debt securities with no active market

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

## (4) Available-for-sale financial assets

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

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

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

## (5) Financial assets carried at cost

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

## (6) Financial liabilities

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

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

# 4. Derivative financial instruments

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

# 5. Derecognition of financial assets and liabilities

# Financial assets

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

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

# Financial liabilities

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

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

# 6. Impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired using following different methodologies depending on the classification:

#### Financial assets carried at amortized cost

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

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

#### Financial assets carried at cost

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

## Available-for-sale financial assets

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

# 7. Hedge accounting

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

- (a) Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- (b) Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction;
- (c) Hedges of net investments in foreign operations.

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

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

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains or losses from both are taken to income.

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

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

# 8. Allowances for doubtful accounts

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

## 9. Investment accounted for using equity method

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

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

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

# 10. Premises and equipment

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

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

Building	5~60	years
Furniture and fixtures	3~6	years
Transportation equipment	3~6	years
Miscellaneous equipment	3~15	years

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

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

## 11. Intangible assets and goodwill

## (1) Intangible assets

The Bank adopted the R.O.C. SFAS No. 37 "Accounting for Intangible Assets" Since January 1, 2007. Intangible assets are initially recognized at cost. After the initial recognition, the intangible assets shall be carried at cost less accumulated amortization and accumulated impairment losses if any.

The useful lives of intangible assets of the Bank are deemed finite. The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. If there is an objective evidence that an impairment loss has been incurred, the impairment testing would be performed.

The category of intangible assets of the Bank and the amortization method over the estimated useful lives are as follows:

Category	Useful lives	Amortization method
Computer software	3-5 years	Straight-line method
Other intangible assets	4 years	Straight-line method

## (2) <u>Goodwill</u>

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

# 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.

The Bank assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU, to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## 15. <u>Reserves for possible losses on guarantees</u>

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. <u>Recognition of dividend</u>

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

Cash dividends received from equity securities other than financial assets at fair value through profit or loss are included as a recovery of parts of the cost of the equity securities. Receipts of cash dividends declared after the year of investment are recognized as investment income on the date of ex-dividend or the date of shareholders' meeting; if receipts of accumulated cash dividends exceed the accumulated retained earnings in the year prior to the date of dividend issuance, the excessive parts should be represent a recovery of parts of the cost of the equity securities.

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

#### 20. Income tax

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

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

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

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

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

## 21. Contingencies

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

#### 22. Basis for converting financial statements

The Bank's financial statements are stated in NT dollars. Translation of the December 31, 2006 and 2007 NT dollar amounts into US dollar amounts are provided solely for the convenience of the readers, using the noon buying rate of NT\$32.59 and NT\$32.43 to US\$1.00 on December31, 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

- Effective from January 1, 2007, the Bank adopted the R.O.C. SFAS No.37, "Accounting for Intangible Assets". The Bank has reassessed the useful lives and amortization methods of the intangible assets already recognized on the effective date. The adoption of the R.O.C. SFAS No. 37 did not have an impact on the Bank's financial statements as of and for the year ended December 31, 2007.
- 2. 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.

	Recognized as cumulative effect of change in accounting principles (Net of tax)		Recognized a compor shareholde (Net o	onent of ers' equity	
	NT	US	NT	US	
Financial assets at fair value					
through profit or loss	\$295,034	\$9,053	-	\$-	
Available-for-sale financial					
assets			355,156	10,898	
	-	-	(Note)	(Note)	
Financial liabilities at fair value					
through profit or loss	449,790	13,802	-	-	
Derivative financial liabilities for					
hedging	(18,145)	(557)		-	
Total	\$726,679	\$22,298	\$355,156	\$10,898	

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

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

The adoption of the SFAS No.34 and No.36 increased net loss before cumulative effect of changes in accounting principles of NT\$726,679(US\$22,298) and decreased after income tax loss per share of NT\$0.15(US\$0.005) in dollars for the year ended December 31, 2006.

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

## IV. Breakdown of Significant Accounts

#### 1. Cash and cash equivalents

	December31,						
	2006(Re	estated)	200	7			
	NT US		NT	US			
Cash on hand	\$11,289,754	\$346,418	\$9,211,507	\$284,043			
Checks for clearance	11,563,053	354,804	3,298,851	101,722			
Due from commercial banks	11,346,021	348,144	3,138,506	96,778			
Total	\$34,198,828	\$1,049,366	\$15,648,864	\$482,543			

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

	December 31,						
	2006(Re	stated)	200	)7			
	NT	NT US		US			
Call loans to banks	\$18,120,089	\$556,001	\$13,485,834	\$415,844			
Due from the Central Bank $-$							
Statutory reserve on deposits and							
general deposits	33,151,460	1,017,228	44,215,964	1,363,428			
Total	\$51,271,549	\$1,573,229	\$57,701,798	\$1,779,272			

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

Under a directive issued by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included NT\$25,923,611(US\$795,447) and NT\$27,629,340(US\$851,969) as of December 31, 2006 and 2007, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interesting bearing reserves may be withdrawn momentarily. As of December 31, 2006, the balance of foreign-currency deposit reserves amounted to NT\$48,975 (US\$1,503).

#### 3. Financial assets at fair value through profit or loss

	December 31,						
	2006(Re	stated)	200	)7			
	NT	US	NT	US			
Financial assets for trading :							
Stocks	\$5,613,609	\$172,249	\$4,701,072	\$144,961			
Mutual funds and beneficiary certificates	1,718,564	52,733	1,047,405	32,297			
Commercial papers and certificates of							
deposit	15,241,030	467,660	9,687,042	298,706			
Bonds	25,458,013	781,160	19,619,050	604,966			
Overseas financial instruments	1,466,246	44,991	1,382,617	42,634			
Derivative financial instruments	5,998,705	184,066	3,227,739	99,530			
Subtotal	55,496,167	1,702,859	39,664,925	1,223,094			
Financial assets designated at fair value							
through profit or loss:							
Overseas financial instruments	1,394,400	42,786	172,112	5,307			
Bonds	155,695	4,777	95,727	2,952			
Subtotal	1,550,095	47,563	267,839	8,259			
Total	\$57,046,262	\$1,750,422	\$39,932,764	\$1,231,353			

- (1) NT\$155,695 (US\$4,777) and NT\$95,727 (US\$2,952) of the financial assets at fair value through profit or loss as of December 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) As of December 31, 2006, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$9,765,400 (US\$299,644). Such repurchase agreements amounting to NT\$9,746,341 (US\$299,059) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2006 was settled at NT\$9,753,463 (US\$299,278) prior to January 31, 2007.

As of Dcember 31, 2007, certain of the financial assets at fair value through profit or loss was sold under repurchase agreements with notional amounts of NT\$6,522,500 (US\$201,126). Such repurchase agreements amounting to NT\$6,503,534 (US\$200,541) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2007 was settled at NT\$6,507,082 (US\$200,650) prior to February 28, 2008.

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

	December 31,			
	2006(Restated)	2007		
Forward foreign exchange and currency swap	\$9,183,556	\$16,304,666		
contracts				
Interest rate swap contracts	9,498,594	12,184,668		
Cross-currency swap contracts	559,901	675,489		
Options	106,320	268,915		
Credit derivative instrument contracts	225,000	140,000		

(4) Net gains arising from financial assets at fair value through profit or loss for the years ended December 31, 2006 and 2007 was NT\$7,034,197 (US\$215,839) and NT\$3,343,516 (US\$103,099), respectively.

## 4. Receivables, net

	December 31,						
	2006(Re	stated)	2007				
	NT	NT US		US			
Notes receivable	\$-	\$-	\$6,408	\$198			
Accounts receivable	41,026,203	1,258,859	36,358,267	1,121,131			
Interest receivable	4,531,181	139,036	4,379,680	135,050			
Receivable to related party for allocation							
of linked-tax system	1,430,294	43,887	1,096,026	33,797			
Foreign currency receivable	683,410	20,970	1,759,434	54,253			
Acceptances	850,907	26,109	988,746	30,488			
Tax refundable	1,004,898	30,835	747,465	23,049			
Others	1,646,444	50,520	1,920,983	59,235			
Total	51,173,337	1,570,216	47,257,009	1,457,201			
Less: allowance for doubtful accounts	(2,069,181)	(63,491)	(3,472,208)	(107,068)			
Net balance	\$49,104,156	\$1,506,725	\$43,784,801	\$1,350,133			

	January 1-December 31, 2006 (Restated)						
	Allocated al	lowance	Unallocated	portion	Total		
	NT	US	NT	US	NT	US	
Balance, beginning of the							
period	\$837,652	\$25,703	\$267,369	\$8,204	\$1,105,021	\$33,907	
Provision of doubtful							
accounts	11,863,220	364,014	-	-	11,863,220	364,014	
Write-offs	(11,312,296)	(347,110)	-	-	(11,312,296)	(347,110)	
Debt counseling							
recoveries	134,914	4,140	-	-	134,914	4,140	
Recoveries	278,418	8,543	-	-	278,418	8,543	
Reclassifications	140,705	4,317	(140,705)	(4,317)	-	-	
Effects of in exchange							
rates change		-	(96)	(3)	(96)	(3)	
Balance, end of the period	\$1,942,613	\$59,607	\$126,568	\$3,884	\$2,069,181	\$63,491	

Information on bad and doubtful accounts is as follows:

	January 1-December 31 2007						
	Allocated al	lowance	Unallocated	portion	Total		
	NT	US	NT	US	NT	US	
Balance, beginning of the							
period (Restated)	\$1,942,613	\$59,902	\$126,568	\$3,903	\$2,069,181	\$63,805	
Provision of doubtful							
accounts	4,993,674	153,983	-	-	4,993,674	153,983	
Write-offs	(4,397,181)	(135,590)	-	-	(4,397,181)	(135,590)	
Debt counseling							
recoveries	214,092	6,602	-	-	214,092	6,602	
Recoveries	592,535	18,271	-	-	592,535	18,271	
Reclassifications	54,515	1,681	(54,515)	(1,681)	-	-	
Effects of in exchange							
rates change	-	-	(93)	(3)	(93)	(3)	
Balance, end of the period	\$3,400,248	\$104,849	\$71,960	\$2,219	\$3,472,208	\$107,068	

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

	December 31,						
	2006 (Re	estated)	200	)7			
	NT	US	NT	US			
Outward documentary bills	\$837,160	\$25,688	\$786,031	\$24,238			
Overdrafts	602,863	18,498	527,941	16,279			
Short –term loans	168,678,256	5,175,767	150,475,843	4,640,020			
Medium-term loans	214,732,510	6,588,908	223,396,423	6,888,573			
Long-term loans	335,327,922	10,289,289	382,323,984	11,789,207			
Delinquent accounts	8,724,945	267,719	8,193,021	252,637			
Total	728,903,656	22,365,869	765,703,243	23,610,954			
Less: allowance for doubtful accounts	(16,511,743)	(506,651)	(9,746,610)	(300,543)			
Net balance	\$712,391,913	\$21,859,218	\$755,956,633	\$23,310,411			

