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

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors
Cathay United Bank

We have audited the accompanying consolidated balance sheets of Cathay United Bank (the "Bank") and its subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2006 and 2007. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of December 31, 2006 and 2007, and the consolidated 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 "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the ROC.

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

As discussed in Notes I and XI to the consolidated 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 consolidated financial statements of the Bank and its subsidiaries have been retroactively restated assuming the Bank and Lucky Bank had been merged at the beginning of each of the periods presented.

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

Notice to Readers
The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the ROC.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated 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	$35,211,305	$1,080,433	$19,464,323	$600,195
Due from the Central Bank and call loans to banks	IV and V	51,598,723	1,583,269	58,973,222	1,818,478
Financial assets at fair value through profit or loss	II and IV	57,177,783	1,754,458	40,120,425	1,237,139
Securities purchased under agreements to resell		1,786,058	54,804	326,000	10,052
Receivables, net	II, IV and V	49,168,483	1,508,698	43,866,782	1,352,661
Discounts and loans, net	II, IV and V	721,323,338	22,133,272	767,166,716	23,656,082
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	1,581,086	48,514	1,443,631	44,515
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, net	II and IV	258,105,282	7,919,769	257,145,965	7,929,262
Premises and equipment, net	II, IV, V and VII	25,556,405	784,179	27,832,017	858,219
Intangible assets, net	II, IV , V and XI	514,494	15,787	6,924,691	213,527
Other assets, net	II, IV and V	10,252,544	314,592	9,423,834	290,590
TOTAL ASSETS		$1,276,905,285	$39,180,892	$1,304,231,690	$40,216,827

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated balance sheets (continued)

December 31, 2006(Restated) and 2007

(Expressed in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	NOTES	December 31, 2006 (Restated) NT	December 31, 2006 (Restated) US (Note II)	December 31, 2007 NT	December 31, 2007 US (Note II)
LIABILITIES					
Due to the Central Bank and call loans from banks	IV and V	$100,472,726	$3,082,931	$73,637,393	$2,270,657
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	24,669,287	756,959	16,426,866	506,533
Deposits and remittances	IV and V	974,152,794	29,891,156	1,044,378,942	32,204,099
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	1,877,255	57,602	4,379,774	135,053
TOTAL LIABILITIES		1,199,958,292	36,819,831	1,221,790,485	37,674,699
SHAREHOLDERS' EQUITY					
EQUITY ATTRIBUTE TO EQUITY HOLDERS OF PARENT					
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)
Subtotal		76,142,562	2,336,378	81,371,835	2,509,153
MINORITY INTERESTS		804,431	24,683	1,069,370	32,975
TOTAL SHAREHOLDERS' EQUITY		76,946,993	2,361,061	82,441,205	2,542,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$1,276,905,285	$39,180,892	$1,304,231,690	$40,216,827

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of income

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

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

ITEMS	NOTES	January 1 - December 31, 2006(Restated) NT	January 1 - December 31, 2006(Restated) US (Note II)	January 1 - December 31, 2007 NT	January 1 - December 31, 2007 US (Note II)
INTEREST INCOME	II and V	$43,260,823	$1,327,426	$41,391,146	$1,276,323
INTEREST EXPENSE	V	(18,383,233)	(564,076)	(19,664,972)	(606,382)
NET INTEREST INCOME		24,877,590	763,350	21,726,174	669,941
NONINTEREST INCOME					
Net fee income	II and V	4,631,752	142,122	5,191,219	160,075
Loss on financial assets and liabilities at fair value through profit or loss	II	(488,048)	(14,975)	(488,118)	(15,051)
Realized gains on available-for-sale financial assets	II	500,166	15,347	1,706,718	52,628
Realized gains (losses) on held-to-maturity financial assets	II	674	21	(133)	(4)
Investment income (loss) recognized by the equity method	II and IV	98,930	3,036	(7,382)	(228)
Gain from disposal of investment recognized by the equity method	II and V	1,298,902	39,856	-	-
Foreign exchange gains, net	II	458,158	14,058	728,628	22,468
Impairment loss of assets	II	(274,627)	(8,427)	(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	IV and V	642,167	19,704	486,846	15,012
NET NONINTEREST INCOME		7,774,778	238,564	4,943,069	152,423
NET OPERATING INCOME		32,652,368	1,001,914	26,669,243	822,364
BAD DEBT EXPENSE	II and IV	(26,070,415)	(799,951)	(4,115,735)	(126,912)
OPERATING EXPENSES					
Personnel	II and IV	(5,186,951)	(159,158)	(6,577,318)	(202,816)
Depreciation and amortization	II and IV	(1,398,441)	(42,910)	(1,371,256)	(42,283)
Other general and administrative expenses	V	(6,224,134)	(190,983)	(6,254,761)	(192,870)
TOTAL OPERATING EXPENSES		(12,809,526)	(393,051)	(14,203,335)	(437,969)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		(6,227,573)	(191,088)	8,350,173	257,483
INCOME TAX BENEFIT (EXPENSE)	II and IV	2,182,583	66,971	(1,801,901)	(55,563)
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES		(4,044,990)	(124,117)	6,548,272	201,920
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	II and III	726,695	22,298	-	-
NET INCOME (LOSS)		$(3,318,295)	$(101,819)	$6,548,272	$201,920
ATTRIBUTABLE TO:					
EQUITY HOLDERS OF THE PARENT		$(3,486,944)	$(106,994)	$6,400,265	$197,356
MINORITY INTEREST		168,649	5,175	148,007	4,564
NET INCOME (LOSS)		$(3,318,295)	$(101,819)	$6,548,272	$201,920
BASIC EARNINGS (LOSS) PER SHARE (IN DOLLARS)	IV				
EQUITY HOLDERS OF THE PARENT		$(0.72)	$(0.022)	$1.31	$0.040
MINORITY INTEREST		0.04	0.001	0.03	0.001
NET INCOME (LOSS)		$(0.68)	$(0.021)	$1.34	$0.041

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of changes in shareholders' equity

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

(Expressed in thousands of dollars)

ITEMS	NOTES	Capital stock		Capital reserves		Retained earnings: Legal reserve		Retained earnings: Undistributed earnings (Deficit to be compensated)		Foreign currency translation adjustment		Unrealized gains or losses on financial instruments		Equity holders of the parent		Minority interest		Total	
		NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	NT	US (Note II)	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	$537,470	$16,492	$78,465,545	$2,407,657
Effect of initial adoption of the SFAS No.34	III	-	-	-	-	-	-	-	-	-	-	353,343	10,842	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)	-	-	(2,695,420)	(82,707)
Special bonus to employees		-	-	-	-	-	-	(1,500)	(46)	-	-	-	-	(1,500)	(46)	-	-	(1,500)	(46)
Net loss for the year ended December 31, 2006 attributable to the equity holders of the parent(Restated)		-	-	-	-	-	-	(3,486,944)	(106,994)	-	-	-	-	(3,486,944)	(106,994)	-	-	(3,486,944)	(106,994)
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	(15,235)	(467)	-	-	(15,235)	(467)	-	-	(15,235)	(467)
Adjustment for changes in shareholders' equities of equity-accounted investees	II	-	-	-	-	-	-	-	-		-	3,851	118	3,851	118		-	3,851	118
Unrealized gain on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	357,336	10,965	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	-	-	3,699,056	113,502
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	266,961	8,191	266,961	8,191
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	$804,431	$24,683	$76,946,993	$2,361,061
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	$804,431	$24,805	$72,946,014	$2,249,337
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	-	-	4,000,979	123,373
Reserves used to make up deficit:	IV																		
Legal reserve		-	-	-	-	(3,788,867)	(116,832)	3,788,867	116,832	-	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2007 attributable to the equity holders of the parent		-	-	-	-	-	-	6,400,265	197,356	-	-	-	-	6,400,265	197,356	-	-	6,400,265	197,356
Foreign currency translation adjustment	II	-	-	-	-	-	-	-	-	(18,949)	(584)	-	-	(18,949)	(584)	-	-	(18,949)	(584)
Adjustment for changes in shareholders' equities of equity-accounted investees	II	-	-	(41)	(1)	-	-	-	-	-	-	-	-	(41)	(1)	-	-	(41)	(1)
Unrealized losses on available-for-sale financial assets	II	-	-	-	-	-	-	-	-	-	-	(1,152,002)	(35,523)	(1,152,002)	(35,523)	-	-	(1,152,002)	(35,523)
Minority interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	264,939	8,170	264,939	8,170
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	$1,069,370	$32,975	$82,441,205	$2,542,128