- (1) As of December 31, 2006 and 2007, the accounts without interest accrued were NT\$11,536,703 (US\$353,995) and NT\$10,279,632 (US\$316,979), respectively. The non-accrued interest on such accounts amounted to NT\$208,189 (US\$6,388) and NT\$218,298 (US\$6,731) for the years ended December 31, 2006 and 2007, respectively.
- (2) For the years ended December 31, 2006 and 2007, the Bank had not written off any loans unless legal proceedings to collect these loans had been initiated.
- (3) Please refer to Note X.8 (2) for details on loans by industries and geographic regions.
- (4) Information on bad and doubtful accounts is as follows:

	January 1-December 31, 2006(Restated)						
	Allocated a	llowance	Unallocated	l portion	Total		
	NT	US	NT	US	NT	US	
Balance, beginning of the							
period	\$4,549,440	\$139,596	\$11,730,042	\$359,928	\$16,279,482	\$499,524	
Provision of doubtful							
accounts	6,910,380	212,040	7,300,000	223,995	14,210,380	436,035	
Write-offs	(19,736,852)	(605,611)	-	-	(19,736,852)	(605,611)	
Debt counseling							
recoveries	4,927	151	-	-	4,927	151	
Recoveries	5,754,922	176,586	-	-	5,754,922	176,586	
Reclassification	5,639,117	173,032	(5,639,117)	(173,032)	-	-	
Effects of exchange rates							
change		-	(1,116)	(34)	(1,116)	(34)	
Balance, end of the period	\$3,121,934	\$95,794	\$13,389,809	\$410,857	\$16,511,743	\$506,651	

	January 1-December 31, 2007						
	Allocated a	llowance	Unallocated	d portion	Total		
	NT	US	NT	US	NT	US	
Balance, beginning of the							
period (Restated)	\$3,121,934	\$96,267	\$13,389,809	\$412,884	\$16,511,743	\$509,151	
Reversal of doubtful							
accounts	(907,944)	(27,997)	-	-	(907,944)	(27,997)	
Write-offs	(11,923,799)	(367,678)	-	-	(11,923,799)	(367,678)	
Debt counseling							
recoveries	158,800	4,897	-	-	158,800	4,897	
Recoveries	5,019,987	154,794	-	-	5,019,987	154,794	
Amount from acquiring							
CUTIC	889,121	27,416	-	-	889,121	27,416	
Reclassification	7,781,703	239,954	(7,781,703)	(239,954)	-	-	
Effects of exchange rates							
change		-	(1,298)	(40)	(1,298)	(40)	
Balance, end of the period	\$4,139,802	\$127,653	\$5,606,808	\$172,890	\$9,746,610	\$300,543	

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

#### 6. Available-for-sale financial assets, net

	December 31,						
	2006(Re	estated)	200	)7			
	NT	US	NT	US			
Stocks	\$6,093,553	\$186,976	\$4,647,526	\$143,309			
Mutual funds and beneficiary							
securities	203,514	6,245	288,492	8,896			
Bonds	47,715,559	1,464,117	48,916,347	1,508,367			
Overseas financial instruments	487,917	14,971	10,061,363	310,249			
Total	\$54,500,543	\$1,672,309	\$63,913,728	\$1,970,821			

- (1) NT\$234,318 (US\$7,190) and NT\$8,228,624 (US\$253,735) of the available-for-sale financial assets as of December 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.
- (2) As of December 31, 2006, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$12,780,900 (US\$392,172).Such repurchase agreements amounting to NT\$13,915,399 (US\$426,984) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2006 was settled at NT\$13,947,971 (US\$427,983) prior to March 31, 2007.

As of December 31, 2007, certain of the available-for-sale financial assets was sold under repurchase agreements with notional amounts of NT\$7,364,000 (US\$227,074). Such repurchase agreements amounting to NT\$8,131,889 (US\$250,752) was posted to the "Securities sold under agreements to repurchase" account on the Bank's balance sheets. Repurchase agreements entered prior to December 31, 2007 was settled at NT\$8,159,958 (US\$251,618) prior to June 30, 2008.

	December 31, 2006(Restated)						
	Face va	alue	Amortize	d cost			
	NT	US	NT	US			
Bonds	\$3,663,800	\$112,421	\$3,904,318	\$119,801			
Beneficiary certificates	-	-	-	-			
Overseas financial instruments	1,739,444	53,374	1,734,010	53,207			
Subtotal	5,403,244	165,795	5,638,328	173,008			
Less: accumulated impairment		-	(2,018)	(62)			
Net balance	\$5,403,244	\$165,795	\$5,636,310	\$172,946			

#### 7. Held-to-maturity financial assets, net

December 31, 2007						
Face v	alue	Amortize	d cost			
NT	US	NT	US			
\$2,062,800	\$63,608	\$2,250,291	\$69,389			
576,335	17,772	576,335	17,772			
498,107	15,359	496,068	15,296			
3,137,242	96,739	3,322,694	102,457			
		(2,008)	(62)			
\$3,137,242	\$96,739	\$3,320,686	\$102,395			
	NT \$2,062,800 576,335 498,107 3,137,242	Face value           NT         US           \$2,062,800         \$63,608           576,335         17,772           498,107         15,359           3,137,242         96,739	Face value         Amortize           NT         US         NT           \$2,062,800         \$63,608         \$2,250,291           576,335         17,772         576,335           498,107         15,359         496,068           3,137,242         96,739         3,322,694           -         -         (2,008)			

As of December 31, 2006 and 2007, NT\$2,314,641 (US\$71,023)and NT\$658,944 (US\$20,319) of held-to-maturity financial assets, respectively, were pledged to other parties as collateral of business reserves and guarantees.

#### 8. Investments accounted for using equity method, net

	December 31, 2006 (Restated)					
	Carrying	value	% of	Investment income (loss)		
	NT	US	ownership	NT	US	
Seaward Card Co., Ltd.	\$40,098	\$1,230	100.00	\$3,999	\$123	
Seaward leasing Ltd.	-	-	-	(144,883)	(4,446)	
Cathay Life Insurance Agent Co., Ltd	92,291	2,832	100.00	66,731	2,047	
Cathay Property Insurance Agent Co., Ltd.	9,180	282	100.00	2,698	83	
Indovina Bank	753,774	23,129	50.00	111,103	3,409	
Taiwan Real-estate Management Corp.	19,441	596	30.15	3,707	114	
Taiwan Finance Corp.	1,375,154	42,195	24.57	18,859	579	
Vista Technology Venture Capital Corp.	8,564	263	4.76	407	12	
Cathay Venture Capital Corp.	36,358	1,116	2.00	2,529	78	
Pao Shin Securities Co.			-	609	19	
Total	\$2,334,860	\$71,643		\$65,759	\$2,018	

	December 31, 2007					
	Carrying	value	% of	Investment income (loss)		
	NT	US	ownership	NT	US	
Seaward Card Co., Ltd.	\$37,704	\$1,163	100.00	\$1,262	\$39	
Cathay Life Insurance Agent Co., Ltd	42,901	1,323	100.00	17,351	535	
Cathay Property Insurance Agent Co., Ltd.	7,587	234	100.00	450	14	
Indovina Bank	1,069,370	32,975	50.00	175,156	5,401	
Taiwan Real-estate Management Corp.	42,596	1,313	30.15	23,175	715	
Taiwan Finance Corp.	1,271,370	39,203	24.57	(50,440)	(1,555)	
Vista Technology Venture Capital Corp.	7,531	232	4.76	(1,110)	(34)	
Cathay Venture Capital Corp.	33,942	1,047	2.00	1,930	59	
Total	\$2,513,001	\$77,490		\$167,774	\$5,174	

- (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 (15) and (16) for details.

- (3) Lucky Bank's board of directors resolved to dispose its totally shares of Pao Shin Securities Co., Ltd. on April 11, 2006. The selling price was NT\$110,670 (US\$3,396) and the gain from this transaction was NT\$3,615 (US\$111) 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 years ended December 31, 2006 and 2007 were recognized based on the investees' unaudited financial statements. No material adjustments were anticipated, have those financial statements been audited.
- (5) The accounts of the Bank and Indovina Bank are included in the Bank's consolidated financial statements as of and for the year ended December 31, 2007. The accounts of the Bank, Lucky Bank and Indovina Bank are included in the Bank's restated consolidated financial statements as of and for the year ended December 31, 2006. The accounts of Cathay Futures Corp., Seaward Leasing Ltd, and Pao Shin Securities Co. before it were sold are included in the Bank's consolidated income statement for the year ended December 31, 2006. As the individual total assets or operating income of the other subsidiaries of the Bank are immaterial to the Bank financial statements, the accounts of these other subsidiaries, which are not included in the Bank's consolidated financial statements.

#### 9. Other financial assets, net

	December 31,						
	2006(Res	stated)	200	7			
	NT	US	NT	US			
Hedged derivatives financial assets	\$-	\$-	\$53,503	\$1,650			
Financial assets carried at cost, stocks	4,489,105	137,745	4,245,466	130,911			
Bills purchased	3,826	117	10,701	330			
Total	\$4,492,931	\$137,862	\$4,309,670	\$132,891			

Due to the recurring losses incurred by Taipei Financial Center Corp., New Century InfoComm Co., Ltd., Chan Sheng Investment Development Co., Ltd., (liquidated in 2007) 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\$5,911).

As of December 31, 2007, the above derivative financial assets for hedging applies for fair value hedge, and its fair value is NT\$53,503 (US\$1,650). The Bank has recognized losses in hedging in the amount of NT\$91,284 (US\$2,815) for the year ended December 31, 2007.

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

	December 31,						
	2006(Re	stated)	200	7			
	NT	US	NT	US			
Preferred stocks	\$549,730	\$16,868	\$549,730	\$16,951			
Certificates of deposit	207,165,000	6,356,704	197,065,000	6,076,627			
Bonds	99,635	3,057	99,635	3,072			
Beneficiary certificates	-	-	400,000	12,334			
Overseas financial instruments	50,190,092	1,540,046	58,979,467	1,818,670			
Subtotal	258,004,457	7,916,675	257,093,832	7,927,654			
Less: accumulated impairment	(217,576)	(6,676)	(264,197)	(8,146)			
Net balance	\$257,786,881	\$7,909,999	\$256,829,635	\$7,919,508			

NT\$14,830,000 (US\$455,048) and NT\$15,000,000( US\$462,535) of certificates of deposit as of December 31, 2006 and 2007, respectively, were pledged to other parties as collateral for business reserves and guarantees.