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Its Subsidiaries

Consolidated statements of cash flows

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

(Expressed in thousands of dollars)

ITEMS	NOTES	January 1-December 31, 2006 (Restated) NT	US (Note II)	January 1-December 31, 2007 NT	US (Note II)
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income (loss)		$(3,318,295)	$(101,819)	$6,548,272	$201,920
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					-
Depreciation and amortization	II	1,361,228	41,768	1,371,256	42,283
Investment income recognized by the equity method exceeded the cash dividends received	II	55,051	1,689	54,593	1,683
Gain on disposal of investments accounted for using equity method	II	(1,298,902)	(39,856)	-	-
Effect from subsidiaries over which significant control is no longer held attributable to the equity holders of the parent		144,274	4,427	-	-
Effect from subsidiaries over which significant control is no longer held attributable to the minority interest		2,229	69	-	-
Impairment (reversal) loss on foreclosed properties	II	(399,895)	(12,271)	9,666	298
Bad debt expense	II and IV	26,070,415	799,951	4,115,735	126,912
Loss (gain) on disposal of premises, equipment and foreclosed properties	II	(667,339)	(20,477)	20,351	627
Impairment loss of assets	II	258,622	7,936	115,211	3,553
Effects of exchange rate changes		(11,138)	(342)	(41,099)	(1,267)
Cumulative effect of changes in accounting principles	II and III	(726,695)	(22,298)	-	-
(Increase) decrease in operating assets					
(Increase) decrease in receivables		4,473,515	137,267	(14,597)	(450)
(Increase) decrease in deferred income tax assets		(2,201,876)	(67,563)	1,319,600	40,691
(Increase) decrease in financial assets at fair value through profit or loss		(7,541,473)	(231,404)	17,056,144	525,937
Increase in other assets		(225,134)	(6,908)	(116,064)	(3,579)
Increase (decrease) in operating liabilities					
Decrease in payables		(2,381,305)	(73,069)	(9,171,787)	(282,818)
Increase (decrease) in financial liabilities at fair value through profit or loss		5,433,948	166,737	(7,549,380)	(232,790)
Increase in tax payables		11,383	349	266,790	8,227
Increase (decrease) in other liabilities		(395,573)	(12,138)	216,308	6,670
Net cash provided by operating activities		18,643,040	572,048	14,200,999	437,897
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net increase from acquiring of CUTIC		-	-	9,183,682	283,185
Net increase in discounts and loans		(54,179,174)	(1,662,448)	(22,549,607)	(695,332)
(Increase) decrease in due from the Central Bank and call loans to banks		1,075,526	33,002	(7,339,656)	(226,323)
(Increase) decrease in securities purchased under agreements to resell		(593,806)	(18,221)	1,460,058	45,022
Increase in available-for-sale financial assets		(11,554,617)	(354,545)	(5,802,542)	(178,925)
Decrease in held-to-maturity financial assets		2,714,117	83,281	2,315,624	71,404
Effect on disposal of the subsidiaries' shares		3,957,859	121,444	-	-
Proceeds from disposal of premises, equipment and foreclosed properties		2,008,899	61,642	82,132	2,533
Acquisition of premises, equipment and foreclosed properties		(1,513,909)	(46,453)	(1,666,949)	(51,402)
Acquisition of intangible assets		-	-	(73,729)	(2,273)
Increase in investments in debt securities with no active market		(62,944,803)	(1,931,415)	1,010,795	31,168
Decrease in other financial assets		782,020	23,996	1,722,031	53,100
Increase in other assets		(318,811)	(9,783)	(24,698)	(762)
Net cash used in investing activities		(120,566,699)	(3,699,500)	(21,682,859)	(668,605)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Increase (decrease) in due to the Central Bank and call loans from banks		28,511,996	874,869	(26,986,975)	(832,161)
Decrease in securities sold under agreements to repurchase		(10,203,195)	(313,077)	(9,026,317)	(278,332)
Increase in deposits and remittances		87,091,460	2,672,337	24,792,512	764,493
Increase (decrease) in funds borrowed from the Central Bank and other banks		(800,277)	(24,556)	807,950	24,914
(Increase) decrease in financial debentures payable		(620,478)	(19,039)	416,019	12,828
Increase (decrease) in other financial liabilities		446,067	13,687	(466,992)	(14,400)
Increase in other liabilities		73,868	2,267	1,960,003	60,438
Increase in miniority interest in subsidiaries		163,250	5,009	243,630	7,512
Distribution of cash dividends	IV	(2,755,360)	(84,546)	(99,270)	(3,061)
Bonus to shareholders and special bonus to employees		(2,382)	(73)	-	-
Net cash provided by (used in) financing activities		101,904,949	3,126,878	(8,359,440)	(257,769)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES		12,794	393	94,318	2,909
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,916)	(181)	(15,746,982)	(485,568)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		35,217,221	1,080,614	35,211,305	1,085,763
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		$35,211,305	$1,080,433	$19,464,323	$600,195
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:					
Interest expesne paid		$17,672,394	$542,264	$19,520,649	$601,932
Income tax paid		$2,925,601	$89,770	$753,187	$23,225
PARTIAL EFFECTS ON CASH FLOWS FROM INVESTING AND FINANCING 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)	-	-
Payment		$2,382	$73	$-	$-

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

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 ("R.O.C.") 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 R.O.C. Banking Law ("Banking Law"); (2)international banking business and related operations; (3)trust business; (4)off-shore banking business; and (5)other financial operations related to the promotion of investments by overseas Chinese.

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

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

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

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 and its subsidiaries employed 5, 526 (restated) and 6,295 employees respectively.

II. Summary of significant accounting policies

The consolidated 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 R.O.C..

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 consolidated financial statements of the Bank and its subsidiaries should be retroactively restated assuming both entities had been merged at the beginning of each of periods presented.

1. Principles of Consolidation

(1) The Bank is required to include the accounts of all subsidiaries, which is majority owned or controlled in its annual consolidated financial statements.

As of and for the years ended December 31, 2006 and 2007, the consolidated financial statements included:

Investors	Investees	Business activity	Ownership	Incorporated date
The Bank	Cathay Futures Corp. ("Cathay Futures")	Future related business	Note1	Cathay Futures was incorporated on December 29, 1993.
The Bank	Seaward Leasing Ltd. ("Seaward Leasing")	Leasing related business	Note1	Seaward Leasing was incorporated on February, 1996.
The Bank	Indovina Bank Limited ("Indovina Bank")	Wholesale banking	50%	Indovina Bank was incorporated in Vietnam on October 29, 1992.
Lucky Bank	Pao Shin Securities Co. ("Pao Shin Securities")	Securities related business	Note2	Pao Shin Securities was incorporated on November 5, 1988.

(NOTE1)
The Bank sold all its shareholdings of "Cathay Futures" and "Seaward Leasing" during the year 2006.

(NOTE2)
Lucky Bank sold all its shareholdings of "Pao Shin Securities" during the year 2006.

As of and for the years ended December 31, 2006 and 2007, respectively, the consolidated financial statements excluded following subsidiaries because its total assets and operating revenues were immaterial impact to the Bank.

Investors	Investees	Business activity	Ownership	Incorporated date
The Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100	Cathay Life Insurance Agent was incorporated on March 23, 2000.
The Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100	Cathay Property Insurance Agent was incorporated on March 23, 2000.
The Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100	Seaward Card was incorporated on April 9, 1999.

(2) All significant inter-company transactions and balances have been eliminated for consolidation purposes.

2. Basis for preparation of consolidated financial statements

(1) The accompanying consolidated financial statements of the Bank include the accounts of the head office, domestic and foreign branches. All inter-branch and inter-office account balances and transactions have been eliminated when the financial statements were prepared.

(2) Financial statements of foreign subsidiaries are converted into New Taiwan dollars (“NT dollars” or “NT$”) as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders’ equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income statement items are converted by the weighted-average exchange rate for the period. Differences arising from above conversion are reported as “Foreign currency translation adjustment” under shareholders’ equity.

3. Foreign-currency transaction and translation

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

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

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

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

4. Financial assets and financial liabilities

The Bank and its subsidiaries 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 and its subsidiaries commit to purchase or sell the asset) and others are recognized on the settlement date.

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

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

(2) Held-to-maturity financial assets

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

(3) Investments in debt securities with no active market

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

(4) Available-for-sale financial assets

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

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

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

(5) Financial assets carried at cost

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

(6) Financial liabilities

After initial recognition, the Bank and its subsidiaries 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.

5. Derivative financial instruments

The Bank and its subsidiaries 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.

6. Derecognizing 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 and its subsidiaries 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.

7. Impairment of financial assets

The Bank and its subsidiaries assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

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

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

Financial assets carried at cost

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

Available-for-sale financial assets

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

8. Hedge accounting

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

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

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

(3) Hedges of net investments in foreign operations.

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

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

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

For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is premeasured 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.

9. Customer’s margin accounts

Cathay Futures engages in future trading and shall collect margins, premiums due or settlement balance from the customers. It includes bank deposits and the settlement balances of futures clearing houses and other future commission merchants.

10. Factoring of account receivable

Seaward Leasing entered into account receivable factoring contracts with clients. For contracts that buying principles and interest on due day, interest revenue is calculated based on the principle and contracted interest rate. For contracts that buying principle and interest in installments, the amount that total installments exceed principle will be deferred. The deferred interest is recorded as unearned interest and recognized as interest revenue by interest method in installment.

11. Inventories

Inventories of Seaward Leasing are carried at cost when purchased. Cost of inventories sold is determined by weighted-average method. Inventories are valued at the lower of cost or market. Market price is determined by replacement cost or net realizable value.

12. Allowances for doubtful accounts

Allowance for doubtful accounts on receivables, bills and loans of the Bank and Indovina Bank are provided based on the results of review of the collectability 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.

An allowance for doubtful receivables of the Bank's subsidiaries is provided based on a review of the collectability of accounts receivable.

13. 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 would 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.

The Bank prepares consolidated financial statements that include the accounts of its majority-owned affiliates in accordance with amended SFAS No. 7" Consolidated Financial Statements".

14. 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~ 8	years
Transportation equipment	3~ 8	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.

15. Leasing account for Seaward Leasing

For capital lease, the lesser only recognizes interest revenue on the lease payment receivable. There is no sales profit at the inception date of lease because the cost of the leased property is the same as its market price. The difference between the lease payment receivable and the cost of the leased property is the unearned interest revenue. The lease payment receivable should be classified as either a current asset or long-term lease payment receivable, depending in the rent collection periods. Unearned interest revenue should be treated as a contra account of the lease payment receivable.

16. 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 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) Goodwill

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.

17. Land use rights

Indovina Bank's land use rights pertain to pieces of land located in Ha Noi, Binh Duong and Dong Nai. Land use rights are stated at cost less amortization, which are amortized using the straight-line method over the period from the date of having the rights to use the land up to Indovina Bank investment license's expiration date.

18. Foreclosed properties

Foreclosed properties of the Bank 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.

19. 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.

20. Asset Impairment

The Bank and its subsidiaries assess impairment for all its assets within the scope of R.O.C. SFAS No.35 if impairment indicators were found. The Bank and its subsidiaries 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 and its subsidiaries 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 and its subsidiaries shall re-estimate the recoverable amount of the asset. Once the recoverable amount increased, the Bank and its subsidiaries 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 recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

21. Reserves for possible losses on guarantees

(1) The Bank

① Reserves for possible losses on guarantees

Reserves for possible losses on guarantees of the Bank 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.

② Reserves for losses on trading securities

Pursuant to the “Regulations Governing Securities Firms”, a reserve for possible losses on trading securities of the Bank 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.

(2) Cathay Futures

① Reserve for losses from breach of contract

According to the Rules Governing Futures Brokerage Firms, 2% of futures brokerage commissions received by licensed futures firm are required to be set aside as a reserve for losses from breach of contract until such reserve meets legally minimum paid-in capital and operating capital.

② Reserve for losses on trading

According to the Rules Governing Future commission Merchant, securities firms which are engaged in futures trading are required to appropriate 10% of realized monthly futures trading profits as a reserve for futures trading losses until such reserve reaches the legal minimum issued capital or operating capital. The reserve for trading losses cannot be used for proposes other than offsetting trading losses.

③ Reserve for bad debts

According to the rule (88) TFS (VII) 91625 SFC, 3% of revenue from non-major business is required to be set aside as a reserve for bad debts. Such Ruling has been phased not on July 1, 2003.

22. Construction accounting

Seaward Leasing entered into contracts with contractors to build business buildings for selling and renting purpose. The completed-contract method of accounting for long-term construction contracts is adopted. The construction cost incurred ware recorded as "Inventory-construction-in-progress" account. After completion, the cost of sold and unsold units were allocated by the proportion of selling price of sold units and estimated reasonable selling price of unsold units to the sum of total price. The allocated costs of sold units were recorded as cost of good sold as of unsold units were recorded as inventory (selling purpose) and fixed assets (renting purpose) of the year when the contracts were completed. Promotion expenses occurred for selling unsold units were recorded as expense at the corresponding year.

23. Pension plans

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

The Labor Pension Act of the R.O.C. (the "Act"), which adopts a defined contribution pension plan, is effective since July 1, 2005. In accordance with the Act, employees of the Bank and its domestic subsidiaries may select 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 and its domestic subsidiaries 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 and its domestic subsidiaries adopted R.O.C. 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.

24. Recognition of interest income and service fees

Interest income and service fees of the Bank and Indovina Bank are recognized when incurred (accrual basis) except for delinquent accounts and troubled accounts whose interest is recognized when received.