## 11. Financial assets securitization

During 2007, the Bank securitized a collateralized loans obligation (CLO) with a carry value of NT\$5,446,335 (US\$167,941) 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:

	Issue amount	Interest
Class of beneficiary certificates issued	(in thousands dollars)	rate
Senior tranche 1 <sup>st</sup>	NT\$3,335,000(US\$102,837)	2.175%
Senior tranche 2 <sup>nd</sup>	NT\$315,000(US\$9,713)	2.325%
Senior tranche 3 <sup>rd</sup>	NT\$340,000(US\$10,484)	2.545%
Senior tranche 4 <sup>th</sup>	NT\$480,000(US\$14,801)	2.945%
Subordinated tranche 5 <sup>th</sup>	NT\$200,000(US\$6,167)	3.00%
Subordinated tranche 6 <sup>th</sup>	NT\$200,000(US\$6,167)	3.20%
Subordinated tranche 7 <sup>th</sup>	NT\$576,335(US\$17,772)	_

The Bank holds the subordinated beneficiary certificates NT\$976,335 (US\$30,106) 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 the year, 2007, respectively, were as follows:

	Corporate Loans Securitization			
	December 31, May 28, 20			
	2007			
Expected weighted-average life (in years)	1.523	2.212		
Prepayment rate (annual rate)	3%	3%		
Expected credit losses rate (annual rate)	3.71%	3.71%		
Discounting rate for residual cash flows (annual rate)	2.49%	2.2%		

#### (2) Sensitivity analysis :

As of December 31, 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:

	December 31 , 2007	
	NT	US
Carrying amount of retained interests	\$976,335	\$30,106
Expected weighted-average life (in years)	1.523	1.523
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(1,957)	(60)
Impact on fair value with 20% adverse change	(2,024)	(62)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(16,559)	(511)
Impact on fair value with 20% adverse change	(18,644)	(575)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on faire value with 10% adverse change	(6,433)	(198)
Impact on faire value with 20% adverse change	(12,821)	(395)

(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:

	2007		
	NT	US	
The cash received from securitization	\$4,470,000	\$137,835	
Servicing fees received	140	4	
Other cash received on retained interests	20,912	645	
Repayment of cash reserve	5,959	184	

# 12. Premises and equipment, net

	December 31,						
	2006 (Res	stated)	2007	7			
	NT	US	NT	US			
Cost:							
Land	\$14,087,063	\$432,251	\$15,736,306	\$485,239			
Buildings	9,808,079	300,954	10,605,624	327,031			
Office equipment	3,902,595	119,748	3,803,748	117,291			
Transportation equipment	68,639	2,106	67,526	2,082			
Leased improvements	12,260	376	19,345	597			
Other equipment	4,647,439	142,603	4,895,695	150,962			
Construction in progress	-	-	55,085	1,699			
Prepayment for equipment	1,047,825	32,152	1,460,985	45,050			
Subtotal	33,573,900	1,030,190	36,644,314	1,129,951			
Accumulated depreciation:							
Buildings	(2,287,774)	(70,199)	(2,472,425)	(76,239)			
Office equipment	(2,713,392)	(83,258)	(2,844,327)	(87,707)			
Transportation equipment	(56,153)	(1,723)	(60,679)	(1,871)			
Leased improvements	(1,178)	(36)	(3,893)	(120)			
Other equipment	(2,985,008)	(91,593)	(3,497,784)	(107,856)			
Subtotal	(8,043,505)	(246,809)	(8,879,108)	(273,793)			
Accumulated impairment	(69,180)	(2,122)	(108,772)	(3,354)			
Net	\$25,461,215	\$781,259	\$27,656,434	\$852,804			

	2006(Restated)							
	Januar	January 1, Additions/Amortization			Dispo	osals	December 31,	
	NT	US	NT	US	NT	US	NT	US
Computer software	\$811,058	\$24,887	\$150,928	\$4,631	\$463	\$14	\$961,523	\$29,504
Amortization	274,317	8,417	210,851	6,470		-	485,168	14,887
Net balance	\$536,741	\$16,470	\$(59,923)	\$(1,839)	\$463	\$14	\$476,355	\$14,617

# 13. Intangible assets, net

	2007							
	Additions/Amortization							
	Januar	ry 1,	(N	ote)	Disp	osals	December 31,	
	NT	US	NT	US	NT	US	NT	US
Goodwill	\$-	\$-	\$6,537,374	\$201,584	\$-	\$-	\$6,537,374	\$201,584
Computer								
software	961,523	29,649	219,382	6,765		-	1,180,905	36,414
Subtotal	961,523	29,649	6,756,756	208,349			7,718,279	237,998
Amortization	485,168	14,960	202,413	6,242	-	-	687,581	21,202
Impairments		-	147,141	4,537			147,141	4,537
Subtotal	485,168	14,960	349,554	10,779			834,722	25,739
Net balance	\$476,355	\$14,689	\$6,407,202	\$197,570	\$-	\$-	\$6,883,557	\$212,259

Note: Including the assumed computer software and relevant accumulated impairment of CUTIC in the amount of NT\$154,929 (US\$4,777) and NT\$147,141 (US\$4,537), respectively.

#### 14. Other assets, net

	December 31,						
	2006 (Re	stated)	200	7			
	NT	US	NT	US			
Prepayment	\$264,232	\$8,108	\$130,119	\$4,012			
Temporary payments	38,434	1,179	127,757	3,940			
Interbank settlement fund	1,301,082	39,923	1,299,766	40,079			
Non-operating assets, net	1,507,769	46,265	1,548,043	47,735			
(Accumulated impairment							
NT\$307,288 (US\$9,429) and							
NT\$318,132 (US\$9,810),on 31							
December, 2006 and 2007,							
respectively)							
Refundable deposits, net	1,145,686	35,155	1,126,174	34,726			
Foreclosed properties, net	1,033,668	31,717	1,317,984	40,641			
Deferred tax assets, net	4,893,455	150,152	3,573,855	110,202			
Others	63,490	1,948	290,163	8,948			
Total	\$10,247,816	\$314,447	\$9,413,861	\$290,283			

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

	December 31,							
	2006(Re	stated)	200	7				
	NT	US	NT	US				
Due to the Central Bank	\$189,959	\$5,829	\$433,508	\$13,368				
Due to commercial banks	1,659,369	50,916	1,434,328	44,228				
Due to Post Co., Ltd.	29,079,558	892,285	24,673,862	760,835				
Overdrafts from banks	169,100	5,189	108,947	3,359				
Call loans from banks	68,904,368	2,114,279	47,218,700	1,456,019				
Total	\$100,002,354	\$3,068,498	\$73,869,345	\$2,277,809				

#### 16. Financial liabilities at fair value through profit or loss

	December 31,					
	2006(Res	stated)	200	7		
	NT	US	NT	US		
Financial liabilities for trading:						
Derivative financial instruments	\$6,229,982	\$191,163	\$3,570,180	\$110,089		
Bonds purchased under resale						
agreements-short sale	(1,665)	(51)	-			
Subtotal	6,228,317 191,112		3,570,180	110,089		
Financial liabilities designated at fair						
value through profit or loss:						
Dominant financial debentures	39,171,613	1,201,952	39,290,402	1,211,545		
Subordinated financial debentures	9,996,770	306,743	4,986,738	153,769		
Subtotal	49,168,383	1,508,695	44,277,140	1,365,314		
Total	\$55,396,700	\$1,699,807	\$47,847,320	\$1,475,403		

(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 amounting to NT\$1,000,000, NT\$3,500,000, NT\$2,000,000 debentures 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 financial dominant 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 years ended December 31, 2006 and 2007 were NT\$7,426,349(US\$227,872) and NT\$3,802,655 (US\$117,257), respectively.

## 17. Payables

	December 31,					
	2006(Res	stated)	200	7		
	NT	US	NT	US		
Accounts payable	\$13,461,159	\$413,046	\$4,994,791	\$154,018		
Accrued interest payable	4,049,616	124,259	4,606,133	142,033		
Accrued expenses	2,210,585	67,830	2,430,840	74,956		
Foreign currency payable	1,075,342	32,996	1,053,026	32,471		
Acceptance	853,982	26,204	993,393	30,632		
Income tax payable	159,711	4,901	408,075	12,583		
Receipts under custody	903,706	27,729	343,340	10,587		
Others	1,712,444	52,545	1,338,092	41,261		
Total	\$24,426,545	\$749,510	\$16,167,690	\$498,541		

#### 18. Deposits and remittances

	December 31,				
	2006 (Re	estated)	200	7	
	NT	NT US		US	
Check deposits	\$16,642,900	\$510,675	\$13,397,047	\$413,107	
Demand deposits	109,205,365	3,350,886	115,616,727	3,565,117	
Demand savings deposits	355,317,473	10,902,653	358,531,509	11,055,551	
Time deposits	231,850,273	7,114,154	253,098,650	7,804,460	
Negotiable certificates of deposit	4,191,300	128,607	2,774,200	85,544	
Time savings deposits	247,981,138	7,609,118	252,324,179	7,780,579	
Trust_unappropriated	-	-	35,102,110	1,082,396	
Outward remittances	286,504	8,791	499,626	15,406	
Remittances payable	111,827	3,431	221,465	6,829	
Total	\$965,586,780	\$29,628,315	\$1,031,565,513	\$31,808,989	

# 19. Financial debentures payable

	December 31,					
	2006(Res	tated)	2007	7		
	NT			US		
Subordinated financial debentures	\$18,675,000	\$573,028	\$18,592,000	\$573,296		
Discount in financial debentures	(106,218)	(3,259)	(96,246)	(2,968)		
Valuation adjustment	(432,964)	(13,285)	56,083	1,730		
Total	\$18,135,818	\$556,484	\$18,551,837	\$572,058		

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

	December 31,					
	2006(R	6(Restated)		07		
	NT	US	NT	US		
Derivative financial liabilities for hedging	\$463,562	\$14,225	\$-	\$-		
Borrowed funds	312,160	9,578	308,730	9,520		
Total	\$775,722	\$23,803	\$308,730	\$9,520		

As of December 31, 2006, the above derivative financial liabilities for hedging applies for fair value hedge, and its fair value is NT\$463,562 (US\$14,224). The Bank has recognized losses in hedging in the amount of NT\$84,451 (US\$2,591) for the year ended December 31, 2006.