25. Recognition of dividend

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

26. Installment sales

About the installment sales, Seaward Leasing has adopted general sale method. The difference between the installment prices and the present value is the unearned interest revenue. The unrealized interest revenue of installment sales shall be classified as a deduction of account receivable and will be recorded as "interest income" by interest method.

27. Income tax

The Bank and its subsidiaries adopted the R.O.C. 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 R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The Bank and its domestic subsidiaries have 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 tax credits of the Bank and its subsidiaries are recognized in the current period according to the R.O.C. SFAS No.12, "Accounting for Income Tax Credits".

Income tax at a rate of 10% on undistributed earnings is assessed if the Bank and its domestic subsidiaries do 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.

28. 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.

29. Basis for converting financial statements

The Bank's consolidated 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 December 31, 2006 and 2007, respectively, as provided by the Federal Reserve Bank of New York. The translation amounts are unaudited. Such currency translation should not be construed as representations that the NT dollar amounts have been, could have been, or could in the future be, converted into US dollars at this rate or any other rate of exchange.

III. Accounting Changes

1. Effective from January 1, 2007, the Bank and its subsidiaries 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 and its subsidiaries adopted the R.O.C. 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 and its subsidiaries shall premeasured and reclassify financial assets and liabilities (including derivative instruments) that should be measured at fair value or amortized cost as appropriate according to SFAS No. 34. Any resulting adjustment shall be recognized as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

   (1) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss and derivatives designated as fair value hedges.
   (2) A component of equity: for financial assets carried at amortized cost and available-for-sale financial assets.

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

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

	Recognized as cumulative effect of change in accounting principles (Net of tax)		Recognized as a separate component of shareholders' equity (Net of tax)	
	NT	US	NT	US
Financial assets at fair value through profit or loss	$295,050	$9,053	$-	$-
Available-for-sale financial assets	-	-	355,156 (Note)	10,898 (Note)
Financial liabilities at fair value through profit or loss	449,790	13,802	-	-
Derivative financial liabilities for hedging	(18,145)	(557)	-	-
Total	$726,695	$22,298	$355,156	$10,898

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

The adoption of the SFAS No.34 and No.36 increased net income before cumulative effect of changes in accounting principles of NT$726,695(US$22,298) and increased after income tax earnings per share of NT$0.15(US$0.005) in dollars for the year ended December 31, 2006.

2. The Bank and its subsidiaries adopted the R.O.C. 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 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 net income and earnings per share after tax of the Bank and its subsidiaries for the year ended December 31, 2006.

IV. Breakdown of Significant Accounts

1. Cash and cash equivalents

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Cash on hand	$11,447,421	$351,256	$9,433,879	$290,900
Checks for clearance	11,563,330	354,812	3,299,069	101,729
Due from commercial banks	12,200,554	374,365	6,731,375	207,566
Total	$35,211,305	$1,080,433	$19,464,323	$600,195

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

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Call loans to banks	$17,969,352	$551,376	$13,063,543	$402,823
Due from the Central Bank				
-Statutory reserve on deposits and general deposits	33,629,371	1,031,893	45,909,679	1,415,655
Total	$51,598,723	$1,583,269	$58,973,222	$1,818,478

(1) The Bank

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

Under a directive issued by the Central Bank of the R.O.C., 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-interest bearing reserves may be withdrawn momentarily. As of December 31, 2006, the balance of foreign-currency deposit reserves were NT$48,975 (US$1,503).

(2) Indovina Bank

In accordance with the provisions of the Law on credit institutions, the amount of compulsory reserves for the State Bank of Vietnam were NT$376,715 (US$11,559) and NT$1,172,601 (US$36,158) as of December 31, 2006 and 2007, respectively.

3. Financial assets at fair value through profit or loss

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Financial assets for trading :				
Stocks	$5,745,130	$176,285	$4,888,733	$150,747
Mutual funds	1,718,564	52,733	1,047,405	32,297
Commercial papers	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	55,627,688	1,706,895	39,852,586	1,228,880
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	$57,177,783	$1,754,458	$40,120,425	$1,237,139

(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 December 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 transactions) are summarized as follows (in thousands of US dollars):

	December 31,	
	2006(Restated)	2007
Forward foreign exchange and currency swap contracts	$9,183,556	$16,304,666
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 were NT$6,938,301 (US$212,897) and NT$3,314,537 (US$102,206), respectively.

4. Receivables, net

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Notes receivable	$-	$-	$6,408	$198
Accounts receivable	41,026,203	1,258,859	36,358,267	1,121,131
Interest receivable	4,570,724	140,249	4,455,934	137,402
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	1,671,228	51,280	1,926,710	59,411
Total	51,237,664	1,572,189	47,338,990	1,459,729
Less: allowance for doubtful accounts	(2,069,181)	(63,491)	(3,472,208)	(107,068)
Net balance	$49,168,483	$1,508,698	$43,866,782	$1,352,661

Information on bad and doubtful accounts is as follows:

	January 1-December 31, 2006 (Restated)					
	Allocated allowance		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	11,855,894	363,789	-	-	11,855,894	363,789
Write-offs	(11,312,296)	(347,110)	-	-	(11,312,296)	(347,110)
Debt counseling recoveries	134,914	4,140	-	-	134,914	4,140
Recoveries	285,744	8,768	-	-	285,744	8,768
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

	January 1-December 31 2007					
	Allocated allowance		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 and its subsidiaries' financial statements include doubtful account of receivables based on information available to the Bank and its subsidiaries, 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 (Restated)		2007	
	NT	US	NT	US
Outward documentary bills	$837,160	$25,688	$786,031	$24,238
Overdrafts	608,879	18,683	549,809	16,954
Short –term loans	177,656,610	5,451,261	156,334,144	4,820,664
Medium-term loans	214,732,510	6,588,908	226,311,861	6,978,473
Long-term loans	335,327,923	10,289,289	384,807,963	11,865,802
Delinquent accounts	8,724,945	267,718	8,193,021	252,637
Total	737,888,027	22,641,547	776,982,829	23,958,768
Less: allowance for doubtful accounts	(16,564,689)	(508,275)	(9,816,113)	(302,686)
Net balance	$721,323,338	$22,133,272	$767,166,716	$23,656,082

(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 and its subsidiaries 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:

A. The Bank

	January 1-December 31, 2006(Restated)					
	Allocated allowance		Unallocated 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	176,585	-	-	5,754,922	176,585
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	$95,793	$13,389,809	$410,857	$16,511,743	$506,650

	January 1-December 31, 2007					
	Allocated allowance		Unallocated 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)	(27,996)	-	-	(907,944)	(27,996)
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)	(41)	(1,298)	(41)
Balance, end of the period	$4,139,802	$127,654	$5,606,808	$172,889	$9,746,610	$300,543

B. Indovina Bank

	January 1- December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Balance, beginning of the period	$51,457	$1,579	$52,946	$1,633
Provision of doubtful accounts	4,141	127	30,005	925
Effects of exchange rates change,etc.	(2,652)	(81)	(13,448)	(415)
Balance, end of the period	$52,946	$1,625	$69,503	$2,143

The financial statements of the Bank and Indovina Bank include provision for possible credit losses and guarantee losses based on information available to the Bank and Indovina 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(Restated)		2007	
	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.