#### 21. Other liabilities

	December 31,					
	2006 (Res	stated)	2007	,		
	NT	US	NT	US		
Unearned receipts	\$97,221	\$2,983	\$145,555	\$4,488		
Temporary receipts	783,116	24,029	1,049,367	32,358		
Reserve for losses on guarantees	28,668	880	28,649	884		
Reserve for losses on stock brokerage						
transactions	149,037	4,573	268,791	8,288		
Guarantee deposits received	713,129	21,882	706,811	21,795		
Reserve for land value increment tax	20,035	615	50,366	1,553		
Total	\$1,791,206	\$54,962	\$2,249,539	\$69,366		

#### 22. Capital Stock

As of January 1, 2006, the Bank had issued and outstanding capital stock of NT\$46,420,518 (US\$1,424,379) 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

	December 31,					
	2006 (Re	stated)	2007	7		
	NT	US	NT	US		
Capital reserves from the merger Bank	\$10,949,303	\$335,971	\$10,949,303	\$337,629		
Additional paid-in capital	4,249,096	130,380	4,249,096	131,024		
Others	15,253	468	15,212	469		
Total	\$15,213,652	\$466,819	\$15,213,611	\$469,122		

## 24. Retained earnings

- (1) The Bank's articles of incorporation provide that its annual net income shall be appropriated and distributed in the following order:
  - (a) 30% thereof shall be set aside as legal reserve;
  - (b) special reserves;
  - (c) regular dividends; and
  - (d) the remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.
- (2) The government's regulations stipulate that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches one-half of the paid-in capital, up to 50% of the reserve may be transferred to capital stock.
- (3) The Bank's board of directors (According to the Company's Law, the authority of the Bank's shareholder meeting acts by board of directors) determined the following resolution on April 27, 2006, and April 26,2007, respectively. The information is as follows:
  - (a) The appropriation and distribution of earnings in 2005 :
    (i) NT\$1,155,823 (US\$35,466) thousands as legal reserve ;
    (ii)NT\$2,695,420 (US\$82,707) thousands as dividends to shareholders ;
    (iii) NT\$1,500 (US\$46) thousands as bonus to employees.
  - (b) Make up deficit in 2006 : NT\$3,788,867 (US\$116,832) 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

(1) The following is a summary of the components of net pension expenses for 2006 and 2007:

	2006(Restated)		200	7	
	NT	US	NT	US	
Defined contribution pension plan	\$164,092	\$5,035	\$120,164	\$3,705	
Defined benefit pension plan:					
Service cost	127,749	3,920	123,196	3,799	
Interest cost	67,573	2,073	58,622	1,808	
Expected return on plan assets	(33,118)	(1,016)	(29,542)	(911)	
Gain(loss) of reductive pay-off	(28,592)	(877)	-	-	
Net amortization	62,607	1,921	74,995	2,312	
Subtotal	196,219	6,021	227,271	7,008	
Total	\$360,311	\$11,056	\$347,435	\$10,713	

(2) The following is a reconciliation of the defined benefit pension plan between the funded status and amounts recognized on the Bank's balance sheets, etc.:

	December 31,				
	2006 (Re	stated)	200	17	
	NT	US	NT	US	
Pension benefit obligation:					
Vested	\$(1,064,789)	\$(32,673)	\$(1,095,255)	\$(33,773)	
Non-vested	(310,284)	(9,520)	(834,098)	(25,720)	
Accumulated benefit obligation	(1,375,073)	(42,193)	(1,929,353)	(59,493)	
Value of future salary projections	(756,624)	(23,217)	(283,837)	(8,752)	
Projected benefit obligation	(2,131,697)	(65,410)	(2,213,190)	(68,245)	
Fair value of plan assets	1,074,269	32,964	1,379,714	42,544	
Projected benefit obligation in excess of plan assets	(1,057,428)	(32,446)	(833,476)	(25,701)	
Unrecognized net obligation at transition	241,793	7,419	202,395	6,241	
Unrecognized net loss	635,487	19,499	652,471	20,120	
Additional minimum pension liability	(120,655)	(3,702)		-	
Prepaid pension cost (Accrued pension liability)	\$(300,803)	\$(9,230)	\$21,390	\$660	

The actuarial assumptions used are:

	December 31,		
	2006(Restated)	2007	
Discount rate	2.75%	3.00%	
Growth rate in compensation levels	1.5%~2.00%	2.50%	
Expected long-term rate of return on plan assets	2.75%	3.00%	

As of December 31, 2006 and 2007, the vested benefit, based on the Bank's defined benefit pension plan, amounted to NT\$1,576,067 (US\$48,360) and NT\$1,690,697 (US\$52,134), respectively.

#### 26. Certain components of operating expenses

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

	2006(Restated)		2007	7
	NT	US	NT	US
Personnel expenses				
Salary	\$3,964,240	\$121,640	\$5,235,947	\$161,454
Insurance	472,136	14,487	569,160	17,551
Pension	360,311	11,056	347,435	10,713
Others	284,908	8,742	332,146	10,242
Depreciation expenses	1,138,334	34,929	1,144,866	35,303
Amortization expenses	210,851	6,470	202,413	6,241

#### 27. Income tax

Under a directive issued by the Ministry of Finance (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 years ended December 31, 2006 and 2007 is as follows:

	2006 (Restated)		2007	
	NT	US	NT	US
Income tax payable:				
Domestic income tax:				
General (tax rate 25%)	\$(33,518)	\$(1,029)	\$(104,102)	\$(3,210)
Interest on separation tax(tax rate 20% or				
6%)	(354,060)	(10,864)	(36,316)	(1,120)
Deferred tax benefit (expense):				
Allowance for bad debts above deduction				
limited (reversal)	262,088	8,042	(1,430,227)	(44,102)
Allowance for pledged assets taken-over				
(reversal)	(107,388)	(3,295)	2,416	75
Foreign investment income recognized by the				
equity method	(12,790)	(393)	(19,426)	(599)
Others	28,679	880	(13,735)	(424)
Valuation allowance	(617,755)	(18,955)	1,074,159	33,122
Operating loss carry-forward	2,669,724	81,919	(941,140)	(29,021)
Investment tax credits	-	-	8,616	266
Effect of foreign branches' income tax	(94,896)	(2,912)	(5,042)	(155)
Adjustment of prior period's income tax	663,013	20,344	(261,203)	(8,054)
Income tax benefit (expense)	2,403,097	73,737	(1,726,000)	(53,222)
Income tax benefit from cumulative effect of				
changes in accounting principles	(139,225)	(4,272)	-	
Income tax benefit (expense) of continuing				
operations	\$2,263,872	\$69,465	\$(1,726,000)	\$(53,222)

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.

	December 31,			
	2006 (Res	stated)	200	7
	NT	US	NT	US
Taxable temporary differences:				
Valuation of financial instruments	\$5,852,037	\$179,565	\$1,984,965	\$61,208
Others	175,404	5,382	253,108	7,805
Deductible temporary differences:				
Allowance for bad debts	11,092,187	340,356	5,371,279	165,627
Unrealized impairment loss for pledged				
assets taken-over	81,168	2,491	90,833	2,801
Pension expenses exceed the limit of tax				
law	177,063	5,433	174,814	5,390
Valuation of financial instruments	5,529,351	169,664	2,085,833	64,318
Provisions for possible losses	238,456	7,317	238,456	7,353
Others	793,491	24,348	317,245	9,782
Operating loss carry-forward (expiration				
year:2011)	\$12,280,869	\$376,829	\$8,516,311	\$262,606
Investment tax credit (expiration year:2011)	\$-	\$-	\$8,616	\$266
Deferred income tax assets of foreign				
branches	\$51,729	\$1,587	\$51,466	\$1,587
(3) Deferred tax assets	\$7,599,876	\$233,197	\$4,258,775	\$131,322
Deferred tax liabilities	(1,506,860)	(46,237)	(559,518)	(17,253)
Valuation allowance	(1,199,561)	(36,808)	(125,402)	(3,867)
Net deferred tax assets	\$4,893,455	\$150,152	\$3,573,855	\$110,202

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

- (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:

	December 31,				
	2006 (Restated) 2007			7	
	NT US		NT	US	
The Bank's imputation credit	\$412,069	\$12,644	\$666,632	\$20,556	
Undistributed earnings	(3,486,944)	(106,994)	6,400,265	197,356	

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:

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

	2006(Restated)				2007			
	Before income tax		After inco	ome tax	Before income tax		After inco	ome tax
	NT	US	NT	US	NT	US	NT	US
Income (loss) from								
continuing operations	\$(6,477,495)	\$(198,757)	\$(4,213,623)	\$(129,292)	\$8,126,265	\$250,578	\$6,400,265	\$197,356
Cumulative effect changes in								
accounting principles	587,454	18,026	726,679	22,298	-		-	
Net income (loss)	\$(5,890,041)	\$(180,731)	\$(3,486,944)	\$(106,994)	\$8,126,265	\$250,578	\$6,400,265	\$197,356
Earnings (loss) per share (in								
dollars)								
Income (loss) from								
continuing operations	\$(1.33)	\$(0.041)	\$(0.87)	\$(0.027)	\$1.67	\$0.051	\$1.31	\$0.040
Cumulative effect changes								
in accounting principles	0.12	0.004	0.15	0.005				-
Net income (loss)	\$(1.21)	\$(0.037)	\$(0.72)	\$(0.022)	\$1.67	\$0.051	\$1.31	\$0.040

(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:

	Net income – employees' bonus and contribution to welfare fund –
Estimated earnings per share=	directors' and supervisors' remunerations
	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 Venture Capital Corp.	"
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.	//
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.	

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Name of related parties	Relationship
Symphox Information Co., Ltd.	"
Cathay Life Insurance Co., Ltd. (Shanghai)	//
Cathay General Hospital	//
Cathay Real Estate Development Co., Ltd.	//
San Ching Engineering Corp.	//
China England Co., Ltd.	//
Industrial and Commercial Bank of Vietnam	11
Cathay century Realty Co., Ltd.	//
Cathay Biology Technology Co.	//
Cathay Real Estate Holding Corp.	//
Cathay Cultural Foundation	//
Cathay Real Estate Management Co., Ltd.	//
Sunny Asset Management Co.	//
Shanghai China Eastern Media Co., Ltd.	//
CEA Futures Brokerage Co., Ltd.	//
CEA Finance Holding Co., Ltd.	//
CEA Finance Co., Ltd.	//
China Eastern Airlines Co., Ltd.	//
Shanghai East Fly Service Co., Ltd.	//
CNDFMC (SCEA) Duty Free Merchandise Co.,	//
Ltd.	
China Eastern Aviation IMP/EXP Corp.	//
China Eastern Real Estate Investment Co., Ltd.	//
Shanghai China Eastern Airlines Jiangsu Ltd.	//
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.	//
Vista Technology Venture Capital Corp.	//
IBT Venture Co.	The investee is accounted for using the equity method
	by Cathay Financial Holdings
Taiwan Asset Management Corporation	The representative of the Bank is the chairman of the
	corporation

Name of related parties	Relationship
Taipei Smart Card Corp. and etc.	The Bank is the director of such organizations
Culture and Charity Foundation of Cathay	The Bank is the major sponsor of the foundation
United Bank	
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. <u>Significant transactions with the related parties are summarized as follows:</u>