7. Held-to-maturity financial assets, net

	December 31, 2006(Restated)			
	Face value		Amortized 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

	December 31, 2007			
	Face value		Amortized cost	
	NT	US	NT	US
Bonds	$2,062,800	$63,608	$2,250,291	$69,389
Beneficiary certificates	576,335	17,772	576,335	17,772
Overseas financial instruments	498,107	15,359	496,068	15,296
Subtotal	3,137,242	96,739	3,322,694	102,457
Less: accumulated impairment	-	-	(2,008)	(62)
Net balance	$3,137,242	$96,739	$3,320,686	$102,395

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
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
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
Total	$1,581,086	$48,514		$98,930	$3,036

	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
Taiwan Real-estate Management Corp.	42,596	1,313	30.15	23,175	714
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	$1,443,631	$44,515		$(7,382)	$(228)

(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 (16) and (17) for details.

(3) Lucky Bank's board of directors resolved to dispose it's totally shares of Pao Shin Securities Co., Ltd. on April 11, 2006. The selling price was NT$110,670 (US$3,396) 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.

9. Other financial assets, net

	December 31,			
	2006(Restated)		2007	
	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 (Restated)		2007	
	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	418,036	12,827	415,965	12,826
Beneficiary certificates	-	-	400,000	12,334
Overseas financial instruments	50,190,092	1,540,046	58,979,467	1,818,670
Subtotal	258,322,858	7,926,445	257,410,162	7,937,408
Less: accumulated impairment	(217,576)	(6,676)	(264,197)	(8,146)
Net balance	$258,105,282	$7,919,769	$257,145,965	$7,929,262

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:

Class of beneficiary certificates issued	Issue amount (in thousands dollars)	Interest rate
Senior tranche 1st	NT$3,335,000(US$102,837)	2.175%
Senior tranche 2nd	NT$315,000(US$9,713)	2.325%
Senior tranche 3rd	NT$340,000(US$10,484)	2.545%
Senior tranche 4th	NT$480,000(US$14,801)	2.945%
Subordinated tranche 5th	NT$200,000(US$6,167)	3.00%
Subordinated tranche 6th	NT$200,000(US$6,167)	3.20%
Subordinated tranche 7th	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 their value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

(1) Key assumptions used in measuring retained interests：

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

	Corporate Loans Securitization	
	December 31, 2007	May 28, 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 (Restated)		2007	
	NT	US	NT	US
Cost:				
Land	$14,087,063	$432,251	$15,736,306	$485,239
Buildings	9,830,002	301,627	10,700,125	329,945
Office equipment	3,942,259	120,965	3,903,117	120,355
Transportation equipment	97,805	3,001	101,183	3,120
Leased improvements	12,260	376	19,345	597
Other equipment	4,647,439	142,603	4,895,695	150,962
Construction in progress	50,032	1,535	59,140	1,824
Prepayment for equipment	1,047,825	32,152	1,460,985	45,050
Subtotal	33,714,685	1,034,510	36,875,896	1,137,092
Accumulated depreciation:				
Buildings	(2,295,262)	(70,428)	(2,483,293)	(76,574)
Office equipment	(2,733,722)	(83,882)	(2,872,769)	(88,584)
Transportation equipment	(73,930)	(2,269)	(77,368)	(2,386)
Leased improvements	(1,178)	(36)	(3,893)	(120)
Other equipment	(2,985,008)	(91,593)	(3,497,784)	(107,855)
Subtotal	(8,089,100)	(248,208)	(8,935,107)	(275,519)
Accumulated impairment	(69,180)	(2,123)	(108,772)	(3,354)
Net	$25,556,405	$784,179	$27,832,017	$858,219

13. Intangible assets, net

	2006 (Restated)									
	January 1,		Additions/ Amortization		Disposals		Effects of exchange rates change		December 31,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Computer software	$814,134	$24,981	$183,387	$5,627	$463	$14	$(17)	$(1)	$997,041	$30,593
Land use rights	16,123	494	-	-	-	-	(84)	(2)	16,039	492
Subtotal	830,257	25,475	183,387	5,627	463	14	(101)	(3)	1,013,080	31,085
Amortization	284,035	8,715	214,591	6,584	-	-	(40)	(1)	498,586	15,298
Net balance	$546,222	$16,760	$(31,204)	$(957)	$463	$14	$(61)	$(2)	$514,494	$15,787

	2007									
	January 1,		Additions/ Amortization		Disposals		Effects of exchange rates change		December 31,	
	NT	US	NT	US	NT	US	NT	US	NT	US
Goodwill	$-	$-	$6,537,374	$201,584	$-	$-	$-	$-	$6,537,374	$201,584
Computer software	997,041	30,744	224,985	6,938	-	-	(180)	(6)	1,221,846	37,676
Land use rights	16,039	494	3,673	113	-	-	(81)	(2)	19,631	605
Subtotal	1,013,080	31,238	6,766,032	208,635	-	-	(261)	(8)	7,778,851	239,865
Amortization	498,586	15,374	208,559	6,431	-	-	(126)	(4)	707,019	21,801
Impairments	-	-	147,141	4,537	-	-	-	-	147,141	4,537
Subtotal	498,586	15,374	355,700	10,968	-	-	(126)	(4)	854,160	26,338
Net balance	$514,494	$15,864	$6,410,332	$197,667	$-	$-	$(135)	$(4)	$6,924,691	$213,527

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 (Restated)		2007	
	NT	US	NT	US
Prepayment	$268,696	$8,245	$139,670	$4,307
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 (Accumulated impairment NT$307,288 (US$9,429) and NT$318,132 (US$9,810),on December 31, 2006 and 2007, respectively)	1,507,769	46,265	1,548,043	47,735
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	63,754	1,956	290,585	8,960
Total	$10,252,544	$314,592	$9,423,834	$290,590

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

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Due to the Central Bank	$189,959	$5,829	$433,508	$13,368
Due to commercial banks	1,756,789	53,905	1,533,953	47,300
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	69,277,320	2,125,723	46,887,123	1,445,795
Total	$100,472,726	$3,082,931	$73,637,393	$2,270,657

16. Financial liabilities at fair value through profit or loss

	December 31,			
	2006(Restated)		2007	
	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 debentures amounting to NT$1,000,000, NT$3,500,000, NT$2,000,000 and NT$1,000,000, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semiannually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23 and December 29, 2004 and on January 14 and February 22, 2005, the Bank issued five-year to seven-year dominant financial debentures amounting to NT$2,500,000, NT$1,500,000, NT$1,500,000, NT$2,500,000, NT$1,500,000, NT$2,500,000, NT$1,000,000, NT$1,000,000, NT$2,000,000 and NT$1,500,000, respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly.

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

(2) Net losses arising from financial liabilities at fair value through profit or loss for the 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 (Restated)		2007	
	NT	US	NT	US
Accounts payable	$12,082,684	$370,748	$4,994,791	$154,018
Accrued interest payable	4,138,935	127,000	4,733,458	145,959
Accrued expenses	3,597,223	110,378	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	454,050	14,001
Receipts under custody	903,706	27,729	343,340	10,587
Others	1,857,704	57,003	1,423,968	43,909
Total	$24,669,287	$756,959	$16,426,866	$506,533

18. Deposits and remittances

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Checking deposits	$16,642,900	$510,675	$13,397,047	$413,107
Demand deposits	113,109,415	3,470,679	120,081,489	3,702,790
Demand savings deposits	329,891,152	10,122,465	358,531,509	11,055,551
Time deposits	237,588,237	7,290,219	261,113,215	8,051,595
Negotiable certificates of deposit	3,115,300	95,591	3,108,302	95,846
Time savings deposits	273,407,459	8,389,305	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	$974,152,794	$29,891,156	$1,044,378,942	$32,204,099

19. Financial debentures payable

	December 31,			
	2006(Restated)		2007	
	NT	US	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(Restated)		2007	
	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 (Restated)		2007	
	NT	US	NT	US
Unearned receipts	$97,220	$2,983	$145,555	$4,488
Temporary receipts	783,116	24,029	3,028,837	93,396
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	799,179	24,522	841,547	25,950
Reserve for land value increment tax	20,035	615	50,366	1,553
Others	-	-	16,029	494
Total	$1,877,255	$57,602	$4,379,774	$135,053

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 (Restated)		2007	
	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 Bank

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

	2006(Restated)		2007	
	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 (Restated)		2007	
	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.