# (1) Loans and Deposits

	December 31, Account balance			January 1- December 31, Interest income (expense)		
Accounts/Related parties			% of			
	NT	US	Account	NT	US	
2006 (Restated)						
Loans						
Seaward Leasing Ltd.	\$2,120,000	\$65,051	0.30%	\$31,375	\$963	
Taiwan Real-estate						
Management Corp.	130,000	3,989	0.02%	3,871	119	
Cathay General Hospital	336,969	10,340	0.05%	9,002	276	
Others	260,196	7,983	0.03%	12,297	377	
Total	\$2,847,165	\$87,363	0.40%	\$56,545	\$1,735	
Deposits						
Cathay Life Insurance Co., Ltd.	¢1 726 152	¢145 205	0.400/	\$(100.269)	\$(2,090)	
	\$4,736,153	\$145,325	0.49%	\$(100,368)	\$(3,080)	
Cathay Financial Holding Co.,	2 752 266	115 100	0.200/		(5.252)	
Ltd.	3,753,266	115,166	0.39%	(174,414)	(5,352)	
Cathay Futures Corp.	1,065,408	32,691	0.11%	(14,376)	(441)	
Cathay Securities Corp.	977,885	30,006	0.10%	(17,917)	(550)	
Cathay Century Insurance		25 221	0.000/			
Co., Ltd.	822,283	25,231	0.09%	(6,676)	(205)	
Cathay Pacific Venture	510 000	15.000	0.050			
Capital Co., Ltd.	518,293	15,903	0.05%	(4,447)	(136)	
Cathay Securities Trust Co.,				(= 100)		
Ltd.	323,264	9,919	0.03%	(5,188)	(159)	
Cathay Real Estate						
Development Co., Ltd.	117,632	3,610	0.01%	(45)	(1)	
Others	3,556,862	109,140	0.37%	(47,729)	(1,464)	
Total	\$15,871,046	\$486,991	1.64%	\$(371,160)	\$(11,388)	

		ecember 31, count balanc		January 1- December Interest income (exper		
A a a a un to /D a late d'a a artica	NT		% of	NT	UC	
Accounts/Related parties	NT	US	Account	NT	US	
Loans						
Seaward Leasing Ltd.	\$2,964,820	\$91,422	0.39%	\$47,578	\$1,467	
Taiwan Real-estate	ψ2,704,020	ΨΣ1,422	0.3770	ψτ7,570	ψ1,+07	
Management Corp.	114,000	3,515	0.02%	3,479	107	
Cathay General Hospital	258,145	7,960	0.02%	7,371	227	
Others	317,693	9,797	0.04%	7,503	232	
Total	\$3,654,658	\$112,694	0.48%	\$65,931	\$2,033	
<u>Deposits</u>						
Cathay Life Insurance Co.,						
Ltd.	\$8,299,911	\$255,933	0.80%	\$(59,440)	\$(1,833)	
Cathay Financial Holding Co.,						
Ltd.	3,805,511	117,345	0.37%	(179,073)	(5,521)	
Cathay Futures Corp.	1,218,323	37,568	0.12%	(16,919)	(522)	
Cathay Securities Corp.	303,698	9,365	0.03%	(11,619)	(358)	
Cathay Century Insurance						
Co., Ltd.	909,379	28,041	0.09%	(10,273)	(317)	
Cathay Pacific Venture						
Capital Co., Ltd.	28,721	886	-	(3,596)	(111)	
Cathay Securities Trust Co.,						
Ltd.	783,962	24,174	0.08%	(10,800)	(333)	
Cathay Real Estate						
Development Co., Ltd.	88,236	2,721	0.01%	(234)	(7)	
Others	2,650,598	81,733	0.25%	(41,599)	(1,283)	
Total	\$18,088,339	\$557,766	1.75%	\$(333,553)	\$(10,285)	

				_	Janua	ry 1 – Decer	mber 31,
	January 1- De	ecember 31,	Decembe	er 31,	Interest i	ncome	
	Maximum	balance	Account b	alance	(exper	nse)	Interest
Accounts / Related parties	NT	US	NT	US	NT	US	Rate(%)
2006 (Restated)							
Call loans to banks							
Indovina Bank	\$768,544	\$23,582	\$111,784	\$3,430	\$26,872	\$825	4.38-7.80%
Due from commercial banks							
Indovina Bank	162,927	4,999	6,860	210	78	2	0.50-2.16%
Call loans from banks							
Indovina Bank	103,926	3,189	38,995	1,197	(550)	(17)	5.14-7.85%
Due to commercial banks							
Indovina Bank	257,371	7,897	19,005	583	-	-	-
					Janua	ıry 1 – Decei	mber 31,
	January 1- De	ecember 31,	Decembe	- er 31,	Interest i	ncome	
	Maximum balance						
	Maximum	balance	Account b	alance	(exper	nse)	Interest
Accounts / Related parties	NT	u balance US	Account b	us	(exper	nse) US	Interest Rate(%)
Accounts / Related parties							
2007							
2007 Call loans to banks	NT	US	NT	US	NT	US	Rate(%)
2007 Call loans to banks Indovina Bank	NT	US	NT	US	NT	US	Rate(%)
2007 Call loans to banks Indovina Bank Due from commercial banks	NT \$329,502	US \$10,160	<u>NT</u>	<u>US</u>	NT \$2,551	US \$79	Rate(%)
2007 Call loans to banks Indovina Bank Due from commercial banks Indovina Bank	NT \$329,502	US \$10,160	<u>NT</u>	<u>US</u>	NT \$2,551	US \$79	Rate(%)
2007 Call loans to banks Indovina Bank Due from commercial banks Indovina Bank Call loans from banks	NT \$329,502 323,566	US \$10,160 9,977	NT \$- 3,685	US \$- 114	NT \$2,551 160	US \$79 5	Rate(%) 5.00-7.70% 0.5-2.16%

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

# (2) Guarantees

	January 1- December 31,		Decemb	December 31,		January 1- December 31,	
	Maximum	balance	Account	balance	Servic	e fees	
Related Parties	NT	US	NT	US	NT	US	
2006 (Restated	<u>l)</u>						
Indovina Bank	\$155,878	\$4,783	\$-	\$-	\$7	\$0.2	
<u>2007</u>							
Indovina Bank	\$48,864	\$1,507	\$47,001	\$1,449	\$7	\$0.2	

# (3) <u>Transactions under resale and repurchase agreements</u>

	December 31,		January 1- December 31,		
	Account	balance	Interest incon	ne (expense)	
Accounts/Related parties	NT	US	NT	US	
2006 (Restated)					
Securities sold under agreements to					
repurchase					
Wan Pao Development Co., Ltd.	\$4,462,438	\$136,927	\$(47,401)	\$(1,454)	
Others	1,136,573	34,875	(14,431)	(443)	
Total	\$5,599,011	\$171,802	\$(61,832)	\$(1,897)	
Securities purchased under agreements to					
resell					
Taiwan Finance Co.	\$-	\$-	\$10	\$-	
<u>2007</u>					
Securities sold under agreements to					
repurchase					
Wan Pao Development Co., Ltd.	\$712,128	\$21,959	\$(30,790)	\$(949)	
Others	1,210,188	37,317	(18,939)	(584)	
Total	\$1,922,316	\$59,276	\$(49,729)	\$(1,533)	

# (4) <u>Lease</u>

	2006 (Re	estated)	200	7
Accounts/Related parties	NT	US	NT	US
Rental income				
Seaward Leasing Ltd.	\$559	\$17	\$172	\$5
Culture and Charity Foundation of				
Cathay United Bank	1,000	31	1,000	31
Taipei Smart Card Corp.	6,196	190	11,588	357
Cathay Securities Corp.	5,028	154	5,289	163
Cathay Life Insurance Co., Ltd.	5,277	162	7,470	230
Cathay Century Insurance Co., Ltd.	220	7	240	7
Rental expense				
Cathay Life Insurance Co., Ltd.	248,246	7,617	274,584	8,467
Cathay Real Estate Development Co.,				
Ltd.	13,314	409	11,319	349
Seaward Leasing Ltd.	11,294	347	12,919	398
Pao Shin Securities Co., Ltd.	1,020	31	-	-

	December 31,				
	2006 (Restated)		200	)7	
Account/Related parties	NT	US	NT	US	
Refundable deposits					
Seaward Leasing Ltd. (Note)	\$33,393	\$1,025	\$33,393	\$1,030	
Cathay Life Insurance Co., Ltd.	63,017	1,934	63,822	1,968	
Cathay Real Estate Development Co.,					
Ltd.	2,635	81	2,635	81	

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

	2006 (Restated) 2007			7
Account/Related parties	NT	US	NT	US
Guarantee deposit received				
Cathay Securities Corp.	\$1,238	\$38	\$1,325	\$41
Cathay Life Insurance Co., Ltd.	1,547	47	2,162	67
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.

	2006 (Re	2006 (Restated)		2007	
Accounts/Related parties	NT	US	NT	US	
(5) <u>Commissions and handling fees</u>					
income					
Cathay Futures Corp.	\$433	\$13	\$-	\$-	
Cathay Life Insurance Co., Ltd.	55,093	1,690	661,862	20,409	
Cathay Securities Co., Ltd.	3,130	96	3,990	123	
Cathay Securities Trust Co., Ltd.	895	27	20,345	627	
Cathay Life Insurance Agent Co., Ltd.	3,842	118	-	-	
Cathay Century Insurance Co., Ltd.	20,873	640	45,035	1,389	
Cathay Securities Investment					
Consulting Co., Ltd.	-	-	3,045	94	
(6) Other operating income					
Cathay Life Insurance Co., Ltd.	592	18	-	-	
Cathay Century Insurance Co., Ltd.	28	1	1,287	40	
(7) Operating expenses					
Seaward Card Co., Ltd.	397,937	12,210	294,645	9,086	
Cathay Life Insurance Co., Ltd.	154,202	4,732	106,119	3,272	
Cathay Century Insurance Co., Ltd.	74,381	2,282	807	25	
Symphox Information Co., Ltd.	270,735	8,307	415,612	12,816	
Cathay Securities Corp.	2,400	74	4,224	130	
Cathay Real Estate Development Co.,					
Ltd.	7,484	230	7,313	225	
Cathay Lin Yuan Security Co., Ltd.	4,514	139	2,764	85	
Taiwan Real-estate Management Corp.	960	29	-	-	
(8) Insurance expenses paid					
Cathay Life Insurance Co., Ltd.	\$225,098	\$6,907	\$459,751	\$14,177	
Cathay Century Insurance Co., Ltd.	55,596	1,706	152,728	4,709	

	December 31,				
	2006 (Restated)		200	)7	
Accounts/Related parties	NT	US	NT	US	
(9) <u>Receivable to related party for</u>					
allocation of linked-tax system					
Cathay Financial Holdings	\$1,430,294	\$43,888	\$1,096,026	\$33,797	
(10) Other receivables- cash dividends					
Seaward Leasing Ltd.	218,761	6,713	-	-	
<ul> <li>(11) <u>Refundable deposit</u></li> <li>Cathay Futures Corp.</li> </ul>	39,292	1,206	39,292	1,212	
(12) <u>Accrued expenses</u> Seaward Card Co., Ltd.	16,259	499			
Seaward Card Co., Etd.	10,239	499	-	-	
(13) Accounts payable					
Symphox Information Co., Ltd.	-	-	13,397	413	
Cathay Securities Corp.	-	-	200	6	
Cathay Century Insurance Co., Ltd	-	-	50,606	1,560	
Cathay Real Estate Development Co., Ltd	-	-	1,037	32	

#### (14) Others

- a. The Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,322), in 2006. The Bank paid the amount of NT\$471,272 (US\$14,532) during the years ended December 31, 2007. As of December 31, 2007, the accumulated paid amount was NT\$561,823 (US\$17,324).
- b. The Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT\$90,623 (US\$2,781) and NT\$5,067 (US\$156) during the years ended December 31, 2006 and 2007, respectively.
- c. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of NT\$17,146 (US\$526) and NT\$22,513 (US\$694) during the years ended December 31, 2006 and 2007, respectively.
- d. The Bank paid information maintenance service fees to Symphox Information Co., Ltd. in the amount of NT\$88,713 (US\$2,722) and NT\$19,740 (US\$609) during the years ended December 31, 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 years ended 31, 2007. As of December 31, 2007, the bonus points which not converting amount was NT\$32,695 (US\$1,008).
- f. The Bank enters into a contract with Cathay Life Incurrence Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$1,030,000 (US\$31,761) during the year ended December 31, 2007.
- g. The Bank paid the amount of NT\$45,546 (US\$1,404) 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 year ended December 31, 2007.
- h. As of December 31, 2007, the Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT\$200,000 (US\$6,167) which issued by the Bank in 2003.
- The Bank sold its lands in Taichung to Cathay Real Estate Development Co., Ltd. for NT\$300,344 (US\$9,216) (taxes were deducted) during the year ended December 31, 2006, the relevant carrying values were NT\$308,037 (US\$9,452) and the disposal losses were NT\$7,703 (US\$236).
- j. 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\$3,164) (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.

(15) 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\$22,598) and net selling price was NT\$708,275 (US\$21,733) (the security transaction cost NT\$2,132 (US\$65) was deducted). The loss from the transaction was NT\$28,179 (US\$865) classified as the loss from disposal of the investment recognized by equity method.

(16) 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 NT\$3,180,000 (US\$97,576) on June 30, 2006, with NT\$15.9 (US\$0.488) per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,610), with selling price NT\$3,170,460 (US\$97,283) (securities transaction cost NT\$9,540 (US\$293) was deducted) minus the carrying value NT\$1,846,994 (US\$56,674).

			Notional amount		Valuation gains (losses)		
	Category of	<b>—</b>					
Related parties	agreements	Term of agreements	NT	US	NT	US	
December 31, 2006(Rest							
Cathay Life Insurance Co Ltd.	o., Forward	2006.8.14~2007.8.14	¢0.701.279	¢007.270	\$206 558	¢0.407	
Liu.	Non-delivery	2000.8.14~2007.8.14	\$9,691,368	\$297,372	\$306,558	\$9,407	
	forward	-	-	-	8,443	259	
	Currency swap	2006.7.31~2007.6.21	50,109,461	1,537,572	(177,139)	(5,435)	
	Interest rate swap	2006.1.20~2008.3.31	2,550,000	78,245	(8,755)	(269)	
Cathay Century Insurance	ce						
Co., Ltd.	Forward	2006.11.10~2007.12.13	443,318	13,603	5,485	168	
	Non-delivery forward	2006.11.10~2007.11.20	41,437	1,271	(8,176)	(251)	
	Currency swap	2006.2.27~2007.5.15	4,467,010	137,067	47,257	1,450	
Cathay Securities Trust							
Co., Ltd.	Forward	2006.12.5~2007.3.2	2,196,485	67,398	(1,685)	(52)	
	Non-delivery forward	2006.12.4~2007.3.2	888,733	27,270	(22,215)	(682)	
	Currency swap	2006.11.2~2007.3.5	175,984	5,400	(3,687)	(113)	
December 31, 2007							
Cathay Life Insurance Co	0.,						
Ltd.	Forward	2007.1.9~2008.4.28	\$5,209,187	\$160,629	\$807,458	\$24,898	
	Non-delivery forward	-	-	-	(1,956)	(60)	
	Currency swap	2007.5.29~2008.11.10	42,716,460	1,317,190	(245,001)	(7,555)	
	Interest rate swap	2007.1.20~2017.7.10	4,300,000	132,593	(31,976)	(986)	
Cathay Century Insurance	ce						
Co., Ltd.	Forward	2007.3.14~2008.12.15	483,362	14,905	16,602	512	
	Non-delivery forward	2007.11.16~2008.11.20	220,242	6,791	6,619	204	
	Currency swap	2007.3.5~2008.7.21	1,122,322	34,608	72,299	2,229	
	Interest rate swap	2007.9.29~2014.9.30	200,000	6,167	(595)	(18)	
Cathay Securities Trust							
Co., Ltd.	Forward	2007.11.30~2008.1.8	1,585,219	48,881	(53,675)	(1,655)	
	Non-delivery forward	2007.11.30~2008.1.8	1,812,607	55,893	(6,020)	(186)	
	Currency swap	-	-	-	(144)	(4)	

#### (17) Transactions of derivative financial instruments

## VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

#### VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

		NT	US
1. Entrusted Items and Guaran	tees:		
Trust and security held for s	afekeeping	\$346,445,142	\$10,682,860
Travelers checks for sale		563,896	17,388
Bills for collection		51,625,884	1,591,917
Book-entry for government	bonds and depository for		
short-term marketable sec	curities under management	383,450,700	11,823,950
Entrusted financial manager	nent business	2,253,460	69,487
Guarantees on duties and co	ntracts	19,258,183	593,839
Unused commercial letters of	of credit	2,957,974	91,211
Irrevocable loan commitmen	nts	40,783,846	1,257,596
Credit card lines commitme	nts	278,940,434	8,601,308
Stamp tax, securities and me	emorial currency		
consignments		1,727	53

2. As of December 31, 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\$12,274). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court and alleged that the Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by Eddie Liu, a former employee of Lee and Li Attorneys-at-Law on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion and NT\$3.09 billion, respectively. The Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for such claims has been made in these financial statements.

- 3. As of December 31, 2007, the Bank had entered into certain contracts to purchase premises and equipment totaling NT\$2,737,943 (US\$84,426) with prepayments of NT\$1,440,482 (US\$44,418).
- 4. According to the operating leases agreement, rentals for lease should be paid in future are as follows:

Periods	NT	US
2008.1.1~2008.12.31	\$657,963	\$20,289
2009.1.1~2009.12.31	536,040	16,529
2010.1.1~2010.12.31	384,882	11,868
2011.1~2011.12.31	268,061	8,266
2012.1.1~2012.12.31	272,412	8,400

# VIII. Significant disaster losses

None.

#### IX. Significant subsequent event

None.

# X. Disclosure of financial instruments information

#### 1. Information of fair value

	December 31, 2006 (Restated)				
	Book value		Fair v	alue	
	NT	US	NT	US	
Non-derivative financial instruments					
Assets					
Financial assets at fair value through profit or loss	\$51,047,557	\$1,566,356	\$51,047,557	\$1,566,356	
Available-for-sale financial assets	54,500,543	1,672,309	54,500,543	1,672,309	
Held-to-maturity financial assets and debt securities with					
no active market	263,423,191	8,082,945	263,462,589	8,084,154	
Investment accounted for using equity method	2,334,860	71,643	2,334,860	71,643	
Others	854,391,121	26,216,358	854,391,121	26,216,358	
Liabilities					
Financial liabilities at fair value through profit or loss	49,166,718	1,508,644	49,166,718	1,508,644	
Financial debentures payable	18,135,818	556,484	18,135,818	556,484	
Others	1,115,320,215	34,222,774	1,115,320,215	34,222,774	

		December 31,	2006 (Restated)	
	Book	value	Fair v	alue
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	\$1,343,791	\$41,233	\$1,343,791	\$41,233
Non-delivery forward	2,324,366	71,322	2,324,366	71,322
Currency swap	1,396,926	42,864	1,396,926	42,864
Interest rate swap	864,992	26,542	864,992	26,542
Cross currency swap	-	-	-	-
Futures	(2,372)	(73)	(2,372)	(73)
Options	9,462	290	9,462	290
Credit derivative instruments	61,076	1,874	61,076	1,874
Credit default swap	464	14	464	14
Liabilities				
Forward	685,714	21,041	685,714	21,041
Non-delivery forward	2,325,802	71,366	2,325,802	71,366
Currency swap	1,650,637	50,649	1,650,637	50,649
Interest rate swap	1,548,741	47,522	1,548,741	47,522
Cross currency swap	445,572	13,672	445,572	13,672
Options	8,513	261	8,513	261
Credit derivative instruments	28,624	878	28,624	878
Credit default swap	(59)	(2)	(59)	(2)
		Decembe	r 31, 2007	
	Book v		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	\$36,705,025	\$1,131,823	\$36,705,025	\$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt securities with				
no active market	260,150,321	8,021,903	260,070,546	8,019,443
Investment accounted for using equity method	2,513,001	77,490	2,513,001	77,490
Others	878,800,437	27,098,379	878,800,437	27,098,379
Liabilities				
Financial liabilities at fair value through profit or loss	44,277,140	1,365,314	44,277,140	1,365,314
Financial debentures payable	18,551,837	572,058	18,551,837	572,058
Others	1,138,877,712	35,118,030	1,138,877,712	35,118,030

December 31, 2007			
Book va	lue	Fair val	ue
NT	US	NT	US
\$911,233	\$28,099	\$911,233	\$28,099
134,369	4,143	134,369	4,143
840,588	25,920	840,588	25,920
1,162,345	35,842	1,162,345	35,842
2,919	90	2,919	90
171,023	5,274	171,023	5,274
58,107	1,792	58,107	1,792
658	20	658	20
235,175	7,252	235,175	7,252
131,466	4,054	131,466	4,054
1,322,846	40,791	1,322,846	40,791
1,207,275	37,227	1,207,275	37,227
382,662	11,799	382,662	11,799
56,521	1,743	56,521	1,743
234,235	7,223	234,235	7,223
	NT \$911,233 134,369 840,588 1,162,345 2,919 171,023 58,107 658 235,175 131,466 1,322,846 1,207,275 382,662 56,521	Book value           NT         US           \$911,233         \$28,099           134,369         4,143           840,588         25,920           1,162,345         35,842           2,919         90           171,023         5,274           58,107         1,792           658         20           235,175         7,252           131,466         4,054           1,322,846         40,791           1,207,275         37,227           382,662         11,799           56,521         1,743	Book value         Fair value           NT         US         NT           \$911,233         \$28,099         \$911,233           134,369         4,143         134,369           840,588         25,920         840,588           1,162,345         35,842         1,162,345           2,919         90         2,919           171,023         5,274         171,023           58,107         1,792         58,107           658         20         658           235,175         7,252         235,175           131,466         4,054         131,466           1,322,846         40,791         1,322,846           1,207,275         37,227         1,207,275           382,662         11,799         382,662           56,521         1,743         56,521

- 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:

_	December 31, 2006 (Restated)			
	Value determined by quoted		Value determined by pricing	
-	market	price	models	
-	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	\$48,186,910	\$1,478,580	\$2,860,647	\$87,777
Available-for-sale financial assets	54,500,543	1,672,309	-	-
Held-to-maturity financial assets and debt securities				
without active market	188,241,366	5,776,047	75,221,223	2,308,107
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	49,166,718	1,508,644
Financial debentures payable	-	-	18,135,818	556,484
Others (Note)	-	-	-	-

	December 31, 2006 (Restated)			
	Value determined by quoted		Value determined by pricing	
	market p	rice	models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	\$-	\$-	\$1,343,791	\$41,233
Non-delivery forward	-	-	2,324,366	71,322
Currency swap	-	-	1,396,926	42,864
Interest rate swap	-	-	864,992	26,542
Futures	-	-	(2,372)	(73)
Options	1,200	37	8,262	254
Credit derivative instruments	-	-	61,076	1,874
Credit default swap	-	-	464	14
Liabilities				
Forward	-	-	685,714	21,041
Non-delivery forward	-	-	2,325,802	71,366
Currency swap	-	-	1,650,637	50,649
Interest rate swap	-	-	1,548,741	47,522
Cross currency swap	-	-	445,572	13,672
Options	221	7	8,292	254
Credit derivative instruments	-	-	28,624	878
Credit default swap	-	-	(59)	(2)