(2) Indovina Bank

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

	2006(Restated)		2007	
	NT	US	NT	US
Defined contribution pension plan	$-	$-	$-	$-
Defined benefit pension plan	2,625	81	3,060	95
Total	$2,625	$81	$3,060	$95

26. Certain components of operating expenses

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

	2006(Restated)		2007	
	NT	US	NT	US
Personnel expenses				
Salary	$4,039,529	$123,950	$5,315,389	$163,904
Insurance	478,812	14,692	575,995	17,761
Pension	363,679	11,159	350,495	10,808
Others	304,931	9,357	335,439	10,343
Depreciation expenses	1,183,850	36,325	1,162,697	35,852
Amortization expenses	214,591	6,585	208,559	6,431

27. Income tax

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

(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)
Foreign subsidiaries (tax rate 20%)	(57,771)	(1,773)	(84,971)	(2,620)
Deferred tax benefit (expense):				
Reversal of allowance for bad debt	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	(47,642)	(1,462)	(3,943)	(122)
Valuation allowance	(617,755)	(18,955)	1,074,159	33,122
Operating loss carry-forward	2,731,475	83,814	(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	654,065	20,070	(261,925)	(8,077)
Income tax benefit (expense)	2,321,808	71,243	(1,801,901)	(55,563)
Income tax benefit from cumulative effect of changes in accounting principles	(139,225)	(4,272)	-	-
Income tax benefit (expense) of continuing operations	$2,182,583	$66,971	$(1,801,901)	$(55,563)

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

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

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Domestic Company				
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	783,491	24,041	317,245	9,782
Operating loss carry-forward (expiration year:2011)	$12,280,869	$376,829	$8,516,311	$262,606
Investment tax credits (expiration year:2011)	$-	$-	$8,616	$266
Foreign Branch				
Deferred income tax assets	$51,729	$1,587	$51,466	$1,587
Foreign Company				
Deferred tax liabilities	$14,570	$447	$4,703	$145
(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

(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	
	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 basic 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 income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Income (loss) from continuing operations	$(6,227,573)	$(191,088)	$(4,044,990)	$(124,117)	$8,350,173	$257,483	$6,548,272	$201,920
Cumulative effect changes in accounting principles	587,470	18,026	726,695	22,298	-	-	-	-
Net income (loss)	$(5,640,103)	$(173,062)	$(3,318,295)	$(101,819)	$8,350,173	$257,483	$6,548,272	$201,920

	2006 (Restated)		2007	
	NT	US	NT	US
Attributable to:				
Equity holders of the parent	$(3,486,944)	$(106,994)	$6,400,265	$197,356
Minority interests	168,649	5,175	148,007	4,564
Net income (loss)	$(3,318,295)	$(101,819)	$6,548,272	$201,920

	2006 (Restated)				2007			
	Before income tax		After income tax		Before income tax		After income tax	
	NT	US	NT	US	NT	US	NT	US
Basic earnings (loss) per share (in dollars)								
Income (loss) from continuing operations	$(1.28)	$(0.039)	$(0.83)	$(0.025)	$1.71	$0.053	$1.34	$0.041
Cumulative effect changes in accounting principles	0.12	0.004	0.15	0.004	-	-	-	-
Net income (loss)	$(1.16)	$(0.035)	$(0.68)	$(0.021)	$1.71	$0.053	$1.34	$0.041

	2006 (Restated)		2007	
	NT	US	NT	US
Basic earnings (loss) per share (in dollars)				
Equity holders of the parent	$(0.72)	$(0.022)	$1.31	$0.040
Minority interests	0.04	0.001	0.03	0.001
Net income (loss)	$(0.68)	$(0.021)	$1.34	$0.041

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

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

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

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

V. Related parties transactions

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

Name of related parties	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiaries of Cathay Financial Holdings
Cathay Century Insurance Co., Ltd.	〃
Cathay Securities Corp.	〃
Cathay Pacific Venture Capital Co., Ltd.	〃
Cathay 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.	〃
Symphox Information Co., Ltd.	〃
Cathay Life Insurance Co., Ltd. (Shanghai)	〃
Cathay Life Insurance (Vietnam) Co., Ltd.	
Cathay General Hospital	〃
Cathay Real Estate Development Co., Ltd.	〃
San Ching Engineering Corp.	〃
China England Co., Ltd.	〃
Industrial and Commercial Bank of Vietnam	Major stockholder of Indovina Bank
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.	〃

Name of related parties	Relationship
China Eastern Airlines Co., Ltd.	Major stockholder of Indovina Bank
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.	〃
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
Taipei Smart Card Corp. and etc.	The Bank is the director of such organizations
Culture and Charity Foundation of Cathay United Bank	The Bank is the major sponsor of the foundation
Lin Yuan Investment Co., Ltd.	Major shareholder of parent company
Wan Pao Development Co., Ltd.	Their chairman is a second immediate family member of the parent company's chairman.
Others	Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager and etc.

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

(1) Loans and Deposits

Accounts/Related parties	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) 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
2006 (Restated)					
Deposits					
Cathay Life Insurance Co., Ltd.	$4,736,153	$145,325	0.49%	$(100,368)	$(3,080)
Cathay Financial Holding Co., 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 Co., Ltd.	822,283	25,231	0.09%	(6,676)	(205)
Cathay Pacific Venture Capital Co., Ltd.	518,293	15,903	0.05%	(4,447)	(136)
Cathay Securities Trust Co., 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)

Accounts/Related parties	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) NT	US
2007					
Loans					
Seaward Leasing Ltd.	$2,964,820	$91,422	0.39%	$47,578	$1,467
Taiwan Real-estate Management Corp.	114,000	3,515	0.02%	3,479	107
Cathay General Hospital	258,145	7,960	0.03%	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

Accounts/Related parties	December 31, Account balance NT	US	% of Account	January 1- December 31, Interest income (expense) NT	US
Deposits					
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)

Accounts/Related parties	January 1- December 31, Maximum balance NT	US	December 31, Account balance NT	US	January 1 - December 31, Interest income (expense) NT	US	Interest Rate (%)
2006 (Restated)							
Due from commercial banks							
ICBV	$5,442	$167	$1,656	$51	$19	$1	1%
Due to commercial banks							
ICBV	63,599	1,951	63,599	1,951	(260)	(8)	0.5%
2007							
Due from commercial banks							
ICBV	4,496	139	-	-	13	-	1%
Call loans from banks							
ICBV	533,647	16,455	533,647	16,455	226	7	5.7%

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

(2) Transactions of derivative financial instruments

Related parties	Category of agreements	Term of agreements	Notional amount NT	Notional amount US	Valuation gains (losses) NT	Valuation gains (losses) US
December 31, 2006(Restated)						
Cathay Life Insurance Co., Ltd.	Forward	2006.8.14~2007.8.14	$9,691,368	$297,372	$306,558	$9,407
	Non-delivery 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 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., 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	2006.1.20~2017.7.10	4,300,000	132,593	(31,976)	(986)
Cathay Century Insurance 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)

(3) Transactions under resale and repurchase agreements

Accounts/Related parties	December 31, Account balance NT	December 31, Account balance US	January 1- December 31, Interest income (expense) NT	January 1- December 31, Interest income (expense) 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	$-
2007				
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) Lease

Accounts/Related parties	January 1- December 31, 2006(Restated) NT	2006(Restated) US	2007 NT	2007 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.	1,020	31	-	-

Accounts/Related parties	December 31, 2006(Restated) NT	2006(Restated) US	2007 NT	2007 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.

Account/Related parties	December 31, 2006(Restated) NT	2006(Restated) US	2007 NT	2007 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.

Accounts/Related parties	January 1- December 31, 2006(Restated) NT	2006(Restated) US	2007 NT	2007 US
(5) Commissions and handling fees 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

	January 1- December 31,			
	2006(Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(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)		2007	
Accounts/Related parties	NT	US	NT	US
(9) Receivable to related party for 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	-	-
(11) Refundable deposit				
Cathay Futures Corp.	39,292	1,206	39,292	1,212
(12) Accrued expenses				
Seaward Card Co., Ltd.	16,259	499	-	-

	December 31,			
	2006(Restated)		2007	
Accounts/Related parties	NT	US	NT	US
(13) Accounts payable				
Symphox Information Co., Ltd.	$-	$-	$13,397	$413
Cathay Securities Cory.	-	-	200	6
Cathay Century Insurance Co., Ltd.	-	-	50,606	1,560
Cathay Real Estate Development Co., Ltd.	-	-	1,037	32
(14) Suspense credit				
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	1,949,040	60,100

(15) 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.

i. 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.

(16) 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.

(17) For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing Ltd. to the Cathay Real Estate Development for the amount of 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).

VI. ASSETS PLEDGED OR MORTGAGED

See Notes IV.

VII. COMMITMENTS AND CONTINGENT LIABILITIES

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

1. The Bank

	NT	US
(1) Entrusted Items and Guarantees:		
Trust and security held for safekeeping	$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 securities under management	383,450,700	11,823,950
Entrusted financial management business	2,253,460	69,487
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 lines commitments	278,940,434	8,601,308
Stamp tax, securities and memorial 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
2011.1.1~2011.12.31	268,061	8,266
2012.1.1~2012.12.31	272,412	8,400

2. Indovina Bank

(1) As of December 31, 2007, Indovina Bank's outstanding off-balance sheet financial instruments on concentrations of credit risk are as follows:

	NT	US
Unused commercial letters of credit	$1,470,565	$45,346
Guarantees	156,650	4,830

(2) As of December 31, 2007, Indovina Bank had outstanding commitments under non-cancelable operating leases, which fall due as follows:

Years	NT	US
2008.1.1~2008.12.31	$10,460	$323
2009.1.1~2012.12.31	21,229	656

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 value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$51,179,078	$1,570,392	$51,179,078	$1,570,392
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	263,741,970	8,092,727	263,781,368	8,093,936
Investment accounted for using equity method	1,581,086	48,514	1,581,086	48,514
Others	864,726,524	26,533,493	864,726,524	26,533,493
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	1,125,347,698	34,530,460	1,125,347,698	34,530,460
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

	December 31, 2006 (Restated)			
	Book value		Fair value	
	NT	US	NT	US
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)

	December 31, 2007			
	Book value		Fair value	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$36,892,686	$1,137,610	$36,892,686	$1,137,610
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	260,466,651	8,031,657	260,386,876	8,031,657
Investment accounted for using equity method	1,443,631	44,515	1,433,631	44,515
Others	895,179,384	27,603,435	895,179,384	27,603,435
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	1,151,853,101	35,518,134	1,151,853,101	35,518,134
Derivative financial instruments				
Assets				
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
Futures	171,023	5,274	171,023	5,274
Options	58,107	1,792	58,107	1,792
Credit derivative instruments	658	20	658	20

	December 31, 2007			
	Book value		Fair value	
	NT	US	NT	US
Liabilities				
Forward	235,175	7,252	235,175	7,252
Non-delivery forward	131,466	4,054	131,466	4,054
Currency swap	1,322,846	40,791	1,322,846	40,791
Interest rate swap	1,207,275	37,227	1,207,275	37,227
Cross currency swap	382,662	11,799	382,662	11,799
Options	56,521	1,743	56,521	1,743
Credit derivative instruments	234,235	7,223	234,235	7,223

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 values of equity security can 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 market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$48,186,910	$1,478,580	$2,992,168	$91,812
Available-for-sale financial assets	54,500,543	1,672,309	-	-
Held-to-maturity financial assets and debt securities with no active market	188,241,366	5,776,047	75,540,002	2,317,889
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)	-	-	-	-
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

	December 31, 2006 (Restated)			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
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 determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$35,337,957	$1,089,669	$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 with no active market	200,134,060	6,171,263	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)	-	-	-	-
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 instruments	-	-	658	20

	December 31, 2007			
	Value determined by quoted market price		Value determined by pricing models	
	NT	US	NT	US
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 assets or liabilities determined by pricing models were gain NT$434,805 (US$13,342) and loss NT$377,581 (US$11,643) for the six-month periods ended June 30, 2006 and 2007, respectively.

5. The Bank and its subsidiaries recognized NT$41,914,313 (US$1,286,110) and NT$39,222,571(US$1,209,453) as interest income and NT$17,619,719 (US$540,648) and NT$18,497,254 (US$570,375) as interest expense from financial assets or liabilities not at fair value through profit or loss, for the years ended December 31, 2006 and 2007, 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.

② Foreign exchange risk

The Bank and its subsidiaries manage foreign exchange risk by matching foreign currency assets and liabilities. The Bank and its subsidiaries trade in currencies and derivative instruments, primarily spot and forward exchange contracts and currency swaps, to manage asset and liability positions and hedge against the 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 and its subsidiaries may expose to risk when the price of equity securities, such as stocks, mutual funds and TAIEX Futures and Options, moves in adverse direction.

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

December 31, 2007						
	Average balance		Maximum balance		Minimum 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 exposure to risks and to generate revenues through trading activities. The Bank provides trades derivative instruments on behalf of customers and for its own positions. The bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

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

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

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

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

(In thousands of US dollars)

	Currency	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 collectability of those portfolios.

The Bank and its subsidiaries maintain 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 and its subsidiaries retain the legal right to foreclose on or liquidate the collateral.