	December 31, 2007			
	Value determin	ed by quoted	Value determine	ed by pricing
	market	price	models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	\$35,150,296	\$1,083,882	\$1,554,729	\$47,941
Available-for-sale financial assets	54,340,281	1,675,618	9,573,447	295,203
Held-to-maturity financial assets and debt securities				
without active market	199,817,730	6,161,509	60,252,816	1,857,935
Others (Note)	-	-	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	44,277,140	1,365,314
Financial debentures payable	-	-	18,551,837	572,058
Others (Note)	-	-	-	-

		December 31, 2007		
	Value determine	d by quoted	Value determine	d by pricing
	market p	orice	models	
	NT	US	NT	US
Derivative financial instruments				
Assets				
Forward	\$-	\$-	\$911,233	\$28,099
Non-delivery forward	-	-	134,369	4,143
Currency swap	-	-	840,588	25,920
Interest rate swap	-	-	1,162,345	35,842
Cross currency swap	-	-	2,919	90
Futures	-	-	171,023	5,274
Options	62	2	58,045	1,790
Credit derivative instuments	-	-	658	20
Liabilities				
Forward	-	-	235,175	7,252
Non-delivery forward	-	-	131,466	4,054
Currency swap	-	-	1,322,846	40,791
Interest rate swap	-	-	1,207,275	37,227
Cross currency swap	-	-	382,662	11,799
Options	-	-	56,521	1,743
Credit derivative instruments	-	-	234,234	7,223

- 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\$434,805 (US\$13,342) and loss NT\$377,581 (US\$11,643) for the years ended December 31, 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 years ended December 31 2006 and 2007 were NT\$41,229,122 (US\$1,265,085) and NT\$39,195,507 (US\$1,208,619), and expenses were NT\$17,296,186 (US\$530,721) and NT\$18,497,254 (US\$570,375), respectively.
- 6. The Bank recognized an unrealized gains or losses of NT\$690,727 (US\$21,194) and NT\$ 332,140 (US\$10,242) in shareholders' equity for the changes in fair value of available-for-sale financial assets and a realized gains of NT\$333,391 (US\$10,230) and NT\$1,474,142 (US\$45,456) in income statements, for the years ended December 31, 2006 and 2007, respectively.

7. Interest income of NT\$36 (US\$1) from financial assets were impaired which were assessed by discount rate of cash flow for the years ended December 31, 2006 and 2007.

## 8. Information on financial risk

## (1) Market risk

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

① Interest rate risk

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

<sup>②</sup> 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 - December 31, 2007						
	Average balance Maximum balance Minimum balance					n balance
Factors of market risk	NT	US	NT	US	NT	US
Interest rate	\$144,835	\$4,466	\$191,605	\$5,908	\$43,942	\$1,355
Foreign exchange	177,873	5,485	388,037	11,965	3,842	118
Equity Securities price	161,317	4,974	250,352	7,720	59,724	1,842

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.

	(1	in thousands of US dollars)
	Currency	December 31, 2007
FX factor sensitivity (FX Delta)		
	JPY	\$(3,041)
	USD	(16,798)
	NTD	19,375
Interest rate factor sensitivity (PVBP)		
	JPY	1
	USD	716
	NTD	(2,581)
Equity factor sensitivity (Equity Delta)		
	NTD	2,396

## (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.

	December 31, 2006 (Restated)				
			Maximum credi	t risk exposed	
	Carrying	g value	amount		
Financial assets	NT	US	NT	US	
Non-derivative financial instruments					
Financial assets at fair value through					
profit or loss	\$51,047,557	\$1,566,356	\$51,047,557	\$1,566,356	
Available-for-sale financial assets	54,500,543	1,672,309	54,500,543	1,672,309	
Held-to-maturity financial assets and debt					
securities with no active market	263,423,191	8,082,945	263,423,191	8,082,945	
Investment accounted for using equity					
method	2,334,860	71,643	2,334,860	71,643	
Others	854,391,121	26,216,358	854,391,121	26,216,358	
Guarantees on duties and contracts	-	-	17,399,376	533,887	
Unused commercial letters of credit	-	-	2,574,139	78,986	
Irrevocable loan commitments	-	-	43,296,052	1,328,507	
Credit card line commitments	-	-	283,220,679	8,690,417	
Derivative financial instruments					
Forward	\$1,343,791	\$41,233	\$1,343,791	\$41,233	
Non-delivery forward	2,324,366	71,322	2,324,366	71,322	
Currency swap	1,396,926	42,864	1,396,926	42,864	
Interest rate swap	864,992	26,542	864,992	26,542	
Options	9,462	290	9,462	290	
Credit derivative instruments	61,076	1,874	61,076	1,874	
Credit default swap	464	14	464	14	
Currency swap Interest rate swap Options Credit derivative instruments	1,396,926 864,992 9,462 61,076	42,864 26,542 290 1,874	1,396,926 864,992 9,462 61,076	42,864 26,542 290 1,874	

① Information on concentrations of credit risk.

	December 31, 2007			
			Maximum credi	t risk exposed
	Carrying	g value	amo	unt
Financial assets	NT	US	NT	US
Non-derivative financial instruments				
Financial assets at fair value through				
profit or loss	\$36,705,025	\$1,131,823	\$36,705,025	\$1,131,823
Available-for-sale financial assets	63,913,728	1,970,821	63,913,728	1,970,821
Held-to-maturity financial assets and debt				
securities with no active market	260,150,321	8,021,903	260,150,321	8,021,903
Investment accounted for using equity				
method	2,513,001	77,490	2,513,001	77,490
Others	878,800,437	27,098,379	878,800,437	27,098,379
Guarantees on duties and contracts	-	-	19,258,183	593,839
Unused commercial letters of credit	-	-	2,957,974	91,211
Irrevocable loan commitments	-	-	40,783,846	1,257,596
Credit card line commitments	-	-	278,940,434	8,601,308
Derivative financial instruments				
Forward	\$911,233	\$28,099	\$911,233	\$28,099
Non-delivery forward	134,369	4,143	134,369	4,143
Currency swap	840,588	25,920	840,588	25,920
Interest rate swap	1,162,345	35,842	1,162,345	35,842
Cross currency swap	2,919	90	2,919	90
Future	171,023	5,274	171,023	5,274
Options	58,108	1,792	58,108	1,792
Credit derivative instruments	658	20	658	20

<sup>(2)</sup> 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:

	December 31,			
	2006 (R	estated)	200	)7
	NT	US	NT	US
Loans, customers' liabilities under acceptances				
and guarantees account				
Industry type				
Manufacturing	\$106,968,389	\$3,282,246	\$104,305,781	\$3,216,336
Financial institutions and insurance	43,912,932	1,347,436	51,082,590	1,575,165
Leasing and real estate	70,255,815	2,155,747	80,635,270	2,486,441
Individuals	406,853,815	12,484,008	421,120,619	12,985,526
Others	119,166,814	3,656,545	128,816,613	3,972,143
Total	747,157,765	22,925,982	785,960,873	24,235,611
Valuation allowance	(16,511,743)	(506,650)	(9,746,610)	(300,543)
Maximum credit risk exposed	\$730,646,022	\$22,419,332	\$776,214,263	\$23,935,068
Geographic Region				
Domestic	\$700,544,321	\$21,495,683	\$722,753,825	\$22,286,581
South East Asia	16,859,532	517,322	18,868,059	581,809
North East Asia	-	-	144,953	4,470
America	11,556,020	354,588	13,987,495	431,313
Others	18,197,892	558,389	30,206,541	931,438
Total	747,157,765	22,925,982	785,960,873	24,235,611
Valuation allowance	(16,511,743)	(506,650)	(9,746,610)	(300,543)
Maximum credit risk exposed	\$730,646,022	\$22,419,332	\$776,214,263	\$23,935,068

#### (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 28.29%. 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 December 31, 2007, there is no significant change in these dates.

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

	Effective inte	erest rate (%)
Financial instruments	December 31, 2006	December 31, 2007
	(Restated)	
Available-for-sale financial assets		
Bonds	1.1364-8	1.60021-6.82519
Overseas financial instruments	1	5.7879
Held-to-maturity financial assets		
Bonds	1.6534-6.9578	1.81182-6.96142
Overseas financial instruments	3.45-7.625	3.45-5.88
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.66-1.81	1.88-3.00
Overseas financial instruments	0-7.61	0-7.2425
Financial debentures payable	2-5.59	2-5.593

#### 9. Fair value hedge

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

		Hedgir	ng instruments		
			Fair v	alue	
	Derivative designated as	December 31, 2	2006 (Restated)	December	31, 2007
Hedged item	hedging instruments	NT	US	NT	US
Financial debentures payable	Interest rate swap	\$(463,562)	\$(14,224)	\$53,503	\$1,650

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. Disclosures information of CUTIC which was acquired by the Bank is as follow:
  - (1) Brief introduction to transferor:

CUTIC was established in October 1971 to engage in the operations of trust and investment.

The Central Deposit Insurance Corporation ("CDIC") to take CUTIC into receivership beginning from March 30, 2007. The move was taken in response to deteriorating financial and operating conditions at CUTIC, where net worth had dipped into the red.

- (2) Purpose of the transfer of assets and liabilities and related regulations:
  - (a) Purpose: To create a successful branch networking profit through 20 branch channels in the future. Furthermore, by expanding the branch channel, the Bank could provide customers more convenient and diversifying financial services to gain long-term profitability.
  - (b) Regulations: Pursuant to Article 9 and 18 of The Financial Institutions Merger Act, and Article 36 of the Security Exchange Act.

- (3) Effective date of the transfer: December 29, 2007.
- (4) Type, quantity, and amount of marketable securities issued for the transfer: None.
- (5) Accounting treatment for assets acquired and liabilities assumed:
  - (a) Accounting methods for the transfer: the Bank assumed the specific assets and liabilities including operations of CUTIC and the difference in the amount of money received from Financial Restructuring Fund ("FRF") and net fair value of identifiable net assets acquired is recognized as goodwill.
  - (b) Relevant accounts and amounts of assets and liabilities assumed through the transfer:

	Amount		
	NT	US	
Assets	\$59,212,341	\$1,825,851	
Liabilities	74,549,715	2,298,789	
Net	(15,337,374)	(472,938)	
Received from the FRF	8,800,000	271,354	
Goodwill arising on acquisition	\$(6,537,374)	\$(201,584)	

On December 29, 2007, the Bank has received NT\$8,800 (US\$271) million as cash subsidy from the FRF and CDIC and will settle the rest amount pursuant to contract. The initial purchase price allocations may be adjusted within one year of the acquired date for changes in estimates of the fair value of assets acquired and liabilities assumed.

(6) The following table summarizes unaudited pro forma financial information assuming the CUTIC acquisition had occurred on January 1, 2006.

	2006 (Restated)		2007	
	NT	US	NT	US
Net interest income	\$24,475,051	\$750,999	\$22,428,657	\$691,602
Net non-interest income	2,954,367	90,653	4,527,055	139,595
Bad debts and operating expenses	(38,882,775)	(1,193,089)	(19,755,192)	(609,164)
Net Income (Loss) Before Tax	(11,453,357)	(351,438)	7,200,520	222,033
Net Income (Loss)	(9,329,571)	(286,271)	5,451,191	168,091
Earnings Per Share (Loss)	\$(1.92)	\$(0.059)	\$1.12	\$0.035

2. <u>Average balances and average interest rates of interest-earning assets and interest-bearing liabilities</u>

	2006 (Restated)		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	\$25,396,539	\$779,274	1.50%
Time certificates, discounted bills and others	204,930,019	6,288,126	1.65%
Due from commercial banks and call loans to			
banks	24,006,606	736,625	2.95%
Discounts and loans	690,988,276	21,202,463	3.76%
Bills purchased	6,544	201	6.67%
Government, corporate bonds and financial			
debentures	135,567,904	4,159,801	4.28%
Receivables-credit card revolving balance	33,274,381	1,021,000	12.52%
Securities purchased under agreements to resell	910,241	27,930	1.05%
Liabilities			
Due to banks	92,634,387	2,842,418	3.51%
Demand deposits	99,814,802	3,062,743	0.44%
Saving deposits	576,184,696	17,679,800	1.02%
Time deposits	216,542,343	6,644,441	2.19%
Negotiable certificates of deposit	11,148,073	342,070	1.42%
Securities sold under agreements to repurchase	30,602,666	939,020	1.35%
Financial debentures	68,152,154	2,091,198	2.51%
Funds borrowed from the Central Bank and other	1 100 550	24.451	4 1 5 0 /
banks	1,122,759	34,451	4.15%
_		2007	
-	Average l		Average rate
-	Average b NT		Average rate (%)
Assets	NT	balance	(%)
Due from the Central Bank	NT \$27,494,909	0alance US \$847,823	(%) 1.50%
Due from the Central Bank Time certificates, discounted bills and others	NT	US	(%)
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to	NT \$27,494,909 228,883,296	US           \$847,823           7,057,764	(%) 1.50% 1.93%
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to banks	NT \$27,494,909 228,883,296 19,389,419	US           \$847,823           7,057,764           597,885	(%) 1.50% 1.93% 3.50%
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to banks Discounts and loans	NT \$27,494,909 228,883,296 19,389,419 727,632,430	balance           US           \$847,823           7,057,764           597,885           22,437,016	(%) 1.50% 1.93% 3.50% 3.49%
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to banks Discounts and loans Bills purchased	NT \$27,494,909 228,883,296 19,389,419	US           \$847,823           7,057,764           597,885	(%) 1.50% 1.93% 3.50%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433	balance           US           \$847,823           7,057,764           597,885           22,437,016           198	(%) 1.50% 1.93% 3.50% 3.49% 3.49%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03% 0.45%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03% 0.45% 3.85%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> <li>Demand deposits</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298	(%) 1.50% 1.93% 3.50% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> <li>Demand deposits</li> <li>Saving deposits</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940	(%) 1.50% 1.93% 3.50% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> <li>Demand deposits</li> <li>Saving deposits</li> <li>Time deposits</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270 244,253,926	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940           7,531,728	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10% 2.64%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> <li>Demand deposits</li> <li>Saving deposits</li> <li>Time deposits</li> <li>Negotiable certificates of deposit</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270 244,253,926 3,770,204	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940           7,531,728           116,257	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10% 2.64% 1.56%
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to banks Discounts and loans Bills purchased Government, corporate bonds and financial debentures Receivables-credit card revolving balance Securities purchased under agreements to resell Liabilities Due to banks Demand deposits Saving deposits Time deposits Negotiable certificates of deposit Securities sold under agreements to repurchase	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270 244,253,926 3,770,204 20,871,998	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940           7,531,728           116,257           643,602	(%) 1.50% 1.93% 3.50% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10% 2.64% 1.56% 1.57%
<ul> <li>Due from the Central Bank</li> <li>Time certificates, discounted bills and others</li> <li>Due from commercial banks and call loans to banks</li> <li>Discounts and loans</li> <li>Bills purchased</li> <li>Government, corporate bonds and financial debentures</li> <li>Receivables-credit card revolving balance</li> <li>Securities purchased under agreements to resell</li> <li>Liabilities</li> <li>Due to banks</li> <li>Demand deposits</li> <li>Saving deposits</li> <li>Time deposits</li> <li>Negotiable certificates of deposit</li> <li>Securities sold under agreements to repurchase</li> <li>Financial debentures</li> </ul>	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270 244,253,926 3,770,204	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940           7,531,728           116,257	(%) 1.50% 1.93% 3.50% 3.49% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10% 2.64% 1.56%
Due from the Central Bank Time certificates, discounted bills and others Due from commercial banks and call loans to banks Discounts and loans Bills purchased Government, corporate bonds and financial debentures Receivables-credit card revolving balance Securities purchased under agreements to resell Liabilities Due to banks Demand deposits Saving deposits Time deposits Negotiable certificates of deposit Securities sold under agreements to repurchase	NT \$27,494,909 228,883,296 19,389,419 727,632,430 6,433 142,790,178 23,638,936 697,063 78,823,673 111,795,864 630,437,270 244,253,926 3,770,204 20,871,998	balance           US           \$847,823           7,057,764           597,885           22,437,016           198           4,403,027           728,922           21,494           2,430,579           3,447,298           19,439,940           7,531,728           116,257           643,602	(%) 1.50% 1.93% 3.50% 3.49% 4.25% 14.03% 0.45% 3.85% 0.46% 1.10% 2.64% 1.56% 1.57%

## 3. <u>Regulatory capital ratio</u>

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

As of December 31, 2007, the ratio (excluded consolidated subsidiary from the calculation) of the Bank's eligible capital to its risk-weighted assets was 11.13%.

As of December 31, 2006, the ratio (excluded consolidated subsidiary from the calculation) of the Bank and Lucky Bank was 12.32% and 11.53%, respectively.

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

The Bank merged with Lucky Bank since January 1, 2007. Because the Bank and Lucky Bank are both 100% owned subsidiaries of Cathay Financial Holding Co., Ltd., the accounting of this merger was treated as a reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT\$4,000,979 (US\$123,373) 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	\$199,247
Due from the Central Bank and call loans to banks	2,410,995	74,344
Available-for-sale financial assets, net	528,186	16,287
Receivables, net	299,492	9,235
Discounts and loans, net	53,668,319	1,654,897
Premises and equipment, net	1,633,660	50,375
Other financial assets, net	23,495,274	724,492
Other assets	506,457	15,617
Call loans from banks	(145,219)	(4,478)
Payables	(1,695,272)	(52,275)
Deposits and remittances	(82,958,055)	(2,558,065)
Other liabilities	(204,416)	(6,303)
Subtotal	4,000,979	123,373
Issued shares for the merger	(2,268,895)	(69,963)
Unrealized gain on financial instrument	17,292	533
Capital reserves from the merger	\$1,749,376	\$53,943

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 year ended December31, 2006.

- 5. The Bank, Cathay Financial Holding Co., Ltd. and other subsidiaries of Cathay Financial Holdings for cross selling business allocates the related income and expense by business nature directly attributed to each subsidiary.
- 6. In accordance with Article 17 of the Trust Laws, the assets and liabilities managed under the Bank's trust are as follows:

# Balance Sheet Based on Trust December 31, 2006

Trust Assets		Trust	Trust Liabilities		
	NT	US	_	NT	US
Cash and cash equivalents	\$3,233,972	\$99,232	Redemption charge payable	\$2,812	\$86
Bonds	86,055,426	2,640,547			
Common stock	1,924,854	59,063			
Mutual funds	64,617,358	1,982,736			
Short-term bills or repurchase	28,000	859	Trust capital	160,263,771	4,917,575
investment					
Structure product	124,100	3,808	Reserve and accumulated		
Receivables	4	-	earnings distribution	(113,186)	(3,473)
Real estate			Net Income	124,415	3,818
Land	4,397,279	134,927	Retained earnings	26,482	813
Buildings (Net)	154,626	4,745	Net Assets		
			Capital Account	231,352	7,099
			Distributable Revenue	(27)	(1)
Total	\$160,535,619	\$4,925,917	Total	\$160,535,619	\$4,925,917

# Balance Sheet Based on Trust December 31, 2007

Trust Assets		Trust Liabilities			
	NT	US	_	NT	US
Bank deposits	\$4,600,384	\$141,856	Redemption charge payable	\$1,990	\$61
Bonds	73,909,632	2,279,051	Taxes payable	409	13
Common stock	3,173,842	97,867	Trust capital	213,039,390	6,569,207
Mutual funds	123,484,246	3,807,717	Earnings Distribution	(316,447)	(9,758)
Short-term bills or repurchase	250,000	7,709	Net Income	228,859	7,057
investment					
Structure product	77,200	2,380	Retained earnings	37,750	1,164
			Adjustment	81,321	2,508
Receivables	2,456	76	Net Assets		
Real estate			Capital Account	423,010	13,044
Land	7,747,815	238,909	Distributable Revenue	(66)	(2)
Buildings	20,239	624			
Construction in progress	230,402	7,105	_		
Total	\$213,496,216	\$6,583,294	Total	\$213,496,216	\$6,583,294

	200	)6	2007	
Items	NT	US	NT	US
Trust revenue				
Interest income	\$5,516	\$169	\$18,677	\$576
Rental income	252	8	336	10
Cash dividend income	94,886	2,912	169,945	5,240
Stock dividend income	20,189	620		
Investment income-bonds	-	-	18	1
Investment income-stock	13,147	403	44,861	1,383
Investment income-funds	797	24	7,121	220
Investment income-beneficial securities	-	-	1,799	56
Foreign exchange gain		-	68	2
Subtotal	134,787	4,136	242,825	7,488
Trust expense				
Management fee	3,549	109	8,697	268
Supervisor fee	1	-	84	3
Taxes	43	1	2,077	64
Processing fee	113	4	1,060	33
Service fee	100	3	300	9
Investment loss-stock	6,300	193	323	10
Investment loss-funds	45	2	1,180	37
Others	273	8	9	-
Subtotal	10,424	320	13,730	424
Income equalization	52	2	(236)	(7)
Net income	\$124,415	\$3,818	\$228,859	\$7,057

# Income Statement Based on Trust

	December 31, 2007		
Items	NT	US	
Bonds	\$73,909,632	\$2,279,051	
Common stock	3,173,842	97,867	
Mutual fund	123,484,246	3,807,717	
Short-term bills or repurchase investment	250,000	7,709	
Structure product	77,200	2,380	
Real estate			
Land	7,747,815	238,909	
Buildings	20,239	624	
Construction in progress	230,402	7,105	
Total	\$208,893,376	\$6,441,362	

# 7. The bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of December 31, 2007 is as follows:

December 31, 2007		
NT	US	
\$153,327,155	\$4,727,942	
43,575,852	1,343,689	
8,449,824	260,556	
39,189	1,208	
1,812,216	55,881	
2,736,753	84,390	
3,097,757	95,521	
428,621	13,217	
28,849	890	
\$213,496,216	\$6,583,294	
	NT \$153,327,155 43,575,852 8,449,824 39,189 1,812,216 2,736,753 3,097,757 428,621 28,849	