① Information on concentrations of credit risk

	December 31, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments-the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$51,179,078	$1,570,392	$51,179,078	$1,570,392
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	263,741,970	8,092,727	263,741,970	8,092,727
Investment accounted for using equity method	1,581,086	48,514	1,581,086	48,514
Others	864,726,524	26,533,493	864,726,524	26,533,493
Guarantees on duties and contracts	-	-	17,668,100	542,133
Unused commercial letters of credit	-	-	3,765,595	115,544
Irrevocable loan commitments	-	-	48,940,699	1,501,709
Credit card loans commitments	-	-	283,220,679	8,690,417

	December 31, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Derivative financial instruments-the Bank				
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

	December 31, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Non-derivative financial instruments-the Bank and its subsidiaries				
Financial assets at fair value through profit or loss	$36,892,686	$1,137,610	$36,892,686	$1,137,610
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	260,466,651	8,031,657	260,466,651	8,031,657
Investment accounted for using equity method	1,443,631	44,515	1,443,631	44,515
Others	895,179,384	27,603,435	895,179,384	27,603,435
Guarantees on duties and contracts	-	-	19,414,833	598,669
Unused commercial letters of credit	-	-	4,428,539	136,557
Irrevocable loan commitments	-	-	40,783,846	1,257,596
Credit card lines commitments	-	-	278,940,434	8,601,308

	December 31, 2007			
	Carrying value		Maximum credit risk exposed amount	
Financial assets	NT	US	NT	US
Derivative financial instruments-the Bank				
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

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

	December 31,			
	2006 (Restated)		2007	
	NT	US	NT	US
Loans, customers' liabilities under acceptances and guarantees account				
Industry type				
Manufacturing	$111,789,046	$3,430,164	$110,025,239	$3,392,699
Financial institutions and insurance	44,171,302	1,355,364	51,082,590	1,575,165
Leasing and real estate	70,255,815	2,155,748	80,635,270	2,486,441
Individuals	407,330,866	12,498,646	421,353,627	12,992,711
Others	122,863,831	3,769,985	134,300,383	4,141,239
Total	756,410,860	23,209,907	797,397,109	24,588,255
Valuation allowance	(16,564,689)	(508,275)	(9,816,113)	(302,686)
Maximum credit risk exposed	$739,846,171	$22,701,632	$787,580,996	$24,285,569
Geographic Region				
Domestic	$700,544,321	$21,495,683	$722,753,825	$22,286,581
South East Asia	26,112,627	801,247	30,304,295	934,453
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	756,410,860	23,209,907	797,397,109	24,588,255
Valuation allowance	(16,564,689)	(508,275)	(9,816,113)	(302,686)
Maximum credit risk exposed	$739,846,171	$22,701,632	$787,580,996	$24,285,569

(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 and its subsidiaries believe they can generate within that period. As part of our liquidity risk management, the Bank and its subsidiaries focus on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The asset and liability management committees of the Bank and its subsidiaries are responsible for overall liquidity risk management. The 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 and its subsidiaries manage 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 an 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, the effective interest rates of financial instruments held and issued by the Bank are classified as follows:

Financial instruments	Effective interest rate (%) December 31, 2006 (Restated)	December 31, 2007
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:

	Hedging instruments				
		Fair value			
	Derivative designated as	December 31, 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 (the "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 31, 2007, the Bank has received NT$8,800 (US$271) million as cash subsidy from the FRF 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. Average balances and average interest rates of interest-earning assets and interest-bearing liabilities

(1) The Bank

	January 1-December 31, 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 purchase under agreements to resell	910,241	27,930	1.05%
Liabilities			
Due to banks	92,634,387	2,842,417	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 banks	1,122,759	34,451	4.15%

	January 1-December 31, 2007		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$27,494,909	$847,823	1.50%
Time certificates, discounted bills and others	228,883,296	7,057,764	1.93%
Due from commercial banks and call loans to banks	19,389,419	597,885	3.50%
Discounts and loans	727,632,430	22,437,016	3.49%
Bills purchased	6,433	198	3.49%
Government, corporate bonds and financial debentures	142,790,178	4,403,027	4.25%
Receivables-credit card revolving balance	23,638,936	728,922	14.03%
Funds borrowed from the Central Bank and other banks	697,063	21,494	0.45%

	January 1-December 31, 2007		
	Average balance		Average rate
	NT	US	(%)
Liabilities			
Due to banks	78,823,673	2,430,579	3.85%
Demand deposits	111,795,864	3,447,298	0.46%
Saving deposits	630,437,270	19,439,940	1.10%
Time deposits	244,253,926	7,531,727	2.64%
Negotiable certificates of deposit	3,770,204	116,256	1.56%
Securities sold under agreements to repurchase	20,871,998	643,601	1.57%
Financial debentures	65,280,654	2,012,971	2.41%
Funds borrowed from the Central Bank and other banks	1,331,263	41,050	4.43%

(2) Indovina Bank

	January 1-December 31, 2006 (Restated)		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$364,671	$11,190	0.24%
Due from commercial banks and call loans to banks	927,306	28,454	9.60%
Discounts and loans	7,508,552	230,394	8.59%
Government, corporate bonds and financial debentures	320,464	9,833	8.26%
Liabilities			
Due to banks	1,005,693	30,859	3.00%
Demand deposits	3,065,403	94,060	0.50%
Time deposits	3,223,821	98,920	3.30%
Negotiable certificates of deposit	585,868	17,977	3.30%

	January 1- December 31, 2007		
	Average balance		Average rate
	NT	US	(%)
Assets			
Due from the Central Bank	$1,084,598	$33,444	1.20%
Due from commercial banks and call loans to banks	2,242,715	69,156	6.84%
Discounts and loans	10,048,049	309,838	9.15%
Government, corporate bonds and financial debentures	316,556	9,761	8.30%
Liabilities			
Due to banks	119,460	3,684	0.50%
Demand deposits	4,286,427	132,175	0.33%
Time deposits	5,743,524	177,105	2.19%
Negotiable certificates of deposit	749,941	23,125	3.30%
Funds borrowed from the Central Bank and other banks	305,870	9,432	6.75%

3. Regulatory capital ratio

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

As of December 31, 2007, the ratio of the Bank and its subsidiaries' eligible capital to its consolidated risk-weighted assets was 11.16%

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 reorganization and recorded at the book value of both entities' assets and liabilities. The financial statements of the Bank should be retroactively restated assuming the Lucky Bank had been merged at the beginning of each of the periods presented. The net assets, amounted to NT$4,000,979 (US$121,869) based on the book value of Lucky Bank, acquired by the Bank through a share swap (at ratio of 0.7212 shares and issued 226,889 thousands new shares of the Bank) transaction. The net assets acquired by the Bank are as follows：

Items	NT	US
Cash and cash equivalents	$6,461,558	$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 years ended December 31, 2006.

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

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(Restated)

Trust Assets			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	Trust capital	160,263,771	4,917,575
Common stock	1,924,854	59,063	Earnings distribution	(113,186)	(3,473)
Mutual funds	64,617,358	1,982,736	Net Income	124,415	3,818
Short-term bills or repurchase investment	28,000	859	Retained earnings	26,482	813
			Net Assets		
Structure product	124,100	3,808	Capital Account	231,352	7,099
Receivables	4	-	Distributable Revenue	(27)	(1)
Real estate					
Land	4,397,279	134,927			
Buildings (Net)	154,626	4,745			
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 investment	250,000	7,709	Net Income	228,859	7,057
			Retained earnings	37,750	1,164
Structure product	77,200	2,380	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

Income Statement Based on Trust

Items	2006 (Restated) NT	2006 (Restated) US	2007 NT	2007 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

Details of Trust Properties

Items	December 31, 2007 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:

Items	December 31, 2007 NT	US
Special trust of money that invest in foreign securities	$153,327,155	$4,727,942
Special trust money that invest in domestic securities	43,575,852	1,343,689
Trust of real estate	8,449,824	260,556
Trust of insurance claims	39,189	1,208
Trust of personnel property	1,812,216	55,881
Trust of business employee's savings	2,736,753	84,390
Trust of securities	3,097,757	95,521
Collective investment trust funds	428,621	13,217
Others	28,849	890
Total	$213,496,216	$6,583,294

8. Certain accounts of the consolidated financial statements for the year ended December 31, 2006 have been reclassified to conform to the current presentation.